



# GASB Statement No. 54: The New Fund Balance Reporting Standards

Rob Churchman

Audit Partner, KPMG LLP

May 2010

# Agenda

---

- New fund balance classifications
- Governmental fund type definitions
- Case study

# Current Components of Fund Balance

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
Fund balances:							
Reserved for:							
Encumbrances with continuing appropriations	125,000	44,000	13,000	—	—	2,000	184,000
Long-term receivables	50,000	—	—	—	—	—	50,000
Inventory	75,000	64,000	3,000	—	—	12,000	154,000
Permanent fund principal	—	—	—	—	—	152,000	152,000
Social services	240,000	—	—	—	—	—	240,000
Parks and recreation	80,000	—	—	—	—	—	80,000
Education	55,000	—	—	—	—	—	55,000
Pothole repair	—	124,000	—	—	—	—	124,000
Debt service reserve	—	—	—	206,000	—	—	206,000
School construction	—	—	—	—	301,000	—	301,000
Other capital projects	—	24,000	—	—	101,000	—	125,000
Law enforcement	—	—	—	—	—	62,000	62,000
Other purposes	60,000	—	—	—	—	—	60,000
Unreserved:							
Designated, reported in:							
General fund	200,000	—	—	—	—	—	200,000
Special revenue funds	—	34,000	73,000	—	—	102,000	209,000
Capital projects funds	—	—	—	—	201,000	—	201,000
Undesignated, reported in:							
General fund	400,000	—	—	—	—	—	400,000
Special revenue funds	—	444,000	103,000	—	—	202,000	749,000
Debt service funds	—	—	—	306,000	—	22,000	328,000
Capital projects funds	—	—	—	—	401,000	—	401,000
Total fund balances	1,285,000	734,000	192,000	512,000	1,004,000	554,000	4,281,000

# New Fund Balance Components

- Basic principle:
  - “Fund balance for governmental funds should be reported in classifications that primarily comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in that fund can be spent.”
- GASB 54 details five components of fund balance:
  - Nonspendable
  - Restricted
  - Committed
  - Assigned
  - Unassigned
- Governments may not report all components of fund balance

# New Fund Balance Components (continued)

- Nonspendable fund balance includes amounts that cannot be spent because they are either:
  - Not in spendable form
    - Inventories
    - Prepaid items
    - Long-term amount of loans and notes receivable and property acquired for resale, if use of proceeds from collection/sale are not otherwise constrained
      - If use of proceeds is constrained, report under appropriate other fund balance category
  - Legally or contractually required to be maintained intact
    - Corpus of a permanent fund

# New Fund Balance Components (continued)

- Restricted fund balance
  - Amounts that are restricted to specific purposes, pursuant to the definition of “restricted” in paragraph 34 of Statement 34, as amended by Statement 46
    - Exception: Amounts required to be retained in perpetuity—should be reported as nonspendable
  - Restrictions can be imposed by
    - External parties, such as creditors, grantors or other governments
    - Constitutional provisions
    - Enabling legislation

# New Fund Balance Components (continued)

---

- Committed fund balance
  - Amounts that can only be used for specific purposes pursuant to formal action of the government's highest level of decision-making authority
  - Amounts cannot be used for any other purpose unless constraint is changed by similar action
  - Committing action must be taken prior to year-end, but amount may be determined in subsequent period

# New Fund Balance Components (continued)

- Restricted through Enabling Legislation vs. Committed
  - Restricted through Enabling Legislation
    - Use restriction is included as part of the legislation creating the revenue source
    - Use restriction is considered legally enforceable
  - Committed
    - Use constraint is imposed unilaterally by government separate from legislation creating the revenue source
    - Amounts may be redeployed for other purposes with appropriate due process
    - Use constraint is not legally enforceable

# New Fund Balance Components (continued)

---

- Assigned fund balance
  - Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed
  - Intent should be expressed by:
    - Governing body itself; or
    - Subordinate high-level body or official possessing such authority in accordance with government's policy

# New Fund Balance Components (continued)

- Assigned fund balance, continued
  - All *positive* remaining fund balance in governmental funds other than the general fund not considered nonspendable and not restricted or committed is assigned
  - Fund balance in general fund intended for a specific use narrower than the general purpose of the government is assigned
    - An assignment should not result in a deficit in unassigned fund balance
  - An appropriation of existing fund balance to eliminate a projected budgetary deficit included as a budgetary resource in subsequent year's budget is assignment of fund balance
    - Amount cannot exceed projected excess of expected expenditures over expected revenues

# New Fund Balance Components (continued)

- Unassigned fund balance
  - Residual fund balance classification for the general fund
  - *Positive* unassigned fund balance should not be reported in governmental funds other than the general fund
    - If expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes, **negative** unassigned fund balance may be reported

# New Fund Balance Components (continued)



# Classifying Fund Balance Amounts

- Amount to be reported as nonspendable fund balance should be determined before classifying other fund balance components
- To determine components of fund balance, government will have to follow policy for:
  - Whether restricted or unrestricted amounts are spent first when both are available
  - Which unrestricted category (committed, assigned, unassigned) is spent first when amounts are available in some or all categories
  - If government has no policy for order of use of unrestricted resources, order should be: committed; assigned; unassigned

# Classifying Fund Balance Amounts (continued)

- If expenditures incurred for a specific purpose exceed amounts restricted, committed or assigned for that purpose, resulting in negative residual balance for that purpose:
  - In other governmental funds:
    - First, amounts assigned to other purposes in the fund should be reduced to eliminate deficit
    - If all assigned balances are eliminated and deficit still remains, report negative unassigned fund balance
    - Restricted and committed fund balances should not be reduced
  - In general fund, negative residual balance is eliminated by reducing unassigned fund balance

# Displaying Fund Balance Categories

- Amounts for the two components of nonspendable fund balance may be displayed either:
  - Separately; or
  - In the aggregate
    - Disclose individual amounts in the notes
- Restricted, committed and assigned fund balances may be displayed either:
  - In a manner that distinguishes between major purposes; or
  - In the aggregate
    - Disclose balances of major purposes in the notes
- May display some fund balance categories in the aggregate and others in detail

# Encumbrances

- If government uses encumbrance accounting, disclose significant amounts in the notes in conjunction with disclosures of other significant commitments
- Encumbering amounts for specific purposes:
  - If resources have already been restricted, committed or assigned, no separate display of encumbered amount
  - If resources have not already been restricted, committed or assigned, amount encumbered should be considered committed or assigned, as appropriate, for the purpose of the expected expenditure.
    - An encumbrance is not a purpose

# Other Fund Balance Disclosures

- Classification Policies and Procedures
  - Committed fund balance
    - Government's highest level of decision-making authority
    - The formal action required to be taken to establish or amend a fund balance commitment
  - Assigned fund balance
    - Body or official authorized to assign amounts to a specific purpose
    - Policy established by the governing body pursuant to which assigning authority is given
  - Policies on order of spending fund balance amounts
- Any minimum fund balance policies
- Stabilization arrangement disclosures

# Governmental Fund Definitions

---

- The ED provides definitions for all 5 governmental fund types
- Key changes are for the following fund types:
  - Special revenue funds
  - Capital projects funds
  - Debt service funds

# 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.

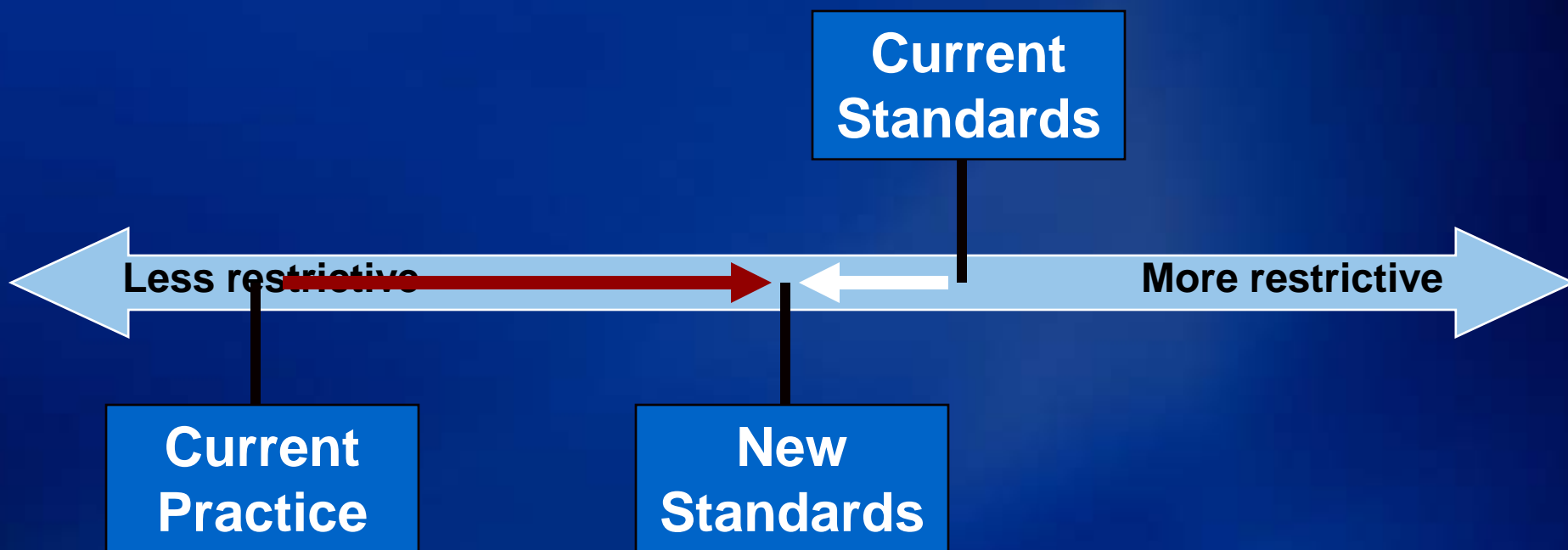
# Special Revenue Funds (continued)

---

## 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 should not be used to account for resources held in trust for individuals, private organizations, or other governments.

# Special Revenue Funds (continued)



# Special Revenue Funds (continued)

- Revenues that are restricted or committed should continue to represent a substantial portion of the inflows reported in a special revenue fund
  - Discontinue reporting SRF if government no longer expects this to be the case—report remaining resources in general fund
- Other resources (investment earnings and transfers, for example) may also be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund
- Specific restricted or committed revenues initially received in another fund and subsequently distributed to a special revenue fund should be reported as revenue in the special revenue fund

# Capital Projects and Debt Service Funds

---

## Current 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. 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.

# GASB Statement No. 54 Case Study

- The City of ABC general fund has three distinct purposes for which resources are constrained:
  - Maintenance and operation of the City Beach and Dock Area
  - Maintenance and operation of the City Golf Course
  - Maintenance and operation of City Parks and Playgrounds and related programs
- Determine which fund balance classification is impacted by each of the following circumstances:
  - A **statute** is the formal action of the highest level of decision-making authority requiring both executive and legislative branch approval
  - The Comptroller is authorized to create assignments of resources

# Restricted, Committed, Assigned, or Unassigned?

- The City passes a statute that the following portions of the City's existing 4% sales tax are to be used for specific purposes:
  - .25 % for the beaches and dock area
  - .1 % for the golf course
  - .1 % for the parks and playgrounds and related programs

*Committed. The allocation of the sales tax is created by statute and can only be repealed by statute.*

# Restricted, Committed, Assigned, or Unassigned? (continued)

---

- The proceeds from the remainder of the sales tax may be used for the general operations of the City:

*Unassigned. This portion of the sales tax is not constrained for a specific purpose more narrow than the general purpose of the City.*

# Restricted, Committed, Assigned, or Unassigned? (continued)

---

- Per City policy as established by the Comptroller, revenues from beach permits, greens fees and programs held at the parks and playgrounds are to be used to fund the costs of the related activities.

*Assigned. The use constraint is based solely on policy. Amounts could be used for other purposes without formal action of the City's highest level of decision-making authority.*

# Restricted, Committed, Assigned, or Unassigned? (continued)

---

- The City receives a \$500K grant from the Professional Golfers Tour (PGT) required to be used to defray the costs of operating the golf course through a PGT program to support urban area public golf courses.

*Restricted. The constraint on the use of the grant funds is imposed by the external grantor (the PGT).*

# Restricted, Committed, Assigned, or Unassigned? (continued)

---

- Last year, the City passed a statute establishing a flat \$500 tax on resident boatowners effective for the current year. The statute specifies that use of the tax proceeds are limited to the maintenance and operation of the dock area at the City beach.

*Restricted. Because the statute establishing the tax specifies a limitation on the use of the proceeds of the tax, the statute is considered enabling legislation.*

# Restricted, Committed, Assigned, or Unassigned? (continued)

---

- To satisfy constituent concerns, the City passed a statute during the fiscal year dedicating \$1 million of fund balance for clean-up and minor improvements to be made to the City's three park areas.

*Committed. The dedication of fund balance was created through formal action of the City's highest level of decision-making authority and would require similar action to be abolished.*

# Restricted, Committed, Assigned, or Unassigned? (continued)

- As part of the adoption of the subsequent year's budget, the City appropriated \$2 million of existing fund balance to eliminate an excess of expected expenditures over expected revenues.

*Assigned. An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget is considered an assignment because the constraint can be eliminated without formal action of the highest level of decision-making authority.*

# GASB Statement No. 54 Case Study

- To determine the amounts of the fund balance components of the City of ABC general fund:
  - Determine beginning balances of fund balance components
  - Categorize the inflows to the fund to the appropriate fund balance component
  - Determine any further constraints on existing fund balance
  - Allocate expenditures to each category based on spending prioritization policies
  - Determine whether reclassification is needed because of a negative residual fund balance for a specific purpose

# GASB Statement No. 54 Case Study Assumptions

- It is the City's policy to use resources in the general fund in the following order:
  - Restricted
  - Committed
  - Assigned
  - Unassigned
- The following expenditure amount was incurred for each purpose (000s):
  - City Beach—\$19,929
  - City Golf Course—\$19,800
  - City Playgrounds—\$6,723
- The general fund had expenditures for other than the three identified purposes of \$288,772

# What were the Balances at the Beginning of the Year for Each Purpose?

Purpose	Total	Restricted	Committed	Assigned
<b>City Beach</b>				
Beginning Balance	\$ 5,696	\$ 2,000	\$ 2,616	\$ 1,080
Additions				
Expenditures Incurred				
Ending Balances				
<b>City Golf Course</b>				
Beginning Balance	\$ 8,871	\$ 8,871	\$ 0	\$ 0
Additions				
Expenditures Incurred				
Ending Balances				
<b>City Parks &amp; Playgrounds</b>				
Beginning Balance	\$ 8,040	\$ 0	\$ 0	\$ 8,040
Additions				
Expenditures Incurred				
Ending Balances				

# What Additional Amounts are Restricted, Committed, or Assigned for Each Purpose?

Purpose	Total	Restricted	Committed	Assigned
<b>City Beach</b>				
Sales Taxes	\$ 10,200		\$ 10,200	
Beach Permits	475			\$ 475
Boat Taxes	1,600	\$ 1,600		
Total Additions	\$ 12,275	\$ 1,600	\$ 10,200	\$ 475
<b>City Golf Course</b>				
Sales Taxes	\$ 4,100		\$ 4,100	
Greens Fees	6,700			\$ 6,700
PGT Grant	500	\$ 500		
Total Additions	\$ 11,300	\$ 500	\$ 4,100	\$ 6,700
<b>City Parks &amp; Playgrounds</b>				
Sales Taxes	\$ 4,100		\$ 4,100	
Program Fees	1,200			\$ 1,200
Commitment of Resources	1,000		1,000	
Total Additions	\$ 6,300		\$ 5,100	\$ 1,200

# How Much was Spent for Each Purpose and What are Ending Fund Balances?

Purpose	Total	Restricted	Committed	Assigned	Unassigned
<b>City Beach</b>					
Beginning Balance	\$ 5,696	\$ 2,000	\$ 2,616	\$ 1,080	\$ 0
Additions	12,275	1,600	10,200	475	
Expenditures Incurred	(19,929)	(3,600)	(12,816)	(1,555)	(1,958)
Ending Balances	\$ (1,958)	\$ 0	\$ 0	\$ 0	\$ (1,958)
<b>City Golf Course</b>					
Beginning Balance	\$ 8,871	\$ 8,871	\$ 0	\$ 0	
Additions	11,300	500	4,100	6,700	
Expenditures Incurred	(19,800)	(9,371)	(4,100)	(6,329)	
Ending Balances	\$ 371	\$ 0	\$ 0	\$ 371	
<b>City Parks &amp; Playgrounds</b>					
Beginning Balance	\$ 8,040	\$ 0	\$ 0	\$ 8,040	
Additions	6,300		5,100	1,200	
Expenditures Incurred	(6,723)		(5,100)	(1,623)	
Ending Balances	\$ 7,617	\$ 0	\$ 0	\$ 7,617	

# What About Unassigned Fund Balance?

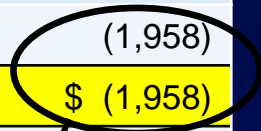
<b>Unassigned Fund Balance</b>	<b>Unassigned</b>	<b>Assigned for Subsequent Budget</b>
Beginning Balance	\$ 17,687	\$ 0
Sales Tax Revenues	201,913	
Expenditures	(188,772)	
Commitment to Parks	(1,000)	
Assignment for Subsequent Year's Budget	(2,000)	2,000
Negative Residual from Purposes	(1,958)	
Ending Balance	\$ 25,870	\$ 2,000

# Fund Balance Display

<b>Fund Balances:</b>	<b>General Fund</b>
Assigned to:	
Golf Course	\$ 371
Parks & Playgrounds	7,617
Subsequent Year's Budget	2,000
Unassigned:	25,870
<b>Total Fund Balance</b>	<b>\$ 35,858</b>

# What Happens to the Negative Residual Balance for City Beach if the Purposes were Reported in a Special Revenue Fund?

Purpose	Total	Restricted	Committed	Assigned	Unassigned
<b>City Beach</b>					
Beginning Balance	\$ 5,696	\$ 2,000	\$ 2,616	\$ 1,080	\$ 0
Additions	12,275	1,600	10,200	475	
Expenditures Incurred	(19,929)	(3,600)	(12,816)	(1,555)	(1,958)
Ending Balances	\$ (1,958)	\$ 0	\$ 0	\$ 0	\$ (1,958)
<b>City Golf Course</b>					
Beginning Balance	\$ 8,871	\$ 8,871	\$ 0	\$ 0	
Additions	11,300	500	4,100	6,700	
Expenditures Incurred	(19,800)	(9,371)	(4,100)	(6,329)	
Ending Balances	\$ 371	\$ 0	\$ 0	\$ 371	
<b>City Parks &amp; Playgrounds</b>					
Beginning Balance	\$ 8,040	\$ 0	\$ 0	\$ 8,040	
Additions	6,300		5,100	1,200	
Expenditures Incurred	(6,723)		(5,100)	(1,623)	
Ending Balances	\$ 7,617	\$ 0	\$ 0	\$ 7,617	



# Effective Date and Transition

---

- Statement effective for fiscal periods beginning after June 15, 2010; early implementation encouraged
- Reclassify fund balance for all prior periods presented in financial statements
- Changes to fund balance information in the statistical section may be made prospectively, although retroactive application is encouraged



# Questions?

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation. KPMG LLP does not provide legal services.