

AGENDA
BUDGET WORKSHOP
HARMONY
COMMUNITY DEVELOPMENT DISTRICT

Thursday
June 23, 2010
3:00 p.m.

7251 Five Oaks Drive
Harmony, Florida

- 1. Roll Call**
- 2. Comments and Questions on the Proposed Budget for Fiscal Year 2012**
- 3. Discussion on GASB-54 Dealing with Reserves**
- 4. Resident Questions/Comments**
- 5. Adjournment**

SECOND ORDER OF BUSINESS

HARMONY

Community Development District

Annual Operating and Debt Service Budget

Fiscal Year 2012

(Version 2 - Modified Tentative Budget)
(Printed 6/16/11 at 3:00 pm)

Prepared by:



HARMONY

Community Development District

Table of Contents

	<u>Page #</u>
<u>OPERATING BUDGET</u>	
General Fund	
Summary of Revenues, Expenditures and Changes in Fund Balances	1-2
Budget Narrative	3 - 8
Exhibit A - Allocation of Fund Balances	9
<u>DEBT SERVICE BUDGETS</u>	
Series 2001	
Summary of Revenues, Expenditures and Changes in Fund Balances	10
Amortization Schedule	11
Series 2004	
Summary of Revenues, Expenditures and Changes in Fund Balances	12
Amortization Schedule	13
Budget Narrative	14
<u>SUPPORTING BUDGET SCHEDULES</u>	
2011-2012 Non-Ad Valorem Assessment Summary	15

Harmony

Community Development District

Operating Budget

Fiscal Year 2012

Summary of Revenues, Expenditures and Changes in Fund Balances
 Fiscal Year 2012 Modified Tentative Budget

ACCOUNT DESCRIPTION	ACTUAL	ADOPTED	ACTUAL	PROJECTED	TOTAL	ANNUAL
	FY 2010	BUDGET FY 2011	THRU MAY -2011	JUNE - SEP-2011	PROJECTED FY 2011	BUDGET FY 2012
REVENUES						
Interest - Investments	\$ 3,852	\$ 1,500	\$ 4,877	\$ 6,000	\$ 10,877	\$ 1,500
Judgements and Fines	-	-	324		324	-
Interest - Tax Collector	200	-	75		75	-
Special Assmnts- Tax Collector	621,490	622,750	588,633	34,117	622,750	622,472
Special Assmnts- CDD Collected	914,364	914,363	609,576	304,787	914,363	913,955
Special Assmnts- Delinquent	4,785	-	640	-	640	-
Special Assmnts- Discounts	(9,437)	(24,910)	(12,019)	-	(12,019)	(24,900)
TOTAL REVENUES	1,535,254	1,513,703	1,192,106	344,904	1,537,010	1,513,027

EXPENDITURES

Administrative

P/R-Board of Supervisors	8,800	9,600	7,800	3,200	11,000	9,600
FICA Taxes	673	734	597	245	842	734
ProfServ-Arbitrage Rebate	-	1,200	3,000	-	3,000	1,200
ProfServ-Dissemination Agent	500	500	500	-	500	500
ProfServ-Engineering	19,747	18,000	4,972	4,900	9,872	18,000
ProfServ-Legal Services	21,461	23,000	17,168	5,832	23,000	23,000
ProfServ-Mgmt Consulting Serv	52,516	54,091	36,061	18,030	54,091	55,984
ProfServ-Special Assessment	11,089	11,422	11,422	-	11,422	11,822
ProfServ-Property Appraiser	-	-	-	779	779	779
ProfServ-Trustee	9,186	11,000	10,748	-	10,748	11,000
Auditing Services	8,000	8,000	4,000	4,000	8,000	8,000
Communication - Telephone	440	175	233	117	350	380
Postage and Freight	827	1,200	625	575	1,200	1,200
Insurance - General Liability	18,274	19,850	21,575	-	21,575	23,733
Printing and Binding	3,947	5,000	2,511	2,489	5,000	5,000
Legal Advertising	990	1,000	439	561	1,000	1,000
Misc-Assessmnt Collection Cost	7,612	12,455	11,531	682	12,213	12,449
Misc-Contingency	276	1,000	178	500	678	2,800
Office Supplies	716	1,500	450	1,050	1,500	1,500
Annual District Filing Fee	175	175	175	-	175	175
Capital Outlay	-	750	-	-	-	750
Total Administrative	165,229	180,652	133,985	42,960	176,945	189,606

Field

Payroll-Salaried	3,761	60	60	-	60	-
ProfServ-Field Management	43,896	79,813	43,384	36,429	79,813	82,606
Total Field	47,657	79,873	43,444	36,429	79,873	82,606

Summary of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year 2012 Modified Tentative Budget

ACCOUNT DESCRIPTION	ACTUAL FY 2010	ADOPTED BUDGET FY 2011	ACTUAL THRU MAY -2011	PROJECTED JUNE - SEP-2011	TOTAL PROJECTED FY 2011	ANNUAL BUDGET FY 2012
Landscape						
Utility - Refuse Removal	34,521	11,482	5,096	-	5,096	5,000
R&M-Grounds	29,484	32,994	19,996	9,998	29,994	32,994
R&M-Irrigation	38,199	34,500	32,861	10,500	43,361	34,500
R&M-Tree Trimming Services	6,000	15,000	15,000	-	15,000	15,000
R&M-Trees and Trimming	20,252	21,115	14,843	6,372	21,215	21,115
R&M-Turf Care	269,846	283,001	185,334	92,667	278,001	283,001
R&M-Shrub Care	101,714	110,539	71,693	35,846	107,539	110,539
Miscellaneous Services	14,136	10,000	511	2,000	2,511	10,000
Total Landscape	514,152	518,631	345,334	157,383	502,717	512,149
Utility						
Electricity - General	32,529	40,000	21,336	10,668	32,004	40,000
Electricity - Streetlighting	375,959	385,220	251,432	125,848	377,280	385,000
Utility - Water & Sewer	93,452	83,000	69,205	34,603	103,808	105,000
Total Utility	501,940	508,220	341,973	171,119	513,092	530,000
Operation & Maintenance						
Contracts-Lake and Wetland	21,635	21,360	14,445	6,120	20,565	21,360
Communication - Telephone	3,261	3,950	2,344	1,000	3,344	3,950
R&M-Common Area	3,024	18,806	9,914	4,957	14,871	18,806
R&M-Equipment	9,726	21,000	5,929	4,965	10,894	21,000
R&M-Pools	39,377	58,187	22,067	11,034	33,101	45,000
R&M-Roads & Alleyways	2,900	3,000	-	1,000	1,000	3,000
R&M-Sidewalks	3,017	10,000	-	1,500	1,500	6,000
R&M-Parks & Amenities	2,069	6,000	866	1,200	2,066	4,000
R&M-Hardscape Cleaning	7,358	10,000	-	1,100	1,100	6,000
Misc-Contingency	-	44,025	17,697	5,000	22,697	29,550
Misc-Security Enhancements	-	30,000	-	5,000	5,000	10,000
Cap Outlay - Other	23,118	-	950	-	950	30,000
Total Operation & Maintenance	115,485	226,327	74,212	42,875	117,087	198,666
TOTAL EXPENDITURES	1,344,463	1,513,703	938,948	450,766	1,389,714	1,513,027
Excess (deficiency) of revenues						
Over (under) expenditures	190,791	(0)	253,158	(105,862)	147,296	-
OTHER FINANCING SOURCES (USES)						
Contribution to (Use of) Fund Balance	-	(0)	-	-	-	-
TOTAL OTHER SOURCES (USES)	-	(0)	-	-	-	-
Net change in fund balance	190,791	(0)	253,158	(105,862)	147,296	-
FUND BALANCE, BEGINNING	385,208	575,999	575,999	-	575,999	723,295
FUND BALANCE, ENDING	\$ 575,999	\$ 575,999	\$ 829,157	\$ (105,862)	\$ 723,295	\$ 723,295

Budget Narrative
Fiscal Year 2012**REVENUES****Interest-Investments**

The District earns interest on its operating accounts.

Special Assessments-Tax Collector

The District will levy a Non-Ad Valorem assessment on all the assessable property within the District in order to pay for the operating expenditures during the Fiscal Year.

Special Assessment – CDD Collected (Maintenance)

The District will collect a Non-Ad Valorem assessment on all the un-platted parcels within the District in support of the overall fiscal year budget.

Special Assessments-Discounts

Per Section 197.162, Florida Statutes, discounts are allowed for early payment of assessments. The budgeted amount for the fiscal year is calculated at 4% of the anticipated Non-Ad Valorem assessments.

EXPENDITURES**Administrative****P/R-Board of Supervisors**

Chapter 190 of the Florida Statutes allows for members of the Board of Supervisors to be compensated \$200 per meeting at which they are in attendance. The amount for the Fiscal Year is based upon four supervisors attending 12 meetings.

FICA Taxes

Payroll taxes on Board of Supervisors compensation. The budgeted amount for the fiscal year is calculated at 7.65% of the total Board of Supervisor's payroll expenditures.

Professional Services – Arbitrage Rebate

The District will contract with an independent certified public accountant to annually calculate the District's Arbitrage Rebate Liability on the Series of Benefit Special Assessment Bonds. The budgeted amount for the fiscal year is based on historical and industry standard fees charged for this service.

Professional Services – Dissemination Agent

The District is required by the Securities and Exchange Commission to comply with rule 15c2-12(b)-(5), which relates additional reporting requirements for unrelated bond issues and is performed by Digital Assurance Company. The budgeted amount for the fiscal year is based on standard fees charged for this service.

Professional Services-Engineering

The District's engineer, Woolpert Inc., will be providing general engineering services to the District, i.e., attendance and preparation for monthly Board meetings, review of invoices, preparation of requisitions., etc. The budgeted amount for the fiscal year is based on anticipated activity.

Professional Services-Legal Services

The District's general counsel, Young van Assenderp, P.A., retained by the District Board, is responsible for attending and preparing for Board meetings and rendering advice, counsel, recommendations, and representation as determined appropriate or as directed by the Board directly or as relayed by the manager.

Budget Narrative

Fiscal Year 2012

EXPENDITURES**Administrative** (continued)**Professional Services-Management Consulting Services**

The District receives Management, Accounting and Administrative services as part of a Management Agreement with Severn Trent Environmental Services, Inc. Also included are costs for Information Technology charges to process all of the District's financial activities, i.e. accounts payable, financial statements, budgets, etc., on a main frame computer owned by Severn Trent in accordance with the management contract and the charge for rentals. The budgeted amount for the fiscal year is based on the contracted fees outlined in Exhibit "A" of the Management Agreement, with a moderate proposed increase.

Professional Services - Special Assessment (Advisor)

The District will be billed annually for calculating and levying the annual operating and maintenance, and debt service assessments, as provided by Severn Trent Management Services.

Professional Services -Property Appraiser

The Property Appraiser provides the District with a listing of the legal description of each property parcel within the District boundaries, and the names and addresses of the owners of such property. The District reimburses the Property Appraiser for necessary administrative costs incurred to provide this service. The FY2012 budget for property appraiser costs was based on a unit price per parcel. In prior years, this cost was included in Misc.-Assessment Collection Cost.

Professional Services- Trustee

The District pays US Bank an annual fee for trustee services on the Series 2001 and the Series 2004 Special Assessment Bonds. The budgeted amount for the fiscal year is \$4,900 and \$4,350 for each series plus any out-of-pocket expenses.

Auditing Services

The District is required to conduct an annual audit of its financial records by an Independent Certified Public Accounting Firm. The budgeted amount for the fiscal year is based on contracted fees from an existing engagement letter with Grau & Associates.

Communication-Telephone

Telephone and fax transmission expenditures.

Postage and Freight

Actual postage and/or freight used for District mailings including agenda packages, vendor checks and other correspondence.

Insurance-General Liability

The District's General Liability & Public Officials Liability Insurance policy is with Preferred Governmental Insurance Trust (PGIT). They specialize in providing insurance coverage to governmental agencies. The budgeted amount allows for a projected increase in the premium.

Printing and Binding

Copies used in the preparation of agenda packages, required mailings, and other special projects.

Legal Advertising

The District is required to advertise various notices for monthly Board meetings and other public hearings in the Orlando Sentinel.

Budget Narrative
Fiscal Year 2012

EXPENDITURES

Administrative (continued)

Miscellaneous-Assessment Collection Costs

The District reimburses the Osceola Tax Collector for her or his necessary administrative costs. Per the Florida Statutes, administrative costs shall include, but not be limited to, those costs associated with personnel, forms, supplies, data processing, computer equipment, postage, and programming. The District also compensates the Tax Collector for the actual cost of collection or 2% on the amount of special assessments collected and remitted, whichever is greater. The FY2012 budget for collection costs was based on a maximum of 2% of the anticipated assessment collections.

Miscellaneous -Contingency

This includes monthly bank charges and any other miscellaneous expenses that may be incurred during the year.

Office Supplies

Supplies used in the preparation and binding of agenda packages, required mailings, and other special projects.

Annual District Filing Fee

The District is required to pay an annual fee of \$175 to the Department of Community Affairs.

Capital Outlay

Represents any minor capital expenditures the District may need to make during the Fiscal Year.

Field

Professional Services – Field Management

\$82,606

Includes payroll and overhead costs for full-time field manager/dockmaster and assistant field manager as provided by Severn Trent Management Services. Primary responsibilities are related to docks and boats, with supplemental activities providing on-site field management and maintenance services.

Landscape

Utility Refuse Removal

\$5,000

Maintenance costs associated with trash collecting, and replacement of supplies or damaged trash cans within the District.

R&M-Ground

\$32,994

Scheduled maintenance consists of mowing, edging, blowing, fertilizing and applying pest and disease control chemicals to ground cover, as well as planting and replacing various annual and seasonal flowers within the District. Unscheduled maintenance consists of repairs and replacement to any damaged areas.

Existing Contract (Luke Brothers)	\$21,006
Existing Contract (Luke Brothers- Flowers)	\$9,888
Unscheduled maintenance	\$2,000

Budget Narrative
Fiscal Year 2012

EXPENDITURES

Landscape (continued)

R&M-Irrigation **\$34,500**

Scheduled maintenance consists of regular inspections, adjustments to controller and irrigation heads, minor system repairs, and purchase of irrigation supplies. Unscheduled maintenance consists of major repairs and replacement of system components.

Existing Contract (Luke Brothers)	\$28,500
System Management (monitoring of the system)	\$2,000
Proposed System Upgrade	\$2,000
Unscheduled maintenance	\$2,000

R&M-Tree Trimming Services **\$15,000**

Scheduled maintenance consists of canopy trimming for trees over 10 feet, and consulting with a certified arborist.

R&M-Tree Trimming **\$21,115**

Scheduled maintenance consists of pruning, maintaining tree basins and fertilizing trees less than 10 feet in height.

Existing Contract (Luke Brothers)	\$19,115
Unscheduled maintenance	\$2,000

R&M-Turf Care **\$283,001**

Scheduled maintenance consists of mowing, edging, blowing, fertilizing, and applying pest and disease control chemicals to turf within Harmony CDD. Unscheduled maintenance consists of replacement to any damaged areas.

Existing Contract (Luke Brothers)	\$278,001
Unscheduled maintenance	\$5,000

R&M-Shrub Care **\$110,539**

Scheduled maintenance consists of pruning, mulching, fertilizing, applying pest and disease control chemicals, and providing weed control and debris removal to Shrubs within the District. Unscheduled maintenance consists of repairs and replacement to any damaged areas.

Existing Contract (Luke Brothers)	\$107,539
Unscheduled maintenance	\$3,000

Miscellaneous Services **\$10,000**

Unscheduled or one-time landscape maintenance expenses for other areas within the District that are not listed in any other budget category.

Utility

Electricity - General **\$40,000**

Electricity for accounts with Orlando Utilities Commissions for the swim club, parks, and irrigation. Fees are based on historical costs for metered use.

Electricity - Streetlighting **\$385,000**

Contract to lease light-poles and fixtures for all street lighting within the District, as per agreement with the Orlando Utilities Commission. Fees are based on historical costs.

Budget Narrative
Fiscal Year 2012**EXPENDITURES****Utility** (continued)**Utility - Water & Sewer****\$105,000**

The District currently has utility accounts with Toho Water Authority (a division of KUA). Usage consists of water, sewer and reclaimed water services.

Operation & Maintenance**Contracts-Lake and Wetland****\$21,360**

Scheduled maintenance consists of inspections and treatment of nuisance aquatic species. Unscheduled maintenance consists of aquatic plantings and repair of any damaged areas.

Existing Contract (Bio-Tech Consulting)	\$18,360
Unscheduled maintenance	\$3,000

Communication – Telephone**\$3,950**

Telephone expenses for the dockmaster's phones and the irrigation line for the computerized Maxicom irrigation system. The budgeted amount for the fiscal year is based on prior year expenses.

R&M-Common Area**\$18,806**

- Benches: Unscheduled maintenance consists of replacing damaged benches and purchasing benches for added areas
- Miscellaneous cleaning supplies, light bulbs, and other supplies used throughout the District.
- District facility's expenditures relating to new assistant Field Manager
- Other miscellaneous common area expense not provided in other line items. It is anticipated some items originally installed in 2003 will need to be replaced in FY 2012, including trash cans, doggie pots and fountain

R&M-Equipment**\$21,000**

Supplies, maintenance and equipment needed for the boats.

Boat Operation, supplies and maintenance	\$8,000
Repairs and system upgrade	\$8,000
Miscellaneous	\$5,000

R&M-Pools**\$45,000**

This includes monthly pool service and any repairs and maintenance for the Swim Club and Ashley Park pools that may be incurred during the year by the District, including repair and replacement of pool furniture, shades, safety equipment, etc. Supplies for the pool and fountains such as chemicals and chlorine are provided by Spies Pool LLC. Various pool licenses and permits required for the pools are based on historical expenses.

Contract (Robert's Pool Service)	\$22,560
Repairs for Shade	\$3,000
Repairs for Furniture	\$3,000
Supplies	\$12,540
Licenses	\$900
Unscheduled Maintenance	\$3,000

R&M Roads and Alleyways**\$3,000**

Unscheduled maintenance of alleyways.

R&M Sidewalks**\$6,000**

Unscheduled maintenance consists of grinding uneven areas and replacement of concrete sidewalk. Pressure washing areas within the District as needed.

Budget Narrative
Fiscal Year 2012

EXPENDITURES

Operation & Maintenance (continued)**R&M Parks and Amenities****\$4,000**

Maintenance or repairs to the basketball courts and athletic fields, including sod replacement, cleaning of basketball courts, dog parks and all miscellaneous park areas.

Lakeshore Park	\$2,000
Dog Parks	\$1,000
Miscellaneous Park Areas	\$1,000

R&M-Hardscape Maintenance**\$6,000**

Scheduled maintenance consists of pressure washing PVC fencing, bridges, and pavilions, restrooms and other Hardscape. Unscheduled maintenance consists of repairs and replacement of damaged areas, including columns.

Existing Contract (Luke Brothers)	\$5,270
Unscheduled maintenance	\$730

Misc-Contingency**\$29,550**

The FY2012 contingency represents the potential excess of unscheduled maintenance expenses not included in budget categories or not anticipated in specific line items.

Misc-Security Enhancement**\$10,000**

Represents costs to update and improve security within the District. (Gates, camera's etc.) Unscheduled maintenance; includes repair or replacement of damaged cameras and any required upgrades.

Capital – Outlay**\$30,000**

The District will replace existing equipment or purchase new equipment for District facilities

Exhibit "A"
Allocation of Fund Balances

AVAILABLE FUNDS

	<u>Amount</u>
Beginning Fund Balance - Fiscal Year 2012	\$ 723,295
Net Change in Fund Balance - Fiscal Year 2012	-
Reserves - Fiscal Year 2012 Additions	-
Total Funds Available (Estimated) - 9/30/2012	723,295

ALLOCATION OF AVAILABLE FUNDS

Nonspendable Fund Balance

Deposits	1,200
Subtotal	1,200

Assigned Fund Balance

Operating Reserve - First Quarter Operating Capital	250,000 ⁽¹⁾
Reserves - Insurance	50,000 ⁽²⁾
Reserves - Renewal and Replacement	135,000 ⁽³⁾
Subtotal	435,000

Total Allocation of Available Funds	436,200
--	----------------

Total Unassigned (undesignated) Cash	\$ 287,095
---	-------------------

Notes

- (1) Represents approximately 2 months of operating expenditures
- (2) Represents deductibles for Liability and Property insurance
- (3) Represents annual amount of approximate 10 year plan for renewal and replacement

Harmony

Community Development District

Debt Service Budgets

Fiscal Year 2012

Summary of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year 2012 Modified Tentative Budget

ACCOUNT DESCRIPTION	ACTUAL FY 2010	ADOPTED BUDGET FY 2011	ACTUAL THRU MAY -2011	PROJECTED JUNE - SEP-2011	TOTAL PROJECTED FY 2011	ANNUAL BUDGET FY 2012
REVENUES						
Interest - Investments	\$ 1,746	\$ 800	\$ 1,780	\$ 1,271	\$ 3,051	\$ 800
Special Assmnts- Tax Collector	1,040,281	1,038,106	980,147	56,809	1,036,956	1,038,045
Special Assmnts- Prepayment	7,974	-	18,119	-	18,119	-
Special Assmnts- CDD Collected	433,309	432,426	432,426	-	432,426	432,404
Special Assmnts- Delinquent	8,058	-	1,072	-	1,072	-
Special Assmnts- Discounts	(15,807)	(41,524)	(20,012)	-	(20,012)	(41,522)
TOTAL REVENUES	1,475,561	1,429,808	1,413,532	58,080	1,471,612	1,429,727
EXPENDITURES						
<i>Administrative</i>						
Misc-Assessmnt Collection Cost	11,453	20,762	19,200	1,136	20,336	20,761
Total Administrative	11,453	20,762	19,200	1,136	20,336	20,761
<i>Debt Service</i>						
Principal Debt Retirement	285,000	305,000	305,000	-	305,000	325,000
Principal Prepayments	20,000	-	30,000	-	30,000	-
Interest Expense	1,144,413	1,123,388	1,122,663	-	1,122,663	1,099,825
Total Debt Service	1,449,413	1,428,388	1,457,663	-	1,457,663	1,424,825
TOTAL EXPENDITURES	1,460,866	1,449,150	1,476,863	1,136	1,477,999	1,445,586
Excess (deficiency) of revenues Over (under) expenditures	14,695	(19,342)	(63,331)	56,944	(6,387)	(15,859)
OTHER FINANCING SOURCES (USES)						
Contribution to (Use of) Fund Balance	-	(19,342)	-	-	-	(15,859)
TOTAL OTHER SOURCES (USES)	-	(19,342)	-	-	-	(15,859)
Net change in fund balance	14,695	(19,342)	(63,331)	56,944	(6,387)	(15,859)
FUND BALANCE, BEGINNING	1,721,124	1,735,819	1,735,819	-	1,735,819	1,729,432
FUND BALANCE, ENDING	\$ 1,735,819	\$ 1,716,477	\$ 1,672,488	\$ 56,944	\$ 1,729,432	\$ 1,713,573

AMORTIZATION SCHEDULE

DATE	BALANCE	RATE	PRINCIPAL	PREPAYMENT	INTEREST	TOTAL
11/01/11	\$ 15,160,000.00	7.25%	\$ -		\$ 549,550.00	\$ 1,424,100.00
05/01/12	\$ 15,160,000.00	7.25%	\$ 325,000.00		\$ 549,550.00	
11/01/12	\$ 14,835,000.00	7.25%	\$ -		\$ 537,768.75	\$ 1,425,537.50
05/01/13	\$ 14,835,000.00	7.25%	\$ 350,000.00		\$ 537,768.75	
11/01/13	\$ 14,485,000.00	7.25%	\$ -		\$ 525,081.25	\$ 1,425,162.50
05/01/14	\$ 14,485,000.00	7.25%	\$ 375,000.00		\$ 525,081.25	
11/01/14	\$ 14,110,000.00	7.25%	\$ -		\$ 511,487.50	\$ 1,422,975.00
05/01/15	\$ 14,110,000.00	7.25%	\$ 400,000.00		\$ 511,487.50	
11/01/15	\$ 13,710,000.00	7.25%	\$ -		\$ 496,987.50	\$ 1,423,975.00
05/01/16	\$ 13,710,000.00	7.25%	\$ 430,000.00		\$ 496,987.50	
11/01/16	\$ 13,280,000.00	7.25%	\$ -		\$ 481,400.00	\$ 1,427,800.00
05/01/17	\$ 13,280,000.00	7.25%	\$ 465,000.00		\$ 481,400.00	
11/01/17	\$ 12,815,000.00	7.25%	\$ -		\$ 464,543.75	\$ 1,424,087.50
05/01/18	\$ 12,815,000.00	7.25%	\$ 495,000.00		\$ 464,543.75	
11/01/18	\$ 12,320,000.00	7.25%	\$ -		\$ 446,600.00	\$ 1,428,200.00
05/01/19	\$ 12,320,000.00	7.25%	\$ 535,000.00		\$ 446,600.00	
11/01/19	\$ 11,785,000.00	7.25%	\$ -		\$ 427,206.25	\$ 1,429,412.50
05/01/20	\$ 11,785,000.00	7.25%	\$ 575,000.00		\$ 427,206.25	
11/01/20	\$ 11,210,000.00	7.25%	\$ -		\$ 406,362.50	\$ 1,427,725.00
05/01/21	\$ 11,210,000.00	7.25%	\$ 615,000.00		\$ 406,362.50	
11/01/21	\$ 10,595,000.00	7.25%	\$ -		\$ 384,068.75	\$ 1,428,137.50
05/01/22	\$ 10,595,000.00	7.25%	\$ 660,000.00		\$ 384,068.75	
11/01/22	\$ 9,935,000.00	7.25%	\$ -		\$ 360,143.75	\$ 1,430,287.50
05/01/23	\$ 9,935,000.00	7.25%	\$ 710,000.00		\$ 360,143.75	
11/01/23	\$ 9,225,000.00	7.25%	\$ -		\$ 334,406.25	\$ 1,433,812.50
05/01/24	\$ 9,225,000.00	7.25%	\$ 765,000.00		\$ 334,406.25	
11/01/24	\$ 8,460,000.00	7.25%	\$ -		\$ 306,675.00	\$ 1,433,350.00
05/01/25	\$ 8,460,000.00	7.25%	\$ 820,000.00		\$ 306,675.00	
11/01/25	\$ 7,640,000.00	7.25%	\$ -		\$ 276,950.00	\$ 1,433,900.00
05/01/26	\$ 7,640,000.00	7.25%	\$ 880,000.00		\$ 276,950.00	
11/01/26	\$ 6,760,000.00	7.25%	\$ -		\$ 245,050.00	\$ 1,435,100.00
05/01/27	\$ 6,760,000.00	7.25%	\$ 945,000.00		\$ 245,050.00	
11/01/27	\$ 5,815,000.00	7.25%	\$ -		\$ 210,793.75	\$ 1,431,587.50
05/01/28	\$ 5,815,000.00	7.25%	\$ 1,010,000.00		\$ 210,793.75	
11/01/28	\$ 4,805,000.00	7.25%	\$ -		\$ 174,181.25	\$ 1,433,362.50
05/01/29	\$ 4,805,000.00	7.25%	\$ 1,085,000.00		\$ 174,181.25	
11/01/29	\$ 3,720,000.00	7.25%	\$ -		\$ 134,850.00	\$ 1,434,700.00
05/01/30	\$ 3,720,000.00	7.25%	\$ 1,165,000.00		\$ 134,850.00	
11/01/30	\$ 2,555,000.00	7.25%	\$ -		\$ 92,618.75	\$ 1,420,237.50
05/01/31	\$ 2,555,000.00	7.25%	\$ 1,235,000.00		\$ 92,618.75	
11/01/31	\$ 1,320,000.00	7.25%	\$ -		\$ 47,850.00	\$ 1,415,700.00
05/01/32	\$ 1,320,000.00	7.25%	\$ 1,320,000.00		\$ 47,850.00	
			\$ 15,160,000.00	\$ 240,000.00	\$ 23,135,112.50	\$ 40,415,112.50

Summary of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year 2012 Modified Tentative Budget

ACCOUNT DESCRIPTION	ACTUAL FY 2010	ADOPTED BUDGET FY 2011	ACTUAL THRU MAY -2011	PROJECTED JUNE - SEP-2011	TOTAL PROJECTED FY 2011	ANNUAL BUDGET FY 2012
REVENUES						
Interest - Investments	\$ 2,371	\$ 800	\$ 1,128	\$ 806	\$ 1,934	\$ 800
Net Incr (Decr) In FMV-Invest	(1,263)	-	-	-	-	-
Special Assmnts- CDD Collected	1,201,217	1,198,145	826,295	371,850	1,198,145	1,198,075
TOTAL REVENUES	1,202,325	1,198,945	827,423	372,656	1,200,079	1,198,875
EXPENDITURES						
<i>Debt Service</i>						
Principal Debt Retirement	210,000	225,000	225,000	-	225,000	245,000
Interest Expense	1,014,863	1,000,688	1,000,688	-	1,000,688	985,500
Total Debt Service	1,224,863	1,225,688	1,225,688	-	1,225,688	1,230,500
TOTAL EXPENDITURES	1,224,863	1,225,688	1,225,688	-	1,225,688	1,230,500
Excess (deficiency) of revenues Over (under) expenditures	(22,538)	(26,743)	(398,265)	372,656	(25,609)	(31,625)
OTHER FINANCING SOURCES (USES)						
Contribution to (Use of) Fund Balance	-	(26,743)	-	-	-	(31,625)
TOTAL OTHER SOURCES (USES)	-	(26,743)	-	-	-	(31,625)
Net change in fund balance	(22,538)	(26,743)	(398,265)	372,656	(25,609)	(31,625)
FUND BALANCE, BEGINNING	1,450,369	1,427,831	1,427,831	-	1,427,831	1,402,222
FUND BALANCE, ENDING	\$ 1,427,831	\$ 1,401,088	\$ 1,029,566	\$ 372,656	\$ 1,402,222	\$ 1,370,596

AMORTIZATION SCHEDULE

DATE	BALANCE	RATE	PRINCIPAL	INTEREST	TOTAL
11/1/2011	\$ 14,600,000.00	6.75%	\$ -	\$ 492,750.00	\$ 1,230,500.00
5/1/2012	\$ 14,600,000.00	6.75%	\$ 245,000.00	\$ 492,750.00	
11/1/2012	\$ 14,355,000.00	6.75%	\$ -	\$ 484,481.25	\$ 1,223,962.50
5/1/2013	\$ 14,355,000.00	6.75%	\$ 255,000.00	\$ 484,481.25	
11/1/2013	\$ 14,100,000.00	6.75%	\$ -	\$ 475,875.00	\$ 1,226,750.00
5/1/2014	\$ 14,100,000.00	6.75%	\$ 275,000.00	\$ 475,875.00	
11/1/2014	\$ 13,825,000.00	6.75%	\$ -	\$ 466,593.75	\$ 1,223,187.50
5/1/2015	\$ 13,825,000.00	6.75%	\$ 290,000.00	\$ 466,593.75	
11/1/2015	\$ 13,535,000.00	6.75%	\$ -	\$ 456,806.25	\$ 1,223,612.50
5/1/2016	\$ 13,535,000.00	6.75%	\$ 310,000.00	\$ 456,806.25	
11/1/2016	\$ 13,225,000.00	6.75%	\$ -	\$ 446,343.75	\$ 1,222,687.50
5/1/2017	\$ 13,225,000.00	6.75%	\$ 330,000.00	\$ 446,343.75	
11/1/2017	\$ 12,895,000.00	6.75%	\$ -	\$ 435,206.25	\$ 1,225,412.50
5/1/2018	\$ 12,895,000.00	6.75%	\$ 355,000.00	\$ 435,206.25	
11/1/2018	\$ 12,540,000.00	6.75%	\$ -	\$ 423,225.00	\$ 1,226,450.00
5/1/2019	\$ 12,540,000.00	6.75%	\$ 380,000.00	\$ 423,225.00	
11/1/2019	\$ 12,160,000.00	6.75%	\$ -	\$ 410,400.00	\$ 1,225,800.00
5/1/2020	\$ 12,160,000.00	6.75%	\$ 405,000.00	\$ 410,400.00	
11/1/2020	\$ 11,755,000.00	6.75%	\$ -	\$ 396,731.25	\$ 1,228,462.50
5/1/2021	\$ 11,755,000.00	6.75%	\$ 435,000.00	\$ 396,731.25	
11/1/2021	\$ 11,320,000.00	6.75%	\$ -	\$ 382,050.00	\$ 1,224,100.00
5/1/2022	\$ 11,320,000.00	6.75%	\$ 460,000.00	\$ 382,050.00	
11/1/2022	\$ 10,860,000.00	6.75%	\$ -	\$ 366,525.00	\$ 1,228,050.00
5/1/2023	\$ 10,860,000.00	6.75%	\$ 495,000.00	\$ 366,525.00	
11/1/2023	\$ 10,365,000.00	6.75%	\$ -	\$ 349,818.75	\$ 1,224,637.50
5/1/2024	\$ 10,365,000.00	6.75%	\$ 525,000.00	\$ 349,818.75	
11/1/2024	\$ 9,840,000.00	6.75%	\$ -	\$ 332,100.00	\$ 1,224,200.00
5/1/2025	\$ 9,840,000.00	6.75%	\$ 560,000.00	\$ 332,100.00	
11/1/2025	\$ 9,280,000.00	6.75%	\$ -	\$ 313,200.00	\$ 1,221,400.00
5/1/2026	\$ 9,280,000.00	6.75%	\$ 595,000.00	\$ 313,200.00	
11/1/2026	\$ 8,685,000.00	6.75%	\$ -	\$ 293,118.75	\$ 1,221,237.50
5/1/2027	\$ 8,685,000.00	6.75%	\$ 635,000.00	\$ 293,118.75	
11/1/2027	\$ 8,050,000.00	6.75%	\$ -	\$ 271,687.50	\$ 1,223,375.00
5/1/2028	\$ 8,050,000.00	6.75%	\$ 680,000.00	\$ 271,687.50	
11/1/2028	\$ 7,370,000.00	6.75%	\$ -	\$ 248,737.50	\$ 1,227,475.00
5/1/2029	\$ 7,370,000.00	6.75%	\$ 730,000.00	\$ 248,737.50	
11/1/2029	\$ 6,640,000.00	6.75%	\$ -	\$ 224,100.00	\$ 1,223,200.00
5/1/2030	\$ 6,640,000.00	6.75%	\$ 775,000.00	\$ 224,100.00	
11/1/2030	\$ 5,865,000.00	6.75%	\$ -	\$ 197,943.75	\$ 1,220,887.50
5/1/2031	\$ 5,865,000.00	6.75%	\$ 825,000.00	\$ 197,943.75	
11/1/2031	\$ 5,040,000.00	6.75%	\$ -	\$ 170,100.00	\$ 1,220,200.00
5/1/2032	\$ 5,040,000.00	6.75%	\$ 880,000.00	\$ 170,100.00	
11/1/2032	\$ 4,160,000.00	6.75%	\$ -	\$ 140,400.00	\$ 1,220,800.00
5/1/2033	\$ 4,160,000.00	6.75%	\$ 940,000.00	\$ 140,400.00	
11/1/2033	\$ 3,220,000.00	6.75%	\$ -	\$ 108,675.00	\$ 1,217,350.00
5/1/2034	\$ 3,220,000.00	6.75%	\$ 1,000,000.00	\$ 108,675.00	
11/1/2034	\$ 2,220,000.00	6.75%	\$ -	\$ 74,925.00	\$ 1,219,850.00
5/1/2035	\$ 2,220,000.00	6.75%	\$ 1,070,000.00	\$ 74,925.00	
11/1/2035	\$ 1,150,000.00	6.75%	\$ -	\$ 38,812.50	\$ 1,227,625.00
5/1/2036	\$ 1,150,000.00	6.75%	\$ 1,150,000.00	\$ 38,812.50	
			\$ 14,600,000.00	\$ 22,178,028.75	\$ 37,768,028.75

Budget Narrative
Fiscal Year 2012**REVENUES****Interest-Investments**

The District earns interest income on its trust accounts with US Bank.

Special Assessments-Tax Collector

The District will levy a Non-Ad Valorem assessment on all the assessable property within the District in order to pay for the debt service expenditures during the Fiscal Year.

Special Assessment – CDD Collected (Maintenance)

The District will collect a Non-Ad Valorem assessment on all the un-platted parcels within the District in support of the overall fiscal year budget.

Special Assessments-Discounts

Per Section 197.162, Florida Statutes, discounts are allowed for early payment of assessments. The budgeted amount for the fiscal year is calculated at 4% of the anticipated Non-Ad Valorem assessments.

EXPENDITURES**Administrative****Miscellaneous-Assessment Collection Cost**

The District reimburses the Osceola Tax Collector for her or his necessary administrative costs. Per the Florida Statutes, administrative costs shall include, but not be limited to, those costs associated with personnel, forms, supplies, data processing, computer equipment, postage, and programming. The District also compensates the Tax Collector for the actual cost of collection or 2% on the amount of special assessments collected and remitted, whichever is greater. The FY2012 budget for collection costs was based on a maximum of 2% of the anticipated assessment collections.

Principal Debt Retirement

The District pays regular principal payments annually in order to pay down/retire the debt service.

Interest Expense

The District pays interest expense on the debt service bonds twice a year.

Harmony

Community Development District

Supporting Budget Schedules

Fiscal Year 2012

HARMONY

Community Development District

2011-2012 Non-Ad Valorem Assessment Summary

Platted			2012	2011	2012	2011	2012	2011	% Change	
Neighborhood	Lot Type	Lot Width	O & M Assessment	O & M Assessment	Debt Service Assessment	Debt Service Assessment	Total Assessment	Total Assessment	(Decrease) Increase	Units
A-1	MF	n/a	\$ 393.97	\$ 394.14	\$ 676.53	\$ 676.57	\$ 1,070.50	\$ 1,070.72	0.0%	186
B	B	80	\$ 1,245.45	\$ 1,246.01	\$ 2,138.74	\$ 2,138.86	\$ 3,384.19	\$ 3,384.87	0.0%	9
	C	65	\$ 1,011.93	\$ 1,012.38	\$ 1,737.72	\$ 1,737.83	\$ 2,749.65	\$ 2,750.21	0.0%	25
	E	52	\$ 809.54	\$ 809.91	\$ 1,390.18	\$ 1,390.26	\$ 2,199.72	\$ 2,200.17	0.0%	35
	G	42	\$ 653.86	\$ 654.15	\$ 1,122.84	\$ 1,122.90	\$ 1,776.70	\$ 1,777.06	0.0%	22
	H	35	\$ 544.88	\$ 545.13	\$ 935.70	\$ 935.75	\$ 1,480.58	\$ 1,480.88	0.0%	15
C-1	B	80	\$ 1,224.99	\$ 1,225.54	\$ 2,103.60	\$ 2,103.72	\$ 3,328.58	\$ 3,329.25	0.0%	10
	C	65	\$ 995.30	\$ 995.75	\$ 1,709.17	\$ 1,709.27	\$ 2,704.47	\$ 2,705.02	0.0%	30
	E	52	\$ 796.24	\$ 796.60	\$ 1,367.34	\$ 1,367.42	\$ 2,163.58	\$ 2,164.02	0.0%	35
	G	42	\$ 643.12	\$ 643.41	\$ 1,104.39	\$ 1,104.45	\$ 1,747.51	\$ 1,747.86	0.0%	30
C-2	H	35	\$ 535.93	\$ 536.17	\$ 920.32	\$ 920.38	\$ 1,456.26	\$ 1,456.55	0.0%	12
	B	80	\$ 1,273.81	\$ 1,274.38	\$ 2,187.44	\$ 2,187.57	\$ 3,461.25	\$ 3,461.95	0.0%	4
	C	65	\$ 1,034.97	\$ 1,035.44	\$ 1,777.30	\$ 1,777.40	\$ 2,812.27	\$ 2,812.84	0.0%	14
	E	52	\$ 827.98	\$ 828.35	\$ 1,421.84	\$ 1,421.92	\$ 2,249.81	\$ 2,250.27	0.0%	13
D-1	G	42	\$ 668.75	\$ 669.05	\$ 1,148.41	\$ 1,148.47	\$ 1,817.16	\$ 1,817.52	0.0%	31
	H	35	\$ 557.29	\$ 557.54	\$ 957.01	\$ 957.06	\$ 1,514.30	\$ 1,514.60	0.0%	25
	B	80	\$ 1,316.03	\$ 1,316.62	\$ 2,259.95	\$ 2,260.08	\$ 3,575.98	\$ 3,576.70	0.0%	9
D-2	C	65	\$ 1,069.28	\$ 1,069.76	\$ 1,836.21	\$ 1,836.31	\$ 2,905.48	\$ 2,906.07	0.0%	20
	E	52	\$ 855.42	\$ 855.80	\$ 1,468.96	\$ 1,469.05	\$ 2,324.39	\$ 2,324.86	0.0%	6
E	Custom	n/a	\$ 781.74	\$ 782.09	\$ 1,342.43	\$ 1,342.51	\$ 2,124.17	\$ 2,124.59	0.0%	11
G	E	52	\$ 2,085.82	\$ 2,086.75	\$ 3,581.85	\$ 3,582.06	\$ 5,667.68	\$ 5,668.82	0.0%	51
	E	52	\$ 941.61	\$ 942.03	\$ 1,616.96	\$ 1,617.06	\$ 2,558.57	\$ 2,559.08	0.0%	62
	G	42	\$ 760.53	\$ 760.87	\$ 1,306.01	\$ 1,306.08	\$ 2,066.54	\$ 2,066.95	0.0%	85
	H	35	\$ 633.77	\$ 634.06	\$ 1,088.34	\$ 1,088.40	\$ 1,722.11	\$ 1,722.46	0.0%	39
Unplatted										
A-2	MF		\$ 348.41	\$ 348.57	\$ 598.31	\$ 598.34	\$ 946.72	\$ 946.91	0.0%	44
H-1/H-2	MF		\$ 598.89	\$ 599.16	\$ 1,028.44	\$ 1,028.50	\$ 1,627.33	\$ 1,627.66	0.0%	222
F	MF		\$ 463.10	\$ 463.30	\$ 795.25	\$ 795.30	\$ 1,258.35	\$ 1,258.60	0.0%	120
M	MF		\$ 225.89	\$ 225.99	\$ 387.90	\$ 387.93	\$ 613.79	\$ 613.91	0.0%	120
I/J	TBD		\$ 468.73	\$ 468.94	\$ 804.92	\$ 804.97	\$ 1,273.65	\$ 1,273.91	0.0%	600
K	TBD		\$ 431.56	\$ 431.75	\$ 741.08	\$ 741.13	\$ 1,172.64	\$ 1,172.88	0.0%	220
L	TBD		\$ 462.42	\$ 462.63	\$ 794.09	\$ 794.13	\$ 1,256.51	\$ 1,256.76	0.0%	180
Comm	Comm		\$ 26,409.64	\$ 26,421.45	\$ 45,351.66	\$ 45,354.32	\$ 71,761.30	\$ 71,775.77	0.0%	7.58
Office	Office		\$ 91,771.75	\$ 91,812.79	\$ 157,594.02	\$ 157,603.27	\$ 249,365.77	\$ 249,416.06	0.0%	26.34
TC	Town Center		\$ 105,394.67	\$ 105,441.79	\$ 180,987.82	\$ 180,998.44	\$ 286,382.49	\$ 286,440.24	0.0%	30.25
GC	Golf Course									

2,349.17

THIRD ORDER OF BUSINESS



Fact Sheet about Fund Balance Reporting and Governmental Fund Type Definitions

1. Why has the GASB issued new standards for reporting fund balance?

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to address issues related to how fund balance was being reported. The GASB's original intention was to clear up confusion regarding the relationship between reserved fund balance and restricted net assets. However, the GASB's research revealed that the existing standards guiding fund balance reporting were being interpreted inconsistently by different governments. Consequently, the fund balance information reported by many governments also was inconsistent. It also became clear that the understandability of fund balance information was affected and that financial statement users were unable to readily interpret reported fund balance information.

2. Why did the GASB decide not to just clarify the existing fund balance classifications (reserved, designated, unreserved)?

The GASB considered pursuing a solely educational approach to these issues. However, it became apparent based on interviews and survey results that, even if all governments interpreted the requirements consistently, the resulting information would not meet the needs of people who use fund balance information to identify available resources and assess liquidity and financial flexibility.

3. How will governments report fund balance in the future?

Fund balance will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*—amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund)
- *Restricted fund balance*—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation
- *Committed fund balance*—amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint
- *Assigned fund balance*—amounts a government *intends* to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority

- *Unassigned fund balance*—amounts that are available for any purpose; these amounts are reported only in the general fund.

4. Why is unassigned fund balance reported only in the general fund?

When a government transfers resources from the general fund to another governmental fund, it is communicating that, at a minimum, it intends to use those resources for the purpose of the fund receiving them. This expression of intent meets the requirements for classification as assigned fund balance. Because unassigned fund balance represents amounts that are not constrained in any way, not even by an intention to use them for a specific purpose, the general fund is the only appropriate place to report this classification of fund balance.

In the other governmental funds, however, if a government spends more on a specific purpose than the resources available for that purpose in the fund, then it may need to report a negative amount as unassigned fund balance. If a government cannot cover the deficit with amounts assigned to other purposes in that fund, then the remaining deficit should be reported on the unassigned fund balance line.

5. How will rainy-day amounts be reported under Statement 54?

Statement 54 treats stabilization arrangements as a specific purpose, allowing governments to report these amounts in the general fund as restricted or committed, if they meet the applicable definitions and criteria. Stabilization amounts that do not qualify to be reported as restricted or committed should be included in unassigned fund balance. Governments may report stabilization amounts in a special revenue fund only if they derive from specific revenue sources that are restricted or committed to stabilization.

Regardless of where stabilization amounts are reported, governments also will disclose key information about their stabilization arrangements in the notes to the financial statements, including the authority by which the arrangements were established, the conditions under which additions to the stabilization amounts are required, and the circumstances under which amounts may be used.

6. How has Statement 54 changed the way encumbrances are reported?

The new standards clarify that an encumbrance is not a specific purpose and therefore should not be reported as a separate line on the face of the balance sheet. Encumbering amounts that are restricted or committed does not further limit the purposes for which they can be used. If the encumbering process meets the definition and criteria for committed fund balance, then encumbering an assigned or unassigned amount could result in the amount being reported as committed; however, it would be reported with other amounts committed to the same or similar purposes, *not* as “committed for encumbrances.” If a government has significant encumbrances, it should disclose them under the standards for significant commitments.

7. What did the GASB find out about the reporting of governmental funds?

In practice, many governments have interpreted in different ways the prior standards on reporting governmental funds contained in National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*. This is particularly true for special revenue funds.

8. How does Statement 54 clarify the special revenue fund type definition?

Statement 54 makes clear that, for financial reporting purposes, a special revenue fund may only be established around one or more revenue sources that are restricted or committed to purposes other than capital projects or debt service. For example, a school district might report state and federal aid for elementary and secondary education in a special fund if those revenue sources represent a substantial portion of the fund's total inflows.

9. How does Statement 54 clarify the definitions of debt service and capital projects fund types?

Statement 54 revises the definitions of the debt service and capital projects fund types so that consistent language and structure are used across all of the governmental fund type definitions. Although the existing definition of a capital project fund specifies that they should be used to account for "the acquisition or construction of major capital facilities," many governments have used them to report on capital assets that are not facilities or major or either. Based on constituent feedback, the GASB broadened the definition to encompass capital outlays in general.

10. How will Statement 54 impact the reporting of governmental funds?

The most significant changes are likely to occur in the reporting of special revenue funds, because that is where there has been the most variation in how the prior standards were interpreted. Some governments may not be able to continue to report some of their special revenue funds under the clarified definition. The Statement 54 definition is considered by some to be more permissive than the NCGA Statement 1 definition. However, practice has varied so much that the Statement 54 definition may appear more restrictive to some governments.

11. Does Statement 54 affect how governments use funds for internal accounting purposes or for special reporting?

No. Statement 54 affects only the *reporting* of governmental funds in general purpose external financial reports in conformity with generally accepted accounting principles (GAAP). Governments may continue to use any funds they choose or are required to for their internal accounting or for special purpose reporting.

12. What if a state law requires local governments to report a particular type of fund or to report using the current classifications of fund balance?

For general purpose external financial reporting under GAAP, governments are required to follow Statement 54. If a law conflicts with Statement 54 or any other part of GAAP, the legal requirements can be met by presenting supplemental schedules. Governments will still be able to comply with such state laws in their general purpose external financial report, but outside of the basic financial statements, notes to the basic financial statements, and required supplementary information.

13. What other note disclosures does Statement 54 require?

In addition to the disclosures already mentioned, Statement 54 requires governments to disclose:

- Additional detail regarding the purposes of restrictions, commitments, and assignments, if the required level of detail is not met through display on the face of the balance sheet
- The decision-making authority and formal action, if any, that results in commitments of fund balance
- The bodies or persons with the authority to express intended uses of resources that result in assigned fund balance
- The order in which a government assumes restricted, committed, assigned, and unassigned amounts are spent when amounts in more than one classification are available for a particular purpose
- Information about minimum fund balance policies, if a government has one
- The purpose for each major special revenue fund, identifying which revenues and other resources are reported in each of those funds.

14. When should Statement 54 be implemented?

Governments should implement Statement 54 no later than the first fiscal year beginning after June 15, 2010 (for example, the fiscal year starting on July 1, 2010 and ending on June 30, 2011). Governments are encouraged to implement the standards earlier.



FUND BALANCE

NEW AND IMPROVED

BY STEPHEN J. GAUTHIER

There is probably no single item in a typical state or local government's financial statements that attracts more attention than fund balance. In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This latest GASB standard will not affect the calculation of fund balance, but will fundamentally alter the various components used to report it.

BACKGROUND

Accountants use the term *fund balance* to describe the arithmetic difference between the assets and liabilities reported in a governmental fund (e.g., general fund). The categories that have been used until now to present fund balance have focused on whether resources were *available for appropriation* (i.e., budgeting). Thus, the traditional presentation of fund balance distinguished *unreserved fund balance* (i.e., available for appropriation) from *reserved fund balance* (i.e., not available for appropriation).

Fund balance might not be available for appropriation (i.e., reserved) for a variety of reasons. Some resources of a governmental fund, by their very nature, cannot be spent (e.g., prepaid rent and inventories of supplies). Other resources may convert to spendable form only at a much later date (e.g., the long-term portion of notes receivable). Still other resources may be available for spending, but their use is externally restricted to a purpose narrower than the purpose of the fund in which they are reported.

In addition, governing bodies themselves frequently place their own limitations on how they will use resources otherwise available for appropriation (e.g., "earmarking"). Likewise, a government's management may have tentative plans for all or a portion of those resources. In either case, a government traditionally has had the *option* of indicating these tentative managerial plans and self-imposed limitations by presenting a portion of unreserved fund balance as *designated*.

This traditional approach to classifying fund balance is summarized in Exhibit 1.

Three considerations led the GASB to undertake its recent reexamination of the components used to report fund balance. First, the traditional terminology was not self-explanatory

and has frequently led to misunderstandings. Second, governments often have applied the different categories inconsistently in practice. Finally, some have questioned whether the historic focus on availability for appropriation best serves the needs of financial statement users.

NEW GUIDANCE

Focus. GASB Statement No. 54 will shift the focus of fund balance reporting from the availability of fund resources for budgeting to "the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."¹

Components of fund balance. GASB Statement No. 54 establishes five components of fund balance. Because circumstances differ among governments, not every government or every governmental fund will report all of those components.

Constraints on how amounts can be spent are not really an issue for resources that are *inherently nonspendable*. Examples include inventories and prepaids; the long-term portion of loans receivable²; and non-financial assets held for resale.³ Still other resources cannot be spent because *legal or contractual provisions require that they be maintained intact* (e.g., the principal of an endowment). GASB Statement No. 54

directs that the portion of fund balance reflecting both be labeled *nonspendable fund balance*.

Not all limitations on how resources may be used have the same force. Some limitations are externally enforceable and lie beyond the power of the government to change unilaterally (e.g., restrictions imposed by a grant contract or a bond covenant). Other limitations are self-imposed, but would require formal action at the highest level of the government to remove (e.g., resources legally "earmarked" for a given project by the governing body). Still other limitations are less binding and function more as a declaration of intent. GASB Statement No. 54 has created a separate category to accommodate each of these situations.

■ **Restricted fund balance.** The term *restricted fund balance* will encompass net fund resources subject to externally enforceable legal restrictions. It is no accident that the term *restricted fund balance* so closely resembles the term

There is probably no single item in a typical state or local government's financial statements that attracts more attention than fund balance.

Exhibit I: Traditional Components of Fund Balance

(Focus on Availability for Appropriation)

- **Reserved fund balance** (not available for appropriation)
 - Portion of net resources that *cannot ever be spent* because of their form
 - Portion of net resources that *cannot yet be spent*
 - Portion of net resources that *cannot be spent for any and all fund-related purposes* because of external limitations
- **Unreserved fund balance** (available for appropriation)
 - **Designated unreserved fund balance** (available for appropriation, with a limitation on use imposed by the government itself)
 - Portion of net resources subject to limitations imposed by the governing body
 - Portion of net resources set aside by management in connection with its tentative plans
 - **Undesignated unreserved fund balance** (available for appropriation, with no external or internal limitation)

restricted net assets used in the context of government-wide financial reporting. In both cases, the *restrictions* concerned would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation.⁴ Note that there is no need for the limitation to be narrower than the purpose of the fund.⁵

- **Committed fund balance.** The term *committed fund balance* will be used to describe the portion of fund balance that represents resources whose use is constrained by limitations that the government imposes upon itself at its highest level of decision making (normally the governing body) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation would need to occur no later than the close of the reporting period. Note, once again, that there is no requirement that the limitation be narrower than the purpose of the fund.⁶

- **Assigned fund balance.** The *assigned fund balance* category will cover the portion of fund balance that reflects a government's *intended* use of resources. Such intent would have to be established at either the highest level of decision making, or by a body (e.g., finance committee) or an official designated for that purpose.⁷ Logically speaking, a government cannot *assign* resources that it does not have; therefore, the amount reported as *assigned fund balance* could never exceed total fund balance less its nonspendable, restricted, and committed components. Once again, note that there is no requirement that the limitation be narrower than the purpose of the fund.

Of course, the general fund, as the principal operating fund of a government, may have net resources in excess of what is properly categorized in one of the four categories just already described. If so, the surplus will be presented as **unassigned fund balance**. A positive amount of unassigned fund balance, however, will never be reported in a governmental fund other than the general fund, because GASB Statement No. 54 prohibits reporting resources in another fund unless they are at least *assigned* to the purpose of that fund. All the same, funds other than the general fund could report a negative amount of unassigned fund balance should the total of nonspendable fund balance, restricted fund balance, and committed fund balance exceed the total net resources of the fund.

The new components of fund balance are summarized in Exhibit 2.

Stabilization arrangements. Governments often establish "rainy day funds" or "contingency funds" to provide a financial cushion against unanticipated adverse financial or economic circumstances. The appropriate classification of such resources within fund balance depends on the specific nature of the arrangement.

On the one hand, if the use of the resources is limited in a way that is legally enforceable by an outside party, classification as restricted fund balance would be appropriate. On the other hand, if the limitation was imposed by the highest level of decision making and can only be removed by formal action equivalent to the action taken to impose it, the use of the committed fund balance classification would be appropriate. It would never be appropriate, however, to classify such resources as assigned fund balance.

Exhibit 2: New Components of Fund Balance — GASB Statement No. 54

(Focus on Extent to which Government Is Bound to Honor Constraints on the Specific Purposes for Which Amounts Can Be Spent)

■ Nonspendable fund balance (inherently nonspendable)

- Portion of net resources that cannot be spent because of their form
- Portion of net resources that cannot be spent because they must be maintained intact

■ Restricted fund balance

(externally enforceable limitations on use)

- Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments
- Limitations imposed by law through constitutional provisions or enabling legislation

■ Committed fund balance (self-imposed limitations set in place prior to the end of the period)

- Limitation imposed at highest level of decision making that requires formal action at the same level to remove

■ Assigned fund balance (limitation resulting from intended use)

- Intended use established by highest level of decision making
- Intended use established by body designated for that purpose
- Intended use established by official designated for that purpose

■ Unassigned fund balance (residual net resources)

- Total fund balance in the general fund in excess of *nonspendable*, *restricted*, *committed*, and assigned fund balance (i.e., surplus)
- Excess of *nonspendable*, *restricted*, and *committed* fund balance over total fund balance (i.e., deficit)

GASB Statement No. 54, paragraph 20, places serious limits on what qualifies as a *stabilization arrangement* for this purpose:

The formal action that imposes the parameters for spending should identify and describe the specific circumstances under which a need for stabilization arises. Those circumstances should be such that they would not be expected to occur routinely. For example, a stabilization amount that can be accessed “in an emergency” would not qualify to be classified within the committed category because the circumstances or conditions that constitute an emergency are not sufficiently detailed, and it is not unlikely that an “emergency” of some nature would routinely occur. Similarly, a stabilization amount that can be accessed to offset an “anticipated revenue shortfall” would not qualify unless the shortfall was quantified and was of a magnitude that would distinguish it from other revenue shortfalls that occur during the normal course of governmental operations.

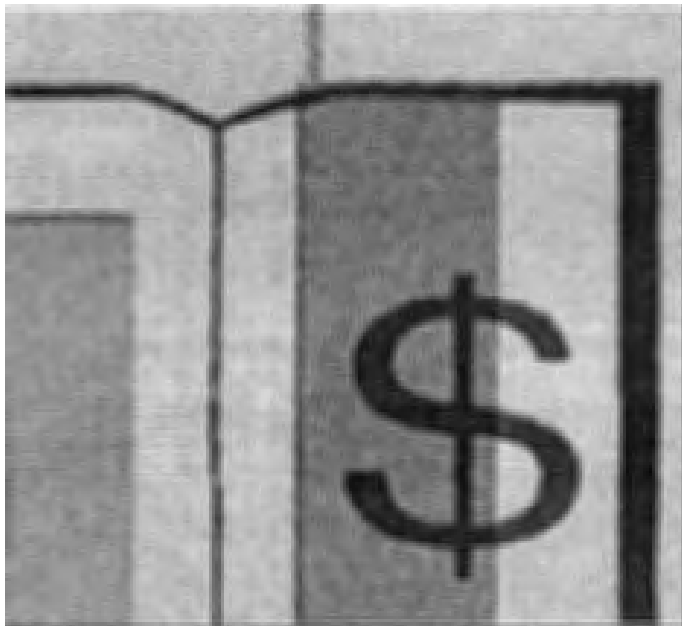
Appropriated fund balance. Not infrequently, governments balance their budget by appropriating a portion of existing fund balance to bridge the gap between appropriations and estimated revenues. The portion of fund balance thus appropriated for the following year would properly be classified as assigned fund balance.

Flow assumptions. Frequently resources for a single project will come from multiple sources. For example, a city may elect to finance a new bridge partially from restricted grant proceeds (*restricted fund balance*), partially from earmarked revenues (*committed fund balance*), and partially from other available resources expressly set aside for the purpose (*assigned fund balance*). In that case, flow assumptions would be needed:

- When both restricted resources and other resources are to be used, how are outlays allocated to each (e.g., restricted resources presumed to be spent first? Spending presumed to occur on a pro rata basis?)
- When committed, assigned, and unassigned resources are to be used, how are outlays allocated among the various categories?

COMPARISON OF OLD AND NEW

Perhaps the best way to gain an understanding of the new fund balance categories is to contrast how certain specific items are reported today with how those same items will be reported in the future under GASB Statement No. 54.



Reserved fund balance. Currently, reserved fund balance comprises three elements:

- Resources that by their very nature cannot be spent (e.g., prepaid rent)
- Resources that are not yet available for spending (e.g., long-term portion of loans receivable)
- Resources externally restricted to a purpose narrower than the fund

The first of these elements will *always* be reported as nonspendable fund balance. The second element *normally* would be reported as nonspendable fund balance (i.e., unless there was a limitation on how the amounts eventually received could be used, in which case the classification would be restricted, committed, or assigned fund balance, as appropriate). The third element will be reported as restricted fund balance.

Designated unreserved fund balance. Currently this category comprises two elements:

- Limitations that the government places upon itself
- Tentative management plans

Net resources currently reflected in the first category will be reported in the future as either committed fund balance or as assigned fund balance, depending upon the source of the limitation. The latter will be reported as either assigned fund balance (if management is designated to make such assignments) or unassigned fund balance.

Undesignated unreserved fund balance. Today this residual category includes resources whose use is limited, but not for a purpose narrower than the purpose of the fund. Under GASB Statement No. 54, there is no requirement that a limitation be narrower than the purpose of the fund. Accordingly, items that are restricted, committed, or assigned simply for the purpose of the fund will be reported as restricted, committed, or assigned fund balance.

Also, reporting designated unreserved fund balance today is optional. Under GASB Statement No. 54, the use of the equivalent category (i.e., assigned fund balance) will be required. Therefore, many governments that today do not report designated unreserved fund balance will report as assigned fund balance a portion of what today is labeled simply unreserved fund balance.

EFFECTIVE DATE

Governments will need to implement GASB Statement No. 54 starting with the fiscal period that ends June 30, 2011. In the statistical section of the comprehensive annual financial report, retroactive implementation is encouraged, but not required. If a government declines to restate amounts from previous years in the statistical section, it will need to provide an explanation. ¶

Notes

1. GASB Statement No. 54, paragraph 5.
2. Assuming that there are not constraints on the use of the amounts eventually collected.
3. Assuming that there are not constraints on the use of the proceeds of the eventual sale.
4. The criteria for restricted net assets set forth in GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, paragraph 34, are identical to the criteria for *restricted fund balance* in GASB Statement No. 54, paragraph 8.
5. If the use of the amounts to be collected on long-term loans receivable and the amounts resulting from the sale of nonfinancial assets is subject to restrictions, then those items should be reflected in restricted fund balance, rather than in nonspendable fund balance.
6. If the use of the amounts to be collected on long-term loans receivable and the amounts resulting from the sale of nonfinancial assets is committed, then those items should be reflected in committed fund balance, rather than in nonspendable fund balance.
7. If the use of the amounts to be collected on long-term loans receivable and the amounts resulting from the sale of nonfinancial assets is assigned, then those items should be reflected in assigned fund balance, rather than in nonspendable fund balance.

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