

1 Introduced June 28, 2011, by Councilman  
2 Cusimano, seconded by Councilwoman  
3 Harbison (by request of Administration)

4 **RESOLUTION R11-15**

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6 A resolution supporting the policy and implementation of GASB No. 54, Fund  
7 Balance Reporting and Governmental Fund Type Definitions.

8 WHEREAS, the Governmental Accounting Standards Board (GASB) issued  
9  
10 GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type  
11 Definitions in February, 2009; and  
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13 WHEREAS, the objective of the Statement is to enhance the usefulness of  
14 fund balance information by providing clearer fund balance classifications that can be  
15 more consistently applied and by clarifying the existing governmental fund type definitions;  
16  
17 and  
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19 WHEREAS, the Statement establishes a constraint-based approach in  
20 reporting fund balances in governmental funds; and  
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22 WHEREAS, the requirements of this Statement are effective for financial  
23 statement periods beginning after June 15, 2010.  
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25 NOW THEREFORE BE IT RESOLVED by the Slidell City Council that it  
26 supports the GASB 54 policy and its implementation beginning with FY2011 which is  
27 attached hereto and made a part hereof.  
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31 **ADOPTED** this 28th day of June, 2011.

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34 Landon Cusimano  
35 President of the Council  
36 Councilman-at-Large

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37 Thomas P. Reeves  
38 Council Administrator  
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# City Slidell - Policies and Implementation

## Fund Balance Reporting and Governmental Fund Type Definitions

### GASB 54

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#### Summary

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in February 2009. This statement establishes a constraint-based approach in reporting fund balances. The statement also revises governmental fund type definitions and clarifies required reporting for stabilization funds (such as the City of Slidell "Contingency or Rainy Day" funds).

GASB 54 applies to fund balance presentations as displayed on the governmental fund balance sheet. It does **not** impact the reporting of proprietary and fiduciary fund balances.

GASB 54 is effective for the City of Slidell fiscal 2011 annual financial report. Annual financial reports prior to fiscal 2011 follow the pre-GASB 54 fund balance classifications. This document is provided to prepare for the new requirements.

#### Presentation of Fund Balance

GASB 54 significantly changes the presentation of governmental fund balances on the fund financial statements. The table below displays the current fund balance classifications versus the new classifications.

Classifications Through Fiscal 2010	GASB 54 Classifications Beginning in Fiscal 2011
Reserved	Nonspendable
Unreserved Designated	Restricted
Unreserved/Undesignated	Committed
	Assigned
	Unassigned

The current classification segregates fund balance based on the availability of balances for appropriation or on other contractual legal bases. GASB 54 instead classifies fund balance based on the level of constraints placed on the usage of fund resources. For example, federal revenues received into a fund would generally be a restricted *revenue source*. GASB 54 focuses on the revenue source itself, rather than on its availability for expenditure.

GASB 54 defines specific criteria for the resources that can be reported in each possible fund balance classification. It is not expected or required that all funds report all possible fund balance classifications.

#### Nonspendable Fund Balance

The nonspendable fund balance classification includes amounts that cannot be spent because they are either:

- Not in spendable form or
- Legally or contractually required to be maintained intact.

The "not in spendable form" criterion includes items not expected to be converted to cash — for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or

assigned, then they should be included in the appropriate fund balance classification (restricted, committed or assigned), rather than in the nonspendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount legally or contractually required to be maintained intact.

For purposes of reporting net assets, GASB 34, paragraph 35, requires amounts "required to be retained in perpetuity" to be classified as "nonexpendable" within the restricted net asset category on the government-wide financial statements. For fund balance reporting purposes, however, those amounts should be classified as nonspendable rather than restricted.

### **Restricted Fund Balance**

Except for amounts required to be reported as nonspendable, amounts restricted to specific purposes (pursuant to the definition of restricted in paragraph 34 of GASB 34, as amended by GASB 46, *Net Assets Restricted by Enabling Legislation*) should be reported as restricted fund balance.

Fund balance should be reported as restricted when constraints placed on the use of resources are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments; or
- Imposed by law through constitutional provisions or enabling legislation.

Enabling legislation, as the term is used in GASB 54, authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party — such as citizens, public interest groups or the judiciary — to use resources created by enabling legislation only for the purposes specified by the legislation.

### **Committed Fund Balance**

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 should be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The authorization specifying the purposes for which amounts can be used shall have the consent of both the legislative and executive branches of the government. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

In contrast to fund balance restricted by enabling legislation, amounts in the committed fund balance classification may be redeployed for other purposes with appropriate due process. The government imposes constraints on the use of committed amounts separate from the authorization to raise the underlying revenue.

The formal action that commits fund balance to a specific purpose must occur prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

#### **Committed to Capital Outlay**

Fund balance committed to capital outlay shall be the unexpended capital appropriations in the capital budget adopted by the Slidell City Council of each fiscal year. Capital appropriations are established by ordinance during the budget process as defined by the Home Rule Charter. Redeployment or reallocation of capital appropriations require council approval and are governed by the Home Rule Charter.

#### **Committed to Operating Reserves**

Fund balance committed to operating reserves shall be the unexpended operating reserve appropriations in the budget adopted by the Slidell City Council of each fiscal year. Operating reserves are established by appropriation during the budget process. The City shall maintain at least 5% of governmental operating expenditures per the last audited financial statements of the City in operating reserves. Use or reductions of operating reserves are by appropriation when operating costs exceed amounts allocated in the current year budget. If a withdrawal of operating reserves causes the total operating reserve amount fall below 5% requirement, the shortfall shall be addressed within a one year period with available funds at fiscal yearend and/or by appropriation of funds in the next budget cycle.

#### **Committed to Contingencies**

Fund balance committed to contingencies (aka stabilization funds) shall be established in the General Fund, the Sales Tax

Fund and the DISA Building Fund.

The fund balance committed to contingencies in the General Fund as of June 30, 2010 is \$745,000. The Director of Finance shall increase the General Fund balance committed to contingencies by up to 10% each year, if funds are available, until the contingency balance is 15% of annual recurring operating revenue in the General Fund per the last audited financial statement of the City. Contingency funds can be spent by appropriation in the budget process when a deficit for the current fiscal year is projected due to a decrease of 5% or more in the projected forecast for revenue or a deficit is projected due to an increase of 5% or more in expenditures or to address unanticipated or catastrophic events that threaten the health, safety or welfare of the people or the fiscal stability of the City.

The fund balance committed to contingencies in the Sales Tax Fund as of June 30, 2010 is \$2,400,000. The Director of Finance shall increase the Sales Tax Fund balance committed to contingencies by up to 10% each year, if funds are available, until the contingency balance is 15% of annual recurring operating revenue in the Sales Tax Fund per the last audited financial statements of the City. Contingency funds can be spent by appropriation in the budget process when a deficit for the current fiscal year is projected due to a decrease of 5% or more in the projected forecast for revenue or a deficit is projected due to an increase of 5% or more in expenditures or to address unanticipated or catastrophic events that threaten the health, safety or welfare of the people or the fiscal stability of the City.

The fund balance committed to contingencies in the DISA Building Fund as of June 30, 2010 is \$600,635. The contingency fund may be increased by the appropriation process. Contingency funds can be spent by appropriation in the budget process when a deficit for the current fiscal year is projected due to a decrease of 5% or more in the projected forecast for revenue or a deficit is projected due to an increase of 5% or more in expenditures to address any unanticipated or catastrophic event that threatens the operational integrity of this asset.

Any withdrawal of contingency funds made due to an economic downturn shall be replenished within a three year period with available funds each fiscal yearend and/or by appropriation or transfer of funds. Any withdrawal of contingency funds made due to catastrophic or unanticipated events shall be subject to repayment provisions to be proposed by the Mayor and implemented by appropriation or transfer of funds.

### **Assigned Fund Balance**

Amounts constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance

Assigned fund balance includes:

- All remaining amounts (except for negative balances) reported in governmental funds, other than the general fund, not classified as nonspendable and neither restricted nor committed; and
- Amounts in the general fund intended to be used for a specific purpose with less restriction than implied by the restricted or committed classification.

By reporting particular amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund, the city has assigned those amounts to the purposes of the respective funds. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose narrower than the general purposes of the government itself. The action taken to assign fund balance can be done after year end. Assignments cannot cause the fund to report a negative (deficit) fund balance.

An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance as long as it does not cause a negative (deficit) fund balance.

### **Assigned to Compensated Absences**

Fund balance assigned to compensated absences shall be established in the General Fund. . Due to the volatility of payments related to compensated absences, these funds shall be used when payouts for compensated absences payments in a given year exceed amounts budgeted for payments of compensated absences.. The fund balance assigned to compensated absences in the General Fund and the Sales Tax Fund as of June 30, 2010 is \$400,000 and \$250,000, respectively. If funds are available at fiscal yearend, the Finance Director is authorized to assign an amount up to 5% of total governmental fund expenditures for salaries in the budget adopted by the Council for the next fiscal year for compensated absences.

### **Assigned to Claims**

The fund balance assigned to claims in the General Fund as of June 30, 2010 is \$607,035. Due to the volatility of

payments related to claims, these funds shall be used when claim payments required in a given year exceed amounts budgeted for payment of claims. If funds are available, the Director of Finance is authorized to assign fund balance based on the calculations defined herein. The fund balance assigned to general liability claims and workers compensation claims shall be the amount established for reserves per the City's third party administrator plus claims incurred but not reported per generally accepted accounting principles less the amount recorded in the claims liability account. The fund balance assigned to self-funded medical and dental claims shall be equal to the liability for run-off claims (approximately two months of expenditures) less amounts recorded in the claims liability account.

### **Unassigned Fund Balance**

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes within the general fund.

The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

### **Minimum Unrestricted Fund Balance Policy**

Unrestricted fund balance is defined as total fund balance less non spendable fund balance less restricted fund balance.

#### **Minimum Requirements**

General Fund – The minimum unrestricted fund balance shall be 25% of operating revenue per the last audited financial statements of the City.

Special Revenue Funds primarily funded by Sales Tax - The minimum unrestricted fund balance shall be 25% of operating revenue per the last audited financial statements of the City plus funds committed to capital outlay.

DISA Building Fund – Minimum unrestricted fund balance shall be 60% of operating expenditures per the last audited financial statements of the City plus funds committed to capital outlay.

#### **Replenishment**

Should the minimum fund balance fall below the targeted levels defined above, the Mayor shall propose a plan to the council for their approval to restore the fund balance to the target level within 24 months. If restoration to the minimum fund balance target cannot be accomplished within such a period without severe hardship to the City of Slidell, the Council will establish a different time frame.

### **Monitoring and Reporting Fund Balance Status**

The Director of Finance shall annually prepare a report for the Mayor and the Council documenting the status of the fund balance at the conclusion of each fiscal year audit. Should the report disclose, there are unassigned funds available, a recommendation for use of said funds shall be presented to the council in the first supplemental budget. Should the report disclose any deficiencies, a recommendation for correction shall be presented.

### **Fund Type Definitions**

As part of the GASB 54 fund balance reexamination project, GASB clarified terms used in governmental fund type definitions. The clarifications aim to improve consistency in reporting similar governmental fund activity across the country. The most significant change to the definitions is related to the special revenue fund type.

#### **General Fund (FT010)**

The general fund is used to account for all financial resources not accounted for and reported in another fund.

#### **Special Revenue Fund (FT020)**

Special revenue funds are used to account and report the proceeds of *specific revenue sources* that are *restricted* or *committed* to expenditure for *specific purposes* other than debt service or capital projects.

The specific restricted or committed revenue sources should be expected to continue to comprise a substantial portion of the fund. Other resources reported in a special revenue fund, such as transfers or investment earnings, may be reported if they are also restricted, committed or assigned for the specific purpose of the fund.

#### **Debt Service Fund (FT040)**

Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

#### **Capital Projects Fund (FT090)**

Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for capital outlays.

#### **Permanent Funds (FTNA)**

Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs — that is, for the benefit of the government or its citizens.

### **Analysis of Special Revenue Funds and Implementation**

The Director of finance is examining each fund currently reported in the special revenue fund type (FT020). To remain a special revenue fund, the fund must:

- Report restricted or committed *specific revenue sources*.
- Those specific revenue sources must be *restricted* or *committed* to expenditure for specific purposes.
- The specific revenue sources must be expected to continue to be a substantial portion of the inflows.

Transfers-in do not count as a specific revenue source. Special revenue funds that do not meet the GASB 54 definition will be reclassified to the general fund (FT010) or sales tax fund (FT020), if applicable.

GASB does not require the reporting of special revenue funds. With GASB 54, there are additional disclosure requirements for each special revenue fund presented. Given these factors, the Finance Director will limit the use of special revenue funds in the future.

### **Spending Policy**

The City of Slidell spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance.

Most funds were designated for one purpose at the time of their creation. Therefore, expenditures made out of the fund will be allocated to the applicable fund balance classifications in the order of the spending policy above.