

What is Unassigned Fund Balance?

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications, i.e. everything left over once the total amount has the following subtracted: non-spendable, restricted, committed, and assigned funds. That's not a very easy-to-understand definition, so, perhaps, the best way to think about the unassigned fund balance is the money available to prevent a cash-flow issue.

I think the best way to illustrate this is with a household budget. Each month, the average working person gets paid twice. If $\frac{1}{2}$ of the person's income goes to mandatory bills (rent/mortgage, insurance, etc.), and $\frac{1}{4}$ goes to necessities (groceries, gas, etc.), then we can play with due-dates to show why an "unassigned fund balance" is necessary. For example, if all the bills are due the 1st of the month, then, without some funds in reserve, the entirety of that first paycheck goes to the bills. That means that the worker cannot pay for necessities until they receive their second paycheck of the month, unless they have some "unassigned fund balance." The reason for that is, obviously, that $\frac{1}{2}$ of the person's income is equivalent to 1 of 2 monthly paychecks. Without some additional funds in reserve, it becomes very difficult for the person to do what they need to do – eat, get to work, etc. – because they don't have any ability to pay for those things. The same thing happens with municipalities. They must hold some funds as "unassigned fund balance" in order to ensure that they can pay for the things that they need to pay for.

How much needs to be held in reserve varies. However, the guideline established by the NH Government Finance Officers Association (GFOA) and promoted by the Department of Revenue Administration (DRA) is as follows:

- 5% to 15% of regular general fund operating revenues, or
- 8% to 17% of regular general fund operating expenditures determined by GFOA/DRA recommendations

Obviously, the general fund revenues and expenditures vary from year-to-year. So, there is an accounting every year which allows for a readjustment. That accounting may reveal more funds than necessary in the unassigned fund balance, too few funds in the unassigned fund balance, or just about the right amount in the unassigned fund balance. It's only when there are more funds than necessary that the unassigned fund balance should be reduced through either assigning expenditures to it or reducing the tax rate. If the fund amount is just about right, the unassigned fund balance will allow the municipality to keep doing what it needs to do without risking nonpayment, as described above. And, of course, if the fund amount is too low, then there will be a need to raise additional funds for the unassigned fund balance so that municipal operations can continue.

Natch Greyes



Municipal Services Counsel
New Hampshire Municipal Association
25 Triangle Park Drive
Concord, NH 03301
Tel: (603) 224-7447
www.nhmunicipal.org