

**OFFICE OF THE COUNTY ADMINISTRATOR**

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April 21, 2011

TO: Dee F. Bruemmer, County Administrator  
FROM: Sarah Kautz, Budget Manager  
RE: GASB 54 Implementation

In the current fiscal year (ending June 30, 2011), Scott County is required to implement GASB 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is required to observe constraints imposed upon the use of the resources (dollars) reported in governmental funds.

Previously, the County reported its fund balance for each governmental fund in three ways; Reserved, Unreserved – designated, or Unreserved - undesignated. Starting in FY11, the County will use different terminology to classify its fund balance, based on the requirements of the new Standard.

The first new fund balance classification is *non-spendable* which is primarily comprised of inventory of the County. The *restricted* fund balance category includes amounts that can be spent only for purposes stipulated by constitution, external resource providers, or through legislation. The *committed* fund balance classification includes amounts that can be used only for specific purposes determined by a formal action by the Board of Supervisors. The *assigned* fund balance classification is intended to be used by the County for specific purposes, but do not meet the criteria to be classified as restricted or committed (the remaining amount in a non general fund that is not restricted or committed). Finally, *unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

In order to properly implement this new standard before the end of our fiscal year (6/30/11), the County is required to do three things. First, we need to update our Financial Management Policy to reflect clarifications of our governmental funds, confirm our stabilization or minimum fund balance policy, describe the new types of fund balance, and disclose a policy on the flow of funds. Next, the Board of Supervisors will need to pass a Commitment Resolution that would commit certain resources for specific uses. Finally, the

Board of Supervisors will need to pass an Assignment Resolution that would authorize an official within the County to assign fund balance resources for specific projects or purposes.

The remainder of the work with this new standard will be done during our annual financial audit (August-October), after our financials are final for the year.

We will present the revised financial management policy and the two proposed resolutions to the Board of Supervisors for their consideration before the end of May.

### **33. FINANCIAL MANAGEMENT POLICIES**

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#### **GENERAL POLICY**

The following financial policies have been developed to provide guidance to the County's financial management system.

#### **SCOPE**

This policy is applicable to all offices and departments within Scott County government.

#### **PURPOSE**

The County's intent is to support a sound and efficient financial management system which best utilizes available resources and provides an acceptable service level to the citizens of Scott County. The following statements are not intended to restrict Scott County's authority in determining service needs and/or activities of Scott County. These financial policies do not limit the Scott County Board's of Supervisors ability and responsibility to respond to service delivery needs above or beyond these policies. The Scott County Board of Supervisors as a policy making group is still accountable for the efficient and responsive operation of Scott County.

#### **SPECIFIC POLICY PROVISIONS**

##### **REVENUE POLICY**

1. Scott County will initiate efforts to maintain diversified and stable revenues in an attempt to limit the impact of short run fluctuations in any one revenue source.
2. Annual revenues will be estimated by an objective, and whenever possible analytical process.
3. Existing revenue sources will be re-examined with new revenue sources investigated during the annual budget preparation process.
4. Revenues may exceed expenditures if the fund balance of any funds needs to be increased to meet minimum balance requirements. Additionally, surplus fund balances may supplement revenues in order to fund estimated expenditure levels, generally for onetime expenditures or capital costs.
5. Property tax revenue collections will be established through a tax levy rate for general operations which will not generally exceed the cost of living of the previous year.
6. In relation to enterprise funds which have been established to support expenditure levels, user fees and charges will be established to fund direct and indirect cost of the activity whenever feasible.
7. User fees in other governmental areas such as health and recreational services will be established at a level which will not inhibit participation by all.

8. All user fees and charges will be re-evaluated on an annual basis during the budget preparation process.
9. One-time or special purpose revenues such as grant funds will be utilized to fund capital expenditures or expenditures required by that revenue. Such revenues will generally not be used to subsidize reoccurring personnel, operating and maintenance costs and if approved will be qualified by stating such on-going program may be ended once grant funds or other revenue sources no longer exist.
10. Scott County will on a continuous basis seek methods to reduce the County's reliance on the property tax through seeking legislative support for local option taxes, investigating additional non-property tax revenue sources, and encouraging the expansion and diversification of the County's tax base with commercial and industrial development.

#### OPERATING BUDGET/EXPENDITURE POLICY

1. The County Administrator will compile and submit to the Scott County Board of Supervisors a balanced budget by the first of February of each year.
2. The balanced budget will reflect expenditures which will not exceed estimated resources and revenues. Routine expenditures will not be greater than the previous year's expenditure level by more than the estimated annual percentage increase in the cost of living.
3. The operating budget for Scott County will be developed and established on a service level basis. Any additions, deletions and/or alterations in the operating budget will be related to services to be provided to the general public.
4. The operating budget will emphasize productivity of human resources in providing services, efficient use of available revenue sources, and quality of services to be provided.
5. New service levels will be considered when additional revenues or offsetting reductions of expenditures are identified, the new services fall within the broad framework of the County operation, or when such services are mandated by the State of Iowa or the federal government.
6. Current County expenditures will be funded by current revenues unless specifically approved by the Board of Supervisors.
7. The County will avoid the postponement of current expenditures to future years, accruing future year revenues, or utilization of short term debt to fund operating expenditures.
8. The operating budget will provide funding for the on-going maintenance and replacement of fixed assets and equipment. These expenditures will be funded from current revenues transferred to the ~~Vehicle Replacement, Electronic Equipment and~~ Capital Improvement Funds.

~~9. Minimum year-end unreserved, undesignated fund balances or fund equity will be maintained for all governmental and proprietary funds as follows:~~

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| <b>Governmental</b>       |                                  |
|---------------------------|----------------------------------|
| <b>Fund Types</b>         | <b>Minimum Fund Balance</b>      |
| General                   | 15% of Annual Operating Expenses |
| Secondary Roads           | 10% of Annual Operating Expenses |
| MH DD                     | 10% of Annual Operating Expenses |
| Rural Services            | \$25,000 Minimum Balance         |
| Recording Management Fees | No Minimum Required              |
| Debt Service              | \$25,000 Minimum Balance         |
| Capital Projects          | \$500,000 Minimum Balance        |

| <b>Proprietary</b> |                                      |
|--------------------|--------------------------------------|
| <b>Fund Types</b>  | <b>Minimum Fund Equity</b>           |
| Self Insurance*    | \$1,000,000 Minimum Balance          |
| Golf Course**      | Escrowed Annual Debt Service Payment |

\*The County will be making a change to Self Insurance for its health benefits on 01/01/2010. The County will establish a minimum fund balance of 1,000,000 in its Self Insurance Fund by 01/01/2012.

\*\*County property taxes are used to fund Golf Course debt and operational deficits. The minimum fund equity for this fund is the escrowed annual debt service payment.

~~9.10.~~ Each year the County will revise current year expenditure projections during the succeeding year's budget preparation process. Costs of operating future capital improvements included in the capital projects budget will be included in the operating budget.

~~10.11.~~ The County will participate in a risk management program to minimize losses and reduce costs. This program will also protect the County against catastrophic losses through the combination of insurance, self-insurance and various federal and state programs.

~~11.12.~~ The County will maintain a budgetary control system to monitor its adherence to the approved operating budget.

~~12.13.~~ All departments will have access to monthly expense and revenue reports comparing actual revenues and expenditures to budgeted amounts. These reports will be updated on a weekly basis to allow departments to regularly review their financial position.

### CAPITAL IMPROVEMENT BUDGET POLICY

1. The County will make all capital improvements in accordance with the adopted Capital Improvement Program except for emergency capital improvements which are deemed necessary by the County staff and approved individually by the Board of Supervisors.

2. Capital improvements will be identified on the basis of long-range projected needs rather than on immediate needs in order to minimize future maintenance, replacement and capital costs.
3. A capital improvement program will be developed for a five-year period and updated annually.
4. Estimated costs of each capital improvement projected for each year will be included in the plan.
5. Revenue sources for capital improvements will be identified in the plan whenever possible.
6. Intergovernmental funding sources from the federal, state and private sector will be actively sought and used as available to assist in financing of capital improvements.
7. Future operating costs associated with the capital improvement will be projected and included as a part of the budget submission in the capital improvement budget.

~~8. During the initial stages of a particular capital improvement but no later than the public hearing for the capital improvement, revenue sources to fund the capital improvement and estimated project costs including incidental costs will be approved by the Board of Supervisors.~~

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#### ~~9-8~~ Capital Funding Requests From Outside Agencies

- Capital funding requests (greater than \$5,000) from outside agencies will only be considered during the Board's regular annual budget review cycle.
- Said requests must be submitted to the County Administrator on or before December 1<sup>st</sup> on forms provided by the County.
- Said requests for the next fiscal year will only be accepted for consideration if the County's ~~undesignated/unreservedunassigned~~ General Fund balance exceeds the minimum required level, 15% of operating expenses. (The 15% minimum required level shall be based on the audited beginning ~~undesignated/unreservedunassigned~~ General Fund balance amount of the current fiscal year less any planned uses of fund balance included in the current fiscal year budget compared with current year budgeted general fund operating expenses).
- Said request shall describe the project in detail and shall also include the following minimum information:
  - Project impact on community (economic development, quality of life, etc.)
  - Total cost of project
  - % of request from County to total project cost
  - Listing of other revenue sources
- Agencies are encouraged to competitively bid out contracts and should allow local vendors to bid

- Approved funding allotments will be made beginning with the next fiscal year being budgeted and may be made over a multi-year period.
- No allotment will be given until the requesting organization informs the County in writing that all funding commitments have been made and that the project has begun (this action must be completed prior to December 31st of the next fiscal year being budgeted, if not, the County's funding commitment will end). Note: Agencies may request an extension to this provision. The extension request should be submitted in writing detailing reasons for the extension and the extension timeframe requested.
- Any approved funding commitment from the County for a project should be considered final with no subsequent funding request to be made to the County on that project.
- Any future State action such as program funding reductions, increased unfunded State mandates, or the enactment of property tax limitation legislation may not allow the County to consider or, complete fulfillment of these types of capital funding requests.

#### **DEBT ADMINISTRATION POLICY**

1. The County will limit its long-term borrowing to capital improvements or projects which cannot be financed from current revenues or for which current revenues are not adequate.
2. Long-term borrowing will only be utilized to fund capital improvements and not operating expenditures.
3. The payback period of the bonds issued to fund a particular capital project will not exceed the expected useful life of the project.
4. It is recognized that the State of Iowa sets the debt limitation for municipalities at 5 percent of actual property valuation.
5. Whenever possible, special assessment, revenue bonds and/or general obligation bonds abated by enterprise revenues will be issued instead of general obligation bonds funded by property tax.
6. For those general obligation bonds issued and funded by property taxes, debt service and interest payment schedules shall be established whenever possible in such a manner to provide equalization of debt and interest payments each year for the life of the total outstanding general obligation bonds.
7. The County shall encourage and maintain good relations with the financial and bond rating agencies and prepare any reports so requested by these agencies. Full and open disclosure on every financial report and bond prospectus will be maintained.

#### **FINANCIAL REPORTING POLICY**

1. The County will establish and maintain a high standard of accounting practices and

procedures which adhere to the concept of full and open public disclosure of all financial activity.

2. The accounting system will be maintained on a basis consistent with accepted standards for governmental accounting.
3. Quarterly financial statements reported on a budget basis of accounting will be presented to the board of Supervisors on a regular basis.
4. The County's independent public accounting firm will publicly issue an audit opinion regarding the financial statements to the County. The annual audit will be made available to the general public, bonding and financial consultants, and any other interested citizens and organizations.
5. The Comprehensive Annual Financial Report and accompanying audit opinion will be completed and submitted to the Board of Supervisors by December 31 and following the close of the preceding fiscal year.

## FUND BALANCE POLICY

Government Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement is effective for the County beginning with fiscal year ending June 30, 2011. The objective of this statement is to improve the usefulness and understandability of governmental fund balance information. The Statement provides more clearly defined categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The Statement impacts governmental fund types, however, in non-governmental funds, the County may decide to assign funds for specific purposes.

1. The fund balance will be reported in five categories: Nonspendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance.

- a) Nonspendable Fund Balance - Amounts cannot be spent because they are a)not in spendable form or b)legally or contractually required to be maintained intact.
- b) Restricted Fund Balance - Amounts are restricted by external parties (i.e. creditors, grantors, contributors) or laws / regulations of other governments or restricted by law through constitutional provisions or enabling legislation, such as an ordinance.
- c) Committed Fund Balance - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Supervisors. The formal action must occur prior to the end of the reporting period. The amount, which will be subject to the constraint, may be determined in the subsequent period.
- d) Assigned Fund Balance - Amounts constrained by the government's intent to be used for specific purposes that are neither restricted or committed. The intent can be expressed by the County Administrator.
- e) Unassigned Fund Balance - Is a residual classification for the general fund. The total fund balance less amounts categorized as non-spendable, restricted, committed and assigned equals unassigned fund balance. The general fund is the only fund that should report a positive unassigned fund balance amount. A negative unassigned fund balance is possible in other funds.

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Minimum year-end fund balances will be maintained for all governmental and proprietary funds as follows:

Governmental

| <u>Fund Types</u>         | <u>Minimum Fund Balance</u>   |
|---------------------------|---|
| General                   | Unassigned, 15% of Annual Operating Expenses                          |
| Secondary Roads           | Restricted, Between 5% & 10% of Annual Operating Expenses             |
| MH-DD                     | Restricted, Between 5% & 10% of Annual Operating Expenses (state law) |
| Rural Services            | Assigned, \$25,000 Minimum Balance                                    |
| Recording Management Fees | No Minimum Required   |
| Debt Service              | Assigned, \$25,000 Minimum Balance                                    |
| Capital Projects          | No Minimum Required   |

Proprietary

| <u>Fund Types</u> | <u>Minimum Fund Equity</u>            |
|-------------------|---------------------------------------|
| Self-Insurance    | Assigned, \$1,000,000 Minimum Balance |
| Golf Course*      | Escrowed Annual Debt Service Payment  |

\*County property taxes are used to fund Golf Course debt and operational deficits. The minimum fund equity for this fund is the escrowed annual debt service payment close of the preceding fiscal year.

2. Flow of Funds Policy:

The County will spend the most restricted dollars before less restricted, in the following order:

- 1) Nonspendable (if funds become spendable)
- 2) Restricted
- 3) Committed
- 4) Assigned
- 5) Unassigned

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THE COUNTY AUDITOR'S SIGNATURE CERTIFIES  
THAT THIS RESOLUTION HAS BEEN FORMALLY  
APPROVED BY THE BOARD OF SUPERVISORS ON

\_\_\_\_\_  
DATE

\_\_\_\_\_  
SCOTT COUNTY AUDITOR

R E S O L U T I O N

SCOTT COUNTY BOARD OF SUPERVISORS

May 26, 2011

CHANGES TO GENERAL POLICY 33 "FINANCIAL MANAGEMENT" TO ADOPT  
GASB 54 "FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE  
DEFINITIONS"

BE IT RESOLVED BY the Scott County Board of Supervisors as follows:

Section 1. That General Policy 33 "FINANCIAL MANAGEMENT" is hereby updated to comply with GASB 54 "Fund Balance Reporting and Governmental Fund Type Definitions."

Section 2. This resolution shall take effect immediately.