

## **Senate Education Committee School District Fund Balance Fact versus Fiction - Testimony**

**Lon Garrison, Executive Director  
Association of Alaska School Boards.**

**April 24, 2023**

Good afternoon madam chair and members of the Senate Education Committee. My name is Lon Garrison, and I serve as the Executive Director of the Association of Alaska School Boards.

I am here today to speak to you from the perspective of school boards and their governance obligations regarding school district financial oversight, including budget spending approval. A claim last week by the administration purports to assert that Alaska School Districts have adequate fund balances and unspent COVID relief funds that could be used in lieu of an increase to the BSA. The insinuation is that school boards, as the locally elected public governing bodies responsible for the oversight of public funds, have not been transparent and forthright in their advocacy for a need to increase the BSA. Nothing could be farther from the truth.

Local school boards are governed by board policy that is adopted to implement state and federal laws and regulations concerning the operation of a public school system. The Association of Alaska School Boards provides model policies that nearly every school board has adopted and may have modified for their local circumstances.

Section 3000, Business and Noninstructional Operations, contains policies related to the financial oversight and management of the district. Here are a few of the model policies that are germane to this discussion today. They are appended to this testimony.

- BP 3000 Concepts and Roles (Board responsibilities versus administration)
- BP3100 Budget (enables the implementation of AS.14.17.900 requiring a balanced budget to be adopted and approved by DEED each year)
- BP 3300 Expenditures/Expending Authority
- BP3400 Management of District Assets/Accounts (complies with 4 AAC 06.120 and AS.14.14.050, requiring compliance with state reporting guidelines and implementing a financial audit by a third-party accounting firm.)
- BP 3460 Periodic Financial Reports (Regular financial reports must be made to the school board to keep them informed on the district's financial condition)
- BP3470 Fund Balance Classification (this policy sets out directions for Fund Balance Reporting and Governmental Fund Type Definitions)

You will hear from several school district business officials describing the complexity of school district fund balance accounting. Most important for legislators to know, like local school boards, is that many funds the district receives may be reserved or dedicated to a specific purpose. At times, reporting those fund totals can be confusing unless it is accompanied by a narrative that describes whether they are reserved, dedicated, or assigned.

These often include specific federal funds and grants, some special state funding through DEED or other state agencies, and occasionally private foundation grants or awards. Only funds accumulated over time from the general fund are considered the "unreserved fund balance."

School boards acting in their oversight role know that it is critically important that the district maintains an unreserved fund balance that provides the opportunity to maintain the cash flow to keep a district financially operating in a way that aligns with best practices. The Government Finance Officers Association (GFOA) recommends a minimum of two months of operating funds be held in reserve. AS14.17.505 stipulates that districts may not maintain an unreserved fund balance greater than 10% of their general fund budget.

In addition, nearly every school district in the state utilizes federal grant programs and, over the last two years, has utilized COVID relief funds. School boards are required to accept these grant funds and assume the legal authority and responsibility for their use and reporting. While these funds may show up as revenue through a grant award notification, they are all reimbursable grants. Districts must first expend effort, document expenses, and then apply for reimbursement. This is another critically important role in maintaining a healthy fund balance.

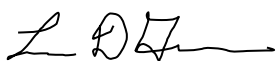
Most districts accepted the various COVID relief funds made available by the federal government. These funds were accompanied by strong guidance and stipulations on their use to help counter the adverse effects of the pandemic on learning loss, student health, safety, and welfare. One of the caveats of accepting COVID relief funds was that each state would not supplant its support of education funding. These funds were solely intended to alleviate the effects of the pandemic on student learning and safety. It is improper for the administration to suggest that "unspent" COVID relief funds be utilized to support the state's constitutional requirement to maintain its public education system.

I will wrap up this testimony by stepping back from all the technical jargon and statute and regulation references to address this issue from a common-sense perspective.

If school boards truly had vast reserves that could be used to fund the current educational programs, would it make sense that they are laying off or reducing staff, eliminating programs, increasing class size, and struggling to meet the requirements of the Alaska Reads Act? Why would districts go through the motions to close schools? Why would many contract negotiations with bargaining units end up in mediation or arbitration? The short answer is that they would spend the necessary funds to keep staff employed and better paid. They would reduce class sizes, not increase them. They would gladly keep pools open, like the pool in Seward that produced the outstanding Olympic gold medalist Lydia Jacoby. It simply does not make sense.

Asserting that school districts are sitting on millions of dollars of unspent funds is disingenuous. I urge the legislature not to be distracted by such antics and to continue to work to sufficiently fund Alaska's schools so that every student has an opportunity for an excellent education every day through an increase in the base student allocation. Senate Bill 52, currently lingering in Senate Finance, is the appropriate response to our education funding challenge.

Thank you for the opportunity to testify today.



Lon Garrison,  
Executive Director, AASB

## **BP 3000 CONCEPTS AND ROLES**

The School Board recognizes that fiscal resources and fiscal management comprise the foundational support of the entire school program. To make that support as effective as possible, the School Board intends to:

1. encourage advance planning through the best possible budget procedures
2. explore practical sources of revenue
3. guide the expenditure of funds so as to derive the greatest possible educational returns.
4. expect sound fiscal management from the administration
5. advocate a level of per student funding sufficient to provide quality education

The School Board desires to support the educational program with high standards of safety in the operation and maintenance of school facilities, equipment and services.

### **Role of The School Board**

The School Board:

1. solicits public input on educational needs and utilizes that information in making budget decisions.
2. approves and adopts the annual budget and approves budget transfers.
3. is accountable for all district funds.
4. adopts written policies governing the purchase of supplies and equipment.
5. monitors all expenditures by receiving statements and approving payments.
6. Receives and reviews the annual audit of district accounts and business procedures.
7. Provides for an insurance program which complies with law and reflects prudent financial management.
8. provides for long-range plans to acquire or dispose of sites and to add, maintain and staff new facilities.
9. advocates and secures community support for additional financing when necessary.

### **Role of Superintendent or Designee**

The Superintendent or designee:

1. prepares the detailed annual budget and presents it to the School Board for adoption.
2. administers the budget and keeps expenditures within approved limits.
3. enforces requisition and purchase order policies and regulations.
4. establishes control/inventory systems to account for district funds, supplies and equipment in accordance with law and School Board policy.
5. makes all financial reports required by law or School Board policy and prepares reports for public release.
6. analyzes the district's financial condition and presents the School Board with proposals for meeting financial needs including budget revisions.
7. provides for the annual audit of district accounts and business procedures.
8. helps the School Board to establish an adequate insurance program.
9. maintains the district's noninstructional and business operations.

## **Working Relationships of the School Board and Superintendent or Designee**

The Superintendent or designee shall recommend financial plans to the School Board in accordance with the district's mission, vision, strategic goals and objectives. The Superintendent shall recommend financial plans and options whenever district programs may be endangered by a lack of funds or when the continuation of district programs may result in an over expenditure of district funds.

The School Board desires complete information from the Superintendent or designee on all matters relating to the district's financial operations. The School Board shall closely monitor all district financial operations so that it may fully discharge its legal responsibilities with regard to school finance. The School Board will work with the Superintendent to determine the timing and format of certain financial reports, so information is useful in decision making.

*(cf. 3460 - Financial Reports and Accountability)*

*Legal Reference:*

### **ALASKA STATUTES**

[14.08.101](#) *Powers (Regional School Boards)*

[14.08.111](#) *Duties (Regional School Boards)*

[14.12.020](#) *Support, Management and Control*

[14.14.060](#) *Relationship between borough school district and borough*

[14.14.065](#) *Relationship between city school district and city*

[14.14.090](#) *Additional duties*

*Revised 10/2021*

## **AASB POLICY REFERENCE MANUAL**

**9/92**

### **AASB Policy Reference Manual**

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## BP 3100 BUDGET

Note: Pursuant to [A.S. 14.12.020](#), Regional Educational Attendance Areas are maintained by the state. Borough and city school districts are funded through local contributions authorized by the borough assembly or city council and state apportionments based on the amount of local contributions as defined in [A.S. 14.17.410](#). [A.S. 14.17.900](#) requires districts to operate under a balanced budget and provides that the state is not responsible for the debts of school districts.

The School Board shall establish and maintain a balanced budget. The School Board shall adopt an annual budget which is compatible with the district's mission, vision, strategic plan, and Board goals and objectives.

*(cf. 0200 - Goals for the School District)*

*(cf. 3460 - Financial Reports and Accountability)*

The district budget shall be prepared annually from the best possible estimates of revenues and expenditures. The Superintendent or designee shall determine the manner in which the budget shall be prepared and shall schedule the budget adoption process in accordance with legal time requirements. The Board shall take public input prior to the adoption of the budget or a revised budget. A public hearing shall be held prior to the adoption of the budget or a revised budget.

Note: The following optional paragraph provides for early public input and may be revised as desired.

Public input early in the budget preparation process is encouraged. A budget advisory committee, composed of members of the community and staff, which shall review the proposed budget at regular intervals during its preparation and shall report its findings and recommendations to the School Board, is recommended.

*(cf. 1220 - Citizen Advisory Committees)*

*Legal Reference:*

### ALASKA STATUTES

[14.07.030](#) *Powers of state department*

[14.07.170](#) *Additional powers and duties of state board*

[14.12.020](#) *Support, management and control*

[14.14.060](#) *Relationship between borough school district and borough*

[14.14.065](#) *Relationship between city school district and city*

[14.17.300 - 14.17.990](#) *Financing of public schools*

### ALASKA ADMINISTRATIVE CODE

[4 AAC 09.006 - 4 AAC 09.050](#) *State Aid*

[4 AAC 09.110 - 4 AAC 09.990](#) *School Operating Fund*

*Revised 10/2021*

## **AASB POLICY REFERENCE MANUAL**

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## BP 3300 EXPENDITURES/EXPENDING AUTHORITY

Note: The following sample policy should be revised as appropriate to reflect district philosophy and needs. [A.S. 14.14.060](#) and [14.14.065](#) provide that the borough assembly/city council, with the consent of the borough/city school district, may by ordinance delegate to the school district responsibility for a centralized treasury and/or accounting system. [A.S. 14.08.101](#) empowers regional school boards to establish their own fiscal procedures and exempts them from [A.S. 36.30](#) (State Procurement Code) and [A.S. 37.05](#) (Fiscal Procedures Act). [A.S. 14.08.111](#) requires the regional school board to designate employees authorized to direct disbursements from school funds of the School Board.

The Superintendent or designee may purchase supplies, materials and equipment in accordance with law. Prior School Board approval is required for purchases over \$ \_\_\_\_\_.

*(cf. 3310 - Purchasing Procedures)*

*(cf. 3311 - Bids )*

*(cf. 3312 - Contracts)*

*(cf. 3460 - Financial Reports and Accountability)*

Note: [A.S. 14.17.225](#) requires districts to operate under a balanced budget and provides that the state is not responsible for the debts of school districts.

The Superintendent or designee shall not authorize any proposed expenditure which exceeds the major budget classification allowance against which the expenditure is the proper charge unless an amount sufficient to cover the purchase is available in the budget for transfer.

*(cf. 3100 - Budget)*

*(cf. 3110 - Transfer of Funds )*

The School Board shall not recognize obligations incurred contrary to School Board policy and administrative regulations.

*Legal Reference:*

### ALASKA STATUTES

[14.08.101](#) Powers (Regional school boards)

[14.08.111](#) Duties (Regional school boards)

[14.14.060](#) Relationship between borough school district and borough

[14.14.065](#) Relationship between city school district and city

[14.17.190](#) Restrictions governing receipt and expenditure of money from public school foundation account

[36.30](#). State Procurement Code

[37.05](#) *Fiscal Procedures Act*

*Revised 10/2021*

**AASB POLICY REFERENCE MANUAL**

**9/92**

**AASB Policy Reference Manual**

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## BP 3400 MANAGEMENT OF DISTRICT ASSETS/ACCOUNTS

Note: [4 AAC 06.120](#) lists state adopted basic guides for public school accounting systems and the annual audit and requires that districts implement procedures consistent with these guides.

### Accounting Systems

The Superintendent or designee shall provide ongoing internal accounting controls and a means for the accounting of revenue and expenditures as outlined in the adopted budget.

(cf. 3440 - Inventories)

### Audits

Note: [A.S. 14.14.050](#) requires an audit by October 1 of each year. The School Board is not required to provide for an audit if an audit is conducted pursuant to [A.S. 29.35.110](#).

The School Board shall provide for an annual audit of all district accounts by an independent public accountant who has no personal interest in district fiscal affairs. The audit shall be conducted in accordance with the requirements of federal and state regulations.

Note: Pursuant to [A.S. 14.17.505](#), if the state department's review of the district's audit finds that the district's unreserved portion of its school operating fund year-end balance exceeds 10% of its expenditures for that year, the amount greater than 10% is deducted from state foundation aid for the current year.

### Legal Reference:

#### ALASKA STATUTES

[14.08.111](#) Duties (Regional school boards)

[14.14.050](#) Annual Audit

[14.14.060](#) Relationship between borough school district and borough

[14.14.065](#) Relationship between city school district and city

[14.17.505](#) Fund balance in school operating fund

#### ALASKA ADMINISTRATIVE CODE

[4 AAC 06.120](#) Accounting and audit manuals, charts of accounts, code descriptions

[4 AAC 06.121](#) Annual financial reporting requirements

[4 AAC 09.130](#) School district audit

[4 AAC 09.160](#) Fund balance

Revised 10/2021

### AASB POLICY REFERENCE MANUAL

**AASB Policy Reference Manual**

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## BP 3460 PERIODIC FINANCIAL REPORTS

The Superintendent or designee shall keep the School Board informed about the district's financial condition. The School Board shall assess the district's financial condition regularly to determine whether or not the district will be able to meet its financial obligations for the remainder of the fiscal year.

*(cf. 3100 - Budget)*

*(cf. 3400 - Management of District Assets/Accounts)*

Note: Pursuant to [A.S. 14.14.090](#), the School Board is required to submit a summary report and statement of money expended to the borough assembly or city council when requested, but not more than once a month.

*Legal Reference:*

### ALASKA STATUTES

[14.08.111](#) *Duties (Regional school boards)*

[14.14.090](#) *Additional duties*

[14.14.050](#) *Annual audit*

### ALASKA ADMINISTRATIVE CODE

[4 AAC 06.121](#) *Annual financial reporting requirements*

[4 AAC 09.130](#) *School district audit*

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## BP 3470 FUND BALANCE CLASSIFICATION

Note: This policy is consistent with the requirements of the Government Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The policy allows a school board to have greater control over the district's fund balances by addressing the order of spending.

Neither this policy nor GASB Statement No. 54 preclude the calculation required to be made in the Auditor's Report on Fund Balance Compliance as required by [4 AAC 06.121\(5\)\(A\)](#).

The Board desires to establish a fund balance classification policy tailored to the needs of the School District in a manner consistent with governmental accounting standards. As provided for in Governmental Accounting Standards Board (GASB) Statement No. 54, the Board identifies the order of spending unrestricted resources applying the highest level of classification of fund balance, while honoring constraints on the specific purposes for which amounts in those fund balances can be spent.

It is the responsibility of the Superintendent or designee to make recommendations to the Board regarding fund balance designations. Formal Board action is required to establish, modify, and/or rescind a committed fund balance amount.

### Fund Balance Classifications

Fund balances will be classified as follows:

- A. 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 includes items not expected to be converted to cash, including inventories, prepaid expenses, supplies, and long-term receivables, and the principal of a permanent fund.
- B. Restricted fund balance – The restricted fund balance classification is utilized when constraints (restrictions) placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or governmental laws or regulations; or, (b) imposed by law through constitutional provisions or enabling legislation. This includes “categorical balances.”
- C. Committed Fund Balance – The committed fund balance classification reflects amounts that can only be used for specific purposes determined by formal action of the Board. Commitments may be removed or changed by formal Board action. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Any remaining excess fund balance in a special revenue or capital projects fund at fiscal year end shall be a committed fund balance and designated for the intended purpose of that special revenue or capital project fund. Such fund balances shall be carried over to the ensuing fiscal year as Committed Fund Balance.
- D. Assigned Fund Balance – The assigned fund balance classification reflects amounts intended to be used by the district for specific purposes. Intent can be expressed by the Board or by the Superintendent, having been designated such authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed.
- E. Unassigned Fund Balance – The unassigned fund balance classification is the residual classification for the general fund and includes all amounts not contained in the other classifications. Positive unassigned amounts will be reported only in the general fund. If another governmental fund, other than the general fund, has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification of that fund.

## Spending Prioritization

The order of spending regarding the restricted and unrestricted fund balances, when an expenditure is incurred for which both restricted and unrestricted fund balance is available, should first reduce restricted fund balance and then unrestricted fund balance. The order of spending regarding unrestricted fund balance is that committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The Board authorizes the Superintendent to assign amounts to a specific purpose in compliance with GASB 54. An unassigned fund balance should also be reported in the order of spending unrestricted resources, but is not restricted or committed.

*Legal Reference:*

*DEED Uniform Chart of Accounts*

*Added 10/2021*

**AASB POLICY REFERENCE MANUAL**  
**9/92**

**AASB Policy Reference Manual**

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