

Get ready to report district's fund balance in a new way

The way you report your district's fund balance is slated for a makeover. A new accounting standard aims to make this often-used information less confusing and more consistent by changing fund balance classifications and clarifying definitions of fund types.

Key points

- Governmental Accounting Standards Board adopts standard for fund balances.
- Classifications, definitions in reporting changed.
- Standard effective for fiscal years beginning after July 15, 2010. ■

Statement No. 54 from the Governmental Accounting Standards Board is in effect for fiscal years beginning after July 15, 2010, said Cherie Wright, a CPA and partner in the consulting services division of the accounting firm Heinfeld, Meech & Co.

"The GASB is constantly doing research projects to see if current standards meet needs," she explained. This project began in 2004, culminating in release of GASB 54 in March 2009, after talks with users of financial statements indicated a mismatch in the way fund balances were used and reported. The new standard is intended to eliminate misinterpretations and bring consistency to reporting.

"The old focus was based on what portions of the fund balance were available for appropriation. Under the new focus, classifications are based on the extent to which the governmental body is bound to honor constraints on what the money can be spent for," Wright said.

Here are highlights of what Statement 54 requires and tips from Wright to consider for implementing it:

5 Classifications

The current standard tags *reserved* funds as those not available to be appropriated. *Unreserved* funds can be appropriated and are classified either *designated* for a specific use or *undesignated*. Under the new standard, availability for appropriation is not a consideration, Wright said. Instead, there are five classifications based on the degree to which spending is constrained:

1. Nonspendable. This classification is for amounts for such things as inventories of supplies that can't be spent. Funds received from an endowment or trust where the principal must be retained are another example.

2. Restricted. Funds for which an outside entity has put legally enforceable constraints on spending are considered *restricted*. This includes funds from Title I grants and bonds where covenants show how the money is to be spent.

3. Committed. Funds classified as *committed* are those for which the district has determined how funds should be spent and made it legally binding by passing an ordinance or resolution. The district is essentially dictating to itself how the funds are spent. Undoing the decision would require formal action by the district.

4. Assigned. Funds in this category have been designated for a specific use by the district, but there is nothing making the designation legally binding. That makes it easy for the district to change its mind.

5. Unassigned. The easiest way to describe this category is "everything else in the general fund and any negative balances in other funds," Wright said.

Definitions

GASB 54 also clarifies definitions of governmental fund types:

■ **Special revenue funds** can't be used for anything other than that for which they have been restricted or committed. They generally relate to a significant program you want to identify and track, Wright said. They can't be used for stabilization, or rainy-day, amounts, unless they come from a source restricted or committed to stabilization. Stabilization amounts would typically be reported in the general fund.

■ **Capital projects funds** are used to report financial resources that are restricted, committed, or assigned to pay for facilities and other capital assets.

■ **Debt service funds** are used for resources restricted, committed, or assigned to be spent for principal and interest.

■ **General fund** is for money that doesn't meet the definitions of the funds above.

Implementation tips

■ **Research current fund status.** Be prepared to research current funds so they can be classified correctly. Determine how the decision about a fund was made, and make corrections if necessary.

■ **Adopt a fund balance policy.** Establish how large the fund balance should be, based on your district's situation and state requirements. Describe the circumstances under which the district could spend down the fund balance and how the balance would be built back up. Also, specify who has the authority to determine whether funds are to be assigned or committed.

■ **Establish a process to track balance changes.** Determine how to track the spending of amounts that are committed or assigned so it's clear what's still available.

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