

Fund Balance Reporting Policy

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GASB Comprehensive Implementation Guide

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Policy:

For classification of governmental fund balances, the State considers an expenditure to be made from the most restrictive resource when more than one fund balance classification is available for use.

Accounting Guidance:

Fund balance for governmental funds should be reported 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. The fund balance classifications are as follows:

1. Nonspendable
2. Restricted
3. Committed
4. Assigned
5. Unassigned

These classifications replace the previous classifications of reserved, unreserved, designated, and undesignated. Because circumstances vary, not every government or every governmental fund will necessarily report all five of these components.

Nonspendable Fund Balance

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

The “not in spendable form” criterion includes resources that cannot ever be spent because of their form (e.g., inventories) or cannot currently be spent because of their form (e.g., long-term portion of loans/notes receivable, advances, and property held for resale). However, if the proceeds from the collection of long-term loans/notes receivable, advances, or from the sale of properties are restricted, committed, or assigned, those constraints take precedence over the nonspendable nature of the resources when classifying the amounts (i.e., classify as restricted, committed, or assigned rather than nonspendable). Consequently, the long-term portion of loans/notes receivable, advances, and property held for resale can only be reported as “nonspendable” in the general fund. (Note: all resources in other governmental funds, by definition, are restricted, committed, or assigned).

Amounts that are legally or contractually required to be maintained intact generally consist of the corpus (or principal) of a permanent fund. Even though these amounts also meet the definition of restricted fund balance, they should always be reported as nonspendable fund balance.

Once nonspendable resources have been identified and isolated as a separate component of fund balance, the remaining fund balance should be categorized based on constraints on the purpose for which amounts may be used. There is no requirement that limitations be narrower than the purpose of the fund, except for assignments in the General Fund (see Assigned Fund Balance section).

Restricted Fund Balance

Restricted fund balance reflects amounts subject to externally enforceable legal restrictions. Fund balance should be reported as restricted when constraints placed on the use of resources are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.
- b. Imposed by law through constitutional provisions.

These are the same restrictions used to determine restricted net assets in the context of the government-wide and proprietary fund financial statements. If the use of the amounts to be collected on long-term receivables and the amounts resulting from the sale of properties is restricted, then those items should be reflected in restricted fund balance, rather than in nonspendable fund balance.

If an amount needed to meet a required match is transferred from the general fund to a special revenue fund that reflects the grant award, the matching requirement is bound by the same constraints imposed by the grantor agency on the award. Therefore, both the grant proceeds and the government's matching amount should be classified as restricted fund balance.

If the grant agreement requires that interest earned on invested grant proceeds can be used only for the same purposes as the grant award, the interest should be considered a restricted revenue source. If the grant agreement does not include such a provision, then the interest earned, if retained in the fund, should be classified as assigned to the purpose of the fund or program.

Committed Fund Balance

Committed fund balance reflects amounts that can only be used for specific purposes as a result of constraints imposed by formal action of the individual government's highest level of decision-making authority. For the State of North Carolina, the highest level of decision-making authority is the N.C. General Assembly. The authorization specifying the purposes for which amounts can be used should have the consent of both the legislative and executive branches of the government, if applicable. Commitments may be changed or lifted only by the government taking the same formal action (e.g., legislation) that imposed the constraint originally. The formal action of the government's highest level of decision-making authority that commits fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period. The N.C. General Assembly can commit fund balance by enactment of the following:

- Enabling legislation that authorizes the government to assess, levy, charge or otherwise raise revenues and includes a requirement that those resources be used only for specific purposes stipulated in the legislation.
- Other legislation that imposes spending constraints on existing resources or earmarks a portion of an existing revenue source for specific purposes (e.g., budget legislation).

Committed fund balance may also be created by contract to the extent that existing resources in the fund have been specifically committed for use in satisfying the contractual obligation (to the extent that the obligation is not recognized as a fund liability). An agreement between a government and a counterparty (e.g., a capital lease agreement or out-of-court settlement award) sufficiently binds the government to spending for a specific purpose, and therefore, constitutes the commitment.

If the use of the amounts to be collected on long-term receivables and the amounts resulting from the sale of properties is committed, then those items should be reflected in committed fund balance, rather than in nonspendable fund balance.

Assigned Fund Balance

Assigned fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. For the State of North Carolina, the body to which the N.C. General Assembly has delegated the authority to assign amounts to be used for specific purposes is the Office of State Budget and Management.

Assigned fund balance differs from committed fund balance as follows: 1) an assignment of resources does not have to be made by the government's highest level of decision-making authority, 2) the actions needed to impose, remove, or modify an assignment require less formality, and 3) the determination of the purposes as well as the amounts for assigned fund balances can be made after year end.

In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not classified as nonspendable, restricted, or committed. This reporting indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that

fund. In the General Fund, assigned fund balance represents the amount intended to be used by the government for a specific purpose that is narrower than the general purposes of the government itself. However, governments should not report an assignment for an amount to a specific purpose if the assignment would result in a deficit in unassigned fund balance.

An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance (Note: the assignment terminates at the effective date of the next period's budget).

If the use of the amounts to be collected on long-term receivables and the amounts resulting from the sale of properties is assigned, then those items should be reflected in assigned fund balance, rather than in nonspendable fund balance.

Unassigned Fund Balance

Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. The general fund should be the only fund that reports a positive unassigned fund balance amount. However, in governmental funds other than the general fund, it may be necessary to report a negative unassigned fund balance amount if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

Reporting Negative Balances

If overspending for a specific purpose occurs in a special revenue, capital projects, or permanent fund, the negative amount should be eliminated by first reducing assigned fund balances until depleted. The amount of the negative balance that exceeds assigned fund balances should be reported as a negative unassigned fund balance. If overspending for a specific purpose occurs in the general fund, the negative amount should be eliminated by first reducing unassigned fund balance until depleted and then reducing amounts assigned to other purposes (Note: any remaining negative balance should be reported as negative unassigned fund balance). While assigned and unassigned fund balances may be reduced to eliminate a negative balance, restricted and committed fund balances should never be reduced. Also, a negative balance may not be reported for restricted, committed, or assigned fund balance in any fund.

Encumbrances

Encumbered amounts for specific purposes for which resources already have been restricted, committed, or assigned should not result in a separate display of the encumbered amounts within those classifications (i.e., such encumbrances do not represent any further constraints). However, encumbrances of otherwise unassigned amounts in the general fund that are expected to be liquidated with unspecified existing resources should be classified as assigned fund balance (i.e., executing a purchase order is tantamount to assigning the amount of the purchase order to a specific purpose).