

Comprehensive Fund Balance Policy

Fannin County, Texas

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Background:

The Governmental Accounting Standards Board (“GASB”) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions (GASB-54)*. One objective of this standard was to improve, including the understandability, the usefulness of fund balance information by providing clear fund balance classifications. GASB-54 abandons the reserved, unreserved, and designated classifications of fund balance and replaced them with five classifications: non-spendable, restricted, committed, assigned and unassigned.

GASB-54 requires local governments to focus on the constraints imposed upon resources when reporting fund balance in governmental funds. The fund balance classifications indicate the level of constraints placed upon how resources can be spent and identify the sources of these constraints. The five constraints serve to inform readers of the financial statements of the extent to which the County is bound to honor constraints on the specific purposes for which resources can be spent.

Objectives:

The Fund Balance Policy is intended to meet the requirements of GASB-54 and to provide guidelines during the preparation of and deliberations on the annual budget to ensure that sufficient resources are maintained for unanticipated expenditures, revenue shortfalls, and to preserve the flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget.

Purpose:

The County believes that sound financial management principles require that sufficient funds be retained by the County to provide a stable financial base at all times. An adequate fund balance level is an essential element in both short-term and long-term financial planning, and serves to mitigate the impact of future risks, sustain operations during economic downturns and enhances credit worthiness. Through the maintenance of adequate levels of fund balance, the County can stabilize funding for operations, stabilize taxes, and realize cost savings in issuing debt. The County has set aside a prudent level of fund balance to enable it to set aside the funds needed to meet the target established herein.

As part of this plan, the County recognizes the significance of maintaining an appropriate level of fund balance as one component of sound financial management; and, therefore, formally establishes this policy for the County's Fund Balance. The fund balance policy will designate appropriate levels of reserves for the funds and the spending in order of fund balances.

Scope:

This policy establishes the level of unassigned fund balance required for the County's General Fund and the fund balance management. It sets forth the levels deemed appropriate for County operations, and the protocol for the use and maintenance of the established levels. Further, the policy discusses the fund balance of other funds and the impact on the General Fund. This policy is established on the modified accrual basis of accounting for governmental funds.

Authority: Fannin County Commissioners Court

Application: This policy applies to the governance of all the County funds.

Responsibility: The County Auditor (Auditor) shall be responsible for the implementation and administration of this policy.

Components of Fund Balance:

Fund balance is the difference between assets and liabilities reported in governmental funds, which is a result of the cumulative difference over time of all revenues and expenditures. It serves as a measure of financial resources available for current operations. The Government Accounting Standards Board prescribes the classification scheme for components fund balance. This policy will focus on the amount remaining after accounting for non-spendable and restricted fund balance.

The definitions of these classifications are as follows:

- **Non-spendable Fund Balance-** Fund balance reported as "non-spendable" represents fund balance associated with inventory or prepaid items. The cash outlay for these types of items has already been made and therefore the resources represented by this fund balance category cannot be spent again; hence the term "non-spendable". Examples of non-spendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include:
 - **Inventories;**
 - **Prepaid Items;**
 - **Deferred expenditures;**
 - **Long term receivables; and**

- **Outstanding encumbrances.**
- **Restricted Fund Balance** – Fund balance reported as “restricted” represents amounts that can be spent only on the specific purposes stipulated by creditors, grantors, contributors, or other governments; or imposed by law through constitutional provisions or enabling legislation which can only be used for the specific purpose stipulated by law. Examples of restricted fund balances include;
 - **Tax levy funds;**
 - **Probation Fees;**
 - **Unspent bond proceeds**
 - **Bond covenants**
 - **Construction programs (including related debt service funds restricted); and**
 - **Resources from other gathering agencies – restricted state and federal grants/reimbursements**
- **Committed Fund Balance** - Fund balance reported as “committed” includes amounts that can be used only for specific purposes determined by a formal action of our County’s highest level of decision-making authority. Constraints may only be removed or changed by taking the same type of action previously committing these amounts. Examples of committed fund balances include;
 - **Potential litigation, claims, and judgements;**
 - **Commission approved projects, grants, programs; and**
 - **Legislative induced restrictions.**
- **Assigned Fund Balance** - Fund balance reported as “assigned” represents amount intended to be used for specific purposes, but not meeting the criteria to be reported as committed or restricted fund balance. Examples of assigned fund balances include;
 - **Insurance deductibles;**
 - **Encumbrances (amounts imposed by informal action pursuant to this category, but that are neither restricted or committed);**
 - **Recommended use of fund balance at year-end;**
 - **Program start-up costs; and**
 - **Other legal use.**

- **Unassigned Fund Balance** – Fund balance reported as “unassigned” represents the residual classification of fund balance and includes all spendable amounts not contained within the other classifications.

Policy:

General Fund:

The fund balance of the General Fund, one of the governmental fund balance types, is of primary significance because the general fund is the primary fund, which finances most functions of County government. The fund balance of the general fund shall mean the gross difference between governmental fund assets and liabilities on the balance sheet. The County desires to maintain stabilization of funds of up to three months of regular General Fund operating expenditures (25%), measured based on the most recent completed fiscal year. This funding is intended to provide stabilization in case of unforeseen events that may occur such as emergencies, contingencies, revenue shortfalls, or budgetary imbalances. The primary mechanisms for keeping the target level are setting proper tax rates and tax revenues and controlling the Fannin County expenditures. These are done by oversight of the commissioners' court. Excess Unassigned Fund Balance may be utilized for one-time, non-recurring expenditures such as purchase of capital assets; however, it cannot justify increased overhead levels of future maintenance and operation costs.

The County has considered the possibility that stabilization funding may be required to be used at times and the overall fund balance level across all of the Unrestricted Fund Balance categories (Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance) may possibly be drawn down at times to a level posing a risk to our County's finances.

Minimum fund balance reserves shall be replenished within the following timeframes:

- Fund balances that fall between 23% - 25% shall be corrected within 1 year;
- Fund balances that fall between 15% - 23% shall be corrected within 3 years or less;
- Fund balances that fall below 15% shall be corrected within 5 years or less.

At the completion of any fiscal year in which the fund balance is less than the minimum established by the Fund Balance Policy, the Commissioners Court will establish a plan to restore this balance to the target level within the specific period of time. When developing this plan, the following items should be considered:

- The budgetary reasons behind the fund balance targets

- Increase revenue, pursue other funding sources
- Recovery from an extreme event
- Financial planning time horizon
- Long-term forecasts and economic conditions
- Milestones for gradual replacement
- External financial options.

Expending Fund Balance Reserves:

Fund balance reserves are maintained to prohibit and /or minimize interruption in operations, unmet obligations and opportunity costs. Fund balance reserves will only be made available for extraordinary events such as:

- Major projects that are long term in nature.
- Temporary gap financing pending permanent financing and/or grant monies.
- Disaster recovery.
- Potential service disruptions.

Reserves may only be committed upon approval of the Fannin County Commissioners Court.

Road & Bridge Fund:

The Road and Bridge Fund is heavily supported by property taxes, miscellaneous taxes, and other state fines and fees that are dedicated to the maintenance of construction of County roads and bridges. Even though the fund balance is restricted, it should be sufficient to meet cash flow needs and available funds should also be able to fund emergency rehabilitation of County roads and bridges in case of an emergency.

The fund sufficient to meet cash flow is calculated at a minimum of 3-4 months operating expenditures of the current original fiscal year's budgeted expenditures.

Debt Service:

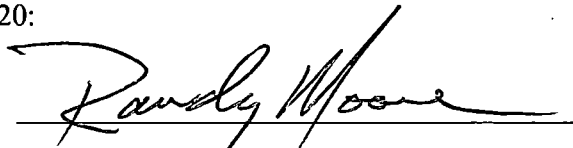
The Debt Service Fund (also known as the Interest and Sinking Fund) derives its revenue from property taxes specifically levied to pay interest and principal payments on the County's debt.


Special Revenue Funds:

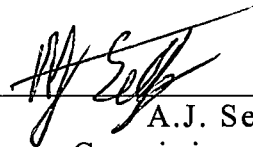
Special Revenue Funds are created to account for the proceeds from specific revenue sources that are legally restricted for a specific purpose. Fund balances in Special Revenue Funds are a “restricted” classification. Special Revenue Funds will be utilized as budgeted for current period expenditures, and will be spent in accordance with applicable statutes or other restrictions (such as grants). No specific reservations of fund balance are created for the Special Revenue funds by this policy.

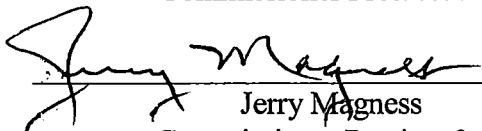
Fannin County hereby adopts this Fund Balance Policy, to be in effect for the fiscal year ending September 30, 2020 and thereafter until rescinded, amended, or otherwise modified by commissioners court.

Adopted this 14th day of April 2020:

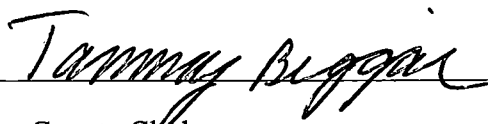

Randy Moore, County Judge


Gary Whitlock
Commissioner Precinct 1


A.J. Self
Commissioner Precinct 2


Jerry Magness
Commissioner Precinct 3


Dean Lackey
Commissioner Precinct 4


Certified by County Clerk

Revised: 4/6/2020 Updated content to be more detailed with GASB 54 definitions and objectives (Alicia Whipple)