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Practical Considerations to Implementing GASB 54 Fund Balance Reporting

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Overview

- Discuss GASB 54 and the significant changes that will occur which are effective this year
- Practical guidance on the implementation of GASB 54
- Discuss the areas for consideration
- How to be prepared for the auditors
- Financial statement preparation



New Concept

Fund balance for governmental funds should be reported in new categories and classifications that comprise a level of hierarchy which are based on the extent to which the government is bound to honor.

These constraints are based on the specific purposes for which amounts in that fund can be spent.

New Categories

Nonspendable Fund Balance

The nonspendable fund balance category represents amounts that cannot be spent because they are either

(a) not in spendable form or

For example, fund balance associated with **inventories** and **prepaid items** is not in spendable form

(b) legally or contractually required to be maintained intact.

For example, the **corpus or principal of a permanent fund** is legally or contractually required to be maintained intact

Old Method:

These were automatic reservations of fund balance

New Categories

Spendable Fund Balance

The spendable fund balance category represents amounts that are in spendable form and are considered available for spending, such as fund balance associated with cash, investments, and receivables.

Amounts in the spendable fund balance category should be further classified in the following hierarchy:

- Restricted
- Committed
- Assigned
- Unassigned



Restricted Fund Balance

Fund balance should be reported as restricted when constraints placed on the use of amounts are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling legislation

Any amounts **Restricted in the Governmental Funds should carry through to the Governmental-wide Financials Restricted Net Assets.*



Committed Fund Balance

Amounts that are committed for specific purposes by formal action of the government's highest level of decision-making authority should be reported as committed fund balance.

The formal action of the government's highest level of decision-making authority that commits fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount may be determined in the subsequent period.

Commitments should also include contractual obligations if the existing resources in the fund balance have been designated to fulfill those contractual requirements.

(This can be un-committed only through same formal actions, such as, resolution, ordinance, etc.)

Assigned Fund Balance

Amounts that are intended by the government to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. Intent should be expressed by (a) the governing body itself or (b) a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the governing body.

Governments should not report an assignment for an amount to a specific purpose if the assignment would result in a deficit unassigned fund balance.



Unassigned Fund Balance

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund to report a positive unassigned fund balance.

Other Governmental Funds may have a negative unassigned fund balance, IF expenditures incurred for a specific purpose exceeded the amounts restricted and committed to those purposes.



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PRACTICAL GUIDANCE ON IMPLEMENTATION OF GASB 54



OLD vs. NEW

Old Format:

Reservations:

Inherited

Inventories, Prepays
Memorial Trust

Legal restriction

Debt Service

Contractual restriction

Encumbrances

New Format:

Nonspendable:

Not in spendable form:

Inventories, Prepays

Legal/contracted to be intact:

Memorial Trust (principal)

Restricted:

Externally imposed:

Grant Funds

Debt Service

(economic uncertainty)

Committed:

Formal Action taken:

Contractual Obligation – Encumb.
(economic uncertainty)



OLD vs. NEW

Old Format

Unreserved, reported in:

- Special Revenue Funds
- Capital Projects
- Debit Service
- Permanent Funds

Designated:

- Economic uncertainties

New Format

Assigned:

- Special Revenues
- Capital Projects
- Debt Service
- Permanent Funds

Unassigned:

- General Fund Only*

** Exception: Other governmental funds have Expenditures that exceed the Restrictions or Commitments of Fund Balance*



Stabilization Arrangements

Amounts formally set aside and/or arrangements to maintain amounts for emergency, working capital needs, contingencies, and other purposes should be reported in the general fund as restricted or committed if they meet the criteria. If they don't meet the criteria it should be classified as unassigned in the general fund.

Stabilization arrangements should disclose in the notes to the financial statements. *(This will be discussed in the disclosure section.)*



Stabilization Arrangements

- *Maintain amounts for budget purposes
- *Revenue Stabilization “rainy-day”

Possible classifications (if it meets the criteria already discussed):

- Restricted
- Committed
- Unassigned

Stabilization arrangements that do not meet the criteria to be reported within the restricted or committed fund balance classifications should be reported as unassigned in the general fund, unless revenue source used for Stabilization derived from a specific restricted or committed revenue source. Then it would satisfy to be reported as a special revenue fund.



Encumbrances

The Board determined that reporting encumbrances as a separate classification is incompatible with the focus on purpose limitations established in the restricted/committed/assigned fund balance hierarchy. Given that difference in focus, the Board concluded that information about encumbrances should be disclosed in the notes to the financial statements in conjunction with other commitments, rather than displayed on the face of the fund financial statements.



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Where do I start?



Step 1 – Fund Balance Policy

Update Fund Balance Policy

1. Discuss new classifications with definitions
2. Give examples of existing fund balance items in the new classifications. (See example)

Fund Balance Policy - Example

POLICY

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the City against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Finance Director to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

PROCEDURES

Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts can be spent.

- Nonspendable fund balance (*inherently nonspendable*)
- Restricted fund balance (*externally enforceable limitations on use*)
- Committed fund balance (*self-imposed limitations on use*)
- Assigned fund balance (*limitation resulting from intended use*)
- Unassigned fund balance (*residual net resources*)

The first two components listed above are not addressed in this policy due to the nature of their restrictions. An example of nonspendable fund balance is inventory. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments. This policy is focused on financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.



Step 1 – Fund Balance Policy

Update Fund Balance Policy

3. Under Committed, identify the highest level of decision-making authority, usually City Council or Board Members
4. Under Committed, identify the formal action that is required to establish, modify, and/or rescind a fund balance commitment. Usually, ordinance or resolution. (See example)



Fund Balance Policy - Example

Committed Fund Balance

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period; however the amount can be determined subsequently.



Step 1 – Fund Balance Policy

Update Fund Balance Policy

5. Under Assigned, identify the body or official authorized to assign amounts to a specific purpose. Usually City Manager and/or Finance Director or Audit Committee.



Fund Balance Policy - Example

Assigned Fund Balance

Amounts that are constrained by the City's *intent* to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance.

This policy hereby delegates the authority to assign amounts to be used for specific purposes to the Finance Director for the purpose of reporting these amounts in the annual financial statements. A few examples of assigned fund balance follow.

- Continuing Appropriations

Fund balance levels must be sufficient to meet funding requirements for projects approved in prior years and which must be carried forward into the new fiscal year.

- Debt Service

Established to provide for future debt service obligations.

- Budget Balancing Measures

Funds set aside for the purpose of stabilizing the delivery of City services during periods of operational budget deficits and to mitigate the effects of major economic uncertainties resulting from unforeseen changes in revenues and/or expenditures.

Unassigned Fund Balance

These are residual positive net resources of the general fund in excess of what can properly be classified in one of the other four categories.



Step 2

Identify Possible Categories and Classifications

1. Look at prior year Financial Fund Balance
2. Identify your Unavailable Reservations
 - These will be your Nonspendable (prepaids, loans rec.)
3. Identify your Restricted Reservations
 - These will be your Restricted amounts (grants funds)
4. Identify possible projects that should have a formal commitment (contractual obligations)
 - These need to have formal actions taken by year-end reporting date
 - Amount can be determined subsequent
5. Identify remaining Special Revenue Funds, Capital Project Fund, Debt Service Funds, and Permanent Funds that don't have Restricted or Committed Balances as your Assigned Amounts



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AREAS OF CONSIDERATION



Items to Consider

Rate Stabilization: Where would you consider them classified?

A. Restricted?

- Is there an external creditor, grantor, contributor, or law or regulation of other governments imposing this amount?
- Is there a law through constitutional provisions or enabling legislations? (voter approved)

B. Committed?

- The formal action that imposes the parameters for spending should:
 - 1) Identify specific circumstances
 - 2) Describe in detail specific circumstances
 - 3) Circumstances can NOT occur routinely



Items to Consider

“Example, a stabilization amount that can be accessed *in an emergency* would not qualify to be classified within the committed category because the circumstances or conditions that constitute an emergency are not sufficiently detailed...”

“*Anticipated Shortfalls* do not qualify unless the shortfall was quantified and was of magnitude that would distinguish it from other revenue shortfalls that occur during normal course of business.”

(See Example)



Rate Stabilization Classified as Committed Fund Balance

Committed Fund Balance

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period; however the amount can be determined subsequently.

- General Fund Emergency Contingency

The City's General Fund balance committed for emergency contingencies is established at \$14,300,000. The City Council has resolved to increase this amount to two (2) months of regular general fund operating expenditures as recommended by the Government Finance Officers Association (GFOA) in any fiscal year in which recurring sources exceed recurring uses in the General Fund. As defined in the resolution establishing this commitment, the specific uses are listed as the declaration of a state or federal state of emergency or a local emergency as defined in Corona Municipal Code Section 2.52.020. The City Council may, by the affirming vote of three members, change the amount of this commitment and/or the specific uses of these monies.



Items to Consider

Classifying Fund Balance Amounts

A. Unrestricted Fund Balances

- Classification should be identified in fund balance policy as to when the restricted or unrestricted amounts are considered spent and used

Example:

Fund Balance Classification

The accounting policies of the City consider restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

This policy is in place to provide a measure of protection for the City against unforeseen circumstances and to comply with GASB Statement No. 54. No other policy or procedure supersedes the authority and provisions of this policy.



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HOW TO PREPARE FOR AUDITORS



WHAT ARE THE AUDIT TRAILS NEEDS?

A. Nonspendable Fund Balance Amounts:

- These should tie to Asset Balances
 - ✓ No document of approval needed

B. Restricted Fund Balance Amounts:

- These should be the balances restricted by external creditors, such as debt covenants, grantors, contributors, or other regulations of other governments.
- These should be the balances imposed by constitutional provisions or enabling legislation.
 - ✓ No document of approval needed, unless it is a special circumstance restriction out of the ordinary



WHAT ARE THE AUDIT TRAILS NEEDS?

C. Committed Fund Balance Amounts:

- These balances had formal action taken upon
 - ✓ Need Approved Fund Balance Policy identifying highest level of decision making and identifying formal action to be used
 - ✓ Need to review the formal action approval (ordinance, resolution) and must be approved before fiscal year end
 - ✓ Formal action should identify specific purpose (projects) being committed



WHAT ARE THE AUDIT TRAILS NEEDS?

D. Assigned Fund Balance amounts:

- These balances are government's intent.
 - ✓ Need Approved Fund Balance Policy delegating the authority official or body
 - ✓ Need a document identifying amounts and specific purpose for the General Fund only which were approved by the delegated official or body



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FINANCIAL STATEMENT PREPARATION



HOW DOES THIS EFFECT MY STATEMENTS?

1. Face of financial statements (two options):

A. Break out on face of financials:

- Under each classification your specific purpose can be broken down by project name or function type

B. Show each classification in the aggregate

- If this option, then you need to break out in footnotes

(See Example)



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	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
Fund balances:							
Nonspendable:							
Inventory	\$ 125,000	\$ 108,000	\$ 16,000	—	—	—	\$ 249,000
Permanent fund principal	—	—	—	—	—	\$ 164,000	164,000
Restricted for:							
Social services	240,000	—	—	—	—	—	240,000
Parks and recreation	80,000	—	—	—	—	—	80,000
Education	55,000	—	—	—	—	—	55,000
Highways	—	—	—	—	\$ 444,000	—	444,000
Road surface repairs	—	24,000	—	—	—	—	24,000
Debt service reserve	—	—	—	\$206,000	—	—	206,000
School construction	—	—	—	—	301,000	—	301,000
Law enforcement	—	—	—	—	—	214,000	214,000
Other capital projects	—	—	—	—	51,000	—	51,000
Other purposes	30,000	—	—	—	—	—	30,000
Committed to:							
Zoning board	16,000	—	—	—	—	—	16,000
Economic stabilization	210,000	—	—	—	—	—	210,000
Homeland security	110,000	—	—	—	—	—	110,000
Education	50,000	—	103,000	—	—	—	153,000
Health and welfare	75,000	—	—	—	—	—	75,000
Assigned to:							
Parks and recreation	50,000	—	—	—	—	—	50,000
Library acquisitions	50,000	—	—	—	—	—	50,000
Highway resurfacing	—	258,000	—	—	—	—	258,000
Debt service	—	—	—	306,000	—	—	306,000
Public pool	—	—	—	—	121,000	—	121,000
City Hall renovation	—	—	—	—	60,000	—	60,000
Other capital projects	50,000	—	—	—	471,000	—	521,000
Other purposes	80,000	—	73,000	—	—	176,000	329,000
Unassigned:	525,000	—	—	—	—	—	525,000
Total fund balances	\$1,746,000	\$ 390,000	\$ 192,000	\$512,000	\$ 1,448,000	\$ 554,000	\$4,842,000

This level of detail is not required for display on the face of the balance sheet. Fund balance categories and classifications may be presented in detail or in the aggregate if sufficient detail is provided in the notes to the financial statements.



HOW DOES THIS EFFECT MY STATEMENTS?

2. Footnotes (fund balance classification policies and procedures):
 - A. For committed – authority and formal action type
 - B. For assigned – authority and policy which delegates this authority
 - C. Classification fund balances policy –
 - When restricted and unrestricted are considered spent for purpose designated
 - When committed, assigned, or unassigned amounts are considered to be spent for purpose designated and in what order
3. Encumbrances:
 - Significant encumbrances should be disclosed with “Other Significant Commitments” required disclosures, by major funds and the aggregate for nonmajor funds



HOW DOES THIS EFFECT MY STATEMENTS?

4. Stabilization Arrangements - disclose even if it doesn't meet criteria for Restricted or Committed:
 - A. The authority for establishing stabilization arrangements
 - Statute or Ordinance
 - B. Requirements for additions to the stabilization amount
 - C. The conditions under which stabilization amounts may be spent
 - D. The balance, if not on face of financial statements
5. Minimum Fund Balance Policies
 - If a formally adopted minimum fund balance policy (in lieu of a separate stabilization arrangement), then describe in the notes of the financials.



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GOVERNMENTAL FUND DEFINITION CLARIFICATION USING NEW TERMINOLOGY



Governmental Fund Clarifications

General Fund

The general fund should be used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds

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. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.



Governmental Fund Clarifications

Special Revenue Funds (Continued)

The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund.² Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

² For revolving loan arrangements that are initially funded with restricted grant revenues, the consideration may be whether those restricted resources continue to comprise a substantial portion of the *fund balance in the fund's balance sheet*.

Governments should disclose in the notes to the financial statements the purpose for each major special revenue fund—identifying which revenues and other resources are reported in each of those funds.



Governmental Fund Clarifications

Capital Projects Funds

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. 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.

Debt Service Funds

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.

Permanent Funds

Permanent funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry. Permanent funds do not include private purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.