Fund Balance

Available Fund Balance, Fund Balance Policies, And GASB 54

Purposes For Fund Balance Reserves

- Cash flow
- Avoid short-term borrowing
- Operating cycle - i.e., taxes collected in December
- Reserve for emergencies, unforeseen events, unexpected opportunities

Purposes For Fund Balance Reserves (Cont.)

- Increased investment income
- Helps protect credit rating & obtain lower interest rates on borrowings
- May help avoid rate increases or service reductions
- Avoids LGC warnings

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.

- Step 1:

Cash And Investments (11,384,209 + 751,887)	12,136,096
Minus Liabilities	3,899,764
Minus Encumbrances	20,890
Minus Deferred Revenues Arising From Cash Receipts	329,403
Equals Fund Balance Available For Appropriation	7,886,039

Calculation Of Available Fund Balance %

- Step 2:
  - Expenditures 83,851,950
  - Plus Transfers Out (TO) 370,000
  - Minus Capital Leases (& IP) 100,000
  - Equals 84,121,950
- Available Fund Balance 7,886,039
- Exp. + TO - Cap. Leases 84,121,950
- AFB as a % Of Expenditures 9.37%

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
  - Staff is trying to back out GASB 54 changes to identify underlying trends (Ex: Revaluation Fund now in General Fund)
  - Consider individual government's situation

LGC Written Fund Balance Communications

- Fund deficits
- Over-appropriation of available fund balance
- Fund balance < 8% minimum
- Fund balance materially < average (50%) for similar-sized governments
- Fund balance w/o restricted funds (for weaker governments) – primarily Powell Bill
- Looking at interfund receivables/payables – funds should be self-supporting

Special Situations

- Interfund loans
  - Purpose
  - Board approval
  - Possible effect on fund balance
- Fund balance vs. Capital Reserve Fund
- Commitments and assignments

Special Situations (Cont.)

- Contingency appropriation
- Resort communities
- Special risk situations - e.g., large taxpayer
- Effects of moneys in other funds

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

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

Fund Balance Policies

- As a % of
  - General Fund expenditures (current year)
  - General Fund revenues (current year)
  - General Fund appropriations (next year's budget)
  - General Fund budget (next year's)
- Minimum percentage
- Minimum dollar amount
- Excess amounts transferred to a Capital Reserve Fund

Fund Balance for Governmental Funds

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

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

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

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

Specific Guidance for Stabilization Amounts

- Similar to "rainy day" amounts where funds have been formally set aside
- Circumstances for use must be specific
- Stabilization is generally considered to be a specific purpose
  - Typically reported as restricted or committed (most likely committed in NC), depending on the details of its availability / flexibility
  - Unassigned if not restricted or committed
- The LGC does not require a government to adopt a fund balance policy, but if a policy is adopted the minimum amount should be disclosed

Group Exercise

- Calculate the legally available fund balance for the City of Dogwood's General Fund in dollars
- Calculate the legally available fund balance for the City of Dogwood's General Fund as a % of General Fund Expenditures
- Is this an adequate amount of fund balance?
- Note: assume population of 5,000 and no electric system

Exhibit 3

Carolina County, North Carolina
Balance Sheet
Governmental Funds
June 30, 2013

	Major	Non-Major	
	General	Other Governmental Funds	Total
ASSETS			
Cash and cash equivalents	$ 11,384,209	$ 50,757	$ 11,434,966
Restricted Cash	751,887	560,270	1,312,157
Receivables, net	3,525,337	14,916	3,540,253
Due from other governments	3,200,000	57,800	3,257,800
Due from component unit	36,100	-	36,100
Inventories	2,551,800	-	2,551,800
Total assets	$ 21,449,333	$ 683,743	$ 22,133,076
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	$ 3,560,192	$ 13,346	$ 3,573,538
Miscellaneous liabilities	226,142	-	226,142
Due to other governments	50,551	-	50,551
Contract retainage	-	85,030	85,030
Liabilities to be paid from restricted assets	62,879	-	62,879
Total liabilities	3,899,764	98,376	3,998,140
DEFERRED INFLOWS OF RESOURCES	2,628,002	4,345	2,632,347
Fund balances:			
Nonspendable:			
Inventories	2,551,800	-	2,551,800
Restricted:			
Stabilization by State Statute	4,483,728	4,478	4,488,206
Register of Deeds	17,285	-	17,285
Mental Health Programs	200,000	-	200,000
Fire Protection	-	1,783	1,783
School Capital	-	558,550	558,550
Commited:			
Tax Revaluation	471,723	-	471,723
Assigned:			
Recreation Capital	-	7,969	7,969
Future School Capital	-	10,270	10,270
Subsequent year's expenditures	255,000	-	255,000
Unassigned:	6,942,031	(2,028)	6,940,003
Total fund balances	14,921,567	581,022	15,502,589
Total liabilities, deferred inflows of resources, and fund balances	$ 21,449,333	$ 683,743	

Exhibit 4

Carolina County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013

	Major	Non-Major	
	General Fund	Other Governmental Funds	Total
REVENUES			
Ad valorem taxes	$ 55,462,297	$ 20,861	$ 55,483,158
Local option sales taxes	12,849,824	376,400	13,226,224
Other taxes and licenses	276,471	-	276,471
Unrestricted intergovernmental	145,522	-	145,522
Restricted intergovernmental	14,057,550	756,797	14,814,347
Permits and fees	398,938	-	398,938
Sales and services	1,144,821	-	1,144,821
Investment earnings	1,563,697	51,949	1,615,646
Miscellaneous	116,284	70,000	186,284
Total revenues	86,015,404	1,276,007	87,291,411
EXPENDITURES			
Current:			
General government	6,826,696		6,826,696
Public safety	7,032,599	76,486	7,109,085
Transportation	1,138,578	-	1,138,578
Economic and physical development	1,316,929	-	1,316,929
Human services	22,419,822	-	22,419,822
Cultural and recreational	2,308,240	-	2,308,240
Intergovernmental:			
Education	41,418,016	-	41,418,016
Capital outlay	-	1,846,696	1,846,696
Debt service:			
Principal	618,166	-	618,166
Interest	692,904	-	692,904
Bond issuance costs	65,000	-	65,000
Advance refunding escrow	15,000	-	15,000
Total expenditures	83,851,950	1,923,182	85,775,132
Excess (deficiency) of revenues over expenditures	2,163,454	(647,175)	1,516,279
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	619,059	280,000	899,059
Transfers to other funds	(370,000)	(629,059)	(999,059)
Capital lease obligations issued	100,000	-	100,000
Refunding bonds issued	3,365,000	-	3,365,000
Installment purchase obligations issued	-	1,200,000	1,200,000
Payment to refunded bond escrow agent	(3,300,000)	-	(3,300,000)
Sale of capital assets	28,482	-	28,482
Total other financing sources and uses	442,541	850,941	1,293,482
Net change in fund balance	2,605,995	203,766	2,809,761
Fund balances, beginning	12,192,598	377,256	12,569,854
Increase in inventory	122,974	-	122,974
Fund balances, ending	$ 14,921,567	$ 581,022	$ 15,502,589

The notes to the financial statements are an integral part of this statement.

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance- This 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.

> Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Restricted Fund Balance - This classification includes revenue sources that are restricted to specific purposes externally imposed or imposed by law.

> **Note to Preparer:** Restricted and Committed section of fund balance must be listed by purpose - not by name of restriction. For example, "Restriction by Grants" should be labeled "Restriction for Mental Health."

> Restricted for Stabilization by State Statute - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].
>
> Restricted for Register of Deeds - portion of fund balance that is restricted by revenue source to pay for the computer equipment and imaging technology for the Register of Deeds' office.
>
> Restricted for Mental Health - portion of fund balance that is restricted by revenue source for mental health purposes.
>
> Restricted for Fire Protection - portion of fund balance that is restricted by revenue source for fire protection expenditures.
> Restricted for School Capital - portion of fund balance that can only be used for School Capital per G.S. 159-18-22.

Committed Fund Balance - Portion of fund balance that can only be used for specific purpose imposed by majority vote of Carolina County's governing body (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

> Committed for Tax Revaluation - portion of fund balance that can only be used for Tax Revaluation.

Assigned Fund Balance - portion of fund balance that the Carolina County governing board has budgeted.

> Subsequent year's expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to $100,000.
>
> Assigned for Recreation Capital - portion of fund balance that has been budgeted by the board for the construction of a new recreation center.
>
> Assigned for Future School Capital - portion of fund balance that has been budgeted by the board for future school capital construction.

Unassigned Fund Balance - Portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

Carolina County has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, and county funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the County.

Note to Preparer: Units should modify this language to reflect their own policies.

Carolina County has also adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the County in such a manner that available fund balance is at least equal to or greater than 8% of budgeted expenditures. Any portion of the General Fund balance in excess of 8% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the County in a future budget.

Note to Preparer: Units are not required to have a fund balance policy; however, if they do have a board approved fund balance policy it should be disclosed in the notes.

balance sheet date. The $226,058 reported as landfill closure and postclosure care liability at June 30, 2013 represents a cumulative amount reported to date based on the use of 17 percent of the total estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of $1.2 million as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2013. The County expects to close the Wingate Drive facility in the year 2048. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County has met the requirements of a local government financial test that is one option under State and federal laws and regulations that help determine if a unit is financially able to meet closure and postclosure care requirements. However, the County has also elected to establish a reserve fund to accumulate resources for the payment of closure and postclosure care costs. A transfer of $65,000 was made to the Landfill Closure and Postclosure Reserve Fund during the fiscal year ended June 30, 2013, and those funds are held in investments with a cost of $65,000 (market value, $65,000) at year-end. The County expects that future inflation costs will be paid from the interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or by future tax revenues.

4. Deferred Outflows and Inflows of Resources

The amount of deferred outflows of resources is a charge on refunding of debt of $292,500.

	Unavailable Revenue	Unearned Revenue
Prepaid taxes not yet earned (General)	$ -	$ 329,403
Taxes receivable, net (General), less penalities	2,269,766	
Taxes receivable, net (Special Revenue)	1,345	
Special assessments receivable, net (General)	28,833	
Sales tax refunds on restricted intergovernmental revenues (Capital Projects)	-	3,000
Total	$ 2,299,944	$ 332,403

Note to preparer: The deferred inflows of financial resources resulting from the taxes receivable amount does not include the portion related to penalties levied on the ad valorem taxes. As a reminder, penalties should be turned over to the local educational agency (LEA). In addition, these penalties will not be due to the LEA until received. Therefore, they should not be included in deferred inflows of resources. When cash is finally received for these penalties, it will immediately be set aside for the LEA in the Fines and Forfeitures Agency Fund. Please refer to Memorandum #1060 for more background.

> **Note to Preparer:** Units should modify the above language to reflect their own policies.

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation:

Total fund balance-General Fund	**$14,921,567**
Less:	
Inventories	**2,551,800**
Stabilization by State Statute	4,483,728
Appropriated Fund Balance in 2014 budget	255,000
Register of Deeds	17,285
Mental Health Programs	200,000
Tax Revaluation	471,723
Working Capital/ Fund Balance Policy	6,705,434
Remaining Fund Balance	236,597

Carolina County has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the County in such a manner that available fund balance is at least equal to or greater than 8% of budgeted expenditures.

> **Note to Preparer:** The above schedule is prepared from the General Fund Balance Sheet as presented in the basic financial statements. Each restriction, commitment, and assignment of fund balance should be included in the calculation above.
>
> The unit should also include any other items that the board authorized even if it is included in unassigned on the Balance Sheet. This is where the unit can disclose any fund balance policies and reduce it from the remaining amount. In this example, the fund balance policy is included in unassigned fund balance. In unusual circumstances fund balance policies can be included in Committed Fund Balance. For more information on GASB 54 components of fund balance please review Memorandum #2010-35 on our website.
>
> The unit is also required to disclose the dollar amount of outstanding encumbrances for all major funds and non-major funds in the aggregate. Outstanding encumbrances are not shown on the face of the statement but are included in Restricted for Stabilization by State Statute (RSS); however, in funds other than the General Fund they might be shown as some other restricted amount. In either case the amount of significant outstanding encumbrances must be disclosed for **each major fund** and in the **aggregate for non-major funds**. Below is example of such disclosure.

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

Encumbrances	*General Fund*	*Non-Major Funds*
	$20,890	$0

Note to preparer: General Fund encumbrances should include those for the legally adopted general fund as well as any funds consolidated into the general fund for a GAAP presentation in accordance with GASB Statement No. 54.

IV. Segment Information

Note to preparer: Be alert if a non-major proprietary fund has revenue-backed debt. Segment information is only required for enterprise funds with outstanding revenue-backed debt if the fund is not presented as major or when the segment does not encompass the entire fund. In disclosing segment information, present the type of goods or services; a condensed statement of net position; condensed statement of revenues, expenses, and changes in net position; and a condensed statement of cash flows. See paragraph 122 of GASB Statement No. 34 for more details.

V. Related Organization

The chairman of the County's governing board is also responsible for appointing the members of the board of the Carolina County Recreation Corporation, but the County's accountability for this organization does not extend beyond making these appointments. The Corporation is a nonprofit organization that exists to develop and provide recreational activities for County residents. It is funded primarily with private donations.

VI. Joint Ventures

The County, in conjunction with the City of Dogwood, participates in the City of Dogwood - Carolina County Regional Airport Authority. Each participating government appoints three members to the six-member board. The Airport is a joint venture established to facilitate economic expansion within the County and improve the quality of life for its citizens. The Airport has been in existence for five years, but it is not yet self-sustaining. The County has an ongoing financial responsibility for the Airport because it and the City are legally obligated under the intergovernmental agreement that created the Airport to honor any deficiencies in the event that proceeds from other default remedies are insufficient. The County contributed $1,014,922 to the Airport during the fiscal year ended June 30, 2013. The participating governments do not have any equity interest in the joint venture, so no equity interest has been reflected in the financial statements at June 30, 2013. Complete financial statements for the Airport can be obtained from the Airport's administrative offices at 0000 Runway Avenue, Dogwood, NC 00000.

The County also participates in a joint venture to operate Central Carolina Regional Library with five other local governments. Each participating government appoints one board member to the six-member board of the Library. The County has an ongoing financial responsibility for the joint venture because the Library's continued existence

Exhibit 3

City of Dogwood
Balance Sheet
Governmental Funds
June 30, 2013

	Major Funds: General	Major Funds: Emergency Telephone System	Major Funds: Parking and Recreation	Total Non-Major Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 417,289	$ 8,000	$ 23,400	$ 24,681	$ 473,370
Restricted Cash	57,996	-	-	-	57,996
Receivables, net:		-	-	-	-
Taxes	63,235	-	-	-	63,235
Accounts	874	4,415	-	375	5,664
Due from other governments	82,300	10,000	-	5,000	97,300
Due from component unit	3,700	-	-	-	3,700
Inventories	1,245	-	-	-	1,245
Total assets	626,639	22,415	23,400	30,056	702,510
LIABILITIES					
Accounts payable and accrued liabilities	103,874	17,000	-	5,000	125,874
Due to other funds	2,200	-	-	-	2,200
Due to other governments	6,055	-	-	-	6,055
Total liabilities	112,129	17,000	-	5,000	134,129
DEFERRED INFLOWS OF RESOURCES					
Property taxes receivable	57,180	-	-	-	57,180
Prepaid taxes	15,502	-	-	-	15,502
Total deferred inflows of resources	72,682	-	-	-	72,682
FUND BALANCES					
Non Spendable					
Inventories	1,245	-	-	-	1,245
Perpetual maintenance	-	-	-	25,056	25,056
Restricted					
Stabilization by State Statute	103,379	-	-	-	103,379
Streets	4,084	-	-	-	4,084
Human Services	23,459	-		-	23,459
Public Safety	-	5,415	-	-	5,415
Economic Development	30,453	-	-	-	30,453
Assigned					
Parking and Recreation	-	-	23,400	-	23,400
Subsequent year's expenditures	76,541	-	-	-	76,541
Unassigned	202,667	-	-	-	202,667
Total fund balances	441,828	5,415	23,400	25,056	495,699
Total liabilities, deferred inflows of resources and fund balances	$ 626,639	$ 22,415	$ 23,400	$ 30,056	

Exhibit 4

City of Dogwood
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013

	Major Funds				
	General Fund	Emergency Telephone System	Parking and Recreation	Total Non-Major Funds	Total Governmental Funds
REVENUES					
Ad valorem taxes	$ 829,577	$ -	$ -	$ -	$ 829,577
Other taxes and licenses	53,314	-	-	-	53,314
Unrestricted intergovernmental	702,269	-	-	-	702,269
Restricted intergovernmental	166,334	785,000	200,000	115,000	1,266,334
Permits and fees	13,160	-	-	-	13,160
Sales and services	22,007	-	-	4,836	26,843
Investment earnings	23,956	-	5,000	412	29,368
Miscellaneous	183	-	-	-	183
Total revenues	1,810,800	785,000	205,000	120,248	2,921,048
EXPENDITURES					
Current:					
General government	565,050	-	-	-	565,050
Public safety	524,736	785,038	-	-	1,309,774
Transportation	392,840	-	-	-	392,840
Economic and physical development	-	-	-	115,000	115,000
Environmental protection	257,918	-	-	-	257,918
Culture and recreation	91,260	-	-	-	91,260
Debt service:					
Principal	11,975	-	-	-	11,975
Interest and other charges	5,365	-	-	-	5,365
Capital outlay	-	-	590,000	-	590,000
Total expenditures	1,849,144	785,038	590,000	115,000	3,339,182
Excess (deficiency) of revenues over expenditures	(38,344)	(38)	(385,000)	5,248	(418,134)
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	10,813	-	208,400	-	219,213
Transfers to other funds	(305,800)	-	-	-	(305,800)
Sales of capital assets	5,000	-	-	-	5,000
Insurance recovery	325,000				325,000
Installment purchase obligations issued	-	-	200,000	-	200,000
Capital lease obligations issued	19,000	-	-	-	19,000
Total other financing sources (uses)	54,013	-	408,400	-	462,413
Net change in fund balance	15,669	(38)	23,400	5,248	44,279
Fund balances, beginning as previously reported	358,710	5,453	-	19,808	383,971
Prior period adjustment (Note III.D.)	67,367	-	-	-	67,367
Fund balances, beginning as restated	426,077	5,453	-	19,808	451,338
Change in reserve for inventories	82	-	-	-	82
Fund balances, ending	$ 441,828	$ 5,415	$ 23,400	$ 25,056	$ 495,699

The notes to the financial statements are an integral part of this statement.

Note to Preparer: The City of Dogwood budgets an Economic Development Fund that does not meet the new GASBS 54 definition of a Special Revenue Fund as its primary revenue source is a transfer of assigned revenues from the General Fund. Under certain circumstances, it can also be a transfer of committed revenues from the General Fund. Review Memo #2010-35, components of Fund Balance for more information. This fund is consolidated in the General Fund for reporting purposes.

Exhibit 6

City of Dogwood
Statement of Fund Net Position
Proprietary Funds
June 30, 2013

	Major Enterprise Funds			
	Electric Fund	Water and Sewer Fund	Total	Internal Service Fund
ASSETS				
Current assets:				
Cash and cash equivalents	$ 67,127	$ 169,832	$ 236,959	$ 25,730
Accounts receivable (net) - billed	160,909	78,336	239,245	-
Accounts receivable (net) - unbilled	54,262	21,472	75,734	-
Due from other funds	-	-	-	2,600
Inventories	95,378	110,281	205,659	2,700
Prepaid items	4,630	2,565	7,195	-
Restricted cash and cash equivalents	56,105	1,675,055	1,731,160	-
Total current assets	438,411	2,057,541	2,495,952	31,030
Noncurrent assets:				
Capital assets:				
Land and construction in progress	289,400	2,778,549	3,067,949	-
Other capital assets, net of depreciation	708,272	9,781,456	10,489,728	24,670
Capital assets	997,672	12,560,005	13,557,677	24,670
Total noncurrent assets	997,672	12,560,005	13,557,677	24,670
Total assets	$ 1,436,083	$ 14,617,546	$ 16,053,629	$ 55,700
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	$ -	$ 157,614	$ 157,614	$ -
Total deferred outflows of resources	$ -	$ 157,614	$ 157,614	$ -
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	202,957	62,010	264,967	2,900
Due to other funds	160	240	400	-
Compensated absences - current	12,000	9,000	21,000	-
General obligation bonds payable- current	-	449,022	449,022	-
Revenue bond payable - current	-	34,339	34,339	-
Bond anticipation notes payable	-	675,000	675,000	-
Liabilities payable from restricted assets:				
Accounts payable	-	115,557	115,557	-
Customer deposits	56,105	16,930	73,035	-
Total current liabilities	271,222	1,362,098	1,633,320	2,900
Noncurrent liabilities:				
Other postemployment benefits	17,287	30,651	47,938	-
Compensated absences	26,200	41,900	68,100	2,400
General obligation bonds payable-noncurrent	-	2,509,592	2,509,592	-
Revenue bond payable - noncurrent	-	872,584	872,584	-
Total noncurrent liabilities	43,487	3,454,727	3,498,214	2,400
Total liabilities	314,709	4,816,825	5,131,534	5,300
NET POSITION				
Net investment in capital assets	997,672	9,835,207	10,832,879	-
Unrestricted	123,702	123,128	246,830	50,400
Total net position	$ 1,121,374	$ 9,958,335	11,079,709	$ 50,400
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			300	
Net position of business-type activities			$ 11,080,009	

NOTE TO PREPARER: The consolidation of the internal service fund activities related to the enterprise fund is shown for illustrative purposes only. The amount shown here is clearly immaterial and should be allocated back to the primary user of the internal service fund (in Dogwood, the General Fund) instead of consolidated with the enterprise fund. However, we chose to leave the allocation here for illustrative purposes so that the user could see how this consolidation, if material, should be treated.

The notes to the financial statements are an integral part of this statement.

11. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This 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.

Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Perpetual maintenance – Cemetery resources that are required to be retained in perpetuity for maintenance of the City of Dogwood Cemetery.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Note to Preparer: Restricted and Committed classifications of fund balance must be listed by purpose. The name of the restricting source is not a purpose. Example: Restriction for Powell Bill should be labeled "Restriction for Streets" not "Restriction for Powell Bill".

Restricted for Stabilization by State statute - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Restricted for Human Services – portion of fund balance restricted by revenue source for use for mental health, social services and public health purposes.

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures.

Restricted for Economic Development - portion of fund balance restricted for economic development [G.S. Chapter 159, Article 3, Part 2].

Committed Fund Balance –portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of City of Dogwood's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

Assigned fund balance – portion of fund balance that City of Dogwood intends to use for specific purposes.

Note to Preparer: Unit of government must disclose who has authority to assign fund balance to a specific purpose and the policy by the governing body that established this authorization.

Assigned for Parking and Recreation – portion of fund balance that has been budgeted by the Board for construction of a public baseball field.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to $100,000.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The City of Dogwood has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, city funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the City.

Note to Preparer: Units should modify this language to reflect their own policies.

The City of Dogwood has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the City in such a manner that available fund balance is at least equal to or greater than 10% of budgeted expenditures. Any portion of the general fund balance in excess of 10% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the City in a future budget.

II. Stewardship, Compliance, and Accountability

A. Significant Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

The City's repurchase agreement is not in accordance with State law [G.S. 159-30(c)(12)]. State law requires that the security be delivered to the City or its safekeeping agent other than the provider of the repurchase agreement and that the security must be in the City's name. The underlying security is held by the financial institution providing the transaction and is not in the City's name. The City will establish a custodial agreement with a separate financial institution that will hold the security in the City's name.

Note to preparer: Other significant instances of noncompliance with the fiscal and budgetary requirements of the General Statutes should be disclosed in this section along with a corrective action plan. Items such as the following should be disclosed- failure to adopt an annual balanced budget for an enterprise fund, a less than $50,000 performance bond for the Finance Officer, or material instances of budgetary noncompliance in any funds based on the legal level of budgetary control. Immaterial instances of noncompliance can be disclosed in the management letter. Section 15 of the Audit Manual contains a listing of the major statutory references that are applicable to units of local government.

2. Contractual Violations

Note to preparer: For those governmental units with outstanding revenue bonds, any failures of the unit to comply with reserve levels, coverage ratio requirements, or other terms of the bond documents should be disclosed. Any other material violations of various contractual agreements should also be disclosed. A corrective action plan should be included for each violation.

B. Deficit in Fund Balance or Net Position of Individual Funds

Note to preparer: Any individual funds with deficits in fund balances or net position should be disclosed along with a corrective action plan.

If your unit provides additional group-term life insurance, please include a description of the policy in the above note. In addition, please note that the benefits in excess of $50,000 are considered taxable to the employee as a fringe benefit. Please see Memorandum #1048 for further discussion.

3. Deferred Outflows and Inflows of Resources

Deferred outflows of resources is the deferred amount for loss on defeasance of debt.

Deferred inflows of resources at year-end is comprised of the following:

	Unavailable Revenue	Unearned Revenue
Prepaid taxes (General Fund)	$ -	$ 15,502
Taxes receivable (General Fund), less penalties	57,180	-
Total	$ 57,180	$ 15,502

Note to preparer: The deferred inflows of resources based on the taxes receivable amount does not include the portion related to penalties levied on the ad valorem taxes. As a reminder, penalties should be turned over to the local educational agency (LEA). These penalties will not be due to the LEA until received. Therefore, they should not be included in deferred inflows of resources. When cash is finally received for these penalties, it will immediately be set aside for the LEA in the Fines and Forfeitures Agency Fund. Please refer to Memorandum #1060 for more background.

4. Risk Management

Note to preparer: This section concerning risk and insurance pools should be in compliance with GASB 10 and provide details relevant to your government. Coverage will vary between governments.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of $1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a $2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of $500,000 and $300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of $150,000. The property liability pool has an aggregate limit for the

G. Fund Balance

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation:

Total fund balance-General Fund	*$ 441,828*
Less:	
Inventories	1,245
Stabilization by State Statute	103,379
Streets-Powell Bill	4,084
Appropriated Fund Balance in 2014 budget	76,541
Economic Development	30,453
Human Services	23,459
Working Capital / Fund Balance Policy	186,009
Remaining Fund Balance	16,658

The City of Dogwood has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the City in such a manner that available fund balance is at least equal to or greater than 10% of budgeted expenditures.

Note to Preparer: The above schedule is prepared from the General Fund Balance Sheet as presented in the basic financial statements. Each restriction, commitment, and assignment of fund balance should be included in the calculation above.

The unit should also include any other items that the board authorized even if it is included in unassigned fund balance on the Balance Sheet. This is where the unit can disclose any fund balance policies and subtract it from the remaining amount. In this example the fund balance policy is included in unassigned fund balance. In unusual circumstances fund balance policies can be included in Committed Fund Balance. For more information on GASB 54 components of fund balance please review Memo # 2010-35 on our website.

The unit is also required to disclose the dollar amount of outstanding encumbrances for all major funds and non-major funds in the aggregate. Outstanding encumbrances are not shown on the face of the statement but are included in Stabilization by State Statute (RSS); however, in funds other than the General Fund they might be shown as some other restricted amount. In either case the amount of significant outstanding encumbrances must be disclosed for **each major fund** and in the **aggregate for non-major funds**. Below is an example of such disclosure.

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

Encumbrances	*General Fund*	*Non-Major Funds*
	$10,450	$0

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Fund Balance in Local Government Budgeting and Finance

Lee Carter and A. John Vogt

Accurate estimation and effective management of fund balance are central to local government budgeting and finance. Generally speaking, fund balance is excess, surplus, or unbudgeted money. At the end of a fiscal year it is that portion of a unit's money that can be carried forward to finance budgeted expenditures during the next fiscal year and therefore is called available fund balance. Fund balance that is unappropriated after enactment of the budget and that is not designated for specific purposes serves as a general operating reserve for the budget.

A local government with inadequate fund balance may be unable to pay vendors and contractors on time or to meet emergency or unforeseen needs. The unit also may be unable to take advantage of financial opportunities that arise, such as refunding bonds to take advantage of lower rates. A small fund balance may affect credit ratings and result in a higher interest rate on the unit's bonds. Because a unit with a small fund balance would have little investment income on excess funds, it could have to rely more heavily on the property tax. Perhaps most important, a revenue shortfall might force the unit to reduce services or increase property taxes or other revenues more than would be necessary if there were adequate fund balance.

This article examines the role of fund balance in local government budgeting and finance in North Carolina. Specifically, it:

1. Discusses the concept of available fund balance, based on the statutory formulas for calculating it.
2. Discusses how available fund balance may be used.
3. Explains the guidelines used by staff members of the Local Government Commission, Department of State Treasurer, in advising local governments and school systems about their fund balances.
4. Presents data on available fund balances of North Carolina's counties, cities, and public school systems.

The article focuses on available fund balance in county and city general funds and in school system local current expense funds. North Carolina counties and cities finance most services from their general funds and maintain significant available operating balances in them. Moreover, cash-flow problems tend to be more severe in general funds than in other operating funds. For example, enterprise funds for utilities have constant revenue streams from monthly charges that can be changed at any time, while general funds depend heavily on the property tax, most of which is paid in the middle of the fiscal year and usually cannot be changed once it is established in the annual budget ordinance. About two thirds of public school expenditures are financed with state moneys that the school systems budget in their state public school funds. But these funds do not have significant fund balances, because receipts deposited into them and expenditures made from them occur almost simultaneously. Generally, school system operating expenditures financed from sources other than federal or state sources or enterprise fund revenues are budgeted in their local current expense funds, and nearly all of the systems' balances for operating purposes are maintained in these funds.

Mr. Carter is assistant director of the Fiscal Management Section, State and Local Government Finance Division, North Carolina Department of State Treasurer. Mr. Vogt is a faculty member at the Institute of Government specializing in budgeting and finance.

Calculating Available Fund Balance

e Local Government Budget and ..cal Control Act includes a formula hat counties and cities must use to calulate the maximum fund balance that ; available at the end of one fiscal year or appropriation in the next year's udget. This formula provides that fund alance appropriated in a budget shall ot exceed "the sum of cash and investents minus the sum of liabilities, enumbrances, and deferred revenues rising from cash receipts, as those gures stand at the close of the fiscal ear next preceding the budget year."[1] he School Budget and Fiscal Control ct has a similar formula that differs nly in that all deferred revenues, not ıst those arising from cash receipts, are ıcluded in the calculations.[2]

The amount calculated with these forıulas is fund balance that is legally vailable for the next year's budget, /hether or not it is actually appropriated into that budget. If unappropriated, this available fund balance emains available for appropriation ..oughout the year. Both formulas are d on a conservative premise that ..d balance available for the next ear's budget should include only moneys on hand that are not owed or that ave not been committed by contract r agreement to other parties or to ther funds.

Available fund balance is very differnt from fund balance, or "equity," as ıown in the balance sheet in the anıual financial report. Available fund alance for budget purposes may inude only cash and investments in exess of liabilities, encumbrances, and ertain deferred revenues. Fund balance or equity) in the balance sheet equals l assets, including receivables as well s cash and investments, minus liabilies. Thus fund balance calculated for udget purposes is only a portion of ınd balance in the balance sheet.

Cash and Investments. The starting oint for calculating available fund alance is cash and investments. *Cash* fers to cash on hand and on deposit bank accounts, including checking, ..s, and money market accounts. *In..ıts* include certificates of deposit ıd the other legal investments.[3]

Two important questions arise conerning the treatment of investments in the statutory formula. One question concerns the term or maturity of investments. The statute presumes that available fund balance includes all investments regardless of their term or maturity. However, if the proceeds of long-term investments are not expected to be available during the coming year, officials may wish to exclude them from the calculation. The statute does not prohibit this and indeed seems to encourage it by the phrase "appropriated fund balance in any fund *shall not exceed* . . ." (emphasis added). Because the formula permits appropriated fund balance to be less than available fund balance, the value of investments whose proceeds are not expected to be available in the coming year need not, and probably should not, be included in the calculation of available fund balance.

The second question concerning investments is whether they should be valued at cost (the amount paid for a security) or at market value (the amount that would be received if a security were sold). Traditionally investments have been valued at cost. In recent years, however, local governments have invested more in longer-term securities. When interest rates change, the price fluctuations for longer-term securities are greater than the price fluctuations of shorter-term securities, and differences between cost and market value can be significant. If investments will be liquidated before maturity, they should be valued at the lower of cost or market value for the purpose of calculating available fund balance. Otherwise, they can continue to be valued at cost for this calculation.

Receivables. Local governments may not include receivables in the calculation of available fund balance. Receivables include prior years' property taxes. Even though such taxes, if collected during the budget year, would be available to finance expenditures, they may not be counted in fund balance available for that year. Instead, they should be included among estimated revenues for the year in which they will be collected.

Usually the largest portion of receivables is payments due from other governments. For example, in August the state distributes local sales tax revenue collected in the previous quarter. Under generally accepted accounting principles, counties and cities may count this distribution as accrued revenue for the fiscal year in which the state collects it even though they do not receive it until the following fiscal year. If this procedure is followed, the funds are not a revenue for the budget year in which they are received, because they have been included in the prior year's budget. Furthermore they may not be counted in available fund balance at the end of the prior year, because they are a receivable at that point. Sales tax revenue in the budget year will include the next three quarterly payments (November, February, and May) plus an accrued amount equal to the payment to be received in August of the following year.[4]

The balance sheet recognizes the exclusion of receivables in the statutory calculation of available fund balance by referring to the portion of fund balance attributable to receivables with the designation *reserved by state statute*. This reserved amount should include all receivables except those arising from prior years' property taxes and occasionally other revenues, which are offset by their inclusion as deferred revenues among liabilities rather than in fund balances.

The general fund often includes moneys that are due from other funds of the unit. A *due from* is a receivable of a particular fund, but not of the unit as a whole. A due from that will be available to finance general fund expenditures in the coming budget year may not be included in the available fund balance carried forward to that year. Generally, it should be included instead as an estimated revenue or "transfer-in" of other resources to the general fund for the budget year. These receivables and payables between funds should be paid off before June 30 of each year if possible. Alternatively, before June 30 the board may declare the transaction a transfer rather than a liability, thereby eliminating the receivables and payables.

Liabilities. Liabilities must be subtracted from cash and investments in calculating available fund balance. The general fund and other annually budgeted governmental funds have only current liabilities—those that fall due within a year. Enterprise and internal service funds include long-term as well as current liabilities. However because North Carolina local governments budget and account for all funds on a modified accrual basis, which considers only

58

current liabilities, only current liabilities must be subtracted from cash and investments. Moreover, long-term liabilities, such as debt repayments due after the next budget year, will be met from revenues raised in those years, and available fund balance does not have to be reserved during the budget year to pay such liabilities.

The most common current liabilities are accounts payable, accrued payroll, employer and employee tax- and benefit-payment obligations, amounts due to other funds, and deferred revenues. Accounts payable is the amount owed for goods and services already received. Accrued payroll is the amount owed for work already performed by employees, and it exists at the end of a year when a payroll period extends into the following year. Employee tax- and benefit-payment obligations arise from federal and state income taxes, social security taxes, employee retirement systems, health insurance plans, and other employee benefit programs.

The general and other funds of a unit may owe money to one another at the end of a year. Each of these is recorded as a *due to*. Amounts due to other funds are liabilities and therefore must be subtracted from cash and investments in calculating available fund balance.

Encumbrances. Encumbrances are created by purchase orders and other contracts for goods or services that have yet to be fulfilled by delivery of the goods and services. Because they have not been fulfilled, the value of the purchase orders and contracts may not be counted as expenditures or as liabilities. Instead, they must be recorded as encumbrances, which will become expenditures when the goods are delivered or the services are performed.

In the past, most units charged encumbrances outstanding at the end of a year to the budget for that year. The statutory formula for fund balance accommodated this practice by requiring units to reserve enough cash and investments at year's end to cover the outstanding encumbrances. The amount represented by this reserve was held back for the budget in the year just ending and was not available to finance expenditures in the coming year's budget.

Procedure 25 of the Local Government Commission's *Uniform Accounting System: Systems and Procedures Manual* provides that, with certain exceptions, encumbrances outstanding at the end of a year should be charged to the next year's budget. Most North Carolina units follow this procedure. When this is done, the money reserved for encumbrances should be carried forward as a separate financial resource for the coming year's budget. In effect, the reserve for encumbrances is a financial source. Therefore, when encumbrances are handled in this way, available fund balance should exclude encumbrances outstanding at year end. These funds are available for appropriation but only to pay for the encumbrances that existed at year end.

Deferred revenues. Deferred revenues are classified as a liability on the balance sheet. They are offsetting or balancing accounts (1) to taxes and other revenues that are collected in advance of the year in which they are due and (2) to taxes receivable (but not yet collected) from current and past years.

Deferred revenues arising from *taxes and other revenues collected in advance* are deferred revenues arising from cash receipts. Such deferred revenues present at the end of a fiscal year must be deducted from end-of-year cash and investments in calculating available fund balance. These revenues will be available for budgets in coming years. However, the statute governing calculation of available fund balance requires that they be counted among estimated revenues for those years rather than as part of available fund balance.

Because deferred revenues attributable to *taxes and other revenues receivable* are recorded as liabilities, the question might arise whether they should be subtracted from cash and investments in calculating available fund balance. Such a deduction is not necessary, because they are an offset to taxes receivable rather than to cash and investments with which the statutory calculation of available fund balance begins (except for school systems, which must subtract all deferred revenues from cash and investments).

Designating and Budgeting Available Fund Balance

Designations. Once available fund balance is calculated, a portion of it can be designated for special "nonbudgetary purposes. For instance, some cities and counties accumulate available general fund balance from year to year as a capital reserve to finance future capital improvements. Although the statutes do not preclude this practice, they authorize a different procedure for cities and counties—such moneys can be transferred into a separate capital reserve fund.[5] Still, many units designate a part of available general fund balance as a capital reserve to maintain flexibility in the use of the accumulated moneys—if officials later wish to divert some or all of this money to finance operating expenditures, they are free to do so. Once moneys are placed in a separate capital reserve fund, they can be spent only for capital purposes.[6]

Many units have started self-insurance programs or have joined insurance pools established by the North Carolina League of Municipalities, North Carolina Association of County Commissioners, or North Carolina Public School Boards Association. In doing so, some units have designated portions of their available fund balances as self-insurance reserves, while others have set up separate self-insurance reserve funds.

Units may designate portions of available fund balance for other purposes as well. For example, they may designate a part of fund balance to cover a planned mid-year budget amendment to create a new program. There are no legal restrictions on the purposes for which available fund balances may be designated, as long as those designations are for activities that local governments or school systems are authorized to undertake.

Appropriated fund balance. Once the available fund balance is calculated and any designations are deducted, the unit must decide how much of the remaining balance will be appropriated to the coming year's budget and how much will be held back as "unbudgeted" or "unappropriated" fund balance. With one exception, the statutes give local officials full discretion in deciding how much available fund balance to appropriate. The exception arises from the balanced-budget provisions of the Local Government Budget and Fiscal Control Act and the School Budget and Fiscal Control Act.[7] The local government act's provision states: "A budget ordinance is balanced when the sum of estimated net revenues and appropriated fund balances is equal to appropriations." If appropriations for expenditures exceed estimated revenues and if, for political or other reasons, appropriations cannot be cut and revenues cannot be raised, this statute, by implication, requires the appropriation of enough available fund balance to balance the budget. Except in this situation, local officials may appropriate all, none, or some portion of available and undesignated fund balance.

If available fund balance originates from a legally restricted revenue collected but not spent in a prior year, it may be appropriated and spent only for the purposes for which the restricted revenue may be spent. For example, if some appropriated fund balance in a city's general fund is attributable to prior years' gasoline tax revenue, which is earmarked by law for street and road improvements, it may be spent only for such improvements.

In the balance sheet that appears in a unit's annual financial report, appropriated fund balance is typically designated by the label *fund balance designated for subsequent year's expenditures.*

Unappropriated fund balance. The amount of available fund balance that is not budgeted is usually called unappropriated fund balance. This term originates from common usage. It is not found in the general statutes, and it does not arise from generally accepted accounting principles.

After enactment of the budget, unappropriated fund balance is equal to available fund balance minus designations and appropriations. During the fiscal year, unappropriated fund balance can be decreased by budget amendments that appropriate part of it. Unappropriated fund balance cannot be increased during the year above the amount shown in the annual financial report, except by budget amendments that reduce appropriated fund balance and correspondingly increase estimated revenues or reduce appropriations for expenditures.

During the year, if actual tax and revenue collections exceed the estimates shown in the budget, the extra revenues are recorded as revenues rather than as additions to unappropriated fund balance. And if actual spending is less than the appropriations, no portion of the underspending lapses to fund balance until the end of the year. At the end of the year, available fund balance is recalculated, and it includes any unspent appropriations that lapsed and revenues collected that were not included in the budget or that exceeded budgeted revenues for the year.

Contingency Appropriations. Unappropriated fund balance serves in part as an operating reserve for the budget. However, an alternative to relying on unappropriated fund balances for this purpose is to use a contingency appropriation. The local government and school budget and fiscal control acts explicitly authorize contingency appropriations but limit them to 5 percent of "all other" appropriations in a fund.[8] Because officials generally consider 5 percent too little for an operating reserve and because Local Government Commission (LGC) staff members recommend a minimum operating reserve of 8 percent of expenditures for tax-levying units, local units generally maintain operating reserves in unappropriated fund balance rather than in, or in addition to, contingency appropriations.

Internal service funds. Some units keep significant unappropriated fund balances in one or more internal service funds.[9] The general statutes authorize such funds for services that are provided by one part of a unit to other parts—for example, a central garage. An internal service fund may be budgeted in the annual budget ordinance or, if the governing board adopts a separate financial plan for the fund,[10] it may be removed from the annual budget. Such a fund may have its own unappropriated fund balance to finance replacements of equipment or other major expenditures in future years. According to generally accepted accounting principles, however, such a fund should generally operate on a cost reimbursement basis and should not build available fund balances beyond the fund's needs.

State Guidelines

LGC staff members review annual financial reports of all local units and school systems pursuant to statutes that require the LGC to oversee the annual independent audit and generally to regulate local government finance. One of many procedures performed to verify that the reports present information fairly is to calculate the available general fund balance as of the end of the fiscal year. In this way, staff members identify units that have less than minimal balances, and officials in these units are advised to build fund balances at least to a minimal level. If the situation is serious enough, this advice is given in writing.

Minimum recommended balance

The most basic LGC staff guideline is that counties and cities should have an available general fund balance of at least 8 percent of general fund expenditures at the end of the fiscal year. This is considered to be a *minimum* level—a floor below which the balance should not fall. To calculate whether the minimum is met, LGC staff members divide available general fund balance at the end of a fiscal year by general fund expenditures for that year, using the figures in the annual financial report. It would be better if the 8 percent minimum were calculated by dividing the available general fund balance at the end of the year by budgeted expenditures for the next year, not for the year just ended. LGC staff members cannot do this, because they do not have access to budgeted expenditures for the next year, but local officials can use this alternative method in preparing the budget.

Eight percent of annual expenditures is roughly equal to one month's operating expenditures. For most counties and cities, that is probably just enough of a reserve to enable a unit to pay current obligations on time and to meet cash-flow needs that recur monthly. It is unlikely to be enough to meet unforeseen needs or to take advantage of opportunities that require significant amounts of cash. A larger reserve may be needed also because of the cash-flow problems that many counties and cities face. Because most taxpayers do not pay their property taxes until December, cash receipts may be insufficient to cover cash disbursements for the July-to-December period. Such units risk not having enough cash during this period to pay obligations when they are due if they have only the minimum balance and no other operating reserves.

Although a city or county may resort to tax- or revenue-anticipation borrowing to fund a cash-flow shortfall, this is

60

Table 1
Average Available Fund Balances of Counties, Cities, and School Systems, June 30, 1987
(in Thousands of Dollars)

Type of Unit by Size[a]	Number of Units[b]	Average Available Fund Balance[c]	Average 1986–87 Expenditures[c]	Average Balance As a Percentage of Average 1986–87 Expenditures
Counties				
All	98	$ 4,599	$23,318	20%
100,000 or more	15	14,448	81,828	18
50,000–99,999	28	4,720	22,014	21
25,000–49,999	26	2,301	11,610	20
Under 25,000	29	1,448	4,809	30
Cities—non-electric				
All	415	676	2,007	34
50,000 or more	7	14,810	69,680	21
10,000–49,999	20	2,697	6,965	39
2,500–9,999	77	782	1,580	50
1,000–2,499	106	323	519	62
500–999	101	191	175	109
Under 500	104	89	109	82
Cities—electric				
All	69	982	3,814	26
50,000 or more	3	4,785	24,565	19
10,000–49,999	16	2,325	8,608	27
2,500–9,999	24	512	1,732	30
1,000–2,499	14	187	562	33
500–999	7	163	257	63
Under 500	5	40	96	42
School systems				
All	135	581	7,324	8
12,000 or more	24	1,652	25,921	6
6,000–11,999	32	432	5,568	8
3,000–5,999	43	390	3,144	12
Under 3,000	36	226	1,481	15

Source: The data in this and the following tables were compiled by LGC staff members from the audited 1986–87 annual financial reports that counties, cities, and school systems must submit to the LGC.

[a]For counties and cities, the measure is population; for school systems, it is enrollment.

[b]The coverage of units for each type of government in this table and in tables 2 and 3 is nearly complete. Units for which data are missing had not submitted their audited 1986–87 annual financial reports to the Local Government Commission by the time data for this study were compiled in March, 1988.

[c]For counties and cities, the average available fund balances and expenditures are for their general funds. For school systems, they are for the system's local current-expense funds.

extremely rare in North Carolina. The LGC considers the maintenance of an adequate fund balance a superior way to fund cash-flow needs for several reasons. First, tax- or revenue-anticipation borrowing results in issuance costs and interest expenses that otherwise could be avoided. Second, although the statutes require repayment of this kind of debt within thirty days of the close of the fiscal year,[11] use of such debt presents the spector of local units converting such short-term borrowing into long-term debt, as some units in other states have done. Furthermore, bond rating agencies may frown on short-term borrowing for tax- or revenue-anticipation purposes.[12]

Having an available fund balance that is less than the recommended minimum could have an adverse impact on a unit's credit rating, causing it to pay more in interest when issuing bonds. Although available fund balance is only one factor that the bond rating agencies consider in assigning a rating, it is one of the more important factors.[13] Moreover, a less-than-minimum balance can indicate other financial problems.

Adequate recommended balance

LGC staff members recommend that counties and cities generally have more than the minimum available general fund balance. What, then, is an *adequate* available general fund balance to meet operating needs, cash-flow shortfalls, and unforeseen needs and to take advantage of unexpected opportunities?

LGC staff members consider the average available general fund balance of comparable-sized North Carolina counties or cities to be a good guide to what is adequate. Table 1 shows average fund balances by size and type of unit as of the end of fiscal year 1986–87. A later section discusses the implications of the data for each type of unit.

LGC staff members recommend that local officials also consider the central range about this average. For units of a particular type and size, half the units fall within this range and half outside it. For example, the central range for non-electric cities with populations between 10,000 and 49,999 is 18 to 53 percent (see Table 2, page 38); half of these cities have balances between 18 and 53 percent of general fund expenditures.

Generally, LGC staff members consider a percentage near the lower end of the central range for comparable-sized units to represent a *minimally adequate* available general fund balance. This is ordinarily enough to provide an operating and cash-flow reserve to cover a limited amount of unforeseen needs. However, as Table 2 shows, the lower end of the central range for certain classes, such as electric cities with populations of 50,000 or more and those with populations of 1,000 to 2,499, is less than 8 percent of expenditures. Therefore, in these cases the lower end of the central range is not a good indicator of a minimally adequate fund balance.

In determining whether the available general fund balance of a particular unit is adequate, LGC staff members consider not only that balance but also available balances in other funds. For example, a city might have an available general fund balance equal to only 8 percent of expenditures but have a substantial uncommitted balance in its water-sewer fund that could be transferred to the general fund. The unit's overall fund balance position would be considered. But even if one or more other funds have large available balances, the general fund still should have an available balance of at least 8 percent of expenditures. That amount

Table 2
Central Range for Available General Fund Balances
As a Percentage of Expenditures, June 30, 1987

Type of Unit by Size	Central Range
Counties	
100,000 or more	14–24%
50,000–99,999	11–31
25,000–49,999	12–27
Under 25,000	16–43
Cities—non-electric	
50,000 or more	19–23
10,000–49,999	18–53
2,500–9,999	25–66
1,000–2,499	30–104
500–999	48–168
Under 500	66–362
Cities—electric	
50,000 or more	6–38
10,000–49,999	17–37
2,500–9,999	13–39
1,000–2,499	6–45
500–999	46–67
Under 500	24–58

Source: These central ranges were calculated by LGC staff members from fund balance and expenditure data appearing in units' audited annual financial reports for 1986–87.

is needed to serve as an operating and recurring cash-flow reserve, and ordinarily moneys should not be drawn from other funds to provide operating capital for the general fund.

School systems

School systems do not need available operating fund balances as large as those of counties and cities, for several reasons. First, as already mentioned, school systems receive most of their operating revenues in monthly installments or as needed to match cash disbursements and therefore do not need large balances to cover cash-flow shortfalls. Second, if a school system confronts an unexpected need requiring expenditures in excess of its available balance, it can turn for additional funds to the county, which is responsible for providing them if the need is legitimate. On the other hand, because counties and cities are tax-levying entities with authority to incur debt, they are expected to stand on their own fiscally and therefore need to maintain significant fund balance to meet major unforeseen needs. Third, school systems, unlike counties and cities, must finance all capital improvements and outlays from their capital outlay funds, and their current expense funds may not include moneys for capital outlays. Finally, because counties, not school systems, issue bonds for school capital improvement projects, the bond rating agencies do not rate the school systems. Consequently, school systems can carry smaller balances than those recommended by the rating agencies without risking a lower rating.

What then is an adequate level of available current expense fund balance for school systems? Most school systems can operate with a balance equal to about 8 percent of current expense fund expenditures. This should be enough money to provide needed operating or working capital and to finance modest unforeseen needs. Larger school systems spending more than $20 million annually for current expenses probably can be safe with a relatively smaller balance than smaller systems spending only several million dollars for current expenses and having only limited resources for financial management.

LGC staff members generally recommend that school systems *not* accumulate large available fund balances for future capital improvements. Although school systems expend large sums of money for capital improvements and outlays from their capital outlay funds, LGC staff members recommend that counties transfer this money to the school systems as the expenditures are made. If large fund balances are needed for future school capital purposes, the statutes suggest that counties, rather than school systems, hold the moneys. Counties have express legal authority for capital reserve funds[14] while school systems do not. The statutes require that unspent sales tax revenue earmarked legally for school construction or retirement of school debt be kept in county capital reserve funds.

Inadequate balance

Negative available fund balance. Under the statutes, a negative available fund balance exists when the sum of cash and investments is exceeded by the sum of (current) liabilities, encumbrances, and deferred revenues arising from cash receipts (all deferred revenues for school systems). As of June 30, 1987, one county, six non-electric cities, and five electric cities had negative available general fund balances, and fourteen school systems had negative available balances in their local current-expense funds. These negative balances ranged from 1 to 22 percent of 1986–87 expenditures.[15]

Fund deficit. A fund deficit occurs when the liabilities of a fund exceed its assets, which indicates extremely serious financial problems. When a deficit exists in a budgeted fund at the end of a fiscal year, the statutes require the local governing board or school board to appropriate sufficient moneys in the coming year's budget to cover the full amount of the deficit.[16] However, the School Budget and Fiscal Control Act absolves the board of county commissioners from having to fund a school system deficit incurred in violation of that act or of rules and interpretations issued pursuant to it.[17]

Overappropriation. An overappropriation of fund balance occurs when the amount of fund balance appropriated exceeds the amount that is available for appropriation at the close of the prior fiscal year. One county, four non-electric cities, two electric cities, and five school systems appropriated more fund balance than was actually available on June 30, 1987.[18]

Overappropriation of fund balance is

62

Table 3
Counties, Cities, and School Systems Distributed by
Size of Available Fund Balance Relative to Expenditures, June 30, 1987

Type of Unit by Size[a]	Number of Units	Available Fund Balance As a Percentage of 1986–87 Fund Expenditures: Under 10%	10%–19%	20%–29%	30%–39%	40%–49%	50%–99%	100% or more
Counties								
All	98	17	31	22	12	8	8	0
100,000 or more	15	3	5	4	1	1	1	0
50,000–99,999	28	6	9	5	4	2	2	0
25,000–49,999	26	5	10	5	5	0	1	0
Under 25,000	29	3	7	8	2	5	4	0
Cities—non-electric								
All	415	18	30	42	37	36	92	160
50,000 or more	7	0	3	3	0	1	0	0
10,000–49,999	20	1	5	3	0	3	7	1
2,500–9,999	77	5	7	14	10	12	19	10
1,000–2,499	106	3	10	13	13	10	26	31
Under 1,000	205	9	5	9	14	10	40	118
Cities—electric								
All	69	13	12	13	11	7	9	4
50,000 or more	3	1	1	0	1	0	0	0
10,000–49,999	16	3	4	3	3	1	2	0
2,500–9,999	24	4	5	6	4	2	2	1
1,000–2,499	14	4	1	3	2	2	1	1
Under 1,000	12	1	1	1	1	2	4	2
School systems								
All	135	63	42	18	6	3	3	0
12,000 or more	24	12	6	4	1	0	1	0
6,000–11,999	32	20	8	4	0	0	0	0
3,000–5,999	43	18	15	7	1	1	1	0
Under 3,000	36	13	13	3	4	2	1	0

Source: Same as Table 1.

Note: For general funds of counties and cities and for current expense funds of school systems.

[a]For counties and cities, the measure is population; for school systems, it is enrollment.

a violation of the statutes.[19] It typically occurs when available fund balance is very low and when officials either do not understand the statutory formula for calculating available fund balance or are overly optimistic in making budget forecasts. When there is an overappropriation, the law and LGC policies require correction by a budget amendment that either increases estimated revenues (provided the additional revenue will actually be forthcoming) or reduces appropriations.

LGC staff guidelines are designed to help local units avoid negative available fund balances, fund deficits, and overappropriation of fund balance. If a unit has a negative available fund balance or overappropriates fund balance, the audit review letter prepared by LGC staff members and sent to the governing board strongly urges the board to correct the problem immediately. If the problem is not corrected in a timely fashion, LGC staff members may be sent to work with local officials. If this still does not work, and if there is a risk that debt service payments will not be made, the LGC has authority to take action on its own, including the levying of additional property taxes. In nearly sixty years of operation, the LGC has never had to take unilateral action to correct fund balance or other fiscal problems in a local government.

North Carolina Units

Fund balance data for counties, cities, and school systems are presented in tables 1 through 3 by size and type of unit. As noted earlier, Table 1 shows average available fund balances on June 30, 1987, as percentages of average 1986–87 expenditures for county and city general funds and for school system local current expense funds. Cities with municipally owned electric systems (*electric cities*) are shown separately from cities without them (*non-electric cities*). Central ranges, discussed earlier, are shown in Table 2. Table 3 distributes individual units by relative size of available fund balance.

Counties. For all counties, the average balance equaled 20 percent of average expenditures, and the average balance was close to this percentage in all population classes except the smallest one (populations less than 25,000), where it equaled 30 percent of average expenditures (see Table 1).

The overwhelming majority of North Carolina's counties were carrying at least "minimal" balances (see Table 3). Eighty-one counties had balances of at least 10 percent of expenditures. Of the remaining seventeen counties, five had balances that were 8 to 9 percent of expenditures. just meeting guidelines for minimum available general fund balance. Fifty-three counties had balances that ranged from 10 to 29 percent of expenditures—a range that can be considered adequate for operating purposes. A large county with sophisticated financial management that is experiencing only average growth can probably manage with a balance toward the lower end of this range. However, a small county with only limited resources for financial management or a large one that is experiencing rapid growth would probably want to maintain a balance for operating purposes near 20 percent of expenditures, or, in some cases, closer to 30 percent. For small counties, an available fund balance that is large in comparison to expenditures still may not be very large in relation to unexpected expenditures that might be required.

Twenty-eight counties had balances that were greater than what is generally considered to be the maximum needed for operating purposes alone—30 percent or more of expenditures. Counties of all sizes were represented in this group, although eleven of them had populations of 25,000 or less. At least some (and probably many) of the twenty-eight counties had accumulated large balances in anticipation of future capital improvements. Several maintained them to have the resources to meet any emergency or unforeseen need, or to increase investment income and hold down the property tax rate.

Cities without municipal electric systems. Of all the units studied, these had the largest available general fund balances relative to expenditures: an average of 34 percent of expenditures (see Table 1). The largest non-electric cities, those with 50,000 or more people, had average balances of the same relative size as the larger counties—about 20 percent of expenditures. The non-electric units below 1,000 in population had extraordinarily large balances. For units with 500 to 999 people, the average balance was 109 percent of average expenditures, and for units with less than 500 people, it was 82 percent of average expenditures. Moreover, as many as 118 of the 205 units with less than 1,000 population had balances equal to 100 percent or more of expenditures.

Although the balances of small non-electric units were exceptionally large relative to expenditures, the balances in actual dollars were modest: $191,000 on average for units with 500 to 999 people and $89,000 on average for units with less than 500 people.

A very strong inverse relationship was found between the size of non-electric cities and their balances as a percentage of expenditures—that percentage constantly increased as the population decreased. Also, as shown in Table 3, the number of units in each percentage category exceeding 30 percent of expenditures generally increased as size decreased.

Some of the relatively large balances in the small non-electric units are being accumulated to fund future capital improvements, but most of them are probably the result of a felt need on the part of officials to provide substantial reserves for operating purposes and unforeseen needs. These balances are not especially large in relation to the major unforeseen needs that a unit of this size must occasionally face. Of course, some of these units—perhaps about fifty—are inactive, or relatively so, and for them state-shared or other revenues accumulate faster than the units can spend the revenues.

Relatively few of the non-electric cities had balances that were minimal or inadequate. Only eighteen (4 percent) of the units had balances that were less than 10 percent of general fund expenditures, compared with seventeen of the ninety-eight counties that had balances that low.

Cities with municipal electric systems. The electric cities had an average available general fund balance equal to 26 percent of average 1986–87 expenditures (see Table 1), a percentage that was less than the corresponding percentage for the non-electric cities (34 percent) and more than that for the counties (20 percent). Except for the largest cities (population of 50,000 or more), the electric cities had balances that were much smaller than the non-electric cities. Moreover, this difference was more pronounced in the smaller units. On the other hand, some electric cities had very substantial balances—thirteen of sixty-nine electric units had balances of 50 percent or more of expenditures, and another eighteen had balances between 30 and 49 percent (see Table 3).

The generally smaller balances in the electric cities can be attributed mai[illegible] to their municipally owned electric utilities. The utilities generally produc[illegible] large cash surpluses, significant portions of which are transferred to the cities' general funds. These transfers are made regularly throughout the year, typically monthly, which lessens the need for large general fund balances. Indeed, even if an electric city does not transfer any electric-system surplus to the general fund, its presence tends to cause officials to be comfortable with a smaller general fund balance.

Relatively more non-electric units had minimal or less-than-minimal balances. Thirteen of the sixty-nine electric units had balances of less than 10 percent of general fund expenditures. In comparison, eighteen of the 415 non-electric units (only 4 percent) had balances that small. Again, the presence of profitable electric utilities and their contributions to the general funds in electric cities probably explains most of this difference.

Public school systems. North Ca[illegible]na's public school systems had relati[illegible]ly modest available balances in thei[illegible] local current expense funds. For all school systems, the average balance on June 30, 1987, equaled 8 percent of average 1986–87 expenditures (see Table 1).[20] Moreover, sixty-three of the 135 school systems (47 percent) had balances that were less than 10 percent of expenditures (see Table 3).

The larger school systems maintained relatively less available balances in their current expense funds than the smaller ones. The average balance was 6 percent of expenditures for systems with enrollments of 12,000 or more students, but 15 percent for systems with less than 3,000 students (see Table 1). This difference reflects in part the fewer resources that smaller systems have for financial management.

Summary. According to these data, the overwhelming majority of our counties and cities have adequate to very substantial fund balances, and most school systems in the state have ad[illegible] quate current expense fund balan[illegible] The fact that our local governmen[illegible]

64

have generally carried at least adequate fund balances has contributed to their strong fiscal condition and the very good reputation that they have for sound financial management. ✣

Notes

1. N.C. Gen. § 159-8(a). Hereinafter the General Statutes will be cited as G.S.

2. G.S. 115C-425(a).

3. Cash should not include money that a local government places on deposit with a bank or agent to make debt service payments, unless such payments are included among the liabilities deducted from cash and investments in the calculation.

4. If a unit does not accrue the August sales tax distribution as a revenue in the year prior to the budget year, it is not recorded as a receivable at the end of the prior year and would be included among estimated revenues in the budget year.

5. G.S. 159-18 through -22.

6. Because cities and counties may establish capital reserve funds only for purposes for which they may issue bonds, moneys in a capital reserve fund, like bond proceeds, may be spent only for capital purposes except in emergency situations—for example to meet an emergency threatening public health and safety [attorney general's opinion, 19 March 1982].

7. G.S. 159-8(a) and 115C-425(a).

8. G.S. 159-13(b)(3) and 115C-432(b)(3)

9. Internal service funds are explicitly authorized for cities and counties under G.S. 159-26(b)(5). Although there is no explicit statutory authorization for school systems to establish such funds, they may do so under generally accepted accounting principles.

10. G.S. 159-13.1. School systems may not adopt separate financial plans for internal service funds.

11. G.S. 159-169 and -170.

12. Standard & Poor's, *Debt Rating Criteria, Municipal Overview* (New York, 1986), 33.

13. Standard & Poor's, *CreditWeek* September 30, 1985:9.

14. G.S. 159-18 through -22.

15. This information is compiled from audited annual financial reports.

16. G.S. 159-13(b)(2) and 115C-432(b)(2).

17. G.S. 115C-429(d).

18. This information is compiled from audited annual financial reports.

19. G.S. 159-8(a) and 115C-425(a).

20. In calculating available fund balance, school systems, unlike counties and cities, must subtract deferred revenues arising from receivables from cash and investments. Did this difference in method of calculation affect the results in tables 2 and 3? Apparently not. We examined a subsample of twelve school systems to check for this. For ten of the systems, the 1986–87 financial report showed no deferred revenues attributable to receivables. Thus, available current expense fund balance for them would have been the same under either formula. Deferred revenues attributable to receivables in the other two systems were small enough to be immaterial.

Joseph Ferrell Awarded Albert Coates Professorship

Allen Weed/UNC Photo Lab

Joseph S. Ferrell, an Institute of Government faculty member since 1964, has been named Albert Coates Professor of Public Law and Government. This chair, formerly held by Philip P. Green, Jr., was endowed in 1979 by Paul and Margaret Johnson, who also endowed the Gladys Hall Coates professorship currently held by Warren Jake Wicker.

Ferrell is widely known among state and local officials for his teaching, research, and writing in a broad range of areas. His primary assignments are the property tax, especially legal aspects of listing and assessing property; and general county government, including the structure, powers, and duties of the board of county commissioners. In addition, he is known for his knowledge of and research in issues regarding the state constitution; the General Assembly, especially local legislation and local government representation; and legal aspects of public finance. Since 1986 he has been editor of the Legislative Reporting Service.

Like Albert Coates, founder of the Institute of Government, Ferrell has a strong devotion to the university and has been active in its governance since joining the faculty. He has been a frequent advisor to university officials and has served as a member of the Faculty Council and numerous university committees, including the Faculty Committee on University Governance, which he headed for several years.

A native of Elizabeth City, Ferrell attended The University of North Carolina at Chapel Hill, where he was elected to Phi Beta Kappa, and received his law degree there in 1963. He received the LL.M. from Yale University before joining the Institute of Government. ✣

Fund Balance Available – All Units June 30, 2013

Municipalities by Size	Average 2012-2013 Fund Balance Available	Average FBA As a Percentage of Average Expenditures
Statewide – All Municipalities	$3,547,516	42.78%
Units With Electrical Systems		
All	6,142,970	38.76
50,000 or more	26,106,829	34.56
10,000 to 49,999	7,806,057	39.74
2,500 to 9,999	2,739,619	51.49
1,000 to 2,499	897,988	62.07
500 to 999	832,702	54.66
Under 500	292,064	124.27
Units Without Electrical Systems		
All	3,171,922	44.06
50,000 or more	54,061,028	30.41
10,000 to 49,999	8,105,796	49.97
2,500 to 9,999	2,662,523	71.30
1,000 to 2,499	1,081,076	76.19
500 to 999	704,218	120.47
Under 500	387,574	105.10

*As of March 7, 2014, we have not received a 2013 audit report from 23 municipalities, therefore the fund balance available, cash and investments, investment earnings, uncollected property taxes figures and tax collection percentage for these counties are not included. Beginning with year ending June 30, 2013, fiduciary funds are not included the cash and investments figures.

The data presented in this report was gathered from various sources. The financial data, including fund balance and cash and investment income, was obtained from the audit review process. The assessed valuation, tax rate, and last year of revaluation for each municipality were compiled from data obtained from the Department of Revenue. The NC Department of Revenue calculates the assessment-to-sales ratios annually for each county. This ratio is based on a sample of selected real estate transactions within a municipality and equals the assessed valuation divided by the actual sales price. The ratio of the dominant county of the municipality is used as the municipality's ratio. The municipality populations were provided by the Office of State Budget and Management and are estimates as of July 1, 2012 adjusted for end-of-the-year boundary changes. The tax rate equivalents and effective tax rates were calculated by the staff of the Department of State Treasurer. All data included in this report are the most recently available information. If you have any questions concerning this memorandum, please contact Sharon Edmundson at (919) 807-2380 or via email at Sharon.edmundson@nctreasurer.com.

economic downturn by reducing their budgets to avoid depleting fund balance available. Many counties reduced expenditures through layoffs, furloughs, and service reductions. In addition, counties have raised taxes and fees to maintain their financial stability. Their boards have made the difficult choices to maintain the good fiscal health that North Carolina local governments seek to achieve. The recent increase in average fund balance available may indicate that revenues are starting to rise while expenditures have remained constant. We believe that maintaining fund balance at or close to the current average level is the prudent course for counties.

Each year the staff of the Local Government Commission analyzes the financial statements of cities and counties to determine the amount of fund balance available for appropriation in the General Fund, and the amount of fund balance available for appropriation as a percentage of that fund's expenditures. The staff sends letters to units if the amount of fund balance available for appropriation as a percentage of prior year expenditures in the General Fund falls below 8%. The staff also compares the percentage of fund balance available for appropriation to the prior year percentages for similar units. If that percentage is materially below the average of similar units, the staff will send a letter to alert the unit of this fact. Units are encouraged to evaluate the amounts in reserves and determine if their level is adequate. Units also may be contacted if their fund balance available drops significantly over a period of time.

The chart below shows the average percentage of fund balance available for appropriation for similarly grouped counties for the fiscal year ended June 30, 2013. Officials should use these figures to compare their unit to similar units and evaluate the adequacy of their unit's current reserves.

Average Available Fund Balance for North Carolina Counties

Type of Unit by Size	Number of Units	Average 2012-2013 Fund Balance	Average 2012-2013 Expenditures	Average FBA% 2012-2013 Expenditures
Counties				
All	95	27,724,738	100,533,067	26.77%
100,000 or more	27	66,368,954	254,532,700	26.07%
50,000 to 99,999	24	20,219,726	68,918,726	29.34%
25,000 to 49,999	20	11,844,027	42,746,535	27.71%
Under 25,000	24	4,988,933	19,007,433	26.28%

*As of March 7, 2014, we had not received the 2013 audit reports for five counties; therefore the fund balance available, cash and investments, investment earnings, uncollected property taxes figures and tax collection percentage for these counties are not included. Beginning with year ending June 30, 2013, fiduciary funds are not included the cash and investments figures.

The statistics presented in this report were gathered from various sources. The fund balance, cash, and investment earnings data was obtained from the audit review process. The assessed valuation, tax rate, and last year of revaluation for each county were compiled from the

Fund Balance Available – All Units June 30, 2012

Municipalities by Size	Average 2011-2012 Fund Balance Available	Average FBA As a Percentage of Average Expenditures
Statewide – All Municipalities	**$3,368,542**	**42.84%**
Units With Electrical Systems		
All	**5,842,668**	**38.53**
50,000 or more	25,399,997	31.84
10,000 to 49,999	8,263,434	42.26
2,500 to 9,999	2,527,216	49.18
1,000 to 2,499	864,490	62.95
500 to 999	808,734	61.38
Under 500	220,885	81.95
Units Without Electrical Systems		
All	**3,005,955**	**42.56**
50,000 or more	51,049,250	28.98
10,000 to 49,999	7,947,165	51.11
2,500 to 9,999	2,537,940	69.14
1,000 to 2,499	1,008,630	66.35
500 to 999	648,932	115.85
Under 500	374,069	94.60

The statistics presented in this report were gathered from various sources. The investment earnings, cash and investments, tax collection rates, and uncollected tax amounts were compiled from the 2011 Annual Financial Information Reports (LGC-37 or AFIR) submitted to the Department of State Treasurer. In some cases this information was obtained from the municipality's audited financial statements. The fund balance available data was taken from the audited financial statements. The assessed valuation, tax rate, and last year of revaluation for each municipality were compiled from data obtained from the Department of Revenue. The NC Department of Revenue calculates the assessment-to-sales ratios annually for each county. This ratio is based on a sample of selected real estate transactions within a municipality and equals the assessed valuation divided by the actual sales price. The ratio of the dominant county of the municipality is used as the municipality's ratio. The municipality populations were provided by the Office of State Budget and Management and are estimates as of July 1, 2011 adjusted for end-of-the-year boundary changes. The tax rate equivalents and effective tax rates were calculated by the staff of the Department of State Treasurer. All data included in this report are the most recently available information. If you have any questions concerning this memorandum, please contact Sharon Edmundson at (919) 807-2380 or via email at Sharon.edmundson@nctreasurer.com.

to achieve. We believe that maintaining fund balance at the current average level is the prudent course for counties.

Each year the staff of the Local Government Commission analyzes the financial statements of cities and counties to determine the amount of fund balance available for appropriation in the General Fund, and the amount of fund balance available for appropriation as a percentage of that fund's expenditures. The staff sends letters to units if the amount of fund balance available for appropriation as a percentage of prior year expenditures in the General Fund falls below 8%. The staff also compares the percentage of fund balance available for appropriation to the prior year percentages for similar units. If that percentage is materially below the average of similar units, the staff will send a letter to alert the unit of this fact. Units are encouraged to evaluate the amounts in reserves and determine if their level is adequate. Units also may be contacted if their fund balance available drops significantly over a period of time.

The chart below shows the average percentage of fund balance available for appropriation for similarly grouped counties for the fiscal year ended June 30, 2012. Officials should use these figures to compare their unit to similar units and evaluate the adequacy of their unit's current reserves.

Average Available Fund Balance for North Carolina Counties

Type of Unit by Size	Number of Units	Average 2011-2012 Fund Balance	Average 2011-2012 Expenditures	Average FBA% 2011-2012 Expenditures
Counties				
All*	98	25,339,397	100,399,328	25.24%
100,000 or more**	27	62,644,793	253,304,540	24.73%
50,000 to 99,999**	24	17,965,837	67,451,985	26.64%
25,000 to 49,999*	21	11,585,088	42,520,911	27.25%
Under 25,000	26	4,514,793	18,774,030	24.05%

*As of April 16, 2013, we have not received the 2012 audit reports for Sampson and Pender counties, therefore the fund balance available figures for these counties were not included. We have not received the Annual Financial Information Reports (AFIR) as of March 31, 2013 for the following counties: Cherokee, Hoke, Hyde, Lincoln, Northampton, Pender, Sampson and Stokes. The AFIR is the source for data on unit wide investment earnings.

The statistics presented in this report were gathered from various sources. The investment earnings, cash and investments, tax collection rates, and uncollected tax amounts were compiled from the 2012 Annual Financial Information Reports (LGC-36 or AFIR) submitted to the Department of State Treasurer. In some cases this financial information comes from the audited financial statements. The assessed valuation, tax rate, and last year of revaluation for each county were compiled from the Assessed Valuation and Property Tax Levies for the Fiscal Year Ended June 30, 2012 reports (TR-1-01) submitted to the Department of Revenue. The N.C. Department of Revenue calculates the assessment-to-sales ratios annually for each county. This ratio is based on a sample of selected real estate transactions within a county and equals the counties have raised taxes and fees to maintain their financial stability. Their boards have made the difficult choices to maintain the good fiscal health that North Carolina local governments seek to achieve. We believe that maintaining fund balance at the current average level is the prudent course for counties.

Each year the staff of the Local Government Commission analyzes the financial statements of cities and counties to determine the amount of fund balance available for appropriation in the General Fund, and the amount of fund balance available for appropriation as a percentage of that fund's expenditures. The staff sends letters to units if the amount of fund balance available for appropriation as a percentage of prior year expenditures in the General Fund falls below 8%. The staff also compares the percentage of fund balance available for appropriation to the prior year percentages for similar units. If that percentage is materially below the average of similar units, the staff will send a letter to alert the unit of this fact. Units are encouraged to evaluate the amounts in reserves and determine if their level is adequate. Units also may be contacted if their fund balance available drops significantly over a period of time.

The chart below shows the average percentage of fund balance available for appropriation for similarly grouped counties for the fiscal year ended June 30, 2011. Officials should use these figures to compare their unit to similar units and evaluate the adequacy of their unit's current reserves.

Average Available Fund Balance for North Carolina Counties

Type of Unit by Size	Number of Units	Average 2010-2011 Fund Balance	Average 2010-2011 Expenditures	Average FBA% 2010-2011 Expenditures
Counties				
All*	99	23,598,719	100,868,922	23.40%
100,000 or more**	27	56,524,533	256,774,499	22.01%
50,000 to 99,999**	26	17,569,086	66,881,679	26.27%
25,000 to 49,999*	20	10,862,794	41,405,191	26.24%
Under 25,000	26	5,233,026	18,695,549	27.99%

*As of April 10, 2012, we have not received the 2011 audit report for Cherokee County, therefore the fund balance available figure for this county was not included. We have not received the Annual Financial Information Reports (AFIR) for the following counties: Harnett, Lincoln, Sampson, Cherokee, Hoke and Hyde. The AFIR is the source for data on unit-wide cash and investment earnings.

The statistics presented in this report were gathered from various sources. The investment earnings, cash and investments, tax collection rates, and uncollected tax amounts were compiled from the 2011 Annual Financial Information Reports (LGC-36 or AFIR) submitted to the Department of State Treasurer. In some cases, financial information comes from the audited financial statements. The assessed valuation, tax rate, and last year of revaluation for each county were compiled from the Assessed Valuation and Property Tax Levies for the Fiscal Year Ended June 30, 2011 reports (TR-1-01) submitted to the Department of Revenue. The N.C.

Fund Balance Available – All Units June 30, 2011

Municipalities by Size	Average 2010-2011 Fund Balance Available	Average FBA As a Percentage of Average Expenditures
Statewide – All Municipalities	**$3,157,712**	**39.64%**
Units With Electrical Systems		
All	**5,106,985**	**34.68**
50,000 or more	22,319,376	27.70
10,000 to 49,999	7,095,649	37.84
2,500 to 9,999	2,381,451	48.56
1,000 to 2,499	845,812	66.99
500 to 999	743,987	53.85
Under 500	334,317	157.85
Units Without Electrical Systems		
All	**2,868,465**	**41.20**
50,000 or more	48,419,220	27,.50
10,000 to 49,999	7,461,081	49.73
2,500 to 9,999	2,487,410	69.50
1,000 to 2,499	981,411	64.80
500 to 999	612,711	111.58
Under 500	361,345	98.64

The statistics presented in this report were gathered from various sources. The investment earnings, cash and investments, tax collection rates, and uncollected tax amounts were compiled from the 2011 Annual Financial Information Reports (LGC-37 or AFIR) submitted to the Department of State Treasurer. In some cases this information was obtained from the municipality's audited financial statements. The fund balance available data was taken from the audited financial statements. The assessed valuation, tax rate, and last year of revaluation for each municipality were compiled from data obtained from the Department of Revenue. The NC Department of Revenue calculates the assessment-to-sales ratios annually for each county. This ratio is based on a sample of selected real estate transactions within a municipality and equals the assessed valuation divided by the actual sales price. The ratio of the dominant county of the municipality is used as the municipality's ratio. The municipality populations were provided by the Office of State Budget and Management and are estimates as of July 1, 2010 adjusted for end-of-the-year boundary changes. The tax rate equivalents and effective tax rates were calculated by the staff of the Department of State Treasurer. All data included in this report are the most recently available information. If you have any questions concerning this memorandum, please contact Sharon Edmundson at (919) 807-2380 or via email at Sharon.edmundson@nctreasurer.com.

figures to compare their unit to similar units and evaluate the adequacy of their unit's current reserves.

Average Available Fund Balance for North Carolina Counties

Type of Unit by Size	Number of Units	Average 2009-2010 Fund Balance	Average 2009-2010 Expenditures	Average FBA% 2009-2010 Expenditures
Counties				
All*	98	20,813,540	98,876,674	21.03%
100,000 or more**	27	50,379,043	258,354,067	19.50%
50,000 to 99,999**	24	16,733,422	66,087,765	25.32%
25,000 to 49,999*	21	10,196,017	41,396,739	24.63%
Under 25,000	26	4,053,896	17,945,533	22.59%

*As of May 10, 2011, we have not received the 2010 audit reports for Bladen and Sampson Counties, therefore the fund balance available figure for these counties were not included. We have not received the Annual Financial Information Reports for the following counties: Harnett, Sampson, Bladen and Hoke. The AFIR is the source for data on unit wide cash and investment earnings.

The statistics presented in this report were gathered from various sources. The investment earnings, cash and investments, tax collection rates, and uncollected tax amounts were compiled from the 2010 Annual Financial Information Reports (LGC-36 or AFIR) submitted to the Department of State Treasurer. In some cases, financial information comes from the audited financial statements. The assessed valuation, tax rate, and last year of revaluation for each county were compiled from the Assessed Valuation and Property Tax Levies for the Fiscal Year Ended June 30, 2010 reports (TR-1-01) submitted to the Department of Revenue. The N.C. Department of Revenue calculates the assessment-to-sales ratios annually for each county. This ratio is based on a sample of selected real estate transactions within a county and equals the assessed valuation divided by the actual sales price. The county populations were provided by the Office of State Budget and Management and are estimates as of July 1, 2009. The tax rate equivalents and effective tax rates were calculated by the staff of the Department of State Treasurer. The average tax rates in this year's report are calculated on a dollar-weighted average basis. All data included in this report are the most recently available information. If you have any questions concerning this memorandum, please contact Sharon Edmundson at (919) 807-2380 or via email at Sharon.edmundson@nctreasurer.com

Fund Balance Available – All Units June 30, 2010

Municipalities by Size	Average 2009-2010 Fund Balance Available	Average FBA As a Percentage of Average Expenditures
Statewide – All Municipalities	**$3,368,227**	**37.92%**
Units With Electrical Systems		
All	**4,871,431**	**33.60**
50,000 or more	19,874,959	26.70
10,000 to 49,999	6,669,110	38.21
2,500 to 9,999	1,806,637	47.34
1,000 to 2,499	956,959	65.10
500 to 999	749,837	64.74
Under 500	286,452	151.88
Units Without Electrical Systems		
All	**2,638,465**	**39.31**
50,000 or more	44,564,444	25.92
10,000 to 49,999	6,665,406	44.27
2,500 to 9,999	2,381,928	68.70
1,000 to 2,499	990,485	66.65
500 to 999	636,103	99.35
Under 500	312,493	119.01

The statistics presented in this report were gathered from various sources. The investment earnings, cash and investments, tax collection rates, and uncollected tax amounts were compiled from the 2010 Annual Financial Information Reports (LGC-37 or AFIR) submitted to the Department of State Treasurer. In some cases this information was obtained from the municipality's audited financial statements. The fund balance available data was taken from the audited financial statements. The assessed valuation, tax rate, and last year of revaluation for each municipality were compiled from data obtained from the Department of Revenue. The NC Department of Revenue calculates the assessment-to-sales ratios annually for each county. This ratio is based on a sample of selected real estate transactions within a municipality and equals the assessed valuation divided by the actual sales price. The ratio of the dominant county of the municipality is used as the municipality's ratio. The municipality populations were provided by the Office of State Budget and Management and are estimates as of July 1, 2009 adjusted for end-of-the-year boundary changes. The tax rate equivalents and effective tax rates were calculated by the staff of the Department of State Treasurer. All data included in this report are the most recently available information. If you have any questions concerning this memorandum, please contact Sharon Edmundson at (919) 807-2380 or via email at Sharon.edmundson@nctreasurer.com