

Lompoc City Council Agenda Item

City Council Meeting Date: November 1, 2011

TO: Laurel M. Barcelona, City Administrator

FROM: Brad Wilkie, Management Services Director
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SUBJECT: Resolution Establishing a Fund Balance Policy for the General Fund pursuant to GASB Statement No. 54



RECOMMENDATION

That the City Council Adopt Resolution No. 5750(11) to establish the “Fund Balance Policy – General Fund and Other Governmental Funds” (Policy) in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54 (Statement 54).

BACKGROUND

The GASB is the authoritative body that sets accounting principals for governmental entities, such as the City of Lompoc. GASB pronouncements comprise the majority of generally accepted accounting principles (GAAP) for governmental entities.

In February 2009, the GASB issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 is designed to modify fund balance reporting in governmental funds with the intention to improve financial reporting by providing fund balance categories and classifications that will be more easily understood by the users of our annual financial statements. Fund balance refers to the difference between assets (what the City owns) and liabilities (what the City owes) in the governmental balance sheet. Users of governmental financial statements examine fund balance information to identify the available resources of the governmental entity. Statement 54 sets criteria for fund balance reporting that more clearly defines categories of fund balance. With more concisely defined categories, the nature and extent of the constraints placed on a government’s fund balance are clearer and more transparent.

In a broader sense, Statement 54 is designed to bring greater clarity and consistency to fund balance reporting for all users of governmental financial statements. Municipal bond analysts review fund balance information for credit reviews of existing or pending municipal bonds. Fund balance information, provided in financial statements, is also used by taxpayer associations, research organizations, oversight bodies, state, county and local legislators and their staffs as well as reporters and numerous other groups and individuals. Users of financial statements examine fund balance information to identify the available liquid resources that can be used to repay long-term debt, reduce property taxes, add new governmental programs, expand existing ones, or otherwise

November 1, 2011

Adopt Resolution No. 5750(11) establishing a Fund Balance Policy

Page 2 of 5

enhance the financial position of the government. Statement 54 allows these users to review a wide variety of financial statements with the ability to compare and contrast dissimilar agencies with a more standardized presentation of financial statements throughout the United States.

Part of the City's implementation of Statement 54 is the formal adoption of a Policy, the action that is being considered in this Staff Report. Statement 54 requires that governmental entities implement the components of the statement with the financial statements issued for the fiscal year ending June 30, 2011. The policy outlines the five new components of the fund balance and the delegation to the City Administrator of the responsibility for the assignment of fund balance amounts for specific purposes for inclusion and presentation in the annual financial statements. Prior to the implementation of Statement 54, fund balance amounts have been reported by the Finance Director as reserved, unreserved, designated or undesignated, as appropriate, and did not require City Council delegation.

In addition to the financial statement presentation of fund balance components, Statement 54 specifically addresses stabilization (reserve) arrangements that set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalance arise. Governments are allowed to report such amounts in the general fund as restricted, committed or assigned fund balance (or a combination of all three categories and unassigned fund balance as well), if the amounts meet the applicable definitions and criteria in Statement 54 and are included in the Policy. The City's Economic Uncertainty Fund has been a separately reported "Special Revenue Fund" in previous financial statements. It has also been considered an integral component of the City's overall unrestricted General Fund reserves. With the implementation of Statement 54, this fund would be combined with the General Fund's fund balance for reporting purposes in the annual financial statements according to the policy. If the City Council desires to formally commit the amounts of the Economic Uncertainty Fund, the commitment would be effective with the financial statements issued as of June 30, 2012 as any commitment of funds are required to be made by the governing body (the City Council) during (or prior to) the reporting year. For the financial statements issued as of June 30, 2011, the fund balance amount of the Economic Uncertainty Fund could be included as an assignment. The Policy includes an attachment (Attachment 2) which analyzes the City's risk factors and dedicated specific amounts that will be designated as committed fund balances for the financial statements reported as of June 30, 2012. For the financial statements issued as of June 30, 2011, the recommended amounts will be shown but as assigned, for the above reason that any commitments would have had to be approved by June 30, 2011. Attachment 2 outlines the components of a new Stabilization reserve and provides for a range for the reserve from a minimum equal to two (2) months of operating expenses (estimated based on budgeted expenditures but reported based on actual reported expenditures) to a dollar specific amount based on the specific risk components discussed in the attachment. Initially, the proposed Stabilization reserve that will eventually be reported as a committed fund balance is between \$4,381,000 (rounded to the nearest \$1,000 increment) and \$4,556,000. The

November 1, 2011

Adopt Resolution No. 5750(11) establishing a Fund Balance Policy

Page 3 of 5

Stabilization reserve commitment does not include fund balances that may be in any of the other categories of fund balance such as non-spendable, restricted and assigned.

As discussed above, the Policy relates to the City's General Fund which is one type of "governmental fund" utilized by governmental entities. Statement 54 also provides direction on the categorization of governmental funds for reporting purposes. The categories of funds in governmental agencies are standardized and the City of Lompoc has several of the various fund types for financial statement reporting purposes, as well as for day-to-day operational needs. The categories of all available funds for financial reporting purposes are listed below (the City of Lompoc does not necessarily have funds in all possible activities listed):

Governmental funds:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Debt Service Funds
- Permanent Funds – not applicable to the City of Lompoc

Proprietary funds:

- Enterprise Funds
- Internal Service Funds

Fiduciary funds:

- Agency Funds
- Pension Trust Funds – not applicable to the City of Lompoc
- Investment Trust Funds – not applicable to the City of Lompoc
- Private-Purpose Trust Funds – not applicable to the City of Lompoc

The above list provides some context regarding this statement by identifying all possible reporting funds a governmental entity may have. Statement 54 is applicable to Governmental Funds only.

The City of Lompoc also has various utility funds which all are categorized as Enterprise Funds for financial reporting purposes. In the financial reporting up to and including June 30, 2010, twenty-three (23) separate and distinct Special Revenue Funds were reported. Some consolidation of reporting was already being done for financial statement reporting purposes; the City has 36 funds classified as Special Revenue Funds for tracking purposes.

ONE EXAMPLE

The City has six (6) distinct funds comprising the two Library Special Revenue Funds that are included in the June 30, 2010 annual financial statements. For accounting purposes, the six separate funds are:

- AB 1600 Impact Fees for Library construction (Fund 84)

November 1, 2011

Adopt Resolution No. 5750(11) establishing a Fund Balance Policy

Page 4 of 5

- Lompoc main library (Fund 85)
- Vandenberg Village branch library (Fund 86)
- California Literacy Campaign Grant (Fund 87)
- City of Buellton branch library (Fund 88)
- Charlotte's Web Children's Library construction (Fund 89)

Beginning with the financial statements to be issued as of June 30, 2011, the AB 1600 fund and Charlotte's Web Children's Library construction fund will be categorized as capital project funds. The other four funds will likely be consolidated with the General Fund for reporting purposes in the annual financial statements only. This consolidation is due primarily to the contractual nature of the operations for the Vandenberg Village and City of Buellton branch libraries as well as the increasing component of local support for the Lompoc main library due to continuing cuts in state funding for libraries. **Please keep in mind that the local reporting, oversight, management, and budgetary aspects of all City funds will not change.** There is also an added complexity specific to the various Library funds in that the Library has a separate governing body from the City Council. The example, however, is true for the Lompoc Library system as well as for the other funds that may be combined with the General Fund for financial statement reporting purposes. Only for financial statement purposes will the presentation of the underlying funds change. Staff is working with the external independent financial auditors to identify the consolidations necessary. A portion of the Policy delineates the fund structure of the City's accounting systems and provides summary information for each fund in existence and the reporting classification for the fund. The creation of new funds as outlined in the Lompoc Municipal Code Section 3.20, will be consistent with the Policy and in conformance with Statement 54.

As mentioned above, Statement 54 is intended to clarify all governmental financial statements by making them more consistent across political boundaries. For instance, the funding mechanism for libraries in California may be different than the mechanism in Nebraska; however, the nature of the fund balances for each of the library systems can be consistently reported within the framework of the classifications identified in Statement 54. The State of California requires specific accounting for revenues for such activity as the State COPS block grant, Traffic Offender funding, Traffic Safety revenues which may not even exist in other states. A significant effect of Statement 54 will be the significant reduction in the number of Special Revenue Funds reported by governmental entities, as many of the fund balances of Special Revenue Funds do not meet the criteria necessary to report them as restricted, committed or assigned separately from the General Fund. A more practical effect will be the rearrangement of financial statement report presentations to be effective with the reports to be issued for the most recent fiscal year ending June 30, 2011.

FISCAL IMPACT

There is no *direct* fiscal impact of implementing Statement 54. Total fund balance reported with or without Statement 54 would be the same; only the components of fund balance will be altered. The total number of reportable funds in the annual financial statements will also be reduced; however there is no fiscal impact attributable to this change either. Additional resources (staff time as well as additional audit procedures by the City's external auditor) needed to evaluate the changes necessary to implement Statement 54 do impact the Finance Division's ability to provide additional or some ongoing services to the City and community by taking away time that would otherwise be spent on ongoing projects or on projects that are in pending status.

ENVIRONMENTAL ANALYSIS

No environmental review is required because the proposed action is not a project under CEQA.

APPROVED FOR SUBMITTAL TO CITY ADMINISTRATOR

Brad Wilkie
Management Services Director

APPROVED FOR SUBMITTAL TO CITY COUNCIL

Laurel M. Barcelona
City Administrator

Attachment:

[Resolution No. 5750\(11\)](#)