

*Adopted: April 21, 2008*

*Revised: May 17, 2010*

## **726 FUND BALANCE POLICY**

### **I. PURPOSE**

The purpose of this policy is to establish lines of authority, procedures and guidelines for the establishment of a fund balance policy for the school district.

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

It is the policy of this school district to establish its fund balance policy in accordance with the applicable provisions of law. The following conditions exist relative to financing the operation of a public school system:

- A. 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.
- B. Funds not needed to meet operating expenses provide opportunities to generate additional income through investment.
- C. Receipt of state revenue is subject to legislative change.
- D. Higher than usual tax delinquencies may occur during periods of economic downturn thus reducing local district property tax receipts.
- E. Unexpected situations, including the following, may occur during a fiscal year:
  - 1. Recision of state aid.
  - 2. Mandated, but not funded, state or federal programs.
  - 3. Increased utility costs due to abnormal price increases or inclement weather conditions.
  - 4. Greater than expected inflation.
  - 5. Higher than anticipated wage and salary settlements.
  - 6. Unanticipated deficits in other operating funds (Food Service, Transportation, and Community Services).
  - 7. Costs incurred due to natural disasters.
  - 8. Cost of defending and/or settlement of a lawsuit.
  - 9. Cost of funding the deductible on an insurance property loss claim.
  - 10. Fluctuations in enrollment
- F. Maintenance of an adequate, stable fund balance is important to the establishment of a good credit rating for the district.
- G. Fund balance, in part, is necessarily appropriated for the estimated liability for severance benefits and unemployment claims anticipated in the subsequent budget year.

- H. A fund balance reserve is not to be deemed as a solution to ongoing fixed costs.
- I. A fund balance reserve is important to sound financial management of the district.

#### **IV. IMPLEMENTATION**

Therefore the district shall establish, by the end of fiscal year 2010, an unappropriated fund balance in operating funds of a minimum of ~~ten (10)~~ **nine (9)** percent of the annual operating budget. The fund balance shall be defined as the sum of the undesignated/unreserved fund balance and any reserves for carry-over. It will also include all reserved fund balances in the Community Service fund. It will not include funds reserved for operating capital, Health and Safety and ADA, and severance, or any other new reserve created by the School Board, State or Federal guidelines.

Beginning in fiscal year 2011, the following measures will apply:

Fund Balance Level at ~~ten (10)~~ **nine (9)** percent or Below

When the operating fund balance is equal to or less than ~~ten (10)~~ **nine (9)** percent of the expenditure budget, the administration shall alert the board of education and propose the following alternative measures on a timely basis to maintain the ~~ten (10)~~ **nine (9)** percent minimum fund balance level:

1. Seek additional funds through a referendum.
2. Reduce expenditures by curtailing program services.
3. Use a combination of a referendum and curtailing program services.

The district shall reserve the right to explore additional funding sources through a referendum in the event that the fund balance does not go below ~~ten (10)~~ **nine (9)** percent.

***Legal References:*** Minnesota State Statutes as they pertain.