

# Cash Flow Workshop

A SPECIAL PRESENTATION FOR THE  
ORANGE COUNTY DEPARTMENT OF  
EDUCATION

OCTOBER 19, 2009

Presented By:

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FISCAL INTERVENTION SPECIALIST  
FCMAT



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# Cash Flow Workshop

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## Workshop Topics 1

- Cash Flow Concepts
- Preparing a Cash Flow
- Cash Flow Exercise
- Cash Borrowing
- Recognizing Trouble




# Cash Flow Concepts



Cash Flow Concept 2

*Cash is King!*



## What is Cash Flow?

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- What is "cash flow"?
  - The difference between the available cash balance at the beginning of an accounting period compared to the available cash balance at the end of the accounting period, as defined by a pattern of income and expenditures
- The easiest way to think of the concept of cash flow – it is the actual inflow and outflow of funds



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## The Importance of Cash Flow

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- Cash Flow is an important factor in determining the fiscal health of a local educational agency (LEA)
- Many LEAs are using their reserves to balance their budget
  - Using reserves affects future cash flow
    - Less reserves means less cash
- It is possible to maintain the mandated level of economic reserves yet be out of cash
- Cash shows no mercy – you either have it, or you don't



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## State Cash Flow Management

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- In a typical year there is a natural mismatch of revenues to expenditures
- The majority of the state's revenue is received late in the fiscal year
- The state needs to borrow cash to smooth out its cash deficits
- The state uses both internal and external borrowing sources
- Internal sources are mainly state special funds
- External sources are:
  - Revenue Anticipation Notes (RANs)
  - Revenue Anticipation Warrants (RAWs)

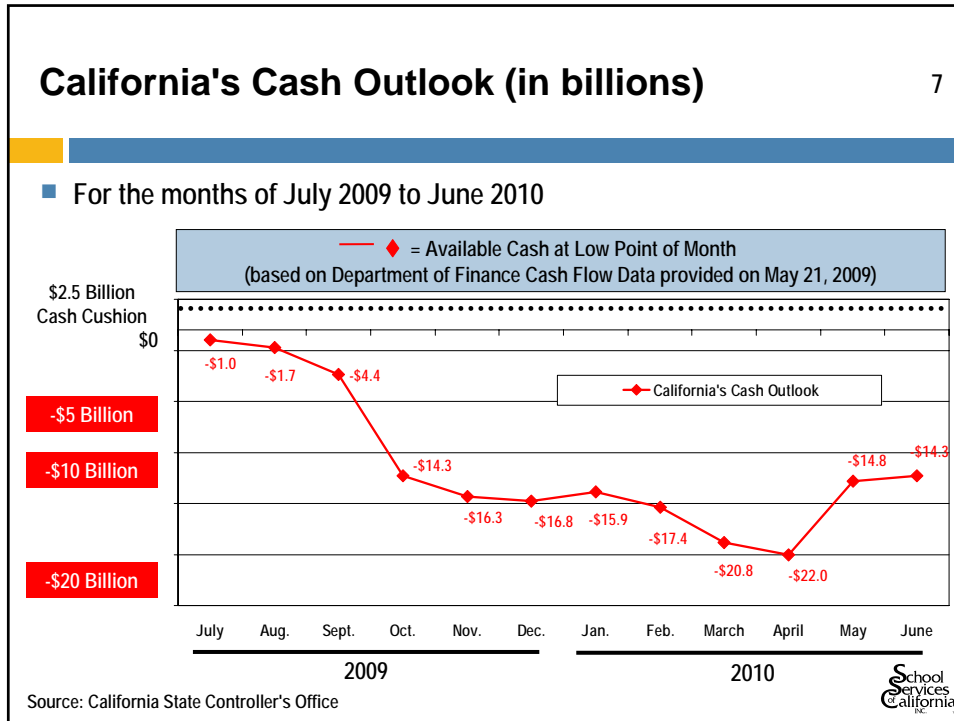


## State Cash Flow

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- As the state continues to have shortfalls in revenue it must have a means to improve its cash flow
  - Deferrals have been the key to improving that state's cash situation but have become detrimental for LEAs
- Cash flow will continue to be challenging to manage for LEAs as deferrals are added, increased, or lengthened





### Budget vs. Cash 8

- Budgets and cash flow plans are separate documents
  - Budgets are revenue and expenditure plans that balance out over the course of an entire year
  - Cash flow plans detail how an entity will meet its expenditures each month and will indicate when an entity has to use borrowing options to meet its cash demands
- In good years, when revenues keep pace with expenses and there are no deferrals, the cash flow situation for LEAs improves
- But, in bad years, when deferrals exist and expenditures outpace revenues, cash flow deteriorates
  - And the need to borrow and the frequency of borrowing increases

## The Cash Concept

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- It is often difficult to conceptualize what is “cash”
- Assets – Liabilities = Fund Balance
  - But is the Fund Balance cash?
    - No because:
      - Assets are not all cash
      - Liabilities are accrued debts
    - Therefore the Fund Balance is not all cash



## So What is Cash?

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- Cash is what you have liquid or available on demand
  - Funds in the County Treasury
    - Funds In Banks
    - Funds In Revolving Accounts
    - Funds with Fiscal Agents



## The Rest of the Asset Picture

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- Cash Equivalents
  - Investments
  - Accounts Receivable
  - Due from Grantor Government
  - Due form other funds
- Assets
  - Stores
  - Prepaid expenditures
  - Fixed assets
  - Other current assets



## General Ledger Review – Assets

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Description	Object Codes
ASSETS	
1) Cash	
a) in County Treasury	9110
1) Fair Value Adjustment to Cash in County Treasury	9111
b) in Banks	9120
c) in Revolving Funds	9130
d) with Fiscal Agent	9135
e) Collections Awaiting Deposit	9140
2) Investments	9150
3) Accounts Receivable	9200
4) Due from Grantor Government	9290
5) Due from Other Funds	9310
6) Stores	9320
7) Prepaid Expenditures	9330
8) Other Current Assets	9340
9) Fixed Assets	9400
10) TOTAL, ASSETS	

## General Ledger Review – Liabilities

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Description	Object Codes
LIABILITIES	
1) Accounts Payable	9500
2) Due to Grantor Government	9590
3) Due to Other Funds	9610
4) Current Loans	9640
5) Deferred Revenue	9650
6) Long-Term Liabilities	9660
7) TOTAL, LIABILITIES	



## Managing Receivables and Payables

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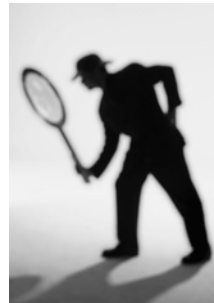
- Accounts receivable and payable
  - Adjustments are sometimes necessary for amounts accrued as receivable or payable in the prior year and amounts actually received or paid during the current year
    - Generally uncovered during the monthly reconciliation of accounts
      - Revenues received both current and prior year (accounts receivable)
      - Expenditures paid for both current and prior year (accounts payable)
- Differences result because year-end accruals are estimated or amounts accrued do not materialize



## Managing Receivables and Payables

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- Clean up the receivables and payables as soon as possible during the new fiscal year
  - Best practice indicates that the majority of receivables and payables should be finalized by the First Interim reporting period, October 31
    - Any still outstanding should be investigated:
      - Is this still a valid receivable or payable?
      - When will it be received or paid?



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## Managing Receivables and Payables

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- Be realistic with the projections of liabilities as the year progresses
  - The greater the liabilities at year end, the greater the cash available
  - The timing of purchasing cutoffs will affect the amount of liabilities
- The current economy is affecting everyone
  - The cash crunch might be slowing down the receipt of local accounts receivable
  - Be timely with billings to outside entities
  - Make sure to monitor accounts receivables monthly
  - And be thorough in tracking down the money!

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## Reconciling Cash

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- Best practice is to reconcile cash each month for each fund
  - Not reconciling cash can result in significant surprises once the backlog is caught up later on
  - The district will be able to more accurately anticipate cash borrowing needs
- What needs to be reconciled?
  - The county treasurer's records
  - The county office of education's (COE's) records
  - The district's financial system records
  - The bank's records
- Remember to balance clearing accounts



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## Reconciling Cash

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- Establish:
  - Who is responsible for reconciling each account and fund
  - What the timeline is for these reconciliations
  - Who reviews and verifies reconciliations
  - When are transactions posted at the COE

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## Reconciling Cash

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- Cash balances are not static
  - They can – and do – change daily
    - Deposits post at various times during the month
    - Accounts payable warrants are issued at various times
    - Payroll posting dates should be regularly scheduled
    - Transfers and other transactions post when processing is complete
  - Understand the timing of these so that you can more accurately project cash



## General Ledger Accounts

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- Why do other general ledger accounts matter when managing cash?
  - Quick quiz: What effect do these transactions have on cash?

Transaction	Inc/(Dec) in Cash
Generation of a billing for use of facilities	
Payment to vendor for a textbook shipment accrued as accounts payable	
Accrual of accounts receivable for a grant	
Receipt of the amount previously posted as accounts receivable for the grant	
Transfer of a cash receipt posted as revenue to the accounts receivable account	
Increasing accounts payable for the utilities bill at year end	



# Preparing a Cash Flow Projection



## Cash Flow Projections

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*The math is simple and the logic is simple, but the concepts are not. Cash Flow is not intuitive.*



## Sample Unified School District

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- Refer to the "Sample Unified School District" handout
- Rows:
  - A. Beginning Cash
  - B. Receipts – includes incoming cash from nonrevenue sources
  - C. Disbursements – includes outgoing cash for nonexpenditure items
  - D. Prior Year Transactions
  - E. Net Increase/Decrease
  - F. Ending Cash



## Sample Unified School District

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- Columns:
  - One for each month
  - Actuals through which month?
  - "Accruals" column is for what?
  - What function does the "Totals" column provide?



## Sample Unified School District

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- "Accruals" column allows for noncash items that will be recorded on the books
  - Typically during year-end closing
- "Totals" column is the sum of all columns on the projection
  - Should balance to the latest version of the current-year budget
  - As well as to the prior year's receivables and payables



## Apportionment Schedules

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- Cash flow is affected by:
  - Revenues and expenditures
  - Changes in assets and liabilities
- For the revenue side of cash flow, apportionment schedules are available
  - These account for most of an LEA's incoming cash
  - Education Code Section (E.C.) 14041 details the amount of apportionments for school districts and COEs
  - Apportionment schedules starting in 2009-10 were adjusted as a result of the July 28 revised State Budget



**Principal Apportionment Schedule**

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Month	E.C. 14041(a)(2), (3), and (4) Prior to SBX4 16	E.C. 14041(a)(2), (3), and (4) After SBX4 16	Share of Annual Statutory Apportionment After Deferrals
July	6.00%	5.00%	1.00%
August	12.00%	5.00%	0.00%
September	8.00%	9.00%	9.00%
October	8.00%	9.00%	*14.00%
November	8.00%	9.00%	4.50%
December	8.00%	9.00%	13.00%
January	8.00%	9.00%	13.50%
February	14.00%	9.00%	0.50%
March	7.00%	9.00%	9.00%
April	7.00%	9.00%	6.00%
May	7.00%	9.00%	4.50%
June	7.00%	9.00%	0.00%
July			17.50%
August			7.50%
<b>Total Principal Apportionment</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

\* One-time adjustment to recover distribution of over-apportionment in July 2009, which equates to a 1.5% reduction in October 2009.



**2009-10 Cash Flow**

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- Based on new statutory schedule and deferrals

Month	Pro-Rata Share of Monthly Statutory Apportionment
July	20.00%*
August	0.00%
September	100.00%
October	138.90%
November	50.00%
December	144.40%
January	150.00%
February	5.60%
March	100.00%
April	66.70%
May	50.00%
June	0.00%

\* Percentage of monthly apportionment after deferrals are applied.



## Existing Deferrals

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- Deferrals are a mechanism to relieve the state of a cash shortage
- We have been living with the June Second Principal Apportionment (P-2) deferral since 2002-03

Program	Resource Code
P-2 Apportionment (including apprentice, hourly programs, and community day funding)	0000
Targeted Instructional Improvement Block Grant (TIIBG)	0000
Adult Education	0000/6390
Regional Occupational Centers/Programs (ROC/Ps)	0000
School Safety	0000
Charter School Categorical Block Grant	0000
Gifted and Talented Education (GATE)	0000



## Existing Deferrals

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- The February State Budget Act for 2009-10 included these additional deferrals:
  - A deferral of \$2 billion from the Principal Apportionment and \$570 million in K-3 Class-Size Reduction (CSR) funds from February 2009 to July 2009 (ongoing)
    - Remember the Generally Accepted Accounting Principles (GAAP) caveat on the accounting treatment of this deferral that crosses fiscal years
      - Verify with your audit firm before recording on your books
  - Deferral of the Principal Apportionments in July and August 2009
    - \$1 billion from July to October (one time)
    - \$1.5 billion from August to October 2009 (one time)





## Other Revenue

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- Federal Apportionments are considered Tier I
  - No flexibility
  - No transfers, except as allowed for No Child Left Behind (NCLB) programs
  - Funds will be apportioned according to established schedules
- Tier III categorical programs will experience a change in cash flow
  - The 42 programs transferred from restricted to unrestricted will now follow the regular apportionment schedule (i.e. 5, 5, 9 . . . ) for cash flow purposes
- Special apportionment schedule (Home to School) has been amended to follow the regular apportionment schedule (i.e. 5, 5, 9 . . . )



## Categorical Apportionments

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- Other local revenues
  - You are the best estimator of other local revenues
    - Use historical percentages and information on which to base your current projection
    - Update the projections frequently to reflect actuals to date



## Expenditures

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- Estimating the timing of expenditures is critical for cash flow purposes
  - Dividing the budgeted amount by 12 months is not a good strategy
    - It most likely will not give you an accurate picture of the LEA's cash needs to meet obligations
- As the fiscal year progresses, analyze projected spending amounts
  - Use the projected budget as a basis for the cash flow
    - Make sure all reductions or increases are accounted for in the cash projection
    - For example, if spending freezes have been enacted, have the anticipated savings been accounted for in the cash flow projection?



## Expenditures

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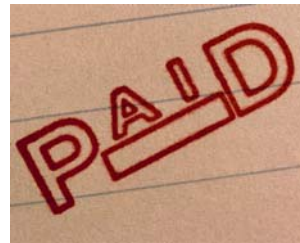
- Analyze expenditure patterns
  - Salaries and benefits are the largest expenditures
    - So getting the timing right is key to managing cash flow
  - Are there months that have additional payments (e.g., coaching and extra-duty stipends)?
    - Or months that have lower payments (e.g., July and August)?
  - Are there months when health benefit premiums are higher due to contractual increases?
  - How many employees receive deferred summer pay?
    - When do those payments go out?



## Expenditures

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- Review the timing of other payments either monthly, quarterly, semi-annually, or annually
  - Utilities and phones
    - Utility bills are significant and can be cyclical during the year – typically higher in the summer and winter, than in spring and fall
  - Pest control or copier maintenance
  - Subscriptions
  - Professional service contractors
  - Loan payments
  - COPS payments



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## Expenditures

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- How are materials and supplies purchased?
  - Just-in-time purchasing throughout the year?
  - Ordered in bulk at various points during the fiscal year?
    - Don't forget about the impact of restricted funds, such as textbook adoptions
      - These can require significant cash outlays at the start of the fiscal year
- Having an annual purchasing cutoff date helps when closing the books
  - But it also can create a big stack of bills that have to be paid at the same time

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## Expenditures

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- As cash gets depleted, priorities will need to be set in order to determine what gets paid first
  - Salaries and benefits have specific statutory timelines for payment
    - So that leaves vendor payments for providing flexibility
- Maximizing the use of the billing cycle will become important
  - In extreme cases, vendors may need to be asked to accept a delay in payments
    - But they may have their own cash problems
- All the more reason to project your cash needs as accurately as possible
  - And prepare a contingency plan for cash shortages



## Other Funds

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- Funds other than the General Fund can help or hurt cash flow
  - Review each one:
    - Is the fund healthy?
      - Or is it at risk of requiring a contribution from unrestricted funds?
    - Is there a surplus or deficit in the current year?
    - How does the ending fund balance look?
    - How much of the ending fund balance is likely to be cash?



## Other Funds

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- LEAs are now required to submit multiyear projections for any fund that is projected to have a negative fund balance
  - Best practice would be to prepare multiyear projections on a regular basis for all funds
    - From that, cash flow projections can and should be prepared as well
  - This is especially important for those funds with a significant proportion of expenditures on salaries and benefits
    - Child Development
    - Child Nutrition
    - Adult Education



## Other Funds

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- As cash balances decrease in the General Fund, the ability to loan cash to other funds diminishes
  - And the reverse is also true – as reserves are spent down in other funds, there is a decrease in the cash that can be loaned to the General Fund
- Many districts rely upon borrowing from other funds to make payrolls and meet other obligations in the General Fund during cash shortages
- And as state deferrals continue and revenue cuts diminish local agency reserves, cash in the other funds becomes more important



## The Squeeze is On!

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- Cash flow has a high profile now
  - The combination of deferrals, revenue cuts, and reserves being spent down is diminishing the cash cushion that districts and COEs have been able to maintain
  - Cash flow projections need to be accurate and timely
  - It is important to know:
    - When you need to borrow
    - How much you need to borrow
    - Which borrowing options makes the most sense



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## Projecting Cash Flow

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- Start with your latest 2008-09 cash flow projection
  - Now that the books are closed for 2008-09:
    - Update the monthly cash flow projection for any reductions or increases in the budget from 2008-09 to 2009-10
    - Update the cash flow for the monthly actuals to date in the current year
    - Compare your budget projection to the actuals
      - If your projections differ significantly, determine why

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## Projecting Cash Flow

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- Use the 2008-09 actual cash flow as a guide
- Adjust for the revised state apportionment schedule percentages
- Adjust for additional state cash deferrals
- Adjust for anticipated borrowing
- Arrive at a projected ending cash balance at June 30, 2010



## Projecting Cash Flow

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- Based upon the 2009-10 cash projection:
  - Is cash negative at any time?
    - If so, what borrowing options are most appropriate?
      - See the section on cash borrowing options



## Projecting Cash Flow

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- Consider preparing cash flow projections for the out years of your multiyear projections
  - What do the first six months of 2010-11 look like after state revenue cuts and deferrals?
    - If you need to borrow across June 2010, how long?
  - It is never too soon to start identifying future cash needs
  - Continue to update actuals each month after cash transactions are posted and reconciled
    - And reproject the rest of the year's cash based upon the latest budget



## Notes

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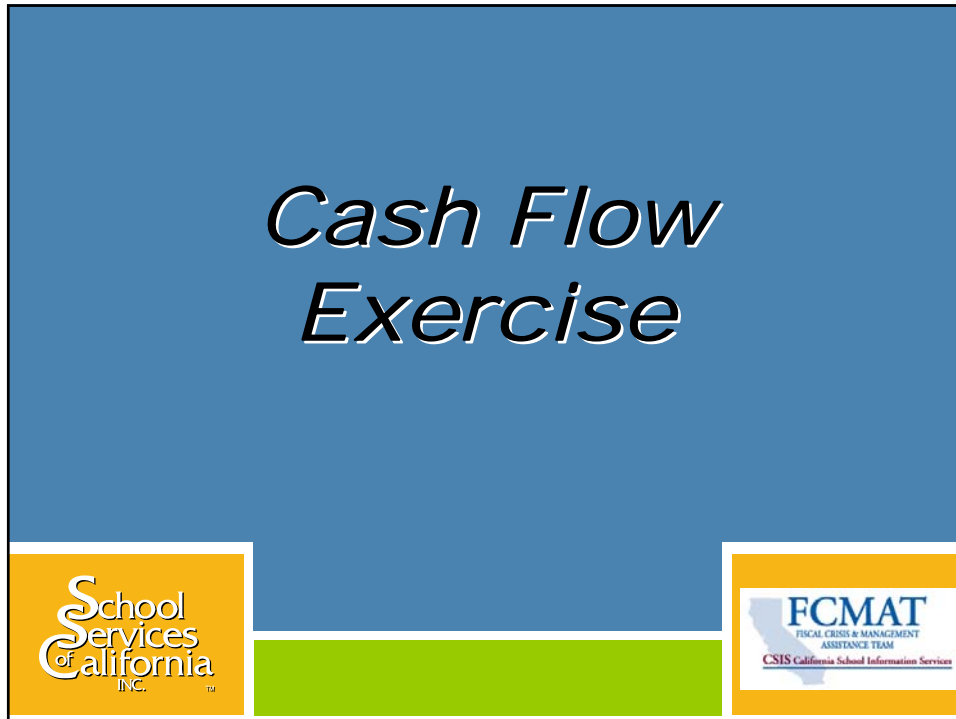
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*Cash Flow Exercise*

School Services of California, Inc.



FCMAT  
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM  
CSIS California School Information Services

Cash Flow Exercise 47

*Now it is time for you to prepare a cash flow!*

School Services of California, Inc.

# Cash Borrowing Options



## Cash Borrowing Options

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- School agencies are allowed to borrow cash to meet cash flow demands
  - There are internal and external borrowing options
  - For all options:
    - The cash must be paid back within a year or less
    - The proceeds from borrowing can be used for any operational purpose



## Cash Borrowing Options

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- This type of borrowing is not a financial bailout
  - Because it is short-term borrowing and needs to be paid back
- A state emergency loan is a multiyear loan – usually 20 years – that is needed if an agency is unable to borrow locally and runs out of cash
  - Because its cash flow projections do not prove that the borrowing can be paid back



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## Cash Borrowing Options

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- Internal borrowings (E.C. 42603)
  - Provide that money in other funds may be temporarily transferred to another fund for payment obligations
  - Limitations:
    - Shall be repaid in the same year, or following year if borrowing takes place within 120 days of fiscal year end
    - No more than 75% of money held in any fund during the current fiscal year may be transferred
      - Borrowing fund must earn enough income during the current fiscal year to repay the amount transferred

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## Cash Borrowing Options

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- A simple method that is used by many agencies
  - But is subject to sufficient cash in other funds
- Best Practice – Board direction specifying:
  - From which fund cash will be transferred
  - The receiving fund
  - The amount of the transfer
  - The source of repayment

See CD-ROM for sample board resolution for internal borrowing



## Cash Borrowing Options

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- External borrowing – three options:
  - Using Tax and Revenue Anticipation Notes (TRANS)
  - From the COE
  - From the county treasurer
- Many agencies have issued TRANS routinely every year, mainly due to reliance on property tax revenues
  - Now, with state deferrals, even more agencies require borrowing
- Some agencies – typically in a fiscal crisis – have borrowed from the COE or the treasurer
  - Until recent years, this has been rare



## Cash Borrowing Options

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### ■ TRANs

- Authorized by Government Code Section (G.C.) 53852
- Short-term, interest-bearing notes issued by a district in anticipation of taxes and other revenues
- The source for repayment must be from current-year revenues only
- Interest earnings are not taxable to the bearer of the note
  - However, earnings on the spread might need to be rebated to the Internal Revenue Service (IRS) by the borrowing agency
- No voter approval is necessary



## Cash Borrowing Options

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- Outside experts are needed for legal and financial matters related to the issuance
- Most agencies issue TRANs by pooling their needs with other agencies
  - Saves on costs of issuance
  - Coordinated through the COE



## Cash Borrowing Options

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- An agency may issue a TRANS with a duration of up to 15 months (G.C. 53854)
  - But the set asides need to be made by the end of the fiscal year
    - However, this is being challenged in light of state deferrals
- TRANS documents must be approved by the agency's Board
- Documents include:
  - Resolution to authorize borrowing
  - Promissory note
  - Other documents as required by the outside experts

See CD-ROM for sample board documents for TRANS



## Cash Borrowing Options

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- Planning usually starts in the spring, with cash flow projections and Board approval of documents
- The notes go to market typically in July, but could be later
- Cash proceeds are deposited into a trust account
- The agency draws down cash from the trust account to its county treasury account during the year as needed to cover negative cash
- Set asides of cash back to the trust account are made in the spring
  - Typically start in February



## Cash Borrowing Options

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- Federal tax laws govern TRANs issuances
  - Subject to audit by the IRS
    - Calculate any applicable penalties – a rebate of net interest earnings
      - Also referred to as “arbitrage” (Internal Revenue Code Section 148)
- Many TRANs issuances in California have been audited
  - Work with your outside experts to audit proof your issuance
    - Make sure that the issuance is properly sized to fit your needs



## Cash Borrowing Options

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- Midyear State Budget cuts, such as those experienced during 2008-09, may cause the need for a midyear TRANs
  - If not enough was borrowed with the initial TRANs issuance
  - If cash flow projections before the year began indicated that a TRANs was not needed
- A midyear TRANs is an option, but can be classified as a taxable transaction
  - More costly to issue
  - The regulations and accounting requirements differ from those for nontaxable TRANs
  - Payment must still be made from revenue received or accrued during the fiscal year that it was issued

See CD-ROM for *FCMAT Alert*, “Interim or Midyear Tax and Revenue Anticipation Notes (TRANs)”



## Cash Borrowing Options

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- Another source of external borrowing is from the COE
  - E.C. 42621 and E.C. 42622 allow COEs to loan funds to districts
    - But the use of this option is rare
    - This is subject to the availability of funds at the COE
      - The current cuts in funding hurt COEs as well
    - Will your COE have the cash when you need it?
  - Would require Board resolutions by both the district and the COE



## Cash Borrowing Options

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- Another source of external borrowing is from your county treasurer
  - E.C. 42620 requires the county treasurer to loan money to a school agency that needs it
    - Agency must be lacking sufficient funds to meet current expenses
  - Amount transferred shall not exceed 85% of direct taxes levied on behalf of the district
  - Repayment must be made from the first monies received by the agency before any other obligation is paid
    - Treasurer can take repayment directly from incoming sources and distribute the rest to the borrowing agency



## Cash Borrowing Options

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- State Constitution requires that the loan from the county treasurer must be made prior to the last Monday in April of the current fiscal year\*
- Requires a resolution approved by the Board
- Up until recently, this option was rarely used
  - Check with your county treasurer on the timeline, process, and additional requirements if you may need to exercise this option
    - Long before your projected need, because of the lead time for paperwork and approvals

\* Section 6 of Article XVI of the California Constitution

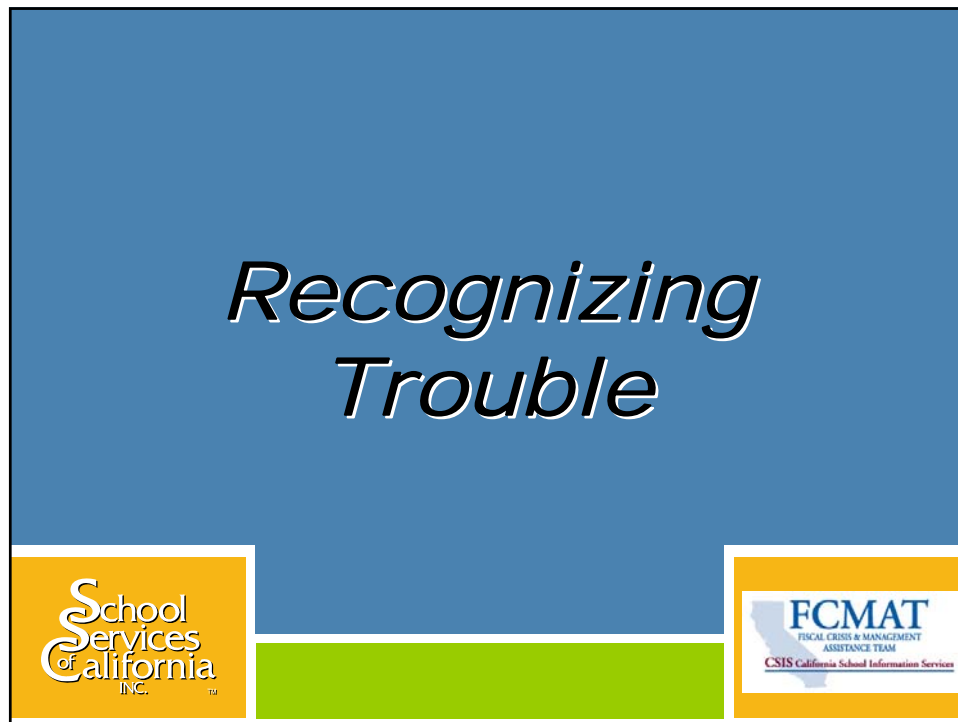


## Cash Borrowing Options

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- Remember that all of these options require that the agency is able to pay back the borrowing within a year at most
- What happens if you can't?
  - It's "game over"
    - A state emergency loan is needed, which requires a state intervention
- Fund balance can be low or negative, but cash cannot
  - This is why cash is king!





## Recognizing Trouble

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- The state's Fiscal Crisis and Management Assistance Team (FCMAT) identifies 15 conditions that most frequently indicate fiscal distress:
  1. Governance crisis.
  2. Absence of communication to educational community.
  3. Lack of interagency cooperation.
  4. Flawed ADA projections.
  5. Failure to maintain reserves.
  6. Insufficient consideration of long-term bargaining agreement effects.
  7. Flawed multiyear projections.
  8. Inaccurate revenue and expenditure estimations.

See CD-ROM for FCMAT Predictors of School Agencies Needing Intervention



## Recognizing Trouble

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9. Bargaining agreements beyond state cost-of-living adjustment (COLA).
10. No integration of position control with payroll.
11. Limited access to timely personnel, payroll, and budget control data and reports.
12. Escalating general fund encroachment (from categorical programs).
13. Lack of regular monitoring (of categorical programs).
14. Failure to recognize year-to-year trends (e.g., declining enrollment or deficit spending).
15. Poor cash flow analysis and reconciliation.



## What is AB 1200?

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- Took effect on January 1, 1992, in response to school district fiscal crisis
  - Redefined and expanded the county superintendents' financial oversight responsibilities
    - A series of interventions that get more stringent as the fiscal crisis deepens
  - Created FCMAT to serve LEAs
    - Provide fiscal crisis intervention
    - Provide management assistance
- AB 1200 set financial standards for school districts and added reporting requirements (such as cash flow projections)



## AB 1200 Oversight Responsibilities

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- COEs are now the “first line of defense” to protect the state from liability for school district financial problems
  - Also allows the COE to place restrictions on school Boards and Superintendents if the budget is disapproved or conditionally approved
- But some districts discover that problems are too big or recognized too late for the COE to help resolve
- So AB 1200 also anticipates that the Superintendent of Public Instruction (SPI), the Legislature, and ultimately the Governor also may have to play a role
  - But getting a state emergency loan means that the Board and community lose all local control



## What is AB 2756?

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- Enacted in June 2004 – also a response to emergency loans and districts in financial crisis
  - Made substantive changes to the financial accountability and oversight used to monitor the fiscal position of LEAs
  - Strengthened the roles of the SPI and COEs and their ability to intervene during fiscal crisis including requesting the assistance of FCMAT
  - More reporting responsibilities
    - Superintendent and chief financial officer must certify that the district can afford each collective bargaining agreement
      - If not, the Board must make cuts at that time
    - And the COE must have time to review



## AB 2756 Oversight Responsibilities

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- COE must take action:
  - Conditional approval or denial of adopted budgets
  - Issue a qualified or negative approval for interim budgets
  - Require LEAs to correct deficiencies
- FCMAT has an increased role
  - Greater support for districts and COEs
  - Hands-on assistance to troubled districts
  - More training and professional development to avoid fiscal crisis



## The Multiyear Impact of Budget Decisions

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- AB 1200 and AB 2756 require districts to consider the budget impact on the current year and two subsequent years
- Multiyear planning does not rely on a crystal ball – it is the mathematical consequences of the actions of today
  - Most major budget failures can be traced to specific events and decisions
- The COE should intervene if your multiyear projections are less than positive



## The Multiyear Impact of Budget Decisions

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- A district is certified based upon its budget and multiyear projections
  - “Positive” means that the district will meet its financial obligations in the current and two subsequent fiscal years
  - “Qualified” means that the district may not meet its financial obligations for the current or two subsequent fiscal years
  - “Negative” means that the district will not be able to meet its financial obligations for the remainder of the fiscal year or for the subsequent fiscal year



## Case Study

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- Boonies Unified School District (USD)
  - Has a negative budget certification
  - COE has intervened and appointed a fiscal advisor
    - With stay and rescind power over Board action for fiscal matters
  - The objective is to correct the situation and avoid a state loan



**Case Study**

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- The Boonies USD multiyear projections show for the unrestricted portion of its General Fund:

	2008-09	2009-10	2010-11
Total Revenues	\$ 7,141,454	\$ 7,356,297	\$ 7,837,871
Total Expenditures	\$ 7,792,052	\$ 8,091,676	\$ 8,395,370
Surplus/Deficit	\$ <650,598>	\$ <735,379>	\$ <557,499>



**Case Study**

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	2008-09	2009-10	2010-11
Beginning Fund Balance	\$ 27,351	\$ <623,248>	\$ <1,358,626>
Surplus/Deficit	\$ <650,598>	\$ <735,379>	\$ <557,499>
Ending Fund Balance	\$ <623,248>	\$ <1,358,626>	\$ <1,916,125>
Required 3% Reserve*	\$ <384,456>	\$ <372,903>	\$ <371,338>
Total Shortfall	\$ <1,007,703>	\$ <1,731,529>	\$ <2,287,463>

\*Based upon total General Fund Expenditures



... But Cash is King

74

- The Boonies USD's cash flow projection for 2008-09 is as follows:

	July	December	June
Beginning Cash	\$67,965	(\$1,984,365)	(\$93,226)
Accounts Receivable	\$500,000	\$150,000	-0-
Accounts Payable	(\$400,000)	-0-	(\$200,000)
Total Prior Year Transactions	\$100,000	\$150,000	(\$200,000)
Net Increase/Decrease	(\$366,569)	\$2,960,014	(\$955,299)
Ending Cash Balance	(\$298,604)	\$975,648	(\$1,048,526)

... But Cash is King

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- It is January of 2008
- The Boonies USD will run out of cash in June of 2009
  - To the tune of more than \$1 million
- There isn't enough in other funds for temporary transfers
- The COE will not authorize a TRANS, and the county treasurer will not authorize borrowing, because the district can't pay it back
- Running out of cash is what qualifies a school districts to a state emergency loan
- What does the Boonies USD need to do?



## Case Study

76

- What did the Boonies USD do to improve its cash flow?
  - Placed a hiring and spending freeze in all programs and all funds
    - Every dollar not spent improves the cash balance, no matter where it comes from
    - Every dollar not spent in unrestricted or encroaching programs improves unrestricted reserves



## Case Study

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- The Board made these reductions unilaterally:
  - Staffing reductions down to legal and contractual limitations
    - Teachers, classified, administration
  - Applied categorical flexibility where allowed
  - Aligned special education staffing and services to Individualized Education Program (IEP) requirements
  - Reduced transportation routes and food services staffing to bare minimum service level
  - Reduced compensation for Board Members and nonrepresented employees



## Case Study

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- Boonies USD pursued rollbacks from represented employees through the collective bargaining process
  - Reduced the work year, work days, work hours
    - And reduced salaries commensurately
  - Implemented a hard cap on Boonies USD's contribution to health benefits
  - Restricted "cash in lieu" payments, with the intent to phase them out
- The end result: Every employee of Boonies USD contributed to the solution



## ... But Cash is King

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- After all of the above, the cash projection for 2008-09 is as follows:

	July	December	June
Beginning Cash	\$892,889	(\$2,047,161)	\$945,917
Accounts Receivable	\$500,000	\$150,000	-0-
Accounts Payable	(\$400,000)	-0-	(\$200,000)
Total Prior Year Transactions	\$100,000	\$150,000	(\$200,000)
Net Increase/Decrease	(\$390,795)	\$3,408,317	(\$873,785)
Ending Cash Balance	\$502,093	\$1,361,156	\$73,132

## Summary and Conclusions

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- In order to manage cash:
  - Understand the principles of cash transactions and accounting treatment
  - Understand and verify cash reconciliations
  - Prepare monthly cash flow updates
  - Manage cash in all programs and funds
  - Prepare for borrowing if necessary
  - Implement budget reductions as necessary to retain reserves and cash



*Thank You  
for Attending!*

