AGENDA SUBMITTAL TO SOLANO COUNTY BOARD OF SUPERVISORS

ITEM TITLE		**BOARD MEETING DATE**	**AGENDA NUMBER**
Receive a presentation on GASB 54; and Consider approving changes to the Fund Balance Policy to conform to Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*		June 14, 2011	**22**
Dept: **Contact:** **Extension:**	Auditor-Controller Simona Padilla-Scholtens, CPA 6287	**Supervisorial District Number** ALL	
	Published Notice Required?	**Yes**_____	**No**___**X**____
	Public Hearing Required?	**Yes**_____	**No**___**X**____

DEPARTMENTAL RECOMMENDATION:

It is recommended that the Board of Supervisors receive a presentation on GASB 54 and consider approving the changes to the Fund Balance Policy to conform to Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

SUMMARY:

The General Fund Reserve & Other Designations Policy is being updated and renamed to Fund Balance Policy to incorporate GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The current fund balance classifications of designations, reserves and unreserved/undesignated for governmental funds will be replaced by five new categories: nonspendable, restricted, committed, assigned, unassigned.

The intent of the new categories is to improve the usefulness of fund balance information by increasing transparency in fund balance reporting.

The GASB Statement No. 54 provisions currently only apply to the financial reporting requirements for the County's Comprehensive Financial Report (CAFR). These changes are not required for budgetary presentation. A budget subcommittee is currently working on the legislative changes necessary to bring the Budget Act into compliance with the provisions of GASB #54.

The proposed changes to the Fund Balance Policy are as follows:

1. Updates General Fund General Reserve Policy
2. Updates the General Fund Balance for Accrued Leave Payoff
3. Defines General Fund Loans as Nonspendable Fund Balance
4. Establishes a Spending Priority Policy

5. Includes definitions of the new Fund Balance categories
6. Includes Other Fund's Fund Balance Policy

FINANCING:

Approval of the changes has no financial impact as there is no cost.

DISCUSSION:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was issued in February 2009 and is effective for the fiscal year ending June 30, 2011. GASB 54 changed the classifications of the fund balance to improve the usefulness and understandability of the governmental fund balance information. It shifts the focus of fund balance reporting from the availability of fund resources for budgeting to constraints on the government's resources to which the government is bound.

The new categories of fund balance are defined as follows:

- Nonspendable Fund Balance: Amounts not expected to be converted to cash. It includes inventories, prepaid items, long-term loans and notes receivable and funds legally or contractually required to be maintained intact.

- Restricted Fund Balance: Amounts restricted by external parties whether externally imposed by creditors, grantors, contributors, or laws or regulations of other government or imposed by law through constitutional provisions of enabling legislation (i.e. revenues legally restricted to particular purposes). Examples include: grants, highway user tax, and Public Facilities Fees.

- Committed Fund Balance: Amounts that have limitations imposed by the Board of Supervisors. The commitment is established by the Board of Supervisors for a specified purpose (by resolution) and must be established before the end of the fiscal year. These amounts require Board action to appropriate. An example is General Fund Balance for Accrued Leave Payoff.

- Assigned Fund Balance: Amounts with limitations resulting from intended use. The assignment is established by the Board of Supervisors. The action is less formal and may be established at anytime. The assignment may expire at any time by any action. An example is unspent discretionary General Fund contributions to other funds.

- Unassigned Fund Balance: Residual net resources. The total fund balance in the General Fund in excess of nonspendable, restricted, committed and assigned fund balance or a deficit fund balance in a fund other than General Fund. Only the General Fund can report a positive unassigned fund balance.

As a result, the Auditor-Controller's Office is recommending to update the County's existing General Fund Reserve and Other Designations Policy to conform to the new accounting standard. The following are the significant changes to the proposed Fund Balance Policy:

1. Updates to the General Fund General Reserve Policy to include replenishment provisions

2. Updates to the General Fund Balance for Accrued Leave Payoff establishing a minimum fund balance requirement and replenishment provisions
3. Defines General Fund Loans and Advances as Nonspendable Fund Balance
4. Establishes a Spending Priority Policy for the purpose of determining which categories are spent first when an expenditure is incurred
5. Includes definitions of the new fund balance categories per GASB 54
6. Includes Other Fund's Fund Balance Policy

GASB 54 is effective for fiscal year 2010/11. The Auditor-Controller's Office will implement the new accounting standard when compiling the County's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2011.

The Auditor-Controller and the County Administrator will bring back additional policy criteria to incorporate specific language for the use and floor restrictions of the General Reserve for Board consideration and discussion.

ALTERNATIVES:

The Board could elect not to accept the new Fund Balance Policy; however, this alternative is not recommended as it will violate conformity with Generally Accepted Accounting Principles.

OTHER AGENCY INVOLVEMENT:

CAO RECOMMENDATION:

APPROVE DEPARTMENT RECOMMENDATION

DEPARTMENT HEAD SIGNATURE:

Simona Padilla-Scholtens, CPA
Auditor-Controller

Attachment A: Fund Balance Policy
Attachment B: General Fund Reserve & Other Designations Policy