

Fund Balance Questions and Answers WCPSS

1. *What is a fund balance? What are the different categories of a fund balance? Why does WCPSS need a fund balance?*

Fund balance is created from excess revenues over expenditures. This can be a combination of collections/revenues being higher than budget and actual expenditures being lower than budget.

Fund balance is comprised of several different categories:

Reserved Fund Balance – The portion of fund balance that reflects financial assets that are not available for spending. Reserved Fund Balance categories include:

- Reserves required for special projects; Funds dedicated to expenditures associated with an initiative to be completed prior to June 30th or in the following year.
- Reserves required for self insurance; Funds reserved to cover cost of incurred, but not paid claims. These funds include stop-loss coverage.
- Reserves required for encumbrances; Funds reserved to cover costs associated with purchase orders not completed prior to closing financial transactions for the fiscal year. This category will cover the costs of items through the end of the year.
- Reserves required by state statute; Funds held in accounts receivable. These funds are due to the school system, but have not been received by June 30th.
- Reserves required for inventories; Funds reserved due to the value of the inventory being reflected as an asset, but unavailable for other appropriation.

Unreserved Fund Balance – That portion of fund balance that reflects expendable, available financial resources. Unreserved Fund Balance categories include:

- Designated for flexible benefits plan; Funds collected from employees for medical and childcare plans. These funds reflect the balances remaining at the end of the fiscal year.
- Designated amounts used to balance the annual budget; Funds designated by the Board of Education in their Plan for Student Success to balance the local budget.
- Undesignated Fund Balance – Operating & Capital components; Funds available for appropriation by the Board of Education. These funds are derived from total fund balance less reserves and any designations.

Fund Balance Questions and Answers WCPSS

It is the Undesignated Fund Balance contained within the Unreserved Fund Balance that can be utilized by the Board of Education during the year. Categories of Board of Education usage of the Undesignated Fund Balance typically include:

- Emergency situations requiring cash flow
- Funding of one time costs not included in the annual budget (e.g. curriculum audit).

The Board of Education is required to discuss and vote on any use of Undesignated Fund Balance during the public portion of its meetings.

2. How much of an Unreserved Undesignated Fund balance is necessary?

Opinions vary. Two years ago, then Superintendent McNeal established a Finance Advisory Committee that included business professionals from Wake County and Wake County Government management staff. The committee discussed WCPSS maintaining a 6% Undesignated Fund balance of the following year's county appropriation.

The University of North Carolina at Chapel Hill Institute of Government produced a document in the late 1980's with information on fund balance for local governments and school systems. The article states that school systems do not need Unreserved Undesignated Fund balances as large as local governments because the school systems are not taxing authorities. The article states smaller school systems should have an Undesignated Fund balance of 8% of general expenditures. The article further states that larger school systems such as WCPSS should be maintain Undesignated Fund balances in the range of 6% of total general expenditures.

Currently, WCPSS targets maintenance of an Undesignated Fund balance of 6% of the following year's county appropriation. This is in line with the Finance Advisory Committee consensus from two years ago, and materially less than the Institute of Government recommendation of 6% of total general expenditures.

3. Do other school systems have Unreserved Undesignated Fund balance?

Yes, other school systems have Unreserved Undesignated Fund balances. Outside of North Carolina, the Unreserved Undesignated Fund balances may be maintained at a higher rate as a result of most non-North Carolina school systems having taxing authority.

In North Carolina, the Unreserved Undesignated Fund balances vary depending on the school system. A comparison of four systems within the state showed Unreserved Undesignated Fund balance ranging from 1% of total local funding to 27% of total local funding.

Fund Balance Questions and Answers WCPSS

4. *What have Unreserved Undesignated Funds been used for in the past 5 years?*

In fiscal year 2007, Unreserved Undesignated Fund balance was appropriated by the Board of Education for Band and Strings Extra Duty Pay, the Curriculum Audit, and costs associated with the Conversion of Schools to the year round calendar.

In fiscal year 2006, Unreserved Undesignated Fund balance was appropriated by the Board of Education for the Summerford Fraud Vulnerability Audit.

In fiscal year 2005, Unreserved Undesignated Fund balance was appropriated by the Board of Education for activity and school buses.

In fiscal year 2004, Unreserved Undesignated Fund balance was appropriated by the Board of Education for activity buses.

In fiscal year 2002, Unreserved Undesignated Fund balance was appropriated by the Board of Education for activity buses.

5. *What discussions have taken place to reach consensus on the targeted amount of Unreserved Undesignated Fund balance the WCPSS should maintain?*

Two years ago, WCPSS staff and Wake County staff discussed using 6% of the following year's county appropriation to target as the Unreserved Undesignated Fund balance to be maintained. No formal action was taken by the Board of Education based upon this discussion.