


<b>TOWN OF WOODFIN - POLICY STATEMENT</b>		Policy #:	
Department: Administration / Finance		Issuing Date:	05/18/2021
 <b>General Fund Balance Policy</b>	Policy Title:		
	Effective Date:	05/18/2021	
	Revised Date:	N/A	
	Prepared By:	Sheri Powers, Finance Director	
	Approved By & Date:	Board of Commissioners	05/18/2021

**PURPOSE:** The Town desires to maintain a prudent level of financial reserves to guard its citizens against service disruption in the event of unexpected temporary revenueshortfalls or unpredicted one-time expenditures. The fund balance has been accumulated to meet this purpose – to provide stability and flexibility to respondto unexpected adversity and/or opportunities.

**POLICY:** The primary reasons for a general fund reserve policy are to:

- Plan for contingencies. Because revenue sources can be volatile, governments face challenges when it comes to matching planned revenues with actual expenditures. Local events, extreme weather, or global economics can affect operating and/or capital costs. Reserves can be used to make up these temporary shortfalls.
- Maintain good standing with lenders and rating agencies. Lenders and bond rating agencies consider an adequate level of reserves a sign of creditworthiness because it enhances a government’s ability to repay debt.
- Avoid interest expenses. Cash reserves may be used rather than debt to fund capital projects or other one-time expenditures.
- Generate investment income. Reserves can be a source for investment revenue in a favorable rate environment, effectively reducing the burden on the property tax rate.
- Serve as a cash flow management tool. Reserves can be used to cover disbursements during times of the year that normally experience low levels of cash.
- Create a shared understanding. A formal reserve policy clearly outlines appropriate use of the reserves.

**Administration and Implementation**

Policy is established by the Board of Commissioners. The Town Administrator and Finance Director are charged with carrying out the policy.

**Components of Fund Balance**

Fund Balance vs. Reserves - Fund balance is an accounting term defined as the difference between assets and liabilities in a governmental fund at a point in time. One critical date of measurement is June 30 of each fiscal year, and fund balance is reported in a government’s annual financial statements to reflect the unit’s financial position on that date.

Reserves comprise a portion of total fund balance. Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions governs the descriptions used to report fund balance. The statement focuses on the “extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent” and breaks total fund balance into five (5) different components:

- Nonspendable fund balance. Fund balance in this category is inherently nonspendable. For example, the value of inventory or other non-liquid assets may be included in nonspendable fund balance.

- Restricted fund balance. This category has externally enforceable limitations on the use of fund balance, imposed by parties such as creditors, grantors, or laws or regulations of other governments.
- Committed fund balance. This encompasses limitations imposed by the government on itself at its highest level of decision making (e.g., governing board through a resolution). For example, the governing board might like to commit a portion of fund balance to a “stabilization fund” to provide a cushion against unknown economic downturns and revenue declines.
- Assigned fund balance. This category is for the portion of fund balance that is earmarked for an intended use. The intent is established at either the highest level of decision making or by a body or an official designated for that purpose. For example, a portion of fund balance might be assigned to offset a gap in the budget stemming from a decline in revenues or a portion could be assigned to pay for an upcoming special project.
- Unassigned fund balance. This encompasses all fund balances that are left after considering the other four categories. Use is least constrained in this category of fund balance.

The last three components (committed, assigned and unassigned fund balance) together comprise “unrestricted fund balance”, which is the part of fund balance covered by this reserve policy because unrestricted fund balances are either unconstrained or the constraints are self-imposed, so they could be lifted to make fund balances available for other purposes. Conversely, restricted fund balances or nonspendable fund balances are not suited to many of the purposes a reserve policy typically is intended to fulfill.

**Required Reserve Levels**

The North Carolina State Treasurer recommends a minimum unrestricted general fund balance of eight percent (8%). However, the Town policy is more restrictive, requiring a minimum unrestricted general fund balance of thirty percent (30%) of the total actual expenditures and transfers. The minimum requirement will be reviewed by the Finance Director as changes in economic conditions occur, new legislation is enacted, or revenue sources change. Generally, fund balance appropriated in the annual budget will not exceed an amount management can reasonably expect to save during the year. If fund balance is appropriated to balance the following year’s budget in an amount that, if spent, would reduce the percentage below thirty percent (30%) an explanation of the circumstances of the utilization and a plan to save or replenish the fund balance will be included in the transmittal letter of the annual financial statements.

**Excess Fund Balance Levels**

If upon completion of the annual audit of Town finances, there is an unrestricted fund balance above seventy percent (70%) the Finance Director with the approval of the Town Administrator will make a recommendation to the Town Board of Commissioners to either transfer the excess to the Town Capital Projects Fund or to reduce the Town’s outstanding debt. The Town Capital Projects Fund shall be used for needed one-time capital expenditures.

**SCOPE:** This policy applies to all employees of the Town of Woodfin.

**COMMENTS:** Policy should be reviewed annually and updated, as necessary.

**POLICY AUTHORITY:** Please contact the Finance Director at 828-253-4887 with any questions pertaining to this policy.