

Fund Balance

Reasons for a Fund Balance

- To smooth state aid "take backs"
- Federal/State Legislative Action
- Assists in offering a continuous program, avoiding knee jerk reactions
- Emergency expenditures
- Sound Fiscal Management
- Cash Flow (Economic climate with foreclosures, taxing our collections and our receipts at critical points in the cycle.)
- Interest Earnings
- Uncertainty of Revenues and Revenue Stream
- Unanticipated Expenditures
- Auditor Recommendation
- Budget Stabilization
- One element in obtaining a good credit rating during times when the District bonds for projects such as the 1997 issue which encompassed every school in the District or for the Secondary Outdoor Facilities in 2004.

Fund balance – It's a matter of cash flow

A fund balance (calculated at one point in time on the last day of the fiscal year) is necessary to provide working capital to meet cash flow needs and avoid borrowing, serves as a budget stabilization fund and provides for unanticipated or emergency expenditures. A typical fund balance in a school district is composed of **three components**:

1. Cash on hand – these funds may be in short term, highly liquid investments or in a checking or savings account. These funds are available for district use and on any given day fluctuate depending upon the source of revenue collected and the management of bill payments, including paychecks.

2. Accounts receivable – because of a timing difference between a school district's fiscal year (which ends June 30) and the State's fiscal year (which ends September 30) there are two payments out of the 11 State aid payments that are actually received after the District's fiscal year has ended. These funds are not available to the school district until they are actually received in July and August.

3. Inventory and pre-paid assets – includes teaching, custodial and office supplies and fuel in storage tanks. These are typically modest amounts and are obviously not available to expend.

Cash flow – The State's budget impact this year includes a **reduction of \$165 per pupil** and the **reduction of 20J which is \$191.22 per pupil**. None of these reductions were anticipated when our budget was adopted in June 2009. This equates to a **loss of \$356.22 per pupil** or approximately **\$4.2 million** or 2.8% of our total revenue that cannot be recouped from other sources. It also cannot be easily remedied after the school year has started after amending the budget to reflect current staffing in place. The new revised estimate is a **shortfall of approximately \$12.5 million which will all come from our fund balance**. A positive cash position is needed for those months where our receipts fall short of the anticipated expenditures.

Just like in our own homes, certain bills for insurance or supplies to start the school year are up-front costs that we need cash available to meet our bills. Employee contract payments also start before we get our first tax payment. We have no control over the timing of our cash receipts. Should we not have funds available during the months where cash is short, we would need to borrow and incur the additional fees and interest costs associated with borrowing. This increase in costs would necessitate additional budget reductions.

The District's Budget Plan includes reductions of approximately \$18 million which leaves the District with an approximate 11% fund balance to meet our cash flow needs. With all the unknowns in the future, our hope is to avoid drastic changes in educational programs and or employee layoffs during the school year should our forecasts be too optimistic during the current economic decline.

Hopefully our explanation of fund balance helps further your understanding of one of the complicated school funding issues.

Farmington
PUBLIC SCHOOLS