

## **714 GENERAL FUND BALANCE POLICY**

### **I. PURPOSE:**

The purpose of this policy is to ensure the financial stability of the District, to provide a sound basis to justify a strong financial rating, and to provide a reserve enabling the District to deal with unforeseen budget expenditures and revenue shortfalls.

### **II. GENERAL STATEMENT OF POLICY**

The policy of the school district is to classify its fund balances based on the nature of the particular net resources reported in the separate funds of the district. Fund Balance categories will be identified according to the guidelines in Governmental Accounting Standards Board (GASB) Statement No. 54. Fund Balance categories will include Nonspendable, Restricted, Committed, Assigned and Unassigned. To ensure the financial strength and stability of the District, the Board will endeavor to maintain at least 5% of the District's General Fund operating budget, excluding those accounts associated within the Restricted category, in the combined total of the General Fund Committed, Assigned and Unassigned fund balances.

### **II. DEFINITIONS**

#### **A. Nonspendable Fund Balance**

Represents amounts that cannot be spent due to form such as inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).

#### **B. Bonded Debt**

“Bonded debt” means financing which provides funds for facility improvements. Such funds must be voter approved.

#### **C. Bonded Rating**

“Bond Rating” means an independent agency (i.e. Moody or Standard & Poor's) provides a financial rating of the district.

#### **D. State Revenue**

“State revenue” means state revenue as one component of the legislatively set formulas

for funding public education. The other major component is property taxes.

E. Restricted Fund Balance

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

F. Committed Fund Balance

Represents amounts constrained for a specific purposes determined by the School District Board of Directors. It requires formal action by the same group to remove or change the constraints placed on resources.

G. Assigned Fund Balance

Represents amounts constrained by the school district's intent to be used for a specific purpose, but are not restricted or committed. The School Board has delegated the authority to assign amounts to the district finance director and superintendent. Assigned amounts or changes to Assigned amounts will be presented to the school board for review.

H. Unassigned Fund Balance

Represents resources available to meet current and future years' expenditures.

#### IV. REQUIREMENT

- A. Pending the district's financial needs, preferred fiscal outcomes, and fund balances, the school board hereby provides authorization to the Superintendent and Business Manager to make joint decisions on the order of resource use. If no financial planning for future needs exist, the following order for resources will be used: Non-spendable fund balance, Restricted fund balance, Committed fund balance, Assigned fund balance, and Unassigned fund balance. Journal entries at the end of the fiscal year may be used to accomplish this.

The district's encumbrance policy is for fiscal year end individual encumbrances exceeding \$5,000 to be considered significant encumbrances. All encumbrances will be classified as either Assigned Fund Balance or Restricted Fund Balance.

- B. When the combined total of the General Fund Committed, Assigned and Unassigned fund balance falls below 5%, the district shall initiate the following measures:
1. Reduce expenditures through implementation of cost containment measures.
  2. Seek opportunities to increase revenue. Consider fee increases where appropriate. Examine options to increase enrollment.

3. If permitted by state law, request from voters additional revenue through an increase in the operating referendum or other financial options.
  4. A combination of the above.
- C. When the combined total of the General Fund Committed, Assigned and Unassigned fund balances approaches 5%, the District shall implement other budget control measures which do not adversely affect delivery of instructional programs.
- D. In the event the Food Service Fund balance or the Community Services Fund balance goes deficit the District will implement the procedures outlined in Section IV, Subdiv.B.

## **V. PROCEDURES FOR POLICY #3010 FUND BALANCE**

- A. Regular updating of the long-range budget projection by administration is an important component to the management of fund balance. Update of the budget may help identify resources available for program enhancement or may help determine if cost containment efforts are required.
- B. The District budget is tied to a variety of unpredictable and uncontrollable factors which are to be monitored in the long-range budget projection, including the following:
1. Receipt of state revenue is subject to change by the Legislature.
  2. Receipt of revenue from state and local sources is irregular when compared to the expenditure of funds, thereby creating periodic cash flow deficits during the year.
  3. Higher than usual tax delinquencies may occur during periods of economic downturn, thus reducing District property tax receipts.
  4. Unexpected events can alter the budget by unexpectedly reducing revenues or adding costs. Examples include:
    - a. Rescission of state revenue
    - b. Mandated, but not funded, state or federal programs
    - c. Increased utility costs due to abnormal price increases or unusually cold weather
    - d. Greater than expected inflation
    - e. Higher than expected wage and salary settlements
    - f. Unexpected deficits in other operating funds (Food Service, Transportation, and Community Education & Services)
    - g. Decrease in projected enrollment
- C. The following are consequences related to fund balances in a school district's General Fund:
1. Districts without sufficient funds on hand must borrow money on a short-term basis to cover cash flow deficits.
  2. Maintenance of an adequate, stable fund balance decreases interest expense on

bonded debt through an approved bond rating.

3. When cash is not needed to meet operating expenses, cash on hand will be invested to generate additional income for the District.