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**To: Chief Fiscal Officers**

**From: Division of Local Government and School Accountability**

**Subject: Fund Balance Reporting and Governmental Fund Type Definitions**

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**Please give copies of this bulletin to others who may need this information.**

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### **Purpose of Bulletin**

The purpose of this bulletin is to explain the new GAAP (generally accepted accounting principles) reporting requirements for fund balance and special revenue funds, and the effects these reporting requirements will have on the Annual Update Document (AUD) filed by municipalities and the ST-3 filed by school districts.

*Note: The changes in reporting requirements detailed in this bulletin do not require changes in local governments' budgeting and accounting.*

### **Summary**

The Governmental Accounting Standards Board (GASB) issued GASB Statement Number 54 (Statement 54), *Fund Balance Reporting and Governmental Fund Type Definitions* in February 2009. Statement 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications: nonspendable, restricted, committed, assigned and unassigned. In addition, Statement 54 updates the definitions of governmental fund types, with the most significant changes related to special revenue funds. These changes were made to bring greater clarity and consistency to fund balance reporting, resulting in an improvement in the usefulness of fund balance information. The requirements of Statement 54 are effective for financial statements for periods ending June 30, 2011.

Article 3 of the General Municipal Law (GML) requires local governments to file an annual financial report with the Office of the State Comptroller (OSC). This reporting is accomplished by local governments through filing of the AUD, and school districts by filing the ST-3. OSC will make the necessary adjustments to the balance sheets for the fund level statements of the

AUD and ST-3 to align statutory reporting requirements under GML with GAAP at the fund level.

This bulletin provides an overview of the changes to the financial reporting requirements dictated by Statement 54 and how those changes are being implemented in the AUD and ST-3. This includes a narrative description of the changes to fund balance classification and their effect on New York's local governments, as well as a crosswalk (see Appendix A) from previous AUD and ST-3 balance sheet reporting to future balance sheet reporting. Also included is a discussion of the effects of Statement 54 on special revenue fund reporting in New York State. Lastly, this bulletin discusses the policy decisions that must be made, and the associated note disclosures required by the Statement.

## **Fund Balance**

Statement 54 requires local governments to focus on the constraints imposed upon resources when reporting fund balance in governmental funds. The new fund balance classifications will indicate the level of constraints placed upon how resources can be spent and identify the sources of those constraints.

Constraints are broken down into five different classifications: nonspendable, restricted, committed, assigned, and unassigned. The classifications serve to inform readers of the financial statements of the extent to which the government is bound to honor constraints on the specific purposes for which resources in a fund can be spent.

### *Fund Balance Classifications*

Nonspendable – consists of assets that are inherently nonspendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and principal of endowments.

Restricted – consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

Committed – consists of amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint.

Assigned – consists of amounts that are subject to a purpose constraint that represents an intended use established by the government's highest level of decision-making authority, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance.

Unassigned – represents the residual classification for the government’s general fund, and could report a surplus or deficit. In funds other than the general fund, 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.

*Fund Balance Classification in New York State*

Various State statutes allow most local governments to establish reserve funds for various purposes, e.g., capital, repair, debt, workers’ compensation. These statutes regulate the establishment, funding and use of these reserves, but generally don’t require local governments to establish or fund them. Because the State regulates the establishment, funding and use of these reserves, generally, reserves will be classified as restricted fund balance on financial statement balance sheets. Reserve funds that authorize transfers to other reserve funds as stated in the controlling statute (which may require board action and/or voter approval) will still always be classified as restricted, because even though the purpose for the restriction may change, the level of constraint on spending does not.

Reserves that allow for transfers back to the originating operating fund should be classified as assigned fund balance, **but only after** an action or determination has been made by the governing board that the reserve is no longer needed for the purpose for which the reserve fund was established, and **only** for the portion that is returnable to the operating fund.

Governments are not required to report all five classifications of fund balance. OSC believes that in most cases, local governments in New York will not have committed fund balance to report. If the governing body has not delegated the authority to assign amounts to be used for specific purposes to another body or official, in most instances, OSC believes that formal actions by governing boards (resolutions, ordinances, and local laws) constitute a similar level of constraint of resources, and these formal actions will result in an assignment of resources.

Some local governments may have a distinctive structure that provides for a clear distinction between formal actions, which may allow the local government to report both a commitment and an assignment of resources.<sup>1</sup> If the highest level of decision-making authority is permitted to delegate its authority to constrain resources reported in fund balance to a subordinate body or official, then the resources constrained by that body or official must be reported as assigned fund balance.

Appendix A illustrates how current fund balance account codes should be classified for Statement 54 implementation and how the codes will appear on the AUD and ST-3, beginning with local governments whose fiscal year ends June 30, 2011.

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<sup>1</sup> In some circumstances, a local government may have a level of decision-making with higher authority than a governing board. These circumstances and actions that result in reporting of committed and assigned fund balance should be disclosed in the notes to the financial statements.

### Statutory Fund Balance Limitations

Counties, Cities, Towns, Villages, and Fire Districts – Chapter 528 of the Laws of 2000 gives local governments the authority to carry over a "reasonable amount" of unappropriated unreserved fund balance from one year to the next.<sup>2</sup> Since Statement 54 eliminates the unappropriated unreserved fund balance terminology, local governments should apply the "reasonable amount" calculation to the unrestricted portion of fund balance (defined as the total of the committed, assigned, and unassigned fund balance classifications), consistent with the "reasonable amount" statutes.

School Districts – Real Property Tax Law §1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4 percent of the next year's budgetary appropriations. Funds properly retained under other sections of law (i.e., reserve funds established pursuant to Education Law or GML) are excluded from the 4 percent limitation. In the context of previous fund balance reporting, an unexpended surplus was interpreted to be synonymous with unappropriated unreserved fund balance. Under Statement 54 fund balance classifications, the 4 percent limitation would be interpreted to be applied to unrestricted fund balance (i.e., the total of the committed, assigned, and unassigned classifications), minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction, and encumbrances included in committed and assigned fund balance.<sup>3</sup>

### Other Fund Balance Changes

Note Disclosures – the following information related to reporting fund balances should be disclosed in the notes to the financial statements:

- The government's highest level of decision-making authority and the formal action required to establish a commitment of fund balance (if applicable), and the processes through which commitments are imposed.
- If designated, the body or official authorized to assign amounts to a specific purpose, the policy that established that authorization, and the processes through which assignments are imposed.
- The order in which amounts are deemed to have been spent. Local government accounting policies should determine whether restricted, committed, assigned, or unassigned amounts are considered to have been spent first when resources that are available from multiple constraint levels are spent; the default policy is that resources are first spent from the highest constraint level available.
- Significant encumbrances by major funds and non-major funds in the aggregate, with required disclosure about other significant commitments.

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<sup>2</sup> See OSC accounting bulletin, *Budgeting and Fund Balance Legislation*, from July 2001 at [www.osc.state.ny.us/localgov/pubs/releases/budfund.htm](http://www.osc.state.ny.us/localgov/pubs/releases/budfund.htm).

<sup>3</sup> Appropriated fund balance is classified as assigned, but must be excluded from the 4 percent calculation because it is not being retained and is already being used to reduce the tax levy for the subsequent fiscal year. Encumbrances classified as committed or assigned and amounts reserved for insurance recovery and tax reduction have been excluded from the calculation for consistency, because they are not considered surplus funds and were previously excluded.

- If fund balance classifications are displayed in the aggregate on the face of the financial statements (items do not have to be presented for each specific purpose of nonspendable, restriction, commitment, or assignment), amounts for the two nonspendable classifications (not in spendable form and legally required to remain intact) and specific purposes for the other fund balance classifications must be disclosed in the notes.
- A minimum fund balance policy, if formally adopted.

Encumbrances – **accounting** for encumbrances will continue, but only significant encumbrances should be disclosed in the notes in conjunction with disclosures of other significant commitments. If resources have already been restricted or committed for encumbrances, the encumbered amounts will be included with restricted or committed resources. If resources have not already been restricted or committed, amounts encumbered should be considered assigned for the purpose of the expected expenditure, because the outstanding purchase orders are evidence of the government’s intent to spend the resources. Encumbered amounts for specific purposes for which resources have been restricted, committed, or assigned should not be displayed separately within those classifications.

### **Special Revenue Funds**

Statement 54 refines the definition of what constitutes a special revenue fund. As such, it may lead to fewer special revenue funds being reported in financial statements. *Note: The change in special revenue fund reporting requirements detailed in Statement 54 does not require changes in the way a local government budgets and internally accounts for special revenue funds.*

Traditionally, special revenue funds were reported in instances where there was a specific spending purpose, but not necessarily a specific revenue source. Statement 54 clarifies that both conditions must exist; a special revenue fund should be reported only if there are “proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes,” and the specific revenue sources continue to make up a substantial portion<sup>4</sup> of the inflows reported in the fund. Other resources, such as investment earnings and transfers, may also be reported in the fund.

Funds that are legally mandated to be kept separately (e.g., town highway, county road, county road machinery, town special districts, and sewer funds) will continue to be reported as special revenue funds.

Funds that may be reported as special revenue funds currently, such as city and village water funds, may only continue to be reported as special revenue funds with implementation of Statement 54 if the substantial revenue sources are restricted or committed to the purpose of the fund. In order to substantiate the use of a special revenue fund for these types of local government purposes, there must be an understanding with ratepayers that money collected would be used for the fund’s operations as stated in a charter, local law, or other document in

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<sup>4</sup> “Substantial portion” is not defined in the Statement, but 20 percent of expected inflows has become a commonly used threshold.

effect when the fund was initially created; a history of funds being used for the fund's operations is not enough.

For all major special revenue funds reported, local governments will need to disclose the purpose of the fund and the revenues and other resources reported in the funds in the notes to the financial statements.

As stated earlier, Statement 54 does not require local governments to discontinue budgeting and/or accounting for special revenue funds. Those funds that do not meet the Statement 54 definition of a special revenue fund should be bundled into the general fund (or another special revenue fund with a similar purpose that does meet the new definition, so long as the specific revenues would constitute a substantial portion of the inflows of the total reported fund) for AUD and financial reporting purposes.

Appendix B illustrates how commonly reported special revenue funds should be reported on financial statements and on the AUD and ST-3, beginning with local governments whose fiscal year ends on June 30, 2011.

### **Additional Information**

If you have questions pertaining to the reporting requirements for fund balance and special revenue funds described in this bulletin, please contact the State Comptroller's regional office that serves your local government. A listing of regional offices is enclosed.

**Appendix A – Fund Balance Classification**

These account codes should be reported on the AUD and ST-3, beginning with local governments whose fiscal year ends June 30, 2011.

<b>Fund Balance Item</b>	<b>Current Account Code</b>	<b>Current Classification</b>	<b>GASB 54 Classification</b>	<b>New Account Code</b>
<b>NONSPENDABLE FUND BALANCE</b>				
Prepaid Items/Expenses	n/a	Unreserved	Nonspendable	806 Not in Spendable Form
Reserve for Inventory	845	Reserved	Nonspendable	806 Not in Spendable Form
Long-term portion of loans/notes receivable	n/a	Unreserved	Nonspendable	806 Not in Spendable Form
Non-financial assets held for resale	n/a	Unreserved	Nonspendable	806 Not in Spendable Form
Principal of an endowment	n/a	Reserved	Nonspendable	807 Must Remain Intact
Capital of a revolving fund	n/a	Unreserved	Nonspendable	807 Must Remain Intact
<b>RESTRICTED FUND BALANCE</b>				
Workers' Compensation Reserve	814	Reserved	Restricted	no change
Unemployment Insurance Reserve	815	Reserved	Restricted	no change
Retirement Contribution Reserve	827	Reserved	Restricted	no change
Reserve for Employee Benefits	830	Reserved	Restricted	no change
Reserve for Snow and Ice Removal/Road Repairs	835	Reserved	Restricted	no change
Reserve for Property Loss	861	Reserved	Restricted	no change
Reserve for Liability Claims	862	Reserved	Restricted	no change
Insurance Reserve	863	Reserved	Restricted	no change
Reserve for Tax Certiorari	864	Reserved	Restricted	no change
Reserve for Employee Benefit Accrued Liability	867	Reserved	Restricted	no change
General Reserve	870	Reserved	Restricted	no change
Reserve for Excess Dog Control Revenues	872	Reserved	Restricted	no change
Reserve for Taxes Raised Outside of Tax Limit	874	Reserved	Restricted	no change
Reserve for Judgments and Claims	876	Reserved	Restricted	no change
Capital Reserve	878	Reserved	Restricted	no change
Reserve for Tax Stabilization	880	Reserved	Restricted	no change
Reserve for Repairs	882	Reserved	Restricted	no change
Reserve for Debt (Mandatory Reserve)	884	Reserved	Restricted	no change
Reserve for Solid Waste Management Facility	898	Reserved	Restricted	no change

<b>Fund Balance Item</b>	<b>Current Account Code</b>	<b>Current Classification</b>	<b>GASB 54 Classification</b>	<b>New Account Code</b>
Miscellaneous Reserve	889	Reserved	n/a	Deleted
• Airport Amortization Fund		Reserved	Restricted	899 Other Restricted Fund Balance
• Airport Development Fund		Reserved	Restricted	899 Other Restricted Fund Balance
• Electric Utility Depreciation Fund		Reserved	Restricted	899 Other Restricted Fund Balance
• Uncollected Taxes in a City School District Reserve		Reserved	Restricted	899 Other Restricted Fund Balance
All other restricted fund balance				899 Other Restricted Fund Balance
<b>UNRESTRICTED FUND BALANCE</b>				
Fund Balance Unreserved Portion	909	Unreserved	Unrestricted	912, name changed to Unrestricted Fund Balance
<b>COMMITTED FUND BALANCE</b>				
All committed fund balance				913 Committed Fund Balance
<b>ASSIGNED FUND BALANCE</b>				
Fund Balance Unreserved Appropriated	910	Unreserved	Assigned	914, name changed to Assigned Appropriated Fund Balance
Miscellaneous Reserve	889	Reserved	n/a	Deleted
• Career Education Instructional Equipment Fund		Reserved	Assigned	915 Assigned Unappropriated Fund Balance
Reserve for Highway Capital Projects	879	Reserved	Assigned	915 Assigned Unappropriated Fund Balance
Reserve for Insurance Recovery	887	Reserved	Assigned	915 Assigned Unappropriated Fund Balance
All other assigned fund balance				915 Assigned Unappropriated Fund Balance
<b>UNASSIGNED FUND BALANCE</b>				
Reserve for Tax Reduction (school districts only)	891	Reserved	Unassigned	916 Reserve for Tax Reduction
All other unassigned fund balance				917 Unassigned Fund Balance
<b>OTHER DELETED CODES</b>				
Reserve for Encumbrances	821	Reserved	n/a	deleted for <b>reporting</b> purposes only, may still be used for <b>accounting</b> purposes
Reserve for Tax and Revenue Anticipation Notes	881	Reserved	n/a	Deleted
Reserve for Excellence in Teaching	902	Reserved	n/a	Deleted
Fund Balance Unreserved, Part Local Government	905	Unreserved	n/a	Deleted
Fund Balance Unreserved Unappropriated	911	Unreserved	n/a	Deleted



## **Appendix B – Special Revenue Funds**

These commonly reported special revenue funds should be considered for reporting on financial statements and on the AUD and ST-3, beginning with local governments whose fiscal year ends June 30, 2011.

<b>Fund</b>	<b>Fund Code</b>	<b>Report as Special Revenue Fund After GASB 54?<sup>5</sup></b>
Town Outside Village	B	yes - legally mandated
School Store	B	no - fund code deleted
School Food Service	C	yes - legally mandated
Housing Authority	CB	depends
Special Grant	CD	yes - legally mandated
Refuse	CL	depends
Miscellaneous	CM	depends
Health Related Facility	CN	depends
Parking	CP	depends
Recreation	CR	depends
Transportation	CT	depends
Urban Renewal	CU	depends
County Road	D	yes - legally mandated
Highway-Town Wide	DA	yes - legally mandated
Highway-Part Town	DB	yes - legally mandated
Road Machinery	DM	yes - legally mandated
Special Aid	F	yes - legally mandated
Water	FX	depends
Sewer	G	yes - legally mandated
Public Library	L	yes - legally mandated
Workers Compensation	S	yes - legally mandated
<b>SPECIAL DISTRICTS</b>		
Drainage	SD	yes - legally mandated
Fire Protection	SF	yes - legally mandated
Lighting	SL	yes - legally mandated
Miscellaneous	SM	yes - legally mandated
Park	SP	yes - legally mandated
Refuse	SR	yes - legally mandated
Sewer	SS	yes - legally mandated
Parking	ST	yes - legally mandated
Water	SW	yes - legally mandated

<sup>5</sup> For all funds reported, revenue sources and specified purposes must be disclosed in the notes. For all funds reported that are not legally mandated, specific restricted or committed revenues should be the foundation of the fund and represent a substantial portion (at least 20%) of the expected inflows of the fund.