



# **GASB Statement No. 54**

## ***Fund Balance Reporting and Governmental Fund Type Definitions***



# GASB 54 (cont.)

- Scope
  - Establishes accounting and financial reporting standards for all governments that report governmental funds.
    - Changes how fund balance is presented.
    - Clarifies definitions for governmental fund types.
- Effective Date
  - Fiscal Year Ending 6/30/2011.
  - Statistical Section - Changes to the fund balance information presented may be made prospectively, although retroactive application is encouraged.



# GASB 54 – Background

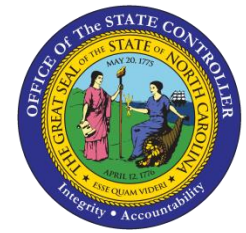
- The term “fund balance” is used to describe the difference between assets and liabilities reported in a governmental fund (e.g. general fund).
  - Is one of the most widely used elements of SLG financial statements
- The traditional components used to present fund balance have focused on whether fund resources are “available for appropriation” (i.e., budgeting).
- The portion of fund balance not available has been labeled “reserved” while the portion that is available has been labeled “unreserved”.



# Traditional Fund Balance

## *Focus on Availability for Appropriation*

- Reserved Fund Balance (not available for appropriation)
  - Portion of net resources that cannot ever be spent because of their form (e.g., inventories)
  - Portion of net resources that cannot yet be spent because of the timing of cash flows (e.g., long-term loans receivable).
  - Portion of net resources that can be spent, but not at the government's discretion, because they are externally restricted to a use narrower than the purpose of the fund (e.g. bald eagle conservation grant in a wildlife special revenue fund).



# Traditional Fund Balance

## *Focus on Availability for Appropriation*

- Unreserved Fund Balance (available for appropriation)
  - Designated unreserved fund balance
    - Available for appropriation, with a limitation on use imposed by the government itself.
  - Undesignated unreserved fund balance
    - Available for appropriation with no internal or external limitation.



# Need for Change

- Critics have argued that change was needed for the following reasons.
  - The traditional terminology was not self-explanatory and has frequently led to misunderstandings.
  - Governments have often applied the different categories inconsistently in practice.
  - Some have questioned whether the historic focus on availability for appropriation best serves the needs of financial statement users.
    - Especially given the fact that many governments budget on a basis quite different from GAAP.



# New Guidance

- GASB Statement No. 54 abandons the traditional focus on availability of resources.
- Instead, fund balance will be reported in a hierarchy based primarily on “the extent to which a government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent”.



# Components of Fund Balance

- Five categories
  - Nonspendable
  - Restricted
  - Committed
  - Assigned
  - Unassigned
- These categories replace the previous categories of reserved, unreserved, designated, and undesignated.
- Not all categories will always be present.





# Nonspendable Fund Balance

- Not in spendable form
  - Cannot **EVER** be spent (e.g., inventories)
  - Cannot **CURRENTLY** be spent (e.g., long-term portion of loans receivable and property held for resale).
- Legally or contractually required to remain intact (e.g., corpus of a permanent fund).
  - Even though these amounts also meet the definition of restricted, they should always be reported as nonspendable fund balance.



# Nonspendable Fund Balance (cont.)

- Resources that cannot CURRENTLY be spent
  - If the proceeds from the collection of long-term loans receivable or from the sale of properties are restricted, committed, or assigned, those constraints take precedence over the nonspendable nature of the resources when classifying the amounts.
  - Consequently, the long-term portion of loans receivable and property held for resale can only be reported as “nonspendable” in the General Fund.
  - All resources in other governmental funds, **BY DEFINITION**, are restricted, committed, or assigned.

# Categories Representing Spending Constraints



- Once nonspendable resources have been identified and isolated, the remaining fund balance should be categorized based on spending constraints.
- Three categories
  - Restricted
  - Committed
  - Assigned
- There is no requirement that limitations be narrower than the purpose of the fund, except for assignments in the General Fund.



# Restricted Fund Balance

- Reflects amounts subject to externally enforceable legal restrictions.
- Fund balance should be reported as restricted when constraints on the use of resources are either:
  - Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.
  - Imposed by law through constitutional provisions (e.g., State Constitution).



## Restricted Fund Balance (cont.)

- These are the same restrictions used to determine restricted net assets in the context of the government-wide and proprietary fund financial statements.
- **Note**: If the use of amounts to be collected on long-term loans receivable (or from sale of properties) is subject to restrictions, then those items should be reflected in restricted fund balance rather than in nonspendable fund balance.



# Committed Fund Balance

- Represents resources whose use is constrained by limitations that the government imposes on itself.
  - Imposed by formal action of the government's highest level of decision making authority (**N.C. General Assembly**).
  - Commitments may be changed or removed only by the government taking the same type of action that imposed the constraint originally.
  - Formal action must occur prior to the end of the reporting period.
    - Actual amount can be determined in the subsequent period.



# Committed Fund Balance (cont.)

- The N.C. General Assembly can commit fund balance by enactment of the following:
  - Enabling legislation
    - Authorized to levy/charge a tax/fee with requirement that those resources be used only for the specific purposes specified in the legislation.
  - Other legislation that imposes spending constraints on existing resources (e.g., Budget Bill).



## Committed Fund Balance (cont.)

- May also be created by contract to the extent that existing resources in the fund have been specifically committed for use in satisfying the contractual obligation (if not recognized as fund liability).
  - Examples – Capital lease agreement / out-of-court settlement.
- **Note**: If the use of amounts to be collected on long-term loans receivable (or from sale of properties) is committed, then those items should be reflected in committed fund balance rather than in nonspendable fund balance.





# Assigned Fund Balance

- Comprises amounts intended to be used by the government for specific purposes.
  - Intent can be expressed by (a) governing body itself or (b) by an official or body to which governing body has delegated the authority to assign amounts.
  - The legislature has delegated such authority to OSBM.
- Can never exceed total fund balance less its nonspendable, restricted, and committed components.



# Assigned Fund Balance (cont.)

## Example

Total Fund Balance	<u>\$ 100</u>	<u>\$ 100</u>
Nonspendable	40	40
Restricted	20	40
Committed	10	20
Maximum Assigned	<u><u>\$ 30</u></u>	<u><u>\$ -</u></u>



## Assigned Fund Balance (cont.)

- In governmental funds other than the general fund:
  - Represents the remaining fund balance that is not classified as nonspendable, restricted, or committed.
  - This reporting indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of the fund.
- In the General Fund, represents the amount intended to be used by the government for a specific purpose that is narrower than the general purposes of the government itself.

# Assigned Fund Balance (cont.)



- **Note**: If the use of amounts to be collected on long-term loans receivable (or from sale of properties) is assigned, then those items should be reflected in assigned fund balance rather than in nonspendable fund balance.

# Committed vs. Assigned



- Assigned fund balance differs from committed fund balance as follows:
  - Does not have to be made by the government's highest level of decision-making authority.
  - Actions needed to impose, remove, or modify an assignment require less formality.
  - Resources may be assigned to specific purposes after year-end.



# Appropriated Fund Balance

- Governments sometimes balance their budget by appropriating a portion of existing fund balance to bridge the gap between appropriations and estimated revenues.
  - The portion of fund balance thus appropriated for the following year satisfies the criteria to be classified as assigned fund balance.
  - Limited to the amount of budget gap

# Unassigned Fund Balance



- The residual classification for the General Fund.
- The General Fund is the only fund that can report a positive unassigned amount.
  - GASB 54 prohibits reporting resources in other governmental funds unless they are at least *assigned to the purpose of that fund*.
- Funds other than the General Fund can report a negative unassigned amount if the total of nonspendable, restricted, and committed fund balances exceed the total net resources of the fund.

# Negative Balances



What if overspending occurs in a fund?

- General Fund:
  - The negative amount should be eliminated by first reducing unassigned amounts until depleted and then reducing amounts assigned to other purposes.
  - Any remaining negative balance should be reported as negative unassigned.
- Other Governmental Funds:
  - The negative amount should be eliminated by first reducing assigned fund balance until depleted.
  - Any remaining negative balance should be reported as negative unassigned.





# Negative Balances (cont.)

- While assigned and unassigned fund balances can be reduced to eliminate a negative balance, restricted and committed fund balances should not be reduced.
- Restricted, committed, or assigned fund balances cannot be negative.



# Example 1

## Unassigned Fund Balance

Total fund balance		\$ 4,959
Nonspendable fund balance	\$82	
Restricted fund balance	57	
Committed fund balance	10	
Assigned fund balance	<u>456</u>	
Subtotal		<u>(605)</u>
Unassigned fund balance		<u><u>\$ 4,354</u></u>



# Example 1a

## If Components in Excess of Total Fund Balance

Total fund balance		\$ 600
Nonspendable fund balance	\$82	
Restricted fund balance	57	
Committed fund balance	10	
Assigned fund balance	<u>456</u>	
Subtotal		<u>(605)</u>
Reduction of assigned f/b		<u><u>\$ (5)</u></u>



# Example 1b

## If Components in Excess of Total Fund Balance and Assigned Fund Balance

Total fund balance		\$ 130
Nonspendable fund balance	\$82	
Restricted fund balance	57	
Committed fund balance	10	
Assigned fund balance	<u>456</u>	
Subtotal		<u>(605)</u>
Excess of components over total f/b		(475)
"Writeoff" of assigned		<u>456</u>
Unassigned fund balance		<u><u>\$ (19)</u></u>



## Example 2

At year-end, a special revenue fund that is used to account for restricted revenues included the following:

Cash	\$ 200
Inventories	110
Accounts Payable	<u>(275)</u>
Fund Balance	<u>\$ 35</u>

How should its total fund balance be classified?

Fund Balance:	
Nonspendable	\$ 110
Unassigned	<u>(75)</u>
Total Fund Balance	<u>\$ 35</u>

Note: Overexpenditure for a restricted, committed, or assigned purpose should not reduce nonspendable fund balance.



# Encumbrances

- If encumbrances are expected to be liquidated from restricted or committed resources, this constraint is already reflected in those amounts.
  - Does not represent any further constraint on use than is already communicated by classification as restricted or committed.
- However, encumbrances of otherwise unassigned amounts that are expected to be liquidated with unspecified existing resources should be classified as assigned fund balance.
  - Purchase order is tantamount to assigning the amount of the purchase order to a specific purpose.



# Encumbrances (cont.)

## Example

- If an outstanding purchase order was expected to be liquidated with restricted grant resources, then those resources would already have been categorized as *restricted fund balance* on account of that restriction.



# Flow Assumptions

- The composition of ending fund balance should be based on a government's accounting policy regarding flow assumptions.
  - Whether it considers restricted or other amounts to have been spent when an expenditure is incurred for purposes for which both restricted and other amounts are available.
  - Whether it considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those classifications could be used.





# Components of Fund Balance

## **Nonspendable fund balance** (inherently nonspendable)

Not in spendable form or requirement to maintain intact

## **Restricted fund balance** (externally enforceable limitations on use)

Outside parties

Constitutional provisions

## **Committed fund balance** (self-imposed limitations)

Formal action by end of period

Highest level of decision making

Changed or removed only by taking same type of formal action

## **Assigned fund balance** (limitation resulting from intended use)

Less formal action

Intended use established by body designated for that purpose

Resources may be assigned after year-end

## **Unassigned fund balance** (residual net resources)



# Question 1

- GASB Statement 54 will have no effect on the total amount reported as fund balance.
  - True
  - False

# Question 2

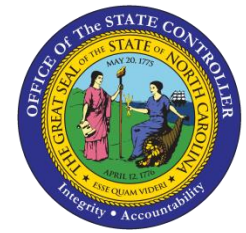


- GASB Statement 54 takes the position that fund balance classifications should be based on
  - a) The availability of funds
  - b) Encumbrance accounting
  - c) Net asset classifications
  - d) Constraints on the purpose for which amounts can be spent
  - e) Maturity (short-term vs. long-term) of resources.



## Question 3

- According to GASB Statement 54, which of the following is not a classification of fund balance?
  - a) Restricted
  - b) Reserved
  - c) Nonspendable
  - d) Committed
  - e) Unassigned



## Question 4

- Resources that cannot be spent because of their form are considered
  - a) Nonspendable
  - b) Restricted
  - c) Committed
  - d) Assigned
  - e) Unassigned



## Question 5

- Resources in spendable form that cannot be spent because legal or contractual provisions require that they be maintained intact would be considered
  - a) Nonspendable
  - b) Restricted
  - c) Committed
  - d) Assigned
  - e) Unassigned



## Question 6

- Amounts that must be used for purposes set by grantors or contributors should be classified as
  - a) Nonspendable
  - b) Restricted
  - c) Committed
  - d) Assigned
  - e) Unassigned



## Question 7

- Resources accumulated pursuant to debt covenants should be classified under which component of fund balance
  - a) Nonspendable
  - b) Restricted
  - c) Committed
  - d) Assigned
  - e) Unassigned





## Question 8

- Amounts whose use is subject to laws or regulations of other governments should be classified as
  - a) Nonspendable
  - b) Restricted
  - c) Committed
  - d) Assigned
  - e) Unassigned



## Question 9

- Amounts whose use is constrained by constitutional provisions should be classified as
  - a) Nonspendable
  - b) Restricted
  - c) Committed
  - d) Assigned
  - e) Unassigned



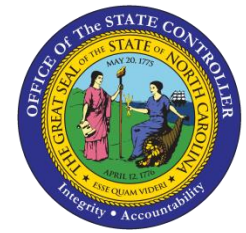
## Question 10

- Amounts constrained by limitations that the government imposes upon itself at its highest level of decision-making and that remain binding unless removed in the same manner should be classified as
  - a) Nonspendable
  - b) Restricted
  - c) Committed
  - d) Assigned
  - e) Unassigned



# Question 11

- Formal action is required to impose, remove, or modify a constraint reflected in committed fund balance.
  - True
  - False



## Question 12

- Action to commit fund balance can be delegated to others by the highest level of decision-making authority.
  - True
  - False



## Question 13

- Assigned fund balance requires action by the highest level of decision-making authority.
  - True
  - False



## Question 14

- Formal action is required to impose, remove, or modify a constraint reflected in assigned fund balance.
  - True
  - False



# Question 15

- Negative unassigned fund balance can appear in
  - a) The general fund
  - b) A special revenue fund
  - c) A permanent fund
  - d) A debt service fund
  - e) All of the above





## Question 16

- Positive unassigned fund balance can appear in
  - a) The general fund
  - b) A special revenue fund
  - c) A permanent fund
  - d) A debt service fund
  - e) All of the above



## Question 17

- Which of the following would be reflected in *nonspendable fund balance*?
  - a) Assets that will never convert to cash
  - b) Assets that will not convert to cash soon enough to affect the current period
  - c) Resources that legally must be maintained intact
  - d) All of the above



## Question 18

- Which of the following limitations must be in place no later than the end of the fiscal period?
  - a) Restricted fund balance
  - b) Committed fund balance
  - c) Assigned fund balance
  - d) Both B and C



# Question 19

- Only governmental funds report *fund balance*.
  - True
  - False



## Question 20

- The criteria used for *restricted fund balance* are essentially the same as those used for *restricted net assets*.
  - True
  - False

# Governmental Fund Type Definitions

## Background



- There are currently five governmental fund types.
  - NCGA Statement 1 provided the initial authorization for the following four fund types:
    - General fund, special revenue funds, capital projects funds, and debt service funds.
  - The GASB later brought those definitions forward, essentially unchanged, when it established the new financial reporting model in GASB 34.
    - At the same time, GASB 34 added a new governmental fund type, *permanent funds*.
  - Over time, questions have arisen on how these definitions should be interpreted and applied in practice.
    - In particular, important issues have been raised regarding the use of special revenue funds and capital project funds.

# Governmental Fund Type Definitions Background (cont.)



- GASB 54 clarifies the definitions of individual fund types.
  - Minor “tweaks” to the general fund and permanent fund definitions.
  - More significant changes to the special revenue fund and capital project fund definitions
    - Interprets certain terms within the definition of special revenue funds.
    - Clarifies the definition of capital project funds for better alignment with the needs of preparers and users.

# Governmental Fund Type Definitions Background (cont.)



- In the definitions, GASB 54 provides that funds of a particular type either “should be used” (i.e., required) or “are used” (i.e., discretionary) for all activities that meet its criteria.
  - “*Should be used*” – general fund and permanent funds
  - “*Are used*” – special revenue funds, capital projects funds, and debt service funds
    - Exception - The general fund of a blended component unit should be reported as a special revenue fund (GASB 14).





# General Fund

- Prior definition:
  - “To account for all financial resources except those *required* to be reported in another fund”
    - Never intended to limit ability to use another fund type voluntarily
- The term *required* dropped from the definition of the general fund.

# Special Revenue Funds



- New 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.



# Special Revenue Funds (cont.)

- GASB 54 further clarifies that the foundation of *each special revenue* fund must be one or more specific restricted or committed revenues.
- Additional resources can be added to the fund to supplement those revenues, but only if the foundational revenue source(s) remain(s) a substantial portion of fund inflows.

# Capital Project Funds



- Old Definition:
  - ... to account for financial resources to be used for the acquisition or construction of major capital facilities.
- New 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.
  - Makes it clear that the use of the fund is not limited to facilities (can include equipment, trucks, etc.).
  - Can also include capital grants to other entities and expenditures below capitalization threshold.

# Permanent Funds



- Definition was tweaked slightly to be consistent with other GASB 54 definitions.
- New Definition:
  - 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
    - Old definition referenced "legally restricted".
  - The term "restricted" has the same meaning as restricted net assets.



# GASB 54 – Implementation Issues

- New Fund Balance Reporting Policy
- Revised fund balance worksheets in the 2011 CAFR package
  - Worksheets 401, 405, 410, and 415

# Other Pronouncements



- GASB 59, *Financial Instruments Omnibus*.
  - Effective for the 2011 CAFR.
  - GASB uses the term “*omnibus*” to describe a standard that amends the provisions of one or more of its existing pronouncements.
  - GASB 59 amends various provisions related to financial reporting for financial instruments found in the following pronouncements:
    - NCGA Statement 4, and GASB Statements 25, 31, 40, 43, and 53
    - Amendments were made to address significant issues that were identified in practice.



# Questions?

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