JOHNSTON COMMUNITY SCHOOL DISTRICT
ANNUAL FINANCIAL HEALTH REPORT

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JOHNSTON
COMMUNITY
SCHOOL DISTRICT
Excellence In Education

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Financial Indicators Executive Summary:

This report references the General Fund only.

The district's overall financial condition decreased fiscal year 2013 due to costs of the math adoption and increased operating costs with low state funding of 2% allowable growth coupled with a lower cash reserve levy. The Board has been diligent in increasing financial solvency through the board's decision to deliberately levy additional cash reserves. Over the last ten years, the district has gone from a negative 6.3% financial solvency to a positive 6.8% 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. While fiscal year 2014 state funding has increased with 2% allowable growth and a one time 2% state allocation, the district will still need to monitor and adjust recurring expenses such as salaries and benefits which represent over 80 percent of the operating budget.

The general fund balance and financial solvency ratio decreased compared to a year ago. A decrease of $1,978,373 to the general fund is a result of the math adoption and increased operating costs with low state funding of 2% allowable growth coupled with a lower cash reservy levy. Restricted fund balances decreased $131,070, and represent fund balances that can only be spent for specific purposes.

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 $1,365,000 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 2013, the District has a positive fund balance, financial solvency ratio within the target but decreasing, and unspent balance within the target but decreasing. Looking out beyond fy 13, 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

	2009	2010	2011	2012	2013
Balance Sheet Comparison					
Assets	11.4%	5.1%	11.1%	-0.5%	1.0%
Liabilities	13.7%	6.8%	2.7%	-5.0%	8.2%
Fund Balance	-7.1%	-11.4%	109.2%	25.2%	-30.5%
Rev. & Expend. Comparison					
Revenues	6.8%	5.5%	11.1%	1.2%	-0.4%
Expenditures	7.6%	5.4%	5.2%	3.9%	5.5%
Fund Balance	-7.1%	-11.4%	109.2%	25.2%	-30.5%
Current Ratio, Measures Short-term Solvency	110.3%	108.5%	117.4%	122.9%	114.7%
Day's Net Cash Ratio Short Term Solvency (Days)	48	48	68	72	64
Financial Solvency Ratio , District Equity Position	5.3%	3.6%	8.1%	10.1%	6.8%
Rev.(Deficit) Margin Ratio Measures Operating Results	-0.7%	-0.6%	4.7%	2.3%	-3.4%
Rev. & Expend. Change Ratio Measures Trends	0.90	1.02	2.14	0.32	-0.05
Fund balance to unspent balance, Measures fiscal health.	-60%	-65%	-38%	-14%	-26%
Unspent Balance Ratio, Unbudgeted Spending Reserves:					
Regular	12.4%	12.1%	13.3%	11.8%	10.4%
Unreserved	11.9%	10.9%	12.1%	10.4%	8.2%
Employee Cost Ratio	81.1%	81.5%	81.3%	82.0%	82.0%

Ratio Indicators

Assessment	Benchmark		District Ratio Values		
Indicator Ratio	Best Trend Direction	Recommended Target	District Value 2011	District Value 2012	District Value 2013
Current Ratio	Maintain/higher	1.00	117.38%	122.90%	114.71%
Day's Net Cash Ratio	Maintain/higher	90.00	68	72	64
Employee Cost Ratio	NA	80-85%	81.34%	81.92%	81.63%
Financial Solvency Ratio	Maintain/higher	10.00%	8.08%	10.11%	6.81%
Unspent Balance Ratio	Maintain/higher	10.00%	13.29%	11.79%	9.29%

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: current ratio=current assets/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: day's net cash ratio=cash + investments/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: wages plus benefits/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: financial solvency ratio=unassigned plus assigned general fund balance/general fund revenues-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%--.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: unspent balance ratio=unspent cumulative spending authority/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

	fy09	fy10	fy11	fy12	fy13	$ Change	% Change
Assets:							
Cash & Investments	$ 6,799,576	$ 7,181,400	$ 10,765,509	$ 11,932,103	$ 11,122,579	$ (809,524)	-6.8%
Receivables	24,974,099	26,393,321	26,526,224	25,166,113	26,348,117	$ 1,182,004	4.7%
Inventories	42,801	49,222	42,426	47,836	49,391	$ 1,555	3.3%
ISCAP	-	-	-			$ -	0.0%
Other Assets	171,537	2,375	15,750	-	7,900	$ 7,900	0.0%
Total Assets	31,988,013	33,626,318	37,349,909	37,146,052	37,527,987	381,935	1.0%
Liabilities:							
Payables	1,262,114	959,621	1,473,839	1,068,361	1,162,946	94,585	8.9%
Payroll	4,793,006	5,168,407	5,922,269	6,108,082	6,617,948	509,866	8.3%
ISCAP	-	-	-	-	-	-	0.0%
Other Liabilities	22,950,465	24,854,992	24,424,405	23,048,525	24,935,452	1,886,927	8.2%
Total Liabilities	29,005,585	30,983,020	31,820,513	30,224,968	32,716,346	2,491,378	8.2%
Fund Balance:							
Restricted	332,166	758,352	807,541	922,952	791,882	(131,070)	-14.2%
Unassigned	2,650,262	1,884,946	4,721,855	5,998,132	4,019,759	(1,978,373)	-33.0%
Total Fund Balance	$2,982,428	$2,643,298	$5,529,396	$6,921,084	$4,811,641	(2,109,443)	-30.5%

Note: The large receivables and payables include fy14property taxes certified by the county auditor. GASB reporting requires the inclusion of these taxes when certified.

The decrease to the general fund is a result of costs of a textbook adoption and increased operating costs with inadequate state funding coupled with a lower cash reserve levy.

Revenue & Expenditures Comparison
General Fund Only

	fy09	fy10	fy11	fy12	fy13	$ Change	% Change
Revenues:							
Local tax sources	$ 20,183,368	$ 22,939,945	$ 23,708,820	$ 24,192,193	$ 22,964,453	$ (1,227,740)	-5.1%
State sources	25,727,989	23,395,100	27,909,198	30,702,657	31,648,589	$ 945,932	3.1%
Federal sources	1,310,565	4,060,405	3,729,793	1,690,636	1,765,183	$ 74,547	4.4%
Other local sources	4,664,376	4,307,231	5,438,512	4,959,341	4,932,018	$ (27,323)	-0.6%
Total revenues	51,886,298	54,702,681	60,786,323	61,544,827	61,310,243	(234,584)	-0.4%
Expenditures:							
Instruction	35,272,515	37,446,848	39,538,924	41,509,827	44,266,367	$ 2,756,540	6.6%
Support services	14,897,423	15,290,722	15,923,345	16,284,483	16,874,724	$ 590,241	3.6%
Noninstructional	112,345	116,426	117,099	122,585	35,760	$ (86,825)	-70.8%
Other expenditures	1,946,449	2,187,815	2,320,857	2,236,244	2,307,835	$ 71,591	3.2%
Total expenditures	52,228,732	55,041,811	57,900,225	60,153,139	63,484,686	3,331,547	5.5%
Operating Transfers	4,229	-	-		65,000	$ 65,000	
Upward Adjustment	117,774	-	-			$ -	
Changes in fund balance:	(228,889)	(339,130)	2,886,098	1,391,688	(2,109,443)	$ (3,501,131)	
Excess(deficiency) of Revenues and Expenditures	(228,889)	(339,130)	2,886,098	1,391,688	(2,109,443)	(3,501,131)	

Contribution Ratio General Fund

Formula: **Line Source Revenue** / **Total Revenue**

Year	2009	2010	2011	2012	2013
Local	$20,183,368	$22,939,945	$23,708,820	$24,192,193	$22,964,453
State	25,727,989	23,395,100	27,909,198	30,702,657	31,648,589
Federal	1,310,565	4,060,405	3,729,793	1,690,636	1,765,183
Other	4,664,376	4,307,231	5,438,512	4,959,341	4,932,018
Total	$51,886,298	$54,702,681	$60,786,323	$61,544,827	$61,310,243

Year	2009	2010	2011	2012	2013
Local	38.9%	41.9%	39.0%	39.3%	37.5%
State	49.6%	42.8%	45.9%	49.9%	51.6%
Federal	2.5%	7.4%	6.1%	2.7%	2.9%
Other	9.0%	7.9%	8.9%	8.1%	8.0%
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

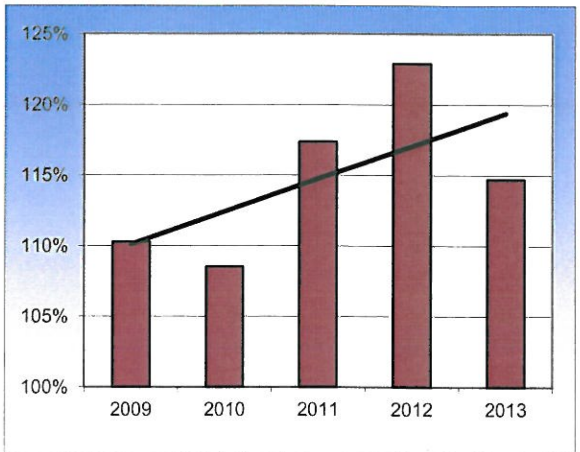
Current Ratio

Formula:

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

Financial Information and Computation:

Year	2009	2010	2011	2012	2013
Assets	$ 31,988,013	$ 33,626,318	$ 37,349,909	$ 37,146,052	$ 37,527,987
Liabilities	$ 29,005,585	$ 30,983,020	$ 31,820,513	$ 30,224,968	$ 32,716,346
Ratio	110.28%	108.53%	117.38%	122.90%	114.71%



Purpose:

Measures short - term solvency

FY 13 decrease due to lower cash reserve levy offset by increased costs of math adoption and increased operating costs with inadequate state funding coupled with a lower cash reserve levy

Target:

Greater than 100%

Need/Concern:

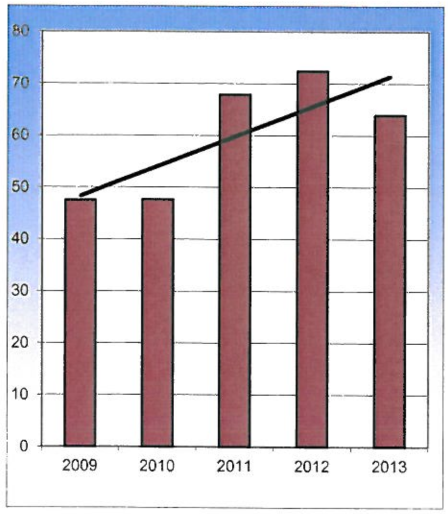
When the assets/liabilities ratio is below 1, the district does not have the ability to pay off all current liabilities. Outside financial companies use this as a measure of financial health. The ration needs to be greater than 1 to obtain the best bond rating possible.

Formula: Cash & Investments / Average Daily Cash Expenditures

Day's Net Cash Ratio

Financial Information and Computation:

Year		2009	2010	2011	2012	2013
Cash & Investment		$ 6,799,576	$ 7,181,400	$ 10,765,509	$ 11,932,103	$ 11,122,579
Total Expenditures		$ 52,228,732	$ 55,041,811	$ 57,900,225	$ 60,153,139	$ 63,484,686
Daily (365) Expenditures		$143,092	$150,799	$158,631	$164,803	$173,931
Ratio In Days		48	48	68	72	64



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

Trend: Upward

Target: 90 days

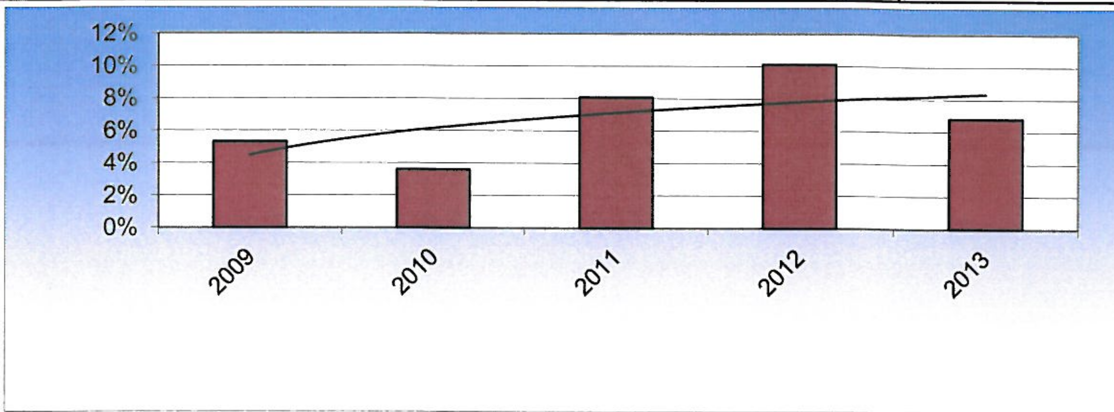
This indicator is below target but has improved in past years and will need to improve in future.

Corrective Action: Levy for cash reserve

Financial Solvency Ratio*

$$\frac{\text{Unassigned Fund Balance}}{\text{Total Revenue-AEA flowthru}}$$

Year	2009	2010	2011	2012	2013
UUFB	$ 2,658,048	$ 1,884,946	$ 4,721,855	$ 5,998,132	$ 4,019,759
Revenue	$ 49,939,849	$ 52,514,866	$ 58,465,467	$ 59,308,542	$ 59,067,408
F/S Ratio	5.3%	3.6%	8.1%	10.1%	6.8%



-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: Reversed, climbing, opened TR FY08, 1.5% cut FY 09, 10% ATB cut FY 10 Ed Jobs funding FY11, FY11-12 science adoption and 0% allowable growth, decreasing FY13 increased operating costs including adoption, low funding

Target: Minimum of 5%, Goal 10%

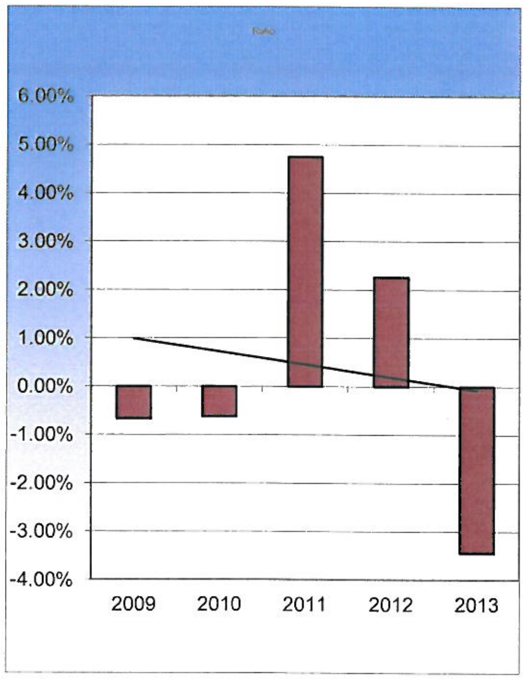
Need/Concern: It was improving until the 10% ATB cut in FY10, increased due to ed jobs FY11, and continued to increase FY12 due to cash reserve levy (offset by 0% allowable growth and science adoption). However, FY13 was a large decrease due to textbook adoption and increased operating costs with inadequate state funding coupled with a lower cash reserve levy.

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

Revenue (Deficit) Margin Ratio

Financial Information and Computation:

Year	2009	2010	2011	2012	2013
Net revenue	$ (346,663)	$ (339,130)	$ 2,886,098	$ 1,391,688	$ (2,109,443)
Total	$ 51,866,301	$ 54,702,681	$ 60,786,323	$ 61,544,827	$ 61,310,243
Ratio	-0.67%	-0.62%	4.75%	2.26%	-3.44%



Purpose: Measures operating results

Trend: 1.5% ATB cut 2009, 10% ATB cut FY10, Ed Jobs Funding FY11 along with cash reserves creating positive ration FY12, low allowable growth, math adoption, increased operating costs with inadequate state funding coupled with a lower cash reserve levy.

Target: Greater than zero

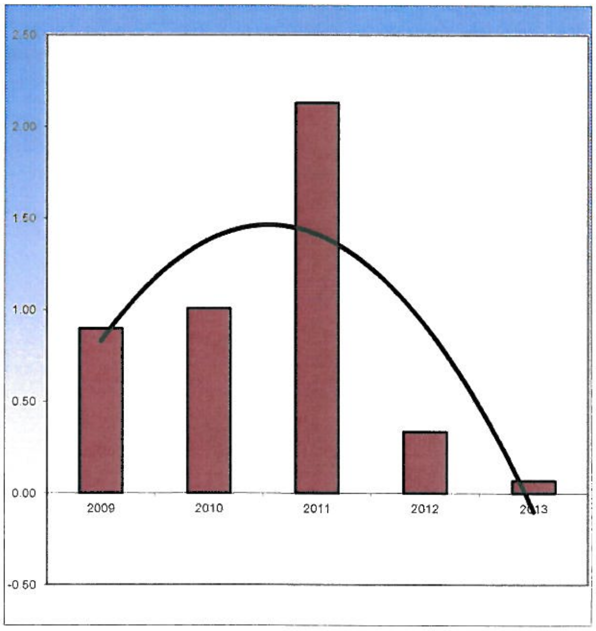
Need/Concern: Full funding needed for budget revenue resources

Corrective Action: Continue to levy cash reserves for increased funding/adjust expenditures

Current Year Revenue - Prior Year Revenue
Current Year Expenditures - Prior Year Expenditures

Financial Information and Computation:

Year		2009	2010	2011	2012	2013
Revenue		$51,866,301	54,702,681	60,786,323	61,544,827	61,375,243
Expenditures		$52,228,732	55,041,811	57,900,225	60,153,139	63,484,686
Ratio	Rev	0.068	0.055	0.111	0.012	-0.003
	Exp	0.076	0.054	0.052	0.039	0.055



Purpose: Measures trends

Trend: Gradual upswing 2008-2010, dramatic increase FY11 due to increased revenues (Ed Jobs funding) followed by 0% allowable growth FY12, 2% allowable growth with lower cash reserve levy and increased operating costs with inadequate state funding FY13

Target: Revenue ratio greater than or equal to expenditure ratio

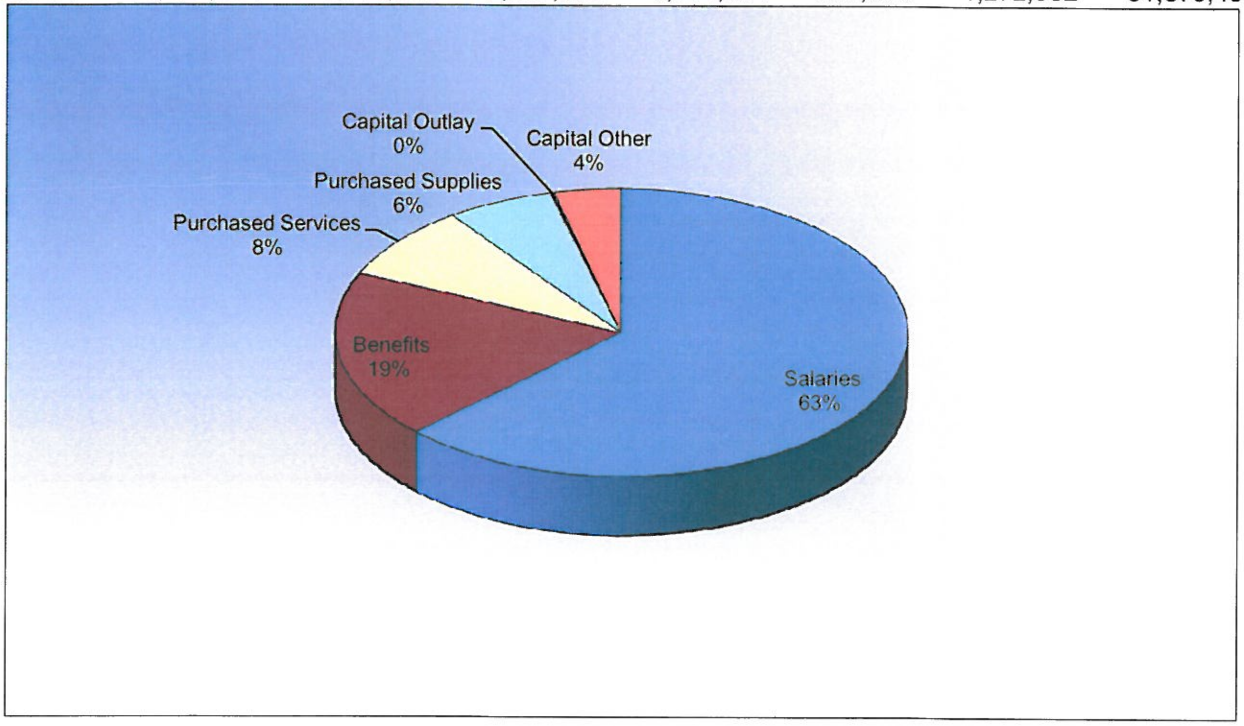
Need/Concern: When the revenue ratio is below the expenditure ratio, this indicates that expenditure change is growing faster than the change in revenue from year to year. This has the ultimate effect of eroding the district's fund balance position.

Corrective Action: With levying cash reserves, our expectation should be to see greater revenue change than expenditure change. With the 10% ATB cut in FY10, this did not occur. However, in FY11, there is a substantial increase due to the cash reserve levy and the ed jobs funding. In FY12, while revenue is greater than expenditures, it's less than FY11 due to 0% allowable growth, no Ed jobs/ARRA, and science adoption. For FY13, revenue is less due to lower cash reserve levy and expenditures are higher due to math adoption, 2% allowable growth, and increased operating costs

Continue levying cash reserve.

GENERAL FUND DISTRICT EXPENDITURES, BY OBJECT
Last Ten Fiscal Years

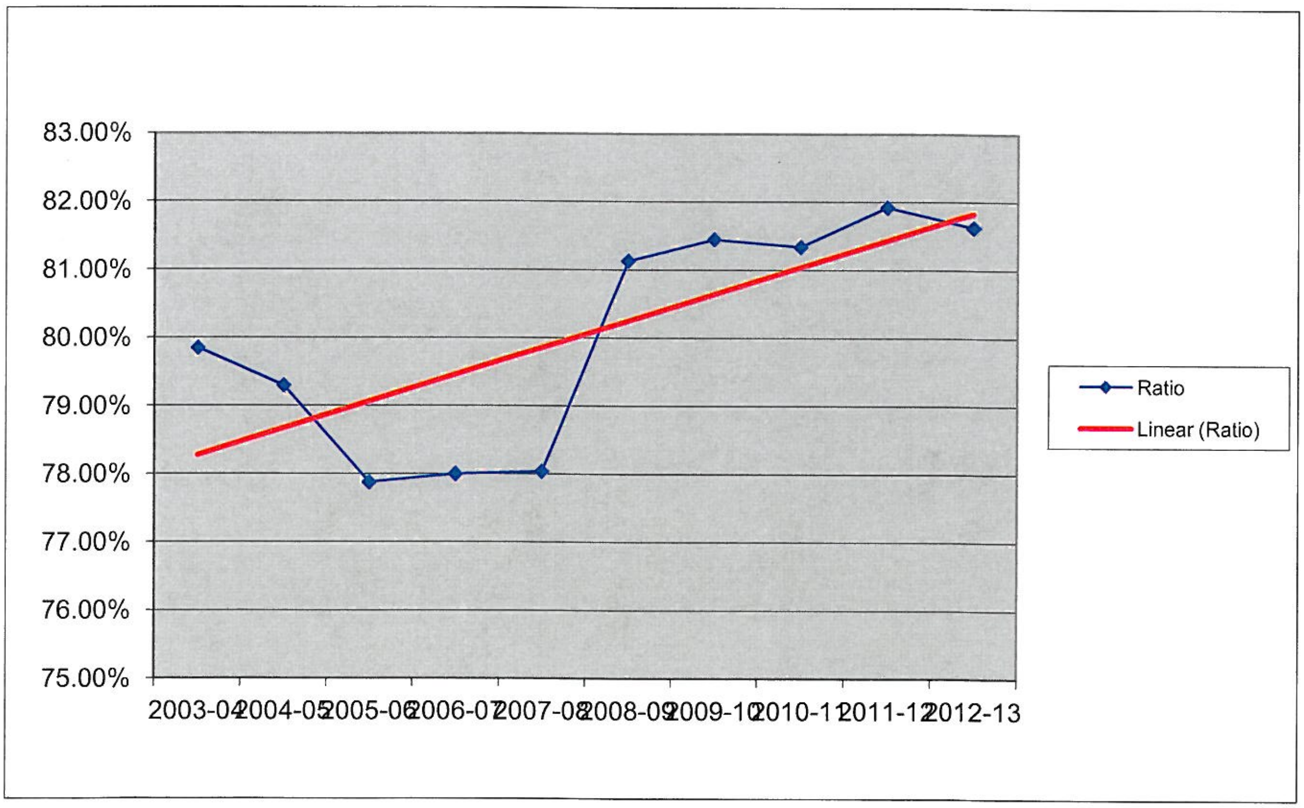
Fiscal Year	Salaries	Benefits	Purchased Services	Supplies	Capital Outlay	Other	Total
2012-13	$39,792,304	$12,028,192	$5,277,632	$3,874,187	$123,294	$2,389,077	$63,484,686
2011-12	37,612,794	11,665,760	5,242,777	3,250,804	79,028	2,301,976	60,153,139
2010-11	36,399,406	10,697,119	4,919,049	3,400,912	92,771	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
2004-05	22,005,891	5,614,383	3,337,095	2,202,975	348,548	1,322,495	34,831,387
2003-04	19,876,524	5,178,986	2,907,360	1,804,564	339,970	1,272,052	31,379,456



Source: 2013 Certified Annual Report

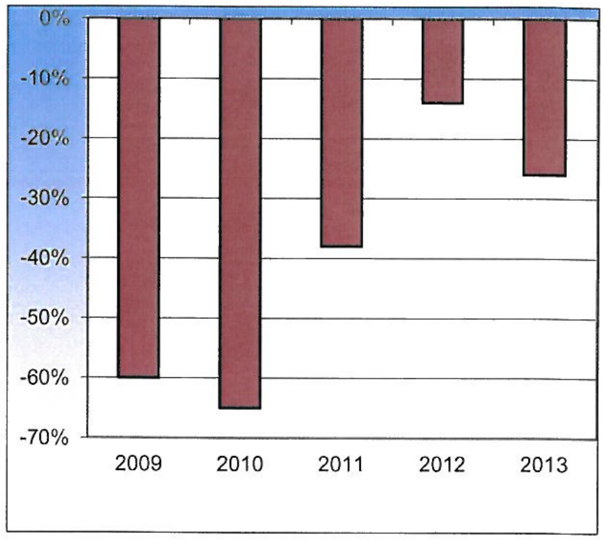
Employee Cost Ratio General Fund
Last Ten Fiscal Years

Fiscal Year	Wages & Benefits	Total Expenditures	Ratio
2003-04	$ 25,055,510	$ 31,379,456	79.85%
2004-05	$ 27,620,274	$ 34,831,387	79.30%
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%



Fund Balance vs. Unspent Balance

Year	2008	2009	2010	2011	2012	2013
Unspent Balance	$ 8,584,445	$ 7,370,385	$ 7,603,216	$ 8,876,609	$ 8,042,698	$ 6,504,087
Fund Balance	3,211,317	2,982,428	2,643,298	5,529,396	6,921,084	4,811,641
Percent funded	-63%	-60%	-65%	-38%	-14%	-26%



*Estimated

Purpose: Measures District's unfunded spending reserves

Trend: Decreasing, opened TR Fy08 followed by 1.5% ATB cut FY09, followed by 10% ATB cut FY1 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 lowe cash reserve levy coupled with low 2% allowable growth, math adoption, and increased operating costs.

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.

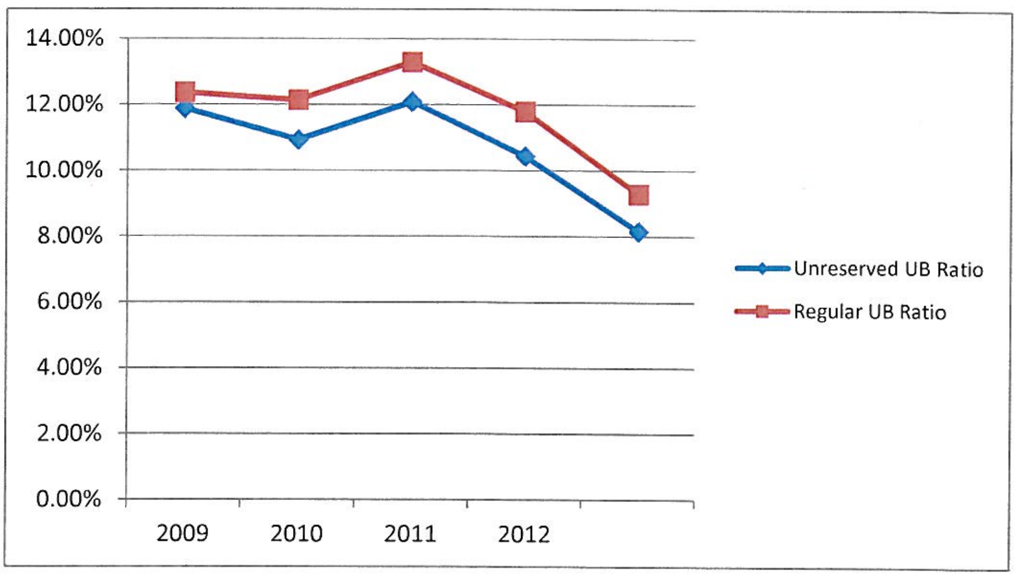
Corrective Action: Continue to levy cash reserve until 100% funded

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
2009	59,603,347	$ 7,370,385	7,081,020	12.37%	11.88%
2010	62,645,027	$ 7,603,216	6,844,864	12.14%	10.93%
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	69,988,773	$ 6,504,087	5,712,205	9.29%	8.16%



*Estimated

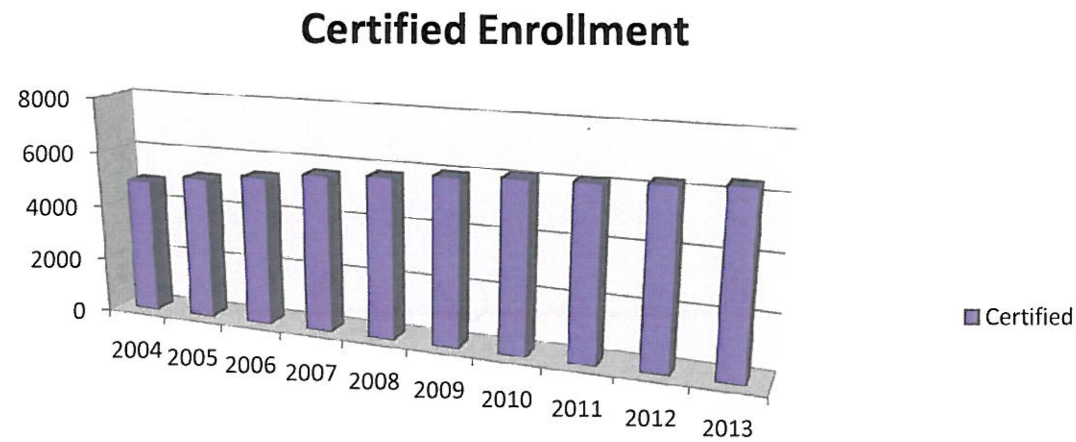
Purpose: Measures the District's unbudgeted spending reserves

Trend: Downward

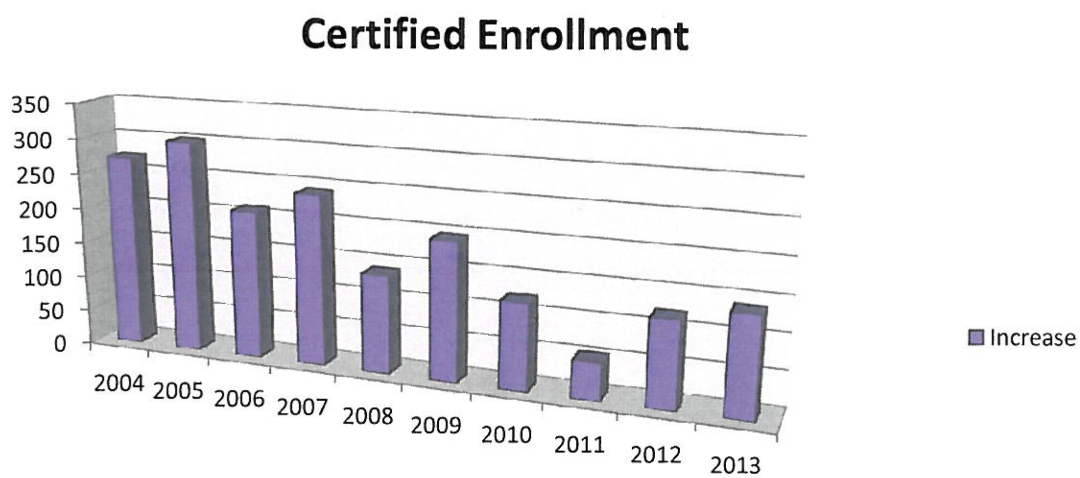
Target: Maintain authority within 5-15% target range

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

Certified Enrollment-Last Ten Years



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Certified	4885.6	5186	5395.7	5636.9	5776.3	5972.1	6094.3	6147.7	6269	6408



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Increase	272.4	300.4	209.7	241.2	139.4	195.8	122.2	53.4	121.3	139