

More is not always better: GASB statement 54 fund balance classification issues for local governments

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ABSTRACT

When GASB Statement No. 34, issued in 1999, was replaced by GASB Statement No. 54 in 2009, the main goals were to increase the level of reporting detail for local governments (hence added fund balance classifications) in terms of purpose and management of funds and to address the issue of large reserved portions of governmental funds. However, this article reveals that for a majority of cities with a population in the 400,000 - 500,000 range, these objectives have not been met due to overlapping authorities that manage committed and assigned funds and vague funds designations that still linger in Comprehensive Annual Financial Reports. Lastly, the portion of reserved funds compared to total governmental funds remains at 80% or more for over 70% of the selected cities.

Keywords: GASB 34, GASB 54, fund balance categories, medium-size cities

INTRODUCTION

Fund balances represent the difference between revenues and expenditures, and as such they serve as an indicator of financial health, namely of a government's ability to pay its obligations and continue its projects. Given their importance, when the Governmental Accounting Standards Board changed the fund balance classification structure in 2009, the intent was to increase the transparency and accountability of governments and to clarify and enhance the level of specific detail that the users could benefit from when reviewing governmental financial reports.

However, the new fund balance classification still allows for inconsistencies due to 1) blurred definition-based distinctions, 2) non-specific labeling, and 3) failure to substantially increase the reported percentage of fund balances available for spending. This article analyzes the status of fund balance reporting based on these three aforementioned issues, using the Comprehensive Annual Financial Reports for the fiscal year ending at various dates in 2017 of eleven local governments of cities with similar population sizes (between 401,800 and 496,401 residents) according to the U.S. Census Bureau's report of July 1, 2017: Miami, Florida; Long Beach, California; Oakland, California; Colorado Springs, Colorado; Omaha, Nebraska; Kansas, Missouri; Tulsa, Oklahoma; Virginia Beach, Virginia; Mesa, Arizona; Raleigh, North Carolina; and Atlanta, Georgia (the selection was also verified with the report of the City Mayors Statistics, 2017). This article focuses on this particular population size range because it is small enough to avoid financial reporting complexities and large enough to include a variety of potential projects and administrative expenses that would call for specific fund balance classifications. For comparative population sizes of these selected cities, see **Table 1** below.

City	Population as of July 1, 2017
Tulsa, Oklahoma	401,800
Oakland, California	425,195
Virginia Beach, Virginia	450,435
Miami, Florida	463,347
Colorado Springs, Colorado	464,474
Raleigh, North Carolina	464,758
Omaha, Nebraska	466,893
Long Beach, California	469,450
Atlanta, Georgia	486,290
Kansas, Missouri	488,943
Mesa, Arizona	496,401

Table 1: Selected cities with their population (United States Census Bureau, 2018).

REGULATORY BACKGROUND

Per GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, issued in 1999, fund balances were supposed to be divided into two categories: reserved and unreserved. Within unreserved fund balances, governments could report designations, which expressed intention to use resources for certain purposes.

However, since designations were not legally binding or mandatory to report, GASB found that only half of the governments surveyed in a 2006 study reported them. Furthermore, of nearly 200 financial reports reviewed by GASB, more than half of the governments had reserved the entire fund balance of at least one fund, and over a third of the governments had reserved the entire fund balance of two or more funds without having legal limits for specific purposes. Reserved fund balances were reported under broad labels such as "subsequent year's expenditures," "specified programs," "continuing appropriations," and "other." Hence, the reserved and designated fund balances seemed to lack sufficient detail according to many respondents of a GASB survey (GASB, May 2006).

In February 2009, in an attempt to restructure fund balance classifications to include more specific details and to provide "clearer fund balance classifications that can be more consistently applied," GASB issued Statement No. 54 as a replacement for Statement No. 34. Per GASB Statement No. 54 (2009, p. 3), fund balances should be classified as *nonspendable* (either "in nonspendable form" or "legally required to be maintained intact" per paragraph 6) and *spendable*, with further spendable categories - *restricted*, *committed*, *assigned*, and *unassigned*. According to GASB (February 2009), the *restricted* fund balances can be spent on purposes designated by "constitution, external resource providers, or through enabling legislation;" the *committed* classification is designated for "specific purposes determined by a formal action of the government's highest level of decision-making authority;" *assigned* funds are those that do not qualify as restricted or committed and imply intention to use for a specific purpose as delegated by a governmental authority; *unassigned* fund balances are residual amounts that do not fall under any of the other categories. Table 2 below illustrates the differences in fund balance classifications comparatively under GASB 34 and GASB 54.

GASB 34 Fund Balance Classifications	GASB 54 Fund Balance Classifications
Reserved	Nonspendable
Unreserved	Spendable
<i>Designated</i>	<i>Restricted</i>
<i>Nondesignated</i>	<i>Committed</i>
	<i>Assigned</i>
	<i>Unassigned</i>

Table 2: Fund Balance Classifications per GASB 34 and GASB 54

REVIEW OF LITERATURE

Some scholarly research acknowledged that the fund balance classifications under GASB 34 were too vague and expressed the expectation that the new fund balance classifications under GASB 54 will ensure more control over how funds are spent and more clarity in the way they are reported (Brooks et al., 2010; Arapis et al., 2015; Cox, 2014). Others emphasized the importance of reporting fund balances available for spending in unexpected situations (Kelly, 2013) and for counteracting the pressures of a global economic downturn (Kinnersley et al., 2011).

A survey of the 2011 CAFR for 187 U.S. cities with population sizes comprised between 100,000 and 250,000 revealed that "management discretion" led to either non-compliance with the new GASB 54 fund balance classification and following GASB 34 classifications or to inconsistencies in reporting some of the GASB 54 fund balance categories (Kelly, 2013, p. 729-731). Other authors also acknowledged the impact of management discretion in establishing fund

balance policies that ultimately dictate how the GASB 54 classifications are populated (Chase et al., 2010).

PURPOSE

This paper analyzes the CAFRs of eleven cities in the 400,000-500,000 population size range to determine whether GASB 54 was able to achieve its stated goals. The selected cities represent a diverse set of city governments in states with varying populations and geographic areas. Thus, the results obtained are scaleable to the set of governmental units under GASB's jurisdiction.

ISSUES RELATED TO THE IMPLEMENTATION OF GASB STATEMENT NO. 54

1. Blurred distinctions between categories based on their definitions

While attempting to upgrade the level of specificity in the fund balance classification, the new GASB 54 structure added more categories whose aforementioned definitions hold the potential for overlapping designations. Initially, there was a model in the Exposure Draft for Statement No. 54 that tended to preserve the limited number of categories from the previous GASB Statement No. 34. The Invitation to Comment on the Exposure Draft of GASB Statement No. 54 presented three models for reporting fund balances, of which Model A preserved the categories from GASB Statement No. 34: *reserved*, *unreserved*, *designated* (GASB, February 2009, p. 23). However, this model was not adopted in the final version of GASB Statement No. 54. Another suggestion that was not followed was to combine the *committed* and *assigned* categories (GASB, February 2009, p. 30). The *committed* and *assigned* categories are confusing and overlapping, since according to their definitions, they are distinguished by the type of authority that creates them, namely "the government's highest level of decision-making authority" for the committed fund balances and a delegated authority for the assigned fund balances (GASB February 2009).

The Board decided not to specify the authority that would commit resources given the differences between various governmental structures, but to require instead a disclosure about the identity of such authority (GASB, February 2009, p. 34). However, given various levels of authority involved in various governmental processes, it is possible that the authorities that commit fund balances may also restrict or assign them, which would then make it difficult to distinguish between these categories in financial reports. For example, the highest level of decision-making authority that *commits* funds for the city of Miami, Florida is the City Commission, but it is also the City Commission that *assigns* funds (2017, p. 62). For the cities of Long Beach, California (2017, p. 53), Atlanta, Georgia (2017, p. 87), Tulsa, Oklahoma (2017, p. FN-9), and for Virginia Beach, Virginia (2017, p. 41), the City Council has the authority to both *commit* and *assign* funds.

In the city of Omaha, Nebraska, the City Council also exercises the functions of committing and assigning, but assignment of amounts below a threshold of \$20,000 is delegated to the Finance Director (2017, p. 61). Similarly, in Colorado Springs, Colorado (2017, p. 67), the City Council both commits and assigns funds in order to cover the gap between estimated revenue and appropriations for the subsequent year; otherwise, the City Charter designates the Mayor or the Mayor's designee to enact funds assignments. Even with thresholds for funds

assignments (related to amounts or purpose of spending), there are clearly areas in which the same authority remains responsible for both committing and assigning funds.

Moreover, using the same designations for both committed and assigned funds further blurs the differences between the two categories. The balance sheet of the city of Virginia Beach uses the same labels, namely "Education," "General Government," and "Special Revenue Fund" as specific designations under both assigned and committed classifications (2017, p. 18); the city of Mesa, Arizona overlaps labels for funds committed to "Development Services," "Economic Development," and "Parks & Recreation" with funds assigned to the same designations (2017, p. 47); and committed and assigned funds in Colorado Springs, Colorado include some of the same purposes: "Public Improvements - Park Developer Easement" (2017, p. 107). On the Comprehensive Annual Financial Report of Omaha, Nebraska, for the fiscal year ending on December 31, 2017, all categories listed under committed funds ("General," "Other public services," "Community development," and "Culture and parks") also appear under assigned funds along with a few others (2017, p. 62). The same goes for the city of Kansas, Missouri for which the committed and assigned funds share as many as four categories "General government," "Public works," "Neighborhood development," "Culture and recreation" (2017, p. A-52).

2. Non-specific designation labeling

If broad labeling was one of the perceived shortcomings of the predecessor of GASB Statement No. 54, the issue does not seem to be resolved. Simply listing amounts under new categories does not guarantee specificity of the purpose for which they are planned to be used. For example, Miami, Florida (2017, p. 41) does not have any particular fund or program designation under any of their fund balances, whereas the city of Raleigh, North Carolina lists under its assigned fund balances broad designations already blacklisted in the complaints to prior GASB Statement 34, such as "subsequent year's appropriation," "community development," "city projects," and "disaster recovery" (2017, p. 4). The balance sheet of the city of Long Beach, California details its fund balances using vague designations that were part of the reason for which GASB issued its Statement No. 54, such as "committed for operations," "assigned for future infrastructure," "assigned for subsequent year's appropriations" (2017, p. 32). Equally vague are the labels used in the CAFR of Oakland, California: "Reserve stabilization fund" for committed funds and "Capital projects" for assigned funds (2017, p. 44). Perhaps the most non-specific designations for assigned funds belong to the city of Tulsa, Oklahoma - "Budgetary resources - subsequent year" (2017, p. FN-48) - and to Atlanta, Georgia - "Unrestricted encumbrances" - which also has no designations for committed funds (2017, p. 53).

3. Percentage of funds available for spending

One of the criticisms of GASB Statement No. 34 referred to the fact that many governments reserved too much of their fund balances, some as much as 50% and others 100%. If we consider that reserved funds are amounts not available for spending, then the only fund balances available for spending under the new GASB Statement No. 54 are the *unassigned* ones, which should have increased substantially under the new fund balance classifications. However, the percentage of unassigned fund balances compared to the total fund balance remains modest either because governments are under pressure to comply with legal provisions of how much and

when to spend their funds, or because of regulations that compel them to itemize their spending plans as a way of demonstrating they are reaching their objectives. The unassigned fund balance ranges between a negative amount below a fraction of one percent for Kansas, Missouri and 37% for Virginia Beach, Virginia as illustrated in Table 3: The percentage of unassigned funds compared to total fund balances, based on calculations using data presented in the Notes to the Basic Financial Statements included in the Comprehensive Annual Financial Reports for the year ending in 2017 of all selected cities. Thus, all remaining funds (ranging between 99% and 63%) are still reserved for specific purposes. It should also be noted that for eight out of the eleven selected cities, that is for 73% of our sample, the unassigned funds represent 20% or less of the total funds, which leaves 80% or more of the governmental funds still reserved.

City	Available funds	Total fund balance	Percentage of unassigned funds compared to total fund balance
	<i>Unassigned</i>		
Kansas, Missouri	(203,000)	429,962,000	(0.0047)%
Long Beach, California	1,926,000	103,381,000	2%
Tulsa, Oklahoma	46,882	689,653	7%
Miami, Florida	59,618,612	566,792,334	11%
Raleigh, North Carolina	76,757,000	274,517,000 (General Fund) + 325,630,000 (Other Funds) 600,147,000	13%
Atlanta, Georgia	119,122,000	925,682,000	13%
Oakland, California	64,715,000	345,726,000	19%
Colorado Springs, Colorado	32,322,036	162,193,993	20%
Omaha, Nebraska	62,288,220	199,741,886	31%
Mesa, Arizona	92,171	257,429	35%
Virginia Beach, Virginia	118,396,300	218,184,225 (Major Funds) + <u>103,594,579 (Nonmajor Funds)</u> = 321,778,804	37%

Table 3: The percentage of unassigned funds compared to total fund balances (Notes to Basic Financial Statements, 2017)

CONCLUSION AND RECOMMENDATIONS

The need for transparency and accountability in Comprehensive Annual Financial Reports of local governments is not necessarily met by reporting five fund balance categories. Referring to the committed and assigned classifications, which have been identified as problematic in this paper, paragraph 14 of GASB Statement No. 54 (February 2009, p. 14) recognizes the fact that "[s]ome governments may not have both committed and assigned fund balances, as not all governments have multiple levels of decision-making authority." What the Board did not anticipate is that the same level of authority may be employed by local

governments for both the committed and assigned classifications as shown in the cases of the cities of Miami, Florida, Long Beach, California, Atlanta, Georgia, Tulsa, Oklahoma, and the city of Virginia Beach, Virginia. It is thus clear that having both categories of fund balances is superfluous.

Second, if one of the purposes of GASB Statement No. 54 was to enhance the specificity of designation labels, that goal has not been met since some of the broad labels, such as "subsequent year's appropriations," still linger even if they are now listed under the new classification. In addition, some local governments do not itemize designations at all.

Third, local governments continue to "reserve" most of their fund balances even if they now do it under the new classifications of GASB Statement No. 54. Based on the sample of local governments used in this paper, 73% of the selected cities report that between less than 1% and 20% of their fund balances remain available for spending.

To accommodate the public's need for specific information and the diverse authority hierarchies of various local governments, a new, simplified classification of fund balances may be needed, one which would contain the following categories: non-spendable and spendable further divided into designated and available. The designated category would include the current restricted, committed, and assigned fund balances, whereas the available category would replace the current unassigned fund balances. The designated category should also come with a provision of specific labeling of various programs and functions that are funded by these amounts.

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