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MEMORANDUM

DATE: January 24, 2022
TO: All Counties, Cities, and School Corporations Reporting on the GAAP Basis
FROM: Tammy White, CPA, Deputy State Examiner
SUBJECT: Rainy Day Fund and Other Funds Established by Ordinance or Resolution

The proper classification of funds and transactions is a key part of presenting financial information in accordance with accounting principles generally accepted in the United States of America (GAAP). Governments reporting on the GAAP basis must consider the proper fund types for the funds both established by law and those established locally by ordinance or resolution. We have provided some guidance in the Uniform Chart of Accounts based on statutory provisions. However, we caution you that funds established by ordinance or resolution of the local government require additional analysis to make final determination of the proper reporting. One such fund, that we ask you to review, is the Rainy Day Fund.

Rainy day funds are authorized by IC 36-1-8-5.1 and, by statute, their funding sources are:

(A) Unused and unencumbered funds under:

- (i) section 5 of this chapter; or
- (ii) IC 6-3.6-9-15.

(B) Any other funding source:

- (i) specified in the ordinance or resolution adopted under this section; and
- (ii) not otherwise prohibited by law.

GASB Cod. § 1300.104 through § 1300.108 provide the following descriptions of the governmental fund types for consideration in classifying governmental funds established by ordinance or resolution.

GASB Cod. § 1300

.104 The *general fund* should be used to account for and report all financial resources not accounted for and reported in another fund. [GASBS 54, ¶29]

.105 *Special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. A stabilization arrangement (as discussed in paragraphs .180 and .181 of Section 1800) would satisfy the criteria to be reported as a separate special revenue fund only if the resources derive from a specific restricted or committed *revenue* source. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources. Resources restricted to expenditure for purposes normally financed from the general fund may be accounted for through the general fund provided that applicable legal requirements can be appropriately satisfied; and use of special revenue funds is not required unless they are legally mandated. The general fund of a blended component unit should be reported as a special revenue fund. Special revenue funds should not be used to account for resources held as a fiduciary activity. Governments should disclose in the notes to the financial statements the purpose for each major special revenue fund—identifying which revenues and other resources are reported in each of those funds. [NCGAS 1, ¶30; GASBS 14, ¶54; GASBS 54, ¶21, ¶31, and ¶32; GASBS 54, ¶30, as amended by GASBS 84, ¶14]

.106 Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held as a fiduciary activity. Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund. [NCGAS 1, ¶10; GASBS 54, ¶33, as amended by GASBS 84, ¶14]

.107 Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds. The debt service transactions of a special assessment issue for which the government is not obligated in any manner should be reported in a custodial fund (see paragraph .115) rather than a debt service fund. [GASBS 6, ¶19, as amended by GASBS 84, ¶18; GASBS 54, ¶34]

.108 Permanent funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds (defined in paragraph .114). [GASBS 34, ¶65; GASBS 54, ¶35, as amended by GASBS 84, ¶17]

A Rainy Day Fund should be reported in general purpose external financial reports as a special revenue fund if it has one or more specific revenue sources that comprise a substantial portion of the inflows reported in the fund. These specific revenue sources cannot be transfers from other funds as they have already been recognized as revenue in those other funds: transfers are not revenue. (GASB Cod § 1300.105 and 704.11)

A Rainy Day Fund without one or more specific revenue sources should be evaluated to determine if it should be combined with the general fund or another fund with a similar purpose. For example, if the Rainy Day Fund is restricted to expenditures for capital projects, it could be combined with a pre-existing capital projects fund or be a separate capital projects fund. If its purpose is general in nature, it should be combined with the General Fund. (GASB Cod § 1300.704.17 and 704.19)

We ask that you review the ordinances and resolutions establishing funds within your current chart of accounts starting with the Rainy Day Fund, if one exists. Work with your compiler to determine the proper fund classification in accordance with GASB pronouncements. After the Rainy Day Fund classification is determined, please work with the local funds having the largest fund balances and transactions first moving toward those with the smaller balances and transactions to determine whether the current fund type is supported by GASB definitions or if a change is warranted.

Additional Information for Schools

When determining the proper fund type for reporting in GAAP financial statements, be aware that you may not have a fund that meets the definition of general fund in accordance with GASBS 54, ¶29. Both the Education and Operations Funds may properly be classified as special revenue fund type. If the ordinance establishing the Rainy Day Fund provides for expenditures that are general in nature you will need to use your judgment to determine the proper fund for combining the Rainy Day Fund with another fund and support that determination with GASB guidance and the establishing ordinance or resolution.

Additional Applicable Authoritative Literature

GASB Cod. § 1300

.105 *Special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. ² Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. A stabilization arrangement (as discussed in paragraphs .180 and .181 of Section 1800) would satisfy the criteria to be reported as a separate special revenue fund only if the resources derive from a specific restricted or committed *revenue* source. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no

longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources. Resources restricted to expenditure for purposes normally financed from the general fund may be accounted for through the general fund provided that applicable legal requirements can be appropriately satisfied; and use of special revenue funds is not required unless they are legally mandated. The general fund of a blended component unit should be reported as a special revenue fund. Special revenue funds should not be used to account for resources held as a fiduciary activity. Governments should disclose in the notes to the financial statements the purpose for each major special revenue fund—identifying which revenues and other resources are reported in each of those funds. [NCGAS 1, ¶30; GASBS 14, ¶54; GASBS 54, ¶21, ¶31, and ¶32; GASBS 54, ¶30, as amended by GASBS 84, ¶14]

.704-11 Q—If a governing body passes a resolution (the highest level of decision-making authority, in this case) to annually transfer amounts from the general fund to a separate fund to be used for a specified purpose, do those amounts qualify as committed revenues so that the separate fund can be reported as a special revenue fund?

A—No. Transfers are not revenues. The transferred-in resources in this example do not provide the foundation of restricted or committed revenues required for a special revenue fund. The separate fund can, however, be reported as a special revenue fund if there are also substantial restricted or committed revenues recognized in that fund.

704-17 Q—The city council passed a resolution (the highest form of decision-making authority, in this case) to accumulate resources over a five-year period to finance statutorily required property revaluations. Each year the council includes an amount to be transferred into a special fund created for that specific purpose. How should the separate fund be reported?

A—The fund does not meet the criteria to be reported as a separate special revenue fund because the transferred amounts do not represent restricted or committed revenues. In addition, property revaluation does not meet the purpose criteria for reporting as a capital projects fund. Consequently, for financial statement reporting purposes, the activities of the separate fund would either be presented with the general fund or included within a qualifying special revenue fund with a similar purpose.

.704-19 Q—A state law allows local school districts to establish a "Capital Reserve Fund" into which amounts of unused appropriations (for other purposes) at year-end and unassigned amounts in the general fund may be transferred. The resources in the fund can only be used for capital improvements, the replacement of and additions to public works, and the acquisition of major equipment items. Can this separate fund be reported as a special revenue fund? Can it be reported as a capital projects fund?

A—The separate fund does not meet the criteria to be reported as a special revenue fund because the transfers do not represent restricted or committed revenues and the resources are restricted by the state law for capital projects. A separate capital projects fund may be reported, but it is not required.