**Frequently Asked Questions**

**Use of Fund Balance and Maintenance of Effort (MOE)**

**When may the fund balance be budgeted by the LEA?**

TCA 49-3-352 provides that “Any accumulated fund balance in excess of three percent (3%) of the budgeted annual operating expenses for the current fiscal year may be budgeted and expended for any education purposes, but must be recommended by the Board of Education prior to appropriation by the local legislative body.” This portion of the statute refers only to the ability of the LEA to **budget** a portion of the fund balance.

**What is the appropriate use of the fund balance?**

TCA 49-3-352 states that the fund balance “shall be available to offset shortfalls of budgeted revenues or, subject to 49-2-301(b)(1)(W), shall be available to meet unforeseen increases in operating expenses”. Subject to the approval of the Board of Education, the State Department of Education and, in most cases, the local funding agent, the fund balance may decrease below 3% in the event of unforeseen events. This provision should only be cited for truly unforeseen or emergency purposes.

**Can the fund balance be used to meet the Maintenance of Effort test of the Department of Education?**

The fund balance is not a part of the Maintenance of Effort test. MOE compares budgeted local revenue for the current year to budgeted local revenue, as amended, for the prior year. The local funding agency is required to fund at least the same amount as the prior year, **except** in cases of declining enrollment. In the case of declining enrollment, the budgeted per pupil amount from the current year is compared to that of the prior year, as amended, and must be the same or greater for the current year. Budgeting any or all of the allowable portion of the fund balance does not relieve the funding body of its maintenance of effort requirement.

**How is the BEP Reserve treated under GASB 54?**

The BEP Reserve will be considered a restricted balance, in accordance with TCA 49-2-203 which states “No LEA shall submit a budget to the local legislative body that directly or indirectly supplants or proposes to use state funds to supplant any local current operation funds, excluding capital outlay and debt service.” Although not explicit in the law, it is implicit that the under-collection of local revenues results in a supplanting of state funds. For this reason, the BEP reserve will be considered to be restricted.

**How may the BEP Reserve be expended?**

The BEP Reserve may only be expended on non-recurring expenditures, such as capital outlay. It may not be used to meet ordinary operating expenses. If not fully expended following year, the remaining amount will be carried forward, still as a restricted balance.