

SCHOOL DISTRICT OF HARTFORD JOINT NO. 1

DEDICATED TO THE SUCCESS OF EACH STUDENT

CITY OF HARTFORD, TOWNS ADDISON, ERIN, HARTFORD – WASHINGTON COUNTY • TOWNS ASHIPPUN, RUBICON – DODGE COUNTY
HARTFORD, WISCONSIN 53027

Fund Balance Explained

Like all other public and private enterprises, school districts must use an accounting system for budgeting purposes and for financial management.

School districts organize their accounting systems on a "fund" basis. A fund is a separate set of accounting records, segregated for the purpose of carrying on an activity or set of activities. The State Department of Public Instruction (DPI) specifies the various funds that must be used by Wisconsin school districts. All school districts have a General Fund, and may have one or more other funds to account for specific activities. For example, special education activities are accounted for in the special education fund and transactions relating to payment of general obligation debt are accounted for in a debt service fund.

From time-to-time, those who follow school district budgeting will hear the phrase "fund balance" mentioned. The purpose of this letter is to explain the accounting principle of fund balance as it relates to school districts and to discuss the status of Hartford Jt. # 1's fund balance.

What is fund balance?

"Fund balance" is an accounting term. It represents the net current assets of a fund at the end of a fiscal period, for schools it is as of June 30. Fund balance takes into consideration cash, receivables, and inventory less any outstanding bills or liabilities that exist.

It is important not to confuse fund balance with cash balance. A district may have an adequate fund balance, yet very little cash. Most districts have significant levels of property taxes on their books as of June 30 as part of their fund balance. These receivables won't be converted to cash until the final installments of property taxes are turned over to the district by the county in August.

Why do districts maintain fund balances?

There are several reasons. One of the biggest is for cash-flow management. School districts' cash flows are generally not aligned to their payment schedules. An appropriate fund balance helps a district meet its financial obligations during those periods of time when revenue flows from taxes, state aids and other sources are insufficient.

Our school district also maintains an appropriate fund balance for the following purposes:

- To demonstrate financial stability in the District.
- To avoid excessive short-term borrowing that opens the District to losses from differences in investment and borrowing rates.
- To avoid spending operation funds for interest on short-term loans.
- To stabilize both the budget and tax rate.
- To preserve a high bond rating (bond rating companies will routinely downgrade districts with an inadequate fund balance, because it gives the appearance of instability).

- To accumulate sufficient assets to make designated purchases and to provide for unexpected expenditures due to natural disasters, emergencies, etc. (A fund balance is often the only cushion a district has for unbudgeted, unexpected expenses or emergencies. The Lincoln School boiler (a red flag) is deteriorating – In the event of a catastrophic failure, the only way the District could realistically cover the 1.5 – 2 million dollar expense for replacement would be to use the remaining dollars available in our fund balance.)

The size of a school district’s fund balance is a local decision. School boards often establish a policy that sets a reasonable percentage of the operating budget to be maintained as a fund balance. Fund balance policy is set based on local conditions, such as the amount of state aid received, payroll distribution, etc.

What is the status of Hartford Jt. 1’s fund balance?

Hartford Jt. 1’s policy is to maintain a minimum 10% fund balance to general fund expenditure ratio per year. From an auditor perspective, a goal of 20% would be ideal for our district, however, under the current budget limitations of the State, this level is hard to meet. Different districts will have different needs for fund balance and therefore will adopt policies that may set different percentages according to their circumstances. The Wisconsin DPI recognizes these variances among school districts and does not recommend a particular fund balance percentage.

In the past four years, and in response to increasing expenses and revenue limits imposed on school districts, Hartford Jt. # 1 has used fund balance to avoid program and staff reductions and tax increases, while still providing compensation increases. Now, Hartford Jt. 1 is nearing the minimum level of fund balance that the Board, through its policy, has determined is fiscally prudent, as shown below:

2005-06 17.90%

2006-07 16.00% **Audited 12.70% - the difference is because of delayed insurance claims because of the Father’s Day tornado.**

2007-08 14.50%

2008-09 12.20%

In addition to maintaining an amount sufficient to avoid short term borrowing for cash flow, a district’s policy should ideally allow the district to set aside sufficient assets to help it realize its longer range goals. In this regard, a school district may also find it desirable to maintain a fund balance to enable the district to do certain things, such as:

- make certain designated purchases without having to borrow or raise taxes; or
- pay for expenditures in the next fiscal year (e.g., to start a new program such as a charter school or 4-K, extended day, or extended year programs) without having to borrow or raise taxes.

The District has chosen to use this approach to fund its new 4-K program.

Why is fund balance an important topic to the community of Hartford Jt. 1?

Fund balance is sometimes inaccurately referred to as a “cash balance” but that is not what it is. Most important, it serves the function of providing cash flow to avoid short-term borrowing for routine expenditures, such as payroll, because school districts’ cash flows are generally not aligned to their payment schedules. As well, a healthy fund balance reflects the financial stability of the district. Fund balance is regularly monitored and is an important part of the overall financial management of the district. Moreover, the district’s fund balance affects the district’s ability to borrow funds at a favorable interest rate. And finally, fund balances, used in accordance with board policy, help the district advance educational improvement efforts that might not otherwise be possible within a single year’s budget. For all of these reasons, a fund balance is a district necessity; however, I understand the relevance in needing to discuss this sometimes controversial, topic especially during difficult financial decision-making times. As always, I am more than happy to discuss this topic further, so please don’t hesitate to ask.

Sincerely,

Mark

Mark Smits, Ph.D.
District Administrator