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FUND BALANCE POLICY

COUNTY OF JOHNSON, TEXAS

**Purpose:** The purpose of this policy is to establish operating guidelines for the fund balances of the governmental funds of Johnson County, Texas.

**Fund Balance Classification:** The county governmental-fund financial statements will present fund balances classified 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:

- **Non-spendable:** This classification includes amounts that cannot be spent because they: (a) are not in spendable form (e.g., inventories and prepaid items); (b) are not expected to be converted into cash within the current period or at all (e.g., long-term receivables); (c) are legally or contractually required to be maintained intact (e.g., the non-spendable corpus of an endowment)
- **Restricted:** This classification includes amounts subject to usage constraints that have either been: (a) externally imposed by creditors (e.g., through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that are constrained to use for specific purposes pursuant to formal action of Commissioners Court.<sup>1</sup> These amounts cannot be used for other purposes unless the Court removes or changes the constraints via the same type of action used to initially commit them.
- **Assigned:** This classification includes amounts intended by the county for use for a specific purpose but which do not qualify for classification as either restricted or committed. The intent can be expressed by Commissioners Court or by a Court designee (e.g., a department head).<sup>2</sup> This classification applies to the positive unrestricted and uncommitted fund balances of all governmental funds except the General Fund.
- **Unassigned:** This classification applies to the residual fund balance of the General Fund and to any deficit fund balances of other governmental funds.

**Order of Spending:** Where appropriate, Johnson County will typically use restricted, committed, and/or assigned fund balances, in that order, prior to using unassigned resources, but it reserves the right to deviate from this general strategy.

**Minimum Fund Balances:** Johnson County generally aims to maintain the following minimum fund balances:

- **General:** Unassigned fund balance of approximately 25% - 50% of budgeted expenditures for the fiscal year, to be used for unanticipated needs.
- **Debt Service Funds:** Restricted fund balances of approximately 1/12th of the following year's debt service requirements, to be used for debt service.

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1. A commitment of fund balance requires formal action as to purpose but not as to amount; the latter may be determined and ratified by the Court at a later date. This is often important near year-end, when a purpose or need is known but a cost is not.
  2. An assignment of fund balance implies an intent of Commissioners Court, but operationally, the ability to implement the intent may be delegated to one or more persons. Designees may be listed in this document or, alternatively, in the county's budgetary policy.