

Classifying Fund Balance

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Fund Balance

Relates to governmental funds only

Under GASB No. 54 fund balance should be reported in classifications that:

- > **“comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent”**

Fund balance is classified into 5 categories:

- > Nonspendable
- > Restricted
- > Committed
- > Assigned
- > Unassigned

Fund balance categories

Nonspendable fund balance



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Not in a spendable form, such as:

- > Inventory, prepaid items
- > Long-term receivables
 - Exception: If proceeds from collection are restricted, committed or assigned, the related fund balance should be so classified

Legally or contractually required to be maintained intact:

- > Corpus of an endowment fund

Amounts constrained to being used for a specific purpose by:

- > External parties (such as grantors or bondholders)
- > Constitutional provisions
- > Enabling legislation (such as an ordinance establishing a fee for a specific purpose)

Constraint on use for a specific purpose imposed by the government itself

- > Using its highest level of decision making authority
- > Constraint can be removed or changed only by taking the same action

Action to constrain resources should occur prior to end of fiscal year

- > The exact amount may be determined subsequently

Amounts intended to be used for specific purposes and intent is expressed by:

- > The governing body
- > A body (budget or finance committee) or official (Finance Director or Administrator for example) authorized by the governing body

Residual amounts in special revenue, capital project and debt service funds

Appropriation of existing fund balance

Fund balance categories

Unassigned fund balance



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Available for any purpose

Reported only in the general fund, except in cases of negative fund balance.

- > Negative balances in other governmental funds are reported as unassigned

Stabilization (rainy-day) amounts

- > Fund balance set aside for emergencies, cash flow purposes, working capital, contingencies etc.

Classification of related fund balance

- > Commonly reported as unassigned
- > May be considered restricted or committed if meet requirements and specifically define when the amounts may be used and specify a situation that cannot be expected to occur routinely
- > Stabilization amounts should not be reported as assigned

Level of detail requirements may be met by display or a combination of display and disclosures

- > Nonspendable by type
- > Restrictions by purpose
- > Commitments and assignments in sufficient detail that major purposes are evident to reader

Financial reporting – fund balance Presentation options



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	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
Fund balances:							
Nonspendable:							
Inventory	\$ 125,000	\$ 108,000	\$ 16,000	—	—	—	\$ 249,000
Permanent fund principal	—	—	—	—	—	\$ 164,000	164,000
Restricted for:							
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
Committed to:							
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
Assigned to:							
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
Unassigned:	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

Financial reporting – fund balance Presentation options (cont.)



Candor. Insight. Results.

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

Classification totals displayed—details disclosed in the notes

Spending prioritization policies (the flow assumption)

- > Restricted vs. unrestricted
- > Committed, assigned, unassigned
- > The “default” policy
- > Negative balances

General fund

Other funds

Financial reporting Classifying residual balances (cont.)



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The flow assumption for this special revenue fund is to use restricted amounts before unrestricted amounts and to use the default policy for unrestricted fund balance. If expenditures incurred exceed the amounts that have been restricted, committed, and assigned to a specific purpose and results in a negative residual amount for that specific purpose, amounts assigned to other purposes in that fund are reduced to eliminate the deficit.

Fund balance classification policies and procedures

- > Description of authority and actions that lead to committed and assigned fund balance
- > Government's policy regarding order of spending

Details of fund balance displayed in aggregate

- > Nonspendable, restricted and unrestricted fund balance
- > Committed, assigned, and unassigned fund balance

Encumbrances, if significant, are disclosed in conjunction with other disclosures of significant commitments

Stabilization arrangements

- > Authority for establishing the arrangement
- > Requirements for additions
- > Conditions under which funds can be spent
- > Stabilization balance (if not apparent on the face)

Minimum fund balance policies

- > Describe the policy established

A comprehensive fund balance policy could address the following areas:

- > Minimum fund balance
- > Order of resource use
- > Stabilization arrangements
- > Committing fund balance
- > Assigning fund balance

For minimum fund balance policy, the following should be addressed:

- > The appropriate level of unrestricted fund balance to be maintained in the general fund and other significant governmental funds
- > The circumstances in which unrestricted fund balances can be “spent down”
- > The policy for replenishing deficiencies, including source of funding and time period
- > Provision for regular review of sufficiency of minimum fund balance level

Order of resource use (flow of funds):

- > Policy for spending restricted or unrestricted resources first
- > Policy for spending committed, assigned, or unassigned resources first

Stabilization arrangements:

- > Establish amount to be set aside
- > Identify types of non-routine emergencies or situations that would meet the need for the use of stabilization funds
- > State that the amounts may only be used for the identified emergency situations

Committing fund balance

- > Process for committing fund balance to a specific purpose
- > Identify the level of decision making authority and what formal action will be taken
- > What specific purposes normally will require committing resources

Assigning fund balance

- > Determine which body or official is authorized to assign fund balances
- > Specify how amounts are determined
- > Process for making assignments

**Unrestricted fund balance = committed + assigned
+ unassigned**

**Benchmark: GFOA recommends no less than 2
months of regular general fund operating
expenditures or operating revenues**

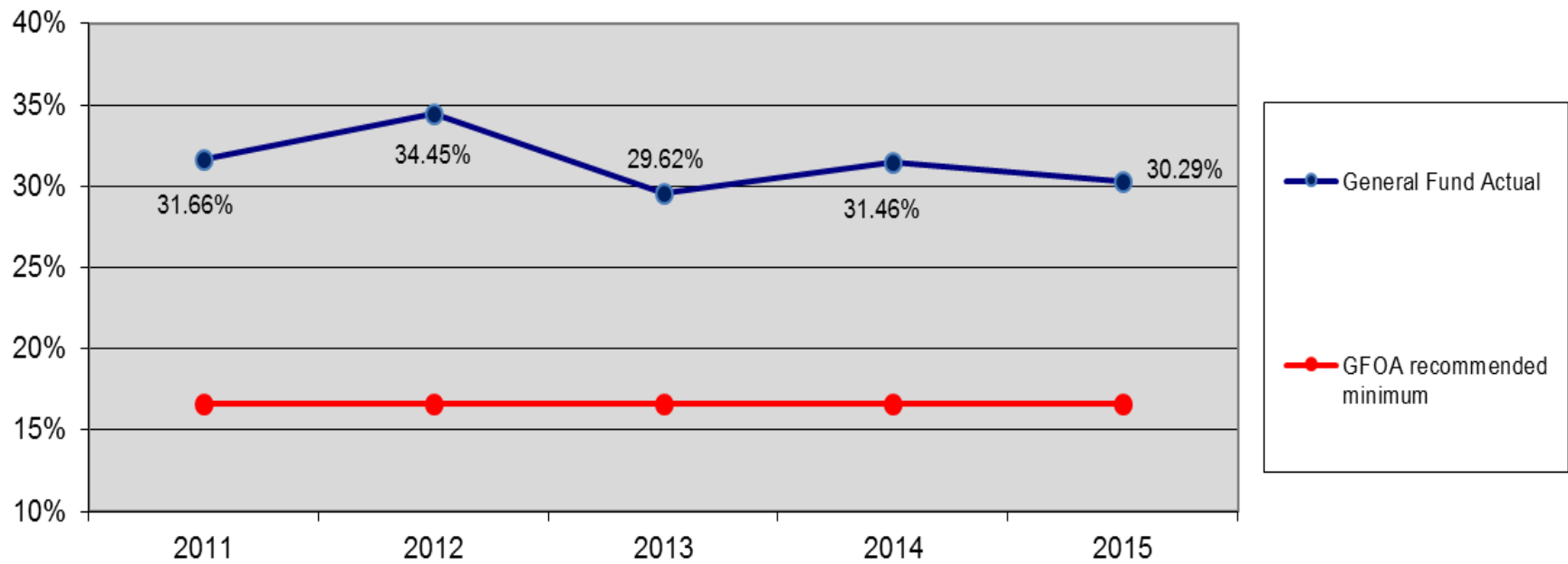
> Calculates to 16.67%

Benchmarks – fund balance (cont.)



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Available General Fund Balance as a Percentage of Operating Expenditures



Higher minimum balances should be considered when:

- > Volatility in operating revenues
- > Potential drain on resources from other funds
- > Exposure to unexpected costs
- > Concentrations of revenue sources
- > Rapidly growing budgets
- > Timing differences between revenue collections and expenditures

Net Position

Relates to government wide financial statements, proprietary funds and certain fiduciary funds

- > Governmental activities
- > Business-type activities
- > Enterprise funds
- > Internal service funds
- > Trust funds

Net position is classified into 3 categories:

- > Net investment in capital assets
- > Restricted
- > Unrestricted

Represents capital assets net of depreciation, reduced by related outstanding debt

- > Excludes long-term debt issued for other purposes or to finance capital assets not belonging to the entity/fund
- > Internal loans are not considered debt for this calculation
- > Unspent debt proceeds need to be added back to the calculation
- > Refunded debt follows original purpose
- > Non-capital related accruals (interest, claims, landfill closure costs etc.) are not included as debt
- > Retainages payable should be included

Net position categories

Net investment in capital assets (cont.)



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<u>Capital assets (net)</u>	
Construction work in progress	\$ 1,000,000
Property, plant and equipment	25,035,000
Less: Accumulated depreciation	<u>(13,053,000)</u>
Subtotal	12,982,000
 <u>Capital related debt</u>	
Notes payable	(500,000)
Bonds payable	(7,000,000)
Capital lease payable	(12,000)
Bond anticipation notes	(950,000)
Land contracts payable	(195,000)
Capital retainages payable	(50,000)
Less: Unamortized (gain) loss on refunding	60,000
Less: Unamortized debt discount	12,000
Less: Unspent bond/loan proceeds	250,000
Less: Non-capital portion of above debt	<u>300,000</u>
Subtotal	<u>(8,085,000)</u>
Net investment in capital assets	<u><u>\$ 4,897,000</u></u>

Amounts with restrictions imposed by:

- > External parties (such as grantors, creditors, contributors)
- > Laws or regulations of other governments
- > Enabling legislation (such as an ordinance establishing a fee for a specific purpose)

Consistent with restricted fund balance definition

- > Amounts are often different for governmental funds due to conversion from modified accrual to accrual

Amounts that do not meet the definition of restricted or net investment in capital assets

- > Includes internally designated funds (committed/assigned)

Proprietary fund unrestricted net position is generally not a key benchmark. Other more useful benchmarks:

- > Unrestricted cash
- > Debt coverage
- > Rate of return

Major categories of restricted net position must be presented on the face of the statement of net position

Internal designations should not be reported on the face of the statement of net position

Net position policies and procedures

- > Government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Consider disclosing components of net investment in capital assets



Questions?

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