

Effective July 1, 2021

CHIEF FINANCIAL OFFICER MEMORANDUM NO. 12

SUBJECT: FUND BALANCE REPORTING

This memorandum provides guidance for reporting fund balance in accordance with Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* issued by the Governmental Accounting Standards Board (GASB).

Fund balance is the difference between assets and liabilities in a governmental fund - Statewide Governmental Accounting, Auditing and Financial Reporting 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 defined in the statement include, in order from most to least constrained: nonspendable, restricted, committed, assigned, and unassigned. However, it is the state's general policy to classify fund balance as nonspendable, restricted, committed, or unassigned. The assigned fund balance classification is not expected to be used to classify fund balance for state funds.

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

Nonspendable Fund Balance:

- GL 561XX Nonspendable — Inventories and Prepaid Items
- GL 562XX Nonspendable — Long-term Receivables and Advances
- GL 563XX Nonspendable — Permanent Fund Principal

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 or Court Order

GL 549XX Fund Balance*

GL 581XX CAFR General Fund – Committed Fund Balance (SFRS USE ONLY**)

*Residual fund balance is reported as Committed Fund Balance for SWGF = 20, 30, 40, or 72 and as Unassigned Fund Balance for SWGF = 10.

** GL code restricted for use by the Statewide Financial Reporting Section (SFRS).

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

Nonspendable fund balance (the most constrained portion of fund balance) includes items that cannot be spent because they are either (a) not in spendable form (will not convert to cash soon enough to affect the current period) or (b) are legally or contractually required to be maintained intact.

1) **Amounts that will not be spent:**

- Nonspendable – Inventories and Prepaid Items - GL 561XX:
 - These items are never expected to convert to cash.
 - The balance of GL 561XX must offset balances of the following GL codes:
 - 17XXX–Inventories and 191XX–Prepaid Items.
- Nonspendable – Long-term Receivables and Advances - GL 562XX
 - The balance of GL 562XX must offset balances of the following GL codes:
 - 25XXX–Long-term receivables and advances reduced by any liability or deferred inflow that may be recorded in conjunction with the long-term receivables and/or advances.
 - This fund balance classification is only applicable to the proceeds of advances and long-term receivables that are not restricted or committed for a specific purpose. Therefore, if the use of the proceeds is determined to be restricted or committed, the offset would be recorded as either restricted or committed, accordingly.
 - All resources in special revenue funds are considered to be at least committed. Therefore, this fund balance classification would not be used in special revenue funds.

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

- Nonspendable Fund Balance – Permanent Fund Principal - GL 563XX:
 - 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 or committed according to permanent fund agreement.

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 specified purposes. Restricted fund balance amounts include:

1) **Restricted by externally imposed spending constraints:**

A party external to the state that can impose spending constraints that are legally enforceable. Typical external parties include:

- Creditors - GL 571XX:
 - Amounts restricted through debt covenants or other lender-imposed requirements.
- Federal Government - GL 572XX:
 - Federal grants and any associated amounts 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.

- Non-Federal Parties through Grants and Contributions - GL 573XX:
 - 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 committed.)
- 2) **Restricted for 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.
- Restricted by Enabling Legislation - GL 574XX:
 - Enabling legislation – a 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 also mandates payments from 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 or Court Order:
 - Include amounts with spending restrictions imposed by constitutional provisions or court order.

Fund Balance - GL 549XX

The residual fund balance of the state's governmental funds (SWGF = 20, 30, 40, or 72) that is not classified as nonspendable or restricted is classified as committed. 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).

The residual fund balance of the state's general funds (SWGF = 10) that is not classified as nonspendable, restricted, or committed is classified as unassigned.

CAFR General Fund – Committed Fund Balance - GL 581XX (SFRS USE ONLY):

The General Fund - Committed Fund Balance GL is specifically used to record committed fund balance for the state's General Fund. (SWGF = 10).

Deficit Fund Balances

In the general and other governmental funds, the negative residual balance is reported in the unassigned fund balance classification. Nonspendable and restricted fund balances should not have an atypical (debit) balance. Nonspendable and restricted fund balances should not be reduced due to insufficient total fund balance. Over expenditure for a committed or a restricted purpose does not reduce nonspendable or restricted fund balance. Expenditure of restricted resources for committed purposes does not reduce restricted fund balance.

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 there is an expenditure for purposes for which both restricted and unrestricted resources are available, it is the state's general policy to use restricted resources first. When expenditures are incurred for which unrestricted (committed or unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the state's general policy to spend committed resources first. However, the agency responsible for administering the resources determines the flow assumption used to identify the portion of expenses paid from restricted resources.

Contact the Division of Accounting and Auditing, Bureau of Financial Reporting, Statewide Financial Reporting Section at sfrs@myfloridacfo.com if you have questions or need additional information.