

**DISTRICT CODE: 714
FINANCIAL MANAGEMENT GOALS:
UNASSIGNED FUND BALANCE**

Policy reflects Minnesota statute and aligns with other District 270 policies.

I. PURPOSE

The purpose of this policy is to establish the terms and maintenance of the general fund's unassigned fund balance, to create new fund balance classifications, to allow for more useful fund balance reporting, and for compliance with the reporting guidelines specified in Statement No. 54 of the Governmental Accounting Standards Board (GASB).

II. GENERAL STATEMENT OF POLICY

An unassigned fund balance is an important unobligated cushion that allows the District to maintain financial and program stability and flexibility. An unassigned fund balance also provides a necessary cushion to cover anticipated normal operating cash flow deficits. In addition, it provides a necessary cushion for unanticipated budget revenue and expenditure variances. Since the District has little opportunity to make sufficient budget adjustments affecting a current year, the unassigned fund balance should provide a cushion to cover the possible variances during the current and subsequent budget year.

The policy of this School District is to comply with GASB Statement No. 54. To the extent a specific conflict occurs between this policy and the provisions of GASB Statement No. 54, the GASB Statement shall prevail.

III. DEFINITIONS

- A. "Assigned" fund balance amounts are comprised of unrestricted funds constrained by the School District's intent that they be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. In funds other than the general fund, the assigned fund balance represents the remaining amount that is not restricted or committed. The assigned fund balance category will cover the portion of a fund balance that reflects the School District's intended use of those resources. The action to assign a fund balance

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may be taken after the end of the fiscal year. An assigned fund balance cannot be a negative number.

- B. “Committed” fund balance amounts are comprised of unrestricted funds used for specific purposes pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action. The formal action to commit a fund balance must occur prior to fiscal year end; however, the specific amounts actually committed can be determined in the subsequent fiscal year. A committed fund balance cannot be a negative number.
- C. “Enabling legislation” means legislation that authorizes a School District to assess, levy, charge, or otherwise mandate payment of resources from external providers and includes a legally enforceable requirement that those resources be used only for the specific purposes listed in the legislation.
- D. “Fund balance” means the arithmetic difference between the assets and liabilities reported in a School District fund.
- E. “Nonspendable” fund balance amounts are comprised of funds that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. They include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, non-financial assets held for resale, or the permanent principal of endowment funds.
- F. “Restricted” fund balance amounts are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.
- G. “Unassigned” fund balance amounts are the residual amounts in the general fund not reported in any other classification. Unassigned amounts in the general fund are technically available for expenditure for any purpose. The general fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

“Unrestricted” fund balance is the amount of fund balance left after determining both nonspendable and restricted net resources. This amount can be determined by adding the committed, assigned, and unassigned fund balances.

IV. CLASSIFICATION OF FUND BALANCES

The School District must classify its fund balances in its various funds in one or more of the following five classifications: nonspendable, restricted, committed, assigned, and unassigned.

V. MINIMUM FUND BALANCE

The School District will maintain a minimum unassigned general fund balance of 6 percent of the annual budget.

The unassigned fund balance is differentiated into a “cash-flow reserve” and a “contingency reserve.”

A “cash flow reserve” threshold of 6% as a minimum unassigned fund balance must be established to ensure that the District has the time and flexibility to correct revenue and expenditure fluctuations and does not place the District in jeopardy of dropping into a negative unassigned fund balance positions. A 6% minimum “cash flow reserve” fund balance also allow the Board to minimize short-term borrowing and to reduce related interest expense.

Accordingly, the administration must plan and manage annual revenue and expenditure budgets that provide for a general fund unassigned fund balance of no less than a “cash flow reserve” of 6% of annual expenditures.

Actual amounts above 6% will be considered a “contingency reserve”. “Contingency reserves” should be used for the following specific purposes:

- to allow for the time and flexibility to correct for the revenue and expense fluctuations as noted above
- to protect the system in cases of sudden shortfalls in revenue (e.g., unforeseen shortfall in enrollment or reduction in state appropriation within the current biennium)
- to cover unanticipated expenses (e.g., one-time legal fees, major disasters, unanticipated increases in utility costs)
- to provide for extraordinary one-time investments

If the “contingency reserve “ is determined to be utilized for a specific purpose in a given budget year other than using the contingency amounts to assist with general budget fluctuations, plans for the reserve must be included in Board deliberations.

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VI. ORDER OF RESOURCE USE

If resources from more than one fund balance classification could be spent, the School District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

VII. COMMITTING FUND BALANCE

A majority vote of the School 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.

VIII. ASSIGNING FUND BALANCE

The School Board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The Board also delegates the power to assign fund balances to the following: Superintendent and Director of Business Services. Assignments so made shall be reported to the School Board on an annual basis, either separately or as part of ongoing reporting by the assigning party if other than the School Board.

An appropriation of an existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance.

IX. REVIEW

The School Board will conduct an annual review of the sufficiency of the minimum unassigned general fund balance level.

X. MONITORING AND LONG-TERM OVERSIGHT

If the fiscal planning model, at the time of preliminary budget approval, shows a general fund unassigned fund balance "cash flow reserve" that falls below 6% within the three - year planning cycle, the administration will notify the Board in writing of the need to take the appropriate financial steps to return the reserve balance to 6% in order to ensure long-term fiscal stability.

Adopted: March 2, 1989

Revised: November 2004; February 15, 2007, May 21, 2009, May 19, 2011, May 3, 2011, April 12, 2012

Reviewed: March 3, 2016

