



ACCOUNTING

A Minor Change to Major Funds

BY MICHELE MARK LEVINE

If you are a regular reader of the accounting columns in *GFR*, you know that we have on several occasions addressed common reporting deficiencies we see in annual comprehensive financial reports (ACFRs) submitted to GFOA's Certificate of Achievement for Excellence in Financial Reporting (COA) Award Program. We've even had several articles devoted exclusively to the proper calculation of the net investment in capital assets component of net position, as that is a frequent source of errors, award denials, and disappointed applicants.¹

Another error that frequently results in denial of the COA Award is governments' failure to report all governmental and enterprise funds that meet the quantitative criteria – the so called 10 percent and 5 percent tests – as major funds.² Let's review the criteria, and also take a look at a subtle but potentially determinative change to those 10 percent and 5 percent calculations that was introduced by Governmental Accounting

Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements* (GASB 103), without much fanfare or public discussion.

Major funds

Fund accounting is used to group together a government's resources that are devoted to a specific purpose and to segregate those so devoted from other resources. Fund accounting helps us to comply with external and internal constraints on resources by giving us an accounting construct to isolate resource balances and flows of the constrained funds. Fund financial reporting, on the other hand, allows us to *demonstrate* compliance with those constraints.

If governments had to report all their funds in their basic financial statements (BFS), however, those statements would be impractically long, and it would be difficult to identify the information about the largest and most important funds. So, generally accepted accounting principles (GAAP) require that only the largest and most

important, or *major*, governmental and enterprise funds be reported individually. Any nonmajor governmental funds are combined and reported in total in governmental fund financial statements, and any nonmajor enterprise funds are combined and reported in total in proprietary fund financial statements. For governments that choose to issue ACFRs in addition to BFS, combining financial statements showing each individual nonmajor fund are also required, and users can see how they "roll-up" to the BFS nonmajor funds totals. The remaining fund types (internal service funds and all four types of fiduciary funds) are each reported in aggregate in BFS, and those totals are also supported by combining statements in ACFRs.

Governments distinguish between major and nonmajor funds using both quantitative criteria and qualitative factors, the former identifying those funds that must be reported as major and the latter applied using professional judgement to include funds that are important despite not meeting the quantitative thresholds. Let's focus on the quantitative criteria, which in theory should be fairly easy to apply, if the calculations are made correctly.

Basics of the 10 percent and 5 percent tests

Major governmental funds are the government's general fund or its equivalent, plus those other individual governmental funds with (1) total assets + total deferred outflows of resources, (2) total liabilities + total deferred inflows of resources, (3) total revenues, or (4) total expenditures, that are greater than or equal to both:

- 10 percent of the total of one or more of the same element (1 to 4 above, respectively) for *all* governmental funds, and
- 5 percent of the total of one or more of the same element for all governmental funds and all enterprise funds in total, using total expenses in place of total expenditures for the enterprise fund totals.

Generally accepted accounting principles (GAAP) require that only those largest and most important, or *major*, governmental and enterprise funds be reported individually.

The 10 percent and 5 percent tests must be “passed” for the same elements for the fund being tested to be a (quantitatively) major fund. As long as both tests are passed for any of the four elements, the fund is major. As a practical matter, it makes sense to calculate 10 percent of the total of all governmental funds for an element (total assets + total deferred outflows of resources) and then to calculate 5 percent of the total of all governmental funds and all enterprise funds together for the same element (again, total assets + total deferred outflows of resources). The higher of those two products can serve as a single threshold against which to compare the element totals for each individual governmental fund (other than the general fund, which is always major), since anything at or above that threshold will satisfy both tests. This process would be repeated for the other three elements.

See Exhibit 1 on the following page for an example of the application of the 10 percent and 5 percent tests to governmental funds.

Major enterprise funds are the individual enterprise funds with (1) total assets + total deferred outflows of resources, (2) total liabilities + total deferred inflows of resources, (3) total revenues or (4) total expenses, that are greater than or equal to:

- 10 percent of the total of those same elements [1-4 above] for all enterprise funds, and
- 5 percent of the total of those same elements for all governmental funds and all enterprise funds in total, using expenditures in place of expenses for governmental funds.

As you can see, this is essentially the same set of tests as for governmental funds, except that the 10 percent test is applied to enterprise fund totals. As with governmental funds, the 10 percent and 5 percent calculations using the totals can be made for each element, and the higher of the two can serve as a threshold against which to compare each individual enterprise fund.

For the purposes of these tests:

- Special and extraordinary items (or, for governments that have implemented GASB 103, *unusual or infrequent items*, which replaces both extraordinary and special items), are excluded for all fund types;
- For governmental funds, revenues *do not include* other financing sources and expenditures *do not include* other financing uses; and
- For enterprise funds, *both operating and nonoperating* revenues and expenses are included.

This means that several different amounts must be picked up from proprietary fund financial *statements of revenues, expenses and changes in fund net position* to calculate enterprise funds’ total revenues and total expenses to make the calculations for the 10 percent and 5 percent tests. While operating revenues and operating expenses are grouped and subtotaled on the statements, nonoperating revenues and nonoperating expenses may appear in two different sections of the statement, and are comingled. Positive amounts – noncapital subsidies received – under the “noncapital subsidies” subheading, if any, as well

as positive amounts under the “other nonoperating revenues and expenses” subheading, if any, must be totaled to arrive at total nonoperating revenues. Similarly, the negative amounts – noncapital subsidies paid – under the “noncapital subsidies” subheading, if any, and negative amounts under the “other nonoperating revenues and expenses” subheading, if any, must be totaled to arrive at total nonoperating expenses. See Exhibit 2 on page 57 for an illustration.

It is worth reiterating that the quantitative criteria take the place of (i.e., override) any professional judgement regarding the quantitative significance/materiality of a fund, meaning that if a fund meets the 10 percent and 5 percent tests just discussed, a government does not have the option to deem them immaterial and to treat them as nonmajor funds instead.

Additionally, governments need to make these calculations using the *final* fund amounts every year, meaning we must “double check” the initial 10 percent and 5 percent test results if and when any changes are made to any governmental or enterprise fund in the course of year-end closes and audits. Of course, any funds that are not determined to be major funds based on these quantitative tests can and should nonetheless be included as major funds if, based on professional judgement, management concludes that they are important to report as major funds based on qualitative characteristics, including for year-to-year consistency or because certain projects or activities are the focus of heightened public attention and interest.

EXHIBIT 1 | Application of the 10 Percent and 5 Percent Tests to Governmental Funds

	Assets + Deferred Outflows	Liabilities + Deferred Inflows	Revenues	Expenditures/ Expenses
General fund	\$6,900	\$1,900	\$37,300	\$31,200
Governmental fund A	\$5,800	\$4,200	\$2,400	\$5,000
Governmental fund B	\$6,800	\$1,300	\$3,200	\$5,900
Governmental fund C	\$3,00	\$700	\$3,800	\$2,100
Total governmental funds	\$22,500	\$8,100	\$46,700	\$44,200
Enterprise fund	\$162,300	\$72,100	\$16,200	\$3,800
Total governmental + enterprise funds	\$184,800	\$80,200	\$62,900	\$48,000

Assets + Deferred Outflows	Liabilities + Deferred Outflows	Revenues	Expenditures/Expenses
Governmental funds: $\$22,500 \times 10\% = \$2,250$	Governmental funds: $\$8,100 \times 10\% = \810	Governmental funds: $\$46,700 \times 10\% = \$4,670$	Governmental funds: $\$44,200 \times 10\% = \$4,420$
Governmental funds + enterprise funds: $\$184,800 \times 5\% = \$9,240$	Governmental funds + enterprise funds: $\$80,200 \times 5\% = \$4,010$	Governmental funds + enterprise funds: $\$62,900 \times 5\% = \$3,145$	Governmental funds + enterprise funds: $\$48,000 \times 5\% = \$2,400$
Threshold: $\$9,240 > \$2,250 =$ Threshold to be used is \$9,240	Threshold: $\$4,010 > \$810 =$ Threshold to be used is \$4,010	Threshold: $\$4,670 > \$3,145 =$ Threshold to be used is \$4,670	Threshold: $\$4,420 > \$2,400 =$ Threshold to be used is \$4,420

Application of the Threshold	Fund Total	Threshold	>Threshold?	Must be a major fund?
Fund A				
Assets + deferred outflow of resources	\$5,800	\$9,240	No	Yes
Liabilities + deferred inflows of resources	\$4,200	\$4,010	Yes	
Revenues	\$2,400	\$4,670	No	
Expenditures	\$5,000	\$4,420	Yes	
Fund B				
Assets + deferred outflow of resources	\$6,800	\$9,240	No	Yes
Liabilities + deferred inflows of resources	\$1,300	\$4,010	No	
Revenues	\$3,200	\$4,670	No	
Expenditures	\$5,900	\$4,420	Yes	
Fund C				
Assets + deferred outflow of resources	\$3,000	\$9,240	No	No
Liabilities + deferred inflows of resources	\$700	\$4,010	No	
Revenues	\$3,800	\$4,670	No	
Expenditures	\$2,100	\$4,420	No	

It is worth reiterating that the quantitative criteria take the place of (i.e., override) any professional judgement regarding the quantitative significance/materiality of a fund.

Finally, keep in mind that in accordance with GASB Statement No. 100, *Accounting Changes and Error Corrections*, a change between reporting a fund as major or nonmajor [i.e., fund A was major in the prior year but is nonmajor in the current year, or fund B was nonmajor in the prior year but is major in the current year] is considered an *accounting change*, specifically a *change within the reporting entity*. While changes within the reporting entity that result exclusively from the application of the 10 percent and 5 percent tests require less disclosure, the display and at least some of the disclosure requirements of that statement do apply to all such reclassifications. Changes from major to nonmajor funds will result in the need for so-called “ghost-columns” in the BFS, and changes from nonmajor to major will require “ghost columns” in combining statements for governments issuing ACFRs.³

Treatment of internal balances and internal activity in 10 percent and 5 percent tests, and what GASB 103 is changing

Regarding the treatment of internal activity and balances in the determination of major funds, governments should adopt, and consistently apply, a policy regarding the treatment of interfund balances. The first option is to net interfund assets (“due” or “receivable” from another fund or other funds) and interfund liabilities (“due” or “payable” to another fund or other funds) *within each fund* before making the calculations for the 10 percent and 5 percent tests for position statement elements (assets + deferred outflows of resources, liabilities + deferred inflows of resources); the netting within each fund’s totals for the elements and will also flow through to the totals of all funds used in those tests.

The second option is to include each fund’s full interfund assets and interfund liabilities in the position statement elements’ calculation, which will again affect totals as well as individual fund amounts.⁴ Exhibit 3 on the following page provides an illustration of

EXHIBIT 2 | Calculating Enterprise Fund Revenues and Expenses for 10% and 5% Tests

NAME OF GOVERNMENT Proprietary Funds Statement of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2027				
	Business-type Activities		Total Enterprise Funds	Governmental Activities Internal Service Funds
	Water	Transit		
Operating revenues:				
Charges for services:				
Metered water sales	\$ 9,312,150	\$ -	\$ 9,312,150	\$ -
Tap fees	8,435	-	8,435	-
Passenger fares	-	762,983	762,983	-
Contract transit	-	126,353	126,353	-
Charter	-	248	248	-
Risk management	-	-	-	2,632,108
Fleet management	-	-	-	1,902,063
Miscellaneous	133,423	40,547	173,970	-
Total operating revenues	9,454,008	930,131	10,384,139	4,534,171
Operating expenses:				
Personnel services	2,665,948	-	2,665,948	615,357
Materials and supplies	3,556,232	1,050,965	4,607,197	944,229
Contractual services	781,741	4,008,669	4,790,410	1,251,500
Claims	-	-	-	1,761,680
Depreciation	886,242	827,289	1,713,531	373,469
Total operating expenses	7,890,163	5,886,923	13,777,086	4,946,235
Operating income (loss)	1,563,845	(4,956,792)	(3,392,947)	(412,064)
Noncapital subsidies				
Intergovernmental	10,967	390,474	401,441	-
Transfers in	-	3,728,209	3,728,209	-
Total noncapital subsidies	10,967	4,118,683	4,129,650	-
Operating income (loss) and noncapital subsidies	1,574,812	(838,109)	736,703	(412,064)
Other nonoperating revenues (expenses):				
Investment earnings	276,191	10,819	287,010	139,530
Capital contributions	3,615	1,174,511	1,178,126	-
Loss on disposal of property	(2,278)	(88,031)	(90,309)	-
Interest expense	(446,820)	-	(446,820)	-
Total other nonoperating revenues (expenses)	(169,292)	1,097,299	928,007	139,530
Increase (decrease) in net position	1,405,520	259,190	1,664,710	(272,534)
Net position - beginning of year, as previously presented	22,824,003	9,378,935	32,202,938	4,035,613
Restatements	(11,109)	-	(11,109)	(9,361)
Net position - beginning of year, as restated	22,812,894	9,378,935	32,191,829	4,026,252
Net position - end of year	\$ 24,218,414	\$ 9,638,125	\$ 33,856,539	\$ 3,753,718
Adjustment for the net effect of the current year activity between the internal service funds and the enterprise funds.			(20,603)	
Changes in net position of business-type activities			\$ 1,644,107	

The notes to financial statements are an integral part of this statement.

	Water	Transit	Total Enterprise Funds
Operating revenues	\$ 9,454,008	\$ 930,131	\$ 10,384,139
Nonoperating revenues:			
Noncapital subsidies received	10,967	4,118,683	4,129,650
Other nonoperating revenues	279,806	1,185,330	1,465,136
Total revenues	\$ 9,744,781	\$ 6,234,144	\$ 15,978,925
Operating expenses	\$ 7,890,163	\$ 5,886,923	\$ 13,777,086
Nonoperating expenses:			
Noncapital subsidies paid	-	-	-
Other nonoperating expenses	449,098	88,031	537,129
Total revenues	\$ 8,339,261	\$ 5,974,954	\$ 14,314,215

Note that the government in this example has no:

- Nonmajor enterprise funds, nor
- Noncapital subsidies paid out

EXHIBIT 3 | Assumptions: Interfund Liabilities

	Fund A	Fund B	Fund C	Fund D	Total
Due from:					
Fund A					\$ 0
Fund B	\$10				\$10
Fund C	\$25	\$ 5			\$30
Fund D	\$ 5	—	\$15		\$20
Total	\$40	\$ 5	\$15	\$ 0	\$60
Due to:					
Fund A		(\$10)	(\$25)	(\$ 5)	(\$40)
Fund B			(\$ 5)		(\$ 5)
Fund C				(\$15)	(\$15)
Fund D					(\$ 0)
Total	(\$ 0)	(\$10)	(\$30)	(\$20)	(\$60)
Net	\$40	(\$ 5)	(\$15)	(\$20)	\$ 0
Interfund receivables:					
Without netting	\$40	\$ 5	\$15	\$ 0	\$60
With netting	\$40	\$ 0	\$ 0	\$ 0	\$40
Interfund payables:					
Without netting	(\$ 0)	(\$10)	(\$30)	(\$20)	(\$60)
With netting	(\$ 0)	(\$ 5)	(\$15)	(\$20)	(\$40)

these calculations, which is taken from a comprehensive example of the determination of major funds which is included in GFOA's *Governmental Accounting, Auditing and Financial Reporting* (2024 Edition). GASB 103 does not make any changes to treatment of these position statement elements in the 10 percent and 5 percent tests.

For operating statement elements [revenues, expenditures [governmental funds] or expenses [enterprise funds]], internal services provided and used [e.g., a recreation fund purchasing water from a water utility fund to operate public pools in the summer] are indistinguishable from external revenues and external expenditures/ expenses so no special consideration

is required for them. In governmental funds, all interfund transfers in and out are classified as other financing sources and other financing uses, respectively, which are excluded from revenues and expenditures used in the 10 percent and 5 percent tests, as mentioned earlier. This too is unchanged by GASB 103.

But GASB 103 makes a small but potentially impactful change to treatment of interfund transfers into or out of enterprise funds. *Current* GAAP [pre-GASB 103 implementation] tells governments to exclude transfers from the calculation [i.e., not to include them in the total revenues or total expenses. GASB 103, on the other hand, explicitly includes transfers

into or out of enterprise funds in the definition of *subsidies*, which in turn are explicitly included in the definition of *nonoperating revenues and expenses*. Therefore, once governments implement GASB 103, transfers will need to be included in the enterprise funds' revenue and expense amounts used in making calculations. This will affect both the 10 percent and 5 percent tests for enterprise funds and the 5 percent test for governmental funds.

So, if you're thinking this was an awfully long article for the purpose of alerting you about a single change in GAAP that wasn't even discussed until the penultimate paragraph—you caught me! I did indeed use a minor change as an excuse to refresh memories about a major source of award denials and a thus a major cause of disappointment among COA applicants: major funds. ¹

¹ For example, see “From Confusing to Cringe-Worthy: Errors Made in Calculating Net Investment in Capital Assets,” *GFR*, February 2022.

² Major fund determination for governmental and enterprise funds is found in GASB Codification Section 2200 paragraphs .158 and .159.

³ For information on display requirements for formerly major funds in BFS and formerly nonmajor funds in combining financial statements, see “Getting Ghosted” in *GFR*, June 2024, view GFOA's Timely Accounting Discussion video on the topic at gfoa.org

⁴ Codification 2200.729-24.

⁵ This is not directly addressed in GASB 103's standards section, but is apparent from the codification instructions found in that statement's Appendix D. An excerpt of those instructions reads:

.729-24 [Replace the second paragraph of the answer with the following:] In the governmental fund operating statements, transfers in and transfers out are not included in the major fund calculation (revenues and expenditures) and do not affect the major funds determination because they are reported as other financing sources (uses). In the proprietary fund operating statements, transfers in and transfers out are reported as nonoperating revenues and expenses and, therefore, do affect the major funds determination. Interfund services provided and used are not distinguished from other revenues or expenditures/expenses. [GASBIG 2015-1, G7.56.14, as amended by GASBS 103, ¶12–¶14]



Michele Mark Levine is the director of GFOA's Technical Services Center.