

School District Fund Balances

Prepared by Legislative Audit for the
Legislative Planning Committee
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Presentation Overview

- What is “fund balance”?
- Factors affecting school districts’ finances and thus fund balances
- History of school fund balance limitations
- Observations from analysis of fund balance data

What is fund balance?

- Whether government or private sector there are two basic financial statements
 - One shows financial position – what we own less what we owe
 - The other shows results of operations – what we earned less what we spent
 - How did financial position change
- Governments have two sets of financial statements
 - Government-wide statements – focus on economic resources
 - Statement of Net Position – (Governmental Activities and Business-Type Activities)
 - Reports assets less liabilities (including capital assets and long-term liabilities) equals net position
 - Statement of Activities – (Governmental Activities and Business-Type Activities)
 - Reports change in net position (revenues less expenses including depreciation of capital assets)
 - Fund financial statements
 - Statements for Governmental Funds, Proprietary Funds and Fiduciary Funds
 - Our interest is in Governmental Funds – focus on current financial resources
 - Balance sheet
 - » Reports financial resources (assets less liabilities equals fund balance)
 - Statement of Revenues, Expenditures and Changes in Fund Balances
 - » Reports change in fund balances (revenues less expenditures)

What is fund balance?

- Governmental Fund Types
 - General Fund – everything that isn't required to be in another fund
 - Special Revenue Funds – restricted revenues (Capital Outlay, Special Education, Pension, etc.)
 - Capital Projects (e.g. major building projects)
 - Debt Service (bond redemption)
- Governmental Funds Fund Balance Classifications
 - Nonspendable (items not in spendable form or legally/contractually required to be kept intact)
 - Restricted (resources required to be used for a specific purpose – **externally imposed**)
 - Committed (resources required to be used for a specific purpose **internally imposed** by highest authority)
 - Assigned (amounts restrained by government's **intent** - generally set by governing board or management)
 - Unassigned (residual for the General Fund and deficit balance in other governmental fund types)
- Consolidated school district financial information (Exhibits I and II)
- Focus has generally been on Unrestricted Fund Balance in the General Fund – available spendable resources

Factors Affecting Fund Balance

- Counties are currently the only local government with fund balance limitation
 - Unassigned General Fund balance limited to 40% of next year's budget
 - Also required to publish in minutes and report to DLA balance at March 31 and September 30
 - No penalty for noncompliance
- Reasons a school district have might have a higher fund balance?
 - Management intent
 - Cushion for uncertainty
 - Addressing various factors affecting a district's budget
 - Inaccurate budgeting
 - Unexpected revenues or expenditures
 - Lack of budgeting skills
 - More resources than necessary provided through funding formula
- Any fund balance limitation policy must appropriately consider these reasons
 - Should a limitation policy override management's intent?
 - Training is probably a better way of addressing inaccurate budgeting
 - Limitation treats the symptom and not the problem if high fund balance is due to formula over allocation

Factors affecting fund balance

- Management and Governance is primary
- Differences in cash flow for low/no state aid schools
- Per student funding versus classroom costs and increasing/decreasing enrollment
 - Example decline of 1 student in FY13 using statewide average General Fund expenditures per student of \$6,398
 - District eventually (after enrollment averaging) loses at least \$4,491 PSA in revenue
 - Costs likely reduced by no more than \$1,152 ($\$6,398 \times 18\%$ non-salaries expenditures)
- Capital Outlay and Pension Fund levy capacity
 - Last meeting you heard about Capital Outlay – so we won't talk about this
 - Pension fund local revenue per Certified Instructional FTE for non impact schools levying full \$.30
 - Range from \$462 (Northwestern) to \$69 (Tea Area) – median for all schools is \$161
- Other revenues
 - As reported last meeting by the DOE - FY2013 per student range from \$3,201.82 (Harding County) to \$129.99 (Tea Area)
- Opt outs
 - 66 districts have General Fund opt outs
- Teacher salaries
 - Average teacher salaries range from \$27,479 (Rutland) to \$44,188 (Yankton)- (in non-impact aid schools) – median for all schools is \$35,947
- Transportation costs
 - Per student General Fund expenditures range from \$1,059 (Selby Area) to \$0 (four districts) – median is \$293 for all schools
- One-time state aid funding

Fund Balance Limitation History

- Foundation Formula prior to 1986 had no limitation provisions
- “Expenditure driven” formula from 1987 thru 1995
 - Reduction in aid for balance in excess of guidelines set by the Board of Education
- Per student allocation formula enacted in 1995
 - No limitation provisions until revisions of 2001
 - 2001 revisions added the “hard cap” and “soft cap” fund balance provision
 - Hard cap on 2000 base with dollar for dollar reduction in aid for balances above the hard cap
 - Caps provided exclusion of:
 - Opt out taxes
 - Reorganization incentive funding
 - Gifts, grants and donations
 - Set asides for judgments
 - 2006 added sparsity funding to the cap exclusions
 - 2007 changed to a step down in the allowable fund balance percentage
 - 2009 added ARRA funding to the cap exclusions
 - 2010 updated the hard cap to 2011 base with a 40% cap for 2011 thru 2014 and 25% going forward
 - 2011 repealed the fund balance limitation

Fund Balance Observations

- Fund balance percentage historical data Exhibit III
 - We shouldn't generalize about school fund balances by using total of all districts
 - Specific items related to FY2013
 - Gross receipt tax changes – estimated \$8 million impact on June 30, 2013 fund balances
 - Impact Aid Fund was eliminated for FY2013 but was brought back for FY2014
 - Douglas reported \$16,000,000 in the General Fund
 - Fund does not meet GASB definition of a special revenue fund
 - » Blended with the General Fund for financial statement reporting
- Fund balance percentage historical data – grouped by size Exhibit IV
 - Fund balance percentage increased for each of the four district groupings as district size got smaller
 - Examples exist where higher fund balance percentage coincides with opt out
 - Other variables may be at play in those districts as well