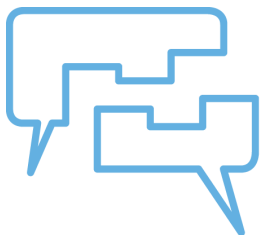


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Let's talk about an opportunity.

*Presented by*

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# Statement 54

## Fund Balance Reporting and Governmental Fund Type Definitions

# Fund Type Definitions

## > 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 major capital projects.

- > Establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund
- > Restricted or committed proceeds of specific revenue sources should comprise a substantial portion of the resources reported in the fund during its life
- > Some current special revenue funds may go away for financial statement purposes

## > Definition-

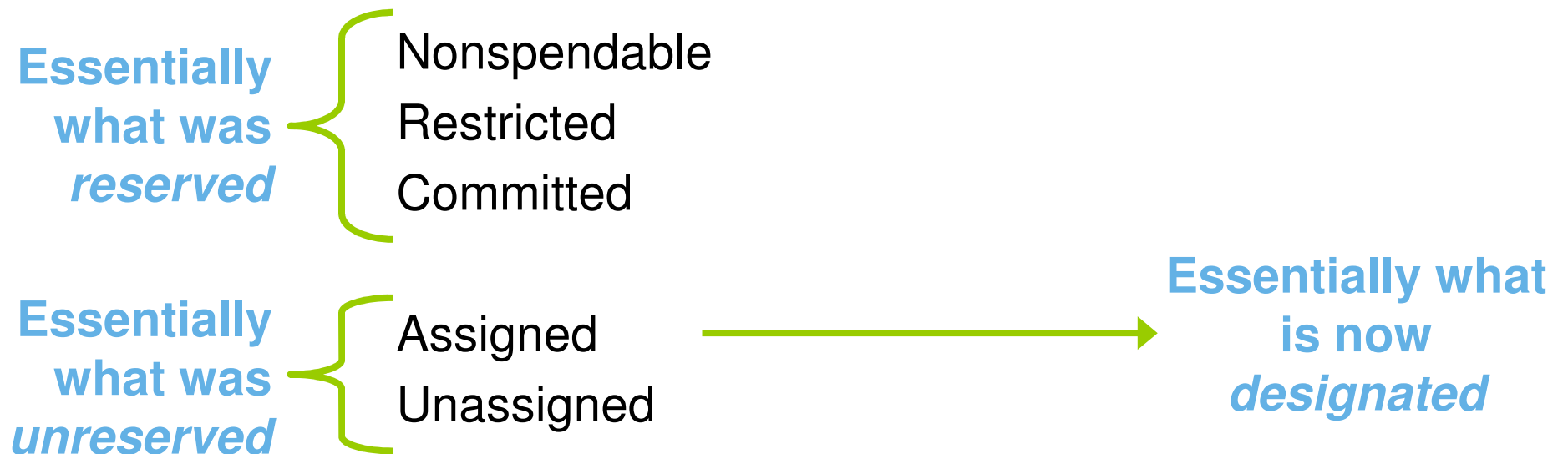
Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

> Excludes capital assets financed by proprietary funds

- > 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.
- > Required to be used if legally mandated.
- > Financial resources that are being accumulated for principal and interest payments maturing in future years also should be reported in debt service funds.

# Fund Balance





- > A hierarchy based on the extent to which a government is bound to honor constraints
- > Format based primarily on use of resources versus availability for appropriation
- > Format:
  - Nonspendable – Inventory, long-term receivables
  - Spendable
    - » Restricted – Statement 34 / 36 definition
    - » Committed – Formal action of governing body
    - » Assigned – Similar to designations
    - » Unassigned

- > Represents amounts that cannot be spent because they are either:
  - Not in spendable form
    - » Inventory
    - » Long-term receivables
  - Legally or contractually required to be maintained intact
    - » Corpus of a permanent fund

- > Constraints placed on the use of amounts are either:
  - Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
  - Imposed by law through constitutional provisions or enabling legislation
  - Essentially the same as the statement of net assets

- > Amounts that can only be used for specific purposes as the result of constraints imposed by formal action of the government's highest level of decision-making authority should be reported as *committed fund balance*.
- > Amounts classified as “committed” are not subject to legal enforceability like restricted resources; however, they cannot be used for any other purpose unless the government removes or changes the limitation by taking the same action it employed to impose the commitment.
- > Should occur prior to year end, except that the amount may be determined later.

- > Amounts that are intended by the government to be used for a particular purpose, but are neither restricted nor committed, should be reported as assigned fund balance.
- > Intent should be expressed by:
  - The governing body itself or
  - A subordinate body (i.e., Finance Committee) or official possessing the authority to assign resources to be used for specific purposes in accordance with policy established by the governing body.
- > Appropriation of existing fund balance to balance subsequent year's budget.
- > Positive residual amounts in governmental funds other than general fund are considered assigned.

- > Only should be used in the general fund
  - Except for fund deficits in other funds
- > Available for any purpose

- > Should not be displayed as a separate classification of fund balance on the face of the balance sheet.
- > For governments that use encumbrance accounting
  - Should be disclosed in the notes by major fund and nonmajor funds in the aggregate in conjunction with required disclosures about other significant commitments.
- > Review existing circumstances to determine if fund balance meets restricted, committed or assigned.



- > Spending prioritization policies (the flow assumption)
  - Restricted vs. unrestricted
  - Committed, assigned, unassigned
  - The “default” policy
  - Negative balances
    - » General fund
    - » Other funds

- > Description of authority and actions that lead to committed and assigned fund balance
- > Government's policy regarding order of spending
  - Restricted and unrestricted fund balance
  - Committed, assigned, and unassigned
- > Encumbrances, if significant, are disclosed in conjunction with other disclosures of significant commitments

### > Stabilization arrangements

- Can only report as restricted or committed if there are constraints with a specific purpose (generally not the case)
- Should not be reported as assigned
- Notes require authority for establishing, requirements for additions, and conditions under which amounts may be used.

### > Minimum fund balance policies also require footnote disclosure

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
<b>Fund balances:</b>							
<b>Nonspendable:</b>							
Inventory	\$ 125,000	\$ 108,000	\$ 16,000	—	—	—	\$ 249,000
Permanent fund principal	—	—	—	—	—	\$ 164,000	164,000
<b>Restricted for:</b>							
Social services	240,000	—	—	—	—	—	240,000
Parks and recreation	80,000	—	—	—	—	—	80,000
Education	55,000	—	—	—	—	—	55,000
Highways	—	—	—	—	\$ 444,000	—	444,000
Road surface repairs	—	24,000	—	—	—	—	24,000
Debt service reserve	—	—	—	\$ 206,000	—	—	206,000
School construction	—	—	—	—	301,000	—	301,000
Law enforcement	—	—	—	—	—	214,000	214,000
Other capital projects	—	—	—	—	51,000	—	51,000
Other purposes	30,000	—	—	—	—	—	30,000
<b>Committed to:</b>							
Zoning board	16,000	—	—	—	—	—	16,000
Economic stabilization	210,000	—	—	—	—	—	210,000
Homeland security	110,000	—	—	—	—	—	110,000
Education	50,000	—	103,000	—	—	—	153,000
Health and welfare	75,000	—	—	—	—	—	75,000
<b>Assigned to:</b>							
Parks and recreation	50,000	—	—	—	—	—	50,000
Library acquisitions	50,000	—	—	—	—	—	50,000
Highway resurfacing	—	258,000	—	—	—	—	258,000
Debt service	—	—	—	306,000	—	—	306,000
Public pool	—	—	—	—	121,000	—	121,000
City Hall renovation	—	—	—	—	60,000	—	60,000
Other capital projects	50,000	—	—	—	471,000	—	521,000
Other purposes	80,000	—	73,000	—	—	176,000	329,000
<b>Unassigned:</b>	525,000	—	—	—	—	—	525,000
Total fund balances	\$ 1,746,000	\$ 390,000	\$ 192,000	\$ 512,000	\$ 1,448,000	\$ 554,000	\$ 4,842,000

This level of detail is not required for display on the face of the balance sheet. Fund balance categories and classifications may be presented in detail or in the aggregate if sufficient detail is provided in the notes to the financial statements.

## Specific purpose details displayed

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
<b>Fund balances:</b>							
<b>Nonspendable</b>	\$ 125,000	\$ 108,000	\$ 16,000	—	—	\$ 164,000	\$ 413,000
<b>Restricted</b>	405,000	24,000	—	\$ 206,000	\$ 796,000	214,000	1,645,000
<b>Committed</b>	461,000	—	103,000	—	—	—	564,000
<b>Assigned</b>	230,000	258,000	73,000	306,000	652,000	176,000	1,695,000
<b>Unassigned</b>	525,000	—	—	—	—	—	525,000
Total fund balances	\$ 1,746,000	\$ 390,000	\$ 192,000	\$ 512,000	\$ 1,448,000	\$ 554,000	\$ 4,842,000

Classification totals displayed—details disclosed in the notes

- > Effective for financial statements for periods beginning after June 15, 2010
- > If preparing a CAFR, changes to the fund balance information presented in a statistical section may be made prospectively, although retroactive application is encouraged
  - If the information for previous years is not restated, governments should explain the nature of the differences from the prior information.

1. Review current funds to ensure they meet the new definitions, paying close attention to special revenue funds.
2. Create a file of documents that identify the specific source of the restriction or commitment of the revenues in your special revenue funds
  - Resolutions or ordinances
  - Agreements with 3<sup>rd</sup> parties (grantors, donors, etc)
  - Applicable state statutes
3. If you identify funds that do not meet the new SRF definition, those funds will need to roll into the general fund for financial reporting purposes (exception follows)
4. Some governments are choosing to take action to commit specific revenue sources for identified purposes in order to preserve the special revenue status .

5. If your board decides to take action to impose a commitment of revenues, remember the following:
  - The action needs taken by the highest level of governing body
  - The action needs to occur prior to the end of the year it is effective (ie. before December 31, 2010)
  - The commitment can only be undone by a similar action in the future
6. Determine who will have the authority to assign fund balance.
7. If your government desires a flow of funds policy different from the default, create and approve policy.
8. If time, consider recasting 2010 financial statements to identify any areas of concern prior to full implementation in 2011 financial statements.



## Questions ?

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