

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions



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Primary Focus

The new reporting standard has not changed the total amount reported as fund balance, but it has substantially altered the categories and terminology used to describe its components.

The new categories and terminology reflect an innovative approach that will not focus on financial resources available for appropriation, but on the extent to which the government is obligated to honor constraints on the specific purposes for which amounts in the fund can be spent.

Why Change Components of Fund Balance Now?

Three considerations led to the replacement of the previous components of fund balance:

1. The previous terminology (i.e. reserved, unreserved, undesignated) was not self-explanatory and frequently was misunderstood by financial statement users;
2. The previous components were often applied inconsistently in practice;
3. Some questioned whether the focus on availability for appropriation continued to best serve the needs of financial statement users.

How the Changes Will Improve Financial Reporting

- The requirements in this statement will improve financial reporting by providing fund balance categories and classifications that will be more easily understood.
- Elimination of the reserved fund balance component in favor of a restricted classification will enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets.
- The fund balance classification will require governments to classify amounts consistently, regardless of the fund type or column in which they are presented. As a result, an amount cannot be classified as restricted in one fund but unrestricted in another.
- The clarifications of the governmental fund type definitions will reduce uncertainty about which resources can or should be reported in the respective fund types.

Fund Description/Overview

Governmental Funds are classified into Four Fund Types:

- General Fund (Chief Operating Fund)
- Special Revenue Funds (Revenues Restricted to Specific Use)
- Capital Projects Funds (Primarily for Long-Term Debt Proceeds)
- Permanent Funds (Trust Endowments)

GASB Statement No. 54 only impacts the governmental funds and does not change any net asset classifications.

New Components of Fund Balance

Governmental fund financial statements can report up to five components of fund balance. They are as follows:

- Nonspendable Fund Balance
- Restricted Fund Balance
- Committed Fund Balance
- Assigned Fund Balance
- Unassigned Fund Balance

(Not every governmental fund will present all of these components.)

Component Descriptions

Nonspendable Fund Balance – *Assets that will never convert to cash*

- Portion of net resources that cannot be spent because of their form
- Portion of net resources that cannot be spent because they must be maintained intact
- Examples: Principal of endowment fund; inventory of supplies; prepaid amounts

Restricted Fund Balance – *Externally enforceable legal restrictions*

- Limitations imposed by grantors, creditors, contributors, or laws and regulations of other governments
- Limitations imposed by law through constitutional provisions or enabling legislation
- Examples: Food service fund; grants fund; income balance of permanent funds; expendable trust funds; capital project fund.

Committed Fund Balance – *Self-imposed limitations set in place prior to the end of the period*

- Limitation imposed at highest level of decision making that requires formal action at the same level to remove; should have the consent of both the legislative and executive branches of government
- Examples: Adult education special revenue fund; any other special revenue fund, non-lapsing appropriation voted at District meeting; warrant articles voted at School District meeting to authorize the governing body (school board) to transfer up to (\$xxx.xx) to a capital reserve fund for a specified purpose

Assigned Fund Balance – *Limitation resulting from intended use*

- Intended use established by body designated for that purpose
- Intended use established by official designated for that purpose (i.e. Superintendent or Business Administrator)
- Examples: includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable, restricted or committed, and (b) amounts in the general fund that are intended to be used for a specific purpose, e.g. reserve for encumbrances, open contracts, purchase orders

Unassigned Fund Balance – *Residual net resources*

- Total fund balance in the general fund in excess of nonspendable, restricted, committed, and assigned fund balance

*(Note: Only the general fund can report a positive amount of unassigned fund balance.
Conversely, any governmental fund in a deficit position
must report a negative amount as unassigned fund balance)*

New Fund Balance Classifications

The classifications which will appear on the Governmental Fund's Balance Sheet are:

	<u>Classification</u>
Essentially what is now <i>Reserved</i>	<ul style="list-style-type: none">* Nonspendable* Retriected* Committed
Essentially what is now <i>Unreserved</i>	<ul style="list-style-type: none">* Assigned* Unassigned

Relationship of Net Assets to Fund Balance

Net assets reported on the Statement of Net Assets:

<u>Net Assets</u>	<u>Fund Balance</u>
Restricted	<ul style="list-style-type: none">* Nonspendable* Restricted
Unrestricted	<ul style="list-style-type: none">* Committed* Assigned* Unassigned

Fund Equity Presentation in MS-25 Report

Presently Reported	New Classification
Reserved for Inventories	Nonspendable
Reserved for Prepaid Expenses	Nonspendable
Reserved for Encumbrances	Assigned
Reserved for Continuing Appropriations	Committed
Reserved for Amounts Voted	Restricted or Committed
Reserved for Endowments	Nonspendable
Reserved for Special Purposes	Committed
Unreserved Fund Balance	Unassigned

New Note Disclosure Requirements

GASB Statement No. 54 requires new note disclosure requirements:

1. Description of authority and actions that lead to committed and assigned fund balance.
2. District's policy regarding order of spending
3. Restricted and unrestricted fund balance
4. Committed, assigned and unassigned
5. Encumbrances, if significant are disclosed in conjunction with other disclosures of significant commitments
6. The purpose of each major special revenue fund and which revenues or other sources are reported in each of those funds

GASB Statement No. 54 has also changed the fund definitions of the Special Revenue Funds and Capital Project Funds as follows:

Special Revenue Funds

• Special revenue funds are used to account for and report the proceeds of specific revenue sources that are *restricted* or *committed* to expenditure for specified purposes other than debt service or capital projects. The term “proceeds of specific revenue sources” establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.

- » Used to say just legally restricted
- » Now need a real revenue as the funds base – not a transfer
- » Agrees with new Fund Balance categories

12

Capital Projects Funds

- Capital projects funds are used to account for and report financial resources that are *restricted*, *committed*, or *assigned* to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.
- Now can be used to report the acquisition or construction of capital assets that clearly comprise *facilities* (for example: buildings, infrastructure assets) **AND** those that clearly do not (for example: buses, computer workstation equipment) – **OLD DEFINITION INCLUDED ONLY FACILITIES.**

13

Fund Balance Policy

Total fund balance must be classified into one or more of the five possible categories at the end of each year. A governmental policy on the order in which resources are to be expended is an important factor in how amounts are reported in fund balance. Under Statement No. 54, governments are required to have a policy regarding whether it considers the use of restricted or unrestricted resources first when both are available for expenditure. This policy now applies at the fund level for restricted and unrestricted (committed, assigned or unassigned) resources.

Likewise a government should establish a policy on the order in which unrestricted resources are to be used when any of these amounts are available for expenditure. If a government does not establish a policy, the default approach assumes that committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.

Encumbrances

Encumbrances should not be displayed separately with the restricted, committed and assigned categories. Amounts are classified as restricted, committed, and assigned based on the source and strength of the constraints placed on them – encumbering those amounts does not further affect them.

If you have encumbrance accounting, encumbrances will be reported as either:

- Committed – If encumbrances are approved by action of the highest decision-making authority, i.e. a non-lapsing appropriation.
- Assigned – If the year-end encumbered amount is a result of normal purchasing activity approved by appropriate officials. This is the most common classification of encumbrances.

Example of the fund balance section of a balance sheet under GASB Statement No. 54

Fund Balance	General	Grants Fund	Capital Project	Nonmajor Funds	Total
◦ Nonspendable:					
Inventory	\$ -	\$ -	\$ -	\$ 12,000	\$ 12,000
Prepaid items	22,000	-	-	1,000	23,000
◦ Restricted for:					
Capital improvements (bond proceeds)	-	-	1,225,000	-	1,225,000
Food service	-	-	-	25,500	25,500
◦ Committed to:					
Warrant article #10 dated 3/10/xx	75,000	-	-	-	75,000
Nonlapsing appropriation	35,000	-	-	-	35,000
◦ Assigned balance	25,000	1,250	-	7,500	33,750
◦ Unassigned	100,500	-	-	-	100,500
Total fund balance	<u>\$ 257,500</u>	<u>\$ 1,250</u>	<u>\$ 1,225,000</u>	<u>\$ 46,000</u>	<u>\$ 1,529,750</u>

Tip of the Day!

In order to indirectly retain surplus for the School District each year, a warrant article could be created to vote to create an expendable trust fund (or capital reserve fund), designating the School Board as the agents of the fund. These expendable trust funds could be created for unanticipated special education expenses under RSA 35:1-b, or for construction, reconstruction or acquisition of a specific or type of capital improvement or the acquisition of a specific item or type of equipment under RSA 35:1.

These reserve funds are in lieu of a "rainy day" fund and could come in very handy if unanticipated expenses arise that are related to the specific reserves. Thus, these funds would benefit the tax payers by maintaining a stabilized tax rate.

The warrant article could be written each year with the funding to come from the year-end unassigned fund balance available at June 30 and should be for an amount up to a certain dollar threshold. This way if you don't have the exact amount, you can still transfer what is available, up to the designated amount.

GASB 54 Summary – What to Do?

*This statement is effective for
fiscal year ending June 30, 2011—
that's this fiscal year!*

- Review fund structure
- Review/establish fund balance policy
- Be sure that appropriate Board action is taken to ensure funds can be shown as committed and/or assigned
- Establish/strengthen control processes to track changes in committed and assigned funds