

**General Fund - Fund Balance Policy (GASB 54)**  
**As approved by the Auburn City Council**  
**June 20, 2011**

**Purpose of this Policy**

The purpose of this policy is to establish a target level of fund balance for the general fund and to establish a process and criteria for the continued evaluation of that target level as conditions warrant. This policy shall also establish a process for reaching and maintaining the targeted level of unassigned fund balance, and the priority for the use of amounts in excess of the target. Finally, this policy shall provide a mechanism for monitoring and reporting the City's general fund balance. This policy applies only to the general fund.

**Definitions and Classifications**

Fund Balance is a term used to describe the net assets of governmental funds. It is calculated as the difference between the assets and liabilities reported in a government fund.

Governmental fund balance is reported in five classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The five classifications of fund balance for the General Fund are defined as follows.

- *Non-spendable* – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.
- *Restricted* – resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – resources which are subject to limitations the government imposes upon itself at its highest level of design making, and that remain binding unless removed in the same manner. This must be set in place prior to the end of the period.
- *Assigned* – resources neither restricted nor committed for which a government has a stated intended use as established by the City Council, or a body or official to which the City Council has delegated the authority to assign amounts for specific purposes.
- *Unassigned* – resources which cannot be properly classified in one of the other four categories. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

The committed, assigned, and unassigned classifications are often referred to, in the aggregate, as the unrestricted fund balance.

GAAP means generally accepted accounting principles in the United States.

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**Background and Considerations**

Fund balance is intended to serve as a measure of financial resources in a governmental fund. The City's management, credit rating services, and others monitor the levels of fund balance in the general fund as an important indicator of the City's economic condition.

In establishing an appropriate level of fund balance the City of Auburn has considered the following factors:

- *Property tax base.* The property tax is the largest revenue source of the City's general fund. The City receives payments twice a year.
- *Non-property tax revenues (examples Excise Tax, State Revenue Sharing and ect).* These resources must be considered in terms of the percentage each comprises of the total budget, as well as the reliability and stability of these resources.
- *Exposure to significant outlays.* The City shall consider its potential exposure to significant one-time outlays, either resulting from a disaster, immediate capital needs, state budget cuts or other events.
- *Debt.* It is essential that the City have sufficient capacity to make its debt service payments. Principal and Interest payments along with the second interest payment need to be maintained along with future debt services as developed in the City's capital improvement program.
- *Liquidity.* An adequate level of fund balance should be maintained to ensure sufficient liquidity. The potential drain on the general fund resources from other funds, as well as the availability of resources in other funds, should be considered.
- *Government Finance Officers Association Best Practice.* The GFOA has established a best practice that recommends, "... at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditure." GFOA's best practice also states, "...governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than unrestricted fund balance."

**Policy**

It is a policy of the City of Auburn to maintain unassigned fund balance in the general fund at **12.5%** of general fund expenditures measured on a GAAP basis. In the event that the unassigned fund balance drops below this level, the City will develop a plan, implemented through the annual budgetary process, to bring the balance to the target level over a period of no more than three (3) years. Amounts in excess of the target shall be brought to the City Council in the form of a Council Order before use for City Council approval.

The Finance Director, in accordance with GAAP, shall report fund balance in the appropriate classifications and make the appropriate disclosures in the City's financial statements. Unless classified as restricted or committed, the following balances shall be classified as assigned per GAAP or as required by this policy.

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*Encumbrances.* Amounts encumbered at year-end by purchase order or another means shall be classified as assigned.

*Budget Appropriations.* Amounts appropriated in the annual budget resolve, or in any supplemental budget resolves, for expenditures in the following fiscal year shall be classified as assigned.

*Capital Budget.* Amounts designated in the first year of the City's capital improvement program (CIP) as either appropriations or advances to other funds shall be classified as assigned.

*Self Insurance.* Amounts designated in the City's self insurance shall be classified as assigned.

*Compensated Absences.* These are not typically recorded as liabilities in the governmental funds, unless they are paid out immediately following the close of the fiscal year. However, the obligation for compensated absences can be significant. Therefore, the City will assign the amount equal to the estimated amount required at year end to pay the compensated absence obligation for those who meet the eligibility criteria for payment and can be expected to terminate employment with the City in the following fiscal year. This amount shall exclude any amount recorded as a liability.

**Policy Administration**

Annually the Finance Director shall report the City's fund balance and the classification of the various components in accordance with GAAP and this policy.

The Finance Director shall annually review this policy and the considerations used in establishing the unassigned fund balance target. The Finance Director shall report whether changes in those considerations or additional considerations have been identified that would change the recommended level of unassigned fund balance.

Should the City fall below the target level, the Finance Director shall prepare a plan to restore the unassigned fund balance to the target level within three years.

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**Appendix**  
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<b>Fund Balance as % Expenditure – General Fund for the Fiscal Years Ended June 30</b>					
	2006	2007	2008	2009	2010
<i>Unrestricted</i>					
<i>General Fund Balance</i>	\$6,938,376	\$9,600,796	\$10,573,583	\$10,743,593	\$11,337,473
<i>Total Expenditures</i>	\$66,098,944	\$65,726,910	\$67,915,898	\$69,458,976	\$66,934,714
<b><i>As a % of Expenditures</i></b>	<b>10.49%</b>	<b>14.60%</b>	<b>15.56%</b>	<b>15.46%</b>	<b>16.93%</b>
<i>Unassigned</i>					
<i>General Fund Balance</i>	\$5,088,428	\$7,898,295	\$8,783,174	\$8,405,631	\$9,599,911
<i>Total Expenditures</i>	\$66,098,944	\$65,726,910	\$67,915,898	\$69,458,976	\$66,934,714
<b><i>As a % of Expenditures</i></b>	<b>7.69%</b>	<b>12.01%</b>	<b>12.93%</b>	<b>12.10%</b>	<b>14.34%</b>