

**Cash Management**

**AASBO CERTIFICATE PROGRAM**

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**September 2018**

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**Cash Management**

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**CASH MANAGEMENT OVERVIEW**

- DEVELOPING A CASH MANAGEMENT PROGRAM
- CASH FLOW FORECAST
- SAFE PROGRAM
- RFP FOR BANKING SERVICES

**BEST PRACTICES IN CASH MANAGEMENT**

- BANKING SERVICES/PRODUCTS
- UTILIZATION OF TECHNOLOGY IN CASH MANAGEMENT

**INVESTMENT PROGRAM FOR SCHOOL DISTRICTS**

**SHORT TERM FINANCING**

**MARKET UPDATE**

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**Cash Management**

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Effective cash management is more important today than ever before. This session will focus on effective cash management practices and the utilization of banking products and services for an more efficient business operations.

How has banking activity changed over the year?

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## Utilization of Technology in Cash Management

How do companies/people transact business today ?

Are you using technology to:

- Maximize earnings
- Analyze your operations
- Streamline tasks and improve efficiency

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## What is 'Cash Management'?

Cash management is the corporate process of collecting and managing cash, as well as using it for (short-term) investing. It is a key component of ensuring a company's financial stability and [solvency](#).

<http://www.investopedia.com/terms/c/cash-management.asp#ixzz4GkY8muMc>

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## Purpose of Cash Management

Purpose - Cash management is the stewardship or proper use of an entity's cash resources. It serves as the means to keep an organization functioning by making the best use of cash or liquid resources of the organization. The function of cash management is threefold:

1. To eliminate idle cash balances. Every dollar held as cash rather than used to augment revenues or decrease expenditures represents a lost opportunity. Funds that are not needed to cover expected transactions can be invested to generate a flow of funds into the School's account. Minimizing idle cash balances requires accurate information about expected receipts and likely disbursements.
2. To deposit collections timely. Having funds in-hand is better than having accounts receivable. Once funds are due to the Government, they should be converted to cash-in-hand immediately and deposited in the Treasury's account as soon as possible.
3. To properly time disbursements. Some payments must be made on a specified or legal date, such as bond payments. For such payments, there is no cash management decision. For other payments, such as vendor payments, discretion in timing is possible.

Adapted from Cash Management Made Easy, Dept of Treasury, April 2002

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## Cash Management

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### Functions of Cash Management

Cash management is the treasury function of a business, responsible for achieving optimal efficiency in two key areas: receivables, which is cash coming in, and payables, which is cash going out.

[https://en.wikipedia.org/wiki/Cash\\_management](https://en.wikipedia.org/wiki/Cash_management)

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## Cash Management

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### Receivables Management

- When a business issues an invoice it is reported as a receivable, which is cash earned but yet to be received. Depending on the terms of the invoice, the business may have to wait 30, 60 or 90 days for the cash to be received. Staying on top of collections with an aging receivables report.
- E-Gap
- Sales Tax/Property Tax

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## Cash Management

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### Payables Management

- When a business controls its payables, it can better control its cash flow. By improving the overall efficiency of the payables process, a business can reduce costs and keep more cash working in the business. Payables management solutions, such as electronic payment processing, direct payroll deposit, and controlled disbursement can streamline and automate the payable functions.

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## Cash Management

Most of the receivables and payables management functions can be automated using business banking solutions. The digital age has opened up opportunities for smaller businesses to access the same large-scale cash management technologies used by bigger companies. **The cost savings generated from more efficient cash management techniques easily offsets the costs.**

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## Improve Your Operational Efficiency

- Cash Receipts
- Procurement
- Disbursements
  - A/P
  - Payroll
- Administrative Services

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## Developing a Cash Management Program

- Objectives:
  - Improve cash management efficiency
  - Improve your operational efficiency
  - Increase your investment income
  - Provide benefits for your employees

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### How Do I Practice Good Cash Flow Management?

Cash management is simple. It involves:

- Knowing when, where, and how your cash needs will occur;
- Knowing the best sources for meeting additional cash needs; and
- Being prepared to meet these needs when they occur, by keeping good relationships with bankers and other creditors.

13

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### Cash Flow Management

The starting point for good cash flow management is developing a **cash flow projection**. Smart business owners know how to develop both short-term (weekly, monthly) cash flow projections to help them manage daily cash, and long-term (annual, 3-5 year) cash flow projections to help them develop the necessary capital strategy to meet their business needs. They also prepare and use historical cash flow statements to understand how they used money in the past.

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### Best Practice Recommendation

- GFOA recommends that state and local governments perform ongoing cash flow forecasting to ensure sufficient cash liquidity that meets disbursement requirements timely and limits idle cash.



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## GFOA Best Practices- Cash Forecasts

- Governments conduct cash flow analysis to estimate available cash deposits, expected inflows, and required disbursements during a given period so they can ensure sufficient liquidity
- Common inflows include state aid, tax receipts, bond proceeds, federal grants, and investments that will mature during the forecast time frame.



16

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## Cash Forecasts

- Outflows represent anticipated payments such as debt service, employee payroll or benefits, and payments to vendors for goods and services anticipated during the forecast time frame.
- Governments should also consider and accommodate non-repetitive payments such as capital expenditures or expected legal settlements, using reasonable assumptions.

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## CASH FORECASTS

The cash forecast is critical to ensuring that a fiscal crisis, such as failure to meet financial obligations, will not result from a cash shortage. An accurate forecast indicates potential cash shortages and thereby provides an opportunity for preemptive corrective actions.

- Monthly basis
  - Timing of collections
  - Short term borrowing
  - Capital/Maintenance Projects
  - Investment decisions

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## CASH FORECASTS

Consider historical information and projected financial activity, which are critical to developing and maintaining the cash flow analysis process.

Compare actual cash flow results with projections and determine the reasons for those differences in the analysis

Monitor cash position daily to ensure sufficient liquidity. The accuracy of the cash flow forecast should be evaluated at least quarterly, and if any adjustments are needed, they should be made at this point. No forecast will be 100% accurate, and governments should weigh the amount of effort these evaluations require against any expected improvements in the model.

19

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## CASH FORECASTS

- Select an appropriate tool for conducting the cash flow analysis. Many governments can complete an analysis using simple spreadsheet software, while organizations that require more complex modeling can use commercially available analytic or business intelligence systems

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## Cash Flow Forecast

Ensures Liquidly

- Days Cash On Hand vs Fund Balance

Serves as Investment Tool

- Amount that is available for investment
- Length of time to hold investment

Can identify problems

- Collections vs disbursements
- Budget projections

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FUND 11 GENERAL FUND	REVENUES	EXPENDITURES		
Oct	12,744,391.53	12,859,193.55	BEGINNING EQUITY:	15,780,392.49
Nov	13,445,131.06	12,780,316.85	+ TOTAL ADJUSTMENTS:	0.00
Dec	15,862,536.73	12,276,153.54	+ ADJUSTED EQUITY:	15,780,392.49
Jan	14,347,730.98	13,748,296.24	+ TOTAL REVENUES:	157,412,384.06
Feb	12,269,367.73	14,435,114.88	- TOTAL EXPENDITURES:	156,478,517.03
Mar	11,885,448.49	12,688,007.49	+ CURRENT BALANCE:	16,654,259.52
Apr	11,153,832.33	11,854,061.18	- OPEN ENCUMBRANCES:	1,021,858.89
May	12,069,162.32	12,077,610.28	+ CURRENT AVAILABLE:	15,672,400.63
Jun	11,813,865.67	11,548,409.42	- OPEN REQUISITIONS:	5,829.70
Jul	11,366,439.55	11,729,337.33	+ NET AVAILABLE:	15,666,570.93
Aug	12,537,673.13	12,341,086.63		
Sep	17,306,803.34	17,163,534.64		
TOTALS:	157,412,384.06	156,478,517.03		

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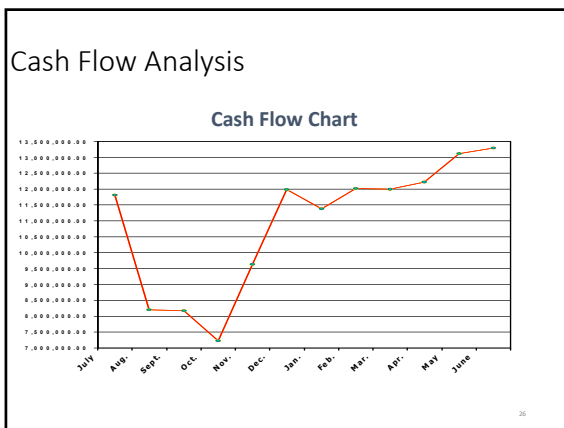
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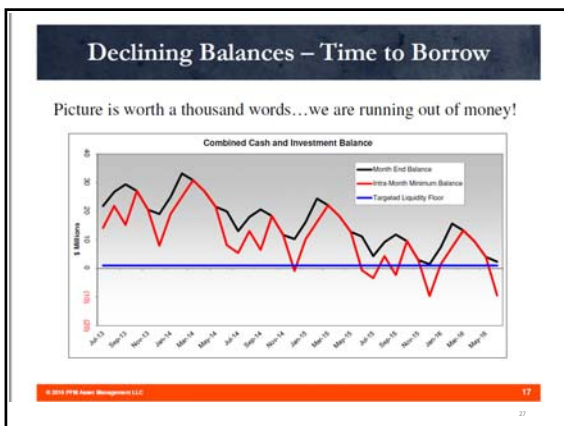
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## Bank Account Overview

### Types of Accounts

- Depository Accounts
- Disbursement Accounts ( Clearing )
- Investment Accounts

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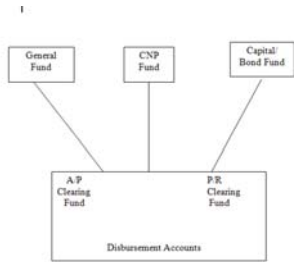
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## Sample Bank Structure



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## Sample Bank Structure

### DEPOSITORY ACCOUNTS

**General Fund** – This is a major account for the Board where the majority of receipts will be deposited. This account will also receive ACH deposits from Federal, State and Local agencies.

**Child Nutrition** – This is the receiving fund for all school lunchroom activities of the Board of Education. Deposits will be mostly in cash, but this account will also receive some ACH deposits.

**Capital Building Fund** – This is the receiving account on accounts for bond proceeds. These receipts will be by ACH or checks and be few in numbers.

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## Sample Bank Structure

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### **DISBURSEMENT ACCOUNTS**

**Accounts Payable Account** – Transfers are made to this account from the depository accounts on a weekly basis to cover all checks written in accounts payable.

**Payroll Account** – Transfers are made to this account monthly or biweekly from the depository accounts to cover all payroll checks and direct deposits for payroll.

31

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## Choosing Your Bank

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Developing a banking relationship

- Look for a multidimensional institution
- Seek a bank that specializes in Public Funds relationship
- State of **Alabama SAFE Program**
- Location

Identify banking institutions that will provide the highest quality of service at the lowest cost to the board

Identify banks that are committed to technology and innovation

Bid or **negotiate** your banking services

32

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## Collateralization

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- All deposits of the Board must be secured by pledged collateral in an amount greater than the highest balance during any month, or deposited with a Qualified Public Depository of the Security for Alabama Funds Enhancement (SAFE) Program, according to Sections 41-14A-2 through 41-14A-6, 41-14A-8 and 41-14A-9, **Code of Alabama 1975**, as amended.

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## SAFE PROGRAM

The Security for Alabama Funds Enhancement, or SAFE Program, is encompassed in Title 41, Chapter 14A, Code of Alabama 1975, as amended, to provide a uniform program for the security of public funds deposited with financial institutions in the State of Alabama that qualify to serve as depositories for public funds. The Program requires any bank or financial institution in the State of Alabama, accepting any deposits of public funds, to ensure those funds by pledging eligible collateral to the State Treasurer for the SAFE collateral pool. The law further provides for safeguarding of public deposits by requiring the entire pool and each participating financial institution to stand behind each deposit. Rules of the Program have been developed subject to the Administrative Procedures Act, whereby the public was given the opportunity to make comments prior to their adoption. The Rules provide the details of the Program.

27

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## SAFE Program

A Board of Directors is charged with the responsibility and authority to assess and manage the sufficiency of the collateral pool. The board meets at least quarterly and is comprised of 8 members who serve without compensation, except for reimbursement for travel associated with the meeting in accordance with state per diem rates. The Treasurer serves as a permanent, voting member and Chairman. The Superintendent of Banks serves as a permanent, non-voting member. The remaining six members are 4 representatives from the banking industry, one representative from the League of Municipalities, and one representative from the County Commission Association. The term of office of each appointed member is four years with any appointed member being eligible for reappointment and serving until a successor is selected.

SAFE Member Application Process. All public depositories are required by SAFE law to place their public deposit funds with one or more bank or savings institution that has met the requirements to become a member or "Qualified Public Depository" (QPD).

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## Choosing Your Bank

Request for Proposal ( RFP) - formal request

- Needs determined

Request for Qualifications (RFQ) – informal request

- Looking at providers

Request for Information (RFI) – informal request

- What are our needs?
- Gathering of ideas

29

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## Choosing Your Bank

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What do we do today and what are our needs today and in the future?

Who are the stakeholders in the process?

What is our timeline?

What is our response criteria?

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## Choosing Your Bank

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What do we do today - Information Gathering

- Account Analysis – current services
- Current System and Procedures
- Reporting and Audit Requirements

What are our needs – today and in the future?

- Problem Areas
- Reporting and Audit Requirements
- Goal
  - determine targeted needs
  - eliminate weaknesses

Create a list of requirements in banking services

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## Understanding the Account Analysis Statement:

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- AAS is monthly invoice provided by the bank that delineates the services provided and compensation required to pay for these services.
- It is not a monthly bank statement.
- If you are not receiving an AAS, request one from your bank.

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## Choosing Your Bank

### Cash Management Services

- Collection Services
- Disbursement Services
- Information Services
- Credit Services
- Fraud Protection
- Investment Services

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## How Do You Pay for Bank Services?

- Pay fees direct?
- Compensating balances to offset fees?
- Lower investment rate?

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## When to Consider a RFP

- Staffing Change
- Annual relationship reviews
- New technology
- Future Banking Needs
- Ensure competitive pricing and interest rates
- New Ideas
- Increased Risk( Credit rating Change or Litigation)



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## Components of Banking RFP

- General Information
- Calendar
- Minimum Proposer Requirements
- Scope of Services
- Evaluation Criteria
- Any Special Contract Provisions
- Exhibit and Attachments

*Customize to fit your needs*



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## Scope of Services

- Identify ways to improve procedures/services
- Compare services used by other boards
  - Pre-proposal conference
  - RFI



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## Banking RFP

- Forms and Instructions
  - Clear and concise instructions
  - Standardized bid forms
- Evaluation of Proposals
  - Established criteria
  - Disqualify incomplete proposals
  - Highest quality service at competitive price

48

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## Evaluating the Proposals

Evaluate and Summarize each Bank's Response

Analyze Pricing:

- Rank Fee and Balance Compensation
- Acknowledge One-time Set-up Fees/ Exception Items

Select Finalists

- Check references
- Schedule Presentations
- District to provide Agenda

49

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## Qualitative Criteria

- Service level
- Operational capabilities
- Public Funds Experience
- Financials controls
- Location, location, location
- Quality of proposal
- Creative or new approaches



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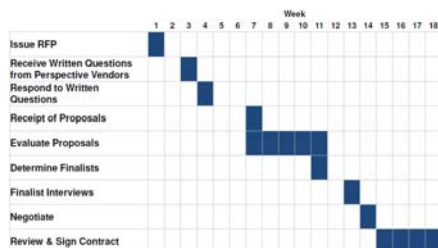
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## RFP Time Line



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## Awarding the Contract

### Unbiased Decision

- Data and process driven decision
- Data Collection
- Deadlines
- Evaluation Criteria

Present findings to your Board with recommendations

Formal Board approval

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## Remember...

.. Everything is negotiable

- ✓ Fees
- ✓ Earnings Credit
- ✓ Availability
- ✓ Coverage
- ✓ Earnings rates
- ✓ Contract terms



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## INVESTMENT POLICY

### WHY

- Formal written policy is vital for prudent investment management
- Gives clear guidance
- Communicates where the Board has chosen to go with their investment portfolio

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## Guidelines of Investing Safety First

Priorities of managing a government investment portfolio are the



**S**afety-Investments are sound and secure.

**L**iquidity-Funds are available when needed.

**Y**ield-Investment earnings on idle cash.

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## Helpful Hints

Safeguarding of Assets- Safety Come First

- No reward for higher earnings , but public flogging for loss
- Always stay with investments with which you are familiar
- Treasury securities should serve as benchmark
- When in doubt ask or research
- Do not buy what you do not understand
- Do not buy any investment that yields less than its corresponding treasury
- Government guaranteed does not mean risk free
- When in doubt ask or research

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## Guidelines of Investing

- Always buy every investment as though you will hold it until maturity
- Avoid investing all of your funds at once, especially if the environment is calling for an upward rate movement
- Stagger your purchases (dollar cost averaging)
- Never buy an investment expecting to sell it early
- Create and follow a cash flow forecast
- When in doubt DON'T

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**Cash Management**

**AASBO Certificate Program**

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**September 2018**  
**David Smith-AASBO**

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