

Tips for School Districts: GASB's New Fund Balance Standards



By Dean Michael Mead

In March 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. School districts that prepare financial reports based on generally accepted accounting principles are required to implement this standard no later than the first fiscal year that starts after July 15, 2010.

Statement 54 sets out reporting requirements in two areas: (1) how the fund balance should be classified and (2) which funds may be reported in the government funds financial statements.

A New Way to Report Fund Balance

Statement 54 replaces the current fund balance classifications—reserved, unreserved-designated, and unreserved-undesignated—because school districts and other government entities vary considerably in how they interpret the meaning of those classifications. The intention is to improve the usefulness and comparability of

fund balance information by grouping it more intuitively and into more meaningful classes.

The new fund balance classification model is based primarily on the extent to which a school district is bound to follow constraints on resources. The five new fund balance classifications are (1) nonspendable, (2) committed, (3) restricted, (4) assigned, and (5) unassigned.

Nonspendable includes amounts that cannot be spent because they are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal). Exceptions are items such as long-term receivables if the collections are restricted, committed, or assigned to use for a specific purpose (these terms are defined below). In these circumstances, the amounts should be reported in those categories, not as nonspendable.

Restricted is defined in Statement 54 just as it is for net assets in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*: the pur-

	General Fund	Major Funds				Non-Major Funds	Total
		State Grants	Food Service	Debt Service	Capital Projects		
Fund Balance							
Nonspendable	\$843,000	—	\$124,000	—	—	\$22,000	\$989,000
Restricted	236,000	\$369,000	956,000	\$57,000	\$310,000	48,000	1,976,000
Committed	115,000	—	—	—	25,000	62,000	202,000
Assigned	97,000	13,000	148,000	32,000	75,000	23,000	388,000
Unassigned	160,000	—	—	—	—	—	160,000
Total	\$1,451,000	\$382,000	\$1,228,000	\$89,000	\$410,000	\$155,000	\$3,715,000

Figure 1. Minimum Level of Detail Required on Face of Balance Sheet

pose for which resources may be used is limited by an external party such as a donor or other government unit. Federal early childhood education aid would be included in restricted fund balance.

Committed fund balance is limited to a specific purpose by the highest level of decision-making authority that a district’s board possesses. Special education and pupil transportation are examples. Committed amounts cannot be used for any other purpose unless the board takes the same action to change or remove the original limitation. If the amounts can be used for other purposes without this action, they should not be reported as committed.

Assigned comprises amounts that a district intends to use for a specific purpose. The school board or another body or person whom the board authorizes (e.g., a finance committee or business officer) can express intent and these resources can be reassigned without taking formal action.

For all government funds other than the general fund, the assigned category includes all amounts not accounted for as nonspendable, restricted, or committed. The implication is that resources allocated to other funds are assumed to be, at a minimum, intended for the purpose of those funds. Otherwise, those resources do not belong in that fund.

Unassigned includes all resources not reported in the other four classifications and reported only in the general fund. These resources are the only ones on the balance sheet that are truly available for any purpose. Unassigned amounts are reported in the other government funds only if a deficit has resulted from overspending a fund’s resources. No fund should ever report a negative amount in the restricted, committed, or assigned categories and no fund, other than the general fund, should report a positive amount in the unassigned fund balance category.

The level of detail within each of the fund balance classifications is largely unchanged from current requirements for net assets and fund balance. Statement 54

introduces new flexibility, however, in meeting these requirements. Districts may present all the detail on the face of the balance sheet, or some or all of the detail in a note disclosure.

Figure 1 shows the minimum level of detail required to be displayed on the face of the balance sheet. Figure 2 illustrates a fund balance section that includes all the required detail. It is also an example of what a note disclosure might look like for a district that prepares a balance sheet like the one illustrated in Figure 1.

School districts may also present some of the detail below the classifications on the face of the balance sheet (perhaps the two or three largest purposes under restricted, committed, and assigned) with the remainder in a note disclosure.

Cleaning Up Fund Type Definitions

Statement 54 clarifies the definitions of the government fund types, which have been a source of confusion and have led to a lack of comparability in reporting.

According to Statement 54, the *general fund* accounts for and reports all financial resources not accounted for and reported in the other government funds.

Capital projects funds have been expanded to encompass all capital outlays for general government purposes. At present, they are limited to “major capital facilities.” In practice, however, many districts already use these funds to report transactions related to capital assets other than facilities, such as buses and computer equipment.

Statement 54 makes only a few changes to the *debt service funds* and *permanent funds* definitions to parallel the format of the other definitions.

The most significant impact will be on *special revenue funds*, in large part because their use has drifted far from what was originally envisioned. Statement 54 clarifies the definition as follows:

- Special revenue funds may be used to account for and report the *proceeds of specific revenue sources* that are restricted or committed for specific purposes other than debt service and capital projects.

	General Fund	Major Funds				Non-Major Funds	Total
		State Grants	Food Service	Debt Service	Capital Projects		
Fund Balance							
Nonspendable:							
Inventory	\$817,000	—	\$124,000	—	—	—	\$941,000
Prepaid items	26,000	—	—	—	—	—	26,000
Permanent fund principal	—	—	—	—	—	\$22,000	22,000
Restricted for:							
Special education	54,000	\$154,000	—	—	—	—	208,000
Pre-K programs	182,000	103,000	—	—	—	—	285,000
Transportation	—	35,000	—	—	\$14,000	—	49,000
Food service	—	—	956,000	—	—	—	956,000
Debt service	—	—	—	\$57,000	—	—	57,000
Middle school renovation	—	—	—	—	250,000	—	250,000
Capital projects	—	—	—	—	46,000	—	46,000
Other	—	77,000	—	—	—	48,000	125,000
Committed to:							
Professional development	45,000	—	—	—	—	—	45,000
Athletic programs	39,000	—	—	—	—	—	39,000
Athletic fields	—	—	—	—	25,000	—	25,000
Student activities	—	—	—	—	—	26,000	26,000
Other	31,000	—	—	—	—	36,000	67,000
Assigned to:							
Classroom instruction	51,000	—	—	—	—	—	51,000
Textbooks	26,000	—	—	—	—	—	26,000
Pre-K programs	—	13,000	—	—	—	—	13,000
Food service	—	—	148,000	—	—	—	148,000
Debt service	—	—	—	32,000	—	—	32,000
Classroom technology	—	—	—	—	75,000	—	75,000
Other	20,000	—	—	—	—	23,000	43,000
Unassigned	160,000	—	—	—	—	—	160,000
Total	\$1,451,000	\$382,000	\$1,228,000	\$89,000	\$410,000	\$155,000	\$3,715,000

Figure 2. Fund Balance Section with All Required Detail

- One or more specific restricted or committed revenue sources should be the *foundation* for each special revenue fund, and those resources should compose a substantial portion of the fund’s inflows going forward.

What will this change mean in practice? Some special revenue funds currently reported by school districts will no longer be reported. For example, a fund that primarily includes resources transferred from another fund would not meet the definition of a special revenue fund; those resources would be reported in the general fund instead. To be clear, remember that Statement 54 governs only external reporting in the audited financial report; a district may continue to use any funds it wishes for internal accounting or special reporting purposes (such as mandated reporting to the state).

Tips for Implementing Statement 54

The following issues have arisen most often in inquiries to the GASB. School districts are encouraged to refer to the 2010–2011 edition of the GASB’s *Comprehensive Implementation Guide*, which includes approximately

50 questions and answers about how to implement Statement 54.

WHAT CLASSIFICATION TO USE

Ask three key questions when determining which classification you should use to report resources:

- *Is the amount spendable?* If it’s not, report it as non-spendable (unless it meets the exception mentioned above). If it is spendable . . .
- *Is the amount limited to a specific purpose?* If not, report it as unassigned in the general fund. If it is limited to a specific purpose . . .
- *Where does the limitation on use come from?* That’s the key to determining whether the resource should appear in restricted, committed, or assigned.

WHO WINS: THE GASB OR THE STATE DEPARTMENT OF EDUCATION?

Some states require school districts to report their unreserved fund balance or to maintain a certain level, such as 5% of expenditures. But Statement 54 elimi-

nates unreserved fund balance. What is a school district to do? Good news: you don't need to choose between state requirements and generally accepted accounting principles.

Some states will probably revise their requirements to be consistent with the new classifications in Statement 54. If yours does not, the district can do the following:

- Prepare a separate schedule and present it after the required supplementary information
- Meet the requirements separately from the financial report entirely

Another possible source of conflict involves state requirements to report a particular revenue in a special revenue fund. What if the fund does not meet Statement 54's definition and criteria for a special revenue fund? The choices are similar:

- Prepare a supplementary schedule
- Meet the requirement in a separate report

Remember that school districts may use any funds or components of fund balance they wish for *internal accounting and financial management purposes*. Statement 54 addresses only external financial reporting under generally accepted accounting principles.

OOPS, I OVERSPENT

If a school district spends more on a purpose than was available in a fund for that purpose, what happens under Statement 54?

Assume that a district has a special revenue fund for its food services: At the beginning of the fiscal year, the fund included \$1,000 in aid restricted to free and reduced-price meals, \$1,000 committed to supply purchases, \$1,000 assigned to food purchases for special events, \$1,000 assigned to purchases of food trays and utensils, and \$1,000 assigned to kitchen equipment repairs.

During the fiscal year, the district actually spent \$1,500 on kitchen equipment repairs. The \$1,000 assigned for this purpose is gone and therefore no longer reported. But what about the additional \$500? Unless the district removed or changed the purpose of the commitment, those resources cannot be used for equipment repairs and should still be reported as \$1,000 committed to supplies. Likewise, the \$1,000 restricted for free and reduced-price meals cannot be used for equipment repairs unless the provider of the resources lifted the restriction.

Statement 54 requires the district to draw down other assigned amounts (special events or utensils) to cover the overspending. The district can draw down the full \$500 from one or both of its other assigned amounts:

\$1,000	amount assigned to equipment repair
<u>(\$1,500)</u>	actual spending on equipment repair
(\$500)	amount of overspending
\$500	draw down from other assigned amounts

Assume now that the equipment repairs actually cost \$3,500, or \$2,500 more than was assigned for that purpose. Fully drawing down both of the other assigned amounts still leaves \$500 to be covered. In this case, the remaining \$500 would be reported as a deficit unassigned fund balance:

\$1,000	amount assigned to equipment repair
<u>(\$3,500)</u>	actual spending on equipment repair
(\$2,500)	amount of overspending
<u>\$2,000</u>	draw down from other assigned amounts
(\$500)	unassigned fund balance deficit

Thou Shall Not Commit

It may be the case that a particular school district will never have a committed fund balance because it cannot commit resources in accordance with Statement 54. For instance, a district board may apply its highest level of decision-making authority to limit some resources to purpose X, but if those resources can subsequently be used for purpose Y without the district board again applying its highest level of decision-making authority to remove or change the limitation, then the resources were never committed. In this scenario, the resources would have been reported as assigned fund balance; the intent to spend for purpose X was clearly there, but the district was not sufficiently bound to honor the limitation to report it as committed.

Fund Balancing the Budget

An appropriation of fund balance to bridge a projected budgetary gap between revenues and expenditures should be reported as assigned fund balance, but only up to the amount of the projected excess of expenditures over revenues.

For example, a district projects that it will take in \$950,000 in fiscal year 2012 and expend \$1 million, and it appropriates \$50,000 to make up the difference. That \$50,000 would be reported as assigned fund balance on the balance sheet for fiscal year 2011. If the district had appropriated \$75,000 of fund balance, it would still report \$50,000 as assigned fund balance (the amount by which expenditures are projected to exceed revenues), and the additional \$25,000 appropriation would remain in the general fund's unassigned fund balance.

If you have questions about GASB Statement 54, don't hesitate to contact the Governmental Accounting Standards Board at www.gasb.org.

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