

# BOARD OF ALDERMEN

ITEM NO. C(7)

## AGENDA ITEM ABSTRACT

MEETING DATE: April 5, 2011

**TITLE: Revision of Fund Balance Policy and Capital Projects Fund**

<b>DEPARTMENT: Management Services</b>	<b>PUBLIC HEARING: YES ___ NO <u>X</u></b>
<b>ATTACHMENTS: A: A Resolution Revising the Fund Balance Policy B: Budget Ordinance Modifying Capital Reserve Fund and Special Revenue Fund</b>	<b>FOR INFORMATION CONTACT: Arche L. McAdoo, Management Services 918-7439 Nancy Emslie, Management Services 918-7301</b>

### PURPOSE

The purpose of the item is to amend the Town's fund balance policy and modify the Capital Reserve Fund and Special Revenue Fund to be in compliance with the requirements of GASB Statement 54, Fund Balance Reporting and Government Fund Type Definitions.

### INFORMATION

Governmental Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Government Fund Type Definitions*, GASB 54 becomes effective for the fiscal year ending June 30, 2011. This statement distinguishes between the portions of fund equity (the difference between assets and liabilities) that is spendable and non-spendable and requires fund balance be reported according to the following five categories.

1. Non-spendable fund balance – includes amounts that are not in a spendable form or are required to be maintained intact. Examples are inventory, prepaid or long term receivable.
2. Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and Powell bill.
3. Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
4. Assigned fund balance – comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
5. Unassigned fund balance – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

On June 3, 2009 the Board of Aldermen updated the Financial Policies for the Town of Carrboro which has a section included setting forth the Town's Fund Balance Policy. In order to be consistent with GASB Statement 54 for the current fiscal year ending June 30, 2011 it is necessary that the Town revise its fund balance policy and realign the Special Revenue Fund and Capital Projects Fund adopted in the FY 2010-11 operating budget ordinance.

The recommended changes to the fund balance policy continue the current requirement of a general fund balance level of 22.5 % to 35% of the General Fund budget. Unchanged are the provisions to earmark funds exceeding 22.5% for capital projects or financing; requiring action by the Town Manager to restore fund balance within one year when it falls below 20%; and, Town Manager's ability to set aside amounts for the capital projects fund for future projects when fund balance exceeds 35% . Recommended changes to the fund balance policy include provisions that: Board of Aldermen must take action to commit the use of fund balance; Town Manager may assign fund balance for specific purposes; and the order in which fund balance should be used.

Currently, the Special Revenue Funds in the adopted budget includes, among others, the Capital Reserve Funds and Payment-in-Lieu Funds. Under GASB 54 Capital Reserve and Payment-in-Lieu Funds are no longer allowed to be included in Special Revenue Funds and must be accounted for in a Capital Projects Fund or General Fund. Because revenues in the Capital Reserve and Payment-in-Lieu Funds are intended to support future capital project activities, it is recommended that these two funds be accounted for in the Capital Projects Fund.

#### FISCAL IMPACT

This is an administrative policy matter to ensure compliance with new requirements of GASB Statement 54 on fund balance reporting and government fund type definitions.

#### STAFF RECOMMENDATION

That the Board considers for adoption the attached resolution revising the Town's fund balance policy, and the budget ordinance amendment moving Capital Reserve Fund and Payment-in-Lieu Fund from Special Revenue Funds to Capital Projects Fund.