



VGFOA

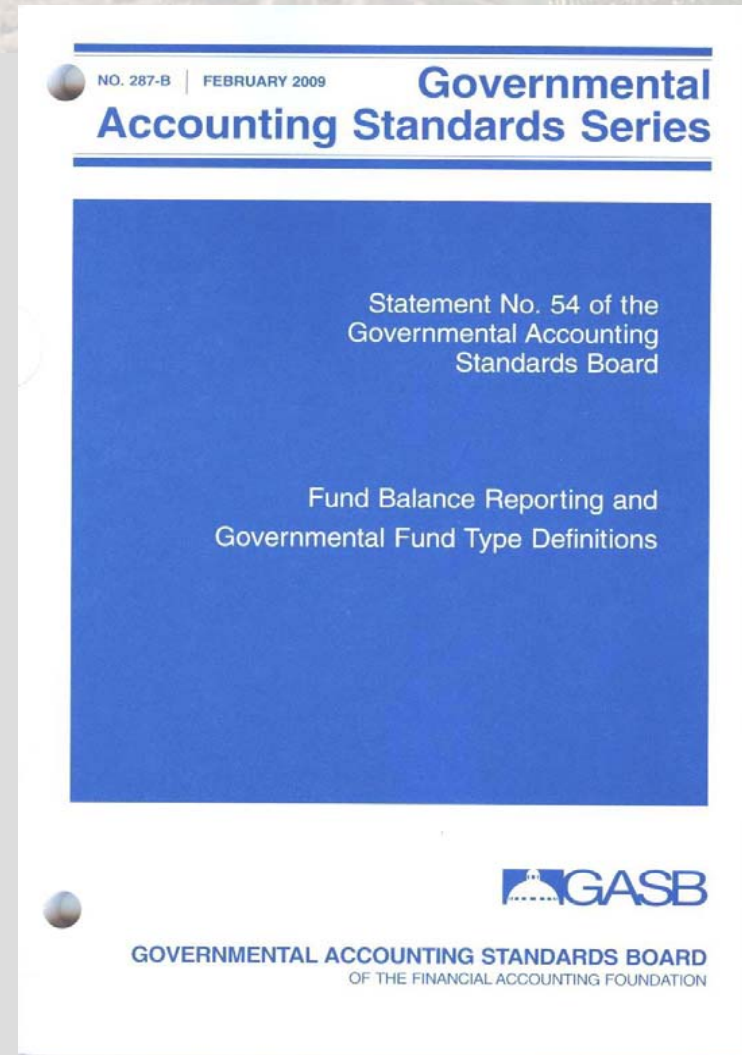
Central Virginia Regional Organization Training Even March 16, 2010

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

Presenter: John Montoro

Statement No. 54

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



Objective of today's discussion

- ❖ Background on GASB 54
- ❖ Fund balance – current standard
- ❖ Fund balance under GASB 54
- ❖ Government fund type definitions
- ❖ Disclosures and Fund balance policies

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

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:

- o Resources not available for spending in the current year's budget.
 - Inventories
 - Long term receivables
 - Prepaid expenses
- o 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
Reserved for:						
Capital projects	\$100					\$100
Debt service	\$100					\$100
Unreserved	\$100					\$100

But...

Under the current standards

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

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

Under the current standards

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

	GF	SRF	DSF	CPF	Non-major Funds	Total
Reserved for:						
Capital projects						
Debt service						
Unreserved	\$100		\$100	\$100		\$300

New Fund Balance Classifications

Under GASB 54 fund balance should be report in classifications that:

“comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent”

New Fund Balance Classifications



Nonspendable Fund Balance

- ❖ **Not in spendable form, such as**
 - Inventory
 - Long-term receivables not expected to be converted to cash in the near term
- ❖ **Legally or contractually required to be maintained intact:**
 - Corpus of a permanent fund

Restricted Fund Balance

❖ Essentially the same definition as for net assets in Statement 34: (amended by 46):

Amounts constrained to being used for a specific purpose by

- External parties
- Constitutional provisions
- Enabling legislation

Restricted Fund Balance

- ❖ Essentially the same definition as for net assets in Statement 34: (amended by 46):

The only exception is that amounts “required to be retained in perpetuity” are classified as non-expendable within the restricted net asset category

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

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

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

New Fund Balance Classifications – Recap



Let's consider some current fund balance situations and apply the standard....

Next Year's Budget

- ❖ In order to balance the next year's budget the City of Veranda budgets the use of \$1.5M of carryover fund balance.

Does this have an impact on fund balance reporting at the end of the current year?

Current standard? NO

New standard (GASB 54?) YES

Assigned

Construction contracts

❖ The City of Veranda Capital Projects fund has \$10M in outstanding construction contracts.

- The project is funded by \$5M in bond proceeds, which have been received
- There is \$3M in local funds that are in the capital project fund for the project. (\$8M cash total)
- The remaining \$2M will come from a general fund transfer in a future year.

❖ What is the impact on fund balance reporting at the end of the current year?

Construction Contracts – current standard

Fund balance:

Reserved for construction contracts	\$ 10 M
Unreserved, undesignated	<u>(\$ 2 M)</u>
Total fund balance	\$ 8 M

Construction Contracts – GASB

54

Fund balance:

Restricted	\$ 5 M
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Committed (or assigned)	<u>\$ 3 M</u>
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Total fund balance	\$ 8 M
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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

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

- ❖ If you have encumbrance accounting, encumbrances will be reported either as:
 - Committed (if encumbrances are approved by action of the highest decision making authority)
 - Board votes to allocate \$250,000 of fund balance for a new fire truck
 - Assigned – Encumbrances resulting from the issuance of purchase orders as 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

Specific purpose details displayed

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
Fund balances:							
Nonspendable:							
Inventory	\$ 125,000	\$ 108,000	\$ 16,000	—	—	—	\$ 249,000
Permanent fund principal	—	—	—	—	—	\$ 164,000	164,000
Restricted for:							
Social services	240,000	—	—	—	—	—	240,000
Parks and recreation	80,000	—	—	—	—	—	80,000
Education	55,000	—	—	—	—	—	55,000
Highways	—	—	—	—	\$ 444,000	—	444,000
Road surface repairs	—	24,000	—	—	—	—	24,000
Debt service reserve	—	—	—	\$ 206,000	—	—	206,000
School construction	—	—	—	—	301,000	—	301,000
Law enforcement	—	—	—	—	—	214,000	214,000
Other capital projects	—	—	—	—	51,000	—	51,000
Other purposes	30,000	—	—	—	—	—	30,000
Committed to:							
Zoning board	16,000	—	—	—	—	—	16,000
Economic stabilization	210,000	—	—	—	—	—	210,000
Homeland security	110,000	—	—	—	—	—	110,000
Education	50,000	—	103,000	—	—	—	153,000
Health and welfare	75,000	—	—	—	—	—	75,000
Assigned to:							
Parks and recreation	50,000	—	—	—	—	—	50,000
Library acquisitions	50,000	—	—	—	—	—	50,000
Highway resurfacing	—	258,000	—	—	—	—	258,000
Debt service	—	—	—	306,000	—	—	306,000
Public pool	—	—	—	—	121,000	—	121,000
City Hall renovation	—	—	—	—	60,000	—	60,000
Other capital projects	50,000	—	—	—	471,000	—	521,000
Other purposes	80,000	—	73,000	—	—	176,000	329,000
Unassigned:	525,000	—	—	—	—	—	525,000
Total fund balances	\$ 1,746,000	\$ 390,000	\$ 192,000	\$ 512,000	\$ 1,448,000	\$ 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.



Classification totals displayed—details disclosed in the notes

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
Fund balances:							
Nonspendable	\$ 125,000	\$ 108,000	\$ 16,000	—	—	\$ 164,000	\$ 413,000
Restricted	405,000	24,000	—	\$ 206,000	\$ 796,000	214,000	1,645,000
Committed	461,000	—	103,000	—	—	—	564,000
Assigned	230,000	258,000	73,000	306,000	652,000	176,000	1,695,000
Unassigned	525,000	—	—	—	—	—	525,000
Total fund balances	<u>\$ 1,746,000</u>	<u>\$ 390,000</u>	<u>\$ 192,000</u>	<u>\$ 512,000</u>	<u>\$ 1,448,000</u>	<u>\$ 554,000</u>	<u>\$ 4,842,000</u>



Classifying Residual Balances

❖ Spending prioritization policies (the flow assumption)

- Restricted vs. unrestricted
- Committed, assigned, unassigned
- Multiple policies
- The “default” policy
- Negative balances
 - General fund
 - Other funds

Classifying Residual Balances

- ❖ The flow assumption for this special revenue fund is to **use restricted amounts before unrestricted amounts and to use the default policy for its unrestricted fund balance.**
- ❖ If expenditures incurred exceed the amounts that have been restricted, committed, and assigned to a specific purpose and results in a negative residual amount for that specific purpose, amounts assigned to other purposes in that fund are reduced to eliminate the deficit.

What were the balances at the beginning of the year?

Purpose A	Total	Restricted	Committed	Assigned
Beginning Balances	5,696	2,000	2,616	1,080
Additions				
Expenditures Incurred				
Ending Balances				
Purpose B				
Beginning Balances	8,871	8,871	0	0
Additions				
Expenditures Incurred				
Ending Balances				
Purpose C				
Beginning Balances	8,040	0	0	8,040
Additions				
Expenditures Incurred				
Ending Balances				



Were additional amounts restricted, committed, or assigned?

Purpose A	Total	Restricted	Committed	Assigned
Beginning Balances	5,696	2,000	2,616	1,080
Additions				
Expenditures Incurred				
Ending Balances				
Purpose B				
Beginning Balances	8,871	8,871	0	0
Additions	1,500			1,500
Expenditures Incurred				
Ending Balances				
Purpose C				
Beginning Balances	8,040	0	0	8,040
Additions	120,000		120,000	
Expenditures Incurred				
Ending Balances				

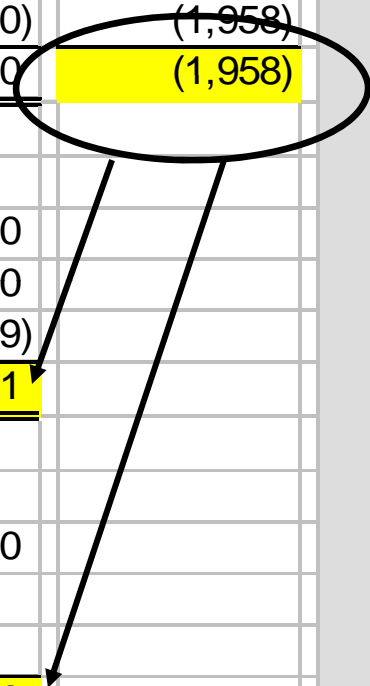


How much was spent for each purpose?

Purpose A	Total	Restricted	Committed	Assigned	Unassigned
Beginning Balances	5,696	2,000	2,616	1,080	
Additions					
Expenditures Incurred	(7,654)	(2,000)	(2,616)	(1,080)	(1,958)
Ending Balances	(1,958)	0	0	0	(1,958)
Purpose B					
Beginning Balances	8,871	8,871	0	0	
Additions	1,500			1,500	
Expenditures Incurred	(10,000)	(8,871)		(1,129)	
Ending Balances	371	0	0	371	
Purpose C					
Beginning Balances	8,040	0	0	8,040	
Additions	120,000		120,000		
Expenditures Incurred	(11,223)		(11,223)		
Ending Balances	116,817	0	108,777	8,040	

What happens to a negative balance?

Purpose A	Total	Restricted	Committed	Assigned	Unassigned
Beginning Balances	5,696	2,000	2,616	1,080	
Additions					
Expenditures Incurred	(7,654)	(2,000)	(2,616)	(1,080)	(1,958)
Ending Balances	(1,958)	0	0	0	(1,958)
Purpose B					
Beginning Balances	8,871	8,871	0	0	
Additions	1,500			1,500	
Expenditures Incurred	(10,000)	(8,871)		(1,129)	
Ending Balances	371	0	0	371	
Purpose C					
Beginning Balances	8,040	0	0	8,040	
Additions	120,000		120,000		
Expenditures Incurred	(11,223)		(11,223)		
Ending Balances	116,817	0	108,777	8,040	



If this were the general fund, unassigned fund balance would be reduced.



Classifying Residual Balances

- ❖ . In case A, the government elected a policy where restricted amounts are used before unrestricted amounts. The government did not elect a policy on the use of unrestricted amounts, therefore the default is used.
- ❖ In case B, the government elected a policy where unrestricted amounts are used before restricted amounts. The government also elected a policy that assigned amounts are used before committed amounts.

Special Revenue Fund Order of Spending Policy

Case A				
Order of use: Restricted, default				
	Total	Restricted	Committed	Assigned
Beginning balance	10,000	4,000	4,000	2,000
Expenditures	7,000	4,000	3,000	0
Ending Balance	3,000	0	1,000	2,000
Case B				
Order of use: Unrestricted, assigned, committed				
	Total	Restricted	Committed	Assigned
Beginning balance	10,000	4,000	4,000	2,000
Expenditures	7,000	1,000	4,000	2,000
Ending Balance	3,000	3,000	0	0

GASB 54

Effective for fiscal year ending June 30, 2011

❖ Early implementation is encouraged....

❖ However, before you decide to early implement, consider let's review those fund definitions!



Fund Definitions

Fund Definitions – General Fund

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

No changes here.

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**.

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 !

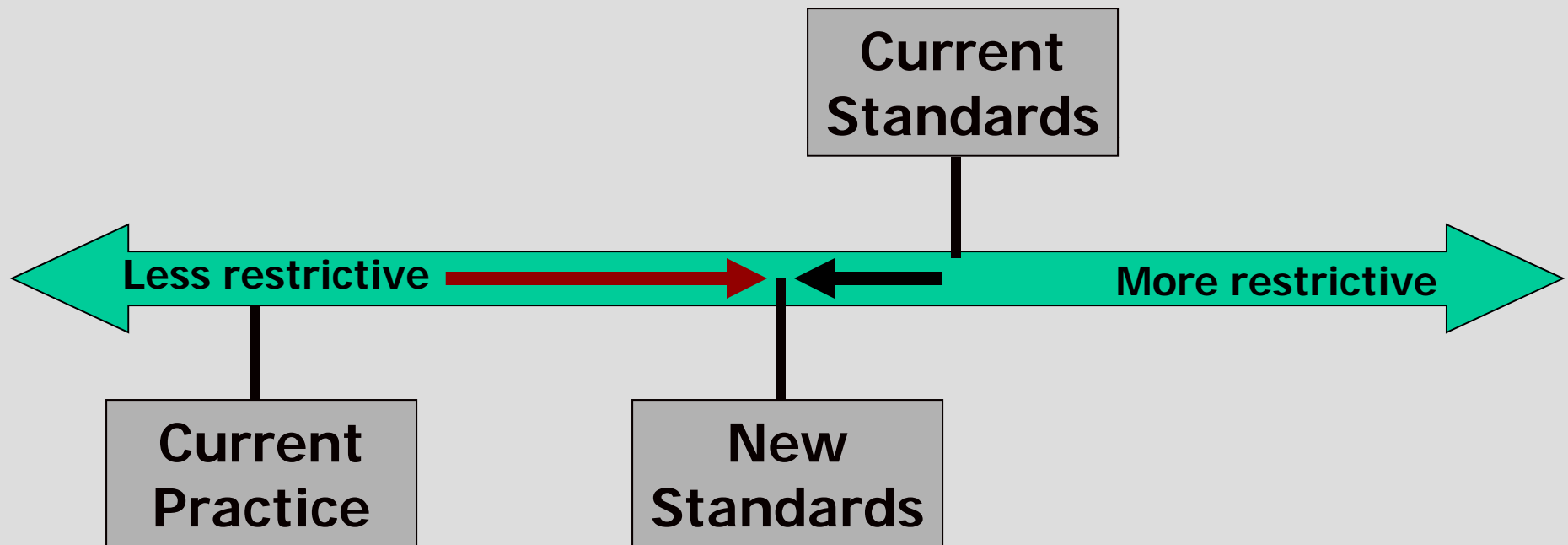
Legally restricted vs Restricted or committed

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 Special Revenue Fund 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 Examples

- ❖ The following slides summarize information from the combining statement of revenues, expenditures and changes in fund balance for special revenue funds
- ❖ Does the fund meet the GASB 54 definition of a Special Revenue Fund type??
- ❖ If not, what should happen to it?
- ❖ If your answer is “it depends” tell me what additional information you need.

GASB 54 – Is it a Special Revenue Fund?

City of Veranda: Combining Schedule - Special Revenue Funds	Golf Courses	Town Center Special Service District
Revenues:		
Property taxes	\$ -	\$ 1,274,196
Charges for services	2,487,355	-
Investment income	183,386	43,448
Expenditures	2,298,791	934,828
Transfers in (out)	(200,000)	-
Fund balance, beginning	321,525	1,146,878
Fund balance, ending	\$ 493,475	\$ 1,529,694

GASB 54 – Is it a Special Revenue Fund?

City of Veranda: Combining Schedule - Special Revenue Funds	School Reserve	Tourism Advertising Program
Revenues:		
Property taxes	\$ -	\$ -
Charges for services	-	472,097
Investment income	-	58,150
Expenditures	-	9,926,052
Transfers in (out)	-	9,100,314
Fund balance, beginning	4,344,063	946,923
Fund balance, ending	\$ 4,344,063	\$ 651,432

GASB 54 – Is it a Special Revenue Fund?

City of Veranda Combining Schedule - Special Revenue Funds	Aquarium and Marine Science Center	Major Projects
Revenues:		
Property taxes	\$ -	\$ -
Charges for services	6,124,748	-
Investment income	22,384	1,129,400
Expenditures	7,130,383	343,127
Transfers in (out)	1,010,272	(1,384,602)
Fund balance, beginning	122,637	28,417,958
Fund balance, ending	\$ 149,658	\$ 27,819,629

Special Revenue Funds Exercise

- ❖ For the City from which the examples were taken, 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 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.**

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

Note Disclosures

❖ Stabilization arrangements

- Authority for establishing
- Requirements for additions
- Conditions under which amounts may be used

❖ Minimum fund balance policies

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

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.

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.

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?

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 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

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- 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.



**What questions
do you have?**



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

