



# Fund Balance Policy Draft

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# FUND BALANCE POLICY

## BACKGROUND

Governmental Accounting Standards Board (GASB) has released a new statement named “Fund Balance Reporting and Governmental Fund Type Definitions” (GASB Statement No. 54). The objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information for every user of governmental financial statements. This includes rating agencies, taxpayers, elected officials, and the media. The goal of GASB Statement No. 54 is to be consistent across all governments on how fund balances are reported.

GASB Statement No. 54 addresses two items of governmental reporting: fund types and fund balances.

### *What is a “Fund Type”?*

- Fund Type – One of 11 classifications into which all individual funds can be categorized.

El Paso County has always reported our Governmental Fund Types in compliance with GASB and our current fund type reporting structure is consistent and in compliance with GASB Statement No. 54. Thus, we are not required to do anything additional to address the fund type section of this GASB.

### *What is a “Fund Balance”?*

- Fund Balance – A subset of assets and liabilities deemed relevant for purposes of assessing near-term liquidity (similar to working capital). Fund balance includes Non-spendable, Restricted, and Unrestricted.

GASB 54 requires El Paso County to establish a fund balance policy for fiscal year 2011. The desired outcome of this directive is to have in place a plan to maintain a satisfactory level of unrestricted fund balance reserves to insure a continued strong financial position within the County.

## PURPOSE OF THIS POLICY

To establish a policy to maintain a satisfactory level of General Fund unrestricted fund balance reserves to insure a continued strong financial position within El Paso County. The Government Finance Officers Association (GFOA) recommends a fund balance policy to include the following:

1. Desired minimum level of unrestricted fund balance.
2. Describe the specific circumstances in which the resources accumulated for contingencies may be spent.
3. In the event the unrestricted fund balance must be used, how the County would replenish the fund balance and over what time frame the replenishment would occur.

## **BASIS FOR FUND BALANCE**

GFOA states the “only (accounting) fund typically having a fund balance policy is the General Fund.” This is because all core revenues flow through the General Fund. Thus, the General Fund supports or provides funding as needed to cover shortfalls in the other funds. This basis of accounting is consistent with how El Paso County operates.

Since the General Fund is the County’s primary operating fund, it accounts for all financial resources of the general government, except those required to be accounted for in another fund.

For El Paso County budgeting purposes, to provide additional transparency, the General Fund is split into two components: Restricted and Unrestricted.

Restricted General Fund consists of cost centers whose revenue sources are legally restricted for a specific purpose. Therefore, when looking at a basis to apply the percentage of fund balance, the expenditures associated with restricted general funds are not included. Only the expenditures associated with the activity within the Unrestricted General Fund are included as a basis for fund balance percentage calculation. Further, GASB 54 states the Unrestricted Fund Balance Policy will focus on the Unrestricted General Fund category containing Committed, Assigned, and Unassigned fund balances in our Comprehensive Annual Financial Report.

## **RECOMMENDATIONS FOR DETERMINING BASIS**

1. Basis of fund balance reserve:
  - State Statute requires that expenditures do not exceed revenues and available fund balances.
  - Since the fund balance is added to revenue to arrive at “available funds,” the policy is based on original adopted budgeted expenditures.
2. The level of reserves that needs to be maintained to determine El Paso County’s desired bond rating.
3. That an adequate level of reserve be maintained for cash flow purposes.
4. That a sufficient level of reserves be maintained to carry El Paso County through low economic periods or fluctuations in anticipated annual revenues.
5. That an adequate level of reserves will be available due to unexpected or potential needs in other funds that depend on the General Fund as a major source of funding.

## **GENERAL FUND UNRESTRICTED FUND BALANCE MINIMUM REQUIREMENTS**

The Board of County Commissioners has established:

1. The appropriate minimum level of General Fund unrestricted fund balance to be maintained is:
  - a. 20 – 25% of unrestricted operating expenditures
2. The General Fund unrestricted fund balance may be used in the following circumstances:
  - a. Revenues received are at least 4% less than budgeted due to economic conditions
  - b. Federally declared natural disasters within the County
  - c. Elimination of core (tax related, non-grant) revenue streams, such as:
    - i. Sales and/or Use Tax
    - ii. Property Tax
    - iii. Clerk and Recorder Fees
    - iv. Specific Ownership Tax
  - d. BoCC determined emergency of one-time cost
3. The General Fund unrestricted fund balance will be replenished using the following methods:
  - a. Adjust the five year financial projection so that spending is adjusted down (or economic recovery predicted) and desired levels of unrestricted fund balance are replenished.
  - b. Natural disaster use is replenished when anticipated reimbursement will be received from state/federal government.
4. The General Fund unrestricted fund balance will be replenished using the following timeline:
  - a. The amount that needs to be replenished will be adjusted in the five year financial projection to be brought to the minimum required level over a maximum of five budget years.

## **RESPONSIBILITIES**

- Budget Administration shall be responsible for the preparation and notification to the BoCC, the status of General Fund unrestricted fund balance reserves on a semi-annual basis, noting any exceptions to the levels as defined in the policy.