FUND BALANCES

POLICY 128

#4116

LAKES INTERNATIONAL LANGUAGE ACADEMY
An IB World School
District

I. PURPOSE

A. The purpose of this policy is to establish a key element of the financial stability of Lakes International Language Academy (the "School") by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the School maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the School's general operations and short term funding for strategic initiatives.

II. BACKGROUND

A. Fund balance refers to the difference between assets and liabilities in the governmental funds balance sheet. This information is one of the most widely used elements of state and local government financial statements for analysis.

B. Of central importance in the credit reviews performed by municipal bond analysts, fund balance information also is used by oversight bodies and federal, state, county and local legislators to assess the financial health of an organization. Additionally, financial statement users examine fund balance information to identify the available liquid resources that can be used to repay long-term debt, reduce property taxes, add new educational programs, expand existing ones, or enhance the financial position of the school.

C. The Governmental Accounting Standards Board (GASB) has found that the usefulness and value of fund balance information disclosures are significantly reduced by misunderstandings regarding the message conveyed and the inconsistencies in the financial reporting practices of governmental reporting entities.

D. In March 2009, in order to improve how fund balance information is reported and enhance its decision-usefulness, GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54).

E. Lakes International Language Academy school board believes it to be prudent to maintain adequate reserves in its general fund. These reserves provide the cash flow to permit the payment of the school's financial obligations without borrowing funds should there be a disruption in the revenue stream or unexpected liquidity needs. Adequate reserves are necessary for many reasons, including:

1. Unanticipated reduction or delay (holdback) in state and/or federal aids;
2. Mandated, but inadequately funded or unfunded state and/or federal programs;
3. Increased utility costs due to abnormal price increases or inclement weather conditions;
4. Increases in wages or salaries;
5. Costs incurred due to a fire or other natural disasters;
6. Revenue losses resulting from unanticipated enrollment declines;
7. Unanticipated student needs;
8. Cash flows to fund start-up programs or grade expansions until such programs are self-sustaining.

F. The School Board further believes that it is its fiduciary responsibility to approve a balanced budget (revenues equal or exceed expenditures) on an annual basis. However, in certain circumstances including any of the reasons outlined above, a deficit budget may be required. If a deficit budget is approved, the Finance Committee will be directed to develop a financial plan, which includes the measures necessary to provide a balanced budget in future years and the extent to which, if any, the reduction in the fund balance will be reinstated.

III. DEFINITIONS

A. Fund Equity: A fund's equity is generally the difference between its assets and its liabilities.

B. Fund Balance: An accounting distinction is made between the portions of fund equity that are spendable and nonspendable. These are broken up into five categories:

1. Nonspendable fund balance: Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables such as long-term loan and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned). This also includes amounts that are legally or contractually required to be maintained intact (principal balance of endowments and permanent funds).

2. Restricted fund balance: Reflects the same definition as restricted net assets on the government wide Statement of Net Assets: constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The Minnesota Department of Education (MDE) has retained balance sheet codes for statutorily required reserves which will be titled Restricted/Reserved. This category of fund balances represents fund balances statutorily restricted for a particular use that were traditionally classified as "reserved".

3. Committed fund balance: Includes amounts that are committed for specific purposes by formal action of the school board. Amounts classified as "committed" are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the school board removes or changes the limitation by taking the same form of action it employed to previously impose the limitation. The action to commit fund balances for the coming fiscal year must occur prior to fiscal year end; however, actual amounts can be determined in the subsequent period.

4. Assigned fund balance: Amounts that are intended by the school to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. Intent should be expressed by the school board, a subordinate high-level body or an official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the school board. This would include ANY activity reported in a fund other than the General Fund that is not otherwise restricted more narrowly by the above definitions. The school is not allowed to assign balances that result in a residual deficit fund balance.

5. Unassigned fund balance: Includes any remaining amounts after applying the above definitions (amounts not classified as nonspendable, restricted, committed or assigned). Planned spending in the subsequent year's budget would be included here and can no longer be described as "designated" unless formally committed or assigned. Special rules exist for using this classification in funds other than the General Fund. In funds other than the General Fund unassigned is only used if the balance is negative, therefore, the General Fund is the only fund that will report a positive unassigned balance.

IV. POLICY

A. Committed Fund Balance: The school board is the highest level of decision-making authority for LILA. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the school board at a school board meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal

year for which the commitment is made. (To commit a fund balance, it must be done prior to the end of the year in which it will be used.) The amount subject to the constraint may be determined in the subsequent period.

B. Assigned Fund Balance: The LILA school board has authorized the School Executive Director the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

C. Minimum Unassigned Fund Balance

1. According to the Loan Agreement between the City of Forest Lake, Minnesota, and Lakes International Language Academy and the LILA Building Company relating to the Lease Revenue bonds and Taxable Lease Revenue Bonds (the "Loan Agreement"), the School should strive to maintain a 20% fund balance in its general fund. It is the policy of the School to follow that directive.

2. It is therefore LILA's goal to achieve and maintain an unassigned fund balance in the General Fund equal to 20% of expenditures. LILA considers a balance of less than 20% to be cause for concern, barring unusual or deliberate circumstances.

3. If unassigned fund balance falls below the goal of 20% of budgeted annual operating expenses, LILA's school board will set forth a plan to replenish the fund balance within a prescribed time period and periodically review plan progress.

4. The LILA school board believes that it is its fiduciary responsibility to prepare and achieve a balanced budget (revenues equal or exceed expenditures) on an annual basis. If a deficit budget is deemed appropriate for a given period, the Finance Committee of the school board will be directed to develop a financial plan outlining the measures necessary to provide a balanced budget in future years and the extent to which, if any, the reduction in the fund balance will be reinstated.

V. SPENDING RESERVES

A. The board recognizes that reserves may need to be utilized for reasons listed in section II.

B. The School must consider and meet covenants in the Loan Agreement, including Days Cash On Hand at June 30, 20% unassigned fund balance, and Debt Service Coverage.

C. Within the parameters of a board-approved balanced budget and those listed in V.B., cash on hand may be spent for legitimate school purposes without further board approval. Spending from the General Fund balance which would result in a net loss for the fiscal year requires board approval. (Note that in the case of a large state aid holdback, the fiscal year general fund balance may not decrease even while spending the cash reserve.)

D. Line of credit. Short-term borrowing can be an important and necessary tool for managing cash flow when used appropriately.

1. A line of credit may be used for cash flow purposes within the parameters of a board-approved budget, i.e. for goods, services, or other items in the board-approved budget, including interest expense on the line of credit.

2. Use of the line of credit may be initiated and carried out by the School Executive Director or a delegate authorized by the School Executive Director.

3. The decision to use the line of credit necessitates a discussion with the lender, maximum amount and a written repayment plan. The repayment plan includes sufficient detail to provide a reasonable basis for concluding the credit will be repaid within the specified timeline.

VI. ORDER OF EXPENDITURE OF FUNDS

A. When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the school, and unassigned fund balance), LILA will start with the most restricted category and spend those funds first before moving down to the next category of available funds.

REVISION HISTORY

Date	Status	Date	Status	Date	Status
11/10/08	Adopted	08/13/09	Amended	06/09/11	Amended
08/16/12	Amended	06/09/15	Amended	05/13/19	Amended
05/09/23	Reviewed	12/10/24	Amended		