



Governmental Accounting Standards Board
of the Financial Accounting Foundation

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GASB Statement Brings Greater Clarity and Consistency to Fund Balance Reporting

Fund balance refers to the difference between assets and liabilities in the governmental funds balance sheet. This information is one of the most widely used elements of state and local government financial statements.

Of central importance to the credit reviews performed by municipal bond analysts, fund balance information also is used by taxpayer associations, research organizations, oversight bodies, state, county and local legislators and their staffs, and reporters. Financial statement users examine fund balance information to identify the available liquid resources that can be used to repay long-term debt, reduce property taxes, add new governmental programs, expand existing ones, or enhance the financial position of the government.

The Governmental Accounting Standards Board (GASB) has found that, despite its popularity and usefulness, the value of fund balance information is significantly diminished by misunderstandings regarding the messages it conveys and inconsistency in governments' financial reporting practices.

In order to enhance how fund balance information is reported and improve its decision-usefulness, in March 2009 the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

How Will Fund Balance Be Reported?

This Statement is designed to improve financial reporting by establishing fund balance classifications that are easier to understand and apply. In essence, it establishes a hierarchy based largely on the extent to which a government is bound to observe spending constraints that govern how it can use amounts reported in the governmental funds balance sheet.

Statement 54 establishes the following classifications depicting the relative strength of the constraints that control how specific amounts can be spent:

- ***Nonspendable*** fund balance includes amounts that are not in a spendable form (inventory, for example) or are required to be maintained intact (the principal of an endowment fund, for example).
- ***Restricted*** fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers (for example, grant providers), constitutionally, or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ***Committed*** fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- ***Assigned*** fund balance comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- ***Unassigned*** fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund. Positive unassigned amounts will be reported only in the general fund.

How Have the Fund Type Definitions Been Clarified?

The Statement also is designed to improve the usefulness of fund balance information by clarifying certain parts of the definitions of governmental fund types that have led to confusion and adversely affected the interpretation of fund balance information. It makes clear, for example, that special revenue funds are created only to report a revenue source (or sources) that is restricted or committed to a specified purpose, and that the revenue source should constitute a substantial portion of the resources reported in the fund.

The basic definition of the debt service fund type remains essentially unchanged. However, the terminology in the definition of the capital project fund type has been clarified to focus on the broader, more consistently understood notion of capital outlays, and to better capture the breadth of capital activities in today's environment.

“Rainy-Day” Funds

The GASB’s research indicates that information about amounts set aside for emergencies is very important to financial statement users. Because of the importance associated with these balances, Statement 54 clarifies how rainy-day amounts can be reported by treating stabilization arrangements as a specified purpose. Consequently, amounts constrained to stabilization will be reported as restricted or committed fund balance in the general fund if they meet the other criteria for those classifications. However, stabilization is regarded as a specified purpose only if the circumstances or conditions that signal the need for stabilization (a) are identified in sufficient detail and (b) are not expected to occur routinely. Governments are required to disclose in the notes key information about their stabilization arrangements, including the authority by which they were established, provisions for additions to the stabilization amount, and circumstances under which those amounts may be spent.

Some governments create stabilization-like arrangements by establishing formal minimum fund balance policies. Because users are interested in information about those minimum fund balance policies and how governments comply with them, governments are required to explain their minimum fund balance policies, if they have them, in notes to the financial statements.

What Other Note Disclosures Will Be Required?

Under Statement 54, governments will disclose their accounting policies that indicate the order in which restricted, committed, assigned, and unassigned amounts are spent, in circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications. For example, a town may have a state grant for public safety activities (restricted), proceeds from a portion of its own property tax that the town council voted could only be used for public safety (committed), and general revenues available for public safety spending (unassigned). The disclosure would identify the order in which the town will spend those resources. Governments already are required to make similar disclosures regarding restricted and unrestricted net assets.

In addition, governments are required to describe the processes through which they commit and assign fund balance amounts. Governments also are required to disclose the purpose for each major special revenue fund—identifying which specific revenues and other resources are authorized to be reported in each.

How Did the GASB Incorporate Constituent Feedback?

During the project that led to Statement 54, the GASB went through two rounds of public comment, beginning with an Invitation to Comment that was issued in October 2006. The input received from constituents in response to that due process document guided the development of changes that the GASB proposed in an Exposure Draft in April 2008.

Though the final standards retain the basic reporting requirements presented in the Exposure Draft, the GASB did make a number of changes based on public feedback and further study that are worth highlighting. With respect to fund balance classifications, the GASB significantly changed its proposal for reporting negative balances (see the earlier definition of unassigned fund balance). The GASB decided that deficits created as a result of overspending for a specific purpose should first reduce amounts assigned to other purposes within the fund. After eliminating those funds, a negative residual balance should be reported as negative unassigned fund balance.

The GASB decided to eliminate the heading *spendable* because constituents were concerned it might incorrectly be inferred that anything not classified as *nonspendable* could be considered spendable for any purpose. Also, the GASB agreed with constituents that the *limited* classification did not sufficiently convey the substance of the classification and determined that the term *committed* would be a better term.

The GASB also clarified how a government should report when it does not have an accounting policy guiding the order in which amounts from various fund balance classifications are spent. For such governments, the Statement establishes a default policy that should be applied, in which restricted amounts are used first, followed by committed, assigned, and unassigned amounts in that order, for purposes of reporting fund balance.

Finally, as mentioned previously, the GASB clarified terminology in the definition of the capital projects fund type largely in response to feedback received from respondents to the Exposure Draft.

When Do the Standards Take Effect?

Governments are required to implement Statement 54 for fiscal years first ending June 30, 2011. Fund balance reclassifications should be applied retroactively by restating fund balance for all prior periods presented in the financial statements. Changes to the fund balance information presented for prior years in the statistical section are not required, although retroactive application is encouraged. Early implementation of Statement 54 is encouraged.