



**Responsible Office:** Office of Business and Financial Services

## **BOARD POLICY 3051**

### **FUND BALANCE**

#### **PURPOSE**

The Board of Trustees (Board), through this Board Policy, states its belief that a key element of the financial stability of the Washoe County School District (District) is ensuring that adequate levels of unrestricted fund balance are maintained in the General Fund, the District's main operating fund, as well as other funds. This is essential in order to mitigate current and future risks that may occur from unforeseen revenue fluctuations and/or unanticipated expenditures, and to fund all existing encumbrances. The General Fund balance also provides cash flow liquidity to fund general operations. Additionally, credit rating agencies historically have considered an agency's fund balance policy, history of use of fund balance, and policy and practice of replenishment of fund balance when assigning ratings. Thus, a well-developed and transparent strategy to replenish fund balance may reduce the cost of borrowing.

#### **DEFINITIONS**

1. "Fund balance" refers to the difference between a fund's assets and liabilities and is classified in five categories that focus on the extent to which the District is bound to honor constraints on the purpose for which amounts can be spent.
  - a. "Non-spendable fund" balance refers to amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment Fund).
  - b. "Restricted fund balance" refers to amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
  - c. "Committed fund balance" refers to amounts constrained to specific purposes by the District, using its highest level of decision-making authority (the Board). Committed amounts cannot be used for any other purpose unless the Board takes the same highest-level action to remove or change the constraint.

- d. "Assigned fund balance" refers to amounts the District intends to use for a specific purpose; intent can be expressed by the Board or by an official or body to which the Board delegates the authority.
  - e. "Unassigned fund balance" refers to amounts that are available for any purpose; these amounts are reported only in the General Fund.
2. "Unrestricted fund balance" comprises the committed, assigned, and unassigned fund balance categories.

## **POLICY**

1. Minimum Balance of General Fund. The District shall maintain an unrestricted General Fund balance of 12% of expenditures and other uses, less capital outlay, in order to meet the District's cash flow and operating needs.
2. Conditions for Use of Fund Balance.
  - a. Use of the General Fund's fund balance shall be limited to addressing unanticipated or non-recurring needs, except as noted below.
  - b. Fund balance shall not normally be used to cover recurring annual operating expenditures. The fund balance may, however, be used to allow time for the District to restructure its operations in a deliberate manner. This includes, but is not limited to, instances of a change in economic or political conditions that negatively impact the District's revenues. In this case, the Superintendent, in consultation with the Chief Financial Officer (CFO), shall make a recommendation to the Board for the prudent use of fund balance in the context of an adopted long-term plan to reach a sustainable structure.
3. Replenishment of Fund Balance
  - a. In the event the General Fund's balance drops below the target balance for the current fiscal year or is likely to not be met within the subsequent three years, the Superintendent, in consultation with the CFO, shall make a recommendation to the Board that includes the following:
    - i. The reasons for the fund balance being outside the range of this policy;
    - ii. The long-term financial plan that addresses working capital needs; and
    - iii. A plan explaining the steps that will be taken to replenish or reduce fund balance to the target levels which ideally would involve a timeframe for replenishment not to exceed three years but that

should take into consideration the severity and length of an economic slowdown, recession, or depression.

- b. In the event the General Fund's unrestricted balance exceeds the target balance, the Superintendent, in consultation with the CFO, shall make a recommendation to the Board after considering the following options:
    - i. Revising the target balance upward;
    - ii. If inflationary or other cost increases are expected in the future or projected revenues are expected to fall or flatten, such that the fund balance is expected to return to the target balance established by the Board, take no action; or
    - iii. Identification of one-time uses for any excess fund balance.
4. Spending Order of Fund Balances
- a. Fund balance classifications are representative of the nature of the net resources reported in the fund. An individual fund may be comprised of one or more classifications.
  - b. In general, when both restricted and unrestricted resources are available for expenditure to the District shall expend restricted resources, then unrestricted resources.
  - c. Government Accounting Standards Board (GASB) No. 54 expands the application of this spending order policy to the fund level for both restricted and unrestricted (committed, assigned and unassigned) resources. In instances where unrestricted funds are available for a specific intended purpose, committed resources will be expended first, then assigned resources, then unassigned resources.
5. General Fund Contingency Account
- a. A contingency account, as provided in Nevada state law, will be established for unanticipated needs. This amount will be a minimum of 1% of total appropriations (including transfers out) and shall not exceed 3% of the total appropriations (excluding transfers out) in the General Fund. The minimum appropriations will be phased in over the next two biennium, FY 2025.
6. Special Revenue Funds
- a. Non-grant special revenue funds shall maintain a minimum fund balance of 8% of expenditures and other uses in order to meet cash flow and operating needs. Exceptions include when a contradiction exists with

federal or state laws or regulations specific to a fund's purpose and for zero-balance funds in which fund transfers are processed to cover fund expenses.

- b. The ending balance of a fund may exceed 8% of expenditures and other uses depending on the following factors:
  - i. The predictability of its revenues, especially if a fund's revenues are highly concentrated, and the volatility of its expenditures;
  - ii. If there are known resource requirements, such as for significant capital improvement projects in the future that require an increase in fund balance;
  - iii. The fund's perceived exposure to significant one-time events (e.g., disasters, immediate capital needs, state budget cuts);
  - iv. Professional standards indicate that a higher ending fund balance is warranted; and
  - v. One of the fund's primary purposes is to finance future capital outlay or improvements, which requires a build-up of fund balance.
7. Debt Service Funds. In accordance with State law, the fund balance for debt service funds will be equal to the lesser of at least 25% of principal and interest payments due in the current fiscal year or 10% of the outstanding principal amount of outstanding bonds.
8. Capital Projects Funds. Capital project funds are used to track expenses associated with capital projects, rather than operating expenses. As such, there is no minimum fund balance required.
9. Proprietary Funds
  - a. Proprietary funds include enterprise funds, which are used to track operations that are financed and managed in a manner similar to private business, and internal service funds, which are used to track activities supporting other District operations and which are charged back to other funds.
  - b. As such, the basis for accounting for proprietary funds differs from governmental funds, and fund balances are not reported for proprietary funds.
  - c. It is the District's policy for proprietary funds to maintain a minimum cash position of 8% to 16% of expenditures and other uses. A fund's ending

cash position may exceed 16% based on the circumstances outlined above for special revenue funds.

10. When a fund's cash position falls below zero, the Chief Financial Officer shall work with affected operations of the District to address the reasons for the negative cash position. Through either corrective actions or an interfund loan, which requires Board approval, the fund's cash position shall be replenished within 60 days after the cash position falls below zero.
11. Because of limitations in State law concerning budgeting practices and mid-year augmentations, this policy recognizes that there may significant variations between a fund's budgeted ending fund balance and actual fund balance at fiscal year-end. Therefore, compliance with the above policy for governmental funds will be measured based on the audited ending fund balance of a fund.
12. The Superintendent shall adopt Administrative Regulations and associated documents as is necessary to accomplish the Purpose of this Policy.

#### **LEGAL REQUIREMENTS AND ASSOCIATED DOCUMENTS**

1. This Board Policy reflects the goals of the District's Strategic Plan and aligns/complies with the governing documents of the District.
2. This Board Policy complies with the Governmental Accounting Standards Board (GASB), Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions.
3. This Board Policy complies with Nevada Revised Statutes (NRS) and Nevada Administrative Code (NAC) to include:
  - a. Chapter 354, Local Financial Administration.

#### **REVISION HISTORY**

Date	Revision	Modification
6/14/2011	1.0	Adopted
11/18/2014	2.0	Revised
3/13/2018	3.0	Revised
3/30/2021	4.0	Revised: to meet policy format per BP 9070.
2/08/2022	5.0	Revised: to reflect increase in General Fund target balance.