

Iowa State Association of County Auditors

GASB 54: Fund Balance Reporting and Governmental Fund Type Definitions

July 29, 2010



GASB Statement No. 54

- Scope
 - Changes how *fund balance* is presented
 - Modifies the definition of governmental fund types
- Effective date
 - Fiscal year ending 6/30/11
 - Early implementation encouraged
 - Retroactive reporting encouraged for statistical information

Background

Term Fund Balance

- Used exclusively for governmental funds
 - Difference between fund assets and liabilities
- Traditional focus - Fund resources available for appropriation (budgeting) on GAAP basis.
 - Reserved fund balance - not available
 - Unreserved fund balance - available

Factors that make resources *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
 - Management
 - Governing body
- Use is optional



Need for change

- Terms not intuitive and frequently misunderstood
- Categories often applied inconsistently
- Challenges to focus on availability for appropriation



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
 - Nonspendable
 - Restricted
 - Committed
 - Assigned
 - 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

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

Committed v. assigned

- 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.

Resources that cannot currently be spent

- Normally reflected in nonspendable fund balance
- If constraints on use of eventual cash receipts
 - Restricted fund balance
 - Committed fund balance
 - Assigned fund balance

“Purpose narrower than the reporting unit”

- Applicable to *restricted net assets*
- Not applicable to fund balance
 - Exception – *unassigned fund balance* reported in the general fund

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

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

Components of fund balance

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)

Stabilization arrangements

- Strictly speaking, limits the *circumstances* rather than *purpose* of spending
 - Still can qualify for classification as *restricted* or *committed*
 - Circumstances must be sufficiently specific
 - Circumstances must be nonroutine
 - Never *assigned*

Appropriated fund balance

- Nature - Use a portion of existing fund balance to bridge an anticipated gap between appropriations and estimated revenues
 - *Assigned fund balance*
 - Limited to amount of gap

Flow assumptions

- When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose
- When either committed, assigned, or unassigned resources can be used
 - How are outlays allocated among various categories?

Encumbrances

- Only indirectly affects the classification of fund balance
 - If liquidation expected from restricted or committed resources, constraint already reflected in those amounts
 - Otherwise *assigned fund balance*

Special Revenue Funds - Prior definition

- “...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

- Two criteria in definition
 - Specific revenue sources
 - Specified purposes
- Is compliance with the *specified purposes* criterion sufficient?
 - Not uncommon in practice
 - Sometimes no specified revenue sources, only specified purposes

Special Revenue Funds (GASB 54)

- New 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.”

Capital Projects Funds - Prior definition

- ...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 (GASB 54)

- New 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.”

General Fund

- Prior definition:
 - “To account for all financial resources except those *required* to be reported in another fund”
 - Never intended to limit ability to use another fund type voluntarily
 - Use required only when a primary government is incorporating the general fund of a blended component unit
- Term *required* dropped from the definition of the general fund

Other governmental fund types

- Debt service funds
 - No substantive change
- Permanent funds
 - No substantive change

Note Disclosures:

Nonspendable fund balance

- Amounts not in spendable form versus amounts which legally or contractually must be maintained intact (if not visible on the balance sheet)

Note Disclosures:

Committed fund balance

- The highest level of decision-making authority and the formal action needed to establish, modify, or rescind the commitment;

Note Disclosures:

Assigned fund balance

- The body or official authorized to make assignments and the policy pursuant to which authorization is given

Note Disclosures:

Flow assumption

- Restricted versus unrestricted
- Within unrestricted
 - Committed
 - Assigned
 - Unassigned



Note Disclosures: Significant encumbrances

- Location = significant commitments
- Level of detail
 - By major fund
 - Nonmajor funds in the aggregate

Note Disclosures: Stabilization arrangements

- Authority for establishing
- Requirements for additions
- Conditions for spending
- Balance (if not separately displayed)

Note Disclosures:

Minimum fund balance policy

- Description of the policy established by the government that sets forth the minimum amount

Note Disclosures: Special Revenue Funds

- For each major special revenue fund
 - Purpose of the fund
 - Revenues and other resources reported

GASB Statement No. 54

Effective date

- Display and disclosure
 - Starting for the fiscal period ending June 30, 2011.
 - Earlier application encouraged
- Statistical section
 - Retroactive implementation encouraged, but not required
 - Provide explanation if amounts not restated