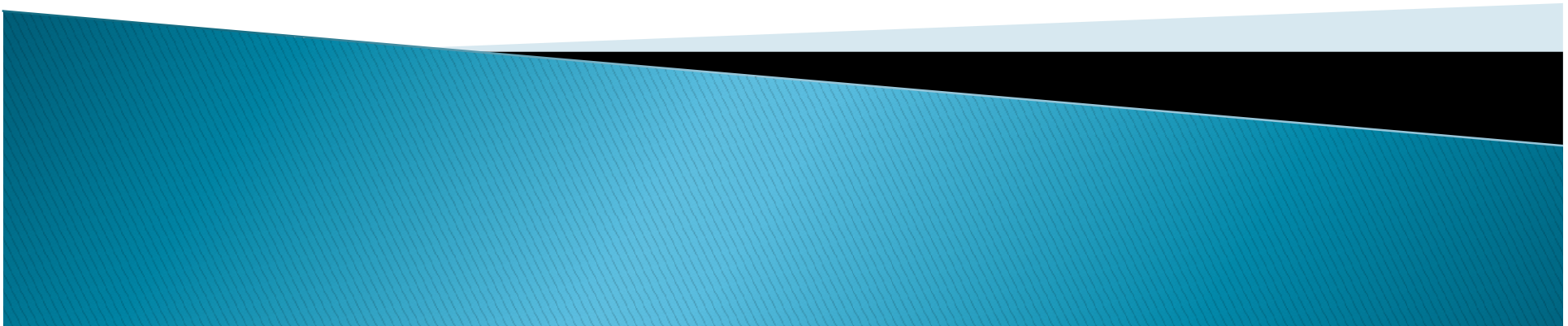


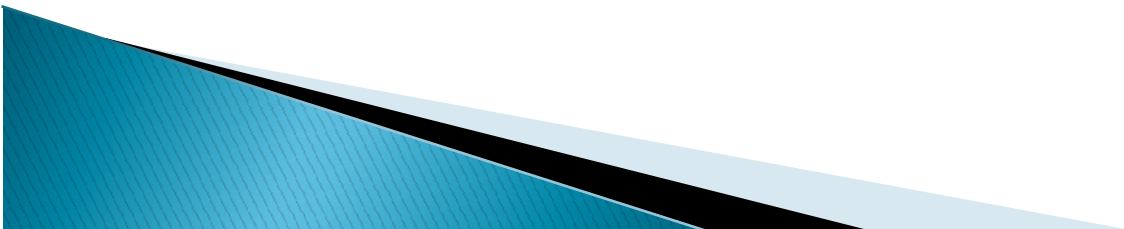
GASB 54 Implementation Issues

*Fund Balance Reporting and
Governmental Fund Type Definitions*



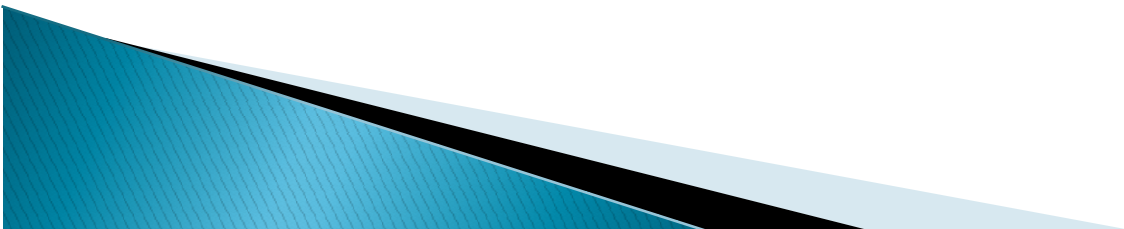
Overview of Presentation

- ▶ Background & Objective of GASB 54
- ▶ Applicability and Effective Date
- ▶ New Fund Balance Classifications
- ▶ New Governmental Fund Type Definitions
- ▶ District Policy Language and Required Disclosures
- ▶ Sample Language and Resolutions



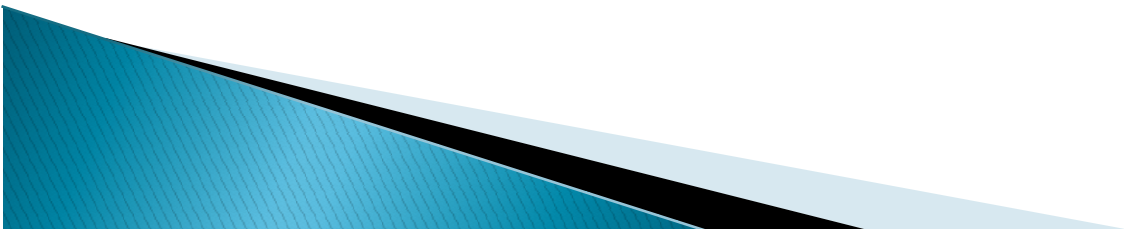
Background and Objective

- ▶ Background: To address issues related to how fund balance was being reported.
- ▶ GASB's research revealed that existing standards were being interpreted inconsistently by different governments.
- ▶ Financial statement users were unable to readily interpret reported fund balance information.



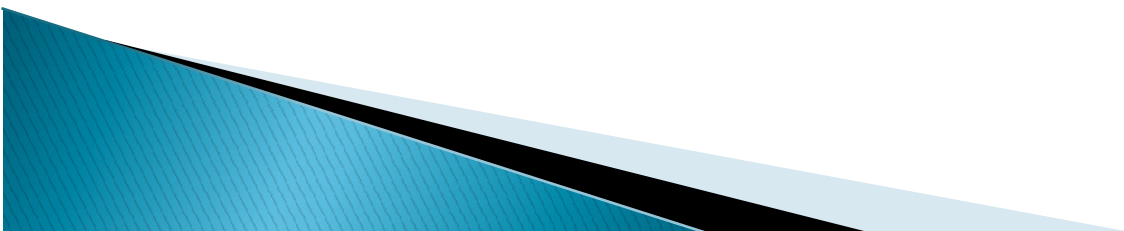
Background and Objective

- ▶ Objective: To improve the usefulness, and understandability, of governmental fund balance information.
- ▶ Eliminates the *reserved* component of fund balance in favor of a restricted classification.
- ▶ To clarify the definitions of Governmental Fund types.



Applicability and Effective Date

- ▶ GASB 54 applies to all governments that report governmental funds (cities, counties, states, special districts, *school districts, etc.*)
- ▶ GASB 54 affects only the Governmental Funds of the school district (SACS Funds 01–60)
 - See Attachment
- ▶ Effective 2010–11 for financial statements as of June 30, 2011.



FUND BALANCE CLASSIFICATIONS

New Fund Balance Classifications

- ▶ Five New Fund Balance Classifications – focus on “spendability,” the extent to which a government is bound to honor constraints on the specific purposes for which amounts reported in a fund balance can be spent.

Restricted Funds

1. Nonspendable
2. Restricted

Unrestricted Funds

3. Committed
4. Assigned
5. Unassigned

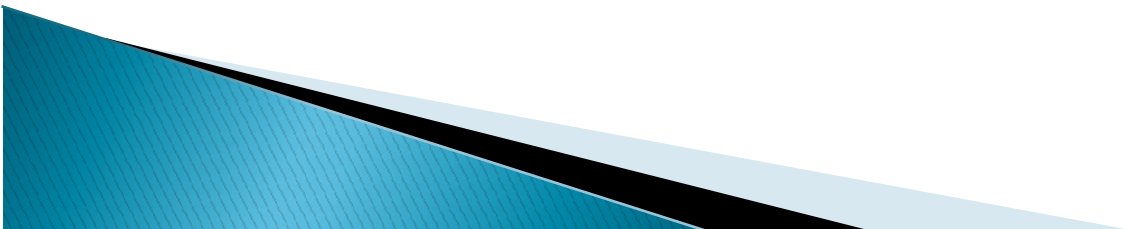
- ▶ Every LEA will not necessarily report in all of the five new classifications!

New Fund Balance Classifications

Non-spendable

▶ Nonspendable

- Amounts are not in spendable form (i.e. revolving cash, inventory, prepaids, long-term portion of loans receivable).
- Legally or contractually required to be maintained intact (i.e. the principal amount of a permanent fund).

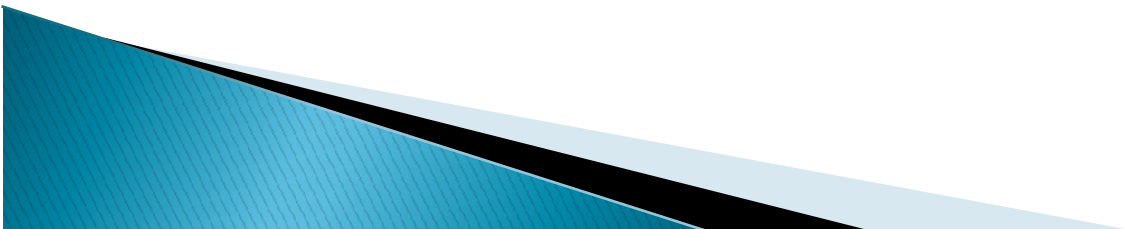


New Fund Balance Classifications

Restricted

▶ Restricted

- Amounts are subject to *externally* imposed and legally enforceable constraints.
- Constraints may be imposed by grantors, creditors, contributors, laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Restricted General Fund



New Fund Balance Classifications

Committed

▶ Committed

- Amounts are *constrained by limitations self-imposed by a government through formal action of the government's highest level of decision-making authority.*
- “Formal action” varies by governments. For school districts, governing board actions taken at a public meeting can vary from a vote, a resolution, or the adoption of a budget.

New Fund Balance Classifications

Committed

- ▶ Committed (cont.)
 - The amounts cannot be used for any other purpose unless the same type of action is taken to remove or change the constraint.
 - The constraint for committed fund balances must be imposed no later than June 30th. (The actual amounts can be determined subsequent to that date at year-end closing.)

New Fund Balance Classifications

Assigned

▶ Assigned

- Amounts that the government *intends* to be used for specific purposes.
- Assigned amounts can be established by a) the governing board; or b) a *body* (budget committee, finance committee, site council, etc.), or *official(s)* that has been designated by the governing board.

New Fund Balance Classifications *Assigned*

- ▶ Assigned (cont.)
 - The constraints that are imposed are more easily removed or modified than those classified as committed.
 - The assignment does not need to be made before the end of the reporting period (June 30th), but rather can be made any time prior to the issuance of the financial statements (at year-end closing).

Committed vs. Assigned

- ▶ For LEAs, there is little difference
 - Boards have limited authority for formal action compared to other governments that can pass laws and ordinances
 - When in doubt, classify at the lower level
- ▶ Assigned classification is largely equivalent to old Designated classification
 - Both reflect the government's *intent* to use funds for a specific purpose

New Fund Balance Classifications

Unassigned

▶ Unassigned

- General Fund only, it is the residual balance that is not restricted, committed or assigned.
- All Other Funds, a positive unassigned fund balance is never reported, the minimum classification level is assigned (Fund 17 exception; discussion to follow).
- Deficits in another classification that cannot be eliminated are reported as a negative unassigned fund balance (Object 9790).

Stabilization Arrangements

- ▶ Formal Stabilization Arrangements – “Rainy day” fund, amounts purposely set aside for use in an emergency
 - Classified as *committed* fund balance under new Object Code 9750.
 - Level of constraint must meet the criteria to be reported as committed.
 - Circumstances for spending must be both *specific* and *non-routine* in nature; and identified in the formal action that imposes the parameters for spending.
 - Not common for school agencies

Stabilization Arrangements

- ▶ Many forms of Stabilization Agreements
 - Our Reserve for Economic Uncertainties can be defined as a stabilization agreement of the “minimum fund balance” type, GASB 54 emphasizes that this cannot be classified as *assigned*
- ▶ Reserve for Economic Uncertainties
 - Does not meet the criteria for being classified as *restricted or committed* fund balance.
 - Classified as *unassigned* using new Object Code 9789. (Object 9770 eliminated for 2011–12)
 - Available in the General Fund and in Fund 17, Special Reserve for Other Than Capital Outlay only.
 - Amount reported will be determined by each LEAs Minimum Fund Balance Policy (to be discussed later).

Fund Balance Crosswalk From Old to New

Old Classification

Components of Ending Fund Balance

a) Reserve for	
Revolving Cash	9711
Stores	9712
Prepaid Expenditures	9713
All Others	9719
General Reserve	9730

Legally Restricted Balance	9740
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b) Designated Amounts	
Designated for Economic Uncertainties	9770
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775
Other Designations	9780

c) Undesignated Amount	9790
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d) Unappropriated Amount	9790
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New Classification

Components of Ending Fund Balance

a) Nonspendable	
Revolving Cash	9711
Stores	9712
Prepaid Expenditures	9713
All Others	9719

b) Restricted	9740
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c) Committed	
<i>Stabilization Arrangements</i>	<i>9750</i>
<i>Other Commitments</i>	<i>9760</i>

d) Assigned	9780
<i>Other Assignments</i>	

e) Unassigned	
Reserve for Economic Uncertainties	9789
Unassigned/Unappropriated	9790

*GOVERNMENTAL FUND TYPE
DEFINITIONS*

New Governmental Fund Type Definitions

- ▶ General Fund (SACS 01)
 - To account for and report all financial resources not accounted for and reported in another fund.
- ▶ Special Revenue Funds (SACS 09–20)
 - 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.*

New Governmental Fund Type Definitions

- ▶ Capital Projects Funds (SACS 21–50)
 - To account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlay.
- ▶ Debt Service Funds (SACS 51–56)
 - To account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest.

New Governmental Fund Type Definitions

- ▶ Permanent Funds (SACS 57–60)
 - 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.

Special Revenue Funds

- ▶ One or more specific restricted or committed revenue sources should be the foundation for a special revenue fund.
- ▶ The restricted or committed revenue source expected to continue and comprise a substantial portion of the inflows reported in the fund.

Special Revenue Funds

- ▶ Other revenue sources (i.e. interfund transfers) may be reported in the fund *if those resources are restricted or committed to the specified purpose of the fund.*
- ▶ Discontinue use of a Special Revenue fund if restricted or committed revenue sources no longer compose a substantial portion of the fund.

Special Revenue Funds 11 and 14

- ▶ Adult Education and Deferred Maintenance
 - Flexibility provisions make these revenue sources unrestricted.
 - Districts that elect to continue using these funds must take formal board action to *commit fund balances*. *Amounts transferred into these funds must also be formally committed*.
 - Flexibility provisions will sunset, so CDE has elected not to close these funds.

Special Revenue Funds 17 and 20

- ▶ Special Reserve Funds 17 and 20 do not contain *specific revenue sources that are restricted or committed to expenditures for specified purposes.*
- ▶ Fund balance will be classified as *assigned* by default in Funds 17 and 20.
- ▶ Fund 17 will also allow *unassigned* Object 9789, Reserve for Economic Uncertainties.
- ▶ Most auditors will reclassify Fund 17 & 20 balances and combine them in the General Fund in the audit report.

SACS Reporting

- ▶ The **SACS2011** software will be updated for the 2011–12 Budget, but not for the 2010–11 Estimated Actuals.
- ▶ The **SACS2011ALL** software will be updated for the 2011–12 Budget and Interims, but not for the 2010–11 Unaudited Actuals.
 - See Attachment
- ▶ Districts will need to give auditor a spreadsheet, by fund, to show 10/11 Components of Ending Fund Balance per GASB 54

Actions to Take NOW

- ▶ Adopt Fund Balance policies before year-end.
- ▶ Take formal action on commitments before year-end, 6/30/2011.
- ▶ Evaluate use of special revenue funds and make changes if needed (i.e. Funds 11, 14, 17 and 20).
- ▶ Explain the new requirements to your Board.
- ▶ Read CDE advisory and consult with auditors.

<http://www.cde.ca.gov/fg/ac/as/correspondence.asp>

*POLICIES AND
NOTE DISCLOSURES*

Fund Balance Disclosures

- ▶ Description of the authority and actions that lead to *committed* and *assigned* fund balance.
 - Identify highest level of decision-making authority.
 - Type of formal action required to establish, modify or rescind a commitment of fund balance.
 - The body or official authorized to *assign amounts to specific purposes, and the policy pursuant to that authorization.*

Fund Balance Classification Policy

- ▶ Classification of Spending Order Policy
 - When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, whether the district considers restricted funds to have been spent first.
 - When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, whether the district considers *committed* amounts reduced first, then *assigned*, and then *unassigned*.
 - If not described in policy, GASB 54 assumes this is the default order, which may be appropriate for most LEA's

Minimum Fund Balance Policy

- ▶ Reserve for Economic Uncertainties (REU)
 - The governing board should describe in the notes to its financial statements the policy established by the district that sets forth the minimum amount, percentage, *or* a range.
 - This should be thoughtfully worded to convey the “sacred” nature of the reserve
 - A higher reserve is needed during tough economic times
 - Consider what percentage district needs to maintain to have positive cash balances with state deferrals
 - If the district uses Fund 17 for a portion of the REU, the policy should reflect some language for this.

Stabilization Arrangements Disclosure

- ▶ Stabilization arrangements more formal than the minimum fund balance policy should include the following in the note disclosure:
 - The authority for establishing stabilization arrangements;
 - The requirements for additions to the amount;
 - The conditions under which stabilization amounts may be spent; and
 - The stabilization balance, if not apparent.

SAMPLE POLICIES AND RESOLUTIONS



QUESTIONS? >>