

NOVEMBER 2016

# POST-IMPLEMENTATION REVIEW REPORT

*GASB Statement No. 54, Fund Balance  
Reporting and Governmental Fund Type  
Definitions*

*(Codified in Codification of Governmental Accounting and  
Financial Reporting Standards, Sections 1300 and 1800)*



401 Merritt 7, PO Box 5116  
Norwalk, Connecticut 06856-5116  
T: 203.847.0700 | F: 203.854.9714  
[www.accountingfoundation.org](http://www.accountingfoundation.org)

November 15, 2016

The accompanying *Post-Implementation Review Report* on GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (Statement 54), summarizes the FAF's post-implementation review (PIR or Review) team's research results and conclusions (collectively, Findings), from its review of Statement 54. The PIR process is an important part of our FASB and GASB standard-setting oversight responsibilities. Our oversight objectives are to improve the standard-setting process, in part, through a robust, independent, and credible PIR process.

The PIR team's review accomplishes the objectives we set out for the PIR process to: (1) determine whether Statement 54 is accomplishing its stated purpose, (2) evaluate implementation and continuing application costs and related benefits of Statement 54, and (3) provide recommendations to improve the GASB's standard-setting process. To maintain the GASB's standard-setting independence, the PIR team does not recommend standard-setting actions for the GASB.

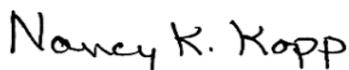
We have reviewed the Statement 54 Review team's procedures and the accompanying Statement 54 Report. We believe that they performed a robust, independent, and credible review of Statement 54. The team's summarized conclusions, with which we concur, are included in the "Summary" section of the Report.

The Statement 54 Report addresses the technical, operational, and cost-effectiveness aspects of Statement 54. The GASB has reviewed the Statement 54 Report and the PIR team's detailed Findings. The GASB's response to the matters discussed in the Report and Findings will be posted to the FAF PIR webpage when this Report is posted.

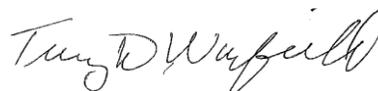
We would like to thank all of the individuals and organizations that provided input on Statement 54.

We welcome your input on our PIR process at [presidentsdesk@f-a-f.org](mailto:presidentsdesk@f-a-f.org).

Sincerely,



Nancy K. Kopp  
Co-Chair  
Standard-Setting Process Oversight Committee  
FAF Board of Trustees



Terry D. Warfield  
Co-Chair  
Standard-Setting Process Oversight Committee  
FAF Board of Trustees

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## SUMMARY

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In 2010, the Trustees implemented a post-implementation review (PIR or Review) process as part of their FASB and GASB oversight responsibilities. The Trustees' objectives for these Reviews are to determine whether a standard is accomplishing its stated purpose, evaluate its implementation and continuing compliance costs and related benefits, and provide recommendations to improve the standard-setting process.

Much of our (the PIR team) research involves obtaining stakeholder views on the standards under review. Given stakeholder diversity, seldom will stakeholders have unanimous views on whether any standard or its provisions are effective. We reached the following overall conclusions using our judgment, considering all the input received, and striving to be objective and balanced:

- Overall, Statement 54 resolved the primary issues underlying its stated need—it introduced fund balance classifications that are easier to understand and clarified fund type definitions. Although some stakeholders have indicated that it is difficult to distinguish between committed and assigned fund balances, we believe that the Statement was an improvement over prior literature.
- Statement 54 provides users of financial statements with decision-useful information.
- Overall, Statement 54 is operational because it is understandable, can be applied as intended, and enables fund balance and governmental fund type information to be reported reliably.
- The changes made to financial and operating practices as a result of Statement 54 were not significant or unexpected.
- There were no significant unanticipated consequences as a result of the adoption of Statement 54.
- Overall, implementation and continuing application costs associated with Statement 54 were not significant and were consistent with the GASB's expectations.
- Overall, Statement 54 achieved its expected benefits.

Finally, no standard-setting process recommendations resulted from our research.

## GLOSSARY OF ACRONYMS AND TERMS

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**FAF:** Financial Accounting Foundation

**GASB:** Governmental Accounting Standards Board

**Oversight Committee:** FAF Trustees' Standard-Setting Process Oversight Committee

**PIR:** Post-implementation review

**Resource Group:** Stakeholders with experience either applying the standard or evaluating its information (e.g., auditors, preparers, academics, and users)

**Review:** Post-implementation review

**Statement 54:** GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (codified in Codification of Governmental Accounting and Financial Reporting Standards, Sections 1300 and 1800)

**Trustees:** FAF Board of Trustees

**Users:** Users of information in financial statements, such as legislators, municipal bond insurers, buy- and sell-side analysts, rating agencies, bond holders, citizen and taxpayer groups, community organizations, and research institutes

# POST-IMPLEMENTATION REVIEW REPORT

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## PIR OBJECTIVES AND PROCEDURES

The three primary PIR objectives are to: (1) determine whether a standard is accomplishing its stated purpose, (2) evaluate its implementation and continuing compliance costs and related benefits, and (3) provide feedback to improve the standard-setting process (as opposed to recommending standard-setting actions). We divide the first objective further to determine whether:

- The standard resolved the issues underlying its need.
- Decision-useful information is being reported to, and being used by, financial statement users.
- The standard is operational.
- Any significant unexpected changes to financial reporting or operating practices resulted from implementing the standard.
- Any significant unanticipated consequences resulted from applying the standard.

Our criteria and procedures for reviewing selected accounting standards are described and posted on the FAF website ([PIR Process Description](#)). Generally, we will review significant standards that the GASB currently is not reassessing. Our procedures include reviewing the GASB's project files (particularly the on-topic documents issued by the GASB), reviewing industry and user publications, and obtaining feedback from stakeholders with experience either applying the standard or evaluating its information.

Our primary means of gathering information to be used in forming our conclusions on Statement 54 was interviewing a diverse group of GASB stakeholders (auditors, preparers, academics, and financial statement users), collectively referred to as our Statement 54 PIR resource group. This group included:

- Ten auditors of financial statements—comprised of representatives from nine public accounting firms (local and regional), as well as a representative from one state auditor's office
- Seven preparers of financial statements—comprised of representatives from one county, two state, and four city governments
- Six users of financial statements—comprised of representatives from three research organizations, a state-level advocacy organization, one buy-side analyst from an investment management firm, and one credit rating agency
- Five academics—comprised of individuals who provide instruction on the provisions of Statement 54 or study information provided by the Statement.

We focused our research on achieving the PIR objectives, and we evaluated our various research inputs to establish whether there were consistent views. We note that throughout our research, stakeholders expressed consistent views despite having different backgrounds in terms of government type (preparers) or firm size (auditors). As a result, we did not see a need to conduct a broad-based survey as part of our Statement 54 PIR research.

Our research observations are indications of stakeholders' views and do not constitute statistically valid inferences. We reached our conclusions using our judgment, considering all the input received, and striving to be objective and balanced.

After completing our research, we compiled our procedures, research results, and conclusions into our Findings. We reviewed our Findings with the FAF president and chief executive officer, GASB chair, GASB director of research and technical activities, and Oversight Committee members. We considered their views on our preliminary conclusions and recommendations when drafting this PIR Report. This Report summarizes the content of our Findings. We reviewed a draft of this Report with the Oversight Committee and the Trustees. After the Trustees' acceptance of the Report, we posted this PIR Report to the FAF website.

## BACKGROUND INFORMATION

Prior to the issuance of Statement 54 in 2009, NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, established the components of fund balance for governmental fund accounting. Fund balance was categorized between reserved and unreserved portions. Reserved fund balance indicated that a portion of the fund balance is not appropriate for expenditure or is legally segregated for a specific future use. The remaining fund balance was reported as unreserved. If a government's management had tentative plans for financial resource utilization in a future period for some or all of the unreserved fund balance, that amount was reported as unreserved–designated fund balance, with any remainder reported as unreserved–undesignated.

Statement 54 introduced five fund balance classifications as follows:

- *Nonspendable*—Although the measurement focus of governmental funds is on current financial resources, there are, nevertheless, assets that are not spendable. Examples are inventories and prepaid assets. Also, some current financial resources cannot be spent, for example, a permanent fund's corpus.
- *Restricted*—Fund balances are restricted when there are constraints on resources that are either externally placed by creditors or imposed by law through constitutional provisions or enabling legislation.
- *Committed*—Fund balances are committed when they represent resources that are constrained by formal action of a government's highest level of decision-making authority.
- *Assigned*—Fund balances are assigned when they represent resources that are constrained by a government's intent to use them for an assigned purpose. This constraint is the least stringent of the classifications described so far. Because resources in a governmental fund other than the general fund are required to be at least intended for the purpose of that fund, assigned fund balance is the residual classification in all governmental funds other than the general fund.
- *Unassigned*—Fund balances in the general fund that do not meet the requirements of the above classifications are unassigned. This is the residual classification for the general fund.

Some governments set aside amounts for use when budgetary resources are below a government's needs—often called “rainy day” resources. Statement 54 provides that, among other requirements, fund balances representing stabilization arrangements may be reported as restricted or committed in the general fund, provided that such amounts meet the requirement to be either restricted or committed.

Statement 54 requires disclosures that address committed and assigned fund balances; encumbrances; how expenditures are attributed to committed, assigned, and unassigned fund balances; stabilization arrangements; and purposes for which fund balance may be spent.

Statement 54 clarifies the definitions of all governmental fund types (general, special revenue, capital projects, debt service, and permanent funds). The clarified definition of special revenue fund received the most comments in our interviews. A special revenue fund is used to report the proceeds of specific revenue sources that are restricted or committed to specified purposes. Those resources must comprise a substantial portion of the inflows reported in a special revenue fund.

## **PIR OBJECTIVE 1: DID STATEMENT 54 ACCOMPLISH ITS STATED PURPOSE?**

### ***Did Statement 54 Resolve the Issues Underlying the Need for the Standard?***

The GASB's objectives (the underlying need) in issuing Statement 54 were:

- To provide fund balance classifications that would be more easily understood. The fund balance classifications would require governments to classify amounts consistently, regardless of the fund type or column in which they are presented.
- To clarify governmental fund type definitions that would reduce uncertainty about which resources can or should be reported in the respective fund types.

Resource group members indicated that generally the new classifications are an improvement and made many positive comments about the new classifications. In addition, many resource group members commented that the distinction between committed and assigned fund balances was difficult to make. In our view, the distinction may in some instances be a fine one. We are not persuaded, however, that the difficulty is significant enough to conclude that the Statement did not meet its objectives.

Based on our research, we conclude that, overall, Statement 34 achieved its two objectives and thus resolved the primary issues underlying its stated need.

### ***Does Statement 54 Provide Decision-Useful Information?***

We researched whether Statement 54 provides users of financial statements with decision-useful information. The users that we spoke to indicated that they use fund balance information in the following ways:

- To understand the availability of current financial resources
- To identify potential resources that are available for interfund transfer
- To research rainy day funds
- To understand the purposes for which resources have been committed and assigned, and the relative strength of those commitments.

By visiting websites sponsored by some users, we observed that these users incorporate fund balance classifications and information on stabilization arrangements in their work.

Based on our research, we conclude that Statement 54 provides decision-useful information.

### ***Is Statement 54 Operational?***

The third area that we researched is whether Statement 54 is operational. For PIR purposes, operationality addresses preparers' and auditors' views on whether the standard is understandable, can be applied as intended, and enables fund balance and governmental fund type information to be reported reliably.

To help us understand how Statement 54 is applied in practice and determine whether Statement 54 is operational, we analyzed GASB implementation guidance and technical inquiries related to Statement 54 and reviewed relevant articles and publications issued after the publication of Statement 54. We also asked resource group members whether they believe the Statement is meeting its objectives, whether the Statement provides reliable information, and whether the Statement could be improved. In addition, we asked preparers of financial statements to describe their experience applying the Statement. We asked the other resource group members (auditors, academics, and financial statement users) whether it was clear to them how governments classify fund balances and use governmental fund types.

Similar to the responses we received in other areas, in all aspects of operationality resource group members made many positive comments about Statement 54. As noted earlier, we learned, that some stakeholders have difficulty distinguishing between committed and assigned fund balances. Although all preparers and most auditors that we spoke to agreed that the information is reported reliably, some auditors, financial statement users, and academics did not—primarily because they believe that the Statement has not been consistently applied. One auditor attributed inconsistency of application to how preparers apply the Statement and not to the Statement itself. Taking all the research into consideration however, we believe that Statement 54 provides reliable information.

Taking all our research into consideration, we conclude that, overall, Statement 54 is operational, can be applied as intended, and enables fund balance and governmental fund type information to be reported reliably.

## ***Did Statement 54 Result in Significant Unexpected Changes in Financial Reporting or Operating Practices?***

The GASB expected Statement 54 to establish new fund balance categories, provide fund balance disclosures, and clarify governmental fund type definitions. We considered whether any significant unexpected changes to financial reporting or operating practices resulted from the application of Statement 54. To reach our conclusion, we considered feedback received from resource group members and information obtained from our other research activities.

Based on our research, we conclude that there were no significant unexpected changes to financial reporting or operating practices resulting from the issuance of Statement 54.

## ***Did Statement 54 Result in Significant Unanticipated Consequences?***

We researched whether any significant unanticipated consequences resulted from the application of Statement 54 by interviewing resource group members, conducting a literature review, evaluating technical inquiries received by the GASB, and considering implementation guidance on Statement 54 issued by the GASB.

Based on our research, we conclude that no significant unanticipated consequences resulted from the adoption of Statement 54.

## **PIR OBJECTIVE 2: STATEMENT 54 COSTS AND BENEFITS**

### ***Are the Implementation and Continuing Application Costs of Statement 54 Consistent with the Costs the GASB Considered?***

The GASB believed that the costs to implement Statement 54 would not be significant, though—as with any accounting standard—there would be some initial costs to study and operationalize the Statement. The Statement provides clarified definitions of governmental funds. Special revenue funds were particularly affected. The greatest potential for implementation costs was the evaluation of special revenue funds to determine whether these funds were classified appropriately. The experience of most preparers implementing the Statement and auditors evaluating the information arising from this Statement was consistent with the GASB’s expectations.

Based on the feedback received from resource group members, we conclude that, overall, the implementation and continuing application costs of Statement 54 were consistent with the GASB’s expectations.

### ***Are the Benefits of Statement 54 Consistent with the Benefits the GASB Intended?***

The benefits that the GASB sought to achieve with the issuance of Statement 54 were aligned with the objectives set forth in the Statement. Those benefits included fund balance classifications that would be more easily understood, consistent application of those classifications, and disclosures about stabilization arrangements. We asked all resource group members whether they believed the Statement

achieved its benefits. Except for the difficulty distinguishing between committed and assigned fund balances, members agreed that the Statement is providing its expected benefits.

Based on the feedback received from resource group members, we conclude that overall Statement 54 achieved its expected benefits.

### **PIR OBJECTIVE 3: STANDARD-SETTING PROCESS IMPROVEMENTS**

Our third PIR objective is to provide feedback to improve the standard-setting process. Our review of the project files indicates that the GASB conducted thorough outreach activities with all stakeholders. That outreach included separate surveys of preparers and financial statement users, archival research of financial statements of state and local governments, interviews of users, issuance of an Invitation to Comment (*Fund Balance Reporting and Governmental Fund Type Definitions*) and an Exposure Draft, and assembly of an advisory task force.

Resource group members did not have any recommendations for improving the GASB standard-setting process and many members made positive comments about that process.

As a result, we have no standard-setting process recommendations.

#### ***Statement 54 Post-Implementation Reviewer:***

Randy Finden, FAF Senior Project Manager

*November 2016*