

Statement of Governmental Accounting Standards No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, will significantly change the reporting of fund balance in the balance sheets of governmental type funds. GASB 54 is effective for financial statements for periods beginning after June 15, 2010 with early implementation encouraged. Therefore, governmental accountants and CPAs will need to quickly become familiar with the new fund balance reporting model. This article will provide an overview of the fund balance reporting that will be required by the new standard. First, a brief description of fund balance reporting prior to GASB 54 will be presented. This will be followed by an outline of the new requirements of GASB 54 and an example to illustrate the reporting of fund balance.

Fund Balance Reporting Prior to GASB 54

The governmental funds are composed of five types of funds: 1) the General Fund, 2) Special Revenue Funds, 3) Capital Project Funds, 4) Debt Service Funds and 5) Permanent Funds. The basic balance sheet accounting model for governmental funds is: Assets = Liabilities + Fund Balance. Statement of Governmental Accounting Standards No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for state and local governments, required that the governmental funds report fund balance in two categories: 1) Reserved Fund Balance and 2) Unreserved Fund Balance. The Reserved Fund Balance reports dollar amounts that have been appropriated and for which resources have already been committed, such as inventories on hand, prepaid expenditures and encumbrances.

The Unreserved Fund Balance is the residual amount that is still available for further expenditure. Occasionally, governmental entities will also segregate the Unreserved Fund Balance into two subsections: 1) designated and 2) undesignated. The designated portion of unreserved fund balance was used to communicate to the reader of the financial statements that certain projects had been identified that might require future

spending, such as possible expansion of the current water and sewer system.

Over time, inconsistencies were observed in the reporting of fund balance by state and local governmental entities. In addition, some users perceived a lack of transparency in the way fund balance was reported. They were concerned with the restrictions that had been placed on the use of current government resources. Frequently, it was not apparent at what decision-making level the restrictions had been imposed and by what authority. Therefore, the GASB added to its agenda the fund balance reporting project. After issuing the 2006 invitation to comment and the ensuing 2008 exposure draft, the GASB voted to adopt Statement No. 54 in 2009.

The New Fund Balance Reporting Model

GASB 54 applies to the five governmental funds used by state and local governments. As a result of the new standard, fund balance financial reporting will become more detailed and the increased disclosures will aid the user of the financial statements in understanding the availability of resources. The new standard establishes fund balance classifications that establish a hierarchy based on the extent to which a government must observe constraints imposed upon the use of the resources that are reported by the governmental funds. Based on the requirements of GASB 54, the fund balance will now be composed of three primary categories: 1) Non-

spendable Fund Balance, 2) Restricted Fund Balance and 3) Unrestricted Fund Balance. Exhibit 1 provides an overview of the fund balance structure. Each of the fund balance categories is discussed in the following sections of this article.

Non-Spendable Fund Balance

The non-spendable portion of the fund balance includes amounts that cannot be spent and are, therefore, not included in the current year appropriation. There are two components to this fund balance category: 1) not in spendable form and 2) legally or contractually required to be maintained intact. The "not in spendable form" component refers to previously recorded disbursements and includes items that are not expected to be converted into cash, such as inventories on hand and prepaid expenditures. Also included would be the long-term amount of loans and notes receivable and property acquired for resale.

The "legally or contractually required to be maintained intact" component refers to an amount that has been received that must be invested indefinitely. For example, a donation received by the government from a citizen, the principal of which is to be invested in the permanent fund and the earnings used for general governmental purposes.

Restricted Fund Balance

The Restricted Fund Balance reports on resources that have spending constraints that are either 1) externally imposed by creditors, grantors, contributors or laws and regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation. The amounts represented by this fund balance category have very stringent conditions imposed by external parties or by law. Consequently, the amounts are restricted to very specific purposes and cannot be redeployed for other purposes. The government can be compelled by an external party to undertake the spending requirements represented by the Restricted Fund Balance.

Exhibit 1: Fund Balance Categories

Total Fund Balance:	
Non-Spendable Fund Balance	
	Not in Spendable Form
	Legally or Contractually Required to be Maintained Intact
Restricted Fund Balance	
Unrestricted Fund Balance	
	Committed Fund Balance
	Assigned Fund Balance
	Unassigned Fund Balance

Unrestricted Fund Balance

The third category is the Unrestricted Fund Balance. There are three components to this last category:

1. Committed Fund Balance,
2. Assigned Fund Balance and
3. Unassigned Fund Balance.

The Committed Fund Balance represents amounts that have internally imposed restrictions mandated by formal action of the government's highest level of decision-making authority. The committed amounts cannot be redeployed for other purposes unless the same type of formal action is taken by the highest level of decision-making authority to reverse or modify the previously imposed restriction.

The Assigned Fund Balance reports amounts that are constrained by the government's intent that they will be used for specific purposes. Decision-making with regard to these amounts may be made by a committee or other governmental official. The resources represented by the Assigned Fund Balance can be more easily redeployed and the constraints are not as stringent. Except for the General Fund, fund balance amounts that are not labeled as non-spendable, restricted or committed would be reported in the Assigned Fund Balance category. Therefore, the Assigned Fund Balance becomes the residual amount for the Special Revenue Funds, Capital Project Funds, Debt Service Funds and Permanent Funds.

Unassigned Fund Balance

The Unassigned Fund Balance is the residual fund balance for the General Fund. It represents the amount of fund balance remaining after allocation to the Non-Spendable, Restricted, Committed and Assigned fund balances. This residual amount of unassigned fund balance reflects the resources that are available for further appropriation and expenditure for general governmental purposes.

While this fund balance category was intended to be reported exclusively by the General Fund, there is an exception to the use of this fund type that should be noted. If there is a negative fund balance in the Special Revenue, Capital Project, Debt Service or Permanent Funds due to expenditures incurred exceeding the amounts restricted, committed or assigned for specific purposes in these funds, then it is possible that those funds would report a negative Unassigned Fund Balance. If there is no negative balance, then these four governmental funds would not report an Unassigned Fund Balance.

GASB 54 Fund Balance Reporting

The following example for the general fund will be used to illustrate the fund balance reporting discussed in this article. Assume that at the end of its fiscal year on June 30, 2010, the city of Blue Ridge has General Fund assets of \$50 million and liabilities of \$45 million. Therefore, its total aggregate fund balance is \$5 million. The city has supplies inventory of \$250,000 and prepaid insurance of \$150,000. These two amounts are regarded as being non-spendable since the funds have already been disbursed.

As required by law, state mandated social services expenditures for the following fiscal year will be \$1 million. This amount is an externally mandated expenditure that the city is compelled to incur, and therefore, is legally restricted from redeploying for other purposes. The city council and mayor have enacted an ordinance that requires \$700,000 be spent annually in support of the local public school system. This school system funding is a result of a commitment by the city's highest level decision-makers. The city does not have any funds that are legally required to be maintained intact.

To foster a literacy program, the city has earmarked \$100,000 for library book, magazine, computer and software purchases to be administered by the city's literacy committee. This library funding is contingent on the availability of resources and other competing programmatic needs. However, it is the intent of the city council that this program be supported and therefore they have assigned resources to support the literacy program. The remaining amount of the fund balance is unassigned and represents the residual amount that is available for appropriation and expenditure. Exhibit 2 displays a condensed balance sheet for the city of Blue Ridge and illustrates the new reporting for fund balance.

Summary

GASB 54 represents a significant improvement in the reporting of fund balance by the five governmental funds. The new standard does call for a change in familiar fund accounting terminology and concepts. However, the improved transparency and disclosure that is created by the new accounting standard will greatly benefit users of governmental

Exhibit 2: Example Balance Sheet

City of Blue Ridge General Fund Balance Sheet June 30, 2010		
Assets		\$ 50,000,000
Liabilities		\$ 45,000,000
Fund Balance		
Non-Spendable Fund Balance:		
	Inventory On Hand	\$ 250,000
	Prepaid Insurance	\$ 150,000
Restricted Fund Balance:		
	State Mandated Social Services Program	\$ 1,000,000
Unrestricted Fund Balance:		
	Committed Fund Balance	\$ 700,000
	Assigned Fund Balance	\$ 100,000
	Unassigned Fund Balance	\$ 2,800,000
Total Fund Balances		\$ 5,000,000
Total Liabilities and Fund Balance		\$ 50,000,000

financial statements. Rather than just being a "plug figure," the disaggregation of the fund balance into non-spendable, restricted, committed, assigned and unassigned categories will greatly facilitate analysis and understanding of a governmental entity's commitment of financial resources. ■

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3. Governmental Accounting Standards Board, "Fund Balance Reporting and Governmental Fund Type Definitions," *Exposure Draft No. 3-18*, February, 2008.
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