FUND BALANCE POLICY IN ACCORDANCE WITH GASB STATEMENT #54

Purpose

The following policy has been adopted by the School Board in order to address the implications of Governmental Accounting Standards Board (GASB) Statement #54, Fund Balance Reporting and Governmental Fund definitions. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the school and jeopardize the continuation of necessary public services. This policy will ensure that the school maintains adequate fund balances and reserves in order to:

1. Provide sufficient cash flow for daily financial needs;
2. Secure and maintain investment grade bond ratings;
3. Offset significant economic downturns or revenue shortfalls;
4. Provide funds for unforeseen expenditures related to emergencies.

This policy and the procedures promulgated under it supersedes all previous regulations regarding the school's fund balance and reserve policies.

Fund Type Definitions

The following definitions will be used in reporting activity in governmental funds across the school. The school may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

- *General fund* is used to account for all financial resources not accounted for and reported in another fund.
- *Special revenue funds* are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- *Debit service funds* are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.
- *Capital projects funds* are used to account for all financial resources restricted, committed, or assigned to expenditure for acquisition or construction of capital assets.
- *Permanent funds* are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the school's purposes.

Fund Balance Reporting in Governmental Funds

1. **Classification:** Fund balance classification shall be recorded in accordance with governmental accounting standards as promulgated by the Governmental Accounting Standards Board.
2. **Spending:** The order of spending and availability of the fund balance shall be to reduce funds from the listed areas in the following order: restricted, committed, assigned, and unassigned. Negative amounts shall not be reported for restricted, committed or assigned funds.
3. **Definition Fund Balance:** Shall mean the gross difference between governmental fund assets and liabilities reflected on the balance sheet. Governmental fund assets are those of the general fund, special revenue funds, debt service funds, and capital project funds.

4. **General Fund:** the fund balance of the general fund, one of the governmental fund types, is of primary significance because the general fund is the primary fund, which finances most functions in the school. The fund balance of the general fund shall mean the gross difference between general fund assets and liabilities reflected on the balance sheet.

Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement #54.

The five classifications of fund balance of the governmental types are as follows:

- *Non-spendable fund balance* shall mean the portion of the gross fund balance that is not expendable (such as inventories) or is legally earmarked for a specific use (such as the self-funded reserves program).

  Examples of non-spendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include:
  a. Inventories;
  b. Prepaid items;
  c. Deferred expenditures;
  d. Long-term receivables; and
  e. Outstanding encumbrances.

- *Restricted fund balance* shall include amounts constrained to a specific purpose by the provider, such as a grantor, by restricted tax levy or by bond indenture.

  Examples of restricted fund balances include:
  a. Tax levy funds;
  b. Construction programs (including related debt service funds restricted) and
  c. Resources from other granting agencies—restricted state and federal grants/reimbursements.

- *Committed fund balance* shall mean that portion of the fund balance that is constrained to a specific purpose by the Board. Authority to commit-commitments will only be used for specific purposes pursuant to a formal action of the Board. A majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

  Examples include**:**
  a. Potential litigation, claims, and judgments; and
  b. Board induced school approved projects;
  c. Legislation induced restrictions

- *Assigned fund balance* shall mean that portion of the fund balance that is spendable or available for appropriation but has been tentatively embarked for some specific purpose by the Board designee (such as the Business Manager). In current practice, such plans or intent may change and may never be budgeted, or may result in expenditures in future periods of time.

  Examples include:
  a. Insurance deductibles;
  b. Program start-up costs; and
  c. Other legal uses**.**

- *Unassigned fund balance* shall include amounts available for any legal purpose. This portion of the total fund balance in the general fund is available to finance operating expenditures.

  The unassigned fund balance shall be the difference between the total fund balance and the total of the non-spendable fund balance, restricted fund balance, committed fund balance, and assigned fund balance.

End of Manvel School District #125 Policy HEAF ..... Adopted: 3/12/18