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Managing Around the Fund Balance

The Fund Balance Policy is one of three (3) main financial management policies in which the county government operates. The original policy was adopted in 2011 and amended in 2012. The stated goal of the policy is: “To provide management with appropriate guidelines and direction to assist in making sound decisions…”

The county’s twenty-four (24) Funds (companies) each have their own fund balance and related requirements on how much fund (money) should carry over from year to year. A fund balance in broad sense is the available or soon to be available cash for operations. The net profit or loss in a fund’s (company’s) operations is netted to the Fund Balance.

This Fund Balance is in place to provide sufficient funds to cash flow operations during the year until enough revenue is received to support the company. A couple of examples would be the county’s General Fund (company) that starts operations on July 1, property tax is the main source of General Fund Revenue, which is due by February of the next year. If sufficient funds (cash) is not available, the county would have to borrow to make payroll for six (6) to eight (8) months. Borrowing for operations violates the Debt Policy. In a previous article, I talked about how the three (3) main policies interact with one another. Here is an example in which Debt Policy does not allow the county to borrow for operational expense thus the Fund Policy must allow for sufficient Funds to cash flow operations.

A second reason to have a sufficient Fund Balance is that the fund balance is an emergency fund.

The third reason for the Fund Balance is it allows investment income to be earned. If there is no investment income earned then a program would need to be cut or you would see a potential increase in property tax to offset the lost investment earnings. A lot of the county’s investment earnings help pay for county debt.

The fourth reason is that a sufficient Fund Balance reflects financial stability and strength; thereby when the county borrows funds, we should receive a lower interest rate thus reduced interest cost. The Fund Balance and Debt Policy dovetails again.

Operational Funds (companies) have fund balance goals generally as a percentage of the future year budget expenditures (appropriations). Since Capital Funds are for specific projects, these funds don’t have fund balance requirements outside of times where the county is accumulating funds for future projects. In the last purchase of voting machines monies were borrowed, this time money has been set aside in capital to purchase without borrowing. This reflects where the Capital, Fund Balance, and Debt policies dovetail together.

Certain operational funds have monthly revenue that make up the main source of funding for the Fund (Company) and the Fund Balance (cash) carries over from one year to the next year as a fund balance is less than said the General Fund (company).

The Highway Fund (company) receives a monthly state gasoline tax. The School Fund receives a monthly state basic education funds along with monthly local option sales tax. The Fund Balance in the highway and school is thus less than the County General due to cash flow needs being met with monthly revenue sources.

The Debt Service Fund (companies) tries to maintain a Balance of 100% of the next year's expenditures of principal and interest; there again, reflectively long term planning and financial stability.

Each year when the county adopts the budget, we examine the positive, neutral, or negative impacts on the Fund Balance, as we "Manage Around the Fund Balance." If the Fund Balances are where they need to be (Optimal Fund Balance) then the future budgets should be adopted in balance. If we anticipate a positive impact on Fund Balance, we can then transfer excess funds into capital accounts for one time investments.

If we anticipate a negative impact, more work must be done to understand the impact and work to resolve the negative impact. At the end of a fiscal year the actual revenue and actual expenditures are netted to the Fund Balances of each fund and we monitor those changes as we "Manage Around the Fund Balance" or maybe we should say the "Desired or Optimal Fund Balance."