

*City of Brisbane*  
*Agenda Report*

To: City Council via City Manager  
From: Financial Services Manager  
Subject: GASB54: New Fund Balance Reporting  
Date: June 27, 2011

**Purpose:**

To provide better accountability and transparency in the accumulation and use of the City's Fund Balances.

**Recommendation:**

GASB has issued statement 54 Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal period that ends June 30, 2011. In order to implement Statement 54, the city council must take formal action for any Committed Fund Balance; create a formal policy for the allocation of outlays from the various categories, and determine if a stabilization arrangement needs to be created for the rainy day funds. It is recommended that the City Council approve the attached resolution which confirms fund balance categorization in compliance with GASB Statement 54.

**Background:**

The Governmental Accounting Standards Board's (GASB) mission is "to establish and improve standards of state and local governmental accounting and financial reporting that will:

- Result in useful information for users of financial reports, and
- Guide and educate the public, including issuers, auditors, and users of those financial reports."

GASB is the regulating authority for governmental accounting similar to FASB for the private sector.

GASB began a project on fund balance in 2002 because of concerns regarding the use and application of reserved and unreserved fund balance as well as the differences between restricted net assets and fund balance which was required with GASB34. This project progressed through the GASB process and was issued as Statement 54 February 2009 for implementation of the financial statements beginning after June 15, 2010. For the most cities, that is June 30, 2011.

**Discussion:**

"The objective of Statement 54 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."

Fund balance is the arithmetic difference between assets and liabilities in a governmental fund (e.g., general fund) and is a widely used element of local government financial statements. The GASB found that there was inconsistency in governments' reporting practices and thus diminished its usefulness. Governmental fund types consist of Special Revenue Funds, Debt Service Funds, Capital Projects funds, permanent funds, and, of course, the General Fund.

GASB issued clarification on Special Revenue and Capital Projects:

- Special Revenue funds are used to account for and report a revenue source that is restricted or committed to a specified purpose other than debt service and capital projects. An example for Brisbane is the Gas Tax fund.
- Capital Projects funds have been clarified to focus more consistently on the notion of capital outlays.

With GASB 54 the focus of fund balance reporting will shift 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 those funds can be spent."

Currently, GASB Statement 34 requires us to report fund balances in two categories:

- Reserved fund balance which reports the dollar amounts that have been appropriated (budgeted) and for which resources have already been committed, such as inventories on hand, prepaid expenditures and encumbrances.
- Unreserved fund balance which reports the residual amount that is still available for further expenditure. This can be further segregated as designated, for projects that might require further spending, and undesignated, for anything left.

The GASB found that it is not readily apparent at what decision making level the restrictions had been imposed and by what authority.

GASB 54 creates a new fund balance hierarchy based on the extent to which a government must observe constraints imposed upon the use of the resources that are reported by the governmental funds.

- Non Spendable Fund Balance
- Restricted Fund Balance
- Unrestricted Fund Balance
  - Committed
  - Assigned
  - Unassigned.
- *Non spendable* fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This would include inventories, pre-paid expenses, the long term portion of loans receivable and money for endowments.
- *Restricted* fund balance reports on resources that have spending constraints that are either (1) externally imposed by creditors, grantors, contributors or laws and regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation.

These amounts are restricted to a very specific purpose and can be changed or lifted only with the consent of the resource providers.

- *Committed* fund balance represents amounts that have internally imposed restrictions mandated by formal action of the city council. The amounts cannot be redeployed for other purposes unless the same type of formal action is taken by city council to reverse or modify the previously imposed restriction.

**GASB 54, paragraph 12 states “The formal action of the government’s highest level of decision-making authority that commits fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.”**

- *Assigned* fund balance reports amounts constrained by the government’s intent that they will be used for a specific purpose. Decision-making may be made by a committee or other governmental official if the city council has delegated that authority.

Except for the General Fund, fund balance amounts that are not labeled as non-spendable, restricted or committed would be reported in the Assigned Fund Balance category. Therefore, the Assigned Fund Balance becomes the residual amount for the Special Revenue Funds, Capital Project Funds, and Debt Service Funds.

- *Unassigned* fund balance is the residual fund balance for the General fund. It reflects the resources that are available for further appropriation and expenditure for general governmental purposes.

If there is a negative fund balance in the special Revenue, Capital Project, Debt Service or Permanent Funds due to expenditures incurred exceeding the amounts restricted, committed or assigned for specific purposes in these funds, then it is possible that those funds would report a negative Unassigned Fund Balance.

### **Additional GASB 54**

#### Use of Funds Policy

A government should determine the composition of its ending fund balance by applying its accounting policies regarding whether it considers restricted or unrestricted amounts to have been spent when expenditure is incurred for purposed for which both restricted and unrestricted mounts are available. Similarly, within unrestricted fund balance, the classification should be based on the government’s accounting policies regarding whether it considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposed for which amounts in any of those unrestricted fund balance classifications could be used. If a government does not establish a policy for its use of unrestricted fund balance amounts, then committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

#### Stabilization Arrangements or Minimum Fund Balance

GASB 54 also regulates how stabilization (emergency funds) can be reported by treating the arrangements as a specified purpose. Governments should have formal arrangements to maintain

amounts for budget or revenue stabilization, working capital needs, contingencies or emergencies, and other similarly titled purposes. The Authority to set aside those amounts generally comes from statute, ordinance, resolution, charter, or constitution. Stabilization amounts may be expended only when certain specific circumstances exist. The formal action that imposes the parameters for spending should identify and describe the specific circumstances under which a need for stabilization arises. Those circumstances should be such that they would not be expected to occur routinely.

Some governments have a formal minimum fund balance policy. To be reported on the financial statements requires an explanation of the policy and how the city complies with it in the notes to the financial statements.

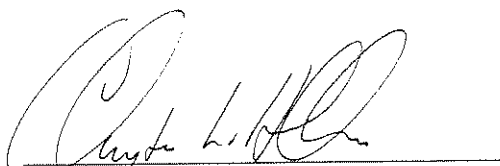
**Fiscal Impact:**

None.

**Measure of Success**

An unqualified audit.

  
Financial Services Director

  
City Manager

***Works Cited***

Gauthier, S. J. (2009, April). Fund Balance New and Improved. *Government Finance Review* , pp. 11-14.  
Government Accounting Standards Board. (2009). *GASB Statement Brings Greater Clarity and Consistency to Fund Balance Reporting*. www.GASB.org: Financial Accounting Foundation.  
Government Accounting Standards Board. (2009). *Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions*. Norwalk: Financial Accounting Foundation.  
John J. surdick, P. C. (2009, June). GASB 54 The New Standard for Reporting Governmental Fund Balance. *Tennessee CPA Journal* , pp. 20-21.

**RESOLUTION NO. 2011- 33**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BRISBANE TO CONFIRM FUND BALANCE CATEGORIZATIONS TO COMPLY WITH NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENT NO. 54**

WHEREAS, the City of Brisbane ("City") is required to follow Generally Accepted Accounting Principles ("GAAP") and Governmental Accounting Standards Board ("GASB") requirements in reporting its financial activities; and

WHEREAS, by complying with the GAAP and GASB Statements, the City has provided clearer financial reporting to the City's decision makers and interested parties; and

WHEREAS, GASB Statement 54 requires that the City Council confirm various fund balance categories for governmental funds prior to June 30, 2011; and

WHEREAS, authority for assigning fund balances that are not restricted or committed, as defined by GASB, needs to be delegated by the City Council.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Brisbane hereby confirms the fund balance categories as shown in Exhibit 1; and

BE IT FURTHER RESOLVED THAT THE City Council of the City of Brisbane hereby delegates authority to the Finance Director to assign fund balances which are not otherwise restricted or committed as shown in Exhibit 1; and

BE IT FURTHER RESOLVED, the City Council of the City of Brisbane that the City's policy shall be when expenditures are incurred for projects or programs with multiple funding sources, funds will be used in the following priority order: Restricted first, then Committed, Assigned, and Unassigned last.

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Cyril G. Bologoff, Mayor

I hereby certify that the foregoing Resolution 2011- 33 was duly and regularly adopted at a regular meeting of the Brisbane City Council on June 20, 2011 by the following vote:

AYES:

NOES:

ABSENT:

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Sheri Marie Spediacci, City Clerk

EXHIBIT 1

400 CAPITAL PROJECT FUND	FUND BALANCE	Assigned	Unassigne
400 CAPITAL PROJECT FUND	RESERVED FOR CAPITAL PROJECTS	Assigned	
450 FACILITIES FUND	FUND BALANCE	Assigned	
100 GENERAL FUND	DESIGNATED FOR FIRE SINKING FUND	Assigned	
281 REDEVELOPMENT AGENCY 1 FUND	RESERVED FOR CAPITAL PROJECTS	Committed	
400 CAPITAL PROJECT FUND	RESERVED FOR BEATY STREET	Committed	
450 FACILITIES FUND	RESERVED FOR NER GYM FACILITY	Committed	
283 LOW INCOME HOUSING FUND	RESERVED FOR ADVANCES	Non Spendable	
100 GENERAL FUND	RESERVED FOR LOANS RECEIVABLE	Non Spendable	
100 GENERAL FUND	RESERVED FOR ADVANCES	Non Spendable	
200 GAS TAX FUND	FUND BALANCE	Restricted	
201 TCRF FUND	FUND BALANCE	Restricted	
203 PROPOSITION 1B FUND	FUND BALANCE	Restricted	
205 MEASURE A FUND	FUND BALANCE	Restricted	
210 SIERRA POINT L&L DISTRICT FUND	FUND BALANCE	Restricted	
220 NPDES FUND	FUND BALANCE	Restricted	
250 OTS GRANT	FUND BALANCE	Restricted	
251 L.L.E.B.G FUND	FUND BALANCE	Restricted	
252 TECHNOLOGY GRANT FUND	FUND BALANCE	Restricted	
254 SLESF GRANT FUND	FUND BALANCE	Restricted	
258 RECYCLING GRANT FUND	FUND BALANCE	Restricted	
259 PEG EQUPT GRANT FUND	FUND BALANCE	Restricted	
281 REDEVELOPMENT AGENCY 1 FUND	FUND BALANCE	Restricted	Unassigne
282 REDEVELOPMENT AGENCY 2 FUND	FUND BALANCE	Restricted	Unassigne
283 LOW INCOME HOUSING FUND	FUND BALANCE	Restricted	
340 PENSION BONDS	FUND BALANCE	Restricted	
365 BPFA 2005 REFUNDING BONDS	RESERVED FOR ADVANCES	Restricted	
366 BPFA 2005B	RESERVED FOR DEBT SERVICE	Restricted	
367 2009-A BPFA	RESERVED FOR DEBT SERVICE	Restricted	
370 BPFA-2001 SERIES A	RESERVED FOR ADVANCES	Restricted	
370 BPFA-2001 SERIES A	RESERVED FOR DEBT SERVICE	Restricted	
375 BPFA 2001 SERIES B	FUND BALANCE	Restricted	
375 BPFA 2001 SERIES B	RESERVED FOR DEBT SERVICE	Restricted	
383 HOUSING BOND FUND	FUND BALANCE	Restricted	
383 HOUSING BOND FUND	RESERVED FOR DEBT SERVICE	Restricted	
410 TUNNEL AVE BRIDGE FUND	FUND BALANCE	Restricted	Unassigne
440 SPECIAL BEAUTIFICATION FUND	FUND BALANCE	Restricted	
100 GENERAL FUND	FUND BALANCE	Unassigned	
100 GENERAL FUND	DESIGNATED FOR CAPITAL IMPROVEMENTS	Unassigned	
100 GENERAL FUND	DESIGNATED FOR STABILIZATION	Unassigned	