



# Village of Pinehurst

## Fund Balance Policy Discussion

January 26, 2021

## **3 Purposes of Fund Balance (FB):**

1. Provide cash flow when current revenues may not be available to fund current expenditures
2. Provide a “rainy day” fund for emergency situations
3. Save \$ for future capital expenditures

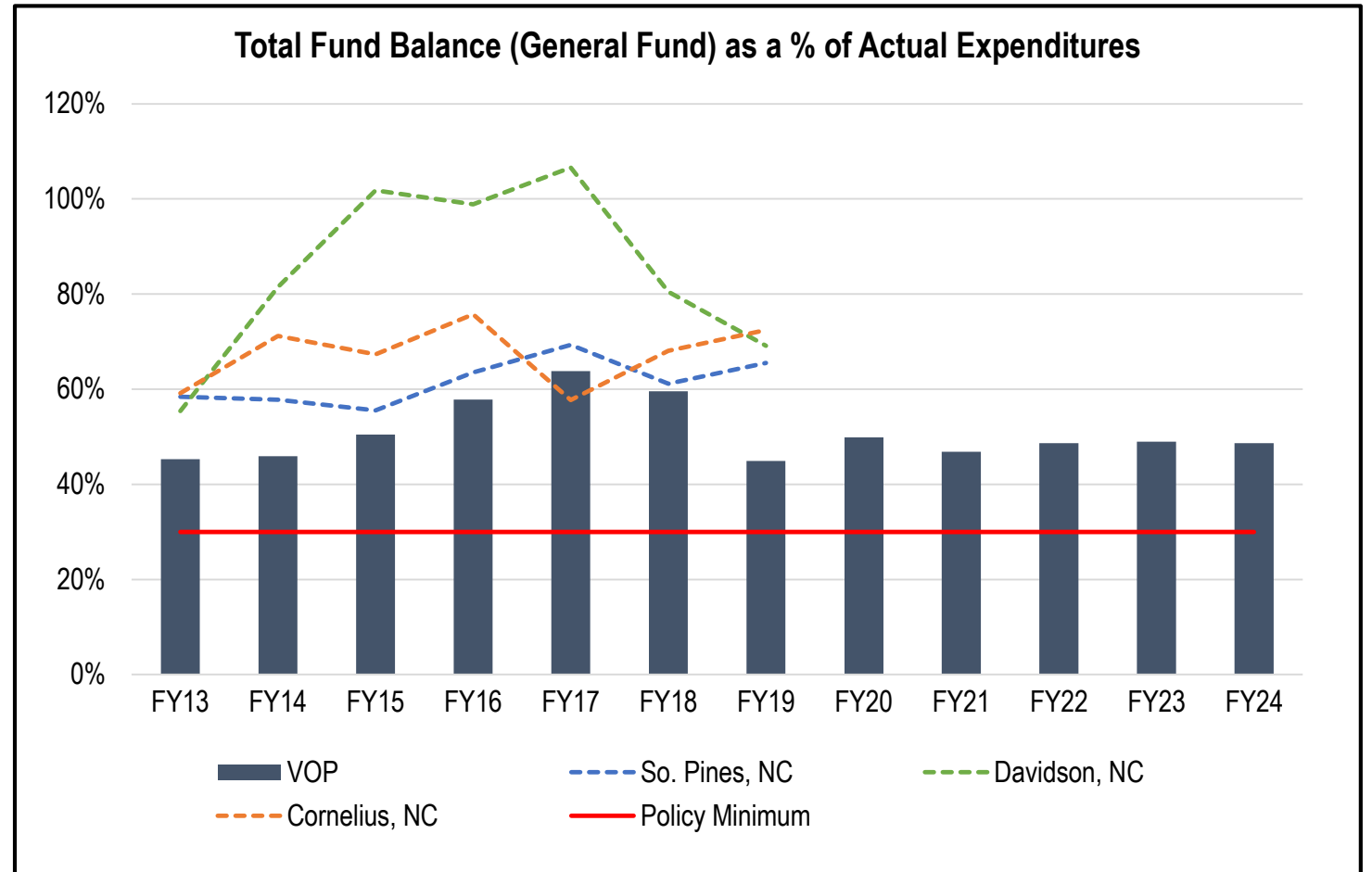
## **Factors to consider when establishing a minimum fund balance:**

1. A Fund Balance Policy is a Recommended Best Practice by the Government Finance Officers Association (GFOA)
2. The NC Local Government Commission minimum FB target is 8% of expenditures (or approx. 1 month of expenditures)

# Fund Balance Policy



- VOP has historically maintained a lower fund balance in the General Fund than comparable communities
- The fund balance needs of communities can differ widely
- The 30% of expenditures policy minimum has allowed the Village to maintain a healthy financial condition since its adoption in 2003



## VOP Fund Balance Policy is a two-part policy:

Part 1 Measured At the <u>Beginning</u> of the Year	Part 2 Measured At the <u>End</u> of the Year
When preparing the annual budget, appropriated fund balance should result in an anticipated ending <u>total</u> fund balance in the range of 30% to 40% of <u>budgeted</u> expenditures	<u>Unassigned</u> fund balance must be maintained at a level that is greater than 15% of <u>actual</u> General Fund expenditures as reported in the annual Comprehensive Annual Financial Report (CAFR)

**Note: VOP practice has been budget for a minimum ending fund balance of 30%. We don't budget additional expenditures to reduce fund balance to within the range.**

**30% of expenditures in FB is approximately 3.5 – 4.0 months of expenditures**

## Recommended Changes to the VOP Fund Balance Policy:

1. Part 1: Budget so that ending FB is a minimum of 30%
2. Part 2: No changes recommended; Maintain requirement of 15% of actual expenditures in unassigned FB
3. Part 3: ADD a provision to commit a portion of unassigned fund balance for future capital needs if total FB exceeds 40%, with a floor to maintain the 15% of actual expenditures in unassigned FB

## Current & Recommended Policy - Part 1:

- CURRENT: When preparing the annual budget, appropriated fund balance should result in an anticipated ending total fund balance ***in the range of 30% to 40%*** of budgeted expenditures
- RECOMMENDED: When preparing the annual budget, appropriated fund balance should result in an anticipated ending total fund balance ***at a minimum of 30%*** of budgeted expenditures

## Current & Recommended Policy - Part 2:

- CURRENT: Unassigned fund balance must be maintained at a level that is greater than 15% of actual General Fund expenditures as reported in the annual Comprehensive Annual Financial Report (CAFR)
- RECOMMENDED: No Change

## Current & Recommended Policy - Part 3:

- CURRENT: n/a
- RECOMMENDED: When total fund balance as reported in the Village's Comprehensive Annual Financial Report (CAFR) exceeds 40% of actual General Fund expenditures as reported in the CAFR for the year audited, fund balance in excess of 40% shall be committed by Council resolution for future capital needs. However, in no instance shall the amount of fund balance committed cause the unassigned General Fund fund balance to fall below the 15% of actual General Fund expenditures as stated in Section 2.



## Recommended Way to “Commit” Fund Balance (Part 3):

- ❑ Committed Fund Balance – Council adopts a resolution committing a \$ amount of FB to a particular purpose; the “commitment” is removed when the purpose is met OR Council can “un-commit” the funds via a resolution
- ❑ Process:
  1. Determine the amount of FB in excess of 40% of total actual expenditures, or maximum FB available to commit
  2. Calculate 15% of expenditures minimum unassigned FB allowed by the Fund Balance Policy
  3. Determine amount of unassigned FB available to commit that is greater than 15% of expenditures
  4. Determine total amount of FB to commit
  5. Calculate amount to adjust committed FB (May increase OR decrease each year)

# Fund Balance Policy



## Example Calculations (Assumes FB Policy put in place in FY 2018):

	FY 2020	FY 2019	FY 2018
Total Expenditures	\$17,590,227	\$17,526,893	\$17,862,689
Total FB	\$11,229,270	\$7,871,973	\$10,641,838
Unassigned FB	\$7,305,222	\$5,112,998	\$4,448,274
<b>Calculations:</b>			
Step 1: FB in Excess of 40% ( <b>A</b> )	\$4,193,179	\$861,216	\$3,496,762
Step 2: Minimum 15% Unassigned FB ( <b>B</b> )	\$2,638,534	\$2,629,034	\$2,679,403
Step 3: Amount of Unassigned FB Available to Commit (Total Unassigned – Minimum Unassigned FB)	\$4,666,688	\$2,483,964	\$1,768,871
Step 4: Total Amount of FB to Commit (If <b>A</b> <= <b>B</b> , then <b>A</b> , Otherwise <b>B</b> )	\$4,193,179	\$861,216	\$1,768,871
Step 5: Amount to Adjust Committed FB (FY20-FY18 Amount of FB to Commit)	\$3,331,963	(\$907,655)	-

# Fund Balance Policy



## Example Calculations (Assumes FB Policy in place in FY 2018):

	FY 2020	% of Exp	FY 2019	% of Exp	FY 2018	% of Exp
Fund balances:						
Nonspendable:						
Inventory	\$44,098		\$48,427		\$39,993	
Prepaid items	42,602		20,135		19,878	
Restricted:						
Stabilization by state statute	2,233,881		1,923,503		1,881,641	
Public safety	-		10,943		2,672	
Committed:						
<b>Future Capital</b>	<b>4,193,179</b>		<b>861,216</b>		<b>1,768,871</b>	
Assigned:						
Subsequent year's expenditures	1,603,467		755,967		4,249,380	
Unassigned	3,112,043	18%	4,251,782	24%	2,679,403	15%
<b>Total Fund Balance (FB)</b>	<b>\$11,229,270</b>	<b>64%</b>	<b>\$7,871,973</b>	<b>45%</b>	<b>\$10,641,838</b>	<b>60%</b>

## Process to Commit Fund Balance:

- Council would adopt a Resolution indicating the desire to commit fund balance to future capital needs
- The amount of FB to commit would be calculated during the annual audit and reported in the Comprehensive Annual Financial Report (CAFR) prior to the Strategic Planning Retreat each year
- Council can commit FB to capital in general or can identify a specific project(s)
- Council would indicate the amount of committed fund balance it wants to use for one-time capital needs while preparing the annual budget

## **Next Steps:**

If Council supports staff recommendations, staff can bring a Resolution amending the Fund Balance Policy to the February 9<sup>th</sup> Council meeting