

## Issue 1: Compensation

### Exhibit 1T

#### What is a reasonable fund balance?

<u>Line</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget W/ Salary Proposal</u>
	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2019-20</u>
3 Expenditures	212,891,904	213,583,762	216,507,717	232,584,556	237,766,101	241,578,679	245,568,370
4 Surplus (Deficit)	2,408,653	3,146,875	(408,415)	(1,242,155)	(1,126,314)	4,693,957	704,266
5 Beginning Fund Balance	10,354,662	12,763,315	15,910,190	15,501,775	14,259,620	13,133,306	13,133,306
6 Ending Fund Balance	12,763,315	15,910,190	15,501,775	14,259,620	13,133,306	17,827,263	13,837,572
7 Contingency Reserve	5,638,052	5,638,052	5,638,052	5,638,052	5,638,052	5,638,052	5,638,052
8 Total Operating Balances	18,401,367	21,548,242	21,139,827	19,897,672	18,771,358	23,465,315	19,475,624
9 Balances as % of Expenditures	8.64%	10.09%	9.76%	8.56%	7.89%	9.71%	7.93%
10 One Month Expenditures - Over/(Under)	660,375	3,749,595	3,097,517	515,626	(1,042,484)	3,333,758	(988,407)

K.S.A. 72-5165 establishes that school districts can maintain a fund called the Contingency Reserve Fund where the only source of revenue is a transfer from the General Fund and is used to cover financial contingencies as determined by the board. The intent of this fund is for emergency situations such as a natural disaster that significantly damages a school building and we needed those funds to keep the school operating. Shawnee Mission has maintained a balance in this fund of \$5,638,052 (line 7 above) for many years as has never had to use it for emergency purposes.

In addition, Shawnee Mission maintains operating balances in our Special Education Fund. These balances are shown above on line 6. The two fund balances added together (line 8) would be available for cash flow purposes and emergency situations.

What is a reasonable fund balance? The General Finance Officers Association (GFOA) recommends two months or 10% of expenditures as detailed in the following excerpts from the linked articles:

GFOA - <https://www.gfoa.org/fund-balance-guidelines-general-fund>

Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and

because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.

GFOA specific to schools - [https://www.gfoa.org/sites/default/files/PK-12\\_1A.pdf](https://www.gfoa.org/sites/default/files/PK-12_1A.pdf)

With respect to the target level of fund balance to maintain, the adequacy of unrestricted fund balance in the general fund should be assessed based upon a district's own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that school districts, maintain unrestricted fund balance in their general fund of no less than 10 percent of regular general fund operating revenues or regular general fund operating expenditures and operating transfers out (if applicable). The choice of revenues or expenditures as a basis for the reserve amount may be dictated by what is more predictable in a district's particular circumstances. In determining the right level of unrestricted fund balance for its precise circumstances, a district should analyze the risks that it faces and establish reserve levels commensurate with those risks.

Based on the method that school districts can drawdown their general state aid payments from the state, it is our "best practice" guideline to maintain a one month or 8.33% fund balance (line 8) in our operating funds, which is below GFOA's 10% recommendation. Line 9 shows the Balances as a % of Expenditures and line 10 shows if we are Over/Under our target of one month of expenditures. After three years of deficit spending (line 4), our intent is for the 2019-20 budget to surplus approximately \$500,000. Our intent is not to get there all in this year, but over the next few years the district would like to maintain a fund balance that meets this target.

Besides for an emergency, these fund balances are essential as they provide us cash flow from July to December. During this period, school districts rely heavily on general state aid for their revenue sources as the majority of taxes are received in January and May. During the recession, the state often reduced our drawdown amount or delayed it sometimes up to 45 days in 2019-10 and 2010-11. These fund balances were crucial for the district to cover monthly payroll and other contractual obligations. This is no different from managing your personal accounts where common financial advice is to maintain 6 months-worth of expenditures in your savings account for when emergencies arise. This is the same concept with businesses but on a larger scale.

Again, the district intent is to follow a "best practice" guideline of one month's expenditures in fund balances. In order to get there, the district must stop deficit spending as line 8 above demonstrates how fund balances erode away over time when you continue to deficit spend.