

# Report on Fund Balance

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**Report Developed by the City of Greenville  
City Manager's Office and Financial Services Department  
July 2, 2014**



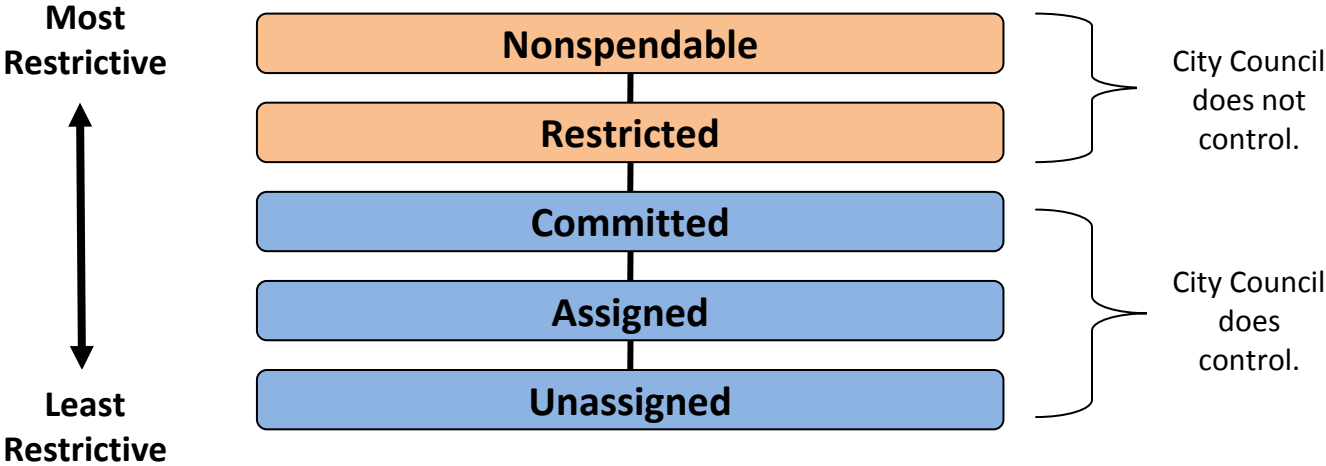
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# SECTION I – Report Purpose

In recent weeks, City staff has received numerous inquiries from one individual regarding the City’s fund balance. Most of these questions are related to the fund balance level for the General Fund and Non-major Governmental Funds, how that fund balance is categorized, and the percentage of fund balance relative to City financial policy and to peer cities. As such, the purpose of this report is to explain the categories of fund balance for the City of Greenville’s General Fund and Non-major Governmental Funds; the amounts of fund balance in these various categories as of June 30, 2013; City financial policies relative to fund balance; and comparative data from various peer cities. It should be recognized that the data provided reflects fund balance levels as of the last audited financial statement (June 30, 2013). Another audit will be conducted for FY 14, with the audit report being presented to City Council later this year.

# SECTION II – Fund Balance Classifications and Explanations

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:



**Nonspendable fund balance:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The City's Nonspendable fund balance consists of the following:

**Prepaid items:** portion of fund balance that is not an available resource because it represents certain payments to vendors applicable to future accounting periods and is, therefore, not in spendable form.

**Inventories:** portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

**Restricted fund balance:** This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law. The City's Restricted fund balance consists of the following:

**Restricted for Stabilization by State statute:** portion of fund balance which is not available for appropriation under State law [G.S. 159-8(a)].

**Restricted for general government:** portion of fund balance that is restricted by revenue source for general government purposes.

**Restricted for streets:** portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures.

**Restricted for public safety:** portion of fund balance that is restricted by revenue source for public safety expenditures.

**Restricted for economic development:** portion of fund balance that is restricted by revenue sources for economic development expenses.

**Restricted for culture and recreation:** portion of fund balance that is restricted by revenue sources for culture and recreation expenses.

**Committed fund balance:** This classification represents the portion of fund balance that can only be used for specific purposes determined by a formal action of City Council. The City's committed fund balance consists of the following:

**Committed for catastrophic losses:** portion of fund balance committed by the City Council in its financial policy guidelines for insurance loss reserves for self-insured amounts that exceed insurance coverage.

**Committed for Culture and Recreation:** portion of fund balance that is committed by City Council for cultural and recreation construction expenses in various Special Revenue and Capital Project funds.

**Committed for Public Safety:** portion of fund balance that is committed by City Council for law enforcement equipment and operational activities in various Special Revenue and Capital Project funds.

**Committed for Economic Development:** portion of fund balance that is committed by City Council for economic development construction and activities in various Special Revenue and Capital Project funds.

**Committed for capital outlays:** portion of fund balance committed by the City Council for the construction of specific assets held in the Capital Reserve Fund.

**Committed for debt service:** portion of fund balance committed by the City Council to pay for future debt expenditures accounted for in the City's Debt Service Fund.

**Assigned fund balance:** This classification represents the portion of fund balance that the City of Greenville intends to use for specific purposes. The City's Assigned fund balance consists of the following:

**Assigned for subsequent year's expenditures:** portion of total fund balance that is appropriated in the next year's budget that is not classified as restricted or committed.

**Assigned for culture and recreation:** portion of total fund balance that has been budgeted by Council for library operations.

**Unassigned fund balance:** This classification represents the portion of fund balance that has not been restricted, committed or assigned to specific purposes or other funds.

Note: The categories and sub-categories listed above are dictated by the Governmental Accounting Standards Board (GASB) requirements.

**SECTION III – Review of FY 13**  
**Comprehensive Annual Financial Report (CAFR)**

The excerpt below from the City of Greenville’s FY 2013 CAFR depicts that at the end of FY 13, the General Fund’s fund balance was \$31.1 million and the fund balance for Non-major Governmental Funds was \$9.3 million. Adding these two fund balances together results in a fund balance for Total Governmental Funds of \$40.4 million. In an effort to provide greater clarity regarding the various fund balance designations depicted below, staff has developed the detail sheets on the four pages that follow. These detail sheets identify the specific projects / activities and their associated funding for each fund balance category.

**Excerpt from Page 30 of FY 13 CAFR**

<u>Balance Sheet- Governmental Funds</u>		<u>Exhibit C</u>		
<u>June 30, 2013</u>		<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balances				
Nonspendable:				
Prepaid items and inventories	75,560		49,470	125,030
Restricted:				
Stabilization by State Statute	7,077,621		512,052	7,589,673
Restricted for general government			488,636	488,636
Restricted for streets	2,629,260			2,629,260
Restricted public safety	559,970			559,970
Restricted for economic development			1,057,749	1,057,749
Restricted for culture and recreation			101,259	101,259
Committed:				
Committed for catastrophic losses	2,276,781			2,276,781
Committed for culture and recreation			706,312	706,312
Committed for public safety			296,130	296,130
Committed for economic development			3,781,567	3,781,567
Committed for capital outlays			2,019,768	2,019,768
Committed for debt service			942,821	942,821
Assigned:				
Assigned for subsequent years expenditures	7,047,025		83,847	7,130,872
Assigned for culture and recreation			460,429	460,429
Unassigned	11,400,992		1,181,504	10,219,488
Total fund balance	<u>31,067,209</u>		<u>9,318,536</u>	<u>40,385,745</u>

## General Fund – FY 13 Year-End Fund Balance Details

	Amount	Description
<b>Nonspendable:</b>		
Prepaid items and inventories	\$75,560	Portion of fund balance that is not an available resource because it represents certain payments to vendors applicable to future accounting periods and the year-end balance of ending inventories, which are not spendable resources.
<b>Restricted:</b>		
Stabilization by State Statute	\$7,077,621	Portion of fund balance which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and inter-fund receivables, which have not been offset by deferred revenues. This balance is unrelated to the much discussed "8% requirement".
Restricted for streets	\$2,629,260	Powell Bill funds - use restricted by source
Restricted for public safety	\$559,970	Federal Forfeiture and Controlled Substance funds - use restricted by source
<b>Committed:</b>		
Committed for catastrophic losses	\$2,276,781	These funds are used to cover liability exposures and workers compensation claims in excess of budget and stop-loss insurance coverage. The City has a financial policy dictating that this <i>reserve will be maintained at no less than \$2.0 million.</i>
<b>Assigned:</b>		
Assigned for subsequent years expenditures	\$7,047,025	These funds were budgeted for expenditure in the FY 14 budget. Some of these funds have already been expended and it is expected that all will spent within the next 12-months.
<b>Unassigned:</b>	\$11,400,992	This is the portion of the fund balance that has not been restricted, committed or assigned to specific purposes. The City's policy is to maintain 14% unassigned fund balance, which is what this amount represents.
<b>TOTAL GENERAL FUND BALANCE</b>	<b>\$31,067,209</b>	

## Non-major Governmental Funds – FY 13 Year-End Fund Balance Details

	Amount	Description
<b>Nonspendable:</b>		
Prepaid items and inventories	\$49,470	Portion of fund balance that is not an available resource because it represents certain payments to vendors applicable to future accounting periods and the year-end balance of ending inventories, which are not spendable resources.
<b>Restricted:</b>		
Stabilization by State Statute	\$512,052	Portion of fund balance which is not available for appropriation under State law [G.S. 159-8(a)]
Restricted for general government	\$488,636	Energy Savings Capital Project Bond funds - use restricted by source. To be closed in FY 15 after project is complete.
Restricted for economic development	\$1,057,749	Center City Revitalization Capital Project Bond funds -use restricted by source. Remaining funds to be expended by 12/31/14 per bond requirements.
Restricted for culture and recreation	\$101,259	Sheppard Memorial Library's restricted donations.
<b>Committed:</b>		
Committed for culture and recreation	\$706,312	-S. Tar Greenway Capital Project - \$4,700 -Greenmill Run Greenway Capital Project - \$701,612
Committed for public safety	\$296,130	-Byrne JAG Grant Recov. Special Revenue - \$1,759 -Public Safety Technology Capital Project - \$294,371
Committed for economic development	\$3,781,567	-CDBG program funds budgeted but not yet spent by FY 13 year end for projects approved in the FY13 Annual Plan for Housing Rehabilitation, Outside Agency, Demolition and Administration activities. - \$213,802  -Housing program funds for acquisitions, rehabilitations and clearance activities. - \$45,336  -Small Business Loan Project (closed in FY 14) - \$68,065  -Lead Based Hazard Grant (closed in FY 14) -

		<p>\$2,176</p> <p>-Energy Efficiency Recovery Grant – ARRA funded revolving loan - \$259,500</p> <p>-Centralized Grant Fund –various ongoing grants - \$186,053</p> <p>-Cemetery Development Fund (closed in FY 14) - \$9,131</p> <p>-Affordable Housing revolving funds to be used for additional affordable home construction and affordable housing loans and projects. - \$460,013</p> <p>-West Greenville Revitalization Capital Project Fund. Funds budgeted for FY 13 for W. 5<sup>th</sup> Street Streetscape, property acquisition and Small Business Plan competition, but were not spent by June 30, 2013. - \$346,674</p> <p>-Center City Revitalization Capital Project Fund. Funds budgeted for FY 13 for Evans St. Gateway, theater repairs and parking pay station project, but were not spent by June 30, 2013. - \$300,546</p> <p>-10<sup>th</sup> Street Connector Capital Project local cost for project - \$408,470</p> <p>-Way Finding Capital Project Fund. One gateway sign remaining to be constructed. - \$50,835</p> <p>Greenville Transportation Activity Center local match - \$608,560</p> <p>Employee Parking Lot project (closed in FY 14) - \$3,427</p> <p>Convention Center – Phase 1 Capital Project Fund. This fund was closed in FY 14 and a new Capital Project Fund was established for the upcoming Convention Center Expansion / Improvement Project - \$665,077</p> <p>Drew Steele Center Capital Project (closed in FY 14) - \$9,698</p> <p>King George Bridge Capital Project local match - \$101,000</p> <p>Dream Park Capital Project Fund (to close in FY 15 /</p>
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		current balance \$2k) - \$43,204
Committed for economic capital outlays	\$2,019,768	Capital Reserve Fund. \$1,779,000 of this funding previously reserved for a Parking Deck was appropriated in the FY 14 budget. The remaining funds, approximately \$241k, are reserved for open space land banking and sidewalks.
Committed for debt service	\$942,821	Debt Service Fund
<b>Assigned:</b>		
Assigned for subsequent years expenditures	\$83,847	Sheppard Memorial Library's appropriated fund balance approved in FY 14 budget.
Assigned for culture and recreation	\$460,429	Sheppard Memorial Library's fund balance.
<b>Unassigned:</b>		
	\$(1,181,504)	
<b>TOTAL NON-MAJOR GOVERNMENTAL FUNDS - FUND BALANCE</b>	<b>\$9,318,536</b>	

## **SECTION IV – Review of Applicable Financial Policies**

The City of Greenville’s Financial Policy Guidelines contain two policies that are directly relevant to any discussion regarding fund balance. These two policies are outlined below.

### **Policy 1:**

**The City will strive to maintain an Unassigned General Fund balance at the close of each fiscal year of at least 14.0% of the total annual operating budget.**

This policy has the effect of the City retaining approximately 1.6 months of annual expenditures unassigned, meaning that 1.6 months of operating funds are available and not designated for other purposes. The Unassigned General Fund balance as of the close of FY 13 was 14% calculated as follows:

**Unassigned Fund Balance (based upon CAFR) / Total FY 14 General Fund Budget less Powell Bill**

**\$11,400,992 / \$82,613,590 = 14%**

### **Policy 2:**

***The City will establish and maintain an Insurance Loss Reserve to pay for needs caused by unforeseen emergencies. This reserve will be maintained at no less than \$2.0 million.***

The City has established a program to manage its financial risks through a self-funded arrangement in combination with purchased insurance related to workers compensation and general liability. As such, liability exposures and workers compensation claims are addressed in the self – funded program. Excess insurance (specific stop-loss coverage) is purchased through third party sources to cover large claims (over \$600,000 for workers compensation and over \$250,000 for general liability). The Insurance Loss Reserve, categorized as the Committed for Catastrophic Losses in the CAFR, is used to cover claims in excess of budget and stop-loss insurance coverage. The specific amount in this fund will fluctuate from year-to-year depending on claims levels. The amount as of FY 13 year end was \$2,276,781.

## **SECTION V – Peer Cities Comparison**

The City of Greenville uses the cities of Asheville, Concord, Gastonia, and Jacksonville as our financial benchmark communities as they are North Carolina cities with a similar population size. Please find below some basic information from the FY 13 CAFRs for these communities related to various types of fund balance including fund balance totals, fund balance percentages, and fund balance policies.

### **Fund Balance Totals**

Type of Fund Balance	Asheville	Concord	Gastonia	Jacksonville	Average of 4 Peer Cities	Greenville
General Fund – Fund Balance	\$24.0M	\$55.2M	\$20.9M	\$19.8M	\$30.0M	\$31.1M
Portion of General Fund – Fund Balance “Unassigned”	\$15.5M	\$40.6M	\$12.9M	\$5.5M	\$18.6M	\$11.4M
Total Governmental Funds – Fund Balance	\$38.8M	\$86.8M	\$49.8M	\$55.7M	\$57.8M	\$40.4M

### **Fund Balance Percentages**

Type of Fund Balance	Asheville	Concord	Gastonia	Jacksonville	Greenville
Total Fund Balance	28%	76%	38%	44%	44%
Available Fund Balance	18%	N/A	25%	N/A	33%
Unassigned Fund Balance	N/A	56%	N/A	12%	14%

Note: Fund balance percentages were taken directly from peer city CAFRs. Any specific percentage not expressly provided in the CAFR text was not included in the above table; staff did not calculate these percentages.

## **Fund Balance Policies**

Asheville – The City should maintain an available fund balance of no less than 15% of general fund expenditures.

Concord - The City will maintain an unassigned General Fund fund balance minimum between 30% and 35% of General Fund expenditures.

Gastonia - The City shall strive to maintain a minimum undesignated General Fund Balance at 8.33% or in an amount equal to at least one month of General Fund operations, and shall work towards the goal of matching the undesignated General Fund Balance at 12%.

Jacksonville - The City has a goal of maintaining an unassigned fund balance of 10%.

Greenville - The City will strive to maintain an Unassigned General Fund balance at the close of each fiscal year of at least 14% of the total annual operating budget.

## **SECTION VI – Frequently Asked Questions**

### **1. Why does the City have a 14% fund balance requirement when the State only requires 8%?**

The 8% requirement is a long-held misconception; there is no such formal requirement. The Local Government Commission (LGC) advises that the fund balance available for appropriation should not drop below 8% of total expenditures, which represents only one month's average expenditures. The LGC recommends that cities maintain a larger percentage of fund balance on hand to have sufficient funds to quickly respond to emergencies and other unforeseen expenditures. Annually, the LGC compares the available fund balance (after all required restrictions) of local governments to the annual spending for the year. If this amount is not in excess of 8%, the City Council will receive written correspondence from the LGC regarding the low fund balance and requesting a plan of action from the Council on improving the fund balance. Further, the LGC does not normally consider issuing new debt financings for local governments which have fund balances at this critically low level. The local 14% in the City's financial policy guidelines, like other local governments, is above the minimum LGC recommendation, but certainly in line within the range of our peers (see Section V, above). This policy has the effect of the City retaining approximately 1.6 months of annual expenditures unassigned, meaning that 1.6 months of operating funds are available and not designated for other purposes.

### **2. Why did the City change audit firms prior to the FY 13 audit?**

The City's previous auditor (McGladrey) proposed a significant rate increase for audit services prior to the FY 13 audit. This led the City to conduct a competitive procurement process that yielded a contract with Martin Starnes and Associates that saved the City money on these services. City Council and the GUC Board approved the new firm at their joint meeting on April 11, 2013.

Martin Starnes and Associates is a reputable North Carolina-based accounting firm established over 30-years ago. They have extensive experience with public sector audits in North Carolina and currently provide audit services for 58 North Carolina municipalities including Chapel Hill, Gastonia, Garner, Hickory, Kannapolis, Rocky Mount, Washington and Wilson and for 41 North Carolina counties including Brunswick, Chatham, Iredell, Nash, New Hanover, Orange, Pitt and Wilson.

### **3. Why is so much fund balance being appropriated (spent) in the FY 14 budget?**

Most years, following audit results, City Council transfers funds in excess of the 14% unassigned calculation to the Capital Reserve Fund to fund capital projects. This did not occur following the FY 12 audit, however, because City Council chose to wait to determine the actual fiscal impact of the negative property revaluation. These funds were later budgeted as Appropriated Fund Balance in the FY 14 budget (over \$7 million) to address capital needs.

**4. What are the fund balances associated with the Health Insurance Fund and Vehicle Replacement Fund?**

The Health Insurance Fund and Vehicle Replacement Fund are Internal Service Funds (ISF's) used to account for goods or services given to one department by another on a cost reimbursement basis. The City of Greenville has three ISF's as listed below with their cash balances as of the end of FY 13. The cash for ISFs is not included in the General Fund cash per Exhibit C on page 30 of the CAFR. The cash for these funds is captured in the Governmental Activities per the government-wide financial statements in Exhibit A on page 27 according to governmental accounting standards.

**Internal Service Funds**

Fund	Spendable Cash 6/30/2013
Vehicle Replacement- vehicles and certain equipment greater than \$5,000	\$7,248,194
Health Insurance- self-insured health insurance for the City and partners	\$2,361,199
Fleet Maintenance- established to account for financing the City's fleet maintenance cost	(\$545,475)

The Vehicle Replacement Fund is used to fund vehicles and equipment based upon a multi-year replacement schedule. It should be noted that the fund's cash balance will be reduced by approximately \$1.5M during FY 14 due primarily to the purchase of multiple new automated sanitation trucks.

The Health Insurance Fund is funded jointly by the City, Sheppard Memorial Library, Convention and Visitors Authority, Pitt – Greenville Airport Authority and the Greenville Housing Authority. It should be noted that the fund had \$1.8M in health insurance claims incurred but not reported (IBNR) at the end of FY 13, which reduces the spendable cash presented above.