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# Planning Strategies for Cash Reserve (Fund Balance)



Wisconsin Association of School Business Officials  
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Discover the *Baird Difference*

# Objectives

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## ***After today's session, attendees will:***

- **Differentiate** between fund balance and cash
- **Summarize** the how the cash portion of fund balance is used
- **Identify** long-term planning and fund balance policy considerations

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# Fund Balance Basics

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*Fund Balance  $\neq$  Cash*

# Fund Accounting

Balance Sheet

Operational Statement

Assets

Liabilities

Equity  
a.k.a. Fund  
Balance

Revenues

Expenditures

Increases  
Equity

Decreases  
Equity

# What is Fund Balance?

**Fund balance  $\neq$  cash!**

## Assets

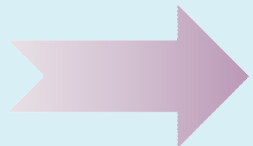
- Cash
- Investments
- Prepays
- Receivables
  - Tax levy
  - Equalization aid
- \$ from other districts

## Liabilities

- Payroll payables
- Payroll liabilities (FICA, WRS, etc.)
- Cash flow borrowing

## Equity

- aka, **Fund Balance**



**Note:** Physical assets and liabilities, such as buildings, land and furniture, etc. are not included in fund balance calculation

# Fund Balance Reporting

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- Balance changes daily but is reported as of June 30<sup>th</sup>
- Fund 10 fund balance is typically referenced
- June 30 balances:
  - Increase / decrease because of revenue or expenditure activity
  - Are reported based on how they will be used



# Fund Balance Reporting

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June 30 reporting requirements vary by fund:

Fund 10

- Most common reference
- Most likely to fluctuate year-to-year

Funds 27 and 50

- Cannot be negative
- Transfer from Fund 10 if needed

Funds 38 and 39

- Fund balance  $\geq$  fall payment amounts

Fund 49

- Will decrease as projects are completed

Fund 99

- \$0 at year-end



# Fund Balance Classifications

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*Most Restrictive*



*Least Restrictive*

## **Non-Spendable Fund Balance**

- Prepaid expenses & inventory

**DPI Code**

**935 000**

## **Restricted Fund Balance**

- Self-insurance, contracts, debt, legal restrictions

**936 000**

## **Committed Fund Balance**

- Formal Board action, part of budget, restricted donations

**937 900**

## **Assigned Fund Balance**

- Board assigned, capital projects, budgeted

**938 900**

## **Unassigned Fund Balance**

**939 900**

Committed Fund Balance Example





# Unassigned Fund Balance Sub-Classifications

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- Unassigned can be viewed as not needed
- Local definitions can further define use

**939 100 Revenue Stabilization**

- “Rainy day funds”

**939 200 Working Capital (Cash Flow)**

- Used to reduce or eliminate temporary borrowing

**939 300 Contingencies**

- Circumstances or situations that could result in loss

**939 400 Emergencies**

- Unplanned, unexpected loss or “Acts of God”

**939 900 Other**

- Basically, not identified for any use

# Fund Balance vs. Cash

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## In Summary

1. Fund balance  $\neq$  cash
2. Balance changes daily but is typically reported as of June 30<sup>th</sup>
3. Fund 10 Fund Balance is typically referenced



*How is the cash portion of fund balance used?*



**To pay the bills!**

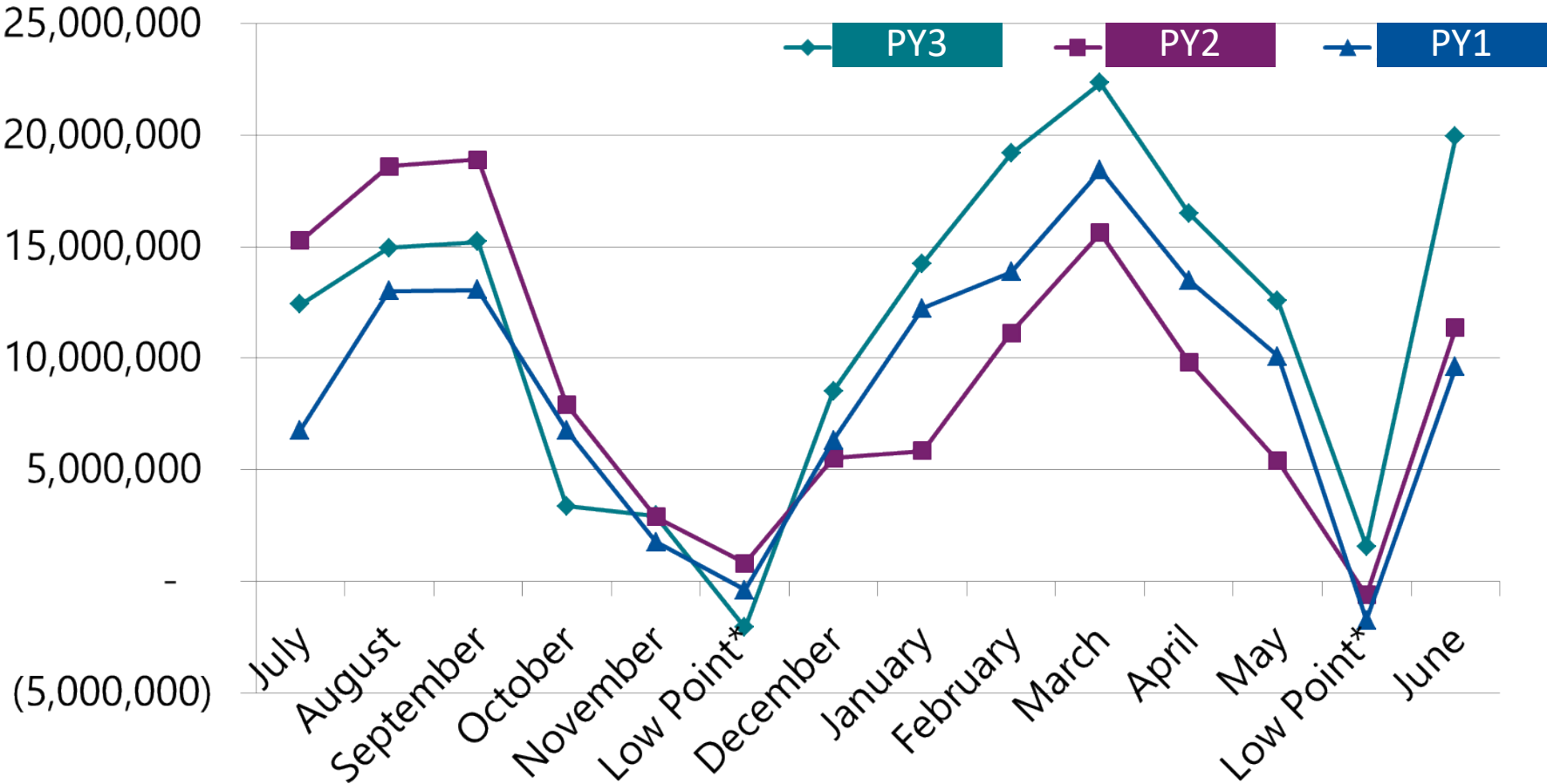
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# Cash is an Important Component of Fund Balance

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# Typical Change in Monthly Cash Balance



This is a hypothetical example and for illustrative purposes only

# Cash Flow Fluctuations

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**1. Expenditures** are fairly constant throughout the year

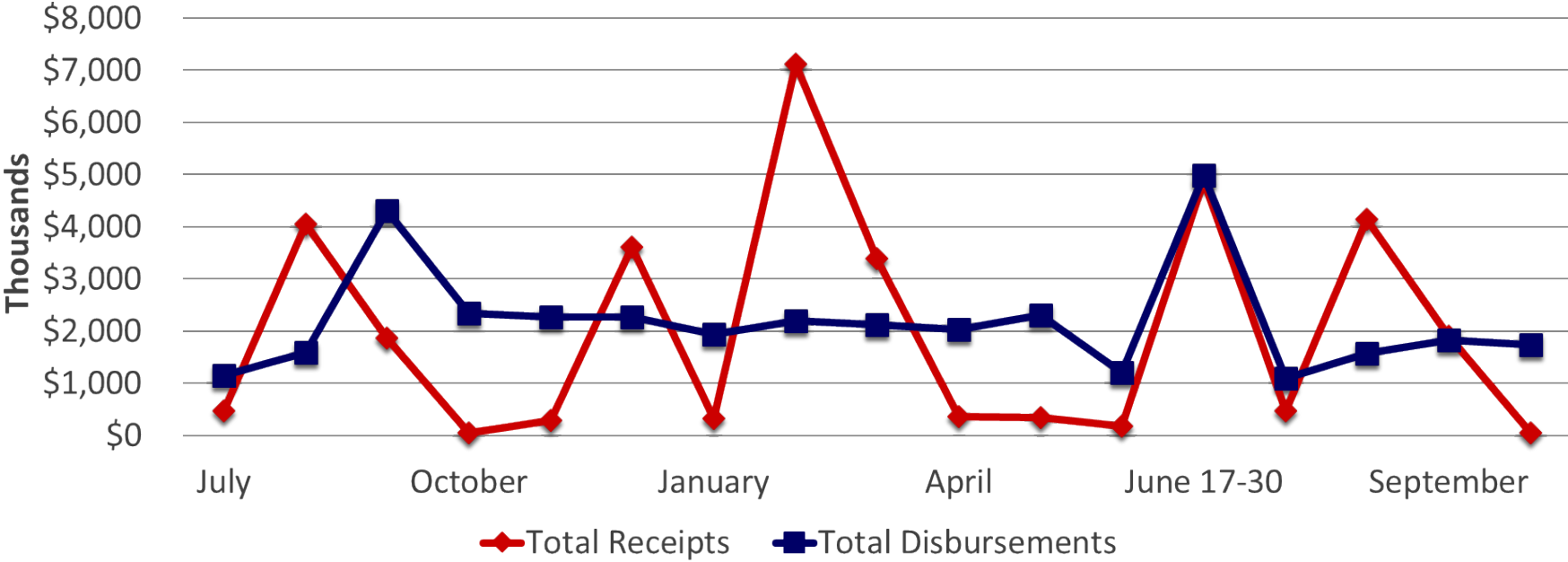
- a) Salaries/fringe are typically 75-85% of budget
- b) Payroll is typically spread over 21, 24 or 26 pay periods
- c) End-of-year pay adjustments are sometimes needed

**2. Revenues** received sporadically throughout the year

- a) **Tax levy** is received in the last 6 months of the school year, with the final payment made in August of the next school year.
- b) 85% of Equalization Aid is paid over the last 6 months of the school year, with a small final payment made in July of the next school year.

	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Tax Levy		X					X	X		X		
Equalization Aid	X		15%			25%			25%			35%
Special Ed Aid					15%	15%	15%	15%	15%			25%
Per Pupil Aid									100%			

# Receipts vs. Disbursements



This is a hypothetical example and for illustrative purposes only

# Fund Balance vs. Cash

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## ***In Summary:***

**#1**

- Fund and cash balance needs differ by district

**#2**

- A district can have a seemingly-high fund balance and still not meet cash flow needs

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# Policy & Practice

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# Common Questions

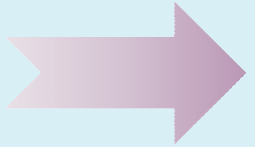
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1. *How do I determine a sufficient fund balance?*
2. *What is good policy and practice?*
3. *When is it appropriate for a fund balance to increase or decrease?*

# Determining Sufficient Fund Balance

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## ***How large of a fund balance?***



Determination is strictly a local matter.

*According to DPI, a district with an appropriate fund balance can:*

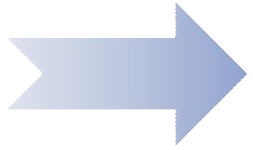
1. Avoid interest cost and time lost associated with borrowing
2. Make special purchases or cover unforeseen expenditure needs
3. Lower debt issuance cost and preserve or enhance its bond rating by demonstrating financial stability

**Said another way:**

*"An amount sufficient to avoid short-term borrowing and to realize long-range goals."*

# Determining Sufficient Fund Balance

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***In practice this means...***

Evaluate your district-specific cash flow cycle

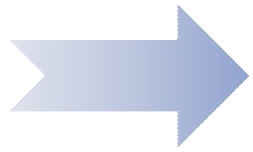
Insulate against instability and/or loss of revenue

Protect balances as they are difficult to rebuild

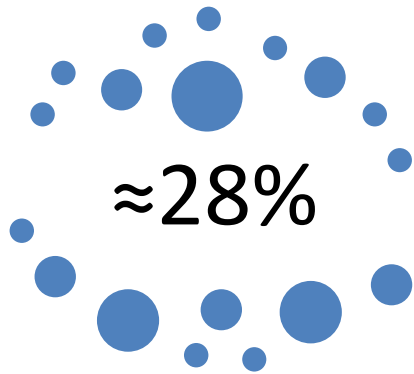
Consider district variables and their long-range impact

# Determining Sufficient Fund Balance

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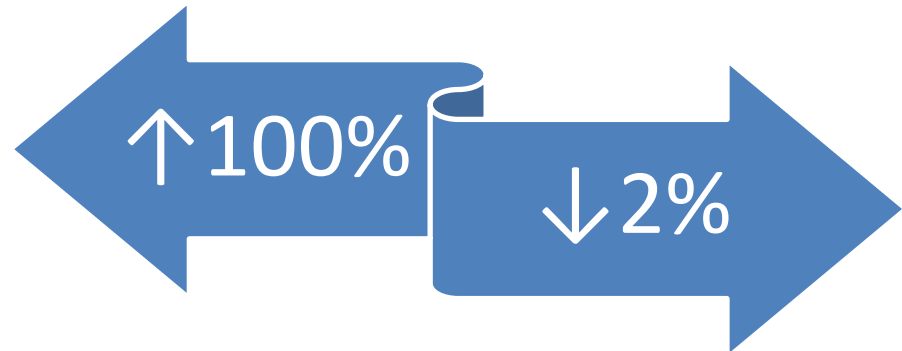


**2021-22 Audited Data Showed**



of districts paid  
Temporary  
Note Interest

Districts' Fund Balances as a % of  
Expenditures Ranged from:



# Fund Balance Policy and Practice

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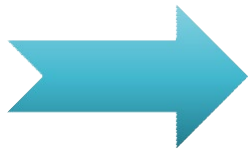
Have a Fund Balance Policy  
Ensure Policy = Practice

## Fund Balance Policies

1. Identify and define funds and definitions for fund balances
2. State the General Fund balance level and rationale
  - a) Examples:
    - A minimum of x%
    - Sufficient level so to avoid cash flow borrowing
    - Others?
3. Establish the order of spending when various fund balance funding sources exist (Restricted, Committed, Assigned, and Unassigned)
4. Address the restoration of General Fund Balance

# Fund Balance Policy and Practice

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***Rating agencies provide universal view of school finances***

Fund balance is important

Higher fund balance is looked upon favorably

Consistency of fund balance is important

Use of fund balance should be explained

- Best if used only for one-time purpose
- Best if commitment is shown to rebuild

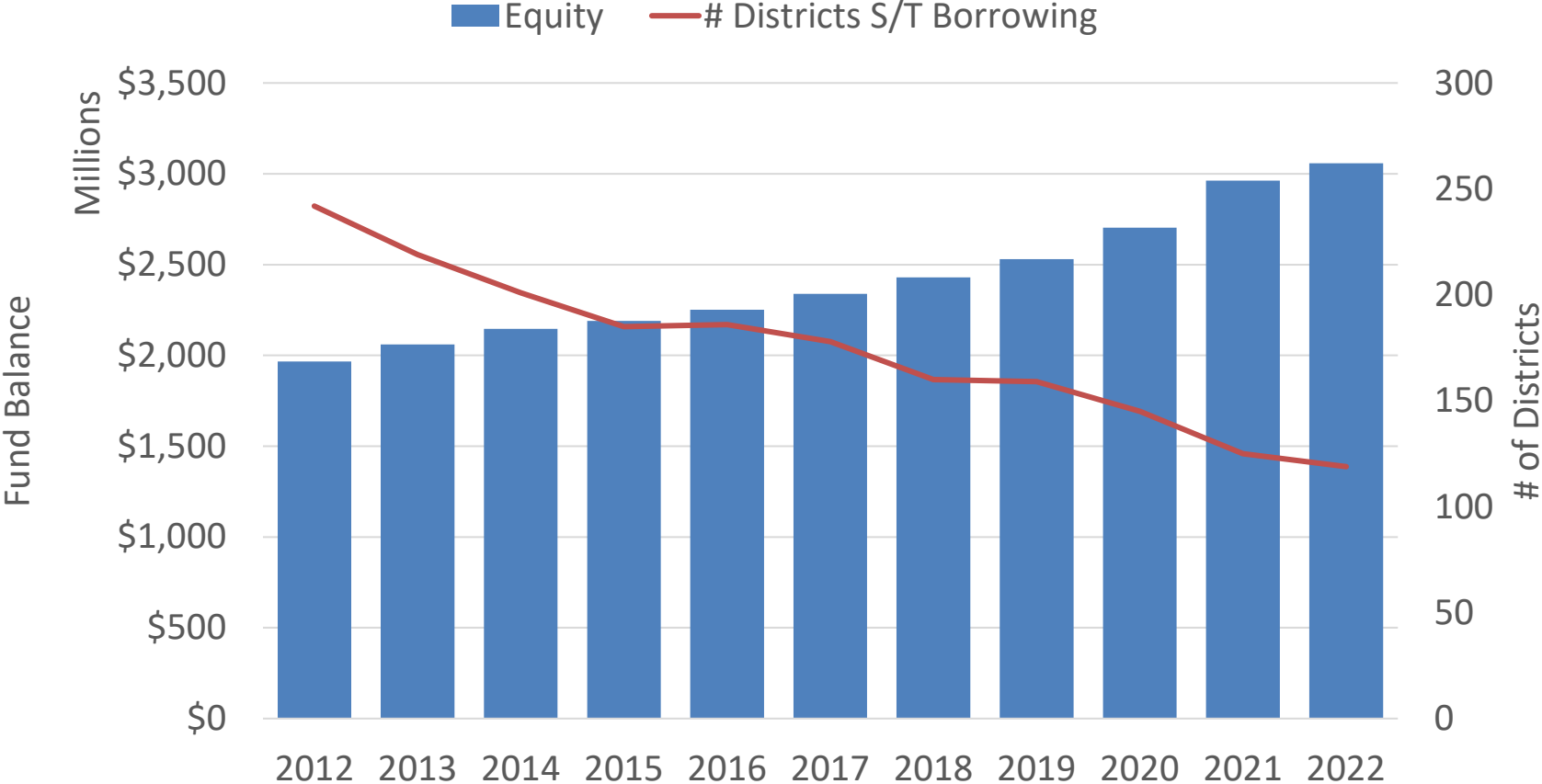
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# Long-Term Planning and Fiscal Health

# Fund Balance Policy and Practice

## State-Wide Fund 10 Fund Balance / Temporary Borrowing Trend



Source: Department of Public Instruction



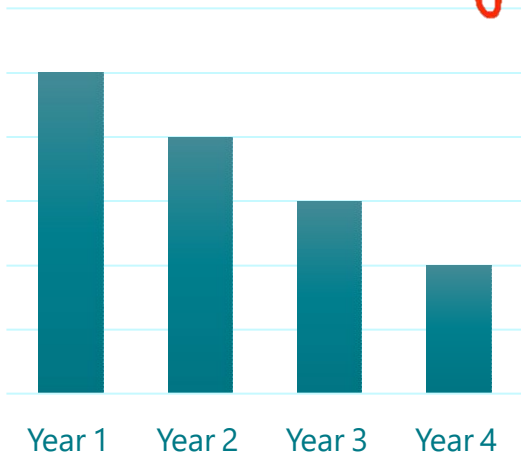
# Fund Balance Policy and Practice

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## FUND 10 FUND BALANCE PRACTICES – COMMON INTERPRETATIONS

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### Sample Fund Balance



### Result of **deficit** budgets:

- Are they due to one-time or ongoing expenses?
- Is this planned / purposeful?
- Does the district still meet policy and cash flow needs?
- Does the district need to increase revenues or decrease expenditures to address?
  - How will this impact instruction?
  - Is an operational referendum needed instead?

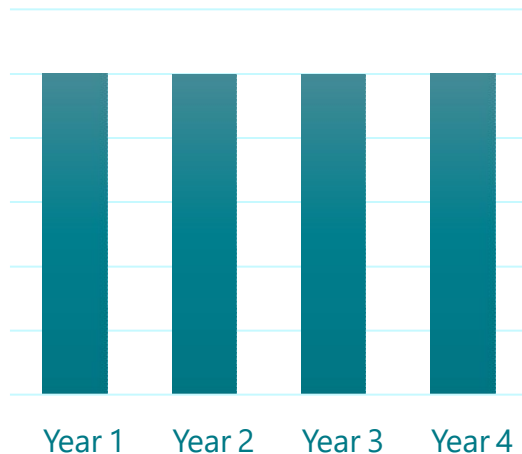
# Fund Balance Policy and Practice

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## FUND 10 FUND BALANCE PRACTICES – COMMON INTERPRETATIONS

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### Sample Fund Balance



### Result of **balanced** budgets:

- Is this planned / purposeful?
- Does the district meet policy and cash flow needs?
- Does the district need to increase revenues or decrease expenditures to address?
  - How will this impact instruction?

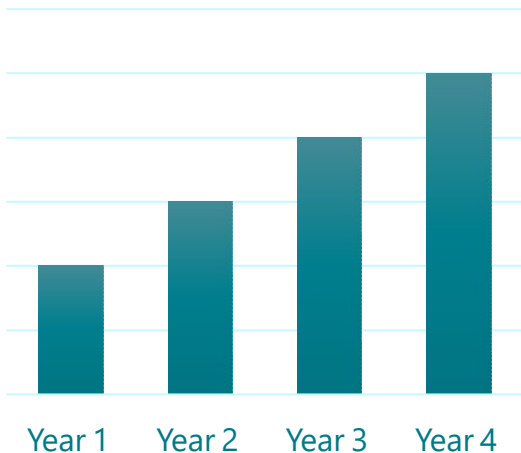
# Fund Balance Policy and Practice

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## FUND 10 FUND BALANCE PRACTICES – COMMON INTERPRETATIONS

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### Sample Fund Balance



### Result of **surplus** budgets:

- Is this planned / purposeful?
- Does the district meet policy and cash flow needs?
- Is this forecasted to continue?
  - Are there instructional needs to address?
  - Would Funds 41, 46 or 73 be beneficial?
  - Can we prepay Fund 38 debt?

# Long-Term Planning and Fiscal Health

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## Districts with a strong fund balance can:

- Adjust for funding unknowns
- Meet monthly cash flow needs

## Districts who support fund balance practice and policies:

- Educate stakeholders regarding what fund balance is (and is not)
- Verify fund balance policy meets district long-term goals
- Avoid using fund balance for ongoing expenses

# Conclusion

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1. Fund balance  $\neq$  cash
2. Typically reported as of June 30<sup>th</sup>
3. Common reference is Fund 10
4. Needs differ by district
  - a) A district can have a seemingly-high fund balance and still not meet cash flow needs
5. Spending fund balance (annual expenditures  $>$  annual revenues) on ongoing expenditures not advised
6. Have a fund balance policy and make sure policy = practice
7. Plan for the short and long-term

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Thank you! Questions?

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# Important Disclosures

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