

Fund Balance Reporting and Governmental Fund Type Definitions

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Presentation Outline

- Overview
- Fund balance classifications
- Governmental fund type definitions
- Disclosure requirements
- Implementation guidance

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Overview

- Purpose of fund balance classifications is to indicate “the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent”

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Overview

- New classifications will enhance consistency between:
 - Government-wide financial statements and governmental fund statements
 - Different governmental funds
 - Different entities
- Effective June 30, 2011

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Fund Balance Classifications

- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned

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Fund Balance Classifications

Nonspendable Fund Balance

- Not in spendable form
 - Assets that will never convert to cash (e.g., prepaids and inventory)
 - Assets that will not convert to cash soon enough to affect the current period (e.g., long-term receivables)
- Legally or contractually required to be maintained intact
 - Corpus of a permanent fund

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Fund Balance Classifications

Restricted Fund Balance

- Same definition used for net assets
- Constraints placed on resources:
 - Externally imposed by creditors, grantors, contributors, or laws or regulations
 - Imposed by law through constitutional provisions or enabling legislation

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Fund Balance Classifications

Committed Fund Balance

- Constraints placed on resources:
 - Imposed by formal action of the government's highest level of decision-making authority
 - Requires formal action (e.g., legislation, resolution, or ordinance) to be taken prior to the end of the reporting period
 - Amount may be determined after year end

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Fund Balance Classifications

Assigned Fund Balance

- Constraints placed on resources by a government's "intent" to be used for specific purposes
- Intent is expressed by:
 - Governing body
 - Committee or official to which the governing body has delegated the authority to assign amounts

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Fund Balance Classifications

Assigned Fund Balance

- Includes all remaining amounts (except for deficits) reported in governmental funds other than the general fund
- Cannot assign fund balance in excess of total fund balance less amounts classified as nonspendable, restricted, and committed

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Fund Balance Classifications

Unassigned Fund Balance

- Residual classification for the general fund
- Not used by other funds, except for deficits (e.g., only the GF can report a positive unassigned fund balance)

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Fund Balance Classifications

Stabilization Arrangements

- Formal “rainy day funds”
 - Must identify and describe *specific* circumstances in which funds may be used
 - Funds to be used “in an emergency” or to offset an “anticipated revenue shortfall” are not specific enough
 - Not expected to occur routinely

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Fund Balance Classifications

Stabilization Arrangements

- Stabilization is a *specific purpose*
- Classification:
 - Restricted - if imposed externally
 - Committed - if formally established internally
 - Unassigned - all other cases
 - Stabilization arrangement can *never* be reported as assigned fund balance

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Fund Balance Classifications

Stabilization Arrangements

- Stabilization special revenue fund
 - Only if the resources derive from a specific restricted or committed *revenue source*
 - Otherwise, report in the general fund

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Fund Balance Classifications

Display on Balance Sheets

- Nonspendable fund balance may be shown in total or by component
- Restricted, committed, and assigned fund balance may be detailed by major purpose or displayed in the aggregate by classification

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Fund Balance Classifications

Fund Balance Disclosures

- Committed fund balance:
 - Highest level of decision-making authority
 - Formal action required to establish or rescind a fund balance commitment
- Assigned fund balance:
 - Body or official authorized to assign amounts to a specific purpose
 - Policy established granting that authority

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Fund Balance Classifications

Fund Balance Disclosures

- Policies for applying expenditures to categories of fund balance when they are incurred for purposes for which resources are available that are:
 - Restricted vs. unrestricted
 - Committed vs. assigned vs. unassigned

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Fund Balance Classifications
Fund Balance Disclosures

- Specific purposes of amounts presented in the aggregate for :
 - Nonspendable
 - Restricted
 - Committed
 - Assigned
- Governments may elect to display some details and disclose others

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Fund Balance Classifications
Fund Balance Disclosures

- Stabilization arrangements:
 - Authority for establishing stabilization arrangements
 - Requirements for additions to the stabilization amount
 - Conditions under which stabilization amounts may be spent
 - Balance, if not apparent on the face of the financial statements

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Fund Balance Classifications
Fund Balance Disclosures

- Minimum fund balance policies:
 - If a formal policy has been adopted, describe in the notes
 - Usually in lieu of a stabilization arrangement

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Governmental Fund Type Definitions

General Fund

- Used to account for and report all financial resources not accounted for and reported in another fund
 - No substantive change to definition

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Governmental Fund Type Definitions

Special Revenue Funds

- 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 capital projects
 - The term "*proceeds of specific revenue sources*" should be the foundation of a special revenue fund

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Governmental Fund Type Definitions

Special Revenue Funds

- Restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund
- Other resources may also be reported in the fund for the same purpose

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Governmental Fund Type Definitions

Special Revenue Funds

- Discontinue use of a special revenue fund (and include in the general fund) if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources

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Governmental Fund Type Definitions

Debt Service Funds

- Used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest
 - No substantive change to definition

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Governmental Fund Type Definitions

Capital Projects Funds

- 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
 - No substantive change to definition

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Governmental Fund Type Definitions

Permanent Funds

- Used 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—that is, for the benefit of the government or its citizenry.
 - No substantive change to definition

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Implementation Guidance

- Required by June 30, 2011
- Early implementation is encouraged
- Fund balance reclassifications should be applied retroactively to all periods presented in the financial statements
- Restatement of the statistical section is encouraged, but not required

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Questions and Answers...



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