

Planning Strategies for Cash Reserve (Fund Balance)

Wisconsin Association of School Business Officials
2022 Fall Conference

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CESA #1



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Discover the *Baird Difference*

Objectives

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

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

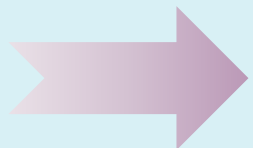
- Cash
- Investments
- Prepays
- Receivables
 - Tax levy
 - Equalization aid
 - \$ from other districts

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

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



Fund Balance Reporting

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

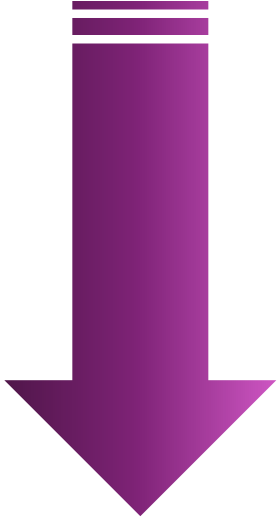
- Will decrease as projects are completed

Fund 99

- \$0 at year-end



Fund Balance Classifications

		<u>DPI Code</u>
Most Restrictive  Least Restrictive	Non-Spendable Fund Balance <ul style="list-style-type: none">• Prepaid expenses & inventory	935 000
	Restricted Fund Balance <ul style="list-style-type: none">• Self-insurance, contracts, debt, legal restrictions	936 000
	Committed Fund Balance <ul style="list-style-type: none">• Formal Board action, part of budget, restricted donations	937 900
	Assigned Fund Balance <ul style="list-style-type: none">• Board assigned, capital projects, budgeted	938 900
	Unassigned Fund Balance	939 900

Committed Fund Balance Example



Unassigned Fund Balance Sub-Classifications

- 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

In Summary

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



How is the cash portion of fund balance used?



To pay the bills!

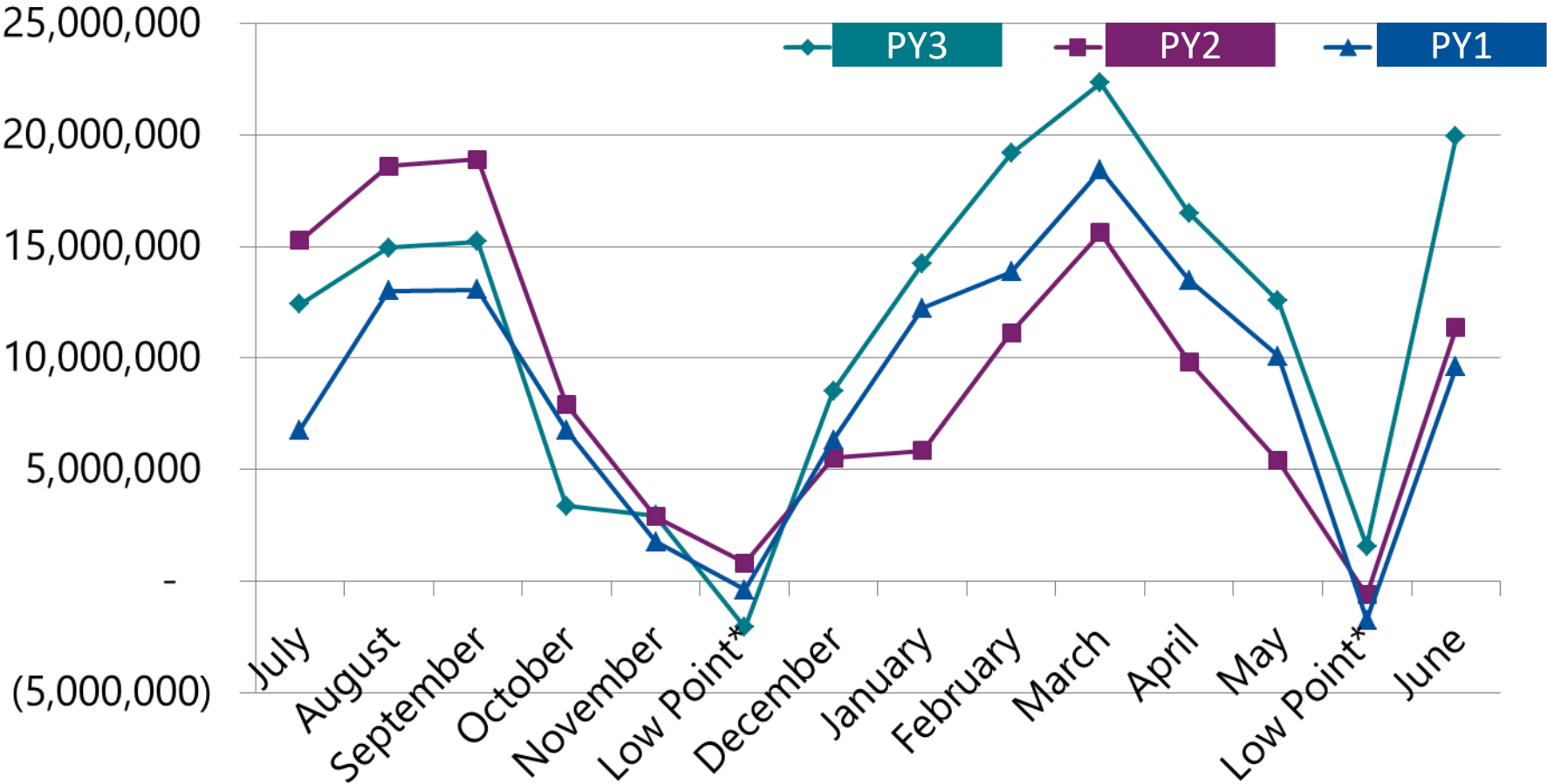
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Cash is an Important Component of Fund Balance

Typical Change in Monthly Cash Balance



This is a hypothetical example and for illustrative purposes only

Cash Flow Fluctuations

1. Expenditures are fairly constant throughout the year

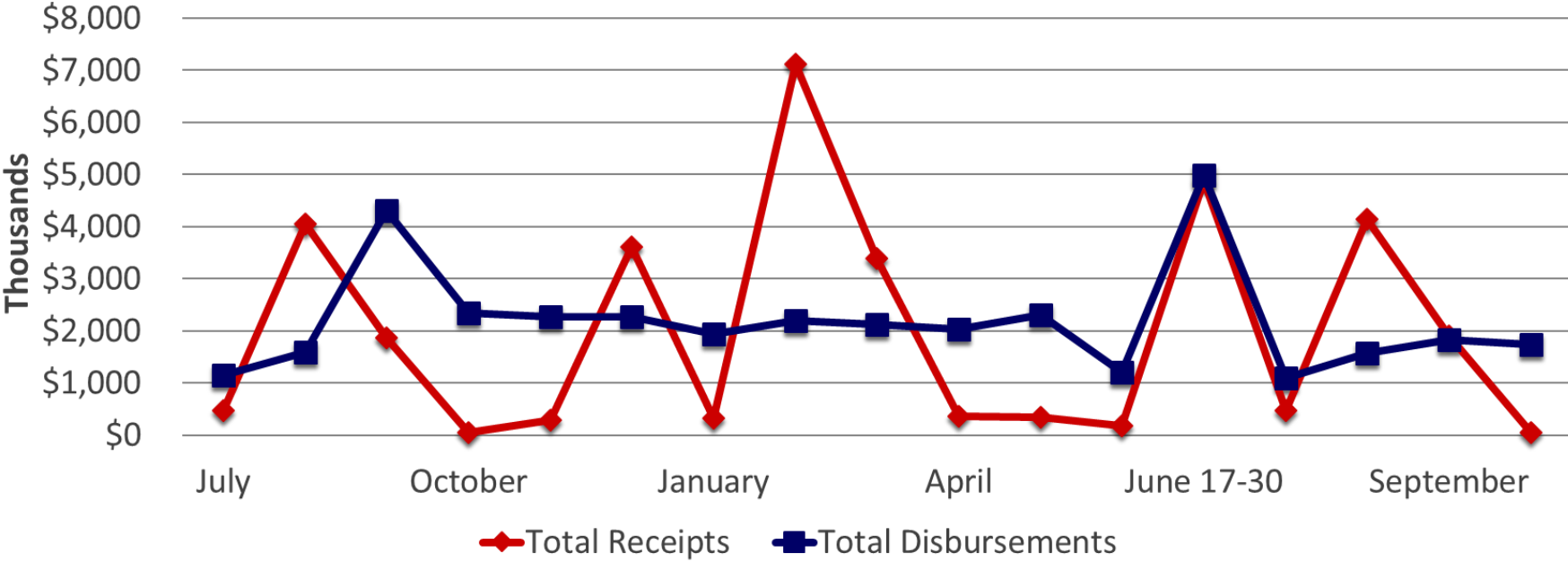
- a) Salaries/fringe are typically 75-85% of budget
- b) Payroll is typically spread over 21, 24 or 26 pay periods
- c) End-of-year pay adjustments are sometimes needed

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

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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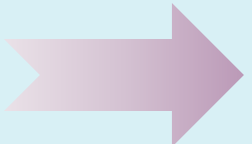
Policy & Practice

Common Questions

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

How large of a fund balance?

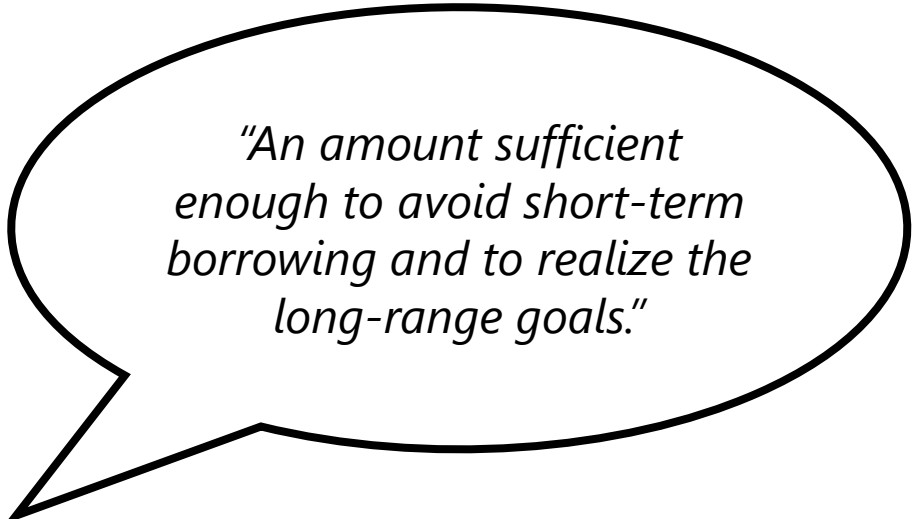


Determination of an appropriate fund balance is strictly a local matter.

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

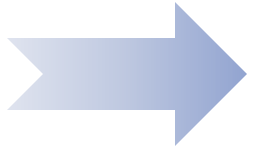
1. Avoid interest cost and time lost associated with borrowing
2. Make special purchases or cover unforeseen expenditure needs
3. Lower debt issuance cost and preserve or enhance its bond rating by demonstrating financial stability

Said another way:



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

Determining Sufficient Fund Balance



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

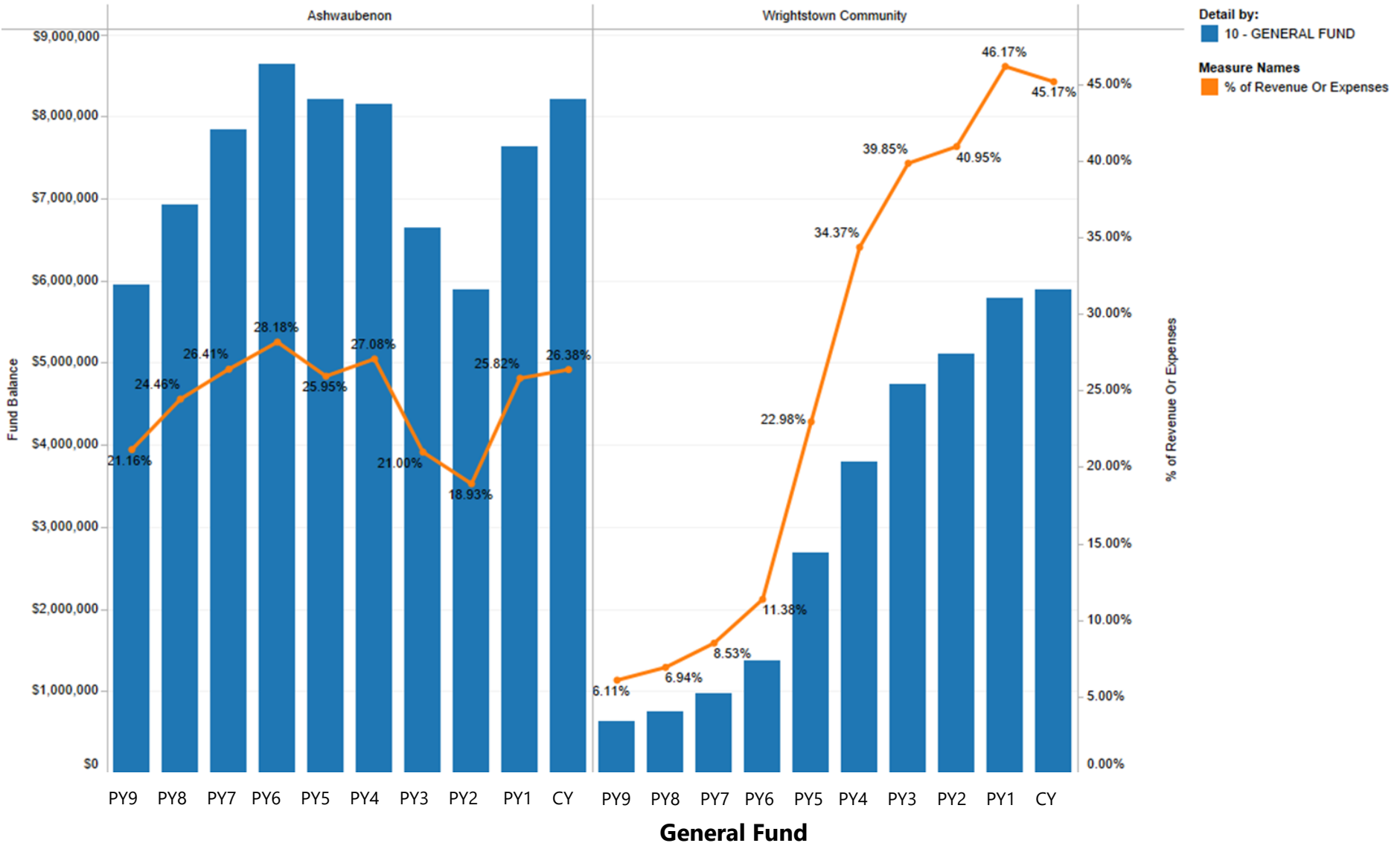
Determining Sufficient Fund Balance

What to review:

- Enrollment pattern and impact on revenue limit
- Local tax collection history
- Level of budget support for grants
- Asset position (age & condition of buildings, sites, and equipment)
- Relationship between cash flow and cash reserve (cost of borrowing)
- Existing debt
- New programs on the horizon
- Current and near-term economic environment
- Bond rating and effect on future debt

Determining Sufficient Fund Balance

Fund Balance by Fund and Percentage (shown as a % of expense)



Fund Balance Policy and Practice

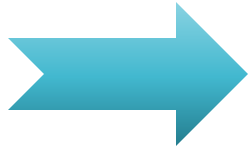


Have a Fund Balance Policy
Ensure Policy = Practice

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



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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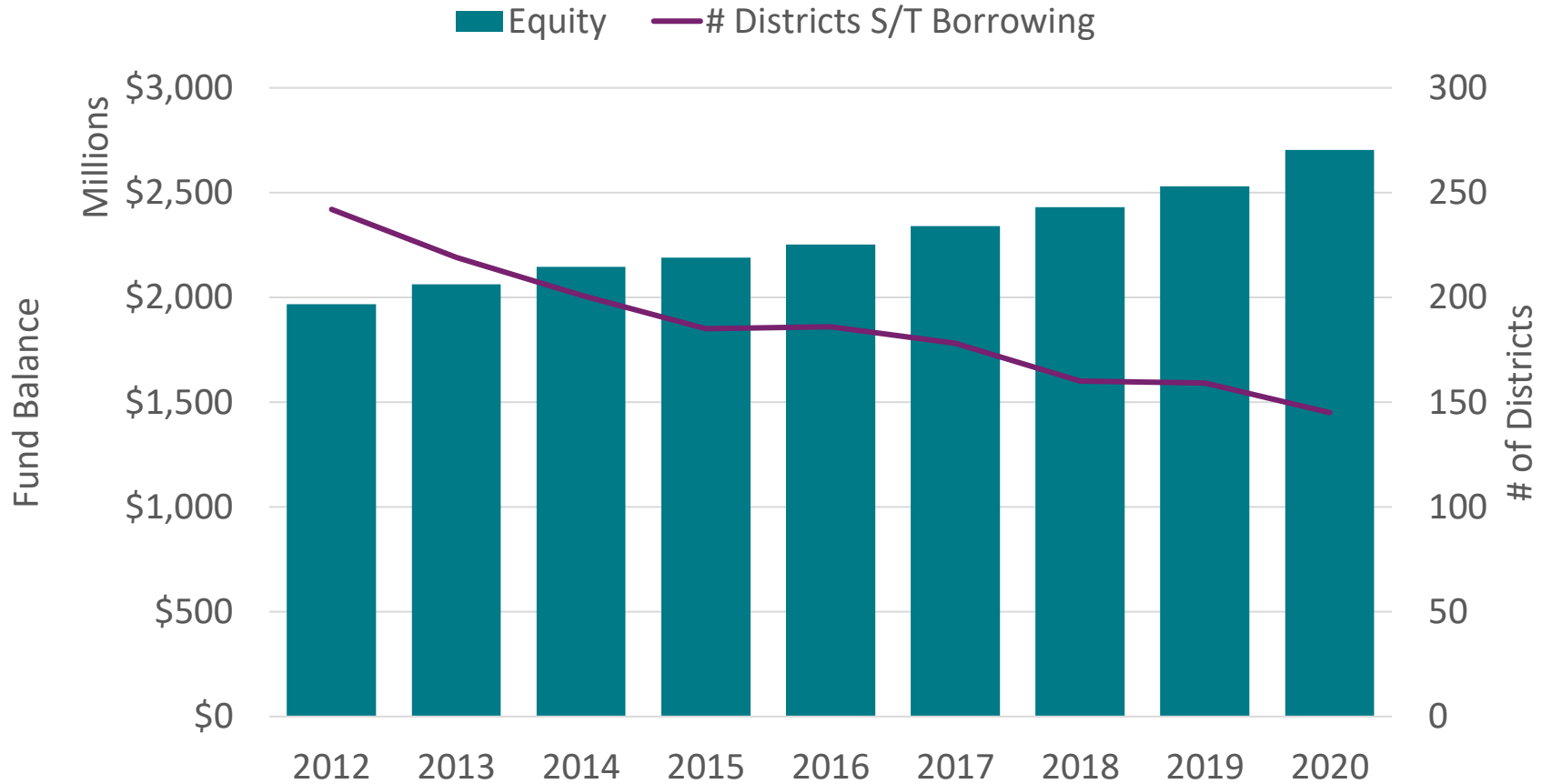
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Long-Term Planning and Fiscal Health

Fund Balance Policy and Practice

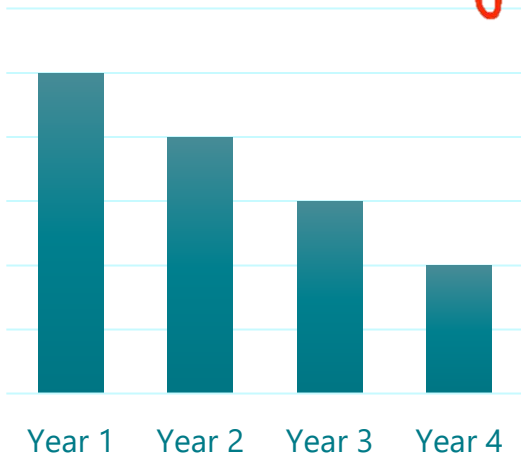
State-Wide Fund 10 Fund Balance / Temporary Borrowing Trend



Fund Balance Policy and Practice

FUND 10 FUND BALANCE PRACTICES – COMMON INTERPRETATIONS

Sample Fund Balance



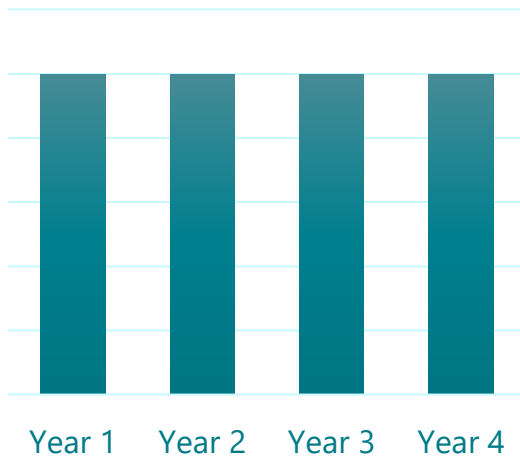
Result of **deficit** budgets:

- 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

FUND 10 FUND BALANCE PRACTICES – COMMON INTERPRETATIONS

Sample Fund Balance



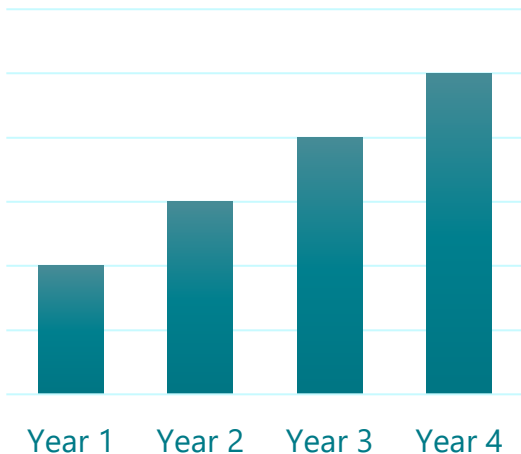
Result of **balanced** budgets:

- 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

FUND 10 FUND BALANCE PRACTICES – COMMON INTERPRETATIONS

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

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

1. Fund balance \neq cash
2. Typically reported as of June 30th
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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