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# Funds, Fund Balance, and Budgeting Concepts

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# The City's Funds and Fund Balance



# What is a fund?

In the private sector, sometimes separate companies are set up for legal liability purposes, or tax purposes; in the public sector, separate activities are accounted for in separate funds, in order to show accountability.

- A specific revenue may be legally restricted, so it is reported in a separate fund to demonstrate that the revenue was spent only for the intended purpose;
- Any unspent amounts (in governmental funds) will then be reported as “restricted, committed, or assigned.”



# What is the “General Fund?”

Individual funds are created because of laws, grant requirements, or the desires of the governing body;

All activity that has not been assigned to a specific individual fund is then accounted for in the General Fund.

- As a result, most people find the General Fund to be the most important fund. That is the fund that contains uncommitted resources that may be used for general purposes.





# Types of funds

## Different fund types and funds that the City has:

Governmental Funds	<ul style="list-style-type: none"><li>• General fund</li><li>• Special revenue funds – Major Streets Fund, Local Streets Fund, Police Fund, Fire Fund, Rubbish Collection, Senior Activity, Building Department, Drug Law Enforcement, Police and Fire Sculpture, Police K-9 Unit, Veterana’s Memorial Park, Cancer Survivor Park, Youth League, Opioid Settlement</li><li>• Debt Service Funds – Major Street Construction DS, Building Authority DS, Amy Street DS, Maplewood Meadows DS</li><li>• Capital Project funds – Capital Improvement, Amy Streets Capital, Fire Capital, Maplewood Meadows Capital</li></ul>
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# Types of funds

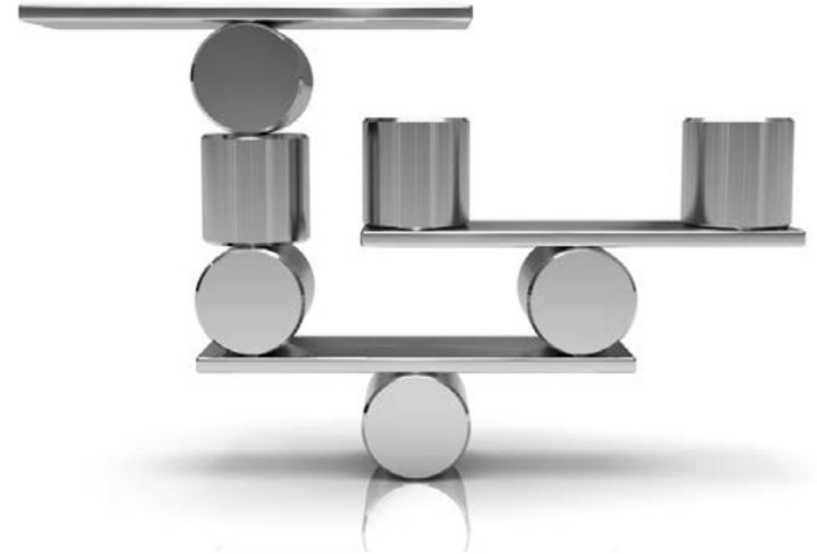
Different fund types and funds that the City has:

Proprietary Funds	<ul style="list-style-type: none"><li>• Enterprise funds – Sewer Fund, Water Fund</li><li>• Internal Service Funds – Motor Pool, Self-Insurance Health Care, Technology</li></ul>
Fiduciary Funds	<ul style="list-style-type: none"><li>• Trust Fund – Retiree Health Care Fund</li><li>• Custodial funds – Current Tax Fund, Delinquent PPT Fund</li></ul>
Component Units	<ul style="list-style-type: none"><li>• DDA, EDC</li></ul>



# What is fund balance?

- The difference between assets (the things we own) and liabilities (the things we owe) is equity. In the governmental funds, this equity is called fund balance.
- Since governmental funds generally report only assets that are available (cash or will be cash within 30-60 days), and only report liabilities that are current claims, the resulting fund balance represents amounts available to be spent.





# Is fund balance available to be spent as our governing body sees fit?

Maybe – but not necessarily

- Fund balance is reported based on how constrained it is; the categories are:
  - Nonspendable (not in spendable form)
    - Assets held for resale, Inventory and Prepays
  - Restricted (external legal restrictions)
    - Roads, Police and Fire, Debt Service, Senior activities, Rubbish, Parks, Youth League and Opioid
  - Committed (internally – by formal action) – Building Dept
  - Assigned (internally; less formally) – Subsequent year's budget, capital projects, debt service, police and fire
  - Unassigned – Reported only in the General fund

The governing body always has the authority to re-commit or re-assign fund balances.





# City Fund balance/Net position constraints

## Governmental Funds total:

Fund Balances						
Nonspendable:						
Assets held for resale	122,716	-	-	-	-	122,716
Prepays	399,465	9,045	1,432	54,284	346	464,572
Inventory	-	-	6,556	-	-	6,556
Restricted:						
Roads	-	8,900,510	-	-	4,024,677	12,925,187
Police and fire	-	-	-	-	90,169	90,169
Debt service	-	-	-	-	1,758	1,758
Senior activities	-	-	-	-	523,431	523,431
Rubbish	-	-	-	-	147,474	147,474
Parks	-	-	-	-	7,273	7,273
Youth league	-	-	-	-	9,385	9,385
Opioid settlement	-	-	-	-	11,596	11,596
Committed - Building department	-	-	-	-	1,150,166	1,150,166
Assigned:						
Subsequent year's budget	752,931	-	-	-	-	752,931
Capital projects	-	-	-	-	202,316	202,316
Debt service	-	-	-	-	3,644	3,644
Police	-	-	1,357,667	-	-	1,357,667
Fire	-	-	-	744,544	-	744,544
Unassigned (deficit)	3,165,974	-	-	-	(347,304)	2,818,670
<b>Total fund balances</b>	<b>4,441,086</b>	<b>8,909,555</b>	<b>1,365,655</b>	<b>798,828</b>	<b>5,824,931</b>	<b>21,340,055</b>



# City Fund balance/Net position constraints

## Internal Service Funds:

	Motor Pool Fund	Self-Insurance Health Care Fund	Technology Fund	Total Internal Service Funds
<b>Net Position</b>				
Net investment in capital assets	1,280,234	-	65,207	1,325,441
Unrestricted	1,134,958	2,573	72,124	1,209,655
<b>Total net position</b>	<b>\$ 2,395,192</b>	<b>\$ 2,573</b>	<b>\$ 137,331</b>	<b>\$ 2,535,096</b>

## Enterprise Funds:

	Enterprise Funds		
	Water Fund	Sewer Fund	Total Enterprise Funds
<b>Net Position</b>			
Net investment in capital assets	19,221,477	24,772,988	43,994,465
Unrestricted	5,840,625	18,451,448	24,292,073
<b>Total net position</b>	<b>\$ 25,062,102</b>	<b>\$ 43,224,436</b>	<b>\$ 68,286,538</b>



# How much fund balance should my local unit have?

- No single right answer
- The appropriate level will vary greatly between communities, because their circumstances are different (risk tolerance, size, fiscal year, upcoming spending plans)
- Most governments should be in the 10-20% range (fund balance as a percent of expenditures”. The GFOA best practice document indicates 16.7% as a minimum; the State of Michigan “Fiscal Stress” scoring used 13% as a minimum.
- The right amount is dependent on several factors



# Fund balance factors

- Risk Tolerance – If you can tolerate some risk that you will have enough, then you can live with less
- Known Upcoming Spending – Is the City saving for a large purchase? What is your capital plan?
- Fund balance is also required to tackle long-term challenges that aren't reflected in any single year budget (such as legacy costs and future infrastructure needs)
- Best practice is an appropriate level of fund balance – how much is too little, how much is too much



# Budgeting Concepts





# Budget requirements

- In the State of MI, all General and Special Revenue Funds are required by law to be budgeted annually.
- A public hearing is required to be held on the budget
- **The budget must include** – Actual prior year revenue and expenditures, estimate of current year revenue and expenditures, proposed budget revenue and expenditures, amounts for contingencies, if appropriate, amount of fund balance accumulated for current year and from prior years and the estimated surplus or deficit at the end of the current year (must be balanced)
- P.A. 621 of 1978 requires a budget appropriation to be in place before a governmental unit may commit to spending money.



# Budget requirements checklist

In order to be in compliance with the Budget Act, each of the following questions should be answered Yes:

1. Has a budget been adopted (General Fund, Special revenue funds)?
2. Was a public hearing held on the budget
3. Was all the necessary information in the budget document for the budgetary funds
  1. Actual prior year (both revenue and expenditures)
  2. Estimate of current year (both revenue and expenditures)
  3. Proposed budget (both revenue and expenditures)
  4. Amounts for contingencies if appropriate
  5. Amount of fund balance (deficit) accumulated
  6. Amount of fund balance (deficit) accumulated from prior years and the estimated surplus or deficit expected in the current year



## Budget requirements checklist (Continued)

4. Was all the necessary information in the budget document for the budgetary funds
5. Has the budget been amended when necessary if actual revenue is less than the budget estimated?
6. Has the budget been amended to allow expenditures in excess of the original appropriation?
7. Is the new debt entered into, if applicable, permitted by law?
8. Are expenditures equal to or less than amounts appropriated?
9. Are all expenditures authorized in the budget?



# Understanding the budget

What does it mean to have a balanced budget?

- A budget is considered to be balanced if the projected ending fund balance is positive.
- In any one year it may be appropriate for expenditures to exceed revenue.

Don't make the mistake of thinking "balanced budget" means Budgeted expenditures (appropriations) must equal Forecasted Revenues.



# Budgeted expenditures

- Budgeted expenditures are called appropriations. It's the legal authority (P.A. 2 of 1968) for management to provide a given level of services. Expenditure appropriations are not a forecast of the amount the City expects to spend; it is the maximum amount that management is allowed to spend.
- The City's appropriations are adopted on a departmental basis – Legislative, executive, assessing, police protection, fire protection, etc.
- Budgets are commonly prepared on a line-item basis and then adopted at a less restricted level, department-level in the City's case





# Importance of the budget

- The annual budget is where you will influence the financial direction of the City
- Consider:
  - How does activity fit in with the City's overall goals and objectives?
  - Is this level of service sustainable over a long run (based on financial forecasts and projections?)



# Questions?

Thank you for the  
opportunity to continue  
serving the City!

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