Governmental Accounting Standards Board Statement 54

Overview:
The Governmental Accounting Standards Board (GASB) has issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement requires fund balance to be classified into different categories for governmental funds depending on the extent to which the use of resources is constrained for specific purposes and is effective for the State's Comprehensive Annual Financial Report (CAFR) ending June 30, 2011.

Fund balance is the excess of assets over liabilities and is usually a positive amount. It is reported in Report 8, *Post Closing Trial Balance*. GASB 54 does not impact Budgetary/Legal basis financial reporting. The new fund balance classifications do not need to be reported on the Report 8.

In order for the State Controller's Office (SCO) to implement these changes, we request that your department determine the new fund balance classification(s) for each of the funds listed in the attached Fund Balance Classification Form. The definitions and instructions will help you fill out the form. The Manual of State Funds and State Constitution/Statutes links below have been provided to assist your analysis. Please return the form to the SCO by September 1, 20XX. Timely return of this form will be a requirement to be eligible for the Certificate for Achieving Excellence in Financial Reporting.

Fund Balance Definitions:

Nonspendable Fund Balance: Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance: Fund balance should be reported as restricted when constraints placed on the use of resources are either (1) externally imposed by creditors (i.e., debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

Enabling legislation, as the term is used in GASB 54, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party - such as citizens, public interest groups, or the judiciary - to use resources created by enabling legislation only for the purposes specified by the legislation.
Committed Fund Balance:
Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (e.g., legislation) it employed to previously commit these amounts. For California, the government's highest level of decision-making authority is exercised by the Legislature and the Governor. The formal action to constrain resources is a statute passed by the Legislature and signed by the Governor. If the Governor vetoes the legislation, the Legislature can override the veto with a 2/3 majority of each house.

The authority that commits fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount subject to constraint may be determined in a subsequent period. Committed fund balance should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Fund Balance:
Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Assigned fund balance includes all positive remaining amounts in governmental funds, other than the General Fund, that are not considered nonspendable, restricted, or committed. In the General Fund, an assignment conveys an intended use that is narrower than the general purpose of the government itself.

Unassigned Fund Balance:
Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance. See the Instructions for "unassigned" fund balance for additional information.
Instructions to Complete the Fund Balance Classification Form:
The form is already set up with funds that apply to your department. After the last fund displayed in the form, repeat any funds as needed to report multiple fund balance classifications for a fund and give the amount for each fund balance classification in the "Amount as of June 30" column. **Do not skip rows in the form.**

<table>
<thead>
<tr>
<th>(1) - Fund Balance Classification Code</th>
<th>Select the fund balance classification codes from the drop-down list for each fund listed. Please refer to the fund balance classification definitions above and the instructions below.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nonspendable</strong></td>
<td>If fund balance includes amounts that cannot be spent because they are either of the following, input &quot;N&quot;:</td>
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<tr>
<td></td>
<td>a) Not in spendable form such as long-term loans or notes receivable or property acquired for resale unless the proceeds are restricted, committed or assigned.</td>
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<td>b) Legally or contractually required to be maintained intact.</td>
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<td><strong>Restricted</strong></td>
<td>If the answer to any of the questions listed below regarding resources is YES, classify the related fund balance as &quot;restricted&quot;. If the answer to ALL is NO, move on to the &quot;committed&quot; section.</td>
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<tr>
<td></td>
<td>a) Is your department's use of the resource restricted by grantors, laws, or regulations of other governments? If YES, input &quot;R1&quot;.</td>
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<td>b) Is your department's use of the resource restricted by the California Constitution, including Propositions that amend the Constitution? If YES, input &quot;R2&quot;.</td>
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<td>c) Is the authority to assess, levy, charge, and collect a resource from external parties, and the constraint that limits the use of the resource to a specific purpose, both contained in the same legislation? Is the constraint on the use of the resource legally enforceable? If the answers to both questions are YES, input &quot;R3&quot;.</td>
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<td></td>
<td>d) Is your department's use of the resource restricted by creditors, such as debt covenants for payment of debt service? If YES, input &quot;R4&quot;.</td>
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<td></td>
<td>e) Is your department's use of the resource restricted by conditions imposed by the donor of the resource? If YES, input &quot;R5&quot;.</td>
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<tr>
<td><strong>Committed</strong></td>
<td>If the resources in the fund do not meet the criteria for restricted, and the use of these resources is (a) constrained by the Legislature through statute and (b) cannot be used for any other purpose unless the Legislature statutorily amends the constraint, then the fund balance should be &quot;committed&quot;. Input &quot;C&quot;.</td>
</tr>
</tbody>
</table>

Please retain the documents used to support the fund balance classification for review by SCO and the Bureau of State Audits.
**Assigned**
For funds other than the General Fund: If fund balance is not classified as nonspendable, restricted or committed, it is "assigned". For the General Fund: Assignment represents the government's intent to use resources for a specific purpose; however, this should not result in a deficit unassigned fund balance. Input "A".
Examples of assigned fund balance are:
  a) Fund balance appropriated to eliminate a deficit in fund balance in the next fiscal year
  b) Transfers from the General Fund that are neither restricted nor committed
  c) Investment earnings, including grant interest, that are neither restricted nor committed
  d) Purchase orders that create outstanding encumbrances that are not related to restricted or committed resources

**Unassigned**
The General Fund can have either a positive or negative unassigned fund balance. Other funds can have only a negative unassigned fund balance if expenditures exceed the amounts available in the nonspendable, restricted, and committed classifications. These other funds should report a negative unassigned fund balance only after all assigned amounts have been eliminated. (If so, please provide an explanation in the Notes box.) As such, these funds could have either a positive assigned or a negative unassigned fund balance, not both. The General Fund should be the only fund that reports a positive unassigned fund balance amount. Input "U".

**(2) - Reference**
List the law, regulation, reference, etc. that your department used to help determine the fund balance classification for each fund. Sources include, but are not limited to, the California Constitution, California Statutes, DOF Manual of State Funds. For assigned and nonspendable, please provide a general description.

**(3) - Amount as of June 30**
If a fund incurs an expenditure for which more than one resource is available and these resources have different levels of constraint, then such resources should be applied against the expenditure in the following order: first, reduce "restricted" resources; then, "committed"; then, "assigned". For funds with multiple fund balance classifications or if the General Fund has other than an "unassigned" fund balance, input the amount for each fund balance classification as of June 30, 20XX, in whole dollars. The total fund balance for each fund should equal the June 30, 20XX Budgetary/Legal basis fund balance in Report 8:
  - Shared funds: GLA 5570; Non-shared funds: GLA 5530.

Please input positive amounts for normal balances.

Please return the completed form by **September 1, 20XX**, by e-mail as an Excel attachment to: **SGR@sco.ca.gov**

Scanned documents will not be accepted.