What is a School District Fund Balance?

There is a common misunderstanding that fund balance is a savings account or cash the District has on hand.

- 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 at any time.

- Fund Balance IS: Assets (What a district owns) less Liabilities (What a district owes).

Cash is an asset however it’s not the only asset of the District. Fund balance consists of cash, cash equivalents such as investments, non-cash components (i.e. taxes receivable, payables) as well as the value of certain assets, some which may not be convertible to cash during the fiscal year. For audit purposes, fund balance is measured as of June 30th, this results in a large number of receivables (August tax receivables, grants receivable, and delayed state aid payments).

Why is a Fund Balance Important?

The School district needs to maintain adequate financial cash reserves in order to demonstrate a strong fiscal position, solid financial planning, and sound fiscal management. The financial cash reserve portion of fund balance should be at a level that supports attaining district long-range goals for the community’s children.

Insufficient fund balance cash reserves will result in a district borrowing to meet cash flow needs. The Monona Grove School District borrows to meet the needs of the District. The district short-term borrows $5 million annually for cash flow needs.

Financial reserves provide:

1. Adequate funds for cash flow.
2. Adequate funds for unplanned expenses, planned expenses and planned investments. This provides a way to set money aside for repairs (roof), maintenance (new heating systems, etc.), catastrophic (or near catastrophic) events or major purchases (buses, textbooks, new educational programs).
3. Adequate funds to insulate against revenue loss and instability. This addresses uncertainty about state and federal funding, as well as the myriad of problems posed to school districts in declining enrollment. For the more than 60 percent of Wisconsin school districts currently in declining enrollment, having sufficient fund balance allows these districts to better manage the decline.
4. Adequate mechanisms to accumulate sufficient funds to make designated future purchases or implement new programming initiatives without borrowing or diverting existing and needed program budgets.
5. Adequate funds for contractual and other legal contingencies.

Issues to Consider Regarding District Fund Balances

The School District’s fiscal year is not the same as that of municipalities, counties, and other governmental bodies, posing unique issues.

Receivables timing and cash flow circumstances that must be considered include:

1. Most State General Aid payments come very late in the fiscal year and even after the end of
the fiscal year. Some General Aid is paid in July but recorded as part of the June 30 Fund Balance. There is no State General Aid income in August, October, November and May.

2. Property taxes start flowing to school districts six months after the fiscal year has started. There is no property tax income in the months of July through December for the current fiscal year. The August property taxes received are for taxes receivable for the previous year’s expenditures. Again, these amounts are part of the June 30 Fund Balance. One cannot use the same thinking or practices that cities and counties use, because the tax collections start immediately at the start of the fiscal year for cities and counties. This does not happen for school districts.

3. School levy credits and first dollar credits are received by the school districts after the fiscal year is over. These payments for the previous school year are received in August. But these amounts are also included in the June 30 Fund Balance.

4. All receivables mentioned above are included in the Unassigned Fund Balance. One cannot pay bills or paychecks with a receivable. The check won’t clear the bank.