



ULSTER COUNTY FUND BALANCE REPORT

Office of the
Ulster County Comptroller
March S. Gallagher



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What is Fund Balance?

Fund Balance describes the “net position of governmental funds” and is intended to serve as a measure of the financial resources available in the fund.¹ To simplify, fund balance is the difference between assets and liabilities plus deferred inflows or outflows in a governmental fund. The annual change in fund balance for each fund is determined by the amount of surplus (revenues exceeding expenditures) or the amount of deficit (expenditures exceeding revenues) for that fund for the year.

So essentially, Fund Balance represents the *resources* of a fund. Resources in a fund other than the General Fund, are either (1) required to be used for the purpose of the fund or (2) intended by the government to be used for that purpose. According to GASB:

Fund balance is required to be reported in two components—reserved and unreserved. When fund balance is *reserved*, it either means that the resources are in a form that cannot be appropriated and spent (such as inventory) or that the resources are legally limited to being used for a particular purpose. For instance, grant monies from the federal government that may be used only for building schools would be reported as reserved fund balance in the general fund or a broad capital projects fund. Governments also tend to report the nonexpendable portion of their permanent funds—the resources that can be invested but not spent—as reserved fund balance.

The portion of fund balance that is not reserved is fittingly called *unreserved* fund balance. It represents resources that can be used for any purpose of the fund they are reported in. Unreserved fund balance in a debt service fund can be used to repay any outstanding debt. Unreserved fund balance in the general fund can be used for any purpose at all.²

Fund Balance Policy

Most municipalities have established a Fund Balance Policy to address the amount of Fund Balance that can or should be maintained for future use. Because Fund Balance has many classifications and is a complex concept, it is important to be specific when defining what portions of Fund Balance should be used in the calculation. Additionally, the effect of the current year’s operations and the impact of budgeted amounts should be carefully considered to ensure that the policy addresses the needs of the organization without compromising the financial efficiency

¹ The Comptroller’s Office uses the Government Finance Officers Association (GFOA) definition of fund balance available at <https://www.gfoa.org/fund-balance-guidelines-general-fund>

²https://www.gasb.org/cs/ContentServer?cid=1176156737123&d=Touch&pagename=GASB%2FGASBContent_C%2FUsersArticlePage

of the County and stockpiling unneeded funds. The Policy must carefully consider the potential needs of the County, while protecting the taxpayer interest.

GFOA best practices recommend two months general fund operating revenues or expenditures and the NYS Comptroller's Office declines to state a threshold, because they feel municipalities must weigh specific factors like the size of the municipality and the relative variability of revenues and expenditures.

Ulster County's Fund Balance Policy was established in 2013 with the adoption of Resolution 36 by County Legislature. The resolution designates 5-10% of the current operating annual expenditures as the desired level of **unrestricted fund balance**. While the current policy does establish a general guideline for fund balance the County can carry, the policy fails to address several important factors.

We suggest that the County re-evaluate the Fund Balance Policy, considering the following factors:

- The Fund Balance Policy should clarify exactly how the Fund Balance is calculated, which type of funds are included and the classification of those funds (i.e. assigned and unassigned).
- The Policy does not address a remedy for carrying balances above the upper 10% limit and how those surplus balances should be applied (such as a real property tax cut).
- The Policy should be updated to address best practices by GFOA by clearly defining the conditions warranting Fund Balance use. Currently the Policy does not restrict the use of Fund Balance to specific uses. Office of State Comptroller recommends the uses one shot expenditures, reducing debt principal, financing reserve funds or reducing property taxes.
- The Policy should clearly outline how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge.
- The current Policy states that levels below 5% should be replenished within the succeeding year. GFOA best practice suggests 1 to 3 years to replenish amounts below policy limits.
- The Policy does not address whether the 5-10% threshold should be applied to each specific fund (including the Special Grant, County Road, Road Machinery and Debt Service Funds), each classification of fund, or to all County Funds as a whole.

Fund Balance in Ulster County

In 2020, the County's Adopted Budget included planned fund balance and reserve usage of \$13.2 million. Actual results, however, show that the County enjoyed a net surplus (and increase in fund balance) across governmental funds by \$11.6 million for 2020, leaving the County with a \$73.4 million-dollar balance at year end. This resulted in a delta between actual and budgeted amounts by a total of \$24.8 million.

The following shows fund balance changes based on 2020 actual revenues and expenditures:

Fund	Total Revenues	-	Total Expenditures	=	Net Surplus (Deficit)	+	Beginning Fund Balance	=	Ending Fund Balance
General Fund	\$ 279,862,997		\$ 268,731,808		\$11,131,189		\$ 50,563,158		\$ 61,694,347
Special Grant Fund	2,050,924		1,958,280		92,643		231,794		324,437
County Road Fund	14,882,011		13,371,550		1,510,461		3,371,969		4,882,430
Road Machinery Fund	3,266,315		3,180,647		85,668		3,205,538		3,291,206
Debt Service Fund	13,069,457		14,289,080		(1,219,622)		4,402,371		3,182,749
Total Governmental Funds	\$ 313,131,705		\$ 301,531,365		\$11,600,339		\$ 61,774,830		\$ 73,375,169

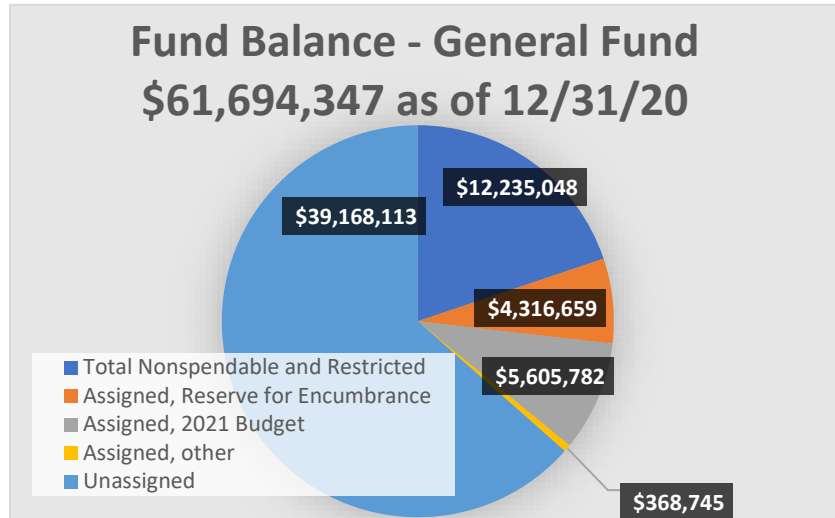
Comparatively, in 2019 the adopted budget included appropriations of \$9.1 million, but the actual deficit for the year was \$7.2 million, meaning the county used about \$1.9 million less than anticipated. The 2018 adopted budget appropriated fund balance and reserves of \$13.0 million but actual results returned a \$5.5 million surplus, so no fund balance was used, and instead a net surplus was enjoyed.

Over the last ten years, the County's Total General fund balance increased \$16.2 million. In 2011, the total fund balance in the County's General Fund was \$45.5 million, while budgeted General Fund expenditures in 2012 were \$294.2 million. At the end of 2020, the total fund balance in the County's General Fund was \$61.7 million, while the 2021 adopted budget included General Fund appropriations of \$291.6 million. Thus, while the County's total General Fund operating budget has seen a slight reduction over the ten-year period, the fund balance has seen a significant increase both in total and available in proportion to budgeted spending.

Fund Balance Classifications

It is important to note not all fund balance is available to offset spending in future years. Restricted and non-spendable fund balance, such as inventories and pre-paid items, are not available for budgeting purposes, except for restricted balances to the funds specific use.

Most of the County’s fund balance is within the General Fund. Going into 2021 we had a total fund balance of \$61.7 million in the General Fund. Total fund balance in the General Fund is broken down into classifications. There was \$12.2 million considered non-spendable or restricted such as inventories and pre-paid items, the 2021 budget



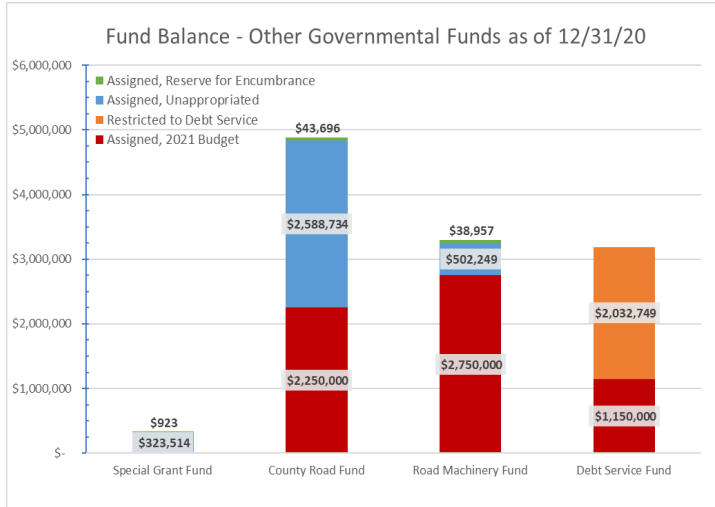
appropriated the use of \$5.6 million in the General Fund during the year, other assignments in the General Fund balance were \$4.3 million, leaving \$39.2 unassigned General Fund balance available for future years, without considering the amount of surplus or deficit difference at the close of 2021.

To clarify, the analysis and budgetary decisions regarding future fund balance must consider several factors, including the results of operations in current, prior and future periods. While the County may anticipate a need to use fund balance amounts, they could use more than expected (decreasing fund balance further) or not use the full amount as expected or achieve a surplus (increasing fund balance amounts) at year end.

Over the last decade, the County has budgeted to use \$11.9 million on average, per year. The

Year Ending	General Fund Balance Appropriated	Actual Surplus/ (Deficit)	Budget to Actual Difference
2012	10,850,000	\$ 181,911	\$11,031,911
2013	10,000,000	17,119,416	27,119,416
2014	13,200,000	(4,387,507)	8,812,493
2015	18,965,400	(4,077,364)	14,888,036
2016	15,623,624	4,884,028	20,507,652
2017	15,344,341	(3,373,329)	11,971,012
2018	11,946,784	2,188,768	14,135,552
2019	7,082,711	(7,426,850)	(344,139)
2020	9,717,742	11,131,189	20,848,931

actual results of operations, however, yielded an average surplus of almost \$2 million. Therefore, the difference between budgeted fund balance usage and the actual outcome differed by an average of \$14 million dollars annually, as a net increase to Fund Balance. So, while the County has budgeted to use almost \$113 million in General Fund Balance since 2012, we have instead increased the General Fund Balance by over \$16 million, over that same time period.



The amount of fund balance available for appropriation in governmental funds including Special Grant, County Road, Road Machinery and Debt Service Funds includes all amounts that are assigned, unassigned and debt service restricted balances that can only be used for that purpose, as these amounts are available for appropriation during the budget process. The 2021 budget appropriations are in red.

Based on the GFOA best practice that recommends two months general fund operating revenues or expenditures, it might be helpful to analyze fund balance as a percentage of operating expenditures. If we consider that 2 out of a 12-month calendar year would represent approximately 16%, and the current Policy states 10% upper threshold, the County is currently just below 19% across all governmental funds.

The following chart displays the year-end Fund Balance available for appropriation as a percentage of the 2021 Adopted Budget expenditures:

Fund	Current Policy		Current Policy		DOF Practice	DOF Practice
	Unrestricted Fund Balance Available for Appropriation*	2021 Budgeted Expenditures	Unrestricted % of Current Operating Expenditures	Fund Balance Appropriated in 2021 Budget	Unappropriated Fund Balance	Unappropriated as % of 2021 Expenditures
General Fund	\$ 49,459,299	\$ 291,603,951	16.96%	\$ 5,605,782	\$ 39,168,113	13.43%
Special Grant Fund	324,437	2,081,040	15.59%	-	323,514	15.55%
County Road Fund	4,882,430	14,601,017	33.44%	2,250,000	2,588,734	17.73%
Road Machinery Fund	3,291,206	3,444,400	95.55%	2,750,000	502,249	14.58%
Debt Service Fund	3,182,749	13,145,698	24.21%	1,150,000	2,032,749	15.46%
Total Governmental Funds	\$ 61,140,121	\$ 324,876,106	18.82%	\$ 11,755,782	\$ 44,615,359	13.73%

* Based on financial system data for 12.31.2020 accessed on 5.10.2021

While these amounts are all **higher than** the policy threshold, the 2021 adopted budget appropriated \$11.8 million of the amounts available. Considering the Unrestricted Fund Balance as a percent of operating expenditures in each fund as well as in aggregate were above 10% at the close of 2020, **the County was not in compliance with its own Fund Balance Policy.**

Many municipalities calculate the Fund Balance ratio using only the Unassigned Fund Balance, which excludes any amounts budgeted for use in the current year.

		Current Policy	Current Policy	DOF Practice	DOF Practice
Year Ending	General Fund Total Fund Balance	General Fund Unrestricted Fund Balance	Unrestricted % of Subsequent Operating Expenditures	General Fund Unassigned Fund Balance	Unassigned % of Subsequent Operating Expenditures
2011	\$ 45,454,085	35,131,615	11.94%	17,483,296	5.94%
2012	\$ 45,635,996	35,630,299	12.29%	20,186,316	6.96%
2013	\$ 62,755,412	54,328,539	19.09%	35,634,611	12.52%
2014	\$ 58,367,905	50,468,585	17.50%	27,822,963	9.65%
2015	\$ 54,290,541	41,151,888	14.47%	21,005,861	7.39%
2016	\$ 59,174,569	45,936,764	16.18%	25,500,073	8.98%
2017	\$ 55,801,240	42,586,749	15.04%	27,001,859	9.54%
2018	\$ 57,990,008	44,520,409	15.53%	34,454,035	12.02%
2019	\$ 50,563,158	36,873,661	12.36%	24,053,917	8.06%
2020	\$ 61,694,347	49,459,299	16.96%	39,168,113	13.43%

Looking at the prior ten years, the Fund Balance calculated as defined by existing policy differs from interpretation of the Department of Finance. While the language in the current policy states that the Fund balance should be calculated based on the “Unrestricted Fund Balance,” GASB and many municipalities instead use the Unassigned balance, as it would account for amounts budget for use in the current year’s budget. Since 2013, the County has not complied with its own policy (as currently stated), as unrestricted fund balances available in the General Fund were above the 10% threshold noted in the policy every year.

Other considerations when analyzing Fund Balance percentages

There are multiple ways to alter Fund Balance as a percentage of operating revenues if the Policy is unclear as to what aspects of Fund Balance are utilized in the calculation. The current Policy states “unrestricted fund balance,” which means **all** assigned and unassigned amounts, it does not exclude the amounts we appropriate in the subsequent year budget. That amount is considered “assigned” as well, therefore according to the definition of unrestricted as used in the Policy it should be included in the calculation of operating expenditures. If the Policy is changed to state unassigned then the budgeting process can be used to appropriate more fund balance in the subsequent year to fall within policy limits. Based on historical trends the likelihood of actually using that fund balance in the following year is relatively low.