

At a Glance: School District Fund Balances

Facing an unprecedented state budget shortfall, Texas legislators are exploring several possibilities for reducing state spending. Unfortunately, the sheer size of the budget shortfall – commonly cited as \$27 billion – has legislators examining one option that could cripple Texas public school districts for decades to come. Recently, school district fund balances have come under scrutiny from state lawmakers. The Texas Education Agency (TEA) estimates that, in the aggregate, school districts' unreserved, undesignated fund balances totaled approximately \$7 billion at the end of the 2009. Some believe that the legislature should force districts to drain fund balances to pay for school operations.

What are fund balances?

Most school districts use “fund accounting” to track the sources and uses of funds. Texas school districts typically have up to four types of fund accounts, each of which consist of three components: assets – the fund's economic resources; liabilities – the district's financial obligations associated with a particular fund; and the value of the assets that remain after accounting for liabilities, or the fund balance.

What are some misconceptions about fund balances?

People tend to think of a fund balance as a savings account. It is not, nor is it a “rainy day fund.” A fund balance is the amount of *assets* in excess of liabilities. These assets could include investments, delinquent taxes, accounts receivable and inventories. Further, the amount within a fund balance fluctuates considerably throughout the year. When a district reports a fund balance, it is a snapshot in time that will change as assets are collected and financial obligations are met.

Another misconception is that the entire amount of a fund balance can be spent on any item that a school board sees fit. In reality, out of the five reported categories of fund balances, only one, unassigned fund balances, may be spent at the discretion of the school board. The other four categories are nonspendable, restricted, committed and assigned fund balances.

Why do school districts maintain fund balances?

Districts generally accumulate fund balances for three reasons:

- Covering cash flow deficits in the fall until property taxes are collected in January.
- Demonstrating financial stability to enhance district bond ratings for lower interest rates.
- Creating a financial cushion to meet unexpected expenses and emergencies.

TEA recommends a minimum unrestricted fund balance of about two-and-a-half months of operating expenditures plus enough to cover anticipated cash flow deficits. Two-and-a-half months of operating expenditures statewide equals approximately \$6.8 billion.

What is the current status of district fund balances?

This past year, fifty percent of Texas public school districts were forced to dip into their fund balances to balance their 2009-10 budgets. These districts were able to avoid costs associated with loans and minimize or delay tax rate increases by spending down part of their fund balances, but this is not a viable long term strategy. Costs will compound annually as fund balances continue to dwindle.