

**INTEROFFICE COMMUNICATION
COUNTY OF MILWAUKEE**

DATE: May 3, 2012

TO: Marina Dimitrijevic, Chairwoman, County Board of Supervisors

FROM: Scott B. Manske, Comptroller

SUBJECT: Resolution on Revision to County Ordinance for New Governmental Accounting Standards Board Statement #54 on Fund Balance Reporting

Policy Issue

Wisconsin Statute 59.60 requires that Milwaukee County follow Generally Accepted Accounting Principles (GAAP) in the preparation of its budget and actual numbers on an annual basis. Rules on GAAP are determined and issued by the Governmental Accounting Standards Board (GASB). The GASB has issued Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions", which becomes applicable for Milwaukee County for year ended December 31, 2011. Adoption of the new GASB Statement 54 requires the County Board and County Executive to approve a change to County Ordinance 32.91 on fund balance.

Action Recommended

It is recommended that:

1. The Committee on Finance and Audit review and approve the changes to County Ordinance 32.91 on Fund Balance, so that the County complies with GASB Statement 54, and remains in compliance with Generally Accepted Accounting Procedures (GAAP).
 - a. State Statute 59.60 (3m) Accounting and Budgeting Procedure. Every accounting and budgeting procedure that is applied under this section shall comply with generally accepted accounting principles for governments as promulgated by the governmental accounting standards board ("GASB") or its successor bodies or other authoritative sources.

There is no fiscal impact from the adoption of the new GASB Standard 54. The change in the ordinance denotes the County requirement to follow GAAP and to reclassify fund balance as required by the new standard.

The resolution notes that there exists a change to ordinance that is before the County Board on the Office of the Comptroller. County Ordinance 32.91, as it exists, will be moving to County Ordinance 34.07, under that resolution. If the Office of the Comptroller resolution is passed, the ordinance change requested under this resolution will repeal and recreate County Ordinance 34.07 under the Office of the Comptroller resolution.

It is requested that this matter be referred to the Committee on Finance and Audit.

Background

The Department of Administrative Services – Controller Office has been responsible for the preparation of the annual financial report of Milwaukee County. The annual financial report is referred to as the Comprehensive Annual Financial Report (CAFR). The CAFR consists of the financial reporting of the results of the County on an annual basis. The financial reports include a balance sheet on the Governmental Funds of the County. The balance sheet includes the assets (cash, receivables and inventories), liabilities (accounts payable, accrued liabilities and deferred revenues) and fund balance (reserved and unreserved).

The new GASB Statement 54 requires that the classification of the governmental funds fund balance be changed for year ended December 31, 2011. Governmental Funds consist of the following funds:

General Fund – The County’s primary operating fund. It accounts for all financial resources of the general government, except those resources required to be accounted for in another fund.

Debt Service Fund – the accumulation of resources used to pay for, and payment of principal and interest on long-term general obligation debt of Milwaukee County.

Capital Projects Fund – The financial resources received for, and used to pay for the acquisition or construction of major capital facilities. Capital Debt proceeds and State and Federal funding are a major resource for capital construction.

Special Revenue Funds – Used to account for endowments, bequests and restricted donations and receipts, where principal may be expended in the course of their designated operations.

Previously, the Governmental Fund Balance consisted of the following components and was presented in this format on December 31, 2010.

Fund Balance Presentation Prior to GASB #54 Statement

Fund Balance as presented in the December 31, 2010 CAFR	General	Debt Service	Capital Projects	Special Revenue Funds	Total Governmental Funds
Reserved for 2011 Appropriations	4,144	-	-	-	4,144
Reserved for 2012 Appropriations	8	-	-	-	8
Reserved for Debt Service	-	7,332	-	-	7,332
Reserved for Encumbrances	5,092	-	98,216	-	103,308
Reserved for Aging Care Maintenance Organization	12,182	-	-	-	12,182
Reserved for Inventories	2,070	-	-	-	2,070
Reserved for Health and Safety	-	-	-	136	136
Reserved for Zoo	-	-	-	711	711
Reserved for Parks	-	-	-	930	930
Reserved for Persons with Disabilities	-	-	-	121	121
Reserved for Behavioral Health Division	-	-	-	8,360	8,360
Reserved for Airport - PFC and Debt	-	-	-	26,921	26,921
Reserved for Fleet and Facilities Divisions	-	-	-	6,183	6,183
Reserved for Delinquent Property Tax	14,826	-	-	-	14,826
Unreserved -- Designated for Economic Development	196	-	-	-	196
Unreserved -- Designated for Housing	948	-	-	-	948
Unreserved -- Department of Family Care	3,233	-	-	-	3,233
Unreserved -- Designated for Investments	2,476	-	-	-	2,476
Total Fund Balance	45,175	7,332	98,216	43,362	194,085

As seen above, the fund balance was broken into Reserved and Unreserved fund balances. The Reserved fund balance lines consisted of restrictions either made by outside entities through legal documents, by State or Federal laws, or by Governmental Accounting Standards Board (GASB) rules. The Unreserved Fund Balance amounts were commitments made by the County Board/ County Executive through resolution or County Ordinance, without any restrictions from outside entities or governmental units.

The new rules under GASB 54 will require the County to divide the Governmental Fund Balance into four new categories. The four categories are as follows:

- (1) Non-Spendable – Balance cannot be spent by the County, or must be maintained intact due to legal or contractual arrangements.
- (2) Restricted – Restraints are placed on the use of resources from outside of the County. These restraints come from creditors, debt covenants, contributors, and laws or regulations of other governments (State of Wisconsin or Federal Government). The County may use the funds that were restricted or imposed by law but only under the rules established by other government’s legislation. The County’s Available Fund Balance and Debt Service Reserve are controlled by State Statute 59.60 and therefore are considered restricted.
- (3) Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by action of the County’s legislative and executive

branches of government. The commitment can occur by resolution or ordinance. The ability to commit funds must be viewed in light of State Statute 59.60.

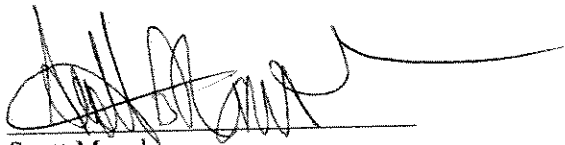
- (4) Assigned – Amounts that are constrained by the County’s intent to be used for a specific purpose. Intent is expressed by the legislative, executive branch or an official of the County to which the governing body has assigned this authority. The County assigns intent to departmental managers for the encumbering of appropriations, in accordance with ordinances, regarding the contracting or purchasing with outside agencies. At present, there are no amounts that are considered Assigned for the Governmental Fund Balance. The County Board and County Executive are the only ones that can designate a portion of fund balance for other purposes, and therefore all designations by them are considered Committed Fund Balance.

The following presentation of Fund Balance shows the change in the components of fund balance that would occur under the new GASB Statement 54 rules.

Fund Balance Proposed Presentation After GASB #54 Statement					
Fund Balance as of December 31, 2010 (Revised)	General	Debt Service	Capital Projects	Special Revenue Funds	Total Governmental Funds
Non-Spendable					
Inventories	2,070	-	-	-	2,070
Prepaid Claims	-	-	-	-	-
Restricted					
2011 Appropriations - Available Fund Balance 2009	4,144	-	-	-	4,144
2012 Appropriations - Available Fund Balance 2010	8	-	-	-	8
Debt Service	-	7,332	-	-	7,332
Encumbrances/ Carryovers for Debt, State and Federal Funding	2,092	-	96,216	-	103,308
Department of Family Care - State Restricted	12,182	-	-	-	12,182
Department of Family Care - Excess Reserves	3,233	-	-	-	3,233
Delinquent Property Tax	14,826	-	-	-	14,826
Investment Mkt Value in Excess of Book Value	2,476	-	-	-	2,476
Housing	948	-	-	-	948
Airport - Passenger Facility Charges and Debt	-	-	-	26,921	26,921
Health and Safety	-	-	-	136	136
Zoo	-	-	-	711	711
Parks	-	-	-	930	930
Persons with Disabilities	-	-	-	121	121
Behavioral Health Division	-	-	-	8,360	8,360
Fleet and Facilities Divisions	-	-	-	6,183	6,183
Committed					
Encumbrances/ Carryovers based on Property Tax Funding	3,000	-	2,000	-	5,000
Economic Development	196	-	-	-	196
Assigned					
None					
Total Fund Balance	45,175	7,332	98,216	43,362	194,085

The changes noted above are not much different from the previous presentation of fund balance. The major change is to take certain items that were noted as unrestricted and move them to the Restricted category under GASB Statement 54. This includes Housing, Family Care and Investments. These items when used will transfer from their designation to Available Fund Balance. Available Fund Balance is a county classification of the unappropriated fund balance, at the end of the fiscal year, that has not been restricted for any other purposes, and is available to offset the subsequent years tax levy. State Statute 59.60 (5) (g) discusses how the Available Fund Balance (unappropriated fund balance is used to offset the subsequent years property tax levy. In addition, it states that the fund balance can only be used as a sinking fund or for emergencies:

In determining the property tax levy required, the director shall deduct the total estimated expenditures, the estimated amount of revenue from sources other than the property tax levy and shall deduct the amount of any surplus at the close of the preceding fiscal year not yet appropriated. The board, by two-thirds vote, may adopt a resolution before the adoption of the tax levy authorizing the use of the surplus fund in whole or in part as a sinking fund for the redemption or repurchase of bonds or to provide emergency needs under sub (9), but for no other purposes, except as provided in sub (13) (Stabilization Fund).



Scott Manske
Comptroller

Cc: Chris Abele, County Executive
Amber Moreen, Chief of Staff, County Executive
Kelly Bablitch, Chief of Staff, County Board
Pat Farley, Director, Department of Administrative Services
Steve Cady, County Board

