

**FUND BALANCE****Purpose of Fund Balance**

An appropriate level of fund balance is a critical factor in the long range financial planning of a school district to assure sound financial practices and management. There is a need to maintain a cash flow to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Examples of these situations follow:

- Unexpected costs incurred by mandated, but not funded, State or Federal programs,
- Increased utility costs due to abnormal price increase or unusually cold weather,
- Greater than expected inflation,
- Unexpected decrease in Federal, State or Local revenue,
- Unexpected deficits in other operating funds (Student Nutrition Services, Transportation),
- Unexpected decrease in student enrollment.

**Definitions**

**Fund Balance** - the cumulative difference between revenues and expenditures; it approximates available resources absent significant liabilities.

**Fund Balance Classifications** - GASB 54 established five classifications for fund balance as follows:

- *Nonspendable fund balance*—amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund)
- *Restricted fund balance*—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation

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- *Committed fund balance*—amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority (Kenai Peninsula Borough School Board); to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint. School Board action to constrain resources must occur prior to fiscal year-end; however, the specific amount can be determined in the subsequent period.
- *Assigned fund balance*—amounts a government *intends* to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts are reported only in the general fund.

The five categories of fund balance place varying strengths of spending constraints on available resources in a descending order as listed. Nonspendable fund balance is the most restrictive classification and unassigned fund balance is the least restrictive.

**State of Alaska Reserve Allowances** Alaska Administrative Code 4 AAC 09.160 (not GAAP compliant) establishes that reserves in the year-end fund balance in a school's operating fund may be only in the following categories:

- (1) Encumbrances,
- (2) Inventory,
- (3) Prepaid expenses including fuel,
- (4) Retirement incentive program,
- (5) Self-insurance and
- (6) Federal impact aid received in response to the application submitted during fiscal year of the audit under 4 AAC 09.130.

Other uses of a school's balance must be listed under the unreserved portion of the fund balance as "designations".

**Policy**

Alaska Statute AS 14.17.505 establishes that a District may not accumulate in a fiscal year an unreserved portion (as defined by 4 AAC 09.130) of its year-end fund balance in its school operating fund that is greater than 10 percent of its expenditures for that fiscal year.

**Minimum ~~Unassigned~~ Fund Balance**

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The District should maintain a minimum ~~unassigned~~ fund balance in its General Fund of 3 percent of the subsequent year's budgeted expenditures and out-going transfers. Official Board approval by majority vote is required to go below 3 percent. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

- **Replenishing deficiencies** – when fund balance falls below the minimum 3 percent range, the District should replenish shortages/deficiencies using the budget strategies and timeframes described below.

The following budgetary strategies shall be utilized by the District to replenish funding deficiencies:

- The District will reduce recurring expenditures to eliminate any structural deficit or,
- The District will increase revenues or pursue other funding sources, or,
- Some combination of the two options above
- Replenishment of funds may occur over a multi-year period

Any amount in excess of 10percent will be utilized to reduce the School District request for local effort funding for the subsequent year.

When an expenditure has been duly authorized and funding to pay for the expenditure is available within multiple fund balance classifications, the funding available in the most restrictive classification will be used first.

*Legal References:*

ALASKA ADMINISTRATIVE CODE  
4 AAC 09.130 School District Audit  
4 AAC 09.160 Fund Balance

ALASKA STATUTES  
AS 14.17.505 Fund Balance in School Operating Fund