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To Update or Not to Update? That is the Question

Year-End Review of the Forecast

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Just a few weeks ago, as CFO, you asked your school district's Board of Education to approve the financial forecast for the fiscal year ending June 30, 2012, and the subsequent four years. Now that the fiscal year-end closing is at hand, the actual revenue and expenditures can replace your estimated numbers for the soon-to-end fiscal year 2012. In many revenue and expenditure lines, the 2012 fiscal year-end actual results serve as a basis for the subsequent four years. In nearly all cases the trends presented in May will not be changed by the final fiscal year 2012 numbers. And unfortunately, for many districts that trend is toward operating revenue shortfalls and declining cash balance reserves.

The CFO's year-end review of the forecast could include a side-by-side comparison of the now known actual results, with the estimates previously approved in May. This internal review is a timely pause that could help reduce communication challenges later this year. In most cases the CFO's analysis of this information will result in a report to the board of education depicting that trends finished as expected, and that the next forecast update will occur in October 2012.

Sometimes actual results will deviate sufficiently from the previous projections, and that as CFO you believe it is warranted to update your board on those variances. This is a professional judgment made by the CFO and tempered with the materiality of the variance at hand. Sometimes the CFO faces criticism because of forecast changes known months earlier, but not communicated, and other times the CFO can be criticized because his forecast "changes too much." At the end of the analysis the frustration is generally driven by deviation from focus upon the overall trends. Consider the scenario below.

This district was presented with requests for tuition payment that normally would have occurred months earlier. While the CFO of the district had a viable estimate for the tuition, the amount turned out to be about $212,000 higher than estimated. And of course, with the late submission of the payment request to the district, the variance is not known until the last few days of the fiscal year. While there are many options as to the handling of this transaction, the forecast questions should at least examine:

1. Is the amount of the transaction material to the overall revenue shortfall or surplus?
2. Will the higher level of tuition cost continue into subsequent years?

3. Is the impact on the district's cash balance significant?

Snapshot of the Impact – May versus Year-End:

Forecast Dashboard Quick Read - May 15, 2012

	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Beginning Balance	2,430,169	2,595,730	2,134,179
+ Revenue	25,404,673	25,613,724	25,661,943
+ Proposed Renew/Repl. Levies	-	-	-
+ Proposed New Levies	-	-	-
- Expenditures	(25,239,112)	(26,075,276)	(26,878,335)
= Revenue Surplus or Expenditures	**165,561**	(461,551)	(1,216,392)
Ending Balance	2,595,730	2,134,179	917,786

Forecast Dashboard Quick Read - June 30, 2012
Modeling Increased Tuition Cost

	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Beginning Balance	2,430,169	2,383,730	1,710,179
+ Revenue	25,404,673	25,613,724	25,661,943
+ Proposed Renew/Repl. Levies	-	-	-
+ Proposed New Levies	-	-	-
- Expenditures	(25,451,112)	(26,287,276)	(27,090,335)
= Revenue Surplus or Expenditures	**(46,439)**	(673,551)	(1,428,392)
Ending Balance	2,383,730	1,710,179	281,786

The increased tuition cost experienced in 2012, at $212,000 is certainly not material to the district's budget of $25 million. The increase in annual cost is less than 1%. In better financial times, this transaction would be masked by healthier cash balances and stable operating margins.

But today the CFO can be faced with the reality that his board of education is making painful budgetary reductions to stabilize the district's financial position. And in this case, the compounded impact of the increased cost almost exhausts the district's cash balance in just two years (from a projected $917,786 to $281,786).

1. Is the transaction material? No, at less than 1% of expenses, it is not material.
2. Does the transaction change trend? No, the district's expenditures continue to exceed revenue, but the transaction does worsen trend and the worsening is noticeable.

3. Is the impact on cash balance significant? Yes. In this case the $212,000 compounds over the three-year period to nearly consume the scarce cash balance resources.

To Update or To Not Update?

This truly is the question. At minimum, most CFO's will inform their board of education of the last minute transaction and suggest to their board that the information will be included in the October forecast projections. But at the heart of the decision is significant professional judgment. It may be helpful to at least model the difference in some fashion, perhaps like above, to enable the board of education to visualize the impact and to be better prepared in October. Or perhaps the CFO will simply present the 2012 final results without the subsequent year and highlight the changes since May. In a few cases, the CFO may decide to seek official board of education approval of the impact to avoid confusion later, or to remove confusion during this fall's levy season.

The best answer is to consider what you would want to know as a board member and favor transparency. The degree of formality with regard to informing the board of education is surely subjective and very much a CFO decision.

Questions or Comments:

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