

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.

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 policy of the District to maintain a General Fund Unreserved Undesignated 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.

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.~~

KENAI PENINSULA BOROUGH SCHOOL DISTRICT
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