

~~Rates may be offset from available fund balance after requirements are met for cash flow, capital replacement, operational costs, debt service if applicable, contingency funding and scheduled reserve contributions.~~

~~8.4 Services~~

~~Enterprise fund services will establish and maintain reserves for general contingency and capital purposes consistent with those maintained for general governmental services.~~

~~8.5 Net Operating Revenues~~

~~The County will ensure that net operating revenues of the enterprise are sufficient to pay operating expenses, capital costs and any debt service requirements where applicable, in compliance with the County's fiscal and debt policies.~~

~~8.6 Maintenance of Cash~~

~~Sufficient cash shall be maintained to provide adequate funds for current operating expenses.~~

~~8.7 Interest from Funds~~

~~Unless otherwise directed by statute, regulation, or resolution, interest will be allocated as discretionary financing for the enterprise fund.~~

~~8.8 Departmental Financial Monitoring and Reporting~~

~~The County Administrative Office and departments shall monitor revenues and expenses throughout the year to ensure conformity to adopted budgets. Enterprise funds shall provide the Board's Budget Committee financial status reports on a monthly or quarterly basis. Financial reports shall provide a year-to-date summary of expenses, revenues and cash positions, including significant variances and comparisons to previous fiscal years' activity, trending for the current fiscal year and financial impacts to the General Fund.~~

89. FUND BALANCE AND RESERVE POLICIES

87.18 Use of Year-End Fund Balance

Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund. The Board recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the County. The County goal is to use fund balance as a source to finance one-time investments, reserves and/or commitments. As a one-time financing source, any unbudgeted year-end fund balance will be used solely for nonrecurring expenditures and only after the yearly audit and confirmation of the General Fund's fund balance.

GASB Statement 54 distinguishes fund balance based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

1. **Nonspendable fund balance** – amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).
 2. **Restricted fund balance** – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).
 3. **Committed fund balance** – amounts that can be used only for the specific purposes determined by a formal action of the Board. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the board's commitment in connection with future capital projects).
 4. **Assigned fund balance** – amounts *intended* to be used by the County for specific purposes. Intent can be expressed by the Board, or the County Administrative Officer, or designee. ~~In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.~~
- Unassigned fund balance** – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

5.

8.2 Fund Balance Authority

The responsibility for designating funds to specific classifications shall be as follows:

1. **Committed fFund bBalance** – The Board is the County's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board.
2. **Assigned fFund bBalance** – The Board shall establish, modify, or rescind fund balance that is intended to be used for a specific purpose. ~~The Board authorizes the County Administrative Officer, or designee, as the official authorized to assign fund balance to a specific purpose.~~

89.34 Fund and Reserve Levels

Sufficient fund balance and reserve levels are a critical component of the County's overall financial management strategy. Rating agencies analyze fund balance when considering the County's overall financial strength and credit worthiness. Adequate reserves provide the County with the ability to exercise flexible financial planning in developing future capital projects and to deal with

unforeseen emergencies or changes in fiscal conditions. Each fund shall maintain a level of reserves, which will provide for a positive fund balance throughout the fiscal year. The County has chosen to utilize a strategic reserve policy to provide for adequate fund balance throughout the year. All other major County funds shall develop a reserve policy and fund a reserve that is in conformance with best practices of their industry. In the event such best practices are non-existent, the fund shall adopt the percentages as follows: an appropriation for operational contingencies equal to one percent (1%) of estimated annual revenue and a strategic reserve equal to ten percent (10%) of estimated annual revenue

89.42 Committed Fund Balance – Strategic Reserve Fund

The County will commit a portion the General Fund *fund balance* as a strategic reserve to provide the County with sufficient working capital and be used to fund settlement of legal judgments against the County in excess of reserves normally designated for litigation, for short-term revenue reductions due to economic downturns, for natural disasters as determined by the County Administrative Officer or Board, and for one-time only state budget reductions that could not be addressed through the annual appropriations for contingencies in the General Fund. ~~The Natividad Medical Center (NMC) strategic reserve designation was established in 2011 as a sub-designation of the General Fund strategic reserve.~~ The goal of the County is to maintain a strategic reserve equal to ten percent (10%) of the General Fund estimated revenues. The Natividad Medical Center (NMC) strategic reserve designation, was established in 2011, is as a sub-designation of the General Fund strategic reserve.

If the strategic reserve is utilized to provide for temporary funding of unforeseen needs, the County shall take measures necessary to prevent its use in the following fiscal year by increasing General Fund revenues and/or decreasing expenditures to regain structural balance. In addition, the County shall restore the strategic reserve to the minimum level of ten percent (10%) of General Fund estimated revenues within five fiscal years following the fiscal year in which the event occurred. The plan to restore the strategic reserve shall be included and highlighted in the County's Three-Year Forecast. Funds in excess of ten percent (10%) of the annual requirements may be retained in the strategic reserve, or may be considered for other purposes such as supplementing the Capital Projects Fund or prepaying existing County debt.

89.5 Order of Expenditure of Fund Balance

43 Fund Balance Assignments

Order of Expenditure of Fund Balance

When multiple categories of fund balance are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by the Board, and unassigned fund balance), the County will start with the most restricted category and spend those funds first before moving down to the next fund balance category with available funds.

~~The County shall maintain a portion of fund balance for specific assignments. The assigned reserves are used to pay for planned, one-time expenditures, including fleet replacement, costs related to infrastructure projects and other capital needs and liabilities associated with employee~~

~~leave credits. Assignments shall be utilized only after all other budget resources have been examined for available funds.~~

9. INTERFUND LOANS

Interfund loans are the lending of cash from one County fund to another for a specific purpose and with a requirement for repayment. Interfund loans are typically short-term in nature and constitute the allocation of cash between individual funds for working capital purposes.

Interfund loans are temporary borrowing of cash and may be made for the following reasons:

- To offset timing differences in cash flow
- To offset timing differences between expenditures and reimbursements, typically associated with grant funding.
- To provide funds for interim financing in conjunction with obtaining long-term financing.
- For short-term borrowing in place of external financing.

Interfund loans are not to be used to solve ongoing structural budget issues or hindering the accomplishment of any function or project for which the lending fund was established. Interfund loans are not to be used from fiscal year to fiscal year as a financing strategy. If a fund has a negative cash balance, the Department must present the County Administrative Office with a plan for reaching positive cash balance. A negative cash balance must be addressed in the fiscal year that the fund reaches negative cash.

Interfund loan monies may only be used for the purpose identified in the authorizing resolution. Appropriate accounting records will be maintained to reflect the balances of loans in every fund affected by such transactions. A summary of all outstanding interfund loans will be included in the Comprehensive Annual Financial Report (CAFR).

9.1 Interfund Loan Terms

- Repayment of an interfund loan shall be within the same fiscal year, unless otherwise stated in a Board resolution.
- When required by the lending fund's restrictions or regulations, interest will be paid by the borrowing fund to the lending fund, during the time the loan is outstanding.
- The Board must approve interfund loans by resolution. The resolution will include a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest to be paid to the lending fund, if required by the lending fund.
- The CAO shall have authority for issuing temporary interfund loans for end of year proposes and report out these temporary interfund loans to the Board via memorandum. authorize., must

9.2 Interfund Loan Interest

The following guidelines should be used in establishing the rate of interest:

- Not lower than the "opportunity cost" if the funds were otherwise invested, such as the County Treasury Pooled Interest Rate.
- Treasury yields or short-term bond yields for a similar term.