

**MOORPARK CITY COUNCIL
AGENDA REPORT**

TO: Honorable City Council

FROM: Ron Ahlers, Finance Director *RA*

DATE: June 13, 2012 (City Council Meeting of June 20, 2012)

SUBJECT: Consider:

- 1. Adopting Revisions to the City's Governmental Accounting Standards Board Statement No. 54 (GASB 54) Fund Balance Policy 5.8**
- 2. A Resolution Designating Fund Balance Commitments and Assignments as Required by 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 was required to implement GASB 54 as of the fiscal year ending June 30, 2011, and maintain it each year thereafter. Last year the City Council adopted a fund balance policy (Policy 5.8) on June 15, 2011 with Resolution No. 2011-3036, which was subsequently rescinded and replaced with Resolution No. 2012-3091 (City Council Policies Resolution).

GASB 54 requires that the fund balance policies be adopted each year prior to June 30th by the City Council. This is the second year the City Council is adopting these policies. The funds comprising the Redevelopment Agency for the City of Moorpark (MRA) remain in these policies since these funds will show in the financial statement reports for the fiscal year 2011-12. Staff will review the policies again next year, along with the external auditors, and make a determination about whether to include these funds at that time.

The first action is to modify the Council Policy 5.8 to state that Commitments and Assignments of Fund Balance shall be made by the Council prior to June 30th each year by a separate resolution. Staff is requesting the Council approve by minute action the

revisions to Policy 5.8 (Attachment 1), which revised policy will be incorporated into the next update of the Council's Policies Resolution. A new resolution is proposed to designate the commitments and assignments of fund balance. This year staff is requesting the Council to consider the assignment of fund balances for two funds: Community Development Fund (2200) and Engineering Public Works Fund (2620). These funds should be "Assigned" in order to recognize that these fund balances are for the purpose of providing development related services.

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.

Fund Type Classification

The City currently has one fund reported as Special Revenue with 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.

Fund Balance Classification

GASB 54 requires the governing body to take action on fund balance classifications prior to each fiscal year end (June 30, 2012). In other words, Commitments and Assignments appearing on the June 30, 2012 balance sheet must be acted on prior to June 30, 2012. 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 (9102 and 2901), MRA Operations (9101 and 2902), MRA 2001 Bond Proceeds (9103 and 2904), and MRA 2006 Bond Proceeds, (9104 and 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 balance 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 (9103 and 2904), MRA 2006 Bond Proceeds, (9104 and 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.

As mentioned previously, staff recommends a change from last year by requesting that the Community Development Fund (2200) and the Engineering Public Works Fund (2620) be designated as assigned because the revenue in these funds would only be used to pay for development related services in Community Development and Public Works.

Unassigned - Unassigned fund balance will only be reported in the General Fund. If there is a deficit fund balance to be reported in any other 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 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 REQUIRED)

- 1) Adopt revised Policy 5.8, Fund Balance Reporting as Required by Governmental Accounting Standards Board Statement No. 54 (GASB 54), to be incorporated into the next update of the City Council Policies Resolution
- 2) Adopt Resolution No. 2012-_____, Designating Fund Balance Commitments and Assignments as Required by GASB 54

Attachments:

- 1) Revised Policy 5.8, Fund Balance Reporting as Required by Governmental Accounting Standards Board Statement No. 54 (GASB 54)
- 2) Resolution No. 2012-_____

Revised**Policy 5.8: Fund Balance Reporting as Required by Governmental Accounting Standards Board Statement No. 54 (GASB 54)**

1. The Finance Director is responsible for implementing this policy.
2. Consistent with the Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", the City Council has adopted the following method to self-classify fund balances for financial statement reporting purposes:

- A. Committed Fund Balance

Fund Balance may be committed to specific purposes using the 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. The Classified 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 government.
- 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.

RESOLUTION NO. 2012-_____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MOORPARK, CALIFORNIA, DESIGNATING FUND BALANCE COMMITMENTS AND ASSIGNMENTS AS REQUIRED BY GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) 54

WHEREAS, 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 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 Policy 5.8, Fund Balance Reporting as Required by Governmental Accounting Standards Board Statement No. 54 (GASB 54), in City Council Policies Resolution No. 2012-3091 on March 16, 2012; and

WHEREAS, the City Council amended Policy 5.8 by minute action on June 20, 2012.

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

SECTION 1. The City Council designates the following Committed Fund Balances: Library Fund (1010) for the purpose of providing library services.

SECTION 2. 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 (9103 and 2904), MRA 2006 Bond Proceeds, (9104 and 2905). The City Council designates the following Assigned Fund Balances for use only within the departments the funds represent: Community Development (2200) and Engineering Public Works (2620).

SECTION 3. 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 20th day of June, 2012.

Janice S. Parvin, Mayor

ATTEST:

Maureen Benson, City Clerk