

3.20 Governmental Fund Balance Classification Reporting Package

5 Possible Classifications

- ▶ Nonspendable
- ▶ Restricted
- ▶ Committed
- ▶ Assigned
- ▶ Unassigned

Nonspendable

- ▶ Amounts that can't be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.
- ▶ “Not in spendable form” includes items not expected to be converted to cash (ex. inventory or prepaid expenses), noncurrent amount of receivables, and property acquired for resale.
 - ▶ If use of the proceeds from the collection of noncurrent receivables and/or the sale of property acquired for resale is restricted, committed, or assigned, then those amounts should be classified as restricted, committed, or assigned rather than nonspendable.
- ▶ The principal portion of a Permanent Fund and net assets required to be retained in perpetuity are also nonspendable.

Restricted

- ▶ Applicable when constraints placed on the use of resources are either:
 - ▶ Externally imposed by creditors (e.g., debt covenants), grantors, contributors, or laws/regulations of other governments.
 - ▶ Imposed by law through constitutional provisions or enabling legislation.
 - ▶ Enabling legislation authorizes the government 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 the specific purposes stipulated in the legislation.
 - ▶ Legal enforceability means that a government can be compelled by an external party (ex. citizens, public interest groups, or the judiciary) to use resources created by enabling legislation only for the purposes specified by the legislation.
- ▶ Examples: legal settlements that stipulate restrictions, a federal grant for school lunches, expendable portion of a Permanent Fund, and debt proceeds that must be used for a specific purpose based on a voter-approved proposition.

Committed

- ▶ Amounts that can only be used for specific purposes determined by formal action of the government's highest level of decision-making authority (i.e., legislative and/or executive branches).
- ▶ Committed amounts in fund balance can't be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (ex. legislation) it employed to previously commit those amounts.
- ▶ Also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- ▶ The legislation that imposes restrictions on the use of committed fund balance is separate from the legislation that created the revenue source.
- ▶ Example: General Fund appropriations that are to be used for purposes specified by proviso

Assigned

- ▶ Amounts that are constrained by the government's intent to be used for specific purposes, but don't meet the criteria to be classified as restricted or committed.
 - ▶ Intent should be expressed by a) the governing body itself or b) a body (ex. a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.
- ▶ The nature of the actions necessary to remove or modify an assignment is less formal and not as prescriptive as it is for committed fund balance.
- ▶ For governmental funds other than the general fund, all remaining **positive** fund balance that is not classified as nonspendable, restricted, or committed would be classified as assigned.
- ▶ Amounts in the general fund are classified as assigned if they meet the applicable criteria.
- ▶ Example: A fund that is constrained by agency management for the operations of a specific department or project within the agency.

Unassigned

- ▶ The residual classification for the general fund.
- ▶ Other governmental fund balances should only be classified as unassigned if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes (i.e., a deficit fund balance).
- ▶ Examples: General fund surplus, deficit fund balances in other governmental fund balance classifications, the General Reserve Fund, and the Contingency Reserve Fund