

Policy Outline

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I. Policy Value Statement

The Board of Education of Howard County is responsible for ensuring the fiscal health of the Howard County Public School System (HCPSS). The general purpose of fund balance is to maintain a prudent level of financial resources to buffer the fiscal condition of the HCPSS against unanticipated circumstances, which includes revenue and expenditure volatility, so that the fiscal impacts to service delivery may be managed to the extent practicable. The Board is committed to a well-articulated fund balance policy that establishes the reasons and guidance for maintaining a fund balance amount that supports the financial health objectives of the Board. In governmental accounting, fund balance applies to governmental funds and net position applies to proprietary funds. It is the intent of the Board that the principles of sound fiscal planning and prudent stewardship of public funds apply to the managing fund balance and net position, as defined in this policy. To this extent, the fund balance policy represents the Board's plan for maintaining a prudent level of resources to manage the school system's fiscal health from unplanned circumstances and fiscal volatility balanced with consideration of efficient taxation, and it is the overarching value of this policy that the use of fund balance for recurring expenditures should be avoided, except in emergency situations.

State law prohibits a general fund from carrying a deficit as reported in the annual audit. It is the policy value of the Board that no fund has a deficit fund balance or deficit net position. The Board is committed to establishing and managing fund balance and net position taking into consideration that these resources represent the remainder of unused revenues generated through taxation from prior fiscal periods. It is the policy of the Board of Education of Howard County that fund balance be reported in the annual audit in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB).

II. Purpose

The purposes of this policy are the following:

- A. To provide guidance for the setting of an appropriate level of unassigned fund balance in the General Fund and Other Funds.
- B. To establish the circumstance for which unassigned fund balance or unrestricted net position can be used.
- C. To establish the requirement for replenishing unassigned fund balance or unrestricted net position when it does not meet the amounts established by policy.
- D. To set the expectation to balance the amount of resources maintained in fund balance and net position with efficient taxation.
- E. To ensure that fund balance is reported in a manner that promotes clear understanding of the availability and uses of fund balances consistent with the accounting standards for classifying fund balance promulgated by GASB Statement No. 54.

III. Standards

A. Classification and Reporting of Fund Balance

The fund balance in each applicable fund will be classified according to the requirements of GASB Statement No. 54 and reported in the fiscal year-end financial report. The financial statements will be classified in five components: Non-spendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance, as required by the GASB No. 54.

B. Fund Deficits

HCPSS will maintain positive fund balances and net positions in Governmental and Proprietary Funds. The Capital Project Fund is excluded from this requirement. Due to the timing of revenue and accounts receivable recognition, the Capital Projects Fund may end the fiscal year with a deficit that is subsequently resolved when revenues and funding reimbursements are received.

C. General Fund Balance

1. Target Level of Unassigned Fund Balance to be Maintained

The General Fund should maintain an unassigned fund balance amount equal to one (1) percent of General Fund total uses.

a. Use of Unassigned Fund Balance for Subsequent Year's Budget and Limitations

- i. Unassigned fund balance is an available source of funding to support the operating expenditures in the budget so long as the amount of fund balance used does not reduce the remaining unassigned fund balance below the target level of unassigned fund balance established in Section III.C.1. Meeting this standard:
 - a. Is determined on a budgetary basis through the Approved Budget by calculating the sources of funding minus the uses of funding for the budget year.
 - b. The resulting calculation should produce a projected ending unassigned fund balance that when divided by the budgeted total uses falls within the levels established by this policy.
- ii. Use of unassigned fund balance in subsequent year's budgets should be limited to non-recurring expenditures to the extent possible. However, the Board may approve use of unassigned fund balance to support recurring expenditures when the unassigned fund balance exceeds the level established in Section III.C.1.

b. Use of Unassigned Fund Balance During the Fiscal Year

Unassigned fund balance may be appropriated by the Board during the fiscal year through a supplemental appropriation approved by the Board, appropriated by the County Council, and signed by the County Executive. The supplemental appropriation must specify the uses of the unassigned fund balance. The amount of unassigned fund balance supplementally approved cannot reduce the remaining unassigned fund balance below the target level established in Section III.C.1. unless specifically approved by a motion of the Board.

c. Exceptions

The Board may, at its discretion and only under certain circumstances, authorize spending the unassigned fund balance below the minimum level. Circumstances include, but are not limited to, emergencies such as, natural disasters, health and safety needs, loss of infrastructure, significant unanticipated expenditures of a nonrecurring nature, and governmental revenue shortfalls. Any amount of unassigned fund balance used that goes below the minimum threshold established in Section III.C.1., can only be used for non-recurring expenses, such as maintenance projects, equipment replacement, or other critical one-time needs, unless otherwise approved by the Board.

d. Replenishment of Unassigned Fund Balance

If the use of unassigned fund balance causes the remaining amount of unassigned fund balance to be less than the levels set in Section III.C.1., the Board will approve a plan to replenish the unassigned fund balance in the future. The replenishment plan should address a combination of factors including but not limited to the timing and amount of additional revenues that would need to be requested from the County. The plan may be incorporated into the annual budget book or provided separately.

e. Unassigned Fund Balance Requirement When Using for Recurring Expenditures

i. Before approval of the use of unassigned fund balance to support recurring expenditures, the Board must be provided:

- a. The amount of unassigned fund balance being used to support recurring expenditures.
- b. The justification for using fund balance for recurring expenditures.
- c. A description of alternative budgetary actions that could be taken to limit the use of unassigned fund balance for recurring expenditures.
- d. The intended budgetary actions to be taken in subsequent budgets to support the amount of recurring expenditures being afforded with unassigned fund balance.
- e. A plan which will be made readily available to the public consistent with public notice requirements in advance of Board action to allow opportunity for public input.

ii. If the use of unassigned fund balance for recurring expenditures is done during the annual budgetary process, the plan may be included in the budget book or a report to the Board.

iii. If the use of unassigned fund balance for recurring expenditures is done through a supplemental appropriation of fund balance, the plan must be presented to the Board as part of the supplemental appropriation Board report.

2. Commitment of Fund Balance

The Board of Education will commit fund balance by action expressed through a motion and approval by the Board. The motion must indicate the need for the commitment and amount to be committed. The amount committed cannot exceed the amount of unassigned fund balance as reported in the most recent fiscal year-end Comprehensive Annual Financial Report unless a supplemental appropriation is approved during the fiscal year to support the committed purpose. The action committing resources in fund balance must be taken prior to the end of the fiscal

year. Funds can only be removed from the Committed Fund Balance category after motion and approval by the Board.

3. Assignment of Fund Balance

The Superintendent has the authority to assign fund balance consistent with the uses of funds in the budget. The amount of fund balance assigned cannot exceed the amount of unassigned fund balance as reported in the most recent fiscal year-end Comprehensive Annual Financial Report unless a supplemental appropriation is approved during the fiscal year to support the assigned purpose.

4. Capital Projects Fund Assigned Fund Balance

Funds appropriated for capital projects are restricted or assigned for specific capital projects. Any funds remaining unspent at the end of the fiscal year will be classified as assigned or restricted, as required by GASB Statement No. 54 standards. Capital projects funds are appropriated to specific capital projects. It is not necessary to carry surplus funds beyond the assigned fund balance.

5. Food and Nutrition Services Fund Assigned Fund Balance

Funds appropriated for the Food and Nutrition Services Fund are special revenue funds restricted to providing food and nutrition programs in schools. Any fund balance remaining at the end of the year must be carried over for use in the subsequent year.

a. Maximum Food Services Fund Balance

Per federal regulation (7 CFR 210.14), the amount of spendable fund balance cannot exceed the average of three months' operating expenditures. The three month average is determined by dividing the approved budget expenditures by 12 multiplied times 3.

b. Deficit Food Services Fund Balance

Should the fund balance be a deficit at fiscal year-end, the deficit must be cleared by funds from non-federal sources. The deficit cannot be carried into the subsequent fiscal year.

c. Excess Fund Balance

Any amount of spendable fund balance above three months' average expenditures is excess fund balance. Carrying excess fund balance for multiple year subjects HCPSS to the National School Lunch Program Corrective Action Plan for Excess Net Cash Resources. If the fund has maintained an excess fund balance over multiple years, and corrective action has not been

appropriately taken to prevent reoccurrence, a finding during an Administrative Review may be issued. To prevent a finding, HCPSS will manage fund balance not to exceed three months' average expenditures.

6. Glenelg Wastewater Treatment Plant Fund Assigned Fund Balance

Funds appropriated for the Glenelg Wastewater Treatment Plant are restricted or assigned for specific purposes. Any funds remaining unspent at the end of the fiscal year will be classified as assigned or restricted, as required by GASB Statement No. 54 standards.

7. Restricted Programs/Grants Fund Balance

Funds appropriated in the Restricted Programs/Grants Fund are by nature restricted for specific use. Any funds remaining unspent at the end of the fiscal year will be classified restricted or assigned as required by GASB Statement No. 54.

8. Health Fund (Internal Service Fund (ISF)) Net Position Unrestricted Net Position Levels

a. Unrestricted Net Position - Incurred But Not Reported Claims (IBNR)

The Health Fund should maintain sufficient unrestricted net position to cover the IBNR claims ending payable, June 30. This amount is based on the IBNR reported in the most recent Comprehensive Annual Financial Report, unless there is a justifiable basis such as a change in policy or services that necessitates the need to use an updated estimate.

b. Unrestricted Net Position- Reserve for Claims Volatility Limitations on Use
Due to the nature of health insurance costs, HCPSS should maintain an amount of unrestricted net position, above the amount considered for IBNR, no more than the average of two months claims expense.

c. Excess Unrestricted Net Position

If there is remaining unrestricted net position after consideration of the amounts needed for IBNR, that amount is considered excess resources in the Health Fund. Use of excess resources requires approval of the Board and is limited to non-recurring adjustments to the revenues or non-recurring expenditures in the Health Fund.

9. Print Services Fund (ISF) Unrestricted Net Position

The Print Services Fund requires capital assets to provide services. Sufficient unrestricted net position should be maintained and designated for the replacement

of capital assets and other life-cycle replacement costs funded over multiple fiscal years, as appropriated through the budget process.

If there is remaining unrestricted net position after consideration of the amounts needed for capital asset replacement and other life-cycle replacement costs, that amount is considered excess resources in the Print Services Fund. Through the budget process, the subsequent year's budget will adjust internal service fund charges and/or expenditures to utilize excess unrestricted net position.

10. Technology Services Fund (ISF) Unrestricted Net Position

The Technology Services Fund requires capital assets to provide services. Sufficient unrestricted net position should be maintained and designated for capital asset replacement and computer technology life-cycle replacement funded over multiple fiscal years, as appropriated through the budget process.

If there is remaining unrestricted net position after consideration of the amounts needed for capital asset replacement and computer technology life-cycle replacement, that amount is considered excess resources in the Technology Services Fund. Through the budget process, the subsequent year's budget will adjust internal service fund charges and/or expenditures to utilize excess unrestricted net position.

11. Workers Compensation Fund (ISF) Unrestricted Net Position Levels

a. Unrestricted Net Position- Incurred But Not Reported Claims (IBNR)

The Worker's Compensation Fund should maintain sufficient unrestricted net position to cover the IBNR claims ending payable, June 30. This amount is based on the IBNR reported in the most recent Comprehensive Annual Financial Report, unless there is a justifiable basis such as a change in policy or services that necessitates the need to use an updated estimate.

b. Replenishment of Unrestricted Net Position

Should the unrestricted net position of the Worker's Compensation Fund not meet the standards established, the Board will approve a plan to replenish the unrestricted net position in the future. The plan should address the timing and strategy for adjusting revenues and expenditures to replenish the net position. The plan may be incorporated into the annual budget book or provided separately.

c. Excess Unrestricted Net Position

If there is remaining unrestricted net position after consideration of the amounts needed for IBNR, that amount should be deemed excess resources in

the Worker's Compensation Fund. The subsequent year's budget will adjust internal service fund charges and/or expenditures to utilize excess unrestricted net position.

IV. Responsibilities

The Superintendent/designee will ensure compliance with the standards of this policy.

V. Delegation of Authority

The Superintendent is authorized to implement and monitor compliance with this policy.

VI. Definitions

Within the context of this policy, the following definitions apply:

- A. **Assigned Fund Balance** – The portion of the fund balance that represents resources set aside through formal action by the Board. There are two common uses of fund balance that are classified as assigned fund balance. The first common use is the amount of fund balance needed to liquidate encumbrances (purchase orders) obligated in the prior fiscal year. The second common use is any amount of existing fund balance that is appropriated as a source of funding in the subsequent year's budget with the amount not exceeding the excess of expenditures over revenues. The purpose of the assignment must be narrower than the purpose of the General Fund. Formal action is not necessary to impose, remove, or modify a constraint in Assigned Fund Balance.
- B. **Capital Projects Fund** – A fund used to budget and account for financial resources to be used for the acquisition or construction of major capital facilities.
- C. **Committed Fund Balance** – The portion of fund balance that represents resources formally committed at the highest-level of decision-making by the Board for a specific use. The action committing the resources must be taken prior to the end of the fiscal period. These amounts can be used only for the specific purposes determined by a formal action of the Board and require the same formal action to remove the constraint.
- D. **Deficit** – A negative fund balance or negative net position in either actual year-end financials or budgeted projections. A deficit differs from an operating loss which can occur any single fiscal year when expenditures exceed revenues or liabilities exceed assets for that period.
- E. **Emergency Situation** – An unplanned and unbudgeted situation causing fiscal stress such as, natural disasters, health and safety needs, loss of infrastructure, significant unanticipated expenditures of a nonrecurring nature, and/or governmental revenue shortfalls.

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- F. Enterprise Fund – A type of proprietary fund used to budget and account for business type activities that are provided primarily to persons or entities other than HCPSS on a cost reimbursement basis or fee basis.
- G. Fiscal Volatility – A broad term applying to revenue volatility and expenditure volatility. It is a conceptual term referring to the degree that the pattern of revenue and/or expenditure activity is disrupted for reasons beyond the direct control of the government.
- H. Fiscal Year – The time-period used to budget and account for the activities of the school system. The fiscal year is July 1 to June 30.
- I. Fund – A budget and accounting device used to plan, account, report, and demonstrate legal compliance that the assets (revenues) and liabilities (expenditures) are used for the specific functions, categories, and programs necessary to achieve the purposes for which the public resources were legally appropriated, which may be broad, as in a General Fund, or specific as in a Restricted Fund.
- J. Fund Balance – Amount of resources remaining in a governmental fund after the calculation of assets over liabilities, which is revenues and other sources of funding minus expenditures and other uses of funding. There is a beginning fund balance and ending fund balance. The fiscal year starts with a beginning fund balance. The change between the beginning fund balance and the ending fund balance is determined by subtracting the revenues and other sources of funding from the expenditure and other uses of funding for the fiscal year. This is called sources over uses or excess (deficit) revenue over expenditures. Beginning fund balance plus sources over uses equals ending funding balance.
- K. General Fund – A governmental fund used to budget and account for the general operating categories and programs that are not otherwise specified to be in another fund. The activities included in the General Fund constitute the core administrative and operational tasks of the government entity. The General Fund may be a user of services provided by Proprietary funds and pay charges to those funds.
- L. Governmental Fund – A class of fund used for activities that are primarily supported by taxes, grants, and other government funding sources. Types of funds classified as governmental include the General Fund, Special Revenue Funds, and Capital Project Funds. Governmental funds are focused on near-term liquidity necessary to maintain operations and the balances of spendable resources at the end of the fiscal year using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Fund balance is used to represent the net resources in a governmental fund and the unassigned fund balance is the measure of a government's net resources available for spending at the end of the fiscal year.
- M. Internal Service Fund (ISF) – A type of proprietary fund used to budget and account for goods or services that are provided to other funds on a cost reimbursement basis.

HCPSS utilizes internal services funds for employee health insurance, worker's compensation insurance, print services, and technology services.

- N. Net Position – The balance of resources in a proprietary fund calculated by summing assets and deferred outflows minus liabilities and deferred inflows. Net position is classified as net investment of capital assets, net position restricted, and net position unrestricted. The definition of each classification is provided below.
1. Net Investment in Capital Assets – The portion of net position representing investments in capital assets. Capital assets are made up of:
 - a. All capital assets regardless of form, net the accumulated depreciation, plus
 - b. Capital related deferred outflows of resources, minus
 - c. Capital related deferred inflows of resources.
 2. Net Position Restricted – The portion of net position that is substantively restricted for one of the following purposes:
 - a. Non-capital assets whose use is externally restricted by laws or regulations and external contributors and grantors; and
 - b. Liabilities for deferred inflows of resources, which are additive to net position in a future period.
 3. Net Position Unrestricted – The remaining amount of net position that is not classified as either net position restricted or net investment in capital assets. The net position unrestricted is the amount of resources available in a proprietary fund available to establish reserves for managing fiscal volatility.
- O. Proprietary Funds – Used to budget and account for activities that operate more like a business enterprise with a focus on operating income, operating expenses, cash flow, and net position. These types of funds do not rely on taxation for revenue. They charge fees for services that are provided to outside customers. Proprietary fund financial statements use the full accrual basis of accounting and the economic resources measurement focus. Net position is the measurement used to report resources at the end of the fiscal year.
- There are two types of proprietary funds: Enterprise Funds and Internal Service Funds. The HCPSS has one (1) enterprise fund and four (4) internal service funds. The enterprise fund captures the activity of the Jim Rouse Theatre. The internal service funds are: Print Services Fund, Technology Services Fund, Health Fund, and Workers' Compensation Fund.
- P. Restricted Fund Balance – The portion of fund balance where the use of resources is established external to the school system and are enforceable. These are the funds with the most restricted use placed on them and are classified as restricted fund balance, per GASB 54. Examples of external restrictions include, laws and regulations by state or

federal governments, debt covenants, or restrictions placed by contributors or grantors, with the most use constraint placed on it. Amounts that can be spent only on the specific purposes stipulated by law or by the external providers of those resources.

- Q. Restricted Programs/Grants Fund – A type of Special Revenue Fund used by the school system to account for restricted grants issued primarily by county, state, and federal governmental agencies. Fund balance is the measurement used to report resources at the end of the fiscal year.
- R. Special Revenue Fund – A type of fund used to budget, account, and report on the proceeds of specific external revenue sources that are restricted or committed to an expenditure for a specific purpose other than capital projects. HCPSS has three special revenue funds: the Restricted/Grants Fund, the Food and Nutrition Services Fund and the Glenelg Wastewater Treatment Plant Fund. Fund balance is the measurement used to report resources at the end of the fiscal year.
- S. Unassigned Fund Balance – The portion of fund balance remaining after all other parts of the fund balance have been classified into one of the other four classifications. Unassigned fund balance is the remaining surplus funds available for use by the Board. Unassigned fund balance is the portion of fund balance available to establish reserve levels for managing fiscal volatility. All funds classified as unassigned are considered spendable resources. Only the General Fund can report an unassigned fund balance.

VII. References

- A. Legal
 - Annotated Code of Maryland, Education Article, Section 5-101
 - Annotated Code of Maryland, Education Article, Section 5-114
 - 7 CFR 210.14 Resource Management
- B. Other Board Policies
 - None
- C. Relevant Data Sources
 - Howard County Public School System Annual Audited Financial Statements
 - Howard County Public School System Operating Budget
- D. Other
 - Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions

VIII. History¹

ADOPTED: March 9, 2006
REVIEWED: December 19, 2019
MODIFIED:
REVISED: February 20, 2014
January 13, 2022
EFFECTIVE: July 1, 2022

¹ Key: ***Adopted***-Original date the Board took action to approve a policy; ***Reviewed***-The date the status of a policy was assessed by the Superintendent's Standing Policy Group; ***Modified***-The date the Board took action to alter a policy that based on the recommendation of the Superintendent/designee did not require a comprehensive examination; ***Revised***-The date the Board took action on a policy that based on the recommendation of the Superintendent/designee needed a comprehensive examination; ***Effective***-The date a policy is implemented throughout the HCPSS, typically July 1 following Board action.