

PURPOSE: Nassau County is dedicated to maintaining the fiscal stability of the County. It is essential that adequate levels of unrestricted funds be maintained to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and/or other similar circumstances. This policy will provide guidance on establishing and maintaining reasonable levels of reserves in both governmental and proprietary funds. In addition, this policy will improve financial reporting by establishing fund balance classifications that create a hierarchy based on the extent to which the County is bound to observe spending constraints that govern how the County can use amounts reported in the governmental fund balance sheet.

DEFINITIONS:

- I. **Calculation Date:** September 30th every year. Reviewed during audit and adjusted prior to closing General Ledger.
- II. **Capital Projects Funds:** are used to account for all financial resources restricted, committed or assigned to expenditures for acquisition or construction of capital assets.
- III. **Debt Service Funds:** are used to account for all financial resources restricted, committed or assigned to expenditures for principal and interest.
- IV. **Fund Balance:** is the excess of total assets as compared to total liabilities in a governmental fund.
 - A. Fund Balances are listed under five categories:
 1. **Non-spendable:** Amounts that cannot be spent because they are either not in the spendable form or are legally and contractually required to be maintained intact.
 2. **Restricted:** Amounts that are constrained on the use of resources by external creditors, grantors, contributor, or laws or regulations of other governments; or, by law through constitutional provisions or enabling legislature.
 3. **Committed:** Amounts that can be used only for the specific purposes pursuant to constraints imposed by formal action of the government's highest authority, the Board of County Commissioners (BOCC).
 4. **Assigned:** Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.
 5. **Unassigned:** the residual amounts that have not been restricted, committed, or assigned to specific purposes.
- V. **General Funds:** are used to account for all financial resources not accounted for and reported in another fund.
- VI. **Operating Expenditures:** total appropriation, as represented as the "Total Expenditures" in the Statement of Revenues, Expenditures and Changes in Fund Balance" in the Annual Comprehensive Financial Report.
- VII. **Permanent Funds:** are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the County's purposes.
- VIII. **Special Revenue Funds:** are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt services or capital projects.

IX. **Taxing Funds:** collectively the General Fund, County Transportation Fund and Municipal Services Fund.

X. **Unaudited Actual:** Estimated operating expenses as of September 30 every year.

POLICY:

I. Fund Balance Classification in Governmental Funds

- A. GASB 54 outlines the requirement to report the fund balance for governmental funds in specific classifications, which create a hierarchy primarily based on the extent to which the County is bound to the constraints on the specific purposes for which funds can be spent.
 - 1. The Fund Balance consists of the following five categories:
 - a. Non-spendable
 - b. Restricted
 - c. Committed
 - d. Assigned
 - e. Unassigned
- B. An individual governmental fund could include non-spendable resources and amounts that are restricted, committed, assigned, unassigned, or any combination of those classifications.
- C. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- D. The general fund is the only fund that may report a positive unassigned fund balance.
 - 1. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.
- E. Stabilization arrangements will be consistent with GASB 54.

II. Committing Fund Balance

- A. For Nassau County, the Board of County Commissioners (BOCC) is the highest level of decision-making authority.
- B. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is an ordinance or resolution approved by the BOCC at a public meeting.
 - 1. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made.
 - 2. The amount subject to the constraint may be determined in the subsequent period.

III. Assigned Fund Balance

- A. The BOCC has authorized the County Manager and the Clerk of the Court and Comptroller as the officials authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

1. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular year.
2. Fund balance may be assigned for various purposes including but not limited to, capital projects, fleet replacement, litigation, Constitutional Officers' reserves, etc.

IV. Reporting Encumbrances

- A. Encumbering amounts in governmental funds for specific purposes for which resources have already been restricted, committed, or assigned should not result in separate display of encumbered amounts.
- B. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed, or assigned, will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.

V. Hierarchy of Fund Balance Use

- A. When multiple categories of fund balance are available for expenditures, the County will spend the most restricted funds first before moving down the category with available funds in the following order:
 1. Restricted
 2. Committed
 3. Assigned
 4. Unassigned

VI. Minimum Level of Fund Balance

The BOCC establishes the following minimum fund balances:

- A. Taxing Funds
 1. Minimum Fund Balance Policy
 - a. It is the goal of the County to maintain a Minimum Fund Balance for each Taxing Fund at a minimum of 16.70% and not more than 20% of the total Operating Expenditures as reported in the previous year's audited financial statements.
 - i. These funds may be used to protect the County against potential financial risk, ensure cash flow prior to receipt of budgeted revenue, for use in the event of a disaster or emergency and to protect the County's credit rating.
 2. Emergency Fund Balance (General Fund only)
 - a. The General Fund Emergency Fund Balance Policy is established for the purpose of providing funds for an urgent catastrophic event, major disaster (e.g. hurricane, pandemic, wildfires, terrorist attack, etc.), economic distress, uncertainty, or opportunity conditions. The County's Emergency Fund balance is established at a minimum of 10% and a maximum of 12% of the General Fund's Operating Expenditures.

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- i. When these funds are used for catastrophic events, major disaster (e.g. hurricane, pandemic, wildfires, terrorist attack, etc.), the following actions must be met:
- The recognition of an urgent event must be established by the BOCC by adoption of a resolution explaining the nature of the event and requires approval by a majority vote of the Board.
 - A budget revision must be approved by the BOCC.
 - The BOCC must approve and adopt a plan to restore the fund balance per Section VII, if the fund balance falls below the minimum requirement.
- ii. When these funds are to be used during times of severe economic distress such as recessionary periods, State unfunded mandates on local resources, or other impactful unforeseen events, which greatly diminish the financial ability of the County to deliver core services, the following actions must be met:
- The recognition of an urgent event must be established by the BOCC by adoption of a resolution explaining the nature of the event and requires approval by a majority vote of the Board. Examples of such events include the following:
 - The annual Consumer Price Index exceeds five percent for two consecutive years. (e.g. year 1 CPI = 5.0% and year 2 CPI = 5.0%)
 - Local unemployment rate exceeds 9% for three consecutive quarters.
 - The rate of inflation exceeds the growth in property tax revenue by 5% for two consecutive fiscal years.
 - Significant State take-aways of revenue totaling more than 5% of total revenue in a given fiscal year.
 - Sales Tax revenue falls by 5% over the previous quarter.
 - A budget revision must be approved by the BOCC.
 - The BOCC must approve and adopt a plan to restore the fund balance per Section VII if the fund balance falls below the minimum requirement.
- iii. When these funds are to be used for economic opportunities to help facilitate and leverage the receipt of additional grant funds to the County or to provide for significant economic development opportunities, the following actions must be met:

- The recognition of an urgent economic opportunity event must be established by the BOCC by adoption of a resolution explaining the nature of the event and requires super majority approval of the Board.
- A budget revision must be approved by the Board. A maximum of 50% of the prior fiscal year ending balance in the Emergency Fund Balance may be drawn.
- The BOCC must approve and adopt a plan to restore the fund balance per Section VII, if the fund balance falls below the minimum requirement.

3. Reserve For Contingencies

- a. The County will achieve and maintain a minimum Reserve for Contingency in each Taxing Fund of not less than 5% or more than 10% of the total budgeted operating expenditures (total expenditure less reserves, capital and transfers).
- b. The OMB Director, County Manager, and the BOCC must approve requests for use of reserves, as provided within the Operating Budget Policies. Requests will be evaluated to ensure consistency with other BOCC policies; the urgency of the request; the scope of services to be provided; the short and long-term fiscal impact of the request; a review of alternative methods of funding or providing the services; a discussion of why funding was not sought during the normal budget cycle; and a review of the impact of not funding or delaying funding to the next fiscal year.

B. Special Revenue Funds

1. Special revenue funds are created to account for the proceeds from specific revenue sources that are legally restricted for specific purposes (e.g. grants, assessments).
2. Each fund is unique based on the timing of revenue receipts.
 - a. No specific minimum fund balance requirement is created by this policy, unless noted below.
 - b. Each fund must adhere to any underlying guidelines attached to that revenue source.
3. The Amelia Island Beach Renourishment Municipal Service Taxing Unit (Fund 136)
 - a. The Amelia Island Beach Renourishment Municipal Service Taxing Unit (“Sand MSTU”) Fund Balance Policy is established for the purpose of providing funds for beach renourishment, restoration, erosion control and storm protection. The Sand MSTU’s Emergency Fund minimum balance is established at \$4,680,000 for Fiscal Year 2023/24. The minimum fund balance shall be increased by 3% each fiscal year.
 - i. As the Emergency Fund balance currently falls below the minimum fund balance, until such time as the minimum fund balance is met, expenditures from the Sand MSTU shall be limited to capital projects

(not to exceed \$50,000), annual required monitoring costs, and such emergency purposes as may be required. Additionally, the millage rate shall remain flat to assure proper funding of the Emergency Fund balance.

ii. When Emergency Fund balance is used for allowable purposes, the following actions must be met:

- The recognition of an urgent event must be established by the BOCC by adoption of a resolution explaining the nature of the event and requires approval by a majority vote of the Board.
- A budget revision must be approved by the BOCC.
- The BOCC must approve and adopt a plan to restore the fund balance per Section VII, if the fund balance falls below the minimum requirement.

C. Debt Service Funds

1. The minimum fund balance requirement for any outstanding issue will be consistent with the bond covenants.

D. Capital Projects Funds

1. Capital projects funds are created to account for resources set aside to construct or acquire fixed assets or improvements.
2. These projects may extend beyond one fiscal year.
3. No specific amount for minimum fund balance is required per this policy.

E. Enterprise Funds

1. Enterprise funds should strive for positive net operating income to provide for necessary operating and capital expenses while maintaining sufficient debt service coverage ratios.
2. A specific percentage or dollar amount will vary due to the considerations for working capital, debt coverage, asset replacement, rate stabilization, and revenue volatility.
3. Nassau Amelia Utility (NAU) shall develop a separate Financial Reserves Policy.

F. Internal Service Funds

1. Internal Service Funds, by nature are designed to operate on a break-even basis for operations, while, if applicable, accruing additional funds to finance future capital costs or potential liabilities.
 - a. No specific amount for minimum fund balance is required per this policy.

VII. Replenishing Minimum Fund Balance Deficiencies

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- A. When the Taxing Funds minimum fund balances for Minimum Fund Balance or Emergency Fund Balance fall below the required thresholds, the BOCC must approve and adopt a plan to restore this balance to the target minimum level within five years or less using the following budget strategies:
1. The County will use budget surplus or,
 2. The County will reduce recurring expenditures to eliminate any structural deficit or,
 3. The County will increase revenues or pursue other fund sources, or,
 4. A combination of the three options above.
- B. Once fully funded, when the Sand MSTU Emergency Fund minimum balance falls below the required thresholds, the BOCC must approve and adopt a plan to restore this balance to the target minimum level within five years or less using the following budget strategies:
5. The County will use budget surplus from within the Sand MSTU or,
 6. The County will reduce recurring Sand MSTU expenditures to eliminate any structural deficit or,
 7. The County will increase Sand MSTU revenues or pursue other fund sources, or,
 8. A combination of the three options above.
- C. Unless a repayment plan is pre-established at the time reserves are allocated, Staff shall bring for BOCC consideration a replenishment plan, within 90-days of allocation from the reserve.
1. It would be BOCC's priority that every effort would be made to replenish the reserve as soon as it is financially feasible and practical to do so.
- D. If the reserve cannot be replenished by the next annual budget, a repayment plan not to exceed five years should be approved by BOCC by a majority vote.

VIII. Deficit Unassigned Fund Balance

- A. If the Taxing Funds fund balance or net asset balances are not positive at any year-end, the County shall develop a funding plan and a timeframe to bring them into a positive state.
1. The unassigned fund balance deficit in the Taxing Funds will be restored through the same steps as set forth in Section VII.

IX. During Close of Fiscal Year Surplus Fund Balance

- A. At September 30th each fiscal year, if the minimum fund requirements of this policy have been met, any fiscal year end surplus of revenues over expenditures (including any carryovers) will be designated as unassigned capital reserves until future designation by the BOCC.

X. Implementation and Review

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- A. Upon adoption of this policy, the BOCC authorizes the County Manager's office and the Office of Management & Budget to establish standards and procedures, which may be necessary for its implementation.
 - B. The BOCC shall review and approve this policy via resolution at a minimum of every year to ensure it continues to meet the needs of the County given economic factors and the current financial status at that time interval.

**Nassau County, FL BOCC
Fund Balance and Financial Reserves Summary**

<u>Fund</u>	<u>Classification</u>	<u>Minimum</u>	<u>Maximum</u>
<u>General Fund</u>			
Minimum Fund Balance	Unassigned	16.70%	20.00%
Emergency Fund Balance	Assigned	10.00%	12.00%
Reserve for Contingency	Unassigned	5.00%	10.00%
<u>County Transportation Fund</u>			
Minimum Fund Balance	Assigned	16.70%	20.00%
Reserve for Contingency	Assigned	5.00%	10.00%
<u>Municipal Services Fund</u>			
Minimum Fund Balance	Assigned	16.70%	20.00%
Reserve for Contingency	Assigned	5.00%	10.00%
<u>Sand MSTU Fund</u>			
Emergency Fund Balance	Assigned	\$4,680,000 minimum increased 3% per year	
<u>Debt Service</u>			
Reserve		Set by Debt Covenants	
<u>Enterprise (NAU)</u>			
See NAU Financial Reserve Policy			