

School Funding in Plain Language

Okay ... so what does all this information about contingency funds and fund balances really mean, in language we can all understand?

Think of it this way:

Fund Balance

You own a house, a couple of vehicles, furniture, and a few investment accounts, such as a retirement fund. These things have value. They are your assets.

But you probably have a mortgage on the house and may be making payments on your vehicles. You probably have some other debt as well, such as credit card bills. These are your liabilities.

The difference between what you own and what you owe is your equity. In the world of school finance, that is your fund balance.

“Equity” is not an actual pile of money that you can put your hands on. The only way you can make equity “real” would be to sell what you own and pay off what you owe, and then you would have whatever is left over.

Contingency Funds

Most of us earn a paycheck and/or have other sources of income coming in.

But each week, we also spend money ... on bills, eating out, going to the movies or whatever.

The difference between what comes in and what goes out is either a surplus or a deficit. If you make more than you spend, you have money left over, and that is a surplus. If you spend more than you make, that is a deficit. In the world of school finance, these figures (either surplus or deficit) are your contingency fund.

School districts are required by law to maintain at least a 2% contingency fund. In other words, we have to bring in at least 2% more than we spend. This isn't much of a cushion; this figure really should be at least 5%. In real life, we know that when people get laid off from a job, or if they have unexpected expenses such as roof damage from an ice storm, the person who had been putting money aside in a savings account is better off than the person who had little or no savings.

In the meantime, however, if you have a contingency fund (that savings account we just mentioned) and you don't spend it, it becomes part of your assets (fund balance). So for school districts, the fund balance is part of the contingency fund, but they are not the same thing.

The legislature is talking about taking part of our schools' fund balances to help balance the state budget. As you can see from these examples, that is not a good idea and won't work. They should be looking at districts' contingency funds. Any district with a contingency (savings) of 5% or less should be left alone. They need that money to meet expenses. A district with more than 5% should be able to explain what they intend to spend that money on. There are many good reasons; maybe they are saving up to build a new school.

What's the real bottom line? As I've said before and will say again: Education is not an expense ... it is an investment. The futures of our community and children deserve our support!

– Tom Shelton

Superintendent, Daviess County Public Schools