City of Culver City, California

Agenda Item Report

Meeting Date: 07/25/2011	Item Number: C-7
CITY COUNCIL AGENDA ITEM: (1) Adoption of a Resolution Classifying the Various Components of Fund Balance as Defined in Governmental Accounting Standards Board Statement Number 54 Effective with Fiscal Year 2010/2011 and (2) Delegation of Certain Authority to the City Manager and Chief Financial Officer.	
Contact Person/Dept.: Jeff Muir/Finance	Phone Number: (310) 253-5865
Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []
Public Hearing: [] Action Item: []	Attachments: [X]
Commission Action Required: Yes [] No [X]	Date: ________________
Public Notification: (E-Mail) Meetings and Agendas – City Council (07/20/11)	
Department Approval: Jeff Muir (07/13/11)	City Attorney Approval: Carol Schwab (by H. Baker) (07/18/11)
Chief Financial Officer Approval: Jeff Muir (07/13/11)	City Manager Approval: John M. Nachbar (07/20/11)

RECOMMENDATION

Staff recommends that the City Council adopt the proposed resolution (1) classifying the various components of fund balance as defined in Governmental Accounting Standards Board (GASB) Statement No. 54 (GASB 54) effective with Fiscal Year 2010/2011 and (2) delegating certain authority to the City Manager and Chief Financial Officer.

BACKGROUND

In February 2009, GASB 54, titled Fund Balance Reporting and Governmental Fund Type Definitions, was issued. This new standard does not change the total amount of a given fund balance, but it substantially alters the categories and terminology used to describe the components that make up a fund's balance. The new categories and terminology reflect an approach that focuses not on financial resources available for appropriation within a fund, but on the extent to which the City is bound to comply with constraints on the specific purposes for which amounts in the fund can be spent. This staff report is being presented to provide information to the City Council on the new reporting standard and to request the City Council formally adopt the City's definitions of reported fund balances. The City's auditors recommended this action be taken as soon as possible, with its requirements being applicable to Fiscal Year 2010/2011.

DISCUSSION

The term “fund balance” is used to describe the difference between assets (what is owned) and liabilities (what is owed) reported within a fund. In the past, fund balances have been classified into three separate components: Reserved, Designated and Undesignated. There are almost always important limitations on the purpose for which all or a portion of the resources of a fund can be used. The force of these limitations can vary significantly, depending on their source. The various components of the new fund balance reporting standard are designated to indicate the extent to which the City is bound by these limitations placed upon the resources. GASB 54 defines five new components of fund balance that will replace the current existing three components. The five new components are:

Nonspendable Fund Balance: That portion of a fund balance that includes amounts that cannot be spent because they are either (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment. This category was traditionally reported as a "reserved" fund balance under the old standard.

Restricted Fund Balance. That portion of a fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. This category was traditionally reported as a "reserved" fund balance under the old standard.

Committed Fund Balance. That portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, and remain binding unless removed in the same manner. This category was traditionally reported as a "designated" fund balance under the old standard.

Assigned Fund Balance. That portion of a fund balance that includes amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted nor committed. Such intent needs to be established at either the highest level of decision making, or by an official designated for that purpose. This category was traditionally reported as an "undesignated" fund balance under the old standard.

Unassigned Fund Balance. That portion of a fund balance that includes amounts that do not fall into one of the above four categories. The General Fund is the only fund that should report this category of fund balance. This category was traditionally reported as an "undesignated" fund balance under the old standard.

The City's financial statements include the information for its various component units, which include that of the Redevelopment Agency. While the Agency is considered a separate legal entity, its accounting services are provided by the City, and its financial transactions are recorded in various Special Revenue funds. Therefore, this policy will extend to the Agency and any other component units of the City.

The auditors have also recommended that the City Council specifically designate the City Manager and the Chief Financial Officer as having the authority to create new funds when required. While this does not happen frequently, occasionally the City receives grants or other monies that require separate accounting and the creation of a new fund. The attached resolution also includes such language.

FISCAL IMPACT

There is no direct fiscal impact of implementing GASB 54. The amounts reported as the total fund balance in any given fund are not altered. Only the reporting of the individual components that make up total fund balance are changed. These new classifications are required to be used on external formal financial reporting documents, such as the Comprehensive Annual Financial Report (CAFR). As mentioned above, should the City Council adopt the proposed resolution, these new categories will be used in the CAFR produced for the recently ended Fiscal Year 2010/2011.

ATTACHMENTS:

Proposed Resolution

MOTION:

That the City Council:

> Adopt a Resolution classifying the various components of fund balance as defined in GASB 54 effective with Fiscal Year 2010/2011 and to delegate certain authority to the City Manager and Chief Financial Officer.