

HCPS Fund Balance FAQ

FEBRUARY 2025



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What is the HCPS Fund Balance?

\$26,288,896: At the end of FY24, the HCPS **unassigned fund balance** (budgetary basis) was \$26 million. The unassigned fund balance is the most readily available category for general use one-time expenses. It serves as a reserve for emergencies and financial stewardship.

I heard that HCPS has an \$82 million fund balance, why is that different than what you are reporting?

The HCPS usable \$26 million unassigned fund balance is different than the HCPS financial statement fund balance using Generally Accepted Accounting Principles (GAAP), which was \$82,597,413 million at the end of FY24. The GAAP basis amount includes funds that HCPS **cannot access** for general use such as purchase orders, FY25 expenditures, student activity funds collected by schools, and other contractual needs.

What are the different fund balance designations required by the Government Accounting Standards Board (GASB)?

The different fund balance designations are:

- **Nonspendable:** These are amounts that cannot be spent because they are either not in spendable form (e.g., inventories or prepaid items) or legally or contractually required to be maintained intact (e.g., the principal of a permanent fund).
- **Restricted:** These amounts can only be spent for specific purposes stipulated by external resource providers (e.g., grant providers), constitutionally, or through enabling legislation
- **Committed:** These amounts can only be used for specific purposes determined by a formal action of the government's highest level of decision-making authority (e.g., a school board resolution). Commitments can only be changed or removed by taking the same formal action that imposed the constraint. Note for the Committed Funds: School systems need to keep at least 10% of our total health care premiums in our Health Insurance Rate Stabilization Fund.
- **Assigned:** These amounts are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed
- **Unassigned:** This is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes

What are the best practices for using fund balance, and what does the Government Finance Officers Association (GFOA) recommend?

LEAs should avoid using fund balance to fund recurring operating expenses. Doing so could exacerbate recurring deficits and inhibit the ability of LEA's to respond to unanticipated expenses. The GFOA recommends that governments, including school districts, maintain an unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures, which is roughly equivalent to about 16.7% of annual operating expenditures. For HCPS this would be \$109 million reserve, but we had \$26 million at the end of FY24, which would not cover one month of expenses.

How did HCPS use the fund balance in FY25, and what was the impact to the district?

HCPS used \$30 million from its fund balance in FY25 to prevent staff reductions. While this avoided immediate cuts, it created a structural budget deficit. This deficit, combined with rising costs, resulted in an estimated need for an additional \$60 million to maintain current service levels in FY26. **To address this shortfall and to continue to meet the requirements of the Blueprint for Maryland's Future, HCPS plans to use \$10 million from its fund balance and implement \$15 million in staff reductions for FY26.** These measures are designed to position the district to request local funding more in line with the anticipated county revenues in upcoming years.