



# State of North Carolina

## Department of State Treasurer

RICHARD H. MOORE  
TREASURER

*State and Local Government Finance Division  
and the Local Government Commission*

JANICE T. BURKE  
DEPUTY TREASURER

Memorandum #989

March 14, 2003

TO: Officials of Cities and Counties and Certified Public Accountants

FROM: T. Vance Holloman, Director  
Fiscal Management Section

SUBJECT: Fund Balance Available for Appropriation

Each year the staff of the Local Government Commission analyses the financial statements of cities and counties to determine the amount of fund balance available for appropriation in the General Fund, and the amount of fund balance available for appropriation as a percentage of prior year expenditures. These numbers are significant because the property tax is a major source of revenue in the General Fund. The majority of property tax revenues are received in the latter months of the calendar year. Therefore, there should be reserves on hand in the form of fund balance available for appropriation at June 30th to prevent the unit from experiencing cash flow difficulties during the first two quarters of the next fiscal year. The minimum level of fund balance available for appropriation that should be on hand to enable the unit to meet current obligations and to prevent the unit from experiencing cash flow difficulties is 8% of the prior year's expenditures.

In addition to the 8% needed to prevent cash flow difficulties, units also maintain fund balance available for appropriation in the General Fund in case unforeseen needs or opportunities should arise. Fund balance available for appropriation at June 30th is a source that may be budgeted in the following year to address these situations. There is not an established minimum amount that should be in reserve for these purposes. The officials of the individual units should make that determination. The amount of fund balance available for appropriation maintained by a particular unit would be influenced by such factors as the size of the unit, economic conditions within the unit, future capital outlay needs, stability of revenue sources and susceptibility of the unit to natural disasters.

The staff sends letters to units if the amount of fund balance available for appropriation as a percentage of prior year expenditures in the General Fund falls below 8%. The staff also compares the percentage of fund balance available for appropriation to the prior year percentages for similar units. If that percentage is materially below the average of similar units, the staff will send a letter to alert the unit of this fact. Units will be encouraged to evaluate the amounts in reserves and determine if the level is adequate. When reviewing each unit's financial statements for the fiscal year ended June 30, 2002, the amount of revenues withheld by the State were considered when evaluating the financial condition of unit and the need to send a letter to the unit.

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The chart that follows shows the average percentage of fund balance available for appropriation for similarly grouped counties and cities for the fiscal year ended June 30, 2002. We noted that the average available fund balance as a percentage of average expenditures for most categories decreased slightly for counties and more significantly for municipalities from June 30, 2001. In light of the weakened economy and the revenues withheld by the State, local officials did a very good job in managing their finances during the fiscal year. Officials should use these figures to compare their unit to similar units and evaluate the adequacy of their unit's current reserves. If you have any questions please call John Herron at 919-807-2397.

Average Available Fund Balances of North Carolina Counties and Cities  
June 30, 2002

Type of Unit by Size	Number of Units	Average		Average Balance As a Percentage of	
		Average Available Fund Balance	Average 2001-2002 Expenditures	Average 2001-2002 Expenditures	Missing Units
<b>Counties*</b>					
All	99	13,371,087	73,499,686	18.19	1
100,000 or more	23	33,961,876	203,902,951	16.66	
50,000 to 99,999	24	10,718,839	58,384,226	18.36	
25,000 to 49,999	26	7,114,360	31,689,106	22.45	
Under 25,000*	26	3,861,116	13,906,265	27.77	1
<b>Cities - nonelectric*</b>					
All	459	1,680,305	4,646,040	36.17	13
50,000 or more	10	30,007,869	125,653,831	23.88	
10,000 to 49,999	28	4,722,775	13,340,542	35.40	
2,500 to 9,999	108	1,769,046	3,019,536	58.59	
1,000 to 2,499*	104	787,034	1,103,699	71.31	3
500 to 999*	90	426,124	408,745	104.25	2
Under 500*	118	234,609	209,976	111.73	8
<b>Cities - electric</b>					
All	70	3,225,192	9,875,182	32.66	
50,000 or more	6	12,876,459	52,618,921	24.47	
10,000 to 49,999	21	5,293,312	13,327,891	39.72	
2,500 to 9,999	19	1,306,623	3,887,560	33.61	
1,000 to 2,499	11	780,120	1,451,616	53.74	
500 to 999	7	458,484	717,050	63.94	
Under 500	6	121,427	135,453	89.64	

\* This report excludes data from units that have not submitted audited financial statements for the fiscal year ending June 30, 2002. The number of missing units by population group can be found in the missing units column.