



KENAI PENINSULA BOROUGH SCHOOL DISTRICT

Finance

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MEMORANDUM

TO: Board of Education

FROM: Melody Douglas, CFO *M Douglas*

SUBJECT: Equipment Fund – FY07 Year End

The Department of Education and Early Development informed the District that continuing to record charter school fund balance as a reservation of overall fund balance will force the District out of compliance with State Regulation 4 AAC 09.160 Fund Balance that states:

- (a) Eligible 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 the fiscal year of the audit under 4 AAC 09.130.
- (b) Other uses of a school's balance must be listed under the unreserved portion of the fund balance as "designations."

However, moving charter school fund balance from reserved fund balance to a designation of unreserved fund balance will cause the District to exceed the 10 percent limit on total designated fund balance and will force the District out of compliance with AS 14.17.505 Fund Balance in School Operating Fund that states:

- (a) A district may not accumulate in a fiscal year an unreserved portion of its year-end fund balance in its school operating fund, as defined by department regulations that is greater than 10 percent of its expenditures for that fiscal year.
- (b) The department shall review each district's annual audit under AS 14.14.050 for the preceding fiscal year to ascertain its year-end operating fund balance. The amount by which the unreserved portion of that balance exceeds the amount permitted in (a) of this section shall be deducted from the state aid that would otherwise be paid to the district in the current fiscal year.

Transferring \$1 million from the general fund to the equipment fund will keep the District in compliance with the 10 percent limitation on designated fund balance and will set aside the funds to replace the aging Konica copier fleet. These copiers were purchased through a five year financing agreement in 2001 covering approximately 100 copiers costing about \$700,000, including financing costs. The District has exercised the maintenance extension option included in the initial contract, but there are concerns over the increasing frequency of service calls. The District will need to initiate replacement of the copier fleet within the next year. Any remaining funds in the Equipment Fund after replacing the copier fleet will be used to address other District equipment needs.