



MEMORANDUM

TO: Honorable Mayor and Council Members

FROM: Linda Ryan, City Manager

DATE: September 13, 2011

SUBJECT: Budgetary and Fiscal Policies

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement 54, a new standard addressing the reporting of fund balance effective for reporting periods beginning after June 30, 2010.

Prior to Statement 54, there were only three categories of fund balance: reserved and unreserved and designated. GASB found that that the standards for fund balance reporting were being interpreted inconsistently by various governments and that the existing categories did not provide enough information for statement readers to identify available resources. The new standard was designed to address these issues and established the following five categories based on constraints in place that restrict how the government can spend funds:

- ***Nonspendable fund balance***—amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as an endowment fund)
- ***Restricted fund balance***—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation
- ***Committed fund balance***—amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint (City Council ordinance or resolution)

• **Assigned fund balance**—amounts a government *intends* to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority

• **Unassigned fund balance**—amounts that are available for any purpose

It is a recommended practice that governmental entities adopt a policy establishing officials who are authorized to “assign” fund balance as well as the order in which funds will be expended when funds are available in more and less restrictive categories. In accordance GASB 54, staff recommends the following revisions to the City of White Settlement’s Budgetary and Fiscal Policies:

Delegate the authority to assign fund balance to the City Manager and to establish guidelines directing the expenditure of the most restrictive funds first when multiple categories are available.

Additional recommended changes include updating the fund balance reserve requirement to 144 days rather than 144 days or 40% (40% is 146 days) and removing detailed information on authorized investments and referencing authorized investments as those “in compliance with the City’s investment policy and the Public Funds Investment Act”.