

Explanation of Fund Balance

Governmental funds report the difference between their assets and liabilities as *fund balance*. Under Generally Accepted Accounting Principles (GAAP) fund balance is divided into reserved and unreserved portions. The *reserved fund balance* isolates the portion of fund balance that is not available for appropriation to the next budget. Under GAAP the *unreserved fund balance* can be further divided into designated and undesignated portions with the *designated fund balance* representing intended uses of fund balance. Designating the use of fund balance is a powerful tool in prudent fiscal planning, allowing governments to manage their future fiscal health. *Unreserved/undesignated fund balance* is fully available for appropriation and, under the Code of Public Local Laws of Carroll County Article 7, 3-62(19), must be appropriated to the next budget following the completion of an independent financial audit of those funds.

The reservation of fund balance is necessary for two reasons:

- *Resource not available for spending.* Some of the assets reported in governmental funds are not available for spending in the subsequent year's budget. For example, a long-term loan receivable is not available for current spending.
- *Legal restrictions on spending.* Fund balance also is reserved to indicate situations where a portion of fund balance is not available for new spending because of legal restrictions involving parties outside the financial reporting entity. A common example is funds reserved for encumbrances.

The designation of funds is a fiscal tool used to ensure the County's fiscal stability. Some examples of designations include:

- *Stabilization Fund.* The County maintains a stabilization fund of 3% of budget to provide a reserve against certain specified conditions including a natural disaster or a sudden and unexpected drop in revenues.
- *Medical Claims Reserve.* The County is self-insured for medical and hospitalization costs and maintains a reserve against a short-term rise in claims experience.

Projected Fund Balance

Projected for 6/30/04
as of 5/31/04

Beginning Fund Balance	\$50,574,431
Revenues ¹	245,096,223
Expenditures ²	(249,414,212)
Projected Ending Fund Balance	\$46,256,442

Reserved Funds

Loans to Carroll County General Hospital	\$227,800
Loans to Volunteer Fire Companies	8,514,517
Encumbrances	600,000
Inventory	888,500
Loans to Municipalities	357,849
Loans for Economic Development	4,718,570
Advances to Industrial Development Authority	2,480,030
Total Funds Reserved	\$17,787,265

Unreserved/Designated Funds

Stabilization Fund	\$7,900,000
Subsequent Years' Expenditure of Undesignated/Unreserved Fund Balance ³	5,867,480
Lien Certificates	15,000
Workers Compensation Claims Reserve	400,000
Vehicle Replacement Reserve	500,000
Ag Center Loan	200,000
Short-Term Reserve	5,250,000
Medical Claims Reserve	1,400,000
Total Funds Unreserved But Designated	\$21,532,480

Projected Ending Fund Balance	\$46,256,442
Reserved Fund Balance	17,787,265
Unreserved/Designated Fund Balance	21,532,480
Unreserved/Undesignated Fund Balance	\$6,936,697

¹ \$9,556,782 of FY 04 expenditures were funded by the planned use of FY 02 undesignated/unreserved fund balance.

² The County provides funding and administers the Length of Service Award Program (LOSAP) for the Volunteer Emergency Services Association. In FY 04, the County transferred \$7,000,000, held for future payments to the LOSAP program, from the fund balance to an account called the LOSAP Pension Trust Fund. This change allows the funds to be invested and the return on these investments will fund current expenses with the goal of the program supporting itself. This transfer of funds increased FY 04 expenditures by \$7,000,000.

³ \$2,529,340 is planned use of FY 04 undesignated/unreserved fund balance for FY 05 expenditures. \$2,000,000 is designated for Economic Development. \$529,340 is for the Board of Education funded by revenues received in FY 04 from their FY 03 surplus. \$3,338,140 is planned use of FY 03 undesignated/unreserved fund balance for FY 05.