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June 25, 2008

David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

Local Government Academy, an independent nonprofit organization promoting excellence in local government and serving southwestern Pennsylvania, recently convened a roundtable discussion of the proposed standards contained in the Exposure Draft, *Fund Balance Reporting and Governmental Fund Type Definitions (ED)*.

Overall comments on this ED were positive and everyone involved in the development of this response agreed that this ED did a nice job in taking the comments from the Invitation to Comment and developing an approach that is reasonable and makes sense. We were fortunate to have one of our local municipalities who participated in the GASB field test for this ED, so we had an example that we could walk through to show us information to which we all could relate.

The following are some comments on the ED for the consideration of the GASB. We appreciate the ability to participate in this process and thank the GASB for considering our comments.

1. Paragraph 9. – Even though “external party” is mentioned in the definition of “legal enforceability”, we believe that it may make sense to clarify that the enabling legislation must be external to the government to be restricted.
2. Paragraph 10. – We believe that the statement should give examples of what the “formal action” would be such as an ordinance or resolution. Our concern is that without some definition of what the formal action should be, there may be inconsistencies in interpretation and application.
3. Paragraph 11. – In the second line when it says “should occur prior to the end of the reporting period” we believe that this wording leaves it open for people to retroactively perform the “formal action”. Is this what was intended by using these words? If not, the GASB should consider changing “should” to “must”.

4. Paragraph 12. – The second sentence talks about the governing body being able to express intent which would result in an assigned fund balance. We are unclear as to what action of the governing body would express intent yet would be less than formal action as described in paragraph 10. for limited fund balance. Please clarify how this could happen and include examples.
5. Paragraph 12. – How is the authority for assigning obtained? We would think that the standard could give examples of what actions should be taken by a government to assign authority to make assignments of fund balance. For example the governing body could write a policy that must be followed and could pass an ordinance giving the Manager the ability to make assignments within the guidelines of the written policy.
6. Paragraphs 13. and 14. – We agree with the concept that unassigned fund balance can only be included in the General Fund.
7. Paragraph 15. – The last sentence talks about what should happen to unspent amounts assigned to a specific project – basically transfer back to the General Fund to be shown as unassigned fund balance. What happens in the case where there is no specific project that is identified but rather there is a general assignment for capital projects? In the State of Pennsylvania , governments (especially with School Districts) utilize capital reserve funds where funds are set aside for general capital projects or capital purchases.
8. From reading the ED, it is our understanding that the current practice in Pennsylvania where amounts are set aside in a separate fund for capital purchases, may no longer be allowed. Most of the capital purchases in question would not meet the definition of “major capital facilities” as described in the ED and we are assuming that this means that these funds would have to be reported in the General fund and assigned in the fund balance. Are we interpreting the ED correctly?
9. Paragraph 16. – It is not clear from the discussion whether or not the GASB believes that these amounts should be set up in separate funds or should this only result in fund balance reporting in the General Fund. The end of paragraph 17. makes it look like this is only fund balance reporting in the General Fund which makes sense to us, we just thought it would be clarified.
10. Paragraph 17. - The last sentence only allows for stabilization amounts to be reported as restricted, limited or unassigned. We are unclear as to why such amounts couldn't also be assigned since there could likely be a situation where these amounts are set up based on the intention of the governing body.
11. In Pennsylvania, certain codes passed by the Legislature, allow for a rainy day (operating reserve) fund of a certain amount. Would the code meet the definition of a “formal arrangement” as discussed in paragraph 16?
12. Paragraph 20. – We believe that the GASB should include where encumbrance amounts should be reported in fund balance – restricted, limited, assigned or unassigned. As currently written there is no guidance.
13. If a government has a bond issuance and the proceeds are to be used for expenditures that may not meet the “major capital facilities” definition, we are unclear as to where to report these proceeds and the subsequent purchases. Historically, these amounts have been reported in a capital projects fund.
14. Should special tax levies for capital purchases be reported in special revenue funds?

We appreciate the work of the GASB to improve fund balance reporting. Our thanks to Robert Lent, of Maher Duessel CPAs, for providing technical assistance to the group during the roundtable discussion and in the development of these comments.

On behalf of my colleagues,

A handwritten signature in black ink that reads "Susan G. Hockenberry". The signature is written in a cursive, flowing style.

Susan G. Hockenberry
Executive Director