

New Century School Policy No. 714

Adopted 03.19.19

Revised: _____

714: FUND BALANCE

I. PURPOSE

The purpose of this policy is to establish a key element of the financial stability of New Century School (4240) by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the school district maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the school district's general operations.

II. GENERAL STATEMENT OF POLICY

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. The purpose of this policy is to create new fund balance classifications to allow for more useful fund balance reporting and for compliance with the reporting guidelines specified in Statement

III. DEFINITIONS

A. Fund Equity - A fund's equity is generally the difference between its assets and its liabilities.

B. Fund Balance - An accounting distinction is made between the portions of fund equity that is spendable and nonspendable.

C. 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).

D. Restricted fund balance - Reflects the same definition as restricted net assets on the government wide through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The Minnesota Department of Education (MDE) has retained balance sheet codes for statutorily required reserves, which will be titled Restricted/Reserved. This category of fund balances represents fund balances statutorily restricted for a particular use that were traditionally classified as "reserved".

E. 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. A committed fund balance cannot be a negative number.

F. 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. 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 should express intent. 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. An assigned fund balance cannot be a negative number.

G. 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. In funds other than the General Fund unassigned only used if the balance is negative, therefore, the General Fund is the only fund that will report a positive unassigned balance.

IV. CLASSIFICATION OF FUND BALANCES

Fund balances shall take one or more of the following five classifications: nonspendable, restricted, committed, assigned, and unassigned.

V. ORDER OF RESOURCE USE

If resources from one or more than one fund balance classification could be spent, it shall be spent from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

VI. COMMITTING FUND BALANCE

A majority vote of the board is required to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the board.

VII. ASSIGNING FUND BALANCE

The board of directors has authorized the District's Executive Director and Finance Committee to assign fund balance to a specific purpose as approved by this fund balance policy.

VIII. MINIMUM FUND BALANCE

The school will strive to maintain a minimum unassigned general fund balance of between 10-15% of the annual expenses.

In the event of a combined fund balance of less than 10% of annual expenses, the school administration and board of directors will take immediate financial and budgetary action to retain the minimum unassigned fund balance percentage.

IX. ANNUAL REVIEW

The board of directors will conduct an annual review of the sufficiency of the minimum unassigned general fund balance.