

FINANCE COMMITTEE

12-0317R

RESOLUTION ADOPTING A FUND BALANCE REPORTING AND  
GOVERNMENTAL FUND TYPE DEFINITIONS POLICY.

CITY PROPOSAL:

WHEREAS, the Governmental Accounting Standards Board has recently issued a new accounting standard Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

WHEREAS, one of the requirements under Statement #54 is that the governing body adopt a fund balance policy including fund balance classifications, minimum fund balance requirements, and restricted and committed funds.

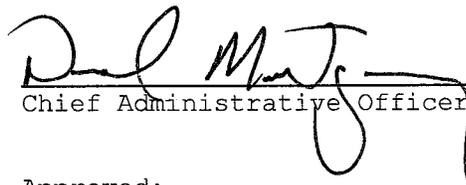
WHEREAS, a Fund Balance Reporting and Governmental Fund Type Definitions policy, substantially the same as that on file in the office of the city clerk as Public Document No. \_\_\_\_\_, has been prepared that meets the disclosure requirements of Statement #54.

NOW, THEREFORE, BE IT RESOLVED by the Duluth City Council that the Fund Balance Reporting and Governmental Fund Type Definitions policy is adopted.

Approved:

  
\_\_\_\_\_  
Department Director

Approved for presentation to council:

  
\_\_\_\_\_  
Chief Administrative Officer

Approved as to form:

  
\_\_\_\_\_  
Attorney

Approved:

  
\_\_\_\_\_  
Auditor

STATEMENT OF PURPOSE: This resolution adopts a comprehensive fund balance policy for financial reporting purposes pursuant to the requirements set forth under Governmental Accounting Standards Board Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The policy provides definitions for the various governmental funds and fund balance classifications utilized by the City for financial reporting including an existing list of restricted and committed funds. In addition, recommended minimum fund balance levels are established together with procedures for monitoring the adequacy of fund balance reserves.

# F27. FUND BALANCE REPORTING & GOVERNMENTAL FUND TYPE DEFINITIONS

## F27. A. Fund Balance Classifications

**Policy:** The City of Duluth will comply with GASB Statement 54 on fund balance classification.

**General:** GASB 54 was enacted to provide clarity to fund balances reported in a government's Comprehensive Annual Financial Report. The City of Duluth has adopted GASB 54 and will comply with its rules.

**Attachments:** *Fund Balance Classifications*

**Procedures:**

### 1. Classifications

GASB Statement 54 defines five fund balance classifications:

- **Non-spendable** – This classification includes items that cannot be spent because they are in a non-spendable form or are legally or contractually required to be maintained intact. Examples may include inventories, prepaids, assets held for resale, permanent principle of endowment funds, and long-term receivables.
- **Restricted** – The amounts in this category are subject to enforceable legal restrictions, externally imposed by creditors, grantors, voters, or state statute. Examples may include unspent bond or grant proceeds, tax increment, dedicated parks fund, etc.
- **Committed** – This category is used for amounts constrained by City Council resolution. This is a self-imposed constraint and only the City Council has the authority to remove the constraint. The formal action must take place before year-end, although the dollar amount can be updated once final year-end numbers are available. Examples are: training,
- **Assigned** – This fund balance is composed of unrestricted funds constrained by the City's intent to use them for a specific purpose, and do not meet the criteria to be classified as restricted or committed. Constraints may be expressed by City Council resolution or the City Council may delegate this authority to the CAO, CFO or other City representative. An assigned fund balance cannot be a negative number. Examples include the City's portion of a construction project where other funding was received with a requirement of a match; budget carryovers for specific items such as capital improvement funding, facility studies, or

training; and appropriation of existing fund balance used to balance the subsequent year's budget.

- **Unassigned** – This classification is used for any residual amounts (positive balance) left in the General Fund. These funds have not been restricted, committed, or assigned to a specific purpose. These amounts are technically available for any purpose. The General Fund is the only fund that can report a positive unassigned balance. Other governmental funds would report a negative unassigned fund balance should the total of non-spendable, restricted, and committed fund balances exceed the total net resources of that fund. Examples include General Fund reserves not assigned a specific purpose, but available in case of LGA unallotments or other revenue shortfalls.

## **2. Governmental Fund Definitions**

GASB 54 clarifies governmental fund definitions. The definitions are added here to clearly define their reporting requirements and classification of their fund balances.

- **General Fund** – Used to account for all financial resources not accounted for in another fund.
- **Special Revenue Funds** – Used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes (other than debt service or capital projects).
  - a. One or more specified restricted or committed revenues are foundation for the fund (comprise a substantial portion of the fund's inflows).
  - b. Other inflows (i.e. interest and transfers) may be reported in fund, if restricted, committed, or assigned to the specific purpose of the fund.
  - c. Restricted or committed proceeds of specific revenue sources should be expected to continue to comprise substantial inflows of the fund.
- **Debt Service Funds** – Used to account for and report on financial resources that are restricted, committed, or assigned to expenditures for principal and interest payments.
- **Capital Projects Funds** - Used to account for and report on financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Existing governmental funds and their classifications, as shown in Exhibit A, are hereby adopted.

### **3. Process/Procedures**

- Annually, the City Auditor will classify City funds in one or more of the classifications listed above.
- The City intends to spend resources from fund balances in the following order as resources are available:
  - Restricted
  - Committed
  - Assigned
  - Unassigned
- Committing a fund balance requires a simple majority vote of the City Council.
- The Council delegates the power to assign fund balances to the Chief Administrative Officer and the Chief Financial Officer, jointly. A report of assigned funds will be given to Council annually.
- An appropriation of an existing fund balance may be used to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenses over expected revenues. This satisfies the criteria to be used as an assignment of a fund balance.

## **F27. B. General Fund Unassigned Reserve Levels**

**Policy** The City of Duluth will maintain an unassigned general fund balance in an amount to meet cash flow needs for unexpected emergencies while maintaining reasonable property tax levels.

**General** The City of Duluth desires to maintain a healthy reserve to cover unexpected losses and/or changes in economic conditions. During each fiscal year, forecasts will be made to ensure that the City is on track to meet its budgeted obligations without spending more than it budgeted, and that revenues are on track with expectations.

**Attachments:** None

### **Procedures:**

#### **1. Unassigned Balance**

The City shall endeavor to maintain a **minimum** unassigned General Fund balance of five percent (5%) of the current year's total expense budget to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs. The City acknowledges and will make every effort to generate a ten percent (10%) unassigned fund balance as the optimum level.

To the extent that unusual contingencies exist as a result of state or federal aid uncertainties, or other highly variable factors, a balance larger than this minimum amount may be maintained. These funds will be used to avoid cash flow interruptions, generate interest income, avoid the needs for short-term borrowing, and assist in maintaining an Aa2 bond rating.

#### **2. Use of Fund Balances**

If at all feasible, available fund balances will not be used for ongoing operating expenditures, unless a determination has been made that available balances are in excess of required guidelines and that plans have been established to address any future operating budget shortfalls. Emphasis shall be placed on one-time uses that achieve future operating cost reductions. Fund balance is the cumulative years' excess or deficit of all revenues and expense. In the case of proprietary funds, this is termed unrestricted net assets.

#### **3 Forecast**

A forecast will be prepared quarterly to predict revenue and expenditure outcomes. This will ensure that the City is on track to meet its budgeted obligations without falling into a deficit position. If forecasted results look to be below expectations, corrective action through a contingency plan will be taken. A forecast will include revenues, expenses, headcounts and transfers.

#### **4. Annual Review**

An annual review of cash flow requirements and appropriate fund balances shall be undertaken to determine whether modifications are appropriate for the reserve policy.

## F27. C. Reserve Levels – Other Funds

**Policy** The City of Duluth will maintain adequate reserve levels for all funds.

**General** **Optimum reserve levels will be maintained.** Appropriate action and modifications will be made as determined by the Chief Financial Officer.

**Attachments:** None

### **Procedures:**

#### **1. Enterprise Funds Equity**

Enterprise Funds are used to account for private enterprise-style operations, such as utilities. These funds are expected to be self-sustaining and profitable through user charges, in order to fund capital improvements, etc. The City of Duluth has several enterprise funds: Water, Stormwater, Gas, Sewer, Clean Water, Steam, Golf, Parking, and Street Lighting.

The appropriate balance shall be maintained to ensure adequate maintenance reserves, cash flow balancing requirements and legal restrictions. The City shall strive to maintain a minimum cash balance in its Enterprise Funds equal to approximately three months of operating expense, as circumstance and economic conditions allow.

Appropriate operating contingency reserves shall be maintained in enterprise funds to provide for business interruption costs and other unanticipated expenditures of a non-recurring nature. Appropriate capital fund reserves shall also be maintained for emergency improvements relating to new regulations, or emergency needs for capital repair or replacement.

Enterprise funds' equity will be classified in one of the following categories:

- **Investment in Capital Assets, Net of Related Debt** – The component of capital assets which is the difference between assets and liabilities of proprietary funds that consists of capital assets less both accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of the capital asset.
- **Restricted** – The component of net assets which is the difference between assets and liabilities of proprietary funds that consist of assets with constraints placed on their use by either external parties (i.e. creditors or grantors) or through constitutional provisions or enabling legislation.
- **Unrestricted** – The difference between assets and liabilities of proprietary funds other than reported as *Investment in Capital Assets, Net of Related Debt* or *Restricted* net assets.

No minimum level of equity is required, other than enough equity must be available to cover operating and non-operating expenses.

## **2. Internal Service Funds**

Internal Service Funds account for services provided to other departments within the City. They include the Self Insurance Fund, the Medical & Dental Funds, and the Fleet Services Fund. Appropriate balances shall be maintained to provide for cash flow balancing requirements and legal restrictions. Appropriate levels will be determined on an individual fund basis.

## **3. Other Governmental Funds**

These funds account for the City's long term debt, capital improvement projects, and other revenue sources committed or restricted for special purposes including grant funds. Fund balances will be maintained as legally required or until liquidated for the specified purpose. Any residual balances are considered assigned for the original purpose of the fund.

## **F27. D. Other Policy Matters**

**Policy** Minimum fund balances will be monitored on an ongoing basis.

**General** The City of Duluth will use all budgetary and financial accounting options available to maintain the minimum level of individual fund balances

**Attachments:** None

### **Procedures:**

#### **1. Financial and Accounting Options**

Some options that are available include:

1. Specific budgeted revenue increases.
2. Increased fees for services.
3. Reduction of budgeted expenditures.
4. Transfers from other funds.
5. Sale of capital assets.

It is the intent of the City to minimize significant fluctuations in property tax rates. The City is strongly dependent upon Minnesota state aids to subsidize the City's expenditure budget. The State legislature may approve appropriation changes that would cause the City to adjust the property tax level by a large amount to maintain an appropriate level of fund balance and to provide the services needed by the community. The Administrator and Chief Financial Officer will monitor state legislation to be aware of possible cuts or increases in State appropriations. The Administrator will report significant changes to the City Council once realized.

If a *fund deficit* occurs, a written plan is required. The Chief Financial Officer will develop a plan to move the fund out of the deficit and review the plan with the Chief Administrative Officer. The Chief Financial Officer will monitor the plan's effectiveness on an ongoing basis.

A *fund surplus*, above all internal and external constraints, may also occur. Some appropriate plans for using fund surpluses include the following items (but are not limited to):

1. Fund a one-time project or project planning that would not normally be budgeted in the on-going operations of the City.
2. Transfer excess funds to another City fund to finance a project or cover a shortfall.

3. Increase the optimum General Fund reserve level.

The City's credit rating will also be considered in determining the adequacy of fund balance reserves. The City's credit rating will be reviewed annually by the Chief Administrative Officer and Chief Financial Officer.



**EXHIBIT A**  
**FUND BALANCE CLASSIFICATIONS**  
**COMMITTED AND RESTRICTED FUNDS**

<b>Fund/Program</b>	<b>Category</b>	<b>Revenue Source</b>	<b>Purpose</b>
<b>General Fund</b>			
D.A.R.E.	Committed	D.A.R.E. police salary reimbursements	Crime prevention and youth community policing
Police training services	Committed	Police training center reimbursements and donations	Revolving fund for law enforcement training center activities
Fire safety education	Committed	Fire safety donations	Revolving fund for fire safety activities
Forfeitures	Restricted	Forfeitures	Law enforcement
Auction proceeds	Restricted	Auction proceeds	Law enforcement
DWI forfeitures	Restricted	DWI Forfeitures	DWI enforcement & education
<b>Parks Special Revenue Fund</b>			
Parks & recreation	Restricted	Special tax levy	Parks & recreation facilities and activities
<b>Lake Superior Zoo Special Revenue Fund</b>			
Lake Superior Zoo	Committed	Zoo revenues & donations	Zoo operations
Zoo Grants	Restricted	Zoo grants	Zoo operations
<b>Special Projects Special Revenue Fund</b>			
Special purpose grants	Restricted	Specific grants	As specified in the grant
Special purpose donations	Committed	Donations	As specified in the donation
City attorney forfeitures	Restricted	Forfeitures	City attorney related activities
Special League	Committed	Sport entry fees and field rentals	Special league expenses
Arrowhead Bow hunt	Committed	Bow hunt fees	Bow hunt expenses

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<b>Fund/Program</b>	<b>Category</b>	<b>Revenue Source</b>	<b>Purpose</b>
<b>Police Grants Special Revenue Fund</b>			
Police grants	Restricted	Specific grants	As specified in the grant agreement
Police forfeitures	Restricted	Forfeitures	Police activities
<b>GMHF Revolving Special Revenue Fund</b>			
Housing and safety code enforcement	Restricted	Greater Minnesota Housing loan	Revolving fund for housing and safety code enforcement
<b>Recovery Loan Program Special Revenue Fund</b>			
Loan program	Restricted	Minnesota Department of Trade & Economic Development Grant	Revolving economic development loan program
<b>Bayfront Festival Park Special Revenue Fund</b>			
Bay front park	Committed	Festival park fees and rents	Festival park capital maintenance and improvements
<b>Library Special Accounts Special Revenue Fund</b>			
Library estates & donations	Restricted	Library estates & donations	Library costs and improvements
Library grants	Restricted	Library grants	As specified in the grant agreement

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<b>Fund/Program</b>	<b>Category</b>	<b>Revenue Source</b>	<b>Purpose</b>
<b>Economic Development Special Revenue Fund</b>			
Economic development	Restricted	Economic development grants and loans	Economic development activities
<b>Community Investment Special Revenue Fund</b>			
Community investment	Committed	Fond du Luth Casino revenues	Capital improvements and other uses as approved by Council resolution
<b>Energy Management Special Revenue Fund</b>			
Energy management	Committed	Energy rebates and energy grants	Energy conservation projects, improvements and initiatives
<b>Tourism Tax Special Revenue Fund</b>			
Tourism taxes	Restricted	Food and beverage and hotel-motel excise taxes	Tourism related activities and other allowable costs as specified in the tax
<b>Public Facility and Programs Special Revenue Fund</b>			
Lawful gambling	Restricted	Lawful gambling tax collections	Improvement & maintenance of public facilities and to provide funding for community related program costs

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<b>Fund/Program</b>	<b>Category</b>	<b>Revenue Source</b>	<b>Purpose</b>
<b>HOME Investment Partnership Program Special Revenue Fund</b>			
Housing	Restricted	Department of Housing & Urban Development grants	Single family housing rehabilitation costs
<b>Community Development Special Revenue Fund</b>			
Community Development	Restricted	Community development grant funds and loans	City renewal and revitalization program costs
<b>Workforce Development Special Revenue Fund</b>			
Job training	Restricted	Federal, state and local grants	Job training and employment opportunity costs
<b>Senior Employment Special Revenue Fund</b>			
Senior employment	Restricted	Federal and state grants	Senior employment program costs
<b>General Obligation Debt Service Fund</b>			
General obligation debt	Restricted	Tax levy	Debt service
<b>Street Improvement Debt Service Fund</b>			
Street improvement debt	Restricted	Transfers and other sources	Debt service

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<b>Fund/Program</b>	<b>Category</b>	<b>Revenue Source</b>	<b>Purpose</b>
<b>Special Assessment Debt Service Fund</b>			
Special assessment debt	Restricted	Special assessments	Debt service
<b>Transit Bond Debt Service Fund</b>			
DTA bonds	Restricted	Tax levy	Debt service
<b>DECC Revenue Debt Service Fund</b>			
DECC bonds	Restricted	Food & beverage tax collections and other sources	Debt service
<b>Special Assessment Capital Project Fund</b>			
Assessable improvements	Restricted	Debt proceeds	Assessable project costs
<b>Permanent Improvement Capital Project Fund</b>			
Capital improvements	Restricted	Tax levy and grants	Capital improvement costs
<b>Street Improvement Program Capital Project Fund</b>			
Street improvements	Restricted	Assessments and other sources dedicated to street improvements	Street improvement costs
<b>Capital Improvement Capital Project Fund</b>			
Bonded capital improvements	Restricted	Bond proceeds	Capital improvement costs

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 FUND BALANCE CLASSIFICATIONS  
 COMMITTED AND RESTRICTED FUNDS

Fund/Program	Category	Revenue Source	Purpose
Capital Equipment	Capital Project		
Fund	Bonded capital equipment	Restricted	Capital equipment costs
Spirit Mountain Capital Project	Fund	Bond proceeds	Capital equipment costs
Spirit mountain improvements	Restricted	Bond proceeds	Spirit Mountain improvement costs