

# It's Time to Implement GASB Statement 54

*How does GASB Statement 54 affect your district? Here's a rundown.*

By Gary Heinfeld, CPA, CGFM, and Bert Nuehring, CPA



In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement changes how a fund balance is classified on the face of the government fund financial statements and refines the definitions for government fund types.

The statement's objective is to improve the usefulness of the government fund balance information by providing more clearly defined categories to make the nature of the restrictions more transparent. It also clarifies the existing definitions of government fund types to improve the comparability of government

fund financial statements between entities.

## Government Fund Balances

Before GASB Statement 54, government fund balances were classified as reserved; unreserved, designated; or unreserved, undesignated. GASB Statement 54 replaces those classifications with nonspendable, restricted, committed, assigned, and unassigned.

**A nonspendable fund balance** includes amounts that cannot be spent because they are not spendable in form (inventories, prepaid items, or long-term notes receivables) or they are legally or contractually required to be maintained

intact (the principal amount of a permanent fund).

**A restricted fund balance** for government funds has the same restrictions as defined in GASB Statement 34 and amended by GASB Statement 46 for proprietary funds and government-wide net assets.

**A committed fund balance** should only be used to classify amounts that have been "committed" for a specific purpose by formal action (legislation, resolution, or ordinance) of the highest level of decision-making authority (governing board).

After the action has been taken, the committed funds cannot be used for any other purpose unless the commitment is rescinded by the same type of action that previously committed the funds. The action to commit the funds must be taken before **the end of the fiscal year** but the specific amount may be determined in the subsequent period.

Because many school systems were unaware of all the requirements of GASB 54, we will not see many committed fund balances in the fiscal year 2010–2011 financial statements.

**Assigned fund balances** are those amounts that are set aside by the governing body itself, by another body (budget or finance committee), or by an official who has been delegated the authority by the governing body to assign those amounts for a specific purpose.

The assignment must follow the school system's intent for the specific purpose of the individual funds. Therefore, all remaining positive fund balances in the special revenue, debt service, and capital project funds must be classified as assigned. The general fund may have a fund balance that is assigned for a specific purpose and a fund balance that is unassigned as described below.

**Unassigned fund balances** are those amounts in the general fund that have not been classified as non-spendable, restricted, committed, or assigned. Any other government funds that have a negative fund balance must be classified as unassigned.

On the face of the financial statements, the above classifications can be displayed in the aggregate per classification or separately in a manner that distinguishes between the major purposes of each classification. If the financial statements present the aggregate amounts, the details must be presented in the notes to the financial statements.

The notes to the financial statements should also disclose the policies and procedures that are used in classifying fund balances. Committed fund balances should identify the school system's highest level of decision-making authority and the process that the school system must perform to establish and modify or rescind a fund balance commitment.

An assigned fund balance should identify the body or official authorized to assign amounts to a specific purpose and the policy established by the governing body that gives the authorization.

If the school system does not have a policy on how to classify the unrestricted fund balance, it should consider reducing committed amounts first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Most school systems set aside a certain fund balance amount for emergencies, revenue shortages, or other contingencies. The authority to set aside those amounts usually comes from a statute, ordinance, or resolution. The GASB calls those types of funds "stabilization arrangements."

To be able to set aside those types of funds, a school system must specifically define when those amounts may be used and must specify a situation that cannot be expected to occur routinely. For example, identifying funds

to be accessed "in an emergency" does not sufficiently detail the circumstance or condition that must be met for the funds to be considered committed.

## Government Fund Types

The second part of GASB Statement 54 revised the definitions for the government fund types. Those revisions could result in existing special revenue funds, debt service funds, and capital project funds being recorded in the general fund for financial reporting purposes.

Because certain school system funds will now be reported in the general fund, if those funds were legally budgeted in another fund, a budget and actual statement for those funds must be reported along with note disclosures explaining the difference.

The **general fund** should be used to account for all financial resources not accounted for and reported in another fund.

**Special revenue funds** must be used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The restricted or committed proceeds should be a substantial portion of the revenues in the fund.

Once the restricted or committed proceeds are not a substantial portion of the revenues, the fund should be discontinued and the fund's remaining resources should be reported in the general fund.

**Debt service funds** should be used to account for and report current and future financial resources that are restricted, committed, or assigned to principal and interest payments.

**Capital project funds** should be used to account for all financial resources restricted, committed, or assigned to capital outlay expenditures, including the acquisition or construction of capital facilities and other capital assets.

GASB Statement 54 is effective for fiscal year 2010–2011.

---

**Gary Heinfeld, CPA, CGFM**, is the founding partner of Heinfeld, Meech & Co. Email: gheinfeld@ccim.net

**Bert Nuehring, CPA**, is a partner with Crowe Horwath LLP.

Gary Heinfeld and Bert Nuehring are both on the ASBO Certificate of Excellence Committee and the Accounting, Auditing, and Budget Committee.

## THE INFORMATION YOU NEED IS AT YOUR FINGERTIPS

The ASBO Website is your information hotline to school business management. ASBO On Demand Resources give you access anytime, anywhere to social networking and collaboration tools, professional development opportunities, and education resources to help you be a more effective leader in your school or district. Visit [www.asbointl.org/OnDemand](http://www.asbointl.org/OnDemand) today.