Developing an Effective Fund Balance Policy

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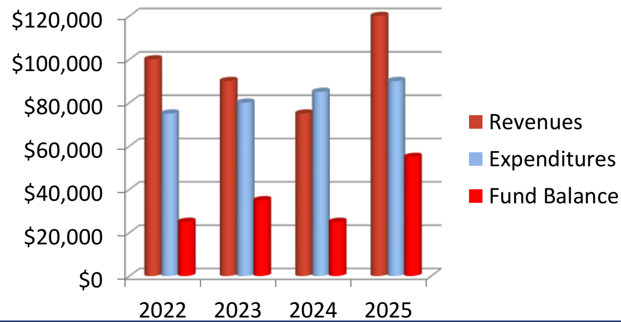
Learning Objectives

- What is Fund Balance?
- History of Fund Balance Legislation
- What are the components of Fund Balance?
- Benefits of a Fund Balance Policy
- What is a "Reasonable Amount" of Fund Balance?
- Keeping Fund Balance at Desired Levels

Fund Balance – What Is It?

- Fund Balance is the total accumulation of operating surpluses and deficits since the beginning of a local government's existence.



Excessively Low Fund Balance

- Normally caused by:
  - Poor budget practices
  - Desire to reduce taxes, or keep them at same level
  - Political reasons
- Can result in:
  - Short-term borrowing (RANs, TANs, Budget Notes)
  - Deficit financing
  - Credit rating reduction
- Should be increased in conformity with long-term plans.

Excessively High Fund Balance

- Normally caused by:
  - Poor budget practices
  - Unduly high property taxes
  - Political reasons
- Greater opportunity for fraud if controls are weak.
- Should be appropriated or reduced in conformity with long-term plans.

Components of Fund Balance

- Pre-GASB 54 - Made up of two parts:
  - Reserved – The portion that is not available for discretionary appropriation due to the creation of reserve funds (legal and accounting)
  - Unreserved (account 909) – The portion that is available for appropriation to reduce taxes and other uses
    - Unreserved / Appropriated (account 910) – the portion of the unreserved fund balance the governing board has applied to reduce property taxes in the ensuing year budget
    - Unreserved / Unappropriated (account 911) – the portion of unreserved fund balance available to provide for economic uncertainties

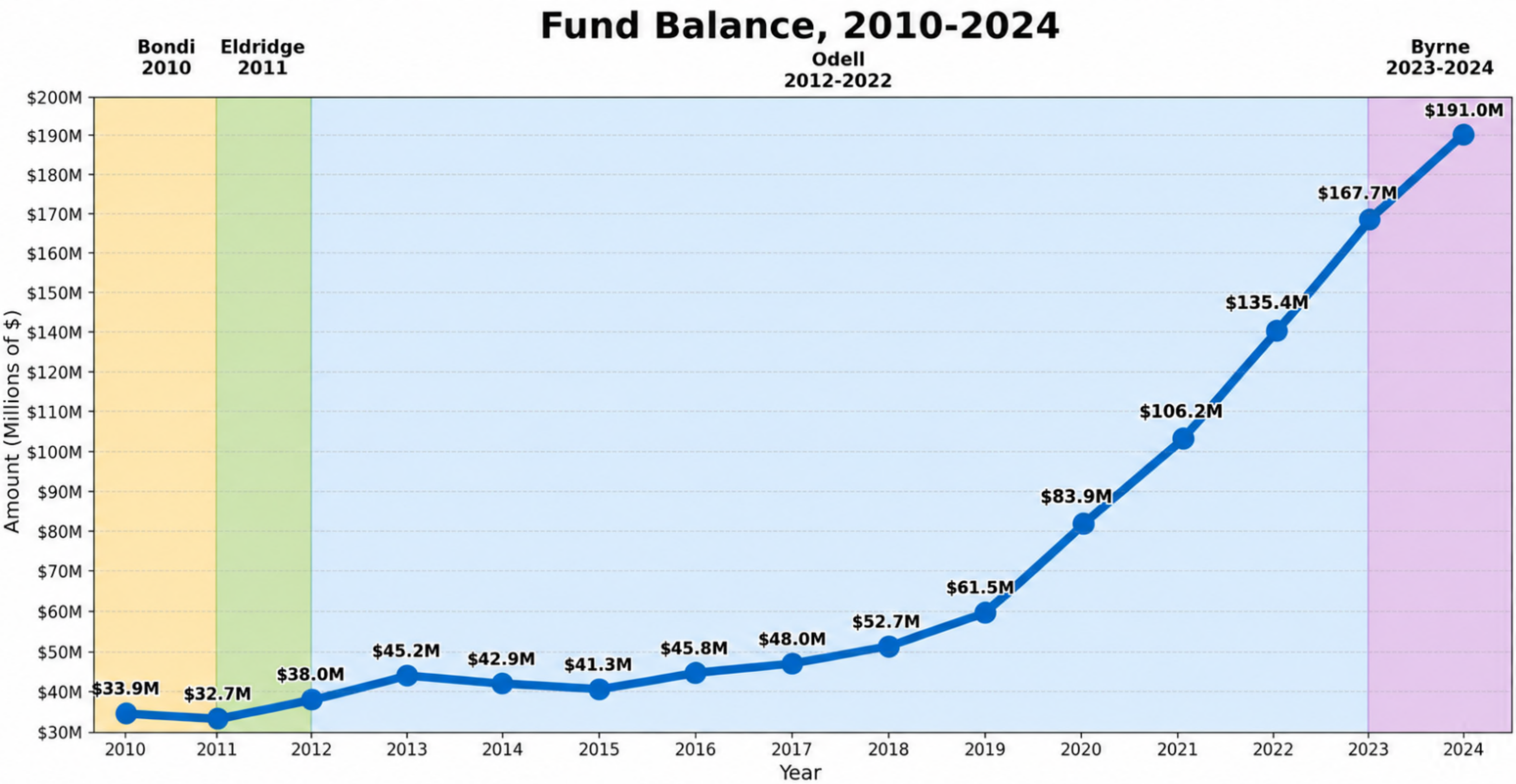
Components of Fund Balance

- GASB 54 – Five Categories
- (effective June 15, 2010)
  - Nonspendable (accounts 806 & 807)
  - Restricted (accounts 814-898)
  - Committed (account 913)

  Essentially what was *reserved*

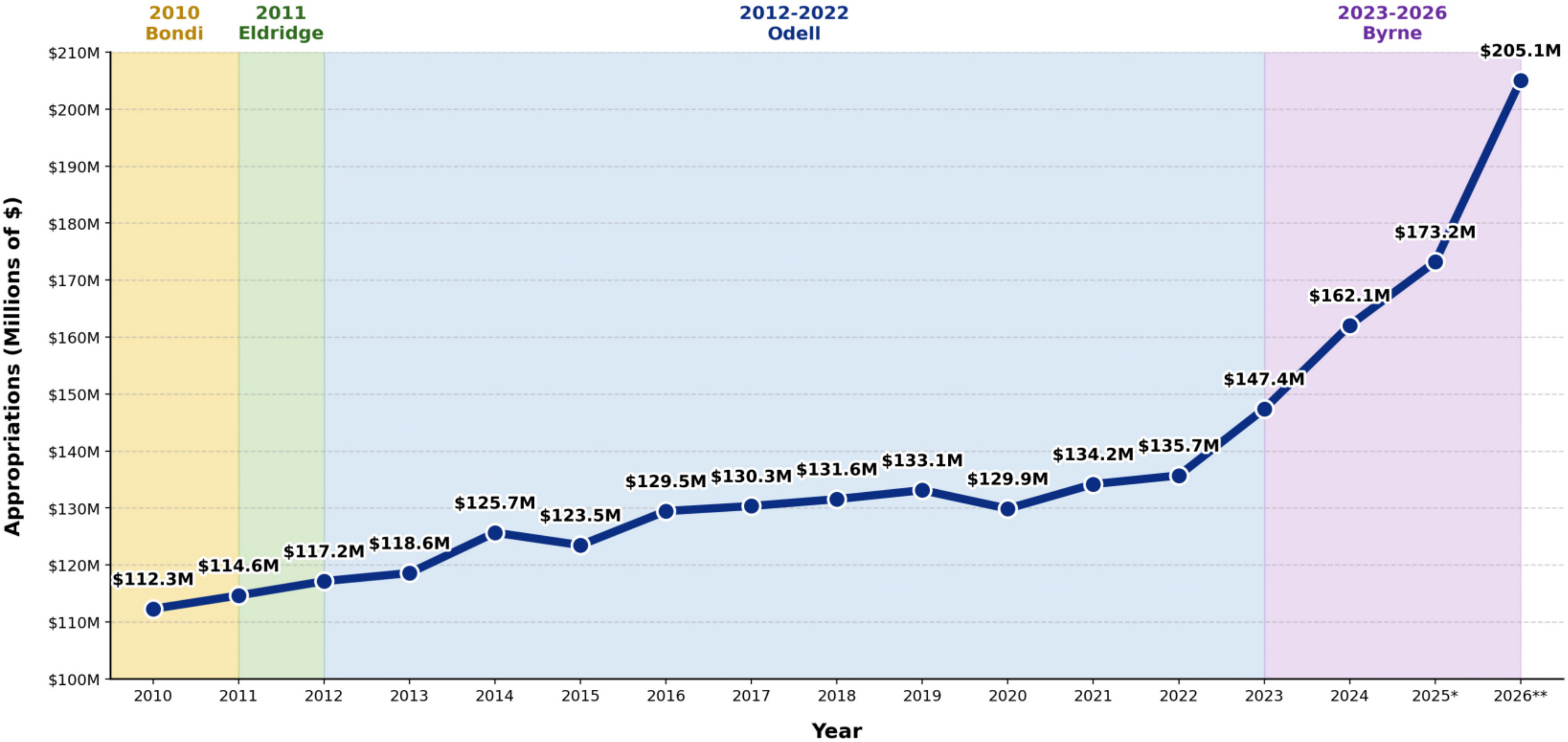
  - Assigned (accounts 914 & 915)
  - Unassigned (account 917)

  Essentially what was *unreserved*



Source: County Comprehensive Annual Financial Reports

General Fund Appropriations, 2010-2026



Source: Audited Financials of County
*Unaudited
**Finance Department Budget Summary

Effective Fund Balance Policies

- Should:
  - Be adopted by the governing board with input from key officials (e.g., CFO, budget officer).
  - Be in written form and subject to review by governing board on a regular basis.
  - Be used to develop and amend multi-year capital and operational plans.
  - Address how surplus balances will be applied.
  - Address the timing for balances to be replenished to the desired level.

So What Is a "Reasonable Amount"

- GASB 54 eliminated the unappropriated / unreserved terminology and instructed local governments to apply the "reasonable amount" calculation to the "unrestricted portion" of fund balance, defined as:
  - The total of the committed (913), assigned (914 & 915), and unassigned fund balance classifications (917).
  - In determining the amount to carry over, this total should then be reduced by any amount appropriated for the ensuing year's budget (914).
- Local government officials must consider a number of factors when determining how much unrestricted fund balance is "reasonable" to carry over.

Note 3 - Detailed Notes on All Funds (Continued)

K. Fund Balances

	2024			
	General Fund	Capital Projects Fund	Non-Major Governmental	Total
Nonspendable				
Prepaid expenditures	$ 2,180,632	$ -	$ 97,410	$ 2,278,042
Long-term receivables	4,000,000	-	-	4,000,000
Total Nonspendable	6,180,632	-	97,410	6,278,042
Restricted				
Law enforcement	1,980,654	-	-	1,980,654
Health	14,321	-	-	14,321
Driving while intoxicated program	170,423	-	-	170,423
Opioid	1,844,936	-	-	1,844,936
Grants and obligations	1,041,402	-	-	1,041,402
Capital projects	-	16,225,950	-	16,225,950
Debt service	-	-	30,841	30,841
Debt service for subsequent year's expenditures	-	-	125,000	125,000
Trusts	-	-	237,922	237,922
Total Restricted	5,051,736	16,225,950	393,763	21,671,449
Assigned				
Purchases on order				
General government support	770,363	-	-	770,363
Education	221	-	-	221
Public safety	81,541	-	9	81,550
Health	13,596	-	-	13,596
Transportation	47,109	-	195,573	242,682
Economic opportunity	215,309	-	-	215,309
Culture and recreation	26,003	-	-	26,003
Home and community services	62,064	-	-	62,064
	1,216,206	-	195,582	1,411,788
For subsequent year's expenditures				
General Fund	1,878,023	-	-	1,878,023
Retirement	500,000	-	-	500,000
Future Capital projects	6,180,000	-	-	6,180,000
Retirement	5,500,000	-	-	5,500,000
Future Capital projects	17,820,000	-	-	17,820,000
Tax stabilization	10,000,000	-	-	10,000,000
Insurance	5,800,000	-	-	5,800,000
Post Employment	6,000,000	-	-	6,000,000
State Aid	6,000,000	-	-	6,000,000
Callable Bond	4,725,000	-	-	4,725,000
Disaster Recovery	2,000,000	-	-	2,000,000
Judgements and Settlements	5,000,000	-	-	5,000,000
County Road Fund	-	-	3,993,142	3,993,142
Road Machinery Fund	-	-	975,361	975,361
Transportation Fund	-	-	6,926,205	6,926,205
Total Assigned	72,619,229	-	12,090,290	84,709,519
Unassigned	78,325,913	-	-	78,325,913
Total Fund Balances	$ 162,177,510	$ 16,225,950	$ 12,581,463	$ 190,984,923

RESTRICTED

UNRESTRICTED

County of Putnam, New York

Balance Sheet
Governmental Funds
December 31, 2024

	General	Capital Projects	Non-Major Governmental	Total Governmental Funds
ASSETS				
Cash and equivalents	$ 27,440,805	$ 1,495,111	$ 238,222	$ 29,174,138
Restricted cash	-	502,407	-	502,407
Investments	135,362,106	2,981,434	-	138,343,540
Taxes receivable, net	20,118,983	-	-	20,118,983
Other receivables				
Accounts	13,705,164	-	19,907	13,725,071
State and Federal aid	16,957,840	10,772,078	534,968	28,264,886
Due from other governments	2,539,864	-	-	2,539,864
Due from other funds	-	8,027,736	12,440,436	20,468,172
Due from fiduciary fund	12,987,121	-	-	12,987,121
Leases	904,345	-	-	904,345
	47,094,334	18,799,814	12,995,311	78,889,459
Prepaid expenditures	2,180,632	-	97,410	2,278,042
Total Assets	$ 232,196,860	$ 23,778,766	$ 13,330,943	$ 269,306,569
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 7,160,385	$ 4,535,001	$ 602,129	$ 12,297,515
Accrued liabilities	2,129,694	-	132,351	2,262,045
Unearned revenues	14,438,091	3,017,815	-	17,455,906
Due to other funds	21,160,303	-	-	21,160,303
Deposits payable	851,386	-	-	851,386
Employee tax deductions	45,324	-	-	45,324
Total Liabilities	45,785,183	7,552,816	734,480	54,072,479
Deferred inflows of resources				
Deferred tax revenues	18,719,827	-	-	18,719,827
Unavailable revenues	2,535,914	-	15,000	2,550,914
Lease related	837,734	-	-	837,734
Opioid related	2,140,692	-	-	2,140,692
Total Deferred inflow of resources	24,234,167	-	15,000	24,249,167
Total Liabilities and Deferred Inflows of Resources	70,019,350	7,552,816	749,480	78,321,646
Fund balances				
Nonspendable	6,180,632	-	97,410	6,278,042
Restricted	5,051,736	16,225,950	393,763	21,671,449
Assigned	72,619,229	-	12,090,290	84,709,519
Unassigned	78,325,913	-	-	78,325,913
Total Fund Balances	162,177,510	16,225,950	12,581,463	190,984,923
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 232,196,860	$ 23,778,766	$ 13,330,943	$ 269,306,569

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

$163,035,432 in Unrestricted Fund Balance