

# Shelby County Board of Education

2014

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## FUND BALANCE

### I. PURPOSE

To specify the size and composition of the District's financial reserves and identify certain requirements for replenishing any fund balance reserves utilized; and to establish a spending prioritization of fund balance in accordance with standards established by the Governmental Accounting Standards Board (GASB).

### II. SCOPE

This policy applies to all Federal, state and local governmental funds within the school district.

### III. DEFINITIONS

**Fund Balance:** Fund balance refers to the difference between assets and liabilities in the governmental funds balance sheet and is referred to as fund equity. Fund balances should be reported in the classifications noted below.

**Non-spendable Fund Balance:** Amounts that are not in a spendable form such as inventory, prepaid amounts and the long-term amounts of loans and notes receivable, or are legally or contractually required to be maintained intact (e.g. principal of an endowment fund).

**Restricted Fund Balance:** Amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling legislation. Restrictions may be changed or lifted only with the consent of the resource provider.

**Committed Fund Balance:** Amounts that can be used only for the specific purposes determined by a formal action of the Shelby County Board of Education, the District's highest level of decision making authority. Commitments may be

changed or lifted only by the Shelby County Board of Education taking the same formal action that imposed the constraint.

**Assigned Fund Balance:** Amounts that the District intends to use for a specific purpose, but are not restricted or committed. The intent shall be expressed by resolution of the Shelby County Board of Education or official to which the Board has delegated the authority, such as the Superintendent or his designee (e.g. legal contingencies).

**Unassigned Fund Balance:** The residual classification for the general fund and general purpose school fund. It includes amounts that are not contained in the other classifications. Unassigned amounts are the portion of fund balance that is not obligated or specifically designated and is available for any purpose.

#### **IV. POLICY STATEMENT**

##### **A. Maintaining a Fund Balance**

Shelby County Schools believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain a General Fund Balance sufficient to fund all cash flows of the District, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, and to provide funds for all existing encumbrances.

In order to maintain and protect the long term financial capacity of Shelby County Schools, total Fund Balance and reserves in the General Fund will be maintained at a level not less than required by Tennessee Code Annotated (TCA) 49-3-352. Should the Fund Balance amount fall below the required level, the Board must approve and adopt a plan to restore this balance to the required level within 24 months. If restoration of the reserve cannot be accomplished within such period without severe hardship to the District, the Board will establish a different time period.

##### **B. Order of Expenditure of Funds**

In accordance with GASB 54, when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available, it shall be the policy of the District to generally consider

restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the District that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts. In both instances when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

### **C. General Fund**

Fund Balance Assignment must occur before June 30 each fiscal year.

## **V. RESPONSIBILITY**

- A.** The Chief Finance Officer is responsible for monitoring the General Fund Balance in accordance with this policy.
- B.** The Superintendent is responsible for ensuring that this policy is followed.

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#### **Legal References:**

- 1. TCA 49-3-352
- 2. Governmental Accounting Standards Board, "Statement No. 54" (February 2009)
- 3. Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting, National Advisory Council on State and Local Budgeting

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#### **Cross References:**