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1983 • 2008 • ANNIVERSARY

July 8, 2008

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Project No. 20-1
Governmental Accounting Standards Board
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Via email to drbean@gasb.org

RE: Exposure Draft - Fund Balance Reporting and Governmental Fund Type Definitions

Dear David:

The National Federation of Municipal Analysts (NFMA) welcomes this opportunity to comment on the *Exposure Draft – Fund Balance Reporting and Governmental Fund Type Definitions*.

The NFMA is an organization composed primarily of research analysts who evaluate credit and other associated risks of securities in the municipal bond market. Established in 1983, the NFMA has more than one thousand members who represent, among others, broker dealers, mutual funds, rating agencies and insurance companies.

NFMA recognizes the tension between the issues of “display” vs. “disclosure” and the delicate balance between the two. It is noted that certain display items represent an extension of disclosure requirements. The development of new categories and classifications of fund balances mandates clear and definitive disclosures. Any ambiguities in display should be addressed in the notes. The proposed new hierarchy requires clear disclosure of definitions and emphasis behind spendable and non-spendable categories which, represents a departure from previous reporting classifications. We see opportunity for better disclosure in the MD&A as well as the footnotes to the financials of articulated reserve and other policies, whether formal or informal, and the expected outcome would be a higher level of accountability. We concur that this is an opportunity for understanding the new definitions and application of new standard.

Fund Balance Disclosures, Paragraphs 1-18

NFMA concurs with the definitions of spendable and non-spendable, restricted and limited. With regards to the definition of “limited” NFMA agrees that tapping into this component of the reserves would require board action or other formal process to access these resources.

Assigned Fund Balance, paragraphs 12 and 13

With respect to this definition, however, NFMA feels the assigned category definition needs further development and clarity, particularly in establishing clearer boundaries between assigned and unassigned in the general fund. For instance, we noted that in some instances, governments might place a rainy day fund within the general fund. Arguably, this could fall into the assigned category rather than limited category if it does not require formal board action to access it, though this usage does not smoothly fit into the definition of “assigned,” which is, “intended to be used for a specific purpose.” Unlike a capital project which, one would expect, would eventually be completed, if all goes well, a government hopefully would never have to dip into a rainy day fund, but this example illustrates to some extent the argument of intent versus purpose.

Another example of earmarking reserves as “assigned” in the general fund could be a City Council deciding to set aside monies for construction of a playground – this assumes the process does not rise to a higher level of “limited”. They would report the monies as “assigned” regardless of whether it stays in the GF or is transferred to a capital projects fund.

Stabilization (Rainy Day) Amounts, paragraphs 16 and 17

Overall, we concur with the definitions and requirements established in this section. It bears noting that the amounts set aside in rainy day funds are often driven by formula, as well as by statute, ordinance, resolution, charter, or constitution. Regarding the “routine” use of stabilization funds or the need to use those funds, we feel that is a relative value. What is more important is accountability: management provides details on the statute, ordinance, enabling legislative or constitutional act; defining the criteria one needs to meet before these funds are drawn upon; and the requirements for its funding and replenishment; rather than focusing on the frequency of use of the fund.

Regarding the sentence: “Stabilization arrangements that do not meet the criteria to be reported within the restricted or limited fund balance classifications should be reported as unassigned in the general fund.” Intuitively, a stabilization fund should be used to augment general fund revenues, and be used to provide for general government expenditures, during an economic downturn. We would argue that if the stabilization arrangements do not meet the test of being restricted or limited, they might be reported as “assigned.”

Disclosure of Information about Encumbrances, paragraph 20

Assuming new classifications are “driven by purpose” and not budgetary limitations, we concur that all encumbrances would be fully disclosed in the notes in conjunction with disclosure of other significant commitments. It is often that encumbrances take on a different level of importance in enterprise funds than in the GF of a municipality. Aggregate display would most likely be best where encumbrances are small and numerous but disaggregation would be warranted under circumstances permitting. The standard should encourage comprehensive and detailed reporting where feasible.

Details of Fund Balance Categories and Classifications Displayed in the Aggregate, paragraph 21

Spendable and non-spendable classifications will be placed on the face of the balance sheet in aggregate form. Specific purpose information will be disclosed in the notes. NFMA concurs with reporting and disclosure requirements but would like to see emphasis placed on detailed disclosure where feasible.

Governmental Fund Type Definitions, paragraphs 24-30

General Fund, paragraph 25. We agree with this standard definition but would expand it further, adding the following. "These financial resources should relate to the general operation and administration of the entity." Though some governments do report major capital project expenditures in the general fund, preferably, they would follow the preferred format of displaying a separate capital project fund. Any unassigned dollars from other funds should go to General Fund.

Special Revenue Funds, paragraph 28

NFMA supports the argument of greater disclosure regarding this fund, with greater clarity about the specific revenue source or activity. Whether the approach is revenue-focused or activity-focused, greater disclosure should meet the needs of any reader, whether a credit market participant or not. It is expected that if for some reason there were monies that could be classified as unassigned, that those resources could be transferred into the GF.

Exhibit 1 Comments

Example 1: If the Highway Fund contains unspent bond proceeds that may only be used to retire bonds they should be "Restricted." If the Capital Project Fund contains unspent bond proceeds that may only be used to retire bonds they should be "Restricted."

Example 2: If the Highway Fund contains grant monies that can only be spent on roads these should be "Limited."

Example 3: If general monies were transferred to the Highway Fund for a project. The monies can be classed as "Assigned." Unspent monies could be transferred back to General Fund. General monies transferred to the Capital Projects Fund for a swimming pool can be classed as "Assigned."

NFMA would like to thank you for the opportunity to comment on the Exposure Draft, and appreciates the efforts GASB is taking to improve disclosure by municipal and related entities. We welcome the opportunity to discuss these comments at greater length.

Sincerely,

/s/Rob Yolland

Rob Yolland
NFMA Chairman