

Report on Fund Balance: FY 16 Year-End

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**Report Developed by the City of Greenville
City Manager's Office and Financial Services Department
November 10, 2016**



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SECTION I – Report Purpose

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, 2016; and City financial policies relative to fund balance. It should be recognized that the data provided depicts fund balance levels reflected in the most recent audited financial statements (June 30, 2016).

SECTION II – Fund Balance Classifications and Descriptions

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.

Loan Receivable: a portion of fund balance which has been paid out to borrowers and is, therefore, not a spendable resource.

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.

Restricted for debt service: portion of fund balance that is restricted for debt service.

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 general government: portion of fund balance committed by the City Council in its financial policy guidelines for general government purposes.

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. The governing body approves the appropriation; however, the budget ordinance authorizes the Manager to modify the appropriations by resource or appropriations in certain circumstances.

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 16 Fund Balance Details

The excerpt below from the City of Greenville’s FY 2016 financial statements depicts that at the end of FY 16, the General Fund’s fund balance was \$32.4 million and the fund balance for Non-major Governmental Funds was \$10.9 million. Adding these two fund balances together results in a fund balance for Total Governmental Funds of \$43.3 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 FY 16 Financial Statements

City of Greenville, North Carolina			Exhibit C
Balance Sheet - Governmental Funds			
June 30, 2016			
		Non-Major	Total
		Governmental	Governmental
	<u>General</u>	<u>Funds</u>	<u>Funds</u>
Fund Balances			
Nonspendable			
Prepaid items and inventories	39,744	79,204	118,948
Loan Receivable	14,700	301,864	316,564
Spendable			-
Restricted:			-
Stabilization by State Statute	7,490,434	831,589	8,322,023
Restricted for general government	104,713	-	104,713
Restricted for streets	1,717,351	-	1,717,351
Restricted for public safety	858,094	-	858,094
Restricted for economic development	-	4,176,469	4,176,469
Restricted for culture and recreation	-	117,383	117,383
Restricted for debt service	-	109,616	109,616
Committed:			
Committed for catastrophic losses	2,276,781	-	2,276,781
Committed for general government	-	793,076	793,076
Committed for culture and recreation		256,093	256,093
Committed for public safety		73,003	73,003
Committed for economic development		1,807,433	1,807,433
Committed for capital outlay		2,097,475	2,097,475
Committed for debt service		145,678	145,678
Assigned:			-
Assigned for subsequent years expenditures	1,795,994	19,736	1,815,730
Assigned for culture and recreation	-	598,668	598,668
Unassigned	18,144,300	(531,570)	17,612,730
Total fund balance	32,442,111	10,875,717	43,317,828

General Fund – FY 16 Year-End Fund Balance Details

	Amount	Description
Nonspendable:		
Prepaid items and inventories	\$39,744	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.
Loans receivable	\$14,700	Portion of fund balance which has been paid out to borrowers and is, therefore, not a spendable resource.
Restricted:		
Stabilization by State Statute	\$7,490,434	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.
Restricted for general government	\$104,713	Portion of fund balance that is restricted by revenue source for Energy Savings Equipment.
Restricted for streets	\$1,717,351	Powell Bill funds - use restricted by source
Restricted for public safety	\$858,094	Federal Forfeiture and Controlled Substance funds - use restricted by source
Committed:		
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>
Assigned:		
Assigned for subsequent years expenditures	\$1,795,994	These funds were budgeted for expenditure in the FY 16 budget (as Appropriated Fund Balance). Some of these funds have already been expended and it is expected that all will spent within the next 12-months.

Unassigned:	\$18,144,300	This is the portion of the fund balance that has not been restricted, committed or assigned to specific purposes.
TOTAL GENERAL FUND BALANCE	\$32,442,111	

Non-major Governmental Funds – FY 16 Year-End Fund Balance Details

	Amount	Description
Nonspendable:		
Prepaid items and inventories	\$79,204	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.
Loans receivable	301,864	Portion of fund balance which has been paid out to borrowers and is, therefore, not a spendable resource.
Restricted:		
Stabilization by State Statute	\$831,589	Portion of fund balance which is not available for appropriation under State law [G.S. 159-8(a)]
Restricted for debt service	\$109,616	Debt Service restricted for the Special Obligation Revenue bond.
Restricted for economic development	\$4,176,469	<p>Community Development Fund - \$177,818</p> <p>Housing Trust - \$29,346</p> <p>Centralized Grant Fund - \$361,174</p> <p>Recreation and Parks Capital Projects - \$1,376,938 (Projects include: Play Together Construction and South Greenville Reconstruction)</p> <p>Public Works Capital Projects - \$2,177,760 (Projects include: Street Improvements, CVA Expansion Phase III, GTAC, King George Bridge, Stantonsburg Rd./ 10th Street Connector, Thomas Langston, Energy Efficiency Recovery Grant, Energy Savings, Pedestrian Crossing)</p>

		Community Development Capital Projects - \$53,433 (Projects include: Uptown Parking, West Greenville Revitalization, Center City Revitalization, Energy Efficiency Revolving Loan)
Restricted for culture and recreation	\$117,383	Sheppard Memorial Library's restricted donations.
Committed:		
Committed for general government	\$793,076	-ERP Capital Project
Committed for culture and recreation	\$256,093	-Greenways Capital Projects
Committed for public safety	\$73,003	-Police Capital Project Fund (Projects include: New Technology for Public Safety and Police Storage Facility Project)
Committed for economic development	\$1,807,433	-Affordable Housing revolving funds to be used for additional affordable home construction and affordable housing loans and projects. - \$423,810 -Recreation and Parks Capital Project Fund - \$583,451 (Projects include: Play Together Construction and South Greenville Reconstruction) - Public Works Capital Project Fund - \$556,903 (Projects include: Street Improvements, CVA Expansion Phase III, GTAC, King George Bridge, Stantonsburg Rd./ 10th Street Connector, Thomas Langston, Energy Efficiency Recovery Grant, Energy Savings, Pedestrian Crossing) - Community Development Capital Project Fund- \$243,269 (Projects include: Uptown Parking, West Greenville Revitalization, Center City Revitalization, Energy Efficiency Revolving Loan)
Committed for capital outlays	\$2,097,475	Capital Reserve Fund. \$390,487 to be used for an HVAC system at Convention Center; \$1,501,266 for the Dickinson Avenue Project; the remaining funds, approximately \$205k, are reserved for open space land banking and sidewalks.
Committed for debt service	\$145,678	Debt Service Fund
Assigned:		
Assigned for subsequent years expenditures	\$19,736	Sheppard Memorial Library's appropriated fund balance approved for the FY 2017 budget.

Assigned for culture and recreation	\$598,668	Sheppard Memorial Library's fund balance.
Unassigned:	\$(531,570)	
TOTAL NON-MAJOR GOVERNMENTAL FUNDS - FUND BALANCE	\$10,875,717	

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.

As of June 30, 2016, this policy has the effect of the City retaining approximately three months of annual expenditures unassigned, meaning that three months of operating funds are available and not designated for other purposes.

The Unassigned General Fund balance as of the close of FY 16 was \$18,144,300, or \$7,078,822 above the 14% policy amount of \$11,065,478 which was calculated as follows:

Total Original FY 17 General Fund Budget less Powell Bill x 14%

\$79,039,132 x 14% = \$11,065,478

It should be recognized that of the \$7,078,822 above the 14% policy, almost half (\$2,332,231) has been allocated by budget amendments approved by City Council through November of FY 16. This would leave \$4,746,591 available, above the 14% policy threshold for allocation.

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, is used to cover claims in excess of budget and stop-loss insurance coverage. The specific amount in this fund at the end of FY 16 was the same as the previous year-end, \$2,276,781.