



## **701.2 FUND BALANCE**

### **I. PURPOSE**

The purposes of this policy include:

- To insure financial stability of the district
- To provide adequate resources to preserve a positive cash flow and avoid short-term borrowing
- To provide a sound basis for continuation of the strong financial rating of the district
- To provide a reserve of approximately ~~one~~ **two**-months of expenditures, which will enable the district to deal with unexpected budget circumstances.
- To establish fund balance classifications to allow for more useful fund balance reporting and for compliance with the reporting guidelines specified in Statement No. 54 of the Governmental Accounting Standards Board (GASB).

### **II. GENERAL STATEMENT OF POLICY**

To ensure the financial strength and stability of the district, the School Board will endeavor to maintain an unrestricted fund balance as of June 30<sup>th</sup> each year of ~~16.6%~~**16.65%** of the district's general fund unrestricted operating expenditure budget.

When the unrestricted fund balance is projected to decrease below ~~16.65%~~ of the general fund operating expenditures budget, the district shall initiate one or more of the following measures to ensure that the year-end general fund unrestricted fund balance for the budget year in question does not fall below ~~16.65%~~.

1. Reduce expenditures through implementation of cost containment measures.
2. Seek opportunities to increase revenue. Consider fee increases where appropriate. Examine options to increase enrollment.
3. If permitted by state law, request from voters additional revenue through an increase in the operating referendum or other financial options.

The policy of this school district is to comply with GASB Statement No. 54. To the extent a specific conflict occurs between this policy and the provisions of GASB Statement No. 54, the GASB Statement shall prevail.

### **III. DEFINITIONS**

- A. "Fund balance" means the arithmetic difference between the assets and liabilities reported in a school district fund.
- B. "Nonspendable" fund balance amounts are comprised of funds that cannot be

spent because they are either not in spendable form or are legally or contractually required to be maintained intact. They include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, non-financial assets held for resale, or the permanent principal of endowment funds.

- C. “Restricted” fund balance amounts are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.
- D. “Unrestricted” fund balance is the amount of fund balance left after determining both nonspendable and restricted net resources. This amount can be determined by adding the committed, assigned, and unassigned fund balances.
- E. “Committed” fund balance amounts are comprised of unrestricted funds used for specific purposes pursuant to constraints imposed by formal action of the school board and that remain binding unless removed by the school board by subsequent formal action. The formal action to commit a fund balance must occur prior to fiscal year end; however, the specific amounts actually committed can be determined in the subsequent fiscal year. A committed fund balance cannot be a negative number.
- F. “Assigned” fund balance amounts are comprised of unrestricted funds constrained by the school district’s intent that they be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. In funds other than the general fund, the assigned fund balance represents the remaining amount that is not restricted or committed. The assigned fund balance category will cover the portion of a fund balance that reflects the school district’s intended use of those resources. The action to assign a fund balance may be taken after the end of the fiscal year. An assigned fund balance cannot be a negative number.
- G. “Unassigned” fund balance amounts are the residual amounts in the general fund not reported in any other classification. Unassigned amounts in the general fund are technically available for expenditure for any purpose. The general fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.
- H. “Enabling legislation” means legislation that authorizes a school district to assess, levy, charge, or otherwise mandate payment of resources from external providers and includes a legally enforceable requirement that those resources be used only for the specific purposes listed in the legislation.

#### **IV. CLASSIFICATION OF FUND BALANCES**

The school district shall classify its fund balances in its various funds in one or more of the following five classifications: nonspendable, restricted, committed, assigned, and unassigned.

#### **V. ORDER OF RESOURCE USE**

If resources from more than one fund balance classification could be spent, the school district will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

#### **VI. COMMITTING FUND BALANCE**

A majority vote of the school board is required to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the board.

#### **VII. ASSIGNING FUND BALANCE**

The school board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The board also delegates the power to assign fund balances to the Superintendent. Assignments so made shall be reported to the school board on a monthly basis, either separately or as part of ongoing reporting by the assigning party if other than the school board.

An appropriation of an existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance.

#### **VIII. REQUIREMENT**

The Superintendent or designee shall, each year, prepare a calculation of the district's current financial position related to this fund balance policy for review by the School Board. The fund balance policy calculation shall be accompanied by such written commentary as may be necessary for them to be clearly understood by the members of the School Board and the public. The School Board shall review the fund balance policy calculation for the school district during the budget process for the next fiscal year and make such adjustments in the expenditure budget to carry out the education program within the guidelines stipulated by this policy.

#### **IX. GUIDELINES**

- A. Regular updates of the general fund budget and cash flow projections by administration are important components of fund balance management.
- B. Budget and cash flow projections are tied to a variety of unpredictable and uncontrollable factors, including the following:

- Receipt of state revenue is subject to change by the Legislature.
- Receipt of revenue from state, federal and local sources is irregular when compared to the expenditure of funds, thereby creating significant changes in cash balances during the year.
- Higher than usual tax delinquencies may occur during periods of economic downturn, thus reducing district property tax receipts.
- Unexpected events can alter the budget by unexpectedly reducing revenues or adding costs. Examples include:
  - Recision of state revenue
  - Mandated, but not funded, state or federal programs
  - Increased utility costs due to abnormal price increases or unusual weather conditions
  - Greater than expected inflation
  - Higher than expected wage and salary settlements
  - Decrease in projected enrollment
  - Unexpected deficits in other operating funds (e.g. Food Service and Community Service)
  - Costs incurred due to natural disasters
  - Cost of defending and/or settlement of a lawsuit
  - Cost of funding the deductible on insurance property loss claims

C. The following are consequences related to insufficient fund balances in a school district's general fund:

1. Districts without sufficient funds on hand must borrow money on a short-term basis to cover cash flow deficits. Interest costs associated with short-term borrowing reduce the amount of funds available for programs.
2. Maintenance of an adequate, stable fund balance decreases interest expense on bonded debt through an approved bond rating.

D. When cash is not needed to meet operating expenses, cash on hand will be invested (in accordance with policy 705 – Investments) to generate additional revenue through interest earnings for the district.

E. Fund balances are not to be deemed as a solution to ongoing fixed costs.

***Legal References:*** Statement No. 54 of the Governmental Accounting Standards Board

***Cross References:*** MSBA Service Manual, Chapter 7, Education Funding

**POLICY ADOPTED:** May 24, 2007

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