

ITEM 9.D.

MOORPARK CITY COUNCIL AGENDA REPORT

TO: Honorable City Council

FROM: Ron Ahlers, Finance Director *RA*

DATE: June 7, 2011 (City Council Meeting of June 15, 2011)

SUBJECT: Consider Resolution Adopting Fund Balance Policies as Required by Governmental Accounting Standards Board Statement No. 54 (GASB 54)

BACKGROUND

In March 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to address issues related to how fund balance was being reported in governmental financial statements. The intent of the Statement is to bring greater clarity and consistency to fund balance reporting in the governmental sector. The City is required to implement GASB 54 for the fiscal year ending June 30, 2011.

DISCUSSION

GASB 54 has replaced fund balance classifications with new definitions for purposes of financial statement reporting. GASB 54 has also redefined governmental fund types, most notably the Special Revenue fund type. Staff has developed a GASB 54 Implementation Plan described below.

Overview of GASB 54

GASB 54 has set forth the following new classifications of fund balance.

Nonspendable - amounts that are not in a spendable form (such as petty cash, pre-paid items, inventory or land/property held for resale).

Restricted - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority (resolution or ordinance); to be reported as Committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned - amounts a government *intends* to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned - amounts that are available for any purpose; these amounts are reported ONLY in the General Fund.

In addition, GASB 54 redefines the Special Revenue fund type. GASB 54 clarifies that a Special Revenue fund may only be established when at least one revenue source is *Restricted* or *Committed* to purposes other than capital projects or debt service. Finally, GASB 54 requires disclosure in the Notes to the Financial Statements to provide additional detail regarding:

- The purposes of Restrictions, Commitments, and Assignments;
- The decision-making authority and formal action that result in Committed fund balance;
- The bodies or persons with authority to express intended uses of resources that result in Assigned fund balance;
- The order in which the government spends Restricted, Committed, Assigned and Unassigned fund balance;
- Information about minimum fund balance policies; and
- The purpose and revenue sources for each Special Revenue fund.

Implementation Plan - Fund Type Classification

The City currently has one fund reported as Special Revenue fund that has a majority of its revenue as general purpose property taxes (Library Fund). Staff recommends that this fund continue to exist as a Special Revenue Fund. Staff recommends the City Council "commit" these funds for the purpose of providing Library services.

Implementation Plan - Fund Balance Classification

GASB 54 requires the governing body to take action on fund balance classifications prior to fiscal year end (June 30, 2011). In other words, Commitments and Assignments appearing on the June 30, 2011 balance sheet must be acted on prior to June 30, 2011. The action does not need to include the exact dollar amount, but should provide clear direction to determine the amount once the City's books are closed for the fiscal year. GASB 54 recommends that the City Council take formal action either by resolution or ordinance to Commit fund balance. GASB 54 allows the governing body to delegate a level of authority to Assign fund balance. Staff recommends that Assignments of fund balance be made by resolution of the City Council.

Nonspendable - These funds may have a portion of their fund balances classified as Nonspendable: General Fund (1000), MRA Low and Moderate Income Housing (2901), MRA Operations (2902), MRA 2001 Bond Proceeds (2904), MRA 2006 Bond Proceeds, (2905).

Restricted - All Special Revenue fund balances will be classified as Restricted.

Committed - Due to the specific nature of fund balance Commitments, such as a contractual obligation for a particular project, staff recommends one commitment of fund balance; that for the Library Fund as mentioned previously.

Assigned - Staff recommends that the City Council Assign the entire fund balances of the Capital Projects Funds for the future design and construction of infrastructure improvement projects. These funds are: Capital Projects (4000), City Hall Improvement (4001), Police Facilities (4002), Equipment Replacement (4003), Special Projects (4004), Moorpark Highlands (4010), MRA 2001 Bond Proceeds (2904), MRA 2006 Bond Proceeds, (2905). If the City Council adopts Staff's recommendation, any future changes to the Assignment of the Capital Project Funds fund balance would need to be adopted by the City Council.

Unassigned - Unassigned fund balance will only be reported in the General Fund. If there is a deficit fund balance to be reported in any fund, it will be classified as Unassigned.

Creation of New Funds

When the City creates new funds, staff will recommend which fund balances will be committed or assigned, if any. The City Council will approve of such committed or assigned fund balances by the adoption of a resolution.

FISCAL IMPACT

There are no fiscal impacts as a result of implementing GASB 54. GASB 54 deals with the terminology and designation of "fund balance" within the CAFR reporting of the Governmental Funds of the City.

STAFF RECOMMENDATION (Roll Call Vote)

Adopt Resolution No. 2011-_____, approving GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions

Attachment: Resolution No. 2011-_____

RESOLUTION NO. 2011-_____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MOORPARK, CALIFORNIA, ADOPTING GASB 54, FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS

WHEREAS, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54); and

WHEREAS, for financial statement reporting purposes, GASB 54 defines Nonspendable amounts as those that are not in a spendable form or are required to be maintained intact; and

WHEREAS, for financial statement reporting purposes, GASB 54 defines Restricted amounts as those that are constrained to specific purposes by their providers through constitutional provisions or enabling legislation; and

WHEREAS, for financial statement reporting purposes, GASB 54 defines Committed amounts as those constrained to specific purposes by the government itself; and

WHEREAS, for financial statement reporting purposes, GASB 54 defines Assigned amounts as those the government intends to use for a specific purpose; and

WHEREAS, the City Council adopted Policies Resolution No. 2010-2959 on October 20, 2010, and

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MOORPARK DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. Commitments and Assignments of Fund Balance:

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides the City with a method to self-classify fund balance for financial statement reporting purposes.

A. Committed Fund Balance

Fund balance may be committed to specific purposes using its highest level of decision-making authority, the City Council. It is the City Council's policy that commitments of fund balance for a fiscal year must be adopted by resolution prior to fiscal year end, June 30th. Amounts that have been committed by the City Council cannot be used for any other purposes unless the City Council adopts another resolution to remove or change the constraint.

B. Assigned Fund Balance

The General Fund balance may be assigned for amounts the City Council intends to use for a specific purpose. It is the City Council's policy that assignments of fund balance for a fiscal year must be approved by the City Council prior to the fiscal year end, June 30th. Any changes to assignments must also be made by the City Council.

It is the City Council's policy to spend classified fund balance in the following order when amounts in more than one classification are available for a particular purpose:

1. Restricted Fund Balance – amounts constrained to specific purpose by their providers through constitutional provisions or enabling legislation. Examples include grants, bond proceeds and pass-through revenue from other levels of governments.
2. Committed Fund Balance – amounts constrained to specific purpose by resolution of the City Council.
3. Assigned Fund Balance – amounts which are intended to be used for a specific purpose, expressed by the City Council.
4. Unassigned Fund Balance – amounts available for any purpose in the General Fund.

SECTION 2. The City Council designates the following Committed Fund Balances: Library Fund (1010) for the purpose of providing library services.

SECTION 3. The City Council designates the following Assigned Fund Balances for the future design and construction of infrastructure improvement projects: Capital Projects (4000), City Hall Improvement (4001), Police Facilities (4002), Equipment Replacement (4003), Special Projects (4004), Moorpark Highlands (4010), MRA 2001 Bond Proceeds (2904), MRA 2006 Bond Proceeds, (2905).

SECTION 4. City staff is hereby directed to incorporate the contents of this resolution in the next update of the City Council Policies Resolution.

SECTION 5. The City Clerk shall certify to the adoption of this resolution and shall cause a certified resolution to be filed in the book of original Resolutions.

PASSED AND ADOPTED this 15th day of June, 2011.

Janice S. Parvin, Mayor

ATTEST:

Maureen Benson, City Clerk