

MINIMUM FUND BALANCE

The Board of Directors of the Mead School District recognizes the importance of maintaining a sufficient fund balance in each of its funds to assure sound financial practices, provide program stability, provide stability for employees, and obtain excellent bond ratings.

The fund balance in the Debt Service Fund, Transportation Vehicle Fund, Capital Projects Fund, and Associated Student Body Fund is primarily a function of the scope of the projects and activities within the operation of each fund. Stability of revenue and predictability of expenditures in these funds enables the District to establish an appropriate fund balance.

The complexities of school funding and other economic uncertainties in the operation of the General Fund require a different approach in setting the fund balance level. Some of the uncertainties affecting the fund balance for the General Fund include:

- a) Enrollment fluctuations, both at the start and throughout the school year
- b) Unanticipated changes in funding and appropriation levels by state and federal agencies
- c) Unanticipated delays in the receipt of state and federal funding
- d) Unfunded legislative mandates that have impacts on school systems
- e) Passage/failure of voter referendums and levies
- f) Financial impacts of labor agreements including arbitration judgments
- g) Litigation
- h) Uncertain weather events, energy cost increases for fuel and utilities and weather related damages
- i) Unforeseen emergencies and/or maintenance demands
- j) Unexpected decreases in revenues and normal fluctuations in operating cash flow

In order to provide stability of programs and maintain sound financial practices, the District will establish a prudent set aside of the fund balance level in the General Fund. This will allow the District to ensure the continuity of the educational program.

While Washington law does not establish minimum fund balance for public school districts, maintaining adequate reserves contributes to broader sound financial strategies. Bond rating agencies consider reserves a significant factor in determining a district's financial rating, noting that reserves provide additional flexibility in times of stress and are a key factor in an agency's overall financial rating provided to the bond market. Higher bond ratings for a school district can reduce the amount of interest paid on bonds, resulting in more of the bond proceeds being available for voter-approved projects versus interest payments.

Definitions – Fund balance designations for the general fund are as follows:

Restricted fund balances are those amounts that are restricted for specific purposes. These restrictions may be either externally imposed by creditors, grantors, contributors, laws or regulations or imposed by law through constitutional provisions or enabling legislation. Included

in this fund category are debt service, uninsured risk, unemployment insurance, compensated absences, etc.

Non-Spendable fund balances represent those portions of fund balance that cannot be spent either because they are not in a spendable form (e.g. inventories and prepaids), or are legally required to be maintained intact.

Committed fund balances are those amounts that can be used for specific purposes pursuant to constraints imposed by resolution of the board of directors. Committed fund balances cannot be used for any other purposes unless the board takes action to change or remove the original limitations.

Assigned fund balance comprises amounts the district intends to use for a specific purpose.

Unassigned fund balance includes all resources not reported in the other four classifications. There are two categories of unassigned fund balance. The first category, unassigned minimum fund balance, represents the fund balance necessary to achieve the target when combined with committed and assigned fund balances. Maintaining a reasonable amount of unassigned minimum fund balance within the general fund is an important financial consideration for the school district. A reasonable level of unassigned minimum fund balance provides a cushion for unforeseen expenditures or revenue shortfalls and helps to ensure that adequate cash flow is available to meet the cost of operations. The board's desire is to maintain a minimum fund balance equivalent to one month of total budgeted expenditures (8.33%). Combining a reasonable level of unassigned fund balance with committed and assigned funds provides resources for both unanticipated events and other identified or planned needs. Any amount in excess of the minimum fund balance target is presented in the secondary category, unassigned fund balance. Unassigned is the only fund balance designation that is truly available for any purpose; however the resources should only be used for one-time expenditures such as funding the planning/start-up of new initiatives. This fund balance represents one-time resources and is not appropriate nor intended for on-going expenditures.

Annually, as part of the budget development process, the board will review the total of the committed, assigned and unassigned minimum fund balances (CAU). The total shall be in the range of 10-15% of the actual expenditures of the most recently completed fiscal year (e.g. one fiscal year prior to the current year of operations or two years prior to the budget development year). This target range is intended to maintain the school district's high quality bond rating and quality service levels.

In the event the CAU total fund balance "reserve" falls below the benchmark range of 10-15%, a plan to replenish the fund will be developed and implemented. In the event the set aside fund balance exceeds the benchmark range, a plan for one-time use of the additional amount may be proposed by the Board of Directors.

Cross Reference:	Policy 6020	System of Funds and Accounts
	Policy 6040	Expenditures in Excess of Budget

Adopted: January 28, 2013

Revised: May 10, 2021