



District Business & Advisory Services

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Cathy McKim, Manager-DBAS: 408-453-6588

Bulletin: 11-034

Date: March 29, 2011

To: District Fiscal Directors

From: Cathy McKim

Re: GASB54 Sample Fund Balance Policies

The Governmental Accounting Standards Board (GASB) has issued Statement 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions* which is effective for financial statements for fiscal year 2010-11. GASB Statement No. 54 will shift the focus of fund balance reporting from the availability of fund resources for budgeting to “the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent.”

The new standard establishes five components of fund balance. Because circumstances differ among governments, not every government or every governmental fund will report all of those components. With the implementation of GASB 54, fund balance classifications comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

While GASB Statement No. 54 does not change the actual amount of fund balance reported, and does not change most aspects of day-to-day accounting; however, it is important that your district establish a 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. Attached to this bulletin are some sample policies that you may use for .

Please share this information internally as appropriate.

Approved by: Nimrat Johal- Director- District Business & Advisory Services

SAMPLE XYZ SCHOOL DISTRICT

POLICY NO. 3XXX

CLASSIFICATION: Business and Non-instructional Operations

ADOPTED: xx/xx/xx

REVISED: xx/xx/xx

SUBJECT: Fund Balance Policy

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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: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

- **Nonspendable 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 be 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.

Nonspendable and Restricted Funds

Nonspendable 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 Chief Business Official to report all Nonspendable Funds appropriately in the District’s Financial Statements.

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

SAMPLE POLICY #1

- 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 Chief Business Official 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 Chief Business Official 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.

SAMPLE POLICY #1

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 Chief Business Official 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.

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.

SAMPLE POLICY #4

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.

Assigned Fund Balance

a. Carry Forward

The carry forward fund balance is identified by the Chief Business Official (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.

SAMPLE RESOLUTION #1

SAMPLE RESOLUTION TO ESTABLISH FUND BALANCE POLICIES AS REQUIRED BY GASB 54 #R _____

At a regular meeting of the _____ School District Board of Trustees held on _____, 2011, on a motion made by _____ and seconded by _____, the Board adopts the following resolution:

WHEREAS, the Governmental Accounting Standards Board (GASB) has adopted Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, that is effective in fiscal year 2010-2011, and

WHEREAS, the _____ School District wishes to comply with GASB 54 as required beginning with the current July 1, 2010 – June 30, 2011 fiscal year;

NOW THEREFORE BE IT RESOLVED that the Board of Trustees hereby adopts the following policy:

FUND BALANCE POLICY NO.

Fund balance measures the net financial resources available to finance expenditures of future periods. The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees.

Fund Balance of the District may be committed for a specific source by formal action of the Board of Trustees. Amendments or modification to the committed fund balance must also be approved by formal action of the Board of Trustees. Committed fund balance does not lapse at year-end. The formal action required to commit fund balance shall be by board resolution or majority vote.

The Board of Trustees delegates authority to assign fund balance for a specific purpose to the Chief Business Official of the District.

For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first and then unrestricted. Expenditures incurred in the unrestricted fund balances shall be reduced first from the committed fund balance, then from the assigned fund balance and lastly, the unassigned fund balance.

The Board of Trustees recognizes that good fiscal management comprises the foundational support of the entire District. To make that support as effective as possible, the Board intends to maintain a minimum fund balance of _____% of the District's general fund annual operating expenditures. If a fund balance drops below _____%, it shall be recovered at a rate of 1% minimally, each year. This policy should be revisited each year for review.

The above Resolution is adopted this _____.

Ayes:

Nays:

Abstain:
