


3A and 4A
GASB 54 Update
Best Practices in Implementation
and Steps to Success

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Agenda

1. GASB 54 Basics
2. Lessons Learned So Far In Implementing GASB 54
3. Special Revenue Funds
4. Steps to success in GASB 54

GASB 54 Basics

- GASB 54 Basics**
- Applies to governmental funds only (1, 2, 310, 320, 360, 400, 410)
 - Effective date – must be in place for FY June 30, 2011 reporting - some districts implemented early for year ending June 30, 2010
 - Requires that local board implement and set minimum fund balance policy to account for new classifications
 - Encumbrances become Purchase Obligations

- GASB 54 Basics**
- Reasons for replacement of old components of fund balances
 - Not self-explanatory (i.e., reserved, unreserved, designated) and often misunderstood by financial statement users
 - Applied inconsistently in practice
 - Questionable how the appropriated funds continued to serve the financial statement users' needs

Current Fund Balance Classifications (2 categories)

- **Reserved Fund Balance** – Portion of fund balance not appropriable for expenditure or is legally segregated for a specific use
- **Unreserved Fund Balance**
 - Designated – Indicates tentative plans for the use of future financial resources
 - Undesignated – Remaining amount after accounting for all reserved and designated governmental fund balances

GASB 54 Classifications

- **Five New Categories**
 - Nonspendable Fund Balance
 - Restricted Fund Balance
 - Committed Fund Balance
 - Assigned Fund Balance
 - Unassigned Fund Balance

GASB 54 Classifications

- **Nonspendable** – amounts not in a spendable form or that are required to be maintained intact
 - Amounts for inventories
 - Amounts for prepaid amounts

GASB 54 Classifications

- **Restricted** – amounts constrained for a specific purpose by external parties, constitutional provision or legislation
 - Unspent grant funds
 - Unspent bond proceeds
 - Unspent capital outlay and FSPK funds
 - Funds held in debt service accounts for bond payments

GASB 54 Classifications

- **Committed** – amounts constrained for a specific purpose by a government using its highest level of decision-making authority (School Board)
 - Requires the same group to remove or change the constraints
 - Action to constrain resources must occur prior to the fiscal year-end; however, the amount can be determined in the subsequent period

GASB 54 Classifications

- **Committed resource possibilities**
 - Construction
 - Board initiatives
 - Future personnel costs
 - Bus purchases
 - Sick leave (KRS 157.420) – limited to not more than 50% of the maximum liability for the current year to be determined according to the number of staff employed on September 15

GASB 54 Classifications

- **Assigned**
 - For all funds other than the general fund, any remaining positive amounts not classified as nonspendable, restricted or committed
 - For the general fund, amounts constrained for the *intent* to be used for a specific purpose by a governing board or a body or official that has been designated authority to assign amounts (for example, budget or finance committee)
 - Cannot assign an amount if it would result in a deficit unassigned fund balance

GASB 54 Classifications

- **Unassigned**
 - For the general fund, amounts not classified in any other category and have a positive residual amount to report. The general fund is the only fund that would report a positive amount as unassigned.
 - For all other governmental funds not classified in any other category, a negative residual amount would be reported as unassigned.
 - Replaces **Unreserved Fund Balance**

Fund Definitions

- **Special revenue fund** – Fund used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purpose other than debt service or capital projects.
- **Capital Projects Fund** – Fund used to account for financial resources that are restricted, committed or assigned to expenditure for capital outlays.
- **Debt Service Fund** – Fund used to account for financial resources that are restricted, committed or assigned to expenditure for principal and interest.

Lessons Learned So Far

- GASB-54 is more than meets the eye, but less than GASB-34
- Other Lessons Learned So Far:
 - Special Revenue Funds *Were Truly in the Eye of the Beholder*
 - How to Convert and Not Go Crazy
 - The Last Thought- What About the Statistical Section and Other Items?

GASB-54

More than Meets the Eye?

GASB-54

More than Meets the Eye?

- Consider the Following:
 - Jefferson County Board of Education -3 major funds, 6 non-major funds
 - Fayette County School District - 4 major funds, 5 non-major funds
 - Warren County School District - 3 major funds, 2 non-major funds
 - State of Kentucky - 6 major funds, 6 non-major funds
 - State of Illinois - 3 Major Funds, 79 non-majors

GASB-54
More than Meets the Eye?

- **Lessons Learned**
 - NCGA-1 (as amended) defines a "fund" as follows:
 - A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

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More than Meets the Eye?

- **Lesson #1 - Have the minimum amount of governmental funds and teach your legislative body what a fund is and how they are different from accounts**
 - How many times have you seen:

THERE SHALL BE A FUND
 - Why else would you want the minimum amount of governmental funds?

AUDIENCE PARTICIPATION PORTION OF THE PROGRAM

GASB-54
More than Meets the Eye?

- **Lesson #2 – Restricted Balances**
 - Restrictions may be more than thought
 - Check for permanent funds
 - Check for amounts restricted by legal cases, enabling statutes, state provisions
 - Check for property held for resale
 - Inventories are restricted by the consumption method, not the purchase method
 - **RESERVES ≠ RESTRICTIONS – WHY?**

GASB-54
More than Meets the Eye?

- **Lesson #3 - Commitments**
 - Who is the highest level decision – making authority?
 - Who has the ability to commit?
 - If the highest level decision-making authority votes next budget, then the amounts should be reclassified to committed from unassigned and assigned
 - Include capital projects and other governmental fund budgets
 - May occur after fiscal year end

GASB-54
More than Meets the Eye?

- **Lesson #4 - Assigned amounts (General Fund ONLY)**
 - If management takes actions as of year end (or before) such as
 - Calculating compensated absences
 - Terminating employees where there is a cost to terminate
 - Reconciling items in governmental funds, not GAAP to present a payable, but can assign a balance
 - Signs multi-year contracts
 - How can you get this information?

GASB-54
More than Meets the Eye?

- **Lessons #5++ - Other items need attention:**
 - Reclasses needed for:
 - MD&A
 - Reconciliation worksheets from balance sheet to Statement of Net Assets and statement of revenues, expenditures and changes in net assets to statement of activities need to combine fund balances
 - Changes needed to Summary of Significant Accounting Policies
 - Other changes throughout notes
 - Adjust combining formats
 - Restate statistical section

GASB-54

**Special Revenue Funds
Were Truly in the Eye of the
Beholder**

Special Revenue Funds

Current Definition:

- *Special Revenue Funds* —To account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditure for specified purposes.

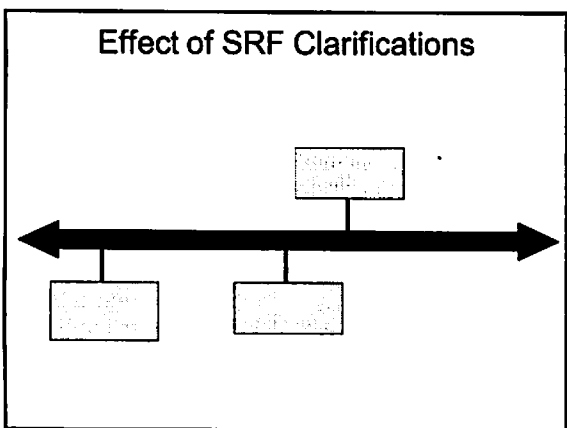
Special Revenue Funds

Statement 54 Definition:

Special revenue funds are 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" establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.

Special Revenue Funds

- Report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects
- Restricted or committed specific revenue sources should comprise substantial portion of fund's resources, but fund also may include other restricted, committed, and assigned resources
- **Disclosure:** purpose of each major special revenue fund and each revenue source or other resources reported in each



Special Revenue Funds Result

Could be that some funds that are currently special revenue funds will end up being reclassified into the General Fund for financial reporting purposes due to the lack of a specific revenue source restricted or committed for expenditures

- Restrictions must conform to GASB-46 definition
- Rare instance could result in a **General Fund Restatement**

How to Convert and Not Go Crazy
Steps to success in GASB-54

- Steps to success in GASB 54**
- Identify Key Stakeholders to success
 - Use a team of at least 1
 - Review fund structure NOW
 - Identify revenue streams
 - Evaluate fund types used now and under 54
 - Review / establish fund establishment / definition/ balance policy
 - Define the difference between commitments and assignments
 - Review internal controls to track changes in commitments and assignments
 - Determine future monitoring that may be needed

- Identify & Educate Key Stakeholders**
- Finance staff
 - Budget staff
 - Department managers
 - Governing Board
 - Auditors

**Implementation Team of at least 1
Should be**

- Finance oriented staff
- Budget oriented staff
- Departmental staff (especially grant funded programs)
- Auditors

Identify Revenue Streams

- Start with the largest inflows and work down to immaterial amounts
 - Could have more than 1 revenue stream into a general ledger account
 - Federal / Local matches
 - Local revenues
- Consider other departments resources
- Document these by fund

**Determine Level of Revenue
Constraints**

- Consider a Questionnaire / Spreadsheet
- Documentation should be kept in each fund file for audit
- Budget / Departmental staff may know best
- Sources of constraints
 - State law
 - Grants / contracts
 - Court case documents
 - Donor agreements
 - Resolutions and ordinances
 - Authorizations to assign balances

Questions to be answered

- What restrictions are in place by what party for which revenues?
- Are revenues "fund split" from spending and to where?
- Is there a compelling management or budgetary reason to continue using a fund when there are minimal restrictions or commitments?

Develop / Document Policies

- **What should be in a policy?**
 - Fund balance should apply to
 - Unrestricted balances
 - Committed
 - Assigned
 - Unassigned
 - Generally applies to the general fund

What should be in a policy?

- **Should also address:**
 - Is there an appropriate or minimum fund balance law?
 - Sometimes can be a set amount, percentage or a range
 - Specifically, when can unrestricted balances be spent?
 - Is there a policy for curing deficiencies, the source of funds and the time frame?

What should be in a policy?

- **Minimum fund balance best practices**
 - Consider
 - How volatile are revenues?
 - Do other funds drain to meet minimum fund balances?
 - Is there exposure to natural disasters (hurricanes, floods, etc)
 - Are sources of revenues concentrated?
 - Are budgets static or growing?
 - Are there significant timing differences between receipt of revenues and spending?

Minimum Fund Balance Policy

- In modifying board policy to account for GASB 54 reporting requirements on the level of unrestricted fund balance that should be maintained by the general fund, consider the following:
 - The predictability of revenues and the nature of expenditures.
 - The exposure to significant one-time outlays.
 - The need for resources for other funds.
 - General liquidity of the district.
 - Other commitments of the district.

Other Important Policy Items

- Who can assign resources?
- What is the highest level of decision making?
- Should there be a formal stabilization agreement?
- What needs to be approved by Governing Board and what is administrative?

Other Important Policy Items

- GFOA recommends, at a minimum, that governments, regardless of size, incorporate in their financial policies that **Unrestricted Fund Balance in the General Fund be No less than two months of regular general fund operating revenues or expenditures.**

Other Important Policy Items

- What if fund balance falls below policy level?
 - Should have a solid plan to replenish fund balance levels.

Other Important Policy Items

GFOA recommends that governments adopt a formal fund balance policy that defines the appropriate level of fund balance target levels.

Management should consider specifying the purposes for which various portions are intended.

Consider Monitoring Function

- **Work with legislative body to develop standards on**
 - When funds are created and when they are appropriations / budget lines
 - When commitments and enabling statutes are made and unmade
 - When management has decision making authority to assign balances

Other Steps to Success

- **Use Process of Elimination with each fund**
 - Do non-spendable first
 - Then restricted
 - Committed will have decisions made
 - Assigned is the residual for every fund but the General Fund unless there is no balance in assigned and the remainder is negative
 - Unassigned should reconcile to "free cash"

Other Steps to Success

- **DO NOT Focus on Changing Systems YET**
 - Try to convert and then close in the new fund balance definitions
 - Do not focus on changing transaction types to assign transactions to fund balances
 - Focus on converting "over the top"

GASB-54
**The Statistical Section and
Other Items**

Other Steps to Success

- **Other Rules of Thumb**
 - In converting historical balances – fund balance in total across governmental funds **MUST NOT CHANGE**
 - If funds, revenue streams, expenditures, laws and systems are fairly consistent, then you may be able to estimate historical data
 - If you don't have historical data, do **NOT** convert statistical section or MD&A – but there had better be a good reason not to have prior year
 - **DO NOT** segregate fund balance in SRECFB

Encumbrances

- Encumbrances will become Purchase Obligations and the process in which they are created and the amount shown on the balance sheets through the open purchase order module will remain the same.
- Encumbrances should not be reported on the face of the financial statements
- Amounts encumbered for a specific purpose for which amounts have not been previously restricted, committed or assigned should be classified as either committed or assigned, based on the category criteria
- Significant encumbrances at year-end should be disclosed in the notes to the financial statements as a commitment

Note Disclosures

- Description of authority and actions that lead to committed and assigned fund balance.
- Policy regarding order of spending regarding restricted and unrestricted fund balance and the order of spending for committed, assigned and unassigned.
- Description of any formally adopted minimum fund balance policies.
- Purpose of each major special revenue fund and which revenues or other sources are reported in each fund.
