



**MEQUON-THIENSVILLE SCHOOL DISTRICT  
BOARD OF EDUCATION**

**EXECUTIVE SUMMARY**

<b><u>Subject:</u></b> <b>Policy Discussion – Fund Balance #6235</b>	<b><u>Category:</u></b> <input type="checkbox"/> Action <input checked="" type="checkbox"/> <b>Discussion</b> <input type="checkbox"/> Information
<b><u>Attachments:</u></b> Fund Balance Definitions Fund Balance Policy #6235 – Current Fund Balance Policy #6235 - Proposed	<b><u>Date for Consideration:</u></b> September 19, 2011

**Background**

In order to enhance how fund balance information is reported by governmental units and to improve its usefulness, the Governmental Accounting Standards Board (GASB) issued Statement No. 54 which provided new standards and definitions for reporting fund balance. Our auditors referenced this as part of their report last November.

Five new classifications for fund balance exist as detailed on the attached. In working with our auditors, we have reclassified all 2010-11 and 2011-12 balances in our financial statements earlier this year. Therefore, all budget publications have reflected recommended fund balance reclassifications. All that remains is updating board policy.

Along with the above required revisions, expansion on rationale for size and necessity of fund balance in our policy is recommended.

<b><u>Highlights:</u></b> <ul style="list-style-type: none"> <li>• New accounting standards changed the definition and classifications of fund balance.</li> <li>• Reclassifications have been reflected in district financial statements based on consultation with district auditors.</li> <li>• Board policy needs to be revised to reflect current practice on reclassifications of fund balance.</li> <li>• Board policy should be revised to include broader explanation of rationale and size of district fund balance.</li> </ul>	
<b><u>Strengths</u></b>	<b><u>Needs Improvement</u></b>
<ul style="list-style-type: none"> <li>• New fund balance classifications are more descriptive and eliminate inconsistent interpretations by governmental entities.</li> <li>• Financial statements with reclassifications provide more uniformity in reporting.</li> <li>• Broader explanations in policy as to rational for need of fund balance reserves should help maintain an appropriate and financially prudent level.</li> </ul>	

**Recommendation**

Revisions to Fund Balance Policy #6235 recommended for review at this time. Board action will be requested at the October meeting.

Submitted By: Gail Grieger, Director of Business Services	
<b>Board of Education Action:</b>	<input type="checkbox"/> <b>Approve</b> <input type="checkbox"/> <b>Reject</b> <input type="checkbox"/> <b>Research/Report Back</b>

## REPORTING FUND BALANCES UNDER GASB 54

### Nature of the change?

Historically, fund balances for governmental funds has used two main categories—reserved and unreserved. Furthermore, unreserved fund balance could optionally be further sub-classified as designated or undesignated. All of these classifications focused on fund balance from the perspective of its availability for appropriation. In other words, the nature of the fund's financial equity was determined by its ability to be appropriated.

Under GASB 54, the classification of fund balance will now be from the perspective of the underlying resources within fund balance. Simply, these new components of fund balance will identify constraints on how resources can be spent and the sources of those constraints. The new components of fund balance will be:

- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned

Each of the new components has very specific definitions and there is little, if any, direct link between the “old” components of fund balance and the new ones.

### Definitions

- **Nonspendable Fund Balance**: The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash including inventories and prepaid amounts. It may also include the long-term amount of loans and receivables, as well as property acquired for resale and the corpus (principal) of a permanent fund.
- **Restricted Fund Balance**: The restricted fund balance classification should be reported when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed Fund Balance**: The committed fund balance classification reflects specific purposes pursuant to constraints imposed by formal action of the district's highest level of decision-making authority (generally the governing board). Also, such constraints can only be removed or changed by the same form of formal action.
- **Assigned Fund Balance**: The assigned fund balance classification reflects amounts that are constrained by the government's intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint.
- **Unassigned Fund Balance**: The unassigned fund balance classification is the residual classification for the general fund only. It is also where *negative residual amounts* for all *other* governmental funds would be reported.

## FUND BALANCE

The Board of Education places the responsibility of administering the budget, once adopted, with the District Administrator. S/He shall monitor the Fund 10 fund balance and shall report the balance to the Board at the end of each budget year.

Reserved fund balances shall be reported as reserved for encumbrances, for inventories, for advance to other funds, for self-insurance, for scholarships, for long-term debt retirement (Fund 30) or for subsequent year's budget.

Designated fund balances shall be reported for working cash balance or for other purposes.

If, during the fiscal year, it appears to the District Administrator that the fund balance will be less than estimated, the District Administrator will bring forward for Board consideration recommendations that will protect the fund balances. Such recommendations shall be in accordance with requirements of the law.

# policy

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## FUND BALANCE

The Board of Education places the responsibility of administering the budget, once adopted, with the District Administrator. ~~S/He~~ **The District Administrator, in conjunction with the Director of Business Services,** shall monitor the Fund 10 fund balance and shall report the balance to the Board at the end of each budget year.

The fund balance shall be maintained at a level sufficient to:

- **avoid excessive short term borrowing for cash flow purposes thereby minimizing associated interest cost;**
- **cover unforeseen expenditure needs or unrealized revenue sources; and**
- **demonstrate financial stability to preserve or enhance its bond rating, thereby lowering debt issuance costs.**

~~Reserved fund balances shall be reported as reserved for encumbrances, for inventories, for advance to other funds, for self insurance, for scholarships, for long-term debt retirement (Fund 30) or for subsequent year's budget.~~

~~Designated fund balances shall be reported for working cash balance or for other purposes.~~

**Fund balances will be reported in the categories established by the Government Accounting Standards Board Statement 54 (GASB 54) and in consultation with District auditors and Director of Business Services. The Board will impose constraints on any funds placed in the committed and assigned classifications through consultation with the District's auditor and Director of Business Services. The Board of Education authorizes the Director of Business Services to assign funds as necessary. The applicable categories for fund balance designations are:**

**A. Nonspendable Fund Balance**

- B. Restricted Fund Balance**
- C. Committed Fund Balance**
- D. Assigned Fund Balance**
- E. Unassigned Fund Balance**

If, during the fiscal year, it appears to the District Administrator that the fund balance will be less than estimated, the District Administrator will bring forward for Board consideration recommendations that will protect the fund balances. Such recommendations shall be in accordance with requirements of the law.