NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

STATE AND LOCAL GOVERNMENT FINANCE DIVISION

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

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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. General Fund

- Step 1:

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

Calculation of Restricted by State Statute Carolina County General Fund

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

Calculation Of Available Fund Balance % Carolina County General Fund

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

LGC Fund Balance Policies

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

LGC Fund Balance Policies (Cont.)

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

LGC Written Fund Balance Communications

- Fund deficits
- Over-appropriation of available fund balance
- Fund balance available < 8% minimum
- Fund balance available trending down, being used for operations
- Fund balance available 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

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Special Situations (Cont.)

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

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Calculating Available Fund Balance - Special Situations

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

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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?

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Fund Balance Statistics (cont.)

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

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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

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Categories of Fund Balance Financial Reporting Purposes

GASB 54 Reporting

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

Nonspendable Fund Balance

- Nonspendable
  - Not in spendable form
  - Legally/contractually required to remain intact
  - Examples
    - Inventories/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

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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

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