



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

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Memorandum #2010-35 ** REVISED**

TO: Local Government Officials and Their Independent Auditors

FROM: Sharon Edmundson, Director, Fiscal Management

SUBJECT: GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund type Definitions - Part 2*– Components of Fund Balance

DATE: May 20, 2010, original issue date, September 29, 2010, revision date

Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* that will be effective for fiscal periods that begin after June 15, 2010, meaning the fiscal year ending June 30, **2011** for North Carolina governments. The statement has two major areas of discussion: fund balance classifications and fund type definitions. Memorandum # 2010-23 was issued on March 3, 2010 and discusses GASB Statement No. 54 as it relates to fund type definitions. Memorandum 2010-23 has been reissued (September 29, 2010) to include additional guidance on Special Revenue Funds, Emergency Telephone System (911) Funds and Occupancy and Food Tax Funds in particular. This memo addresses GASB's guidance on the new components of Fund Balance. GASB Statement No. 54 does not affect the government-wide or accrual-based statement presentations, nor does it change the amount of total fund balance on any fund statements. Statement No. 54 does, however, significantly change the focus of fund balance reporting from what purposes fund balance is going to be used or appropriated for to what constraints are placed on how resources within fund balance can be used and the identification of the source of those constraints. This change means there is not a one to one crosswalk from the old classifications of fund balance to the new classifications of fund balance.

Following are key segments from Statement No. 54 on fund balance reporting using bold type to emphasize various points; secondly is our assessment of the potential impact on units of government and their fiscal reporting.

¹Classification Definitions

Classification	Definition	Examples
Nonspendable	“amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.” ¹	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds
Restricted	“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; or b. Imposed by law through constitutional provisions or enabling legislation.” ¹	Restriction by State Statute, unspent bond proceeds, Grants earned but not spent-Powell Bill, debt covenants, taxes raised for a specific purpose
Committed	“ Used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority” ¹ <ul style="list-style-type: none"> • Self-imposed limitations set in place prior to year-end, but can be calculated after year end. • Limitation imposed at highest level and requires same action to remove or modify • Ordinances that lapse at year-end do not meet the committed test 	The governing board has decided to pass a resolution to set aside County Funds of \$1M for mental health hospital. Any amendments or modifications must go back to the board.
Assigned	“Amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed” <ul style="list-style-type: none"> • Assignments can occur anytime before issuance of financial statements • Assignment ability can be delegated by the board (example: Manager, Finance Officer. Budget Officer) • For governmental funds (exclusive of the General Fund) this is the lowest level of positive fund balance. 	The governing board has budgeted to set aside County Funds of \$1M for a mental health hospital. County Mgr. may amend this up to \$100,000 The governing board has appropriated fund balance usually titled - Subsequent year’s expenditures
Unassigned	Unassigned fund balance is the lowest classification for the General Fund . This is fund balance that has not been reported in any other classification. <ul style="list-style-type: none"> • The General Fund is the only fund that can report a positive unassigned fund balance. 	

Restriction by State Statute

North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930’s that were designed to improve and maintain the fiscal health of local

¹ GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

government units. This amount, known as the “restricted by State statute” (RSS), is calculated at the end of each fiscal year for all funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as “restricted by State statute”. The formula is as follows:

Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.

In the current fund balance presentation RSS is presented on the face of the balance sheet after it has been reduced by reserve for inventories, prepaids, encumbrances, and assets held for resale. Under this new guidance RSS is considered a resource upon which a restriction is “imposed by law through constitutional provisions or enabling legislation.” As with the previous presentation RSS will be reduced by inventories and prepaids as they will be shown in nonspendable classification; however, encumbrances are no longer broken out separately on the face of the balance sheet and will now be included within RSS which will be included in the fund balance on the face of the balance sheet. Assets held for resale should be reported in the classification that describes how the proceeds from the sale will be used. If proceeds meet the definition of restricted then they should be classified as restricted. If proceeds from the assets do not meet the classifications of restricted, committed or assigned then they would be classified as nonspendable. The example in Attachments A and B walks you through this calculation. For presentation in the General Fund RSS should be calculated before other restrictions. Units could have a portion of fund balance that is included in restriction by state statute that is also restricted by grant provisions. In the General Fund, RSS should be shown as calculated in Attachments A and B and any additional grant restrictions should be shown. In funds **other than the General Fund**, GASB 54 will require that RSS be calculated and classified as restricted, however, if the same funds are also restricted by federal or State law then the unit and auditor will decide which presentation is best. If the unit will be spending funds under the provision of the federal or State law then better presentation would probably be restricted by federal/State law. This situation would commonly occur in a grant fund.

Negative or Residual Fund Balance Amounts

Paragraph 19 in GASB Statement No. 54 provides guidance on when and how negative or residual fund balance amounts should be displayed for governmental funds. Below are five guiding rules that will provide the answers to most fund balance presentations. How these rules are applied is affected by a unit of governments flow assumptions.

1. All Funds – Restricted, committed or **assigned** fund balance categories should never be negative.
2. General Fund – Nonspendable, restricted or committed fund balance categories can reduce or create a negative **unassigned** fund balance classification.
3. For all governmental funds except the General Fund – nonspendable, restricted, or committed reduce total fund balance to arrive at the amount available for

assignment. Assignments are only possible if this amount is positive and the amount of total assignments is limited to that total positive amount. In other words, an assignment cannot create a negative amount for unassigned fund balance. If the total fund balance minus the nonspendable, restricted, and committed portions is a negative amount, it should be reported as a negative amount/deficit in the unassigned category. This is in line with guiding rule #1 above.

4. General Fund – Only the General Fund can have a positive **unassigned** fund balance classification.
5. General Fund – If nonspendable, restricted and committed amounts are more than total fund balance, then assigned is zero and unassigned shows the necessary negative amount.

Stabilization Arrangements

GASB set out specific guidelines for revenue stabilization funds, working capital, various fund balance reserves, contingencies, or similarly titled purposes in paragraph 20 of GASB Statement No. 54. For purposes of this memo the above amounts will be referred to as “stabilization amounts”. **Stabilization amounts may be expended only when certain specific circumstances exist.** These specific circumstances should **not be expected to occur routinely**. GASB provides an example stating that a stabilization amount that can be accessed “in an emergency” or “anticipated revenue shortfall” would not qualify to be classified within the committed classification because the circumstances or conditions that constitute an emergency are not sufficiently detailed, and it is not unlikely that an “emergency” or “revenue shortfall” of some nature would routinely occur. In addition to meeting the “not routine” specific circumstances test outlined above, the stabilization amounts also must meet the criteria for restricted or committed as outlined in the chart above. GASB specifically prohibits stabilization amounts being classified as assigned. As units of government review their fund balance policies they will need to see if they meet the above criteria. If current policies do not meet the above criteria these amounts which might have previously been classified as designated fund balance will now be classified as unassigned fund balance. The resulting risk is that amounts of fund balance that are essential to be maintained for good financial health will be presented on the balance sheet combined with other amounts that can be budgeted for expenditure. Units of government are urged to review their existing policies and make any changes necessary in order to ensure that the presentation under GASB Statement No. 54 will best serve your governmental unit. **We also recommend that you discuss this presentation with your auditors before June 30, 2011 so that any concerns they have about how you intend to classify your fund balance policy can be addressed by the Board before year end.** Attachment D provides a sample fund balance policy.

Display of Fund Balance on the Face of the Balance Sheet

GASB Statement No. 54 allows fund balance to be displayed in the aggregate for each category or through a more detailed presentation for nonspendable, restricted, committed, or assigned categories. This decision to aggregate can be made by each classification, so that, a unit may decide to report restricted fund balance at a more detailed level, while committed or assigned may be at an aggregate level. The “two components of nonspendable fund balance – (a) not in

spendable form and (b) legally or contractually required to be maintained intact” should be reported separately either on the face of the statements or in the notes. The unit should present **major** restricted purposes, and specific purposes for major commitments and assignments on the face of the balance sheet or in the notes.

Note Disclosure

GASB Statement No. 54 paragraph 23 also mandates note disclosure about a unit’s decision making authority and order of spending when resources from multiple fund balance categories are available for use for the same purpose. The following chart describes the required disclosures. Paragraph 24 requires that units who use encumbrance accounting should disclose significant encumbrances by major funds and nonmajor funds in the aggregate along with any other significant commitments. For units in North Carolina encumbrances are already included in reserved by State statute on the face of the balance sheet but should be disclosed in the notes. A sample note also is provided in Attachment C.

Committed Fund Balance	<ol style="list-style-type: none"> 1. The government’s highest level of decision making authority and 2. The formal action that is required to be taken to establish (and modify or rescind) a fund balance commitment
Assigned Fund Balance	<ol style="list-style-type: none"> 1. The body or official authorized to assign amounts to a specific purpose and 2. The policy established by the governing body pursuant to which that authorization is given.
Spending Policies of Governmental Unit	<ol style="list-style-type: none"> 1. Unit of government needs to disclose whether the government considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and 2. Whether committed, assigned or unassigned amounts are considered to have been spent when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Impact on Units of Government and State & Local Finance Division

Due to potential impact on both units of government and the audit review process in the Fiscal Management Section of the Local Government, we wanted to provide as much lead time as possible for implementation of Statement No. 54. We also have discussed our interpretation of GASB Statement No. 54 with the GFOA (Governmental Finance Officers Association) as many of our units submit their reports to their *Certificate of Achievement for Excellence in Financial Reporting* program. Even though implementation is not mandated for most units until June 30, 2011, the Fiscal Management section will be starting on several program changes to its fiscal data bases and illustrative materials prior to that time. Due to the need for reprogramming, we are requesting that units of government **do not** early implement GASB Statement No. 54 as it applies to the fund balance classifications of nonspendable, restricted, committed, assigned, and unassigned.

Units of government also will have some implementation actions which we have outlined below.

1. Review that all funds are properly classified as outlined in Memo 2010-23.
2. Review your fund balance policy or any similar policy to ensure you understand how these amounts will be displayed on your unit's balance sheet. Make any policy changes before June 30, 2011 if your fund balance policy needs revision.
3. Review or develop policy on spending order of revenues as outlined above in "Spending Policies of Governmental Unit". Make any needed changes before June 30, 2011 as your policy will be disclosed in the notes.
4. Some units record detail fund balance accounts on their general ledger, while others only record fund balance in total. Units that record detail accounts may need to modify their general ledger accounts.
5. GASB Statement No. 54 requires retroactive restating of fund balance for all prior periods presented. Changes to fund balance information presented in the statistical section of a CAFR may be made prospectively, although retroactive application is encouraged.

Staff of the Fiscal Management Section recommends that units draft their restated 2010 fund balance for the 2011 report and discuss fund balance policy presentations with their auditors during the 2010 audit process. This will define any problems and allow for their resolution, including any necessary board action if policies are involved.

Conclusion

In response to several inquires on the Memorandum # 2010-23, issued on March 3, 2010 which discusses GASB Statement No. 54 as it relates to fund type definitions, we have developed a worksheet, Attachment E, which clarifies various common scenarios and the process that led to our conclusions. It discusses how to classify capital reserve funds, 911 funds, economic development funds, etc. We also have provided, Attachment F, a similar worksheet that discusses logic used to categorize fund balance presentations.

Legislation has mandated that the Emergency Telephone System (ETS) Fund be reported as a Special Revenue Fund and that the funds not be combined with any other fund sources or expenditures for budgetary purposes. As a legally budgeted fund, the ETS Fund will be presented as either a major or non-major Special Revenue Fund in the annual financial statements. This will enable the 911 Board to get the information they need to carry out their statutory responsibilities.

GASB Statement No. 54 is not in effect for most units until June 30, 2011; therefore, the illustrative statements will not be updated for this Statement until after the June 30, 2010 audit season. If you have any questions or comments please contact Melinda Canady at (919) 807-2384 or via email at Melinda.canady@nctreasurer.com

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ATTACHMENT A – Calculation of RSS and FB presentation for Carolina County
ATTACHMENT B – Calculation of RSS and FB presentation for City of Dogwood
ATTACHMENT C – Sample Note Disclosure Presentations for City of Dogwood
ATTACHMENT D – Sample Fund Balance Policy
ATTACHMENT E – GASB – 54 Fund Classification Worksheet
ATTACHMENT F – GASB – 54 Fund Balance Presentations

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ATTACHMENT A

New Fund Balance Presentation for Carolina County

This example has taken the 2009 Balance Sheet from Carolina County, Exhibit 3 (General Fund). Assumptions have been added to highlight needed examples for the new presentation.

Current Presentation		GASB - 54 Presentation	
Carolina County, North Carolina Balance Sheet Governmental Funds June 30, 2009		Carolina County, North Carolina Balance Sheet Governmental Funds June 30, 2009	
Assets		Assets	
Cash and cash equivalents	\$ 10,151,494	Cash and cash equivalents	\$ 10,151,494
Receivables, net	3,525,337	Receivables, net	3,525,337
Due from other governments	3,200,000	Due from other governments	3,200,000
Due from component unit	36,100	Due from component unit	36,100
Inventories	2,551,800	Inventories	2,551,800
Total Assets	\$ 19,464,731	Total Assets	\$ 19,464,731
Liabilities and Fund Balance		Liabilities and Fund Balance	
Liabilities:		Liabilities:	
Accounts payable and accrued liabilities	\$ 3,560,192	Accounts payable and accrued liabilities	\$ 3,560,192
Miscellaneous liabilities	226,142	Miscellaneous liabilities	226,142
Due to other governments	50,551	Due to other governments	50,551
Contract retainage	-	Contract retainage	-
Deferred revenue	2,298,599	Deferred revenue	2,298,599
Unearned revenue	329,403	Unearned revenue	329,403
Total Liabilities	6,464,887	Total Liabilities	6,464,887
Fund balance:		Fund balance:	
Reserved for:		Nonspendable	
Inventories	2,551,800	Inventories	2,551,800
State statute	4,462,838	Restricted	-
Encumbrances	20,890	Restricted by State Statute ¹	4,483,728
Register of Deeds	17,285	Restricted for Register of Deeds ²	17,285
		Restricted for Mental Health ³	500,000
		Committed	
Unreserved, undesignated	5,492,031	Committed for Social Services ⁴	35,000
		Assigned ⁵	455,000
Unreserved, designated for subsequent year's expenditures	455,000	Unassigned	4,957,031
Total fund balance	12,999,844	Total fund balance	12,999,844
Total liabilities and fund balance	\$ 19,464,731	Total liabilities and fund balance	\$ 19,464,731

- 1 Note: RSS does not equal amount currently shown on the balance sheet as it now includes encumbrances. See calculation on next tab.
- 2 This is the amount the statute requires to be used for register of deeds automation.
- 3 This assumes that there is cash on hand that is restricted for use by a Federal / State grant. This is an example that was added to Carolina County to illustrate a point. Each unit should evaluate if they have restricted amounts.
- 4 This assumes that there is cash on hand that is restricted for use by Board of Commissioners and must come back to them for any modifications. This is an example that was added to Carolina County to illustrate a point. Each unit should evaluate if they have committed amounts.
- 5 This assumes that there is cash on hand that is restricted for use by Board of Commissioners however Board has delegated authority for Co. Mgr. to amend up to \$100,000. This is an example that was added to Carolina County to illustrate a point. Each unit should evaluate if they have assigned amounts.

Attachment A (Cont.)	
Restricted by State Statute Calculations	
Sample Carolina County	
Fund Balance Available for Budget and Spending:	
Restricted and Unrestricted Cash and Investments	\$ 10,151,494
Less	
Accounts Payable, Due To, etc.	(3,836,885)
Grants Received before earned (deferred revenue from cash receipts or unearned revenue)	-
Prepaid Taxes (deferred revenue)	(329,403)
Other deferred revenues from cash receipts	-
Reserve for Encumbrances	(20,890)
Fund Balance Available for Budget and Spending:	\$ 5,964,316
Fund Balance Legally Restricted from Appropriation	
Total Fund Balance	\$ 12,999,844
Fund Balance Available	(5,964,316)
Restricted by State Statue:	\$ 7,035,528
Presentation of RSS on Balance Sheet	
Restricted by State Statute calculation	\$ 7,035,528
Amount of Inventories shown in nonspendable fund balance classification	(2,551,800)
Amount of Prepaid expenditures shown in nonspendable fund balance classification	-
Any other amounts that are already shown in nonspendable classification of fund balance	-
Restricted by State Statute amount shown on Balance Sheet	\$ 4,483,728

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ATTACHMENT B

New Fund Balance Presentation for City of Dogwood

This example has taken the 2009 Balance Sheet from City of Dogwood, Exhibit 3 (General Fund). Assumptions have been added to highlight needed examples for the new presentation.

Current Presentation		GASB - 54 Presentation	
City of Dogwood, North Carolina Balance Sheet Governmental Funds June 30, 2009		City of Dogwood, North Carolina Balance Sheet Governmental Funds June 30, 2009	
Assets		Assets	
Cash and cash equivalents	\$ 459,332	Cash and cash equivalents	\$ 459,332
Receivables, net:		Receivables, net:	
Taxes	63,235	Taxes	63,235
Accounts	874	Accounts	874
Due from other governments	82,300	Due from other governments	82,300
Due from component unit	3,700	Due from component unit	3,700
Inventories	1,245	Inventories	1,245
Total Assets	\$ 610,686	Total Assets	\$ 610,686
Liabilities and Fund Balance		Liabilities and Fund Balance	
Liabilities:		Liabilities:	
Accounts payable and accrued liabilities	\$ 103,874	Accounts payable and accrued liabilities	\$ 103,874
Due to other funds	2,200	Due to other funds	2,200
Due to other governments	6,055	Due to other governments	6,055
Deferred revenue	57,180	Deferred revenue	57,180
Unearned revenue	15,502	Unearned revenue	15,502
Total liabilities	184,811	Total liabilities	184,811
Fund balance:		Fund balance:	
Reserved for:		Nonspendable	
Inventories	1,245	Inventories	1,245
Encumbrances	10,450	Restricted	
State statute	92,929	Restricted by State Statue ¹	103,379
Streets-Powell Bill	4,084	Restricted for Powell Bill ²	4,084
Unreserved		Restricted for Public Safety ³	20,000
Designated for subsequent year's expenditures	100,000	Assigned ⁴	
Undesignated	217,167	Committed for subsequent year's expenditures	100,000
Total fund balance	425,875	Housing	5,000
Total liabilities and fund balance	\$ 610,686	Unassigned	192,167
		Total fund balance	425,875
		Total liabilities and fund balance	\$ 610,686

- 1 Note: RSS does not equal amount currently shown on the balance sheet as it now includes encumbrances. See calculation on next tab.
- 2 Amount restricted for Powell Bill.
- 3 This assumes that there is cash on hand that is restricted for use by a Federal / State grant. This is an example that was added to City of Dogwood to illustrate a point. Each unit should evaluate if they have restricted amounts.
- 4 This assumes that there is cash on hand that is set aside for future housing program by the governing body; however, due to deteriorating economic conditions and the rising cost of health care the Board has delegated that the Mgr. can use these funds for self insurance program if the need arises. This is an example that was added to City of Dogwood to illustrate a point. Amounts that are appropriated in next years budget are also shown in assigned category. Each unit should evaluate if they have assigned amounts.

ATTACHMENT B (Cont.)	
Restricted by State Statute Calculations	
Sample City of Dogwood	
Fund Balance Available for Budget and Spending:	
Restricted and Unrestricted Cash and Investments	\$ 459,332
Less	
Accounts Payable, Due To, etc.	(112,129)
Grants Received before earned (deferred revenue from cash receipts or unearned revenue)	-
Prepaid Taxes (deferred revenue)	(15,502)
Other deferred revenues from cash receipts	-
Reserve for Encumbrances	(10,450)
Fund Balance Available for Budget and Spending:	\$ 321,251
Fund Balance Legally Restricted from Appropriation	
Total Fund Balance	\$ 425,875
Fund Balance Available	(321,251)
Restricted by State Statute:	\$ 104,624
Presentation of RSS on Balance Sheet	
Restricted by State Statute calculation	104,624
Amount of Inventories shown in nonspendable fund balance classification	(1,245)
Amount of Prepaids shown in nonspendable fund balance classification	-
Any other amounts that are already shown in nonspendable classification of fund balance	-
Restricted by State Statute amount shown on Balance Sheet	\$ 103,379

ATTACHMENT C

Sample Fund Balance Note for City of Dogwood

GASB Statement No. 54 requires some additional disclosures for fund balance. Below is a suggested fund balance note that is a part of Note 1 “Summary of Significant Accounting Policies” that has been modified for required additional disclosures and new fund balance classifications. The Illustrative Statements will be modified in their entirety after the 2010 audit season. Due to significant program changes in the LGC software, we are requesting that units of government do not early implement GASB Statement No. 54.

Fund Balances

In the governmental fund financial statements fund balance is reported in five classifications.

Nonspendable fund balance	Inventories represent fund balance amounts that are not in spendable form.
Restricted	<p>Restricted of state statute is a portion of fund balance, in addition to nonspendable inventories, which is constrained by G.S. 159-8(a) from appropriation.</p> <p>Restricted of Powell Bill is the portion of fund balance that is restricted for use on street construction and maintenance by legislation. <i>(Note this is an example, units should modify this for their own policies)</i></p>
Committed	Committed is that portion of fund balance that has been approved by the highest level of formal action of the City Council and does not lapse at year-end. The City of Dogwood does not have any committed fund balance this fiscal year.
Assigned	Assigned for Subsequent year’s expenditures is the portion of fund balance that has been approved by formal action of the City Counsel for appropriation in the 20XX budget. A modification to this amount requires action by the City Council; however this approval lapses at year end. <i>(Note this is an example, units should modify this for their own policies)</i>
Unassigned	Fund balance that has not been reported in any other classification. <i>(Note: unassigned fund balance does not represent amount of fund balance that can be appropriated)</i>

ATTACHMENT C (cont.)

The City of Dogwood has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, city funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the City. *(This is an example; units should modify this language to reflect their own policies.)*

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation.

Total fund balance	\$ 425,875
Less:	
Inventories	1,245
Encumbrances	10,450
State Statute reserve	92,929
Streets-Powell Bill	4,084
Appropriated Fund Balance in 20XX budget	25,000
Working Capital / Fund Balance Reserve	70,000
Available for Appropriation	\$ 292,167

(The unit is also required to disclose dollar amount of encumbrances for all major funds and non-major in aggregate. Encumbrances under GASB Statement No. 54 will not be shown on face of statement but included in Restricted by State Statute (RSS); however, in funds other than the General Fund they might be shown as some other restricted amount. In either case amount of significant encumbrances must be disclosed for each major fund and in aggregate for non-major funds. Below is example of such disclosure.)

Encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

Encumbrances	General Fund	Non-Major Funds
	\$10,450	\$3,000

Sample Fund Balance Policy

The following is a sample fund balance policy. Units of government have varying needs and finance capital projects in a variety of ways. Units with existing fund balance policies will need to review their policies to determine if fund balance classification will be committed or unassigned. GASB Statement No. 54 has stated that fund balance policies or stabilization amounts can not be classified as assigned fund balance.

Carolina County has adopted a fiscal policy that provides for capital projects to be financed with 75% to 85% debt and 15% to 20% in pay-as-you-go funding. In order to obtain the best possible financing the unit has adopted policies designed to maintain a triple-A bond rating on general obligation debt. Part of the unit's fiscal health is maintaining a fund balance position that rating agencies feel is adequate to meet the unit's needs and challenges. Carolina County has therefore adopted a policy that requires management to maintain a total spendable fund balance of \$_____. Management is expected to manage the budget so that revenue shortfalls and expenditure increases do not impact the units total spendable fund balance. If a catastrophic economic event occurs that requires a A% or more deviation from total budgeted revenues or expenditures then spendable fund balance can be reduced by board action; the Board also will adopt a plan on how to return spendable fund balance back to required level.

- A. The percentage in this policy must meet the test of not being a percentage deviation that a unit of government would routinely experience. This will be unique to each government. Some governments are very precise in their budgeting and a variation of less than 2% is normal. For these units a variation of 10% would be catastrophic in the fact that the variation percentage would not be routine and in the fact that amount would significantly impact their fund balance position. Other governments might routinely have revenue variances around 7%, so a 10% variation would not be considered catastrophic. Both you and your auditors will have to determine if your policy meets this test and how your fund balance policy will be classified.

**GASB - 54 Fund Classification Worksheet
 Special Revenue Funds**

ATTACHMENT E

Pre-54	School Capital Reserve-Special Revenue	County Capital Reserve Fund-Special Revenue	911-Special Revenue	Fire District Fund - Special Revenue	Revaluation Fund-Special Revenue	Revaluation Fund-Special Revenue	Economic Development Fund-Special Revenue	Economic Development Fund-Special Revenue
1. Question	Is the source of fund restricted to capital and/or debt service? Legislation requires that funds be used for capital or debt service purposes, so fund may not be classified as Special Revenue. In this case, due to a downturn in the economy the Board has decided to use fund for Debt Service payments on existing debt.	Is the source of fund restricted to capital and/or debt service? Legislation requires that funds be used for capital or debt service purposes, so fund may not be classified as Special Revenue. In this case, due to a downturn in the economy the Board has decided to use fund for Debt Service payments on existing debt.	Is the source of fund restricted to capital and/or debt service? Since 911 legislation allows for both capital, debt service and/or non-capital expenditures the fund can still be classified as Special Revenue as it was not restricted to either capital, debt or both.	Is the source of fund restricted to capital and/or debt service? No, Funds will be sent to volunteer fire departments to provide fire protection for their district. The fact that district will use funds to purchase trucks or pay debt service is not relevant since neither the assets or debt is that of the Counties. The fund has passed this test to remain a Special Revenue Fund.	Is the source of fund restricted to capital and/or debt service? No, funds will not be used for capital or debt service. They will be used to pay a consultant to aid in revaluation of property taxes	Is the source of fund restricted to capital and/or debt service? No, funds will not be used for capital or debt service. They will be used to pay a consultant to aid in revaluation of property taxes	Is the source of fund restricted to capital and/or debt service? Source of funds is restricted for capital projects, but the unit has no statutory requirement to fund economic development and these assets will not be titled to the unit, so the resource is not restricted for the unit's capital project. The fund has passed this test to remain a Special Revenue Fund.	Is the source of fund restricted to capital and/or debt service? Source of funds is restricted for capital projects, but the unit has no statutory requirement to fund economic development and these assets will not be titled to the unit, so the resource is not restricted for the unit's capital project. The fund has passed this test to remain a Special Revenue Fund.
1. Answer								
2. Question				Are specific revenue sources restricted or committed to expenditure for specified purposes? Yes, a special tax is levied to provide fire protection.	Are specific revenue sources restricted or committed to expenditure for specified purposes? No, revenues were specifically designated for this purpose by the governing body. Unit transfers in general fund amount of \$100,000.	Are specific revenue sources restricted or committed to expenditure for specified purposes? No, revenues were specifically designated for this purpose by the governing body. Unit transfers in general fund amount of \$100,000.	Are specific revenue sources restricted or committed to expenditure for specified purposes? No, funds were just transfers into the special revenue fund from the general fund as part of the budget process that did not name a specific revenue source. The funds has fail test to remain a special revenue fund.	Are specific revenue sources restricted or committed to expenditure for specified purposes? No, funds were just transfers into the special revenue fund from the general fund as part of the budget process that did not name a specific revenue source. The funds has fail test to remain a special revenue fund.
2. Answer								
Post-54	School Capital Projects Fund	Debt Service or General Fund	911- Special Revenue**	Fire District Fund - Special Revenue	Revaluation - Special Revenue	Revaluation is consolidated in General Fund	Economic Development - Special Revenue	Economic Development - General Fund

GASB 54 has no impact on the classification of the existing **General Fund**. However, other existing funds might now be consolidated into the General Fund. (Example: Revaluation Fund that the governing board did not specify a revenue source)

Normally, GASB 54 will have no impact on the classification of existing **Capital Project Funds**

** LGC is requiring that 911 be classified as Special Revenue due to the fact that legislation allows for units to use for either capital or non-capital purposes.

ATTACHMENT F										
Worksheet to Aid in Classifying Fund Balance Presentation under GASB 54										
Questions / Criteria	Special Revenue Funds				Capital Project Funds			County Capital Projects		
	General Fund Scenario 1	General Fund Scenario 2	911 Special Revenue Fund	Fire District Fund	Tax Revaluation Fund	Economic Development	Grants Fund	School Capital Projects	School Capital Reserve Fund - Capital Projects	County Capital Projects
Nonspendable List any Inventories List any Prepaid Expenses List any Long-term Receivables that will not be classified as restricted, committed or assigned when received.	2,551,800	2,551,800								
Restricted List any source of funds that is restricted by external creditors, debt covenants, grantors, contributors, laws or regulation of other governments, imposed by law - constitutional or legislative	Powell bill - \$100,000	Powell bill - \$100,000	911 Funds - 788,000 (this normally equals all the fund balance not in nonspendable)				10,000,000 - Unspent bond proceeds 1,000,000 - Restricted Sales Tax - unit does not put in capital reserve fund 50,000 - School Building Grant 85,000 - lottery proceeds	1,000,000 Unit put sales tax restrictions in capital reserve fund under G.S. 159-18.	3,200,000 Unspent bond proceeds	1,800,000 Municipal share of Library due two years from June 30
List any long-term receivables that will be restricted when received See Attachment A of this memo (#2010-XX) to calculate Legal Restriction by State Statute (RSS) G.S. 159-8. The amount shown on balance sheet will be different from previous years as encumbrances are now shown as a part of restricted fund balance	4,483,728	4,483,728					80,000 Matching funds were not expended yet due to delays in program			
Committed Are there any constraints on funds to be used for specific purposes that meet the test of paragraph # 10 in GASB 54 - imposed, modified and removal must be done by governing board.	1,000,000 Mental Health 7,000,000 - Working Capital Policy	1,000,000 Mental Health 7,000,000 - Working Capital Policy			471,723					
Assigned Is any portion of Fund Balance appropriated for future years expenditure - Subsequent Year Appropriation No specific capital project or fund, assigned to future CIP - Example: County does not have a capital project fund and Manager is saving \$1,000,000 per year for three years to appropriate a school building project. This is year 2.	455,000	455,000		1,783						
Total Fund Balance Assumptions	12,999,844	17,000,000	788,000	1,783	471,723	1,200,000	80,000	11,135,000	1,000,000	5,000,000

