



# Fund Balance Discussion

December 4, 2023

# U-46 Board Policy 4:20 Fund Balances



The Chief Executive Officer/Superintendent or designee shall maintain fund balances adequate to ensure the District's ability to maintain levels of service and pay its obligations in a prompt manner in spite of unforeseen events or unexpected expenses. The Chief Executive Officer/Superintendent or designee shall inform the Board whenever it should discuss drawing upon its reserves or borrowing money.

The School District seeks to maintain a year-end fund balance to revenue ratio of no less than 20 percent, as calculated under the III. State Board of Education's *School District Financial Profile*.

CROSS REF.: [4:10](#) (Fiscal and Business Management), [4:80](#) (Accounting and Audits)

ADOPTED: July 18, 2022



# ISBE Financial Profile



## Five Indicators of a District's Financial Profile Score

1. **Fund Balance to Revenue Ratio (35%)**
2. Expenditure to Revenue Ratio (35%)
3. Days Cash on Hand (10%)
4. Percent of Short-Term Borrowing Ability Remaining (10%)
5. Percent of Long-Term Borrowing Ability Remaining (10%)



# ISBE Financial Profile

## Fund Balance to Revenue Ratio



- 35% of total score
- Indicator of overall financial strength
- Ending fund balances/ revenue of four operating fund and negative IMRF/SS funds

### Fund Balance to Revenue Ratio Categories

**Category 4 Greater or equal to 25% [lowest risk]**

Category 3 Less than 25% but greater or equal to 10%

Category 2 Less than 10% but greater or equal to 0%

Category 1 Less than 0% [highest risk]

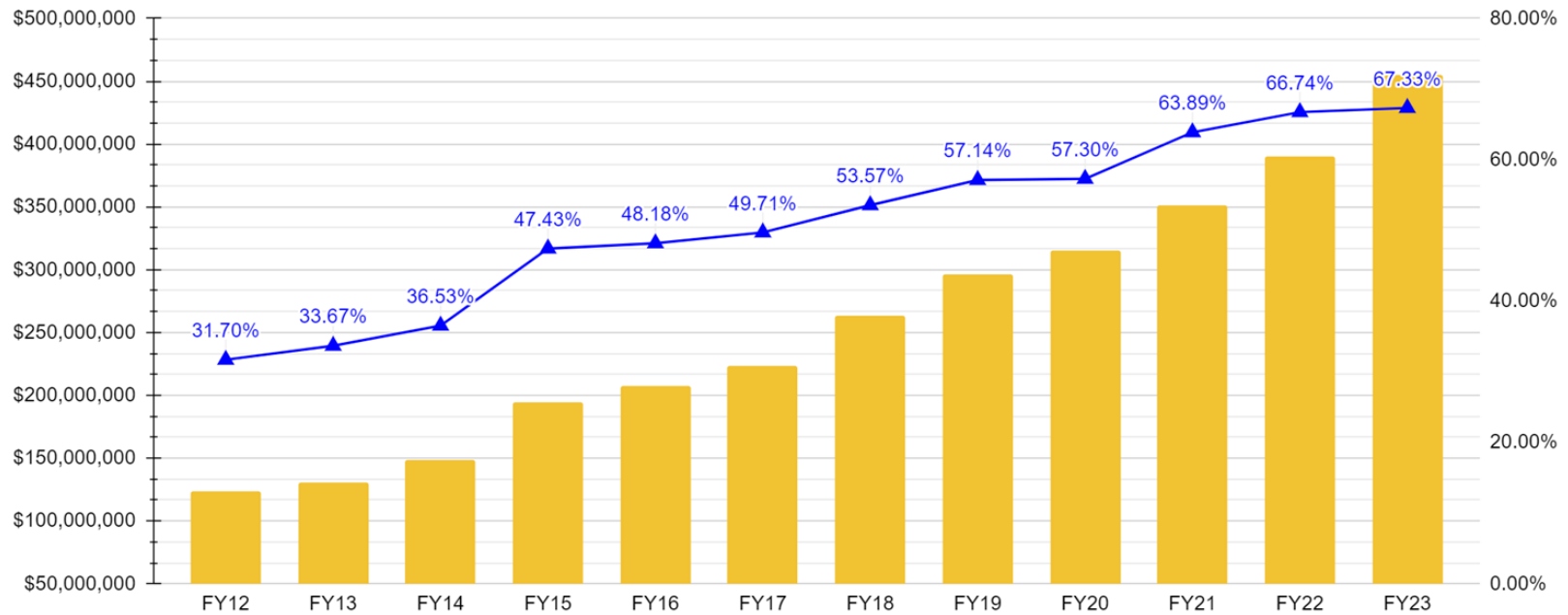


# U-46 Historical Fund Balance to Revenue Ratio



Operating Fund Balance to Operating Revenue Ratio

■ End of Fiscal Year Fund Balance ▲ Ratio of Fund Balance to Revenue



# Bond Ratings



Grade	Moody's	Standard & Poor's	Description
	Aaa	AAA	Extremely strong capacity to meet financial obligations
	Aa1	AA+	
	Aa2	AA	Very strong capacity to meet obligations
Investment Grade	Aa3	AA-	
	A1	A+	
	A2	A	Strong capacity but susceptible to adversity
	A3	A-	
	Baa1	BBB+	
	Baa2	BBB	Adequate financial capacity but adverse conditions will lead to weakness
	Baa3	BBB-	
	Ba1	BB+	
	Ba2	BB	Non-Investment Grade Speculative
Non-Investment Grade	Ba3	BB-	
	B1	B+	
	B2	B	Highly Speculative
	B3	B-	
	Caa	CCC+	
	Ca	CCC	Extremely speculative
	C	CCC-	
	Elgin U-46 current bond rating.		

# Benchmark District's Fund Balance Policy and Practice



District	Policy	Practice (FY22)	Rating
<b>Elgin U-46*</b>	<b>Min 20%</b>	<b>65%</b>	<b>S&amp;P AA</b>
D300	Min 30% operating funds	41%	S&P AA
Geneva 304*	Min 30%	67%	S&P AA+
St. Charles 303*	Min 28-34%	41%	S&P AA+
Indian Prairie* 204	Min 25%	40%	Moody's Aa1
Lake Zurich 958	Min 50%	83%	S&P AAA
Naperville 203	Min 10-20% aggregated fund balance/expenses	34%	Moody's/S&P Aaa/AAA
Oswego 308*	Min 20%	20%	Moody's A1
Wheaton 200	Min 25% max 40%, per ISBE Financial Profile	27%	S&P AA+
Plainfield 202	Min 15-20%, per ISBE Financial Profile	41%	Moody's Aa2
Valley View 365-U*	Min 15-20%	38.5%	Moody's Aa1
Barrington 220*	Min 25% max 40%	31%	S&P AAA

\*Indicates use of ISBE Financial Profile Fund Balance to Revenue Ratio Calculation

# Considerations for Spending Reserves



- One-time expenditures
- State of the economy
- State of the state
- Inflation
- Recession
- Potential Impact to Bond Rating
- Potential Impact to ISBE Financial Profile Designation



# Fund Balance Policy Language

## Existing vs. Proposed



The Superintendent or designee shall maintain fund balances adequate to ensure the District's ability to maintain levels of service and pay its obligations in a prompt manner in spite of unforeseen events or unexpected expenses. The Superintendent or designee shall inform the Board whenever it should discuss drawing upon its reserves or borrowing money.

The School District seeks to maintain a year-end fund balance to revenue ratio of no less than 20%, as calculated under the ISBE's School District Financial Profile.

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The basis for all budget considerations will be the projected operating fund balances. The Operating Fund Balances shall:

- be prepared semi-annually to be incorporated in the tax levy and budget adoption processes
- Target a fund balance between \_\_\_\_% and \_\_\_\_% of the projected operating budget for that year
- If fund balances fall below the minimum fund balance project..., the District will review revenue enhancement and/or expenditure reduction

Questions?

