

SAMPLE POLICY #1

SAMPLE XYZ DISTRICT

POLICY NO. 3XXX

ADOPTED: xx/xx/xx

REVISED: xx/xx/xx

SUBJECT: Fund Balance Policy

The Fund Balance Policy is intended to provide guidelines during the preparation and execution of the annual budget to ensure that sufficient reserves are maintained for unanticipated expenditures or revenue shortfalls. It also is intended to preserve flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget. The Fund Balance Policy should be established based upon a long-term perspective recognizing that stated thresholds are considered minimum balances. The main objective of establishing and maintaining a Fund Balance Policy is for the district to be in a strong fiscal position that will allow for better position to weather negative economic trends.

The Fund Balance consists of five categories: No spendable, Restricted, Committed, Assigned, and Unassigned.

- **No spendable Fund Balance** consists of funds that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.
- **Restricted Fund Balance** consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.
- **Committed Fund Balance** consists of funds that are set aside for a specific purpose by the district's highest level of decision making authority (governing board). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.
- **Assigned Fund Balance** consists of funds that are set aside with the intent to be used for a specific purpose by the district's highest level of decision making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance.
- **Unassigned Fund Balance** consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

No spendable and Restricted Funds

No spendable funds are those funds that cannot be spent because they are either:

- 1) Not in spendable form (e.g. inventories and prepaids)
- 2) Legally or contractually required to be maintained intact

It is the responsibility of the Vice President for Business Services to report all No spendable Funds appropriately in the District's Financial Statements.

Restricted funds are those funds that have constraints placed on their use either:

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- 1) Externally by creditors, grantors, contributors, or laws or regulations or other governments
- 2) By law through constitutional provisions or enabling legislation.

It is the responsibility of the Vice President for Business Services to report all Restricted Funds appropriately in the District's Financial Statements.

Classifying Fund Balance Amounts

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.

When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last; unless the governing board has provided otherwise in its commitment or assignment actions.

Authority to Commit Funds

The district's governing board has the authority to set aside funds for a specific purpose. Any funds set aside as Committed Fund Balance requires the passage of a resolution by a simple majority vote. The passage of a resolution must take place prior to June 30th of the applicable fiscal year. If the actual amount of the commitment is not available by June 30th, the resolution must state the process or formula necessary to calculate the actual amount as soon as information is available.

Stabilization Arrangement

Maintaining a Financial Stabilization Account is a necessity for sound financial management and fiscal accountability. The district's governing board has the authority to establish a Financial Stabilization Account that will be a Committed Fund Balance. A Financial Stabilization Account is established for the purpose of providing funds for an urgent event that affects the safety of the employee and student population (e.g. earthquake, wildfires, etc.). The minimum level for the Financial Stabilization Account is 5% of General Fund expenditures. The recognition of an urgent event must be established by the governing board or their designee (e.g. Superintendent). If established by the governing board's designee, the specific urgent event must be reported to the governing board at their next meeting. A budget revision must be approved by the district's governing board. In the event that the balance drops below the established minimum level, the district's governing board will develop a plan to replenish the Financial Stabilization Account balance to the established minimum level within four years.

Authority to Assign Funds

Upon passage of the Fund Balance Policy, authority is given to the district's Vice President for Business Services to assign funds for specific purposes. Any funds set aside as Assigned Fund Balance must be reported to the district's governing board at their next regular meeting. The governing board has the authority to remove or change the assignment of the funds with a simple majority vote.

The district's governing board has the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as Assigned Fund Balance requires a simple majority vote and must be recorded in the minutes. The same action is required to change or remove the assignment.

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Unassigned Fund Balance

Unassigned Fund Balance is the residual amount of Fund Balance in the General Fund. It represents the resources available for future spending. An appropriate level of Unassigned Fund Balance should be maintained in the General Fund in order to cover unexpected expenditures and revenue shortfalls.

Unassigned Fund Balance may be accessed in the event of unexpected expenditures up to the minimum established level upon approval of a budget revision by the District's governing board. In the event of projected revenue shortfalls, it is the responsibility of the Vice President for Business Services to report the projections to the district's governing board on a quarterly basis and shall be recorded in the minutes.

Any budget revision that will result in the Unassigned Fund Balance dropping below the minimum level will require the approval of 2/3 vote of the district's governing board.

The Fund Balance Policy establishes a minimum Unassigned Fund Balance equal to 8% of total General Fund expenditures. In the event that the balance drops below the established minimum level, the District's governing board will develop a plan to replenish the fund balance to the established minimum level within two years.

SAMPLE POLICY #2

POLICY AND PROCEDURES

Subject: Fund Balance for the General Fund

Effective Date

Issued Date

Resolution Number: 2011-

Approval Date:

I. PURPOSE

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the District against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Vice President for Business Services to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

II. GENERAL POLICY

Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the District is bound to honor constraints on the specific purpose for which amounts can be spent.

- Nonspendable fund balance (*inherently nonspendable*)
- Restricted fund balance (*externally enforceable limitations on use*)
- Committed fund balance (*self-imposed limitations on use*)
- Assigned fund balance (*limitation resulting from intended use*)
- Unassigned fund balance (*residual net resources*)

The first two components listed above are not addressed in this policy due to the nature of their restrictions. An example of nonspendable fund balance is inventory. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments. This policy is focused on the financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.

III. PROVISIONS

Committed Fund Balance

The Governing Board, as the District's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as a majority vote or resolution. These committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specific use through the same type of formal action taken to establish the commitment. Governing Board action to commit fund balance needs to occur within the fiscal reporting period, no later than June 30th; however, the amount can be determined subsequent to the release of the financial statements. At the time of adoption of this policy, the District does not have any reserves that meet this component of fund balance.

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Assigned Fund Balance

Amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the Vice President for Business Services for the purpose of reporting these amounts in the annual financial statements.

Unassigned Fund Balance

These are residual positive net resources of the general fund in excess of what can properly be classified in one of the other four categories. There are some reserves that do not meet the requirements of the fore mentioned components of fund balance. For financial statement reporting purposes these reserves are included in unassigned fund balance. This includes:

- **Reserve For Economic Uncertainty Reserve** – The District will maintain an economic uncertainty reserve of at least 3% of total General Fund operating expenditures (including other financing). The primary purpose of this reserve is to avoid the need for service level reductions in the event of an economic downturn causes revenues to come in lower than budget. This reserve may be increased from time to time in order to address specific anticipated revenue shortfalls (state actions, etc.).

Fund Balance Classification

The District considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

This policy is in place to provide a measure of protection for the District against unforeseen circumstances and to comply with GASB Statement No. 54. No other policy or procedure supersedes the authority and provisions of this policy.

SAMPLE POLICY #3

FUND BALANCE POLICY

A. Fund Balance Policy

The District hereby establishes and will maintain reservations of Fund Balance, as defined herein, in accordance with Governmental Accounting and Financial Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Policy shall only apply to the District's governmental funds. Fund Balance shall be composed of nonspendable, restricted, committed, assigned and unassigned amounts.

Fund Balance information is used to identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs, expand existing ones, or enhance the financial position of the District, in accordance with policies established by the Governing Board.

B. Definitions

Fund Balance – refers to the difference between assets and fund liabilities in the governmental funds balance sheet and is referred to as fund equity.

Non-Spendable Fund Balance – Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (principal of an endowment fund, for example).

Restricted Fund Balance – Amounts that can be spent only for the specific purposes stipulated by external resource providers (such as grantors), or enabling legislation. Restrictions may be changed or lifted only with the consent of the resource providers.

Committed Fund Balance – Amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision making authority. Commitments may be changed or lifted only by the Governing Board taking the same formal action that imposed the constraint originally.

Assigned Fund Balance – Amounts the District intends to use for a specific purpose.

Unassigned Fund Balance – The residual classification for the general fund and includes amounts that are not contained in the other classifications. Unassigned amounts are the portion of fund balance which is not obligated or specifically designated and is available for any purpose.

C. Classification of Fund Balance

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first.

When expenditures are incurred for purposes for which amounts in any of unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts and then unassigned amounts.

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The fund balances of the District's governmental funds include but are not limited to:

Nonspendable Fund Balance

a. Stores

The stores fund balance is established to indicate those amounts relating to inventories that are not in spendable form.

b. Prepaid and Revolving Cash

The prepaid and revolving cash fund balance is established to indicate those amounts relating to prepaids and deposits that are not in spendable form.

Restricted Fund Balance

Encumbrances

The District encumbers funds associated with a purchase order which is evidence of a contract by third party restriction.

Committed Fund Balance

The Governing Board hereby establishes the following committed fund balance:

a. Deferred Maintenance

The District has elected to continue the use of the Deferred Maintenance Fund 14 and transfer state apportionments into the fund. Expenditures are also authorized according to the five-year plan and may be made with appropriate approval.

b. Fiscal Stabilization Arrangement

A minimum reserve of 15 percent of the General Fund beginning adopted appropriations (expenditure budget) should be incrementally established and maintained for use in meeting unanticipated needs and/or emergencies.

Use of Stabilization Fund Balance. The amount shall be used only after all efforts have been exhausted to fund unanticipated needs and/or emergencies, such as would occur in the event of a natural disaster (i.e. earthquake, wildfires, etc). Once the Chief Administrative Officer or his/her designee has determined that it is necessary to draw down fund balance, written communication should be provided by the CAO to the Governing Board, explaining the nature of the unanticipated need and/or emergency and requires approval by a two-thirds vote of Governing Board. A maximum of fifty percent of the shortfall or fifty percent of the prior fiscal year ending balance in the Stabilization may be drawn, whichever is less. At no time may the balance be less than 7.5 percent of adopted annual appropriations or half of the prior fiscal year ending balance, whichever is greater. The Stabilization Fund Balance may not be used for more than two consecutive years.

Replenishment of Stabilization Fund Balance. If the reserves are drawn down below the minimum required level of 15 percent, then a budgetary plan shall be implemented to return the reserve to a minimum 15 percent level in no more than a 5 year period. The progress of replenishment should be reported in the annual budget.

Funding of Stabilization Fund Balance. Proceeds from the sale of District owned surplus property and any other funds identified in the budget will be used to increase the reserve. Interest earnings will be applied on the reserve balance each fiscal year.

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Assigned Fund Balance

a. Carry Forward

The carry forward fund balance is identified by the Vice President for Business Services (CBO) at the close of each fiscal year, subject to approval of Governing Board, and is comprised of the district and departmental/site carry forwards.

District Carry Forward – funds identified in the annual budget (and any revisions thereto) to provide for differences, if any, between budgeted revenues and expenditures.

Departmental/site carry forward – funds for which appropriations have been made in previous fiscal years that have been approved by the CBO to be carried forward to subsequent fiscal years, subject to Governing Board approval.

D. Authority to Assign

The CBO shall have authority to assign amounts of fund balance to a specific purpose; however, before expenditure, amounts must be appropriated by the Governing Board.

E. Minimum Level of Unassigned Fund Balance

The District does not currently have a formal minimum fund balance policy.

F. Annual Review and Determination of Fund Balance Reserve Amounts

Compliance with the provisions of this policy shall be reviewed, presented and discussed as part of the Unaudited Actuals Financial Reporting process and presentation to Governing Board, and the amounts of nonspendable, restricted, committed, assigned and unassigned fund balances shall be reported.

G. Additional Information, Requirements and Responsibilities

It will be the responsibility of the Chief Administrative Officer to keep this policy current and up-to-date.