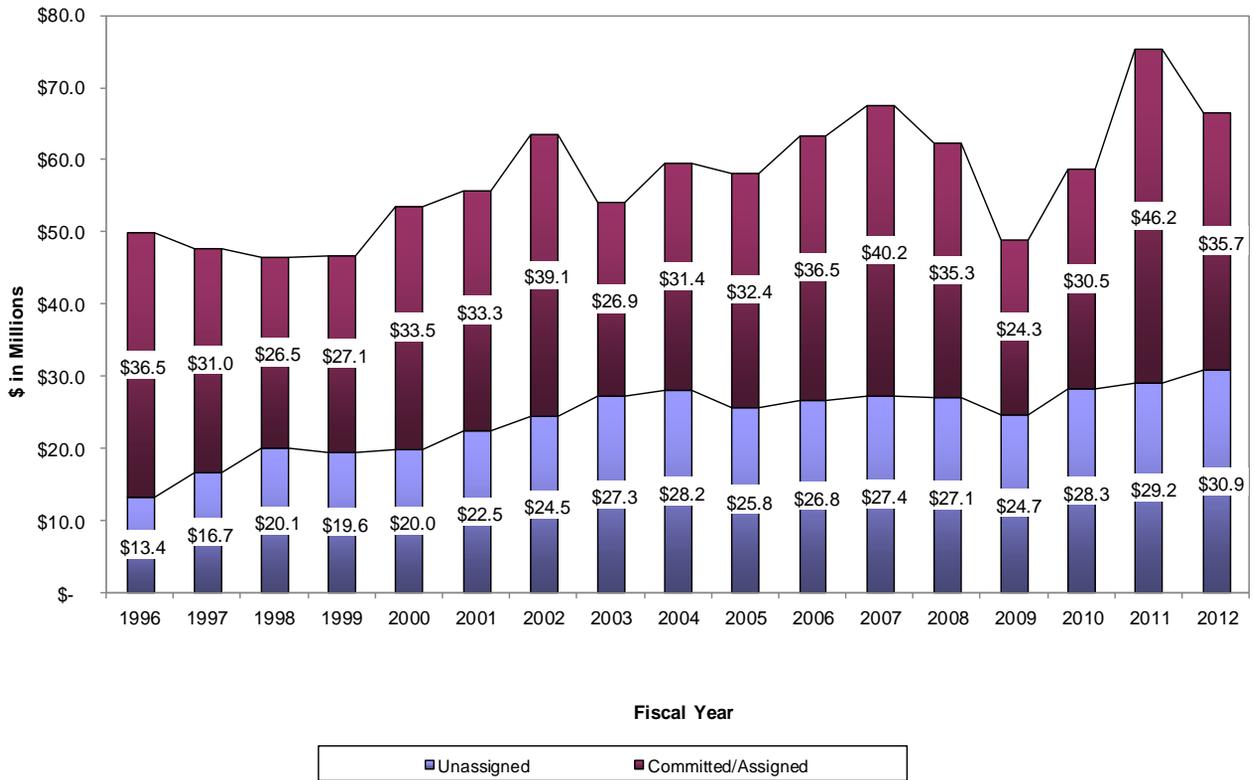


Statement of Estimated General Fund Balance

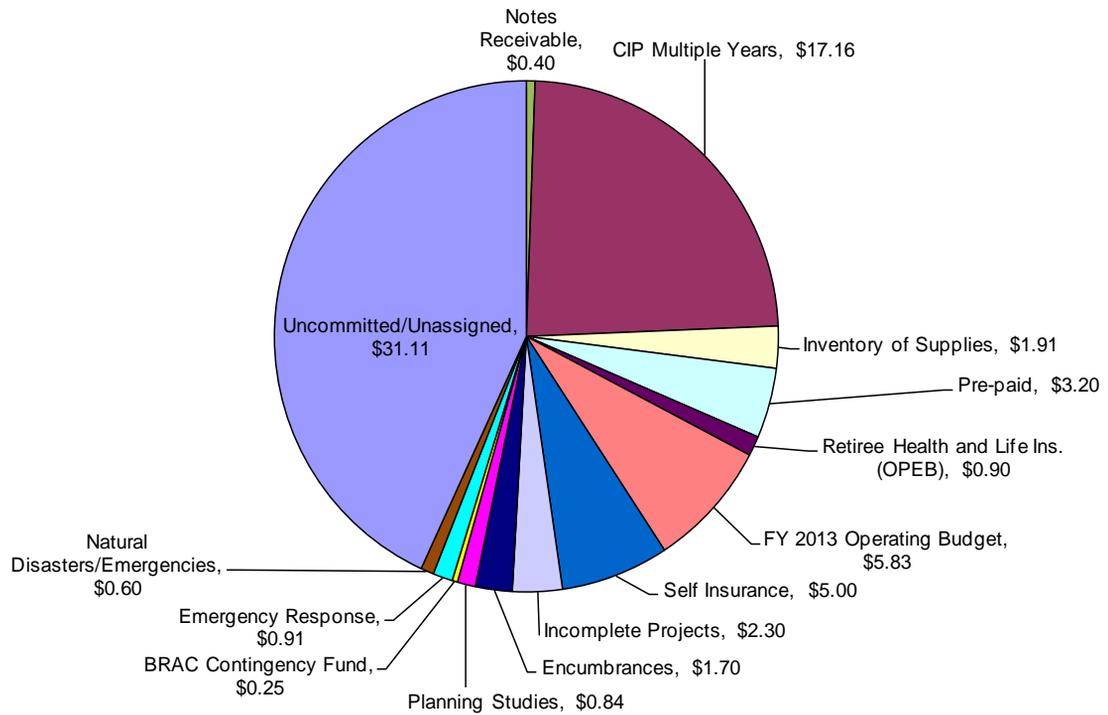
City of Alexandria Spensible End of Year Fund Balance



Statement of Estimated General Fund Balance

The following pie chart shows all of the components of General Fund balance estimated as of June 30, 2012.

Fund Balance as of June 30, 2012 \$72.11 million



Statement of Estimated General Fund Balance

Commitments and Assignments (Designations) in the Proposed Fiscal Year 2013 Budget

The fiscal year 2013 Operating Budget contains the following commitments and assignments (designations) of fund balances estimated to be available as of June 30, 2012:

- \$5,834,988 to fund the FY 2013 Operating Budget;
- \$900,000 for partially off-setting the City's liability for post-employment retiree health and life insurance benefits in response to new national accounting standards. This amount will be supplemented by \$1.6 million included in the FY 2013 budget from general fund revenues;
- \$17,165,266 to fund capital projects contained in multiple years of the FY 2013 – FY 2022 Capital Improvement Program budget;
- \$835,000 for the Planning Studies;
- \$5,000,000 for the City's self-insurance reserve;
- \$250,000 for unforeseen expenditures related to BRAC;
- \$600,000 for FY 2013 Natural Disasters or Emergencies; and
- \$2,300,000 for incomplete projects (estimated based on prior years' experience)
- \$1,700,000 for encumbrances obligated at the end of the year
- \$911,000 for emergency response

Based on projected revenues and expenditures and designations in fiscal year 2012, the uncommitted/unassigned (undesignated) General Fund balance at June 30, 2011 is currently estimated to be \$31.1 million or 5.5 percent of projected FY 2012 General Fund revenues. The spendable General Fund balance is estimated to be \$66.6 million or 11.77 percent of projected General Fund revenues. The uncommitted and spendable General Fund balance ratio is in accord with the minimum limits established by the debt policy guidelines.

The table on the next page shows a history of fund balances, commitments and assignments from FY 2007 through FY 2012 (estimated).

Statement of Estimated General Fund Balance

HISTORY OF END OF YEAR FUND BALANCE ACTUAL 2006 THROUGH 2011 ESTIMATED AS OF JUNE 30, 2012

	2007	2008	2009	2010	2011	2012
Spendable Fund Balance End of Year	\$ 67,560,766	\$ 62,320,401	\$ 49,048,509	\$ 58,806,355	75,350,879	66,605,003
Commitments and Assignments						
FY 2008 Operating Budget	\$ 1,999,550					
FY 2009 Operating Budget	\$ 4,000,000	\$ 4,600,000				
FY 2010 Operating Budget		\$ 1,285,347	\$ 2,315,347			
FY 2011 Operating Budget			\$ 3,600,000	\$ 4,744,291		
FY 2012 Operating Budget				\$ 2,000,000	3,625,000	
FY 2013 Operating Budget one percent						5,834,988
Subsequent CIP (FY 2008)	\$ 3,643,211					
Subsequent CIP (FY 2009)	\$ 7,350,000	\$ 7,350,000				
Subsequent CIP (FY 2010)		\$ 1,026,958	\$ 226,958			
Subsequent CIP (FY 2011 through FY 2013)			\$ -	\$ 10,971,240	19,109,737	15,410,266
Subsequent CIP (FY 2014 and beyond)						1,755,000
Self Insurance	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	5,000,000	5,000,000
Incomplete Projects	\$ 2,345,870	\$ 2,902,820	\$ 1,694,734	\$ 2,255,523	2,300,000	2,300,000
Retiree Health and Life (OPEB)	\$ 10,700,000	\$ 10,700,000	\$ 6,500,000	\$ 3,700,000	2,100,000	900,000
King St. Garden	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000		
Increased Fuel Costs	\$ 500,000	\$ 250,000	\$ 250,000	\$ -		
Comprehensive Services Act Contingency	\$ 230,000					
Social Service Grant Contingency (Pass Th	\$ 300,000					
Social Service Contingency (incl. CSA)		\$ 530,000				
One-time Acute Human Service Needs			\$ 400,000	\$ -		
Fire Station/Affordable Housing Project		\$ 1,600,000				
National Harbor Initiatives	\$ 700,000					
Projects Under Discussion	\$ 3,368,000					
BRAC Contingency Funds					1,000,000	250,000
Revenue Shortfall					4,000,000	
Planning Studies						835,000
Encumbrance - new for GASB requirements					1,788,689	1,700,000
Transportation Improvement					3,636,139	
Stormwater Utility Fund				\$ 783,660		
Emergency Response			\$ 4,309,397		1,600,000	911,050
Natural Disasters/Emergencies				\$ 1,000,000	2,000,000	600,000
Total Commitments & Assignments	\$ 40,161,631	\$ 35,270,125	\$ 24,321,436	\$ 30,479,714	\$ 46,159,565	35,496,304
Uncommitted/Unassigned Fund Balance	\$ 27,399,135	\$ 27,050,276	\$ 24,727,073	\$ 28,326,641	\$ 29,191,314	\$ 31,108,699
Unassigned Fund Balance and Revenue Shortfall Reserve EOY	\$ 27,399,135	\$ 27,050,276	\$ 29,036,470	\$ 28,326,641	\$ 33,191,314	\$ 31,108,699
Reservations/nonspendable	\$ 4,692,962	\$ 3,167,640	\$ 4,258,482	\$ 4,235,016	5,509,288	5,509,288
Total Fund Balance EOY	\$ 72,253,728	\$ 65,488,041	\$ 53,306,991	\$ 63,041,371	\$ 80,860,167	\$ 72,114,291
General Fund Revenues	\$ 505,572,861	\$ 520,459,051	\$ 527,918,656	\$ 530,436,316	\$ 548,970,859	565,817,879
Estimated Uncommitted/Unassigned Fund Balance as % of General Fund Revenues	5.4%	5.2%	4.68%	5.34%	5.32%	5.50%
Estimated Uncommitted/Unassigned Fund Balance and Revenue Shortfall Reserve as % of General Fund Revenues	5.4%	5.2%	5.50%	5.34%	6.05%	5.50%
Target = 5.5%; Limit = 4.0%						
Estimated Spendable Fund Balance as % of General Fund Revenues	13.4%	12.0%	9.29%	11.09%	13.73%	11.77%
Limit = 10%						

Statement of General Fund Balance

Governmental Funds			Proprietary Funds		
	Special Revenue Fund	Capital Projects Fund ^{/3}		Internal Services Fund (Equipment Replacement Fund)	Sanitary Sewer Enterprise Fund
Beginning Fund Balance 7/1/11 ^{/1}	\$18,471,327	\$64,184,449	Beginning Net Assets 7/1/11	\$21,884,131	\$7,398,185
Plus FY 2012 Budgeted Revenues	\$110,620,429	\$92,170,569	Plus FY 2012 Budgeted Revenues ^{/4}	\$4,718,426	\$7,500,000
Less FY 2012 Budgeted Expenditures	\$110,620,429	\$92,170,569	Less FY 2012 Budgeted Expenses	\$5,245,088	\$7,500,000
Projected Fund Balance 6/30/12	\$18,471,327	\$64,184,449	Projected Net Assets 6/30/2012	\$21,357,469	\$7,398,185
Plus FY 2013 Budgeted Revenues ^{/2}	\$117,857,144	\$92,170,569	Plus FY 2013 Budgeted Revenues	\$5,056,607	\$7,500,000
Less FY 2013 ^{/3} Budgeted Expenditures	\$117,857,144	\$92,170,569	Less FY 2013 Budgeted Expenses	\$4,189,469	\$7,500,000
Projected Fund Balance ³	\$18,471,327	\$66,328,337	Projected Net Assets 6/30/13	\$22,224,607	\$7,398,185

^{/1} City of Alexandria, Virginia, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2011.

^{/2} City of Alexandria, Virginia, Proposed Operating Budget and Capital Improvement Program, Fiscal Year 2013.

^{/3} In all likelihood a large portion of Capital Projects, including Sanitary Sewers, will not be expended in FY 2012 and FY 2013, as many capital projects are multi-year in execution.

^{/4} FY 2013 Budgeted Revenues are based on current estimates, which are subject to change.

Statement of Estimated General Fund Balance

- The Special Revenue Fund accounts for resources restricted to expenditures for specified purposes (for example, State and federal grants). As of June 30, 2011, the Special Revenue Fund total fund balance was \$18,471,327. Because monies budgeted within the Special Revenue Fund are generally legally restricted to specific activities or programs, these monies are not considered available for appropriation to meet general expenditure requirements. Unexpended Special Revenue Fund monies are generally due to intergovernmental grant timing differences (e.g., a grant awarded to the City for a program operated under the federal fiscal year of October 1 to September 30), and remaining Special Revenue funds at June 30 are reappropriated for use in the subsequent City fiscal year for the continuation of the designated programs. The total projected Special Revenue Fund fund balance, for GFOA reporting purposes, as of June 30, 2012 is \$18,471,327.
- The Capital Projects Fund accounts for all financial resources used for the acquisition or construction of major capital facilities not being financed by proprietary funds. As of June 30, 2011, the Capital Projects Fund had a total fund balance of \$64,184,449. This funding is dedicated to the completion of approved capital projects, and is therefore not available to meet general expenditure requirements. The total projected Capital Projects Fund fund balance as of June 30, 2012, would be \$0 assuming all budgeted capital projects are initiated and completed. Given implementation issues and plans and their multi-year nature, many of these capital projects will not be completed by June 30, 2012.
- The Internal Services Fund accounts for the financing of goods or services provided by one department to other departments or agencies of the City on a cost-reimbursement basis. The City established the Equipment Replacement Fund for purposes of providing for the accumulation of money to replace capital equipment items used in City operations. This fund derives its revenues from periodic equipment rental charges assessed to the user departments in the governmental funds. These revenues are then used to finance charges and associated expenditures to replace capital equipment. As of June 30, 2011, the Equipment Replacement Internal Services Fund had Total Net Assets of \$21,884,131. Equipment Replacement monies are accrued for the scheduled replacement of capital equipment, and thus are not available for appropriation to meet general expenditure requirements. The projected Equipment Replacement Fund Total Net Assets, for GFOA reporting purposes, as of June 30, 201 is \$22,224,607.
- The Sanitary Sewers Enterprise Fund accounts for sanitary sewer revenues and expenditures apart from the General Fund. This fund, established in mid FY 2006, was created for the purpose of achieving revenue self-sufficiency for sanitary sewer maintenance and construction and to be supported by sewer line maintenance fee and sewer connection fee revenues. As of June 30, 2010, the Sanitary Sewers Enterprise Fund had Total Fund Balance of \$7,398,185. It includes Transportation and Environmental Services (T&ES) operating expenditures for maintenance as well as cash capital and debt service expenditures associated with CIP reconstruction, rehabilitation and expansion projects. The total projected Sanitary Sewer Enterprise Fund balance as of June 30, 2012, would be \$7,398,185 assuming all budgeted capital projects are initiated and completed. Given implementation issues and plans and their multi-year nature, many of these capital projects will not be completed by June 30, 2011.

Statement of Estimated General Fund Balance

Fund Balance Classification System

GASB Statement #54

The City will be required to use new classifications for reporting fund balances beginning with this budget. These classifications have been developed by the Governmental Accounting Standards Board (GASB) and described in GASB Statement No. 54. Statement 54 is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

Fund balance (the difference between assets and liabilities in the governmental fund financial statements) is among the most widely and frequently used information in state and local government financial reports. The GASB developed Statement 54 to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting across governments. To reduce confusion, the new standards establish a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints imposed upon how resources reported in governmental funds may be used.

Statement 54 distinguishes fund balance between amounts that are considered completely “nonspendable,” such as fund balance associated with inventories, and other “spendable” amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications. As examples, the components of fund balance as projected in the FY 2011 Approved Budget are described under each new category.

Nonspendable - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to remain intact.

E.g. Notes Receivable; Inventory of Supplies; and Encumbrances.

Restricted - amounts constrained by external parties, constitutional provision, or enabling legislation. Effectively, restrictions may only be changed or lifted with the consent of the resource provider.

E.g. Self Insurance Balance.

Committed - amounts formally constrained by a government using its highest level of decision-making authority (i.e. City Council). The commitment of these funds can only be changed by the government taking the same formal action that imposed the constraint originally.

E.g. OPEB (Retiree Health and Life Ins.) funds; FY 2011 Operating Budget; FY 2011 – FY 2020 CIP; King Street Gardens; FY 2010 Contingent Reserves Savings; FY 2011 Revenue Shortfall Reserves.

Assigned—amounts a government *intends* to use for a particular purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority (i.e. City Manager).

E.g. Incomplete Projects.

Unassigned—residual amounts that are otherwise not constrained at all will be reported in the general fund. These are technically available for any purpose.

E.g. Undesignated General Fund balance.

Statement of Estimated General Fund Balance

Appendix

Layperson's Guide to Fund Balance

The following information is based on the November 18, 1997 BFAAC report to City Council. City Council received the BFAAC report on December 9, 1997. *This report has been modified by staff with the new terminology developed by GASB related to Fund Balance classifications.*

The Importance of Explaining the General Fund Balance

The presentation and explanation of the general fund balance to the City Council, the citizens of Alexandria and representatives of the media is a difficult task. As the Government Financial Officers Association (GFOA) has said in its Elected Official's Guide to Fund Balance:

In our system of government, crucial decisions involving the lives of citizens are placed in the hands of elected officials. Many of these decisions involve the allocation of scarce financial resources. Arguments for and against adopted allocations of financial resources often focus on "fund balance." Unfortunately, published discussions of fund balance, as a rule, are directed toward the professional accountant rather than toward the elected official or others who may not have background or experience in governmental accounting and financial reporting. Accordingly, elected officials often find themselves in the difficult position of having to weigh arguments involving fund balance with only a vague, or even erroneous understanding of its true nature and significance.

In Alexandria, because we have benefited from sound financial management by City staff, wise decisions by City Council and good fortune, we have fund balances. For that reason, it is particularly important that the nature of the general fund balance and its necessity to the fiscal health of the City be clearly articulated in terms and with language that can be widely understood. This non-technical discussion of the general fund balance, especially as it has been maintained in Alexandria, is offered with this purpose in mind.

This document is an explanation of how the name, concept and meaning of the general fund balance will change due to the new rules governing the reporting of municipal government finances. The City has implemented GASB Statement No.34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. GASB Statement No. 34, labeled by GASB as "the most significant change in the history of government financial reporting," mandated that by FY 2002, governments comparable to the City of Alexandria, amend their financial reporting to provide additional information about their fiscal health including information about the status of public infrastructure. In order to take a leading position in this area, utilize City accounting data and professional resources, as well as to get hands-on experience with the new reporting requirements, the City fully implemented the standard with the FY 2000 Comprehensive Annual Financial Report, two years ahead of the GASB mandate. As a result, the City of Alexandria was the first government in Virginia, the largest local government, and among the first governments in the United States to fully adopt the new reporting standards.

Use and Protection of the Fund Balance Under the City's Fiscal and Debt Related Financial Policies

The fiscal policies of the City of Alexandria and mandatory accounting rules have established a wise and prudent set of checks and balances to help ensure the City's fiscal stability. Neither the City's total fund balance, its spendable General Fund balance, or its unassigned fund balance, should be referred to as a "rainy day fund" or seen as a "savings" easily available for meeting emergency needs. As will be explained

Statement of Estimated General Fund Balance

below, nonspendable portions of the General Fund balance are required by accounting rules that cannot be ignored. Commitments or assignments of some of the spendable balances represent decisions of the City Council (commitments) and Manager (assignments) that financial resources need to be set aside now to meet future needs. Only the remaining unassigned fund balance is available for meeting other unknown future financial needs. And this unassigned fund balance is not available for expenditure as would be recurring revenues. The City Council has imposed on itself a rule that it cannot appropriate unassigned fund balances beyond that proposed in the City Manager's budget except by an affirmative vote by at least five members of the Council. This appropriately balances the need to make such monies available if truly necessary in the judgment of the elected City leaders, and the need to protect against the temptation to use this balance to meet recurring operating needs when recurring operating revenues are not sufficient.

Indeed, the City Council has stated its policy to "not establish a trend of using General Fund equity to finance current operations." Specifically, its debt related financial policies declare "the City will not finance operations from the General Fund equity balance for periods longer than two years."

It is prudent to maintain some sort of balance. A portion of the balance is required to provide the City with adequate cash flow. For example, the real estate tax, which is the City's largest single revenue source, is collected in November and June, but payroll expenditures occur every two weeks. The City has adopted a debt related financial policy that it will not issue tax or revenue anticipation notes to fund governmental operations, so it must manage its cash flow in a way that provides funds to meet all working capital needs at all times. The balance also helps to protect against unanticipated expenditures or lower than expected revenues.

The General Fund "Checkbook" Balance Under Current Municipal Government Accounting Methods

Under current municipal government financial reporting methods, the general fund is one of several types of "governmental funds". As the GFOA says, "Governmental funds are designed to measure the current financial resources on hand at the end of a period that are available to be spent or appropriated in future periods." The GFOA continues:

The focus of a governmental fund (e.g. general fund) is similar to that of an individual wishing to know what his or her checkbook balance will be after the last paycheck for the month has been deposited, and after all of the checks written to pay this month's bills have been cashed. This balance is significant because it represents the financial resources available to help pay next month's bills.

Under these current accounting methods, the general fund balance therefore can be considered to be the checkbook balance of Alexandria. It represents the best estimate of the current financial resources available at the end of the accounting period for spending in future periods.

Statement of Estimated General Fund Balance

To determine the checkbook balance of the City, decisions have to be made about whether or not a "check" has been written by the City. In most cases, this is obvious. The obligation of City funds for payroll and the purchase of goods and services is easily measured and reported. There are some other instances in which it is not so clear whether the City has incurred or faces a certain future obligation. The touchstone to deciding these questions is whether the City has financial resources that are readily available for spending in future periods.

Changing from the Checkbook Analogy to the Taxpayers' Equity Analogy With the Changes in Accounting Methods

Under GASB Statement No. 34, state and local governments are required to report their financial condition using government-wide financial statements and fund financial statements. The government-wide financial statements use an approach that is most similar to the approach used in the financial statements of all publicly traded companies in the U.S. The fund financial statement will retain the traditional method of accounting (modified accrual accounting) for governmental funds. Under the fund financial statements, the differences between fund assets and liabilities would continue to be reported as the reserved and unreserved fund balances.

Government-wide financial statements require a single statement that consolidates governmental activities and business-type activities. These government-wide statements are to be prepared on the full accrual basis of accounting. All revenues and expenses connected with the fiscal year will be taken into account even if the cash involved has not actually been received or paid. All capital assets, including infrastructure assets, are to be reported on the balance sheet and depreciation is to be reported as a charge to operations each period. All long-term liabilities, including debt are to be reported on the balance sheet and accrued interest is to be reported as a charge to operations each period.

With these changes, the government-wide financial statement now reports "net assets" at the bottom line. These net assets represent available financial resources, but with a longer time horizon to measure availability for future spending. The analogy of the checking account balance will be replaced by the analogy of stockholders equity, or more appropriately for municipal government finances, "taxpayers' equity". The taxpayers' equity is equal to the net asset value of the City of Alexandria.

Under GASB Statement No. 34, the general governmental fund (which contains approximately 80 percent of City revenues and expenditures) will continue under modified accrual accounting rules in the fund financial statements. Accordingly, the current budget practices in regard to reorganizing revenues and expenditures that parallel modified accrual accounting rules also will not change.

Statement of Estimated General Fund Balance

Understanding the Difference Between the General Fund Balance, Net Assets and Cash Balance

One common misconception is that the fund balance or net assets of the City is the same as the cash balance of the City. Cash itself is a financial resource, but it is not necessarily the only financial resource available to the City. The City may have available to it other financial resources (such as tax revenues collected by the State but not yet distributed to the City) that represent real financial resources available for spending in future periods, but not reflected yet in the cash balance. Similarly, the City holds cash that is needed to pay bills already incurred but not yet paid for. Under the longer term view of the taxpayers' equity analogy, the cash balance concept is even further distanced from truly representing the financial health of the City.

To focus only on the cash balance of the City is comparable to focusing only on the account balance you have at the bank, without recognizing the checks that you have already written and dispersed that have not yet been cashed by their recipients. These checks have not yet been deducted from your account, but they reduce your checkbook balance. Furthermore, the cash balance does not recognize the value of the assets held by the City or the eventual long term cost of such obligations, such as the need to eventually pay employees for their leave balances.

(Non-spendable) Reserved General Fund Balance

Sometimes the checkbook balance of the City is limited by commonly used accounting restrictions or other legal restrictions that make certain funds unavailable for future spending by the City. Under current Generally Accepted Accounting Principles (GAAP) for the fund financial statements, the City must set aside as non-spendable funds to equal its inventory of supplies and its encumbrances. The inventory of supplies includes supplies that are to be used within the year. Encumbrances include undelivered orders (contracts under which goods or services have been ordered but not yet delivered and paid for). The accounting rationale for these reserves is that the inventory of supplies, notes receivable and encumbrances are not financial resources available for future spending by the City.

(Committed and Assigned) Designated Fund Balance

Current accounting rules for municipal governments also recognize what are termed "*commitments*" or "*assignments*" of fund balances. Sometimes governments wish to specifically segregate or " earmark" financial resources for specified purposes. Such " earmarking" is reflected in financial statements by means of "*commitments*" or "*assignments*." For example, a government may wish to "*assign*" resources to help meet obligations expected to arise in connection with claims and judgments.

Only the legislative body of a government may create a "*commitment*." Only the delegated chief executive officer may create an "*an assignment*." Also from GFOA:

It is very important to distinguish between "reserves" (i.e., "reserved fund balance") (*non-spendable*) and "designations" (*commitments or assignments*). The former are an indication that financial resources are not available for appropriation, whereas the latter only indicate that management would prefer to use available financial resources for a specified purpose. Accordingly, although earmarked, designations (*commitments or assignments*) remain an integral part of a government's spendable or appropriate resources (i.e., "spendable fund balance").

Statement of Estimated General Fund Balance

The Power to Assign and Commit (Designate) and the Effects

Although the City Manager proposes the amounts to be *assigned* for several items as noted above, only the City Council has the power to approve *commitments* of fund balances. Only the City Council can make appropriations from the *spendable* (unreserved) fund balance for expenditure. As provided for in a resolution initially adopted by City Council in 1997, and readopted by every Council since then, any appropriations from the *(uncommitted and unassigned)* (undesignated) fund balance beyond that proposed in the City Manager's proposed budget requires the affirmative vote of five members of the City Council.

The effect of a *commitment or assignment* (designation), therefore, is to remove certain funds from availability for future appropriation outside the purpose of the *commitment or assignment* (designation). Council can, by simple majority, approve the City Manager's estimate of a reduction in an *assignment*.

From the fund accounting perspective described above, this *uncommitted and unassigned* (undesignated) General Fund balance is the equivalent of the checkbook balance of the City of Alexandria. The required *unspendable balances* (reservations) and *commitments and assignments* (designations) made as policy choices by the City Council and generally recommended by the City Manager are analogous in the checkbook example to checks written and presented for payment but not yet cleared through the bank. It is entirely reasonable for the City Council and the City Manager to debate how much should be set aside in *commitments and assignments* (designations) as described above. These decisions are the equivalent of making real spending decisions in the annual budget, even if cash is not immediately exchanged for goods or services.