City of Carson City
Agenda Report

Date Submitted: 5/24/11

Agenda Date Requested: 6/2/11
Time Requested: 10 minutes

To: Mayor and Supervisors

From: Nick Providenti, Finance Director

Subject Title: Action to adopt the Carson City Fund Balance Policy.

Staff Summary: In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This statement requires the City to adopt a fund balance policy that describes how to classify and report amounts in the appropriate fund balance components and the order of use of fund balance in all governmental funds.

Type of Action Requested: (check one)

(____) Resolution
(XXX) Formal Action/Motion
(____) Ordinance
(____) Other (Specify)

Does this action require a Business Impact Statement: ( ) Yes (XX) No

Recommended Board Action: I move to adopt the Carson City Fund Balance Policy.

Explanation of Recommended Board Action: In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This statement requires the City to adopt a fund balance policy that describes how to classify and report amounts in the appropriate fund balance components and the order of use of fund balance in all governmental funds.

Applicable Statute, Code, Policy, Rule or Regulation: GASB Statement No. 54

Fiscal Impact: n/a

Explanation of Impact: n/a

Funding Source: n/a

Supporting Material: Fund Balance Policy

Alternatives: Revise the Fund Balance Policy

Prepared By: Nick Providenti

Reviewed By : ______________________ Date: 5/24/11
(Department Head)

: ______________________ Date: 5/24/11
(City Manager)

: ______________________ Date: 5/24/11
(District Attorney)

: ______________________ Date: 5/24/11
(Finance Director)

Board Action Taken:

Motion: ______________________ 1) ____________ 2) ____________ Aye/Nay

____
(Vote Recorded By)

Fund Balance Policy

PURPOSE

The purpose of this policy is to define the components of fund balance, describe how amounts are classified into each component, and to establish the order of use of fund balance in all governmental funds.

BACKGROUND

In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 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. GASB No. 54 shifts the focus of fund balance reporting from the availability of fund resources for budgeting to the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent.

COMPONENTS OF FUND BALANCE

Fund balance is the difference between the assets and liabilities reported in a governmental fund (e.g., general fund, special revenue funds, debt service funds and capital projects funds). GASB Statement No. 54 establishes five components of fund balance: nonspendable, restricted, committed, assigned and unassigned.

1. Nonspendable Fund Balance – amounts that are not in a spendable form (such as inventory or prepaid amounts) or are required to be maintained intact (such as the corpus of an endowment fund).

2. Restricted Fund Balance – amounts subject to externally enforceable legal restrictions. The restrictions concerned would be either:

    - Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or

    - Imposed by law through constitutional provisions or enabling legislation.

3. Committed Fund Balance – amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority (the Board of Supervisors).

   - Committed amounts cannot be used for any other purpose unless the Board of Supervisors removes or changes the constraints placed on the resources by taking the same action it employed to previously commit those amounts.

   - Formal action (in the form of a resolution) by the Board of Supervisors to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period.

4. Assigned Fund Balance – amounts constrained by the City's intent to be used for specific purposes, but neither restricted nor committed.

   - The intent to use funds for a specific purpose would have to be established at either the highest level of decision making, or by a body (budget or finance committee), or an official that has been delegated authority to assign amounts.

   - The Board of Supervisors has delegated the authority to assign fund balance for specific purposes to the City Manager or the Finance Director.

   - For all governmental funds other than the general fund, any remaining positive amounts not classified as nonspendible, restricted or committed are deemed to be assigned based on the purpose of that fund. Assignment of fund balance should not be reported if it results in a deficit unassigned fund balance.

   - Appropriation of existing fund balance to eliminate a projected budgetary deficit in the next year's budget should be reported as assigned fund balance. The amount cannot be greater than the excess of expected expenditures over expected revenue.

5. Unassigned Fund Balance – the residual classification for the general fund. Amounts that can be used for any purpose within the general fund.

   - The general fund is the only fund that would report a positive amount in unassigned fund balance.

   - For all governmental funds other than the general fund, negative unassigned fund balance may occur if the total of nonspendable, restricted and committed fund balance exceeds the total net resources of the fund.

- A minimum unrestricted ending fund balance of not less than 5% (with a goal of 8.3%) of total budgeted expenditures shall be included in the General Fund budget each fiscal year. An inability to meet this requirement must be approved by the Board of Supervisors.

SPENDING ORDER OF FUND BALANCES

Fund balance classifications should depict the nature of the net resources that are reported in the governmental fund. Fund balance in individual governmental funds may be comprised of a single classification or many classifications.

When both restricted and unrestricted funds are available for expenditure, it is the City's policy to expend restricted resources first then unrestricted resources.

Unrestricted fund balance includes the committed, assigned, and unassigned classifications. When any of these amounts are available for expenditure, it is the City's policy to expend committed resources first, followed by assigned resources, then unassigned resources.