

---

# UNDERSTANDING FUND BALANCE

A BALANCED LOOK AT SCHOOL DISTRICT FUND BALANCES



PREPARED BY DIVISION OF FINANCE

NOVEMBER 6, 2017

# UNDERSTANDING FUND BALANCE



Each year, public education critics are quick to point out the amount of money districts have in their fund balances. They paint a picture of districts just stockpiling money for no reason while still increasing taxes and complaining that schools are underfunded. But that paints an incomplete, inaccurate and unfair picture of public school financial management.

# UNDERSTANDING FUND BALANCE



## WHAT IS FUND BALANCE?

- The calculation for fund equity may be reduced to a mathematical equation written as:  
$$\text{Assets (What a district owns)} - \text{Liabilities (What a district owes)} = \text{Fund Balance}$$
- The fund balance is NOT the equivalent of a persons savings account. It is NOT all cash that can be used for any purpose.
- Fund balance may reflect not only cash on hand, but also short-term and long-term receivables, certain payables, as well as the value of certain assets, some of which may not be convertible to cash during the following budgetary period.

# UNDERSTANDING FUND BALANCE



There are five types of fund balances that apply to **Governmental Funds**:

- **Committed fund balance** have been formally designated by the school board for a specific purpose.
- **Assigned fund balance** is intended for a specific purpose by a committee of the school board or an individual authorized by the school board.
- **Nonspendable fund balance** includes amounts that cannot be spent because they are either not in a spendable form (such as inventories, prepaid items and or long-term receivables). They are not available to be spent in any way due to the nature and/or lack of availability.
- **Restricted fund balance** is reported as restricted when constraints placed on the use of resources are externally imposed by credits, grants, contributors or laws and regulations of other governments provisions.
- **Unassigned fund balance** is available for any purpose.

# UNDERSTANDING FUND BALANCE



***Board Policy DCA – Fiscal Goals and Objectives***

***General Fund – The Board will maintain a fund balance as described below:***

***Committed Fund Balance – Working Capital Reserve – This will be established based upon 5% of annual budgeted expenditures and is intended to be permanent in nature and not subject to draw down.***

***The target range for the total fund balance in the General Fund is seven (7) to ten (10) percent of annual budgeted expenditures.***

The **financial industry recommends** organizations have unassigned fund balances of between 5% and 10% of their total expenditures.

# UNDERSTANDING FUND BALANCE



## Why is a sufficient fund balance so important?

- ❑ First and foremost, a district's fund balance is in place to protect educational opportunities in the event of some type of financial disruption.
- ❑ Provides a way to set money aside for repairs (roofing), maintenance (new heating systems etc.), major purchases (buses, textbooks) or catastrophic (or near catastrophic) events.
- ❑ Uncertainty about state and federal funding.
- ❑ The establishment of a healthy fund balance is considered a prudent business practice by the bond rating agencies, resulting in lower district borrowing costs for major projects.

# UNDERSTANDING FUND BALANCE



## Why is a sufficient fund balance so important?

- ❑ Insufficient fund balance (cash reserve portion) will result in the district borrowing to meet cash flow needs. Borrowing will result in an additional interest expense born by taxpayers.

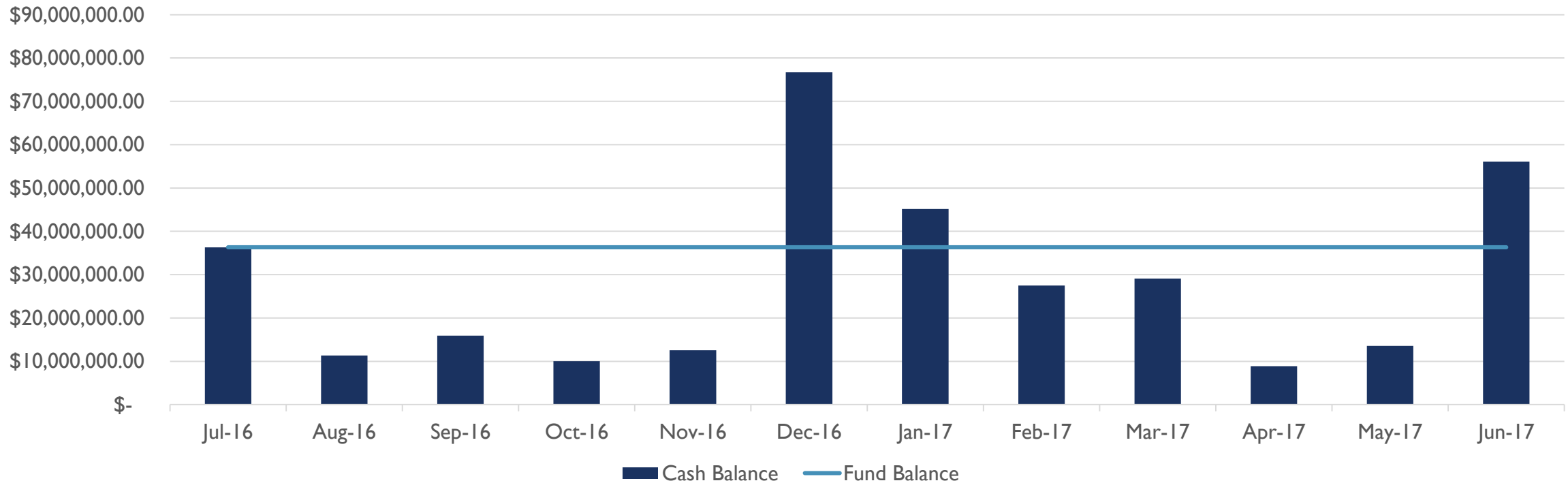
### **Fund balance is needed for cash flow purposes because:**

The District receives majority of the local property tax revenue from the Tax Commissioner's Office in June and December;

# UNDERSTANDING FUND BALANCE



## FY2017 Cash Balance vs Projected Fund Balance

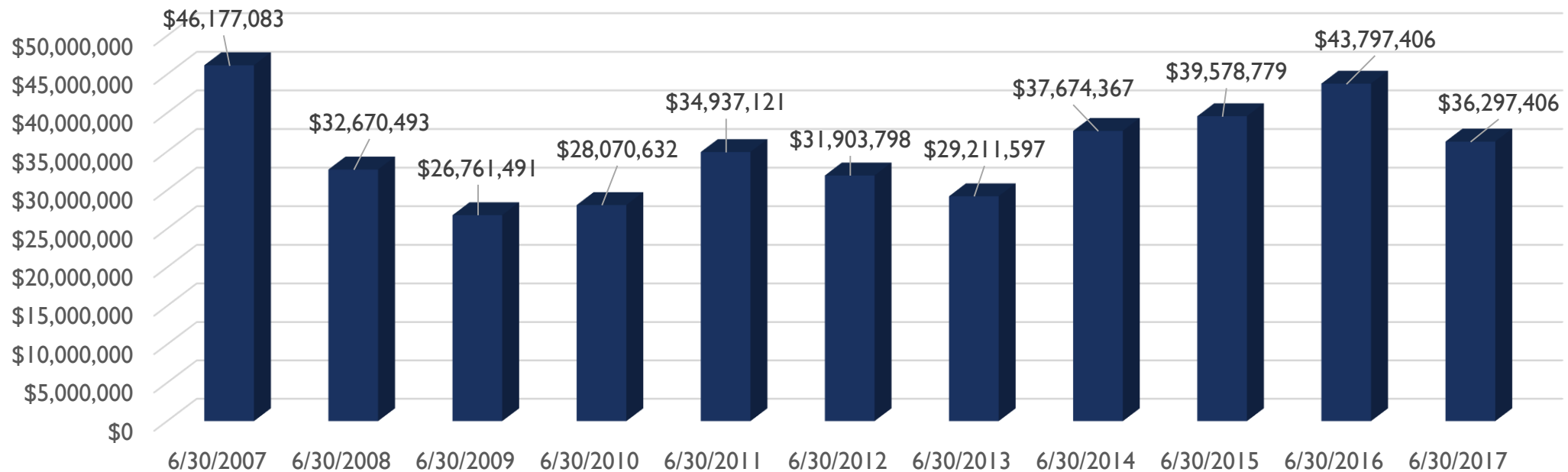




# UNDERSTANDING FUND BALANCE



## General Fund Actual Fund Balances



\*\* Estimated fund balance for FY17 since audit has not yet been completed.

# UNDERSTANDING FUND BALANCE

