

May 16, 2011

**CHIEF FINANCIAL OFFICER MEMORANDUM NO. 06 (2010-2011)**

**SUBJECT: FUND BALANCE REPORTING**

The Governmental Accounting Standards Board issued Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* effective for fiscal year ending June 30, 2011. This memorandum communicates newly-established general ledger (GL) codes, retitles and redefines use of an existing GL code, specifies current GL codes that will be deactivated, requests reclassification of balances in GL codes that will be deactivated, and provides guidance for reporting fund balance using the new and redefined GL codes.

The following GL codes have been established to report fund balance in accordance with requirements of Statement No. 54:

- GL 561XX Nonspendable - Inventories and Prepaid Items
- GL 562XX Nonspendable - LT Receivables and Advances (SFRS USE ONLY\*)
- GL 563XX Nonspendable - Permanent Fund Principal
- GL 571XX Restricted by Creditors
- GL 572XX Restricted by Federal Government
- GL 573XX Restricted by Grantors and Contributors (Non-Federal)
- GL 574XX Restricted by Enabling Legislation
- GL 575XX Restricted by Constitutional Provisions
- GL 581XX Committed Fund Balance
- GL 591XX Unassigned Fund Balance (SFRS USE ONLY\*)

\*These GL codes are restricted for use by the Statewide Financial Reporting Section (SFRS) only.

The following GL code has been retitled and its use redefined to report fund balance in accordance with requirements of Statement No. 54:

- GL 549XX Assigned Fund Balance

The following general ledger codes will be deactivated:

- GL 551XX Reserved for Encumbrances
- GL 552XX Reserved for Inventories
- GL 554XX Reserved for Advances
- GL 555XX Reserved for Long-Term Receivables
- GL 556XX Reserved for Fixed Capital Outlay and Grants in Aid – FCO
- GL 557XX Reserved for Debt Service
- GL 558XX Reserved for Permanent Fund
- GL 559XX Other Fund Balance Reserved

All balances in 55XXX GL codes should be reclassified to 549XX by June 30, 2011. As a result GL 55XXX balances should be zero. The 55XXX GL codes will be deactivated once the reclassification has been completed.

Fund balance is the difference between assets and liabilities in a governmental fund (statewide GAAFR fund (SWGF) = 10, 20, 30, 40 or 72). Fund balance is classified for financial reporting in relation to the extent to which the state is bound to honor any constraints on the specific purposes for which amounts in fund balance can be spent. The classifications comprise a hierarchy ranging from the most constrained nonspendable fund balance (amounts that cannot be spent) to unassigned fund balance (amounts available for any purpose of the state).

Classifications include, in order from most to least constrained: nonspendable, restricted, committed, assigned, and unassigned.

The fund balance GL codes outlined below are only applicable for governmental fund types (SWGF = 10, 20, 30, 40, or 72). Therefore, they should not be used with proprietary or fiduciary fund types.

When classifying fund balance, classification balances should be determined in order from most to least constrained using the following GL codes:

- I. Nonspendable Fund Balance:
  - GL 561XX Nonspendable — Inventories and Prepaid Items
  - GL 562XX Nonspendable — LT Receivables and Advances (SFRS USE ONLY)
  - GL 563XX Nonspendable — Permanent Fund Principal
- II. Restricted Fund Balance:
  - GL 571XX Restricted by Creditors
  - GL 572XX Restricted by Federal Government
  - GL 573XX Restricted by Grantors and Contributors (Non-Federal)
  - GL 574XX Restricted by Enabling Legislation
  - GL 575XX Restricted by Constitutional Provisions
- III. GL 581XX Committed Fund Balance
- IV. GL 549XX Assigned Fund Balance
- V. GL 591XX Unassigned Fund Balance (SFRS USE ONLY)

**Nonspendable Fund Balance – GL 561XX, 562XX and 563XX:**

Nonspendable fund balance (the most constrained portion of fund balance) should be determined first. It includes amounts that will not be spent because they are either not in spendable form (GL 561XX and 562XX) or legally or contractually required to be maintained intact (GL 563XX).

- 1) **Fund balance not in spendable form:**
  - GL 561XX Nonspendable – Inventories and Prepaid Items:
    - These items are never expected to convert to cash.
    - The balance of GL 561XX must offset balances of the following two GL codes:
      - 17XXX–Inventories and 191XX–Prepaid Items.

- GL 562XX Nonspendable – Long-term Receivables and Advances (SFRS USE ONLY)
  - Includes items that will not convert to cash soon enough to affect the current period.
  - Applicable to the proceeds of advances and long-term receivables that are not restricted, committed or assigned to a specific purpose.
  - All resources in funds of state agencies are considered to be at least assigned therefore no proceeds of long-term receivables or advances in a fund of a state agency can be nonspendable.

2) **Fund balance legally or contractually required to be maintained intact:**

- GL 563XX Nonspendable Fund Balance – Permanent Fund Principal:
  - Valid only for Permanent Funds (SWGf = 72).
  - The balance of GL 563XX must offset principal of a permanent fund.
    - The principal of a permanent fund is the amount required to be maintained intact according to the permanent fund agreement.
    - Unspent earnings on permanent fund principal included in the fund balance of a permanent fund should not be classified as nonspendable. Classify earnings as restricted, committed or assigned according to permanent fund agreement.

- Nonspendable fund balance should not have an atypical (debit) balance.
- Nonspendable fund balance should not be reduced due to insufficient total fund balance.
- Nonspendable fund balance should always offset balances in GL codes 17XXX and 191XX.
- Overexpenditure for a restricted, committed or assigned purpose does not reduce nonspendable fund balance.

**Restricted Fund Balance - GL 571XX, 572XX, 573XX, 574XX, and 575XX:**

Restricted fund balance includes resources for which spending is constrained with legal enforceability, meaning the state could be legally compelled by an external party to spend resources only for specific purposes. Restricted fund balance includes amounts with externally imposed spending constraints and amounts with spending constrained by law.

1) **Fund balance restricted by externally imposed spending constraints:**

- A party external to the state can impose spending constraints because they are legally enforceable. Typical external parties include creditors (e.g., through bond covenants), grantors, contributors and the federal government (e.g., through grant agreement or regulation).
- GL 571XX Restricted by Creditors:
  - Amounts restricted through debt covenants or other lender-imposed requirements.
- GL 572XX Restricted by Federal Government:
  - Amounts with spending restricted by the federal government.
  - Fund balance related to state match of federal grants is restricted. For example, fund balance related to transfers from general revenue to a trust fund

for state match of federal grants should be classified as restricted in the trust fund.

- GL 573XX Restricted Grants and Contributions (Non-Federal):
  - Amounts related to grant proceeds and contributions for which use is restricted by grantors and contributors other than the federal government.
- Note for GL 572XX and 573XX:
  - Fund balance related to income earned from investment of grant proceeds should be classified as restricted if use is constrained by grant agreement. If the grant agreement does not include such a provision, fund balance related to investment income is likely assigned.

2) **Fund balance with spending constraints imposed by law:**

- These amounts are constrained by enabling legislation or constitutional provisions and the state can be compelled by external parties such as citizens, public interest groups, or the judiciary to use these resources only for the purposes specified by law or constitution.
- GL 574XX Restricted by Enabling Legislation:
  - Include amounts with spending restricted by enabling legislation.
    - **Enabling legislation** – a single law that authorizes the state to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for specific purpose(s) as set forth in the same law.
    - Example — a gasoline tax levied for the purpose of road repair and construction.
  - To determine whether a resource is restricted by enabling legislation:
    - Identify the law constraining use of the resource.
    - Determine whether the law constraining use also mandates payments from the external resource providers:
      - If not, legislation is not enabling legislation - resources are likely committed.
    - If the same law mandates payments from the external resource providers, determine if the constraint on use is *legally enforceable*:
      - If so, legislation is enabling legislation and the resources are restricted.
      - If not, legislation is not enabling legislation — resources are likely committed.
      - If resources otherwise considered restricted by enabling legislation are used for another purpose (e.g., “sweeps” by the Legislature), reconsider the legal enforceability of the spending constraint (e.g., once resources have been “swept”, they cannot be considered restricted by enabling legislation and are likely committed).
- GL 575XX Restricted by Constitutional Provisions:
  - Include amounts with spending restrictions imposed by constitutional provision.

- Restricted fund balance should not have an atypical (debit) balance.
- Restricted fund balance should not be reduced due to insufficient total fund balance.
- Expenditure of restricted resources for committed or assigned purposes does not reduce restricted fund balance.

**GL 581XX Committed Fund Balance**

Committed fund balance includes amounts for which the constraint on use is imposed by the state itself using its highest level of decision making authority (the Legislature and Governor).

- 1) The constraint must be established by a formal action (i.e., legislation approved by the Governor).
- 2) To be committed, the constraint can be removed or changed only by taking the same formal, highest level action.
- 3) The action to constrain resources should occur prior to fiscal year end although the amount of committed fund balance may be determined subsequent to fiscal year end.
- 4) Committed fund balance includes contractual obligations to the extent that resources have been committed for use in satisfying those obligations (e.g., appropriations for long-term capital outlay contracts) reduced by related fund liabilities.
- 5) Amounts classified as committed are not subject to legal enforceability (i.e. self-imposed constraints vs. externally enforceable constraints).
- 6) Spending authority (budget) does not commit resources. To be committed, resources must have a specific purpose for spending set by a law other than a budget law. (See the Budgets topic in the section below on Related Considerations).
  - Example – A law specifies that a percentage of existing tobacco tax revenue shall be used to educate the public on the dangers of tobacco use.

- Committed fund balance should not have an atypical (debit) balance.
- Committed fund balance should not be reduced due to insufficient total fund balance.
- Expenditure of committed resources for assigned purposes does not reduce committed fund balance.
- Expenditure of committed resources for restricted purposes does reduce restricted fund balance.

**GL 549XX Assigned Fund Balance:**

Assigned fund balance includes amounts that the state intends to use for specific purposes.

- 1) Intent to use resources for the purpose of a state agency is expressed by allocation of resources to a fund of a state agency.
- 2) Fund balance not classified as nonspendable, restricted, or committed is assigned.
- 3) Assigned fund balance may have an atypical (debit) balance.

**GL 591XX Unassigned Fund Balance (SFRS USE ONLY):**

Unassigned fund balance is available for any purpose or is deficit residual amounts in governmental funds other than the general fund.

- 1) Includes amounts such as General Revenue Unallocated and Budget Stabilization Fund.
- 2) Reporting deficit amounts in funds other than the general fund is administered by SFRS.

## **Related Considerations:**

### 1) **Budgets:**

- Budgets are not related to classification of fund balance for financial reporting. Budgets authorize expenditure but do not impose constraints on spending in the context of classifying fund balance for financial reporting.
- Encumbrances are not related to classification of fund balance for financial reporting. The state's encumbrance process does not commit resources in the context of a commitment for financial reporting.

### 2) **Spending order:**

- When resources meeting more than one classification (restricted, committed or assigned) are comingled in a fund, the *assumed* order of spending is restricted first, committed second and assigned last. Florida law requires maximization of trust fund resources whenever possible.
- If the assumed spending order is not followed in practice, fund balance classification amounts should not be determined in the order as stated above. Rather, fund balance classification amounts should be based on actual inflows and outflows and the relationships between them.

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