MEMO

To: Jim Flynn/Board of Education

From: Amanda Spears

Date: 06/12/19

Re: GASB 54

Message:

To enhance the usefulness, provide clarity, consistency, and a clearer picture of fund balance, the Governmental Accounting Standards Board has issued GASB 54. This statement establishes five fund balance classifications and a hierarchy to which the District will be required to use their resources. This statement was implemented for the year ended June 30, 2011.

Under this statement, fund balance is separated into five categories, as follows:

Nonspendable	Permanently nonspendable by decree of the donor, such as an endowment, or items which may not be used for another purpose, such as amounts used to prepay future expenses or already-purchased inventory on hand
Restricted	Legally restricted under federal or state law, bond authority, or grantor contract
Committed	Commitments passed by the Board
Assigned	Funds assigned by management priority including issued encumbrances
Unassigned	Funds available for future operations

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically

re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2019, in the governmental funds balance sheet.

The Kentucky Department of Education may assume financial control over any school district whose tentative fund balance drops below 2% of the total expenditures of certain funds. To maintain balances above this level, they recommend reserving at least 5%. It is my recommendation that the Board take action to commit 5% of total general fund operating expenditures (on a semi-accrual basis calculated during month end close) to ensure fund balance remains above these levels. General fund operating expenses will not include on-behalf expenditures, KISTA bus purchase entries or fund transfers. The 5% commitment can only be used if there is a revenue shortfall of more than 5% of budgeted general fund revenue.

In addition to the committed funds above, it is also my recommendation that the Board take action to commit for future construction $468,114.70 plus applicable June 2019 interest.

Additionally, KRS 157.420 allows the District to set aside no more than 50% of the maximum liability for the current year for unused sick leave. I recommend the Board restrict an amount for unused sick leave payout as of June 30.