

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 6/30/05
as of 5/31/05

Beginning Fund Balance	\$52,503,163
Revenues ¹	284,454,020
Expenditures	(259,154,020)
Projected Ending Fund Balance	\$77,803,163
Reserved Funds	
Loans to Carroll County General Hospital	\$156,372
Loans to Volunteer Fire Companies	10,012,379
Encumbrances	900,000
Inventory	911,396
Loans to Municipalities	325,752
Loans for Economic Development	4,289,398
Advances to Industrial Development Authority	2,425,305
Ag Preservation IPA Payables	3,206,864
Total Funds Reserved	\$22,227,466
Unreserved/Designated Funds	
Stabilization Fund	\$9,500,000
Subsequent Years' Expenditure of Undesignated/Unreserved Fund Balance	12,597,900
FY 05 Fund Balance Apopropriated for FY 06	10,000,000
Lien Certificates	15,000
Workers Compensation Claims Reserve	400,000
Vehicle Replacement Reserve	500,000
Ag Center Loan	50,000
Short-Term Reserve	5,250,000
Medical Claims Reserve	1,400,000
Loan to Lineboro Fire Company	900,000
Loan to Warfield Development	1,097,680
Total Funds Unreserved But Designated	\$41,710,580
Projected Ending Fund Balance	\$77,803,163
Reserved Fund Balance	22,227,466
Unreserved/Designated Fund Balance	41,710,580
Unreserved/Undesignated Fund Balance	\$13,865,117

¹ \$5,338,140 of FY 05 expenditures were funded by the planned use of FY 03 undesignated/unreserved fund balance.