

GASB Statement 54 2010

The Governmental Accounting Standards Board (GASB) is a private, non-profit group that establishes accounting and financial reporting standards for government with the support of the Financial Accounting Foundation. In February 2009 the Governmental Accounting Standards Board (GASB) published Statement No. 54 that addressed the pronouncement of a new fund balance classification system to clarify existing governmental fund type definitions. GASB Statement No. 54 amends National Council of Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles* (2000), and GASB Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments* (2000).

GASB Statement No. 54 addresses the manner in which governments interpret and apply classification standards for fund balance reporting. A fund balance represents the difference between assets and liabilities in governmental funds. These include general funds, capital project funds, debt service funds, special revenue funds, and permanent funds. Governmental funds are reported on the balance sheet and statement of revenues, expenditures, and changes in fund balance financial statements. In Ohio, local governments (including school districts and higher education institutions) report their financial statements in an annual financial report (O.R.C. § 117.38) and financial audit (O.R.C. § 117.11) annually or biannually. The report must be certified by the proper officer or board and filed with the auditor of state within 60 days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles shall file their reports within 150 days after the close of the fiscal year.

Many Ohio school districts do not report their financial statements in compliance with generally accepted accounting principles (GAAP), opting instead for the lower OCBOA (other comprehensive basis of accounting) standard. School districts that report their financial statements in OCBOA may still get an unqualified opinion from their auditor if the chief financial officer reports that the statements substantially conform to GAAP statements (OCBOA).

GASB 54 was developed in order to enhance the usefulness of fund balance information by making sure that fund balance classifications were more consistently applied. GASB 54 does this by redesigning the fund balance classification system, eliminating the reserve component in favor of a restricted classification, and ensuring that an amount cannot be classified as restricted in one fund and unrestricted in another. GASB 54 is effective for financial statements for periods beginning after June 15, 2010, though it recommended early implementation and urged government to apply the new fund classifications retroactively by restating fund balances for all prior periods presented in a financial statement. Thus, these changes should be reflected in FY 2011 GAAP financial statements which will be issued in the autumn of 2011.

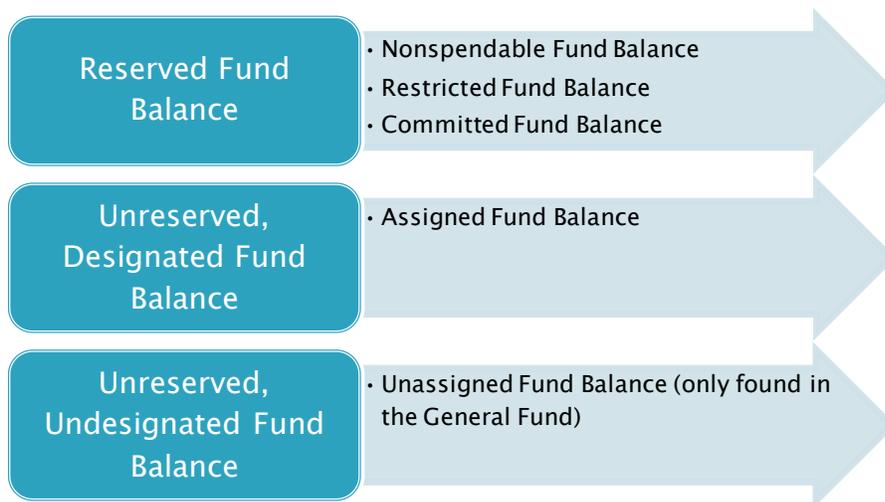
Before GASB 54, if the amounts constrained to a specific purpose was reported in the General Fund, they were reported as part of the reserved fund balance (Situation A in Table 1). If they were reported outside the General Fund, they were shown as part of the unreserved

fund balance (Situation B of Table 1). This impacted the way in which unreserved funds from the General Fund were reported to the public and to the bargaining unit prior to negotiations (see Table 1).

Table 1: Amounts Constrained Inside and Outside the General Fund before GASB Statement 54

<i>Situation A</i>							
		General Fund	Capital Projects Fund	Debt Service Fund	Special Revenue Fund	Permanent Fund	Total
Reserved for:							
	Capital Projects	\$1,000					\$1,000
	Debt Service	\$500					\$500
Unreserved		\$200					\$200
<i>Situation B</i>							
		General Fund	Capital Projects Fund	Debt Service Fund	Special Revenue Fund	Permanent Fund	Total
Reserved for:							
	Capital Projects						
	Debt Service						
Unreserved		\$200	\$1,000	\$500			\$1,700

Figure 1: Crosswalk between Pre-GASB 54 and Post-GASB 54 Fund Balance Classifications



With the advent of GASB Statement No. 54, funds will be constrained in one of five new fund balance classifications: now, the reserved fund balance will be divided into a nonspendable fund balance; the unreserved, designated fund balance will be called the assigned fund balance, and the unreserved, undesignated fund balance will be called the unassigned fund balance, which now can only be found in the General Fund. Figure 1 illustrates this concept.

The *nonspendable fund balance* includes those funds that are those that are not expected to be converted to cash. This includes those funds that are not in spendable form such as inventories, prepaid items, property not acquired for resale, and those funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund (which is different than reporting net assets where they are reported as 'nonexpendable' within restricted net assets).

The *committed fund balance* includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the institution's highest level of decision-making authority. In a committed fund, money cannot be used for any other purpose unless that decision-making authority removes or changes the specified use by taking the same type of action it employed to previously commit these amounts. The formal action to commit fund balance should occur prior to the end of the reporting period, but the amount, if any, which will be subject to constraint may be determined in the subsequent period. The committed fund should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual obligations.

The *restricted fund balance* includes amounts that are restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes a government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for that specific purpose. The term 'legally enforceable' means that the government is compelled by an external party to use the funds only for the specific purpose outlined in the enabling legislation.

The *assigned fund balance* includes amounts that are constrained by the institution's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the governing body itself or a committee or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Here, the authority for making an assignment is not required to be the institution's highest level of decision-making authority. Moreover, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with regard to the committed fund balance classification. GASB 54 also allows the assigned fund balance to include the following: all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed; and amounts in the general fund that are intended to be used for a specific purpose in accordance with the governing body itself or a committee or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

The *unassigned fund balance* represents the residual classification for the general fund. It includes 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. This is essentially what is now 'unreserved' and 'undesignated'.

GASB 54 also includes guidance on the classification of so-called 'rainy day' funds, and fund balance reporting and disclosure. The term 'stabilization arrangement' in GASB 54 refers to stabilization, budgetary stabilization, working capital needs, contingencies or emergencies, or other 'rainy day' arrangements. In this context, the GASB has determined that money set aside for an unspecified emergency is not sufficient to be committed. Similarly, money needed to offset an 'anticipated revenue shortfall' will not qualify as a committed fund unless the shortfall is quantified and made distinguishable from other revenue shortfalls. The authority to set aside these amounts usually comes from statute, ordinance, resolution, charter, or constitution. The formal action that imposes the parameters should identify the specific circumstance and need for stabilization, and these circumstances would not be expected to occur routinely. Stabilization arrangements should be reported as restricted or committed if they meet the criteria; otherwise, they should be reported as unassigned. Stabilization amounts should not be reported as assigned. Information should be disclosed in the notes to the financial statements, even if those arrangements don't meet the criteria for committed or restricted fund balance. In presenting its financial statements, governments must disclose: the authority for establishing the arrangement (e.g., ordinance, resolution); the requirements for additions to the stabilization amount; the conditions under which stabilization amounts may be spent; and the stabilization balance, if not apparent on the face of the statements.

GASB 54 provides governments two options for fund balance reporting. In a detailed presentation, the financial statements must include a detailed presentation of the nonspendable, restricted, committed and assigned fund balances. A second option would allow an aggregate presentation on the face of the statements with detail in the notes to the financial statements. Encumbrances are also addressed by Statement No. 54. Encumbrances should be disclosed in the notes to the financial statements by major and non-major funds in the aggregate should not be displayed separately within the restricted, committed, and assigned categories. If encumbrance reporting is used, they will be reported as committed or assigned. Lastly, if a governing body has formally adopted a minimum fund balance policy, the policy should be disclosed in the notes to the financial statements.

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