



Prospect Heights School District 23
Board of Education
Policy/Finance Committee - Discussion Item

Date: March 4, 2024

Subject: Recommendation for a Clarification to the Fund Balance Policy 4:20

Contact: Amy McPartlin, Assistant Superintendent for Finance & Operations

BACKGROUND:

Following the District's conversion to a modified accrual basis of accounting, Administration continues to look for additional opportunities to increase transparency in its financial reporting and policies. In doing so, it was determined that the current Board of Education Policy 4:20 on Fund Balances required some clarification with regard to funds used in the determination of "Operational Funds".

In speaking with Baker Tilly, "Operating Funds" means different funds in different scenarios, and to different districts. There are also differing considerations as to the term "Operating Funds" in varying legislation and in what the bond rating agencies use. What is important is that the District 23 Board of Education and its Administration agree on what is included in the term "operating funds" and consistently measures, moving forward.

ISBE currently uses several funds based on different circumstances as noted in the Financial Profile Score calculation, primarily the Education Fund (10), Operations & Maintenance Fund (20), Transportation Fund (40) and Working Cash Fund (70). The one caveat to the utilization of the Working Cash Fund is in the event that a debt issuance takes place and the funds are not transferred out and into the Capital Projects Fund (60) (via Fund 20). This inaction would have an impact on the ratio of fund balances.

The Board will strive to adopt a balanced annual operating budget. To the extent that the Board determines that a balanced operating budget would result in expenditure reductions that would impact the educational program of the District, the District may adopt a budget wherein anticipated expenditures exceed anticipated revenues with the deficit being supported by fund balances.

Administration and the Board will continue to monitor the District's Illinois State profile score and comply with defined State requirements for financial management to maintain the District's score of Financial Recognition.

Administration will adhere to a target, though aspirational, goal of 40-45% Operational Fund Balances. In alignment with ISBE, the following funds will be utilized when calculating the fund balance ratio - 10, 20, 40, and 70. Working Cash funding already allocated for capital projects is to be transferred out as quickly as possible while retaining at least a balance of 0.05% of EAV in the Fund.

The establishment of tiers of Fund Balances and correlating Board of Education involvement as shown below will serve as an over-arching guide in directing and facilitating discussions and actions in developing more strategic measures to fend off any downgrade in the District's status of Financial Recognition.

OPERATIONAL FUND BALANCE LEVEL	BOE ACTION
35% and above	No Action
30 - 35%	Admin. & Finance Discussion
Below 30%	Admin. & BOE Development of a Plan to Address

As the Administration meets with the Finance Committee regularly to provide updates on trends and actuals in its revenues and expenditures, transparent communication is essential in the success of this strategy. Ongoing discussions with our financial advisors, review and refinement of our projection models and constant monitoring of available fund balances while taking into account upcoming obligations will help to maintain the District's fund balances. As a measure, Should the Fund Balances dip below 30% following the completion of the prior fiscal year's audit, corrective actions by both the BOE and Administration may be taken, in the form of budgetary adjustments in order to adjust and increase projected fund balances moving forward.

PROPOSED 2024-25 FUND BALANCE POLICY LANGUAGE:

Current Policy:

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 circumstances. 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 an operating fund balance to operating fund expenditure ratio equal to or greater than 33%. The School Board may direct Administration to prepare a debt reduction plan should fund balances fall below the designated range.

Proposed Policy:

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 circumstances. 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 an operating fund balance to operating fund expenditure ratio equal to or greater than 33%, when including funds 10, 20, 40 and 70 (in alignment with ISBE). The School Board may direct Administration to prepare a debt reduction plan should fund balances fall below the designated range.

CONCLUSION

The Administration recommends the approval of the proposed changes to Fund Balance Policy 4:20.