Presenting today....

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Polling Questions
LEARNING OBJECTIVES

Discuss the importance of cash flow forecasting

Recall the steps involved in preparing a cash flow forecast

Observe how to use the cash flow forecast template
Cash Flow Forecasting

The Fundamentals

Presented by: John G. Hulsey, CGFM, CPFO
CASH FLOW FORECAST

A schedule of receipts and disbursements over a given time period
FORECASTING BENEFITS

- Increase investment earnings
- Ensures sufficient liquidity
- Identify impending budget problems
- Enhances rating agency confidence
Goal is to identify receipt and disbursement streams over a given period in the future.

The forecasted cash balances are used to select investment amounts and maturities or in the case of a cash deficiency, the need for borrowing of funds.
CASH MANAGER

There are three basic functions of cash managers:

- Collecting revenues promptly, accurately and depositing to your financial institution promptly
- Disbursing monies owed
- Investing in the interim period between collection and disbursement
ESTABLISHING SYSTEMS

Four systems important to the cash manager:

- Cash Accounting System
- Investment Accounting System
- Receivables System
- Payables System
INVESTMENT ACCOUNTING SYSTEM

Provide a record of all investments made by account, fund, investment institution and type, maturity and yield

Should be able to allocate interest between funds

Should provide reports that match requirements of the investment policy and annual objectives
Can help cash manager prepare accurate cash flow forecasts and make informed decisions regarding investment maturities.
**OPERATING CYCLE**

Series of regular, repetitive actions taken to manage cash:

- Forecasting cash flows
- Collecting revenues
- Making investments
- Tracking investments
- Making disbursements
- Monitoring, evaluating and auditing
CASH FLOW FORECAST EQUATION

Beginning Cash

Plus: Receipts

Minus: Disbursements

Equals: Cash Available
STEPS IN THE PROCESS

Identifying all the funds, departments and financial data

Budget is best source for identifying all the funds and departments

Governments account for revenues and expenditures at the fund level

Fund level is the most common cash forecasting level
Reporting Entity

Governmental Category
- General Fund
- Special Revenue Fund
- Capital Projects Fund
- Debt Service Fund
- Permanent Fund

Proprietary Category
- Enterprise Fund
- Internal Service Fund

Fiduciary Category
- Private Purpose Trust Fund
- Investment Trust Fund
- Pension Fund
- Custodial Fund

Carl Vinson Institute of Government
UNIVERSITY OF GEORGIA

NAVIGATING FISCAL CRISIS
WEBINAR SERIES
CONSIDERATIONS

Type of financial information available

Time period to forecast

Level of detail needed
GATHERING THE DATA

Monthly financial statements (2-3 years)

Provide historical data on actual receipts and disbursements and help identify peaks and valleys of cash flows

Prior years’ bank statements

Add insight on check float, disbursement float and periodic cash balances
GATHERING THE DATA

Current year budget and estimated draw schedules for capital projects

Provides information on future revenues and expenditures and helps identify potential changes to previous cash flow patterns

Summary of investment maturities

Detail the timing of expected cash flows from investments to match maturities to disbursement needs
GATHERING THE DATA

Debt service schedule

Schedule is important as it will provide the timing of the principal and interest payments for debt service obligations

Annual payroll schedule

The annual payroll schedule provides the cash manager with the timing of the payroll and related cash requirements to incorporate in the forecast
REVENUES

Should be limited to four or five major sources

Additional revenues can be aggregated together

Use 15% rule of thumb

Identify major revenue generating items (property taxes & sales taxes)

Only evaluate separately those sources that individually account for at least 15 percent of the government’s total revenue
## REVENUES

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Prior Year Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>$15,600,000</td>
</tr>
<tr>
<td>Licenses &amp; Permits</td>
<td>$2,100,000</td>
</tr>
<tr>
<td>Intergovernmental Revenue</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>$5,700,000</td>
</tr>
<tr>
<td>Fines and Forfeitures</td>
<td>$3,500,000</td>
</tr>
<tr>
<td>Investment Income</td>
<td>$300,000</td>
</tr>
<tr>
<td>Miscellaneous Revenue</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Other Financing Sources</td>
<td>$300,000</td>
</tr>
<tr>
<td><strong>Total General Fund Revenue</strong></td>
<td><strong>$30,000,000</strong></td>
</tr>
</tbody>
</table>
FORECAST FUTURE EXPECTED RECEIPTS

Prepare a monthly schedule of prior receipts

• Calculate a simple three year average

Determine what percent of each revenue source contributes to the total

• Adjust for any planned changes in timing or amount
EXPENDITURES

Prepared the same way as revenues

- Categorized by major type

Cash manager should prepare a monthly schedule of historical disbursements and calculate a three year average

- Make adjustments for anticipated variations and trends
MOVING AVERAGE METHOD

Most common forecasting method

Looks at past history (e.g., 3 months) and uses the average to project the next month

Each succeeding month, the earliest month is dropped and the newest month is added to use in the averaging technique
MOVING AVERAGE METHOD

Should be used with very short-term and volatile funds such as accounts payable

Straight historical trends should be used with more predictable receipts and disbursements such as property taxes and salaries, respectively
MOVING AVERAGE METHOD

Results must be analyzed for reasonableness

Compare forecast numbers with historical numbers for the last 3 – 5 years to note any material differences

Research these variances against the cash flow forecast as appropriate
DON’T FORGET BEST PRACTICES

Ensure Bank Statements are Balanced Timely & Accurately

Don’t Carry Reconciling Items

Remit Payroll & Other Withholdings Timely

Enter Invoices Daily & Pay Based on Due Date

Use Encumbrance Accounting
Cash Flow Tool

Presented by: Paula Sanford, Ph.D.
Questions
Upcoming Free Webinars

• **Navigating Fiscal Crisis: Short-Term Funding Strategies**
  10 a.m. June 16

  In the event your cash flow forecast reveals a deficit – what options are available to you? At the end of this session, you should be able to identify the options for short-term financing, including advantages and disadvantages of each.
  Presenters: John Hulsey

• **Navigating Fiscal Crisis: Communicating the New Normal**
  10 a.m. June 23

  During times of fiscal stress, effective communication with the public and your employees is critical. At the end of this session, you should be able to implement techniques for effective communication to the public and employees.
  Presenter: Paula Sanford
To download templates and access webinar recordings go to https://cviog.uga.edu/covid-19-resources.html
If you have any questions please contact us....

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Thank you for attending

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