**GASB 54 Best Practices in Kentucky School Districts & Frequently Asked Questions (FAQ)**

**Kentucky Department of Education**

**Office of Administration and Support**

**District Funding and Reporting Branch**

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# Overview

These rules apply to governmental funds (Funds 1, 2, 21, 22, 310, 320, 360, and 400). District boards must take action before June 30th to commit funds, however the amount can be determined after that date.

Districts should ensure that the balance sheet codes used are in agreement with their Board policy and their audit report. The changes should be reflected on the AFR Balance Sheet submitted to KDE by July 25 for each fiscal year.

A new template is available for districts to use to determine the amounts to report in each fund balance object code. See link below:

[District Financial Reporting Fund Balances, Revenues and Expenditures, Chart of Accounts, Indirect Cost Rates and Key Indicators](https://education.ky.gov/districts/FinRept/Pages/Fund%20Balances%2C%20Revenues%20and%20Expenditures%2C%20Chart%20of%20Accounts%2C%20Indirect%20Cost%20Rates%20and%20Key%20Financial%20Indicators.aspx)

# Summary of Fund Balance Object Codes

* ***Nonspendable fund balance****— (Objects 872\*)* amounts that are not in a spendable form (such as inventory or prepaids) or are required to be maintained intact (such as the corpus of an endowment fund). Amounts in this classification should be determined before other classifications – may limit reporting in other classifications.
* *Some examples of nonspendable fund balance include:*
	+ Inventories (example: supply warehouse) (Object 8722) (used only in Funds 1, 2, 21 or 22)
		- Note: If there is no asset for inventory on the balance sheet, then there will be no fund balance to consider as nonspendable for inventories.
	+ Prepaids (Object 8723) (used only in Funds 1, 2, 21, 22, 310, 320 or 360)
		- Insurance paid in June for next fiscal year
	+ Nonspendable - Other (Object 8727) (used only in Funds 1, 2, 21, 22, 310, 320 or 360)
		- The principal (called the corpus) of a trust or endowment used for purposes that support the school district’s programs
		- Long-term receivables and loans
		- Property acquired for resale
* ***Restricted fund balance***— *(Objects 873\*)* amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation
* *Some examples of restricted fund balance include:*
	+ Grants (Fund 2 and 22, Object 8731) (not to be used in Fund 21)
	+ Sick Leave based on KRS 157.420 (Object 8732) (not to be used in Fund 21 or 22)
		- Any funds that were in 8762 Restricted Sick Leave prior to GASB 54 should be in this object code
		- The noncurrent portion of sick leave upon retirement is recorded as restricted when based on KRS 157.420(3) as follows: “A district that compensates its teachers or employees for unused sick leave at the time of retirement, pursuant to KRS 161.155, may create an escrow account to maintain the amount of funds necessary to pay teachers or employees who qualify for receipt of the benefit. The fund is limited to not more than fifty percent (50%) of the maximum liability for the current year to be determined according to the number of staff employed by the district on September 15.” (Note: Sick leave that is generally paid within 60 days after year end should not be reported here. It should be reported in 7493 Sick Leave Payable in Process as a liability only to the extent that it will be paid with current, expendable, available financial resources.)
	+ SFCC Escrow - Prior Offer (Object 8734) (used only with Fund 310 or 320)
	+ Future Construction Projects BG-1 (Object 8735) (used only with Funds 1, 310, 320 or 360)
		- Includes capital projects in General, FSPK, Capital Outlay, or Construction Funds if approved by KDE by June 30.
	+ Debt Service (Object 8736) (only used with Fund 400)
	+ Restricted - Other (Object 8737) (used only with Funds 1, 2, 21, 22, 310, 320, 360, 6x or 7xxx)
	+ SFCC Escrow - Current Offer (Object 8738) (used only with Funds 310 or 320)
* ***Committed fund balance****— (Objects 874\*)* amounts constrained to specific purposes by the board itself, using its highest level of decision-making authority; amounts classified as committed are not subject to legal enforceability like restricted resources; however, they cannot be used for any other purpose unless the board takes the same highest-level action to remove or change the constraint. The Board must take action to commit funds before year-end however the amount may be determined after that date.
* *Some examples of committed fund balance include:*
	+ Committed Fund Balance (Object 8740) (used only in Fund 21 similar to how 8770 is used in the general fund)
	+ Site Based Carry Forward (Object 8741) (used on in Fund 1 only)
		- Funds committed by the board through formal board action for the specific purpose of SBDM expenditures.
	+ Sick Leave (Object 8742) (not to be used with Fund 21 or 22)
		- The noncurrent portion of sick leave upon retirement is recorded as committed when the board takes formal action to set aside funds for sick leave not in accordance with KRS 157.420(3) (Note: Sick leave that is generally paid within 60 days after year end should not be reported here. It should be reported in 7493 Sick Leave Payable in Process as a liability only to the extent that it will be paid with current, expendable, available financial resources.)
	+ Future Construction Projects (Object 8745) (used only in Fund 1)
		- The board takes formal action to set funds aside for this specific purpose but the BG-1 is not approved by KDE by June 30.
	+ Committed - Other (Object 8747) (used only in Fund 1 or 21)
		- Other amounts set aside for specific purposes by formal board action. This could include bus purchases or technology purchases.
* ***Assigned fund balance****— (Objects 875\*)* amounts a board *intends* to use for a specific purpose, but are neither restricted nor committed; intent can be expressed by the board itself or by an official or body to which the board delegates the authority to assign resources to be used for specific purposes in accordance with policy established by the board. Amounts reported as assigned fund balance **cannot cause a deficit in the unassigned category.** The board should set a policy as to who can assign funds (for example a budget committee or finance officer). The assignment of funds may be made after June 30.
* *Some examples of assigned fund balance include:*
	+ Assigned Site Base Carry Forward (Object 8752) (used only in Fund 1)
		- Funds set aside for the specific purpose of SBDM expenditures via a board-approved authority such as a finance officer or budget committee.
		- Assigned Purchase Obligations (Periods 1 – 12) (Object 8753) See the guidance regarding encumbrances on page 10. (used only in Fund 1 or 21)
	+ Assigned Purchase Obligations (Period 13 Year End) (Object 8755)
		- See the guidance regarding encumbrances on page 10. (used only in Fund 1 or 21)
	+ Assigned - Other (Object 8757) (used only in Fund 1 or 21)
		- General fund should not report amounts in Assigned - Other unless amounts are intended for something more specific than the district’s general mission, such as a one-time project.
		- Amounts used to balance the subsequent year’s budget may be reported here.
		- Deficit amounts in funds other than general fund are reported in assigned fund balance according to GAAP however the audit contract approved by the State Committee for School District Audits (SCSDA) requires general fund transfers be made to satisfy any deficit amounts in funds other than the general fund.
* ***Unassigned fund balance****—(Object 8770)* amounts that are available for any purpose; positive amounts are reported ***only in the general fund***. Any negative amounts from other funds in 8770 requires a transfer from general fund to resolve the deficit reflected as of June 30 as directed by the audit contract approved by the SCSDA.

# Displaying Fund Balance Categories in Financial Statements

* ***Restricted fund balance*** – May be displayed in a manner that distinguishes between the major restricted purpose by utilizing the fifth and sixth character in the object code (example: 8736A, 87361, 8736A1). Restricted fund balance may also be displayed in the aggregate if districts do not wish to break out the restricted fund balance using the fifth and sixth character (example: 8736).
* ***Committed and assigned fund balances*** - May be displayed in sufficient detail so that the purposes of the major limitations and assignments are evident by utilizing the fifth and sixth character in the object code (example: 8741A). Both committed and assigned classifications may be displayed in the aggregate if districts do not wish to break out the restricted fund balance using the fifth and sixth character (example: 8741).
* ***Establishing board policy*** –The local board should create a policy establishing the ordering of payments from the different categories; if a payment can be classified as restricted, committed, assigned or unassigned, to which category will it be charged? An example of such ordering is “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.” (See KSBA 4.311 that establishes policy for prioritization.)
* ***Minimum fund balance policy*** - This policy should be set by management and then discussed with the district’s auditor for how it should be reported.
* ***Purchase obligations*** - Amounts that are encumbered (purchase obligations) should not be displayed separately from the categories of fund balance on the face of the balance sheet. Significant encumbrances should be disclosed in the notes by major funds and non-major funds in the aggregate. If the encumbrance is made from funds which are restricted or committed, the encumbrance will be reported as part of restricted or committed fund balance. Only the general fund may report purchase orders in the assigned category and only to the extent unassigned fund balance remains positive.

# Other Important Notes

* If aggregate disclosure is made in the financial statements, details must be reported in the financial statement notes.
* Do not change the 4th digit of any object code; instead use an alphanumeric character in the 5th and 6th position (example: 8736A, 87361, 8736A1). Document for your district what is in the other alphanumeric character for your auditor.
* Boards must take action to commit funds for the current fiscal year before June 30th. The dollar amount can be adjusted before sending in the unaudited AFR.
* Assigned Fund Balance should have a policy established by the board as to who can assign funds.

# Journal Entries

Shown below are journal entries to properly classify fund balances at year end.

**NONSPENDABLE FUND BALANCES**

* To classify fund balance as nonspendable- prepaid:

If expenditures are considered prepaid for the next fiscal year, then the total of the prepaid expenditures (shown on the balance sheet in object codes 6181 or 6182) for that fund should be posted in period 13 to the nonspendable fund balance account:

Debit Unassigned Fund Balance (8770)

Credit Non spendable – Prepaids (8723)

NOTE: The same type of journal entry would be created for any amounts determined to be nonspendable at the end of the fiscal year.

 **RESTRICTED FUND BALANCES**

* *GENERAL (1) & SPECIAL REVENUE FUND (2) ENTRIES*
	+ To restrict fund balance for sick leave:

The following entry should be posted in Period 13 if amounts are restricted for sick leave pursuant to KRS 157.420:

Debit Unassigned Fund Balance (8770)

Credit Restricted – Sick Leave (8732)

NOTE: The same type of journal entry would be created for any amounts that are restricted at the end of the fiscal year.

* *CAPITAL OUTLAY (310) & BUILDING FUND (320) ENTRIES*
	+ To restrict Capital Outlay (310) and Building Fund (320) balances at end of odd-numbered years:
* Step 1:

Any funds reflected in the Restricted – SFCC Escrow – Current Offer (8738) account must be moved to the Restricted – SFCC Escrow – Prior Offer (8734) account in a journal posted in period 13. This step must be performed prior to posting any funds into the current offer account.

Move Current Offer of Assistance to Prior Offer of Assistance:

Debit Restricted – SFCC Escrow – Current Offer (8738)

Credit Restricted – SFCC Escrow – Prior Offer (8734)

* Step 2:

Move funds that are obligated for future construction projects that have a BG-1 approved by KDE prior to June 30:

Debit Unassigned Fund Balance (8770)

Credit Restricted – Future Construction Projects (BG-1) (8735)

* Step 3:

Move funds remaining after Steps 1 & 2 are performed to Restricted – SFCC Escrow – Current Offer (8738) in period 13:

Debit Unassigned Fund Balance (8770)

Credit Restricted – SFCC Escrow – Current Offer (8738)

At the end of an odd-numbered year, funds may be shown in only three accounts: 8734, 8735, or 8738.

* + To restrict Capital Outlay (310) and Building Fund (320) balances at end of even-numbered years:

Any funds reflected in the Unassigned Fund Balance (8770) in an even-numbered year after closing must be moved to Restricted – Other (8737) in period 13 except for funds committed to a project through a BG-1 approved by KDE by June 30. Funds committed through an approved BG-1 (if any) must be moved to Restricted – Future Construction Projects (BG-1) (8735).

Debit Unassigned Fund Balance (8770)

Credit Restricted – Future Construction Projects (BG-1) (8735)

Credit Restricted – Other (8737)

It is very important that the balances in 8734 and 8738 remain the same as they were at the close of the previous year. Amounts are moved to 8734 and 8738 only at the end of odd-numbered years.

At the end of an even-numbered year, funds may be shown in only four accounts: 8734, 8735, 8737, or 8738.

* *CONSTRUCTION FUND (360) ENTRIES*
	+ To restrict Construction Fund (360) if unassigned fund balance is a credit:

Any funds reflected in Unassigned Fund Balance (8770) after the year is closed must be moved to the restricted account for future construction. A credit in the Unassigned Fund Balance account indicates more revenue was posted for the year than expenses paid. The following journal will need to be posted in period 13.

Debit Unassigned Fund Balance (8770)

Credit Restricted – Future Construction Projects (BG-1) (8735)

* + Construction Fund (360) entry if unassigned fund balance is a debit:

A debit in the Unassigned Fund Balance account indicates more expenses were posted than revenue received for the year in this fund. The general fund must transfer funds to satisfy the deficit. The following journal will need to be posted in period 13.

Debit General Fund – Transfers Out (0910)

Credit General Fund Cash (6101)

Debit Construction Fund Cash (6101)

Credit Construction Fund – Transfers In (5210)

**COMMITTED FUND BALANCES**

* To commit Unassigned Fund Balance (8770) for site based carry forward:

Debit Unassigned Fund Balance (8770)

Credit Committed - Site Base Carry Forward (8741)

NOTE A: A Board Order is required to commit Unassigned Fund Balance for any purpose

NOTE B: The same type of journal entry would be created for any amounts the Local Board approves to commit prior to the end of the fiscal year.

* Fund 21 to move the remainder of 8770 to 8740 Committed Fund Balance

Debit Unassigned Fund Balance (8770)

Credit Committed Fund Balance (8740)

NOTE: The amount in 8740 will become the beginning balance in the new fiscal year.

**ASSIGNED FUND BALANCES**

* To assign Unassigned Fund Balance (8770) for a specific purpose:

For example, if the board designated the superintendent to assign fund balances for specific purposes and he chose to assign funds to purchase a special reading program for the primary classes next year, the following journal entry should be made in period 13. This decision was made by the superintendent (designated by board) and no board action was taken.

Debit Unassigned Fund Balance (8770)

Credit Assigned - Other (8757)

NOTE: The same type of journal entry would be created for any amounts that are assigned prior to the end of the fiscal year.

**ENCUMBRANCES**

The reporting of encumbrances under GASB 54 depends on the category of the funds encumbered. If the encumbrance is made with funds that are already restricted, committed, or assigned, the encumbrance is simply included in the amount already reported for that fund balance category. If there is an encumbrance made with funds that are not restricted, committed, or assigned, the encumbrance is reported as assigned.

 Encumbrances in all funds, other than the general fund, will be made with funds that are already restricted, committed, or assigned due to the nature of the funds. It is only in the general fund where encumbrances might be for a purpose not previously restricted, committed, or assigned. It is only in the general fund where encumbrances may be reported as assigned fund balance, and only to the extent unassigned fund balance is not made negative.

Balances in 8753 and 8755 must be reclassified to the appropriate category.

Debit Assigned – Purchase Obligations (Period 13 – Year End) (8755)

Credit Restricted – Grants (8731)

NOTE: The same type of journal entry would be created for any amounts that need to be reclassified from assigned to another category.

# Frequently Asked Questions

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**FAQ Quick selection**

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[Copy of GASB54](https://www.gasb.org/jsp/GASB/Page/GASB/Store/SubjectPage%26subjectId%3D09SOS)

[Copy of GASB54 FREE (Plain Language)](http://www.gasb.org/plain-language_documents/Fund_Balance_Statement_PLA.pdf)

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**Can I still use the GASB 34 Reports provided in MUNIS?**

No, KDE does not recommend using the GASB 34 MUNIS reports due to the fact that the reports have not been updated for the Chart of Account changes and also the changes in GASB 54. We are reviewing other options.

1. **What is “fund balance”?**

Governmental funds use the term “fund balance” as more of a measure of liquidity. It

is defined as All assets – all liabilities = Fund Balance.

Businesses, proprietary fund, or fiduciary funds use a different term with a similar meaning called net assets. It is defined as: All assets – all liabilities = Net Assets. In such entities they would view the net assets as working capital of their business.

1. **Why can I not use 8739 in any fund?**

Balance sheet object code 8739, Restricted - Net Assets, is defined as, “This account is used to record the net assets component—restricted net assets—which represents net

assets restricted by sources internal or external to the organization. This account is to be used in proprietary funds only.” Proprietary funds are Fund 5X in Kentucky.

1. **Does GASB 54 changes affect all funds?**

The changes only affect governmental funds (1, 2, 21, 22, 310, 320, 360, 400).

1. **When does the board need to take action to commit funds?**

District boards must take action before June 30th to commit funds. The dollar amount can be adjusted to agree to board action after June 30th, but should be before sending in the unaudited AFR Balance Sheet.

1. **Does it matter how financial disclosures appear in the financial statements?**

Yes, if the financial statement reports show an aggregate disclosure of fund balances, then details of the fund balance must be reported in the financial statement notes. If financial statements reports show a detail disclosure of the fund balances then it is not necessary to disclose it in the financial statement notes.

1. **What is the minimum amount of unrestricted fund balance that a school district should maintain? What factors should be considered?**

KRS 160.470 establishes a minimum reserve of two percent (2%) of the total budget in the May 30th Tentative Budget submission.

KRS 160.550 sets forth the requirement that no superintendent shall recommend and no board member shall knowingly vote for expenditures in excess of the income and revenue for any year.

There is no KRS that governs the minimum amount of unrestricted fund balance (unrestricted fund balance is defined as comprising committed, assigned, and unassigned fund balance categories), but a 2% balance has been used in past practice.

Higher minimum balances should be considered when:

* Volatility in operating revenues
* Potential drain on resources from other funds
* Exposure to natural disasters
* Concentrations of revenue sources
* Rapidly growing budgets
* Timing differences between revenue collections and expenditures

The Government Finance Officers Association (GFOA) Best Practice document can be found at the following link: [Government Finance Officers web page link to downloads](http://gfoa.org/downloads/GFOA_BestPracticeReplenishingFundBalance.pdf)

1. **Should the district update or create financial policies to address GASB 54 reporting requirements?**

Yes, in addition to the board policy, written financial policies should be developed to assist the district on the order in which resources are to be expended. This policy now applies at the fund level for restricted and unrestricted (committed, assigned or unassigned) resources. The district should establish a policy on the order in which unrestricted resources are to be used when any of these amounts are available for expenditures. If the district does not establish a policy, the default approach is that committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.

1. **Has a board policy been revised to address GASB 54 reporting requirements?**

Yes, KSBA has revised FISCAL MANAGEMENT policy 04.311 to include the required elements for GASB 54. It was sent to all district finance officers through KDE Field Staff. KDE has a PDF copy available upon request.

1. **What changes will be made to fund balance reporting?**

GASB 54 establishes criteria for classifying fund balances into specifically defined classifications that should be based on a hierarchy that reflects the extent to which the government is bound to honor constraints on how those funds can be spent. Established classifications are: nonspendable, restricted, committed, assigned and unassigned.

1. **Where can I obtain a copy of GASB 54?**

Go to the following link to purchase a copy of [GASB 54.](https://www.gasb.org/jsp/GASB/Page/GASB/Store/SubjectPage%26subjectId%3D09SOS)

1. **Where can I go for additional information?**

-A plain language document is also available at no cost at [www.gasb.org](http://www.gasb.org/plain-language_documents/Fund_Balance_Statement_PLA.pdf)

-A fact sheet is available at no cost at [GASB 54 Fact Sheet](http://www.gasb.org/cs/ContentServer?c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176156714843)

1. **What financial statement disclosures are required to report changes in the financial statement presentation?**

-Description of authority and actions that lead to committed and assigned fund balance

-District’s policy regarding order of spending: restricted and unrestricted fund (committed, assigned and unassigned) balance

-Encumbrances-if significant by major funds and non-major funds in the aggregate

-Details of fund balance classifications displayed in the aggregate

Refer to GASB 54 for a complete listing of required note disclosures.

1. **Why have previous components of the fund balance been replaced?**

There were three considerations that led to the replacement of the old components of the fund balances:

1. The old components were not self-explanatory (i.e., reserved, unreserved, designated) and often were misunderstood by financial statement users

 2. Previous components often were applied inconsistently in practice

3. Some questioned the focus of how the appropriated funds continued to serve the financial statement users’ needs.

1. **How do we handle sick leave based on GASB 54?**

Sick Leave based on KRS 157.420 (Object 8732)

* 1. Any funds that were in 8762 Restricted Sick Leave prior to GASB 54 should be in this object code
	2. The noncurrent portion of sick leave upon retirement is recorded as restricted when based on KRS 157.420(3) as follows: “A district that compensates its teachers or employees for unused sick leave at the time of retirement, pursuant to KRS 161.155, may create an escrow account to maintain the amount of funds necessary to pay teachers or employees who qualify for receipt of the benefit. The fund is limited to not more than fifty percent (50%) of the maximum liability for the current year to be determined according to the number of staff employed by the district on September 15.”
	3. Note: Sick leave that is generally paid within 60 days after year end should not be reported here. It should be reported in 7493 Sick Leave Payable in Process as a liability only to the extent that it will be paid with current, expendable, available financial resources.

Sick Leave (Object 8742)

* 1. The noncurrent portion of sick leave upon retirement is recorded as committed when the board takes formal action to set aside funds for sick leave not in accordance with KRS 157.420(3)
	2. Note: Sick leave that is generally paid within 60 days after year end should not be reported here. It should be reported in 7493 Sick Leave Payable in Process as a liability only to the extent that it will be paid with current, expendable, available financial resources.
1. **How do I use the site based carry forward fund balance sheet object codes?**

The following codes are used to record site base carry forward:

* 8741 (Committed Site Base Carry Forward) - Funds that have been committed to the SBDM through formal board action prior to June 30.
* 8752 (Assigned Site Base Carry Forward) - Funds that have been assigned to the SBDM via a board approved authority such as a finance officer or a budget committee.
1. **What fund balance code do I use for Fund 21 that would be its beginning balance?**

The following code is used to record the amount left over in balance sheet object code 8770 Unassigned Fund Balance to 8740 Committed Fund Balance. Since GASB 54 does not allow for any other fund to have an unassigned fund balance except for general fund it was determined the best code was 8740 and it will be treated like 8770 in fund 21.