

ORANGE COUNTY  
BOARD OF EDUCATION

AGENDA ITEM ABSTRACT

Meeting Date: September 24, 2012

AGENDA ITEM No. 12-09-(2)-10

ACTION ITEM: (Y/N) Y

**SUBJECT:** School Districts Local Current Expense Fund Balance Policy #8011-1<sup>st</sup> Reading Approval

**INFO. CONTACT:** Donna Brinkley / Patrick Rhodes **PHONE:** 919-732-8126

**ATTACHMENTS:** 1. School Districts Local Current Expense Fund Balance Policy #8011.

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**PURPOSE:** The purpose of this agenda item is to present recommended revisions to the Board of Education for revised terminology to the district's Local Current Expense Fund Balance Policy #8011.

**BACKGROUND:** In 2011, the Governmental Accounting Standards Board (GASB) adopted new language when referring to the types of fund balance. GASB issued Statement No. 54 which established new categories for reporting fund balance and revised the definitions for governmental fund types.

Specifically, the term designated fund balance has been changed to assigned fund balance. Similarly, the term undesignated fund balance has been changed to unassigned fund balance.

**FINANCIAL IMPACT:** There is no financial impact associated with the proposed policy language changes.

**RECOMMENDATION:** The Superintendent recommends the Board of Education approve revisions to the School Districts Local Current Expense Fund Balance Policy #8011 for 1<sup>st</sup> Reading Approval.

# SCHOOL DISTRICTS CURRENT EXPENSE FUND BALANCE

Date Reviewed/Approved: 11/17/2008 Policy Number: 8011

Rescinds Policy Number:

Issued:

## 1. Guidelines

The School Budget and Fiscal Control Act (SBFCA) establishes accounting, budgetary and fiscal control guidelines for School Systems. The SBFCA is codified in G.S. Chapter 115C, Article 31, beginning at G.S. 115C-422. This act parallels the statutes established for Local Government with a few exceptions.

## 2. Definitions

- 2.1. **Total Fund Balance** – The difference between a school system’s total assets and its total liabilities at the end of the fiscal year.
- 2.2. **Fund Balance Available for Appropriation** – The sum of a school system’s assets held in cash and investments minus the sum of the school system’s liabilities and encumbrances at the end of the fiscal year as outlined in G.S. 115C-425 of the SBFCA.
- 2.3. **Designated Assigned Fund Balance** – The amount of the available fund balance that has been appropriated for the budget year through budgetary action of the School Board.
- 2.4. **Undesignated Unassigned Fund Balance** - The difference between Fund Balance Available for Appropriation and Designated Assigned Fund Balance.

## 3. Policy

- 3.1. **Fund Balance for Cash Flow Purposes** – Each school district will make a good faith effort to maintain a level of ~~undesignated~~ **unassigned** fund balance that will ensure sufficient funds are available to address its cash flow needs. The following levels are to be maintained for cash flow purposes only:
  - 3.1.1. **Chapel Hill Carrboro City Schools** - The targeted level of ~~undesignated~~ **unassigned** fund balance for cash flow purposes will be at a minimum of 5.5 percent of budgeted expenditures.
  - 3.1.2. **Orange County Schools** – The targeted level of ~~undesignated~~ **unassigned** fund balance for cash flow purposes will be at a minimum of 3 percent of budgeted expenditures.
- 3.2. **Accumulated Fund Balance Above Cash Flow Purposes** - In the event that either school district accumulates more than the percentage amounts allowed for cash flow purposes, the respective Boards of Education will develop a plan in place for spending the accumulated fund balance surplus for non-recurring purposes. The Board of Education will share that plan with the Board of County Commissioners.
- 3.3. **Fund Balance Appropriation Occurring Outside the Normal Annual Budgeting Process** – Appropriation of fund balance is a budgetary action that rests with elected bodies of each school system. It is highly desired that fund balance appropriations be limited to non-recurring expenses. Both school districts have historically appropriated fund balance as a part of their normal budgeting process, and this practice will remain until additional revenue is available to eliminate the use of fund balance. The Board of Education should note and explain significant deviations in the normal budgetary appropriation as a part of the budget narrative accompanying the recommended and adopted budgets. If the Board of Education finds it necessary to appropriate fund balance, outside the normal annual budgeting process, the Board of Education shall highlight the appropriation in their next fiscal year’s budget request.

The County Commissioners are not obligated to increase local current expense in order to fund recurring items for which the Board of Education appropriates fund balance outside of the normal budgeting process.

#### 4. ~~Undesignated~~ *Unassigned* Fund Balance

~~Undesignated~~ *Unassigned* fund balance may be allowed to accumulate above the cash flow percentages under certain circumstances. School Boards will develop a detailed plan for future use of accumulated fund balance. Boards of Education are to use ~~undesignated~~ *unassigned* fund balance to address unforeseen events or opportunities. In these instances, it is the responsibility of the Board of Commissioners to work with the School Boards to address the extraordinary issues.

#### 5. Extraordinary Emergency Needs

There may arise a time in the future when one or both school district(s) experience(s) an unforeseen extraordinary uninsured event that greatly compromises how the district(s) serve(s) children. In such instances, there may be a need for the school district(s) to use some or all of its fund balance. In such instances, the Board(s) of Education is(are) to take appropriate action to correct the problem, and following necessary budgetary action by the Board of County Commissioners, the County will reimburse the School Board(s) for the necessary expenditures.

#### 6. Policy Review

The School/County Collaboration Work Group shall review this policy every 18 months to determine if changes to the policy are necessary.