

Fund Balance: Then and Now, Looking Forward

A fundamental look at the General Fund net position and how it impacts operations and financial security.

Topics

Fund balance:

- Background
 - ✓ Brief description of a governmental fund balance.
- District Position
 - ✓ A historical data and analytical perspective on the District's fund balance.
- Recommendation
 - ✓ Planning for the future to endure financial turbulence and unplanned circumstances.

Background

Creating context around a complex concept

Fund Balance

There is probably no single item in a typical state or local government's financial statements that attracts more attention than fund balance.

Stability and Confidence

Fund Balance – *What is it?*

In the context of financial reporting:

The term “fund balance” is used to describe the net position of governmental funds calculated in accordance with Generally Accepted Accounting Principles (GAAP)

In the context of budgeting:

Budget professionals commonly use this same term to describe the net position of governmental funds calculated on a government’s budgetary basis.

The term “Fund Balance” is used to illustrate the arithmetic difference between the assets and liabilities reported in a governmental fund (e.g., general fund). This balance is carried over from reporting period to reporting period and serves as a foundation for financial activity.

Financial Statement - Balance Sheet Framework

Assets

Cash, cash equivalents, investments, accounts receivable, stock inventory, supplies

Minus

Liabilities

Accounts payable, unearned revenue, salaries and benefits payable

Equals

Equity (Fund Balance)

Residual balances categorized by source and program

Categories of Fund Balance

Non-Spendable

Legal or contractual provisions require that they be maintained intact.

Restricted

Encompass net fund resources subject to externally enforceable legal restrictions.

Committed

Resources whose use is constrained by limitations that the government imposes upon itself.

Assigned

Covers the portion of fund balance that reflects a government's intended use of resources.

Unassigned

Net resources in excess of what is properly categorized in one of the four categories already described.

State of Washington School District Fund Balance Illustration

REPORT F196

Renton School District No. 403

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Balance Sheet

COUNTY: 17 King

Governmental Funds

August 31, 2019

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
FUND BALANCE:							
Nonspendable Fund Balance	1,387,987.64	47,979.36	0.00	0.00	0.00	0.00	1,435,967.00
Restricted Fund Balance	2,203,235.55	1,071,925.34	16,258,317.78	3,709,352.23	1,132,185.20	0.00	24,375,016.10
Committed Fund Balance	0.00	0.00	0.00	1,563,204.25	0.00	0.00	1,563,204.25
Assigned Fund Balance	12,871,594.11	0.00	0.00	10,558,440.35	0.00	0.00	23,430,034.46
Unassigned Fund Balance	12,286,955.02	0.00	0.00	0.00	0.00	0.00	12,286,955.02
TOTAL FUND BALANCE	28,749,772.32	1,119,904.70	16,258,317.78	15,830,996.83	1,132,185.20	0.00	63,091,176.83

District Position

A historical data and analytical perspective on the District's fund balance.

Looking Forward Focal Points

\$262,434,386

General Fund Revenue Budget (No Capacity)

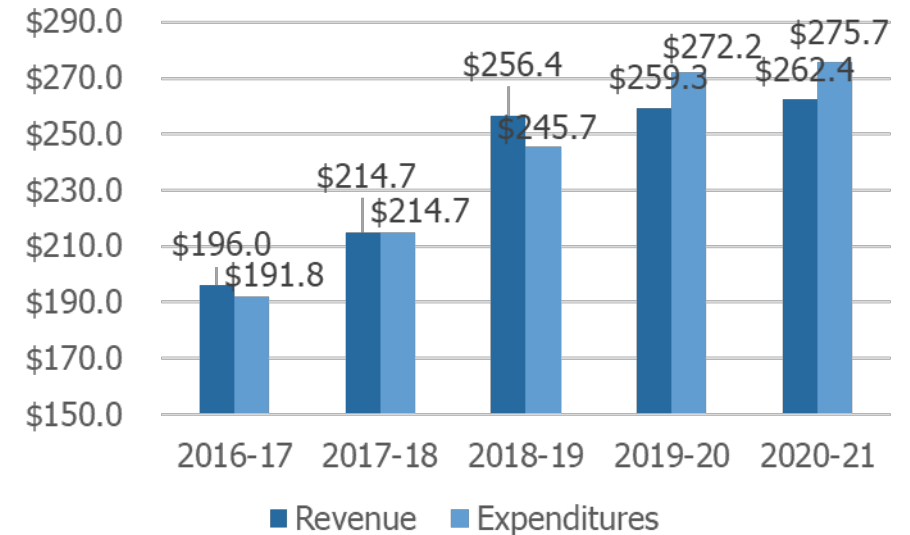
\$275,716,754

General Fund Projected Expenditures (Without Structural Changes)

\$13,282,368

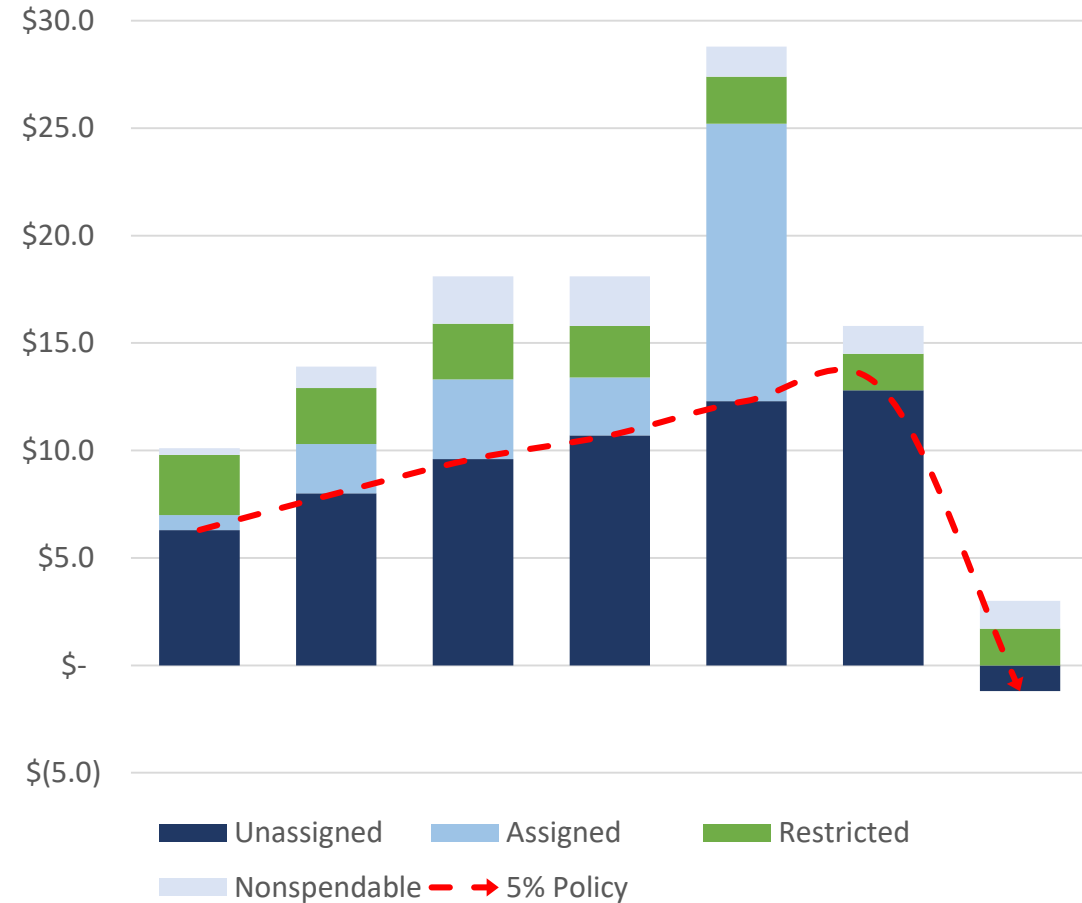
Projected Budget Deficit

For fiscal year 2020-21, the District forecast an annual budget imbalance of \$13.3 million, 4.8%.



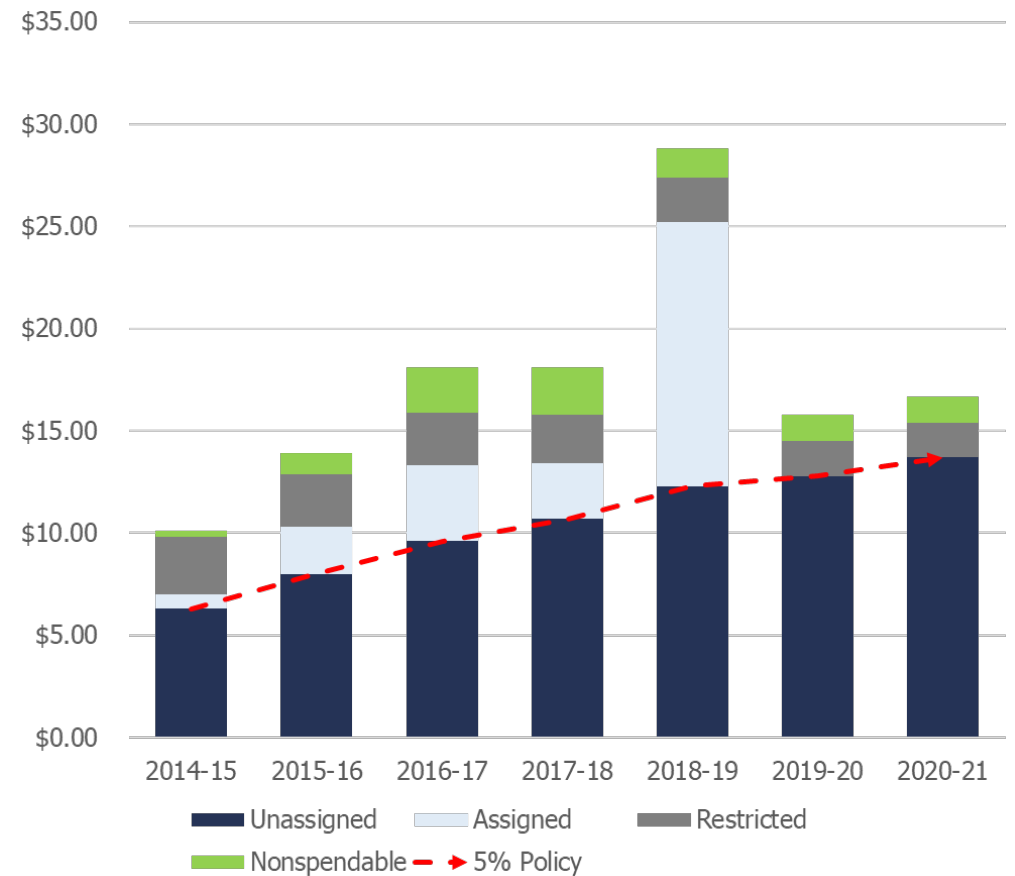
Fund Balance Projection (Without Structural Changes)

A \$13.3 million deficit results in a significant reduction of the fund balance beyond operational capacity.



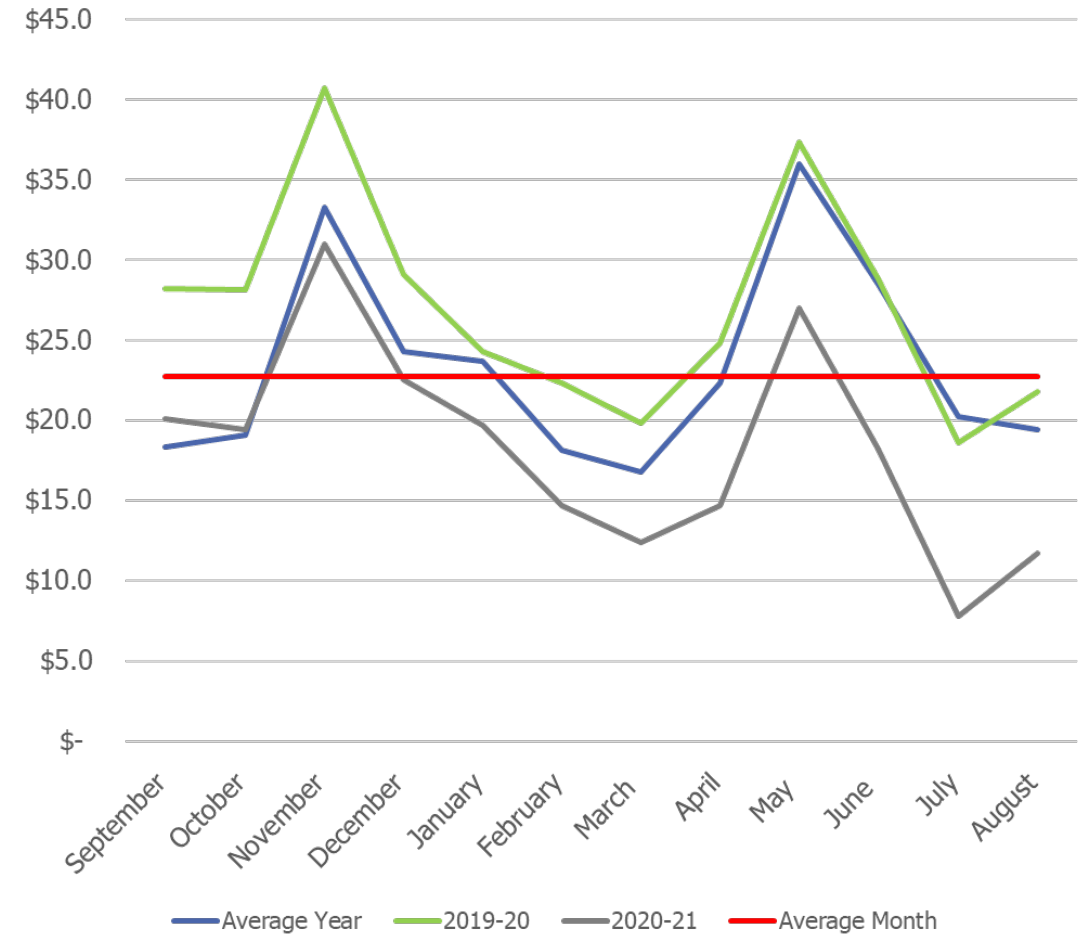
Fund Balance Minimum Goal (With Structural Changes)

Structural modifications will be required to rebalance the budget.



Projected General Fund Cash Flow

Decreases in the fund balance drops the average cash balances in the County Treasury



General Fund Fund Balance Focus

\$12.3 Million Unassigned/Assigned

Determinable by the local government through financial planning

\$1.7 Million Restricted

Encompasses net fund resources subject to externally enforceable legal restrictions

\$1.3 Million Non-Spendable

Legal or contractual provisions require that they be maintained intact

Recommendations

Positioning the District to endure and achieve its strategic goals.

Increase The Fund Balance Expectations, Why?

1. The adequacy of unrestricted fund balance in the general fund should take into account each government's unique circumstances.
2. Articulating risks in a fund balance policy makes it easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition.
3. A government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of recommended minimum levels.
4. Measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time.

Risks and Benefits

Fund Balance Policy Based on Expectations and Stability

Financial Instability

Mitigating the fluctuations in financial activity

Cash Interruptions

Backstopping the inconsistencies of cash flow

Public Perceptions

Maintain fiscal responsibility perception with stakeholders

Managing Debt

Attaining the most competitive financial credit ratings

Governmental Finance Officers Association (GFOA) Fund Balance Policy Considerations

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
- Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
- The potential drain upon general fund resources from other funds, as well as, the availability of resources in other funds;
- The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds;
- Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose). Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.

GFOA Recommended
Unassigned/Assigned
Fund Balance:

One to two months of
operating expenditures

Renton School District

\$43.0 Million

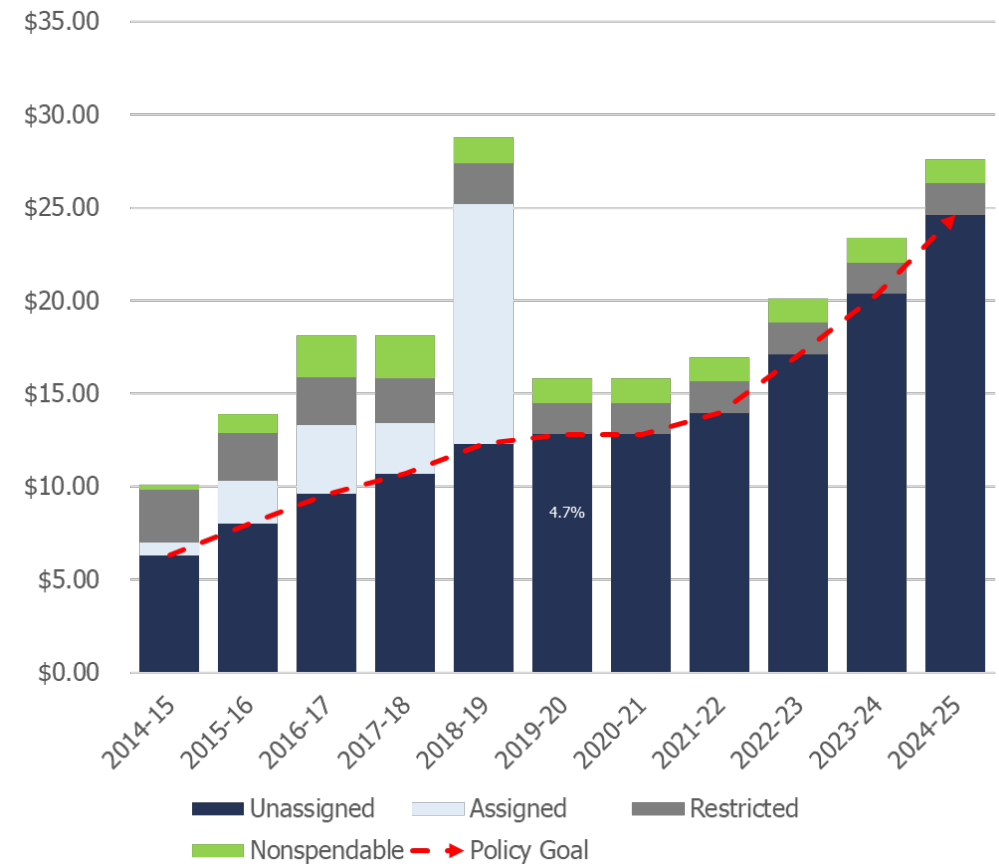
Or

16.7%

(Two months)

Recommended Fund Balance Policy Goals

Increase the minimum fund balance over time to enhance financial stability.



Summary

- Minimum fund balance policy recommendations
- Five-year goal to elevate fund balance minimums
- Financial stability and economic smoothing
- Fiscal responsibility to the District taxpayers

Questions?