

UPSON COUNTY BOARD OF COMMISSIONERS FUND BALANCE POLICY

Purpose: The following policy has been adopted by the County Commission in order to address the implications of the Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Definitions. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the County and jeopardize the continuation of necessary public services. This policy will ensure that the County maintains adequate fund balances and reserves in order to:

- a.) Provide sufficient cash flow for daily financial needs,
- b.) Secure and maintain investment grade bond ratings,
- c.) Offset significant economic downturns or revenue shortfalls, and
- d.) Provide funds for unforeseen expenditures related to emergencies.

This policy and the procedures promulgated under it supersede all previous regulations regarding the County's fund balance and reserve policies.

Fund Type Definitions: The following definitions will be used in reporting activity in governmental funds across the County. The County may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

The **general fund** is used to account for all financial resources not accounted for and reported in another fund.

Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt services or capital projects.

Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Capital project funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

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.

Fund balance reporting in governmental funds. Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement No. 54:

Non-spendable fund balance – 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. Non-spendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- The County will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the County)
- The County will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance)
- The County will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained intact.
- The County will maintain a fund balance equal to the balance of any land or other non-financial assets held for sale.

Restricted fund balance – Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.

Committed fund balance – Includes amounts that can be used only for the specific purposes determined by a formal action of the County Commission. Commitments will only be used for specific purposes pursuant to a formal action of the County Commission. A majority vote is required to approve or remove a commitment.

Assigned fund balance – Includes amounts intended to be used by the County for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. The County Commission delegates the Finance Director the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

Unassigned fund balance – Includes the residual classification for the County's general fund and includes all spendable amounts not contained in the other classifications. 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.

Operational guidelines. The following guidelines address the classification and use of fund balance in governmental funds:

Classifying fund balance amounts – Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include non-spendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

Encumbrance reporting – Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display of encumbered amounts. 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.

Prioritization of fund balance use – When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the County to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the County that the committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Minimum unassigned fund balance use – The County will maintain a minimum unassigned fund balance in its General Fund of 33% of the subsequent year's budgeted expenditures and outgoing transfers. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

Replenishing deficiencies – When fund balance falls below the minimum 33%, the County will replenish shortages/deficiencies using the budget strategies and timeframes described below.

- The County will reduce recurring expenditures to eliminate any structural deficit or,
- The County will increase revenues or pursue other fund sources, or,
- A combination of the two options above.

Minimum fund balance deficiencies shall be replenished within the following time periods:

- A deficiency resulting in a minimum fund balance between 33% and 25% of the subsequent year's budgeted expenditures and outgoing transfers shall be replenished over a period not to exceed one year.
- A deficiency resulting in a minimum fund balance between 20% and 15% of the subsequent year's budgeted expenditures and outgoing transfers shall be replenished over a period not to exceed three years.
- A deficiency resulting in a minimum fund balance between 15% and 10% of the subsequent year's budgeted expenditures and outgoing transfers shall be replenished over a period not to exceed five years.

Surplus fund balance – Fund balance will be considered a surplus if over 40% of the subsequent year's budgeted expenditures and outgoing transfers. Should unassigned fund balance of the General Fund ever exceed 40%, the County will consider such fund balance surpluses for one-time expenditures that are nonrecurring in nature and which will not require additional future expense outlays for maintenance, additional staffing or other recurring expenditures.

Implementation and review. Upon adoption of this policy the County Commission authorizes the Finance Department to establish any standards and procedures which may be necessary for its implementation. The Finance Department shall review this policy at least annually and make any recommendations for changes to the County Commission.

