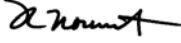





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**MEMORANDUM**

**TO:** David Conner, Executive Director, Tennessee County Commissioners Association

**FROM:** Richard Norment, Assistant to the Comptroller   
Jim Arnette, Director, Division of County Audit 

**SUBJECT:** Impact of GASB Statement No. 54 on County Governments

**DATE:** November 25, 2009

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for fiscal year July 1, 2010 to June 30, 2011. That means the effect of Statement No. 54 should be considered for county budgets that will be prepared in the spring of 2010. This leaves a very short window of opportunity for county governments to prepare for implementation. GASB Statement No. 54 will affect **all** county governments in the State of Tennessee regardless of size or complexity.

County Commissioners are described in accounting literature as “those charged with governance”. “Those charged with governance” is further defined as “the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity”. County Commissioners who take their oversight responsibilities seriously will need to lead their governments through the implementation of GASB Statement No. 54. At a minimum, County Commissioners should require that financial managers (County Mayors, Finance Directors, Highway Superintendents, Directors of Schools, etc.) receive training related to Statement No. 54 and that these managers report to the county commission about the status of the implementation process.

## MEMORANDUM

Page 2

GASB Statement No. 54 will have a significant effect on the operations of county governments in the following ways:

- A. The definitions and titles of **all** fund balance classifications currently in use are changed. Use of the words “reserves”, “designations”, and “undesignated fund balance” will no longer be acceptable. These old and familiar terms will be replaced by the terms Nonspendable, Restricted, Committed, Assigned, and Unassigned. Each of these new classification terms has a specific definition. The Uniform Chart of Accounts will need to be changed to accommodate these changes. This in turn will affect the monthly and annual closing process.
- B. The definitions of special revenue funds and debt service funds have changed. This means that in some counties, a limited number of special revenue funds may need to be closed and combined with the General Fund. Direct purchases of capital assets from a Debt Service Fund will not be permitted.
- C. In most cases, Rainy-Day Funds will need to be closed into the General Fund.
- D. Encumbrances will no longer be presented as a reservation of Fund Balance.
- E. The county’s policies for classifying revenues as restricted, committed, or assigned will need to be developed and disclosed in the notes to the financial statements.
- F. When auditors find it necessary to propose significant audit adjustments to correct fund balances not been properly classified under Statement No. 54, auditing standards require that we publish the misstatement as a material weakness in internal control.

The intent of GASB Statement No. 54 was to enhance the usefulness of fund balance information by requiring all local governments to utilize the same classifications and definitions for reporting purposes. An important secondary effect will be to limit the number of special revenue funds that counties establish and to encourage the use of the General Fund to account for routine government operations.

As always, the Division of County Audit stands ready to assist county governments and their auditors. Feel free to contact us if you need assistance in understanding GASB Statement No. 54 requirements or in implementing those requirements. County governments should also consider the County Technical Assistance Service (CTAS) a resource for understanding and implementing Statement No. 54.