

Fund Balance

Fund Balance by definition does not equal cash, nor is it the difference between revenue and expenditures; is the cumulative difference of all revenues and expenditures from the government's creation. It can also be considered to be the difference between fund assets and fund liabilities, and can be known as fund equity or net position.

Purpose of fund balance

- All governments, whether states, cities, or school districts, should place a portion of their operating revenues in a fund reserve or “raining day” fund. These raining day funds are saving accounts that governments can use to address revenue shortfalls or unanticipated expenditures and to help stabilize tax rates. Emergencies or unanticipated situations happen all the time.
 - Snowier than expected winter
 - A reduction in revenues including volatility
 - Pilt/Forestry
 - Debt Service reimbursement from the State
 - Unexpected expenditures including capital expenditures
 - Cash flow

How much

- The Government Finance Officers Association (GFOA) recommends that all general purpose governments maintain at a minimum an unrestricted fund balance of no less than 2 months of regular operating revenues or regular operating expenditures.
 - Some governments may require much larger reserves based on their particular financial situation.
 - Conversely, a lower level of reserves may be appropriate for governments such as states or large cities and counties because they are better able to predict and plan for contingencies and because they often have a more diversified revenue base that mitigate problems with revenue volatility.

Borough Fund Balance Policy History

- Committee of assembly members and borough administrative staff appointed in 2000
- Resolution 2001-045 passed in April 2001
- Established recommended minimum and maximum amounts
- 5 year to come into compliance if below the minimum or above the maximum amount

Sample fund balance calculation for minimum and maximum amounts

FY2018	BASE VALUE	MINIMUM MULTIPLYING FACTOR	MAXIMUM MULTIPLYING FACTOR	MINIMUM AMOUNT	MAXIMUM AMOUNT
<u>DESIGNATIONS PER BOROUGH POLICY:</u>					
WORKING CAPITAL COMPONENT					
(BASE VALUE EQUALS FY2016 TOTAL EXPENDITURES AND OTHER FINANCING USES)	\$ 77,673,047	10.00%	15.00%	\$ 7,767,305	\$ 11,650,957
OPERATING CONTINGENCIES:					
UNEXPECTED EXPENDITURES					
(BASE VALUE EQUALS FY2016 TOTAL EXPENDITURES AND OTHER FINANCING USES LESS TRANSFERS TO CAPITAL PROJECTS)	\$ 76,298,047	5.00%	5.00%	\$ 3,814,902	\$ 3,814,902
REVENUE VOLATILITY COMPONENT:					
PERSONAL PROPERTY TAX REVENUE					
(BASE VALUE EQUALS FY2016 ACTUAL REVENUE FROM PERSONAL PROPERTY)	\$ 1,835,299	0.00%	20.00%	\$ -	\$ 367,060
OIL & GAS REVENUE					
(BASE VALUE EQUALS FY2016 ACTUAL REVENUE FROM OIL & GAS PROPERTIES)	\$ 5,510,364	20.00%	40.00%	\$ 1,102,073	\$ 2,204,146
STATE REVENUE SHARING					
(BASE VALUE EQUALS FY2016 ACTUAL REVENUE FROM STATE REVENUE SHARING)	\$ 2,048,044	0.00%	20.00%	\$ -	\$ 409,609
RAW FISH TAX REVENUE SHARING					
(BASE VALUE EQUALS FY2016 ACTUAL REVENUE FROM RAW FISH TAX REVENUE SHARING)	\$ 774,498	0.00%	20.00%	\$ -	\$ 154,900
INTEREST EARNINGS					
(BASE VALUE EQUALS FY2016 ACTUAL REVENUE FROM INTEREST EARNINGS)	\$ 967,412	0.00%	20.00%	\$ -	\$ 193,482
OTHER REVENUES					
(BASE VALUE EQUALS FY2016 ACTUAL REVENUE FROM OTHER REVENUES)	\$ 378,683	0.00%	20.00%	\$ -	\$ 75,737
FUTURE CAPITAL EXPANSION NEEDS	\$ 9,790,000	25.00%	40.00%	\$ 2,447,500	\$ 3,916,000
TOTAL DESIGNATED PER FUND BALANCE POLICY				\$ 15,131,780	\$ 22,786,792
BEGINNING FUND BALANCE	Projected FY2017 FUND BALANCE			\$ 22,578,593	\$ 22,578,593
FUND BALANCE AVAILABLE FOR APPROPRIATION				\$ 7,446,813	\$ (208,199)

What now

- GASB 54 which was effective for the Borough in 2011, shifted the focus of fund balance reporting from the availability of fund resources for budgeting purposes to the extent the government is bound to honor constraints on how the funds can be spent.
- GASB Statement No. 54 created five classifications of fund balance, though not every government or governmental fund will report all components. The five categories are:
 - Nonspendable fund balance – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
 - Restricted fund balance – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by constitution, creditors or laws and regulations of non-local governments.

- The following three classifications of fund balance are considered unrestricted categories:
 - Committed fund balance – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
 - Assigned fund balance – the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.
 - Unassigned fund balance – in the General Fund, the remaining surplus of net resources after funds have been identified in the four categories above
- The changes required by GASB 54 are most notable when comparing the fund balance section of the Borough's CAFR. See subsequent slide for FY2009 and FY2011 fund balance sections of the Borough's CAFR.

Old format for CAFR - FY2009

	General Fund	Projects Fund	Governmental Funds	Governmental Funds
Fund balances:				
Reserved:				
Encumbrances	533,623	192,871	4,276,754	5,003,248
Prepays	300	-	1,605	1,905
Unreserved:				
Designations:				
General Fund	1,986,637	-	-	1,986,637
Special revenue funds	-	-	9,687,234	9,687,234
Capital project funds	-	290,920	6,449,363	6,740,283
Undesignated:				
General Fund	22,617,657	-	-	22,617,657
Special revenue funds	-	-	16,177,086	16,177,086
Total fund balances	25,138,217	483,791	36,592,042	62,214,050

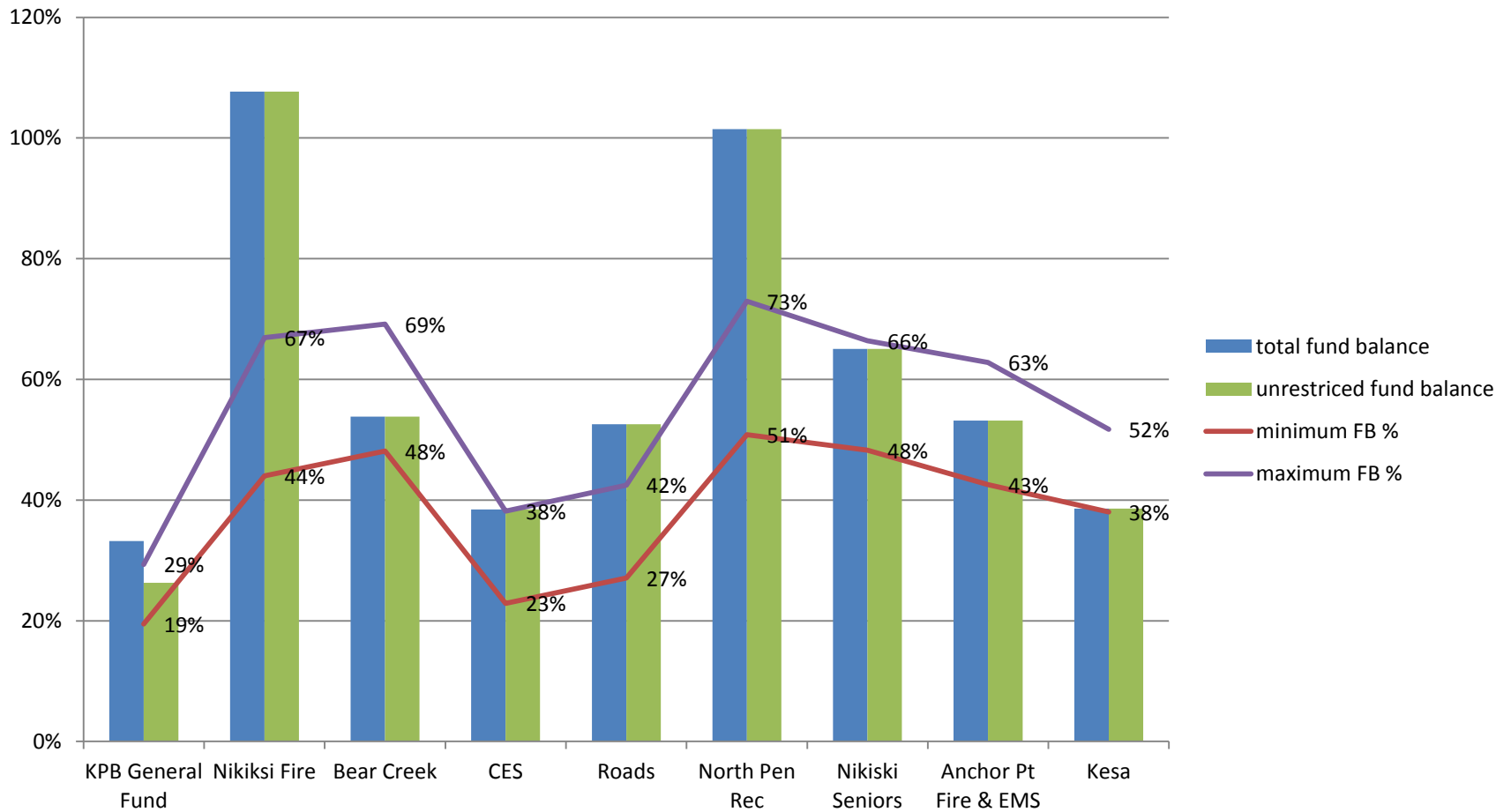
New format for CAFR – FY2011

	General Fund	Bond Funded Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Fund balances:				
Nonspendable:				
Long-term land contracts receivable	-	-	801,727	801,727
Long-term notes receivable	251,065	-	-	251,065
Prepays	-	-	1,500	1,500
Restricted:				
Landfill closure/postclosure costs	-	-	4,698,979	4,698,979
Roads construction and upgrades	-	-	579,431	579,431
Spruce Bark Beetle Program	-	-	598,531	598,531
Commercial passenger vessel tax	-	-	797,218	797,218
Revenue sharing program	-	-	267,104	267,104
General government	-	-	256,789	256,789
Public safety	-	-	7,252,077	7,252,077
Recreation	-	-	2,046,544	2,046,544
Education	-	-	33,464	33,464
Solid waste	-	-	42,361	42,361
Roads	-	-	2,217,209	2,217,209
Solid waste facilities	-	2,117,171	-	2,117,171
School roof projects	-	15,343,618	-	15,343,618
Public safety facilities and equipment	-	2,610	-	2,610
Committed:				
Outstanding committed contracts	239,938	-	2,719,021	2,958,959
Software upgrades	-	-	16,464	16,464
Building maintenance and upgrades	-	-	1,105,992	1,105,992
Riverbank restoration	-	-	10,779	10,779
Land development projects	-	-	675,019	675,019
Public safety facilities and equipment	-	-	1,399,417	1,399,417
Recreational facility maintenance	-	-	34,874	34,874
School maintenance and upgrades	-	-	1,772,253	1,772,253
Solid waste facilities	-	-	347,501	347,501
Spruce Bark Beetle Program	-	-	174,821	174,821
Emergency Management Performance	99,672	-	-	99,672
Assigned:				
Subsequent year's expenditures	2,884,496	-	5,374,461	8,258,957
Minimum fund balance policy	14,638,653	-	-	14,638,653
General government	-	-	1,097,795	1,097,795
Unassigned	3,591,990	-	-	3,591,990
Total fund balances	21,705,814	17,463,399	34,321,331	73,490,544

Impact to the Borough's Fund Balance Policy

- Minimal
 - Deleting the old title **Unreserved fund balance policy**
 - Adding a new title **Unrestricted fund balance for budgetary calculations of operating and capital project funds**
 - Incorporate classifications from GASB 54; nonspendable, restricted, committed, assigned and unassigned
 - New category for bond rating and debt service
 - Minor changes to some of the range percentages
 - Change requirement to be in compliance from 5 years to 3 years

Projected Fund Balance Ranges – Old Policy



Projected Fund Balance Ranges – New Policy

