

JOHNSTON COMMUNITY SCHOOL DISTRICT ANNUAL FINANCIAL HEALTH REPORT

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Note: Those highlighted represent the seven general fund key financial indicators recommended by IASB.

Financial Indicators Executive Summary:

This report references the General Fund only.

The district's overall financial condition improved fiscal year 2015 due to budget reductions made and increased funding from the state. A social studies adoption was part of the overall expenses (\$435,213) with some social studies materials being ordered fiscal year 2016 (approximately \$155,000).

The Board has been diligent in increasing financial solvency through the board's decision to deliberately levy additional cash reserves. Over the last thirteen years, the district has gone from a negative 6.3% financial solvency to a positive 8.9% financial solvency. There have been ups and downs with the solvency ratio because of demands of a growing district with a new elementary in fiscal 2008, low funding from the state which included across the board cuts for fiscal 2009 and 2010, and then very low funding from the state fiscal years 2011-2013 which included 0%, 2%, and 2% allowable growth funding. State funding then increased fiscal year 2014 with 2% allowable growth and a one time 2% state allocation. While fiscal year 2015 included 4% supplemental aid (new term for allowable growth) and budget reductions were made, the district will need to continue to monitor and adjust recurring expenses such as salaries and benefits which represent over 80 percent of the operating budget. With funding set for FY16 at 1.25%, future funding remains questionable as the legislature continues to disregard the law in setting funding and setting inadequate funding levels.

The general fund balance increased \$2.3 million and financial solvency increased from 6.7% to 8.9%. Restricted fund balances increased \$478,077, and represent fund balances that can only be spent for specific purposes. The increase in restricted fund balances is mostly due to the new TLC grant in fiscal year 2015 at \$278,776 ending balance. Other ending balances with large increases include a \$72,089 increase in the statewide preschool grant balance and an ending balance of Professional Development Teacher Quality funds in the amount of \$103,520.

Board policy has a financial solvency ratio target of 5-15% with 10% as a minimal goal, and unspent target of 5-15%. Toward this goal, the cash reserve levy of \$1,511,364 was included in the board's actions in a desire to maintain/ increase the financial solvency ratio, fund annual allowable growth, and protect the district against unfunded allowable growth.

At the end of fiscal 2015, the District has a positive fund balance, financial solvency ratio within the target and increasing, and unspent balance within the target and increasing as well. Looking out beyond fiscal year 15, it will be necessary to continue levying cash reserves to increase and maintain acceptable levels within the financial indicators, and monitor and adjust recurring expenses such as salaries and benefits to maintain acceptable unspent balance.

Financial Indicators Summary Sheet

2011 2012 2013 2014 2015

Balance Sheet Comparison					
Assets	11.1%	-0.5%	1.0%	3.1%	10.4%
Liabilities	2.7%	-5.0%	8.2%	2.9%	5.0%
Fund Balance	109.2%	25.2%	-30.5%	4.9%	46.5%
Rev. & Expend. Comparison					
Revenues	11.1%	1.2%	-0.4%	6.7%	7.9%
Expenditures	5.2%	3.9%	5.5%	2.7%	4.9%
Fund Balance	109.2%	25.2%	-30.5%	4.9%	46.5%
Current Ratio, Measures Short-term Solvency	117.4%	122.9%	114.7%	115.0%	120.9%
Day's Net Cash Ratio Short Term Solvency (Days)	68	72	64	61	73
Financial Solvency Ratio , District Equity Position	8.1%	10.1%	6.8%	6.7%	8.9%
Percent Revenues Spent	95.3%	97.7%	103.4%	99.6%	96.9%
Annual Unspent Ratio	2.15%	-1.41%	-2.46%	-0.83%	2.45%
Fund balance to unspent balance, Measures fiscal health.	-38%	-14%	-26%	-16%	-4%
Unspent Balance Ratio, Unbudgeted Spending Reserves:					
Regular	13.3%	11.8%	9.3%	8.4%	10.1%
Unreserved	12.1%	10.4%	8.2%	7.2%	8.4%
Employee Cost Ratio	81.3%	81.9%	81.6%	82.3%	81.5%

Description of Financial Indicator Ratios

Current Ratio (CR):

The current ratio is one of the most widely used measures of short-term liquidity for both public and private sector organizations. It is used to predict the school's ability to meet its current obligations from current assets from continuing operations. The operational equation is: $\text{current ratio} = \text{current assets} / \text{current liabilities}$. The minimum target range for this indicator is 1.0. An indicator of less than 1.0 would indicate a condition where the district has more current liabilities than assets.

Day's Net Cash Ratio (DCR):

The Day's Net Cash Ratio is typically calculated at the end of a fiscal period and gives a good indication of how long a district can operate without the additional infusion of revenue. One of the limitations of this indicator is that district expenditures are most generally made in large amounts on only a few days each month such as monthly payroll. At the same time, most schools receive revenue in large amounts only a few times per month such as state aid that is received once a month September through June. The timing of these receipts and expenditures is important to maintaining effective business operations. For this reason, the Day's Net Cash Ratio is important. Inadequate cash on hand to service expenditure obligations requires the school to borrow funds creating added debt expense not directly tied to student instruction. However, an over abundance of cash could be construed as excess accumulation of cash from community taxpayers. The operational equation is: $\text{day's net cash ratio} = \text{cash} + \text{investments} / \text{total general fund expenditures} / 365$. The target range for this indicator is 90 to 120 days. In Iowa, it is especially important to note that state foundation aid to schools ends each fiscal year in mid-June, and the first payment for the new fiscal year does not begin again until mid-September, a full 90 day gap.

Employee Cost Ratio (ECR):

Because education is a service based industry, staffing costs represent the single largest category of general fund expenditures for school districts. This ratio illustrates important trend changes in staffing costs as a percent of general fund expenditures. Historically, budget data show districts spending 75-85% of their general fund on staff related costs. The operational equation is: $\text{wages plus benefits} / \text{general fund expenditures}$.

Financial Solvency Ratio (FSR):

This is a measure of financial health that was revised in 2011 for current terminology regarding fund balances. The ratio of unassigned plus assigned general fund balance to actual revenues is defined in the following operational equation: $\text{financial solvency ratio} = \text{unassigned plus assigned general fund balance} / \text{general fund revenues} - \text{AEA flow thru}$. The target ranges and classification criteria establish the following:
(a) target solvency position equals 5.00%-10.00%, (b) acceptable solvency position equals 0.00%-4.99%,
(c) solvency alert equals -3.00%--0.01%, and (d) solvency threat equals less than -3.00%.

Unspent Balance Ratio (UBR):

The Unspent Balance Ratio measures the amount of cumulative district spending authority not spent at the end of each fiscal year. This ratio is unique to Iowa schools. Iowa schools are funded according to a state formula, which is different than any other in the country. Because spending authority is vitally important to the financial health of any Iowa district, it must be included as an indicator to assess fiscal health. Department of Management provides data for this indicator on the report titled Unspent Balance Calculations. The operational equation is: $\text{unspent balance ratio} = \text{unspent cumulative spending authority} / \text{maximum budget authority}$. The target range for this indicator logically is roughly equal to that of fund balance, and the minimum suggested target should be 5%.

Balance Sheet Comparisons General Fund Only

	<u>fy11</u>	<u>fy12</u>	<u>fy13</u>	<u>fy14</u>	<u>fy15</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:							
Cash & Investments	\$ 10,765,509	\$ 11,932,103	\$ 11,122,579	\$ 10,863,544	\$ 13,603,745	\$ 2,740,201	25.2%
Receivables	26,526,224	25,166,113	26,348,117	27,792,780	29,099,613	\$ 1,306,833	4.7%
Inventories	42,426	47,836	49,391	44,569	44,102	\$ (467)	-1.0%
ISCAP	-	-	-	-	-	\$ -	-
Other Assets	15,750	-	7,900	3,295	-	\$ (3,295)	-100.0%
Total Assets	37,349,909	37,146,052	37,527,987	38,704,188	42,747,460	\$ 4,043,272	10.4%
Liabilities:							
Payables	1,473,839	1,068,361	1,162,946	1,346,255	1,606,807	\$ 260,552	19.4%
Payroll	5,922,269	6,108,082	6,617,948	6,584,939	6,867,058	\$ 282,119	4.3%
Other Liabilities	24,424,405	23,048,525	24,935,452	25,727,973	26,880,393	\$ 1,152,420	4.5%
Total Liabilities	31,820,513	30,224,968	32,716,346	33,659,167	35,354,258	1,695,091	5.0%
Fund Balance:							
Restricted	807,541	922,952	791,882	849,391	1,327,468	\$ 478,077	56.3%
Unassigned	4,721,855	5,998,132	4,019,759	4,195,630	6,065,734	\$ 1,870,104	44.6%
Total Fund Balance	\$5,529,396	\$6,921,084	\$4,811,641	\$5,045,021	\$7,393,202	2,348,181	46.5%

Note: The large receivables and payables include fy16 property taxes certified by the county auditor. GASB reporting requires the inclusion of these taxes when certified.

Revenue & Expenditures Comparison General Fund Only

	<u>fy11</u>	<u>fy12</u>	<u>fy13</u>	<u>fy14</u>	<u>fy15</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues:							
Local tax sources	\$ 23,708,820	\$ 24,192,193	\$ 22,964,453	\$ 24,611,063	\$ 25,486,419	\$ 875,356	3.6%
State sources	27,909,198	30,702,657	31,648,589	33,865,879	38,063,762	\$ 4,197,883	12.4%
Federal sources	3,729,793	1,690,636	1,765,183	1,898,661	2,066,035	\$ 167,374	8.8%
Other local sources	5,438,512	4,959,341	4,932,018	5,017,799	4,950,701	\$ (67,098)	-1.3%
Total revenues	60,786,323	61,544,827	61,310,243	65,393,402	70,566,917	5,173,515	7.9%
Expenditures:							
Instruction	39,538,924	41,509,827	44,266,367	45,235,757	48,109,356	\$ 2,873,599	6.4%
Support services	15,923,345	16,284,483	16,874,724	17,495,218	17,533,913	\$ 38,695	0.2%
Noninstructional	117,099	122,585	35,760	45,200	134,427	\$ 89,227	197.4%
Other expenditures	2,320,857	2,236,244	2,307,835	2,448,847	2,610,924	\$ 162,077	6.6%
Total expenditures	57,900,225	60,153,139	63,484,686	65,225,022	68,388,620	3,163,598	4.9%
Operating Transfers	-		65,000	65,000	169,884	\$ 104,884	
Upward Adjustment	-					\$ -	
Changes in fund balance:	2,886,098	1,391,688	(2,109,443)	233,380	2,348,181	\$ 2,114,801	
Excess(deficiency) of Revenues and Expenditures	2,886,098	1,391,688	(2,109,443)	233,380	2,348,181	2,114,801	

Contribution Ratio General Fund

Formula:
$$\frac{\text{Line Source Revenue}}{\text{Total Revenue}}$$

Year	2011	2012	2013	2014	2015
Local	\$23,708,820	\$24,192,193	\$22,964,453	\$24,611,063	\$25,486,419
State	27,909,198	30,702,657	31,648,589	33,865,879	38,063,762
Federal	3,729,793	1,690,636	1,765,183	1,898,661	2,066,035
Other	5,438,512	4,959,341	4,932,018	5,017,799	4,950,701
Total	\$60,786,323	\$61,544,827	\$61,310,243	\$65,393,402	\$70,566,917

Year	2011	2012	2013	2014	2015
Local	39.0%	39.3%	37.5%	37.6%	36.1%
State	45.9%	49.9%	51.6%	51.8%	53.9%
Federal	6.1%	2.7%	2.9%	2.9%	2.9%
Other	8.9%	8.1%	8.0%	7.7%	7.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Purpose: Measures local taxation effort

Trend: N/A

Target: N/A

Need/Concern: As a district's property tax wealth grows, the school aid formula shifts financial responsibility from the state to the local district.

Corrective Action: N/A

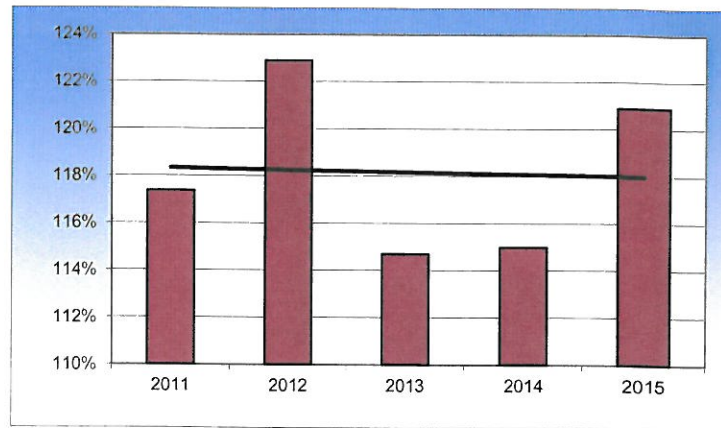
Current Ratio

Formula:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Financial Information and Computation:

Year	2011	2012	2013	2014	2015
Assets	\$ 37,349,909	\$ 37,146,052	\$ 37,527,987	\$ 38,704,188	\$ 42,747,460
Liabilities	\$ 31,820,513	\$ 30,224,968	\$ 32,716,346	\$ 33,659,167	\$ 35,354,258
Ratio	117.38%	122.90%	114.71%	114.99%	120.91%



Purpose:

Measures short - term solvency

Trend:

FY 15 budget reductions, 4% supplemental state aid, and continued cash reserve levy equates to an increased current asset to liability ratio.

Target:

Greater than 100%

Need/Concern:

When the assets/liabilities ratio is below 1, the district does not have the ability to pay off all current liabilities. Outside financial companies use this as a measure of financial health. The ratio needs to be greater than 1 to obtain the best bond rating possible.

Corrective Action:

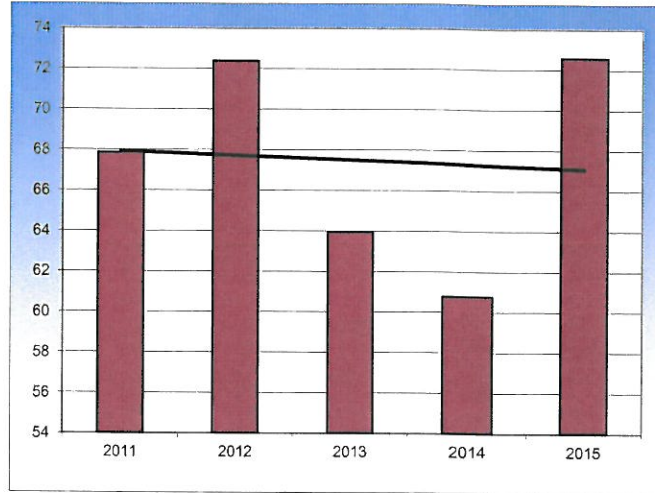
Continue to levy cash reserve to keep the trend improving and monitor expenses to maintain an adequate fund balance

Day's Net Cash Ratio

Formula: $\frac{\text{Cash \& Investments}}{\text{Average Daily Cash Expenditures}}$

Financial Information and Computation:

Year	2011	2012	2013	2014	2015
Cash & Investment	\$ 10,765,509	\$ 11,932,103	\$ 11,122,579	\$ 10,863,544	\$ 13,603,745
Total Expenditures	\$ 57,900,225	\$ 60,153,139	\$ 63,484,686	\$ 65,225,022	\$ 68,388,620
Daily (365) Expenditures	\$158,631	\$164,803	\$173,931	\$178,699	\$187,366
Ratio In Days	68	72	64	61	73



Purpose:

Measures short-term solvency and ability to cash-flow expenditures without receiving additional revenue.

Trend:

Upward

Target:

90 days

This indicator is below target but has improved in past years and will need continued improvement in the future.

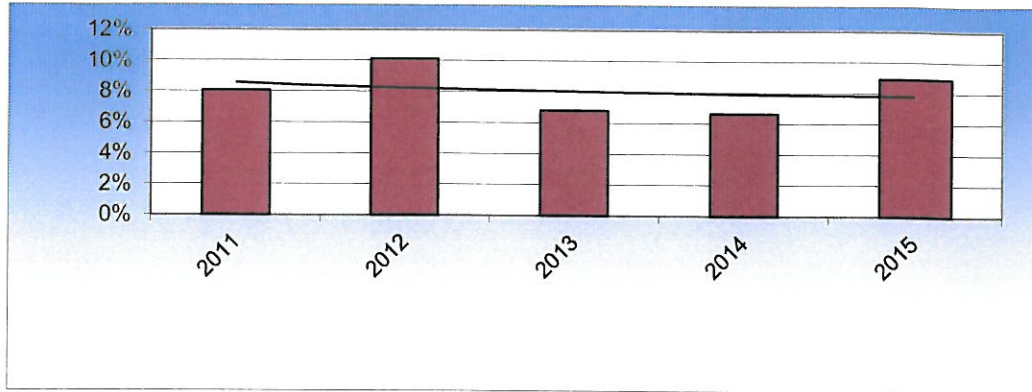
Corrective Action:

Continue to levy cash reserve

Financial Solvency Ratio*

Unassigned Fund Balance
Total Revenue-AEA flowthru

Year	2011	2012	2013	2014	2015
UUFB	\$ 4,721,855	\$ 5,998,132	\$ 4,019,759	\$ 4,195,630	\$ 6,065,734
Revenue	\$ 58,465,467	\$ 59,308,542	\$ 59,067,408	\$ 63,009,555	\$ 67,955,993
F/S Ratio	8.1%	10.1%	6.8%	6.7%	8.9%



- Target Solvency Position, 5 - 10%
- Acceptable Solvency Position, 0 - 4.99%
- Solvency Alert, -3 - 0%
- Solvency Concern, -3% & lower

*As defined by the Iowa Association of School Boards, ISCAP Program.

Purpose: Measures the District's Fund Equity position

Trend: Ed Jobs funding FY11 (spent FY12), FY12 science adoption and 0% allowable growth, FY13 increased operating costs including math adoption and 2% funding, FY14 increased state funding (2%+2%) and no textbook adoption, followed by FY15 budget reductions and 4% supplemental state

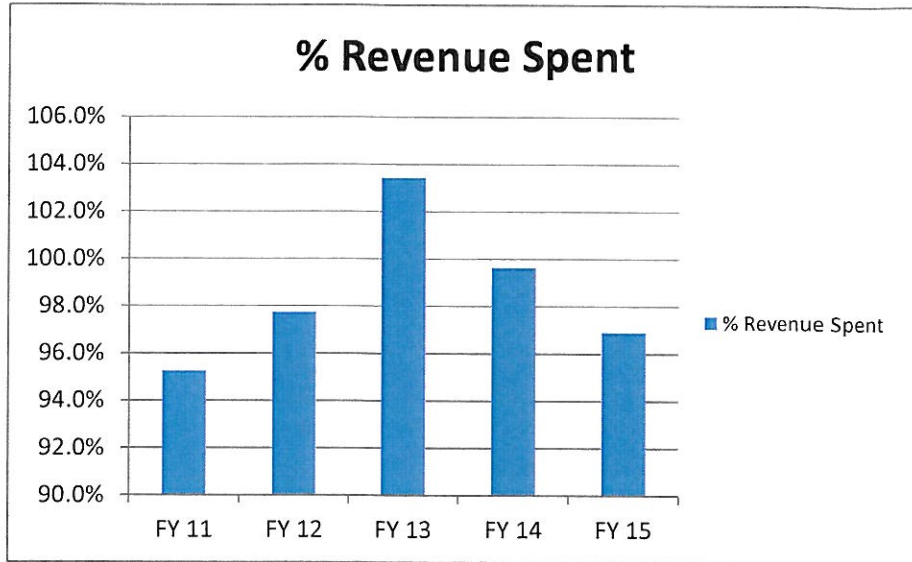
Target: Minimum of 5%, Goal 10%

Need/Concern: Increased due to ed jobs FY11, and continued to increase FY12 due to cash reserve levy (offset by 0% allowable growth and science adoption). However, FY13 was a large decrease due to textbook adoption and increased operating costs with inadequate state funding coupled with a lower cash reserve levy. Fiscal 2014 had increased state funding but no textbook adoption expenses. Supplemental state aid of 4%, and budget cuts were made to meet ongoing educational expenses FY15.

Corrective Action Continue to levy cash reserve, monitor and adjust recurring salary/benefit expenses

% Revenue Spent

	FY 11	FY 12	FY 13	FY 14	FY 15
Expenditures	57,900,226	60,153,140	63,484,686	65,225,022	68,388,620
Revenues	60,786,324	61,544,828	61,375,243	65,458,402	70,566,917
% Spent	95.3%	97.7%	103.4%	99.6%	96.9%



Purpose: To show if we are using all of our resources each year

Trend: The percent spent is indicative of state funding coupled with expenses- FY11 had additional ED Jobs funding and 2% state funding, FY12 science adoption and 0% funding, FY 13 math adoption and 2% funding, FY 14 no adoption and 2+2% funding, FY15 social studies adoption, \$1M budget reductions, and 4% funding.

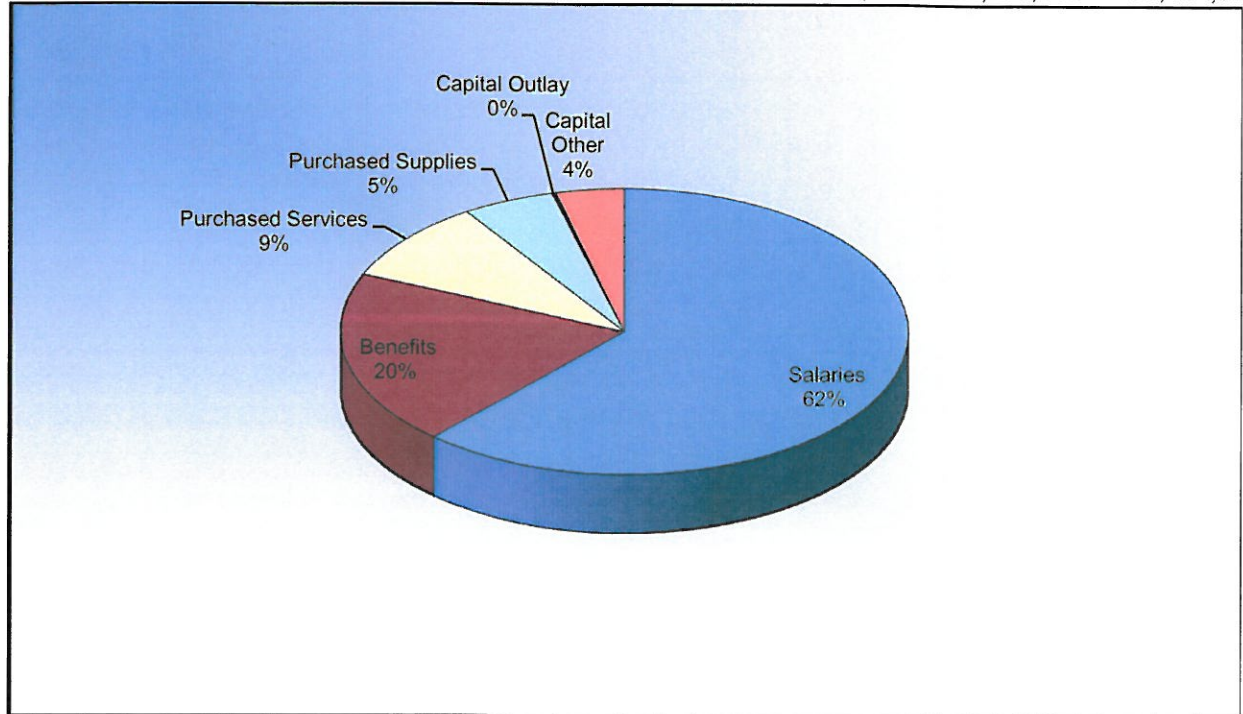
Target: Once solvency ratio goal is obtained, then stabilize at 100%

Need/Concern: Need to build up solvency ratio by spending less than 100% resource

GENERAL FUND DISTRICT EXPENDITURES, BY OBJECT

Last Ten Fiscal Years

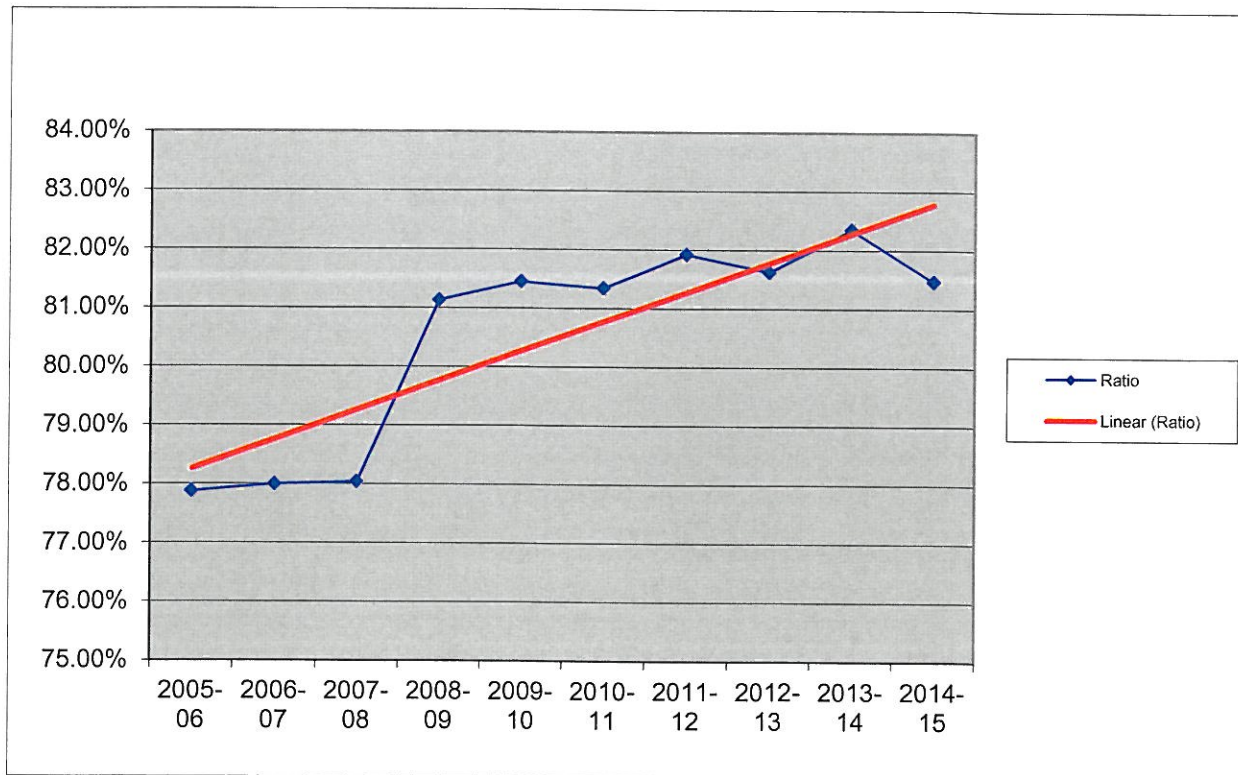
Fiscal Year	Salaries	Benefits	Purchased Services	Supplies	Capital Outlay	Other	Total
2014-15	\$42,176,915	\$13,539,660	\$6,262,212	\$3,588,852	\$145,937	\$2,675,044	\$68,388,620
2013-14	40,811,139	12,901,044	5,732,922	3,189,519	98,135	2,492,263	65,225,022
2012-13	39,792,304	12,028,192	5,277,632	3,874,187	123,294	2,389,077	63,484,686
2011-12	37,612,794	11,665,760	5,242,777	3,250,804	79,028	2,301,976	60,153,139
2010-11	36,399,406	10,697,119	4,919,049	3,400,912	92,771	2,390,968	57,900,225
2009-10	35,114,493	9,717,685	4,529,897	3,340,165	151,756	2,187,815	55,041,811
2008-09	33,335,004	9,043,043	4,292,116	3,400,335	140,791	2,021,673	52,232,962
2007-08	29,765,219	8,132,403	4,609,547	3,889,192	285,774	1,880,975	48,563,110
2006-07	26,536,568	7,201,396	4,257,673	3,220,967	352,435	1,685,718	43,254,757
2005-06	24,119,506	6,379,661	3,782,699	2,916,905	479,676	1,485,886	39,164,333



Source: 2015 Certified Annual Report

Employee Cost Ratio General Fund Last Ten Fiscal Years

Fiscal Year	Wages & Benefits	Total Expenditures	Ratio
2005-06	\$ 30,499,167	\$ 39,164,333	77.87%
2006-07	\$ 33,737,964	\$ 43,254,757	78.00%
2007-08	\$ 37,897,622	\$ 48,563,110	78.04%
2008-09	\$ 42,378,047	\$ 52,232,962	81.13%
2009-10	\$ 44,832,178	\$ 55,041,811	81.45%
2010-11	\$ 47,096,525	\$ 57,900,225	81.34%
2011-12	\$ 49,278,554	\$ 60,153,139	81.92%
2012-13	\$ 51,820,496	\$ 63,484,686	81.63%
2013-14	\$ 53,712,183	\$ 65,225,022	82.35%
2014-15	\$ 55,716,575	\$ 68,388,620	81.47%



Purpose: Determine if salaries and benefits are at levels that can be sustained.

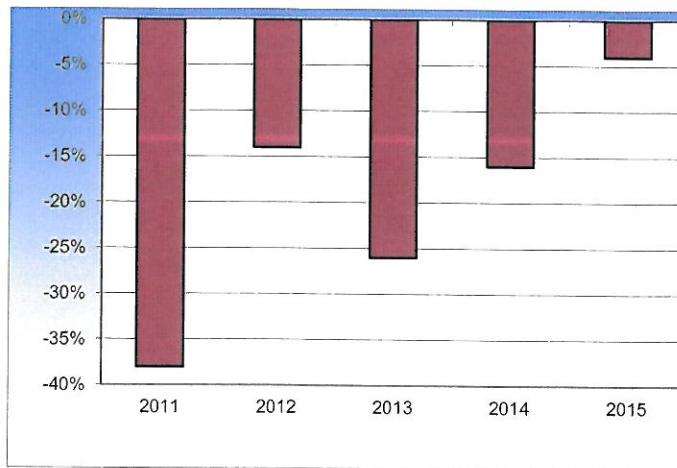
Trend: Trend has been close to 82% for last three years

Target: 79-82%, and stabilize

Need/concern: Salaries and benefits are at the high end of the range

Fund Balance vs. Unspent Balance

Year	2011	2012	2013	2014	2015
Unspent Balance	\$ 8,876,609	\$ 8,042,698	\$ 6,517,814	\$ 5,982,645	\$ 7,698,467
Fund Balance	5,529,396	6,921,084	4,811,641	5,045,021	7,393,202
Percent funded	-38%	-14%	-26%	-16%	-4%



Purpose:	Measures District's unfunded spending reserves
Trend:	Increased cash reserve/ed jobs funding FY11, and increased cash reserves FY12 offset by 0% allowable growth, no ARRA, and science adoption. FY13 further decrease due to lower cash reserve levy coupled with low 2% allowable growth, math adoption, and increased operating costs. FY 14 increased state funding (2+2%) and no textbook adoption had the effect of increasing the percent funded. FY 15 adequate funding at 4%, social studies adoption offset with \$1M budget reductions large increase to percent funded.
Target:	District reserves (unspent balance) fully funded-at least 100%
Need/Concern:	The district's lack of cash makes it difficult to spend reserves if it wishes to do so because it just compounds the borrowing situation.
Corrective Action:	Continue to levy cash reserve until 100% funded

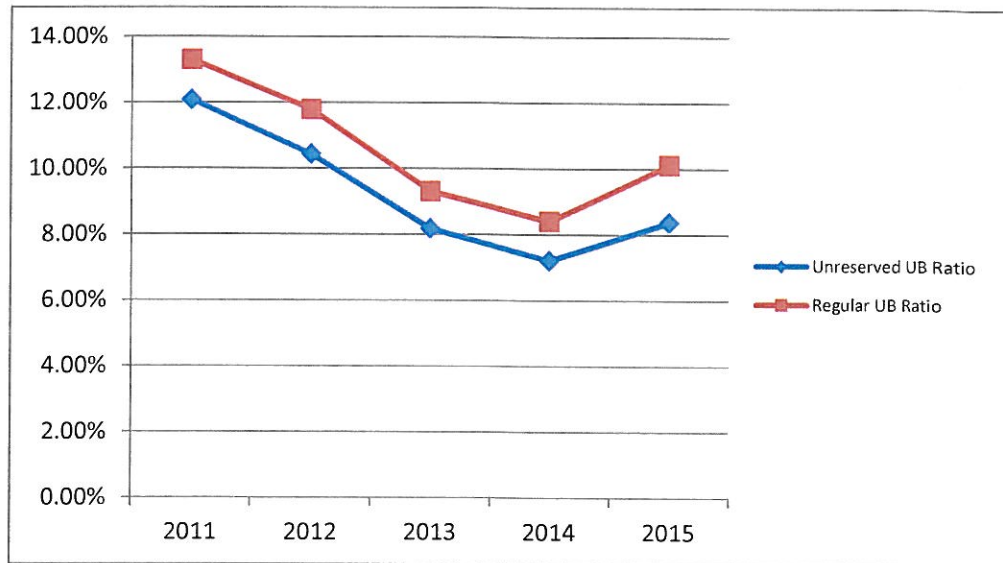
Unspent Balance Ratio

Formula:

$$\frac{\text{Unspent Spending Authority}}{\text{Maximum Budget Authority}}$$

Financial Information and Computation:

Year	Maximum Authorized	Regular Unspent Bal	Unreserved Unspent Bal	Regular UB Ratio	Unreserv. UB Ratio
2011	66,776,834	\$ 8,876,609	8,069,068	13.29%	12.08%
2012	68,195,837	\$ 8,042,698	7,119,746	11.79%	10.44%
2013	70,002,500	\$ 6,517,814	5,725,932	9.31%	8.18%
2014	71,207,667	\$ 5,982,645	5,133,254	8.40%	7.21%
2015	76,087,087	\$ 7,698,467	6,370,999	10.12%	8.37%



*Estimated

Purpose: Measures the District's unbudgeted spending reserves

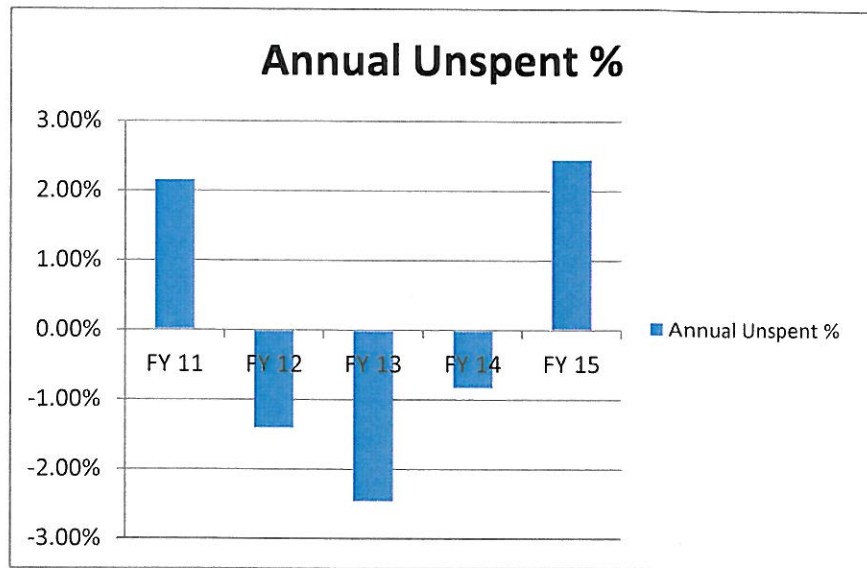
Trend: It was a downward trend until the budget reductions of FY 15 and 4% state funding turned the trend upward.

Target: Maintain authority within 5-15% target range

Need/concern: An adequate level of budget reserves are important so the District can respond to emergencies and student growth.

Annual Unspent %

	FY 11	FY 12	FY 13	FY 14	FY 15
Max. Authorized Budget	66,776,834	68,195,837	70,002,500	71,207,667	76,087,087
UAB Previous Year	7,603,216	8,876,609	8,042,698	6,517,814	5,982,645
Total Expenditures	57,900,225	60,153,139	63,484,686	65,225,022	68,388,620
	2.15%	-1.41%	-2.46%	-0.83%	2.45%



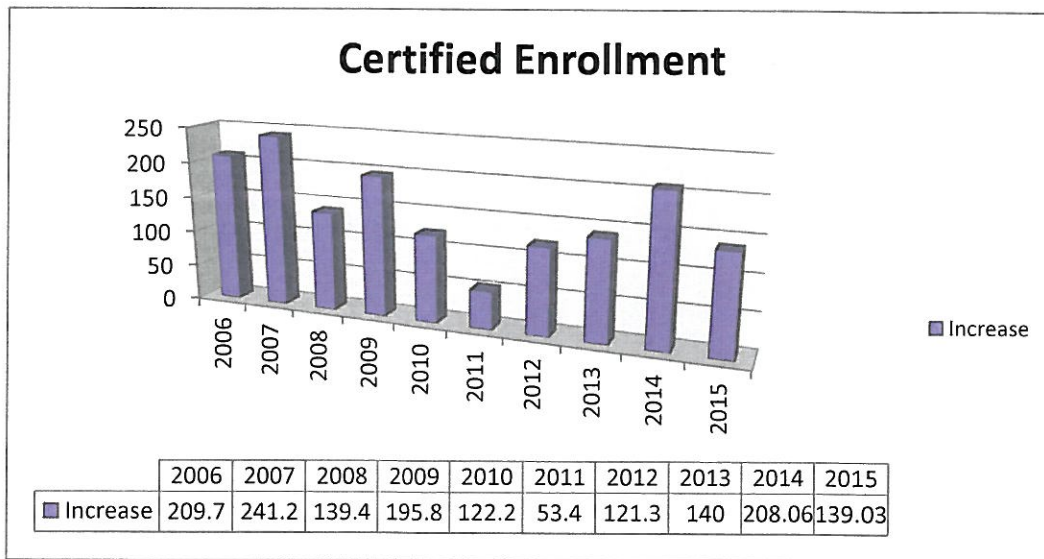
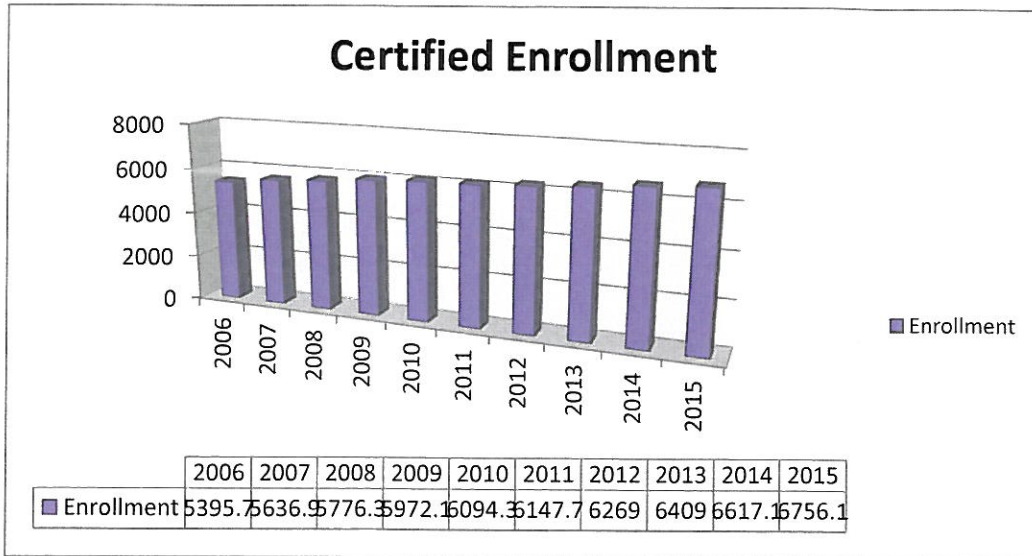
Purpose: Shows if district is spending all authority generated for given year, using prior years spending authority, or building levels too high

Trend: District spent into prior years spending authority FY 12-14. Adequate state funding along with \$1M budget reductions positively changed this trend.

Target: Build to UAB ratio goal, then stabilize at 0%

Need/concern: Without adequate state funding to maintain spending authority reserves, more budget reductions will take place in the future.

Certified Enrollment-Last Ten Years



Settlement History

Year	JEA TPI	JEA TPI	JESPA TPI	JESPA TPI	ADMIN TPI	ALLOW. GROWTH	NEW \$
FY 03		4.68%		4.32%	3.70%	1.00%	6.30%
FY 04		4.50%		4.35%	4.30%	2.00%	6.72%
FY 05		4.61%		4.52%	3.90%	2.00%	7.28%
FY 06		5.87%		4.38%	5.28%	4.00%	10.15%
FY 07		5.90%		5.60%	4.90%	4.00%	10.40%
FY 08		5.32%		4.60%	5.20%	4.00%	8.20%
FY 09		5.45%		4.60%	5.20%	4.00%	8.64%
FY 10		3.62%		4.60%	3.20%	4.00%	6.60%
FY 11	3.21%	4.00%	3.70%	4.60%	0.00%	2.00%	5.50%
FY 12		3.16%		3.10%	2.00%	0.00%	2.00%
FY 13		3.91%		3.20%	3.00%	2.00%	2.90%
FY 14		3.94%		2.15%	3.00%	2.00%	4.00%
FY 15		3.49%		2.22%	3.00%	4.00%	6.30%
FY 16		3.70%		2.49%	3.00%	1.25%	4.50%

Johnston Settlement History

