

VGFOA  
Northern Virginia Regional Organization  
April 29, 2009


**Statement No. 54:  
Fund Balance Reporting and  
Governmental Fund Type Definitions**

**Presenter: John Montoro**

GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

**Statement No. 54**

- ❖ Approved by the Board in February
- ❖ Released March 11, 2009
- ❖ Effective for the fiscal year ending June 30, 2011



GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

**Objective of today's discussion**

- ❖ Background on GASB 54
- ❖ Government fund type definitions
- ❖ Fund balance – current standard
- ❖ Fund balance under GASB 54
- ❖ Fund balance policies
- ❖ Two exercises to test your GASB 54 skills

GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

**Origins of the Project**

- ❖ Statement 34 had no effect on fund balance reporting
- ❖ Significant variation in how standards are applied, leading to significant divergence in practice
- ❖ Widespread confusion about terminology
- ❖ Mismatch between what governments are reporting about fund balance and what users of financial statements actually need

GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

**Fund Definitions - General Fund**

- ❖ General Fund: used to account for all financial resources not accounted for in another fund

No changes here.

GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

**Special Revenue Funds**

*Current Definition:*

- ❖ *Special Revenue Funds*—To account for the **proceeds of specific revenue sources** (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are **legally restricted** to expenditure for **specified purposes**.

GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

### Special Revenue Funds

*Statement 54 Definition:*

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.

### Special Revenue Funds

❖ Which definition appears more restrictive – Old or New?

OLD !

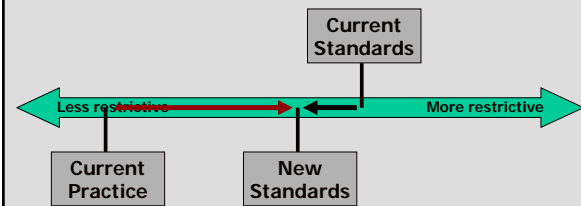
Legally restricted vs Restricted or committed

### Special Revenue Funds

❖ So why should there be attention and (concern?) focused on the GASB 54 definition?

No one was paying attention to the old definition!

### Effect of SRF Clarifications



### Special Revenue Funds under GASB 54

- ❖ Report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects
- ❖ Restricted or committed specific revenue sources should comprise a substantial portion of fund's resources, but fund also may include other restricted, committed, and assigned resources
- ❖ If revenues are initially received in another fund, they should NOT be reported as revenues in the fund receiving them; instead, they should be recognized in the special revenue fund where they will be spent.

### Special Revenue Funds under GASB 54

- ❖ The proceeds from these special revenue sources should be expected to continue to comprise a substantial portion of inflows.
- ❖ Governments should discontinue reporting a special revenue fund, and instead report the resources and expenditures in the general fund, if the government no longer expects that a substantial portion of revenues will be derived from restricted revenue sources.

### Special Revenue Fund Exercise

- ❖ From handout, review special revenue funds of Veranda Beach
- ❖ Based on the information provided, identify funds that DO NOT meet the definition of a Special Revenue Fund under GASB 54.
- ❖ If your answer is "it depends" tell me what additional information you need.

### Special Revenue Fund Exercise

- ❖ Special revenues funds hit list:
  - Law enforcement block grant
  - School reserve
  - Public investment protection strategy
  - Open space
  - Transitional area
  - Tourism growth investment
  - Tourism advertising program
  - Arts and humanities commission
  - Major projects
  - Wetlands mitigation

### Special Revenue Funds Exercise

- ❖ 10 Funds need to be reviewed out of 33 total

31%

Something to consider before you decide to early implement GASB 54....

### Special Revenue Funds Exercise

- ❖ If you want to be ready to implement GASB 54 for the fiscal year ending June 30, 2011, when should planning begin?

At the beginning of your FY 2011 budget cycle – the Fall of 2009!!

### Special Revenue Funds

- ❖ Disclosure: purpose of each major special revenue fund and each revenue source or other resources authorized to be reported in each.

### Special Revenue Funds

- ❖ Final point: This is a financial reporting standard.
- ❖ It does not require you to collapse all these funds in your general ledger.

### Capital Projects & Debt Service Funds

- ❖ Text made consistent with other definitions
- ❖ Capital projects fund definition is more reflective of current practice
- ❖ Highlighted that debt service funds are *required* when
  - Legally mandated
  - Financial resources are being accumulated for principal and interest payments maturing in future years

### Capital Projects and Debt Service Funds

*Prior Definitions:*

- ❖ *Capital projects funds*—to account for **financial resources to be used** for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).
- ❖ *Debt service funds*—to account for the **accumulation of resources for**, and the payment of, general long-term debt principal and interest.

### Capital Projects Funds

*Statement 54 Definition:*

- ❖ *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 in trust for individuals, private organizations, or other governments.

### Debt Service Funds

*Statement 54 Definition:*

- ❖ Debt service funds are used to **account for and report financial resources that are restricted, committed, or assigned to expenditure** for principal and interest.

### Fund Balance – Current Standard

- ❖ What is fund balance?

Difference between assets and liabilities

### Fund Balance – Current Standard

- ❖ How do we allocate fund balance?

Reserved

Unreserved

- Designated
- Undesignated

What is the primary objective of allocating fund balance?

### Fund Balance – Allocation Objective

❖ To isolate that portion of fund balance that *is not available for the following period's budget.*

**Reserved fund balance:**

- Resources not available for spending in the current year's budget.
- Legal restrictions on spending that is narrower than the purpose of the fund itself.

### Fund Balance – Allocation Objective

**Reserved fund balance:**

- Resources not available for spending in the current year's budget.
  - Inventories
  - Long term receivables
  - Prepaid expenses
- Legal restrictions on spending that is narrower than the purpose of the fund itself.
  - Encumbrances
  - Categorical grants (maybe)

### Fund Balance – Current Standard

ASSETS		LIABILITIES AND FUND BALANCE	
Financial assets	Assets available for spending and not subject to legal limitations	Liabilities normally expected to be paid from current financial resources	Fund balance
		Undesignated unreserved fund balance (available for appropriation)	
		Designated unreserved fund balance (subject to tentative management plans)	
	Assets subject to legal limitations	Reserved fund balance (not available for appropriation)	
	Unavailable assets (e.g. long-term loans receivable)		

### Fund Balance – Current Standard

❖ Two characteristics of reserved fund balance under the current standard:

- Objective is to identify resources that are not available for spending in next year's budget
- Classification depends on whether the restrictions are narrower than the purpose of the fund itself.
- Example: CDBG grant fund

### Effect of the Columns

❖ Under the current standard amounts are classified from the perspective of the column

❖ Consider a government that has

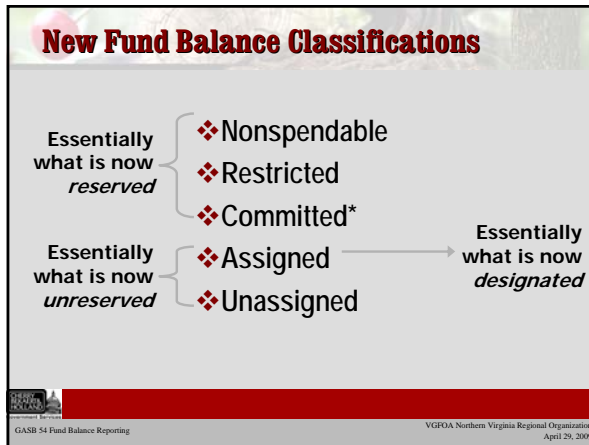
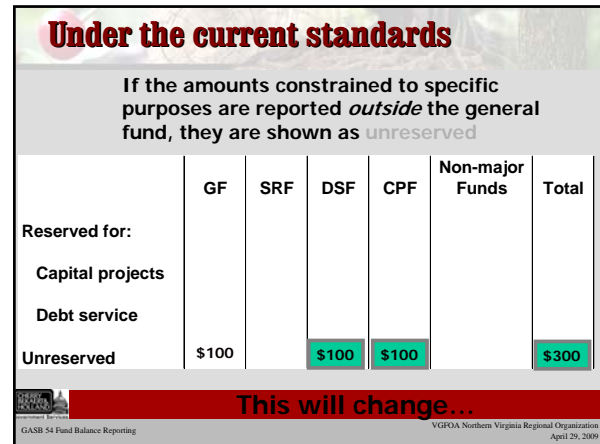
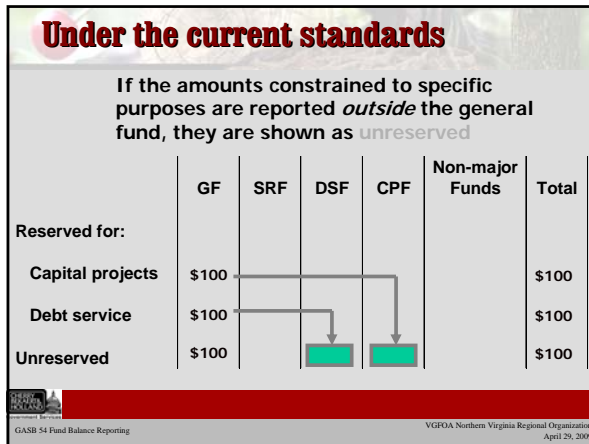
- \$100 earmarked for capital projects by the government itself
- \$100 in property tax revenue restricted to paying debt service
- \$100 of cash available for any purpose

### Under the current standards

If the amounts constrained to specific purposes are reported in the *general fund*, they are shown as *reserved*

	GF	SRF	DSF	CPF	Non-major Funds	Total
<b>Reserved for:</b>						
Capital projects	\$100					\$100
Debt service	\$100					\$100
<b>Unreserved</b>	\$100					\$100

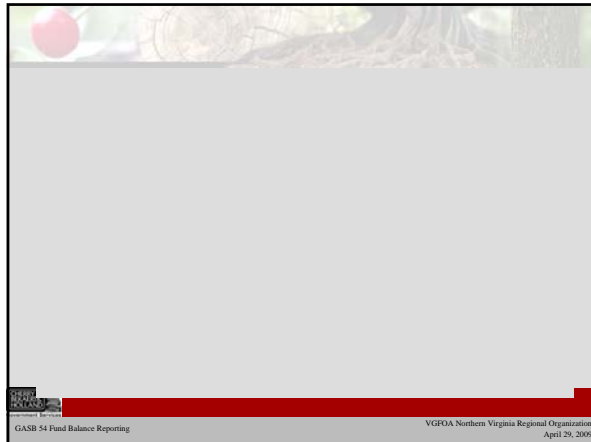
**But...**



- ### Nonspendable Fund Balance
- ❖ Not in spendable form, such as
    - Inventory
    - Long-term receivables not expected to be converted to cash in the near term
  - ❖ Corpus of a permanent fund
- GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

- ### Restricted Fund Balance
- ❖ Same definition as for net assets in Statement 34 (as amended by Statement 46)—amounts constrained to being used for a specific purpose by
    - External parties
    - Constitutional provisions
    - Enabling legislation
- GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

- ### Committed Fund Balance
- ❖ Constraint on use imposed by the government itself, using its highest level of decision making authority
  - ❖ Constraint can be removed or changed only by taking the same action
  - ❖ Action to constrain resources should occur prior to end of fiscal year, though the exact amount may be determined subsequently
- GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009



### Assigned Fund Balance

- ❖ Amounts *intended* to be used for specific purposes
- ❖ Intent is expressed by
  - The governing body
  - A body (budget or finance committee) or official authorized by the governing body
- ❖ Residual amounts in governmental funds other than the general fund are assigned
- ❖ Appropriation of existing fund balance

### Unassigned Fund Balance

- ❖ Available for any purpose
- ❖ Reported only in the general fund, except in cases of negative fund balance
  - Negative balances in other governmental funds are reported as unassigned

### Under the new standards

The amounts constrained to specific purposes are reported in the same classifications *regardless of the fund they are in*

	GF	SRF	DSF	CPF	Non-major Funds	Total
Restricted for: Debt service	\$100					\$100
Committed for: Capital projects	\$100					\$100
Unassigned	\$100					\$100

Or...

### Under the new standards

The amounts constrained to specific purposes are reported in the same classifications *regardless of the fund they are in*

	GF	SRF	DSF	CPF	Non-major Funds	Total
Restricted for: Debt service			\$100			\$100
Committed for: Capital projects				\$100		\$100
Unassigned	\$100					\$100

The funds have changed, but the fund balance classifications have not

### Stabilization (Rainy-Day) Amounts

- ❖ Stabilization was not previously considered a specific purpose
- ❖ If constraints on stabilization amounts meet criteria to be reported as restricted or committed, then stabilization can be considered a specific purpose
- ❖ Stabilization amounts should not be reported as assigned

## In Virginia – Counties and Cities

- ❖ Assigned: Would you find an appropriation of an existing fund balance?
  - What about the fact that all appropriations lapse at year end in Virginia?

It appears that you could assign fund balance based on the following year's use of existing fund balance to balance the budget.

## In Virginia – Counties and Cities

- ❖ Stabilization or rainy day funds:
  - Restricted?
  - Committed?
  - None of the above?

## Encumbrances

- ❖ Encumbrances should not be displayed separately within the restricted, committed, and assigned categories
- ❖ Amounts are classified as restricted, committed, and assigned based on the source and strength of the constraints placed on them—encumbering those amounts does not further affect them

## Encumbrances

- ❖ The Treatment of Encumbrances highlights the key difference between fund balance allocation under the old method and GASB 54
- ❖ The concept of an encumbrance is based on budgetary availability – reserving resources that can't be used for next year's budget
- ❖ GASB 54 allocations are distinguished by the extent to which purpose limitations have been established regarding the use of those amounts.

## Encumbrances

- ❖ For example, an amount could be classified as restricted for a specific purpose, some or all of which may be encumbered.
- ❖ Encumbering the amount does nothing to further restrict the amount, so it should not be shown on the face of the statement.

## Encumbrances – OK, this slide is easier!

- ❖ If you have encumbrance accounting, encumbrances will be reported either as:
  - Committed (if encumbrances are approved by action of the highest decision making authority)
  - Assigned – if the year-end encumbered amount is a result of normal purchasing activity approved by appropriate officials.
    - This will be the most common classification of encumbrances

### Level of Detail

- ❖ Level of detail requirements may be met by display or a combination of display and disclosure
  - Nonspendable by type
  - Restrictions by purpose
  - Commitments and assignments in sufficient detail that major purposes are evident to reader

GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

### Specific purpose details displayed

General Fund	Special Revenue Funds	Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
\$ 125,000	\$ 108,000	\$ 16,000	—	—	\$ 249,000
—	—	—	—	\$ 164,000	\$ 164,000
240,000	—	—	—	—	240,000
55,000	—	—	—	—	55,000
—	—	—	\$ 444,000	—	444,000
—	24,000	—	—	—	24,000
—	—	—	\$ 206,000	—	206,000
—	—	—	—	301,000	301,000
—	—	—	—	214,000	214,000
—	—	—	—	51,000	51,000
30,000	—	—	—	—	30,000
16,000	—	—	—	—	16,000
210,000	—	—	—	—	210,000
110,000	—	—	—	—	110,000
50,000	—	103,000	—	—	153,000
75,000	—	—	—	—	75,000
50,000	—	—	—	—	50,000
—	258,000	—	—	—	258,000
—	—	—	306,000	—	306,000
—	—	—	—	121,000	121,000
—	—	—	—	60,000	60,000
50,000	—	—	—	471,000	521,000
60,000	—	73,000	—	—	133,000
628,000	—	—	—	—	628,000
\$ 1,746,000	\$ 390,000	\$ 192,000	\$ 512,000	\$ 554,000	\$ 4,842,000

This level of detail is not required for display on the face of the balance sheet. Fund balance categories and classifications may be presented in detail or in the aggregate if sufficient detail is provided in the notes to the financial statements.

GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

### Classification totals displayed—details disclosed in the notes

General Fund	Special Revenue Funds	Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
\$ 125,000	\$ 108,000	\$ 16,000	—	—	\$ 249,000
405,000	24,000	—	\$ 206,000	214,000	1,845,000
461,000	—	103,000	—	—	564,000
230,000	258,000	73,000	306,000	652,000	1,895,000
628,000	—	—	—	—	628,000
\$ 1,746,000	\$ 390,000	\$ 192,000	\$ 512,000	\$ 554,000	\$ 4,842,000

GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

### Fund classification exercise

- ❖ City of Veranda Beach
- ❖ Use the form provided to re-allocate fund balance under GASB 54.

GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

### Note Disclosures

- ❖ Description of authority and actions that lead to committed and assigned fund balance
- ❖ Government's policy regarding order of spending
  - Restricted and unrestricted fund balance
  - Committed, assigned, and unassigned
- ❖ Encumbrances, if significant, are disclosed in conjunction with other disclosures of significant commitments

GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

### Note Disclosures

- ❖ Stabilization arrangements
  - Authority for establishing
  - Requirements for additions
  - Conditions under which amounts may be used
- ❖ Minimum fund balance policies

GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization April 29, 2009

### Elements of a Comprehensive Fund Balance Policy

- ❖ Fund balance policy should apply to:
- ❖ Unrestricted fund balances:
  - Committed
  - Assigned
  - Unassigned
- ❖ Generally applies to the general fund

GASB 54 Fund Balance Reporting

VGFOA Northern Virginia Regional Organization  
April 29, 2009

### Elements of a Comprehensive Fund Balance Policy

- ❖ The following should be addressed:
  - The appropriate level of unrestricted fund balance to be maintained in the general fund
  - The circumstances in which unrestricted fund balances can be "spent down", and
  - The policy for replenishing deficiencies.

GASB 54 Fund Balance Reporting

VGFOA Northern Virginia Regional Organization  
April 29, 2009

### Elements of a Comprehensive Fund Balance Policy

- ❖ The desired level of unrestricted fund balance can be expressed as either a minimum amount or a range between amounts
- ❖ The circumstances under which contingencies may be spent should be as specific as possible
- ❖ Replenishment policy should indicate source of funding and time period for replenishment to occur.

GASB 54 Fund Balance Reporting

VGFOA Northern Virginia Regional Organization  
April 29, 2009

### Elements of a Comprehensive Fund Balance Policy

- ❖ What is the minimum amount of unrestricted fund balance that a government should maintain?
  
- ❖ What factors should be considered?

GASB 54 Fund Balance Reporting

VGFOA Northern Virginia Regional Organization  
April 29, 2009

### Elements of a Comprehensive Fund Balance Policy

- ❖ Higher minimum balances should be considered when:
  - Volatility in operating revenues
  - Potential drain on resources from other funds
  - Exposure to natural disasters
  - Concentrations of revenue sources
  - Rapidly growing budgets
  - Timing differences between revenue collections and expenditures

GASB 54 Fund Balance Reporting


VGFOA Northern Virginia Regional Organization  
April 29, 2009

### GASB 54 Summary – What to do?


- ❖ GASB 54 will be here sooner than you think!
  - Review fund structure
  - Review/establish fund balance policy
  - Be sure that appropriate Board action is taken to ensure funds can be shown as committed
  - Establish/strengthen control processes to track changes in committed and assigned funds

GASB 54 Fund Balance Reporting

VGFOA Northern Virginia Regional Organization  
April 29, 2009




- Appreciation is expressed to the Governmental Accounting Standards Board for permission to use selected materials from its library of public educational presentations.
- Official positions of the GASB are determined only after extensive due process and deliberation and are only published in its formal Statements and Interpretations.



GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization  
April 29, 2009



**What questions  
do you have?**



GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization  
April 29, 2009



**Contact information**

John B. Montoro  
Director of Government Services  
Cherry, Bekaert, & Holland, L.L.P.  
1700 Bayberry Court, Suite 300  
Richmond, VA 23226  
804-673-5723 direct  
804-673-4290 fax  
[jmontoro@cbh.com](mailto:jmontoro@cbh.com)



GASB 54 Fund Balance Reporting VGFOA Northern Virginia Regional Organization  
April 29, 2009