

Operational Services

Fund Balances 1

The Superintendent or designee shall maintain fund balances adequate to ensure the District's ability to maintain levels of service and pay its obligations in a prompt manner in spite of unforeseen events or unexpected expenses. The Superintendent or designee shall inform the Board whenever it should discuss drawing upon its reserves or borrowing money.

The School District seeks to maintain a year-end fund balance to revenue ratio of no less than the range of 15-20 percent, as calculated under the Ill. State Board of Education's School District Financial Profile of the annual expenditures in each fund. ²

CROSS REF.: 4:10 (Fiscal and Business Management), 4:80 (Accounting and Audits)

The footnotes are not intended to be part of the adopted policy; they should be removed before the policy is adopted.

¹ This optional policy is at the local board's discretion. Its intent is to help the board monitor the district's financial health and allows a board to clarify its expectations for maintaining fund balances. A board must modify the policy to reflect realistic targets after considering important financial and operational issues, such as current financial practices, long term projects, standards of fiscal health, and the current budget. A board facing a doubting and demanding employee union may want to obtain an objective opinion from an outside auditor before adopting this policy.

² Optional. Pursuant to its authority under 105 ILCS 5/1A-8, the Ill. State Board of Education (ISBE) developed the School District Financial Profile to help monitor the finances of school districts and identify those districts moving toward financial difficulty. A district's total profile score (and corresponding profile designation) is based on four weighted indicators: (1) fund balance to revenue ratio (35%), (2) Expenditure to Revenue Ratio (35%), (3) days cash on hand (10%), and (4) percent of short-term and long-term borrowing ability remaining (10% each). See www.isbe.net/Documents/OEPP-PCTC-Profile.pdf for a detailed explanation of the calculation of the School District Financial Profile and designations. This policy addresses the first factor in a district's Financial Profile, which, according to ISBE, "reflects the overall financial strength of the district." A target of 25% or higher for a district's fund balance to revenue ratio would result in a school district being in the lowest risk category for this factor of the district's Financial Profile. ~~receiving the highest category of financial recognition from ISBE.~~ The following alternative is for a district with fund balances deemed not currently adequate:

The School District will seek to establish year-end fund balances representing _____ percent of the annual ~~expenditures-revenues~~ for each operating fund by budgeting a surplus in each fund.

Operating fund refers to the Educational, Operations and Maintenance, Transportation, and Working Cash Funds. See www.isbe.net/Documents/OEPP-PCTC-Profile.pdf. The board should ask the administration to prepare a multi-year cash flow projection to validate the sufficiency of the target figure. ~~This figure is one of two components used to compile the ISBE School District Financial Profile, which includes a category called "Days Cash on Hand," among others. For more information, see www.isbe.net/Documents/profile.pdf and www.isbe.net/Pages/School-District-Financial-Profile.aspx.~~

Note: If the board maintains a fund balance at the start of a fiscal year that is two or more times the average expenditures of that fund (over-based on the past three fiscal years), it may face a tax rate objection based on excess accumulation of funds. See e.g., Central Ill. Public Service Co. v. Miller, 42 Ill.2d 542 (1969); Allegis Realty Investors v. Novak, 379 Ill.App.3d 636 (2nd Dist. 2008). Whether such an objection has merit depends on a number of factors, including the type of fund at issue and/or reason(s) for the excess accumulation. Consult the board attorney for further guidance regarding fund balances and related tax rate objections.