




City of Des Plaines
Finance Department
1420 Miner Street
Des Plaines, IL 60016
Tel: 847-391-5317
Fax: 847-391-5402

MEMORANDUM

Date: December 6, 2012
To: Michael Bartholomew, City Manager
From: Dorothy Wisniewski, Director of Finance 
Subj: Management's Implementation of GASB 54 Memo

Issue: The City of Des Plaines implementation of the GASB 54 Pronouncement effective December 31, 2011 and approval of the Fund Balance Policy (GASB 54) – Appendix D for the inclusion in the financial policy manual.

Background:

Management of the City of Des Plaines has implemented the requirements of Statement No. 54 of the Governmental Accounting Standards Board - Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) for the fiscal year ending December 31, 2011.

The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clear fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The City is implementing this policy for the fiscal year ended December 31, 2011. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

Impact on City

The implementation of this GASB pronouncement had two major impacts on the City. First, the City is required to restructure the fund balance hierarchy for governmental funds. Secondly, the City is required to analyze its current funds to determine if they meet the definitions for the assigned governmental fund type as clarified in GASB 54. The City does not have any stabilization arrangements and thus this portion of the pronouncement did not have a material impact on the City.

Fund Balance Hierarchy

GASB 54 provides classifications for fund balance that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. These classifications are as follow:

- a) Nonspendable fund balance (inherently nonspendable) include the:
 - Portion of net resources that cannot be spent because of their form (are not expected to be converted to cash) and
 - Portion of net resources that cannot be spent because they must be maintained intact (legally or contractually)
- b) Restricted fund balance (externally enforceable limitations on use) include amounts subject to:
 - Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments
 - Limitations imposed by law through constitutional provision or enabling legislation.
- c) Committed fund balance (self-imposed limitations set in place prior to the end of the period):
 - Limitation imposed at the highest level of decision making that requires formal action at the same level to remove. For the City, the City Council is the highest level of decision making and funds would be committed through a passage of a Resolution.
- d) Assigned fund balance (limitation resulting from intended use) consists of amounts where the:
 - Intended use is established by the body designated for that purpose (City Council),
 - Intended use is established by official designated for that purpose. For the City, the City Manager or his/her designee (Finance Director) is the designated official.
- e) Unassigned fund balance (residual net resources) is the:
 - Total fund balance in the general fund in excess of nonspendable, restricted, committed and assigned fund balance
 - Excess of nonspendable, restricted and committed fund balance over total fund balance.

Analysis: As part of the implementation of this GASB pronouncement, the City completed a fund balance analysis for all governmental funds in order to determine the fund balance classifications in accordance with GASB 54.

Conclusion: Upon implementation of GASB 54, the City changed their fund balance classifications for governmental funds to conform to the classifications and hierarchy laid out in the pronouncement. These classifications were presented in the FY11 CAFR to demonstrate the City's compliance. Staff is seeking Council approval of the Fund Balance Policy (GASB 54) – Appendix D as specified in the GASB 54 Pronouncement and include the Appendix in the Financial Policy Manual.

Attachments: Fund Balance Policy (GASB 54) – Appendix D



Fund Balance Policy (GASB 54) – Appendix D

Fund Balance Policy (GASB 54)

D.1. Purpose

This policy has been designed to provide working capital for the City to meet cash flow needs during the year (while avoiding the need to cash flow borrow) and to preserve the credit worthiness of the City for borrowing monies at favorable interest rates. Additionally, this policy is to aid the City in adhering to the requirements set forth by Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which will be in effect for the City reporting of the fiscal year ended December 31, 2011. GASB Statement No. 54 was issued in February 2009, and was designed to address issues related to how fund balance is being reported in financial statements for governmental units. The intent of the Statement is to provide greater transparency in regards to the funding of future activities through specific designations of fund balance within the financial statements.

D.2. Background

Accountants use the term fund balance to describe the equity of governmental funds. It serves as a measure of financial resources available to the City. It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Credit rating agencies also carefully monitor levels of fund balance in a government's General Fund to evaluate their creditworthiness. In terms of financial reporting, the presentation of fund balance will develop new classifications as prescribed by GASB Statement No. 54 consisting of nonspendable, restricted, committed, assigned, and unassigned funds. Descriptions of each classification will be detailed in No. 6 below.

D.3. Procedures

- As part of the annual budget process, the Finance Director will estimate the surplus or deficit for the current year and prepare a projection of the year end fund balance.
- Withdrawal of any amount of fund balance to under the minimum level determined below, for the sole purpose of reducing the tax levy may be made only upon a 2/3rd majority vote of the City Council.
- The City Council can, by a 2/3rd vote, declare a fiscal emergency and withdraw any amount of general fund balances for the purpose of addressing a fiscal emergency. Any such action must also provide for necessary appropriations to restore the General Fund balance to the minimum balance within a three year period.
- If fund balance levels are not at the minimum level described below a plan for reaching the minimum reserve levels will be made.
- For financial reporting purposes, determinations of the amounts to be presented in the financial statements for each type of fund balance classification will be made at year-end to appropriately report the intent of use for each fund. Information will be



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added to the footnotes to the financial statements to describe the classifications and the intent of the use of funds. See Section D.6. for further details.

D.4. General Fund Requirements

As the City does not receive their share of property taxes until March and September, it is determined that the General and Library Funds would at a minimum need to be able to fund January and February's expenditures prior to the receipt of our tax levy. As such, the City's minimum unreserved fund balance (as of December 31) for the General and Library Funds shall be 25% of the next year's budget.

D.5. Other Fund Requirements

At no time shall the equity within any fund of the City be deficit. If a fund has a deficit fund balance, a plan will be determined to eliminate the deficit.

Motor Fuel Tax Fund

Motor Fuel Tax revenues are received on a monthly basis, however as these funds are oftentimes used for capital projects in future years there exists a need to retain a certain level of fund balance within this fund for capital purposes. As such, the City will maintain a fund balance minimum of 20% of the five-year average of annual expenditures. These reserves allow this fund to maintain adequate liquidity for use purposes.

Water and Sewer Utility

As the Water and Sewer Utility is primarily supported by consistent billings completed on a monthly basis, the needs to maintain operating reserves for this fund are substantially less than that of a tax supported fund due to a continuous flow of income. However, it is in the City's interest to have unreserved equity within this fund in order to address potential unforeseen expenditures. As such, the Water and Sewer Utility shall maintain a minimum of 20% of the subsequent year's budget in preparation for such unforeseen expenditures.

Other Funds

The City will strive to ensure that all remaining funds have a positive fund balance. Due to the unique nature of the remaining funds, assigning a specific goal would not be appropriate as many of these funds are designed strictly to meet a specific purpose. Therefore, funds will be reviewed periodically to ensure positive fund balances exist and an action plan will be created to remedy any shortfalls that may exist.

D.6. GASB Statement No. 54 Requirements

Beginning with the December 31, 2011, Comprehensive Annual Financial Report, the City will be following the prescribed guidance of fund balance classifications and fund type



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definitions as described in GASB Statement No. 54. In each section below, changes and the City's responses associated with this pronouncement are detailed.

1. Fund balance classifications in the past were reserved for specific purposes or unreserved meaning that funds could be spent as the City saw fit. With Statement No. 54, the new classifications and their definitions are as follows:
 - a. **Nonspendable:** These balances would represent amounts that cannot be spent as they are either not in spendable form (are not expected to be converted to cash) or must be legally or contractually required to be maintained intact. City accounts that would be included in this classification would be prepaid items, long-term portions of notes receivable, advances to other funds, and land/assets held for resale.
 - b. **Restricted:** Amounts are considered restricted when constraints are placed on the use of resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments or laws with constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or 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 by legislation. Legal enforceability means that a government can be compelled by an external party (citizens, public interest groups, or judicial groups) to use resources created by enabling legislation only for the purposes specified by the legislation. Examples of such funds would be motor fuel tax revenues, community development block grant funds, other grant funds, and property tax receipts (library, pensions, debt service, etc.).
 - c. **Committed:** Amounts that are used for specific purposes as imposed by constraints of the government's highest level of decision-making authority. For the City, this would mean any amounts that are committed by ordinance by the City Council. This type of classification would mean that the amounts cannot be used for any other purpose unless the City Council removes or changes the intended use of the funds through an ordinance. Examples of such funds more than likely would be capital projects approved by the City Council or any other programs that were approved by the City Council.
 - d. **Assigned:** Amounts that are 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. The intent of funds would be



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determined by a City official (Finance Director and approved by City Manager) that the City Council has delegated the authority to assign amounts to be used for specific purposes. The constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts classified as committed. Assigned funds would include all remaining amounts reported in governmental funds, other than the general fund that are not already classified as nonspendable, restricted, or committed. Also, amounts in the general fund intended to be used for a specific purpose with less restriction than implied by the restricted or committed classification. Assignments, however, cannot cause a fund to report a negative fund balance. 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. Therefore, this would be the classification of fund balance amounts that would be for a specific purpose but are not restricted by legislation or committed by the City Council.

- e. **Unassigned:** This is the residual fund balance amount in the general fund for amounts not restricted, committed, or assigned to specific functions within the fund. The general fund will be the only fund that will be able to report positive unassigned fund balance amounts. If expenditures incurred in other governmental funds exceed the amounts of restricted, committed, or assigned classifications, it may be necessary at that time to report a negative unassigned fund balance in that fund.
- f. Within each fund, a determination of revenues and expenditures that pertain to a specific purpose will occur on an annual basis. The legislation (restricted), governing body (committed), or committee/official (assigned) should then be identified so the proper fund balance classification can be reported. Such a determination will ensure that funds are being used for proper purposes.
- g. For funds with multiple purposes such as the general fund, schedules would be created based upon the ending trial balance for year-end financial statement preparation to clearly determine the revenues and expenditures related to that purpose. Such schedules would be prepared by a member of the Finance Department and then reviewed by the Assistant Finance Director and/or Finance Director. Signatures from all parties associated with the preparation and review of the



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schedule would be necessary to document each party's involvement in the process.

2. Fund type definitions have been redefined under GASB Statement No. 54:
 - a. General Fund: Used to account for all financial resources not accounted for and reported in another fund.
 - b. Special Revenue Funds: Used to account for and report the proceeds of specific revenue sources that are either restricted or committed to expenditure for specific purposes other than debt service or capital projects. Specific revenue sources do not constitute transfers in from other funds. Therefore, any current special revenue funds without its own revenue stream (taxes, charges for services, etc.) should be closed and rolled up into the general fund. On an annual basis, special revenue funds will be reviewed to ensure that funds continue to be financed with specific revenue sources. Any special revenue funds that are not financed with specific revenue sources will no longer be reported separately and activity will be reported in the general fund as an individual department. For tracking purposes, the fund will continue as is in the general ledger even though it will be rolled up into the general fund for financial reporting purposes.
 - c. Debt Service Fund: Used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.
 - d. Capital Projects Fund: Used to account for all financial resources, restricted, committed or assigned to expenditure for capital outlays.
 - e. Permanent Fund: 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 for the benefit of the government or its citizens.
3. Use of Economic Stabilization Arrangements:
 - a. Stabilization funds are formally set aside for use in emergency situations or when revenue shortages or budgetary imbalances arise. Amounts are subject to controls that dictate the circumstances under which these funds can be spent. The need to spend these funds should have a formal action that should identify and describe the specific



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circumstances under which a need for stabilization arises. Such circumstances should not be routine to the City. Stabilization arrangements that are not deemed to be restricted or committed should be reported as unassigned in the general fund. Such arrangements will be formed at the discretion of the Finance Department with approval of the Mayor and City Council.

4. Information to Be Included in Note Disclosures:

- a. Description of the authoritative bodies responsible for determining committed and assigned fund balance amounts.
- b. Purpose of each major special revenue fund along with a description of the revenues or other sources that are reported in those funds.
- c. Determine the guidelines of spending restricted and unrestricted fund balances as well as the order of spending for committed, assigned, and unassigned fund balances. The order of spending would be to spend restricted funds first followed by committed, assigned and unassigned fund balances. Since most funds, except the general fund, were designated for a single purpose, only one fund balance classification should be deemed necessary for that particular fund.
- d. Fund balance classifications with detail of constraints by major restrictive/committed purpose.
- e. Components of nonspendable balance if displayed in the aggregate on the financial statements. If these items are displayed separately on the financial statements, this description in the footnotes may be omitted.
- f. Significant encumbrances reported in conjunction with other disclosures of significant commitments.
- g. If stabilization agreements are to be employed by the City, the authority establishing such arrangements must be disclosed as well as the requirements for additions and the conditions under which amounts may be used. If this amount is not reported on the face of the statement, it must be disclosed in the notes.



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5. Application of Funds:

- a. In instances where expenditures are incurred that will require the funding sources to be comprised of two or more types of fund balance categories, the order of exhaustion of the funds will be as follows:
 - i. Restricted
 - ii. Committed
 - iii. Assigned
 - iv. Unassigned
- b. Notice that the nonspendable category is not mentioned above as those balances are strictly representative of asset balances that are to serve a future interest for the City as a result of a prior cash disbursement.

6. Delegation to Assign Fund Balance:

- a. The responsibility to assign fund balances that are not already identified as nonspendable, restricted, committed, or unassigned will be delegated to the Finance Director with approval of the City Manager. The intent for such amounts to be used for specific purposes will be communicated by the Finance Director to the City Manager so a full understanding of the assignment is communicated prior to reporting. The sole purpose for this delegation of authority is to allow the Finance Director, who is ultimately responsible for the assembly and preparation of the Comprehensive Annual Financial Report, to be able to assign the fund balances for specific purposes not required by law or the City Council as deemed necessary. Suggestions from City department heads will be taken into consideration when determining whether an assignment of fund balance should be reported. In all instances, the final determination of an assigned fund balance to be reported will belong to the Finance Director.

CITY OF DES PLAINES

RESOLUTION R - 154 - 12

**A RESOLUTION APPROVING AND ADOPTING THE
FUND BALANCE POLICY (GASB 54) – APPENDIX D FOR
THE INCLUSION IN THE FINANCIAL POLICY MANUAL
FOR THE CITY OF DES PLAINES.**

WHEREAS, Management of the City of Des Plaines has implemented the requirements of Statement No. 54 of the Governmental Accounting Standards Board – Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) for the fiscal year ending December 31, 2011; and

WHEREAS, GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied; and

WHEREAS, the implementation of the GASB 54 Pronouncement required the City to restructure their fund balance hierarchy for governmental funds and to analyze their current funds to determine if they meet the definitions for their assigned governmental fund type as clarified in GASB 54; and

WHEREAS, City Staff has prepared a formal draft Fund Balance Policy which meets the requirements set forth in GASB 54; and

WHEREAS, it is in the best interest of the City to approve and adopt the Fund Balance Policy (GASB 54) – Appendix D as specified in the GASB 54 Pronouncement and include the Appendix in the Financial Policy Manual for the City of Des Plaines, and

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Des Plaines, Cook County, Illinois in the exercise of its home rule powers, as follows:

SECTION 1: That the recitals set forth herein above are incorporated herein by reference as the factual basis for this transaction.

SECTION 2: That in the best interest of the City, the City Council hereby approves the and adopts the Fund Balance Policy (GASB 54) – Appendix D as specified in the GASB 54 Pronouncement and hereby authorizes Appendix D to be added to the Financial Policy Manual for the City of Des Plaines, a copy of which is attached hereto and made a part hereof as Exhibit “A.”

SECTION 3: That the Director of Finance is hereby authorized to adopt, promulgate and from time to time revise rules and regulations, subject to the approval of the City Manager, in furtherance of this Fund Balance Policy (GASB 54) pursuant to the provisions of 1-10-4 D. of the City Code.

SECTION 4: That this Resolution shall be in full force and effect from and after its passage and approval according to law.

PASSED this ____ day of _____, 2012.

APPROVED this ____ day of _____, 2012.

VOTE: AYES ____ NAYS ____ ABSENT ____

MAYOR

ATTEST:

Approved as to form:

CITY CLERK

Peter M. Friedman, General Counsel

Legal\Res\2012\Adopt Fund Balance Policy Finance