



Administration and Finance

Policy No: 1304

Policy Name:

Use of State-Supported and Auxiliary Enterprises Unit Fund Balance

Effective Date:
January 1, 1996

Policy:

1. A positive fund balance must be maintained for each school and each major campus unit.
2. Although there is no specified limit on the amount of fund balance each school or unit may retain at the end of a fiscal year, generally all schools and units are encouraged to maintain state-supported balances that do not exceed five percent of the amount in the annual budget, after deducting what is needed to cover prior-year encumbrances. This should only be considered a general guideline; certain operating conditions may require some deviation from the five-percent level.
3. A positive fund balance may be programmed into the working budget but should be limited to covering one-time expenditures or prior-year encumbrances. There is no need to program the funds in the working budget if there is no intention to expend them during that fiscal year.
4. Any school or major unit incurring a cumulative negative fund balance in its state supported and/or auxiliary operations will be contacted by the Office of Budget and Financial Analysis and required to submit a plan to cover the deficit.

Revision Date:
N/A

Approved by:
John E. Geiman
Associate Vice President for
Administration and Finance

Approval Date:
January 1, 1996

Definitions and Terms:

N/A

Refer Questions to:
Director, Financial Services
410-706-7776

Purpose:

To specify the policies and procedures relating to the management and use of state-supported and auxiliary enterprises unit fund balance or prior-year funds.

USM Board of Regent's
Policy Reference:
N/A

Scope:

The terms "Fund Balance" and "Prior-Years Funds" are synonymous and may be used interchangeably. The fund balance represents the amount of funds remaining in any major unit's or school's accounts at the close of the fiscal year. The fund balance is a cumulative total. Even though one year's experience may produce a negative impact, it is the cumulative total which is tracked for financial accountability purposes.

A positive fund balance occurs when: (a) actual expenditures are less than those budgeted, (b) revenues are greater than those budgeted, or (c) a combination of lower expenditures and increased revenue occurs. A negative fund balance occurs when: (a) expenditures exceed the budget, (b) revenues are less than budgeted, or (c) some combination of the two.

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Restrictions and Exclusions:

Fund balance should not be used for salaries or other long-term obligations, since these funds will eventually be depleted.

Responsibilities:

1. Working Budget: A school or campus unit may program prior-year funds into the working budget during the working budget preparation process. Send a letter to the Director of Budget and Financial Analysis stating the amount of fund balance to be programmed in, the expenditure subcodes, and the reason for using the fund balance.
2. Budget Amendment: After the completion of the working budget process, a school or campus unit wishing to program a fund balance into its current-year operations must prepare a budget amendment. (Reference policy number 1303: "Budget Amendment" for complete details on budget amendments.)

Related / Impacted Policies:

N/A