

FUND BALANCE Q & A

Question: What is a fund reserve? Does our fund reserve meet the auditors/state recommendation to be in a safe, responsible fiscal condition? Why are we forced to borrow money, at least once during the school year? How does our fund balance rank against other school districts?

Answer: Fund balance represents what a fund owns over time, minus what it owes. Expanding on that definition for public school districts, a fund reserve represents a working cash flow that allows payrolls to be met on time, during periods when the organization experiences cash flow deficits. Cash flow deficits are unfortunately quite common for public school systems in Wisconsin. The deficits are generated through low reserves as well as the timing differences between when the tax settlements and equalization aid payments are paid to districts for operational purposes. Currently, the School District of Hartford Joint No. 1 borrows \$3,500,000 to meet our payrolls during the year. Fund balances also serve a secondary purpose as an emergency or capital fund. Generally speaking, this secondary purpose can be compared to a savings account whereby funds can be used if a school organization's infrastructure would be compromised (i.e. faulty boiler, leaky roof).

From an auditor perspective, a goal of 20% would be ideal, however, under the current budget limitations of the State, this level is hard to meet. For the small number of schools in the State that never borrow money; those districts are viewed as the most financially stable districts around.

The benefits of a fund balance can be summarized as follows:

- Avoid excessive short term borrowing thereby avoiding associated interest cost.
- Accumulate sufficient assets to make designated purchases or cover unforeseen expenditure needs.
- Demonstrate financial stability and therefore preserve or enhance its bond rating, thereby lowering debt issuance costs.

The most commonly asked question regarding fund balance is how large should it be? Perhaps the best answer would be: "an amount sufficient that short term borrowing for cash flow could be avoided and would also allow the district to set aside sufficient assets to realize its longer range goals." However, this may not always be practical or politically possible.

SCHOOL DISTRICT OF HARTFORD JOINT No. 1 FUND BALANCE HISTORY

