



FLORIDA GOVERNMENT FINANCE OFFICERS ASSOCIATION, INC.

Since 1937

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January 30, 2007

Director of Research and Technical Activities
Project Number 3-181
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Dear Sir:

On behalf of the Florida Government Finance Officers Association (FGFOA), we are pleased to provide these comments regarding GASB's Invitation to Comment (ITC), Fund Balance Reporting and Governmental Fund Type Definitions. These comments were prepared based on a review of the ITC by the FGFOA Technical Resources Committee and by the Board of Directors.

This ITC examines several issues related to fund balances. We note that GASB defined fund balances in Statement 34 and clarified the definition again in Statement 46. What is restricted and unrestricted should be well defined at this point, although we agree that there may still be diverging views on how the term designated may be applied.

We want to point out that the ITC makes several references to the comparability of governmental financial statements for users. Comparability may prove to be a very elusive goal, as all governments are different and must be understood individually in order to assess their financial condition. Cities differ from other cities; counties differ from other counties or from cities; and state laws vary from state to state.

The following are specific comments related to the questions contained in the ITC, which are respectfully offered for the GASB's consideration.

Question 1

Option C provides a solution for governments to supplement legally restricted revenues with transfers or other appropriations in order to achieve the purpose of the original specific revenue for which the fund was created. These supplemental funds would not be limited to matching requirements. This approach may expand the current definitions and provide more flexibility in the standards

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and recognize uses and current practices that have evolved. However, this flexibility is important, and a particular revenue is still a prerequisite for reporting a special revenue fund in external financial statements.

Question 2

Those who believe that Option C is the best solution to Question 1 will likely believe that Option 2 is the best solution. This approach would permit governments to supplement legally restricted revenues included in special revenue funds with other funding needed to meet the purpose of the fund. It should also be recognized that the purpose for which special revenues are received and reported may require multi-year periods of time before the funds are spent to accomplish the purpose of the fund, thus requiring fund balances to carryover from one period to another.

Question 3

We believe that the approach to defining legally limited set forth in paragraph 16 is appropriate.

Question 4

We agree that specified purposes should mean a use that is narrower than the basic activity of the government, and we agree that special revenue funds should not be used for rainy day reserves.

Question 5

Rainy day reserves should not qualify to be reported as a special revenue fund but rather as unreserved/designated fund balance in the General Fund. This is a basic reason for the general fund balance to exist – to provide resources to meet unanticipated needs. If a government has formally designated a specific portion of its fund balance as a rainy day reserve, then this could be either disclosed on the balance sheet or in a footnote.

Question 6

We do not believe that debt service funds and capital projects funds can be lumped together as the ITC has done. We believe that debt service funds should in fact only contain resources required to meet debt service obligations and, therefore, Alternative A is appropriate for them.

Capital projects funds are quite different. Governments prudently plan for their capital needs over multi-year periods and sometimes accumulate resources over those periods to meet their needs. This is basic and responsible financial management. Road and bridge projects, large construction projects, and similar projects require large amounts of funds that governments often must appropriate and accumulate over a period of years. Therefore, Alternative B would permit governments to accumulate these resources in capital project funds and still provide some flexibility for the resources should circumstances change.

Question 7

We have no further recommendations but refer you to the options discussed in Question 6 above.

Question 8

We agree that the term “legally segregated” can be confusing and that the concept of legal limitation is appropriate. When local restrictions are applied to resources, they should be identified as such and the possibility of future actions to change the restrictions should be disclosed.

Question 9

We note that in this issue, GASB is again pursuing the issue of comparability. An encumbrance should be reported as a reservation of fund balance if the government intends to honor it in the subsequent year, regardless of whether or not the appropriation lapsed and will be reissued. By the time the government issues its financial statements, it will know if it will re-issue or take what other steps are required to honor the commitment. Nothing would be served by separating these items from regular encumbrances and treating them as designated fund balances, and additional confusion to users could result.

Question 10

We believe that the current standards governing designations of fund balance are correct. Designations should reflect formal plans or actions taken by the government. The fact that GASB found many governments do not report designated balances we believe reflects the fact that many governments do not take the steps required to comply with the formal nature of designations. While they may have tentative plans for resources, or management may have plans that have not been formally adopted by elected officials, those are subject to change. We do not believe that designations should be prohibited, nor do we believe that additional regulations are required in this area.

Question 11

In most government environments, commitment of significant resources can only be made by the governing body, normally elected officials. Therefore, formal intent to use resources and to formally designate them as such should be determined by an action of the governing body. This could take a number of forms, such as specific resolutions, provisions in the annual approved budget document, or other means. We believe that only these actions by a governing body should qualify for treatment as a designation of fund balance.

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Question 12

We believe that model A best meets the needs of financial statement users. The other examples are too lengthy and possibly confusing. However, expanding the definitions of reserved, unreserved/designated, and unreserved/undesignated would be a positive development. Reserved would represent fund balance that is not appropriable for expenditures or is legally limited to a future use that is more specific than the purpose for which the fund as a whole was established. Unreserved/designated would represent internal restrictions or contributor requests. Unreserved/undesignated would be resources available to spend on any purpose applicable to the fund.

We generally agree that the details of items in each category should be presented in the footnotes rather than on the face of the financial statements.

Question 13

Model A is consistent with current standards and preserves the importance of individual fund information.

Question 14

We have no other comments on issues relating to fund balances.

The FGFOA commends the GASB and its staff for the invitation to comment and appreciates this opportunity to submit our views on the ITC. If you have any questions regarding our positions or need any further clarification, please contact me at (321) 674-5886 or email me at aelliott@melbourneflorida.org.

Sincerely,



Amy W. Elliott, CPA, CGFO, CPFO
President,
Florida Government Finance Officers Association

c: FGFOA Board Members
John Pryor, Chair, Technical Resources Committee
Jeannie Garner, Executive Director, Florida Government Finance Officers Association