VILLAGE OF GLENCOE
FINANCE COMMITTEE

Thursday, June 16, 2011
6:30 p.m.

Village Hall Conference Room
675 Village Court

AGENDA

The Village of Glencoe is subject to the requirements of the Americans With Disabilities Act of 1990. Individuals with disabilities who plan to attend this meeting and who require certain accommodations in order to allow them to observe and/or participate in this meeting, or who have questions regarding the accessibility of the meeting or the facilities, are requested to contact the Village of Glencoe at least 72 hours in advance of the meeting at (847) 835-4114, or please contact the Illinois Relay Center at (800) 526-0844, to allow the Village of Glencoe to make reasonable accommodations for those persons.

1. CALL TO ORDER AND ROLL CALL

   Bruce Cowans, Chairman
   Scott Feldman, President
   Keki Bhote
   Andrew Hayek
   Joseph Keefe
   Lawrence Levin
   Joel Solomon

2. APPROVAL OF APRIL 20, 2011 & MAY 19, 2011 MINUTES

3. PUBLIC COMMENT TIME

4. UPDATE ON LIBRARY TRANSITION TO VILLAGE FINANCIAL SOFTWARE

5. VILLAGE BEGINS EFT VENDOR PAYMENT PROGRAM

6. UPDATE ON AUDIT AND DRAFT MANAGEMENT LETTER

7. ANNOUNCE NEW GASB FUND BALANCE REQUIREMENT

8. OLD BUSINESS

   - Review Vehicle Licenses for Dealerships
   - Review Draft Fiscal Year 2013 Budget Calendar

9. ADJOURNMENT

VILLAGE OF GLENCOE
FINANCE COMMITTEE

Meeting Minutes
April 20, 2011

1. CALL TO ORDER AND ROLL CALL

The Finance Committee was called to order at 6:30 p.m. in the Conference Room at Village Hall. The following members were present:

Scott Feldman, Village President
Bruce Cowans, Chairman
Keki Bhote
Lawrence Levin
Ellen Shubart
Joel Solomon

Trustee Keefe was absent.

The following Village staff was present:

Paul Harlow, Village Manager
William Jones, Assistant Village Manager
David Clark, Director of Finance

2. REVIEW MONTHLY FINANCIAL REPORTS AND FORMAT UPDATES TO THE REPORT

Director of Finance David Clark introduced the March 2011 Treasurer's Report. New updates to the report format included:

a) Addition of the Income Statement for Governmental and Proprietary Funds;
b) Addition of the Balance Sheet for Governmental and Proprietary Funds;
c) Removal of the cash and investment summary (all funds); and
d) Addition of year-to-date budget data to variance reports.

Chairman Cowans asked that the new report be projected at the Village Board meeting in order to highlight the changes to the report and to highlight the cash flow history of the Village. The Committee concluded by general consensus that as of March 31, 2011 the Village is on course with the Fiscal Year 2012 Budget.

3. REVIEW VEHICLE LICENSES FOR DEALERSHIPS

The vehicle license mailing for Fiscal Year 2012 included vehicles registered with the Secretary of State with Glencoe mailing addresses. The records received included vehicles owned by Fields Infiniti, however, vehicles owned by both CarMax and Autohaus were not included in the listing. Both CarMax and Autohaus had their vehicles operating from the Glencoe locations registered at other business locations that did not have a Glencoe address. The Finance Committee questioned whether the dealerships should be included in the vehicle license program. The Committee also discussed various options including issuing stickers, charging a flat fee, and charging a fee per vehicle.

Following discussion the committee concluded as follows:

a) The Committee generally felt comfortable that a fee seemed reasonable;
b) Village staff would provide additional information from Glenview and Northbrook;
c) Village staff would draft a recommended program for the Finance Committee to further review at an upcoming meeting;
d) Following review by the Finance Committee, the matter would be referred to the Village Board if appropriate.

4. REVIEW RESPONSE TO INFORMATION FROM THE INSTITUTE FOR TRUTH IN ACCOUNTING

The Director of Finance David Clark distributed a table which included financial information about various Village obligations to the Illinois Municipal Retirement Fund, Police Pension Fund, Firefighters' Pension Fund and OPEB Plan. Mr. Clark confirmed that information in the distributed table was accurate. The Committee, however, expressed concern about the numerous inaccuracies and misstatements contained in the brochure from the Institute for Truth in Accounting (IFTA). The Committee agreed that it would respond as necessary but the best initial response to the IFTA brochure is to reaffirm the sound financial condition of the Village and to ask residents to contact the Village if there are any questions or concerns about the Village's financial condition.

5. ADJOURNMENT

There being no further business for discussion, the meeting was adjourned at 7:00 p.m.

VILLAGE OF GLENCOE
FINANCE COMMITTEE

Meeting Minutes
May 19, 2011

1. CALL TO ORDER AND ROLL CALL

   The Finance Committee was called to order at 6:30 p.m. in the Conference Room at Village Hall. The following members were present:

   Bruce Cowans, Chairman
   Lawrence Levin
   Ellen Shubart
   Joel Solomon

   The following members were absent: President Feldman, Trustees Bhote and Keefe

   The following Village staff was present:

   Paul Harlow, Village Manager
   William Jones, Assistant Village Manager
   David Clark, Director of Finance

2. APPROVAL OF APRIL 20, 2011 MINUTES

   This matter was deferred.

3. PUBLIC COMMENT TIME

   There were no public comments.

4. CONTINUE REVIEW OF VEHICLE LICENSES FOR DEALERSHIPS

   This matter was deferred.

5. CONSIDER DRAFT FISCAL YEAR 2013 BUDGET CALENDAR

   This matter was deferred.

6. OTHER BUSINESS

   Chairman Cowans raised a concern about how savings on any governmental service sharing or consolidation would be realized. He was concerned about the savings being realized by one government by sharing service, might be used for other expenses rather than being realized by the taxpayers. The Committee discussed this mater and made no recommendations.

7. ADJOURNMENT

There being no further business for discussion, the meeting was adjourned at 7:00 p.m.

Required Communications Regarding Your Audit

As part of audit process we are required to communicate to those charged with governance and management certain items related to the audit process and our findings. Enclosed you will find such communication letters with instructions for each:

- SAS 115 Letter (if applicable) – our communication of internal controls that are considered to be significant deficiencies and/or material weaknesses

- SAS 114 Letter – our communication to those charged with governance of our audit process

- Management Letter (if applicable) – our communication of internal controls that are considered to be control deficiencies as well as other recommendations related to the audit process including new GASB pronouncements, etc.

- Management Representation Letter – your communication to us of your responsibilities related to the audit process

Lauterbach & Amen's policy is to issue these letters in "draft" format to encourage discussion of our required communications and findings. We would ask that you review the enclosed letters and communications and provide any feedback or concerns so that we may incorporate them into the final communication letters.

As always, your feedback is important to the process and we understand that much of the terminology in the communication letters, including "significant deficiency," etc. is harsh in nature and we would welcome the opportunity to further discuss this required communication with you and/or the Board.

Please let us know if you have any questions on the enclosed documents.

SAS 115 Letter

Lauterbach & Amen's communication of internal controls

Please review for any questions and/or changes

Village of Glencoe

Fiscal Year Ended 2/28/2011

A SAS #115 letter was not issued for the fiscal year ended 2/28/11 as there were no audit journal entries proposed by Lauterbach & Amen nor any restatement of net assets/fund balances.

SAS 114 Letter

Lauterbach & Amen's communication to the Board of the audit process

Please review for any questions and/or changes

May 24, 2011

The Honorable Village President
Members of the Board of Trustees
Village of Glencoe, Illinois

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Glencoe, Illinois for the year ended February 28, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 24, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village are described in the Notes to the Financial Statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended February 28, 2011. We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The Village does not have any particularly sensitive accounting estimates that would materially affect the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 24, 2011.

Management Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves the application of an accounting principle to the Village's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

* * * * * *

This information is intended solely for the use of the Board of Trustees and management of the Village and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our gratitude to the Board of Trustees and staff (in particular the Finance Department) of the Village of Glencoe, Illinois for their valuable cooperation throughout the audit engagement.

LAUTERBACH & AMEN, LLP

Management Letter

Please review for any questions and/or changes

VILLAGE OF GLENCOE, ILLINOIS

MANAGEMENT LETTER

FOR THE YEAR ENDED
FEBRUARY 28, 2011

VILLAGE OF GLENCOE, ILLINOIS

MANAGEMENT LETTER

FOR THE YEAR ENDED
FEBRUARY 28, 2011

May 24, 2011

The Honorable Village President
Members of the Board of Trustees
Village of Glencoe, Illinois

In planning and performing our audit of the financial statements of the Village of Glencoe, Illinois, for the year ended February 28, 2011, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We do not intend to imply that our audit failed to disclose commendable aspects of your system and structure. For your consideration we herein submit our comments and suggestions which are designed to assist in effecting improvements in internal controls and procedures. Those less significant matters, if any, which arose during the course of the audit, were reviewed with management as the audit field work progressed.

The accompanying comments and recommendations are intended solely for the information and use of the Board of Trustees, management, and others within the Village of Glencoe, Illinois.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Village personnel. We would be pleased to discuss our comments and suggestions in further detail with you at your convenience, to perform any additional study of these matters, or to review the procedures necessary to bring about desirable changes.

We commend the finance department for the well prepared audit package and we appreciate the courtesy and assistance given to us by the entire Village staff.

LAUTERBACH & AMEN, LLP

CURRENT RECOMMENDATIONS

1. FUNDS OVER BUDGET

Comment

During our year end audit procedures, we noted that the following funds had an excess of actual expenditures over budget for the fiscal year:

Fund	Excess
Motor Fuel Tax	$ 5,880

Recommendation

Although the Village did not have expenditures in excess of the Village's appropriation, the above fund had expenditures in excess of the Village's budget. We recommend the Village investigate the causes of the funds over budget and adopt appropriate future funding budgeting measures accordingly.

PRIOR RECOMMENDATIONS

1. **<u>GASB STATEMENT NO. 54 – FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DESCRIPTIONS</u>**

Comment

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Descriptions* presents improved fund balance classifications for governmental funds, providing increased uniformity in financial reporting. The Statement also provides a more concise definition of the governmental fund types.

Fund Balance Reporting. The Statement creates new classifications of governmental fund balance based on the extent of constraints on the use of funds. Governmental fund balance upon the implementation of GASB Statement No. 54 will be classified under the following categories: *nonspendable, restricted, committed, assigned, and unassigned.*

Nonspendable – amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact (Ex: inventories or prepaids).

Restricted – amounts that are (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation (Ex: property taxes).

Committed – amounts that can only be used for specific purposes by constraints imposed by formal action of the Board – usually by passage of ordinance/resolution (Ex: hotel/motel taxes committed to Board specified expenditures).

Assigned – any remaining positive amounts not classified as nonspendable, restricted, or committed (for all governmental funds other than the General Fund). For the General Fund, amounts constrained for the intent to be used for a specific purpose by (a) governing body itself or (b) a body or official with authority (Ex: Finance Director assigning fund balance to specific future capital projects).

Unassigned – amounts of positive residual fund balance for the General Fund and negative fund balances for all other governmental funds.

Governmental Fund Types Definitions. The Statement also provides more concise definitions of governmental fund types, particularly for special revenue funds. Under GASB Statement No. 54, special revenue funds are to be used to account for the proceeds of revenue sources that are *restricted* or *committed* (as defined above) for specific purposes other than debt service or capital projects. The specific revenue source reported in the special revenue fund should be expected to make up a substantial portion of the revenue in the fund. Special revenue funds that do not have a significant *restricted* or *committed* (as defined above) revenue source or special revenue funds that receive most or all of their revenue as a transfer from another fund do not meet the new criteria for special revenue funds under GASB Statement No. 54, and generally the activity of these funds should be reported within the General Fund.

1. **GASB STATEMENT NO. 54 – FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DESCRIPTIONS** – Continued

Comment – Continued

GASB Statement No. 54 is effective for periods beginning after June 15, 2011. The Village will be required to implement the provisions of GASB Statement No. 54 for the fiscal year ended February 28, 2012.

Recommendation

We recommended that the Village conduct a review of its current fund balance classifications. This review should include an understanding of current fiscal policies that have been approved by the Board, as well as fiscal policies followed by management. An analysis should be conducted to determine the type of potential constraint and the corresponding dollar amount that will need to be reported in the financial statements. Further, we recommended the Village review its current governmental fund structure, with a specific assessment of the significant revenue source reported in each special revenue fund to determine compliance with the Statement's special revenue fund reporting requirements.

Status

The Village is aware of the implementation of GASB Statement No. 54 for the fiscal year ended February 28, 2012 and will be working to review the current fund balance classifications as well as the current governmental fund structure to ensure compliance with the new Statement.

Representation Letter

Client's communication to Lauterbach & Amen regarding management's responsibility

Please copy onto your letterhead and have signed by appropriate person

May 24, 2011

Lauterbach & Amen, LLP
Certified Public Accountants
27W457 Warrenville Road
Warrenville, IL 60555

We are providing this letter in connection with your audit of the financial statements of the Village of Glencoe, Illinois as of February 28, 2011 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Glencoe, Illinois and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of May 24, 2011, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with U. S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

2. We have made available to you all –

   a. Financial records and related data.

   b. Minutes of the meetings of the Village Board or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We are in agreement with the adjusting journal entries you have recommended, and they have been posted.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Village involving:
    a. Management,
    b. Employees who have significant roles in internal control, or
    c. Others where fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Village received in communications from employees, former employees, analysts, regulators or others.
9. We have identified to you any previous audits, attestation engagements, or other studies related to the audit objectives and whether related recommendations have been implemented.
10. The Village has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or equity.
11. The following, if any, have been properly recorded or disclosed in the financial statements:
    a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
    b. Guarantees, whether written or oral, under which the Village is contingently liable.
    c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied and adequately disclosed.
12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of the financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

13. There are no –

    a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.

    b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles (Statement of Financial Accounting Standards No. 5).

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles (Statement of Financial Accounting Standards No. 5).

    d. Reservations or designation of fund equity that were not properly authorized and approved.

14. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved and accepted responsibility for those financial statements and related notes.

15. The Village has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

16. The Village has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

17. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

18. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

19. The financial statements properly classify all funds and activities.

20. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

21. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

22. Provisions for uncollectible receivables have been properly identified and recorded.

23. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

24. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
25. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
26. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
27. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
28. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurements and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
29. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Signed: ____________________ Signed: ____________________

Title: ____________________ Title: ____________________

There is probably no single item in a typical state or local government's financial statements that attracts more attention than fund balance. In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This latest GASB standard will not affect the calculation of fund balance, but will fundamentally alter the various components used to report it.

BACKGROUND

Accountants use the term *fund balance* to describe the arithmetic difference between the assets and liabilities reported in a governmental fund (e.g., general fund). The categories that have been used until now to present fund balance have focused on whether resources were *available for appropriation* (i.e., budgeting). Thus, the traditional presentation of fund balance distinguished *unreserved fund balance* (i.e., available for appropriation) from *reserved fund balance* (i.e., not available for appropriation).

Fund balance might not be available for appropriation (i.e., reserved) for a variety of reasons. Some resources of a governmental fund, by their very nature, cannot be spent (e.g., prepaid rent and inventories of supplies). Other resources may convert to spendable form only at a much later date (e.g., the long-term portion of notes receivable). Still other resources may be available for spending, but their use is externally restricted to a purpose narrower than the purpose of the fund in which they are reported.

> There is probably no single item in a typical state or local government's financial statements that attracts more attention than fund balance.

In addition, governing bodies themselves frequently place their own limitations on how they will use resources otherwise available for appropriation (e.g., "earmarking"). Likewise, a government's management may have tentative plans for all or a portion of those resources. In either case, a government traditionally has had the *option* of indicating these tentative managerial plans and self-imposed limitations by presenting a portion of unreserved fund balance as *designated*.

This traditional approach to classifying fund balance is summarized in Exhibit 1.

Three considerations led the GASB to undertake its recent reexamination of the components used to report fund balance. First, the traditional terminology was not self-explanatory and has frequently led to misunderstandings. Second, governments often have applied the different categories inconsistently in practice. Finally, some have questioned whether the historic focus on availability for appropriation best serves the needs of financial statement users.

NEW GUIDANCE

Focus. GASB Statement No. 54 will shift the focus of fund balance reporting from the availability of fund resources for budgeting to "the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."[1]

Components of fund balance. GASB Statement No. 54 establishes five components of fund balance. Because circumstances differ among governments, not every government or every governmental fund will report all of those components.

Constraints on how amounts can be spent are not really an issue for resources that are *inherently nonspendable*. Examples include inventories and prepaids; the long-term portion of loans receivable[2]; and nonfinancial assets held for resale.[3] Still other resources cannot be spent because *legal or contractual provisions require that they be maintained intact* (e.g., the principal of an endowment). GASB Statement No. 54 directs that the portion of fund balance reflecting both be labeled ***nonspendable fund balance***.

Not all limitations on how resources may be used have the same force. Some limitations are externally enforceable and lie beyond the power of the government to change unilaterally (e.g., restrictions imposed by a grant contract or a bond covenant). Other limitations are self-imposed, but would require formal action at the highest level of the government to remove (e.g., resources legally "earmarked" for a given project by the governing body). Still other limitations are less binding and function more as a declaration of intent. GASB Statement No. 54 has created a separate category to accommodate each of these situations.

- **Restricted fund balance.** The term *restricted fund balance* will encompass net fund resources subject to externally enforceable legal restrictions. It is no accident that the term *restricted fund balance* so closely resembles the term

Exhibit 1: Traditional Components of Fund Balance

(Focus on Availability for Appropriation)

- **Reserved fund balance** (not available for appropriation)
  - Portion of net resources that *cannot ever be spent* because of their form
  - Portion of net resources that *cannot yet be spent*
  - Portion of net resources that *cannot be spent for any and all fund-related purposes* because of external limitations
- **Unreserved fund balance** (available for appropriation)
  - **Designated unreserved fund balance** (available for appropriation, with a limitation on use imposed by the government itself)
    - Portion of net resources subject to limitations imposed by the governing body
    - Portion of net resources set aside by management in connection with its tentative plans
  - **Undesignated unreserved fund balance** (available for appropriation, with no external or internal limitation)

restricted net assets used in the context of government-wide financial reporting. In both cases, the *restrictions* concerned would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation.[4] Note that there is no need for the limitation to be narrower than the purpose of the fund.[5]

- **Committed fund balance.** The term *committed fund balance* will be used to describe the portion of fund balance that represents resources whose use is constrained by limitations that the government imposes upon itself at its highest level of decision making (normally the governing body) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation would need to occur no later than the close of the reporting period. Note, once again, that there is no requirement that the limitation be narrower than the purpose of the fund.[6]

- **Assigned fund balance.** The *assigned fund balance* category will cover the portion of fund balance that reflects a government's *intended* use of resources. Such intent would have to be established at either the highest level of decision making, or by a body (e.g., finance committee) or an official designated for that purpose.[7] Logically speaking, a government cannot *assign* resources that it does not have; therefore, the amount reported as *assigned fund balance* could never exceed total fund balance less its nonspendable, restricted, and committed components. Once again, note that there is no requirement that the limitation be narrower than the purpose of the fund.

Of course, the general fund, as the principal operating fund of a government, may have net resources in excess of what is properly categorized in one of the four categories just already described. If so, the surplus will be presented as ***unassigned fund balance***. A positive amount of unassigned fund balance, however, will never be reported in a governmental fund other than the general fund, because GASB Statement No. 54 prohibits reporting resources in another fund unless they are at least *assigned* to the purpose of that fund. All the same, funds other than the general fund could report a negative amount of unassigned fund balance should the total of nonspendable fund balance, restricted fund balance, and committed fund balance exceed the total net resources of the fund.

The new components of fund balance are summarized in Exhibit 2.

Stabilization arrangements. Governments often establish "rainy day funds" or "contingency funds" to provide a financial cushion against unanticipated adverse financial or economic circumstances. The appropriate classification of such resources within fund balance depends on the specific nature of the arrangement.

On the one hand, if the use of the resources is limited in a way that is legally enforceable by an outside party, classification as restricted fund balance would be appropriate. On the other hand, if the limitation was imposed by the highest level of decision making and can only be removed by formal action equivalent to the action taken to impose it, the use of the committed fund balance classification would be appropriate. It would never be appropriate, however, to classify such resources as assigned fund balance.

Exhibit 2: New Components of Fund Balance — GASB Statement No. 54

(Focus on Extent to which Government Is Bound to Honor Constraints on the Specific Purposes for Which Amounts Can Be Spent)

- **Nonspendable fund balance** (inherently nonspendable)
  - Portion of net resources that cannot be spent because of their form
  - Portion of net resources that cannot be spent because they must be maintained intact
- **Restricted fund balance** (externally enforceable limitations on use)
  - Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments
  - Limitations imposed by law through constitutional provisions or enabling legislation
- **Committed fund balance** (self-imposed limitations set in place prior to the end of the period)
  - Limitation imposed at highest level of decision making that requires formal action at the same level to remove
- **Assigned fund balance** (limitation resulting from intended use)
  - Intended use established by highest level of decision making
  - Intended use established by body designated for that purpose
  - Intended use established by official designated for that purpose
- **Unassigned fund balance** (residual net resources)
  - Total fund balance in the general fund in excess of *nonspendable, restricted, committed,* and assigned fund balance (i.e., surplus)
  - Excess of *nonspendable, restricted,* and *committed* fund balance over total fund balance (i.e., deficit)

GASB Statement No. 54, paragraph 20, places serious limits on what qualifies as a *stabilization arrangement* for this purpose:

> 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.

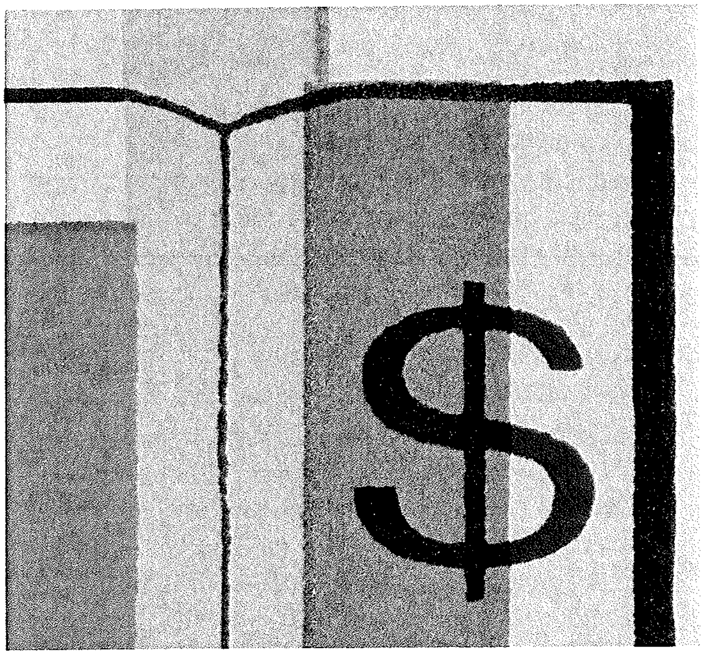
Appropriated fund balance. Not infrequently, governments balance their budget by appropriating a portion of existing fund balance to bridge the gap between appropriations and estimated revenues. The portion of fund balance thus appropriated for the following year would properly be classified as assigned fund balance.

Flow assumptions. Frequently resources for a single project will come from multiple sources. For example, a city may elect to finance a new bridge partially from restricted grant proceeds (*restricted fund balance*), partially from earmarked revenues (*committed fund balance*), and partially from other available resources expressly set aside for the purpose (*assigned fund balance*). In that case, flow assumptions would be needed:

- When both restricted resources and other resources are to be used, how are outlays allocated to each (e.g., restricted resources presumed to be spent first? Spending presumed to occur on a pro rata basis?)?
- When committed, assigned, and unassigned resources are to be used, how are outlays allocated among the various categories?

COMPARISON OF OLD AND NEW

Perhaps the best way to gain an understanding of the new fund balance categories is to contrast how certain specific items are reported today with how those same items will be reported in the future under GASB Statement No. 54.



Reserved fund balance. Currently, reserved fund balance comprises three elements:

- Resources that by their very nature cannot be spent (e.g., prepaid rent)
- Resources that are not yet available for spending (e.g., long-term portion of loans receivable)
- Resources externally restricted to a purpose narrower than the fund

The first of these elements will *always* be reported as nonspendable fund balance. The second element *normally* would be reported as nonspendable fund balance (i.e., unless there was a limitation on how the amounts eventually received could be used, in which case the classification would be restricted, committed, or assigned fund balance, as appropriate). The third element will be reported as restricted fund balance.

Designated unreserved fund balance. Currently this category comprises two elements:

- Limitations that the government places upon itself
- Tentative management plans

Net resources currently reflected in the first category will be reported in the future as either committed fund balance or as assigned fund balance, depending upon the source of the limitation. The latter will be reported as either assigned fund balance (if management is designated to make such assignments) or unassigned fund balance.

Undesignated unreserved fund balance. Today this residual category includes resources whose use is limited, but not for a purpose narrower than the purpose of the fund. Under GASB Statement No. 54, there is no requirement that a limitation be narrower than the purpose of the fund. Accordingly, items that are restricted, committed, or assigned simply for the purpose of the fund will be reported as restricted, committed, or assigned fund balance.

Also, reporting designated unreserved fund balance today is optional. Under GASB Statement No. 54, the use of the equivalent category (i.e., assigned fund balance) will be required. Therefore, many governments that today do not report designated unreserved fund balance will report as assigned fund balance a portion of what today is labeled simply unreserved fund balance.

EFFECTIVE DATE

Feb. 28, 2012

Governments will need to implement GASB Statement No. 54 starting with the fiscal period that ends June 30, 2011. In the statistical section of the comprehensive annual financial report, retroactive implementation is encouraged, but not required. If a government declines to restate amounts from previous years in the statistical section, it will need to provide an explanation.

Notes

1. GASB Statement No. 54, paragraph 5.
2. Assuming that there are not constraints on the use of the amounts eventually collected.
3. Assuming that there are not constraints on the use of the proceeds of the eventual sale.
4. The criteria for restricted net assets set forth in GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, paragraph 34, are identical to the criteria for *restricted fund balance* in GASB Statement No. 54, paragraph 8.
5. If the use of the amounts to be collected on long-term loans receivable and the amounts resulting from the sale of nonfinancial assets is subject to restrictions, then those items should be reflected in restricted fund balance, rather than in nonspendable fund balance.
6. If the use of the amounts to be collected on long-term loans receivable and the amounts resulting from the sale of nonfinancial assets is committed, then those items should be reflected in committed fund balance, rather than in nonspendable fund balance.
7. If the use of the amounts to be collected on long-term loans receivable and the amounts resulting from the sale of nonfinancial assets is assigned, then those items should be reflected in assigned fund balance, rather than in nonspendable fund balance.

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