


Appropriated Fund Balance

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Objectives

- Understand types of fund balance.
- Define Appropriated Fund Balance.
- Where does it fit in the budget formula?
- When to appropriate fund balance.
- Determine if there is available fund balance to appropriate.
- Common pitfalls.




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Fund Balance

Fund Balance = Assets - Liabilities

- Nonspendable – inventory, prepaid items.
- Restricted – reserves.
- Committed – generally not used in NYS.
- Assigned – surplus revenues in special revenue funds, amounts set aside by Board other than legal reserves, and Reserve for Encumbrances.
- Unassigned – amount of surplus revenues over expenditures remaining that is not restricted or assigned in the General Fund, or deficit fund balance in all other funds.



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Definition

- To appropriate – to set apart, authorize, or legislate for some specific purpose or use.
 - Specific: Means we need to have a plan; preferably a written plan.

Definition

- Appropriated Fund Balance – The amount of fund balance (assigned, restricted or unassigned) that management desires to legally authorize as a financing source to help fund specific expenditures.
 - Requires legal action by the Board, to authorize the use of fund balance for a specific purpose.
 - Legal action includes the adoption of the budget, or a resolution that formally modifies the budget. There are no other legal means to appropriate fund balance.

Budget Formula and Appropriated Fund Balance

- Appropriations (Cost of Operations)
+ Budgetary Provisions for Other Uses
- Departmental Income
 - State/Federal Aid or Grants
 - Other Non-Property Tax Revenues
 - Appropriated Fund Balance/Reserves
- = Amount to be Levied in Taxes/User Fees

When Should I Appropriate?

1. If you have a written and adopted Fund balance policy that clearly states the amount of fund balance you want to maintain, and you have exceeded the maximum threshold.
2. If you have a legally established reserve, and you are budgeting for the allowable use relating to the purpose originally identified when the reserve was created.

When Should I Appropriate? (cont'd.)

3. If you are unable or unwilling to increase real property taxes or user fees to the required level, or if you are unable or unwilling to reduce the cost of services to be provided, after completing the budget formula and thoroughly researching and estimating all revenue sources and costs.

Note: It is imperative at this point to discuss and thoroughly analyze how many more years this practice can occur until your fund balance will be depleted.

When Should I Appropriate? (cont'd.)

4. If during the year, revenues will not be received in the amount you anticipated, or expenditures are expected to be more than anticipated, and there are not sufficient contingencies to cover the gap.

Note: Formal budget modifications are necessary.

However...Does Fund Balance Exist?

Determining If Fund Balance Exists

- Before you amend the budget to appropriate fund balance due to a revenue shortfall or an unanticipated or increased cost of an expenditure, you must first determine if there is sufficient available fund balance to be appropriated in the first place.
 - If other revenues have also fallen short, or other expenditures have exceeded estimated amounts, you may not have as much fund balance as you think.

Determining If Fund Balance Exists

General Fund (A)	Unreserved FB
Beginning balance of current year -1/1/20XX	\$2,000,000
Plus: Revenues to date - for period- 9/30/20XX	6,500,000
Less: Expenditures to date - for period- 9/30/20XX	6,000,000
Balance to date 9/30/XX	\$2,500,000
Plus: Projected revenues to year end - 12/31/20XX	2,500,000
Less: Projected expenditures to year end -12/31/20XX	4,000,000
Estimated balance end of year - 12/31/20XX	\$1,000,000
Breakdown	
Planned to be Appropriated Next Year	300,000
Reserve for Encumbrances	50,000
Unappropriated	650,000

Determining If Fund Balance Exists

Based on the calculation on the previous slide, the following questions should be addressed:

1. Fund balance is estimated to decrease from \$2M to \$1M... Did we plan for this decrease and was it authorized?
 - a) Do we know what caused fund balance to decrease? And, are we prepared to control it as to prevent a future deficit fund balance?
2. We are planning on appropriating \$300,000 into next year's budget. Is this in line with our fund balance policy?
3. Based on current trends, how much longer do we expect our fund balance to last?
4. How much of our Fund Balance is in cash form?

Determining If Fund Balance Exists

Unassigned Fund Balance Analysis:

Total Unassigned Fund Balance: \$650,000

A200 Cash	300,000	\$300,000
A201 Cash in Time Deposits	200,000	
A210 Petty Cash	100	
A380 Accounts Receivable	50,000	
A391 Due from Other Funds	50,000	
A445 Inventory	49,900	
	650,000	

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Pitfalls

1. Using fund balance to cover budget gaps at the end of the FY without making formal budget modifications. ("It will all work out in the end" is not the proper attitude.)
2. Appropriating nonexistent fund balance in the budget, causing a structurally unbalanced budget. (This is budgeting for a fictitious revenue.)

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Pitfalls (cont'd.)

3. Consistently budgeting for appropriated fund balance, and experiencing budget surpluses. (Can be a sign of over taxation, poor budgeting practices, not having formal plans.)
4. Consistently appropriating fund balance to comply with tax cap or to keep taxes low, causing excessive tax increases in a subsequent year. (When you run out of fund balance, rates generally have to increase exponentially.)

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Pitfalls (cont'd.)

5. Budgeting for negative Appropriated Fund Balance. This is caused by Appropriated Fund Balance being used as a “plug” for a budget that anticipates a surplus. There are options to properly budget for surpluses:

- a) Funding a Reserve (962 Budgetary Provisions for Other Uses)
- b) Budgeting for Contingencies where allowed by law (1990.4)
- c) Transfer to another fund within the same tax base
- d) Increase budgeted Appropriations for a one time expenditure
- e) Use account code 990 Unappropriated Revenues
- a) **CAUTION!!** Using 990 should only be used in conjunction with a written Fund Balance Policy. Any attempt to build fund balance without a written plan can be seen as excessive.

Avoiding Pitfalls

- Adopt a written Fund Balance Policy.
- Adopt a written multi-year financial and capital plan.
- Review and discuss monthly financial reports including budget status reports.
- Obtain training to become educated on proper budgeting techniques.

Questions?

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