

HARRISON COUNTY

FUND BALANCE POLICY

The following policy is adopted by the Harrison County Commissioners Court and is to be effective March 29, 2022. This policy replaces any previous Fund Balance Policies, customs, or practices.

GENERAL STATEMENT:

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions (GASB-54)*. An objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

This 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 fluctuations and shortfalls, and to preserve flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget. This is established on the modified accrual basis of accounting for governmental funds.

DEFINITIONS:

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. The County shall report governmental fund balances in accordance with GASB 54 definitions in the balance sheet in a hierarchy based on the strength of the constraints governing how those balances can be spent. These classifications are listed below in descending order of restrictiveness. The County may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

1. **Non-Spendable Fund Balance:** The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivables, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than non-spendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.
2. **Restricted Fund Balance:** The restricted fund balance classification includes amounts that are restricted to specific purposes. Fund balance should be reported as restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through

debt covenants), grantors, contributors, or laws or regulations of other governments (b) Imposed by law through constitutional provisions or enabling legislation.

- a. *Enabling legislation, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.*
3. **Committed Fund Balance:** The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Commissioners Court) should be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the Commissioners Court removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balances also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
4. **Assigned Fund Balance:** The assigned fund balance classification includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance, except for stabilization arrangements. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.
5. **Unassigned Fund Balance:** The unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount.

Classifying Fund Balance Accounts:

Fund balance classification should depict the nature of the net resources that are reported in a governmental fund.

Stabilization Arrangements:

Some governments formally set aside amounts for use in emergency situations or when revenue shortage or budgetary imbalances arise. Those amounts are subject to controls that dictate the circumstances under which they can be spent.

Displaying Fund Balance Classification on the Face of the Balance Sheets:

Amounts for the two components of non-spendable fund balance (a) not in spendable form and (b) legally or contractually required to be maintained intact may be presented separately, or non-spendable fund balance may be presented in the aggregate. Restricted fund balance may be displayed in a manner that distinguishes between the major restricted purposes, or it may be displayed in the aggregate. Similarly, specific purposes information for committed and assigned fund balances may be displayed in sufficient

detail so that the major commitments and assignments are evident to the financial statement user, or each classification may be displayed in the aggregate.

FUND BALANCE DISCLOSURES:

Fund Balance Classification Policies and Procedures: Governments should disclose the following about their fund balance classification policies and procedures in the notes to the financial statements:

- a) For committed fund balance: (1) the government's highest level of decision-making authority (Commissioners Court) and (2) the formal action that is required to be taken to establish (and modify or rescind) a fund balance commitment.
- b) For assigned fund balance: (1) the body or official authorized to assign amounts to a specific purpose and (2) the policy established by the governing body pursuant to which that authorization is given.
- c) For the classification of fund balances in accordance with paragraph 18 of GASB 54: (1) whether the government considers restricted or unrestricted amount to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and (2) whether committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications count be used.

Reporting Encumbrances: For governments that use encumbrance accounting, significant encumbrances should be disclosed in the notes to the financial statements by major funds and non-major funds in the aggregate in conjunction with required disclosures about other significant commitments. Encumbered amounts for specific purposes for which resources already have been restricted, committed, or assigned should not result in separate display of the encumbered amounts within those classifications. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed, or assigned should not be classified as unassigned but, rather, should be included within committed or assigned fund balance, as appropriate, based on the definitions and criteria established.

Details of Fund Balance Classifications Displayed in the Aggregate: If non-spendable fund balance is displayed in the aggregate on the face of the balance sheet, amounts for the two non-spendable components should be disclosed in the notes to the financial statements. If restricted, committed, or assigned fund balances are displayed in the aggregate, specific purposes information should be disclosed in the notes to the financial statements.

Stabilization Arrangements: Governments that establish stabilization arrangements, even if an arrangement does not meet the criteria to be classified as restricted or committed, should disclose the following information in the notes to the financial statements:

- 1) The authority for establishing stabilization arrangements (for example, by statute or ordinance)
- 2) The requirements for additions to the stabilization amount.
- 3) The conditions under which stabilization amounts may be spent.
- 4) The stabilization balance, if not apparent on the face of the financial statements.

Minimum Fund Balance Policies: If a governing body has formally adopted a minimum fund balance policy, the government should describe in the notes to its financial statements the policy established by the government that sets forth the minimum amount.

GOVERNMENTAL FUND TYPE DEFINITIONS:

Governmental fund types include the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds.

General Fund: The general fund should be used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund: Special revenue funds are used to account for and report the proceeds of specific sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term proceeds of specific revenue sources establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amount should not be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments. Governments should disclose in the notes to the financial statements the purpose for each major special revenue fund- identifying which revenues and other resources are reported in each of those funds.

Capital Projects Fund: Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Funds: Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

Permanent Funds: Permanent funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs- that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

AUTHORITY FOR USE:

The Commissioners Court bears ultimate responsibility and authority for allocation of financial resources. The Commissioners Court may either commit funds themselves or assign the task of financial resources allocation to those preparing the County's annual financial report.

- **Commitments**: Fund balance amounts will be reported as “Committed Fund Balance” only after formal action and approval by the Commissioners Court. Encumbrances will, by their nature, be automatically committed. The action to commit funds must occur prior to the fiscal year-end, to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year end. A commitment can only be modified or removed by the same formal action.
- **Assignments**: The Commissioners Court delegates the responsibility of assigning funds to the County Auditor. Assignments may be necessary for items such as other post-employment benefits, claims and judgments, transfer to special revenue funds, etc. Funds that are intended to be used for a specific purpose, but have not received the formal approval action of the Commissioners Court, may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Commissioners Court.

PERIODIC REVIEW:

The County Auditor shall review this policy at least annually and make any recommendations for change to the Commissioners Court.