



New Rules for Special Revenue Funds

By Stephen J. Gauthier

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The special revenue fund type is the most commonly used of all the governmental fund types. Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, will require many governments to reevaluate how they use special revenue funds.

BACKGROUND

National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*, allowed the special revenue governmental fund type to be used “to account for the proceeds of specific revenue sources ... that are legally restricted to expenditure for specified purposes” (paragraph 3). This definition raised three important issues in practice:

- The definition refers to the “proceeds of specific revenue sources” — what constitutes a *revenue source*?
- The definition refers to revenue sources “that are legally restricted” — what constitutes a *legal restriction*?
- The definition refers to expenditures “for specified purposes” — what constitutes a *specified purpose*?

GASB Statement No. 54 has authoritatively resolved each of these issues, sometimes in a way that may require governments to reclassify activities currently reported in special revenue funds in some other fund type.

REVENUE SOURCE

Governments frequently dedicate (*earmark*) existing resources (e.g., surplus fund balance) for a specific purpose. In practice, governments have often established special revenue funds to track the spending of such earmarked resources. GASB Statement No. 54 will put an end to this practice. The new standard clarifies that the term *proceeds of specified revenue sources* is intended to apply only to “restricted or committed revenues” and not to the assignment/transfer of existing resources.

Once a special revenue fund has been established, a government is free to assign/transfer *additional* resources to that fund, provided that the fund’s basic revenue source remains a *substantial* portion of total inflows to the fund (including transfers from other funds).

LEGAL RESTRICTION

The NCGA definition of a special revenue fund refers to resources “that are *legally restricted* to expenditure for specified purposes” (emphasis added). GASB Statement No. 54 uses the term *restricted* to describe *externally* enforceable legal limitations. It was not the GASB’s intent, however, to limit the use of special revenue funds to just *restricted* revenue sources. The GASB also believed the use of the special revenue fund type was appropriate for revenue

sources subject to *self-imposed* legal limitations that qualified as *commitments*. Accordingly, GASB Statement No. 54 expanded the definition of a special revenue fund to refer to “the proceeds of specific revenue sources that are restricted *or committed* to expenditure for specified purposes...” (emphasis added).

SPECIFIED PURPOSE

Governments sometimes use specific revenue sources to fund *stabilization arrangements*. Strictly speaking, a stabilization arrangement limits the *circumstances* in which resources can be used, rather than the *object of expenditure*. GASB Statement No. 54 clarifies that a limitation on the circumstances in which resources can be expended qualifies as a *specified purpose*, provided that those circumstances are *both specific and non-routine*. Thus, a government may use a special revenue fund to account for a stabilization arrangement funded by a restricted or committed revenue source. It also remains free to *assign* existing resources to such a fund, provided the restricted or committed revenue source at its base remains a *substantial* portion of total fund inflows.

TIMING

Governments are first required to implement GASB Statement No. 54 for the fiscal year ending June 30, 2011. Early implementation is encouraged. ■

STEPHEN J. GAUTHIER is director of the GFOA's Technical Services Center in Chicago, Illinois.



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