



SMITH & KLACZKIEWICZ, PC  
CPA'S AND CONSULTANTS

THOMAS J. SMITH, CPA 989-751-1167

ROBERT R. KLACZKIEWICZ, CPA 989-751-3064

A VETERAN OWNED BUSINESS

The Governmental Accounting Standards Board has recently issued a new pronouncement, GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB No. 54 eliminates the current use of the terms “reserved” and “designated” in the reporting of fund balance, and replaces those terms with five new categories for segregating fund balance.

The Partners at **Smith & Klaczkiewicz, PC** have familiarized themselves with this standard and when it comes time for your municipality to implement these new standards, we will be more than ready to assist you.

The standard is effective for periods beginning after June 15, 2010. Since the effective date is sometimes confusing, we have provided the following for when it will be effective for you fiscal year end:

<u>Fiscal Year End</u>	<u>Effective Year</u>
June 30	2011
September 30	2011
December 31	2011
March 31	2012

Early implementation of this standard is acceptable. If your municipality chooses to do so, please inform us prior to the start of your audit engagement and we will be more than willing to provide whatever assistance you may require.

Following are the new categories and related definitions to be used for describing the components of your fund balance:

- **Non-spendable** - Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables.
- **Restricted** - Reflects the same definition as restricted net assets: constraints placed on the use of amounts 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. This would generally include amounts in bonded capital projects funds and debt service funds.

- **Committed** - Includes amounts that are committed for specific purposes by formal action of the government's highest level of decision-making authority. Amounts classified as "committed" are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the government removes or changes the limitation by taking the same form of action it employed to previously impose the limitation.
- **Assigned** - Amounts that are intended by the government to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the board itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the board. This would include ANY activity reported in a fund other than the General Fund.
- **Unassigned** - Includes any remaining amounts after applying the above definitions. Planned spending in the subsequent year's budget would be included here and can no longer be described as "designated".

The standard also requires disclosure in the financial statements of any minimum fund balance policies. We encourage your municipality to become familiar with the new terms and definitions and work with the users of the financial statements to ensure a clear presentation and understanding of the new requirements.

This standard does not change the way net assets are reported in your enterprise or internal service funds.

Sincerely,

*Smith + Klauszewicz PC*