

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: June 22, 2011

TO: Board of Commissioners

FROM: Patrick Quinton, Executive Director

SUBJECT: Report Number 11-55
Implement GASB 54 and Establish a Policy for Fund Balance Categories,
Order of Spending, and Authority to Assign Fund Balances

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6894

ACTION SUMMARY

This action will authorize the establishment of a policy to designate fund balance categories, the order in which funds in each category may be spent, and authorize the Chief Financial Officer to assign ending fund balance.

Taking this action is necessary for PDC to be in compliance with Governmental Accounting Standards Board (GASB) Statement No. 54 and generally accepted accounting principles.

The objective of GASB Statement No. 54 is to provide clarity to fund balance classifications, create more consistent reporting, and assist in understanding the levels of restrictions on fund balances.

PUBLIC BENEFIT

Implementation will provide more consistent reporting and aid in the understanding of the levels of restrictions on fund balance.

This action will support the following PDC goals:

- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Strong Economic Growth and Competitive Region
- Effective Stewardship over our Resources and Operations, and Employee Investment

PUBLIC PARTICIPATION AND FEEDBACK

Not applicable.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

Adoption of this resolution is necessary to comply with Governmental Accounting Standards.

FINANCIAL IMPACT

Not implementing GASB 54 could result in an audit comment and risk not receiving a clean audit opinion which could have impact on credit ratings, bond ratings, etc.

RISK ASSESSMENT

Adoption of this resolution reduces PDC's risk of noncompliance with Governmental Accounting Standards. Not implementing GASB 54 could result in an audit comment and risk not receiving a clean audit opinion which could have impact on credit ratings, bond ratings, etc.

WORK LOAD IMPACT

There is no anticipated work load impact.

ALTERNATIVE ACTIONS

There is no alternative action available at this time.

CONCURRENCE

Not applicable.

BACKGROUND

In February 2009, the Government Accounting Standards Board released Statement 54 *Fund Balance Reporting and Government Fund Type Definitions* (GASB54). This standard substantially alters the focus and terminology used for fund balance reporting. This important new standard has left unchanged the total amount reported as fund balance but has altered the categories and terminology used to describe its components. The new categories reflect a shift in focus on financial resources available for appropriation to the "extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."

A fund is a tool that accountants use to segregate resources related to specific activities. Funds are classified into three broad categories; Governmental Funds - typically used to account for activities supported by taxes, grants, and similar resources; Proprietary Funds - used to report business like activities; and Fiduciary Funds - used to account for resources held as an agent or trustee. Within each of these categories funds are further classified by fund type; the focus of GASB 54 is Governmental Funds which are classified as General Fund (chief operating fund), Special Revenue Funds (revenues legally restricted to a specific use), Debt Service Funds, Capital Project Funds, and Permanent Funds (endowments and similar arrangements). PDC has established a General Fund, Special Revenue Funds, accounting for grant revenues and specific funding sources, and Capital Project Funds, accounting for Urban Renewal Area resources. We believe that the current classification of funds is appropriate and propose no changes to fund classifications.

The fund balance within each fund is currently comprised of Reserved Fund Balance, not available for appropriation, Designated Unreserved Fund Balance, available for appropriation with limitations on use, and Undesignated Unreserved Fund Balance, available for appropriation with no limitations. GASB 54 recognizes that there almost always important limitations on the purpose for which all or a portion of a governmental fund can be used. The new components of fund balance are designed to indicate the extent to which the government is bound to honor constraints on the specific purpose for which the fund balance can be spent. Fund Balance will now report up to five components;

- Non-spendable Fund Balance - resources not available for spending, such as,
 - Not in a spendable form (e.g., prepaids, inventory, note receivables, real property)
 - Legally or contractually required to remain intact
- Restricted Fund Balance - restrictions imposed by third parties such as creditors, grantors, contributors, regulators, or other governments; or restrictions imposed by state or federal law authorizing PDC to impose restrictions on the use of financial resources (i.e. TIF Funds)
- Committed Fund Balance – can only be used for specific purposes pursuant to PDC’s Adopted Budget.
- Assigned Fund Balance – the balance of resources not in either the Committed, Restricted or Non-Spendable categories that have an intended use.
- Unassigned Fund Balance –
 - Residual in General Fund that is not restricted, committed, or assigned.
 - Negative amounts in other funds created by expenditures exceeding restricted, committed, or assigned resources.

Note that because each fund is different not every fund will present all components.

GASB 54 further requires that the order of spending be identified when fund balance exists in more than one category. PDC will spend resources in the following order as appropriate for the specific expenditures:

1. Restricted resources
2. Committed resources
3. Assigned resources
4. Unassigned resources

Any exceptions to the above spending order must be approved by the Board of Commissioners. The statement also allows the Board of Commissioners the authority to assign fund balance based on its intended use and allows for the designation of this authority. To provide PDC with the most flexibility in financial reporting it is recommended that the Chief Financial Officer be given the authority to assign resources and ending fund balance. This delegation pertains to the Assigned/Unassigned categories of the General Fund to demonstrate intended use of unassigned funds.