

Faribault Public Schools  
Faribault, MN

Business Services  
Series 700

**FUND BALANCES**  
Policy No. 714

**I. PURPOSE**

The purpose of this policy is to create 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**

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. “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.

B. “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.

C. “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.

D. “Fund balance” means the arithmetic difference between the assets and liabilities reported in a school district fund.

E. “Non-spendable” 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 un-spendable, 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.

F. “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.

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 non-spendable, restricted, and committed fund balances exceed the total net resources of that fund.

H. “Unrestricted” fund balance is the amount of fund balance left after determining both non-spendable and restricted net resources. This amount can be determined by adding the committed, assigned, and unassigned fund balances.

#### **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: non-spendable, restricted, committed, assigned, and unassigned.

#### **V. MINIMUM GENERAL FUND UNASSIGNED FUND BALANCE**

The following conditions exist relative to financing the operation of a public school system:

A. Receipt of revenue from federal, state and local sources is irregular when compared to the expenditures, thereby creating the potential of periodic cash flow deficits during the fiscal year.

B. Receipt of state revenue is subject to legislative changes.

C. There may be higher than usual tax delinquencies which occur during periods of economic down turn thus reducing local district property tax receipts.

D. Unexpected situations, including, but not limited to the following, may occur during any fiscal year:

1. Unanticipated reduction of projected state aid
2. Mandated, but not funded, state or federal programs
3. Increased utility costs due to abnormal price increases or inclement weather conditions.
4. Greater than expected inflation
5. Higher than anticipated wage and salary settlements
6. Implementation of programs for students of special needs
7. Unanticipated deficits in other operating funds (Food Service, Transportation, and Community Services)

8. Costs incurred due to natural disasters
9. Cost of defending and/or settlement of a lawsuit
10. Cost of funding the deductible portion on an insurance property loss incurrence claim

E. Maintenance of an adequate, stable fund balance is important to sound financial management of the district and to the establishment of a good credit rating for the district.

F. A fund balance is not to be deemed as a solution to ongoing fixed costs.

G. Funds which are not needed to meet the daily operating expense requirements provide opportunities to generate additional income through investments.

Therefore, the school district will strive to maintain a minimum general fund unassigned fund balance of 9.5% of the annual expenditure budget excluding Long Term Facilities Maintenance and Student Activity Account expenditures. The following measures will apply:

H. Fund Balance Level at Eight (8) Percent or Below:

1. When the unassigned fund balance is equal to or less than eight (8) percent, but greater than five (5) percent of the expenditure budget, the administration shall alert the school board and discuss the following alternatives:

- a. Limit or eliminate appropriated funds for new program proposals
- b. Reduce per pupil allocations for non-personnel expenses
- c. Maintain staffing guidelines at or near the existing level
- d. Reduce existing program services on a long-term basis so as to minimize the impact
- e. Present the voters a referendum to obtain additional revenues

I. Fund Balance Level at Five (5) Percent or Below:

1. When the unassigned fund balance is equal to or less than five (5) percent of the expenditure budget, the administration shall alert the school board and discuss the following:

- a. Seek additional funds through a referendum
- b. Reduce expenditures by cutting program services
- c. Use a combination of a referendum and reduce program services

## VI. 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. The only exception would be to make yearend adjustments to plan for subsequent year projects or programs.

## VII. 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.

## VIII. 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 following: Superintendent and Director of Finance & Operations. 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.

## IX. REVIEW

The school board will conduct an annual review of the sufficiency of the minimum general fund unassigned fund balance level.

*Date of Adoption:* December 9, 2019

*Date of Revision:* December 6, 2021

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

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