APPENDIX D

FUND BALANCE

Julie S...rer

From: Newsletter [newsletter@nctreasurer.com] on behalf of Sharon Edmundson [Sharon.Edmundson@NCTREASURER.COM]
Sent: Monday, April 18, 2011 11:20 AM
To: LGC_NEWS@LISTSERV.NCTREASURER.COM
Subject: Important Information about Fund Balance Available!!

Recently, there has been some confusion about requirements regarding the appropriate level of available fund balance for local governments. Discussions at the state level have suggested that counties could use fund balance in excess of the 8% minimum balance requirement to offset costs previously borne by the State. The staff of the Local Government Commission believes that such cost-shifting is misguided.

"Fund balance available" is the statutory concept that describes the amount of funds local governments legally have available to be appropriated in the coming fiscal year. It is essential that ad valorem tax-levying units, such as municipalities and counties, maintain an adequate amount of fund balance available to meet their cash flow needs during the months in their revenue cycles when outflows exceed inflows. This ensures that the unit can meet current obligations and to prevent the unit from experiencing cash flow difficulties.

Local Government Commission policy requires that, on June 30, units maintain **a minimum** balance of 8% of the prior year's expenditures, or approximately one month of expenditures.

North Carolina counties have historically maintained fund balance available levels well above the 8% minimum as a cushion against unexpected expenditures, emergencies or declines in revenues. Bond rating agencies reinforce the notion that fund balance should be above 8% and that higher levels are required for sound financial management. The higher balance is often necessary because the available fund balance many times includes restricted amounts, such as sales tax that is restricted for school capital outlay and funds set aside for debt service.

Using the 8% fund balance metric as a target, rather than an absolute minimum, may have devastating effects on the fiscal health of North Carolina counties. Across the state, the average fund balance amounts maintained by counties (approximately 21%) have been consistent throughout the recent economic downturn. Counties have responded to the current economic downturn by reducing their budgets to avoid depleting fund balance available. Many counties have reduced expenditures through layoffs, furloughs, and service reductions. In addition, counties have raised taxes and fees to maintain their financial stability. Their boards have made the difficult choices to maintain the good fiscal health that North Carolina local governments seek to achieve. We believe that maintaining fund balance at the current average level is the prudent course for counties.

If you or your staff have any additional questions regarding this matter, please feel free to contact Sharon Edmundson with State and Local Government at (919) 807-2381. Media concerns should be directed to our media line at (919) 807-3132.

Sharon G. Edmundson, CPA
Director, Fiscal Management Section
State and Local Government Finance Division

North C ina Department of State Treasurer
325 N. Salisbury Street
Raleigh, NC 27603
Phone: (919) 807-2380
Fax: (919) 807-2398
sharon.edmundson@nctreasurer.com
http://www.nctreasurer.com

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