

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

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Examiner Update

- Federal Audit Contracts
 - Contract Amounts have increased due to
 - Increase in hourly contract rate
 - Increase in federal audit requirements
 - New ARRA funding – more testing required
- Distribution of Audit Reports
 - Prior distribution made by mailing audit reports
 - New distribution made by emailing electronic copy of audit reports

Examiner Update

- Preparation of Financial Statements by Counties

Overview of Statement

- GASB Statement No. 54 issued March 2009
- Project initiated in 2002:
 - Diversity in practice in reporting reserved fund balance vs. unreserved fund balance
 - Confusion over relationship between reserved fund balance and restricted net assets
 - Different interpretations of definitions of governmental fund types

Current Components of Fund Balance

- Fund Balances
 - Reserved
 - Reserved for Encumbrances
 - Reserved for Prepaid Items
 - Reserved for Inventory
 - Etc.....
 - Unreserved
 - Designated
 - Courthouse Renovations
 - Undesignated

New Components of Fund Balance

Fund Balances

- **Nonspendable:**

 - Inventories

 - Prepaid Items

- **Restricted for:**

 - Debt Service

 - Capital Projects

- **Committed to:**

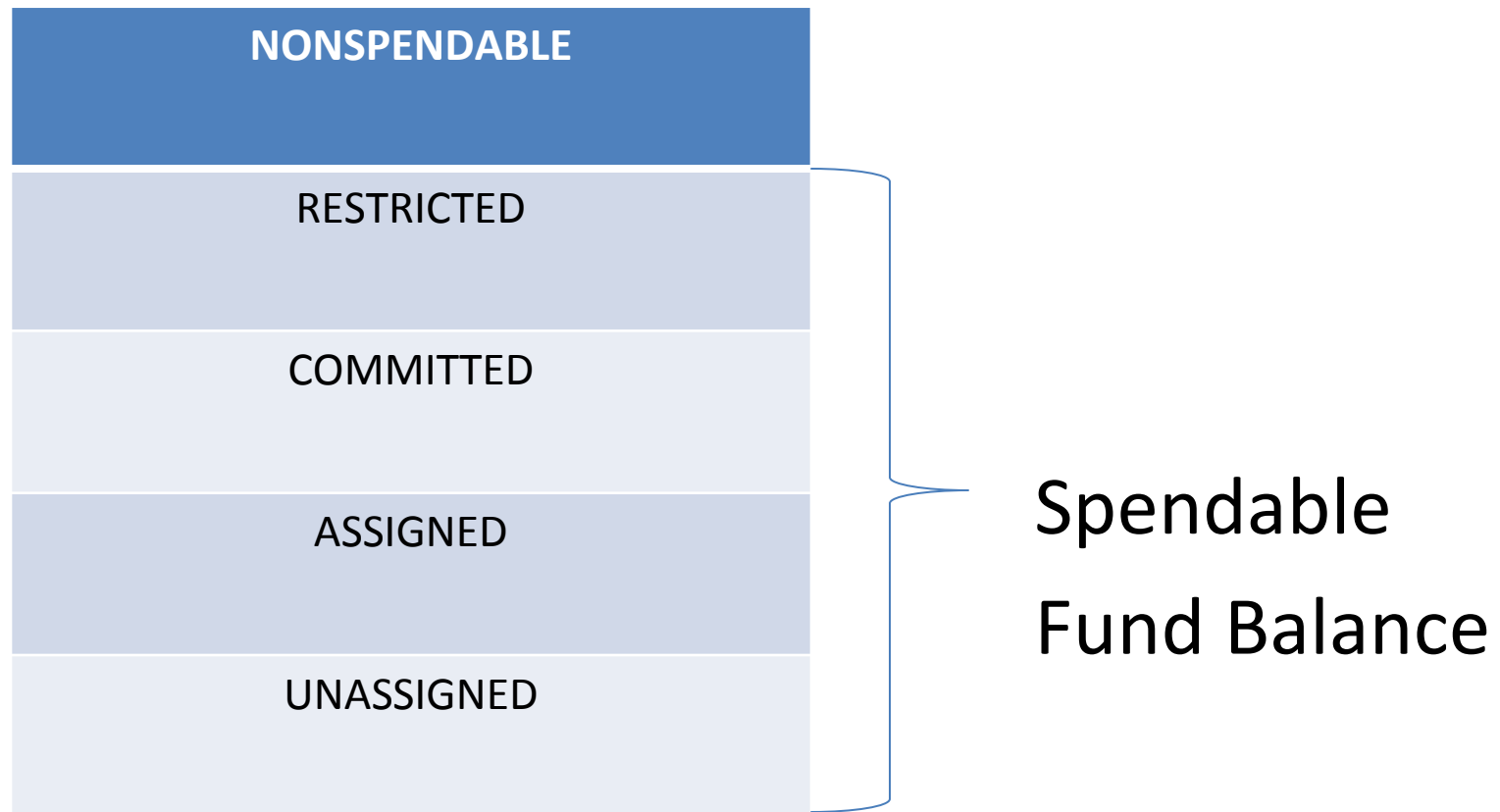
 - Jail Construction

- **Assigned to:**

 - Law Enforcement

- **Unassigned**

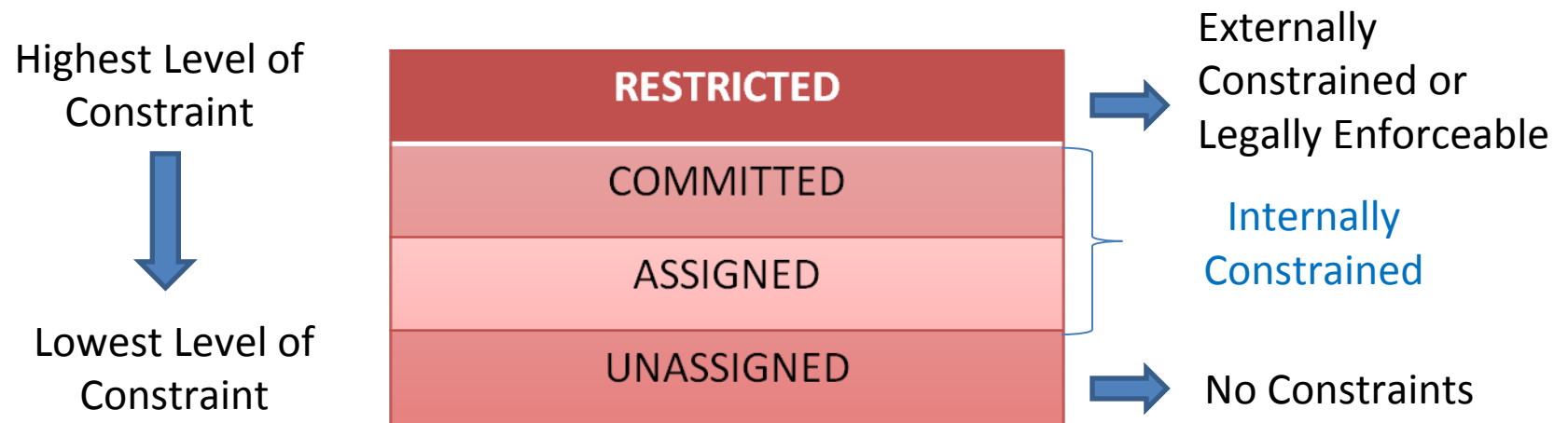
GASB 54 Fund Balance Components



Nonspendable Fund Balance

- This component of Fund Balance includes amounts which cannot be spent because they are either:
 - **Not in spendable form**
 - Prepaid Items
 - Inventories
 - Long-Term Receivables
 - **Legally or contractually required to be maintained intact**
 - Corpus of a permanent fund

Spendable Fund Balance Components



Spendable Component - Restricted

- Restricted Fund Balance – Amounts restricted to specific purposes which can be imposed by:
 - External Parties – Creditors, Grantors, and Other Governments
 - Constitutional Provisions
 - Enabling Legislation
 - Authorizes the government to levy, assess, or change external resource providers
 - Includes a legally enforceable requirement that the resources be used for a particular purpose specified in the legislation

Spendable Component - Committed

- Committed Fund Balance –
 - Amounts which can only be used for specific purposes pursuant to ***formal action*** of the government's highest level of decision-making authority.
 - Amounts cannot be used for any other purpose unless constraint is changed by similar action
 - Committing action must be taken prior to year end, however, amount may be determined in subsequent period.

Spendable Component – Committed

- Use constraint is imposed unilaterally by the government separate from legislation which created the revenue source.
- Amounts are an allocation or earmarking of existing revenues
- Use constraint is not legally enforceable
- Amounts may be used for other purposes if appropriate action is taken by government

Spendable Component - Assigned

- Assigned Fund Balance
 - Amounts which are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed
 - Intent should be expressed by
 - Governing Body or
 - Governmental Official possessing such authority
 - Expression of intent does not have to be made prior to year end as with commitments.
 - Residual classification of positive fund balance amounts for Funds other than the General Fund

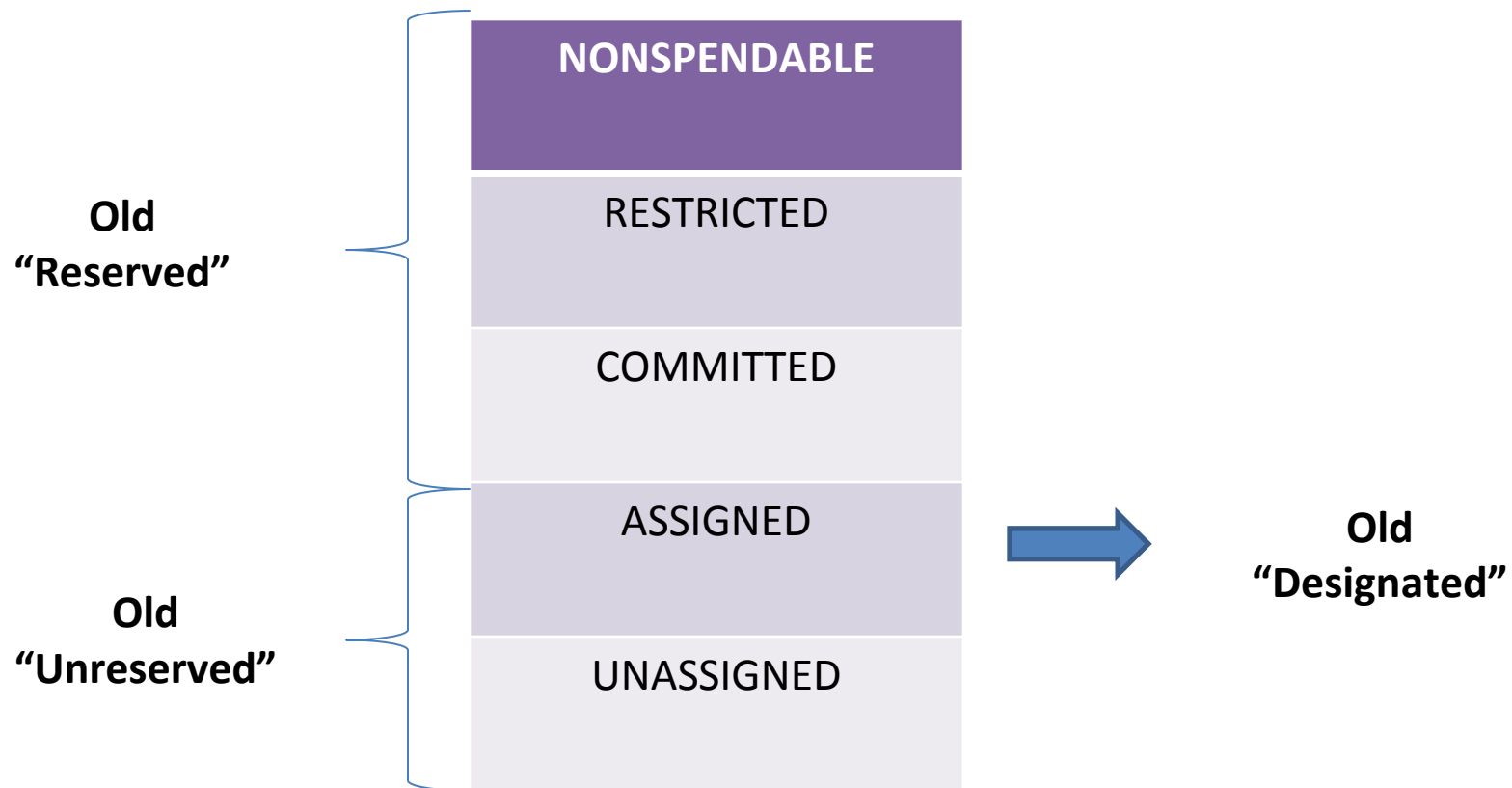
Spendable Component - Unassigned

- Unassigned Fund Balance
 - Residual fund balance classification for the General Fund
 - Positive unassigned fund balances SHOULD NOT BE REPORTED IN ANY GOVERNMENTAL FUND OTHER THAN THE GENERAL FUND.
 - It is possible under certain circumstances to report negative unassigned fund balances in other governmental funds.

Encumbrances

- A Fund Balance constraint will not be reported for encumbrances....
 - Unless, existing resources to be used for encumbrances have not already been restricted, committed or assigned.
 - In practice, this can only happen in the General Fund. All other funds have a fund balance which is at least assigned.

Recap of New Fund Balance Components



Source - KPMG Government Institute
March 2011

Governmental Fund Definitions

- GASB Statement No. 54 provides definitions for all five governmental fund types, but key changes to existing definitions were made to the following funds:
 - Special Revenue Funds – Most significant Change
 - Capital Project Funds – Expanded Use
 - Debt Service Funds

Special Revenue Funds

Pre-GASB 54 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*.

GASB 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

- Substantial Portion Criteria – revenues that are restricted or committed should “continually” comprise a “substantial portion” of the special revenue fund inflows.
 - Continually is based on expectation
 - Substantial is subjective
- If a fund no longer meets this criteria, discontinue reporting of fund – combine with General Fund or other similar special revenue fund; Restate beginning fund balances.

How to Determine Substantial Portion

$$\frac{\text{Total Restricted + Committed Revenues}}{\text{Total Fund Inflows}}$$

Does this percentage exceed the substantial portion percentage?

Percentage has NOT been quantified by the GASB

Special Revenue Funds

- There is NO requirement under GAAP to report restricted or committed revenues in a special revenue fund.
- Must evaluate each special revenue fund to see if the total of restricted and committed revenues make up a substantial portion of the fund – if not, must report with General Fund or other appropriate governmental fund.

Special Revenue Funds

- Important Note:
 - Just because a law requires a certain revenue to be deposited in a special revenue fund does not mean that it will be reported as such on GAAP-based financial statements.
 - GASB trumps state law for reporting purposes!

Capital Projects Funds

Pre-GASB 54 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 and trust funds).

GASB 54 Definition

Capital project 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.

Capital Projects Funds

- Expanded the use of CP Funds – may include other capital purchases (vehicles, etc)
- Maintenance projects (roof replacement) may be reported in a CP Fund – even if not capitalized
- GAAP does not require the use of CP Funds
- Capital activity may be reported in the General Fund or a SRF, if not primary purpose

Debt Service Funds

Pre-GASB 54 Definition

To account for the *accumulation of resources for, and the payment of, general long-term debt principal and interest.* Debt Service Funds are required if they are legally mandated and/or if financial resources are being accumulated for principal and interest payments maturing in future years.

GASB 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.* Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

Effective Date

- Fiscal Periods beginning after June 15, 2010 →
October 1, 2010 through September 30, 2011
- Fund Balances must be reclassified for all prior periods presented in financial statements.
- Any changes in fund structure should be reflected through a restatement of beginning fund balance.

Activity Statement Approach

1. Identify Nonspendable Fund Balance
2. Determine Beginning Fund Balances for each fund balance component
3. Assign constrained inflows to the appropriate fund balance component
4. Determine any other constraints – assignments, sinking funds, etc.
5. Allocate expenditures to each fund balance component based upon policy
6. Reclassify as necessary to eliminate negative residual fund balances

Identify Nonspendable Fund Balance

- Prepaid Items
- Inventories
- Long-Term Receivables
- Advances from Other Funds
- Monies which are legally or contractually required to be maintained intact – permanent fund corpus

Determine Beginning Fund Balances

- Not an “exact science”
- Look back over prior years

Assign Constrained Inflows

- Analyze each revenue and inflow into a fund
- Review laws creating revenue sources to determine if law contains purpose constraints
- Review grant agreements for purpose restrictions
 - don't worry about reimbursement-based grants; no Fund Balance should be created
- Review bond indentures
- Review Commission resolutions for commitments
- Have any assignments been made?

Allocation of Expenditures

- Allocate expenditures based upon policy to the appropriate category
- Order of spending policy may vary by fund
 - Use in either of the following orders: Restricted, Committed, Assigned, Unassigned OR Unassigned, Assigned, Committed, Restricted (Reverse Flow)
- Once policy is set, needs to be applied consistently over future periods.

Reclassify Negative Balances

- Negative unassigned balances must be eliminated by reducing assigned balances within a fund.
- Restricted or Committed fund balances may not be reduced to eliminate negative unassigned balances

Balance Sheet Approach

- This approach may be useful for capital projects or debt service funds
- Look at restricted assets on the balance sheet less liabilities which will be paid from the restricted assets = restricted fund balance
- Difference between total fund balance and restricted fund balance equals unassigned fund balance.

GASB No. 54 -Things to Do List

- Establish a policy that identifies the highest level of decision-making authority needed to commit a balance and the person(s) who has the authority to make assignments; document by resolution
- Establish an expenditure spending policy for each fund; document by resolution
- Review funds and look for any changes for reporting purposes
- Commission needs to decide a percentage which represents a “substantial portion” for SRF determinations; Can include other qualitative factors.

Questions?