

Purpose

The purpose of this policy is to establish a key element of the financial stability of the Phillips School District by setting guidelines for fund balance. Fund balance is an important measure of economic stability. It is essential that the school district maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance may also provide cash flow liquidity for the School District of Phillips' general operations.

Background

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.

Bond analysts use fund balance information as part of credit reviews. Fund balance information 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.

The purpose of GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions is to improve how fund balance information is reported and to enhance its decision-usefulness,

Definitions

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:

- 1) **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).
- 2) **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.

- 3) **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.
- 4) **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.
- 5) **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. The General Fund is the only fund that will report a positive unassigned balance.

Policy

Committed Fund Balance - The school board is the highest level of decision-making authority for the Phillips School District. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is 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.

Assigned Fund Balance - The school board of the Phillips School District has authorized the District's Finance Manager or Superintendent as the officials authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Minimum Fund Balance

It is the goal of the Phillips School District to achieve and maintain a fund balance in the General Fund at least 25% of expenditures. The Phillips School District considers a balance of less than 25% to be cause for concern, barring unusual or deliberate circumstances.

If the fund balance falls below the goal, the Phillips School District Board of Education and Administration will develop an action plan that will allow the District to reach the minimum fund balance goal within three years of falling below the goal.

The action plan will include the following elements:

- a) Documentation that the District is below the minimum fund balance goal
- b) A three year plan with annual benchmarks and financial review procedures
- c) Documentation of Board authorization, action and annual reviews

Items that may be considered in an action plan:

- a) pass a resolution to hold a referendum to authorize additional tax levy above the revenue cap,
- b) develop a three-year expenditure reduction plan,
- c) or a combination of a) and b).

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the school district, and unassigned fund balance), the Phillips School District will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

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