

NORTH PENN SCHOOL DISTRICT

School Board Policy

3620(a)

BUSINESS – GASB 54

FUND BALANCE

Purpose

The Board recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the North Penn School District and is fiscally advantageous for the North Penn School District and all stakeholders. This policy establishes goals and provides guidance concerning the desired level of year-end fund balance to be maintained by the North Penn School District.

Definitions

Fund Balance is a measurement of available financial resources. Fund balance is the difference between total assets and total liabilities in each fund.

GASB Statement 54 distinguishes fund balance classification between amounts that are considered nonspendable, and spendable amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with nonspendable, and followed by the spendable classifications with the most binding constraints, fund balance amounts will be reported in the following classifications:

Nonspendable – Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventory or prepaid amounts. The principal amount of a permanent fund is an example of an amount that is legally or contractually required to remain intact.

Restricted – Amounts with constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts limited by board policy or action. Once committed it cannot be used for any other purpose unless changed by board policy or action. (e.g., future anticipated costs). The formal Board action should occur prior to the end of the reporting period, but the amount, if any, that will be subject to the constraint, may be determined in the subsequent period.

Assigned – Amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted, nor committed. Intent should be expressed by the Board or the Executive Director or Chief Financial Officer.

Unassigned – Amounts available for consumption or not restricted in any manner.

Guidelines

Board Policy directs the following guidelines in accordance with GASB 54.

Nonspendable Fund Balance – Nonspendable fund balance shall include the portion of net assets that cannot be spent due to form or the legal or contractual requirement to remain intact. Funds designated as nonspendable will be determined by the Executive Director or the Chief Financial Officer.

Restricted Fund Balance – Restricted fund balance shall include amounts with constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws and

regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Funds designated as restricted will be determined by the Executive Director or the Chief Financial Officer.

Committed Fund Balance – Committed fund balance include funds that have been committed through Board policy or action. Board action should occur prior to the end of the reporting period, but the amount, if any, that will be subject to the constraint, may be determined in the subsequent period. Funds designated as committed will be determined by the Executive Director or the Chief Financial Officer and approved by the Board.

Assigned Fund Balance –Assigned fund balance includes funds that are constrained by the government's intent to be used for specific purposes, but are neither restricted, nor committed. Funds designated as assigned will be determined by the Executive Director or the Chief Financial Officer.

Unassigned Fund Balance – Unassigned fund balance includes amounts available for consumption or not restricted in any manner. Expenditures from unassigned fund balances may be used for any purpose at the discretion of the Executive Director or Chief Financial Officer. By definition, special purpose funds cannot carry positive unassigned fund balance. The general fund should be the only fund that reports a positive unassigned fund balance amount.

Unassigned fund balance should not fall below two months of regular general fund operating expenditures.

However, should the North Penn School District incur expenditures that exceed the amounts restricted, committed or assigned (See order of use of fund balances below) thereby causing a deficit position in any of its special purpose funds, or in the general fund, the deficit will be recorded as unassigned fund balance.

Should such a deficit occur, it will be the strategic intent of the North Penn School District to replenish the fund balance as soon as economic conditions allow through the pursuance of variations of increasing revenues and decreasing expenditures.

Unassigned fund balance shall not exceed 8% of the General Fund's current fiscal year's budgeted expenditures. If unassigned fund balance exceeds the designated percentage of expenditures as described above, the Executive Director or Chief Financial Officer will determine the commitment or assignment of the excess funds.

Use of Fund Balance

When expenditure is incurred for which both restricted and unrestricted (or for committed, assigned, or unassigned within unrestricted amounts) amounts are available, or should the North Penn School District experience an excess of expenditures over revenue for a given fiscal year, there will be no restrictions on the order of the fund balance used for disbursements. Order for the fund balances used for disbursement is at the discretion of the Executive Director or Chief Financial Officer. If expenditures incurred for a specific purpose, or within the general fund exceed the amounts in the fund that are restricted, committed and assigned, the negative residual amount should be classified as unassigned fund balance.

Delegation of Responsibility

The Executive Director or Chief Financial Officer may assign fund balance for items deemed appropriate at any time prior to the issuance of the audited financial statements for a given year. The Executive Director or Chief Financial Officer shall be responsible for the enforcement of this policy.

Policy Adopted: June 23, 2011