



CITY COUNCIL AGENDA REPORT

MEETING DATE: JUNE 21, 2011

ITEM NUMBER: **NB-1**

SUBJECT: GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENT NO. 54
FUND BALANCE CLASSIFICATIONS

DATE: MAY 31, 2011

FROM: FINANCE DEPARTMENT, ADMINISTRATION

PRESENTATION BY: LARRY HURST, INTERIM FINANCE DIRECTOR

FOR FURTHER INFORMATION CONTACT: LARRY HURST, INTERIM FINANCE DIRECTOR
714-754-5243

RECOMMENDATION:

That the City Council:

Adopt City Council Resolution 11-XX approving the reclassification of the various components of fund balance as defined in Governmental Accounting Standards Board (GASB) Statement No. 54; and

Commit \$14.125M of the fund balance of the General Fund for an emergency contingency as previously adopted by City Council Ordinance No. 91-20 and City Municipal Code Section 2-206; and

Commit \$2.0M of the fund balance of the General Fund for a self-insurance reserve as established by City Municipal Code Section No. 2-154; and

Delegate to the Finance Director the authority to determine the portion of the fund balance to be reported as assigned in the City's Comprehensive Annual Financial Report (CAFR).

BACKGROUND:

The Governmental Accounting Standards Board (GASB) has issued its Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this statement are intended to improve financial reporting by providing fund balance categories and classifications that will be more easily understood. The categories are more clearly defined to make the nature and extent of the constraints placed on a government's fund balance more transparent.

Part of the implementation of this statement for financial reports beginning with FY 2010-11, is the formal approval of the reclassification of the various components of fund balance. The previous components of fund balance were reserved fund balance, and unreserved fund balance. Unreserved fund balance was further separated into

designated and undesignated. The new components are nonspendable, restricted, committed, assigned, and unassigned as detailed below.

According to GASB No. 54, the City Council may delegate to the Finance Director the determination of the Assigned Fund Balance components to be reported in the Comprehensive Annual Financial Report (CAFR). Prior to GASB Statement No. 54, these amounts were reported by the Finance Director as unreserved and designated and did not require City Council delegation.

Another requirement of the GASB Statement No. 54 is that the City Council adopt by Resolution the amount of any Committed Fund Balance. This will require the City Council's to commit an emergency contingency in the amount of \$14.125M in the general fund as previously adopted as Ordinance No. 91-20; and to commit a self-insurance reserve in the amount of \$2.0M in the General Fund as established by City Municipal Code Section No. 2-154.

ANALYSIS:

GASB Statement No. 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 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 exposed 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 "reserved" fund balance under the old standard.

Committed Fund Balance. That portion of a fund balance 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 "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 the either the highest level of decision-making, or by an official designated for that purpose. This category was traditionally reported as a "designated" 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 "undesignated" fund balance under the old standard.

In the FY 2009-10 CAFR there were two designations of fund balance in the General Fund that are to be reclassified as committed fund balance in the FY 2010-11 CAFR. They were the designation for working capital (emergency contingency) as previously adopted by the City Council as Ordinance No 91-20, and the designation for self insurance reserve as previously adopted as City Municipal Code Section No. 2-154.

ALTERNATIVES CONSIDERED:

No other Alternatives were considered.

FISCAL REVIEW:

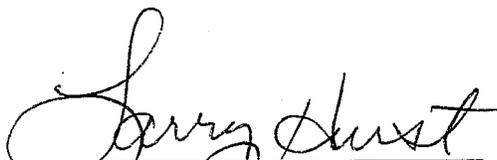
There is no Fiscal Impact.

LEGAL REVIEW:

The City Attorney has reviewed and approved the attached resolution as to form.

CONCLUSION:

Adopt the attached Resolution No. 11-XX.



LARRY HURST

Interim Finance Director



THOMAS P. DUARTE

City Attorney

Attachment: Resolution 11-XX

RESOLUTION NO. 11-____

A RESOLUTION OF THE CITY OF COSTA MESA, CALIFORNIA
ADOPTING THE GOVERNMENT ACCOUNTING STANDARDS
BOARD STATEMENT NO. 54 ENTITLED "FUND BALANCE
REPORTING AND GOVERNMENT FUND TYPE DEFINITIONS"

THE CITY COUNCIL OF THE CITY OF COSTA MESA DOES HEREBY
RESOLVE AS FOLLOWS:

WHEREAS, the Governmental Accounting Standards Board has issued
Statement No. 54 entitled "*Fund Balance Reporting and Government Fund Type
Definitions*"; and

WHEREAS, the City Council desires to classify the various components of
fund balance reported by the City as defined in Governmental Accounting
Standards Board Statement No. 54.

NOW, THEREFORE, BE IT RESOLVED, that the City Council approves
the reclassification of the various components of fund balance in accordance with
GASB No. 54; and

BE IT FURTHER RESOLVED, that the City Council commits \$14.125M of
the fund balance of the General Fund for an emergency contingency as
previously adopted by City Council Ordinance No. 91-20 and codified as Section
2-206 of the Costa Mesa Municipal Code, wherein it is set forth that such funds
may only be spent as a result of a declared emergency or an unanticipated but
urgent event threatening the public health, safety and welfare of the City, such as
earthquakes, major unanticipated infrastructure failures, and terrorist events; and

BE IT FURTHER RESOLVED, that the City Council commits \$2.0M of the
fund balance of the General Fund for a self-insurance reserve as previously
established by Costa Mesa Municipal Code Section 2-154; and

BE IT FINALLY RESOLVED, that the City Council delegates to the
Finance Director the authority to determine the portion of the Fund Balance to be
reported as Assigned in the City's Comprehensive Annual Financial Report
(CAFR).

PASSED AND ADOPTED this 21st day of June, 2011

Gary Monahan, Mayor

ATTEST:

APPROVED AS TO FORM:

Julie Folcik, City Clerk

Thomas P. Duarte, City Attorney