

## **714 FUND BALANCES**

### **I. PURPOSE**

It is the desire of the school board to contribute to the successful education of students through sound fiscal management by maintaining a reasonable and responsible fund balance. The board recognizes that it has a responsibility to adhere to Minnesota statutes and Generally Accepted Accounting Practices (GAAP). The board further understands the need to be mindful of its obligation to the public trust and the rightful demand for accountability from its constituencies. The purpose of this policy is to establish guidelines for maintaining an acceptable fund balance.

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

- A. 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.
- B. The board recognizes that 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 periodic cash flow deficits during the year.
  - 2. Funds not needed to meet operating expenses provide opportunities to generate additional income through investment.
  - 3. Receipt of state revenue is subject to legislative change.
  - 4. Unexpected unaudited situations, including the following may occur during a fiscal year: rescission of state aid and/or state shut down; mandated, but not funded, state or federal programs; increased utility costs due to price increases or inclement weather; greater than expected inflation; unanticipated deficits in other operating funds; costs incurred due to natural disasters; and increased fuel costs for bussing.
  - 5. A fund balance reserve is important to the sound financial management of the district and to the establishment of a good credit rating for the district.

### **III. DEFINITIONS**

- A. "Fund balance" means the arithmetic difference between the assets and liabilities reported in a school district fund.
- B. "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.
- C. "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.

- D. "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.
- E. "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.
- F. "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.
- G. "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. CLASSIFICATION OF FUND BALANCES**

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.

#### **V. MINIMUM FUND BALANCE**

The Board of Education shall strive to maintain a fund balance of between 25% and 34% of total operating expenditures to fund balance. The fund balance shall be defined as the sum of the nonspendable, restricted, committed, assigned and unassigned fund balances in the General Fund. Total operating expenditures will include the expenditures in the funds noted above.

#### **VI. ORDER OF RESOURCE USE**

The school board hereby establishes the following order for resource use:

Nonspendable 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.

#### **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.

#### **VIII. ASSIGNING FUND BALANCE**

The school board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. Assignments so made shall be reported to the school board on a monthly basis, either separately or as part of ongoing reporting by the assigning party if other than the school board. The school board has delegated the authority to assign amounts to the District Business Manager and Superintendent.

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 Finance/Budget Committee 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

Adopted: 2-27-2006

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