Foley Public Schools Adopted by the Board: 11-20-2017

FUND BALANCE POLICY

I. PURPOSE

A. The purpose of this policy is to ensure the financial strength and stability of the School District by maintaining appropriate fund balances within the various operating funds of the district, which will guide and strengthen the programs and services offered as part of the educational obligations of the School Board, administration, and staff.

The School Board is committed to promoting appropriate educational opportunities for all students while maintaining their obligation to balanced budgets, fiscal responsibility and trust given by the School District residents.

II. GENERAL STATEMENT OF POLICY

A. Financial stability is a key component to school district financial planning. The School Board is to take into consideration the timing of state aid and property tax payment, unexpected revenue shortfalls, or any emergency or unexpected expenses to assure sufficient cash flow. A sufficient fund balance is key to having a sufficient cash flow and strengthens the districts position for bond rating purposes.

III. DEFINITIONS

A. Unassigned Fund Balance: Money in the District's general fund, which is not earmarked for specific purpose.
B. Assigned Fund Balance: Money in the District's general fund, which is earmarked, by the Administration, for a specific purpose.
C. Committed Fund Balance: Money in the District's general fund, which is earmarked, by the Board of Education, for a specific purpose.
D. Restricted Fund Balance: Money in the Districts funds, which is earmarked, by statutory law or other outside source, for a specific purpose and cannot be reallocated by the Board of Education.
E. Nonspendable: Money in the District's funds that are in a form that cannot be spent, including amounts that must be maintained intact legally or contractually.

IV. FUND BALANCE ADEQUACY

A. Unassigned Fund Balance: The Board of Education recognizes that the Unassigned Fund Balance in large part carries the district financially and the following conditions exist relative to financing the operation of a public school system:

1. Receipt of revenue from state and local sources is irregular when compared to the expenditure of funds, thereby creating potential periodic cash flow deficits during the year.

2. Districts may be forced to borrow money on a short-term basis to cover cash flow deficits.
3. Funds not needed to meet operating expenses provide opportunities to generate additional income through investment.
4. Receipt of state revenue is subject to legislative change.
5. Higher than usual tax delinquencies may occur during some fiscal years thus reducing local district property tax receipts.
6. Maintenance of an adequate, stable Unassigned Fund Balance is important to the establishment of a good credit rating for the district.
7. Unexpected situations, including but not limited to the following, may occur during a fiscal year:
    - **a)** Rescission of state aid
    - **b)** Mandated, but not funded, state and federal programs
    - **c)** Increased utility costs due to abnormal price increases or inclement weather conditions
    - **d)** Greater than expected inflation
    - **e)** Higher than anticipated wage and salary settlements
    - **f)** Unanticipated deficits in other operations funds (Food Service, Community Education)
    - **g)** Costs incurred due to natural disasters
    - **h)** Cost of defending and/or settlement of a lawsuit
    - **i)** Cost of funding deductible on an insurance property loss insurance claim
8. An Unassigned Fund Balance reserve is not to be deemed a solution to ongoing fixed costs.
9. A fund balance reserve is important to sound financial management of the district.

Therefore the district shall seek to maintain an Unassigned Fund Balance, in the general operating funds of **12 percent** of the annual general fund expenditure budget, excluding committed and restricted, and assigned general fund expenditure budgets. This represents approximately one and one half months of expenditures in the general fund. When calculating this required fund balance, the previous year's approved audit will be used. This unassigned balance, along with the committed and assigned balances, helps the district to operate on a cash flow basis without borrowing.

When the operating Unassigned Fund Balance is equal to or less than **12 percent** of the expenditure budget, the administration shall alert the board of education and propose the following alternative measures on a timely basis to seek to maintain a 12 percent level.

- **a)** Seek other revenue sources
- **b)** Reduce expenditures by reducing programs and or services in all areas
- **c)** Seek additional funds through a referendum
- **d)** Combination of a referendum and reductions
- **e)** Pass a resolution authorizing the exception to the fund balance guidelines. The resolution must specify the reason(s) for the exception.

B. **<u>Committed Fund Balance for Severance</u>:** The Board of Education recognizes the need to be forthright in its accountability for conditions of any contract of any employee it approves, including those conditions that state future obligations for severance and retirement. This section addresses future obligations for severance and retirement. A

special Committed Fund Balance-will be created to provide for the accounting of future obligations incurred by the Board of Education through the approval of any and all contracts for all employees of the District. The superintendent or his/her designee will create a calculation of all future obligations that result from severance and retirement contract conditions of all employees, on an individual and collective basis for each year and projections for future years. The superintendent will also factor in the districts actuarial study that is updated once every two years.

C. <u>Assigned Fund Balance for Activities</u>: The Board of Education recognizes the need for student and school organizations to fundraise for specific purposes, to be able to purchase as a collective group, and to carry over any funds for any future needs of the group. The Board of Education will authorize an Assigned Fund Balance of those funds on an individual basis. Each board controlled activity committed or assigned fund balances must have a positive fund balance at the end of each fiscal year.

Disbanded board controlled activity accounts will be considered to be activity accounts that have had no activity for 3 years and will be closed. Those funds may be used to handle negative fund balances of other board controlled activity accounts. If there are no negative accounts the Superintendent will choose where to disburse those board controlled activity funds within other board controlled activity funds.

Negative fund balances will be handled the following way: 1) any disbanded activity account with a positive balance will be used to absorb the debt 2) the Superintendent will be responsible for deciding which of the accounts will absorb the debt.

D. Restricted Fund Balances: The Board of Education follows all statutory guidelines regarding restricted fund balances.

V. SPECIAL FISCAL PRACTICES

In addition to other generally accepted accounting principles and sound fiscal management and business practices, the following principles of operation are enacted for special attention by the Board of Education, the management and the staff.

All funds, including food service, community service and its sub parts and the general fund and its sub parts, are expected to operate with a positive fund balance. If a negative fund balance exists it is expected to be addressed in a timely manner as part of a financial plan.

Approved budgets that guide the district will not allow for excess spending of revenues~~,~~ except to adjust fund balances to meet previously established and acceptable targets or to comply with UFARS guidelines.

If a circumstance appears to force the Board to spend in excess of acceptable budget limits, the Board will develop a companion plan to fund the expenditure. The Board of Education will assure that sufficient reserves exist in each fund balance to meet the requirements of that fund. Fund balances must meet the demands of current and future obligations of each fund, including, but not limited to: obligations to overcome all negative balances in all funds, obligations from capital, transportation, technology initiatives, and personnel and program initiatives.