

FUND BALANCE

The School District of Jefferson organizes the accounting systems on a "fund" basis. A fund is a separate set of accounting records, segregated for purpose of carrying on an activity. A fund is established for accountability purposes to demonstrate that financial resources are being used only for permitted purposes. A fund will have "balance sheet" accounts consisting of "assets", "liabilities" and "fund balance," and a series of "revenue" and "expenditure" accounts. A "fund balance" is created or increased when fund revenues exceed fund expenditures for a fiscal period. Correspondingly, a fund's balance is decreased when fund expenditures exceed fund revenues. The balance sheet accounts identify the assets that belong to a fund, such as cash or a grant payment receivable; and what liabilities it owes, such as accounts payable to a supplier. The difference between the fund's assets and liabilities equals the "fund balance." A positive fund balance represents a financial resource available to finance expenditures of a following fiscal period. A deficit fund balance can only be recovered by having revenues exceed expenditures in a following fiscal period.

The fund balance of the District at the conclusion of any given fiscal year shall be at least the equivalent of 10 percent of the operating (Fund 10) budget for that fiscal year, and, at most, the equivalent of 20 percent of the operating (Fund 10) budget for that fiscal year. If the fund balance at the end of the fiscal year is less than the equivalent of 10 percent of the operating budget for that fiscal year, the Board of Education shall consider adjusting the operating budget of the following year to allow for an increase to the unrestricted net assets. If the fund balance at the end of the fiscal year is greater than the equivalent of 20 percent of the operating budget for that fiscal year, the Board of Education shall consider adjusting the operating budget of the following year to allow for increased expenditures or consider reducing the levy in the following year.

To provide the best fiscal management of the fund balance, it shall be required that appropriation expenditures from the fund balance be adopted by at least two-thirds of the entire membership of the Board of Education.

The School District of Jefferson has five (5) different fund balance classifications as outline in Governmental Accounting Standards Board (GASB) Statement 54 as follows:

Nonspendable Fund Balance: The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than nonspendable fund balance.

Restricted Fund Balance: The restricted fund balance classification should be reported as restricted when constraints placed on the use of resources are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling legislation. *Enabling legislation*, as the term is used in this Statement, authorizes the government to assess, levy, charge, or

otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed Fund Balance: The committed fund balance classification are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Education. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

In contrast to fund balance that is restricted by enabling legislation, amounts in the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the government, separate from the authorization to raise the underlying revenue. Therefore, compliance with constraints imposed by the district that commit amounts to specific purposes is not considered to be legally enforceable.

The formal action of the Board of Education that commits fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

Assigned Fund Balance: The assigned fund balance classification are amounts that are constrained by the district's intent to be used for specific purposes, but are neither restricted nor committed, except for stabilization arrangements. Intent should be expressed by the Board of Education.

Assigned fund balance includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. By reporting particular amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, the district has assigned those amounts to the purposes of the respective funds. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the district itself.

An appropriation of 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. Assignments should not cause a deficit in unassigned fund balance to occur.

Unassigned Fund Balance: The unassigned fund balance classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

SCHOOL DISTRICT OF JEFFERSON
BOARD OF EDUCATION POLICY

Reference Code: DIBA

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CROSS REF.: DBB, Fiscal Year
DIBA-R, Fund Balance Guiding Principles

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FUND BALANCE GUIDING PRINCIPLES

The Board of Education of the School District of Jefferson recognizes that the primary purpose of the district's Fund Balance is for cash flow management and should not be used to balance the general fund (fund 10) budget (used for annual operating expenses, or for supporting salary and fringe benefit costs of staff). Therefore, the Board of Education recognizes the need to establish guiding principles for management of the district's Fund Balance. These principles may be adjusted by board action from time to time as conditions change but, while in effect, guide the decision process for Fund Balance management.

The Board of Education supports sound fiscal management of its resources in order to maintain the district's financial position. The Board will manage Fund Balance in a manner which is consistent with the context and limitations set by Board policy and state statutes.

The Board of Education recognizes the importance of an adequate level of Fund Balance in order to minimize the district's cash flow deficits due to the timing of revenues received and expenses disbursed. The Board will establish the adequate level of Fund Balance by applying Board policy and other considerations to include but not limited to:

- Amount needed to negate or otherwise limit the need for short term borrowing.
- Amount required to ensure the long-term fiscal stability of district finances.
- Amount needed to maintain a high quality bond rating.
- Amount needed for unexpected or emergency purposes.

The Board of Education recognizes the need to maintain an adequate level of Fund Balance in order to address unanticipated one-time expenditures and/or unrealized revenues that occur. When Fund Balance use becomes necessary or otherwise essential, the Board will restrict the usage to one- time expenditures which meet one or more of the following criteria.

- Expenditures directly supportive of the district's high priorities.
- Emergency expenditures necessary for health and safety reasons or the continued operation of district essential services.
- Expenditures that are "investment in nature" that demonstrate a positive return on investment.

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