

STAFF REPORT

Date: September 27, 2023

To: Mayor and City Council

Thru: Doug Thornley, City Manager

Subject: Staff Report (For Possible Action): Resolution approving Major Fund Designations for Fiscal Year 22/23.

From: Vicki Van Buren, Director of Finance

Department: Finance

Summary:

Each fiscal year the Finance Department identifies the funds to be designation as "major" for financial reporting purposes. Governmental Accounting Standards Board (GASB) Statement No. 34 requires funds meeting certain criteria be designated as major, but gives Council the authority to designate additional funds as major for reporting consistency issues. Staff recommends Council adopt the attached resolution establishing the General Fund, the Streets Special Revenue Fund, the 2007 Sales Tax Increment Bond Debt Fund, the City of Reno Capital Project Fund, the Sanitary Sewer Enterprise Fund and the Building Permit Enterprise Funds as "major" funds.

Alignment with Strategic Plan:

Fiscal Sustainability

Previous Council Action:

October 26, 2022 - Council approved, through passage of Resolution No. 9077, the following funds as "major" for Fiscal Year (FY) 2022 financial reporting purposes: the General Fund, the Streets Special Revenue Funds, the 2007 Sales Tax Increment Bond Debt Fund, the City of Reno Capital Project Fund, the Sanitary Sewer Enterprise Fund and the Building Permit Enterprise Fund.

Background:

Governmental financial reporting requirements set forth in GASB Statement No. 34 place the focus of governmental and proprietary fund financial statements on “major” funds. There are three criteria for determining what constitutes a major fund. First, the General Fund (or main operating fund) must always be reported as a major fund. Second, a fund that meets two tests based on mathematical formulas must be reported as a major fund. Third, a fund that does

not meet the first two criteria but which the government officials believe is particularly important to financial statement users (for example, because of public interest) may be reported as a major fund. Internal Service Funds are excluded from major fund reporting requirements and calculations per GASB Statement No. 34.

Discussion:

Attached as Exhibit I is a spreadsheet that identifies the City of Reno's major funds based on the second criteria referenced in the Background section. Specifically, governmental and enterprise funds must be reported as "major" if these two tests are both met: (1) total assets, liabilities, revenues or expenditures/expenses of an individual governmental or enterprise funds are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures/expenses) for all funds of that category or type (i.e., total governmental funds or total enterprise funds); and (2) total assets, liabilities, revenues or expenditures/expenses of an individual governmental or enterprise fund are at least five percent of the corresponding element total for all governmental and enterprise funds combined.

Based on the non-discretionary criteria for determining major funds, the following funds must be classified as major:

- General Fund
- Streets Special Revenue Fund
- 2007 Sales Tax Increment Bond Debt Fund
- City of Reno Capital Project Fund
- Sanitary Sewer Enterprise Fund
- Building Permit Enterprise Sewer Fund

The third criteria for determining a major fund is based on Council's discretion of which funds it believes should be reported as major because of their particular importance to the financial statement users due to public interest or financial viability concerns. Because non-discretionary major funds can change from fiscal year to fiscal year, Council may want to designate a particular fund for reporting consistency purposes. The Finance Department has not identified an additional funds that would be considered a major fund.

Exhibit II lists the remaining governmental and enterprise funds that the Finance Department believes will not meet the non-discretionary criteria for major fund designation. Council is asked to review this list and to determine those funds, if any, it wishes to report as major for public interest purposes. While the Governmental Accounting Standards Board has not officially stated the maximum number of major funds that a governmental entity should report, most literature suggests that there should be no more than seven major funds in order to comply with the intent and spirit of the financial reporting model.

Financial Implications:

Major funds shall be treated as opinion or audit units. Each major fund will have its own materiality threshold, whereas the non-major funds will be aggregated and audited as a whole. When a bid for performing an annual audit is calculated, an auditing firm assumes that a governmental entity will have less than six major funds. Based on a contract in place with the City's audit firm, the audit cost is not expected to exceed the estimated amount.

Legal Implications:

Pursuant to NRS 354.612(2), financial statements and other schedules required for funds must be prepared in accordance with generally accepted accounting principles.

Recommendation:

Staff recommends Council adopt the Resolution.

Proposed Motion:

I move to approve staff recommendation.

Attachments:

Resolution Exhibit I Major Funds
Exhibit II Discretionary Funds List FY 2023
Presentation FY 2023
Major Funds