

Adopted: May 9, 2011

Renville County West – Policy 714
Orig. 2011

Revised: 10/9/2018

POLICY 714 – FUND BALANCE

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, to allow for more useful fund balance reporting, to remain compliant with the reporting guidelines specified in Statement No. 54 of the Governmental Accounting Standards Board (GASB), 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 **10%** 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.

III. DEFINITIONS

- A. "Fund balance" means the arithmetic difference between the assets and liabilities reported in a school district fund.
- B. 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).
- C. Restricted fund balance – Represents 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.
- D. "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.
- E. 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. 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.

- F. 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. 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.
- G. Unassigned fund balance - Represents resources available to meet current and future years’ expenditures. 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. “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.

IV. GUIDELINES

The school board hereby establishes the following order for resource use: 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 **\$25,000** to be considered significant encumbrances. All encumbrances will be classified as either Assigned Fund Balance or Restricted Fund Balance.

When the combined total of the General Fund Committed, Assigned and Unassigned fund balance falls below **10%** 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.

V. REVIEW

The school board will conduct an annual review of the sufficiency of the minimum unassigned general fund balance level. 714 - 4

[Note: The school board should determine the review period adequate for their school district and change “an annual” to “a quarterly” or “a monthly” or some other time frame if appropriate.]

Legal References: Statement No. 54 of the Governmental Accounting Standards Board

Cross References: MSBA Service Manual, Chapter 7, Education Funding