A blue and black background with white text

Description automatically generatedA blue sky with clouds

Description automatically generated

**Sample Fund Balance Policy**

**Overview**: The School of Government recommends that all local governments adopt a fund balance policy to establish the minimum amount of unrestricted fund balance that will be maintained in the general fund. The use of this model policy does not result in an attorney-client relationship with the School of Government.

This policy must be modified to meet each jurisdiction’s goals and objectives. This model policy focuses on the fund balance for a local government’s general fund. Local governments may want to consider the financial resources available in other funds when assessing the adequacy of unrestricted fund balance in the general fund.

**Establishing Appropriate Fund Balance Level:** The question of what an appropriate level of fund balance is can be difficult to answer. There is no statutorily required minimum level of fund balance that local governments must maintain.[[1]](#footnote-2) Each local government should consider its unique circumstances and factors such as population size, risk tolerance, planned projects, budget practices, and volatility of revenue and expenditures when establishing the appropriate minimum level of unrestricted fund balance for the general fund (or other budgeted funds).

Each year the Local Government Commission reviews the financial statements of cities and counties to determine the average fund balance amounts. As a benchmark, the LGC historically considered population size and the presence/absence of an electrical system. However, the LGC has recently moved away from the population as the key benchmark, and it now looks to the percentage of expenditures within the general fund as a means to determine an average fund balance level.[[2]](#footnote-3)

Please email Rebecca Badgett with questions: [rbadgett@sog.unc.edu](mailto:rbadgett@sog.unc.edu)

Local Government Commission Report

Fund Balance Available

Based on Fiscal Year 2021 Data Available as of 10/24/2022[[3]](#footnote-4)

|  |  |  |
| --- | --- | --- |
| **Average Fund Balance Available for Counties** | | |
| General Fund Expenditures | Average Fund Balance Available | Average FBA as a Percentage of Average Expenditures |
| **Statewide** | **$58,033,211** | **43.33%** |
| $100,000,000 and above | $128,417,721 | 43.43% |
| $99,999,999 and below | $21,165,134 | 43.02% |

|  |  |  |
| --- | --- | --- |
| **Average Fund Balance Available for Municipalities** | | |
| General Fund Expenditures | Average Fund Balance Available | Average FBA as a Percentage of Average Expenditures |
| **Municipalities with Electrical Systems** | | |
| **All With Electrical** | **$9,951,817** | **50.20%** |
| $10,000,000 and above | $18,576,524 | 48.81% |
| $1,000,000 to $9,999,999 | $2,624,130 | 63.81% |
| $100,000 to $999,999 | $391,197 | 103.40% |
| $99,999 and below | $0 | 0.00% |
| **Municipalities without Electrical Systems** | | |
| **All Without Electric** | **$6,394,457** | **63.73%** |
| $10,000,000 and above | $33,798,204 | 56.27% |
| $1,000,000 to $9,999,999 | $3,174,166 | 91.97% |
| $100,000 to $999,999 | $868,838 | 202.76% |
| $99,999 and below | $224,773 | 405.02% |

\*The Local Government Commission data has been provided for illustrative purposes only. Some local governments may need to maintain a lower or higher percentage of unrestricted fund balance than the average.

**Fund Balance Policy**

1. **Purpose & Objectives**

Maintaining appropriate levels of fund balance is a key element of ensuring the [LOCAL GOVERNMENT’S] overall financial health.  This policy is intended to establish a minimum target for the desired level of unrestricted fund balance, identify the approach to maintain these levels, and provide guidelines for the use of fund balance**.** An adequate fund balance level is necessary to support the following objectives:

* To ensure adequate cash flow to meet current and future obligations;
* To help insulate the [UNIT] from negative financial impacts resulting from unexpected revenue reductions;
* To help secure and maintain the highest credit and bond ratings; and
* To plan for contingencies and allow the [UNIT] to respond to unforeseen emergencies.

1. **Fund Balance Level**

The [UNIT] shall maintain a minimum unrestricted fund balance of at least \_\_\_% of General Fund expenditures plus transfers out. This fund balance is intended to be adequate to sustain operational expenses for approximately \_\_\_\_\_ months.

1. **Use of Excess Fund Balance**

Excess fund balance will be considered as a funding source for capital projects funded with pay-as-you-go capital appropriated in the annual budget process. Appropriations outside the annual budget ordinance will generally be limited to:

1. Prudent supplemental funding for existing capital projects that require additional financial resources before the next fiscal year in order to fund unanticipated costs.
2. Interim partial-year funding for new programs that are needed before the next fiscal year.
3. Expenditures to support or facilitate projects that generate new revenues or cost savings in excess of the investments within established time frames.
4. **Maintenance and Replenishment of Fund Balance**

If at the fiscal year-end, the available fund balance in the general fund falls below the minimum level, the Finance Officer shall develop a plan to restore reserves to the minimum level and submit the plan to the governing board. To improve upon fund balance, the [county/city/town] shall consider:

* Reevaluating revenue estimates and prioritizing higher tax collection rates;
* Exercising increased oversight of expenditures, including an evaluation of the preaudit and disbursement processes; and
* Adopting or increasing a contingency appropriation for the general fund.[[4]](#footnote-5)

1. Unrestricted fund balance is comprised of committed, assigned, and unassigned funds. It does not include restricted or non-spendable funds. [↑](#footnote-ref-2)
2. See the NC Department of State Treasurer’s memorandum on the Management of Cash and Taxes and Fund Balance Available for more information on the LGC’s approach to analyzing fund balance. [Memorandum # 2022-04](https://www.nctreasurer.com/documents/files/slgfd/memos/management-cash-and-taxes-and-fund-balance-available-municipalities-fiscal-year-ended-june-30-2020/download) (revised August 26, 2021). [↑](#footnote-ref-3)
3. The North Carolina Department of State Treasurer publishes updated reports on fund balance available for counties and municipalities on the Financial Analysis Tools and Reports webpage available here: [Financial Analysis Tools and Reports | NC Treasurer](https://www.nctreasurer.com/divisions/state-and-local-government-finance/lgc/financial-analysis-tools-and-reports) (last visited 11/14/2023). [↑](#footnote-ref-4)
4. Contingency appropriations may not exceed 5% of the total appropriations in the same fund. [↑](#footnote-ref-5)