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Chapter: Facilities

Modification No. 001

Subject: **Maintenance of Unreserved Fund Balance**

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I. Fund Balance Policy Philosophy

It is the College's policy to maintain unreserved fund balances at a level sufficient for financial liquidity to meet normal operating and contingency obligations, temporary financing of unforeseen needs of an emergency nature, adverse changes to the economic environment and to facilitate the orderly adjustment to changes resulting from possible declines in revenue sources. This fund balance policy is intended to provide for unanticipated expenditures or revenue shortfalls of a non-recurring nature. Recurring problems will require long-term solutions, which reflect a basic reconsideration of revenue streams and expenditure levels.

II. Policy Statement

In order to protect the financial stability and integrity of Montgomery College, to provide sufficient liquidity required for daily operations and to address unplanned needs, the College shall maintain the following unreserved fund balances: the Operating Fund unreserved fund balance shall be 2 ½ % of operating expenditures; the Auxiliary Enterprise fund shall maintain an unreserved fund balance of 25% of operating expenditures; the Workforce Development & Continuing Education fund shall maintain an unreserved fund balance of 25% of operating expenditures; the Cable TV fund shall maintain an unreserved fund balance of 5% of operating expenditures; and the Emergency plant maintenance unreserved fund balance should be at least one percent (1%) of the replacement value of the College's physical plant (excluding equipment).

Since the expectation of the Auxiliary Enterprise and the Workforce Development & Continuing Education operations are expected to operate on a self sufficient basis, both should maintain unreserved fund balances of at least 25% of operating expenditures as stated above. Uses of the unreserved fund balance for both units include, but are not limited to, offsetting possible revenue shortfalls, providing for new or replacement technology and equipment needs, and funding of research and development projects and new initiatives.

Research indicates that the College should maintain an unappropriated operating fund balance of at least 5%. However, the Montgomery County "Budget Guidelines" for the College permit the College to maintain sufficient fund balance (reserved) to support the College's budget funding for the next two years. Therefore, an unreserved fund balance of 2½ % of operating expenditures, as stated above, should be sufficient.

Any use or appropriation of these unreserved fund balances will require approval of the Montgomery College Board of Trustees and adherence to the Montgomery County Council's appropriation authority.

III. Phase in Requirement

Since the establishment of such unreserved fund balances could present a significant financial burden for some of the recommended funds to accomplish immediately, the College will achieve compliance with this policy by reserving a minimum of 25% of the unappropriated surplus annually until the required unreserved fund balance is

established. However, once the proper level is reached, the balance shall be maintained at the approved level. Progress toward achieving each fund goal will be assessed at the end of the fiscal year.

IV. Policy Review Cycle

The College administration shall review this policy at least every three years to assure that it is appropriate and is meeting all the stated objectives. If there are changes to the College's policy objectives, substantial changes in revenues or expenditures or fundamental changes in the institutional mission, goals and objectives, the policy may be modified by the Board of Trustees at that time.

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Board Approval: July 9, 2001.

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I. Introduction

Fund balance is the difference between the value of a fund's assets and the value of the liabilities within a fund or fund group. Fund balance is not the cash balance, nor is it the difference between revenues and expenditures in a given year. It is, however, the cumulative difference of all revenues and expenditures since the existence of the institution or fund.

Montgomery College's Board of Trustees recognizes the enterprise nature of higher education institutions and understands that the maintenance of unreserved fund balances will provide the institution with the opportunity to manage its resources more effectively.

The practice of establishing and maintaining unreserved fund balances makes good business and operational sense. Unreserved fund balances serve to 1) guard against unanticipated revenue shortfalls and 2) minimize the impact on the operation of the College when revenue shortfalls or unexpected significant expenses occur. Examples of such an activity are the sudden revenue reduction which occurred with the loss of State Aid in FY91 or when enrollment proves to be lower than the budget was predicated. Maintaining unreserved fund balances will guard against these unanticipated significant actions and provide a mechanism for better financial management throughout the fiscal year.

An adequate level of unreserved fund balance also indicates fiscal stability which is an important factor considered by credit rating agencies in the evaluation of the credit worthiness of institutions.

II. Institutional Procedures

A. Operating Fund

The operating fund supports the primary activities of the institution. The College offers multi-campus diversified post-secondary career and transfer education programs, career training and support services to the residents, businesses and other organizations within Montgomery County. The operating fund provides for the majority of the credit course offerings of the institution. Primary funding sources are County support, State support, student tuition and fees, and interest income. The unreserved fund balance in the operating fund should be sufficient to:

1. Fund contingencies or emergencies as defined by the College.
2. Permit the College to plan for major expenditures that may require more funds than would be available for the specific purpose in a single year.

It is expected that the College will maintain an unreserved operating fund balance of 2.5% of operating expenditures. A three to four year strategy should be developed to increase the fund balance up to the 2.5% level. The progress

toward reaching the unreserved fund balance goal will be assessed annually at the close of the fiscal year.

B. Workforce Development & Continuing Education Fund

The Workforce Development & Continuing Education fund is a self-supporting fund which administers credit and non-credit offerings. The non-credit program includes courses, activities, and programs of a post-secondary nature as well as youth programs which are non-traditional in structure and are responsive to community needs. Primary funding sources are tuition and fee revenues, State support, and interest income.

The unreserved fund balance in the Workforce Development & Continuing Education Fund should be sufficient to:

1. defray unanticipated emergency expenditures
2. fund equipment replacement through a designation each year of an appropriate percent of the current replacement value that is related to the useful life of the unit's equipment
3. fund research and development projects
4. fund a percentage of the annual operating budget as a contingency to provide fiscal stability in the event of unfavorable economic conditions

It is anticipated that an acceptable level of unreserved fund balance should be 25% of the Workforce Development & Continuing Education operating expenditures. The fund balance in this unit may vary significantly dependent on the annual funding requirements of the unit.

C. Auxiliary Enterprises Fund

An auxiliary enterprise is an activity that exists predominantly to furnish goods or services to students, faculty, staff and the community which charges a fee or service charge related to the cost of the goods or services. These activities are operated and administered as self-supporting, centralized units of the College. In general, the services include: bookstores, cafeterias, snack bars, vending machines, recreation centers, child care centers, rental of College facilities and rental of the Performing Arts Center. Primary funding sources are fees for services, retail sales revenue, interest, and rental revenue.

The unreserved fund balance in auxiliary enterprises should be sufficient to:

1. Fund equipment replacement through a designation each year of an appropriate percent of the current replacement value that is related to the useful life of the equipment;
2. fund research and development projects;

3. fund a percentage of the annual operating budget as a contingency to provide fiscal stability in the event of unfavorable economic conditions.

It is anticipated that an acceptable level of unreserved fund balance should be 25% of the Auxiliary Enterprises' operating expenditures. Fund balances in this operation may also vary significantly dependent on the annual funding requirement of this unit.

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Administrative Approval: July 9, 2001.