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**GOVERNMENTAL ACCOUNTING STANDARDS BOARD**

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**ROBERT H. ATTMORE**  
Chairman

November 10, 2009

Ms. Susan G. Hockenberry  
Executive Director  
Local Government Academy  
800 Allegheny Avenue, Suite 402  
Pittsburgh, PA 15233

Dear Ms. Hockenberry:

The purpose of this letter is to express the Board's appreciation for the time and effort that your organization took to provide comments earlier this year on the exposure draft (ED) for Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We received a total of ninety responses to the ED, either in writing or through testimony at the public hearing. The Board read and carefully analyzed all of the comments offered by respondents and considered them in arriving at the provisions in the final Statement.

In response to comments received, the Board made several clarifications and modifications to the ED, the most significant of which are discussed briefly below. I encourage you to read the Basis for Conclusions in Statement 54 for a more complete discussion of the suggestions made by respondents and the Board's reasoning for making some changes and declining to make others.

#### Spending prioritization policies

Several respondents expressed concerns about the proposed requirements regarding spending prioritization policies; that is, which resources would be used first for expenditures for which some combination of restricted, committed, assigned, or unassigned resources are available. That determination is necessary for classifying fund balances at the end of the year. Some were concerned that governments may have different policies that would be applied in different situations while others stated that some governments do not have such a policy and likely would not establish one. In response to those concerns, the Board modified the language for the final Statement to eliminate the unintended implication that a single policy would be required. In addition the Board established a "default" spending prioritization policy in paragraph 18 that would be used by those governments that did not have and would not establish their own policies.

#### Capital projects fund definition

Even though the exposure draft did not propose significant changes to the existing definition of capital projects funds, many respondents inferred from a discussion in the Basis for Conclusions that the use of capital projects funds would be significantly constrained. The Board considered the respondents'

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arguments and arrived at an expanded definition that more closely reflects current practice. The Board concluded that a more limiting definition would not adequately capture the breadth of capital activities common in today's environment and would not provide more decision-useful information. The capital projects fund definition in paragraph 33 addresses the concerns expressed by respondents to the ED.

#### Reporting encumbrances

Many respondents to the ED requested clarification or additional guidance for reporting encumbrances within the new fund balance classifications. In response, paragraph 24 was added to the final Statement to more clearly state the financial reporting provisions for encumbrances and paragraphs 97 through 101 in the Basis for Conclusions were expanded to promote better understanding of those provisions.

#### Reporting negative balances

The Board was persuaded by comments from respondents that the final Statement should provide guidance as to how fund balance deficits should be accounted for. In response to those concerns, paragraph 19 was amended to include specific guidance for reporting the effect of overspending for specific purposes within the restricted, committed, and assigned fund balance classifications. Paragraphs 82 and 83 were added to the Basis for Conclusions to explain the concept that underlies the provisions in paragraph 19.

It is expected that the next edition of the Comprehensive Implementation Guide will include questions and answers that will provide further clarification of the issues discussed above as well as other areas in which illustrations or additional guidance will help with the implementation of Statement 54.

I believe that the final Statement is significantly improved because of the revisions discussed above, as well as others that were not specifically noted in this letter. On behalf of the GASB members and staff, I thank you for your interest in this important issue and for taking the time to share your thoughts and suggestions with us. The insights, experience, and knowledge of our constituents are invaluable to the completeness of our due process activities and to the development of effective standards.

I hope that you will continue to actively participate in the GASB's due process.

Sincerely,



Robert H. Attmore  
Chairman