

Finance

GASB 54 - Fund Balance Classifications

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Governmental Accounting Standards Board Statement Number 54 (GASB 54) provides guidance for fund balance categories and classifications and governmental fund type definitions. In Iowa, the Annual Financial Report, sent to the State Auditor's office by December of each year, has been changed due to GASB 54. This means all cities in Iowa are impacted.

GASB 54 changed the way we look at cash balances, specifically reporting what cash balances, by major governmental fund type, are or are not available for public purposes.

Five categories of cash balances were created and defined by GASB 54 which is applicable for the fiscal year ending on June 30, 2011. For those cities that report on a Generally Accepted Accounting Principles (GAAP) basis, additional disclosures are required in the footnotes and are highly recommended to be restated in the statistical information of the report. However, for most cities in Iowa, the annual report and possibly the budget will reflect these categories or classifications for the governmental funds. To assist in the preparation of these reports, the following definitions should be referenced.

Clarifying Fund Definitions

Governmental funds include the general fund, special revenue funds, capital projects, debt service and permanent funds. GASB 54 provides the following definitions:

- General Fund -Used to account for and report all financial resources not accounted for and reported in another fund.
- Special Revenue Funds – Used to account for and report specific revenue sources that are restricted or committed for a specific purposes (other than debt service or capital projects). For Iowa cities, this is not a change. Separate funds for Local Option Sales Tax (LOST) and Road Use Tax Fund (RUTF) should already be set up as Special Revenue Funds. Each city should examine each fund's purpose to comply with this definition and may choose to reclassify certain funds.
- Debt Service Funds – Used to account for and report financial resources restricted, committed or assigned to pay principal and interest costs for bonds, notes and other forms of debt (other than proprietary debt). This should not be a change for your community.
- Capital Project Funds – Used to account for and report financial resources restricted, committed or assigned for capital outlays for acquisition or construction of capital facilities and other capital assets. GASB 54 specifically excludes capital expenses for proprietary funds or assets for trusts, private organizations or other governments. The GASB 54 change here is that other capital assets may now be included in this area.
- Permanent Funds – Used to account for and report financial resources that only allow earning, not principal, to be expended.

Fund Balance Classifications

GASB 54 includes a prescribed hierarchy based on the extent to which a city is bound by constraints for the use of the funds reported in governmental funds. GASB 54 provides the classification as non-spendable, restricted, committed,

assigned and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The following definitions are provided in GASB 54:

- Non-spendable - These funds are not available for expenditures based on legal or contractual requirements. An example might be the principal of an endowment or perpetual care cemetery funds.
- Restricted - These funds are governed by externally enforceable restrictions. In this category, one would see restricted purpose grant funds, Road Use Taxes or Local Option Sales Taxes.
- Committed - Fund balances in this category are limited by the government's highest level of decision making (in this case the City Council). Any changes of this designation must be done in the same manner that it was implemented. For example, if funds are committed by resolution, the commitment could only be released with another resolution.
- Assigned - For funds to be assigned, there must be an intended use which can be established by the city council or an official delegated by the council, such as a city administrator or finance director. For example, during the budget process, the council decided to use some existing fund balance to support activities in the upcoming year.
- Unassigned - This classification is the default for all funds that do not fit into the other categories. This, however, should not be a negative number for the General Fund. If it is, the assigned fund balance must be adjusted.

For cities preparing a GAAP financial report, new disclosures must be included in the "Notes to the Financial Statements" that will explain which constraints or restrictions are imposed upon the city's resources and how those constraints can be changed or removed. The new disclosure must also include city policies which cover committed fund balances, assigned fund balances, flow assumptions, significant encumbrances, minimum fund balances and the purpose of each major special revenue fund.

Reclassifications of funds and ending fund balances made to conform to GASB 54 must be applied to all governmental fund balances presented in the June 30, 2011 reports for all Iowa cities. Retroactive reporting is encouraged for the statistical section information as well. (The city must provide an explanation if balances in the statistical section are not restated.)

When classifying the funds for this year, it is recommended you document your rationale. This will also make it easier the next time around. Also, be sure this new information is pointed out to the council. It is an opportunity to see the impact all of the commitments that have been made through their various actions has had on the fiscal health of your community.

Failure to Comply

Cities should strive to comply with all GASB statements. Timely financial reporting indicates responsiveness to the public's concerns and demonstrates managerial capability. If a city fails to comply with the GASB 54 or any other applicable GASB requirement, their auditor is required to include an adverse comment concerning this non-compliance in the report which is available to the government, general public and users of the financial reports, such as financial consultants and bond buyers. Delayed reporting reduces the relevance and usefulness of the information reported and tends to erode the trust of constituents. Good decisions need good current information. Erroneous or incomplete information can also lead to poor decisions. An incorrect classification of fund balances, for example, may lead the reader to believe the council has disposable funds on hand, when in fact they may be restricted for a specific purpose.