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New Look to Fund Balance

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In February 2009, Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for fiscal periods that begin after June 15, 2010. Implementation of GASB 54 by Minnesota counties is required for the year ending December 31, 2011, and early implementation is allowed. The key step to successfully implement the new fund balance requirements is for counties to plan ahead. This article is intended as an educational resource to assist counties in planning.

GASB 54 creates new classifications for fund balance based on a new focus on the constraints placed on the use of current fund balance and also redefines governmental fund type definitions. This article addresses only the new fund balance reporting. Counties will need to address the new governmental fund definitions of GASB Statement No. 54. These new governmental fund definitions will be discussed in a future article.

In governmental funds, a county should identify fund balance separately based on a hierarchy of the constraints placed on the use of the financial resources within governmental funds. A county will classify its fund balances into one of up to five classifications: nonspendable, restricted, committed, assigned, and unassigned. While some of the new classifications are similar in nature to the classifications under pre-GASB Statement No. 54, the focus is different, and thus, what is classified into these new classifications may be different.

Fund Balance Classifications/Definitions for Governmental Funds

The fund balances in a county's governmental funds should be reported in the new classifications based on the following definitions:

Nonspendable - Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Examples:

- Inventories,

- Prepaid items,
- Long-term receivables, and
- Permanent principal of endowment funds.

Restricted - Fund balance should be reported as restricted when constraints placed on the use of resources are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- Imposed by law through constitutional provisions or enabling legislation.

Examples:

- Restricted by state statute,
- Unspent bond proceeds,
- Grants earned but not spent,
- Debt covenants,
- Taxes dedicated to a specific purpose, and
- Revenues restricted by enabling legislation.

Committed – Fund balance should be reported as committed for resources used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.

Examples:

- The county board has decided to set aside \$1 million for a new county courthouse.
- Property tax levies set for a specific purpose by county board resolution.

Assigned – Fund balance should be reported as assigned for those resources that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed.

Examples:

- County board has set aside \$2 million for a county hospital and the county manager may amend this up to \$100,000.
- County board delegates the authority to assign fund balance to the finance officer.
- County board has appropriated fund balance usually titled “subsequent year’s expenditures.”
- Positive residual balances in governmental funds other than the general fund.

Unassigned - Unassigned fund balance is the residual classification for the General Fund. This is fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other governmental funds would report deficit fund balances as unassigned.

Classifying Fund Balance

A county should classify its fund balances based on the nature of the particular net resources reported in a governmental fund. The county would first start by identifying nonspendable net resources, followed by restricted, committed, assigned, and unassigned. This will classify a fund's net resources from those that have the most constraints placed on their use to the least. A fund's net resources also are affected by the spending policy of that county. The county board should determine the order of use of resources when expenditures are incurred. Are restricted resources used first? Or, if available for use, are unrestricted net resources (committed, assigned, or unassigned) used first? If the county does not have an accounting policy that identifies the order of use of resources, then the net resources with the most constraints are used first.

Unrestricted Fund Balance

Unrestricted fund balance is the amount of fund balance left after determining both nonspendable and restricted net resources. The unrestricted fund balance is the amount of fund balance that a county, itself, has placed constraints on its use (committed and assigned) and fund balance that does not have any specific purpose identified for the use of those net resources (unassigned). Unrestricted fund balance, therefore, includes the committed, assigned, and unassigned classifications. Committed and assigned fund balance represent resources set aside by the county board to fund specific purposes. The two classifications differ in the formality of the action required to set aside the net resources.

The county's highest level of decision-making authority is required to commit available fund balance to a specific purpose. Once 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 taken to commit the funds must be taken prior to the end of the fiscal year, but the specific amount may be determined in the subsequent period.

The authority to assign fund balance may be delegated to an official other than the county board. Unlike committed fund balance, the action taken to assign fund balance may be made after year end. In governmental funds other than the general fund, the assignment must follow the county's intent for the specific purpose of the individual funds. Therefore, all remaining positive fund balances in the special revenue, debt service, and capital projects funds are classified as assigned.

Unassigned fund balance represents the remaining unrestricted fund balance in the general fund after identifying fund balance that has been committed or assigned. Deficits in fund balances of other governmental funds are reported as unassigned. Assignments should never cause a deficit in unassigned fund balance to occur.

Stabilization Arrangements: Restricted/Committed vs. Unassigned

Many counties currently set aside part of fund balance for emergencies, working capital, cash flows, revenue shortages, or other contingencies. The authority to set aside these amounts usually comes from ordinance or resolution. The GASB calls these types of funds "stabilization arrangements." For a county to be able to set aside these types of funds as restricted or

committed, they need to specifically define when these amounts may be used and 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 conditions that must be met for the funds to be considered committed. To commit these funds, the county needs to be specific in defining an emergency. If the arrangement meets these requirements, it would be considered a specific purpose and reported as either restricted or committed, depending on the source of the constraint. Stabilization arrangements that do not meet the requirements should be reported as part of unassigned fund balance in the general fund.

Appropriated Fund Balance

Usually a county only classifies fund balances at year end for financial reporting purposes. Thus only current and not future net resources are classified. Typically, the subsequent year’s budgeted expenditures are expected to be paid from the subsequent year’s revenues and not the current reporting year’s ending fund balances. On occasion, counties will “deficit” budget, or in other words, budget more expenditures than anticipated revenues and drawdown beginning fund balance for the subsequent year. An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance.

New Statement of Position

In December 2010, the Office of the State Auditor (OSA) released a new Statement of Position (SOP) Fund Balances for Local Governments (GASB 54) which has further information on GASB 54, and includes a table. The SOP discusses the requirements for fund balance classification for governmental funds under GASB Statement No. 54. Also, the SOP recommends all local governments, including counties, adopt a comprehensive fund balance accounting policy, and some of the key items that a county could include in that policy. The SOP is available on the OSA website at: www.auditor.state.mn.us. Go to “Local Officials” and then click on “Statements of Position.” Under the heading, “Accounting” you will find this SOP.

Successful Implementation

The key step in successfully implementing the new fund balance requirements is to plan ahead. A county could start with the following steps:

- Obtain and review a copy of GASB Statement No. 54.
- Review the OSA’s SOP on GASB 54.
- Review current fund balances and compare to the new classifications.
- Review/update/prepare a comprehensive fund balance policy.
- Prepare appropriate board resolutions to commit fund balance.
- Delegate authority to assign fund balance based on the county board’s intent.