

What is a School District Fund Balance?

- Fund Balance IS: Assets (What a district owns) less Liabilities (What a district owes). It consists of cash, cash equivalents (i.e. investments), and non-cash components (i.e. taxes receivable, payables).
- Fund balance is often confused as cash. However, fund balance IS NOT the equivalent of a person's savings or cash accounts. It IS NOT entirely cash that can be used for any purpose. Financial cash reserves (cash and cash equivalents) are only a portion of fund balance. Policymakers need to focus on the cash reserves that school districts need to operate.
- For district audit purposes, fund balance is measured on June 30th. This one-time, fund balance "snapshot" will include significant receivables (August tax receivables, grants receivable, and delayed state aid payments). Taxes receivable in August for the prior school year is the largest receivable recorded in the June 30 fund balance.

Why are sufficient cash reserves so important?

- A district's financial cash reserves must be adequate to protect the short-term and long-term educational opportunities for that community's children against some type of financial disruption.
- Insufficient cash reserves will result in the district borrowing to meet cash flow needs. Borrowing will result in an additional interest expense borne by taxpayers and fewer taxpayer dollars available for needed educational programming. Appropriate financial reserves will result in higher credit ratings that will lower district borrowing costs. Cash reserves are needed for cash flow purposes because:
 - Districts receive much of their state aid right before their fiscal year ends as they determine their ending fund balance on June 30th. Some general aid is paid in July but recorded as part of the June 30 fund balance.
 - Districts receive no state general aid in August, October, November and May.
 - Property taxes begin flowing to school districts six months after the fiscal year has begun. There is no property tax income for districts in the months of July through December.
 - The \$897 million in school levy credits and first dollar credits are received by school districts after the fiscal year is over. These payments for the previous school year are received in August, but are included in the June 30 fund balance.
 - All of the receivables mentioned above cannot be used to pay any bills or make district payroll.
- Provides a way to set money aside for planned and unplanned expenses such as repairs (roof), maintenance (new heating systems etc.), catastrophic (or near catastrophic) events, or major purchases (buses, textbooks).
- Uncertainty about state and federal funding, as well as the myriad problems posed to school districts in declining enrollment. For the more than 60 percent of Wisconsin school districts currently in declining enrollment, having sufficient cash reserves allows these districts to better manage the decline.
- The establishment of sufficient and stable district cash reserves is considered a prudent business practice and demonstrates solid financial planning, sound fiscal management and a strong district fiscal position.

Recommendations

- Each school district operates under unique circumstances and has unique reasons for building its financial cash reserves. Therefore, general recommendations cannot possibly cover all the unique situations that necessitate a larger or smaller district fund balance.
- Each district should carefully and thoughtfully develop fund balance policies and objectives and then clearly present this information to their community.
- School district leadership should understand their district's cash flow analysis, paying particular attention to their annual low point(s) in cash flow.