

INDEPENDENT SCHOOL DISTRICT #877 POLICY

Buffalo-Hanover-Montrose

INDEX TITLE Non-Instructional Operations & Business Services **SERIES NO.** 700

POLICY TITLE Fund Balance **CODE NO.** 714

I. PURPOSE

The purpose of this policy is to create new fund balance classifications to allow for more useful fund balance reporting and for compliance with the reporting guidelines specified in Statement No. 54 of the Governmental Accounting Standards Board (GASB).

The Board of Education understands it is sound fiscal management for the School District to maintain an adequate operating fund balance. A fund balance should provide a sufficient reserve to eliminate any irregular uncertainty in a district's finances. The fund balance policy should be used to provide stability for District 877 students, staff, taxpayers and bond rating agencies.

II. GENERAL STATEMENT OF POLICY

The policy of this school district is to comply with GASB Statement No. 54. To the extent a specific conflict occurs between this policy and the provisions of GASB Statement No. 54, the GASB Statement shall prevail.

III. DEFINITIONS

A. "Assigned" fund balance amounts are comprised of unrestricted funds constrained by the school district's intent that they be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. In funds other than the general fund, the assigned fund balance represents the remaining amount that is not restricted or committed. The assigned fund balance category will cover the portion of a fund balance that reflects the school district's intended use of those resources. The action to assign a fund balance may be taken after the end of the fiscal year. An assigned fund balance cannot be a negative number.

B. "Committed" fund balance amounts are comprised of unrestricted funds used for specific purposes pursuant to constraints imposed by formal action of the school board and that remain binding unless removed by the school board by subsequent formal action. The formal action to commit a fund balance must occur prior to fiscal year end; however, the specific amounts actually committed can be

determined in the subsequent fiscal year. A committed fund balance cannot be a negative number.

- C. “Enabling legislation” means legislation that authorizes a school district to assess, levy, charge, or otherwise mandate payment of resources from external providers and includes a legally enforceable requirement that those resources be used only for the specific purposes listed in the legislation.
- D. “Fund balance” means the arithmetic difference between the assets and liabilities reported in a school district fund.
- E. “Nonspendable” fund balance amounts are comprised of funds that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. They include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, non-financial assets held for resale, or the permanent principal of endowment funds.
- F. “Restricted” fund balance amounts are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.
- G. “Unassigned” fund balance amounts are the residual amounts in the general fund not reported in any other classification. Unassigned amounts in the general fund are technically available for expenditure for any purpose. The general fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.
- H. “Unrestricted” fund balance is the amount of fund balance left after determining both nonspendable and restricted net resources. This amount can be determined by adding the committed, assigned, and unassigned fund balances.

IV. CLASSIFICATION OF FUND BALANCES

The school district shall classify its fund balances in its various funds in one or more of the following five classifications: nonspendable, restricted, committed, assigned, and unassigned.

V. MINIMUM FUND BALANCE

The Board of Education shall strive to maintain a fund balance of between 8% and 12% of fund balance to total operating expenditures in the General Fund. The fund balance shall be defined as the sum of the Unassigned fund balance, the Restricted Next Year's Approved Budget Deficit fund balance, and the Nonspendable fund balances. It will not include the remaining Restricted, Committed, or Assigned fund balances created by the School Board, District Administration, State or Federal guidelines.

The Business Office shall monitor the fund balance. If the fund balance falls below 8%, the Board of Education shall implement a procedure to stabilize the District's financial position. This shall involve:

- A. No new programs will be added at the district level unless matched by a like revenue source;
- B. Allocations such as textbooks, supplies, etc., shall be frozen; and
- C. The District will review other measures which will not immediately affect delivery of programs but could have a cost savings. An example might be areas where expenses have historically been lower than budgeted levels.

If the fund balance is projected to decrease below 6%, the District shall take measures to either generate additional revenues or to reduce expenditures through budget cuts or a combination of both.

VI. ORDER OF RESOURCE USE

If resources from more than one fund balance classification could be spent, the school district will strive to spend resources from fund balance classifications in the following order (first to last): nonspendable, restricted, committed, assigned, and unassigned. One exception to this order of spending will be capital spending for specific deferred maintenance, technology, and curriculum items. The board has established a specific assigned fund balance for these specific capital needs and the District will utilize these funds first until exhausted and then utilize restricted for operating capital as necessary.

VII. COMMITTING FUND BALANCE

A majority vote of the school board is required to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the board. The school board will commit retirement benefits, including compensated absences, pensions, and other post-employment benefits in the Committed for Separation/Retirement Benefits fund balance.

VIII. ASSIGNING FUND BALANCE

The school board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The board also delegates the power to assign fund balances

to the Director of Finance and Operations. Assignments so made shall be reported to the school board on an annual basis, either separately or as part of ongoing reporting by the assigning party if other than the school board. Assigned fund balances may include examples such as Carryover, Dental Insurance, Student Activities, and Capital.

An appropriation of an existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance.

IX. REVIEW

The school board will conduct an annual review of the sufficiency of the minimum unassigned general fund balance level.

Legal References: Statement No. 54 of the Governmental Accounting Standards Board
Cross References: MSBA Service Manual, Chapter 7, Education Funding

Administrative Offices
Buffalo, Minnesota 55313

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