



Government Finance Officers Association

Since 1906



Frank J. Champi, CPA, Principal
Susan R. Johnson, CPA, Principal

February 22, 2010

GASB Statement No. 54

Fund Balance Reporting and Government Fund Type Definitions

❖ **Scope**

- Changes how *fund balance* is presented
- Clarifies use of governmental fund types

❖ **Objective**

- Isolate that portion of fund balance that is available to support the following periods' budgets

GASB Statement No. 54

Fund Balance Reporting and Government Fund Type Definitions

- ❖ **Effective date**
 - Fiscal period ending 6/30/11
 - *Early implementation encouraged*
 - Retroactive reporting encouraged for statistical information

- ❖ **Released March 11, 2000**

Background

- ❖ **Statement No. 34 had no effect on fund balance reporting**
- ❖ **Significant variation exists in how standards relating to fund balance are applied, leading to significant divergence in practice**
- ❖ **Widespread confusion about terminology**

Background


- ❖ Mismatch exists between what governments are reporting about fund balance and what users of the financial statements actually need
- ❖ Need to enhance the usefulness of fund balance information and provide clearer fund balance classifications that can be consistently applied

Background

- ❖ **Need to clarify the existing governmental fund type definitions and stop the proliferation of Special Revenue Funds**

Term *fund balance*

- ❖ **Used exclusively for governmental funds**
 - Difference between fund assets and liabilities
 - Is an approximate measure of liquidity (i.e. working capital)
 - Focused on whether resources were available for appropriation
 - Prior to GASB 54, classifications were:
 - *Reserved fund balance* = not available
 - *Unreserved fund balance* = available



Reserved Fund Balance (*unavailable for appropriation*)

- ❖ By their very nature can *never* be spent (e.g., prepaid rent, inventories of supplies);
- ❖ Because of the timing of cash flows, can *not yet* be spent (e.g., long-term loans receivable); and,
- ❖ Can be spent, but *not at the government's discretion*, because externally restricted to a use narrower than the purpose of the fund.

Designated unreserved fund balance

- ❖ **Intended use of resources (“earmarking”)**
 - Management
 - Governing body
- ❖ **Use is optional**
- ❖ **If used, must be disclosed in the footnotes – NOT on the face of the financial statements**

Need for change

- ❖ Terms were not intuitive and frequently misunderstood
- ❖ Categories are often applied inconsistently
- ❖ Focus on availability for appropriation - does this best serve the users?

New Guidance

Focus of classification

- ❖ **“The extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent” (GASB Statement No. 54, paragraph 5)**

Components of fund balance

❖ Five categories

*Essentially
what is now
reserved*

{
Nonspendable
Restricted

*Essentially
what is now
unreserved*

{
Committed
Assigned [*Essentially what is now designated*]
Unassigned

❖ Not all will always be present

Nonspendable fund balance

- ❖ **Not in spendable form**
 - Cannot *ever* be spent (e.g., supplies inventories and prepaid items)
 - Cannot *currently* be spent (e.g., the long-term portion of loans receivable and nonfinancial assets held for resale)
- ❖ **Legally or contractually required to be maintained intact (principal of an endowment or revolving loan fund)**

Clarifications concerning nonspendable fund balance

- ❖ **Resources that cannot currently be spent**
 - If constraints on the purpose for which the proceeds can be used, classify based on that constraint
- ❖ **Only long-term *loans* receivable would be classified as nonspendable fund balance**
 - Other long-term receivables offset by liability for deferred revenue (i.e., no related fund balance)

Categories representing spending constraints

- ❖ **Three categories**
 - Restricted fund balance
 - Committed fund balance
 - Assigned fund balance

- ❖ **No requirement that constraint be narrower than the purpose of the fund**

Restricted fund balance

- ❖ **Amounts subject to externally enforceable legal restrictions**
 - Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments
 - Imposed by law through constitutional provisions or enabling legislation

Committed fund balance

- ❖ **Amounts whose use is constrained by limitations that the government imposes upon itself**
 - Imposed at the government's highest level of decision making (normally the governing body, with the consent of the executive branch, if applicable)
 - Binding unless removed in the same manner
 - Action taken no later than the close of the reporting period
 - *Actual amount can be determined after close*

Assigned fund balance

- ❖ **Intended use of resources**
 - Established by the governing body itself, or
 - Established by a body or an official delegated by the governing body
- ❖ **Never in excess of total fund balance less its nonspendable, restricted and committed components.**

Committed v. assigned

- ❖ **Level at which action must be taken**
 - Committed fund balance requires action by the highest level of decision-making authority, whereas assigned fund balance allows that authority to be delegated to some other body or official
- ❖ **Type of action necessary**
 - Formal action is necessary to impose, remove, or modify a constraint reflected in committed fund balance, whereas less formality is necessary for assigned fund balance.

Unassigned fund balance

- ❖ **Excess of total fund balance over nonspendable + restricted + committed + assigned components**
 - Positive balance possible only in general fund
 - Deficit balance possible in any governmental fund

Note Disclosures

- ❖ **Description of authority and actions that lead to committed and assigned fund balance**
- ❖ **Government's policy regarding order of spending**
 - Restricted and unrestricted fund balance
 - Committed assigned, and unassigned
- ❖ **Encumbrances, if significant, are disclosed in conjunction with other disclosures of significant commitments**

Level of Detail

- ❖ **Level of detail requirements may be met by display or by a combination of display and disclosure**
 - Nonspendable by type
 - Restriction by purpose
 - Commitments and assignments in sufficient detail that major purposes are evident to a reader

Elements of a Comprehensive Fund Balance Policy

- ❖ **Fund balance policy should apply to:**
 - Unrestricted fund balances
 - Committed
 - Assigned
 - Unassigned
 - Generally applies to the general fund

Elements of a Comprehensive Fund Balance Policy

- ❖ **The following should be addressed:**
 - The appropriate level of unrestricted fund balance to be maintained in the general fund
 - The circumstances in which unrestricted fund balance can be “spent down” and
 - The policy for replenishing deficiencies.

Elements of a Comprehensive Fund Balance Policy

- ❖ Desired level of unrestricted fund balance can be expressed as either a minimum amount or a range between amounts
- ❖ The circumstances under which contingencies may be spent should be as specific as possible
- ❖ Replenishment policy should indicate source of funding and time period for replenishment to occur.

Elements of a Comprehensive Fund Balance Policy

- ❖ What is the minimum amount of unrestricted fund balance that a government should maintain?
- ❖ What factors should be considered?

Elements of a Comprehensive Fund Balance Policy

- ❖ **Higher minimum balances should be considered when there is:**
 - Volatility in operating revenues
 - Potential drain on resources from other funds
 - Exposure to natural disasters
 - Concentration of revenue sources
 - Rapidly growing budgets
 - Timing differences between revenue collections and expenditures

Components of fund balance

Nonspendable fund balance (inherently nonspendable)

Not in spendable form or requirement to maintain intact

Restricted fund balance (Externally enforceable limitations on use)

Outside parties

Constitutional provisions or enabling legislation

Committed fund balance (Self-imposed limitations)

Formal action by end of period

Highest level of decision making

Assigned fund balance (Limitation resulting from intended use)

Less formal action

Highest level of decision making *or* designated body or official

Unassigned fund balance (Residual net resources)

FUND DEFINITIONS

- General Fund

- ***General Fund:*** used to account for all financial resources not accounted for in another fund

No changes here.

Special Revenue Funds

Current Definition:

- ***Special Revenue Funds*** – To account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditure for specified purposes.

Special Revenue Funds

Statement 54 Definition:

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.

Special Revenue Funds

Which definition appears more restrictive – Old or New?

OLD!

Legally restricted vs Restricted or Committed

Special Revenue Funds

So why should there be attention and
(concern?) focused on the GASB 54
definition?

No one was paying attention to the old
definition!

Special Revenue Funds under GASB 54

- ❖ Report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects.
- ❖ Restricted or committed specific revenue sources should comprise a substantial portion of fund's resources, but fund also may include other restricted, committed, and assigned sources.
- ❖ If revenues are initially received in another fund, they should NOT be reported as revenues in the fund receiving them; instead, they should be recognized in the special revenue fund where they will be spent.

Special Revenue Funds under GASB 54

- ❖ The proceeds from these special revenue sources should be expected to continue to comprise a substantial portion of inflows.
- ❖ Governments should discontinue reporting a special revenue fund, and instead report the resources and expenditures in the general fund, if the government no longer expects that a substantial portion of revenues will be derived from restricted revenue sources.

Special Revenue Funds

- ❖ In one test case, nearly one-third of a municipality's special revenue funds (10 funds out of 31) did not meet the revised definition of special revenue fund (and probably did not meet the old definition either).

Special Revenue Funds

- ❖ Funds with residual balances
- ❖ Funds that do not have a significant committed and on-going revenue source
- ❖ Funds that receive most (50%) of their revenue as a transfer from another fund.

Should these be reported as Special Funds?

	Harbor	Operating	Sewer Fund	Capital Reserve	Library	Health Insurance Fund
Revenues:						
Property Taxes	-	-	1,500,000	-	-	-
State Subsidy	-	-	-	-	-	4,000,000
Charges for Services	1,000,000	-	-	-	50,000	50,000
Investment Income	35,000	-	50,000	500,000	-	50,000
Total Revenues	1,035,000	-	1,550,000	500,000	50,000	4,100,000
Expenditures	950,000	-	2,050,000	5,000,000	750,000	19,000,000
Transfers in (out)		-	800,000	(2,000,000)	700,000	14,800,000
Excess (Deficiency)	85,000	-	300,000	(6,500,000)	-	(100,000)
Fund Balance - beginning	75,000	2,500,000	1,000,000	10,000,000	-	250,000
Fund Balance - ending	160,000	2,500,000	1,300,000	3,500,000	-	150,000

Special Revenue Funds

If you want to be ready to implement GASB 54 for the fiscal year ending June 30, 2011, when should planning begin?

At the beginning of your FY 2011 budget cycle – the Spring of 2010

Special Revenue Funds

- ❖ **Disclosure:** purpose of each major special revenue fund and each revenue source or other resources authorized to be reported in each.

Special Revenue Funds

- ❖ **Final point:** This is a financial reporting standard.
- ❖ It does not require you to collapse all these funds in your general ledger. . . . only the ones that do not qualify (and probably never did) as an SRF.
- ❖ Use SRF only when appropriate.

Capital Projects & Debt Service Funds

- ❖ Text made consistent with other definitions
- ❖ Capital projects fund definition is more reflective of current practice
- ❖ Highlighted that debt service funds are *required* when:
 - Legally mandated
 - Financial resources are being accumulated for principal and interest payments maturing in future years.

Capital Projects Funds

Prior definitions:

- ❖ *Capital projects funds* – to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

Capital Projects Funds

Statement 54 Definition

- ❖ ***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. Capital projects funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Funds

Prior definitions:

Debt service funds – to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Debt Service Funds

Statement 54 Definition

- ❖ *Debt service funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Conclusion

WHAT TO DO???

- ❖ **GASB 54 will be here sooner than you think!**
 - Review fund structures **NOW**
 - Review/establish a fund balance policy
 - Be sure that appropriate Council (Board) action is taken to ensure funds can be shown as committed
 - Establish/ strengthen control processes to track changes in committed and assigned funds



Government Finance Officers Association

Since 1906

QUESTIONS

**Frank J. Champi, fchampi@lgcd.com
Susan R. Johnson, sjohnson@lgcd.com**

Lefkowitz, Garfinkel, Champi & DeRienzo P.C.

10 Weybosset Street · Suite 700 · Providence · RI · 02903

[p] 401-421-4800 · [f] 401-421-10643

www.lgcd.com

