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**The Wonderful  
 World of GASB**  
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GASB 54 – Fund Balance

Presented by:
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 State Accounting Division
 Montana Department of Administration



Who is GASB?



- [Governmental Accounting Standards Board](#)
 - Private, nonprofit organization formed in 1984
 - 7-member Board
 - The mission of the Governmental Accounting Standards Board is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports.

Why Change How Fund Balance is Reported?

- **GASB Wanted to Correct Inconsistent Reporting Among Governments**
- **GASB'S Research Showed:**
 - Governments - A Lack of Understanding of Fund Balance Reporting Requirements Under GAAP (Generally Accepted Accounting Principles)
 - Users – Variation in Interpretation of Fund Balance Information
 - Confusion About Nature of Information & GAAP Reporting Requirements.

What is Fund Balance?

- **Fund balance** is the difference between assets and liabilities in Governmental Funds.
 - **Net Assets** is the difference between *all related assets and all related liabilities*. Used in Business, Proprietary & Fiduciary Funds and on the Government-wide Statements
 - The Current Fund Balance Approach focuses on the availability for appropriation
 - **Reserved**
 - **Unreserved**

Improve Financial Reporting with New Classifications

- **Improve Financial Reporting by:**
 - Providing Clearer Fund Balance Categories & Classifications.
 - Enhance Consistency Between Information Reported on Government-wide Statements & Governmental Fund Financial Statements
 - Avoid Confusion about the Relationship Between Reserved Fund Balances and Restricted Net Assets by Eliminating “Reserved” Component and Replacing with “Restricted” Component of Fund Balance.

Improve Financial Reporting with New Classifications – cont.

- GASB 54 changes how fund balance is reported for governmental funds
 - **Creates hierarchy of 5 classifications**
 - Based on constraints placed on government:
 - Non-spendable, restricted, committed, assigned, unassigned
 - **Clarifies the definition** of existing fund types
 - Governmental Funds: General, Special Revenue, Debt Services & Capital Projects funds will report new fund balances
 - Need to determine if **Special Revenue Funds** meet **revised fund definition**
 - Need to establish a **policy on the order** in which **unrestricted resources are used**

Fund Classifications

- **New Fund Balance Classifications for Governmental Funds:**

| | | |
|------------------------|---|---|
| Previously Reserved: | { | Non-spendable |
| | { | Restricted |
| | { | Committed |
| Previously unreserved: | { | Assigned |
| | { | Unassigned <small>(currently what is unreserved)</small> |

Fund Balance Classifications

- **Non-spendable**
- Assets not in a spendable form or not expected to be converted to cash soon enough to affect the current period
- Inventory
- Prepaid items
- Principal must stay intact such as endowments or legally or contractually required to remain intact such as Permanent Funds
- Long-term portion of loans receivable in General Fund
- Non-financial assets held for resale (unless proceeds from resale have been restricted, committed or assigned)

Fund Balance Classifications

- **Restricted**
- Balances subject to **externally** enforceable legal restrictions.
- Federal Law
- Montana Code Annotated ~ Laws
- Constitutional Provisions
- Enabling Legislation
- Imposed by Creditors
- Imposed by Grantors & Contributors

Fund Balance Classifications

- **Committed**
 - Constraint on use imposed by the government itself, using its highest level (*Council, Commission, Board action*)
 - Constraint can only be changed or removed by taking the same type of action
 - Ordinance or Resolution
 - Action to constrain resources should occur prior to end of fiscal year
 - **Note Disclosure** required to give users a clear understanding of the action taken to commit fund balance

Fund Balance Classifications

- **Assigned**
 - Amount is intended to be used for a certain use
 - Intent is specified by the governing body or an authorized official or committee
 - Less formality is required to modify the constraint
 - Appropriations of existing fund balances not classified elsewhere would be assigned
 - Amounts in excess of non-spendable, restricted and committed fund balance in funds other than the General Fund would be reported as assigned fund balance.
 - You should not report an assigned fund balance if that assignment would result in a deficit in unassigned fund balance.

Fund Balance Classifications

- **Unassigned**
 - Available for any purpose ~ no constraints
 - Net resources in excess of non-spendable, restricted, committed and assigned.
 - Amount in General Fund not classified or budgeted elsewhere
 - **General Fund** is only fund to report a positive Unassigned Balance
 - **Deficit fund balances in other Governmental Funds reported as unassigned**

**Fund Balance:
Reserved (old) vs. Restricted (new)**

| <i>Items</i> | <i>Previously</i> | <i>Per Stmt 54</i> |
|---|-------------------------|----------------------------|
| Resources by their nature cannot be spent | Reserved Fund Balance | Non-spendable Fund Balance |
| Resources that are not yet available for Spending | Reserved Fund Balance | Non-spendable Fund Balance |
| Resources externally restricted-purpose narrower than purpose of fund | Reserved Fund Balance | Restricted Fund Balance |
| Resources externally restricted-purpose not narrower than purpose of fund | Unreserved Fund Balance | Restricted Fund Balance |

- Fund Balance Policy**
- The Local Government should establish a Fund Balance Policy including the order of use for the General Fund
 - The General Fund, as the chief operating fund is unique ~ it has a broader mandate which includes accumulating sufficient financial resources for contingencies or stabilization.
 - Default order is:
 - **Restricted**
 - **Committed**
 - **Assigned**
 - **Unassigned**

- Fund Balance Policy**
- Essential elements would include:
 - The appropriate level of unrestricted (committed, assigned, unassigned) fund balance to be maintained.
 - The circumstances in which unrestricted fund balance can be "spent down"
 - The policy for replenishing deficits

Fund Categories:

- **Governmental Funds:** (*Funds affected by GASB 54*)
 - General Fund – Principal operating fund
 - Special Revenue Fund – Revenues for specific purposes
 - Debt Service Fund – Repayment of Debt
 - Capital Projects Fund – Capital outlay
 - Permanent Fund – Endowments
- **Proprietary Funds:** (*Not affected by GASB 54*)
 - Enterprise Fund – Business-type fund providing services
 - Internal Service Fund – Cost allocation among funds
- **Fiduciary Funds:** (*Not affected by GASB 54*)
 - Private Purpose Trust Fund – Resources managed for outside trustee
 - Pension and other Employee Benefit Trust Fund – Employee pension, benefits
 - Investment Trust Fund – Investments managed for outside parties as trustee
 - Agency Fund – Resources held temporarily in custodial capacity

Governmental Fund Types

- **General Fund**
 - Used for any purpose ~ Principal operating fund
 - **Balances could be**
 - Non-spendable
 - Restricted
 - Committed
 - Assigned
 - Unassigned (Only Fund with a POSITIVE Unassigned Fund Balance)

Governmental Fund Types

- **Special Revenue Funds***
 - Used to account for proceeds of **specific revenue sources** that are committed or restricted to expenditures for specific purposes other than debt service or capital projects.
 - **Balances will be**
 - Non-spendable
 - Restricted
 - Committed
 - Assigned (*but not only assigned fund balance*)

*Existing funds that do not meet this fund balance type will transfer or report their balance in the General Fund at year-end for reporting purposes.

Fund Definition

- The foundation for the fund should be from a **revenue source that is either restricted or committed** for specific purposes other than debt service or capital projects.
- The restricted or committed revenue source should represent a **substantial portion** of the inflows.
 - At any point the governmental does not expect that a substantial portion of the inflow from restricted or committed resources – the governmental should **stop using** a special revenue fund and report the remaining resources in the General Fund.
- **The fund balance classification will be performed at year-end**

Fund Definition cont.

- Funds that have only a **specific expenditure requirement** – not a specific revenue source should no longer be classified as a Special Revenue Fund for reporting purposes.

Governmental Fund Types

- **Capital Projects Funds**
 - Capital Projects Funds changed for capital outlay in general. (Formerly facilities and equipment only)
 - Resources are restricted, committed or assigned to expenditures for capital outlays.
- **Balances will be**
 - Non-spendable
 - Restricted
 - Committed
 - Assigned

*Excludes capital outlays financed by proprietary funds

Governmental Fund Types

- **Debt Service Funds**
 - Debt Service Funds required only if legally mandated or to account for amounts accumulated for future payment of principal & interest
- **Balances will be**
 - Restricted
 - Committed
 - Assigned

Governmental Fund Types

- Governments still have the choice concerning their Funds
 - Which to use and not use
 - Unless the fund is required by law, legislation or creditor/contributor
 - If they don't meet the GASB 54 Fund Definition report the balances in the General Fund at year-end

Fund Balance Prior to Implementing GASB 54

| City of Happytown Balance Sheet Governmental Funds For Fiscal Year Ending June 30, 2011 | | | | | | |
|--|------------------|-----------------|-----------------|------------------|--------------------------|--------------------------|
| | General | Gas Tax | GO Bond | Capital Projects | Other Governmental Funds | Total Governmental Funds |
| FUND BALANCES: | | | | | | |
| Reserved for: | | | | | | |
| Debt Service | | | 10,000 | | | 10,000 |
| Capital Projects | | | | 120,000 | | 120,000 |
| Unreserved reported in: | | | | | | |
| General Fund | 800,000 | | | | | 800,000 |
| Special Revenues | | 75,000 | | | 110,000 | 185,000 |
| Total Fund Balance: | \$800,000 | \$75,000 | \$10,000 | \$120,000 | \$110,000 | \$1,115,000 |

After Implementing GASB 54

Annual Report Balance Sheet

City of Haggytown
Balance Sheet
Governmental Funds
For Fiscal Year Ending June 30, 2011

| | General | Gas Tax | GO Bond | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|----------------------------|------------------|-----------------|-----------------|---------------------|--------------------------------|--------------------------------|
| FUND BALANCES: | | | | | | |
| Nonspendable | | 10,000 | | | | 10,000 |
| Restricted | | 65,000 | 10,000 | | | 75,000 |
| Committed | 1,000 | | | 100,000 | 20,000 | 121,000 |
| Assigned to: | 699,000 | | | 20,000 | 91,000 | 810,000 |
| Unassigned: | 100,000 | | | | -1,000 | 99,000 |
| Total Fund Balance: | <u>\$800,000</u> | <u>\$75,000</u> | <u>\$10,000</u> | <u>\$120,000</u> | <u>\$110,000</u> | <u>\$1,115,000</u> |

- ### Additional Note Disclosures Required
- Include the following:
 - Fund Balance Policy – order of spending when multiple resources available
 - Limitations on Fund Balances
 - How/who imposed or required
 - Purpose for Major Special Revenue Funds
 - Formal Minimum Fund Balance if adopted

 - **Annual Financial Report Notes Section will be updated to include a boiler-plate disclosure to be personalized as needed to fit the reporting entity.**

- ### Additional Note Disclosures Required
- Sample Note Disclosure
 - Fund Balance Disclosure:
 - In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the County/City/Town classifies governmental fund balances as follows:
 - Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
 - Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
 - Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
 - Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the (fill in appropriate titles such as Clerk, Mayor, Dept Heads, etc).
 - Unassigned includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Implementation Date:

- **June 30, 2011 for All Local Governments**



GASB Updates

Test your knowledge of GASB 54:

1. What is fund balance in a governmental fund?
 - a. Cash and cash equivalents
 - b. Working capital
 - c. A measure of net worth
 - d. Difference between assets and liabilities
2. Which of the following would be reflected in non-spendable 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
3. Which of the following is essential for something to be classified as restricted fund balance?
 - a. External enforceability
 - b. Formal action by the governing board
 - c. Limitation on use narrower than the purpose of the fund
 - d. All of the above
4. 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

GASB Updates

Test your knowledge of GASB 54 cont.:

5. Which of the following would most likely qualify as committed fund balance?
 - a. Grant proceeds
 - b. Revenues generated through enabling legislation
 - c. Earmarked resources
 - d. None of the above
6. How does committed fund balance differ from assigned fund balance?
 - a. Level of authority required
 - b. Action needed to nullify
 - c. Both a and b
 - d. None of the above
7. Which funds could report positive unassigned fund balance?
 - a. General fund
 - b. Other governmental funds
 - c. Both a and b
 - d. None of the above
8. Only governmental funds report fund balance?
 - a. True
 - b. False

GASB Updates

- Test your knowledge answers:
 1. D
 2. D
 3. A
 4. B
 5. C
 6. C
 7. A
 8. A
- For further information visit the GASB website:
- <http://www.gasb.org>
- Local Government Services website:
- <http://doa.mt.gov/lgsb>
- Or Contact an Accounting Fiscal Officer

Local Government Services Bureau

- Website: <http://doa.mt.gov/lgsb>
- **Staff members:**
 - Kay Gray, Bureau Chief
 - Darla Erickson, Accounting Program Manager ~ 841-2911
 - Accounting Fiscal Officers:
 - Magda Nelson, Kalispell region ~ 257-5245
 - Jamie Cain, Helena region ~ 841-2902
 - Jason Sunderland, Billings region ~ 252-5564
 - Dorianne Minkoff-Brown, Miles City region ~ 234-5057
 - Audit Review Staff
 - Kim Smith, Helena office
 - Larry Donovan, Helena office
