ALBANY COMMUNITY REINVESTMENT AGENCY
BOARD OF DIRECTORS

STAFF REPORT

Agenda Date: January 9, 2012
Reviewed by: BP

SUBJECT: Governmental Accounting Standards Board Statement No. 54 Fund Balance Classifications.

REPORT BY: Charlie Adams, Finance and Administrative Services Director

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STAFF RECOMMENDATION

That the Board of Directors of the Albany Community Reinvestment Agency adopt ACRA 2012-1, classifying the various components of fund balance as defined in Governmental Accounting Standards Board Statement No. 54.

BACKGROUND/DISCUSSION

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This new standard does not change the total amount of a given fund balance, but it substantially alters the categories and terminology used to describe the components that make up a fund balance. The new categories and terminology reflect an approach that focuses, not on financial resources available for appropriation with a fund, but on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the fund can be spent.

The term fund balance is used to describe the difference between assets and liabilities reported within a fund. **In the past, fund balances have been classified into three separate components: Reserved, Designated, and Undesignated**. There are almost always important limitations on the purpose for which all or a portion of the resources of a fund can be used. The force of these limitations can vary significantly, depending on their source. The various components of the new fund balance reporting standard are designed to indicate the extent to which the City is bound by these limitations placed upon the resources.

GASB Statement No. 54 defines five new fund balance components as follows:

> <u>Nonspendable Fund Balance.</u> That portion of a fund balance that includes amounts that cannot be spent because they are either (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment. This category was traditionally reported as a “reserved” fund balance under the old standard.

Restricted Fund balance. That portion of a fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. This category was traditionally reported as a "reserved" fund balance under to old standard.

Committed Fund Balance. That portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, and remain binding unless removed in the same manner. This category was traditionally reported as a "designated" fund balance under the old standard.

Assigned Fund Balance. That portion of a fund balance that includes amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted nor committed. Such intent needs to be established at either the highest level of decision making, or by an official designated for that purpose. This category was traditionally reported as a "designated" fund balance under to old standard.

Unassigned Fund Balance. That portion of a fund balance that includes amounts that do not fall into one of the above four categories. The General Fund is the only fund that should report this category of fund balance. This category was traditionally reported as an "undesignated" fund balance under the old standard.

A comparable resolution is before the City Council on January 9, 2012.

SUSTAINABILITY IMPACT

Not applicable.

FINANCIAL IMPACT

There is no direct financial impact from the adoption of the standards and definitions specified in GASB No. 54. Failure to adopt and apply these standards would prevent the Agency from obtaining an unqualified auditors opinion on their financial statements, and this could negatively affect the Agency's ability to receive grant and debt funding.

Attachments:

1. ACRA Resolution No. 2012-1