

The New Fund Balance: What do we have now, and where will it be shown?

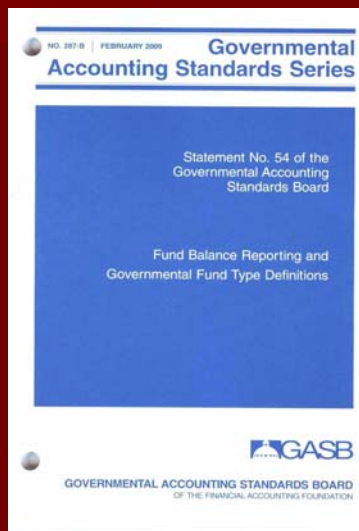
(An overview of GASB 54)

Fund Balance Reporting and Governmental Fund Type Definitions

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## Statement No. 54

- Effective for periods beginning after June 15, 2010



## Origins of the Project

- Statement 34 had no effect on fund balance reporting
- Significant variation in how standards are applied, leading to significant divergence in practice
- Widespread confusion about terminology
- Mismatch between what governments are reporting about fund balance and what users of financial statements actually need
- Invitation to Comment issued 10-06
- Exposure Draft issued 2-08

## Effect of the Columns

- Under the current standard amounts are classified from the perspective of the column
- Consider a government that has
  - \$100 earmarked for capital projects by the government itself
  - \$100 in property tax revenue restricted to paying debt service
  - \$100 of cash available for any purpose

## Under the current standards

If the amounts constrained to specific purposes are reported in the *general fund*, they are shown as **reserved**

	GF	SRF	DSF	CPF	Non-major Funds	Total
<b>Reserved for:</b>						
<b>Capital projects</b>	\$100					\$100
<b>Debt service</b>	\$100					\$100
<b>Unreserved</b>	\$100					\$100

**But...**

## Under the current standards

If the amounts constrained to specific purposes are reported *outside* the general fund, they are shown as **unreserved**

	GF	SRF	DSF	CPF	Non-major Funds	Total
<b>Reserved for:</b>						
<b>Capital projects</b>	\$100					\$100
<b>Debt service</b>	\$100					\$100
<b>Unreserved</b>	\$100					\$100

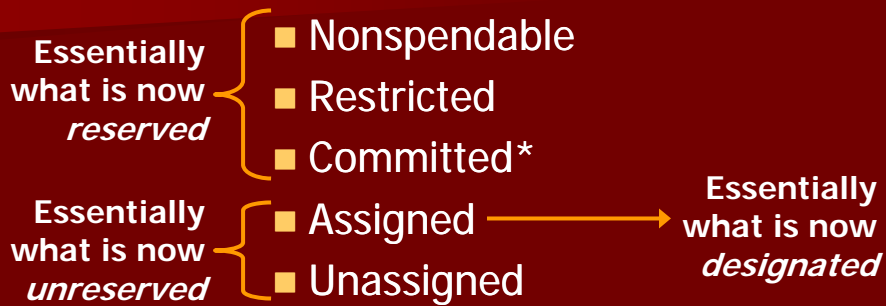
## Under the current standards

If the amounts constrained to specific purposes are reported *outside* the general fund, they are shown as **unreserved**

	GF	SRF	DSF	CPF	Non-major Funds	Total
Reserved for:						
Capital projects						
Debt service						
Unreserved	\$100		\$100	\$100		\$300

**This will change...**

## New Fund Balance Classifications



\*Proposal called this classification "limited"

## Nonspendable Fund Balance

- Not in spendable form, such as
  - Inventory
  - Long-term receivables (unless the proceeds are restricted, committed, or assigned)
- Legally or contractually required to be maintained intact
  - Corpus of a permanent fund

## Restricted Fund Balance

- Same definition as for net assets in Statement 34 (as amended by Statement 46)—amounts constrained to being used for a specific purpose by
  - External parties
  - Constitutional provisions
  - Enabling legislation

## Committed\* Fund Balance

- Constraint on use imposed by the government itself, using its highest level of decision making authority
- 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

\*Proposal called this classification "limited"

## Assigned Fund Balance

- Amounts *intended* to be used for specific purposes
- Intent is expressed by
  - The governing body
  - 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
- Appropriation of existing fund balance

## 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

## Under the new standards

The amounts constrained to specific purposes are reported in the same classifications *regardless of the fund they are in*

	GF	SRF	DSF	CPF	Non-major Funds	Total
<b>Restricted for: Debt service</b>	\$100					\$100
<b>Committed for: Capital projects</b>	\$100					\$100
<b>Unassigned</b>	\$100					\$100

Or...

## Under the new standards

The amounts constrained to specific purposes are reported in the same classifications *regardless of the fund they are in*

	GF	SRF	DSF	CPF	Non-major Funds	Total
Restricted for: Debt service			\$100			\$100
Committed for: Capital projects				\$100		\$100
Unassigned	\$100					\$100

The funds have changed, but the fund balance classifications have not

## Stabilization (Rainy-Day) Amounts

- Stabilization was not previously considered a specific purpose
- If constraints on stabilization amounts meet criteria to be reported as restricted or committed, then stabilization can be considered a specific purpose
- Stabilization amounts should not be reported as assigned



## Encumbrances

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

## Level of Detail

- Level of detail requirements may be met by display or a combination of display and disclosure
  - Nonspendable by type
  - Restrictions by purpose
  - Commitments and assignments in sufficient detail that major purposes are evident to reader

Specific purpose details displayed

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
<b>Fund balances:</b>							
<b>Nonspendable:</b>							
Inventory	\$ 125,000	\$ 108,000	\$ 16,000	—	—	—	\$ 249,000
Permanent fund principal	—	—	—	—	—	\$ 164,000	164,000
<b>Restricted for:</b>							
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
<b>Committed to:</b>							
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
<b>Assigned to:</b>							
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
<b>Unassigned:</b>							
Unassigned	525,000	—	—	—	—	—	525,000
<b>Total fund balances</b>	<b>\$ 1,746,000</b>	<b>\$ 390,000</b>	<b>\$ 192,000</b>	<b>\$ 512,000</b>	<b>\$ 1,448,000</b>	<b>\$ 554,000</b>	<b>\$ 4,842,000</b>

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.

Classification totals displayed—details disclosed in the notes

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
<b>Fund balances:</b>							
<b>Nonspendable</b>	\$ 125,000	\$ 108,000	\$ 16,000	—	—	\$ 164,000	\$ 413,000
<b>Restricted</b>	405,000	24,000	—	\$ 206,000	\$ 796,000	214,000	1,645,000
<b>Committed</b>	461,000	—	103,000	—	—	—	564,000
<b>Assigned</b>	230,000	258,000	73,000	306,000	652,000	176,000	1,695,000
<b>Unassigned</b>	525,000	—	—	—	—	—	525,000
<b>Total fund balances</b>	<b>\$ 1,746,000</b>	<b>\$ 390,000</b>	<b>\$ 192,000</b>	<b>\$ 512,000</b>	<b>\$ 1,448,000</b>	<b>\$ 554,000</b>	<b>\$ 4,842,000</b>

## Classifying Residual Balances

- Spending prioritization policies (the flow assumption)
  - Restricted vs. unrestricted
  - Committed, assigned, unassigned
  - Multiple policies
  - The “default” policy
  - Negative balances
    - General fund
    - Other funds

## Classifying Residual Balances

- The flow assumption for this special revenue fund is to **use restricted amounts before unrestricted amounts and to use the default policy for its unrestricted fund balance**. If expenditures incurred exceed the amounts that have been restricted, committed, and assigned to a specific purpose and results in a negative residual amount for that specific purpose, amounts assigned to other purposes in that fund are reduced to eliminate the deficit.

What were the balances at the beginning of the year?

<b>Purpose A</b>	Total	Restricted	Committed	Assigned
Beginning Balances	5,696	2,000	2,616	1,080
Additions				
Expenditures Incurred				
Ending Balances				
<b>Purpose B</b>				
Beginning Balances	8,871	8,871	0	0
Additions				
Expenditures Incurred				
Ending Balances				
<b>Purpose C</b>				
Beginning Balances	8,040	0	0	8,040
Additions				
Expenditures Incurred				
Ending Balances				

Were additional amounts restricted, committed, or assigned?

<b>Purpose A</b>	Total	Restricted	Committed	Assigned
Beginning Balances	5,696	2,000	2,616	1,080
Additions				
Expenditures Incurred				
Ending Balances				
<b>Purpose B</b>				
Beginning Balances	8,871	8,871	0	0
Additions	1,500			1,500
Expenditures Incurred				
Ending Balances				
<b>Purpose C</b>				
Beginning Balances	8,040	0	0	8,040
Additions	120,000		120,000	
Expenditures Incurred				
Ending Balances				

How much was spent for each purpose?

Purpose A	Total	Restricted	Committed	Assigned	Unassigned
Beginning Balances	5,696	2,000	2,616	1,080	
Additions					
Expenditures Incurred	(7,654)	(2,000)	(2,616)	(1,080)	(1,958)
Ending Balances	(1,958)	0	0	0	(1,958)
<b>Purpose B</b>					
Beginning Balances	8,871	8,871	0	0	
Additions	1,500			1,500	
Expenditures Incurred	(10,000)	(8,871)		(1,129)	
Ending Balances	371	0	0	371	
<b>Purpose C</b>					
Beginning Balances	8,040	0	0	8,040	
Additions	120,000		120,000		
Expenditures Incurred	(11,223)		(11,223)		
Ending Balances	116,817	0	108,777	8,040	

What happens to a negative balance?

Purpose A	Total	Restricted	Committed	Assigned	Unassigned
Beginning Balances	5,696	2,000	2,616	1,080	
Additions					
Expenditures Incurred	(7,654)	(2,000)	(2,616)	(1,080)	(1,958)
Ending Balances	(1,958)	0	0	0	(1,958)
<b>Purpose B</b>					
Beginning Balances	8,871	8,871	0	0	
Additions	1,500			1,500	
Expenditures Incurred	(10,000)	(8,871)		(1,129)	
Ending Balances	371	0	0	371	
<b>Purpose C</b>					
Beginning Balances	8,040	0	0	8,040	
Additions	120,000		120,000		
Expenditures Incurred	(11,223)		(11,223)		
Ending Balances	116,817	0	108,777	8,040	

If this were the general fund, unassigned fund balance would be reduced.

## Note Disclosures

- Description of authority and actions that lead to committed and assigned fund balance
- Government's policy regarding order of spending
  - Restricted and unrestricted fund balance
  - Committed, assigned, and unassigned
- Encumbrances, if significant, are disclosed in conjunction with other disclosures of significant commitments

## Note Disclosures

- Stabilization arrangements
  - Authority for establishing
  - Requirements for additions
  - Conditions under which amounts may be used
- Minimum fund balance policies

## Special Revenue Funds

### *Current Definition:*

- *Special Revenue Funds* —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

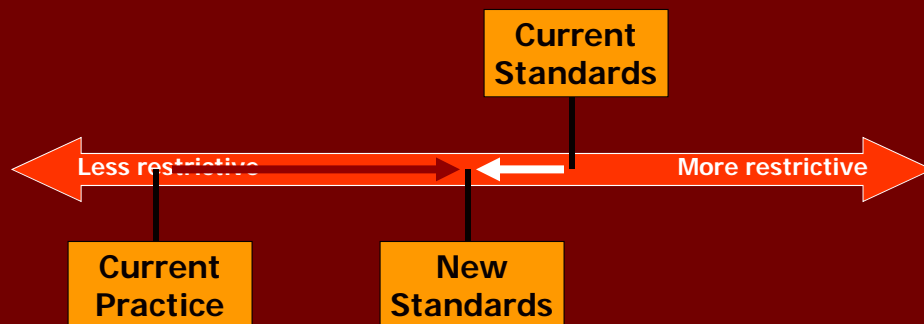
### *Statement 54 Definition:*

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

- Report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects
- Restricted or committed specific revenue sources should comprise substantial portion of fund's resources, **but fund also may include other restricted, committed, and assigned resources**
- Disclosure: purpose of each major special revenue fund and each revenue source or other resources reported in each

## Effect of SRF Clarifications





## Capital Projects & Debt Service Funds

- Text made consistent with other definitions
- Capital projects fund definition is more reflective of current practice
- Highlighted that debt service funds are *required* when
  - Legally mandated
  - Financial resources are being accumulated for principal and interest payments maturing in future years

## Capital Projects and Debt Service Funds

### *Prior Definitions:*

- *Capital projects funds*—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).
- *Debt service funds*—to account for the **accumulation of resources for**, and the payment of, general long-term debt principal and interest.

## Capital Projects Funds

### *Statement 54 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. 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

### *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.

Questions?