

Finance 101



Understanding Fund Balance

- **What is fund balance?**



A common misconception is that **fund balance** is a **cash** account, and therefore corresponds to a government's bank **balance**.

- The difference between assets and liabilities is equity. In governmental accounting, this equity is called **fund balance**.
 - Assets (things we own); and
 - Liabilities (amounts we owe others):

- **Fund balance = Measure of Financial Resources**



Fund balance is intended to serve as a measure of the financial resources available in a governmental fund.

- ❖ It's the measure of financial health of an individual fund.
- ❖ It's essential that governments maintain adequate levels of fund balance to mitigate current and future risks and to ensure stable tax rates.
- ❖ Credit rating agencies monitor levels of unrestricted fund balance in a government's general fund to evaluate a government's creditworthiness.

- **Is fund balance available to be spent as the governing body sees fit?**



Maybe – but not necessarily

- ❖ Fund balance is reported based on how constrained it is; the categories are:
 - **Restricted** (external legal restrictions) = Stabilization by State Statute, Powell Bill, Grant Funds
 - **Assigned** (internally; less formally) = Capital Projects, Storm Damage Prevention Fund
 - **Unassigned** = Available reserve funds which may be used to spend in the next budget year.

- Fund balance reported on Balance Sheet of audited financial statements.

Fund Balances	
Restricted for:	
Stabilization by State Statute	1,292,199
Streets - Powell Bill	373,941
Grant funds	29,223
Assigned:	
Capital projects	-
Storm damage prevention	1,250,000
Unassigned	<u>3,115,697</u>
Total fund balances	<u>6,061,060</u>

← Available funds

- Available fund balance percentage calculation comes from the Balance Sheet.



- Unassigned fund balance \$3,115,697
- Total Expenditures \$14,534,747
- $\$3,115,697 \div \$14,534,747 = 21\%$

• Estimating fund balance during a fiscal year.



Providing fund balance estimates during a fiscal year is tricky since budgeted revenues are not received immediately.

- ❖ Property taxes are generally the single largest revenue source, but the tax revenue comes in at the end of the calendar year, rather than at the beginning of the fiscal year. Cash from the fund balance reserves are usually needed to pay expenditures until the tax revenues are received. Fund balance estimates will come in low until the bulk of the property tax revenues are recognized.
- ❖ A monthly Budget v Actual report is utilized to monitor actual revenues and expenditures as compared to the annual budget. This helps to determine if revenues and expenditures are over or under budget and to estimate the current fund balance reserve.

Budget vs Actual (Summary)

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Period Ending 1/31/2019

10 General Fund	Description	Budget	Encumbrance	MTD	QTD	YTD	Variance	Percent
Revenues								
	Revenues Totals:	16,616,303	0.00	1,590,364.72	1,590,364.72	8,847,873.19	(7,768,429.39)	53%
		16,616,303	0.00	1,590,364.72	1,590,364.72	8,847,873.19	(7,768,429.39)	53%
Expenses								
	Non Departmental	420,301	0.00	0.00	0.00	180,660.90	239,640.10	43%
	Debt Service	982,938	0.00	0.00	0.00	382,993.24	599,944.76	39%
	Legislative	1,485,718	578,049.90	69,837.96	69,837.96	889,354.88	18,113.07	99%
	Executive	925,754	116,555.28	64,954.00	64,954.00	725,081.10	84,117.62	91%
	Clerk	212,940	350.20	21,424.63	21,424.63	123,539.58	87,050.22	59%
	Finance	384,001	0.00	45,157.99	45,157.99	233,494.79	150,506.21	61%
	HUMAN RESOURCES	363,611	3,330.78	39,860.29	39,860.29	210,736.05	149,544.17	59%
	Planning & Development	881,846	22,498.48	80,905.59	80,905.59	457,977.05	401,370.47	54%
	Public Works Administr.	121,412	0.00	9,005.96	9,005.96	44,758.34	76,653.66	37%
	Police	2,841,707	59,315.86	305,296.28	305,296.28	1,775,833.12	1,066,558.02	65%
	Lifeguards	508,096	15,143.00	8,986.90	8,986.90	326,233.91	166,719.09	67%
	Fire	1,245,534	36,131.50	125,801.53	125,801.53	696,254.06	511,148.45	59%
	Maina	25,775	0.00	994.72	994.72	8,573.13	17,201.87	33%
	Powell Bill	220,482	20,386.50	3,090.00	3,090.00	76,419.14	123,676.16	44%
	G/F Fleet Maintenance	286,000	6,664.46	15,963.85	15,963.85	108,287.54	171,048.00	40%
	Parking	426,000	17,166.25	158,839.15	158,839.15	286,587.36	122,246.39	71%
	ENVIRONMENTAL	3,288,655	67,474.37	257,611.89	257,611.89	1,624,588.81	1,596,591.82	51%
	Parks & Recreation	829,542	11,673.26	75,091.51	75,091.51	384,076.59	433,792.15	48%
	Beach Maintenance	1,165,991	31,267.80	82,429.05	82,429.05	496,387.68	638,335.52	45%
	Expenses Totals:	16,616,303	966,007.64	1,365,251.30	1,365,251.30	9,035,837.26	6,594,457.75	60%
	10 General Fund Revenues Over/(Under) Expenses:			225,113.42	225,113.42	(187,964.07)		

- **Key take-aways.**



- ❖ **Fund Balance** is not a separate **cash** account and does not directly correlate with the cash in the Town's checking or investment accounts.
- ❖ Fund Balance = Cash Available to spend. It's money remaining at the end of one fiscal year that may be appropriated to finance expenditures in the next year's budget.
- ❖ Not all available fund balance must be appropriated - only that which is required to balance the budget. The remaining money serves as cash reserves of the Town, to be used to aid in cash flow during the fiscal year.

Any questions

