

FUND BALANCE EXPLAINED

To calculate the current fund balance for a local government in Virginia, you must apply the fundamental government accounting formula: **Fund Balance = Assets - Liabilities**. This calculation is performed for each individual governmental fund, not for the government as a whole.

Unlike a bank account, the fund balance is not the same as cash on hand. It is an equity measure that represents the cumulative financial position of a fund ***over time***.

Steps for calculating fund balance

1. **Determine the specific governmental fund.** Local governments operate with separate, self-balancing funds for different activities, such as the General Fund, Capital Projects Fund, or Debt Service Fund. You must calculate the balance for each fund independently. The General Fund, which covers most daily operations, is typically of primary importance.
2. **Identify and sum the fund's current assets.** This includes all assets that can be converted to cash within one year.
3. **Identify and sum the fund's current liabilities.** This includes all financial obligations due within one year.
4. **Subtract total liabilities from total assets.** The resulting figure is the total fund balance for that specific fund.

Breakdown of the fund balance

According to standards set by the Governmental Accounting Standards Board (GASB), the total fund balance is then divided into five classifications. Virginia localities typically follow these standards.

1. **Nonspendable:** Amounts that cannot be spent, either because they are not in a spendable form (like inventory or prepaid items) or because they must be maintained intact (like the principal of an endowment).
2. **Restricted:** Amounts with spending constraints placed on them by external parties (grantors, creditors) or through constitutional provisions or enabling legislation.
3. **Committed:** Amounts for which a government has imposed a constraint on itself at its highest decision-making level, in this case the Board of Supervisors. These commitments can only be changed by the same high-level formal action.

4. **Assigned:** Amounts a government intends to use for a specific purpose. This intent can be expressed by the governing body or by an official to whom the governing body delegates the authority.
5. **Unassigned:** The residual classification for the General Fund. It includes all amounts that do not fall into the other four categories and are available for any purpose. A positive unassigned fund balance can only be reported in the General Fund.

How fund balance is used in Virginia

In Virginia, like other states, local governments often maintain a fund balance to ensure stable operations and manage cash flow. King William County's Fund Balance Policy is included for reference.