

# COLUSA UNIFIED SCHOOL DISTRICT

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DWAYNE NEWMAN  
DISTRICT SUPERINTENDENT



DATE: October 8, 2018

TO: Dwayne Newman, Superintendent

FROM: Scott Lantsberger, Interim CBO

**RE: Governmental Accounting Standard Board Statement 54**

## *Executive Summary*

The purpose of this Executive Summary is to provide background and content on the components of ending fund balance in the financial statements. The most recent financial statement approved by the Board of Education does not have fully committed or assigned fund balance; rather a portion of the fund balance is unassigned/unappropriated. Having an unassigned/unappropriated designation implies that there is no current commitment, plan, or intended use for these funds. Of course, designation of ending fund balance is monitored and regulated for governmental entities. This is where the Governmental Accounting Standards Board (GASB) comes into the conversation.

GASB issued Statement 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, in February 2009, and going into effective for periods that began after June 15, 2010. GASB 54 considerably altered the categories and terminology used to describe the components that compose fund balance. The changes were intended to enhance how fund balance information is reported and to improve its usefulness by establishing new fund balance classifications that are easier for users to understand and apply. The new standard also clarified the definitions of certain governmental funds.

## **BACKGROUND**

Fund balance reporting is unique to governmental fund accounting. Fund balance represents the difference between the assets and liabilities reported within a governmental fund. It had traditionally been broken into two components, reserved and unreserved, with a focus on identifying whether resources are available for spending in the subsequent year's budget.

The GASB's initial intent in developing this new standard was to clarify the relationship between the reserved fund balances reported in governmental funds and the restricted net assets reported in the government-wide statements required by GASB 34. It became clear to the GASB that fund balance reporting guidance was interpreted and applied inconsistently, resulting in fund balance information that was not easily understood by financial statement users. The GASB concluded that it was necessary to redefine fund balance classifications in order to improve the clarity and usefulness of fund balance information presented in the financial statements.

## **New FUND BALANCE CLASSIFICATIONS**

GASB 54 implemented a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. Not all of the classifications will be needed in every governmental fund or by every LEA. The five classifications, discussed in more detail below, are:

1 – Nonspendable; 2 – Restricted; 3 – Committed; 4 – Assigned; and 5 – Unassigned

### **Nonspendable Fund Balance**

The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

### **Restricted Fund Balance**

The restricted fund balance classification reflects amounts subject to *externally* imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide, proprietary fund, and fiduciary trust fund statements.

### **Committed Fund Balance**

The committed fund balance classification reflects amounts subject to internal constraints *self-imposed by formal action of the government's highest level of decision-making authority*. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period (June 30, for LEAs). The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements.

In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the highest level of decision-making authority.

“Formal action” varies considerably from government to government. For example, formal action for which governments such as cities, counties, or states have authority typically includes the passage of laws, ordinances, or levies. By contrast, *formal action for which California school district governing boards have authority is typically limited to actions taken at a public meeting such as a vote, a resolution, or some similar action such as adoption of a budget*. For LEAs, therefore, the difference between the committed classification and the assigned classification may not be as great as for other governments. As discussed below, an LEA may not have a need to report both classifications.

## **Assigned Fund Balance**

The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the governing body or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint.

In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are *not required to be imposed, modified, or removed by formal action of the highest level of decision-making authority*. The action does not require the same level of formality and may be delegated to another body or official. *Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.*

As noted above, for LEAs, the difference between the committed and assigned fund balance classifications may be minimal. An LEA is not required to report both classifications, but must disclose in the notes to the financial statements the nature of the constraints giving rise to whichever classifications it does report.

## **Unassigned Fund Balance**

In the general fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the general fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the general fund, which cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

## **NEXT STEPS**

At the Board of Education (BOE) meeting on October 15, 2018, I recommend a discussion with the BOE on having Assigned ending fund balance. The purpose of the discussion would be to obtain the BOE's approval to maintain ending fund balance Assignments for specific categories; those that are defined in the Technology, Vehicle, and Curriculum Expenditure Plan.

The proposal that I would suggest would be to obtain approval to have a proportional share of the ending fund balance, with the exception of amounts for Nonspendable, Restricted, and the Reserve for Economic Uncertainty. The Technology, Vehicle, and Curriculum Expenditure Plan through fiscal 2034, has the following ratios by category: Technology: 50.75%; Vehicle: 24.35%, and Curriculum: 24.91%. The current amount of the Assigned ending fund balance is \$320,373.00 and the Unassigned/Unappropriated ending fund balance is \$900,527.68. Using the proportional share methodology, the Assigned ending fund balance would be calculated as follows:

Technology	1,803,000.00	50.75%	619,556.41
Vehicle	865,000.00	24.35%	297,235.88
Curriculum	885,000.00	24.91%	304,108.39
	<u>\$ 3,553,000.00</u>	<u>100%</u>	<u>\$ 1,220,900.68</u>

The methodology would be displayed in the financial statements as follows:

	Unrestricted	Restricted	Combined
<b>E. Net Increase (Decrease) in Fund Balance</b>	416,880.00	-	416,880.00
<b>F. Fund Balance / Reserves</b>			
1. Beginning Fund Balance			
a. As of July 1 - Unaudited	1,668,847.68	48,874.33	1,717,722.01
b. Audit Adjustments	-	-	-
c. As of July 1 - Audited	1,668,847.68	48,874.33	1,717,722.01
d. Other Restatements	-	-	-
e. Adjusted Beginning Fund Balance	1,668,847.68	48,874.33	1,717,722.01
2. Ending Balance	2,085,727.68	48,874.33	2,134,602.01
Components of Ending Fund Balance			
a. Nonspendable			
Reserves for Revolving Cash	30,350.00	-	30,350.00
Stores	-	-	-
Prepaid Expenses	-	-	-
All Others	-	-	-
b. Restricted	-	48,874.33	48,874.33
c. Committed			
Stabilization Agreements	-	-	-
Other Commitments	-	-	-
d. Assigned	-	-	-
Other Assignments	-	-	-
Set Aside for Technology	619,556.41	-	619,556.41
Set Aside for Vehicles	297,235.88	-	297,235.88
Set Aside for Curriculum	304,108.39	-	304,108.39
e. Unassigned/Unappropriated			
Reserve for Economic Uncertainty	834,477.00	-	834,477.00
Unassigned/Unappropriated	-	-	-

As future financial statements are presented, the ratio would be evaluated as purchases are made against the Technology, Vehicle, and Curriculum Expenditure Plan. It is anticipated that the ratios will be adjusted depending on the value of the remaining items to be purchased in the plan.

Please let me know if there are any questions regarding this information.