

**TOWN OF  
APPLE VALLEY, CALIFORNIA**

**AGENDA MATTER**

**Subject Item:**

**FUND BALANCE POLICY FOR THE GENERAL FUND**

**Summary Statement:**

On June 28, 2011, Town Council had adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this statement are intended to improve financial reporting by providing fund balance categories and classifications that will be more easily understood. The categories are more clearly defined to make the nature and extent of the constraints placed on a government's fund balance more transparent.

Part of the implementation of this statement for financial reports beginning with Fiscal Year 2010-11, is the formal approval of the reclassification of the various components of fund balance and formal approval of the fund balance policy for the General Fund which includes categorization of fund balance as promulgated by GASB 54.

The previous components of fund balance were reserved fund balance, and unreserved fund balance. Unreserved fund balance was further separated into designated and undesignated. The new components are non-spendable, restricted, committed, assigned and unassigned as detailed and defined herein.

(Continued)

**Recommended Action:**

Adopt Fund Balance Policy for the General Fund approving the reclassification of the various components of fund balance as defined in Governmental Accounting Standards Board (GASB) Statement Number 54.

**Proposed by:** Marc Puckett, Director of Finance **Item Number** \_\_\_\_\_

**T. M. Approval:** \_\_\_\_\_ **Budgeted Item**  Yes  No  N/A

The purpose of this Policy is to establish a procedure for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will ensure that there will be adequate financial resources to protect the Town against unforeseen circumstances. Commitments and assignments may also be used to set aside funds for known events and repayments.

The Town's General Fund balance set aside for emergencies is proposed to be set at a minimum of twenty-five (25) percent of General Fund operating expenditures. This amount represents resources necessary to fund approximately three months of the General Fund's operations.

The current recommendation of the Government Finance Officers Association (GFOA) as a best practice is no less than two months of regular general fund operating revenues or regular general fund expenditures, with consideration given to a variety of factors, including the predictability of revenues and volatility of expenditures.

As a newer public agency, The Town of Apple Valley is particularly susceptible to fluctuations in both areas, therefore the Town's minimum level of emergency operating contingency reserves is set significantly higher (50% greater) than the level recommended by GFOA. As defined in the proposed policy, the specific uses are listed as the declaration of a state or federal state of emergency, or a local emergency. The Town Council may, by a majority vote of the members, change the amount of this commitment and/or the specific uses of these monies.

**Attachment:**

Fund Balance Policy for the General Fund

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**PURPOSE AND BACKGROUND.**

The purpose of this Policy is to establish a procedure for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will ensure that there will be adequate financial resources to protect the Town against unforeseen circumstances. Commitments and assignments may also be used to set aside funds for known events and repayments.

**SCOPE**

These policies/procedures apply to the General Fund of the Town of Apple Valley.

**BACKGROUND/PROCEDURES**

Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, as defined below. Each separate component is identified by the extent to which the Town is bound to honor the constraints on the specific purposes on which amounts can be spent.

- Nonspendable fund balance (inherently unspendable)
- Restricted fund balance (external limitations on use)
- Committed fund balance (self-imposed limitations on use)
- Assigned fund balance (limitation resulting from intended use)
- Unassigned fund balance (residual net resources-no restrictions)

The first two components listed above are not addressed in this policy due to the nature of their restrictions. This policy is focused on financial reporting of previously unrestricted fund balance, or the last three components listed above. All components are further defined below.

**Committed Fund Balance**

The Town Council, as the Town’s highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use through the same type of formal action taken to establish the commitment. Town Council action to commit fund balance needs to occur within the fiscal reporting period; however, the amount can be determined subsequently.

**General Fund Emergency Operating Contingency:**

The Town’s General Fund balance set aside for emergencies is hereby set at a minimum of twenty-five (25) percent of General Fund operating expenditures. This amount represents resources necessary to fund approximately three months of the General Fund’s operations. The current recommendation of the Government Finance Officers Association (GFOA) as a best practice is no less than two months of regular general fund operating revenues or regular general fund expenditures, with consideration given to a variety of factors, including the

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predictability of revenues and volatility of expenditures. As a newer public agency, The Town of Apple Valley is particularly susceptible to fluctuations in both areas, therefore the Town's emergency operating contingency reserve is set significantly higher (50% greater) than the level recommended by GFOA. As defined herein and in the municipal code, the specific uses are listed as the declaration of a state or federal state of emergency, or a local emergency. The Town Council may, by a majority vote of the members, change the amount of this commitment and/or the specific uses of these monies.

**Assigned Fund Balance**

Amounts that are constrained by the Town's *intent* to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the Director of Finance for the purpose of reporting these amounts in the annual financial statements. A few examples of assigned fund balance follow.

- Continuing Appropriations: Fund balance levels must be sufficient to meet funding requirements for projects approved in prior years and which must be carried forward into the new fiscal year.
- Debt Service: Established to provide for future debt service obligations.
- Budget Balancing Measures: Funds set aside for the purpose of stabilizing the delivery of Town services during periods of operational budget deficits and to mitigate the effects of major economic uncertainties resulting from unforeseen changes in revenues and/or expenditures.

**Unassigned Fund Balance**

This category of fund balance includes those resources in the general fund in excess of what can properly be classified in one of the other four categories. The General Fund is the only fund that should report this category of fund balance.

**Fund Balance Classification**

The accounting policies of the Town consider restricted fund balance to have been spent first when the expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Town considered committed amounts to be reduced first, followed by assigned amounts, and finally, unassigned amounts.

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This policy is designed to provide a measure of protection for the Town against unforeseen circumstances and to comply with Governmental Accounting Standards Board (GASB) Statement No. 54 as adopted by Town Council on June 28, 2011.

**Definitions:** This section provides clarification on definitions.

Nonspendable Fund Balance: That portion of a fund balance that includes amounts that cannot be spent because they are either (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment.

Restricted Fund Balance: That portion of a fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that 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 Fund Balance: That portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, and remain binding unless removed in the same manner.

Assigned Fund Balance: That portion of a fund balance that includes amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted nor committed. Such intent needs to be established at either the highest level of decision-making, or by an official designated for that purpose.

Unassigned Fund Balance: That portion of a fund balance that includes amounts that do not fall into one of the above four categories. The General Fund is the only fund that will report this category of fund balance.

**Responsibilities:** The following is a summary of responsibilities:

- Town Council: Adopt fund balance policy.
- Town Manager: Determine appropriate levels of fund balance in accordance with adopted policy.
- Town Finance Director: Assign specific amounts for financial reporting purposes in accordance with adopted policy.
  - Responsible for recording amounts according to adopted policy.
  - Responsible for ensuring that fund balance is properly reported in the Town's Comprehensive Annual Financial Report (CAFR).