

## 662.2 FUND BALANCE POLICY

The Williams Bay School District organizes the accounting systems on a “fund” basis. A fund is a separate set of accounting records, segregated for purpose of carrying on an activity. A fund is established for accountability purposes to demonstrate that financial resources are being used only for permitted purposes. A fund will have “balance sheet” accounts consisting of “assets,” “liabilities” and “fund balance,” and a series of “revenue” and “expenditure” accounts. A “fund balance” is created or increased when fund revenues exceed fund expenditures for a fiscal period. Correspondingly, a fund’s balance is decreased when fund expenditures exceed fund revenues. The balance sheet accounts identify the assets that belong to a fund, such as cash or a grant payment receivable; and what liabilities it owes, such as accounts payable to a supplier. The difference between the fund’s assets and liabilities equals the “fund balance.” A positive fund balance represents a financial resource available to finance expenditures of a following fiscal period. A deficit fund balance can only be recovered by having revenues exceed expenditures in a following fiscal period.

It is essential that the School District maintain an adequate level of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. An appropriate level of fund balance can allow the School District to: avoid excessive short-term borrowing thereby avoiding the associated interest cost, accumulate sufficient assets to make designated purchases or cover unforeseen expenditure needs of revenue shortfalls and demonstrate financial stability and therefore preserve or enhance its bond rating, thereby lowering debt issuance costs.

The minimum goal of the School Board is to have an end of year general fund balance amount sufficient that short-term borrowing for cash flow needs in the ensuing fiscal year could be minimized or avoided. Beyond the short-term cash flow needs, the School Board will also utilize the end of year fund balance to set aside sufficient assets to realize its longer-range goals and meet its unfunded financial obligations.

Use of the Fund Balance should be limited to the following:

- One-time startup expenses of new academic programs.
- The one-time cost of a capital expenditure.
- Other one-time expenditures advantageous to the long-range goals of the School District.
- Previously planned strategic uses.
- One-time unanticipated budget shortfall

The Williams Bay School District has five (5) different fund balance classifications as outlined in the Governmental Accounting Standards Board Statement 54 as follows:

**Non-spendable Fund Balance:** The non-spendable 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. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than non-spendable fund balance.

**Restricted Fund Balance:** The restricted fund balance classification should be reported as restricted when constraints placed on the use of resources are either:

Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or

Imposed by law through constitutional provisions or enabling legislation. Enabling legislation, as the term is used in this Statement, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party – such as citizens, public interest groups, or the judiciary – to use resources created by enabling legislation only for the purposes specified by the legislation.

**Committed Fund Balance:** The committed fund balance classification are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School Board and should be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the district removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

In contrast to fund balance that is restricted by enabling legislation amounts in the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the government, separate from the authorization to raise the underlying revenue. Therefore, compliance with constraints imposed by the district that commit amounts to specific purposes is not considered to be legally enforceable.

The formal action of the School Board that commits fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

**Assigned Fund Balance:** The assigned fund balance classifications are amounts that are constrained by the district's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance, except for stabilization arrangements. Intent should be expressed by (a) the School Board, or (b) the District Business Manager.

Assigned fund balance includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. By reporting amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, the district has assigned those amounts to the purposes of the respective funds. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the district itself.

An appropriation of 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. Assignments should not cause a deficit in unassigned fund balance to occur.

**Unassigned Fund Balance:** The unassigned fund balance classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

Except where the School Board expressly directs a different order of expenditure of fund balance amounts in connection with approving a specific expense or payment, fund balance resources shall be spent in the following order when various funding sources are available for a particular purpose: (1) Committed fund balances; (2) Assigned fund balances; (3) Unassigned fund balances; and (4) Restricted fund balances.

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