

OPERATING FUND BALANCE

The Alexandria City School Board is responsible for ensuring the long-term fiscal health of Alexandria City Public Schools. Fund balance, also referred to as reserves, is an important measure of financial stability. It is essential that ACPS maintain adequate levels of unrestricted fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and other extraordinary circumstances.

By setting the following guidelines regarding the levels and appropriate uses of fund balance, the School Board demonstrates its stewardship of financial resources and commitment to transparent and responsible financial management. This policy will ensure that ACPS maintains adequate fund balances and reserves in order to:

- a. Offset the impact of significant economic downturns or revenue shortfalls,
- b. Provide funds for unforeseen emergency expenditures, and
- c. Smooth the expenditure volatility characteristic of expensive one-time purchases.

Operating Fund Balance

The Governmental Accounting Standards Board (GASB) instituted a new standard, GASB No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, effective for fiscal years beginning after June 15, 2010. The standard divides fund balance into five components for governmental funds as defined below:

I. Non-spendable fund balance – Portion of fund balance that 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 (such as prepaid items);

II. Restricted fund balance – Portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation;

III. Committed fund balance – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal actions of the highest level of decision making authority, the School Board. A majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment;

IV. Assigned fund balance – Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The assignment of funds can be established by the officials designated for that purpose with no formal action required by the School Board. Authority has been delegated to the Chief Financial Officer and Director of Accounting, as adopted by the School Board on June 9, 2011; and

V. Unassigned fund balance – Residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

ACPS Fund Balance Policy Framework

A. Operating Fund Balance

The Alexandria City School Board shall maintain a minimum unrestricted Operating Fund balance of 3 percent of the current fiscal year's original Operating Fund expenditure budget, with a maximum of 5 percent, exclusive of the amount reserved for encumbrances, calculated as of June 30 each fiscal year upon completion of the annual financial audit. Unrestricted fund balance consists of committed, assigned, and unassigned fund balances as previously defined. Operating Fund Balance may be committed and used as follows:

1. Subsequent Years' Operating Budgets

The Alexandria City School Board may utilize fund balance to support the Operating Budget each year. The amount used for this purpose may not exceed 2 percent of the Operating Fund expenditure budget. Based on historical experience, total spending is usually within 98 percent of the budget and therefore up to 2 percent of the budget is typically anticipated as budget savings. As a result, fund balance may be used to support the subsequent year's operating budget within this limit. This may result at the close of any fiscal year in up to 2 percent being already reserved and budgeted for the current fiscal year, and another up to 2 percent amount reserved for the immediate next (subsequent) fiscal year.

2. School Board Reserves

The Alexandria City School Board may also reserve available Operating Fund Balance for circumstances including, but not limited to, natural disasters and other unforeseen emergencies, significant unanticipated expenditures of a nonrecurring nature, and unforeseen governmental revenue shortfalls. The commitment or assignment for School Board Reserves should be made during the annual budget process based on the availability of funds and may not exceed 1% of the upcoming Final Operating Budget.

B. Spending Exceptions

The Alexandria City School Board may, at its discretion and only under certain circumstances, authorize spending the unrestricted Operating Fund balance down below 3 percent. Circumstances include, but are not limited to, natural disasters and other unforeseen emergencies, significant unanticipated expenditures of a nonrecurring nature, and unforeseen governmental revenue shortfalls.

C. Replenishment Requirements

In the event the Alexandria City School Board authorizes an Operating Fund Balance spending exception, such use of Operating Fund Balance must be accompanied by a plan to replenish the minimum unrestricted fund balance within three fiscal years following the fiscal year within

which the event occurred. The School Board shall replenish the deficiency with revenue received and/or a reduction of expenditures.

D. Appropriation of Fund Balance

The appropriation of Operating Fund Balance for the School Board is scheduled for City Council consideration each year in June, and is contained within the City's Proposed Appropriation Ordinance for the upcoming fiscal year. This appropriation action occurs subsequent to the adoption of the City's Approved General Fund Budget in May of each year.

E. Prioritization of Fund Balance Use by Classification

When expenditures are incurred for purposes in which both restricted and unrestricted funds are available, it shall be the policy of ACPS to use restricted funds first, provided the expenditure meets the terms of the restriction. When an expenditure is incurred for purposes in which any of the unrestricted fund balance classifications could be used, it shall be the policy of ACPS that committed funds be used first, followed by assigned funds and then unassigned funds.

F. Excess Operating Fund Balance

Should the unrestricted fund balance of the Operating Fund exceed 5 percent of the current year's Final Operating Budget as determined by December 30 of each year, ACPS will consider such fund balance as excess and available to support one-time, school-related capital projects or major equipment/ vehicle replacement. Funds may also be used to address any other urgent unforeseen matters at the discretion of the School Board.

G. Policy Review and Procedures

The Superintendent may establish standards and procedures necessary for the implementation of this policy which shall be reviewed at least annually.

Adopted: TBD

Legal Ref.: Code of Virginia, 1950, as amended, §§22.1-78, 22.1-89, 22.1-92, 22.1-93, 22.1-94

Cross ref.: DA Management of Funds
DB Annual Budget
DI Financial Accounting and Reporting