



MEMORANDUM

To: Kurt Triplett, City Manager
From: Tracey Dunlap, Director of Finance and Administration
Date: October 5, 2010
Subject: GASB 54 and Fund Changes in the 2011-2012 Budget

BACKGROUND:

The Governmental Accounting Standards Board has issued new guidelines (GASB Statement 54) entitled *Fund Balance Reporting and Governmental Fund Type Definitions*, which will require changes in financial reporting beginning in 2011. The objective of this Statement is to provide clearer and more consistent fund balance classifications and to clarify the existing governmental fund type definitions.

Fund balance refers to the difference between assets and liabilities in the governmental funds balance sheet. This information is one of the most widely used elements of state and local government financial statements. Users examine fund balance information to identify the available liquid resources that can be used to repay long-term debt, reduce property taxes, add new governmental programs, expand programs, or enhance the financial position of the government.

The new requirements in GASB Statement 54 prompted Finance to review the City's existing fund structure to determine what changes are required and identified other changes that would simplify the City's fund structure. The 2011-2012 budget offers a unique opportunity to implement fund changes since comparative analysis will be relatively limited due to the addition of the annexation area during the period. At a future date, staff will bring forward revisions to the Kirkland Municipal Code (KMC) to reflect the changes to fund structure and authorizations for fund balance reporting required by GASB Statement 54.

Fund Balance Definitions

GASB Statement 54 is designed to improve financial reporting by establishing fund balance classifications that are easier to understand and apply. It establishes a hierarchy based largely on the extent to which a government is bound to observe the spending constraints that govern how it can use amounts reported in the governmental funds balance sheet.

The following classifications have been established:

- *Non-spendable Fund Balance* – Amounts that are not in a spendable form or are required to be maintained intact. Example: inventory, long-term notes receivable, endowment principal
- *Restricted Fund Balance* – Amounts that can be spent only for the specific purposes stipulated by external resource providers; constitutionally, or through enabling legislation. Example: grants, lodging tax, impact fees, seized funds
- *Committed Fund Balance* – Amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. Commitments may be

changed or lifted only by the City taking the same formal action that imposed the constraint originally. Example: program funding, reserves

- *Assigned Fund Balance* – Amounts intended to be used by the City for specific purposes. Intent of use can be expressed by the City Council or by a designated official such as the Finance Director. Assigned fund balance can be used in the General Fund and will be used in all Special Revenue Funds since by definition that balance has been assigned. Example: General Fund Contingency, Aid Car Donations
- *Unassigned Fund Balance* – Residual classification for the general fund and includes all amounts not contained in the other classifications. These amounts are technically available for any purpose.

Fund Type Definitions

In addition to the Fund Balance designation changes the definitions of fund types have been clarified in Statement 54.

Special Revenue Funds – These funds may only be established when one or more revenue sources are restricted or committed to meet the purpose of the fund. The specific purpose revenue must constitute a substantial portion of the resources reported in the fund, which has been clarified by the Washington State Auditor's Office to be at least 20%.

Rainy Day Funds – Amounts constrained to stabilization are to be reported as restricted or committed fund balance in the general fund. Stabilization arrangements that do not meet the criteria to be reported within the restricted or committed fund balance should be reported as unassigned in the general fund. The City will be required to disclose key information about their stabilization arrangements in the notes to the financial statements.

Effective Date

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The fund modifications, which include several fund closures and consolidations, will be presented with the 2011-2012 biennial budget. Due to the timing of the biennial budget and the planned annexation, the fund modifications will transition more easily at the beginning year of the budget. We expect the changes presented here will be the final result of the City's implementation but the Washington State Auditor's Office has yet to make recommendations when RCWs are in direct conflict with this accounting standard. We will bring any further changes to Council's attention in the final budget document.

Anticipated Fund Changes

The changes will consolidate reserves and simplify the presentation in financial statements. The following is a list of the funds that will be consolidated:

- Consolidated with General Fund (Fund 010):
 - Recreation Revolving (Fund 126)
 - Park & Municipal Reserve (Fund 157)
 - Tour Dock (Fund 159)
 - Grant Control (Fund 188)
- Consolidated with Street Operating (Fund 117):
 - Street Improvement (Fund 170)
 - Off-Street Parking Reserve (Fund 158)
- Consolidated with Cemetery Operating (Fund 122):
 - Cemetery Improvement (Fund 154)

Examples of the impacts of the anticipated reporting changes are attached:

Exhibit 1: Details the approved 2009-2010 budget amounts by fund and how these amounts would differ given the new statement changes. The preliminary budget document is presented in the new fund structure and the impacts of the changes are highlighted throughout the document.

Exhibit 2: Displays the financial statement presentation changes under the new reporting structure. The financial statements are shown as reported in 2009 and again with 2009 amounts with the new standards in place.

In addition to these changes, we anticipate that one new internal service funds will be created, the Health Benefits Fund, to account for the self-insured medical program. In addition, we are evaluating the advisability of creating a separate Unemployment Fund to recognize that the City already self-funds unemployment benefits.

ILLUSTRATION OF FUND CHANGE IMPACT TO ORDINANCE
(Original 2009-10 Adopted Budget)

<u>Funds</u>	<u>Original Appropriation</u>	<u>Revised Appropriation</u>
General	124,687,343	133,942,598
Lodging Tax	794,424	794,424
Street Operating	9,087,068	11,918,254
Cemetery Operating	199,498	798,026
Parks Maintenance	2,203,287	2,203,287
Recreation Revolving	2,825,090	0
Contingency	2,324,515	2,324,515
Cemetery Improvement	598,528	0
Impact Fees	7,165,555	7,165,555
Park & Municipal Reserve	10,050,552	0
Off-Street Parking Reserve	217,610	0
Tour Dock	122,675	0
Street Improvement	2,613,576	0
Grant Control Fund	216,458	0
Excise Tax Capital Improvement	24,039,092	24,039,092
Limited General Obligation Bonds	2,735,723	2,735,723
Unlimited General Obligation Bonds	2,703,581	2,703,581
General Capital Projects	26,142,349	26,142,349
Grant Capital Projects	5,307,113	5,307,113
Water/Sewer Operating	46,479,043	46,479,043
Water/Sewer Debt Service	3,510,123	3,510,123
Utility Capital Projects	18,837,106	18,837,106
Surface Water Management	12,515,606	12,515,606
Surface Water Capital Projects	6,765,553	6,765,553
Solid Waste	18,753,863	18,753,863
Equipment Rental	13,971,736	13,971,736
Information Technology	10,111,156	10,111,156
Facilities Maintenance	9,804,443	9,804,443
Firefighter's Pension	1,635,961	1,635,961
	366,418,627	362,459,107

2009 Financial Statement Presentation

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Funds
 For the fiscal year ended December 31, 2009

	General Fund	Street Operating	Park and Municipal Reserve	Excise Capital Improvement	General Capital Projects	Grant Capital Projects	Other Governmental Funds	Governmental Funds Total
Revenues								
Taxes and Assessments	35,607,825	3,153,322	0	1,999,843	158,333	0	2,707,999	43,627,322
Licenses and Permits	3,269,039	0	0	0	0	0	8,755	3,277,794
Intergovernmental	6,677,986	567,753	425,486	0	527,213	211,828	555,404	8,965,670
Charges for Services	6,761,452	157,404	0	0	0	0	1,835,124	8,753,980
Fines and Forfeitures	1,505,082	0	1,000	0	0	0	0	1,506,082
Investment Interest	742,058	0	0	262,591	632,276	0	17,167	1,654,092
Miscellaneous Revenues	103,252	177,664	117,821	0	5,556	0	412,126	816,419
Total Revenues	54,666,694	4,056,143	544,307	2,262,434	1,323,378	211,828	5,536,575	68,601,359
Expenditures								
Current								
General Government	9,272,745	0	221,001	0	30,754	0	26,136	9,550,636
Security of Persons and Property	32,331,176	0	147,882	0	53	0	0	32,479,111
Physical Environment	3,458,456	0	0	0	2,561	0	27,634	3,488,651
Transportation	619,731	3,960,564	0	0	2,377,199	0	0	6,957,494
Economic Environment	5,987,158	0	7,499	0	0	0	314,638	6,309,295
Culture and Recreation	5,773,417	0	6,742	0	79,391	0	905,172	6,764,722
Debt Service								
Principal	0	0	0	0	0	0	2,190,000	2,190,000
Interest	0	0	0	0	0	0	722,333	722,333
Capital Outlay	17,108	171,032	149,506	0	6,898,136	3,599,760	46,555	10,882,097
Total Expenditures	57,459,791	4,131,596	532,630	0	9,388,094	3,599,760	4,232,468	79,344,339
Excess (Deficiency) of revenues								
Over (under) expenditures	(2,793,097)	(75,453)	11,677	2,262,434	(8,064,716)	(3,387,932)	1,304,107	(10,742,980)
Other Financing Sources (Uses)								
Sale of Capital Assets	0	0	0	0	0	0	33,036	33,036
Insurance Recovery	5,520	0	0	0	0	0	0	5,520
Transfers In	4,477,317	25,000	767,993	627,414	10,268,926	1,781,884	1,505,349	19,453,883
Transfers Out	(1,705,441)	(51,980)	(2,022,253)	(8,824,785)	(1,416,338)	(145,655)	(4,130,641)	(18,297,093)
Total Other Financing Sources (Uses)	2,777,396	(26,980)	(1,254,260)	(8,197,371)	8,852,588	1,636,229	(2,592,256)	1,195,346
Net Change in Fund Balance	(15,701)	(102,433)	(1,242,583)	(5,934,937)	787,872	(1,751,703)	(1,288,149)	(9,547,634)
Fund Balances Beginning of Year (Note 16)	7,585,824	1,974,372	10,044,409	15,535,515	17,876,928	6,526,121	7,101,313	66,644,482
Prior Period Adjustment (Note 16)	94,395	0	0	0	0	0	205	94,600
Fund Balances End of Year	7,664,519	1,871,938	8,801,826	9,600,578	18,664,800	4,774,418	5,813,369	57,191,448

The notes to the financial statements are an integral part of this statement.

2009 Pro Forma Presentation with Fund Balance Changes

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Funds
 For the fiscal year ended December 31, 2009

	General Fund	Street Operating and Improvement	Contingency	Excise Capital Improvement	General Capital Projects	Grant Capital Projects	Lodging Tax	Cemetery Operations and Improvements	Parks Maintenance	Impact Fees	LTGO Debt Service	UTGO Debt Service	Governmental Funds Total
Revenues													
Taxes and Assessments	35,607,825	3,423,322	0	1,999,843	158,333	0	181,104	0	808,990	0	0	1,447,905	43,627,322
Licenses and Permits	3,277,794	0	0	0	0	0	0	0	0	0	0	0	3,277,794
Intergovernmental	7,123,042	1,103,586	0	0	527,213	211,828	0	0	0	0	0	0	8,965,670
Charges for Services	7,894,809	157,404	50,000	0	0	0	0	68,368	0	583,399	0	0	8,753,980
Fines and Forfeitures	1,506,082	0	0	0	0	0	0	0	0	0	0	0	1,506,082
Investment Interest	742,173	0	0	262,591	632,276	0	3,352	0	0	13,700	0	0	1,654,092
Miscellaneous Revenues	605,516	177,664	11,047	0	5,556	0	257	1,150	15,229	0	0	0	816,419
Total Revenues	56,757,241	4,861,976	61,047	2,262,434	1,323,378	211,828	184,713	69,518	824,219	597,099	0	1,447,905	68,601,359
Expenditures													
Current													
General Government	9,493,746	0	26,136	0	30,754	0	0	0	0	0	0	0	9,550,636
Security of Persons and Property	32,479,058	0	0	0	53	0	0	0	0	0	0	0	32,479,111
Physical Environment	3,460,327	0	0	0	2,561	0	0	25,763	0	0	0	0	3,488,651
Transportation	619,731	3,960,564	0	0	2,377,199	0	0	0	0	0	0	0	6,957,494
Economic Environment	5,994,657	0	0	0	0	0	314,638	0	0	0	0	0	6,309,295
Culture and Recreation	5,788,472	0	0	0	79,391	0	0	0	896,859	0	0	0	6,764,722
Debt Service													
Principal	0	0	0	0	0	0	0	0	0	0	1,105,000	1,085,000	2,190,000
Interest	0	0	0	0	0	0	0	0	0	0	350,348	371,985	722,333
Capital Outlay	202,369	171,032	0	0	6,898,136	3,599,760	0	10,800	0	0	0	0	10,882,097
Total Expenditures	58,038,360	4,131,596	26,136	0	9,388,094	3,599,760	314,638	36,563	896,859	0	1,455,348	1,456,985	79,344,339
Excess (Deficiency) of revenues													
Over (under) expenditures	(1,281,119)	730,380	34,911	2,262,434	(8,064,716)	(3,387,932)	(129,925)	32,955	(72,640)	597,099	(1,455,348)	(9,080)	(10,742,980)
Other Financing Sources (Uses)													
Sale of Capital Assets	0	0	0	0	0	0	0	33,036	0	0	0	0	33,036
Insurance Recovery	5,520	0	0	0	0	0	0	0	0	0	0	0	5,520
Transfers In	5,245,310	25,000	0	627,414	10,268,926	1,781,884	0	0	50,000	0	1,455,349	0	19,453,883
Transfers Out	(5,018,515)	(1,068,708)	(482,015)	(8,824,785)	(1,416,338)	(145,655)	0	(32,093)	0	(1,308,984)	0	0	(18,297,093)
Total Other Financing Sources (Uses)	232,315	(1,043,708)	(482,015)	(8,197,371)	8,852,588	1,636,229	0	943	50,000	(1,308,984)	1,455,349	0	1,195,346
Net Change in Fund Balance	(1,048,804)	(313,328)	(447,104)	(5,934,937)	787,872	(1,751,703)	(129,925)	33,898	(22,640)	(711,885)	2	(9,080)	(9,547,634)
Fund Balances Beginning of Year (Note 16)	17,964,256	3,366,485	2,354,196	15,535,515	17,876,928	6,526,121	292,088	558,740	524,350	1,164,268	172,370	309,165	66,644,482
Prior Period Adjustment (Note 16)	94,600	0	0	0	0	0	0	0	0	0	0	0	94,600
Fund Balances End of Year	17,010,053	3,053,156	1,907,092	9,600,578	18,664,800	4,774,418	162,163	592,638	501,710	452,383	172,372	300,085	57,191,448

The notes to the financial statements are an integral part of this statement.