

## Understanding Fund Balance Reporting

At the direction of the Legislature, school districts were required to provide fund balance reporting to DEED by October 31. This is in addition to the other reporting that is required at both the state and federal levels. To meet this unfunded mandate, districts have had to adjust the way they would normally accomplish this, which is worth describing more fully.

This review describes the expedited process that was used and the considerations that policy makers should account for in their evaluation. The accompanying fund balance explainer provides additional information about the good governance and stewardship represented by an effective fund balance policy and stewardship of our administrators.

To properly prepare an accurate fund balance report requires the same work as the annual closing of the books and is actually an extensive process that pulls staff away from other budgeting and reporting duties they may have. An October 31 fund balance report, then, will have many assumptions and simplifications so that it may be accomplished quickly in response to the State's new requirements.

It is important to highlight that fund balance reporting will be highly variable from district to district, given varying capacity levels and the lack of resources to complete the task quickly. That said, administrators recognize how important it is to effectively describe the financial condition of their districts.

### Structural Timing Differences

The academic school year begins mid-August and runs through the end of May. This significantly impacts the timing of school district expenses. Not all revenues are evenly distributed throughout the year, and many large expenditures will not be evenly reflected in a district's financial reports (conducted outside of annual audit periods). This may result in a dramatically different financial snapshot depending on when interim reporting is conducted.

### Other Timing Differences

- Municipal Appropriation – Some school districts receive their entire annual appropriation during July, while other districts receive it monthly. If the entire appropriation is received in July, this will increase the district's operating fund balance when reported on an interim basis but not be reflective of how that will be drawn down throughout the school year.
- Federal Impact Aid – Many school districts will receive the bulk of their federal impact aid during January or February. A substantial portion of annual revenue is not yet recognized on October 31.
- Payroll – There is a timing lag between the time that an employee works and when they get paid. This increases a district's interim fund balance until payment (including all related health and retirement benefits) has been made. Point in time reporting can't account for this.
- Teachers – Many teachers elect to defer a portion of their annual pay so that it is paid during summer months or on the last day of their contract year. This practice results in an increase of fund balance reported on an interim basis.
- Paying Bills – Many times the business office must wait for a bill even though the expense has been incurred. For example, fuel oil is delivered to a school, but the bill comes on the

5th of the following month. Some districts may encumber this (perhaps for the amount budgeted) while others may not.

#### Decision Making

- Planned Purchases – A district may plan to make a significant purchase later in the year, especially if the purchase involves considerable public input. They have budgeted for this, but not yet encumbered the money or incurred the expense.

#### Other

- Student Activities Travel – Many student activities events away from their local campus will happen during the winter and spring months. Funds are budgeted for this, but schools have not paid for the travel yet. The high school basketball season is just starting, for example.
- Unspent Student Allotments (correspondence schools) - Funds must be set aside for students enrolled in a correspondence school in accordance with 14.03.310(d).

#### Different Practices

Every district follows different bookkeeping practices for a variety of reasons—all of them following good, standard practices consistent with state and federal requirements, as well as best practices. Some of these were noted above. Their bookkeeping practices were not intended to provide an accurate interim fund balance report. Most of them are designed to report budget to actual revenues and expenditures so that management can effectively and efficiently provide the best possible instructional program to their students.

The reported fund balances will differ between districts because of different bookkeeping practices, so there is not a one-size-fits-all method for reporting interim fund balance. Additionally, district leadership must clearly understand and communicate the difference between special revenues fund balances and the general fund balance. This is reviewed more fully in the fund balance explainer produced alongside this.