



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Auditor-Controller
Department No.: 061
For Agenda Of: June 21, 2011
Placement: Departmental
Estimated Tme: 30 Minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Robert W. Geis, CPA, CPFO, Auditor-Controller
Director(s)
Contact Info: Julie Hagen, CPA, Chief Deputy Controller

SUBJECT: GASB 54 – Fund Balance Reporting and Fund Balance Policy

County Counsel Concurrence

As to form: N/A

Auditor-Controller Concurrence

As to form: Yes

Other Concurrence: County Executive Office

Recommended Actions:

That the Board of Supervisors:

- 1) Adopt a comprehensive fund balance policy for the County of Santa Barbara to effect implementation of the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 54 effective for periods beginning after June 15, 2010.

Summary Text:

The County maintains certain financial and budgeting policies to promote sound financial management. The Auditor's Office recommends that some of these policies be combined to create a comprehensive fund balance policy. The adoption of the proposed fund balance policy will provide guidance on the level of unrestricted fund balance that the County would like to maintain in the General Fund and will serve to enhance reporting of the Strategic Reserve in the County's financial statements. In addition, the proposed policy will address certain reporting inefficiencies that currently exist in other governmental funds.

Background:

The Governmental Accounting Standards Board (GASB) is the source of generally accepted accounting principles (GAAP) used by state and local governments. The GASB establishes and improves standards of state and local governmental accounting and financial reporting. GASB Statement No. 54, Fund

Balance Reporting and Governmental Fund Type Definitions, will improve financial reporting by providing fund balance categories and classifications that will be more easily understood by users of the County's financial statements.

The use of public resources is typically constrained by legal restrictions and other limitations. Some of these constraints are imposed by outside parties (e.g., higher levels of government, grantors, creditors); others reflect limitations that the government itself has placed upon the use of resources. Currently, financial statement users examine fund balance information to identify the available resources that can be used, according to whether the fund balance is reserved or unreserved.

GASB Statement No. 54 is designed to improve financial reporting by establishing fund balance classifications that are easier to understand and apply than the existing reserve and designation accounts. GASB 54 establishes a hierarchy based largely on the extent to which a government is bound to observe spending constraints on the funds it can use. GASB 54 replaces reserve and designation reporting with the following classifications in order to clearly demonstrate the relative strength of the constraints that control how specific amounts can be spent:

Nonspendable Fund Balance includes amounts that are not in spendable form (inventory, for example) or are required to remain intact (the principal of an endowment).

Restricted Fund Balance includes amounts that can be spent only for the specific purposes stipulated by the external source, government code, enabling legislation, or other legal restriction.

Committed Fund Balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed only by the government taking the same formal action that imposed the constraint originally.

Assigned Fund Balance is used when the highest level of decision-making body delegates authority to determine use in this category. Because of the requirements on county government imposed by the California County Budget Act, at this time, we believe that there are only very limited circumstances when this category would apply in the General Fund. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed since any amounts in that fund are intended to be used for the purpose of that fund.

Unassigned Fund Balance is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. Positive unassigned amounts can technically only be reported in the General Fund.

Comprehensive Fund Balance Policy

Governments, like businesses and individuals, need some sort of financial "cushion" against the potential for unanticipated circumstances or emergencies. The Governmental Accounting Standards Board (GASB) and the National Advisory Council on State and Local Budgeting recommend a fund balance policy for state and local governments. A fund balance policy establishes a minimum level at which the fund balance is to be maintained to ensure that there will be adequate liquid resources to serve as a financial cushion.

The proposed fund balance policy that is presented today is intended to establish a target for minimum unrestricted fund balance. Consistent with the recommended best practices promulgated by the Government Finance Officers Association (GFOA), the fund balance policy establishes a targeted minimum balance for the General Fund sufficient to provide 60 days of working capital. The proposed policy would establish a target of 60 days working capital for all unrestricted fund balance (i.e., Committed, Assigned and Unassigned fund balance); this 60 day working capital target would continue to include the County's existing target of 30 days working capital in the Strategic Reserve.

One critical element of the fund balance reclassification process relies upon the adoption of a policy for the Strategic Reserve. In order to qualify as Committed Fund Balance under GASB 54, the County must adopt a policy that identifies the purpose of the account and the circumstances for spending the resources in the account. The purposes for expenditure must be sufficiently specific and cannot be expected to occur on a routine basis. To meet these requirements, the proposed policy documents the intended purpose of the Strategic Reserve and identifies the circumstances that would trigger use of the money set aside in the Strategic Reserve. If the County does not adopt such a policy, then the Strategic Reserve will be reported as and combined with all other Unassigned fund balance in the County's financial statements.

The essential elements of a fund balance policy are the appropriate level of unrestricted fund balance to be maintained; the circumstances and order of spending in which unrestricted fund balance can be used; and the policy for replenishing deficiencies. The proposed policy documents each of these elements consistent with the County's established policies and practices, and incorporates recommended best practices from the GFOA to create a comprehensive fund balance policy that will guide financial decision-making and promote financial flexibility for the County.

Fiscal and Facilities Impacts:

The amount of fund balance will not be any different under GASB 54. It should be clearer, however, which components of fund balance are restricted vs. discretionary.

Attachments:

Comprehensive Fund Balance Policy for the County of Santa Barbara

Authored by:

Jennifer Christensen, Financial Reporting Division Chief, (805) 568-2134

cc:

Brown Armstrong Accountancy Corporation