

FUND BALANCE

It is the policy of Talbot County Public Schools to ensure the financial stability of the Board by establishing clearly defined accounting procedures for reporting and using fund balance in alignment with the Governmental Accounting Standards Board (GASB) Statement No. 54. Our policy is designed to promote sound fiscal practice as well as establish a target range for the General Fund unassigned fund balance and guidelines associated with its use.

I. Guidelines

A. Definitions:

- a. General Fund: The grouping of all financial resources related to the school system's operating accounts, except for those designated as restricted funds.
- b. Fund Balance: The excess of assets over liabilities. For funds subject to budgetary encumbrance accounting, commitments such as purchase orders and contracts are also recorded as expenditures, and adjusted as necessary to reflect the actual expenditure,
- c. Non-Spendable Fund Balance: Non-spendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. This would include items not expected to be converted to cash such as inventories, prepaid amounts, long term loans and notes receivable.
- d. Restricted Fund Balance: Amounts constrained by external parties or by law through constitutional law or legislation.
- e. Committed Fund Balance: Amounts constrained for a specific purpose by the highest level of decision making authority – the Board of Education. It requires action by the Board of Education to remove or change the constraints placed on the resources.
- f. Assigned Fund Balance: Amounts that are constrained by the school system's intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint. Formal action is not necessary to impose, remove or modify a constraint in assigned fund balance.

- g. Unassigned Fund Balance: Consists of excess funds that are not classified in the previous four categories, namely Non-Spendable, Restricted, Committed or Assigned. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls and as a funding source for the annual operating budget.

- B. Government Finance Officers Association (GFOA) recommends at a minimum that general purpose government, regardless of size, maintain unassigned budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or expenditures, i.e. 17 percent.

- C. The Board of Education maintains the general fund unassigned fund balance to address emergency funding needs and as a funding source for the annual operating budget. Sufficient reserves are a critical component of the Board's financial position and a key factor in maintaining its financial stability.

- D. The target range established for the general fund unassigned fund balance should be 5 – 17 percent of annual operating expenditures for the subsequent fiscal year as this amount provides the liquidity necessary:
 - a. to accommodate the Board's uneven cash flow
 - b. to respond to contingent liabilities
 - c. to guard against unanticipated revenue shortfalls

Unassigned amounts are available for any legal purpose.

- E. The Board maintains the committed fund balance to address one-time costs not included in the annual operating budget. There is no set target range for the committed fund balance due to the nature of the designation.

- F. The Board will spend the most restricted dollars before less restricted in the following order:
 - 1. Non-spendable (if funds become spendable)
 - 2. Restricted
 - 3. Committed
 - 4. Assigned
 - 5. Unassigned

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