

## Media Release 1/24/24 - Fund Balance

Dear Community Members,

School Finance is a very complex system so I thought it would be beneficial to provide some information that you may find useful.

### Fund Balance

Fund Balance IS: Assets (What a district owns) less Liabilities (What a district owes). It consists of cash, cash equivalents (i.e. investments), and non-cash components (i.e. taxes receivable, payables).

Fund balance is often confused as cash. However, fund balance IS NOT the equivalent of a person's savings or cash accounts. It IS NOT entirely cash that can be used for any purpose. Financial cash reserves (cash and cash equivalents) are only a portion of fund balance.

### Why are sufficient cash reserves so important?

The Mellen School District's financial cash reserves must be adequate to protect the short-term and long-term educational opportunities for our community's children against some type of financial disruption.

Insufficient cash reserves will result in the district borrowing to meet cash flow needs. Borrowing will result in an additional interest expense borne by taxpayers and fewer taxpayer dollars available for needed educational programming.

### How large should a fund balance be?

Determination of an appropriate fund balance is a critical factor in district financial planning and budgeting processes. School board policy 6235, requires the District maintain a fund balance of no less than 30% of the preceding year's Fund 10 expenditures. That equates to approximately \$1,409,477.30 The School District of Mellen currently carries a fund balance of approximately \$1,899,353.75 million. Which is roughly \$489,876.45 in excess of what is needed.

### How does the fund balance grow?

When a School District's revenue exceeds its expenditures at the end of the fiscal year, the amount remaining is called a surplus. What the School Board decides to do with the excess funds depends on the needs of the District. If the District has insufficient funds in the Fund Balance the District may choose to leave the funds there. If a District has sufficient funds in the Fund Balance the District may choose to address deferred maintenance/facility projects, move the funds into a Fund 46 for future projects, or continue to build the District's Fund Balance. The problem with the latter is that if left in

the Fund Balance the funds are no longer “aidable.” In other words, when a School District has surplus funds and doesn’t utilize those funds in an “aidable” way, the Equalization Aid of the District is negatively impacted.

### What is Fund 46?

Fund 46 is a Long-term Capital Improvement Trust Fund. The establishment of a Fund 46 requires an approved long-term capital improvement plan (minimum of 10 years) that is funded with a transfer from the general fund. The contribution from Fund 10 to Fund 46 is recorded as an expenditure for shared cost and equalization aid purposes. However, a school board is prohibited from removing money deposited into Fund 46 for a period of five years after the fund is created. After the initial five year wait period is over, funds may only be used for the purposes identified in the approved long-term capital improvement plan. The School District of Mellen developed a long-term capital improvement plan during the 2019-2020 school year and has been updating it regularly to reflect the needs of the District facilities. The School Board established a Fund 46 in May of 2020. Fund 46 currently has a balance of approximately \$110,000 and the funds will be accessible in May of 2025.

I hope you find this information helpful. As always, if you have any questions please don’t hesitate to contact me at (715)274-3601.

Sincerely,

Rhonda Elmhurst-Friemoth  
Superintendent  
Mellen School District