



POLICY BRIEF

Explaining School Fund Balances: An Update

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This policy brief summarizes fund balances for Pennsylvania's 500 school districts as of the close of fiscal year 2013-14. It updates the policy brief summarizing such balances for fiscal year 2012-13, published by CORP last August. Accompanying this year's brief and available at www.cla.temple.edu/corp/university-consortium/ are fund balances for all 500 districts, as well as for charter and technical schools, for both fiscal years to allow users to understand trends for individual districts as well as for the state as a whole. Both briefs explain the four types of fund balances under government accounting standards and the restrictions on unassigned balances under state law. In addition to serving as a hedge against economic and budgetary uncertainty, fund balances for many school districts reflect to varying degrees concerns arising from Commonwealth policies, such as the underfunding of pensions, freezes in state support for capital projects, and the historical experience of state budget delays. David Davare, author of both fund balance briefs, is an advisor to CORP and the University Consortium to Improve Public School Finance and Promote Economic Growth. He also oversees the Harrisburg office of the Pennsylvania Economy League's Central Division and formerly served as research director of the Pennsylvania School Boards Association.

It has been argued that local education agencies have amassed a total of \$4.4 billion in reserve funds — properly termed a “fund balance” — across the state's 500 school districts, 67 vocational/technical schools and 177 charter schools. The implication is that these funds are being hoarded by school officials who are raising taxes or cutting services unnecessarily or exaggerating their need for additional state aid.

Here are the (admittedly dry) accounting facts.

Fund balances serve a legitimate purpose for school districts for a variety of reasons.

Fund balance is the accounting term for the difference between total assets and total liabilities. A fund balance is not all cash. In school accounting, as required by the Pennsylvania Department of Education, assets include money estimated to be received in the 60 days after the close of the fiscal year. Liabilities include only current liabilities and not long-term liabilities such as debt payment. Fund balance generally increases when a district's revenue exceeds its expenditures in a given year. The fund balance declines when the expenditures exceed revenues in a given year.

According to the Accounting Manual for school districts, districts must comply with the Governmental Accounting Standards Board (GASB) statements on accounting for local governmental entities. GASB issued Statement 54, in which the fund balance is divided into four parts:

Restricted – funds limited by external parties or legislation, e.g. debt covenants

Committed – funds limited by Board policy or Board action

Assigned – funds intended for a particular purpose such as special revenue funds

Unassigned – funds that are available for consumption or not limited in any manner

Just as an individual or family should maintain a savings account for unforeseen expenses or emergencies, school districts should also have funds in reserve to pay for emergency repairs or cover unexpected interruptions in revenues - such as a layoff at a major factory which suddenly affects tax collections. The fund balance can also be used to offset year-to-year variations in local or state cash flow, such as a delay in subsidy payment from the State. In addition, fund bal-

ances enable districts to generate investment income which, in turn, helps to keep tax rates lower.

A November 1990 research bulletin by the Government Finance Officers Association recommended that an unreserved fund balance be retained to guard against an economic downturn. It also advised that a fund balance is necessary to meet emergency situations, which could include: uninsured loss, major repairs to heating systems, and replacement of damaged educational equipment prior to scheduled replacement.

When districts issue debt, a fund balance benefit occurs. Credit ratings of school districts and other public entities can be affected directly by the level of their fund balances; those with little or no money in reserve are considered to be higher risk and their ratings - along with their cost of borrowing - suffer accordingly.

In Pennsylvania, fund balances in the 1990s covered school districts when the state failed to make school subsidy payments in a timely manner. This has occurred three times since 1992, and the last time was in 2003. More recently, fund balances allowed some districts to maintain services or minimize service cuts or tax increases during the economic downturn when real estate and earned income tax revenues declined.

Over the last five years, the state had frozen funding for repair/renovation/construction subsidies, which

left total construction to the individual districts starting in 2010-11. For 2013-15 the freeze was lifted with a small increase. This means that districts either need to set aside funds to pay for repair/renovation/construction or raise taxes for individual projects. The set aside is referred to as an assigned fund balance. Additionally, districts have set aside funds to try to minimize the tax increases in individual years to cover pension increases mandated by the Public School Employees' Retirement System, which operates as a state entity.

The size of a fund balance is dictated by the local circumstances of a school district. It has a lot to do with the preferred size of its fund balance. For example, a higher fund balance may be appropriate when the local economy and tax base are weak and the district budget either relies heavily on state and federal sources of funding, which can change or be delayed without notice, or when the district is carrying a sizeable debt burden. There are, of course, many other legitimate reasons to hold funds in reserve. School officials may build a fund balance over time, with the intention of using the money for a renovation project or another one-time expenditure, instead of borrowing and repaying a bank with interest.

The financial industry, including the bond rating agencies, suggest that a government's unassigned fund balance should be between five and ten percent of total operating expense. The Pennsylvania School Code (24 PS 6-688) limits the amount of a fund balance to less

Table 1 - 2012-13 Fund Balance by Type of School

	Number	Committed	Assigned	Unassigned	Total
School District	500	\$1,484,599,106	\$775,700,543	\$1,723,587,607	\$3,983,887,256
AVTS/CTC*	67	\$11,557,427	\$21,670,528	\$20,246,495	\$53,474,450
Charter School	176	\$76,958,409	\$34,202,683	\$127,207,211	\$238,368,303
Total	743	\$1,573,114,942	\$831,573,754	\$1,871,041,313	\$4,275,730,009

Source: PA Department of Education, web page, accessed July 22, 2014.

http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/other_financial_information/509049.

* Area Vocational Technical School/Career and Technology Center

Table 2 - 2013-14 Fund Balance by Type of School

	Number	Committed	Assigned	Unassigned	Total
School District	500	\$1,584,494,353	\$861,975,627	\$1,643,400,402	\$4,089,870,382
AVTS/CTC	67	\$14,460,539	\$20,628,904	\$18,975,207	\$54,064,650
Charter School	177	\$100,430,657	\$41,598,386	\$147,752,249	\$289,781,292
Total	744	\$1,699,385,549	\$924,202,917	\$1,810,127,858	\$4,433,716,324

Source: PA Department of Education, web page, accessed July 22, 2014.

http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/other_financial_information/509049.

than eight percent for a district whose expenditures exceed \$20 million if they are going to raise taxes. Table 1 shows the dollar value of fund balances for the 2012-13 school year, and Table 2 shows the fund balance for the 2013-14 year.

The amounts shown in both Tables 1 and 2 include assigned fund balance, which is usually found in special revenue funds such as federal subsidies. Federal funds are received according to the federal fiscal year which overlaps the school fiscal year by three months. Another typical assigned balance is for debt service and construction funds. The appropriate size of a fund balance for a district that wants to increase taxes is less than eight percent. Table 3 shows unassigned fund balance as a percent of total expenditure for both 2012-13 and 2013-14 fiscal years.

As shown in Table 3, the fund balance for school districts in 2013-14 declined from 6.7% to 6.3% --- or

below the School Code limitation. Vocational/technical schools also declined between 2012-13 and 2013-14 from 3.7% to 3.5% --- below the school code at 3.7%. Charter schools have increased from 8.5% in 2012-13 to 9.4% in 2013-14. In both years the charter school fund balance was above the school code limit on school districts. In fairness to the charter schools, they operate as not-for-profits, which has a different limitation for fund balance. The American Association of Society Executives (ASAE) recommends a fund balance for not-for-profits of 50% or about 6 months of operating expenditures.

The total fund balance for all types of public schools in both 2012-13 and 2013-14 was below the school code limit, with 6.8% and 6.4% respectively. Individual districts and schools will vary. Among the school districts, 16 districts have an unassigned negative fund balance. Among the vocational schools there was one with a negative fund balance and 11 with a zero fund

Table 3 - Unassigned Fund Balance as a Percent of Total Expenditures 2012-13 and 2013-14

	Fund Balance 2012-13	Fund Balance 2013-14
School District Total	6.7%	6.3%
AVTS/CTC Total	3.7%	3.5%
Charter School Total	8.5%	9.4%
Total	6.8%	6.4%

Calculations were made by the author from PDE data.

Sources: 2012-13 PA Department of Education, web page, accessed July 22, 2014. http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/other_financial_information/509049. 2013-14.

PA Department of Education, web page, accessed June 2, 2015. http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/other_financial_information/509049.

Figure 1

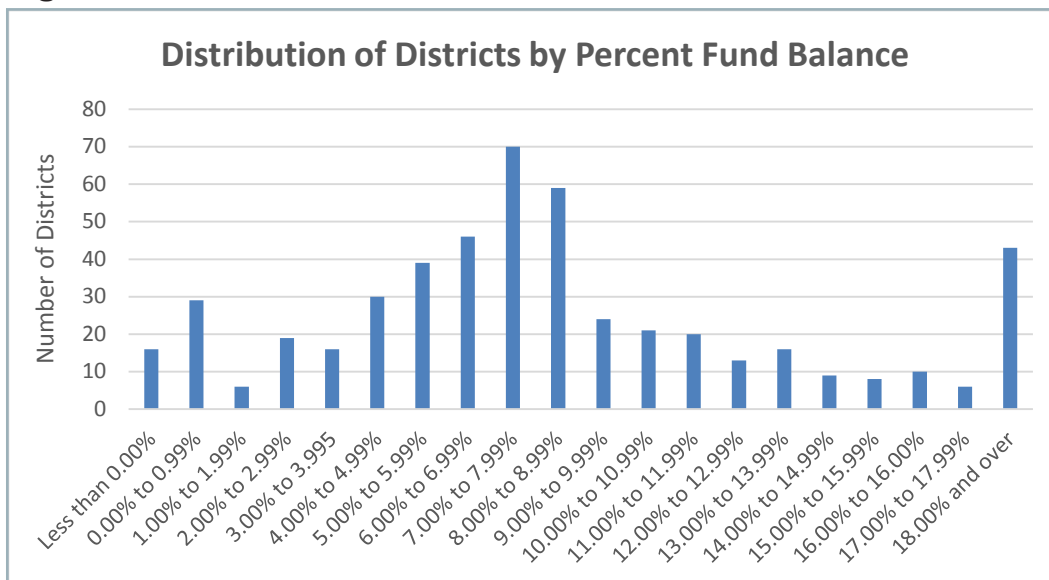


Table 4 - Distribution of Districts by Size of Unassigned Fund Balance 2013-14

Range	Count	% of Total	Cumulative % of Total
Less than 0.00%	16	3.2%	3.2%
0.00% to 0.99%	29	5.8%	9.0%
1.00% to 1.99%	6	1.2%	10.2%
2.00% to 2.99%	19	3.8%	14.0%
3.00% to 3.99%	16	3.2%	17.2%
4.00% to 4.99%	30	6.0%	23.2%
5.00% to 5.99%	39	7.8%	31.0%
6.00% to 6.99%	46	9.2%	40.2%
7.00% to 7.99%	70	14.0%	54.2%
8.00% to 8.99%	59	11.8%	66.0%
9.00% to 9.99%	24	4.8%	70.8%
10.00% to 10.99%	21	4.2%	75.0%
11.00% to 11.99%	20	4.0%	79.0%
12.00% to 12.99%	13	2.6%	81.6%
13.00% to 13.99%	16	3.2%	84.8%
14.00% to 14.99%	9	1.8%	86.6%
15.00% to 15.99%	8	1.6%	88.2%
16.00% to 16.99%	10	2.0%	90.2%
17.00% to 17.99%	6	1.2%	91.4%
18.00% and over	43	8.6%	100.0%
Total	500	100.0%	

Table 5 - Unassigned Fund Balance Distribution Using School Code Limits 2013-14

Description	Fund Balance	No. of Districts	% of Districts
Districts with Negative Fund Balance	(169,550,712)	16	3.2%
Districts with Zero Fund Balance	0	18	3.6%
Districts with Less Than 8%	672,847,856	255	51.0%
Districts over 8% but within the Limits of School Code	41,695,148	24	4.8%
Districts beyond School Code Limits	1,098,408,150	169	33.8%
Total for All Districts with FB Zero or Greater	1,812,951,154	466	93.2%
Total Fund Balance	1,643,400,442	500	100%

balance. There are 27 charter schools with negative unassigned fund balances and ten with zero unassigned fund balances.

If a district is going to use a fund balance, it should proceed with caution. The committed fund balances should be used first to cover the expenditures for which they were committed. The unassigned fund balance should be used for one-time expenditures.

Fund balances, like an individual's savings account, are one-time revenues.

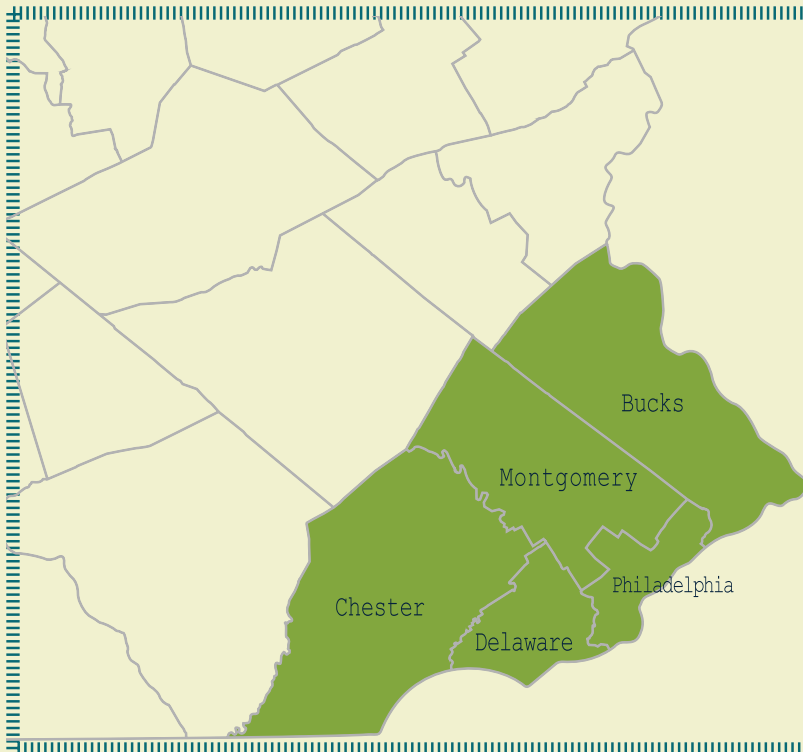
The fund balance is an important financial tool for school districts and needs to be considered individually by the districts as they look at their future needs and the changing economic climate. However, they should follow the financial industry recommendation of maintaining a minimum of five percent.

Table 4 shows the 2013-14 distribution of school districts by the size of the unassigned fund balance. The table also shows the cumulative percent of districts. There are 54.2% of all districts with a fund balance of less than 8%. Two thirds of all districts have a fund balance of less than 9%. The median (exact middle) fund balance is 7.7%.

Figure 1 presents the data shown in Table 4. The graphic presentation reflects the concentration of districts between 7.00% and 8.99%.

The School Code (24 PS Section 6-688) provides a sliding scale for the limit on fund balance if a district wants to increase the tax rate and has a budget less than \$20 million. Recall that when a district's expenditure budget equals or exceeds \$20 million the fund balance is limited to 8% if it wishes to increase taxes.

If the budget is less than \$20 million the district may have a slightly larger fund balance. The sliding scale provides a one-half of one percent (0.5%) increase for every \$1 million dollar reduction in fund balance below \$20 million. The maximum percent fund balance under this scale is a 12% fund balance for a district whose budget is less than \$11 million. Table 5 presents the distribution of districts based on the fund balance limitations as provided in the school code.



Center on Regional Politics

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