



KENAI PENINSULA BOROUGH SCHOOL DISTRICT

Assistant Superintendent

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TO: Board of Education

FROM: Dave Jones, Assistant Superintendent

SUBJECT: Proposed Policy BP 3470 Revision – Final Read

The following policy was reviewed by the Board Policy Committee on March 7, 2011, was again reviewed by the Board in both a Worksession and first reading at the Board Meeting on April 4, 2011, and is presented here for final approval.

At the recommendation of the Board at the Worksession, we have modified the policy as originally presented to include under the *Committed fund balance* section that the School Board is the highest level of decision-making authority. We have also added to the *Committed fund balance section* the line “School Board action to constrain resources must occur prior to fiscal year-end; however, the specific amount can be determined in the subsequent period.”

The administration recommends making the following changes to policy:

BP 3470 Fund Balance – Revised to incorporate the changes to GASB 54 regulations into our policy. GASB 54 requires the following categories of Fund Balance: nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance. Changes are required by June 30, 2011 to remain compliant with Generally Accepted Accounting Procedures (GAAP). The old Reserved, Unreserved, Designated and Undesignated categories will no longer be accepted in reference to fund balance.

FUND BALANCE

Purpose of Fund Balance

An appropriate 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

FUND BALANCE (continued)

• *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.

~~Reserved Fund Balance~~State of Alaska Reserve Allowances —portion of Fund Balance that is legally restricted to a specific use or otherwise not available for appropriation or expenditure. 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.

~~Unreserved Fund Balance~~—portion of remaining Fund Balance that is available for appropriation or expenditure. This is further separated into ~~(1) designated and (2) undesignated fund balances.~~

FUND BALANCE (continued)

~~1. **Designated Fund Balance**—portion of the Unreserved Fund Balance which reflects tentative management plans for future use of the resources for purposes described in the financial statements.~~

~~2. **Undesignated Fund Balance**—portion of the Unreserved Fund Balance which is not obligated or specifically designated and is available to be appropriated for future purposes.~~

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, ~~as defined by department regulations~~ that is greater than 10 percent of its expenditure for that fiscal year.

It is the policy of the District to maintain a General Fund **Unreserved Undesignated Unassigned** Fund Balance which does not exceed 5 percent of the prior year's General Fund expenditures. Any amount in excess of this 5 percent 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