GASB 54 -
Fund Balance Reporting and
Governmental Fund Type Definitions

UPDATE

April 20, 2011

Objective

1) Provide an understanding of GASB 54
2) Provide an update on the GASB 54 implementation process
3) Communicate all changes to County departments
Background
WHAT: Changes on how governmental funds’ fund balance should be reported. Also, clarifies the use of governmental fund types.

WHEN: Fiscal Year 2011

WHY: FUND BALANCE classifications AND FUND TYPES are more easily understood. To Enhance consistency in financial reporting.

Why Departments Need to Know
• Changes in governmental fund balance accounts.
• Changes in governmental funds’ closing rules.
• County’s Official Reports will change.
• Changes in Form 11’s presentation related to fund balance terminology.
Changes in GASB 54: Fund Balance Reporting

Fund Balance Terminology NO LONGER USED:
– Reserved and Unreserved or Designated Fund Balances

New Fund Balance Classifications:
– Nonspendable
– Restricted
– Committed
– Assigned and Unassigned

Review of Old Fund Balance Classifications

Reserved Fund Balance - Unavailable
– Can never be spent by nature (prepaid, inventory)
– Cannot be spent at the government's discretion (externally restricted).

Unreserved Fund Balance - Available
– Designated for intended use
– Undesignated
New Classifications

**Nonspendable Fund Balance** - Not in spendable form, such as:
- Inventory, Prepaids,
- Long-term receivables/ Land Held for resale
- Legally or contractually required to be maintained intact
- Corpus of a permanent fund

New Classifications

**Restricted Fund Balance** - Amounts constrained to being used for a specific purpose by:
- External parties
- Constitutional provisions
- Enabling legislation
New Classifications

**Committed Fund Balance** - Constraint on *use* imposed by the government itself.

- Constraint can be removed or changed only by taking the same action.

- Action to constrain resources *should occur prior to end of fiscal year*, though the exact amount may be determined subsequently.

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**Assigned Fund Balance** - Amounts *intended* to be used for specific purposes. Intent is *expressed* by:

- A body (budget or finance committee) or official authorized by the governing body.

- Residual amounts in governmental funds other than the general fund are assigned.
New Classifications

**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**

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**New Fund Balance Classifications**

**Now**

- **Reserved**
  - Nonspendable
  - Restricted

- **Designated**
  - Committed

- **Unreserved**
  - Assigned
  - Unassigned (GF Only)

**Essentially**

- Reserved
- Designated
- Unreserved

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County of Riverside ■ Office of the Auditor-Controller
Where are amounts going?

<table>
<thead>
<tr>
<th>6/30/2010</th>
<th>GASB 54</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserved</td>
<td>Non Spendable</td>
</tr>
<tr>
<td>Inventories/Prepares</td>
<td>Inventories/Prepares</td>
</tr>
<tr>
<td>Notes/Advances</td>
<td>Notes/Advances</td>
</tr>
<tr>
<td>Debt Service</td>
<td>Restricted</td>
</tr>
<tr>
<td>Program Operations</td>
<td>Debt Service</td>
</tr>
<tr>
<td>Construction</td>
<td>Program Operations</td>
</tr>
<tr>
<td>Encumbrances</td>
<td>Construction</td>
</tr>
<tr>
<td><strong>Unreserved</strong></td>
<td><strong>Land Held for Resale</strong></td>
</tr>
<tr>
<td>Designated</td>
<td><strong>Partial Encumbrances</strong></td>
</tr>
<tr>
<td>Undesignated</td>
<td><strong>Notes/Advances</strong></td>
</tr>
<tr>
<td>General Fund</td>
<td>Committed</td>
</tr>
<tr>
<td>Special Revenue</td>
<td>Assigned</td>
</tr>
<tr>
<td>Total Fund Balance</td>
<td>Program Operations</td>
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<tr>
<td></td>
<td>Partial Encumbrances</td>
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<tr>
<td></td>
<td>Land Held for Resale</td>
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<tr>
<td></td>
<td>Notes/Advances</td>
</tr>
<tr>
<td></td>
<td>Unassigned</td>
</tr>
</tbody>
</table>

Update on Implementation Changes

- Evaluation of all governmental funds based on FY 09 revenue sources have been completed.

- Evaluation of all governmental funds’ fund balance structure have been completed.
  - New fund balance accounts are created which will be effective July 1, 2011.
  - Crosswalk of existing balances vs. new classification is in place.
Update on Implementation Changes

• Combo Rules for fund/account have been validated/modified accordingly.

• Reporting tree(s) have been created/modified.

• Simpler Reports will reflect the new terminology effective July 1.
• Encumbrance process will change.

Update on Implementation Changes

• **There is no longer an automatic Reserve for Encumbrances.**
• Amounts are classified as restricted, committed, and assigned based on the source and level of the constraints placed on them — **encumbering those amounts does not further affect them.**
Update on Implementation Changes

• Changes to Schedule K and K-1:
  – New columns to be added for departments to categorize the funding source of the encumbrances:
    • Restricted, Committed, Assigned.
    • Account 302100 inactivated.
    • Journal may not be necessary unless moving from GF- unassigned fund balance.

Update on Implementation Changes

• Board policy to delegate authority to create assigned fund balance. (Not required).

• Minimum fund balance policy
  – A set amount
  – Percentage
  – A range
Update on Implementation Changes

- Stabilization arrangements (Rainy Day Funds)
  - Authority for establishing
  - Requirements for additions
  - Conditions under which amounts may be spent
    - Must be nonroutine
  - Balance (if not separately displayed)

Update on Implementation Changes

- Spending prioritization policies (the flow assumption)
  1. Restricted vs. unrestricted
  2. Within unrestricted: Committed, assigned, unassigned

Note: Funds with multiple funding sources must follow Board Policy. An annual certification from departments will be required to allocate accordingly.