River Trails School District 26 Board of Education Fund Balance Position Paper
Date: April 21, 2015

The District 26 Board of Education recognizes the importance of sound financial planning and being fiscally responsible stewards of its revenue. As a result, the Board of Education has taken the following position concerning the District's Fund Balance.

- A unit of local government, based on its own policies, reserves a fund balance through intentional actions. Local governments maintain fund balances which are not intended to loan, underwrite, or otherwise subsidize another governmental body.

- It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to maintain stable tax rates. The largest source of income for our school district is property tax revenues, which flow to the district twice throughout the year. As a result, it is imperative that the district has cash on hand to meet expenses until property tax revenue is received. Fund balances are affected by inconsistent tax distributions. Illinois law requires the fall tax bills to be paid by August 1, but it is only over the last three years that taxes have been distributed by this date. With debt payments due on December 1, any delays in tax distributions could cause our district to borrow money, an expensive proposition in a volatile economy.

- Building and maintaining an adequate fund balance is a prudent fiscal responsibility with increasingly critical benefits for any governmental body. These include the ability of the body to:
    - stabilize year-after-year educational performance,
    - minimize educational service disruptions,
    - maintain cash on hand to counter unanticipated cash flow shortfalls,
    - address emergency situations, particularly those that threaten health and life safety,
    - fund educational facility growth and re-purposing opportunities,
    - enhance credit rating strength and increase access to debt markets at lower interest costs, and
    - increase long-term fiscal performance.

- Fund balances can be temporarily affected by a district's need to meet its obligations, such as by using inter-fund loans, abolishment of the Working Cash Fund, or by issuing Tax Anticipation Warrants or Working Cash Bonds.

- An appropriate level of fund balance is determined based on multi-year analysis of the district's finances and with an expectation of consistent funding.

- To be considered for the Illinois State Board of Education (ISBE) Certificate of Financial Recognition's 4.0 score, a minimum of **180 days** cash on hand must be achieved (this is a minimum of 6 months requirement). Financial Recognition directly impacts the assignment of the district's bond rating and affects interest rates for short-term and long- term debt. ISBE requires any district budgeting a deficit to have three times the deficit in fund balance to avoid filing a deficit reduction plan.

- Fund balance and cash flow can be affected by inconsistent tax distribution. Inadequate fund balances may force a district to issue tax anticipation warrants to meet obligations should their fund balance not be enough to cover outstanding obligations requiring the issuance of additional debt and increasing the amount of interest paid on that debt.

- A district's credit rating, as determined by Moody's or Standard & Poor's, is impacted by its fund balance and can potentially increase both the need for short-term borrowing and the interest paid on that debt. Under the most adverse circumstances, fund balance implications can also impact whether a district can issue debt or not. The D26 Moody's bond rating report of Aa2 is based on "sound financial operations supported by healthy reserves". The bond rating report also indicated that "continued operating deficits with an associated decrease in General Fund reserves" could adversely affect future bond ratings.

Due to Moody's recommendation that reserve levels should be maintained, the Board should target a fund balance to be in the 50% to 55% range representing approximately six to seven months of operation.

The Board Finance Committee will review fund balance levels on an annual basis. The Finance Committee will use the following guidelines to determine the need for an action plan, considering five year revenue and expenditure projections and capital project expenditures needed for long-term facility improvement planning and life safety requirements:

1. When the audited, end-of-fiscal-year operating fund balance percentage falls below 50% and the following year's budget remains below 50%.

2. When the projected operating fund balance is over 55% for a three year period.

The Finance Committee will reevaluate this Fund Balance Position Paper every three years taking into account demographic changes, student and community needs, and revenue resources.

The Board of Education continues to be prudent and fiscally responsible with regard to District 26's Fund Balance and the ever-changing financial situation facing Illinois school districts.