



CALIFORNIA
DEPARTMENT OF
EDUCATION

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STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

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Dear County and District Chief Business Officials and Charter School Administrators:

NEW REQUIREMENTS FOR REPORTING FUND BALANCE IN GOVERNMENTAL FUNDS

The Governmental Accounting Standards Board (GASB) has issued Statement 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, that considerably alters the categories and terminology used to describe the components that compose fund balance. These changes are 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 clarifies the definitions of certain governmental funds.

The new standard does not change the actual amount of fund balance reported, and does not change most aspects of day-to-day accounting.

This letter discusses key provisions of the standard, identifies implementation issues for local educational agencies (LEAs), and provides guidance on accounting for the new fund balance classifications in the standardized account code structure (SACS).

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 has 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 Statement 34. It became clear to the GASB that fund balance reporting guidance was interpreted and applied inconsistently, resulting in fund balance information that is 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.

EFFECTIVE DATE

GASB 54 is effective for LEA financial statements for fiscal year 2010–11.

NEW FUND BALANCE CLASSIFICATIONS

GASB 54 implements 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. Note that not all of these classifications will be needed in every governmental fund or by every LEA. The five classifications, discussed in more detail below, are:

- Nonspendable
- Restricted
- Committed
- Assigned
- 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, that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

COMPARISON OF PREVIOUS AND NEW FUND BALANCE CLASSIFICATIONS

Following is a discussion of how amounts reported in the previous fund balance classifications are reported in the new classifications.

The previous fund balance classifications were Reserved Fund Balance and Unreserved Fund Balance. Unreserved Fund Balance was further classified as either Designated Unreserved Fund Balance, or Undesignated Unreserved Fund Balance. The reporting focus was on the availability of resources for appropriation.

The new fund balance classifications shift the reporting focus to the extent to which a government is bound by spending constraints imposed on its resources.

Reserved Fund Balance

The previous reserved fund balance classification was composed of resources meeting the following criteria:

- Resources that cannot ever be spent because of form (for example, inventory).
- Resources that cannot yet be spent (for example, long-term loans receivable).
- Resources that are available for spending but whose use is externally restricted to a purpose narrower than the purpose of the fund in which they are reported (for example, donor-restricted grants).

Resources meeting the first criterion are now always reported in the nonspendable fund balance classification.

Resources meeting the second criterion are now normally reported in the new nonspendable fund balance classification, unless there are constraints on the amounts that will eventually be received, in which case they are reported as restricted, committed, or assigned fund balance according to the nature of the constraint.

Resources meeting the third criterion will always be reported in the restricted fund balance classification.

Unreserved Fund Balance

The previous designated unreserved fund balance classification was composed of resources meeting the following criteria:

- Limitations were imposed by the governing body upon itself.
- Amounts were set aside by management in connection with tentative plans.

Resources meeting the first criterion will typically now be reported as assigned fund balance, or may be reported as committed if the constraints meet the criteria for the committed classification. Resources meeting the second criterion will now be reported as either assigned or unassigned fund balance, depending on whether management has been delegated the authority to make the assignment.

The previous undesignated unreserved fund balance classification was the residual fund balance classification, and generally was composed of resources meeting the following criterion:

- No limitations were imposed either internally or externally.

However, this classification may also have included amounts for which:

- The use was restricted, but to a purpose not narrower than the purpose of the fund in which it was reported.
- The criteria to be reported as designated unreserved fund balance were met, but the designation was not mentioned in the financial statements.

A key difference between the previous and new fund balance classification standards is that the new standards do not require that a restriction be narrower than the purpose of the fund in which an amount is reported in order for the amount to be reported as restricted fund balance. Under previous standards, resources constrained for specific purposes that were reported as reserved in the general fund may have been reported as unreserved in another fund, if the other fund was restricted only for those purposes. Resources constrained for specific purposes will now always be reported in the restricted, committed, or assigned classifications regardless of the fund in which they are reported. For example, the fund balance of a debt service fund in which the revenues and expenditures were externally restricted for making long-term debt payments might have been reported as unreserved under the previous fund balance standards, but will be reported as restricted under the new fund balance standards.

Another key difference is that reporting of designated unreserved fund balance was optional under the previous standards. Unreserved amounts that were not reported as designated were reported as part of the undesignated unreserved fund balance. Under the new standards, the use of an appropriate fund balance classification is required. Consequently, LEAs that have not previously reported any designated unreserved fund balance will need to determine whether any portion of what they have previously classified as undesignated unreserved fund balance meets the criteria to be classified as committed or assigned fund balance.

STABILIZATION ARRANGEMENTS AND MINIMUM FUND BALANCE POLICY

GASB 54 defines stabilization arrangements, or “rainy-day” funds, as formal arrangements to maintain amounts for budget or revenue stabilization, working capital needs, contingencies or emergencies, and other similar purposes. GASB 54 gives explicit direction on how stabilization arrangements may be reported.

The statement provides that resources accumulated pursuant to a stabilization arrangement may be classified as restricted or committed fund balance only if the constraints on these amounts meet the criteria for the amounts to be reported as restricted or committed fund balance and only if the circumstances in which the resources may be spent are both specific and non-routine. Stabilization arrangements that do not meet the requirements to be reported as restricted or committed fund balance must be reported as unassigned fund balance. The standard specifically provides that stabilization arrangements may never be reported as assigned fund balance.

The Reserve for Economic Uncertainties (REU) maintained by California LEAs pursuant to the Criteria and Standards for fiscal solvency adopted by the State Board of Education is a stabilization-like arrangement of the "minimum fund balance policy" type. The REU does not meet the criteria to be reported as either restricted or committed because it is not an externally enforceable legal requirement, and because even where the REU is established by formal action of the LEA's highest level of decision-making authority, the circumstances in which the REU might be spent are by their nature neither specific nor non-routine.

The REU must therefore be reported as unassigned fund balance. To mitigate the potential that classifying the REU as unassigned might lead users to underestimate the importance of the reserve or conclude that it is available for spending, a unique object code has been established to separately identify and characterize the REU. The new object code is discussed in the section titled “Classifying Fund Balance in the Standardized Account Code Structure” later in this letter.

To further mitigate any potential misunderstanding about the importance of the REU, the California Department of Education (CDE) recommends that the newly required note disclosure describing an LEA's minimum fund balance policy should be carefully and thoughtfully worded to communicate to users the character of the REU. Required disclosures are discussed in the section titled “Note Disclosures” later in this letter. Sample disclosure language is provided in Attachment D.

Should an LEA establish a stabilization arrangement more formal than the REU (or similar minimum fund balance policy), a unique object code has been established within the committed classification. This object code is discussed later in this letter.

Establishing a Fund Balance Policy

A fund balance policy establishes a minimum level at which a fund balance is to be maintained. This minimum level provides a financial cushion to protect against unforeseen events such as revenue shortfalls or unanticipated expenditures. Note that only unrestricted fund balance is relevant to a fund balance policy because nonspendable and restricted fund balances are not in a form or otherwise free from externally enforceable restrictions that would allow them to be used for any purpose.

An LEA's fund balance policy should not be limited to the REU recommended by the Criteria and Standards. Many LEAs find it prudent to maintain reserves above the minimum level recommended by the Criteria and Standards. All reserves should be included in the LEA's policy and explained in the required financial statement note disclosures.

The CDE believes that every LEA that maintains an REU has adopted a minimum fund balance policy, in substance if not in form, and should commit that policy to writing. The CDE believes that regardless of whether the LEA has committed the policy to writing, the related note disclosure is still required.

The CDE recommends that the sample minimum fund balance note disclosure language provided in Attachment D can also serve as a starting point for the written fund balance policy. The fund balance policy should include the means by which the LEA will replenish any deficiency in the event that the LEA must spend some of its reserve. These means might include dedicating new unrestricted revenues or budgetary savings in the current year to restoring the reserve, and reducing the expenditure budget for the following year to the extent necessary to restore the reserve.

CLASSIFYING FUND BALANCE IN THE STANDARDIZED ACCOUNT CODE STRUCTURE

The fund balance object codes in the standardized account code structure (SACS) have been revised to incorporate the five new classifications. Attachment A provides a comparison of the previous and new fund balance classification ranges and object codes. Attachment B provides the definitions of the new fund balance classifications and object codes.

Nonspendable Balances

Nonspendable balances are reported using object codes in the range 9710 through 9719. These are the codes that already existed for nonexpendable assets.

Note that if there are constraints on amounts that will eventually be collected in connection with long-term receivables or nonfinancial assets held for resale, those

amounts are reported as restricted, committed, or assigned fund balance, depending on the nature of the constraint, rather than as nonspendable fund balance. For example, land held for resale, the proceeds of which must be used to construct a new school building pursuant to an externally enforceable legal requirement, are reported as restricted fund balance rather than nonspendable fund balance.

Restricted Balances

Restricted balances, reported in SACS restricted resource codes 2000 through 9999, are reported using Object 9740, Restricted Balance, except for deficit (negative) balances. Deficit balances of restricted SACS resource codes will be reported in Object 9790, Unassigned/Unappropriated.

Note that all restricted balances will be reported in this manner regardless of the fund in which they are reported. Also note that balances of restricted SACS resource codes may not be reported as committed, assigned, or (except for deficits) unassigned.

Unrestricted Balances

Unrestricted balances, reported in SACS resource codes 0000 through 1999, will be reported as committed, assigned, or unassigned, according to the level of constraint imposed on their expenditure.

Committed Balances. Committed amounts other than for formal stabilization arrangements are reported in Object 9760, Other Commitments. Stabilization arrangements more formal than the REU, that meet the criteria to be reported as committed, are reported in Object 9750, Stabilization Arrangements.

Certain contractual or legal obligations to be satisfied with existing resources rather than with future revenues are reported as committed fund balance. An example is a legal settlement, to the extent that the settlement is not already recognized as a fund liability.

LEAs may itemize their Other Commitments within the SACS financial reporting software if they wish.

Assigned Balances. Assigned amounts are reported in Object 9780, Other Assignments. Note that Object 9780 is the same code used previously to report designated unreserved fund balance. The CDE believes that most balances previously classified as designated unreserved fund balance fit the criteria to be reported as assigned fund balance.

Additionally, assigned is the minimum classification of positive fund balance that can be reported in governmental funds other than the general fund (with the exception of Fund 17, Special Reserve Fund for Other Than Capital Outlay,

discussed below). Finally, assigned amounts may not cause a deficit (negative) balance in any SACS resource or fund, and must be reduced or eliminated in order to alleviate the deficit.

Unrestricted balances at year-end that are appropriated to reduce or eliminate a projected deficit in the subsequent year's budget are reported as assigned fund balance.

LEAs may itemize their Other Assignments within the SACS financial reporting software if they wish.

Unassigned Balances. In the general fund, residual balances of unrestricted SACS resource codes not meeting the criteria to be reported as committed or assigned are reported as unassigned. Unassigned amounts reserved in the budget pursuant to a minimum fund balance policy, such as the REU, are reported using Object 9789, Reserve for Economic Uncertainties. All other unassigned balances are reported using Object 9790, Unassigned / Unappropriated. In other governmental funds, only negative balances are reported using Object 9790.

Calculation of Available Reserves for Reviews of Fiscal Solvency

The REU maintained by California LEAs pursuant to the Criteria and Standards for fiscal solvency adopted by the State Board of Education, discussed previously in this letter, is reported using Object 9789, Reserve for Economic Uncertainties. The use of Object 9789 is not limited to reporting the reserve recommended by the Criteria and Standards. All reserves for economic uncertainties, including amounts above the level recommended by the Criteria and Standards, or reserves for such purposes as assuring adequate cash balances, are reported using Object 9789. All amounts reported in Object 9789 should be included in the LEA's minimum fund balance policy and explained in the required financial statement note disclosures.

Stabilization arrangements more formal than the REU, if the arrangement meets the criteria to be reported as committed fund balance, are reported using Object 9750, Stabilization Arrangements.

Object 9789 and Object 9750 are available for use only in the general fund and in Fund 17, Special Reserve for Other Than Capital Outlay (discussed below).

Amounts reported in Object 9789 and Object 9750, as well as unassigned amounts reported in Object 9790, are included in the calculation of available reserves for purposes of the Criteria and Standards for fiscal solvency.

Elimination of Object 9730 and Object 9775

Object 9730, General Reserve, and Object 9775, Designated for the Unrealized Gains of Investments and Cash in County Treasury, are no longer necessary.

Object 9730, General Reserve, existed pursuant to *Education Code (EC)* Section 42124, which provides that the governing board may set aside amounts sufficient to meet cash requirements in the succeeding fiscal year until adequate proceeds from taxes levied or from the apportionment of state funds are available. This “general reserve” is effectively intended as a cash management mechanism, rather than a minimum fund balance policy, since there is not necessarily a correlation between cash balance and fund balance. In practice, LEAs employ various means of managing cash, including issuing short-term notes. The asset account for cash is already reported within the SACS resource codes to which the cash relates, so no separate fund balance classification is necessary. However, should an LEA maintain a higher reserve for economic uncertainties in order to assure adequate cash, the LEA will report the entire reserve in Object 9789.

Object Code 9775, Designated for the Unrealized Gains of Investments and Cash in County Treasury, existed to show that the portion of fund balance resulting from an unrealized gain was not available for appropriation. Since the focus of the new fund balance classifications is no longer their availability for appropriation, it is not necessary to distinguish these amounts in fund balance. In the new fund balance classifications, unrealized gains or losses of investments are reported as part of the fund balance classification of the underlying investment.

Unrealized gains or losses of investments are still recorded using Object 8662, Net Increase (Decrease) in the Fair Value of Investments.

Encumbrances

GASB 54 specifies that encumbrances should not be displayed as a separate line item within the fund balance classifications. The rationale is that encumbered amounts are already reflected in the restricted, committed, or assigned fund balance classifications based on the source of constraints placed upon the resources being encumbered. GASB 54 also specifies that encumbrances for specific purposes for which amounts have not already been restricted, committed, or assigned should be reported as assigned fund balance, since outstanding purchase orders demonstrate the government’s intent to spend the resources.

As a practical matter, encumbrances are closed at the end of each fiscal year. LEAs currently do not identify encumbrances separately in the components of ending fund balance for SACS financial reporting purposes. The new standards therefore should not change the way encumbrances are reported.

Object 9720, Encumbrances, will remain available for budgetary accounting purposes.

Significant encumbrances should be disclosed in the notes to the financial statements in conjunction with required disclosures about other significant commitments.

Charter School Fund Balance Reporting

GASB 54 specifies that for governmental funds other than the general fund, the minimum classification of positive fund balance that can be reported is assigned fund balance because amounts reported in other funds are at minimum assigned to the purpose of those funds. Consequently, all balances of a charter school that reports in Fund 09, Charter Schools Special Revenue Fund, must be reported as at least assigned. This means that a charter school that reports in Fund 09 will report balances that otherwise meet the definition of unassigned fund balance as assigned fund balance, including reserve amounts.

As part of GASB 54 implementation, LEAs that have authorized charter schools should reevaluate whether their charter schools are being reported in conformity with generally accepted accounting principles (GAAP). In particular, LEAs should consider whether charter schools currently reported as part of the authorizing LEA should in fact be reported separately.

Charter schools reporting separately from their authorizing LEAs should report either in Fund 01, the General Fund, or Fund 62, Charter Schools Enterprise Fund, rather than in Fund 09. The *California School Accounting Manual (CSAM)* contains additional guidance on fund reporting.

The Charter School Unaudited Actuals Financial Report Alternative Form, used by those charter schools that elect not to report in SACS, will be revised to reflect the new GASB 54 fund balance classifications.

Use of Restricted SACS Resource Codes in Funds Other Than the General Fund

Where a CDE-defined resource code does not already exist, LEAs should use a locally defined restricted SACS resource code to report revenues and other financing sources that meet the criteria to be reported as restricted. The use of a restricted SACS resource code for all restricted funding, regardless of the fund in which it is reported, is consistent with GASB 54 fund balance reporting requirements and also facilitates the automatic calculation of restricted ending balances to Object 9740, Restricted Balance, in the SACS financial reporting software. Object 9740 will not be valid in combination with unrestricted SACS resources.

Locally definable resource codes include Resource 5810, Other Restricted Federal; Resource 7810, Other Restricted State; and Resource 9010, Other Restricted Local.

Proprietary and Fiduciary Fund Types

GASB 54 makes clear that its provisions apply only to governmental funds. Therefore, the new fund balance classifications and associated object codes do not apply to the proprietary and fiduciary fund types. Components of net assets in these fund types will be displayed as invested in capital assets net of related debt, restricted assets, and unrestricted assets.

2010–11 Financial Reporting

As noted previously, LEAs are required to implement the new standards in their 2010–11 financial statements. However, it is important to note that in response to requests from LEAs that they be allowed additional time for training and implementation, the CDE agreed not to incorporate the SACS changes and the associated changes to the SACS financial reporting software until 2011–12. LEAs should therefore use the information provided in this letter to crosswalk their 2010–11 ending fund balances reflected in the previous classifications to the new classifications for GAAP financial reporting purposes. An illustration of this crosswalk is provided in Attachment C.

NOTE DISCLOSURES

GASB 54 requires several new note disclosures to further clarify an LEA's fund balance information, including:

- A description of the authority and actions that lead to committed and assigned fund balance.

For committed fund balance, the disclosure should identify the highest level of decision-making authority, and the formal action that is required to establish (and modify or rescind) a commitment of fund balance.

For assigned fund balance, the disclosure should include the body or official authorized to assign amounts to specific purposes, and the policy pursuant to which that authorization is given.

As noted previously, for LEAs the difference between the committed and assigned classifications is likely to be minor. An LEA is not required to report both classifications if either or both do not apply.

- The LEA's policy regarding the order in which restricted, committed, assigned, and unassigned fund balances are spent when more than one amount is available for a specific purpose. Where such policies do not exist, GASB 54 prescribes that the default order in which these amounts should be spent is committed, assigned, and then unassigned.

The CDE notes that this default order is consistent with many LEAs' practice of spending most restrictive amounts first. If this default order meets an LEA's needs, the CDE believes there is no need for the LEA to adopt a formal policy because the default order will be sufficient.

- Details of any fund balance classifications displayed in the aggregate on the face of the financial statements. If the face of the financial statements contains sufficient detail, this disclosure is not required.
- Encumbrances, if significant.
- Minimum fund balance policies, such as for the REU. The CDE recommends that every LEA that maintains an REU has adopted a minimum fund balance policy in substance, if not in form, and that this disclosure is therefore required. Sample language is provided in Attachment D.
- Stabilization arrangements, if any, more formal than a minimum fund balance policy. The disclosure should include the authority for establishing the arrangement, requirements for making additions, the specific conditions under which amounts may be used, and the actual balance if not apparent on the face of the financial statements.

GOVERNMENTAL FUND DEFINITIONS

To further improve the usefulness of fund balance information, GASB 54 also provides clarification of the definitions of governmental fund types that have proven to be a source of confusion in the past.

Special Revenue Funds

The special revenue fund definition has been clarified to convey that this fund type is used only to report the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service and capital outlay, and that compose a substantial portion of the fund's resources. Other sources, such as interfund transfers, may supplement the fund as long as those sources are committed or assigned to the purposes of the fund. Once restricted or committed revenue sources no longer compose a substantial portion of the special revenue fund, the use of that fund should be discontinued and the remaining sources reported in the general fund.

The clarified definition has implications for some funds defined in *CSAM*.

Fund 17 and Fund 20. Two funds currently defined as special revenue funds in *CSAM* do not meet the GASB 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve

Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open, the CDE notes that they function effectively as extensions of the general fund, and recommends either that they be combined with the general fund for presentation in the audited financial statements, or that the departure from GAAP be explained in the financial statements. LEAs should discuss the appropriate presentation with their auditors.

Since Fund 17 is used by some LEAs primarily for reporting reserves, Object 9789, Reserve for Economic Uncertainties, a component of unassigned fund balance, is valid in this fund. This is a deliberate departure from GAAP in that for governmental funds other than the general fund, the minimum level of positive fund balance that should be reported is assigned. Note that a positive Object 9790, Unassigned/Unappropriated, cannot be reported in Fund 17.

In Fund 20, ending fund balance classifications are similar to the other governmental funds, with the minimum classification of positive fund balance reported as assigned.

Fund 11 and Fund 14. Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, Fund 11, Adult Education Fund, and Fund 14, Deferred Maintenance Fund, do not currently meet the definition of special revenue funds as they are no longer primarily composed of restricted or committed revenue sources. However, since the programs associated with these funds may be reinstated at the end of the five-year flexibility period, the CDE has elected not to close these funds at this time.

LEAs that have taken formal action to commit the flexed revenues formerly restricted to these programs to the continued operation of the original programs may continue to use these funds for the purposes of the programs for which the funds were originally established. Note that consistent with the guidance in the CDE's April 17, 2009 letter titled "Fiscal Issues Relating to Budget Reductions and Flexibility Provisions," LEAs should continue to use unrestricted SACS resource codes for these flexed revenues. Any balances of these formally committed revenues should be reported as committed. The letter is available on our Web page at <http://www.cde.ca.gov/fq/ac/co/>.

Capital Project Funds

The definition of capital project funds was broadened to include capital outlay acquisitions in addition to capital facilities, including items that are capital in nature but do not meet the government's capitalization threshold. Capital outlay funds specifically established for tracking capital facilities projects will continue to be defined for reporting only capital facilities projects. However, Fund 40, Special Reserve Fund for Capital Outlay Projects, will be expanded to allow reporting of capital outlay expenditures in addition to facilities projects.

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Debt Service and Permanent Funds

There were no substantive changes to the definition of debt service and permanent fund types.

FUTURE CDE EFFORTS REGARDING GASB 54

The CDE will continue to identify issues relating to the implementation of GASB 54 and will communicate additional guidance through future correspondence, information on the CDE Web site, and the upcoming release of *CSAM*.

If you have questions or need assistance with the guidance in this letter, please contact the Office of Financial Accountability and Information Services at 916-322-1770 or by e-mail at sacsinfo@cde.ca.gov.

Sincerely,

Scott Hannan, Director
School Fiscal Services Division