

POLICY

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Non-Instructional/Business
Operations

SUBJECT: FUND BALANCE

The Board of Education recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the school district and is fiscally advantageous for both the District and the Taxpayer in that it helps mitigate current and future risks (e.g., revenue shortfalls or unanticipated expenditures) and assists in ensuring stable tax rates. The policy intends to address unanticipated events that could adversely affect the financial condition of the District and jeopardize the continuation of necessary public services and to ensure that the District maintains adequate fund balances and reserves in order to:

- Provide sufficient cash flow for daily financial needs;
- Maintain its “A” or better bond ratings;
- Offset significant economic downturns or revenue shortfalls;
- Stabilize the tax levy and programs during financial downturns;
- Reduce interest charges on both short-term and long-term borrowings via strong bond ratings;
- Generate income for the District; and
- Provide funds for unforeseen expenditures related to emergencies.

This policy and the procedures promulgated under it supersede all previous regulations regarding the District’s fund balance and reserve policies.

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

The ***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.

Debt 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 the 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 District’s purposes.

Fund balance reporting in governmental funds Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement No. 54:

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SUBJECT: FUND BALANCE (Cont'd.)

Fund balance

Definition- Fund balance is the total accumulation of operating surpluses and deficits. It is also a measurement of available financial resources and represents the difference between total assets and total liabilities in each fund.

Non-spendable fund balance

Definition – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Classification – Non-spendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- The District will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance)
- The District will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained intact

Restricted fund balance

Definition – includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.

Committed fund balance

Definition – includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority (i.e., the Board of Education).

Authority to Commit – Commitments will only be used for specific purposes pursuant to a formal action of the Board of Education. A majority vote is required to approve or remove a commitment.

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SUBJECT: FUND BALANCE (Cont'd.)

Assigned fund balance

Definition – includes amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Authority to Assign – The Board of Education delegates to the Superintendent or his designee the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

Unassigned fund balance

Definition – includes the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Operational Guidelines

The following guidelines address the classification and use of fund balance in governmental funds:

Classifying fund balance amounts – Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include non-spendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

Encumbrance reporting – Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.

Prioritization of fund balance use – When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the District to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the District that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

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SUBJECT: FUND BALANCE (Cont'd.)

Policy on Restricted, Assigned and Unassigned (“Financial Condition”) General Fund Balance

It is the goal of the Board to achieve and maintain a restricted, assigned and unassigned General Fund balance MINUS all District capital reserves (heretofore known as Financial Condition Fund Balance) in a percentage that equals or exceeds **20%** of the subsequent year’s budgeted expenditures. The Board considers a balance of less than **20%** of subsequent year’s budgeted expenditures to be a cause for concern, barring unusual or deliberate circumstances. It is the goal of the Board to achieve and maintain a restricted, assigned, and unassigned General Fund Balance INCLUSIVE of all District capital reserves in a percentage that equals or exceeds **30%** of the subsequent year’s budgeted expenditures. In the event that the Financial Condition General Fund balance is less than the policy anticipates, the Board shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Appropriation from the Financial Condition General Fund Balance shall require the approval of the Board and shall be for one (1) time expenditures, such as capital purchases, and not for ongoing expenditures unless noted in the Board approved District Reserve Plan to be used for such a purpose.

Due to the significant local cost of capital investments, it is the goal of the Board to maintain District capital reserves on a year to year basis in a percentage that equals or exceeds **10%** of the subsequent year’s budgeted expenditures.

Replenishing Deficiencies

– when the Financial Condition Fund Balance MINUS capital reserves falls below the minimum **20%** percent range, the District will replenish shortages/deficiencies using the budget strategies and timeframes described below.

The following budgetary strategies shall be utilized by the District to replenish funding deficiencies:

- The District will reduce recurring expenditures to eliminate any structural deficit or,
- The District will increase revenues or pursue other funding sources, or,
- Some combination of the two options above

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Minimum Financial Condition Fund Balance deficiencies shall be replenished within the following time periods:

- Deficiency resulting in a minimum fund balance between **17.5 percent and 20 percent** shall be replenished over a period not to exceed one year.
- Deficiency resulting in a minimum fund balance between **15 percent and 17.5 percent** shall be replenished over a period not to exceed three years.
 - Deficiency resulting in a minimum fund balance of less than **15 percent** shall be replenished over a period not to exceed five years.

Surplus Fund Balance: The fund balance of the District's General Fund has been accumulated to provide stability and flexibility and to respond to unexpected adversity and/or opportunities. If the unassigned portion of the fund balance exceeds 4 percent, the Board of Education will evaluate current reserve levels and designations in order to determine the final distribution of fund balance in any fiscal year in consideration of estimated liabilities of the District, current Board goals, and sound financial planning

Implementation and review:

Upon adoption of this policy the Board of Education authorizes the Superintendent to establish any standards and procedures which may be necessary for its implementation. The Superintendent shall review this policy at least annually and make any recommendations for changes to the Board of Education.

Adopted: June 20, 2018