

**CITY OF TONKA BAY  
ITEM NO. 9D**

# Memo

**To:** Honorable Mayor and City Council  
**From:** Joe Kohlmann, City Administrator  
**Date:** April 24, 2012

---

The City is required to classify their governmental funds per the Governmental Accounting Standards Board through Statement 54: *Fund Balance Reporting and Governmental Fund Type Definition*.

Staff has been working with Stuart Bonniwell on the Fund Classifications. Proprietary funds do not need to be classified (i.e. water, sewer, dock, garbage, recycling, storm water drainage funds). Staff is recommending the following classifications for the funds:

101 General Fund – **Unassigned**  
301 Woodpecker Ridge Road Fund – **Committed**  
406 Southshore Comm. Ctr. Fund – **Assigned**  
407 Park Fund – **Assigned**  
408 Manitou Seawall Fund - **Assigned**  
409 Capital Improvement Fund – **Assigned**  
411 Water/Sewer Reserve Fund – **Assigned**  
609 Liquor Store Fund – **Assigned**  
653 Antenna Fund – **Assigned**

Per Stuart Bonniwell's recommendation, Staff is also recommending that the Council designate authority to the City Administrator to assign amounts to be used for specific purposes for financial reporting purposes.

*Attached is a Resolution Classifying the fund balances and designating authority to Administrator*

*Attached is a Memo from Stuart Bonniwell discussing the fund classifications*

*Attached is email from Stuart on how to move forward procedurally.*

*Attached is a Memo from Stuart outlining what the different classifications mean.*

**Council Action Requested:**

Discuss the Fund Balance Classifications and adopt the attached Resolution.

# STUART J. BONNIWELL

*Certified Public Accountant*

7101 York Avenue South  
Suite 346  
Minneapolis, Minnesota 55435

Office: (952) 921-3325  
Fax: (952) 921-3331  
e-mail: sbonniwell@unique-software.com

## MEMORANDUM

April 10, 2012

To: Joe Kohlmann, City Administrator  
Subject: Fund Balance Classifications

The fund balance classification applies only to governmental type funds. As a result the proprietary funds are not involved with the new fund balance classifications. The following funds of the City are proprietary funds:

601	Water
602	Sewer
603	Garbage
617	Dock
651	Storm Water
652	Recycling

I concur that the Woodpecker Ridge Road Fund (301) and Manitou Seawall Fund (408) are committed funds, although Manitou could be considered an assigned fund balance. The Water/Sewer Reserve Fund may be considered a committed fund balance, not quite sure about the origination of the fund, but recently funds have been transferred from the utility funds and used for utility related purposes.

The other funds listed as assigned on the financial report are appropriately classified.

Finally, the General Fund is properly classified as unassigned. However, I would recommend the City consider adopting a fund balance reserve policy for the General Fund, or at least appropriate funds for such a purpose. As previously noted, the State Auditor recommends cities maintain a working capital reserve of 35 - 50% of operating revenues or five months of operating expenditures. In addition, I would recommend the City designate you, as City Administrator, to have authority to assign amounts to be used for specific purposes for financial reporting purposes.

After you have had a chance to review this memorandum, please contact me to discuss the fund balance classifications. Thanks for the opportunity to assist in developing the appropriate fund balance classifications.

Stuart J. Bonniwell

**RESOLUTION 12-**

**A RESOLUTION CLASSIFYING FUND BALANCE TO FULFILL REQUIREMENTS OF GASB 54:  
FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITION.**

WHEREAS, The Governmental Accounting Standards Board issued Statement No. 54: *Fund Balance Reporting and Governmental Fund Type Definition*; and

WHEREAS, this Statement primarily discusses changes to the reporting of fund balances in governmental fund types; and

WHEREAS, the requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010; and

WHEREAS, the Statement establishes fund balance classifications based primarily on the extent to which a government is required to observe constraints imposed on the use of the specific resources reported in governmental funds; and

WHEREAS, the City Council has discussed the fund balance classifications and has determined to classify the applicable funds as follows:

- 101 General Fund – **Unassigned**
- 301 Woodpecker Ridge Road Fund – **Committed**
- 406 Southshore Comm. Ctr. Fund – **Assigned**
- 407 Park Fund – **Assigned**
- 408 Manitou Seawall Fund - **Assigned**
- 409 Capital Improvement Fund – **Assigned**
- 411 Water/Sewer Reserve Fund – **Assigned**
- 609 Liquor Store Fund – **Assigned**
- 653 Antenna Fund – **Assigned**; and

WHEREAS, the City Council designates the City Administrator to have authority to assign amounts to be used for specific purposes for financial reporting purposes.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Tonka Bay, Hennepin County, Minnesota, that the governmental funds are classified as follows and the City Administrator is designated to have authority to assign amounts to be used for specific purposes for financial reporting purposes:

- 101 General Fund – **Unassigned**
- 301 Woodpecker Ridge Road Fund – **Committed**
- 406 Southshore Comm. Ctr. Fund – **Assigned**
- 407 Park Fund – **Assigned**
- 408 Manitou Seawall Fund - **Assigned**
- 409 Capital Improvement Fund – **Assigned**
- 411 Water/Sewer Reserve Fund – **Assigned**
- 609 Liquor Store Fund – **Assigned**
- 653 Antenna Fund – **Assigned**; and

PASSED at a regular meeting of the Tonka Bay City Council this 24th day of April, 2012.

Motion introduced by \_\_\_\_\_ and seconded by \_\_\_\_\_.

Roll Call Vote: Ayes – \_\_\_\_\_  
Nays – None  
Absent – None

\_\_\_\_\_  
William LaBelle, Mayor

ATTEST:

\_\_\_\_\_  
Joseph Kohlmann, Clerk/Administrator

**Joe Kohlmann**

---

**From:** Stuart Bonniwell [sbonniwell@unique-software.com]  
**Sent:** Thursday, April 12, 2012 12:53 PM  
**To:** 'Joe Kohlmann'  
**Subject:** RE: Fund Classifications  
**Follow Up Flag:** Follow up  
**Flag Status:** Red

Joe –

See answers below. Any other questions or comments just call. ENJOY the day. Let's go golfing instead of the baseball game (the Twins don't sound good so far).

Stuart J. Bonniwell  
Certified Public Accountant  
Phone: 952-921-3325

---

**From:** Joe Kohlmann [mailto:jkohlmann@cityoftonkabay.net]  
**Sent:** Thursday, April 12, 2012 9:25 AM  
**To:** 'Stuart Bonniwell'  
**Subject:** RE: Fund Classifications

Stuart,

I appreciate the quick response. A few questions:

- 1) Would a Resolution classifying the funds be sufficient? Yes, the resolution should give a general type of classification for each of the funds, excluding the proprietary funds.
- 2) Is adopting a Fund Balance Policy for the General Fund mandatory or good practice? Good practice, not mandatory by any means – recommended by State Auditor.
- 3) I'm a little unclear as to what you mean by designating me to assign amounts to be used for specific purposes for financial reporting purposes. Could you give me an example of what this entails? An example would be if there was a program or project discussed by the Council but the amount (dollars involved) was not known at the time. You, as City Administrator, could assign the dollar amount later after the amount is known without bringing it back to the Council.
- 4) Our investment practices (we are not adopting a policy, Statute 118A by default) are going well. We are looking at investing some of the cash we had discussed earlier in the year. I may need to discuss with you later how to properly account for these dollars when we get to that point. Go for it!
- 5) Just to get an idea, when can I tell the Council to expect the audit to be on the agenda? First meeting in May – gives us a chance to review everything once the fund classifications are listed in the report.

You can call or email me.

Thanks Stuart!

Joe Kohlmann  
(952) 474-7994

4/19/2012

---

**From:** Stuart Bonniwell [mailto:sbonniwell@unique-software.com]  
**Sent:** Wednesday, April 11, 2012 10:26 PM  
**To:** 'Joe Kohlmann'  
**Subject:** RE: Fund Classifications

Joe –

Attached is a memo concerning proposed fund balance classifications. Call with your comments. How is the investment policy changes going?

Stuart J. Bonniwell  
Certified Public Accountant  
Phone: 952-921-3325

---

**From:** Joe Kohlmann [mailto:jkohlmann@cityoftonkabay.net]  
**Sent:** Wednesday, April 11, 2012 2:35 PM  
**To:** Stuart Bonniwell  
**Subject:** Fund Classifications

Stuart,

I have attached our statement and wrote the Fund Balance Classifications I thought were appropriate for each fund in blue ink. The other notations aren't relevant to this particular issue.

If you agree with these classifications, I will put this on our April 24<sup>th</sup> agenda and recommend these to Council.

Please let me know if any of the classifications would be insufficient.

Thanks,

Joe Kohlmann  
City Administrator  
City of Tonka Bay  
4901 Manitou Road  
Tonka Bay, MN 55331  
(952) 474-7994  
[jkohlmann@cityoftonkabay.net](mailto:jkohlmann@cityoftonkabay.net)

**STUART J. BONNIWELL**  
*Certified Public Accountant*

7101 York Avenue South  
Suite 346  
Minneapolis, Minnesota 55435

Office: (952) 921-3325  
Fax: (952) 921-3331  
e-mail: sbonniwell@unique-software.com

RECEIVED

JAN 12 2012

January 5, 2011

Mr. Joe Kohlmann  
City Administrator  
City of Tonka Bay  
4901 Manitou Road  
Tonka Bay, MN 55331

Joe –

The new year brings significant changes to the reporting of City activities in their annual financial reports. The Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*; this Statement primarily discusses changes to the reporting of fund balances in governmental fund types. In connection with these changes the Board refined the definitions of governmental fund types to facilitate the changes in the reporting of fund balances. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010, and as a result this is first year the City's financial statements and reporting are impacted.

The primary objective of this Statement is to enhance the usefulness and understanding of fund balance information and reporting by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement establishes fund balance classifications based primarily on the extent to which a government is required to observe constraints imposed on the use of the specific resources reported in governmental funds. Another objective of the requirements of this Statement is the improvement of financial reporting by providing fund balance categories and classifications that will be more clearly understood by readers and users of the financial statements and enhance the consistency between financial information reported in the government-wide financial statements with information reported in the governmental fund financial statements. To provide readers and users an understanding concerning the availability and liquidity of the net current financial resources that constitute fund balances by clearly characterizing the various levels of constraints that are imposed on its resources was a need addressed in the Statement.

The new fund balance classifications within governmental fund types prescribed by the Statement are:

Nonspendable,  
Restricted,  
Committed,  
Assigned, and  
Unassigned.

These classifications replace terminology previously used in financial reporting of fund balances related to governmental fund types, such as reserved and unreserved – designated and undesignated.

Following on the page is a brief description of each fund balance classification.

## **Nonspendable Fund Balance**

The nonspendable classification includes amounts that can not be spent because they are either – (a) not in spendable form, or (b) legally or contractually required to be maintained intact.

Not in spendable form includes items that are not expected to be converted to cash, for example inventories and prepaid amounts. The corpus or principal of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact and would be reported as nonspendable fund balance.

## **Restricted Fund Balance**

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

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

Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources from external resource providers and includes a legally enforceable requirement (compelled by an external party) that those resources be used for the specific purposes stipulated in the legislation.

## **Committed Fund Balance**

Included in this classification are 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, typically the City Council. Committed fund balances may also include contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Amounts reported in the committed fund balance classification may be recommitted or redeployed for other purposes upon appropriate action approved by the government's decision-making authority to remove or change the specified use purpose for which these amounts were previously committed.

The emphasis on this classification is that formal action committing the funds is taken by the government's highest level of decision-making authority. Although action is needed to commit the funds, the amount committed or subject to constraint can be determined at a later time or in a subsequent period.

## **Assigned Fund Balance**

Amounts that are constrained by the government's *intent* to be used for specific purposes, but do not satisfy the restricted or committed classification, should be reported as assigned fund balance. *Intent* may be expressed by (a) the governing body itself; or (b) a body (budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The key distinction between committed and assigned fund balances is the level of authority for making the commitment or assignment. Under this classification actions necessary to remove or modify an assignment are more easily changed than those imposed on amounts that have been committed. It is possible a government may not have both committed and assigned fund balance.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable, restricted or committed; and, (b) amounts in the General Fund that are intended to be used for a specific purpose as discussed in the previous paragraph. However, governments are not permitted to report an assignment for an amount if the assignment would result in a deficit in the unassigned fund balance of a fund.

## Unassigned Fund Balance

Unassigned fund balance is the residual classification for the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

For other governmental funds, if expenditures incurred exceed revenues, it may be necessary to report a 'negative' unassigned fund balance. However, if amounts assigned for other purposes in that fund exist, these amounts should be used to reduce or eliminate the deficit fund balance. A negative residual amount should not be reported for restricted, committed or assigned fund balances in any fund.

The related topic addressed in this Statement was concerning *stabilization arrangements* and their impact on fund balance reporting. These arrangements are often times referred to as economic, revenue or budgetary stabilization policies, minimum fund balance, working capital reserves, contingency or emergency funds, rainy-day funds, etc. For the purpose of reporting fund balance, stabilization arrangements satisfy the definition as a specific purpose. Stabilization amounts should be reported in the General Fund as restricted or committed if they meet the criteria as previously discussed. As an example, if the City made an appropriation of its existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget, the appropriation amount satisfies the criteria to be classified as an assignment of fund balance.

A Statement of Position issued by the Office of the State Auditor recommends that local governments determine and establish in their fund balance policy a desired minimum level of unrestricted fund balance to maintain in the General Fund. Also in this Statement, the State Auditor recommends that local governments maintain an unrestricted fund balance in their General Fund of approximately 35 – 50% of fund operating revenues or no less than five months of operating expenditures. It is estimated that this amount should provide the local government with adequate funds until the next property tax revenue collection cycle. The adequacy of the unrestricted fund balance should be assessed based on individual facts and circumstances of each local government.

\* \* \*

In connection with this project on fund balance reporting, the GASB clarified definitions associated with governmental fund types. Following is a brief definition of these fund types.

The **General Fund** is used to account for and report all financial resources not accounted for and reported in another fund; this definition remains unchanged.

**Special Revenue Funds** are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term proceeds of specific revenue sources establishes that one or more specific restricted or committed revenues should be the foundation for the fund. In addition, the specific revenue source should be expected to continue to comprise a substantial portion of the inflows reported in the fund. However, the term substantial portion was not quantified. Once a government no longer expects that a substantial portion of the inflows will be derived from the restricted or committed revenue source, governments should discontinue reporting this activity as a special revenue fund, transfer the remaining funds and report these activities in the General Fund.

Based on interpretations of this definition, special revenue funds established and funded through transfers from other funds, including the General Fund, would be eliminated. Existing fund balances would be restated as part of the General Fund or other governmental fund types as appropriate. Activities of these funds would subsequently be reported in the appropriate governmental fund type.

**Debt Service Funds** are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest related to debt issued. Financial resources being accumulated for future debt service requirements should also be reported in these debt service funds.

**Capital Project Funds** are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds would exclude those capital related outflows financed by proprietary funds.

**Permanent Funds** are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the program.

Fund balance reclassifications to conform to the provisions of the Statement should be applied retroactively by restating fund balances of the prior periods. In addition, disclosures to the financial statements are required to describe the new terminology and the government's policies regarding fund balance classifications.

One recommendation as a result of the issuance of this Statement is that governments establish a comprehensive fund balance policy. The policy would address items such as minimum fund balance, stabilization arrangements, order of resource use, and committed and assigned fund balance.

In summary, the Statement requires changes in financial statements reporting of fund balances of governmental fund types. As with any change, there will be issues to discuss and resolve during the audit process to satisfy the new reporting standards in accordance with the provisions of GASB Statement 54. Many of these topics will be addressed with management to better clarify and present users of the financial statements with the required fund balance information.

Another project currently being deliberated by the Governmental Accounting Standards Board is on economic condition reporting and financial projections. The objective of the project is to provide guidance and guidelines for the inclusion of discussions regarding economic conditions, dependency on intergovernmental revenues and financial projections in the government's annual financial report. More on this topic will follow.

Best wishes in the New Year!



Stuart J. Bonniwell  
Certified Public Accountant