Why Fund Balances Are Important

1. **Fluctuations in enrollment.** Despite our best efforts to budget accurately, enrollments occasionally fall short of expectations. Staffing commitments are made prior to school opening in the fall. As a primary driver of revenues, a drop in enrollment would force schools to make program cuts without a fund balance to help fulfill the school's commitments.

2. **Cash flow.** Expenditures vary from month to month. Revenues also vary. Without a fund balance, schools would be forced to borrow money to pay the bills. Interest on loans would then be another operating expense.

3. **Grants.** Some programs are funded by grants that require schools to spend the money and then request reimbursement. This negatively affects cash flow.

4. **Emergencies.** There are some expenses caused by weather or other unforeseen events. Fund balances help address those unforeseen costs.

5. **Unanticipated costs**. In recent years, the cost of consumable goods has fluctuated significantly. The price of energy to heat the buildings and the price of fuel to operate pupil transportation are just two examples of very significant costs that can be extremely difficult to predict. Without an adequate fund balance, programs would have to be curtailed mid-year to offset dramatic costs.

6. **Opening new schools.** State funding is not adequate to provide all that is necessary to open a new school. Additional staffing requirements, utilities, insurance, etc., dramatically increase operating costs. Enrollment growth will lessen the financial impact over time. A fund balance can address those costs without impacting programs in other buildings.

7. **Starting new programs.** The start-up costs for new programs typically exceeds the on-going operational costs. <u>If reliable revenue sources exist for on-going costs</u>, the fund balance may address one-time set up costs for a new program.

8. **Maintaining favorable bond ratings**. A significant fund balance indicates financial health and earns a district a higher bond rating. A higher the bond rating reduces the interest rate paid on bond debt. This reduced interest rate on long-term debt is a savings to tax payers.

9. **Fund balances earn interest**. Fund balances are invested in interest earning accounts. The interest earned becomes revenue the district can use for operating costs. Often districts are able to fund one or more teaching positions by interest earned on the fund balance. This is also a savings to the tax payer.

Washington Association of School Administrators
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