


NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER




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STATE AND LOCAL GOVERNMENT FINANCE DIVISION

# Fund Balance

Available Fund Balance, Fund Balance Policies, And GASB 54



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## Legal Definition Of Available Fund Balance (G.S. 159-8(a))

- Formula:
  - Cash And Investments
  - Minus Liabilities
  - Minus Encumbrances
  - Minus Deferred Revenues Arising From Cash Receipts \*
  - Equals Fund Balance Available For Appropriation

\* These are usually prepaid taxes or other items and are normally captioned as "Deferred Inflows of Resources" in the financial statements



## Legal Definition Of Available Fund Balance (Cont.)

- As figures stand at June 30 preceding the budget year
- Maximum amount available - does not change during the budget year



## Calculation Of Available Fund Balance - Carolina Co. General Fund

### • Step 1:

• Cash And Investments	\$12,637,116	(11,885,229 + 751,887)
• Minus Liabilities	(3,901,064)	(3,561,492+226,142+50,551+62,879)
• Minus Encumbrances	(20,890)	
• Minus Deferred Revenues		
Arising From Cash Receipts	<u>(329,403)</u>	
• Equals Fund Balance Available		
For Appropriation	<u>\$8,385,759</u>	



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## Calculation of Restricted by State Statute Carolina County General Fund

Total fund balance	\$15,421,287
Less fund balance available	8,385,759
Less non-spendable fund balance (inventory, prepaid expenditures, etc)	<u>(2,551,800)</u>
Restricted by State Statute	<u>\$4,483,728</u>



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## Calculation Of Available Fund Balance % Carolina County General Fund

• Step 2:	
• Expenditures	\$84,797,037
• Plus Transfers Out (TO)	370,000
• Minus Capital Leases (& IP)	<u>(100,000)</u>
• Equals	85,067,037
• Available Fund Balance	8,385,759
• AFB as a % Of Expenditures	9.86%



## LGC Fund Balance Policies

- Non-tax-levying governments
  - 8% minimum does not apply
  - Averages of similar units not used
  - Should be able to pay obligations in a timely manner
- Tax-levying governments
  - **Minimum** of 8% in available fund balance for cash flow purposes



## LGC Fund Balance Policies (Cont.)

- Tax-levying governments (cont.)
  - Larger amounts usually needed
  - Consider fund balance in relation to expenditures
  - Use averages for similar-sized units
  - Central range around average – 50% of average
  - Reporting changes have increased fund balance over time – revaluation funds and some pension funds now reported as part of General Fund
  - Consider individual government's situation



## Calculating Available Fund Balance - Special Situations

- Proprietary Funds
  - Follow statutory formula
  - Exclude long-term debt from liabilities
  - Effect of GASB Interpretation No. 6
- Powell Bill - restricted for streets
  - Restricted, but available - included in available fund balance
  - Restricted use
  - Same applies to other restricted funds reported in General Fund



## Fund Balance Statistics

- Smaller governments – larger fund balance in comparison to expenditures – dollar amounts are much smaller – this no longer appears to be the case for counties
- Counties – remarkably stable – 20 – 26% of General Fund expenditures over last 25 years, but material increase in past 3 years
- Cities without electric systems – some change over last 25 years – an increase of > 20%
- Municipal fund balances have increased over last 25 years
- Municipalities with electric systems – significant increase in fund balance – affected by LGC's transfer policy?



## Fund Balance Statistics (cont.)

- During last economic downturn
  - Fund balances stable as a % of General Fund expenditures
  - General Fund expenditures decreased – most likely from capital outlay reductions
- Per Wall Street Journal – 250 city median for 2012 – 26.8% of General Fund expenditures
- GFOA Best Practice recommends 3 months *minimum*



## Categories of Fund Balance Financial Reporting Purposes

### GASB 54 Reporting

- Non-spendable
- Spendable
  - Restricted
  - Committed
  - Assigned
  - Unassigned

## Nonspendable Fund Balance

- Nonspendable
  - Not in spendable form
  - Legally/contractually required to remain intact
  - Examples
    - Inventories/Prepays
    - Principal of a Permanent Fund
    - Long-term receivables



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## Restricted Fund Balance

- Externally-imposed restrictions
  - Grantors
  - Debt covenants
  - Stabilization by State Statute
- Restricted by law through constitutional provisions or enabling legislation
  - External resources
  - Legally enforceable that resources may only be used for specified purposes



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## Committed Fund Balance

- Fund balance that is committed by formal actions of the governing board
- Formal actions are required to “undo” any limitations placed by formal action (can’t just be appropriations lapsing)
- Set in place prior to year end, but amount can be calculated after year end
- Similar to a pre-GASB 54 “high level” designation by a board



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## Assigned Fund Balance

- Fund balance amounts that are *intended* to be used for a particular purpose but are NEITHER restricted NOR committed
- Assigned Fund Balance includes the following:
  - All remaining spendable amounts (positive) in governmental funds *except* the General Fund
  - General Fund amounts that have designations (e.g., subsequent year’s budget appropriation)
- Assignments may occur any time before the issuance of the financial statements
- Assignment ability may be delegated by the board





## Unassigned Fund Balance

- Residual classification for the General Fund
- Use for other governmental funds ONLY for negative residuals
- Fund balance that has not been assigned to other funds
- Fund balance that has not been restricted, committed, or assigned for particular purposes in the General Fund