

Larry Haug

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

DEPT: Auditor-Controller

BOARD AGENDA # *B-3

Urgent

Routine

AGENDA DATE August 31, 2010

CEO Concur with Recommendation YES NO
(Information Attached)

4/5 Vote Required YES NO

SUBJECT:

Approval of the Revised Fund Balance Policy and to Delegate Authority to the Chief Executive Office to Assign Fund Balance

STAFF RECOMMENDATIONS:

1. Approve the Revised Fund Balance Policy.
2. Authorize the Chief Executive Office to assign fund balance amounts to be used for specific purposes.

FISCAL IMPACT:

The current fund balance classifications of designations, reserves and unreserved/undesignated will be replaced by five new categories: nonspendable, restricted, committed, assigned and unassigned.

With the new categories the intent is to express more transparency in regards to the extent of the constraints placed on the fund balance within governmental funds.

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BOARD ACTION AS FOLLOWS:

No. 2010-540

On motion of Supervisor O'Brien Seconded by Supervisor Monteith
and approved by the following vote,

Ayes: Supervisors: O'Brien, Chiesa, Monteith, DeMartini, and Chairman Grover

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

1) X Approved as recommended

2) _____ Denied

3) _____ Approved as amended

4) _____ Other:

MOTION:

Christine Ferraro

ATTEST: CHRISTINE FERRARO TALLMAN, Clerk

File No.

Approval of the Revised Fund Balance Policy and to Delegate Authority to the Chief Executive Office to Assign Fund Balance

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FISCAL IMPACT (continued):

The Auditor-Controller's Office recommends officially designating the Chief Executive Office to assign fund balance to describe the portion which relates to Stanislaus County intended use of resources. The authority would allow the Chief Executive Office to define amounts used for specific purpose that are neither restricted nor committed. Amounts set aside for debt service, carryover appropriations, teeter plan, retirement obligation, contingencies and tobacco settlement are some examples of funds to be used for specific purpose and can be assigned by the Chief Executive Office.

As outlined in the Government Accounting Standards Board (GASB) pronouncement, the authority to assign is not required by the government's highest level of decision-making authority. Additionally, the actions necessary to remove or modify an assignment is less formal than the committed fund balance. The delegation of duty promotes efficiency and is consistent with the current practice of recommendations proposed by the Chief Executive Office.

At present, the Chief Executive Office recommends the establishment and liquidation of the fund balance designations. One of the components of an assigned fund balance includes appropriations required to cover the subsequent year's budget deficit. Delegating the authority to establish the assigned fund balance supports the Chief Executive Office's responsibility of managing the County's budget.

The Chief Executive Office will include the establishment, modification and adjustments to the assigned fund balance in the budget process.

DISCUSSION:

Government Accounting Standards Board (GASB) has issued statement #54 Fund Balance Reporting and Governmental Fund Type Definitions. This Statement is effective for financial statements with periods beginning after June 15, 2010. The objective of this Statement is to improve the usefulness, including the understandability, of governmental fund balance information. The Statement provides more clearly defined categories to make the nature and extent of the constraints placed on a government's fund balance more transparent as defined on Attachment A. The Statement impacts governmental fund types.

The fund balance will be reported in five new categories: Nonspendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance and Unassigned Fund Balance.

Nonspendable Fund Balance – amounts cannot be spent because a) not in spendable form or b) legally or contractually required to be maintained intact.

DISCUSSION (continued):

Restricted Fund Balance - amounts are restricted by external parties i.e. creditors, grantors, contributors or laws/regulations of other governments or restricted by law through constitutional provisions or enabling legislation.

Committed Fund Balance – amounts that can only be used for specific purpose pursuant to constraints imposed by formal action of the government’s highest level of decision making authority. The formal action must occur prior to the end of the reporting period. The amount, which will be subject to the constraint, may be determined in the subsequent period.

Assigned Fund Balance - amounts constrained by the government’s intent to be used for specific purposes that are neither restricted nor committed. The intent can be expressed by a) the governing body itself or b) a body or official to which the governing body has delegated the authority i.e. budget/finance committee.

Assigned fund balance can be used to eliminate the projected budgetary deficit in the subsequent year’s budget.

Unassigned Fund Balance – a residual classification for the general fund. The total fund balance less restricted, committed or assigned equals unassigned fund balance. General fund is the only fund that should report a positive unassigned fund balance amount. A negative fund balance is possible in other governmental funds.

Currently, it is the practice of the Chief Executive Office to recommend the establishment and the liquidation of the fund balance designations and reserves. The designations represent amounts set aside for specific purpose by the Board.

The portion of the fund balance which is legally or contractually restricted for future use is reserved. With the exception of accounting reserves, the authority to reserve and unreserve the fund balance is approved by the Board.

The following table illustrates the recommended authorities for approval for each fund balance category.

Fund Balance Category	Board Approval Required	CEO Approval Required
Non-spendable	No	No
Restricted	No	No
Committed	Yes	No
Assigned	No	Yes
Unassigned	No	No

The effective date of the new fund balance terminology is fiscal year beginning July 1, 2010.

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POLICY ISSUE:

With the Board's approval of this action to update the fund balance policy and to authorize the Chief Executive Office to assign fund balance supports the Board priority of promoting the Efficient Delivery of Public Services.

STAFFING ISSUE:

Existing Auditor-Controller staff will assist with the implementation of the new GASB standards, and there is no staffing impact associated with this request.

CONTACT PERSON:

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FUND BALANCE POLICY

Fund Balances

- ◆ To maintain the County's credit rating and meet seasonal cash flow shortfalls, economic downturns or a local disaster, the budget shall provide for an anticipated fund balance for general government and enterprise fund types;
- ◆ Fund Balance will be maintained to provide the County with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing;
- ◆ The upper goal for the unreserved/undesignated General Fund Balance is 15%, but not less than 5%, of the average final budgeted general fund appropriations for the preceding three fiscal years. Effective July 1, 2010, this category will be identified as Unassigned Fund Balance;
- ◆ Funds in excess of the upper goal may be considered to supplement "pay as you go" capital outlay expenditures or prepay existing debt; and
- ◆ The Board of Supervisors has been consistent in maintaining a designation for debt services that is equal to one year of debt service payments. This has assisted in maintaining the County's credit rating. Effective July 1, 2010, this category will be included in the Assigned Fund Balance.

General Fund—Classification of Fund Balance

Currently the fund balance in the General Fund is divided into three basic classifications for accounting and tracking purposes: designations, reserves and unreserved/undesignated. Unreserved/undesignated fund balance is the official title for what is typically described as "fund balance" in our budget reports and discussions and is available for those uses the Board of Supervisors deems necessary. Reserves are legally restricted funds established for a future specific use and are not available for general appropriation. Designations have been set-aside by the Board for a specific purpose.

Effective fiscal year beginning July 1, 2010, the above classifications will be replaced with five new categories: nonspendable, restricted, committed, assigned and unassigned.

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ATTACHMENT A

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Committed Fund Balance – amounts that can only be used for specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision making authority. The formal action must occur prior to the end of the reporting period. The amount, which will be subject to the constraint, may be determined in the subsequent period.

Assigned Fund Balance - amounts constrained by the government's intent to be used for specific purposes that are neither restricted nor committed. The intent can be expressed by a) the governing body itself or b) a body or official to which the governing body has delegated the authority i.e. budget/finance committee. Monies set aside for debt service, carryover appropriations, teeter plan, retirement obligation, contingencies and tobacco settlement are some of the examples to be included in the assigned category.

Assigned fund balance can be used to eliminate the projected budgetary deficit in the subsequent year's budget.

Unassigned Fund Balance – a residual classification for the general fund. The total fund balance less restricted, committed or assigned equals unassigned fund balance. General fund is the only fund that should report a positive unassigned fund balance amount. A negative fund balance is possible in other governmental funds.