

Volume 8, Issue I

News & Views About the Ohio Municipal Finance Industry

This newsletter is available on our website: www.ohiomac.com

# GASB 54: How Will It Change Fund Balance Reporting?

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Governmental Accounting Standards Board (GASB) Statement No. 54 (GASB 54) is a new rule intended to make fund accounting in general, and fund balance reporting in specific, more consistent and transparent by assigning strict rules for the classification of governmental fund balances based on "specific purposes for which amounts in those funds can be spent." The new classifications, in order of most to least restrictive, are:

- Non-spendable--balances that cannot be spent because they are either illiquid or legally or contractually required to be maintained intact;
- Restricted--constraints placed on these resources that were either externally imposed or mandated by law;
- Committed--funds that can only be used for certain purposes as per a formal action by that government's highest level of decision-making authority;
- Assigned--funds that are constrained by the government's intent of use for a certain purpose, but are neither restricted nor committed; and
- Unassigned--the residual classification for the general fund.

Standard & Poor's Ratings Services supports efforts to improve transparency and disclosure. We note, however, that the financial condition of a rated issuer has always been, and remains, one of the key factors in our rating analysis regardless of the type of financial reporting.

## **Frequently Asked Questions**

# How will this new rule affect Standard & Poor's view of the creditworthiness of rated U.S. public finance issuers?

We will soon be updating the language in our credit analyses, and our opinion of the relative strengths of the respective issuer's reserve levels, to incorporate these new classifications. Over time, we will have sufficient data to also update various statistical summary credit comments to include GASB 54. However, at this time, we do not believe the recharacterization of fund balance labels will, by themselves, materially affect credit. There still remain some parts of the country that do not even use GASB-format financial statement reporting, such as those who use cash-based accounting.

### What is the effective date for GASB 54?

Aside from those issuers choosing to implement GASB 54 early, most issuers will begin compliance starting with their fiscal 2011 financial reporting. Besides the early implementers, issuers may also choose to retroactively update the unaudited statistical section of their comprehensive audited financial report simply for illustrative purposes, but that is purely at their discretion.

How will GASB 54 affect financial reporting for issuers that Standard & Poor's rates? In general, GASB has represented that Statement 54 is intended to provide a better picture of how liquid and available the reporting entity's reserves are. Some reserves may simply reflect a non-liquid asset like materials and supplies; a large receivable (such as property taxes) that is not currently available; or a fiduciary responsibility that the reporting government provides, in which case the reserves are never available. Not every one of the five labels may always be applicable or used in a given financial report for a given reporting period.

# What can be learned from the three categories that represent some kind of spending constraint on that fund balance?

Among restricted, committed, and assigned fund balance, the "assigned" category is most likely to be correlated with liquid reserves that may be lawfully available for any purpose and might be included in what we would calculate as available fund balance. This is because the governing body viewed the reserves as assigned because it has some intended use for those reserves; however, the intent can be changed or withdrawn either by the governing body or even by its lawful delegates, such as top administrative officials. Restricted fund balance is restricted because some kind of externally, legally enforceable claim on the reporting entity's assets is present, such as from a creditor or regulator. Committed fund balance has constraints that the reporting entity has itself placed on its reserves, but only the governing body can remove. We would incorporate into our analysis whether the governing body could legally or even politically choose to remove such constraints before

#### MARKET UPDATE GENERAL OBLIGATION Note and Bond Interest Rates for January thru April 6,000 **GENERAL OBLIGATION** 5.500 5.000 4.500 Note and Bond Interest Rates 4,000 월 3.500 for January thru April 3.000 2.500 2.000 The following graph compares Ohio 1.500 short-term note rates with the Bond 1.000 Buyer's 20 year bond index. The short-0.500 Mai term rates represent actual rates reported 2011 2011 2011 2011 Week to OMAC by Ohio purchasers and reported on OMAC's weekly calendar.

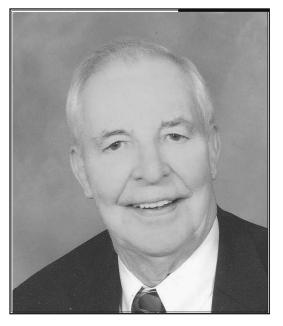
determining whether or not such funds are also included as available. GASB, however, has indicated a true rainy day fund might be classified as any of these, or even as unassigned, depending on the level of oversight and approval of use required by the governing body. GASB expects issuers to display further disclosure on rainy day funds in the notes to the financial statements.

### What is the unassigned fund balance?

The unassigned fund balance is simply a calculation: as the excess of total fund balance less the other four categories. It will be a positive balance in the general fund, but could be negative in any other governmental fund. We continue to consider in our analysis whether revenues and reserves in other funds are material to the credit rating. For example, sometimes revenues in other funds may support general governmental operations or even debt service, and reserves in those funds may be available for emergencies or contingencies or even for future general appropriations.

Doesn't GASB 54 therefore imply that having larger percentages or amounts of unrestricted cash or highly liquid cash equivalents with no identifiable constraints, and the reserves clearly available for any lawful purpose, would be a credit strength? We recognize that any audited financial statements represent a snapshot in time. Key revenue streams for a particular issuer can vary from state to state, by governmental entity or issuer type, and even by time of year. For this reason, our analysis typically includes an evaluation of cash flows and requirements, to determine if there are particular periods of stress, and if so, to what degree (if any) we believe they are a credit concern. Most issuers have significant working capital requirements throughout their fiscal year, while some do not. Some may experience little or no distress during times of peak liquidity needs, while for others the distress may be significant. Additionally, we do not require that a rated issuer attain certain financial or other metrics simply to attain a particular rating level.

## Duane N. Scott Former Director (1967-1992) of OMAC Passes



Duane N. Scott, 81, passed away March 2, 2011. Mr. Scott was raised in Cuyahoga Falls and resided in Silver Lake for the last 23 years. He was a 1947 graduate of Cuyahoga Falls High School where he was very active in athletics. He received the Cuyahoga Falls High School Distinguished Alumni Award in 1999. Duane earned his BA from Kent State University in Finance, after serving in the Korean War with the U. S. Army. He served as Finance Director for the City of Cuyahoga Falls as well as councilman for the cities of Cuyahoga Falls and Silver Lake. Duane retired as Director of the Ohio Municipal Advisory Council in 1992. Other memberships include St. John's Episcopal Church, the Cuyahoga Falls Lions Club where he was past President and Life Member as well as recipient of the Melvin Jones Award. A charter member of the Scott Family Cowboy Club. He is survived by his wife of 56 years Lucille and children; Teresa, Sandra, and Christopher.



# CALENDAR

## Calendar of Issuer Conferences & Outings for 2011

NAME CAAO	<b>EVENT</b> Summer Conference Winter Conference	<b>DATE</b> June 6 - 9 Nov. 28 – Dec 1	<b>LOCATION</b> Cleveland Renaissance Hotel – Cleveland, Ohio The Columbus – A Renaissance Hotel - Columbus, Ohio
CTAO	Spring Meeting Fall Meeting	May 10 - 12 November 15 - 17	Kalahari Resort – Sandusky, Ohio Columbus Marriott NW at Tuttle Crossing – Dublin, Ohio
GFOA	National Conference Annual Golf Outing Annual Fall Conference	May 22 – 25 July 14 September 21 -23	Gonzalez Convention Center – San Antonio, Texas Sawmill Creek Golf Course – Huron, Ohio Cleveland Renaissance Hotel - Cleveland, Ohio
MFOA (OML)	Annual Conference Northeast Ohio Golf Outing North-Central Ohio Golf Outing	Sept. 28 - 30 TBD September 7 (T)	The Columbus – A Renaissance Hotel - Columbus, Ohio TBD Woussickett Golf Course – Sandusky, Ohio
NACO	National Conference	July 15 - 19	Oregon Convention Ctr, Multnomah County - Portland, Oregon
OAPT	Annual Conference National Conference	October 5 –7 July 24 - 27	Put-in-Bay Conference Center - Put-in-Bay, Ohio Renaissance Hotel-Cox Conference Ctr – Oklahoma City, OK
OASBO	Annual Workshop	April 12 - 15	Hyatt Regency Hotel - Columbus Convention Center
OMCA	Spring Conference	April 19 - 21	Kings Island Resort & Conference Ctr Mason, Ohio
OPFOTP	Ohio Public Finance Officers Training Program CMFA Maintenance Program	June 13 - 17 June 16 - 17	Kalahari Resort - Sandusky, Ohio Kalahari Resort - Sandusky, Ohio
OSBA	Capital Conference	November 11 – 14	Columbus Convention Center - Columbus, Ohio

(T) – means date is tentative.

 $CAAO-County\,Auditor \hbox{`s}\,Association\,\,of\,Ohio-(614)\,228\text{-}2226$ 

CTAO – County Treasures Association of Ohio – (614) 233-6818

GFOA – Government Finance Officers Association – (614) 221-1900 MFOA – Municipal Finance Officers Association of Ohio – (614) 221-4349

NACO – National Association of Counties – (614) 221-5627

OAPT – Ohio Association of Public Treasurers – (216) 443-7814 OASBO – Ohio Association of School Business Officials – (614) 431-9116 OMCA – Ohio Municipal Clerks Association – (614) 221-4349 OPFOTP – Ohio Public Finance Officers Training Program – (330) 972-7618 OSBA – Ohio School Boards Association – (614) 540-4000

If you would like your event highlighted, contact Chris Scott at I-800-969-6622, or by email at Chris@ohiomac.com