



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

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Memorandum #2013-04

To: Finance Officers of Boards of Education and Certified Public Accountants

From: Sharon Edmundson, Director, Fiscal Management Section

Subject: Use and Reporting of Other Restricted Funds (Fund 8)

Date: December 5, 2012

In January 2010, NC Department of Public Instruction (DPI) established as part of their Uniform Chart of Accounts the fund "Other Restricted Funds" or "Other Specific Revenue Fund." This fund, number 8 in the list of allowable funds, and commonly referred to as Fund 8, was established to separately account for funds that are restricted in purpose and not intended for the general K-12 population in a Local Education Agency (LEA).

The use of Fund 8 is optional – DPI is not requiring that LEAs have a Fund 8. The LEAs that have decided to use Fund 8 to segregate moneys restricted in use and not intended for the general K-12 population may report this fund as a Special Revenue Fund. Some LEAs prefer to use Fund 8 internally only and roll it into the Local Current Expense Fund for reporting purposes. In accordance with generally accepted accounting principles, special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt or capital projects. The Governmental Accounting Standards Board (GASB) in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, states that special revenue funds must have a specific revenue source or sources that is the foundation for the fund.

The Uniform Chart of Accounts for North Carolina Public Schools defines Fund 8 as being one in which an LEA may record "revenues from reimbursements, including indirect costs, fees for actual costs, tuition, sales tax revenues distributed using the ad valorem method pursuant to G.S. 105-472(b)(2), sales tax refunds, gifts and grants restricted as to use, trust funds, federal grants restricted as to use, federal appropriations made directly to local school administrative units, funds received for prekindergarten programs, and special programs and appropriated fund balances (revenues accruing to a school administrative unit in prior years but not yet expended.)" This definition with the entire chart of accounts is posted on the Department of Public Instruction Financial and Business Services website under Financial Reporting, Chart of Accounts 2012, <http://www.ncpublicschools.org/fbs/finance/reporting/coa2012>. This language is based on the opinion of the North Carolina Court of Appeals in Sugar Creek Charter Sch., Inc., v.

Charlotte-Mecklenburg Bd. of Educ. 188 NC App 454, 655 SE 2d 850 (2008), construing funds to be included in the LEA's per pupil local current expense appropriation for purposes of charter school funding. Based on our interpretation of this language, it is clear that LEAs should not be reporting general county appropriations in Fund 8.

During our review of 2011 and 2012 fiscal year financials, we noted that some LEAs reported relatively large fund balances in Fund 8. At times these balances were reported primarily as unassigned or assigned. By definition, the majority of funds reported in any special revenue fund should be reported as restricted or committed, although there may be some portion reported as assigned. Special revenue funds, including Fund 8, should never report unassigned fund balance per the requirements of GASB Statement Number 54. (Please see our Memorandum #2010-35 for further discussion of fund balance reporting under Statement 54.) Using DPI's description of Fund 8, none of the fund balance generated by revenues correctly reported in Fund 8 would qualify as unassigned fund balance and most should qualify to be reported as restricted or committed fund balance.

We have noted in some LEA reports large transfers from the Local Current Expense Fund to Fund 8. Transfers are, of course, permitted, but the funds being transferred must qualify to be accounted for in Fund 8. In other words, they should be restricted as to use and not intended for the general K-12 population. Transfers to Fund 8 that appear to exceed the amount of restricted funds flowing in to the Local Current Expense Fund are likely to be questioned as a part of the SLGFD staff's review of the financial statements. As stated earlier, we do not believe that general county appropriations qualify to be accounted for in Fund 8.

Given the constraints of the DPI definition of the fund and the GASB Statement Number 54 definition of a special revenue fund, finance officers of LEAs and their auditors should evaluate the use of Fund 8 and the revenues accounted for in that fund. If it is determined that some funds are not appropriately accounted for in Fund 8, those amounts should be reclassified to the Local Current Expense Fund through a prior period adjustment (correction of an error). All remaining fund balance in Fund 8 should be reported as required by GASB Statement 54.

Please also remember that a schedule of inter-fund transfers should be presented as part of the notes; this schedule should include the amounts transferred between funds and a brief description of the purpose of each transfer (GASB Statement 38 ¶15 and LGC Memorandum #981). This may help to avoid any confusion or inquiries from external parties on the transfers that occur during the year.

If you have any questions relating to this memo, contact Jim Burke at (919) 807-2389 or james.burke@nctreasurer.com.