

# Alert: A State & Local Government Hot Topic



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## What the Governing Body & Management Should Know About GASB No. 54

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### The Impact of GASB No. 54

The Governmental Accounting Standards Board (GASB) has recently issued Statement No. 54. This Statement clarifies the definitions of governmental fund types which may result in some of your funds, in particular-special revenue funds, becoming part of your general fund for external financial reporting unless your government takes specific action. These changes will affect your financial statements for the year ended December 31, 2011.

Why are we communicating this to you? GASB 54 could have a significant financial impact for your government if action is not taken, as it could result in the loss of state aid for your municipality.

### The Wisconsin Department of Revenue

The Wisconsin Department of Revenue distributes close to \$60M from its expenditure restraint program (ERP) each year. It is likely that you received these funds in the past and have budgeted for them in 2010. The unrestricted aid is paid to qualifying municipalities that limit growth in spending. If you have to reclassify activity of your special revenue funds into the general fund as a result of GASB 54, you may exceed the allowable increase, thereby disqualifying your government from receiving the ERP payment.

Our recent discussions with the Wisconsin Department of Revenue confirm that they do not have the authority under Wisconsin Statutes to change how a municipality qualifies for the ERP. You must follow generally accepted accounting principles, as set by the GASB. Therefore, you should plan accordingly now, so that future ERP payments will not be disrupted.

### What Local Governments & Management Can Do Today

You should consider taking the appropriate actions during 2010, prior to approval of your 2011 budget. A good place to start would be to analyze all of your special revenue funds to determine if they fit the new definition. The new definition has three basic features. The first is that the funds must be either restricted or committed. Restricted means constraints are placed on the revenue by external factors (creditors, grantors, contributors, or laws/regulations of other governments, or local ordinance). Committed means the revenue can only be used for specified purposes, and this constraint must be set by the governing body (council, board) by approving a resolution or a motion. It could also be done by formally adopting a budget policy, financial policy, or separate policy committing these funds. Including these funds as an item in the government's budget does not automatically qualify as a commitment according to GASB 54. If the funds are not restricted or committed, they may have to become part of the general fund.

GASB 54 also requires that a specific revenue source make up a substantial portion of the resources of the special revenue fund. Transfers in from another fund are allowed, but may not be part of the specific revenue sources. Lastly, the restriction or commitment discussed above must be for expenditures of a specific program. Items such as "contingencies" or "emergencies" would not qualify.

**GASB No. 54 could have financial impact on your local government if action is not taken.**

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To continue reporting activities in a special revenue fund, and not the general fund, all three of these criteria must meet the GASB 54 requirements.

Our intent is to proactively communicate the impact GASB 54 could have on your municipality and future state aid payments. We are very aware that every government has unique financial reporting issues and needs, and based on our knowledge of your government, we can help you prepare for these changes.

We welcome the opportunity to meet with you to discuss how we can help you meet your 2011 budget goals. For more information or any questions you might have on this topic, please contact John Rader by e-mail at [john.rader@bakertilly.com](mailto:john.rader@bakertilly.com) or phone at 608 240 2431 or 800 362 7301.