

GASB 54 Sub-Committee on Financial Management, Accounting and Reporting

March 21, 2011 Meeting Minutes

The GASB 54 Sub-Committee met on March 21, 2011.

Members in attendance: David Peterson- Chair, Jeff Yeager, Patrick Chaffey, Tracey Fioreck, Nancy Schulzetenberg, Pat Morphew Others in Attendance: Dianna Groskreutz, Region V; David Mol, CPA, HLB Tautges Redpath; Kim Hillberg, CPA, LarsonAllen

Minnesota Department of Education (MDE) Staff: Audrey Bomstad, Lisa DeRemee, Sarah Miller, Greg Hein

The meeting was opened by Chair David Peterson at 9:40 a.m.

The sub-committee members reviewed and approved the agenda.

The sub-committee reviewed and approved the meeting minutes from December 15, 2010 with one date correction January 12, 2011 instead of January 12, 2010.

The sub-committee tabled the discussion of agenda item number one in regards to the State Auditor's Statement of Position on GASB 54 until later in the meeting and proceeded to discussing agenda item number two "Questions on Implementation and Application of GASB 54 UFARS Balance Sheet Accounts – MDE staff.

The following questions were discussed with the sub-committee:

1. In Fund 06, districts may have bond funds (which would be restricted), but also transfers from the general fund of revenues that the board has committed for capital projects, including deferred maintenance revenue, health and safety, and (until committed by the board) unassigned general fund balance. Can year-end balances of funds (other than bond funds) be transferred back to the general fund?
 - A. *Amounts excess to a capital project that were transferred from the general fund may be transferred back prior to June 30 of the transfer year, unless the amount transferred exceeds the amount of the current year's transfers in to Fund 06. Minnesota Statutes, section 123B.79, Subd. 4 states that any transfer for a period in excess of one year shall be deemed to be a permanent transfer.*
 - B. Bond funds are restricted, must be recorded in Fund 06, and may not be transferred to the General Fund.

The sub-committee agreed that the Fund 06 issue had no affect on GASB 54 but that it would be advantageous to note in the UFARS manual and a School Business Bulletin article.

2. If a district has used GNL 418 in the past to record funds but the board were to instead assign the funds in FY 11 (General Ledger (GNL 462)), would this change affect the district's SOD calculation?
 - A. The SOD calculation is unchanged by GASB 54. All fund balances, except for those in restricted/reserved accounts specified by state statute, will be included in calculating total fund balance for SOD.

The sub-committee discussed Statutory Operating Debt (SOD) and that it would be calculated by using the yearly activity and ending balances of the following six accounts in the General Fund (01) only: 418 Committed for Separation/Retirement Benefits, 460 Nonspendable Fund Balance, 461 Committed Fund Balance, 462 Assigned Fund Balance, 464 Restricted Fund Balance and 422 Unassigned Fund Balance. The Restricted/Reserved Fund Balances—statutory reserves—would not be included in the SOD calculation.

3. **For sub-committee discussion:** Prior to GASB 54, select statutory reserve accounts (now recast as restricted/reserved) could report a deficit fund balance; for example, Health and Safety in Fund 01, and the ECFE, School Readiness and Community Education reserves in Fund 04. How should deficits in these programs be reported now, to GNL 463-unassigned? If reported in GNL 463, how will MDE track the “true” position of a particular restricted/reserve account's fund balance at year end for the purpose of calculating future levy adjustments (Health and Safety) or revenue adjustments (ECFE, School Readiness, Community Ed excess fund balance adjustments)? In the case where the ECFE program with a FY 11 beginning fund balance of \$0 or less runs a deficit in FY 11, should the district report an ECFE restricted/reserve account fund balance of \$0, and record the ECFE program's year-end deficit in Fund 04, GNL 463-unassigned?

The consensus of the subcommittee was that Community Education restricted/reserve accounts' deficits not be reported in UFARS as Unassigned Fund Balances to allow the statutory formula and fund balance calculations to work correctly. These accounts would instead be classified as Restricted/Reserved Fund Balances which are allowed to have negative balances; any deficits in these accounts would be interpreted by Auditors, MDE and UFARS as unassigned.

The UFARS Manual descriptions for these accounts will include this information for guidance. MDE will also need to accommodate this in revisions to the Fiscal Compliance Table for FY 2011 UFARS submissions so that any negative unassigned fund balance reported on districts' financial statements is crosswalked to the sum of any restricted/reserve accounts' deficits reported on UFARS.

4. **For sub-committee discussion:** GASB 54 allows special revenue funds to be committed and assigned. How does GASB 54 affect the reporting of funds that are statutorily restricted/reserved in Fund 04? Except for non-public pupil aids and early childhood screening aids, all funds for community education programs, ECFE, school readiness, and ABE are statutorily restricted/reserved. Are all aids, levies, and other revenue for community education/ECFE/school readiness/ABE programs to be reported

in their respective restricted/reserved accounts? What revenues, if any, recorded in Fund 04 could it be argued districts should be able to commit or assign?

It was discussed that according to GASB 54, Fund 02 and Fund 04 are classified as Special Revenue Funds. Fund 02 would be classified as restricted and Fund 04 would have both restricted (non-public pupil aids and early childhood screening aids) and restricted/reserved funds (431 Community Education, 432 Early Childhood and Family Education, 444 School Readiness and 447 Adult Basic Education). The committee discussed whether any funds districts report in Fund 04 could be classified as committed, assigned or unassigned. Audrey Bomstad cited:

Minnesota Statutes, Section 124C.20, Subd. 10 – **Reserve account.** Community education revenue, which includes aids, levies, fees, grants **and all other revenues received by the school district for community education programs**, must be maintained in a reserve account within the community service fund. (*emphasis added*)

The subcommittee confirmed its earlier conclusion that all activity school districts report in Fund 04 is either restricted or restricted/reserved; no Fund 04 resources are available to commit or assign.

5. **For sub-committee discussion:** GNL 418 , formerly designated and now Committed for Separation/Retirement Benefits, has historically been permitted in Fund 04, but was rarely if ever used by districts in Fund 04 prior to the implementation of GASB 45. The majority of districts still do not use this account in Fund 04. Does the definition of GNL 418 need to be more clearly articulated when community education, ECFE, school readiness, or ABE revenue is committed by the board for separation/retirement benefits?

There was a discussion on whether GNL 418 was allowable in Funds 02 and 04, which fund balances are restricted or restricted/reserved. There was a general consensus that GNL 418 not be permitted in these funds, as GASB 54 does not allow restricted funds to be committed. Districts could either commit funds in Fund 01 and make chargebacks for severance/retirement costs incurred by Funds 02 and/or 04; or they could budget internally for these costs within their restricted/reserved fund balance. MDE staff will research which schools are currently using GNL 418 in Fund 02 and Fund 04 and the source of those funds. Because GNL 418 has been excluded from Fund 04 excess fund balance calculations, this could affect those districts that had balances in this account at FY 2010 close. MDE may consider a waiver process to clean up 418 balances in Fund 04 in cases where the short notice for this change may result in excess fund balance adjustment.

6. **For subcommittee discussion:** Under current statutes, community education revenue is adjusted for excess fund balance calculated by combining the community education reserve (GNL 431) and community services fund unreserved (pre-GASB 54, GNL 422) fund balances. Under GASB 54 there can be no unrestricted/unreserved fund balance in Fund 04; so is only the restricted/reserved account (GNL 431) included in the calculation of the three-year average fund balance? Or should any committed (GNL 464), assigned (GNL 462), or negative unassigned (GNL 463) fund balance also be included in this calculation?

As discussed previously, the sub-committee agreed that for UFARS reporting, Fund 04 fund balances should all be classified as either restricted or restricted/reserved; and the restricted/reserved accounts may report a deficit. UFARS balance sheet data will be used in calculating excess fund balances.

7. ***For subcommittee discussion:*** What impact does GASB 54 have, if any, on reporting for the Trust (08), Agency (Fund 09), and Post-Employment Benefits Irrevocable Trust Fund (45)? Should the Post-Employment Benefits Debt Service Fund (47) be recast as restricted?

It was suggested to revise the GNL 422 Unassigned Fund Balance description into two sections addressing: 1) its use in recording unassigned fund balance in Fund 01; and 2) its use in recording net assets of Funds 08, 20, 25 and 45. Fund 09 may not have a fund balance.

Jeff Yeager introduced a discussion about whether under GASB 54 the FY 2011 tax shift amount should be treated more like a notes receivable from MDE to be reflected in the Nonspendable Fund Balance (460). He stated that it appears that it is not a spendable (available) resource for the Unassigned Fund Balance (422). The sub-committee discussed the intent of GASB 54 to represent funds by providing clearer fund balance classifications that can be more consistently applied enhancing fund balance usefulness. Further clarification/research would be conducted by MDE staff. It was also suggested that MDE consult with the Office of the State Auditor on their opinion.

Chair David Peterson referenced the "Statement of Position Fund Balances for Local Governments" (GASB 54 Version) from the State of Minnesota Office of the State Auditor (OSA). David pointed out that the OSA recommended the adoption of comprehensive fund balance policies (minimum and appropriate fund balance levels). It was pointed out that this statement of position was guided towards local governments reporting on a calendar year basis (i.e. cities/counties). The consensus of the Sub-committee is that districts/schools should locally address fund balance policies in accordance with GASB 54 guidelines and the hierarchy of funds (Nonspendable, Restricted, Committed, Assigned, Unassigned).

For schools' reference, Diana Groskreutz suggested updating the previously designed Excel spreadsheet (GASB 54 Sub-Committee working document) which listed new fund balance classifications along with statutory references. MDE staff and the GASB 54 Sub-Committee members would review and finalize for possible inclusion in the UFARS Manual and/or School Business Bulletin.

Agenda items discussed at the GASB 54 meeting would be summarized and presented to the Advisory Committee on Financial Management, Accounting and Reporting (March 21, 2011 12:30 p.m. meeting) by Chair David Peterson.

The meeting was adjourned at 11:35 p.m.