

FUND BALANCE: Net Assets of Governmental Funds

Accountants employ the term fund balance to describe the net assets of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of governmental funds calculated on a government's budgetary basis.

Fund Balance (Fund Equity): Governmental funds are, in essence, accounting segregations of financial resources. Expendable assets are assigned to various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they are to be paid. The difference between governmental fund assets and liabilities is referred to as fund balance or fund equity. A negative fund balance is called a deficit.

FUND BALANCE: Excess of Assets over Liabilities

Also called Carry Forward, Balance Forward or Surplus, is the excess of fund assets over its liabilities. For accounting purposes fund balance is calculated as of year-end and is based on the difference between actual revenues and expenditures for the current fiscal year added to or subtracted from the fund balance at the beginning of the year.

A fund balance is created when the District has money left over at the end of its fiscal year from either under spending the budget or taking in additional revenue. Appropriated fund balance is applied as revenues to the district's following year budget.

FUND BALANCE: Measure of Financial Resources

Fund Balance is intended to serve as a measure of the financial resources available in a general fund. It is essential the District maintains an adequate level of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure the District has sufficient cash to pay current liabilities. Fund balance levels are a crucial consideration, too, in long-term financial planning.

Credit rating agencies monitor levels of unrestricted fund balances of a district to evaluate the district's continued creditworthiness

FUND BALANCE: How much is enough?

The most commonly asked question regarding fund balance is how large should it be? Perhaps the best answer would be: "an amount sufficient that short term borrowing for cash flow could be avoided and would also allow the district to set aside sufficient assets to realize its longer-range goals."

However, this may not always be practical or politically possible. The district leadership must determine the extent it will compromise the future by deciding not to maintain an adequate fund balance.

Oregon State Budget Law prohibits the College from budgeting for and/or operating with a negative or deficit fund balance.

FUND BALANCE: Utilization?

A district with an appropriate fund balance can, avoid excessive short term borrowing thereby avoiding associated interest cost. It can accumulate sufficient assets to make designated purchases or cover unforeseen expenditure needs. It demonstrates financial stability and therefore preserve or enhance its bond rating, thereby lowering debt issuance costs.

Unexpected or unforeseen expenditures are typically those that are one-time or infrequent in nature, such as emergency repairs. Salary and benefit costs are considered on-going expenditures and are of the type that we must continue to fund year after year. Ending fund balance is not a sustainable source of revenue for a district, thus it is generally designed to address the one-time expenditures or revenue shortfalls. Once you draw those reserves down to cover lost revenue or to pay for ongoing expenses, they are gone forever

FUND BALANCE: How Much is Adequate?

In establishing the level of unrestricted fund balance in the general fund, a district should consider its own unique circumstances such.

- The volatility of State funding and enrollment levels.
- The business cycle of revenue receipts vs the business cycle of expenditures.
- The potential drain upon general fund resources from other funds.

Determination of an appropriate fund balance is a critical factor in district financial planning and budgeting processes. During the budget process, fund balance utilization/preservation include consideration of the amount necessary for working cash needs, and the amount needed for expenditures in the next fiscal period (balance forward), recognizing that if used for recurring expenditures, future budget decisions will revolve around finding resources to continue funding these expenditures.

Ok, but how much should RCC maintain as an ending fund balance? Well, that varies depending upon who you ask. First, and foremost, the amount of ending fund balance should be based upon current circumstances. For example, between COVID-19, Wildfires, and CNS, RCC is estimating a 25% decline in tuition and fee revenue for 2020/21. This equates to \$3.5 million. In addition, the decline in FTE for 2020/21 will likely reduce the amount of state support the District will receive beginning in 2021/22 dramatically. Is the revenue shortfall experienced in 2020/21 a one-time event or will we continue to see revenue declines in the future?

The Government Finance Officers Association (GFOA) recommends, at a minimum, that all governments maintain an unreserved (not earmarked for a specific purpose) ending fund balance of no less than five to fifteen percent of its general fund operating revenues, or of no less than two months of regular general fund operating expenditures, regardless of size.

Other factors to consider when establishing an appropriate level of ending fund balance are:

- Cash inflows from operations between July 1 – November 15, is not sufficient to cover our cash outflows. Having an ending fund balance equal to 3-4 months of expenses eliminates our need to borrow just to cover a cash flow deficit.
- Two months of general fund payroll and AP expenditures approximate \$6.4 million which represents 14.8% of our total general fund budget.
- We should consider our ability to predict our revenues and expenditures each year. The more unpredictable our revenues and expenditures are, the more likely we will need to maintain a larger fund balance.
- We should consider anticipated or potential expenditures that may be pending the outcome of other factors the district doesn't control such as, State and Federal legislation that may impact future budgets. This situation may require a district to establish reserves and hold them until such time as they are needed.

An institution with an appropriate ending fund balances amount, has the optimal balance of long-term sustainability, short-term flexibility, and current service level allowing the institution to remain financial healthy.