City of Las Cruces®
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Council Action and Executive Summary

Item # 11 Ordinance/Resolution# 11-247

For Meeting of _____ (Ordinance First Reading Date)

For Meeting of June 20, 2011 (Adoption Date)

TITLE: A RESOLUTION TO ADOPT THE FUND BALANCE POLICY OF THE CITY.

PURPOSE(S) OF ACTION:

To adopt the Fund Balance Policy of the City.

COUNCIL DISTRICT: ALL		
Drafter/Staff Contact: Pat Degman	**Department/Section:** Finance/Comptroller	**Phone:** 541-2080
City Manager Signature:		

BACKGROUND / KEY ISSUES / CONTRIBUTING FACTORS:

The Governmental Accounting Standards Board (GASB) has approved GASB Statement 54, which is effective for fiscal year 2011. GASB Statement 54 provides for clearly defined and uniform fund balance categories, specifies the appropriate use of the various governmental funds, and requires certain disclosures regarding fund balance in the notes to the financial statements. GASB Statement 54 also provides guidance on the criteria for a fund balance policy.

The purpose of the Fund Balance Policy is to establish a key element of the financial stability of the City, and in particular as it relates to the General Fund. Within the General Fund, the chief operating fund of the City, the unassigned fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unassigned fund balance in the General Fund to mitigate revenue fluctuations and unanticipated expenditures. The goal of the City will be to maintain an unassigned fund balance in the General Fund of 8.33%, or 1/12, of the annual budgeted expenditures.

In order to comply with GASB standards, it is necessary for the City of Las Cruces to implement GASB Statement 54 during fiscal year 2011, and adopt a Fund Balance Policy for the City.

SUPPORT INFORMATION:

1. Resolution
2. Exhibit "A" – City of Las Cruces Fund Balance Policy
3. Attachment "A – GASB Statement 54

(Continue on additional sheets as required)

SOURCE OF FUNDING:

Is this action already budgeted?			
N/A	Yes	☐	See fund summary below
	No	☐	If No, then check one below:
	Budget Adjustment Attached	☐	Expense reallocated from: _____
		☐	Proposed funding is from a new revenue source (i.e. grant; see details below)
		☐	Proposed funding is from fund balance in the _____ Fund.
Does this action create any revenue?			
N/A	Yes	☐	Funds will be deposited into this fund: _____ in the amount of $_____ for FY__.
	No	☐	There is no new revenue generated by this action.

BUDGET NARRATIVE

N/A

FUND EXPENDITURE SUMMARY:

Fund Name(s)	Account Number(s)	Expenditure Proposed	Available Budgeted Funds in Current FY	Remaining Funds	Purpose for Remaining Funds
N/A	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

OPTIONS / ALTERNATIVES:

1. Vote "Yes"; this will enable the City to adopt the Fund Balance Policy and comply with GASB Statement 54.
2. Vote "No"; this will not allow the City to adopt the Fund Balance Policy and the City will not comply with GASB Statement 54.
3. Vote to "Amend"; this could delay adoption of the Fund Balance Policy and leave the City in non-compliance with GASB Statement 54.
4. Vote to "Table"; this could delay adoption of the Fund Balance Policy and leave the City in non-compliance with GASB Statement 54.

REFERENCE INFORMATION:

N/A

(Continue on additional sheets as required)

RESOLUTION NO. 11-247

A RESOLUTION TO ADOPT THE FUND BALANCE POLICY OF THE CITY.

The City Council is informed that:

WHEREAS, the purpose of this policy is to establish a key element of the financial stability of the City; and

WHEREAS, the unassigned fund balance in the General Fund is an important measure of the economic stability of the City; and

WHEREAS, it is essential that the City maintain adequate levels of unassigned fund balance in the General Fund to mitigate revenue fluctuations and unanticipated expenditures; and

WHEREAS, the goal of the City is to maintain an unassigned fund balance in the General Fund of 8.33%, or 1/12, of the annual budgeted expenditures.

NOW, THEREFORE, Be it resolved by the governing body of the City of Las Cruces:

(I)

THAT the City will adopt the City of Las Cruces Fund Balance Policy, attached as Exhibit "A", effective beginning fiscal year 2010/2011.

(II)

THAT City staff is hereby authorized to do all deeds as necessary in the accomplishment of the herein above.

DONE AND APPROVED this _____ day of _____, 20___.

APPROVED:

_____
Mayor

ATTEST:

_____
City Clerk

(SEAL)

VOTE:

Mayor Miyagishima: _____
Councillor Silva: _____
Councillor Connor: _____
Councillor Pedroza: _____
Councillor Small: _____
Councillor Sorg: _____
Councillor Thomas _____

Moved by: _____

Seconded by: _____

Approved as to Form:

_____
City Attorney

City of Las Cruces
Fund Balance Policy

Purpose

The purpose of this policy is to establish a key element of the financial stability of the City of Las Cruces by setting guidelines for fund balance.

The Unassigned Fund Balance in the General Fund is an important measure of the economic stability of the chief operating fund of the City. It is essential that the City maintain adequate levels of Unassigned Fund Balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances.

Definitions

Fund Balance – Fund balance is generally the difference between a fund's assets and its liabilities. An accounting distinction is made between the portions of fund balance that are restricted and unrestricted. In accordance with GASB 54, fund balance in the General Fund is reported in five categories:

1) **Non-spendable fund balance** – includes amounts that are not in a spendable form or are required to be maintained intact. Examples are inventory or long-term receivables.

2) **Restricted fund balance** – includes amounts that can be spent only for the specific purposes imposed by creditors, grantors, contributors, or laws and regulations of other governments. An example is grants.

3) **Committed fund balance** – include self-imposed limitations on amounts that can be used only for a specific purpose, set in place prior to the end of the period by a formal action of the City's highest level of decision-making authority. Commitments established by the City Council may be changed or lifted only by an action of the City Council, taking the same formal action that imposed the original constraint.

4) **Assigned fund balance** – comprises amounts *intended* to be used by the City for specific purposes. Intent can be expressed by the City Council, or by an official or body to which the City Council delegates the authority. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

5) **Unassigned fund balance** – is the residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Unassigned Fund Balance is only reported in the General Fund.

Policy

Committed Fund Balance

- The City Council is the City's highest level of decision-making authority. The formal action that is required to establish, modify, or rescind a fund balance commitment is a resolution

approved by the Council at a City Council meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made.

Assigned Fund Balance

- As provided in this Fund Balance Policy, the City Council has approved the City Manager as an authorized official to assign fund balance to a specific purpose.

Minimum Unassigned Fund Balance

It is the goal of the City to achieve and maintain an Unassigned Fund Balance in the General Fund equal to 8.337%, or one month, of budgeted expenditures. The City considers a balance of less than 8.33% to be cause for concern, barring unusual or deliberate circumstances.

In the event that the Undesignated Fund Balance in the General Fund is calculated to be less than the policy requires, the City shall plan to control operating expenditures and use budget surpluses in subsequent fiscal years to restore the balance. The minimum Unassigned Fund Balance shall be restored within one to three fiscal years, as economic conditions allow. Except in extraordinary circumstances, the minimum Undesignated Fund Balance should not be used to fund any portion of the ongoing and routine year-to-year operating expenditures of the City. It should be used primarily to insure adequate designated reserves, to respond to unforeseen emergencies, to provide cash flow, and to provide overall financial stability.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will start with the most restricted category and spend those funds first before moving down to the next category of available funds.

Administrative Responsibilities

The Chief Administrative Officer shall be responsible for monitoring and reporting the City's various reserves. The City Manager may make recommendations to the City Council on the use of unassigned funds both as an element of the annual operating budget submission and from time to time throughout the year as needs may arise.

2010-2011

Original Pronouncements Governmental Accounting and Financial Reporting Standards

Volume 2

GASB Statements

as of June 30, 2010

Attachment "A"

Statement No. 54 of the Governmental Accounting Standards Board Fund Balance Reporting and Governmental Fund Type Definitions

STATUS

Issued: February 2009

Effective Date: For periods beginning after June 15, 2010

Affects: Supersedes NCGAS 1, Summary Statement of Principles No. 3, ¶26, ¶118, ¶120, and ¶121
Amends NCGAS 1, ¶30, ¶91, and ¶119
Supersedes NCGAI 3, ¶10
Amends NCGAI 3, ¶11
Amends NCGAI 6, ¶4 and ¶5
Amends GASBS 14, ¶78
Supersedes GASBS 25, fn15
Supersedes GASBS 33, fn13
Amends GASBS 33, fn9
Supersedes GASBS 34, ¶84
Amends GASBS 34, ¶37, ¶64, ¶65, fn24, and fn38
Supersedes GASBS 43, fn11
Amends GASBS 44, ¶12
Supersedes GASBI 4, fn3 and fn6
Amends GASBI 4, ¶4 and ¶7
Amends GASBI 6, ¶16

Affected by: No other pronouncements

Other Interpretive Literature: GASB Comprehensive Implementation Guide

Primary Codification Section References: 1300 and 1800

Summary

The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount

that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

How the Changes in This Statement Will Improve Financial Reporting

The requirements in this Statement will improve financial reporting by providing fund balance categories and classifications that will be more easily understood. Elimination of the *reserved* component of fund balance in favor of a *restricted* classification will enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets. The fund balance classification approach in this Statement will require governments to classify amounts consistently, regardless of the fund type or column in which they are presented. As a result, an amount cannot be classified as restricted in one fund but unrestricted in another. The fund balance disclosures will give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated. The clarifications of the governmental fund type definitions will reduce uncertainty about which resources can or should be reported in the respective fund types.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 3 discusses the applicability of this Statement.

Statement No. 54 of the Governmental Accounting Standards Board Fund Balance Reporting and Governmental Fund Type Definitions

CONTENTS

	Paragraph Numbers
Introduction	1–2
Standards of Governmental Accounting and Financial Reporting	3–35
Scope and Applicability of This Statement	3–4
Governmental Fund Reporting	5–35
Fund Balance Reporting	5–22
Nonspendable Fund Balance	6–7
Restricted Fund Balance	8–9
Committed Fund Balance	10–12
Assigned Fund Balance	13–16
Unassigned Fund Balance	17
Classifying Fund Balance Amounts	18–19
Stabilization Arrangements	20–21
Displaying Fund Balance Classifications on the Face of the Balance Sheets	22
Fund Balance Disclosures	23–27
Fund Balance Classification Policies and Procedures	23
Reporting Encumbrances	24
Details of Fund Balance Classifications Displayed in the Aggregate	25
Stabilization Arrangements	26
Minimum Fund Balance Policies	27
Governmental Fund Type Definitions	28–35
General Fund	29
Special Revenue Funds	30–32
Capital Projects Funds	33
Debt Service Funds	34
Permanent Funds	35
Effective Date and Transition	36
Appendix A: Background	37–47
Appendix B: Basis for Conclusions and Board Member Dissent	48–136
Basis for Conclusions	49–134
Basis for Board Member Dissent	135–136
Appendix C: Illustration	137

INTRODUCTION

1. National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles,* paragraphs 118–121, established the fund balance classifications for governmental funds. Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* retained those classification requirements. Research conducted after implementation of Statement 34, however, found considerable differences in how governments interpret and apply the standards for fund balance reporting. The differences existed, in part, because certain terms were not well defined, which affected the amounts that were reported as reserved and unreserved fund balances. Consequently, many users have been receiving inconsistent and noncomparable information which reduced its usefulness and led to confusion as to what the information presented in fund balance reporting actually communicated. These concerns were exacerbated by two additional factors. First, different interpretations of certain aspects of the definitions of governmental fund types reduced the comparability of the governmental fund financial statements, because the funds used and the purposes for using them varied significantly from government to government. Second, the introduction of restricted net assets under Statement 34 led to confusion regarding its relationship to reserved fund balance.

2. The objective of this Statement is to improve the usefulness, including the understandability, of governmental fund balance information. This Statement provides more clearly defined categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. It also clarifies the existing governmental fund type definitions to improve the comparability of governmental fund financial statements and help financial statement users to better understand the purposes for which governments have chosen to use particular funds for financial reporting.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

3. This Statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types.

4. This Statement supersedes NCGA Statement 1, "Summary Statement of the Principles—Types of Funds," and paragraphs 26, 118, 120, and 121; NCGA Interpretation 3, *Revenue Recognition—Property Taxes,* paragraph 10; GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* footnote 15; GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* footnote 13; GASB Statement 34, paragraph 84; GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* footnote 11; and GASB Interpretation No. 4, *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools,* footnotes 3 and 6. In addition, this Statement amends NCGA Statement 1, paragraphs 30, 91, and 119; NCGA Interpretation 3, paragraph 11; NCGA Interpretation 6, *Notes to the Financial Statements Disclosure,* paragraphs 4 and 5; GASB Statement 33, footnote 9; GASB Statement 34, paragraphs 37, 64, and 65 and footnotes 24 and 38; GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section,* paragraph 12; GASB Interpretation 4, paragraphs 4 and 7; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements,* paragraph 16.

Governmental Fund Reporting

Fund Balance Reporting

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

Nonspendable fund balance

6. The nonspendable fund balance classification 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. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than nonspendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

7. For purposes of reporting net assets, Statement 34, paragraph 35, requires amounts that are "required to be retained in perpetuity" to be classified "nonexpendable" within the restricted net asset category. For fund balance reporting purposes, however, those amounts should be classified as nonspendable rather than restricted.

Restricted fund balance

8. Except as provided for in paragraph 7, amounts that are restricted to specific purposes, pursuant to the definition of *restricted* in paragraph 34 of Statement 34, as amended by Statement No. 46, *Net Assets Restricted by Enabling Legislation,* should be reported as *restricted fund balance.* 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 legislation.

9. *Enabling legislation,* as the term is used in this Statement, 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

10. 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. Those 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 (for example, legislation, resolution, ordinance) it employed to previously commit those amounts. The authorization specifying the purposes for which amounts can be used should have the consent of both the legislative and executive branches of the government, if applicable. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

11. In contrast to fund balance that is restricted by enabling legislation, as discussed in paragraph 9, amounts in the committed fund balance classification may be redeployed for other purposes with appropriate due process, as explained in paragraph 10. Constraints imposed on the use of *committed* amounts are imposed by the government, separate from the authorization to raise the underlying revenue. Therefore, compliance with constraints imposed by the government that *commit* amounts to specific purposes is not considered to be legally enforceable, as defined in paragraph 9.

12. The formal action of the government's highest level of decision-making authority that commits fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

Assigned fund balance

13. Amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance, except for stabilization arrangements, as discussed in paragraph 21. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

14. Both the committed and assigned fund balance classifications include amounts that have been constrained to being used for specific purposes by actions taken by the government itself. However, the authority for making an assignment is not required to be the government's highest level of decision-making authority. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with regard to the committed fund balance classification. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed. Some governments may not have both committed and assigned fund balances, as not all governments have multiple levels of decision-making authority.

15. Assigned fund balance includes (a) all remaining amounts (except for negative balances, as discussed in paragraph 19) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose in accordance with the provisions in paragraph 13. By reporting particular amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, the government has *assigned* those amounts to the purposes of the respective funds. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the government itself. However, governments should not report an assignment for an amount to a specific purpose if the assignment would result in a deficit in unassigned fund balance.

16. 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. As discussed in paragraph 15, assignments should not cause a deficit in unassigned fund balance to occur.

Unassigned fund balance

17. 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 exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance, as discussed in paragraph 19.

Classifying fund balance amounts

18. Fund balance classifications should depict the nature of the net resources that are *reported* in a governmental fund. An individual governmental fund could include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. Typically, the general fund also would include an unassigned amount. A government should determine the composition of its

ending fund balance by applying its accounting policies regarding whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Similarly, within unrestricted fund balance, the classification should be based on the government's accounting policies regarding whether it considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. If a government does not establish a policy for its use of unrestricted fund balance amounts, it should consider that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

19. The amount that should be reported as nonspendable fund balance, as described in paragraph 6, should be determined before classifying amounts in the restricted, committed, and assigned fund balance classifications, as discussed in paragraph 18. In a governmental fund other than the general fund, expenditures incurred for a specific purpose might exceed the amounts in the fund that are restricted, committed, and assigned to that purpose and a negative residual balance for that purpose may result. If that occurs, amounts assigned to other purposes in that fund should be reduced to eliminate the deficit. If the remaining deficit eliminates all other assigned amounts in the fund, or if there are no amounts assigned to other purposes, the negative residual amount should be classified as *unassigned* fund balance. In the general fund, a similar negative residual amount would have been eliminated by reducing unassigned fund balance pursuant to the policy described in paragraph 18. A negative residual amount should not be reported for restricted, committed, or assigned fund balances in any fund.

Stabilization arrangements

20. Some governments formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. Those amounts are subject to controls that dictate the circumstances under which they can be spent. Many governments have formal arrangements to maintain amounts for budget or revenue stabilization,[1] working capital needs, contingencies or emergencies, and other similarly titled purposes. The authority to set aside those amounts generally comes from statute, ordinance, resolution, charter, or constitution. Stabilization amounts may be expended only when certain specific circumstances exist. The formal action that imposes the parameters for spending should identify and describe the specific circumstances under which a need for stabilization arises. Those circumstances should be such that they would not be expected to occur routinely. For example, a stabilization amount that can be accessed "in an emergency" would not qualify to be classified within the committed category because the circumstances or conditions that constitute an emergency are not sufficiently detailed, and it is not unlikely that an "emergency" of some nature would routinely occur. Similarly, a stabilization amount that can be accessed to offset an "anticipated revenue shortfall" would not qualify unless the shortfall was quantified and was of a magnitude that would distinguish it from other revenue shortfalls that occur during the normal course of governmental operations.

21. For the purposes of reporting fund balance, stabilization is considered a *specific purpose,* as discussed in paragraph 5. Stabilization amounts should be reported in the general fund as restricted or committed if they meet the criteria set forth in paragraphs 8–11, based on the source of the constraint on their use. Stabilization arrangements that do not meet the criteria to be reported within the restricted or committed fund balance classifications should be reported as *unassigned* in the general fund. A stabilization arrangement would satisfy the criteria to be reported as a separate special revenue fund only if the resources derive from a specific restricted or committed *revenue* source, as required by paragraph 30.

[1] Throughout this Statement, the term *stabilization* is used to refer to economic stabilization, revenue stabilization, budgetary stabilization, and other similarly intended (including "rainy-day") arrangements.

Displaying fund balance classifications on the face of the balance sheets

22. Amounts for the two components of nonspendable fund balance—(a) not in spendable form and (b) legally or contractually required to be maintained intact—as described in paragraph 6, may be presented separately, or nonspendable fund balance may be presented in the aggregate. Restricted fund balance may be displayed in a manner that distinguishes between the major restricted purposes, or it may be displayed in the aggregate. Similarly, specific purposes information for committed and assigned fund balances may be displayed in sufficient detail so that the major commitments and assignments are evident to the financial statement user, or each classification may be displayed in the aggregate.

Fund Balance Disclosures

Fund balance classification policies and procedures

23. Governments should disclose the following about their fund balance classification policies and procedures in the notes to the financial statements:

a. For *committed* fund balance: (1) the government's highest level of decision-making authority and (2) the formal action that is required to be taken to establish (and modify or rescind) a fund balance commitment
b. For *assigned* fund balance: (1) the body or official authorized to assign amounts to a specific purpose and (2) the policy established by the governing body pursuant to which that authorization is given
c. For the classification of fund balances in accordance with paragraph 18: (1) whether the government considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and (2) whether committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Reporting encumbrances

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

Details of fund balance classifications displayed in the aggregate

25. If nonspendable fund balance is displayed in the aggregate on the face of the balance sheet, amounts for the two nonspendable components should be disclosed in the notes to the financial statements. If restricted, committed, or assigned fund balances are displayed in the aggregate, specific purposes information, as required in paragraph 22, should be disclosed in the notes to the financial statements. Governments may display the specific purpose details for some classifications on the face of the balance sheet, as discussed in paragraph 22, and disclose the details for other classifications in the notes to the financial statements.

Stabilization arrangements

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

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

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

Minimum fund balance policies

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

Governmental Fund Type Definitions

28. Governmental fund types include the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds, as discussed in paragraphs 29–35.

General fund

29. The general fund should be used to account for and report all financial resources not accounted for and reported in another fund.

Special revenue funds

30. Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

31. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund.[2] Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

32. Governments should disclose in the notes to the financial statements the purpose for each major special revenue fund—identifying which revenues and other resources are reported in each of those funds.

Capital projects funds

33. Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt service funds

34. Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

Permanent funds

35. Permanent funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

[2]For revolving loan arrangements that are initially funded with restricted grant revenues, the consideration may be whether those restricted resources continue to comprise a substantial portion of the *fund balance* in the fund's balance sheet.

EFFECTIVE DATE AND TRANSITION

36. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented. Changes to the fund balance information presented in a statistical section may be made prospectively, although retroactive application is encouraged. If the information for previous years is not restated, governments should explain the nature of the differences from the prior information.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the affirmative votes of six members of the Governmental Accounting Standards Board. Mr. Williams dissented.

Members of the Governmental Accounting Standards Board:

Robert H. Attmore, *Chairman*
Michael D. Belsky
William W. Holder
Jan I. Sylvis
Marcia L. Taylor
Richard C. Tracy
James M. Williams

Appendix A

BACKGROUND

37. A project on fund balance reporting was initiated by the GASB in August 2002. Concerns were expressed to the GASB that some users of governmental financial information were unclear about the distinctions between reserved and unreserved fund balances and the relationship between reserved fund balances and restricted net assets, the latter of which was first required to be reported by Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.*

38. At its initial stage, the project also encompassed an issue regarding the determination of net asset restrictions resulting from enabling legislation. Research on both the net asset and fund balance issues was conducted in 2003. Separate surveys of financial statement preparers and users produced a total of 170 responses. The GASB also reviewed the fund balance information in the audited financial statements of 191 governments that report governmental funds and had implemented Statement 34 at that time. Those financial statements were selected at random from the GASB's financial report repository and included 127 general purpose local governments, 35 general purpose county governments, and 29 school districts. The results of that research were complemented by the findings of two other

studies—interviews with financial statement users conducted for the GASB by Dr. Gilbert Crain in 2000, and the GASB's study of the information needs of users in 2005.

39. The GASB's research indicates that fund balance is one of the most universally used pieces of governmental financial information by a very diverse community of users, including municipal analysts at rating agencies and mutual funds; taxpayer associations; legislators and legislative staff at the state, county, and local levels; and the media. In general, fund balance is examined as part of an effort to identify resources that are liquid and available to finance a particular activity, program, or project. Municipal analysts, for example, assess a government's ability to call upon ready resources if needed to repay long-term debt. However, there are considerable differences in the way that users interpret fund balance information and widespread confusion about the nature of the information and the reporting requirements within the generally accepted accounting principles (GAAP) for state and local governments.

40. The GASB's research also revealed issues that significantly affect the usefulness of fund balance information for meeting user needs. It is evident that some governments report reserved fund balance that many would have concluded should have been properly reported as unreserved. This difference of opinion in practice could be because relevant parts of GAAP are unclear, or because the guiding pronouncement in question—National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*—was 30 years old, and some of its original intentions have not been passed along to newer generations of financial statement preparers and auditors. Regardless of the reason, the uneven application of these standards can make it difficult for users to identify the amount of resources that is truly available. This situation is exacerbated by differences from government to government in the methods used to establish fund balance reservations and by a dichotomy between governments that voluntarily report designations of fund balance and those that do not. Consequently, some fund balance information may not be suitable for comparisons between governments.

41. Based on these findings, the project was moved to the GASB's current agenda in December 2003, and deliberations began in January 2004. In June 2004, the GASB decided to pursue additional research on fund balance reporting and created a separate project on the net asset issues. The net asset reporting project ultimately led to the issuance, in December 2004, of Statement No. 46, *Net Assets Restricted by Enabling Legislation*.

42. The objectives of the fund balance reporting project were to consider whether reporting requirements related to fund balance adequately met the needs of financial statement users and to contemplate potential changes that would improve the usefulness of fund balance information. Because it was apparent that the quality of fund balance information is affected by the types of funds in which resources are reported and by the circumstances under which resources flow between funds, the project also considered clarifications to the definitions of governmental fund types.

43. Forty interviews with a mixture of types of users were conducted on fund balance issues in the latter half of 2004. The interviews sought answers to fundamental questions such as what fund balance information was used for, what parts of fund balance were most important, what the perceived problems were in using fund balance information, and what preferences exist regarding how fund balance should be reported. Although the interview subjects offered a variety of reasons why they use fund balance information, their answers may be distilled as follows: Users want to assess a government's financial flexibility or liquidity, specifically as it relates to the availability of current financial resources. However, many expressed frustration in their efforts to make that assessment for several reasons, including differences in the funds that governments choose to report and imperfect understanding among users of fund balance terminology.

44. Following completion of this phase of research, discussions of fund balance issues resumed in July 2005. Over the ensuing 15 months, the GASB examined the information and feedback collected from its research and developed an Invitation to Comment, *Fund Balance Reporting and Governmental Fund Type Definitions*, to solicit constituents' views and preferences on a variety of issues. Early in the GASB's discussions leading to the Invitation to

Comment, the Board determined that addressing fund balance issues would require not only improving the categories in which fund balance was presented on the balance sheet but also clarifying the meaning of the fund type definitions that governed what resources are reported in the various types of governmental funds. As a result, the Invitation to Comment considered two distinct but complementary approaches to improving fund balance information. It discussed possible clarifications of the definitions of governmental fund types, and it presented alternative methods of categorizing and reporting the components of fund balance.

45. A task force was assembled comprising 13 persons broadly representative of the GASB's constituency. The task force members reviewed and commented on papers prepared for the Board's deliberations and on preliminary versions of the Invitation to Comment and the subsequent Exposure Draft, *Fund Balance Reporting and Governmental Fund Type Definitions*. In addition, at several stages of the project, input was sought from the Governmental Accounting Standards Advisory Council.

46. The Invitation to Comment was made available in October 2006. Ninety-five responses were received. The comments and suggestions from the organizations and individuals that responded to the Invitation to Comment contributed to the Board's deliberations leading to the issuance of an Exposure Draft of proposed standards in April 2008.

47. Ninety letters were received in response to the Exposure Draft and eight individuals or organizations testified at a public hearing held in Kansas City, Missouri in July 2008. Twenty-six governments, composed of 5 states, 8 counties, 10 cities, and 3 special districts volunteered to field test the proposed standard. Issues raised by the respondents and field test participants are discussed in Appendix B, Basis for Conclusions.

Appendix B

BASIS FOR CONCLUSIONS AND BOARD MEMBER DISSENT

48. This appendix summarizes factors considered significant by the Board members in reaching the conclusions in this Statement. It includes discussion of alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Basis for Conclusions

Scope and Applicability

49. Throughout the early stages of the discussions leading to the Invitation to Comment, the Board was determined to limit the scope of the project to only fund balance classification and display issues. Ultimately, however, the Board was persuaded that a path forward toward solving the fund balance reporting issues might include improving the consistency in how governmental fund types were reported. However, rather than taking a "clean sheet of paper" approach to the definitions of the special revenue fund type, capital projects fund type, and debt service fund type, the Board concluded that fund balance reporting issues could be addressed by clarifying, or interpreting, certain terms within fund type definitions at this time. Some respondents to the Invitation to Comment and to the Exposure Draft questioned whether expanding the scope to also consider fund type definitions was appropriate within the context of "fund balance reporting," while others questioned the adequacy of a limited-scope approach to modifying fund type definitions.

50. Each of the various alternative modifications to the definitions of the governmental fund types proposed in the Invitation to Comment would have resulted in some level of change in the practices followed by many governments, especially with regard to reporting special revenue funds. The Board considered the concerns expressed about the project scope together with other comments from those respondents that did not support the proposed modifications to the definitions because of the potential for significant changes in practice. With those concerns in mind, the Board continued to deliberate the possibility of amending or clarifying the existing definitions of the special revenue fund type, capital projects fund type, and debt service fund type. In the end, however, the Board declined to alter the existing fund type definitions in ways that would generally impose more restrictive interpretations regarding the resources that may be reported in those fund

types beyond what was originally provided for in NCGA Statement 1 (but not always followed in practice). The Board concluded that any deliberations that could lead to more substantive changes to the fund type definitions should come only after a broader reexamination of governmental fund reporting.

Fund Balance Reporting

The alternative models in the invitation to comment

51. The Invitation to Comment presented three alternative models for reporting fund balance information. Model A preserved the existing fund balance components (reserved, unreserved, designated) but incorporated changes to their definitions to address misconceptions and inconsistencies identified in the GASB's research. The two other models, B and C, featured alternative titles for their fund balance components and focused on different aspects of fund balance. Model B made an initial distinction between resources that are available for appropriation and those that are not. Within the *available for appropriation* category, Model B further distinguished between amounts that are committed to specific uses (narrower than the fund's purpose) and those that are available for any purpose *of the fund*. Model C distinguished between restricted and unrestricted fund balances, using the definition of restricted from paragraph 34 of Statement 34, as amended.

52. Each of the three models received support from the respondents to the Invitation to Comment. Many respondents indicated a preference for Model A for reasons including (a) they believe the most appropriate approach would be to clarify the meanings of the existing components of fund balance and educate constituents about those newly clarified components and (b) they believe that it would be advantageous to retain familiar terminology and that the introduction of new terms would serve more to confuse than clarify. However, supporters of Model B appreciated its use of "understandable" terms, as did proponents of Model C. The Board found it informative to contrast the sentiments of the supporters of Model B or C to the views expressed by those proponents of Model A who favored that approach because it used familiar terms. Similarly, the Board compared the contention that Model B employs understandable terms with the comments by some Model A supporters that the terms in the other approaches (B and C) would be confusing to users.

53. The characteristic of the Model C approach that was most commonly embraced by the Invitation to Comment respondents was its perceived consistency; that is, they favored the consistent use of the same classification regardless of the fund or column in which it is used, as well as the consistency with the restricted/unrestricted distinction made in proprietary funds and the government-wide statement of net assets.

54. Although Invitation to Comment respondents may have expressed a preference for a particular model, many also referred to aspects of the other models that they believe may provide important information. Thus, rather than pursuing any of the three alternatives, as set forth in the Invitation to Comment, the Board concluded that the most effective approach would be to simultaneously consider (a) what information is important to users and (b) the nature or character of the resources reported in governmental funds.

55. The most frequently articulated need (primarily from credit market users) is to achieve an understanding about availability or liquidity of the net current financial resources that constitute fund balance. Those users want to know about the character of residual amounts. They want to know the extent to which the use of amounts reported in governmental funds is constrained and how binding those constraints are. Are they enforceable by parties external to the government? Does the government itself have the ability through some specified level of due process to remove or modify the constraints? Or are they less-binding or even nonbinding constraints that are simply indications of management's intent to use resources for specific purposes, with management having the power to change their intentions through a less rigorous process? That information, the Board concluded, would probably best be depicted by using terminology that is applied consistently in each of the governmental funds.

56. The Board acknowledged that the general, special revenue, capital projects, and debt service fund types all could include amounts that are

restricted to a specific use (as defined by Statement 34, as amended), committed to a specific use by the government's own actions, assigned to a specific use by the government, or any combination of the three classifications. Accordingly, the Board concluded that to respond to the need for information about *availability,* fund balance should be classified and displayed in a manner that will reveal to readers where amounts in those classifications are reported. Because those fund types have some flexibility with regard to the amounts that can be reported in them, simply knowing that amounts are reported in a particular fund type or column may not help readers in their assessment of availability.

57. Taking into consideration the input received from the Invitation to Comment respondents and the comments and preferences expressed by interviewees and survey participants, the Board concluded that the required components of fund balance should clearly distinguish the various levels of constraints that are imposed on its use. In developing the Exposure Draft, the Board agreed that the approach should first distinguish between amounts that are nonspendable and those that are spendable, and then provide a further breakdown based on the different levels of constraints.

Fund balance classifications

58. Some Exposure Draft respondents commented that financial statement users understand the existing fund balance categories and that sharpening those definitions and reeducating users would be a preferable approach to the changes proposed in the Exposure Draft. The GASB's substantial body of research, the results of which were summarized in both the Invitation to Comment and the Exposure Draft, characterized the status of user comprehension of fund balance information under the existing standards to be such that change would be advantageous. The argument from respondents that users understand the existing fund balance categories may be accurate in their specific cases; however, that generalization is not borne out by the Board's research results.

59. Other respondents argued that restructuring the presentation of fund balance is inconsistent with stated users' needs in other GASB standards. They referred to discussions in paragraphs 417 and 418 of the Basis for Conclusions section of Statement 34 to illustrate their point. Those paragraphs state that the Board believes that the distinction between reserved and unreserved fund balance "provides information that users have consistently deemed important and useful" and that "information about amounts that are 'available for appropriation' has always been regarded as very useful by governmental financial statement users." During the development of Statement 34, the Board did not have the benefit of the fund balance user needs research that was subsequently conducted in connection with this Statement. Therefore, the references to user needs and to the importance and usefulness of the existing fund balance display methods in Statement 34 were based on long-standing impressions and general research discussions with financial statement users that were held during the development of Statement 34. The Board's more recent research found that the information that users "consistently deemed important and useful" was not what was actually being delivered to them in many instances. The research results highlighted in paragraph 39 in the Background section of this Statement reaffirms the notion that fund balance information is very important but concludes that "there are considerable differences in the way that users interpret fund balance information and widespread confusion about the nature of the information and the reporting requirements within the generally accepted accounting principles for state and local governments."

60. In discussions leading to the Exposure Draft, the Board considered the significance of the statement from paragraph 417 of Statement 34 that "information about amounts 'available for appropriation' has always been regarded as very useful by governmental financial statement users." It was determined that to regard unreserved fund balance as equivalent to available for appropriation was potentially misleading because reserved amounts are also "available for appropriation" to the extent that they can be appropriated for the purposes for which they have been reserved. When Statement 34 was issued, the Board did not have a sufficient basis for proposing changes to fund balance reporting *at that time,* but since that

time, research has provided compelling reasons for the need to change.

Conflicts with legal or oversight agency requirements and the budgetary process

61. Some respondents to the Exposure Draft pointed out that some governments are subject to requirements to establish *reserves* or to submit reports that include information based on existing fund balance classifications. They are concerned that reporting new classifications of fund balance would conflict with the statutory and regulatory requirements they follow. The Board is sensitive to these concerns but believes that if specific aspects of GAAP, as may be incorporated in statutory or regulatory reporting, could not be changed, it would significantly undermine efforts to improve financial reporting. Furthermore, the Board does not agree that the new fund balance classifications cannot meet most current statutory and regulatory reporting needs. For example, a statute that regulates the establishment, funding, and use of *reserves* by local governments would, under the classification approach in this Statement, likely have resulted in the reporting of *restricted* fund balance. Thus, information regarding those reserves would only be labeled differently but would be equally transparent. Oversight agencies that currently require information to be submitted using previous fund balance terminology would have the opportunity to change their requirements for consistency with the classifications in this Statement. If such a change were not considered feasible, a crosswalk to the regulatory presentation could be provided for the oversight body. The Board recognizes that such changes initially may be inconvenient to government, but it is confident that the continuing value of the revised fund balance classifications exceeds the effort required to incorporate the changes.

62. Some respondents to the Exposure Draft expressed similar concerns about the potential difficulties that new fund balance terms would introduce into their budgetary processes. The Board understands and respects the concerns of those who consider the budget and the existing fund balance classifications inextricably linked, but it believes that the classifications in this Statement can be equally, if not more, pertinent to the budgetary process. For example, it would be very useful to know the amount of resources that are restricted, committed, or assigned to (and thus, available to finance) a program or activity when contemplating how the budget of that program or activity is to be funded. Differences between budgetary accounting and GAAP financial reporting have always existed for many governments; budgetary terminology and fund structure for many governments differ from what is reported in their financial statements. The Board accepts that the fund balance classifications in this Statement may not bring financial reporting *closer* to budgetary concepts, but it does not believe that the gap will invariably widen as a result of this standard.

Number of classifications

63. Some respondents to the Exposure Draft stated that it proposed too many classifications of fund balance and would therefore be too complex. A common suggestion was to combine the proposed classifications of *limited* (*committed,* in this Statement) and *assigned* fund balance. The Board considered that suggestion and other approaches to reducing the classifications, such as requiring a distinction only between restricted and unrestricted fund balances. However, the Board concluded that classifications such as unrestricted fund balance or a combined committed/assigned fund balance were too broad to sufficiently meet users' needs to identify differences in the relative strengths of the constraints placed on how resources can be used. Consequently, the Board decided to retain the five proposed classifications; however, greater clarity was provided regarding the nature of each classification and how they differ from each other.

Nonspendable fund balance

64. The budgetary connotations of the term *appropriation,* and concerns expressed by several of the Invitation to Comment respondents about its inapplicability in certain circumstances, led the Board to base fund balance classifications on a notion of *spendable* amounts, rather than amounts that are *available for appropriation.* The Board believes this approach is consistent with the fact that governmental funds historically have been characterized as having a *spending* focus. The nonspendable category comprises the net current financial resources that cannot

be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

65. Respondents generally reacted favorably to the proposed nonspendable fund balance category, but there were some who suggested that certain clarifications would improve the final standard. Some respondents urged the Board to explain more clearly what *spendable form* means and to offer more examples of items that could possibly be included within the nonspendable fund balance classification. The Board responded by clarifying that, generally, *not in spendable form* means that an item is not expected to be converted to cash (for example, inventory). Also, paragraph 6 was expanded to discuss how the long-term amount of loans and notes receivable, and property acquired for resale should be classified. That paragraph further explains that if the proceeds from their collection or sale, respectively, are restricted, committed, or assigned, those constraints take precedence over the nonspendable nature of the resources when classifying the amounts.

Spendable fund balance

66. The Exposure Draft proposed that the remaining classifications of fund balance be reported under the general heading of *spendable fund balance.* The label was primarily intended to communicate that all fund balance not classified as *nonspendable* would, by default, be *spendable,* and further to convey that the resources are spendable for the purposes to which they have been restricted, committed, or assigned. Nevertheless, many Exposure Draft respondents believed that the term would be misunderstood. A concern shared by several of the respondents is that because the term *spendable* is commonly used in other contexts, it may carry a connotation that the resources in such a category may be spent for any purpose, when in fact they may be subject to significant external or internal constraints controlling the purposes for which those resources may be used. In response to those concerns, the Board decided that, because the Exposure Draft only used the term as a title for a category of other fund balance classifications, eliminating references to it in the final Statement would have no substantive effect on the specific fund balance amounts that are required to be reported.

Restricted fund balance

67. Research shows that one of the difficulties that users have encountered since the implementation of Statement 34 is understanding the relationship between reserved fund balance and restricted net assets. The similarity in terminology has caused many users to infer a more direct connection than would normally exist pursuant to a strict application of the two definitions. The Board agreed that the advantages of using a consistent term throughout the financial statements would outweigh the disadvantages that come with replacing a familiar term. Therefore, the Board concluded that the term used to identify the most binding level of constraint on the use of fund balance in the fund financial statements should be the same term used to describe the equivalent level of constraint on the use of net assets in proprietary funds and the government-wide statements. The Board believes that there is a distinct advantage to using the same term to characterize the status of these balances regardless of the context in which they are reported. By doing so, the Board believes that the confusion that arises when an amount can be reported as reserved in one particular fund but unreserved in another will be eliminated.

68. Exposure Draft respondents also pointed out a potential inconsistency between restricted net assets and restricted fund balances. Paragraph 35 of Statement 34 indicates that permanent fund principal should be included in the restricted net assets classification. However, in the Exposure Draft, permanent fund principal would have been regarded as nonspendable rather than restricted fund balance, resulting in a discontinuity between restricted fund balance and restricted net assets. The Board's general intention was that the definition of restricted fund balance be identical to that of restricted net assets. In deliberating Statement 34, the Board concluded that permanent fund principal should be classified as restricted because it could not be spent and would be miscast as unrestricted, and a net asset classification analogous to nonspendable was not under consideration. The Board believes that the nonspendable classification more closely defines permanent fund principal and should be used to report permanent fund corpus in governmental funds. Further, that classification inconsistency will not be

the sole source of differences between restricted *fund balance* and restricted *net assets;* in many instances, differences will arise from the different measurement focuses and bases of accounting employed in reporting net assets and fund balance.

Committed fund balance

69. The Invitation to Comment included a definition of the term *legally limited,* as it might have been used in the definition of *special revenue funds,* as "resources that are legally limited to a particular purpose by a government that cannot be used for any other purpose unless the government removes or changes the limitation by taking the same action it employed to impose the limitation or by taking a higher authority action." Many of the Invitation to Comment respondents supported the proposed definition. For the Exposure Draft, the Board used a modified version of that definition to describe the limited fund balance classification. The definition was modified by eliminating the word *legally* because it implies a restriction that is enforceable by law and may overstate the strength of the constraints that can be imposed by a government upon itself.

70. Numerous respondents to the Exposure Draft expressed concern about the use of the term *limited* for this portion of fund balance. Among the alternative titles suggested, the Board selected the term *committed fund balance.* The Board had previously considered titling this portion of fund balance *committed,* but it had opted for *limited* because the notion of commitments has other meanings in GAAP. Ultimately, the Board concluded that *committed* had fewer objectionable connotations than other possible titles. This change, however, should not be construed as a substantive change to this classification of fund balance as it was proposed in the Exposure Draft.

71. Some respondents to the Exposure Draft suggested that the definition of committed, and how it is distinguished from restricted and assigned, should be clarified for the final Statement. In response, the Board added an explanation of how the actions taken by a government to commit resources differ from those taken to restrict resources through enabling legislation, even though both kinds of actions are taken by the government itself. In response to another concern by respondents, the Board also clarified the meaning of *commitment* as it applies to fund balance classification by providing that contractual obligations that will be satisfied with existing fund resources should be reported as committed fund balance.

Authority to commit resources

72. The Board considered whether this Statement should specify which formal actions of a government's highest level of decision-making authority are required to commit fund balance to a specific purpose, but it determined that it would not be practical to do so because of differences in the powers accorded to governments. For example, some governments may establish statutes or ordinances and resolutions, whereas some may only be able to pass resolutions, and other governments—such as some special-purpose governments—may have no legislative authority at all. Furthermore, the legal standing of the actions available to a government may differ. For some governments, a resolution may carry the force of law, but for others, a resolution may be only ceremonial in nature. In response to concerns about lack of consistency, this Statement requires disclosures that should give users a clear understanding of the authority behind the commitments of fund balance and the specific actions taken to impose them.

73. Because the overall classification approach includes two categories of self-imposed constraints (committed and assigned), the Board agreed that it would be appropriate to start with the assumption that the level of authority required to establish constraints sufficient to invoke display in the *committed* fund balance category should be high enough to represent the consensus objective of the governing body as a whole. In other words, the purpose constraints imposed on amounts in that category should come from the source that possesses the highest level of decision-making authority.

74. The level of authority necessary to establish fund balance commitments is similar to that required in the restricted (through enabling legislation) category. Enabling legislation exclusively involves revenues *authorized* by the restricting legislation. It is not uncommon for governments to pass legislation to raise new revenues for a

specific purpose. For fund balance classification, *enabling legislation* is considered a compact with the resource providers that the revenues raised pursuant to that legislation would be used *only* for the promised purpose. In contrast, the committed fund balance classification includes amounts generated from existing revenue sources that are formally constrained to be used for a specific purpose, but there is no comparable compact with the providers of those resources about how they can be used. Thus, the substantive difference between amounts that are restricted by enabling legislation and amounts that are in the committed fund balance category is the relative inability of the government to redeploy restricted amounts for other purposes.

75. This Statement requires, for financial reporting purposes, that the formal action that establishes committed fund balance occur before the end of the reporting period. The Board recognizes, however, that even if the specific purpose of the commitment is established before year-end, a mechanism or formula for determining the amount subject to the commitment is sometimes based on events, conditions, or results that are not known or finalized at that time. As a result, this Statement allows that the amount subject to the commitment may be determined in the subsequent period before financial statements are issued.

Assigned fund balance

76. Throughout its deliberations about defining the fund balance classifications, the Board generally supported the notion that there was a need for a classification representing a level of constraint that was less binding than that associated with the limited (committed) fund balance classification but not so available as to be considered unassigned. The Board also considered, and ultimately rejected, alternatives that would have reported those amounts in the committed or unassigned classifications. The decision to establish the assigned classification essentially depended on whether amounts classified as assigned would be sufficiently distinguishable from those other two classifications. The Board believes that the definition of assigned fund balance in this Statement appropriately provides for that distinction.

77. The Board views an assignment as an expression of a government's *intent,* comparable to designations in the previous fund balance classification and display model. By accepting the validity of that analogy, the Board had the benefit of the input obtained from its past research efforts and from the responses to the Invitation to Comment relative to questions asked about designations of fund balances. Those sources clearly indicated that information about management's plans or intentions is considered important. There was considerable interest in information about the designations themselves: three-quarters of the survey respondents said that they consider information about the purposes of designations "important" or "very important." Furthermore, over 70 percent of the respondents to the 2003 user survey rated information about *unreserved–undesignated* fund balance to be "very important" to the decisions they make or to their assessments of a government's financial health.

78. Both the committed and assigned fund balance classifications include amounts that have been constrained to being used for specific purposes by actions taken by the government itself. As noted earlier in paragraph 72, this Statement does not specify which actions of a government would be required to establish committed fund balance, largely because of the differences in abilities and structures from government to government. Those differences led the Board to reach the same conclusion with regard to identifying particular actions that should be required to assign amounts. Several respondents to the Exposure Draft commented that it would be difficult to distinguish between the actions taken to *commit* fund balance amounts and actions taken to *assign* fund balance amounts. Other respondents indicated concern that some governments may not have decision-making processes in place to commit or assign resources, as described in the Exposure Draft. Those respondents urged the Board to provide clarification of the requirements. In response, the Board added paragraph 15 to highlight the differences between the committed and assigned fund balance classifications emphasizing (a) the level of authority required, (b) the nature of the actions necessary to nullify a commitment or assignment of fund balance, and (c) the degree of difficulty with which they may be reversed. The

Board also clarified in other places in this Statement that some governments may not report both committed and assigned fund balances because not all governments have multiple levels of decision-making authority.

79. The assigned category should include amounts that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. *How* the government's intent should be expressed and communicated is not specifically prescribed; however, the Statement does clarify that an authorized government body or official should be characterized as "the governing body itself or a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes." The Board believes that the disclosures required in paragraph 23(b) should provide users with a clear understanding of who is empowered to make assignments and by what authority.

80. Paragraph 12 in this Statement provides that the specific purpose for a fund balance commitment should be established prior to the end of the reporting period but that the specific amount of that commitment can be determined in the following period. The basis for that conclusion is discussed in paragraph 75. Some Exposure Draft respondents asked why such a provision was not also made for fund balance assignments. The Board does not believe that a similar timing requirement is necessary or appropriate for fund balance assignments largely for two reasons. First, the process of assigning amounts to specific purposes is less binding than the procedures for fund balance commitments, and second, assignments are often not considered until after the amount of unrestricted and uncommitted fund balance is quantified. That is, it is common for governments to express an intent to use accumulated resources for specified purposes only after the amount that is available for assignment has been determined. Paragraph 15 clarifies that governments cannot assign an amount to a specific purpose if that assignment would cause a deficit to occur in unassigned fund balance.

Unassigned fund balance

81. In the Exposure Draft, the Board proposed that, based on the definitions of the restricted, committed, and assigned fund balance classifications, unassigned amounts could exist only in the general fund. Even though some contend that amounts in other governmental funds could, in actuality, be just as accessible as unassigned amounts in the general fund, the Board believes that governments, through the formal process of reporting amounts in other funds, have assigned those amounts to the purposes of the respective funds. This Statement provides that unassigned fund balance is the residual classification in the general fund and includes amounts that have not been assigned to other funds. Accordingly, assigned fund balance should be the least constraining classification in governmental funds other than the general fund.

Reporting negative balances

82. Respondents to the Exposure Draft and participants in the field test raised questions about the appropriate fund balance classification for reporting *negative* fund balances. A negative balance communicates that more resources were spent for a specific purpose than had been restricted, committed, or assigned to that purpose. A prohibition against reporting negative restricted fund balances already exists by extension of the requirements for reporting restricted net assets. Item 7.24.13 in the *Comprehensive Implementation Guide* states that restricted net assets is intended to portray, at the date of the statement of net assets, the extent to which the government has assets that can only be used for a specific purpose. If the related liabilities exceed the assets on hand, then the "shortfall," by default, is covered by unrestricted net assets. Extending that logic to the unrestricted fund balance classifications, the Board believes that shortfalls in any of the classifications would be covered by the next classification for that specific purpose in the government's spending prioritization policy (stopping at zero in each classification). Thus, if fund balance (exclusive of nonspendable amounts) in total is negative, then the negative amount can only be attributed to the unassigned fund balance classification. Similar to the net asset conclusion discussed above, shortfalls ultimately are covered

by unassigned resources. The Board believes that the use of unassigned resources "in substance" should be recognized in the fund balance classifications. Consequently, the Board concluded that negative balances should be reported only in the unassigned classification. Although the general fund is the only fund in which a positive unassigned fund balance may be reported, other governmental funds may be required to use the unassigned fund balance classification to report negative amounts.

83. Paragraph 19 states that if expenditures incurred for a specific purpose exceed the amounts that have been restricted, committed, and assigned to that purpose and a negative balance for that purpose results, then amounts assigned to other purposes in that fund should be reduced before reporting a negative unassigned fund balance amount. This provision does not require the reduction of restricted or committed fund balance amounts. The Board believes that in funds other than the general fund, the expenditure of resources assigned to one specific purpose has been, in substance, *reassigned* to the other purpose for which they actually have been spent. In the general fund, on the other hand, the Board believes that an overexpenditure for a specific purpose is first covered by unassigned resources, to the extent adequate unassigned resources exist. That is, the government has, in effect, assigned the amounts to the purpose for which they were spent, thereby reducing unassigned fund balance rather than attributing the overexpenditure to amounts assigned to other purposes. The fund balance classification policy for the general fund, discussed in paragraph 18, would describe that resource flow assumption.

Classifying fund balance amounts

84. This Statement does not require the presentation of a detailed statement of changes in fund balances; rather, it provides that an analysis of ending fund balance can be made to determine how residual balances should be classified. In developing the Exposure Draft, the Board discussed approaches that would have established a required spending prioritization scheme, but it rejected them because they would necessarily be arbitrary and would not be sensitive to the differences in resource management philosophies that exist from one government to another. Some respondents to the Exposure Draft indicated that they believe the standard *should* require a specific spending prioritization. They believe that the final standard should state that resources are used in the same descending order as the fund balance classifications appear in the hierarchy, and one Board member agrees with that position (see paragraphs 135 and 136). The Board redeliberated the issue and reaffirmed the Exposure Draft's approach that fund balance at the end of a reporting period should reflect the government's accounting policy that determines which amounts in the various classifications are considered to have been spent. The Board recognizes that a final determination of whether specific resources are *restricted* may ultimately be subject to legal interpretation. The government's policy should therefore be consistent with such legal determinations. For example, if a government's policy is to spend unrestricted resources before certain restricted resources, the reported restricted amounts are required to be legally constrained for a specified purpose at the end of the reporting period to be included in the restricted fund balance classification. Disclosure of the government's policies should provide context within which readers can better understand the fund balance information being reported.

85. Several respondents commented that some governments do not have formal spending prioritization policies and that establishing those policies may be difficult. However, governments already are required by Statement 34 to have a policy for determining whether restricted or unrestricted amounts are spent. Furthermore, establishing an additional policy to determine whether committed, assigned, or unassigned amounts have been spent is expected to be a one-time effort at the time of implementation. Nevertheless, in response those concerns, the Board decided that this Statement should provide a "default" policy for governments that do not establish a policy, stipulating that, committed amounts would be reduced first, followed by assigned amounts, and then unassigned, when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. Some respondents also contended that the spending prioritization policy disclosures required in the Exposure Draft would become "boilerplate" and

270

thus should not be required. The Board is sensitive to concerns about excessive disclosure but continues to believe that those disclosures are essential for a reader's understanding of the fund balance classifications required by this Statement. Because the procedures for committing and assigning resources to specific purposes may differ from government-to-government, users need to understand the process through which the constraints have been imposed by a particular government to help assess the availability of amounts reported in governmental funds.

86. Some commentators pointed out that governments may have different policies for different programs or functions and that a single flow assumption would not be representative of that management approach. In response to those comments, the Board modified that provision from the Exposure Draft to eliminate the unintended implication that a government would be required to apply a single classification policy to all of its programs or functions.

87. The Exposure Draft included a provision that in other than the general fund, unspent amounts that were assigned to a specific purpose that is no longer applicable should not be reported as assigned fund balance but, rather, should be included in the unassigned fund balance of the general fund by reporting those amounts as due to the general fund. Many respondents objected to that proposal, indicating that they believe that amounts transferred to other funds remain committed or assigned to a specific purpose until the government takes action to eliminate or modify those commitments or assignments. After redeliberating the Exposure Draft's requirement, the Board agreed with that notion. Although the Board believes that preparers have a responsibility to periodically review the status of commitments and assignments, the Board does not believe that a cautionary provision in the standard is necessary to inform them that it would be inappropriate to continue to report an amount as committed or assigned if the purpose for which the commitment or assignment was imposed has expired. In addition, the Board understands that, in many cases, the reason that a fund is in a deficit position is because it has a large balance "due to the general fund" representing a loan that was needed to cover current expenditures in anticipation of other resources. The provision in the Exposure Draft would have caused an amount due *from* the general fund to be reported, offsetting the amount due *to* the general fund and, in effect, reclassifying the loan as a transfer. After considering the comments to the Exposure Draft made by respondents, the Board agreed that, in this instance, reporting a flow of funds that likely will not take place should not be required.

Level of detail of fund balance classifications

88. The Exposure Draft proposed that the two components of nonspendable fund balance—resources that are not in spendable form and those that are legally or contractually required to be maintained intact—be presented separately. Restricted fund balance would be reported at the same level of detail as required for restricted net assets in paragraph 32 of Statement 34. Committed and assigned fund balances would be reported in sufficient detail so that the major purposes for which amounts are committed and assigned can be identified readily.

89. Several Exposure Draft respondents urged the Board to clarify those requirements in the final Statement. Some concluded that the disclosures suggested by the Exposure Draft would be too detailed and too time-consuming to compile. Others recommended that the Board express a preference for either display or disclosure. Still others preferred a requirement that called for display in the aggregate with supporting details disclosed in the notes. Many users have traditionally been ambivalent about whether this type of information is disclosed in the notes or displayed on the face of financial statements. Users that express a preference are divided—some prefer more detail on the face of the statement, provided it is not so voluminous as to be distracting, whereas others prefer note disclosure, as they believe it can be more informative and easier to read. Consequently, the Board does not believe that there is any single approach that offers such an advantage over others that its use should be required or encouraged. Thus, the nonprescriptive approach in the Exposure Draft was retained for the final Statement, and governments are provided with options for meeting these requirements—through display, disclosure, or a combination of both.

Stabilization arrangements

90. Stabilization (rainy-day) arrangements were discussed in the Invitation to Comment in connection with the alternatives proposed for the special revenue fund definition. Respondents were asked their preferences for reporting stabilization amounts (a) as a component of fund balance in the general fund, (b) in a note disclosure or separate schedule that disaggregates the general fund, (c) as a new fund type, or (d) by another approach. The Board considered the advantages and disadvantages of each of those alternatives and the comments from respondents to the Invitation to Comment before reaching the conclusion proposed in the Exposure Draft.

91. Initially, the Board considered including stabilization amounts as a classification within the nonspendable fund balance classification based on the concept that stabilization amounts are spendable only when certain specific circumstances or conditions exist—if those circumstances or conditions do not exist at the end of the financial reporting period, then the resources cannot be spent. The Board eventually rejected that approach primarily because the nonspendable caption implies a level of constraint that overstates most stabilization arrangements.

92. The Board concluded that, generally, the most appropriate presentation of stabilization amounts would be as a component of fund balance in the general fund. The Board agreed that *economic stabilization* (or a similar intention by a different name) constituted a *specific purpose* and, therefore, amounts constrained to stabilization would usually meet that criterion for inclusion in the committed or restricted fund balance classifications of the general fund. In some instances, for example, if setting aside stabilization resources is a constitutional requirement, those amounts may meet one or more of the criteria of the restricted fund balance classification. The Board believes that it is unlikely that a stabilization arrangement would satisfy the criteria to be reported as a separate special revenue fund because the resources usually do not derive from a specific restricted or committed *revenue* source, as required by that fund type definition. Paragraph 21 of this Statement was amended to clarify that point.

93. This Statement requires that stabilization arrangements be classified within the committed or restricted fund balance classifications if they satisfy the respective criteria of those classifications. However, the Board concluded that, for financial reporting purposes, stabilization should be regarded as a specific purpose only if the circumstances or conditions that signal the need for stabilization are identified in sufficient detail. The guidance provided in paragraph 20 of this Statement was expanded to clarify the meaning of *specific purpose,* in the context of stabilization.

94. The Board considered and rejected the notion that stabilization amounts might also meet the assigned fund balance criteria and could therefore be reported within the assigned classification. The Board believes that *stabilization* is a purpose that, relative to specific activity or program purposes, has inherent financial reporting significance. That is, awareness of the existence and conditions of stabilization arrangements and amounts can help users assess a government's financial health. Consequently, for financial reporting purposes, the Board believes that a government's ability to establish and spend stabilization amounts should be the province, at a minimum, of its highest level of decision-making authority, which is consistent with the criteria for the committed fund balance classification.

95. The GASB's research found that users often consider stabilization arrangements to be a positive indicator of a government's fiscal management philosophy; that is, governments that establish stabilization arrangements are perceived by many to be responsibly setting aside resources to withstand unexpected revenue shortfalls or expenditure needs. However, some financial statement users interviewed by the GASB expressed concern about their inability to find stabilization amounts in the financial statements of certain governments. Thus, the Board concluded that information about stabilization arrangements should be disclosed in the notes to financial statements, even if those arrangements do not meet the criteria for display as committed or restricted fund balance.

Minimum fund balance policy disclosures

96. Many governments create *de facto* stabilization arrangements by establishing formal

minimum fund balance requirements. The Board believes that users are similarly interested in information about those minimum fund balance requirements and how they are complied with by the respective governments. Therefore, this Statement also requires that governments disclose their minimum fund balance policies. Some Exposure Draft respondents and field test participants asked that the final Statement more clearly identify the minimum balance arrangements that are intended to be the focus of the disclosure requirement. They pointed out that governments are often required to maintain minimum balances by ordinance, statute, indenture, contract, and other sources and asked whether the disclosures would be required for all minimum balances, regardless of the source of the requirement or its objective. To clarify the focus of the minimum balance disclosures, paragraph 27 refers to policies rather than requirements and emphasizes that those policies are *adopted* or *established* by the government to distinguish them from other minimum balance requirements that are *imposed* upon the government from other sources and authority.

Reporting Encumbrances

97. In developing the Exposure Draft, the Board discussed the question of whether encumbrances meet the criteria to be included in the restricted, committed, or assigned fund balance classifications. In the previous model, encumbrances were included in the *reserved* fund balance category. However, within the classification approach in this Statement, the Board concluded that an encumbrance does not represent any further constraint on the use of amounts than is already communicated by classification as restricted, committed, or assigned. The restricted, committed, and assigned classifications of fund balance are distinguished by the extent to which purpose limitations have been established regarding the use of those amounts. None of those classifications are based on a budgetary availability notion in the way encumbrances are. In fact, amounts in any of those three classifications also could be encumbered from a budgetary perspective. Based on those considerations, the Board determined that reporting encumbrances as a separate classification is incompatible with the focus on purpose limitations established in the restricted/committed/assigned fund balance hierarchy. Given that difference in focus, the Board concluded that, for governments that use encumbrances in their budgetary accounting system, information about significant encumbrances should be disclosed in the notes to the financial statements in conjunction with other commitments, rather than displayed on the face of the fund financial statements.

98. The comments of respondents to the Exposure Draft and participants in the field test made it evident that many disagreed with or did not fully understand that encumbrances should not be displayed on the face of the balance sheet but may be disclosed. Some respondents argued that encumbrances represent legal commitments or contractual obligations and should be reported as restricted. Others expressed their belief that encumbrances are nonspendable and should be included in that fund balance classification. Some contended that encumbrances should be explicitly displayed on the face of the statement. Many argued that encumbrances should be classified as committed or assigned, and others rejected the possibility that they could be classified as unassigned. The Exposure Draft's contention that encumbrances are a budgetary consideration, rather than a financial reporting matter, also was disputed by some respondents.

99. The Board recognized that the Exposure Draft did not sufficiently communicate that encumbered resources are included within the relevant classifications based on the purposes to which the encumbrances relate. For example, an amount could be classified as restricted to a specific purpose, some or all of which also may be encumbered. That further delineation of the encumbered portion of restricted fund balance is not required to be displayed because the encumbrance does not further restrict the purpose for which the resources may be used. Displaying the encumbered portion separately on the face of the financial statements would result in a level of detail that does not add to the decision-usefulness of the information. The Board therefore decided to add clarifying language in the Statement to explicitly state that encumbrances should not be reported separately from the classifications of fund balance—restricted, committed, and assigned—on the face of the balance sheet.

100. In response to the contention that an encumbrance (through the issuance of a purchase

order) represents a legal commitment with an outside party and thus should be regarded as restricted fund balance, the Board points out that such an interpretation is not consistent with the definition of *restricted* in Statement 34 and in this Statement. *Restricted*, as defined, applies to resources that have been provided by creditors (bond sales), grantors, or donors or have been raised pursuant to enabling legislation. In the case of encumbrances, vendors have not provided resources—they have not provided goods or services and have no influence over how a government uses its existing resources. If and when a purchase order is filled, a vendor is entitled to payment and a liability would be recognized, but at no point does that vendor have any legally enforceable authority, as outlined in Statement 34 and amended by Statement 46, over how the government uses its resources.

101. The Board also determined that the Statement should clarify whether unassigned amounts that are encumbered for a specific purpose that is not already included within the restricted, committed, or assigned classifications should continue to be regarded as unassigned. That is, does the process of encumbering amounts equate to the process that leads to commitments or assignments? To address this issue, the Board clarified that encumbrances of otherwise unassigned amounts should be reported in the fund balance classification that equates to the process that the government uses in encumbering amounts. Thus, encumbrances of unassigned amounts could be classified as committed or assigned depending on the process by which amounts are encumbered.

Appropriations of existing fund balance

102. In developing the Exposure Draft, the Board considered the common situation in which the subsequent year's budget includes a specific provision to use *existing resources* (ending fund balance from the prior year) for a specific purpose. The Board discussed whether that action would meet the criteria to be reported as an assignment and concluded that in some circumstances, appropriations of existing fund balance would constitute an assignment, and in other situations, it would not. That distinction should be based on whether the appropriation possesses the characteristics of an assignment; that is, whether both the *amount* and the *purpose* of the appropriation are specified. For example, a general fund budget could include an appropriation of a specific amount from the prior year's fund balance to finance the renovation of an athletic field.

103. In the Exposure Draft, the application of the fund balance classification provisions to an appropriation of existing fund balance was discussed only in the Basis for Conclusions. Respondents to the Exposure Draft sought clarification of that application guidance and suggested that it appear in the standards section of the final Statement. In addition, several respondents argued that "balancing the budget" by appropriating a portion of existing fund balance constitutes the setting aside of resources for a specific purpose and that that intent should be communicated through the fund balance classifications. Some of those respondents argued that the Exposure Draft's requirement to identify a specific purpose (that is, more specific than balancing the budget) was too restrictive and arbitrary—they suggested that a government could simply choose any item from its budget and assert that the existing resources were intended to finance that purpose. The Board generally agreed and responded to those concerns by adding paragraph 16 to this Statement. That paragraph clarifies the circumstances under which such an appropriation of existing fund balance constitutes an assignment. Specifically, the Board agreed that an appropriation of fund balance 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.

104. The Board considered whether an appropriation of existing fund balance could be classified as a commitment rather than an assignment. Some assert that an appropriation of existing fund balance necessary to balance the next year's budget is tantamount to a temporary stabilization arrangement. That is, that portion of existing fund balance constitutes an amount that the government *intends* to use for budgetary stabilization in the subsequent year. However, appropriation of existing fund balance lacks the constraints and ongoing nature of the formal stabilization arrangements addressed in this Statement. Therefore, even though the specified use—stabilization—is similar in those

two situations, the fact that in one instance stabilization is an *intent*, while in the other it is a *committed purpose*, the Board believes, leads to the appropriate classification distinction. The Board also believes that an appropriation of existing fund balance does not meet the criteria for a commitment because the government does not have to take action to remove the constraint—it expires at the end of the budgetary period. Formal stabilization arrangements would generally result in committed fund balance classification, as provided for in paragraph 21, whereas the appropriation of existing fund balance for temporary budgetary stabilization would result in an assignment, provided that the amount is specified as a budgetary resource in the budget document and the purpose of the appropriation is specified.

Governmental Fund Type Definitions

105. The definitions of the individual governmental fund types presented in this Statement provide that funds of a particular type either *should be used* (that is, required) or *are used* (that is, discretionary) for all activities that meet its criteria. If use of a fund type is generally discretionary, specific situations under which a fund of that type should be used are identified either in the definitions in this Statement (debt service funds) or by requirements established in other authoritative pronouncements (special revenue and capital projects funds).

General fund

106. For consistency with clarifications made to the terminology in the definitions of the other governmental fund types and to acknowledge that other governmental funds are required only in prescribed situations, the Board concluded that the definition of *general fund* in paragraph 26 of NCGA Statement 1 needed a conforming alteration. That definition stated that the general fund "is used to account for all financial resources except those required to be accounted for in another fund." To recognize that the establishment of other funds can be discretionary in certain circumstances, the Board concluded that the definition should be revised to state that the general fund should be used "to account for and report all financial resources not accounted for and reported in another fund." Thus, the unintended notion that no other governmental funds should be reported unless they are *required* is eliminated.

Special revenue fund type

107. In the deliberations for the Exposure Draft, regarding the definition of the special revenue fund type, the Board acknowledged that the diversity in the reporting of those funds in practice could largely be attributed to confusion that derived from several provisions in the previous definition. Those provisions determined the nature of the revenue source for which a special revenue fund may be created to report in external financial statements, as well as the nature of other resources that also may be reported in those funds. The provisions in the definition that appeared to cause the confusion were *proceeds of specific revenue sources, legally restricted,* and *specified purposes.* The Invitation to Comment included alternative interpretations of those parts of the definition, each of which would have, to different degrees, limited the reporting of special revenue funds by many governments.

108. As discussed earlier, the fund balance information needs of users vary—from information about compliance with restrictions on the use of revenues, to the relative availability of resources, to the revenues and expenditures of specific programs and activities. The comments received from the Invitation to Comment respondents about the use of special revenue funds validated that notion and are indicative of the differences in the way in which those funds have been reported in practice. On one side are those that believe that special revenue funds should be used only to report the use and availability of specific revenues (a motor fuel tax fund, for example), while on the other side are those that believe that special revenue funds also may be used to report the revenues and expenditures of specific programs or activities (a public library fund, for example).

109. In connection with the intent of the proceeds of specific revenue sources provision, a question in the Invitation to Comment asked what resources should be accounted for in a special revenue fund included in external financial reports. The alternatives were (a) only a specific revenue source, (b) a specific revenue source and transferred matching amounts, or (c)

a specific revenue source, transferred matching amounts, and other legally limited transferred amounts. The comments received from the respondents to the Invitation to Comment reflected the differences in practice. Because different user groups have different needs, supporters of either a revenue-focused approach or an activity-focused approach could declare that consideration of user needs indicates support for their preferred definition. On the one hand, many users from the investor/creditor group generally contend that the focus of special revenue funds should be on revenues so they can easily identify resources that are available. On the other hand, several preparer and attestor respondents believe that users other than credit market participants also want information about programs or activities and that special revenue funds have been an effective medium in reporting that information.

110. Financial reporting standards do not *require* separate fund usage for either specific revenues or specific activities. That is, GAAP does not require all restricted road and bridge taxes, for example, to be reported in separate special revenue funds. Therefore, some governments report those revenues in their general fund and others use one or more funds. Similarly, GAAP does not require governments to report their public parks activities (or any other specific function, program, or activity) in a separate fund. Consequently, some governments account for all public parks revenues and expenditures in the general fund, while others use a separate fund, and still others use both. As a result, some have asserted that an activity-based approach is not in accord with the intended use of special revenue funds and does little, if anything, to enhance consistency. Because an activity could be reported in a variety of ways (in the general fund, in a special revenue fund, or in both), those that are interested in activity reporting may not find the information they need unless the special revenue fund definition *requires* reporting of activities in separate special revenue funds.

111. Proponents of an activity focus suggest that if it is essential for readers to be able to isolate the proceeds and uses of a restricted revenue, then a separate fund should be required for all restricted revenues. That is, if governments can report a specific restricted revenue in the general fund commingled with other restricted and unrestricted revenues, why should a similar mix be prohibited in a less comprehensive separate special revenue fund? Those who prefer a revenue focus would respond that if all unrestricted amounts were required to be reported in the general fund, a user's search for available amounts is simplified as long as restricted amounts in that fund are clearly identified. After weighing the arguments from both perspectives, the Board concluded that the need for information regarding available amounts is an important consideration, but it is not the only user need that should be addressed, and it should not be met at the expense of others.

112. A popular argument from those that support limiting the use of special revenue funds to reporting the uses of restricted revenues is that it demonstrates compliance with spending restrictions. Yet, the Board is aware that governments can report compliance selectively with whatever restricted revenues they choose to report in a separate special revenue fund. Restricted revenues for which they choose not to demonstrate compliance can be reported in the general fund with other revenues, both restricted and unrestricted. That level of flexibility led the Board to conclude for the Exposure Draft that general purpose external financial statements are not the most appropriate medium for demonstrating this form of compliance.

113. Many users that favor limiting special revenue fund usage do not assert that they want to judge compliance but rather that they want to know about availability of resources. Government compliance with spending limitations is not a driving factor for those users; rather, they want to know where the available amounts are. The Board believes that such information can be provided through display and classification techniques and based the Exposure Draft classification approach on that notion.

114. Some Invitation to Comment respondents pointed out that Statement 34 provides for an activity or program focus in the government-wide statement of activities and, therefore, reporting similar information in governmental funds would be redundant. While that assertion, on its face, may seem valid, many financial

statement users contend that the minimum requirement for level of detail (total direct expenses, for example) at the government-wide level is inadequate for assessing the operations of a particular activity or program. In other words, without additional details of program expenses (personnel and related expenditures, supplies, maintenance, and so on, by program), activity reporting in special revenue funds is the only way for users to get the level of information they need to assess a particular program without piecing it together from a variety of locations.

115. In arriving at the approach proposed in the Exposure Draft, the Board was faced with the question of whether a revenue focus or an activity focus provides better information. Users interested in locating available resources, or in determining how restricted revenues were used, could easily obtain that information from revenue-based funds, while needing additional information to assess the uses and availability of resources if single activity-based funds were reported. The Board believes that those user needs are better served by revenue-based reporting. Conversely, users interested in program or activity information would generally need to look only to the single activity-based funds to obtain it, while under a revenue-based approach, they would have to gather the information from a variety of funds including the general fund. The Board believes that those users' needs are best met by activity-based reporting. Because the Board believes those competing user needs are of equal importance, the Board agreed that a solution to satisfy one need at the expense of the other should be avoided.

116. After carefully evaluating the strengths and weaknesses of the alternatives, the Board concluded for the Exposure Draft that the special revenue fund type definition should not be interpreted in a way that would prohibit governments from pursuing an activity-based reporting objective in certain cases. The Board believes that it is easier to understand information about specific revenues in an activity-based special revenue fund than it is to understand information about specific activities in a revenue-based fund framework. In addition, the Board believes that more effort will be required, and more confusion will result, in informing readers about activities if the special revenue fund type is defined so narrowly as to include only specific committed or restricted *revenues*. Nevertheless, the Board believes that it is important to stress that the definition requires that a specific restricted or committed revenue source be the *foundation* of a special revenue fund. This is one aspect of the clarification of the definition of the special revenue fund type for which the Board believes there appears to be little controversy.

117. Governments that currently report special revenue funds consistent with a narrow revenue-based approach are not required to convert those funds to incorporate more of an activity focus. In contrast, those governments that report special revenue funds in a manner consistent with the approach provided for in this Statement would have been required to make significant changes to comply with a narrower revenue-based definition.

118. The question posed in the Invitation to Comment regarding the meaning of *legally restricted* was intended to solicit views on how *binding* the limitations on the use of a specific revenue should be for it to form the foundation of a separate special revenue fund. That is, should it be necessary for the constraints to be imposed only through the legally restricting channels defined in paragraph 34 of Statement 34, as amended (Option 1)? Or can the constraints also be imposed by the reporting government itself even though the government has the ability, through some specified level of due process, to remove or modify them (Option 2)?

119. Respondents that expressed a preference for Option 1 alluded to consistency and comparability as reasons for their support. Some suggested that the Option 1 approach paralleled their belief that all unrestricted resources should be reported in the general fund and that the basis for a separate fund should be a legal restriction. Others stated that Option 1 would help to keep the number of funds at a minimum, and they believe that it would eliminate, or at least significantly reduce, the reporting of available resources in special revenue funds. The Board acknowledges that the consistency and comparability argument has some merit, but it also realizes that the argument is significantly diluted by the fact that governments can choose to report restricted revenues in a separate fund or commingle those revenues with other restricted and unrestricted resources in the general fund.

Thus, the Board believes that under Option 1, consistency or comparability would be fully achieved only to the extent that all special revenue funds presented would include only restricted revenues, but it would not be fully achieved in the sense that all governments would report the same restricted revenues in identical ways. The Board also agreed with the suggestion that Option 1 would impede a government's ability to report unrestricted resources in special revenue funds to make those resources appear less available than they actually are but concluded that the concern could be easily mitigated by clearly stated and well-defined classifications of fund balance.

120. A common argument made by those that preferred Option 2 is that it gives governments the flexibility to report in a manner that portrays how they actually manage their resources and activities. They contend that some decision makers (the legislative and oversight users) would find financial statements that do not provide this flexibility to be less useful. Another popular observation from the respondents that supported Option 2 was that the substance of the constraints arising from restrictions and commitments is so comparable that allowing separate fund reporting of one but not the other was not warranted. Finally, many that preferred Option 2 pointed out that it more closely resembles current practice and that adopting the definition in Option 1 would cause significant changes and loss of useful information. After considering the two alternatives, the Board determined for the Exposure Draft that intent of the *legally restricted* provision in the definition should not be the equivalent of *restricted* in Statement 34 but, rather, should encompass committed resources as well. Accordingly, the Board eliminated *legally* from the special revenue fund type definition because it implies a restriction that is enforceable by law and overstates the strength of the constraints that can be imposed by a government on itself.

121. The responses discussed above to the questions in the Invitation to Comment about possible alternative interpretations of the terminology in the special revenue fund type definition were very informative to the Board and aided the deliberations that led to the special revenue fund type definition in the Exposure Draft. The Board decided not to propose substantive modifications to the definition but, instead, to propose that governments disclose in the notes to financial statements the kinds of revenues that are reported in special revenue funds. That is, the disclosure would reveal the nature and extent of the constraints imposed on the use of those revenues. In addition, the Board concluded that rather than requiring which revenues or amounts can be reported in special revenue funds, this Statement would provide for a fund balance classification and display methodology that would inform readers about the levels of constraint placed on the use of the amounts accumulated in special revenue funds.

122. Many respondents to the Exposure Draft expressed concern about the change from current practice that would result if the proposed clarifications were implemented. There appeared to be much uncertainty about whether governments can assign amounts to the purposes of an individual special revenue fund. One question that arose was whether a special revenue fund can include *any* amounts that are not restricted or committed. A second question was whether the foundation of a special revenue fund can be a specific revenue that has been assigned (rather than restricted or committed) to the purpose of the fund. The reason for the uncertainty was the reference in paragraph 26 of the Exposure Draft to "specific revenues that are restricted or limited," while paragraph 27 of the Exposure Draft referred to resources that have been assigned to the purpose of a special revenue fund. Many respondents also had questions about the inclusion of assigned amounts in the discussion in one paragraph but not the other. The Board's intent was to use the first paragraph to emphasize that assigned resources should not be considered an appropriate foundation for a separate special revenue fund. The following paragraph made the point that specific revenues also could be assigned to a special revenue fund (or existing resources from other funds could be transferred in) provided that a substantial portion of the resources in the fund are attributable to restricted or committed revenues.

123. The Board addressed the question of whether assigned amounts can be reported in special revenue funds to supplement restricted or committed resources by clarifying that discussion in the standard. The other issue was

whether a government can establish and maintain a separate fund with assigned resources as the foundation. The Board evaluated the pros and cons of such an approach and ultimately rejected it, concluding that it would be tantamount to having no parameters at all for using special revenue funds, and because such a permissive definition could ultimately undermine the significance of the general fund.

124. Respondents also voiced concerns about situations in which resources are received in one fund and distributed to other funds for expenditure in accordance with specified purposes. Some referred to those funds as "clearing funds," and they surmised that the Exposure Draft would allow for a clearing fund to be reported as a special revenue fund but not an ultimate expenditure fund because those "transferred" resources would not be considered *revenues* of that fund. The Board concluded that perception is a misinterpretation of the Exposure Draft's intent. In those instances, the foundation *is* a specific revenue and if those resources are either restricted or committed, separate special revenue funds may be reported, regardless of the fact that the resource was initially received in another fund. The Board agreed that the final standard should clarify that, in those situations, the inflows should not be recognized as revenues in the fund that initially receives them.

125. Another recurring concern from the respondents was that additional clarification is needed to understand what is meant by *significant portion* in the Exposure Draft's definition of special revenue funds, which stated that "restricted or limited proceeds of specific revenue sources should comprise a *significant portion* of the resources reported." The first clarification that the Board made was to replace the term *significant* with *substantial* to eliminate possible confusion with other financial reporting considerations. Some asked if the criterion applies to revenues or balances. Others questioned whether governments have to continuously analyze their special revenue funds to see if the relative levels of resources within a particular fund still satisfy the significant portion requirement. The Board agreed with those respondents that the intent of that provision should be more clearly explained in the final Statement. In response to the uncertainty about revenues or balances, paragraph 30 clarifies that the evaluation should be based on *inflows*, but it also provides for an additional consideration for revolving loan funds. The Board did not intend for governments to monitor the content of their special revenue funds using specific criteria on an annual basis. Therefore, the Board clarified in paragraph 31 that the substantial portion assessment should be based on a government's *expectation* about whether a substantial portion of the inflows will be from specific restricted or committed revenue sources. In addition, the Board agreed that governments should report the net resources of a special revenue fund in the general fund, for financial reporting purposes, if it becomes apparent that the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

Capital projects and debt service fund types

126. The Invitation to Comment asked whether the definitions of capital projects and debt service fund types should be modified to limit the amounts that can be reported in those funds. The responses were divided between those who favored a more restrictive approach to include restricted and committed amounts only and those who prefer the flexibility implied in an approach that includes amounts intended for capital projects and debt service as well. Many of those that supported the more restrictive definition did so because they believe that intent is too imprecise. They also contended that the notion of intent is problematic because it is transitory, and there are many ways in which intent can be manifested. Other supporters of a more restrictive definition commented on the consistency and comparability they believe that approach promotes. Some of those respondents focused on consistency from year to year and comparability among governments, while others believe such an approach is consistent with the historical nature of those fund types.

127. Those that supported a broader approach (including assigned amounts) offered a variety of reasons for their preference. Many commented that a restrictive definition would affect the way governments use fund accounting to manage resources and suggested that the broader definition better reflects the way that many governments operate. Several of that

method's supporters like the flexibility it provides, and others favor it because it allows for the accumulation of amounts for a particular capital project and could show the financial statement user all of the amounts used for a common purpose.

128. As was true for the special revenue fund type, the Board believes that the consistency arguments would be more compelling if the use of capital projects and debt service funds were required in all instances. Thus, the Board acknowledges that while comparability from government to government can be enhanced, without significant restructuring of fund type definitions, any higher level of comparability will be elusive. Under the more restrictive definitions, a higher level of comparability could be obtained *if* a government reported a capital projects or debt service fund, because then a reader would be assured that the amounts in those funds could not be used for any other purpose. Nevertheless, those readers would not be assured that other similarly restricted amounts were not reported elsewhere.

129. The Board does not believe that the contention that a narrower, more restrictive definition is consistent with the nature of the funds is supported by the literature. For example, the argument that capital projects funds are intended to account for only restricted or committed resources is contradicted by the language in paragraph 28 of NCGA Statement 1, which characterizes those funds as *project-oriented* and further states that fund accounting records should reflect *total* project financial resources. Thus, one could conclude that a capital projects fund should report a complete *project*, not just the portion that is financed with restricted or committed resources. Similarly, paragraph 30 of that Statement, as amended, provides that debt service funds should be used when *financial resources* are being accumulated for future years' maturities. There is no stipulation that the resources being accumulated are required to be restricted or committed to that purpose. The Board believes that those provisions of NCGA Statement 1 support the contention that broader definitions better reflect the way that many governments currently use those funds to manage their resources.

130. After considering the strengths and weaknesses of the comments made in support of the two approaches by respondents to the Invitation to Comment, the Board proposed broader definitions, including assigned amounts, for the Exposure Draft. The Board believes that interpreting the fund definitions as imposing restraints that many governments have not previously observed would not necessarily meet financial statement user needs. The Board concluded that the user needs intended to be addressed in this Statement can be met through effective fund balance classification and display requirements, and that such an approach is more consistent with the broader definitional approach—provided that what is meant by *intent* is clearly explained. The requirement in paragraph 23 to disclose a government's *assignment* process is expected to provide that clarity.

131. In deliberations leading to the Exposure Draft, the Board discussed the term *major capital facilities* in the capital projects fund definition from the perspective of whether the term is sufficiently descriptive to provide for consistent application. The Board is aware that some governments use capital projects funds to report equipment and other personal property acquisitions, while others limit their use to reporting the acquisition or construction of structures and ancillary capital items. The Board considered expanding the discussion of *facilities* in the proposed definition to clarify and limit the scope of activities that could be reported in those funds, but it recognized that various governments have different views about what constitutes capital facilities. The Basis for Conclusions section of the Exposure Draft, included a statement that the Board believes that capital projects funds are intended to be used to report the acquisition or construction of capital assets that clearly are *facilities* (buildings, building improvements, infrastructure assets, including ancillary items, for example) rather than those that clearly are not (buses, fire trucks, and computer workstation equipment, for example). Even though the capital projects fund definition proposed in the Exposure Draft used the same terminology from the previous definition ("acquisition or construction of major capital facilities"), many respondents reacted to the discussion of the Board's perception of intent as if the definition was significantly more restrictive than the previous one.

132. Many respondents objected to the proposed clarification because they believed that

the application of the definition would result in significant changes to their current practices. There was much concern expressed about the fact that the clarified definition in the Exposure Draft did not appear to adequately provide for the appropriate reporting of the proceeds of debt issuances that are used to finance capital projects. Several respondents suggested that the definition of a capital projects fund should reflect current practice as it has evolved. That is, they believe that the terminology in the definition (or the title of the fund itself) should be altered to be more representative of current practice. Some suggested that the term *major capital facilities* be defined to include items that clearly would not meet most definitions of *facilities* (equipment, for example), and others recommended that the reference be to capital *projects* rather than capital *facilities*. Other respondents suggested limiting the activity in the fund type to all capital expenditures requiring debt or the accumulation of resources, or the construction or acquisition of all "GAAP capital assets." The observation also was made that the activity reported in a capital projects fund should relate to a government's capital budget or long-range plan.

133. The Board considered the comments from the Exposure Draft respondents in light of the fact that the proposed definition did not substantively modify the existing one and evaluated alternative courses of action that could be taken. Ultimately, the Board agreed to modify the definition to focus on a broader, more consistently understood notion of capital outlays, rather than the inconsistently interpreted reference to capital facilities in the previous definition. The Board concluded that use of the term *capital outlays* allows for the inclusion of expenditures for items that are capital in nature but may not qualify for financial reporting as capital *assets* under a government's capitalization policy. Many Exposure Draft respondents were concerned about project resources that are spent for items that may not be capitalized. The Board recognizes that the definition in this Statement embraces current practice more so than the intent of the original definition. However, the Board does not believe that limiting the activity in capital projects funds to acquisition and construction of major capital facilities, as defined in the narrow sense, adequately captures the breadth of capital activities common in today's environment, or that it provides essential, decision-useful information.

Permanent fund type

134. The definition of the permanent fund type is included in this Statement only to incorporate minor wording changes in the interest of consistency with the other definitions in this Statement. This Statement does not affect the requirement to report permanent funds pursuant to the definition.

Basis for Board Member Dissent

135. Mr. Williams dissents because he disagrees with the provision in paragraph 18 for allowing the use of a spending prioritization policy to determine the composition of fund balance (restricted, committed, assigned, and unassigned) when an expenditure is incurred for a purpose for which some or any of those classifications could be applied. Instead, he believes qualifying amounts should be considered expended in the hierarchy's descending order, which is consistent with the guidance in paragraph 18 for governments that have not established their own spending prioritization policies. He believes unless these higher level constraints are reduced first by qualifying amounts, a government's fund balance would show constrained amounts when expenditures have already satisfied those constraints. He therefore considers the application of a spending prioritization policy other than the hierarchy's descending order to be arbitrarily applied form over substance.

136. Mr. Williams believes a major purpose of the Board's changes in fund balance classifications is to increase transparency about applicable constraints. He believes allowing governments to apply the spending prioritization policy approach reduces transparency by reporting constraints on fund balance when such constraints have already been met. He also believes the spending prioritization policy approach will result in unduly complicated disclosures and less consistency, comparability, and usefulness of fund balance information.

Appendix C

ILLUSTRATION

137. The facts assumed in this example are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the approach illustrated. Application of the provisions of this Statement may require assessment of facts and circumstances other than those illustrated here. The disclosures required by this Statement are generally of a "policies and procedures" nature, which should be specific to each government. Consequently, to avoid unintentionally influencing the content of those disclosures, they are not illustrated in this appendix.

Illustrative Fund Balance Section

Exhibit 1 depicts the fund balance section of the balance sheet from the governmental funds financial statements of a hypothetical government. In this Exhibit, the government has chosen to present the specific purpose details required by paragraph 22 on the face of the balance sheet. Exhibit 2 illustrates the same fund balance information, but in this case, the government has chosen to display the fund balance classifications in the aggregate. The specific purpose details, in the latter case, would be disclosed in the notes to the financial statements. Alternatively, the government could have used a combination of both approaches—display some classifications in the aggregate and others in detail.

Exhibit 1

	General Fund	Major Special Revenue Funds: Highway Fund	Major Special Revenue Funds: School Aid Fund	Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
Fund balances:							
Nonspendable:							
Inventory	$ 125,000	$ 108,000	$ 16,000	—	—	—	$ 249,000
Permanent fund principal	—	—	—	—	—	$ 164,000	164,000
Restricted for:							
Social services	240,000	—	—	—	—	—	240,000
Parks and recreation	80,000	—	—	—	—	—	80,000
Education	55,000	—	—	—	—	—	55,000
Highways	—	—	—	—	$ 444,000	—	444,000
Road surface repairs	—	24,000	—	—	—	—	24,000
Debt service reserve	—	—	—	$206,000	—	—	206,000
School construction	—	—	—	—	301,000	—	301,000
Law enforcement	—	—	—	—	—	214,000	214,000
Other capital projects	—	—	—	—	51,000	—	51,000
Other purposes	30,000	—	—	—	—	—	30,000
Committed to:							
Zoning board	16,000	—	—	—	—	—	16,000
Economic stablization	210,000	—	—	—	—	—	210,000
Homeland security	110,000	—	—	—	—	—	110,000
Education	50,000	—	103,000	—	—	—	153,000
Health and welfare	75,000	—	—	—	—	—	75,000
Assigned to:							
Parks and recreation	50,000	—	—	—	—	—	50,000
Library acquisitions	50,000	—	—	—	—	—	50,000
Highway resurfacing	—	258,000	—	—	—	—	258,000
Debt service	—	—	—	306,000	—	—	306,000
Public pool	—	—	—	—	121,000	—	121,000
City Hall renovation	—	—	—	—	60,000	—	60,000
Other capital projects	50,000	—	—	—	471,000	—	521,000
Other purposes	80,000	—	73,000	—	—	176,000	329,000
Unassigned:	525,000	—	—	—	—	—	525,000
Total fund balances	$ 1,746,000	$ 390,000	$ 192,000	$ 512,000	$ 1,448,000	$ 554,000	$ 4,842,000

This level of detail is not required for display on the face of the balance sheet. Fund balance categories and classifications may be presented in detail or in the aggregate if sufficient detail is provided in the notes to the financial statements.

11812

Exhibit 2

	General Fund	Major Special Revenue Funds: Highway Fund	Major Special Revenue Funds: School Aid Fund	Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
Fund balances:							
Nonspendable	$ 125,000	$ 108,000	$ 16,000	—	—	$ 164,000	$ 413,000
Restricted	405,000	24,000	—	$ 206,000	$ 796,000	214,000	1,645,000
Committed	461,000	—	103,000	—	—	—	564,000
Assigned	230,000	258,000	73,000	306,000	652,000	176,000	1,695,000
Unassigned	525,000	—	—	—	—	—	525,000
Total fund balances	$ 1,746,000	$ 390,000	$ 192,000	$ 512,000	$ 1,448,000	$ 554,000	$ 4,842,000

11813