

MEMO

TO: David Foote, Superintendent

FM: Delbert Dodds

RE: New GASB 54 Disclosure Requirements

DT: June 15, 2011

It is my recommendation that the Dalhart ISD Board of Trustees adopt the new GASB 54 Disclosure Requirements that are attached.

The Governmental Accounting Standards Board revised the content of the fund balance section of governmental funds and clarified the definition of governmental fund types in Statement Number 54. To insure statement users' understanding of the fund balance amounts in the balance sheets of governmental funds, GASB required a note describing policies of the governmental entity regarding categories over which those charged with governance (the Board of Trustees for Texas schools) had authority to specify amounts. Having a note describing policies implies that the Board has a policy. GASB provides guidance on what policies should contain and how those policies should be disclosed in the notes to the financial statements. The following includes some excerpts from GASB #54 and example policies and notes.

GASB #54 Disclosure Requirements

(Paragraph numbers are from the GASB #54 Original Pronouncement.)

5. Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Some governments may not have policies or procedures that are comparable to those policies that underlie the classifications discussed in paragraphs 10–16 and therefore would not report amounts in all possible fund balance classifications.

Fund Balance Disclosures

Fund Balance Classification Policies and Procedures

23. Governments should disclose the following about their fund balance classification policies and procedures in the notes to the financial statements:
- a. For *committed* fund balance: (1) the government's highest level of decision-making authority and (2) the formal action that is required to be taken to establish (and modify or rescind) a fund balance commitment
 - b. For *assigned* fund balance: (1) the body or official authorized to assign amounts to a specific purpose and (2) the policy established by the governing body pursuant to which that authorization is given

c. For the classification of fund balances in accordance with paragraph 18: (1) whether the government considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and (2) whether committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Reporting Encumbrances

24. For governments that use encumbrance accounting, significant encumbrances should be disclosed in the notes to the financial statements by major funds and nonmajor funds in the aggregate in conjunction with required disclosures about other significant commitments. Encumbered amounts for specific purposes for which resources already have been restricted, committed, or assigned should not result in separate display of the encumbered amounts within those classifications. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed, or assigned should not be classified as unassigned but, rather, should be included within committed or assigned fund balance, as appropriate, based on the definitions and criteria in paragraphs 10–16.

Details of Fund Balance Classifications Displayed in the Aggregate

25. If nonspendable fund balance is displayed in the aggregate on the face of the balance sheet, amounts for the two nonspendable components (amounts already spent such as inventories and prepaids, or amounts required to be maintained in tact such as endowments) should be disclosed in the notes to the financial statements. If restricted, committed, or assigned fund balances are displayed in the aggregate, specific purposes information should be disclosed in the notes to the financial statements. Governments may display the specific purpose details for some classifications on the face of the balance sheet and disclose the details for other classifications in the notes to the financial statements.

Stabilization Arrangements

26. Governments that establish stabilization arrangements (such as rainy day funds), even if an arrangement does not meet the criteria to be classified as restricted or committed, should disclose the following information in the notes to the financial statements:

- a. The authority for establishing stabilization arrangements (for example, by statute or ordinance)
- b. The requirements for additions to the stabilization amount

- c. The conditions under which stabilization amounts may be spent
- d. The stabilization balance, if not apparent on the face of the financial statements.

Minimum Fund Balance Policies

27. If a governing body has formally adopted a minimum fund balance policy (for example, in lieu of separately setting aside stabilization amounts), the government should describe in the notes to its financial statements the policy established by the government that sets forth the minimum amount.

Fund Balance Policy

The fund balance of a governmental fund is the difference between the fund's assets and liabilities. GASB #54 states that "Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent." Nonspendable fund balances relate to assets that will be consumed or used up during normal operations and the existence of externally enforceable restrictions which specify how some fund resources can be used. These conditions eliminate a need for a policy from the District's Board of Trustees. However, The Board should adopt policies for each of the other three categories – committed, assigned, and unassigned.

Example Board Policy

Anywhere Independent School District reports fund balances for governmental funds in classifications based primarily on the extent to which the district is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The *nonspendable* classification represents assets that will be consumed or "must be maintained in tact" and therefore will never convert to cash, such as inventories of supplies and endowments. Provisions of laws, contracts, and grants specify how fund resources can be used in the *restricted* classification. The nature of these two classifications precludes a need for a policy from the Board of Trustees. However, the Board has adopted fund balance policies for the three unrestricted classifications – committed, assigned, and unassigned.

From time to time, the Board of Trustees may commit fund balances by a majority vote in a scheduled meeting. The Board's commitment may be modified or rescinded by a majority vote in a scheduled meeting. Board commitments cannot exceed the amount of fund balance that is greater than the sum of nonspendable and restricted fund balances since that practice would commit funds that the district does not have. Commitments may be for facility expansion or renovation, program modifications, wage and salary adjustments, financial cushions (rainy day funds), and other purposes determined by the Board.

The Board of Trustees may delegate authority to specified persons or groups to make assignments of certain fund balances by a majority vote in a scheduled meeting. The Board may modify or rescind its delegation of authority by the same action. The authority to make

assignments shall be in effect until modified or rescinded by the Board by majority vote in a scheduled meeting.

Following are authorizations to make assignments of fund balances:

- The balances in campus activity funds may be assigned by the Site Based Decision Making Committee.
- *Add other authorities as set by the Board*

When The District incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures should be charged to (restricted or unrestricted) balances. When The District incurs expenditures that can be made from either committed, assigned, or unassigned balances, the expenditures should be charged to (state the order in which these will be charged).

TEA'S Financial Accountability System Resource Guide provides the following related to a stabilization arrangement (Section 1.2.9.3)

Rainy day funds (also known as stabilization arrangements) can be reported in the general fund as restricted or committed, depending on meeting the conditions of either. Rainy day fund contingencies must be identified in detail and cannot be expected to occur routinely. A generic 'emergency' or 'revenue shortfall' description isn't sufficient. If the amounts don't meet specified conditions, they should be left in unassigned fund balance. Amounts may only be reported in a special revenue fund if there are specific revenues derived only for stabilization.

Example Fund Balance Note

By a majority vote in a scheduled meeting The Board of Trustees may commit fund balances and it may modify or rescind commitments. The Board may also delegate authority to persons or parties to assign fund balances in specific circumstances or funds.

(If the balance sheet presentation aggregates balances in the five categories, the following should be added to the note.)

Nonspendable

Inventories in the general fund	xxx
Inventories in the food service fund	<u>xxx</u>
Total nonspendable	<u>xxx</u>

Restricted

Debt service	xxx
Capital acquisition	xxx
(Specify other in appropriate detail)	<u>xxx</u>
Total restricted	<u>xxx</u>

Committed

Capital acquisition	xxx
Salary enhancement	xxx
(Specify other in appropriate detail)	<u>xxx</u>
Total committed	<u>xxx</u>

Assigned

Campus activity funds	xxx
(Specify other in appropriate detail)	<u>xxx</u>
Total assigned	<u>xxx</u>

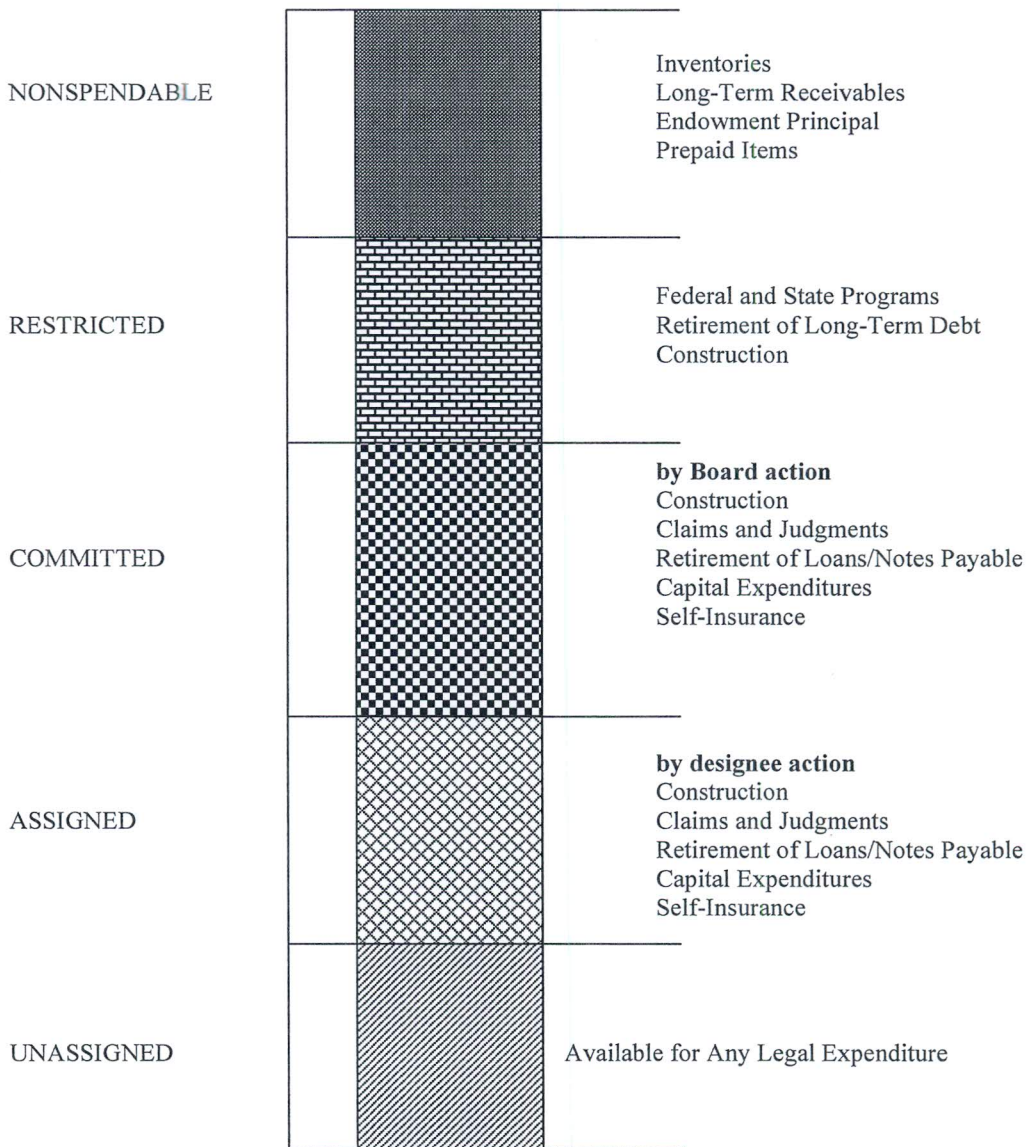
Unassigned	<u>xxx</u>
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Total Fund Balances	<u>xxx</u>
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for the “Fund Balance and Cash Flow Worksheet” and the “Instructions For Completion of Fund Balance and Cash Flow Worksheet for the General Fund.”)

1.2.9.2 Post-GASB 54 (Fiscal years ending in 2011 and later)

Elements of Fund Balance Post-GASB 54



Note: The specific categories of designations and reservations indicated above are not all-inclusive.

Nonspendable Fund Balance

The term *nonspendable* should be used in governmental fund financial reporting only to identify the portion of the fund balance that is:

- Not in spendable form (for example, inventories) or

Legally or required by contract for a specific future use - i.e., legal restriction on the use of assets (for example, permanent fund principal).

The two types of nonspendable fund balance may be presented separately or in the aggregate on the face of the balance sheet. If displayed in the aggregate on the face of the balance sheet, amounts for the two types should be disclosed in the notes to the financial statements.

Examples of nonspendable fund balance are as follows:

- Inventories
- Endowments
- Prepaid items

Restricted Fund Balance

Restricted fund balance is a result of 2 types of restrictions imposed:

1. Imposed by law
2. Imposed by creditors, grantors, contributors, or other governments' laws or regulations

Restrictions imposed by law through enabling legislation have a legally enforceable requirement for the funds to be spent only as specified by the legislation. There should never be a negative restricted amount in any fund type.

Examples of restricted fund balance are as follows:

- Construction
- Federal and state programs

- Retirement of long-term debt
- Fund balance of consolidated school districts

The aggregate fund balance in the debt service fund is legally restricted for payment of bonded indebtedness and is not available for other purposes until all bonded indebtedness is liquidated. The fund balance of the capital projects fund reflects an amount restricted for construction and major renovation projects, and it usually represents unexpended proceeds from the sale of school building bonds, which primarily have restricted uses.

Valuation accounts, such as the allowance for uncollectible property taxes, should not be referred to in the financial statements as a restriction. Likewise, estimated liabilities or deferred revenues should not be classified as restrictions. Amounts that are properly classified as fund balance restrictions should be reported as part of the fund balance section of the balance sheet and not placed somewhere between the liability section and the fund balance section.

The detail of restricted purposes for restricted fund balance may be presented separately or in the aggregate on the face of the balance sheet. If displayed in the aggregate on the face of the balance sheet, amounts for the detail of restricted purposes should be disclosed in the notes to the financial statements.

Committed Fund Balance

Committed fund balance is a result of school board approval in the minutes (formal action) requiring funds to be used only for specific purposes decided by the school board. Committed amounts cannot be used for another purpose unless the school board formally reverses or changes the specific purpose for the funds by approving in the minutes (the same action taken to commit). These commitments are not considered legally enforceable since they can be reversed by the school board.

Examples of committed fund balance are as follows:

- Construction
- Self-insurance
- Capital expenditures
- Retirements of notes/loans payable
- Claims/judgments

The school board must take action to commit funds for a specific purpose prior to the end of the fiscal year, but the amount of the commitment may be determined after the end of the fiscal year. There should never be a negative committed amount in any fund type. The detail of committed fund balance may be presented separately or in the aggregate on the face of the balance sheet. If displayed in the aggregate on the face of the balance sheet, amounts for the detail of committed purposes should be disclosed in the notes to the financial statements.

Assigned Fund Balance

If the school district intends to use funds for specific purposes, but doesn't restrict or commit them, the funds should be reported as assigned. An assignment doesn't have to be formally approved by the board. Assignment can be made by the school board or a budget/finance committee or official to which the school board has delegated authority. If a school board hasn't delegated authority to assign amounts, a school district would not have assigned fund balance.

Examples of assigned fund balance are as follows:

- Construction
- Self-insurance
- Capital expenditures
- Retirements of notes/loans payable
- Claims/judgments

A school district should not assign funds if the assignment would create a negative unassigned fund balance. There should never be a negative assigned amount in any fund type. Funds other than the general fund will have residual amounts reported as assigned fund balance. By accounting for amounts in other funds, the school district has implicitly assigned the funds to the purposes of those particular funds. Funds other than the general fund would be required to report a negative overall fund balance as unassigned.

The detail of assigned fund balance may be presented separately or in the aggregate on the face of the balance sheet. If displayed in the aggregate on the face of the balance sheet, amounts for the detail of assigned purposes should be disclosed in the notes to the financial statements. An appropriation of fund balance to cover a budgetary deficit would be considered an assignment of fund balance.

Unassigned Fund Balance

Unassigned fund balance is what is left over after the previous four classifications in the general fund have been made.

Only the general fund will have unassigned amounts. By accounting for amounts in other funds, the school district has implicitly assigned the funds to the purposes of those particular funds.

For recommendations regarding fund balance levels, the Government Finance Officers Association (GFOA) has produced 2 papers in 2009:

Appropriate Level of Unrestricted Fund Balance in the General Fund

Building a Financially Resilient Government through Long-Term Financial Planning
TEA will use the same rule of thumb to compute the optimum fund balance in the General Fund once GASB 54 is implemented; however, the terminology would change. The rule of thumb calls for the computation of the optimum unassigned fund balance to equal the estimated amount to cover cash flow deficits in the General Fund for the fall period in the following fiscal year plus estimated average monthly cash disbursements of General Fund for the following fiscal year. (Refer to FAR Appendix 3 for the “Fund Balance and Cash Flow Worksheet” and the “Instructions For Completion of Fund Balance and Cash Flow Worksheet for the General Fund.”)

1.2.9.3 Financial Statement Presentation and Disclosure

School districts should be cognizant of the following accounting and disclosure requirements for fund balances.

Note Disclosures Pre-GASB 54

The amount of deficit fund balance or net assets of individual funds must be disclosed in the footnotes to the financial statements for those funds that are not evident in the basic financial statements. In addition, for those funds used to account for a school district’s self insurance activities, a corrective action plan must be included in the notes to the financial statements. Designated or reserved fund balances not evident on the face of the financial statements should be disclosed in the notes.

Note Disclosures Post-GASB 54

All the requirements in GASB 54 only apply to general purpose GAAP external financial reports. School districts should disclose the following information in the notes to the financial statements:

1. Committed fund balance
 - a. the district's highest level of decision-making authority
 - b. the formal action required to establish a fund balance commitment
2. Assigned fund balance
 - a. the body (such as budget or finance committee) or official authorized to assign amounts
 - b. the policy established by the school board regarding that authorization
3. Accounting policies regarding order of expenditure of funds (restricted, committed, assigned, or unassigned) when various categories are available. If a school district doesn't establish a policy, the order is to reduce restricted, committed, assigned, and then unassigned funds. This is similar to the disclosure regarding restricted and unrestricted net assets. Negative amounts are not reported for restricted, committed, or assigned funds in any fund.
4. Purpose for each major special revenue fund, identifying which revenues and other resources are reported in each of the funds (Example: for a federal grant, the type of grant providing the funds)
5. Minimum fund balance policy if a school district has a formal policy. The optimum fund balance schedule utilized by TEA does not constitute the school district's minimum fund balance policy.
6. Rainy day funds (also known as stabilization arrangements)
 - a. authority establishing the arrangement
 - b. conditions requiring additions to the amounts
 - c. circumstances allowing use of the amounts
 - d. balance, if not revealed on the face of the financial statements

Rainy Day Funds

Rainy day funds (also known as stabilization arrangements) can be reported in the general fund as restricted or committed, depending on meeting the conditions of either. Rainy day fund contingencies must be identified in detail and cannot be expected to occur routinely. A generic 'emergency' or 'revenue shortfall' description isn't sufficient. If the amounts don't meet specified conditions, they should be left in unassigned fund balance. Amounts may only be reported in a special revenue fund if there are specific revenues derived only for stabilization.

Encumbrances

Encumbrances should not be reported separately on the face of the balance sheet. If the requirements for commitment or assignment of funds are met, then those encumbrances would be reported accordingly regarding the purpose of the expenditure. If there are significant encumbrances, there is already a requirement under NCGAS 1 to report significant encumbrances in the notes by major funds and nonmajor funds in the aggregate.

Changes in Fund Equity

The basic financial statements should provide information on the nature and purpose of each major component of reserved fund balance and designated unreserved fund balance. If changes in total fund balance are presented, material changes in reserved or designated fund balance should be disclosed in the notes to the financial statements.

Interfund Transfers

Interfund activity within and among the three fund categories (governmental, proprietary and fiduciary) should be classified and reported as follows (GASB 34, par. 112):

- Reciprocal interfund activity
 - Interfund loans
 - Interfund services provided and used
- Nonreciprocal interfund activity
 - Interfund transfers
 - Interfund reimbursements

Reciprocal interfund activities are internal fund activities that have many of the same characteristics of exchange and exchange-like transactions that occur with external parties. Nonreciprocal interfund activities are internal fund activities that have many of the same characteristics of nonexchange transactions that occur with external parties.

Most balances between funds that are initially recorded as interfund receivables and payables at the individual fund level should be eliminated in the preparation of the statement of net assets within each of the two major groups of the primary government (the government activities and business-type activities). The purpose of the elimination is to avoid the grossing-up effect on assets and liabilities presented on the statement of net assets.

The net residual interfund receivable/payable between governmental and business-type activities should not be eliminated but should be presented in each column (government activities and business-type activities) as internal balances. These amounts will be the same and will therefore cancel out when they are combined (horizontally) in the statement of net assets in order to form the column for total primary government activities. (GASB 34, par.58)

Contributed Capital-Proprietary Funds

Contributed capital represents equity of a proprietary fund type that is created by:

- Initial cash contributions to capitalize a new fund
- Nonroutine contributions to increase fund capitalization
- Capital grants
- Nonroutine transfers from other funds for capital acquisitions

Contributions of Assets to Proprietary Fund from General Capital Asset Fund

Based on the standards established by GASB-34 the statement of revenues, expenses, and changes in fund net assets must reflect the “all-inclusive” concept. That is, except for prior period adjustments and the effects of certain changes in accounting principles, all resources inflows (except for liabilities) must be reported on a proprietary fund’s operating statement. Thus, capital contributions can no longer be shown as direct additions to fund capital. Revenue recognition for these and all other nonexchange revenues should be based on the requirements of Statement 33.

The depreciation expense of assets acquired through grants is recorded in the Statement of Revenues, Expenses and Changes in Fund Net Assets. However, school districts may elect to close the depreciation expense related to those assets to contributed capital rather than to net assets.

1.2.10 Revenues

Revenues are defined as an increase in a school district’s current financial resources. The school district’s accounting records are to reflect revenues at the most detailed level.