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COUNTY OF ERIE

DAVID J. SHENK
COMPTROLLER

May 8, 2012

Erie County Legislature
92 Franklin Street, 4th Floor
Buffalo, NY 14202

RE: Update Comptroller's recommended policy for managing fund balance components resulting from Implementation of GASB #54

Dear Honorable Members:

The enclosed resolution seeks your honorable body's authorization to update the Erie County Comptroller's recommended policy for managing fund balance components resulting from Erie County's ("County") Implementation of Governmental Accounting Standards Board ("GASB") Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

I request your timely approval of this resolution so my office's issuance of the County's Comprehensive Annual Financial Report ("CAFR") for the year ended December 31, 2011 is not delayed (i.e., I intend to issue the CAFR by June 29, 2012).

Upon review, should your honorable body require further information, please contact Lorne Steinhart, Deputy Comptroller – Accounting Division of my office.

Thank you for your timely consideration of this matter.

Sincerely,

David J. Shenk
Erie County Comptroller

DJS/nr
Enclosures

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MEMORANDUM
ERIE COUNTY
COMPTROLLER'S OFFICE

To: Honorable Members of the Erie County Legislature

From: David J. Shenk, Erie County Comptroller DJS

Re: Update Comptroller's recommended policy for managing fund balance components resulting from Implementation of GASB #54

Date: May 8, 2012

Cc: Robert W. Keating, Director, Budget and Management

Summary of Recommended Action

This resolution seeks authorization to update the Erie County Comptroller's recommended policy for managing fund balance components resulting from Erie County's ("County") implementation of Governmental Accounting Standards Board Statement No. 54 ("GASB #54"), Fund Balance Reporting and Governmental Fund Type Definitions.

Fiscal Implications of Proposal

The Comptroller's recommended fund balance policy is an effort to ensure that the County maintains adequate fund balances and reserves in order to (1) provide sufficient cash flow for daily financial needs, (2) secure and maintain investment grade bond ratings, (3) offset significant economic downturns or revenue shortfalls, and (4) provide funds for unforeseen expenditures related to emergencies.

Reason for Recommendation

Although a fund balance policy is not necessary to implement GASB #54, it will be necessary if the County desires to commit or assign (i.e., designate) fund balance. A committed fund balance consists of amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority (i.e., the Erie County Legislature) before the end of the fiscal year, and that require the same level of formal action to remove the constraint. An assigned fund balance consists of amounts that are subject to a purpose constraint that represents an

intended use established by the government's highest level of decision-making authority (i.e., the Erie County Legislature).

Attached is Exhibit A which details the difference in the presentation of fiscal year 2010 ending fund balance under the existing policy and the GASB #54 version.

Consequences of Negative Action

The Comptroller's recommended fund balance policy will not be updated and the County will not be able to commit or assign (designate) fund balance for use in the succeeding year.

Steps Following Approval of Measure

The Comptroller's recommended fund balance policy will be successfully updated to reflect the changes as required by GASB #54 and the County will have the ability to commit or assign fund balance.

The terminology of fund balance components has changed and will require technical updates to Erie County Local Law No. 3-2006, known as the Erie County Charter, Section 2605.

COUNTY OF ERIE **EXHIBIT A**

PRE-GASB #54 Fund Balance to POST-GASB #54 Fund Balance Comparison
December 31, 2010

PRE-GASB #54	110
Fund Balances	**General**
Reserved - Encumbrances	$ (3,861,953.55)
Reserved - Loan Rreceivable	(1,401,512.54)
Reserved - Prepaid Items	(6,356,251.58)
Reserved - Handicapped Parking	(109,278.17)
Reserved - Law Enforcement	(123,912.73)
Total Reserves	**(11,852,908.57)**
Appropriated Fund Balance - 2011 Budget	(16,721,902.00)
Designated For Comptroller - Audit Fees	(113,200.00)
Designated For County Attorney- Foreclosure Auction	(175,000.00)
Designated For Rodent Control Program	(70,000.00)
Designated For Social Services	(28.25)
Designated For ECMCC Nursing Home	(11,500,000.00)
Designated For ECC North Building	(7,500,000.00)
Designated For Chips Highway Program	(800,000.00)
Designated For Countywide Highway Buildings	(750,000.00)
Designated For EC Holding Center Improvements	(700,000.00)
Designated For Fuel Tank Replacements	(500,000.00)
Designated For Fuel Tank Fire Ext System	(650,000.00)
Designated For Darwin Martin House Challenge Grant	(500,000.00)
Designated For Central Library Space Reconfiguration	(250,000.00)
Designated For Not-For-Profit Org Capital Projs	(300,000.00)
Designated For Repayment To Sewer Dist 6	(703,162.98)
Designated For Judgment & Claims	(5,314,696.00)
Designated For Grant Local Share	(7,900.00)
Total Designated	**(46,555,889.23)**
Unreserved/Undesignated	**(66,904,030.95)**
Total fund balances	**$ (125,312,828.75)**

POST-GASB #54	
Fund Balances	**General**
Non-Spendable:	
Long-Term Loan Receivables	$ (1,401,512.54)
Prepaid Items	(6,356,251.58)
Total Non-Spendable	**(7,757,764.12)**
Restricted For:	
Handicapped Parking	(109,278.17)
Law Enforcement	(123,912.73)
Total Restricted	**(233,190.90)**
Assigned:	
Appropriated Fund Balance - 2011	(16,721,902.00)
Comptroller - Audit Fees	(113,200.00)
County Attorney- Foreclosure Auction	(175,000.00)
Rodent Control Program	(70,000.00)
Social Services	(28.25)
Designated For ECMCC Nursing Home	(11,500,000.00)
Designated For ECC North Building	(7,500,000.00)
Chips Highway Program	(800,000.00)
Countywide Highway Buildings	(750,000.00)
EC Holding Center Improvements	(700,000.00)
Fuel Tank Replacements	(500,000.00)
Fuel Tank Fire Ext System	(650,000.00)
Darwin Martin House Challenge Grant	(500,000.00)
Central Library Space Reconfiguration	(250,000.00)
Not-For-Profit Org Capital Projs	(300,000.00)
Repayment To Sewer Dist 6	(703,162.98)
Judgment & Claims	(5,314,696.00)
Grant Local Share	(7,900.00)
Other Purposes	(3,861,953.55)
Total Assigned	**(50,417,842.78)**
Unassigned:	**(66,904,030.95)**
Total fund balances	**$ (125,312,828.75)**

A RESOLUTION SUBMITTED BY:
ERIE COUNTY COMPTROLLER

Proposed Resolution:

To update the Comptroller's recommended policy for managing fund balance components resulting from the County's Implementation of Governmental Accounting Standards Board ("GASB") Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

In this resolution, the following definitions apply, unless a different meaning clearly appears from the context:

a. Nonspendable Fund Balance – consists of assets that are inherently nonspendable in the current period either because of their form or because they must be maintained intact, including prepaid items and long-term portions of loans receivable.

b. Restricted Fund Balance – consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

c. Committed Fund Balance – consists of amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority (i.e., the Erie County Legislature) before the end of the fiscal year, and that require the same level of formal action to remove the constraint.

d. Assigned Fund Balance – consists of amounts that are subject to a purpose constraint that represents an intended use established by the government's highest level of decision-making authority (i.e., the Erie County Legislature). The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the positive residual amount of fund balance (although amounts for specific purposes may be established and segregated). The portion of fund balance appropriated to balance the following year's budget will also be classified as assigned fund balance.

e. Unassigned Fund Balance – the positive or negative residual balance in the general fund, or if applicable the negative residual fund balance in non-general funds.

WHEREAS, fund balance measures the net financial resources available to finance expenditures of future periods; and

WHEREAS, in consideration of unanticipated events that could adversely affect the financial condition of the County and jeopardize the continuation of necessary public services, the Comptroller recommends a fund balance policy as an effort to ensure that the County maintains adequate fund balances and reserves in order to provide sufficient cash flow for daily financial needs; secure and maintain investment grade bond ratings; offset significant economic downturns or revenue shortfalls, and provide funds for unforeseen expenditures related to emergencies; and

WHEREAS, the last three changes to the County's Fund Balance Policy occurred (1) in November 2001 when the Comptroller prescribed that the establishment of fund balance designations will only occur based on a formal request by the County Executive and the approval of the County Legislature by resolution; (2) in April 2002 when the Comptroller prescribed a sunset provision of one fiscal year for all fund balance designations; and (3) in 2006 with the adoption of Local Law No. 3-2006 amending the Erie County Charter that in part requires the County Executive to maintain a balance in all funds established in the budget equal to or greater than five percent of the amount contained in the budget of each fund in the immediately preceding fiscal year; and

WHEREAS, the Governmental Accounting Standards Board has adopted Statement 54 ("GASB #54"), a new standard for governmental fund balance reporting and governmental fund type definitions that became effective in governmental fiscal years starting after June 15, 2010; and

WHEREAS, GASB #54 requires disclosure of the County's fund balance classification policies; and

WHEREAS, GASB #54 requires approval via resolution defining the level of authority and the process to establish committed or assigned fund balance; and

WHEREAS, GASB #54 recommends a policy regarding the order in which restricted, committed, assigned, and unassigned amounts are spent; and

NOW, THEREFORE, BE IT

RESOLVED, the County elects to implement GASB #54 requirements, and to apply such requirements to its financial statements beginning with the fiscal year ended December 31, 2011; and be it further

RESOLVED, the establishment of the amount of committed fund balance will only occur based on a formal request by the County Executive and the approval of the County Legislature by resolution; and be it further

RESOLVED, amendments or modification to the committed fund balance must also be approved by formal action of the County Legislature; and be it further

RESOLVED, committed fund balance will not lapse at year-end; and be it further

RESOLVED, the establishment of the amount of assigned fund balance will only occur based on a formal request by the County Executive and the approval of the County Legislature by resolution; and be it further

RESOLVED, the County Comptroller's Accounting Policy is to provide a sunset provision of one fiscal year for all assigned fund balance that is established or segregated for a specific purpose; and be it further

RESOLVED, that in circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance; and be it further

RESOLVED, that certified copies of this resolution be forwarded to the Budget Director, County Attorney and Comptroller.