

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

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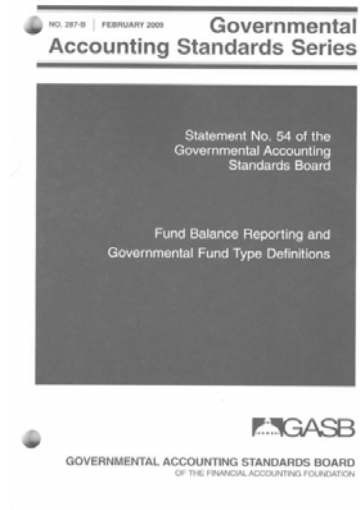
April 29, 2009

Disclaimer

The opinions expressed in this presentation are those of the presenter. Official positions of the GASB are established only after extensive public due process and deliberation.

Statement No. 54

- Approved by the Board in February
- Released March 11, 2009
- Effective for periods beginning after June 15, 2010



Origins of the Project

- Significant variation in how standards are applied, leading to significant divergence in practice
- Widespread confusion about terminology
- Mismatch between what governments are reporting about fund balance and what users of financial statements actually need
- Invitation to Comment issued 10-06
- Exposure Draft issued 2-08

Interaction of Fund Reporting in General with Fund Balance Reporting

- Consider a government that has
 - \$100 earmarked for capital projects by the government itself
 - \$100 in property tax revenue restricted to paying debt service
 - \$100 of cash available for any purpose

Under the current standards

If the amounts constrained to specific purposes are reported in the *general fund*, they are shown as reserved

	GF	SRF	DSF	CPF	Non-major Funds	Total
Reserved for:						
Capital projects	\$100					\$100
Debt service	\$100					\$100
Unreserved	\$100					\$100

But...

Under the current standards

If the amounts constrained to specific purposes are reported *outside* the general fund, they are shown as unreserved

	GF	SRF	DSF	CPF	Non-major Funds	Total
Reserved for:						
Capital projects	\$100					
Debt service	\$100					
Unreserved	\$100					

Under the current standards

If the amounts constrained to specific purposes are reported *outside* the general fund, they are shown as unreserved

	GF	SRF	DSF	CPF	Non-major Funds	Total
Reserved for:						
Capital projects	\$100					
Debt service	\$100					
Unreserved	\$100					

Under the current standards

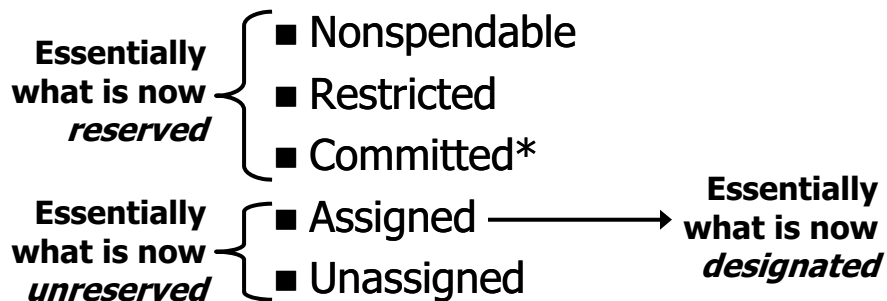
If the amounts constrained to specific purposes are reported *outside* the general fund, they are shown as unreserved

	GF	SRF	DSF	CPF	Non-major Funds	Total
Reserved for:						
Capital projects						
Debt service						
Unreserved	\$100		\$100	\$100		\$300

This will change...

New Fund Balance Classifications

The classification hierarchy is "based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts...can be spent"



*Proposal called this classification "limited"

Nonspendable Fund Balance

- Not in spendable form, such as
 - Inventory
 - Long-term amounts of loans and notes receivable
 - Property held for resale
 - However, if the use of the proceeds from the collection of receivables or sale of the property is restricted, committed, or assigned, then the receivables or property should be reported in those categories
- Corpus of a permanent fund

Restricted Fund Balance

- Same definition as for net assets in Statement 34 (as amended by Statement 46)—amounts constrained to being used for a specific purpose by
 - External parties
 - Constitutional provisions
 - Enabling legislation

Committed* Fund Balance

- Constraint on use imposed by the government itself, using its highest level of decision making authority
- Constraint can be removed or changed only by taking the same highest-level action
- Action to constrain resources should occur prior to end of fiscal year, though the exact amount may be determined subsequently

*Proposal called this classification "limited"

Assigned Fund Balance

- Amounts *intended* to be used for specific purposes
- Required, not optional
- Intent is expressed by
 - The governing body
 - High-level body or individual authorized by the governing body

Assigned Fund Balance

- Amounts in governmental funds other than the general fund that are not restricted or committed are reported as assigned
 - The act of transferring resources to another governmental fund is considered an assignment of those resources to the purpose of that fund

Assigned Fund Balance

- Appropriation of existing fund balance to eliminate a projected budgetary deficit in the next year's budget is an assignment of fund balance
 - Limited to an amount no greater than the projected excess of expenditures over revenues

Unassigned Fund Balance

- Available for any purpose
- Reported only in the general fund, except in cases of negative fund balance
 - Negative balances in other governmental funds are reported as unassigned

Under the new standards

The amounts constrained to specific purposes are reported in the same classifications regardless of the fund they are in

	GF	SRF	DSF	CPF	Non-major Funds	Total
Restricted for: Debt service	\$100					\$100
Committed for: Capital projects	\$100					\$100
Unassigned	\$100					\$100

Or...

Under the new standards

The amounts constrained to specific purposes are reported in the same classifications *regardless of the fund they are in*

	GF	SRF	DSF	CPF	Non-major Funds	Total
Restricted for: Debt service	\$100					\$100
Committed for: Capital projects	\$100					\$100
Unassigned	\$100					\$100

Under the new standards

The amounts constrained to specific purposes are reported in the same classifications *regardless of the fund they are in*

	GF	SRF	DSF	CPF	Non-major Funds	Total
Restricted for: Debt service	\$100					\$100
Committed for: Capital projects	\$100					\$100
Unassigned	\$100					\$100

Under the new standards

**The amounts constrained to specific purposes
are reported in the same classifications
*regardless of the fund they are in***

	GF	SRF	DSF	CPF	Non-major Funds	Total
Restricted for: Debt service			\$100			\$100
Committed for: Capital projects				\$100		\$100
Unassigned	\$100					\$100

Under the new standards

**The amounts constrained to specific purposes
are reported in the same classifications
*regardless of the fund they are in***

	GF	SRF	DSF	CPF	Non-major Funds	Total
Restricted for: Debt service			\$100			\$100
Committed for: Capital projects				\$100		\$100
Unassigned	\$100					\$100

**The funds have changed, but the
fund balance classifications have not**

What if you do not have restricted amounts?

- Then do not present a restricted fund balance classification on your balance sheet
- Statement 54 does not require governments to report fund balance as restricted, committed, or assigned if they do not have amounts that meet those definitions and criteria
- For example, some governments may not have the power to commit amounts

Rainy-Day Amounts: Before 54

- Under existing standards, rainy-day or “stabilization” amounts generally should be reported as unreserved–undesigned, *not* as reserved
 - Many stabilization amounts are not constrained in a manner that qualifies as reserved
 - More importantly, stabilization was not previously considered a specific purpose—it is a circumstance

Rainy-Day Amounts: Before 54

- Under almost no circumstances should stabilization amounts be reported in special revenue funds under the existing standards
 - Stabilization amounts generally are not restricted
 - Stabilization amounts generally do not derive from a specific revenue source

Rainy-Day Amounts: Under 54

- Stabilization can be considered a specific purpose if:
 - Constraints on stabilization amounts meet the criteria to be reported as restricted or committed
 - The formal action imposing the constraint on spending identifies and describes in sufficient detail the specific circumstances under which a need for stabilization arises
 - The circumstances are not expected to occur routinely

Stabilization Example #1

- Using its highest level of decision making authority, a government constrains \$1 million to stabilization, to be used only in an emergency. Can this amount be reported as committed for stabilization?
- No. There is not sufficient detail regarding what constitutes an emergency. Furthermore, without such detail, one cannot determine if the circumstances are routine or not.

Stabilization Example #2

- Using its highest level of decision making authority, a government constrains \$1 million to stabilization, to be used only in the event of a revenue shortfall. Can this amount be reported as committed for stabilization?
- No. Revenue shortfalls occur routinely. However, it might be okay if specific parameters were identified that described a shortfall of a magnitude that is not expected to occur routinely.

Stabilization Example #3

- Using its highest level of decision making authority, a government constrains \$1 million to stabilization, to be used only if annual growth in certain economic indicators falls below a specified level that is close to no growth at all. Can this amount be reported as committed for stabilization?
- Probably. Professional judgment should be applied to determine if the circumstances do not occur routinely.

Stabilization Note Disclosures

It is possible that many amounts previously reported as reserved for stabilization or in a separate rainy-day fund will now be reported as unassigned fund balance in the general fund. But Statement 54 requires these disclosures:

- **Stabilization arrangements**
 - Authority for establishing
 - Requirements for additions
 - Conditions under which amounts may be used
- **Minimum fund balance policies**

Encumbrances

- Encumbrances *should not* be displayed separately within 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
- Encumbrances, if significant, should be disclosed in conjunction with other disclosures of significant commitments

Level of Detail

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

Specific purpose details displayed

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
Fund balances:							
Nonspendable:							
Inventory	\$ 125,000	\$ 108,000	\$ 16,000	—	—	—	\$ 249,000
Permanent fund principal	—	—	—	—	—	\$ 164,000	164,000
Restricted for:							
Social services	240,000	—	—	—	—	—	240,000
Parks and recreation	80,000	—	—	—	—	—	80,000
Education	55,000	—	—	—	—	—	55,000
Highways	—	—	—	—	\$ 444,000	—	444,000
Road surface repairs	—	24,000	—	—	—	—	24,000
Debt service reserve	—	—	—	\$ 206,000	—	—	206,000
School construction	—	—	—	—	301,000	—	301,000
Law enforcement	—	—	—	—	—	214,000	214,000
Other capital projects	—	—	—	—	51,000	—	51,000
Other purposes	30,000	—	—	—	—	—	30,000
Committed to:							
Zoning board	16,000	—	—	—	—	—	16,000
Economic stabilization	210,000	—	—	—	—	—	210,000
Homeland security	110,000	—	—	—	—	—	110,000
Education	50,000	—	103,000	—	—	—	153,000
Health and welfare	75,000	—	—	—	—	—	75,000
Assigned to:							
Parks and recreation	50,000	—	—	—	—	—	50,000
Library acquisitions	50,000	—	—	—	—	—	50,000
Highway resurfacing	—	258,000	—	—	—	—	258,000
Debt service	—	—	—	306,000	—	—	306,000
Public pool	—	—	—	—	121,000	—	121,000
City Hall renovation	—	—	—	—	60,000	—	60,000
Other capital projects	50,000	—	—	—	471,000	—	521,000
Other purposes	80,000	—	73,000	—	—	176,000	329,000
Unassigned:							
Total fund balances	\$ 1,746,000	\$ 390,000	\$ 192,000	\$ 512,000	\$ 1,448,000	\$ 554,000	\$ 4,842,000

This level of detail is not required for display on the face of the balance sheet. Fund balance categories and classifications may be presented in detail or in the aggregate if sufficient detail is provided in the notes to the financial statements.

Classification totals displayed—details disclosed in the notes

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
Fund balances:							
Nonspendable	\$ 125,000	\$ 108,000	\$ 16,000	—	—	\$ 164,000	\$ 413,000
Restricted	405,000	24,000	—	\$ 206,000	\$ 796,000	214,000	1,645,000
Committed	461,000	—	103,000	—	—	—	564,000
Assigned	230,000	258,000	73,000	306,000	652,000	176,000	1,695,000
Unassigned	525,000	—	—	—	—	—	525,000
Total fund balances	\$ 1,746,000	\$ 390,000	\$ 192,000	\$ 512,000	\$ 1,448,000	\$ 554,000	\$ 4,842,000

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

Note Disclosures

- Spending prioritization policies (the flow assumption)
 - Restricted vs. unrestricted
 - Committed, assigned, unassigned
 - Multiple policies
 - The "default" policy
 - Negative balances
 - General fund
 - Other funds

Classifying Residual Balances

Example: The flow assumption for a special revenue fund is to use restricted amounts before unrestricted amounts and to use the default policy for its unrestricted fund balance.

If expenditures incurred exceed the amounts that have been restricted, committed, and assigned to a specific purpose, resulting in a negative residual amount for that specific purpose, then amounts assigned to other purposes in that fund are reduced to eliminate the deficit.

What were the balances at the beginning of the year?

Purpose A	Total	Restricted	Committed	Assigned
Beginning Balances	5,696	2,000	2,616	1,080
Additions				
Expenditures Incurred				
Ending Balances				
Purpose B				
Beginning Balances	8,871	8,871	0	0
Additions				
Expenditures Incurred				
Ending Balances				
Purpose C				
Beginning Balances	8,040	0	0	8,040
Additions				
Expenditures Incurred				
Ending Balances				

Were additional amounts restricted, committed, or assigned?

Purpose A	Total	Restricted	Committed	Assigned
Beginning Balances	5,696	2,000	2,616	1,080
Additions				
Expenditures Incurred				
Ending Balances				
Purpose B				
Beginning Balances	8,871	8,871	0	0
Additions	1,500			1,500
Expenditures Incurred				
Ending Balances				
Purpose C				
Beginning Balances	8,040	0	0	8,040
Additions	120,000		120,000	
Expenditures Incurred				
Ending Balances				

How much was spent for each purpose?

Purpose A	Total	Restricted	Committed	Assigned	Unassigned
Beginning Balances	5,696	2,000	2,616	1,080	
Additions					
Expenditures Incurred	(7,654)	(2,000)	(2,616)	(1,080)	(1,958)
Ending Balances	(1,958)	0	0	0	(1,958)
Purpose B					
Beginning Balances	8,871	8,871	0	0	
Additions	1,500			1,500	
Expenditures Incurred	(10,000)	(8,871)		(1,129)	
Ending Balances	371	0	0	371	
Purpose C					
Beginning Balances	8,040	0	0	8,040	
Additions	120,000		120,000		
Expenditures Incurred	(11,223)		(11,223)		
Ending Balances	116,817	0	108,777	8,040	

What happens to a negative balance?

Purpose A	Total	Restricted	Committed	Assigned	Unassigned
Beginning Balances	5,696	2,000	2,616	1,080	
Additions					
Expenditures Incurred	(7,654)	(2,000)	(2,616)	(1,080)	(1,958)
Ending Balances	(1,958)	0	0	0	(1,958)
Purpose B					
Beginning Balances	8,871	8,871	0	0	
Additions	1,500			1,500	
Expenditures Incurred	(10,000)	(8,871)		(1,129)	
Ending Balances	371	0	0	371	
Purpose C					
Beginning Balances	8,040	0	0	8,040	
Additions	120,000		120,000		
Expenditures Incurred	(11,223)		(11,223)		
Ending Balances	116,817	0	108,777	8,040	

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

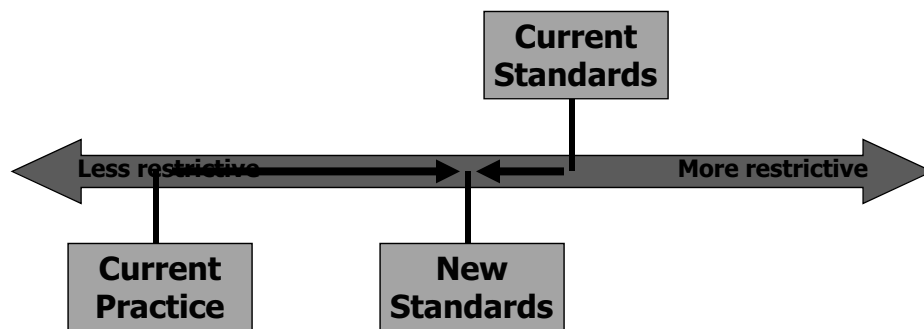
Statement 54 Definition:

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

- Restricted or committed specific revenue sources should comprise substantial portion of fund's resources on an ongoing basis
 - But fund also may include other restricted, committed, and assigned resources
- Disclosure: purpose of each major special revenue fund and each revenue source or other resources authorized to be reported in each

Effect of SRF Clarifications



Debt Service & Capital Projects Funds

- Text made consistent with other definitions
- Capital projects funds broadened from "major capital facilities" to "capital outlays"
- Should be clearer that debt service funds are *required* when
 - Legally mandated
 - Financial resources are being accumulated for principal and interest payments maturing in future years

Effective Date and Transition

- Periods beginning after June 15, 2010—earlier application is encouraged
- Fund balance classifications should be applied retroactively by restating fund balance for all prior periods presented
- Changes to information in the statistical section may be made prospectively, though retroactive application is encouraged; if prior years are not restated, difference in information should be explained



Questions?

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