



# **BELLVILLE INDEPENDENT SCHOOL DISTRICT**

## **FUND BALANCE STRATEGY**

### ***WHAT IS FUND BALANCE?***

Fund balance is the difference between a fund's assets and its liabilities. Fund balance serves as a measure of the financial resources available in a governmental fund. The operating or general fund of the district is of primary significance because it is the largest fund and accounts for the operations of the district. Although often referred to as the district's savings, the total fund balance is not a depiction of the amount of cash in the bank or investments.

Fund balance is a function of the district's operations. Thus if revenues exceed expenditures, fund balance increases and vice versa. An accumulation occurs when there are several years of actual revenues exceeding actual expenditures.

### ***WHY IS FUND BALANCE IMPORTANT?***

Key reasons to maintain a healthy fund balance. First, fund balance provides liquidity and the resources to fund expenditures when a steady resource stream is not available. Approximately 80% of the districts revenues consist of local revenues of which the majority of these resources are property tax collections. The taxes collected in December and January are used to fund expenditures year round.

Fund balance can also provide a resource for financial contingencies or emergency needs. Fund balance is commonly used to fund one-time expenditures or provide relief in years of budget cuts, revenue shortfalls, or emergency situations.

Maintaining adequate levels of fund balance will help mitigate current and future risks and ensure stable tax rates. Fund balance levels are a crucial consideration in long term financial planning.

Finally, bond rating agencies consider a district's fund balance level as a key indicator of fiscal health. In addition, the adoption of a policy regarding the protection and use of fund balance is viewed as good management practice. Despite the AAA rating of the PSF (Permanent School Fund), investors today are looking more to the issuer's underlying rating. The higher the underlying rating, the lower borrowing costs are for the district.

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### **WHAT IS AN APPROPRIATE FUND BALANCE LEVEL?**

There is no requirement per se for a certain fund balance level and the level that should be maintained varies depending on the source. TEA has set a rule of thumb to compute the optimum fund balance in the General Fund. The rule of thumb calls for the computation of the optimum unreserved undesignated fund balance to equal the estimated amount to cover cash flow deficits in the General Fund for the fall period in the following fiscal year plus estimated average monthly cash disbursements of General Fund for the following fiscal year.

The Government Finance Officers Association (GFOA) recommends, at a minimum, that unrestricted fund balance general funds should be no less than two months of regular operating revenues or operating expenditures. The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances and may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. A variety of factors include:

- 1) The predictability of its revenues and the volatility of its expenditures. (emergency outlays, tax collection)
- 2) The perceived exposure to significant one-time outlays. ( disasters, immediate capital needs, state budget cuts, insurance deductibles, mechanical failures)
- 3) The potential drain upon general fund resources from other funds as well as the availability of resources in other funds.
- 4) Liquidity
- 5) Commitments and assignments

The Texas Association of School Business Officials (TASBO) also cites GFOA's recommendation of a minimum of two months of revenues or expenditures but goes on to state **"Fund balance is not a one-size fits all school finance management issue for local school districts."**

The Texas Education Agency's (TEA) optimum fund balance calculation required school districts to add two months of cash disbursements to amounts needed to cover any cash flow deficits that may exist over the course of a year. This in effect results in a fund balance of 3-4 months of operating expenses. The optimum fund balance calculation is no longer required by TEA.

While there is clear justification for the existence and maintenance of a healthy fund balance, there is no definitive guidance as to what constitutes a healthy fund balance. Therefore, each school district is to review its own operations, goals, and challenges in setting a policy that will serve as the entity's financial road map. At a minimum, a district should hold 3 months of operating revenues or expenditures in fund balance. But beyond that amount, the district must decide what is adequate.

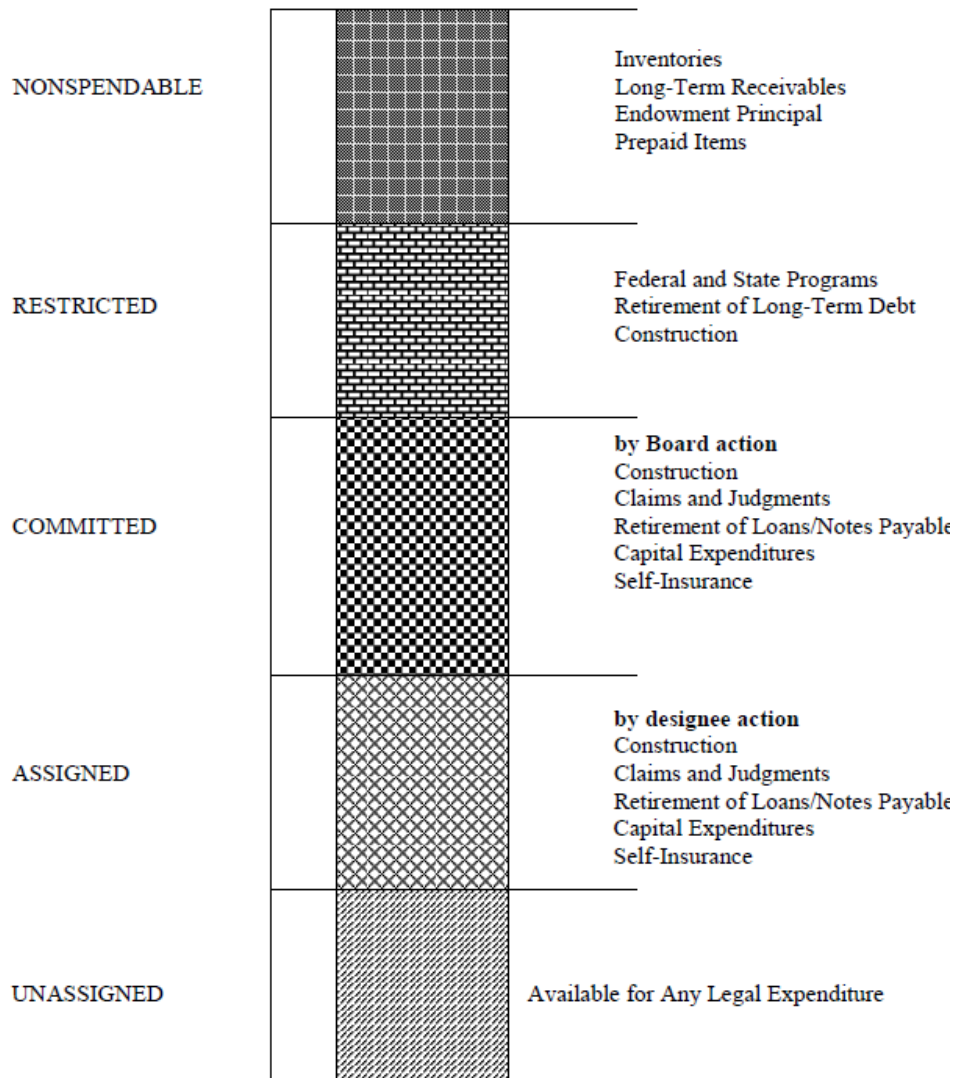
### **GASB 54- FUND BALANCE REPORTING AND GOVENMENTAL FUND TYPE DEFINITIONS**

GASB 54 expanded the reporting and fund types to five classifications of spending constraints for which resources can be used:

- **Non-spendable fund balance** – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund), prepaid expenses, long-term receivables

- **Restricted fund balance** - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. (state and federal programs, construction bond funds)
- **Committed fund balance** – amounts constrained to specific purposes by the government itself. This requires formal action by the Board of Trustees. Commitments may be changed or lifted only by the Board of Trustees taking the same formal action that imposed the constraint originally. (committed for construction, claims & judgements, capital expenditures, self-insurance)
- **Assigned fund balance** – amounts intended to be used by the District for specific purposes. Intent can be expressed by the Board of Trustees or by an official or body to whom the Board of Trustees delegates the authority. In governmental funds other than the general fund, assigned fund balance represent the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. (An amount appropriated from existing fund balance to eliminate a projected budgetary deficit in the subsequent year)
- **Unassigned fund balance** - is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

**Elements of Fund Balance Post-GASB 54**



## ***GASB 54 – BOARD ADOPTED RESOLUTION***

**IT IS HEREBY RESOLVED**, ordered, and directed that the Bellville Independent School District adopts Governmental Accounting Standard Board Statement (GASB) 54 effective August 25, 2011. To comply with GASB 54, the following policies will be adopted:

The District shall report governmental fund balances per GASB 54 definitions in the balance sheet as follows:

- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned

The Board of Trustees shall approve all commitments by formal action. The action to commit funds must occur prior to fiscal year-end, to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year-end. A commitment can only be modified or removed by the same formal action.

The Board of Trustees delegates the responsibility to assign funds not to exceed \$500,000 to the Superintendent or his/her designee. The Board of Trustees shall have the authority to assign any amount of funds. Assignments may occur subsequent to fiscal year-end.

The Board of Trustees will utilize funds in the following spending order:

- Restricted
- Committed
- Assigned
- Unassigned

## ***BOARD ADOPTED FUND BALANCE PROCEDURES***

### **Purpose**

The purpose of these procedures is to establish a key element of the financial stability of the District by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the District maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the District's general operations.

### **Classifications**

Fund balance will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Nonspendable fund balance** – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund)
- **Restricted fund balance** - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.
- **Committed fund balance** – amounts constrained to specific purposes by the government itself. This requires formal action by the Board of Trustees. Commitments may be changed or lifted only by the Board of Trustees taking the same formal action that imposed the constraint originally.

- **Assigned fund balance** – amounts intended to be used by the District for specific purposes. Intent can be expressed by the Board of Trustees or by an official or body to whom the Board of Trustees delegates the authority. In governmental funds other than the general fund, assigned fund balance represent the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- **Unassigned fund balance** - is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

### **Special Revenue Funds with Restricted Fund Balance**

The Board of Trustees resolves that all special revenue funds which receive funds from a grantor agency at the federal, state or local level and hence are constrained to spend those funds on a specific purpose as dictated by the grantor agency will report restricted fund balance for those special revenue funds based on the definition described within this policy.

### **Authorization and Action to Commit Fund Balance**

The Board of Trustees is the District's highest level of decision- making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board at a District meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

### **Special Revenue Funds with Committed Fund Balance**

The Board of Trustees is committing fund balance via this fund balance policy for the following Special Revenue Funds:

Campus Activity Funds for funds generated at the campuses.

Child Nutrition Funds for funds generated by the child nutrition department.

Educational Foundation Funds for funds generated by the Educational Foundation

BISD Museum Funds for funds generated by the BISD Museum

### **Authorization and Action to Assign Fund Balance**

The District has designated the Superintendent and his/her designee as the officials who are authorized to assign fund balance to a specific purpose as approved by this fund balance policy. Authorized officials must approve each assignment before the item can be presented in the financial statements. Assignments of fund balance do not require formal action by the Board of Trustees and can be made subsequent to year end.

### **Minimum Unassigned Fund Balance**

The District will strive to maintain an unassigned fund balance of not less than 25% (3 months operating) of the budgeted operational expenditures on all District's general fund. Due to the volatile nature of a majority of its revenues, it is not deemed excessive for the District to maintain fund balance in the General Fund at a level greater than 33% of the budgeted operational expenditures. The purpose of this unassigned fund balance is to alleviate significant unanticipated budget shortfalls and to ensure the orderly provisions of services.

### **Order of Expenditure of Funds**

When multiple categories of fund balance are available for expenditure the District will start with the most restricted category – spending those funds first – before moving down to the next category with available funds.

*Bellville Independent School District*  
*Fiscal Strategy: Fund Balance*

**BELLVILLE ISD FUND BALANCE**

The committed fund balance evaluation table shows various considerations taken into account when committing fund balance. Long range planning, emergencies and liabilities have been considered.

2018-2019 COMMITTED FUND BALANCE NEED EVALUATION					Recommended	Actual	Overage/ (Shortage)
3510	High School HVAC System	Patital Replacement 2017			\$ -		
	Junior High HVAC System	TASB	July 2015		\$ 665,052		
	O'Bryant Intermediate HVAC System	TASB	July 2015		\$ 224,750		
	O'Bryant Primary HVAC System	TASB	July 2015		\$ 268,944		
	Spicer HVAC System	TASB	July 2015		\$ 70,545		
	West End Elementary HVAC System	TASB	July 2015		\$ 103,948		
	Administration HVAC System	TASB	July 2015		\$ 136,071		
	General Roof Repairs/Replacement	473,000 sq/ft roof, \$3.00/sq.ft (Honey's)	July 2015		\$ 250,000		
	School Buses	\$100,000/bus, each year buses not purchases reserved 2 per year			\$ 400,000		
	Security				\$ -		
	<u>General Maintenance &amp; Repair</u>	<u>Total District Value \$80.2 million (1% retainer for emergency)</u>			<u>\$ 802,000</u>		
		<i>(district value per NAS insurance replacement cost appraisal)</i>			\$ 2,921,310	\$ 5,966,501	\$ 3,045,191
3541	Workers Compensation Liability - GASB 10	WCS	August 2018		\$ 427,123		
		TASB	August 2018		\$ 7,159		
		CAS	August 2018		\$ 4,797		
					\$ 439,079	\$ 500,000	\$ -
3545	Residential Placement Exendiures (25% of IDEA-B Formula \$413,824 x 25% = \$103,456) required b/c BISD spends all IDEA funds on annual basis and does not roll 25%				\$ 103,456		
	(Budget on 2 students)	Residential Placement \$500/day x 360ays = \$180,000			\$ 360,000		
	(Budget on 2 students)	Day Placement \$4,000,mo x 12 mo = \$96,000 + transportation			\$ 96,000		
					\$ 559,456	\$ 500,000	\$ (59,456)
35xx	MINIMUM TOTAL COMMITTED				\$ 3,919,845	\$ 6,966,501	\$ 3,046,656
35xx	GASB 68 - establishes account and financial reporting but not funding or budgetary standards for benefit pension liabilities				\$ 3,637,316		
	GASB 75 - establishes account and financial reporting but not funding or budgetary standards for OPED pension liabilities (net pension liability)				\$ 6,880,415		

BELLVILLE ISD OPERATING FUND BALANCE HISTORICAL ANALYSIS						
FY	ACTUAL EXPND	3 MONTH OPERATING	BEGINNING FUND BALANCE	TRANSFERS IN/(OUT)	ENDING FUND BALANCE	MONTH(S) OPERATING
2018-2019			12,225,125			
2017-2018	19,967,062	4,991,766	10,431,217	1,793,908	12,225,125	7.35
2016-2017	22,366,116	5,591,529	11,542,146	(1,110,929)	10,431,217	5.60
2015-2016	18,765,262	4,691,316	10,635,529	906,617	11,542,146	7.38
2014-2015	17,939,898	4,484,975	9,533,658	1,101,871	10,635,529	7.11
2013-2014	17,069,554	4,267,389	8,626,444	907,214	9,533,658	6.70
2012-2013	15,760,434	3,940,109	7,472,693	1,153,751	8,626,444	6.57
2011-2012	15,871,315	3,967,829	6,291,545	1,181,148	7,472,693	5.65
2010-2011	16,852,960	4,213,240	5,420,182	871,363	6,291,545	4.48

Exhibit C-1 & C-2

## SUMMARY

Fund balance increases at year end when actual total revenues and other sources exceed actual total expenditures and other uses. The Bellville ISD Board has adopted a conservative budgeting approach that takes into account for one time revenue streams without committing these revenues to reoccurring cost. The major factors contributing to increases in fund balance over the years are:

- Oil Royalties – due to instability in royalty income with consideration to production and pricing, royalties have been assigned to one time expenditures and capital projects. Excess royalty income has been allowed to increase fund balance for long term planning goals and emergency procurements.
- Property Value Increase under the current State of Texas funding formula allow for one year windfalls in state and local revenues. In following years the funding formulas account for these increase in local tax collections and state revenues are reduced accordingly, leaving a next zero effect on revenues. Again these revenues have been assigned to one time expenditures and/or allowed to increase fund balance.
- Federal Stimulus and Grants where appropriately used to offset reductions in revenue due to economic recessions and state funding cuts, thereby, not putting the district in a financial strain when these funding sources were dissolved.
- Budget managers have managed their budgets efficiently and conservatively. Remaining allotments are rolled into the fund balance. Allotments have not been reduced to encourage relevant and appropriate spending behavior.