

BP 3470 Fund Balance Classification

Note: This policy is consistent with the requirements of the Government Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The policy allows a school board to have greater control over the district's fund balances by addressing the order of spending.

Neither this policy nor GASB Statement No. 54 preclude the calculation required to be made in the Auditor's Report on Fund Balance Compliance as required by 4 AAC 06.121(5)(A).

The Board desires to establish a fund balance classification policy tailored to the needs of the School District in a manner consistent with governmental accounting standards. As provided for in Governmental Accounting Standards Board (GASB) Statement No. 54, the Board identifies the order of spending unrestricted resources applying the highest level of classification of fund balance, while honoring constraints on the specific purposes for which amounts in those fund balances can be spent.

It is the responsibility of the Superintendent or designee to make recommendations to the Board regarding fund balance designations. Formal Board action is required to establish, modify, and/or rescind a committed fund balance amount.

Purpose of Fund Balance

~~An appropriate fund balance is a critical factor in the long range financial planning of a school district to assure sound financial practices and management. There is a need to maintain a cash flow to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Examples of these situations follow:~~

- ~~• Unexpected costs incurred by mandate, but not funded, State or Federal programs;~~
- ~~• Increased utility costs due to abnormal price increase or unusually cold weather;~~
- ~~• Greater than expected inflation;~~
- ~~• Unexpected decrease in Federal, State or Local revenue;~~
- ~~• Unexpected deficits in other operating funds (Student Nutrition Services, Student Transportation, Teacher Housing);~~
- ~~• Unexpected decrease in student enrollment.~~

Definitions:

~~**Fund Balance**—the cumulative difference between revenues and expenditures; it approximates available resources absent significant liabilities.~~

~~**Fund Balance Classifications**—GASB 54 established five classifications for fund balance~~

Fund balances will be classified as follows:

- A. Nonspendable fund balance – The nonspendable fund balance classification includes amounts that cannot be spent because they are either: (a) not in a spendable form ~~(such as inventory) or are~~; or, (b) legally or contractually required to be maintained intact ~~(such as the corpus of an endowment fund)~~. This includes items not expected to be converted to cash, including inventories, prepaid expenses, supplies, and long-term receivables, and the principal of a permanent fund.

- B. Restricted fund balance ~~amounts constrained to specific purposes by their providers (such as~~ – The restricted fund balance classification is utilized when constraints (restrictions) placed on the use of resources are either: (a) externally imposed by creditors, grantors, ~~bondholders, and higher levels of government~~); contributors, or governmental laws or regulations; or, (b) imposed by law through constitutional provisions, or ~~by~~ enabling legislation. This includes “categorical balances.”

- C. Committed Fund Balance – The committed fund balance classification reflects amounts that can only be used for specific purposes determined by formal action of the Board. Commitments may be removed or changed by formal Board action. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Any remaining excess fund balance in a special revenue or capital projects fund at fiscal year end shall be a committed fund balance and designated for the intended purpose of that special revenue or capital project fund. Such fund balances shall be carried over to the ensuing fiscal year as Committed Fund Balance. ~~amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority (Kenai Peninsula Borough School Board); to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint. School Board action to constrain resources must occur prior to fiscal year end; however, the specific amount can be determined in the subsequent period~~

- D. Assigned Fund Balance – The assigned fund balance classification reflects amounts intended to be used by the district for specific purposes. Intent can be expressed by the Board or by the Superintendent, having been designated such authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. ~~amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority~~

- E. **Unassigned Fund Balance** – The unassigned fund balance classification is the residual classification for the general fund and includes all amounts not contained in the other classifications. Positive unassigned amounts will be reported only in the general fund. If another governmental fund, other than the general fund, has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification of that fund. ~~amounts that are available for any purpose; these amounts are reported only in the general fund~~

~~The five categories of fund balance place varying strengths of spending constraints on available resources in a descending order as listed. Nonspendable fund balance is the most restrictive classification and unassigned fund balance is the least restrictive.~~

~~**State of Alaska Reserve Allowances** Alaska Administrative Code 4 AAC 09.160 (not GAAP compliant) establishes that reserves in the year-end fund balance in a school's operating fund may be only in the following categories:~~

- ~~1. Encumbrances,~~
- ~~2. Inventory,~~
- ~~3. Prepaid expenses including fuel,~~

~~Retirement~~

- ~~4. incentive program,~~
- ~~5. Self insurance, and~~
- ~~6. Federal impact aid received in response to the application submitted during fiscal year of the audit under 4 AAC 09.130.~~

~~**Unreserved Fund Balance** – portion of remaining Fund Balance that is available for appropriation or expenditure. This is further separated into (1) designated and (2) undesignated fund balances.~~

Policy

~~Alaska Statute AS 14.17.505 establishes that a District may not accumulate in a fiscal year an unreserved portion (as defined by 4 AAC 09.130) of its year-end fund balance in its school operating fund that is greater than 10 percent of its expenditure for that fiscal year.~~

Spending Prioritization

The order of spending regarding the restricted and unrestricted fund balances, when an expenditure is incurred for which both restricted and unrestricted fund balance is available, should first reduce restricted fund balance and then unrestricted fund balance.

Business and Noninstructional Operations

The order of spending regarding unrestricted fund balance is that committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The Board authorizes the Superintendent to assign amounts to a specific purpose in compliance with GASB 54. An unassigned fund balance should also be reported in the order of spending unrestricted resources, but is not restricted or committed.

~~It is the policy of the District to maintain a General Fund Unassigned Fund Balance which does not exceed 10 percent of the current year's General Fund expenditures.~~

~~When an expenditure has been duly authorized and funding to pay for the expenditure is available within multiple fund balance classifications, the funding available in the most restrictive classification will be used first.~~

Legal References:

~~ALASKA ADMINISTRATIVE CODE~~

~~4 AAC 09.130 School District Audit~~

~~4 AAC 09.160 Fund Balance~~

~~ALASKA STATUTES~~

~~AS 14.17.505 Fund Balance in School Operating Fund~~

~~DEED Uniform Chart of Accounts~~

Added 10/11

Adoption Date: 04/09/98

Southeast Island School District