

SECTION 3 – GASB STATEMENT 34

Introduction

GASB Statement 34 makes sweeping changes in the way public school districts report their financial information. School districts will need to capitalize assets, record depreciation, and include a discussion of financial matters. But, where did this come from? What does this mean? What changes must we make? These and other questions were the topics of a yearlong review by a subcommittee of the Accounting Guidelines Committee in the state of Minnesota. The subcommittee was established in the summer of 2000 to review the requirements of GASB Statement 34 and to address implementation issues common to Minnesota school districts.

What is GASB?

The Governmental Accounting Standards Board (GASB) was formed in 1984 to develop and improve financial reporting rules for state and local governments in the United States, including school organizations. GASB rules must be followed by any entity when an audit report of that entity states that it follows generally accepted accounting principles (GAAP). 'GASB Statement 34' or 'GASB 34' refers to the issuance of Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, on June 30, 1999, a set of standards that was in development for over a decade.

According to the Association of School Business Officials (ASBO):

"Statement 34 is arguably the most significant change in the history of governmental accounting. It is a dramatic modification to the way that school organizations report and present financial information. The new reporting model affects every school organization that issues financial statements in conformance with generally accepted accounting principles (GAAP)." *Statement 34 Implementation Guide*, ASBO, p.1.

GASB Statement 34 requires that school organizations...

"begin to prepare financial statements consistent with the new standards in three phases, depending on the total revenues of the entity during its first fiscal year ending after June 15, 1999. Phase One school organizations with revenues of \$100 million or more must prepare the new financial statements for all fiscal years beginning after June 15, 2001. Phase Two school entities with revenues between \$10 and \$100 million must prepare the new financial statements for all fiscal years beginning after June 15, 2002. Phase Three districts with revenues under \$10 million must prepare the new financial statements for all fiscal years beginning after June 15, 2003." p.2.

Statement Features

According to the ASBO *Guide*, pages 1 and 2, there are several important features of the GASB 34 financial model including:

- *Government-Wide Financial Reporting*
Schools will now be required to produce financial reports that provide a clear picture of the organization as a single, unified entity. These new "district-wide" financial statements complement rather than replace traditional fund-based financial statements...

- *Additional Long-Term Focus for School Activities*
Traditional reporting for tax-supported activities has focused on short-term...balances. The new financial reporting model retains this short-term focus in the governmental fund financial statements while providing a long-term perspective on these same activities...
- *Narrative Overview and Analysis*
The new... model provides those who use financial reports with a simple narrative introduction, overview, and analysis of the ...financial statements in the form of management's discussion and analysis (MD&A).
- *Information on Major Funds*
There is a general consensus that fund information is most useful when presented for individual funds rather than when funds are combined...the new financial reporting model requires the presentation of individual fund data for each of the major funds in the school entity.
- *Expanded Budgetary Reporting*
...Under the new ...model, information on the original budget must also be presented. In addition, the new model eliminates aggregated budget presentations in favor of comparisons for the general fund and each individual major special revenue fund.

Further, the ASBO *Guide* states that school entities will be required to:

- Provide the most complete information ever available about the cost of delivering services to students; and,
- Include information about the capital and infrastructure assets of the school organization for the first time.

The committee recommended that school personnel use the *GASB Statement 34, Implementation Recommendations for School Districts* that is published by ASBO as a guide. Where deviations from the ASBO *Guide* are recommended, they are either contained in this writing or will be communicated in future bulletins. This guide can be purchased from ASBO Int'l, 11401 North Shore Dr., Reston, VA 20190-4200, (703) 478-0405 www.asbointl.org. The cost is \$25/\$35 for member/non-member. Another resource is the *Guide to Implementation of GASB Statement 34 on Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This document can be obtained from GASB by writing Governmental Accounting Standards Board, 401 Merritt 7, PO Box 5116, Norwalk, CT. 06856-5116 or calling 1-800-748-0659, ask for product code number GQA34.

Recommendations from the Committee

GASB Statement 34 gives school districts flexibility in preparing their statements. However, the committee believed school districts would achieve greater comparability and uniformity in financial reporting if districts apply the new standards using the same methodology. At the same time, the committee intended to have districts use existing data and accounting systems, not purchase new accounting systems.

A variety of communication tools will be used during the implementation process, including the placement of the recommendations (listed below) in superintendents' mailings, the use of the *School Business Bulletin*, the use of presentations at MDE training programs as well as other regional and state conferences. During implementation, members of the committee will collect samples of spreadsheets, software programs, and print materials for use by district personnel

1. Food Service Fund

GASB Statement 34 requires a school district to distinguish between "Governmental Activities" and "Business-Type Activities." The most common school district activity that may be classified as a business-type activity is the food service operation. In reviewing the criteria that would require

classification of the food service fund as a business-type activity, the committee concluded that the criteria would not be met for most Minnesota school districts. ***Therefore, the committee recommends that the food service fund be reported as a governmental activity in all districts.***

2. Statement of Activities

There are two areas of recommendations on the Statement of Activities that are drawn from *GASB Statement 34*.

- **Function/Program**

The new Statement of Activities requires districts to report expenditures by function. *The committee recommends that districts use the existing programs identified in the Uniform Financial Accounting and Reporting Standards (UFARS) Manual as the functions.* A district can report at a level of detail greater than this recommendation if desired.

- **Revenue Classifications**

The district-wide statement of activities requires districts to review all revenue accounts and classify them as program revenues or general revenues. Program revenues are further broken down into charges for services, operating grants and contributions, or capital grants and contributions. *The committee created a guide for Minnesota school use. The Revenue Classification Guide is contained as Attachment K.*

3. Budget Comparisons

GASB Statement 34 requires a budgetary comparison for the General Fund and each major special revenue fund. This may be done as a statement included in the basic financial statements or as a schedule included as required supplemental information. The committee recommends presenting the budgetary comparison as a required supplementary information schedule. The comparisons report BOTH original and final amended budgets.

4. Trust Funds

GASB Statement 34 requires dropping the concept of expendable and non-expendable trust funds. Funds previously reported as non-expendable, whose resources are used to support school district operations, are now reported in a new governmental fund type called "permanent funds." Funds previously reported as non-expendable, whose resources are not used to support school district operations, will continue to be reported as a fiduciary fund. Funds previously reported as expendable trust funds, and whose resources are used to support school district operations, are now reported as a special revenue fund. Previous expendable trust funds whose resources are not used for school district operations are reported in a fiduciary fund.

Currently UFARS requires the use of Fund 08 to account for trust funds. *The committee recommends districts establish separate funds, as applicable, to account for the activities as noted above.* These separate funds would then be crosswalked to Fund 08 for UFARS reporting.

5. Reconciliation Schedule

Because the district-wide and fund financial statements use different bases of accounting, a summary reconciliation describing the differences is required. This reconciliation can be provided directly on the fund statements or on an accompanying, separate schedule following each fund statement. *The committee recommends using a separate statement for the reconciliation.*

6. Management Discussion and Analysis

School districts must include a Management's Discussion and Analysis (MD&A), which is required supplementary information (RSI). The MD&A is required to precede the basic financial statements and notes. The committee recommends that district personnel use the ASBO *Guide* for implementing this feature of *GASB Statement 34*.

7. Capital Assets and Depreciation

The committee recommends that district personnel use the *ASBO Guide* for establishing thresholds and depreciation lives. The committee also recommends that personnel meet with their auditor(s) to discuss capital asset and depreciation implementation plans. See *Attachment L* for a partial list of appraisal companies and suggestions for implementation.

Special Thanks to the GASB 34 Committee

Members of the Division of School Finance of the Minnesota Department of Education extend their appreciation to each member of the committee for their many months of work in this endeavor. In particular, Darwin Viker, committee chairperson, is recognized for his many additional hours of work on the project.

The members of the original GASB 34 committee are listed below.

Kristine Carr NE Metro 916	Larry Shomion St. Paul Schools	Pat Leistikow Grand Rapid Schools
Jim Eichten MMKR	Darwin Viker Larson, Allen, Weishair	Lori Mohs Skyward Software Co.
Chuck Irrgang MPLS Schools	Jim Westrum Osseo Public Schools	Pat Morpew Worthington Schools
Thomas Karlson State Auditor's Office	Jeff Yeager ARCC- Region II	Jon Nygaard West Central Area Schools
Bill Lauer MMKR	Nancy Schultz Designs for Learning	Nancy Ramler CMCC - Region III
Pat Leistikow Grand Rapid Schools	Kristine Carr NE Metro 916	Larry Shomion St. Paul Schools
Lori Mohs Skyward Software Co.	Jim Eichten MMKR	Darwin Viker Larson, Allen, Weishair
Pat Morpew Worthington Schools	Chuck Irrgang MPLS Schools	Jim Westrum Osseo Public Schools
Jon Nygaard West Central Area Schools	Thomas Karlson State Auditor's Office	Jeff Yeager ARCC- Region II
Nancy Ramler CMCC - Region III	Bill Lauer MMKR	Nancy Schultz Designs for Learning

Department of Education Staff:

Dick Guevremont
Debrah Firkus
Charles Speiker

ATTACHMENT K

Revenue Classification Guide

Source	Description	General Purposes	Charges For Services	Operating Grants	Capital Grants
001	Property Tax Levies	G			
004	From Municipalities	G			
009	Fiscal Disparities	G			
010	Cty Apportionment	G			
014	TAC Homestead Credit	G			
015	IRRRB Grant			P	G
016	TAC Levy Replacement	G			
017	TAC Gen Ed Aid Replace	G			
018	TAC Referendum Paymt	G			
019	Misc Local Taxes	G			
020	Prop Tax Shift Rec	G			
021	From MN District		G		
022	Reimburse Spec Ed Salary		G		
031	From Non MN District		G		
035	From Non MN Non-District		G		
040	Tuition from Patrons		G		
050	Fees from Patrons		G		
060	Student Activity		G		
071	Medicaid fr Dept of Hu. Serv.		G		
072	Medicaid Pmts-Private Insur		G		
092	Interest Earnings	G			
093	Rent		G		
096	Gift/Bequest-Local	G		P	P
099	Misc Local Revenue	G		P	P
201	Endow Fund Apportion	G			
211	Gen Ed Aid	G		P	P
213	Shared Time	G			
227	Abatement Aid	G			
229	Disparity Reduction Aid	G			
234	Homestead/Ag Credit	G			
235	Private Alt Program Aid	G			
258	Other State Credits	G			
296	Property Tax Shift Offset Adj	G			
298	Levy Equity Adjustments	G			
299	State Aid Adjustments	G			
300	State Aids and Grants			G	
301	Non Public Aid			G	
307	Health and Safety Aid				G
308	Interactive TV Aid				G
309	Debt SVC Equal Aid	G			
360	Spec Education Aid			G	
369	Misc State Revenue			G	P
370	Other Aid/MN Child			G	P
400	Federal Aids and Grants			G	P
405	Federal Flow Through-Other			G	P
471	School Lunch-Fed			G	
472	Free/Reduced Lunch			G	
473	Commodity Cash Rebate			G	
474	Commodity Distribution			G	
475	School Milk			G	
476	School Breakfast			G	

Source	Description	General Purposes	Charges For Services	Operating Grants	Capital Grants
477	Cash in Lieu Commod			G	
479	Summer Food SVC Prog			G	
500	Fed Direct Aid&Grant			G	P
506	Impact Aid	G		P	
601	Sale to Pupils		G		
606	Sale to Adults		G		
608	Spec Func Food Sales		G		
614	Contribution to OPEB Trust	G			
615	Contributions for OPEB	G			
616	Retiree Contribution to Trust	G			
619	Cost of Materials (contra)	G			
620	Cost of Materials	G			
621	Sale SVCS/Resale Mat		G		
622	Sale of Materials		G		
623	Real Property Sales		G		
624	Sale of Equipment		G		
625	Insurance Recovery		G		
628	Judgments	G			
629	Health and Safety Revenue	G			
631	Sale of Bonds		Balance Sheet Item		
635	Certificates of Participation		Balance Sheet Item		
636	Capital Loans		Balance Sheet Item		
637	Debt Service Loans		Balance Sheet Item		
639	Non-State Loans		Balance Sheet Item		

G = Generally

P = Potentially

Certain transactions that are unusual in nature and infrequent in occurrence may be appropriately reported as extraordinary items. Significant transactions within the control of management that are either unusual in nature or infrequent in occurrence may be reported as special items. Both special items and extraordinary are shown separately from revenues and expenses specifically because they are not representative of the district's usual annual financial transactions.

ATTACHMENT L

Appraisal Companies ¹

Name	Address	City	State	Postal	Phone
Advanced Bar Code Solutions	7308 Aspen Lane Suite 111	Brooklyn Park	MN	55428	(763) 424-4992
American Appraisal Associates	411 East Wisconsin Avenue Suite 1900	Milwaukee	WI	53201	
Industrial Appraisal Company Bob Wentzel	250 Prairie Center Drive Suite 325	Eden Prairie	MN	55344	(952) 942-6734
RCI Technologies, Inc.	10826 Gulfdale	San Antonio	TX	78216	(210) 366-4127
Valuation Advisory Group, Inc.	445 Pharr Road NE	Atlanta	GA	30305	(404) 841-0992
Valuations Northwest Inc.	17 N Orchard Street	Boise	ID	83709	(800) 624-9993
VRM, Inc. Mark T. Small	2817 Anthony Lane South	Minneapolis	MN	55418	(612) 788-2335

¹ This partial list of companies is not endorsed by the committee.

Other suggestions from the committee concerning fixed asset records include:

1. School district personnel should follow the guidance in the *ASBO Implementation Guide* for establishing capitalization thresholds and depreciation lives. The Department of Education will be changing the *UFARS Manual* to be consistent with this guide.
2. Before hiring an appraisal company, district personnel should meet with their auditor(s) to discuss plans for identifying capital assets, establishing thresholds, calculating depreciation lives and other assumptions that need to be clarified. Personnel will also need to identify which program/functions will be used in the financial statements to appropriately sort assets.
3. District personnel should meet with software vendors prior to having an appraisal. Items to be discussed include:
 - How are fixed asset records going to be maintained in the future?
 - Will the vendor have a fixed asset module?
 - Will the module calculate depreciation?
 - Will the appraisal company be able to download its data to a particular vendor system?

If people have names of other appraisal companies that should be placed on this list, they should send them to mde.ufars-accounting@state.mn.us. Modifications to the list will be placed on the Financial Management website as well as used in training sessions and special mailings.

SECTION 4 – GASB STATEMENT 45

Introduction

In addition to pensions, many state and local governmental employers provide other post-employment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes post-employment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. Statement 45 establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

What is GASB?

The Governmental Accounting Standards Board (GASB) was formed in 1984 to develop and improve financial reporting rules for state and local governments in the United States, including school organizations. GASB rules must be followed by any entity when an audit report of that entity states that it follows generally accepted accounting principles (GAAP). 'GASB Statement 45' or 'GASB 45' refers to the issuance of Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in July 2004.

Statement Features

As noted in the statement, the requirements of *GASB 45* are to improve financial reporting.

Postemployment benefits (OPEB, as well as pensions) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including postemployment healthcare and other OPEB, are taken after the employee's services have ended. Nevertheless, both types of benefits constitute compensation for employee services.

From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, should generally be associated with the period in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to:

- recognize the cost of benefits in periods when the related services are received by the employer;
- provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and/or
- provide information useful in assessing potential demands on the employer's future cash flows.

This statement improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement of recognition of OPEB cost (expense) over a period that approximates employees' years of service and by providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

The *Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits* is a good resource available to school personnel. This document can be obtained from GASB by writing Governmental Accounting Standards Board, Order Department, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116 or calling 1-800-748-0659. Ask for Product Code GQA43/45.

Effective Date

The requirements of this statement are effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999.

- Governments that were phase one governments for the purpose of implementation of Statement 34—those with annual revenues of \$100 million or more—are required to implement this statement in financial statements for periods beginning after December 15, 2006.
- Governments that were phase two governments for the purpose of implementation of Statement 34—those with total annual revenues of \$10 million or more but less than \$100 million—are required to implement this statement in financial statements for periods beginning after December 15, 2007.
- Governments that were phase three governments for the purposes of implementation of Statement 34—those with total annual revenues of less than \$10 million—are required to implement this statement in financial statements for periods beginning after December 15, 2008.

Earlier application of this Statement is encouraged. All component units should implement the requirements of this Statement no later than the same year as their primary government.

Determine Amount to be Funded for Current Year

Under the requirements of *GASB 45*, all districts have an obligation to recognize and report their annual required contribution (ARC). Regardless of the current funded status of the plan, the district has an ARC that comprises two components: normal costs, which will apply as long as there are covered active employees providing new services to the employer, plus (or minus) a component for amortization of the total unfunded actuarial accrued liabilities (or funding excess). This document does not address specifics relating to the actuarial determination of the district's unfunded liability.

There are several options a school district has when funding its postemployment benefits in any given year.

- Fund the entire unfunded actuarial accrued liability (UAAL) plus normal cost in a single payment, if sufficient resources are available.
- Fund an amount less than the unfunded actuarial accrued liability plus normal cost but in excess of the annual required contribution (ARC).
- Fund the annual required contribution.
- Fund an amount less than the annual required contribution.

The amount of postemployment benefits to be funded in any given year is dependent on various factors. The dollar amount that a district contributes is impacted by all of the following: the size of the district's liability; requirements for current year payment for postemployment benefits; available resources in the district's budget; and the amount of fund balance or bonding authority, if any, the district decides to use.

A school district may fund any amount up to its total unfunded liability plus current year normal cost, through pay-as-you-go payments or contributions to an irrevocable trust. Though districts are authorized to have a revocable trust or reserve bond proceeds in the general fund for OPEB, they would not be funding the OPEB liabilities according to GASB 45. These funds would simply be reported in the internal service or general fund of the district because the district would still have ownership or control of the assets.

Requirements for Establishing a Trust

This document provides current requirements concerning establishment of a benefit trust by school districts for postemployment benefits. Financial information in a school district annual report to the Minnesota Department of Education (MDE) must be based on the accounting system prescribed in the Uniform Financial Accounting and Reporting Standards (UFARS) Manual.

These requirements apply to all postemployment benefit plans where the district is providing for such benefits by contributions to a legally established revocable or irrevocable trust. Reference Minnesota Statutes, section 471.6175, Subdivision 7, (Minnesota Laws 2008, Chapter 154, Article 10, Section 18) for the restrictions on the withdrawal of funds and termination of account for revocable and irrevocable trusts.

Unless a school district has established a trust, postemployment benefits are reported as a cost when payment for the benefit is made. This is a pay-as-you-go method, in contrast to recording cost when earned, that is, recording a cost as employees are providing services to the district. If pay-as-you-go payments are made out of the operating funds of the district, those payments are considered contributions in relationship to the ARC. This does not prohibit districts from establishing trusts for select groups of employees, while using pay-as-you-go for other groups.

MDE recognizes that postemployment benefits may represent a significant liability that districts may want to fund. MDE also acknowledges that it is fiscally appropriate to have the cost and funding recognized and provided for such benefits as they are earned.

- UFARS has a separate reserve account, Reserve for OPEB Liabilities Not Held in a Trust (Balance Sheet 452), for reporting bond proceeds set aside and restricted/reserved for postemployment benefits.
- UFARS has a separate internal service fund, Postemployment Benefits Revocable Trust (Fund 25), for reporting resources set aside and held in a revocable trust arrangement for postemployment benefits.
- UFARS has a separate accounting fund, Postemployment Benefits Irrevocable Trust Fund (Fund 45), for reporting resources set aside and held in an irrevocable trust arrangement for postemployment benefits.

The following are conditions and considerations in the use of a revocable or irrevocable Postemployment Benefits Trust Fund:

- The postemployment benefits accounted for in the fund must result from a written or implied contractual agreement as compensation for employee services. The district's obligation to pay for the benefits must accumulate during employment although the actual benefits are provided and payment for the provided benefits does not occur until after employment.
- The school board must agree in a formal, legally constituted trust agreement to establish a trust to hold and disburse resources set aside for the postemployment benefits. Employees eligible for benefits paid through the trust shall be notified that they may obtain a copy of the trust agreement upon request.
- For an irrevocable trust, physical segregation of trust assets must be made; the trust fund may not be merely an accounting shell consisting of a fund on the district's accounting records. Trust fund assets cannot be used for purposes other than those necessary to provide benefits for which the irrevocable trust was established.
- The department, in establishing accounting and reporting requirements for postemployment benefits, is not making a legal determination as to the authority of the school district to provide a particular benefit, nor is it making a limitation on benefits that the district has authority to provide.

- Any trust fund established must be in accordance with Minnesota Statutes.
 - a. Minnesota Statutes, section 471.6175, (Minnesota Laws 2008, Chapter 154, Article 10, Section 18, signed into law on March 7, 2008) gives school districts the authority to establish a trust for postemployment benefits (OPEB) under GASB 45.
 - b. Minnesota Laws 2008, Chapter 154, Article 10, Section 27, validates trusts created prior to June 6, 2006.
 - c. For terms of withdrawals from and termination of the trust account, reference Minnesota Statutes, section 471.6175, Subdivision 7.
- The *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Cod. Sec. P20.504 [GASB 27 ¶ 39, GASB 45 ¶ 40]) issued by the Governmental Accounting Standards Board (GASB) has identified acceptable cost methods to determine the annual required contribution (ARC) necessary to fund government employee benefit plans on an actuarial method.
- The United States Office of Management and Budget, in OMB Circular A-87, has established the standards for determining costs eligible to be charged to federally funded financial programs. Districts should reference the OMB Circular A-87 for additional details (see page 19, Attachment B, Section 8(f)-Compensation for personal services, postemployment health benefits).
 - a. Postretirement health benefits (PRHB) refers to costs of health insurance or health services, not included in a pension plan, for retirees and their spouses, dependents, and survivors.
 - b. PRHB costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.
 - c. For PRHB financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.
 - d. PRHB costs calculated using an actuarial cost method recognized by GAAP are allowable if they are funded for that year within six months after the end of that year. Costs funded after the six-month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant agency may agree to an extension of the six-month period if an appropriate adjustment is made to compensate for the timing of the charges to the federal government and related federal reimbursements and the governmental unit's contributions to the PRHB fund. Adjustments may be made by cash refund, reduction in current year's PRHB costs or other equitable procedures to compensate the federal government for the time value of federal reimbursements in excess of contributions to the PRHB fund.
 - e. Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the government's contribution in a future period.
 - f. When a governmental unit converts to an acceptable actuarial cost method and funds PRHB costs in accordance with this method, the initial unfunded liability attributable to prior years shall be allowable if amortized over a period of years in accordance with GAAP or, if no such GAAP period exists, over a period negotiated with the cognizant agency.
 - g. To be allowable in the current year, the PRHB costs must be paid either to: an insurer or other benefit provider as current year costs or premiums; or an insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing postretirement benefits to retirees and other beneficiaries.
 - h. The federal government shall receive an equitable share of any amounts of previously allowed postretirement benefit costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal or other credit.

- The contributions to the trust fund are to be reported as postemployment benefits up to or equal to the ARC (Object Code 252) and associated with the program code corresponding to the activities of the employee.
- The requirements identified in this section are subject to future revision to be in compliance with state and federal legal requirements and with GASB pronouncements.

Accounting Treatment

Guidelines to assist with the recording of financial transactions relating to other postemployment benefits (OPEB) expenditures are included in the next sections as follows:

- Pay-As-You-Go Funding (No Reserve or Restricted/Reserved in Fund 01 – Balance Sheet 452)
- Revocable Trust Fund Established (Fund 25)
- Irrevocable Trust Fund Established (Fund 45)

The guidelines represent the entries for the governmental funds only and do not include reporting required on the government-wide statements. Any difference between the Annual Required Contribution (ARC) and the amount paid or funded represents an underpayment or overpayment and must be reported on the government-wide statements.

All costs need to be recorded to the appropriate program codes. Do not use Program Code 930 for object codes 191, 252, 290 or 291. See Chapter 13 of the UFARS Manual referencing federal indirect cost rates.

Implicit Rate Subsidy

If your insurance plan covers both active employees and current retirees under the same premium, an implicit rate subsidy may have been calculated in your actuarial determination. The health insurance payment for retirees must be paid based on the value of the premium that was used in the determination rather than the actual cost of the premium. You may be able to determine this value from your actuarial study or you may need to contact your actuary. Since the premiums for active employees are subsidizing the retiree portion of the insurance plan, any variance between the value of the premium and premium actually charged the district goes back to the district and is accounted for by a reduction to the active employee costs for health insurance.

Determine Allocation of Contribution

To meet UFARS guidelines and federal reporting requirements, costs must be allocated equitably across all employees within the class. One method to achieve this may be to establish a contribution rate to apply to current employees eligible for postemployment benefits. Another method to achieve this consistency may be to divide the contribution by the total number of current employees eligible for postemployment benefits. Whatever method is used, the funds must be equitably distributed across all employees within the class that are eligible for postemployment benefits being funded.

Method #1 Based on Eligible Payroll

- 1a.** Determine which postemployment benefits to include in the funding and the employee groups that are eligible for those benefits. You may want to refer to your actuary report for this information. For example, if all employees receive the same postemployment benefit then all employee groups will be included. If only teachers are eligible for the postemployment benefit to be funded, then only teachers would be included.
- 1b.** Determine amount of eligible payroll for the affected employees.
- 1c.** Divide the value of the postemployment benefits for the group by the eligible payroll for the group to get a contribution rate.
- 1d.** Apply the contribution rate through the payroll system.

Example:

In the following example, the amount to be contributed to the trust for other postemployment benefits is \$1,031,999. The district's total ARC is \$1,250,908, which means the district is funding the trust at a rate of 82.5 percent. The contribution does not exceed the ARC. If it did, the excess would not be eligible for federal aid and would not be allocated using the contribution rate for that year. See OMB Circular A-87, section 8(f), for instructions related to amounts funded in excess of the actuarially determined amount.

OPEB is provided to teachers, administrators, food service workers and secretaries so the wages from all four of these groups are included in the calculation of the OPEB contribution rate. Wages for nurses, custodial/maintenance and paraprofessionals are not included because these employee groups do not participate in the benefits being funded.

Administrator	\$ 1,573,622
Health	
Custodial/Maintenance	
Food Service	251,528
Paraprofessionals	
Secretary	1,758,212
Teacher	16,668,655
Total Wages Basis	<u>\$20,252,017</u>
Health insurance	\$ 979,994
Dental insurance	50,567
Life insurance	<u>1,438</u>
Amount to be funded	<u>\$ 1,031,999</u>
Contribution rate:	
(1,031,999 divided by 20,252,017)	5.10%
Object Code	252

Method #2 Based on Number of Employees

- 2a.** Determine which postemployment benefits to include in the funding and the employee groups that are eligible for those benefits. You may want to refer to your actuary report for this information. For example, if all employees receive the same postemployment benefit then all employee groups will be included. If only teachers are eligible for the postemployment benefit to be funded, then only teachers would be included.
- 2b.** Divide the contribution dollar amount for the group by the eligible employees in the group to get a contribution dollar amount.
- 2c.** Apply the dollar amount through the payroll system.

Example

In the following example, the amount to be contributed to the trust for other postemployment benefits is \$1,031,999. The district's total ARC is \$1,250,908 which means the district is funding the trust at a rate of 82.5 percent. The contribution does not exceed the ARC. If it did, the excess would not be eligible for federal aid and would not be allocated using the contribution amount for that year. See OMB Circular A-87, section 8(f), for instructions related to amounts funded in excess of the actuarially determined amount.

For this example, OPEB is provided to teachers, administrators, food service workers and secretaries so the employees from all four of these groups are included in the calculation of the OPEB contribution amount. Nurses, custodial/maintenance and paraprofessionals are not included because these employee groups do not participate in the benefits being funded.

Health insurance	\$ 979,994
Dental insurance	50,567
Life insurance	1,438
Amount to be funded	\$ 1,031,999
 Total employees in groups funded	 522
 Contribution amount: (1,031,999 divided by 522)	 \$ 1,977
 Object Code	 252

**Financial Transaction Accounting
Other Postemployment Benefits (OPEB)
Pay-As-You-Go Funding**

The following are guidelines to assist with the recording of financial transactions relating to other postemployment benefits (OPEB) expenditures. This section of the document assumes the district is reporting the postemployment benefits as a cost when payment for the benefit is made. This is a "pay-as-you-go" method, in contrast to recording cost "when earned," that is, recording a cost as employees are providing services to the district. These payments are considered as contributions in relationship to the ARC. This does not prohibit districts from establishing trusts for select groups of employees, while using "pay-as-you-go" for other groups.

The following guidelines are presented in the order in which tasks are generally performed.

Step 1 – Record payments for member benefits

For illustration purposes only, the following transactions assume the following total monthly insurance premium for all employees and retirees:

	Total Cost	Employees	Retirees
Health insurance	\$25,000	\$20,000	\$5,000
Implicit rate subsidy	0	(500)	500
	\$25,000	\$19,500	\$5,500
Dental insurance	4,000	3,000	1,000
Life insurance	5,000	3,500	1,500
Total payment	\$34,000	\$26,000	\$8,000
Retiree contribution	(1,000)	0	(1,000)
Net cost	\$33,000	\$26,000	\$7,000

1a. Record payment to provider of health insurance.

DR:	OPEB Costs (Operating Fund, Program, Object Code 291)	5,500	
DR:	Health Insurance (Operating Fund, Program, Object Code 220)	19,500	
CR:	Operating Fund, Cash or Investment Account		25,000

1b. Record payment to provider of dental insurance.

DR:	OPEB Costs (Operating Fund, Program, Object Code 291)	1,000	
DR:	Dental Insurance (Operating Fund, Program, Object Code 235)	3,000	
CR:	Operating Fund, Cash or Investment Account		4,000

1c. Record payment to provider of life insurance.

DR:	OPEB Costs (Operating Fund, Program, Object Code 291)	1,500	
DR:	Life Insurance (Operating Fund, Program, Object Code 230)	3,500	
CR:	Operating Fund, Cash or Investment Account		5,000

1d. If applicable, recognize retiree share of benefit costs.

DR:	Operating Fund, Cash or Investment Account	1,000	
CR:	Health insurance (Operating Fund, Program, Object Code 291)		1,000

Note: If payment is made with bond proceeds held in the Restricted/Reserved for OPEB Liabilities Not Held in a Trust (Balance Sheet 452) instead of unassigned operating funds, then the Finance Code 793 should be included with the Object Code 291 entries 1a, 1b, 1c, and 1d. Refer to the Bonding for OPEB Liabilities section below for more details.

Step 2 – Set up additional amount earmarked by school board

For illustration purposes only, the following transaction assumes the school board approved an increase of \$100,000 to the designation for OPEB. No designation is recorded in UFARS. However, districts may want to use a unique code at the local level to identify designated funds.

DR:	Unassigned Fund Balance	100,000	
CR:	Designated for future OPEB contributions (Committed Fund Balance)		100,000

**Financial Transaction Accounting
Other Postemployment Benefits (OPEB)
Revocable Trust Fund Established (Fund 25)**

The following are guidelines to assist with the recording of financial transactions relating to other postemployment benefits (OPEB). This document assumes the district has met all requirements for the establishment of a revocable trust for other postemployment benefits (OPEB). For this information, please refer to *Requirements for Establishing a Trust* earlier in this section.

The following guidelines are presented in the order in which tasks are generally performed.

Step 1 – Contribution to the revocable trust to fund the Annual Required Contribution (ARC)

For illustration purposes, the following transactions assume a monthly cost allocation for postemployment benefits to one individual with wages of \$25,000 and using allocation Method 1, as shown below.

Health Insurance	\$1,200	(\$25,000 x 4.80%)
Dental Insurance	\$50	(\$25,000 x .20%)
Life Insurance	<u>\$25</u>	(\$25,000 x .10%)
	\$1,275	5.10%

- 1a.** Record OPEB expenditures through the payroll system. Amount based on contribution rate.

DR:	Operating Fund, Program, Object 252	1,275	
CR:	Payroll Liability Account (Liability 215)		1,275

- 1b.** Record contribution from district to Employee Benefit Trust Fund.

DR:	Payroll Liability Account (Liability 215)	1,275	
CR:	Operating Fund, Cash or Investment Account		1,275

- 1c.** Record contribution in Employee Benefit Trust Fund (Fund 25) received from district.

DR:	Fund 25, Cash or Investment Account	1,275	
CR:	Fund 25, contributions to Employee Benefit Trust (Source Code 614)		1,275

Step 2 – Additional contribution to the revocable trust in excess of the Annual Required Contribution (ARC)

For illustrative purposes, the district makes a current year contribution of \$200,000 in excess of the ARC.

- 2a.** Record contribution from district to revocable Employee Benefit Trust Fund.

DR:	Operating Fund, Program, Object Code 290	200,000	
CR:	Operating Fund, Cash or Investment Account		200,000

- 2b.** Record contribution in revocable Employee Benefit Trust Fund (Fund 25) received from district.

DR:	Fund 25, Cash or Investment Account	200,000	
CR:	Fund 25, contributions to revocable Employee Benefit Trust (Source Code 614)		200,000

Step 3 - Record payments from trust fund for member benefits

The following illustrates transactions that occur in the employee benefit trust fund and how they are accounted for. For illustration purposes only, the following transactions assume a monthly insurance premium for one current retiree.

Health Insurance	\$1,500 (actual premium)
Health Insurance	\$1,800 (value of premium)
Health Insurance	\$300 (implicit rate subsidy)
Dental Insurance	\$400
Life Insurance	\$100

- 3a.** If applicable, to recognize retiree share of benefit costs (2% of health insurance premium).

DR:	Fund 25, Cash or Investment Account	30	
CR:	Fund 25, plan member contributions (Source Code 616)		30

3b. Record direct payment for retiree, from trust fund, to provider of health insurance.

DR:	Fund 25, trust fund disbursements (Program Code 935, Object Code 220)	1,500	
CR:	Fund 25, Cash or Investment Account		1,500

3c. Record payment to district operating funds to cover implicit rate subsidy.

DR:	Fund 25, Trust Fund disbursements (Program Code 935, Object Code 220)	300	
CR:	Fund 25, Cash or Investment Account		300
DR:	Operating Fund, Cash or Investment Account	300	
CR:	Operating Fund, Program, Object Code 220		300

3d. Record direct payment for retiree, from trust fund, to provider of dental insurance.

DR:	Fund 25, Trust Fund disbursements (Program Code 935, Object Code 235)	400	
CR:	Fund 25, Cash or Investment Account		400

3e. Record direct payment for retiree, from trust fund, to provider of life insurance.

DR:	Fund 25, Trust Fund disbursements (Program Code 935, Object Code 230)	100	
CR:	Fund 25, Cash or Investment Account		100

3f. If your district pays the premiums on retirees in combination with active employees, the payment would be accounted for as follows. Keep in mind that the benefit may not be paid from the trust until it has been incurred. Withdrawing money from the trust prior to payment of the benefit may be in violation of the trust agreement as well as IRS regulations.

Record payment from trust fund to district.

DR:	Fund 25, Trust Fund disbursements (Program Code 935, Object Code 220)	1,800	
CR:	Fund 25, Cash or Investment Account		1,800
DR:	Fund 01, Cash or Investment Account	1,800	
CR:	Fund 01, Payroll Liability Account (Liability 215)		1,800

Record payment by district to provider:

DR:	Fund 01, Payroll Liability Account (Liability 215)	1,500	
CR:	Fund 01, Cash or Investment Account		1,500
DR:	Fund 01, Payroll Liability Account (Liability 215)	300	
CR:	Operating Fund, Program, Object Code 220		300

**Financial Transaction Accounting Other Postemployment Benefits (OPEB)
Irrevocable Trust Fund Established (Fund 45)**

The following are guidelines to assist with the recording of financial transactions relating to other postemployment benefits (OPEB). This document assumes the district has met all requirements for the establishment of an irrevocable trust for other post-employment benefits (OPEB). For this information, please refer to *Requirements for Establishing a Trust* earlier in this section.

The following guidelines are presented in the order in which tasks are generally performed.

Step 1 – Contribution to the irrevocable trust to fund the Annual Required Contribution (ARC)

For illustration purposes, the following transactions assume a monthly cost allocation for postemployment benefits to one individual with wages of \$25,000 and using allocation Method 1, as shown below.

Health insurance	\$1,200	(\$25,000 x 4.80%)
Dental insurance	\$50	(\$25,000 x .20%)
Life insurance	<u>\$25</u>	(\$25,000 x .10%)
	\$1,275	5.10%

- 1a.** Record OPEB expenditures through the payroll system. This amount is for funding the ARC only and is based on the contribution rate.

DR:	Operating Fund, Program, Object Code 252	1,275	
CR:	Payroll Liability Account (Liability 215)		1,275

- 1b.** Record contribution from district to irrevocable Employee Benefit Trust Fund.

DR:	Payroll Liability Account (Liability 215)	1,275	
CR:	Operating Fund-Cash or Investment Account		1,275

- 1c.** Record contribution in irrevocable Employee Benefit Trust Fund (Fund 45) received from district.

DR:	Fund 45, Cash or Investment Account	1,275	
CR:	Fund 45, Contributions to Irrevocable Employee Benefit Trust (Source Code 614)		1,275

Step 2 – Additional contribution to the irrevocable trust in excess of the Annual Required Contribution (ARC)

For illustrative purposes, the district makes a current year contribution of \$200,000 in excess of the ARC.

- 2a.** Record contribution from district to irrevocable Employee Benefit Trust Fund.

DR:	Operating Fund, Program, Object Code 290	200,000	
CR:	Operating Fund, Cash or Investment Account		200,000

- 2b.** Record contribution in irrevocable Employee Benefit Trust Fund (Fund 45) received from district.

DR:	Fund 45, Cash or Investment Account	200,000	
CR:	Fund 45, Contributions to Irrevocable Employee Benefit Trust (Source 614)		200,000

Step 3 – Record payments from trust fund for member benefits

The following illustrates transactions that occur in the employee benefit trust fund and how they are accounted for. For illustration purposes only, the following transactions assume a monthly insurance premium for one current retiree:

Health insurance	\$1,500 (actual premium)
Health insurance	\$1,800 (value of premium)
Health insurance	\$300 (implicit rate subsidy)
Dental insurance	\$400
Life insurance	\$100

3a. If applicable, to recognize retiree share of benefit costs (2% of health insurance premium):

DR:	Fund 45, Cash or Investment Account	30	
CR:	Fund 45, plan member contributions (Source Code 616)		30

3b. Record direct payment for retiree, from trust fund, to provider of health insurance.

DR:	Fund 45, Trust Fund disbursements (Program Code 935, Object Code 220)	1,500	
CR:	Fund 45, Cash or Investment Account		1,500

3c. Record payment to district operating funds to cover implicit rate subsidy.

DR:	Fund 45, Trust Fund disbursements (Program Code 935, Object Code 220)	300	
CR:	Fund 45, Cash or Investment Account		300
DR:	Operating Fund, Cash or Investment Account	300	
CR:	Operating Fund, Program, Object Code 220		300

3d. Record direct payment for retiree, from trust fund, to provider of dental insurance.

DR:	Fund 45, Trust Fund disbursements (Program Code 935, Object Code 235)	400	
CR:	Fund 45, Cash or Investment Account		400

3e. Record direct payment for retiree, from trust fund, to provider of life insurance.

DR:	Fund 45, Trust Fund disbursements (Program Code 935, Object Code 230)	100	
CR:	Fund 45, Cash or Investment Account		100

3f. If your district pays the premiums on retirees in combination with active employees, the payment would be accounted for as follows. Keep in mind that the benefit may not be paid from the trust until it has been incurred. Withdrawing money from the trust prior to payment of the benefit may be in violation of the trust agreement as well as IRS regulations.

Record payment from trust fund to district:

DR:	Fund 45, Trust Fund disbursements (Program Code 935, Object Code 220)	1,800	
CR:	Fund 45, Cash or Investment Account		1,800
DR:	Fund 01, Cash or Investment Account	1,800	
CR:	Fund 01, Payroll Liability Account (Liability 215)		1,800

Record payment by district to provider:

DR:	Fund 01, Payroll Liability Account (Liability 215)	1,500	
CR:	Fund 01, Cash or Investment Account		1,500
DR:	Fund 01, Payroll Liability Account (Liability 215)	300	
CR:	Operating Fund, Program, Object Code 220		300

Bonding for OPEB Liabilities

The Omnibus Tax Bill (2008 Minn. Laws, Chapter 154, Article 10) contains a provision that provides authority for school district boards to issue bonds without voter approval for funding actuarial liabilities to pay other postemployment benefits (OPEB), as defined by the Governmental Accounting Standards Board (GASB) Statement No. 45. A district may annually make a debt service levy in the newly created OPEB Debt Service Fund (Fund 47) to service the payment of principal and interest on those bonds.

The Minnesota Department of Education has worked with the Office of the State Auditor (OSA), the Advisory Committee on Financial Management, Accounting and Reporting, the GASB 45 Committee, and other individuals to determine the extent of the authority provided by the law and to develop accounting procedures for districts whose school boards choose to issue these taxable bonds.

Based on the legislation and consultation, it has been determined that districts issuing bonds should record the bond proceeds into the Operating Funds (Funds 01, 02, and/or 04) and transfer the funds to the appropriate account, if necessary. The bond proceeds may be held in a separate account within the Operating Funds if no trust account is established (Balance Sheet Account 452), a Revocable Trust Internal Service Fund (Fund 25), or an Irrevocable Trust Fund (Fund 45). A summary of accounting entries are identified as follows:

ACCOUNTING FOR	Operating	Operating	Internal	Internal	Fund
OTHER POST-EMPLOYMENT	Funds	Funds	Service (20)	Service (25)	45
BENEFITS	Unreserved - 422	Reserved - 452	Unreserved-422	Revocable Trust	Irrevocable Trust
	No Bonds or Trust	Bond Proceeds - No Trust	No Bonds or Trust	May Have Bond Proceeds	May Have Bond Proceeds
Bond Proceeds					
Debit - Net Proceeds	n/a	FD 1-2-4, GL 101	n/a	FD 1-2-4, GL 101	FD 1-2-4, GL 101
Debit - Advisors/Counsels/Agencies	n/a	FD 1-2-4, ORG 005, PRO 910, FIN 000, OBJ 305	n/a	FD 1-2-4, ORG 005, PRO 910, FIN 000, OBJ 305	FD 1-2-4, ORG 005, PRO 910, FIN 000, OBJ 305
Credit - PAR, Underwriters Discount	n/a	FD 1-2-4, ORG 005, PRO 910, FIN 793, SRC 631	n/a	FD 1-2-4, ORG 005, PRO 910, FIN 000, SRC 631	FD 1-2-4, ORG 005, PRO 910, FIN 000, SRC 631
Debit - Unused Discount	n/a	FD 1-2-4, ORG 005, PRO 910, FIN 000, OBJ 910	n/a	FD 1-2-4, ORG 005, PRO 910, FIN 000, OBJ 910	FD 1-2-4, ORG 005, PRO 910, FIN 000, OBJ 910
Debit - Unused Discount	n/a	FD 47, GL 101	n/a	FD 47, GL 101	FD 47, GL 101
Credit - Unused Discount	n/a	FD 47, ORG 005, PRO 910, FIN 000, SRC 649	n/a	FD 47, ORG 005, PRG 910, FIN 000, SRC 649	FD 47, ORG 005, PRG 910, FIN 000, SRC 649
Credit - Unused Discount	n/a	FD 1-2-4, GL 101	n/a	FD 1-2-4, GL 101	FD 1-2-4, GL 101
Debit - Amt of Bond Issue	n/a	FD 99, GL 151	n/a	FD 99, GL 151	FD 99, GL 151
Credit - Amt of Bond Issue	n/a	FD 99, GL 250	n/a	FD 99, GL 250	FD 99, GL 250
Transfer to Trust Fund (25 or 45)					
Debit - Net Proceeds	n/a	n/a	n/a	FD 1-2-4, ORG 005, PRO*, NOT FIN 793, OBJ 252/290	FD 1-2-4, ORG 005, PRO*, NOT FIN 793, OBJ 252/290
Credit - Net Proceeds	n/a	n/a	n/a	FD 1-2-4, GL 101	FD 1-2-4, GL 101
Debit - Net Proceeds	n/a	n/a	n/a	FD 25, GL 101	FD 45, GL 101
Credit - Net Proceeds	n/a	n/a	n/a	FD 25, ORG 005, PRO 935, FIN 000, SRC 614	FD 45, ORG 005, PRO 935, FIN 000, SRC 614
Transfer to Internal Service Fund -No Trust (20)					
Debit-Transfer Amt	n/a	n/a	FD 1-2-4, ORG 005, PRO*, NOT FIN 793, OBJ 289	n/a	n/a
Credit-Transfer Amt	n/a	n/a	FD 1-2-4, GL 101	n/a	n/a
Debit-Transfer Amt	n/a	n/a	FD 20, GL 101	n/a	n/a
Credit-Transfer Amt	n/a	n/a	FD 20, ORG 005, PRO 935, FIN 000, SRC 615	n/a	n/a
District Payments for OPEB					
Debit - Amt Paid	FD 1-2-4, ORG 005, PRO*, NOT FIN 793, OBJ 291	FD 1-2-4, ORG 005, PRO*, FIN 793, OBJ 291	FD 20, ORG 005, PRG 935, FIN 000, OBJ 220/230/235/251	FD 25, ORG 005, PRG 935, FIN 000, OBJ 220/230/235/251	FD 45, ORG 005, PRG 935, FIN 000, OBJ 220/230/235/251
Credit - Amt Paid	FD 1-2-4, GL 101	FD 1-2-4, GL 101	FD 20, GL 101	FD 25, GL 101	FD 45, GL 101
Retiree Contributions for OPEB					
Debit - Amt Received	FD 1-2-4, GL 101	FD 1-2-4, GL 101	FD 20, GL 101	FD 25, GL 101	FD 45, GL 101
Credit - Amt Received	FD 1-2-4, ORG 005, PRO*, NOT FIN 793, OBJ 291	FD 1-2-4, ORG 005, PRO*, FIN 793, OBJ 291	FD 20, ORG 005, PRO 935, FIN 000, SRC 616	FD 25, ORG 005, PRO 935, FIN 000, SRC 616	FD 45, ORG 005, PRO 935, FIN 000, SRC 616
Levy Proceeds					
Debit - Amt Received	n/a	FD 47, GL 101	n/a	FD 47, GL 101	FD 47, GL 101
Credit - Amt Received	n/a	FD 47, ORG 005, PRO 910, FIN 000, SRC 001	n/a	FD 47, ORG 005, PRO 910, FIN 000, SRC 001	FD 47, ORG 005, PRO 910, FIN 000, SRC 001
Bond Payments					
Debit - Principal	n/a	FD 47, ORG 005, PRO 910, FIN 000, OBJ 710	n/a	FD 47, ORG 005, PRO 910, FIN 000, OBJ 710	FD 47, ORG 005, PRO 910, FIN 000, OBJ 710
Debit - Interest	n/a	FD 47, ORG 005, PRO 910, FIN 000, OBJ 720	n/a	FD 47, ORG 005, PRO 910, FIN 000, OBJ 720	FD 47, ORG 005, PRO 910, FIN 000, OBJ 720
Credit - Payment	n/a	FD 47, GL 101	n/a	FD 47, GL 101	FD 47, GL 101
Debit - Amt of Bond Paid	n/a	FD 99, GL 250	n/a	FD 99, GL 250	FD 99, GL 250
Credit - Amt of Bond Paid	n/a	FD 99, GL 151	n/a	FD 99, GL 151	FD 99, GL 151

PRO*=Should be broken down into the program level detail as follows: 020-Superintendent, 030-Instructional Administration, 050-School Administration, 105-General Administration, 107-Other Administrative Support, 110-Business Support Services, 203-Elementary Instruction, 211-Secondary Instruction, 399-Vocational Instruction, 400-Special Education Instruction, 500 Series-Community Education, 600 Series-Instructional Support, 710/712-Counseling/Guidance Services, 720-Health Services, 730-Psychological and Mental Health Services, 740-Social Work Services, 760-Pupil Transportation, 770-Food Service, 790-Other Pupil Support, 810-Operations and Maintenance

Note 1: Receipting to expenditure accounts requires a lot of detail work. It is simpler to use B-0X-215-XXX (Payroll Deductions) for the retiree receipt and payment activity.

FD = Fund; GL = General Ledger; FIN = Finance Code; OBJ = Object Code; SRC = Source Code

Questions regarding this information should be directed to mde.ufars-accounting@state.mn.us.

Special Thanks to the GASB 45 Committee

Members of the Division of School Finance of the Minnesota Department of Education extend their appreciation to each member of the GASB 45 Committee for their work on this project.

Committee Members:

Darwin Viker, Chair
Greg Hierlinger
Stella Johnson
Tom Karlson
Matt Mayer
Deborah Medlin
Joe Primus
Tiffany Rodning
Nancy Schulzetenberg

Affiliation:

Larson Allen LLC
State Auditor's Office
Rosemount-Apple Valley-Eagan School District
State Auditor's Office
Kern DeWenter Viere
Eikill Schilling LTD
Columbia Heights School District
Minnesota School Boards Association
Kern DeWenter Viere

Department of Education Staff:

Janna Duffy
Colleen Leemon
Debrah Firkus
Ken Moos
Mary Weigel



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

Statement of Position Fund Balances for Local Governments Based on GASB Statement No. 54

Background

Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the classifications of fund balance based on the focus of the constraints placed on the use of current fund balance. The Statement also identifies the governmental fund type definitions. This Statement of Position addresses only the fund balance classifications and reporting.

The requirements of GASB 54 are applicable to all local governments. Implementation was required for the first fiscal year ended June 30, 2011. However, most Minnesota local governments report on a calendar year. For those reporting on a calendar year, the first required year for implementation was the year ended December 31, 2011.

In governmental funds,¹ local government should identify fund balance separately based on a hierarchy of the constraints placed on the use of the financial resources within governmental funds. A local government will classify its fund balances into one of up to 5 classifications: nonspendable, restricted, committed, assigned, and unassigned. While some of the GASB 54 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 classifications may be different.

Fund Balance Classifications/Definitions for Governmental Funds

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

¹ Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. The governmental fund category includes the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds. Codification of Governmental Accounting and Financial Reporting Standards § 1300.102.

Fund Balance Reporting			
Classification		Definition	Examples
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.” ²	<ul style="list-style-type: none">• Inventories• Prepaid Items,• Long-term receivables in the general fund, and• Permanent principal of endowment funds.
Restricted		“Fund balance should be reported as restricted when constraints placed on the use of resources are either: a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b. Imposed by law through constitutional provisions or enabling legislations.” ³	<ul style="list-style-type: none">• 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
Unrestricted	Committed	“Used for specific purposed pursuant to constraints Imposed by formal action of the government’s highest level of decision-making authority.” ⁴	<ul style="list-style-type: none">• The governing board has decided to set aside \$1M for a new city hall.• Property tax levies set for a specific purpose by resolution.
	Assigned	“Amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed.” ⁵	<ul style="list-style-type: none">• Governing board has set aside \$2 million for a county hospital and the county manager may amend this up to \$100,000.• Governing body delegates the authority to assign fund balance to the finance officer.• Governing board has appropriated fund balance often to balance next year’s budget.⁶• 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. ⁷	

2 GASB Statement No. 54, ¶ 6.

3 GASB Statement No. 54, ¶ 8.

4 GASB Statement No. 54, ¶ 10.

5 GASB Statement No. 54, ¶ 13.

6 See appropriated fund balance section of this document.

7 GASB Statement No. 54, ¶ 17.

Classifying Fund Balance

A local government should classify its fund balances based on the nature of the particular net resources reported in a governmental fund. The government would first start by identifying nonspendable net resources, followed by restricted, committed, assigned and lastly 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 government. A local government 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 a local government 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 local government, 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 government to fund specific purposes. The two classifications differ in the formality of the action required to set aside the net resources.

The government'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 may be delegated to an official other than the governing body. 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 government'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 local governments 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 government 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 condition that must be met for the funds to be considered committed. To commit these funds, the government needs to be more 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 local government 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, local governments will "deficit" budget, or in other words, budget more expenditures than anticipated revenues and drawdown the 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.⁸

Recommendations

Adoption of Comprehensive Fund Balance Policy

The GASB's Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, identifies fund balance accounting policies that a local government may have or should consider. The Office of the State Auditor recommends that each local government establish/approve a formal comprehensive fund balance policy relating to accounting and financial reporting of governmental fund balances. A local government's fund balance policy could address the following areas:

- Minimum fund balance
- Order of resource use
- Stabilization arrangements
- Committing fund balance
- Assigning fund balance

Minimum Fund Balance

The Office of the State Auditor recommends that local governments determine and establish in their fund balance policy a desired minimum level of unrestricted fund balance to maintain in their General Fund and other significant governmental funds. The local government's governing body should keep revenue streams in mind when determining a minimum level of fund balance for their policy. Often a local government's revenue stream is not evenly distributed throughout the year. A local government will need sufficient beginning fund balances to pay expenditures until these revenues are received. For example, funds that rely heavily on property taxes must maintain sufficient financial resources until the next tax revenue collection cycle. Funds that rely on state appropriations and grants should consider the timing of those payments. Also, local governments need to maintain a prudent level of financial resources to protect against a forced service level reduction or having to raise taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

Other considerations include the predictability of revenues and the volatility of expenditures. A local government may need higher levels of unrestricted fund balance if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile, such as greater expenditures in the early part of the year. The availability of resources in other funds and the potential drain on the General Fund resources from other funds could affect the necessary level of minimum unrestricted fund balance. The availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the general fund, just as deficits in other funds may require that a higher level of unrestricted fund balance be maintained in the General Fund.

After establishing a minimum level of unrestricted fund balance, the policy should provide for both a timeframe and a specific plan for increasing or decreasing the level of unrestricted fund balance. If the actual unrestricted fund balance is not consistent with the policy, a plan should be developed by the governing body that will allow for compliance with the desired minimum level. The fund balance policy should include a provision for a regular review of the sufficiency of the minimum fund balance level.

⁸ GASB Statement No. 54, ¶ 16.

Order of Resource Use

The Office of the State Auditor recommends that local governments include in their comprehensive fund balance policy the normal order of resource use. The policy should identify which fund balance resources (restricted or unrestricted) are normally used first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, for unrestricted fund balance, the local government should identify the order in which committed, assigned, or unassigned amounts are spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Stabilization Arrangements

The Office of the State Auditor also recommends that local governments consider establishing a stabilization arrangement for emergency situations in their comprehensive fund balance policy. The policy should establish the amount to be set aside, identify the types of nonroutine emergencies/situations that would meet the need for use of stabilization funds, and clearly state that the amount set aside may only be used for the identified emergency situations.

Committing Fund Balance

The Office of the State Auditor also recommends that a local government's governing body identify in its comprehensive fund balance policy its process for committing fund balance to a specific purpose. The policy could identify the local government's highest level of decision-making authority, what formal action is required to commit fund balance, and what specific purposes normally will require committing resources.

Assigning Fund Balance

Furthermore, the Office of the State Auditor recommends each local government that decides to delegate the authority to assign fund balance for a specific purpose include in their comprehensive fund balance policy the body or official authorized to assign amounts to a specific purpose and the types of specific purposes that may be assigned by that delegated body or official. The policy should also specify how the amounts for such assignments are arrived at and whether the governing body will set the assignments annually or will set up a process to make the assignment based on the guidelines established by the governing body.

Appropriate Fund Balance Levels

The Office of the State Auditor recommends that, at year-end and/or at other key times of the year, local governments that rely significantly on property taxes maintain an unrestricted fund balance of approximately 35 to 50 percent of fund operating revenues or no less than five months of operating expenditures in their General Fund and special revenue funds. This amount of unrestricted fund balance should provide the local government with adequate funds until the next property tax revenue collection cycle. The adequacy of unrestricted fund balance should be assessed based on an individual local government's own circumstances. If the local government's unrestricted fund balance is less than or greater than the recommended level, the local government should be able to explain the reason for the difference.

According to MDE, Minnesota school districts, unlike most local governmental units, experience timing of receipts from local property tax levies, state aids, and federal aids that provide a more reliable flow of cash to fund operations. Therefore, a recommended unrestricted fund balance for school districts may be less than the amounts recommended above for other local governmental units. Each school district should determine the appropriate level of unrestricted fund balance based on the school district's circumstances.

Local governments should also consider taking a position on the level of unrestricted fund balance in other funds that have unrestricted revenues. In setting an appropriate level, the local government should consider any long-term forecasting/planning issues to avoid the risk of placing too much emphasis on the level of unrestricted fund balance at any one time.