



# KENAI PENINSULA BOROUGH SCHOOL DISTRICT

## Assistant Superintendent

Dave Jones

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## Memorandum

To: Members, Board of Education

From: Dave Jones, Assistant Superintendent

Date: February 18, 2010

RE: Draft BP 3470 Fund Balance Policy for the General Fund

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Please find attached a draft Fund Balance Policy for the General Fund. This represents what I understand as the direction the Board would like to move in the formulation of such a policy.

With the time constraints that exist for the adoption of this policy, we will be stream lining the process. This will be the only item for the Policy Committee meeting on Monday at 2:15 pm in Conference Room A. We will then review the draft policy at the Policy Revision Worksession, and we will present the draft policy for a First Reading at the regular board meeting.

I look forward to working with the Board on this matter.

**RESERVES 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:

- 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.

**Reserved Fund Balance** – 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 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 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 goal of the District to achieve and maintain a General Fund Unreserved Undesignated Fund Balance equal to 5 percent of expenditures. An amount in excess of 5 percent is to be considered for reservation to accumulate funding for equipment, and/or to reduce tax levy requirements.

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

~~It is understood that planning for the future is an integral component of financial management. The District is expected to have situations in which multi-year financial liabilities exist and/or there will be significant acquisitions which may be anticipated and scheduled. The Superintendent shall be responsible for ensuring the District maintains required reserves for future liabilities, and making recommendations for creating discretionary reserves when fiscally appropriate.~~