Fund Balance Analysis

Missouri
DEPARTMENT OF ELEMENTARY & SECONDARY
EDUCATION™

Financial statements prepared for school districts include the General (Incidental) Fund, Special Revenue (Teachers) Fund, Debt Service Fund, and the Capital Projects Fund. The balance in the Debt Service Fund is highly predictable because expenditures usually consist of only two items (principal and interest) and are known in advance. Debt Service Fund monies are to be placed in a separate bank account and are not to be commingled with the district's operating (General, Special Revenue, and Capital Projects Funds) monies. The State Auditor's Office monitors the fund balance in the Debt Service Fund when calculating the maximum annual Debt Service Fund levy. For these reasons, the Debt Service Fund balance has been excluded from the fund balance analysis.

The Capital Projects Fund balance analysis has also been excluded because this fund is highly restricted in terms of its usage and derivation. Capital Projects Fund money may be spent only for the erection of buildings or additions to buildings, remodeling or reconstruction of buildings, furnishings for buildings, payment of lease purchase obligations, purchases of real estate, and other capital outlay expenditures. Any expenditure for equipment that has a unit cost of $1,000 or more and a useful life estimated at more than one year should be made from the Capital Projects Fund. Current operating expenses (repairs, supplies, etc.) cannot be paid from the Capital Projects Fund.

The General and Special Revenue Funds are used for the day to day operation of the school district. The combined fund balance carried in these funds is the primary indicator of a district's financial viability and stability. Fund balances will appropriately fluctuate based upon an individual school district's primary source of revenue. Some school districts receive 70 percent of their revenue from state and federal sources and 30 percent from local sources. Other districts are just the reverse with 70 percent from local sources and 30 percent from state and federal sources. Since state and federal revenues are received on a monthly basis throughout the fiscal year and local taxes are received primarily in January, the timing of a district's receipts is important when evaluating its fund balance. **According to state law, a school district shall not issue a check unless there is sufficient money in the treasury <u>and</u> in the proper fund (Section 165.021(4), RSMo).** At a minimum, a school district should carry a combined fund balance in the General and Special Revenue Funds sufficient to make it through December without going negative on a fund balance basis. School Districts have the option of borrowing money by entering into a tax anticipation note which provides operating cash pending receipt of tax revenue.

Using data in the district's most recently completed annual financial statement, calculations may be made using the following forms to estimate the minimum combined General and Special Revenue Funds ending fund balance the district should carry forward.

From the **Annual Secretary of the Board Report:**

A. Part II, Local Revenue Detail, Line 5199, Local – Subtotal (General plus Special Revenue Funds) 1. ____________

Part II, Local Revenue Detail, Line 5113, Prop C (General plus Special Revenue Funds) 2. ____________

Part II, County Revenue Detail, Line 5299, County-Subtotal (General plus Special Revenue Funds) 3. ____________

Total (Line 1 minus Line 2 plus Line 3) 4. ____________

B. Part II, Revenue Funds Detail, Line 5899, Total Revenue (General plus Special Revenue Funds) 5. ____________

Total (Line 5 minus Line 4) 6. ____________

Line 6 divided by 12 (assumes that most revenues other than local and county revenues will be received in equal monthly installments). 7. ____________

C. Part III-A-Expenditure Program by Fund, Grand Total Line 9999 (General Fund), divided by 12. 8. ____________

Part III-A-Expenditure Program by Fund, Grand Total Line 9999 (Special Revenue Fund), divided by 12. 9. ____________

Total (Line 8 plus Line 9) 10. ____________

D. Part I-Summary, Transfer From Line 6710 (General Fund), divided by 12. 11. ____________

Part I-Summary, Transfer To Line 5510 (General Fund or Special Revenue Fund), divided by 12. 12. ____________

Using the chart below and a zero beginning balance:

- Enter the line 7 amount for July through December revenues.
- Add the value of line 4 local and county revenue and one month of line 7 revenue and enter the total for January revenues.
- Enter the line 10 amount for July through January expenditures.
- Enter the Line 11 amount for July through January transfers out.
- Enter the Line 12 amount for July through January transfers in.
- Starting with July, add the zero beginning balance plus July revenues minus July expenditures minus July transfers out plus July transfers in and enter the result as the ending balance.
- Move the July ending balance to the beginning balance for August. Repeat the procedure above for August through January.

	July	August	September	October	November	December	January
Beginning Balance	0.00						
Revenues							
Expenditures							
Transfers Out							
Transfers In							
Ending Balance							

Since the analysis started with a zero balance in July, it is very probable that the district might show a negative balance in October, November, or December. The largest cumulative negative balance, should one occur, by definition is the minimum beginning balance that the district should have on hand in July to start the year. Or, stated in another way, the largest cumulative negative balance should be the June 30 minimum combined unrestricted ending balance for the General and Special Revenue Funds.

Remember, if the district receives a smaller percentage of its revenue from state aid and depends more on local revenues, the district will have to carry a larger fund balance at June 30 than districts that receive a higher percentage of revenue from state aid and a lesser percentage from local taxes.

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