

Fund Balances – Best Practices for Alaska School Districts

“Fund balance” is a technical term used in governmental accounting that refers to cumulative revenues in excess of cumulative expenditures for a governmental fund. ALASBO recommends that school district’s board of education adopt a policy covering fund balances. It should be tailored to the particular situation of that district. The policy should ensure that the district maintains adequate fund balances to:

- a. Provide sufficient cash flow for daily financial needs, if applicable,
- b. Secure and maintain investment grade bond ratings when applicable,
- c. Offset significant economic downturns or revenue shortfalls, and
- d. Provide funds for unforeseen expenditures related to emergencies.

Fund balance classifications depict the nature of the net resources that are reported in a governmental fund such as the general fund (also called operating fund) and other specific purpose funds. Fund balances should be classified and reported according to the Governmental Accounting Standards Board statement 54 (GASB 54). Fund balance of an individual governmental fund may include non-spendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount. GASB 54 defines each of these classifications. Special reports may be needed to report fund balances using other criteria when required by law, regulation, or local ordinance.

The fund balance policy should prioritize unrestricted fund balance use when funds have more than one classification. There is a hierarchy of fund balance classifications. When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, the district’s policy should specify that restricted amounts must be reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, the district’s policy should specify that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

When developing a desired fund balance range for its general fund, Alaskan districts must balance between meeting cash flow needs, complying with bond covenants, setting money aside for economic downturns or emergency spending, and complying with Alaska statute or municipal ordinance, if applicable. The policy should also specify that a restricted fund balance must be established and funded to comply with bond covenants when applicable.

The policy should specify a minimum unassigned fund balance for its general or operating fund. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain budget stabilization. ***The Government Finance Officers Association (GFOA) notes governments will require much higher minimum fund balances when state revenues are volatile as is currently being experienced in Alaska.*** GFOA recommends that a general purpose government maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. Each district should analyze its own needs because each district is different. The minimum is typically stated as a percentage of actual expenditures for the fiscal year then ended. The policy should also

recommend strategies to be employed when the unassigned fund balance falls below the minimum threshold.

When establishing a maximum fund balance for its general or operating fund Alaskan school districts must comply with Alaska Statute 14.17.505(a) which states:

“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.”

Alaska statute AS 14.17.505(a) uses an earlier system of classifying fund balances instead of the required GASB 54 system. The GASB 54 system no longer uses the term “unreserved” to describe fund balance. Because of this, Alaska Regulation 4 AAC 4.09.160 was modified in 2011 to clarify the calculation to be used in the 10 percent maximum fund balance calculation and reads as follows:

“(a) All money in the year-end fund balance of a district's school operating fund are subject to the 10 percent limit described in AS 14.17.505(a), except for money in the following six categories:

- (1) encumbrances;
- (2) inventory;
- (3) prepaid expenses, which may including (*sic*) fuel;
- (4) self-insurance;
- (5) federal impact aid received

(A) in response to the application for impact aid submitted in the fiscal year that immediately preceded the current fiscal year; and

(B) on or after March 1 of the current fiscal year that was awarded as a result of applications that were submitted before the application for impact aid for the current fiscal year:

(6) unexpended annual student allotment money as provided under AS 14.03.320(c).

(b) A district shall include in the report required under 4 AAC 06.121(5)(A) a schedule that identifies the amount of money in the categories listed in (a) of this section.

(c) For purposes of AS 14.17.505(a), "unreserved portion of the year-end fund balance of a school operating fund" means the portion of the fund balance remaining after the deduction of the items listed in (a) of this section.”

School districts should classify the six items excluded from the unreserved fund balance according to GASB 54.

Several municipalities have adopted ordinances that effectively cap their school district's fund balance at levels lower than is permitted by AS 14.17.505(a). A fund balance policy must comply with these ordinances.

In summary, every district should have a board policy on fund balances. Every district must analyze its own situation to establish an acceptable range of fund balance for its general or operating fund.