Stanly County
General Fund Balance Analysis

The purpose of this document is to set a realistic and achievable goal for unreserved fund balance for the Stanly County General Fund. The following sections will be defined below (1) What is Fund Balance, (2) Why have a Fund Balance, (3) What is an appropriate Fund Balance Level, and (4) Multi Year Analysis.

A. **WHAT IS "FUND BALANCE"?**

Fund Balance is a nationally-recognized indicator of fiscal strength within government finance. For governmental units, fund balance is the equivalent of equity on a corporation's balance sheet; it is a measure of a government's available resources.

- Fund balance can mean "The net assets of governmental funds calculated in accordance with generally accepted accounting principles".
- It may also be described as cumulative revenues in excess of expenditures, as an operating reserve or as a "rainy day" fund
- The NC School of Government defines fund balance as “excess, surplus or unbudgeted money”. At the end of a Fiscal year, it is that portion of a governmental unit’s money that can be carried forward to finance budget expenditures during the next fiscal year.

There are two types of fund balance presented in a government’s financial statements. They are reserved fund balance and unreserved fund balance. The function of **reserved fund balance** is simply to isolate the portion of fund balance that is not available for the next fiscal year’s budget. **Unreserved fund balance** can be used to appropriate in the current or next fiscal year's budget.

B. WHY HAVE A FUND BALANCE?

It is essential that governmental units maintain a fund balance in order to:

- Protect against reduction in service levels or raising taxes and other fees because of temporary revenue shortfalls, unpredicted one-time expenditures or any other unexpected expenditure.
- Ensure stability in the tax rates set by governmental units.

Because fund balance is so critical to financial health, it is a major factor in maintaining a favorable credit rating. Each time the County borrows money or issues bonds, its financial health and credit worthiness are evaluated by three rating agencies: Standard and Poors, Fitch Ratings and Moody’s Investors Service. It is also rated by a state rating agency, the North Carolina Municipal Council. When borrowing money, the rate placed on the County’s borrowing is very important in that it allows us to borrow money at lower interest rates thereby saving the County and the taxpayers a considerable amount of money. National government finance advisory associations and the rating agencies have indicated the importance of fund balance in credit ratings:

- The GFOA notes "credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a governments general fund to evaluate a government's continued credit worthiness".
- Fitch suggests, "Maintaining an operating reserve or rainy day fund is perhaps the most effective practice an issuer can use to enhance its credit rating".

- Moody's investors Service indicates that "fund balance policies provide one of the best guarantees to bondholders that sufficient levels of fund balance will be maintained regardless of economic cycles, cash crunches or administrative turnover. Internally, fund balance reserves can provide cash flow needs until major revenues are received, reducing or eliminating the need for cash flow borrowing or unexpected major expenditures. Externally, fund balance reserves tend to be viewed favorably by investors, rating agencies and local banks with which the County does business.

C. WHAT IS AN APPROPRIATE FUND BALANCE LEVEL?

The following excerpt from an article by the School of Government summarizes the guidelines of the NC Local Government Commission which is required by statute to oversee the annual independent audit and generally to regulate local government finance in North Carolina.

> "The most basic LGC staff guideline is that counties and cities should have an available General fund balance of at least eight percent (8%) of general fund expenditures at the end of the fiscal year. Eight percent of annual expenditures are roughly equal to one month's operating expenditures. 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 tax 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 operating reserves".

D. STANLY COUNTY'S GENERAL FUND-MULTIYEAR ANALYSIS

Stanly County
General Fund Balance
Multi Year Analysis

Fiscal Year	Unreserved	Reserved	Total
2001	19.34%	10.85%	30.19%
2002	25.59%	8.29%	33.88%
2003	24.27%	8.49%	32.76%
2004	23.33%	10.02%	33.35%
2005	23.25%	11.85%	35.10%
2006	21.76%	7.78%	29.54%
2007	22.74%	9.74%	32.48%
2008	28.17%	6.54%	34.71%
2009	16.58%	14.55%	31.13%
2010	11.92%	17.25%	29.17%