

INDEPENDENT SCHOOL DISTRICT 719
PRIOR LAKE - SAVAGE AREA SCHOOLS

701.2 FUND BALANCE POLICY

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 purpose of this policy is to establish a key element of the financial stability of Independent School District 719 by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the school 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 school district's general operations.

II. DEFINITION

Fund Equity - A fund's equity is generally the difference between its assets and its liabilities.

Fund Balance - An accounting distinction is made between the portions of fund equity that are spendable and nonspendable. These are broken up into five categories:

- A. Nonspendable fund balance - Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables such as long-term loan and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned). This also includes amounts that are legally or contractually required to be maintained intact (principal balance of endowments and permanent funds).
- B. Restricted fund balance - Reflects the same definition as restricted net assets on the government wide Statement of Net Assets: constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The Minnesota Department of Education (MDE) has retained balance sheet codes for statutorily required reserves which will be titled Restricted/Reserved. This category of fund balances represent fund balances statutorily restricted for a particular use that were traditionally classified as "reserved".
- C. Committed fund balance - Includes amounts that are committed for specific purposes by formal action of the school board. Amounts classified as "committed" are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the school board removes or changes the limitation by taking the same form of action it employed to previously impose the limitation. The action to commit fund balances must occur prior to year end; however, actual amounts can be determined in the subsequent period. Balance sheet code 418 is not allowed to go into deficit and continues to represent resources segregated from the Unassigned Fund Balance for retirement benefits, including compensated absences, other post-employment benefits and termination benefits (as defined by GASB Statement Nos. 16, 27, 45, 47 and 50).

- D. Assigned fund balance - Amounts that are intended by the school district to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the school board itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the school board. This would include ANY activity reported in a fund other than the General Fund that is not otherwise restricted more narrowly by the above definitions. The school district is not allowed to assign balances that result in a residual deficit.
- E. Unassigned fund balance - includes any remaining amounts after applying the above definitions (amounts not classified as nonspendable, restricted, committed or assigned). Planned spending in the subsequent year's budget would be included here and can no longer be described as "designated" unless formally committed or assigned. Special rules exist for using this classification in funds other than the General Fund. In funds other than the General Fund unassigned only used if the balance is negative, therefore, the General Fund is the only fund that can report a positive unassigned balance.

III. GENERAL STATEMENT

Fund balance refers to the difference between assets and liabilities in the governmental funds balance sheet. This information is one of the most widely used elements of state and local government financial statements for analysis.

Fund balance information is of central importance for the credit reviews performed by municipal bond analysts, and is also used by oversight bodies, federal, state, county and local legislators to assess the financial health of an organization. Additionally, financial statement users examine fund balance information to identify the available liquid resources that can be used to repay long-term debt, reduce property taxes, add new educational programs, expand existing ones, or enhance the financial position of the school district.

Governmental Accounting Standards Board (GASB) has found that its usefulness and the value of fund balance information provided is significantly reduced by misunderstandings regarding the message that it conveys, and the inconsistent treatment and financial reporting practices of governments.

In March 2009, in order to improve how fund balance information is reported and enhance its decision-usefulness, GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

Committing Fund Balance

Committed Fund Balance

Formal action is required to be taken to establish, modify, or rescind a fund balance commitment in the form of a resolution approved by the school board at a school board 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.

Assigning Fund Balance

Assigned Fund Balance

The school board of Independent School District 719 has authorized the District's Executive Director of Business Services and the Superintendent of Schools as the officials authorized to

assign fund balance to a specific purpose as approved by this fund balance policy.

Minimum Fund Balance

The school district will strive to maintain a minimum total unassigned general fund balance of at least eight (8) percent of the annual budget (4-6 weeks of operating expenses). Deviation from the fund balance will be reviewed and addressed by the school board.

Order of Resource Use

If resources from more than one fund balance classification could be spent, the school district will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

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

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