GASB 54
Fund Balance Reporting and Governmental Fund Type Definitions

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Background

- Effective For Fiscal Year June 30, 2011

Objective of Today’s Discussion

- To provide an update on GASB Statement No. 54, so that you have an understanding of
  - changes in financial reporting
  - changes in budget – submission of Form 11’s
Fund Balance – Current Standard

What is Fund Balance?
– Difference between assets and liabilities

Fund Balance – Current Standard

How do we allocate Fund Balance?
- Reserved
- Unreserved
  - Designated
  - Undesignated

Fund Balance – Current Standard

Traditional focus = Fund resources available for appropriation (budgeting)

- Reserved Fund Balance = Not available
- Unreserved Fund Balance = Available
Fund Balance – Current Standard

Reserved Fund Balance = Not available

- Resources not available for spending in the current year’s budget. Example: long-term loan receivable, supplies inventories.

- Legal restrictions impose a limitation on purpose of the fund. Example: LLEBG-Law Enforcement Block Grant-2000

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Fund Balance – Current Standard

- Designated Fund Balance – intended use of resources by management or governing body. Example: DFB-PSEC 800 MHz or DFB-CAC Improvement

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Need for change

- Widespread confusion about terminology

- Categories often applied inconsistently

- Challenges to focus on availability for appropriation
New Fund Balance Classifications

Components of fund balance:
- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned

Nonspendable Fund Balance
- Not in spendable form
  - Cannot ever be spent (e.g., supplies inventories and prepaid)
  - Cannot currently be spent (e.g., the long-term portion of loans receivables)
- Legally or contractually required to be maintained intact (e.g., principal of an endowment fund)
Restricted Fund Balance

- Amounts constrained to being used for a specific purpose by:
  - External parties (i.e., 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 limitation that the government imposes upon itself
  - Constraint on use imposed by the government’s highest level of decision making authority
  - Same type of action required to remove or change the specified use
  - Action to constrain resources should occur prior to end of fiscal year

Assigned Fund Balance

- Amounts intended to be used for specific purposes

  - Intent is expressed by
    - The governing body itself, or
    - An official delegated by the governing body
Committed Vs. Assigned

- Both constrained to being used for specific purposes by actions taken by the government itself
- Assignment is not required to be made by the government’s highest level of decision making authority
- Same action is not required to remove or modify an assignment

Unassigned Fund Balance

- Available for any purpose
- General fund should be the only fund that reports a positive unassigned fund balance
- Deficit balance possible in any governmental fund

Question 1

The term fund balance is used exclusively in connection with
- A) Proprietary funds
- B) Fiduciary funds
- C) Governmental funds
Question 2
Prior to GASB No. 54, intended use of resources by management or governing body is referred to as
A) Reserved
B) Restricted
C) Unreserved- designated

Question 3
Which of the following is a component of the fund balance under GASB 54?
A) Designated
B) Reserved
C) Committed

Question 4
Assigned Fund Balance is more restrictive than Committed Fund Balance.
☐ True
☐ False
Stabilization amounts

- Amounts set aside for rainy-day are considered a specific purpose
  - If constraints on stabilization amounts meet criteria to be reported as restricted or committed, then stabilization can be considered specific purpose.
  - Stabilization amounts should not be reported as assigned fund balance.

Encumbrances

- Encumbrances should not be displayed as restricted, committed, or assigned categories.
- Amounts are classified as restricted, committed, or assigned based on the source and strength of the constraints placed on them—encumbering those amount does not further affect them.

Note Disclosure

Description of authority and actions that lead to committed and assigned fund balance:

- The government’s highest level of decision making authority and the formal action that is required to be taken.
Note Disclosure

- **For Assigned Fund Balance:**
  - The body or official authorized to assign amounts to a specific purpose.
  - The policy established by the governing body pursuant to which that authorization is given.

Note Disclosure

- **Government policy regarding order of spending**
  - Restricted and unrestricted fund balance
  - Committed, assigned, and unassigned
- **Stabilization arrangements**
  - Authority for establishing
  - Requirements for additions
  - Conditions under which amounts may be used

Governmental Fund Type Definitions
General Fund

- **Current Definition:** The general fund is used to account for all financial resources except those required to be accounted for in another fund.
- **GASB 54 Definition:** The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund

**Current Definition:**

- Special Revenue Funds are used to account for the proceeds of specific revenue sources 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 proceed of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
Special Revenue Funds

- Proceeds of specific revenue source that are restricted or committed should be recognized as revenue in the special revenue fund and not in the fund initially receiving them.

- If the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue source, then the resources should be reported in the general fund.

Capital Project Funds

Current Definition:

- Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Capital Project Funds

Statement 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.
Debt Service Funds

Current Definition:
- Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt and interest.

Debt Service Funds

Statement 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

- 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.
Question 5
Which definition of Special Revenue Funds appears more restrictive?
☐ Old
☐ New

Question 6
What is Fund Balance?

Question 7
What are the five categories of Fund Balance under GASB 54?
What to Do?

- GASB 54 will be here sooner than we think!
- ACO will need to review fund structure.
- Work with the Executive Office in establishing a fund balance policy.

What to Do?

- Communicate the fund balance changes to the Executive Office, so the changes are reflected in the FY 2010-11 Budget book.
- Work with all county departments in getting the GL-1 (Fund Establishment) form updated.

What to Do?

- The departments need to make sure the new fund balance terminology is reflected correctly in their Form 11’s for FY 2010-11.