



## Fund Balance Reporting

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Dear Reader:

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We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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Table of Contents

Fund Balance Reporting .....	3
------------------------------	---

# Fund Balance Reporting

**Reference Number:** MTAS-577

Governmental accounting standards now require the reporting of five classifications of fund balance.

## **Non-spendable**

This classification of fund balance includes amounts that due to their nature cannot be spent, i.e. inventory. Amounts that legally or contractually cannot be spent also are required to be classified as non-spendable. An example might include the corpus or principal in a permanent fund that is legally required to remain intact.

## **Restricted**

Amounts required to be classified as restricted result from restrictions placed on their use by:

- Imposed by law through constitutional provisions or enabling legislation.
- External enforceable legal restrictions that are imposed by creditors, grantors, contributors, or laws and regulations of other governments.

Examples of restricted fund balance amounts include unspent grant funds, debt covenants and gasoline tax revenue for street purposes.

## **Committed**

Amounts defined as committed arise from self-imposed constraints put on the use of the funds by the government's highest level of authority, which is the governing body. The commitment must be made by the highest formal action (ordinance) and the action must be taken before the end of the fiscal year. An example might include the passing of an ordinance to commit \$20,000 for upgrading the city's computer system.

## **Assigned**

Amounts defined as assigned arise from intentions of the government to use the funds for a specific purpose. This action may be taken by the highest level of authority or a designated body (committee) or an individual (city manager or mayor). Assignment of fund balance is a less formal action than required for committed funds and the action may be taken after the end of the fiscal year.

## **Unassigned**

The amounts in the unassigned fund balance classification represent those funds that are left for spending after funds earmarked for specified purposes have been otherwise classified. The General Fund is the only fund that will record a positive unassigned fund balance. The nature of other fund types automatically makes those resources restricted, committed or assigned. The only situation where other types of funds would report amounts in the unassigned fund balance category is if the balance is negative. This might occur if the fund spends more resources than it has available in restricted, committed or assigned fund balance.

Note: the term "unrestricted fund balance" used in publications refers collectively to the three categories of committed, assigned and unassigned.

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