

## What is Fund Balance?

---

Governments (such as school districts) usually 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 and established for accountability purposes to demonstrate that financial resources are being used only for permitted purposes.

The Wisconsin Department of Public Instruction (DPI) specifies the various funds required to 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. Transactions relating to payment of general obligation debt are accounted for in a debt service fund.

### Fund Terminology

A fund will have "balance sheet" accounts consisting of "assets," "liabilities" and "fund balance" and a series of "revenue" and "expenditure" accounts. A "fund balance" is created or increased when fund revenues exceed fund expenditures for a fiscal period. Correspondingly, a fund's balance is decreased when fund expenditures exceed fund revenues. The balance sheet accounts identify the assets that belong to a fund--such as cash or a grant payment receivable--and what liabilities it owes, such as accounts payable to a supplier.

The difference between the fund's assets and liabilities equals the "fund balance." A positive fund balance represents a financial resource available to finance expenditures for the following fiscal period. A deficit fund balance can only be recovered by having revenues exceed expenditures in the following fiscal period.

### Understanding the Fund Balance

Administrators and board members need to understand what fund balance is and its importance in budgeting decisions. A common misconception is that fund balance is a cash account and therefore corresponds to the district's bank balance. As discussed above, fund balance represents the fund's total assets minus its liabilities (what a fund owns minus what it owes).

### How Large a Fund Balance?

A district with an appropriate fund balance can:

---

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

### **Fund Balance Size**

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.

Tigerton School District has historically retained at least a 20% fund balance. However, over the last several years, inflation, the extremely competitive labor market, and necessary capital project costs, has forced the District to incur increased costs, thus using fund balance to cover the expenditures. The District estimates, beginning with the 25-26 school year, the District will need to short-term borrow or obtain a Line of Credit (depending on the 25-27 biennial state budget).

Tigerton School District History of Ending Fund Balance:

<b>Fiscal Year</b>	<b>General Fund Balance</b>	<b>Comments</b>
2015-16	\$1,791,736	Operations referendum
2016-17	\$1,966,788	Operations referendum
2017-18	\$2,002,215	Operations referendum
2018-19	\$2,338,079	Operations referendum
2019-20	\$2,227,711 (57%)	Last year of operations referendum
2020-21	\$1,602,631 (38%)	FB used for expenses; no current op ref
2021-22	\$1,244,369 (31%)	FB used for expenses; no current op ref
2022-23	\$1,029,299 (23%)	Year 1 of 5-year operations referendum
2023-24	\$ 925,772 (20%)	Year 2 of 5-year operations referendum