

## A Short Analysis of School District Fund Balances

Governor Dunleavy and his staff have stated that Alaskan school districts have enough fund balance to cover their state budget reduction to public school districts. The media reports that Governor Dunleavy or his staff have said school districts have \$280 million in available fund balances to offset their proposed state budget reductions to school districts. This paper explains what a fund balance is, and why the Governor's assertion is not correct.

“Fund balance” is a technical term used in governmental accounting that refers to cumulative revenues in excess of cumulative expenditures for a governmental fund. A fund is money garnered for a common purpose, frequently established by law, regulation or a grantor. An older term for fund balance is “reserves.” Governments currently have a fund balance section because under Governmental Accounting Standards Board (GASB) rules, the fund balances must be further classified as nonspendable, restricted, committed, assigned, or unassigned. The first four classifications are established for a specific reason and are not available for later general spending. An unassigned fund balance is available for general spending.

Every school district has an operating or general fund, and usually has a student transportation fund, a nutritional services fund, and various grant funds. A school district's operating fund will have a fund balance. In addition, several other school district funds such as student transportation and nutrition services may have a fund balance (or a fund deficit, if negative). However, most grants are reimbursable grants with a zero-fund balance in their fund, that is, revenues equal expenditures in those funds. Transferring money from another fund into the district's operating fund may be prohibited or limited by law or the grantor.

School districts carefully manage their fund balance accounts. Most school boards have adopted a policy for their superintendent and staff to follow. There are several reasons for a school district to manage their fund balance:

1. Specified purpose -- a school district (or outside governing parties) may designate a portion of their fund balance for a specific reason such as replacing a copier fleet or software upgrades. Typically, there is a special account established for this purpose, and this account is reported on the district's annual financial report so that it is reported as not available for future spending, except for that specific purpose.
2. Cash flow -- a fund balance assists in maintaining enough cash to effectively and efficiently operate a school district so that employees and vendors may be paid timely. Typically, a school district's cash balance has ebbs and flows throughout a fiscal year. While the state pays its foundation monthly, other revenues such as federal Impact Aid and Secure Rural Schools

funds are received more sporadically. Frequently grantors reimburse a district four or more months after a district has paid an employee or vendor. Also, many districts have a larger than normal payroll on the last school day because of the structure of their employee contracts, and this payment occurs before they receive their final foundation payment for the year. So, districts plan and manage their cash flow by establishing a large enough fund balance to tide them through the fiscal year. While cash flow may be part of a district's fund balance policy, money set aside for cash flow is usually included as part of the district's unassigned fund balance in its operating fund. That is, it is frequently shown as available for general spending when, in fact, availability of these funds must be reviewed against cash flow requirements.

3. Contingency -- a fund balance is needed to cover various financial contingencies, for example:
  - Unexpected decrease in student enrollment and/or fewer students receiving intensive level of special education services
  - Unexpected decrease in Federal, State or Local revenue
  - Unexpected costs incurred by mandated, but not funded, State or Federal programs
  - Increased utility costs due to abnormal price increase or unusually cold weather
  - Greater than expected inflation
  - Unexpected deficits in other operating funds (e.g., Student Nutrition Services, or Student Transportation).

While setting money aside for potential contingencies may be part of a district's fund balance policy, money set aside for contingencies is usually part of the district's unassigned fund balance in its operating fund. That is, it is frequently shown as available for general spending when, in fact, it is not available.

There may be dollar limits placed on fund balances. Several municipalities limit the operating fund balance of their school district. Furthermore, state law (AS. 14.17.505(a)) and regulation (4 AAC 09.160) requires school districts to report, on a separate schedule, its fund balance for their school operating fund at the end of their fiscal year. The regulation allows districts to "reserve" money for one of six reasons even though districts may have designated portions of their fund balance for other valid reasons. The remaining, "unreserved" portion of the fund balance cannot exceed ten percent of the prior year expenditures.

The amount of unassigned fund balances available for spending varies considerably across Alaskan school districts. Few districts, have an "unreserved" fund balance at or near the legal limit. Furthermore, districts with a large available fund balance cannot offset another district's revenue shortfall, so looking at statewide totals is somewhat meaningless. Districts have committed portions of their fund balances for specific purposes explicitly in their annual financial reports, or they may need them for cash flows or contingencies. Even if they are available, they are like a savings account: once spent, they are gone forever.