

**JOHNSTON COMMUNITY SCHOOL DISTRICT
ANNUAL FINANCIAL HEALTH REPORT**

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Financial Indicators Executive Summary:

This report references the General Fund only.

The district's overall financial condition improved fiscal year 2012 by increasing financial solvency through the board's decision to deliberately increase cash reserves. While fiscal 2012 was a year of zero per cent allowable growth, no ed jobs funding or ARRA funding, the cash reserve levy allowed the district to still increase its overall financial stability. In the past, the board has increased cash reserves to fund previously granted allowable growth and to work toward the district goal for financial solvency.

The general fund balance and financial solvency ratio increased compared to a year ago. An increase of \$1,391,688 to the general fund is a result of increased cash reserves levied by the Board to improve fund balance. Restricted fund balances increased \$115,411, and represent fund balances that can only be spent for specific purposes.

The board has reaffirmed its goal of having and maintaining an unassigned fund balance of 10%. Toward this goal, the cash reserve levy of \$2,550,000 was included in the board's actions in a desire to increase the financial solvency ratio, fund annual allowable growth, and protect the district against unfunded allowable growth.

At the end of fiscal 2012, the District has a positive fund balance, improved financial solvency ratio, and current ratio. Looking out beyond fy 12, it will be necessary to continue levying cash reserves to increase and maintain acceptable levels within the financial indicators, and most likely the district targets will need to be increased as the parameters change.

2008 2009 2010 2011 2012

Balance Sheet Comparison					
Assets	7.2%	11.4%	5.1%	11.1%	-0.5%
Liabilities	8.2%	13.7%	6.8%	2.7%	-5.0%
Fund Balance	0.4%	-7.1%	-11.4%	109.2%	25.2%
Rev. & Expend. Comparison					
Revenues	8.8%	6.8%	5.5%	11.1%	1.2%
Expenditures	12.3%	7.6%	5.4%	5.2%	3.9%
Fund Balance	0.4%	-7.1%	-11.4%	109.2%	25.2%
Current Ratio, Measures Short-term Solvency	112.6%	110.3%	108.5%	117.4%	122.9%
Day's Net Cash Ratio Short Term Solvency (Days)	48	48	48	68	72
Financial Solvency Ratio , District Equity Position	6.5%	5.3%	3.6%	8.1%	10.1%
Rev.(Deficit) Margin Ratio Measures Operating Results	0.0%	-0.7%	-0.6%	4.7%	2.3%
Rev. & Expend. Change Ratio Measures Trends	0.72	0.90	1.02	2.14	0.32
Fund balance to unspent balance, Measures fiscal health.	-63%	-60%	-65%	-37%	-10%
Unspent Balance Ratio, Unbudgeted Spending Reserves:					
Regular	15.0%	12.4%	12.1%	13.3%	11.7%
Unreserved	14.2%	11.9%	10.9%	12.1%	10.3%

Ratio Indicators

Assessment	Benchmark	District Ratio Values		
Indicator Ratio	Best Trend Direction	Recommended Target	District Value 2011	District Value 2012
Current Ratio	Maintain	1.00	117.38%	122.90%
Day's Net Cash Ratio	Higher	90.00	68	72
Employee Cost Ratio	NA	80-85%	81.34%	81.92%
Financial Solvency Ratio	Maintain/higher	10.00%	8.08%	10.55%
Unspent Balance Ratio	Maintain/higher	10.00%	13.29%	11.69%

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: $\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$. 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: $\text{day's net cash ratio} = \frac{\text{cash} + \text{investments}}{\text{total general fund expenditures}/365}$. 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: $\frac{\text{wages plus benefits}}{\text{general fund expenditures}}$.

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: $\text{financial solvency ratio} = \frac{\text{unassigned plus assigned general fund balance}}{\text{general fund revenues} - \text{AEA flowthru}}$. 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%, © 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: $\text{unspent balance ratio} = \frac{\text{unspent cumulative spending authority}}{\text{maximum budget authority}}$. 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>fy08</u>	<u>fy09</u>	<u>fy10</u>	<u>fy11</u>	<u>fy12</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:							
Cash & Investments	\$ 6,360,052	\$ 6,799,576	\$ 7,181,400	\$ 10,765,509	\$ 11,932,103	\$ 1,166,594	10.8%
Receivables	22,327,742	24,974,099	26,393,321	26,526,224	25,166,113	\$ (1,360,111)	-5.1%
Inventories	31,176	42,801	49,222	42,426	47,836	\$ 5,410	12.8%
ISCAP	-	-	-	-	-	\$ -	\$ -
Other Assets	-	171,537	2,375	15,750	-	\$ (15,750)	-100.0%
Total Assets	28,718,970	31,988,013	33,626,318	37,349,909	37,146,052	(203,857)	-0.5%
Liabilities:							
Payables	883,851	1,262,114	959,621	1,473,839	1,068,361	(405,478)	-27.5%
Payroll	4,392,338	4,793,006	5,168,407	5,922,269	6,108,082	185,813	3.1%
ISCAP	-	-	-	-	-	-	-
Other Liabilities	20,231,464	22,950,465	24,854,992	24,424,405	23,048,525	(1,375,880)	-5.6%
Total Liabilities	25,507,653	29,005,585	30,983,020	31,820,513	30,224,968	(1,595,545)	-5.0%
Fund Balance:							
Restricted	497,962	332,166	758,352	807,541	922,952	115,411	14.3%
Unassigned	2,713,355	2,650,262	1,884,946	4,721,855	5,998,132	1,276,277	27.0%
Total Fund Balance	\$3,211,317	\$2,982,428	\$2,643,298	\$5,529,396	\$6,921,084	1,391,688	25.2%

Note: The large receivables and payables include fy12 property taxes certified by the county auditor. GASB reporting requires the inclusion of these taxes when certified.

The increase to the general fund is a result of increased cash reserve levies by the Board to improve fund balance. Ed Jobs revenue was recognized in FY11 and the decision to proceed with purchase of textbooks resulted in most of that expense in FY 12.

Revenue & Expenditures Comparison General Fund Only

	<u>fy08</u>	<u>fy09</u>	<u>fy10</u>	<u>fy11</u>	<u>fy12</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues:							
Local tax sources	\$ 18,603,184	\$ 20,183,368	\$ 22,939,945	\$ 23,708,820	\$ 24,192,193	\$ 483,373	2.0%
State sources	23,886,278	25,727,989	23,395,100	27,909,198	30,702,657	\$ 2,793,459	10.0%
Federal sources	608,267	1,310,565	4,060,405	3,729,793	1,690,636	\$ (2,039,157)	-54.7%
Other local sources	5,466,386	4,664,376	4,307,231	5,438,512	4,959,341	\$ (479,171)	-8.8%
Total revenues	48,564,115	51,886,298	54,702,681	60,786,323	61,544,827	758,504	1.2%
Expenditures:							
Instruction	31,850,214	35,272,515	37,446,848	39,538,924	41,509,827	\$ 1,970,903	5.0%
Support services	14,817,451	14,897,423	15,290,722	15,923,345	16,284,483	\$ 361,138	2.3%
Noninstructional	111,443	112,345	116,426	117,099	122,585	\$ 5,486	4.7%
Other expenditures	1,771,545	1,946,449	2,187,815	2,320,857	2,236,244	\$ (84,613)	-3.6%
Total expenditures	48,550,653	52,228,732	55,041,811	57,900,225	60,153,139	2,252,914	3.9%
Operating Transfers		4,229	-	-		\$ -	
Upward Adjustment		117,774	-	-		\$ -	
Changes in fund balance:	13,462	(228,889)	(339,130)	2,886,098	1,391,688	\$ (1,494,410)	
Excess(deficiency) of Revenues and Expenditures	<u>\$13,462</u>	<u>(228,889)</u>	<u>(339,130)</u>	<u>2,886,098</u>	<u>1,391,688</u>	<u>(1,494,410)</u>	

Contribution Ratio General Fund

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

Year	2008	2009	2010	2011	2012
Local	\$23,984,207	\$24,734,881	\$27,156,498	\$29,055,476	\$29,055,920
State	22,114,733	23,781,540	21,207,285	25,588,341	28,466,413
Federal	608,267	1,310,565	4,060,405	3,729,793	1,690,636
Other	1,856,907	2,177,087	2,278,493	2,412,713	2,331,858
Total	\$48,564,114	\$52,004,073	\$54,702,681	\$60,786,323	\$61,544,827

Year	2008	2009	2010	2011	2012
Local	49.4%	47.6%	49.6%	47.8%	47.2%
State	45.5%	45.7%	38.8%	42.1%	46.3%
Federal	1.3%	2.5%	7.4%	6.1%	2.7%
Other	3.8%	4.2%	4.2%	4.0%	3.8%
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.

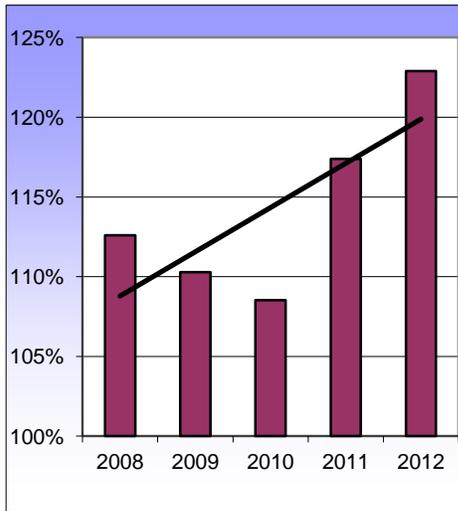
Corrective Action: N/A

Current Ratio

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

Financial Information and Computation:

Year	2008	2009	2010	2011	2012
Assets	\$ 28,718,970	\$ 31,988,013	\$ 33,626,318	\$ 37,349,909	\$ 37,146,052
Liabilities	\$ 25,507,653	\$ 29,005,585	\$ 30,983,020	\$ 31,820,513	\$ 30,224,968
Ratio	112.59%	110.28%	108.53%	117.38%	122.90%



Purpose: Measures short - term solvency

FY 12 increase due to increased cash from the 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. Should the district seek a bond issue in the future, this ratio needs to be greater than 1 to obtain the best bond rating possible.

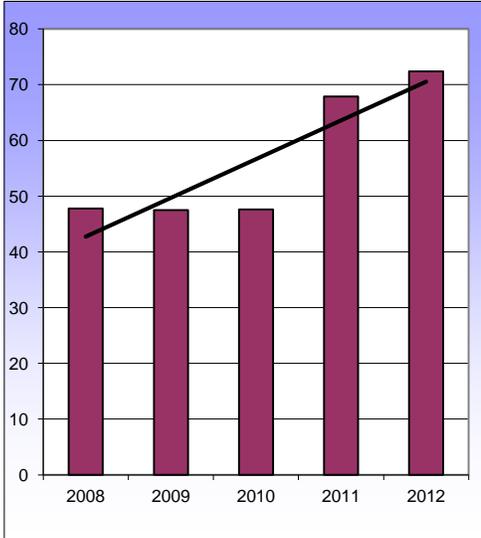
Corrective Action: Continue to levy cash reserve

Day's Net Cash Ratio

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

Financial Information and Computation:

Year		2008	2009	2010	2011	2012
Cash & Investment		\$ 6,360,052	\$ 6,799,576	\$ 7,181,400	\$ 10,765,509	\$ 11,932,103
Total Expenditures		\$ 48,550,653	\$ 52,228,732	\$ 55,041,811	\$ 57,900,225	\$ 60,153,139
Daily (365) Expenditures		\$133,015	\$143,092	\$150,799	\$158,631	\$164,803
Ratio In Days		48	48	48	68	72



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 the last couple years.

Corrective Action: Levy for cash reserve

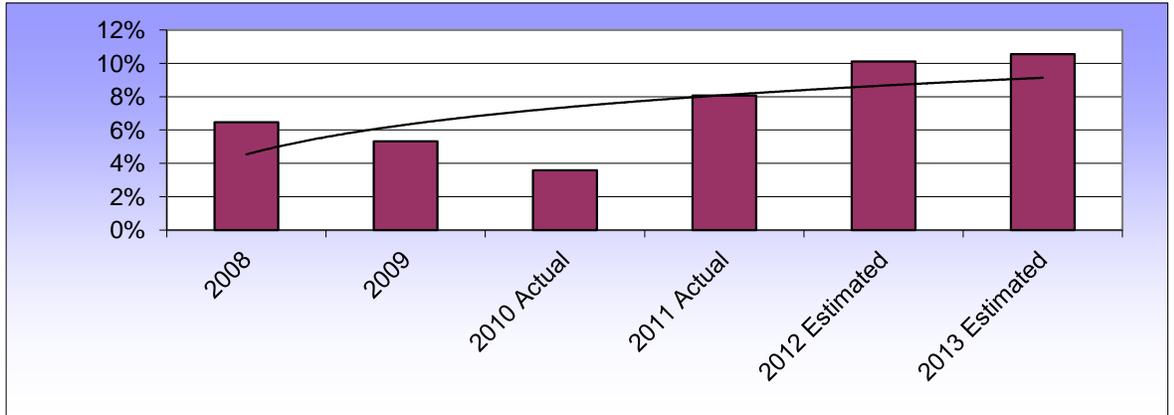
Financial Solvency Ratio*

Formula:

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

Financial Information and Computation:

Year	2008	2009	2010 Actual	2011 Actual	2012 Estimated	2013 Estimated
UUFB	\$ 3,024,947	\$ 2,658,048	\$ 1,884,946	\$ 4,721,855	\$ 5,998,132	\$ 6,398,132
Revenue	\$ 46,792,570	\$ 49,939,849	\$ 52,514,866	\$ 58,465,467	\$ 59,308,583	\$ 60,652,893
F/S Ratio	6.5%	5.3%	3.6%	8.1%	10.1%	10.5%



- 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

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)

Corrective Action:

Continue to levy for cash reserve

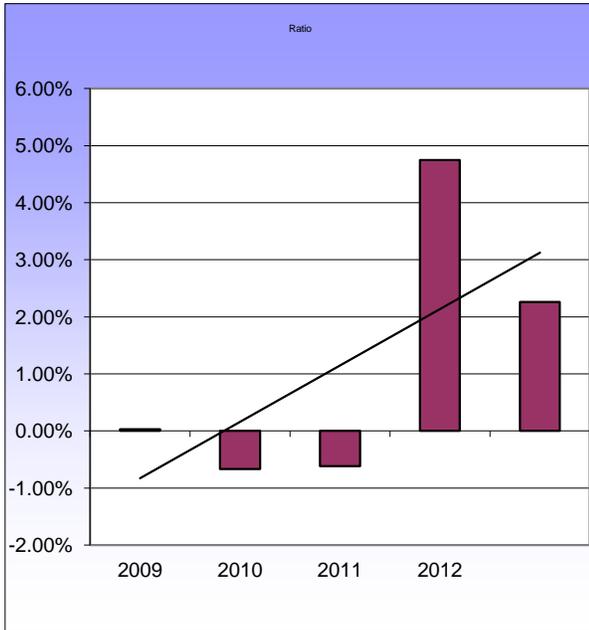
Revenue (Deficit) Margin Ratio

$\frac{\text{Revenue-Expenditures (Net Revenue)}}{\text{Total Revenue}}$

Total Revenue

Financial Information and Computation:

Year	2008	2009	2010	2011	2012
Net revenue	\$ 13,462	\$ (346,663)	\$ (339,130)	\$ 2,886,098	\$ 1,391,688
Total	\$ 48,563,757	\$ 51,866,301	\$ 54,702,681	\$ 60,786,323	\$ 61,544,827
Ratio	0.03%	-0.67%	-0.62%	4.75%	2.26%



Purpose:

Measures operating results

Trend:

Negative due to opening TR 2008, 1.5% ATB cut 2009, 10% ATB cut FY 10, Ed Jobs funding FY 11 along with cash reserves creating positive ratio FY 12

Target:

Greater than zero

Need/Concern:

Full funding needed for budget revenue resources

Corrective Action:

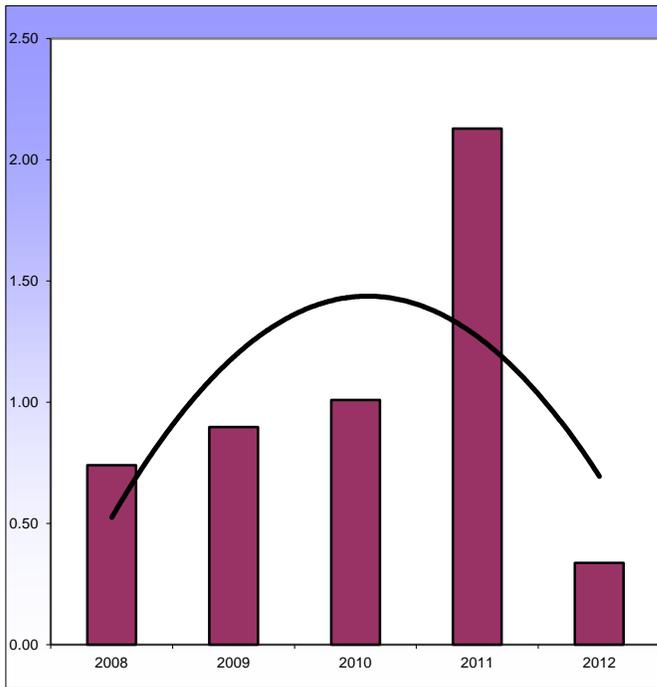
Continue to levy cash reserves for increased funding

Revenue and Expenditures Change Ratio

Formula:
$$\frac{\text{Current Year Revenue} - \text{Prior Year Revenue}}{\text{Current Year Expenditures} - \text{Prior Year Expenditures}}$$

Financial Information and Computation:

Year		2008	2009	2010	2011	2012
Revenue		\$48,564,115	\$51,866,301	54,702,681	60,786,323	61,544,827
Expenditures		\$48,550,653	\$52,228,732	55,041,811	57,900,225	60,153,139
Ratio	Rev	0.09	0.07	0.05	0.11	0.01
	Exp	0.12	0.08	0.05	0.05	0.04



Purpose: Measures trends

Trend: Gradual upswing 2008-2010, dramatic increase FY 11 due to increased revenues (Ed Jobs Funding), and decrease in FY 12 due to 0% allowable growth, no Ed Jobs funding, no ARRA funding, and science adoption

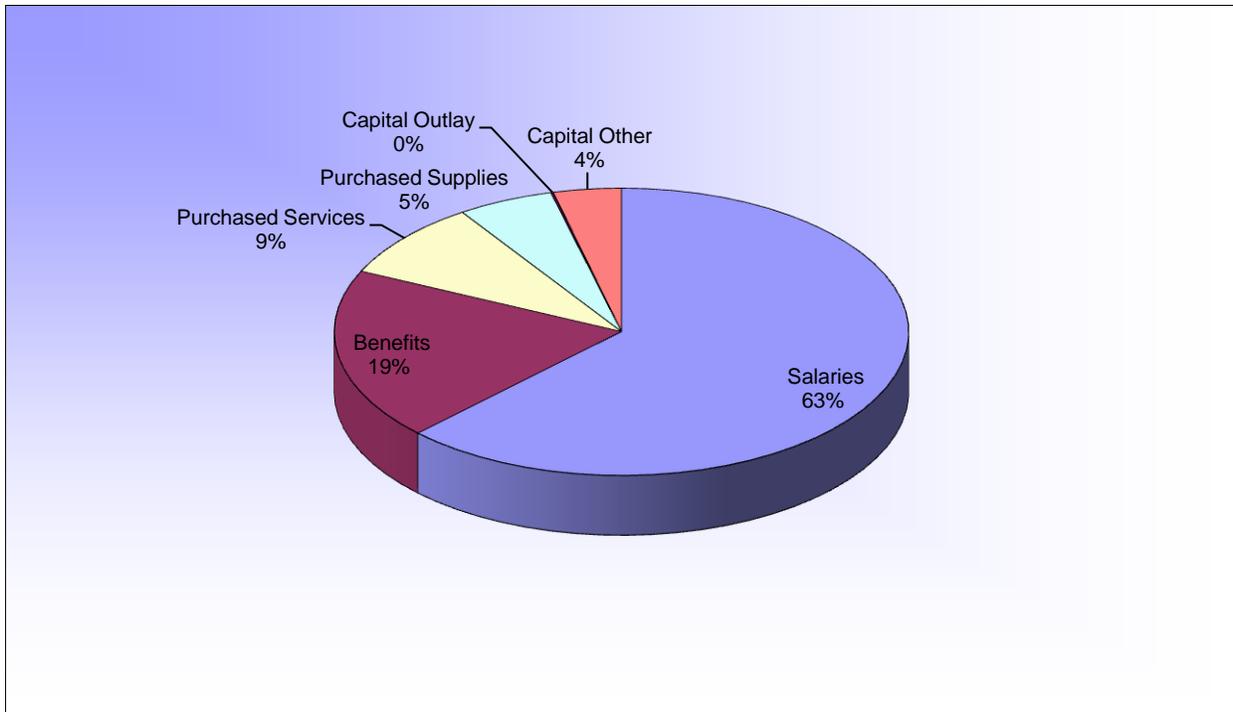
Target: Revenue ratio greater than or equal to expenditure ratio

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 last year to this 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 FY 11, there was a substantial increase due to cash reserve levy and ed jobs funding. In FY 12, while revenue is still greater than expenditures, it's less than FY 11 due to 0% allowable growth, no Ed jobs or ARRA, and science adoption.

GENERAL FUND DISTRICT EXPENDITURES, BY OBJECT
Last Ten Fiscal Years

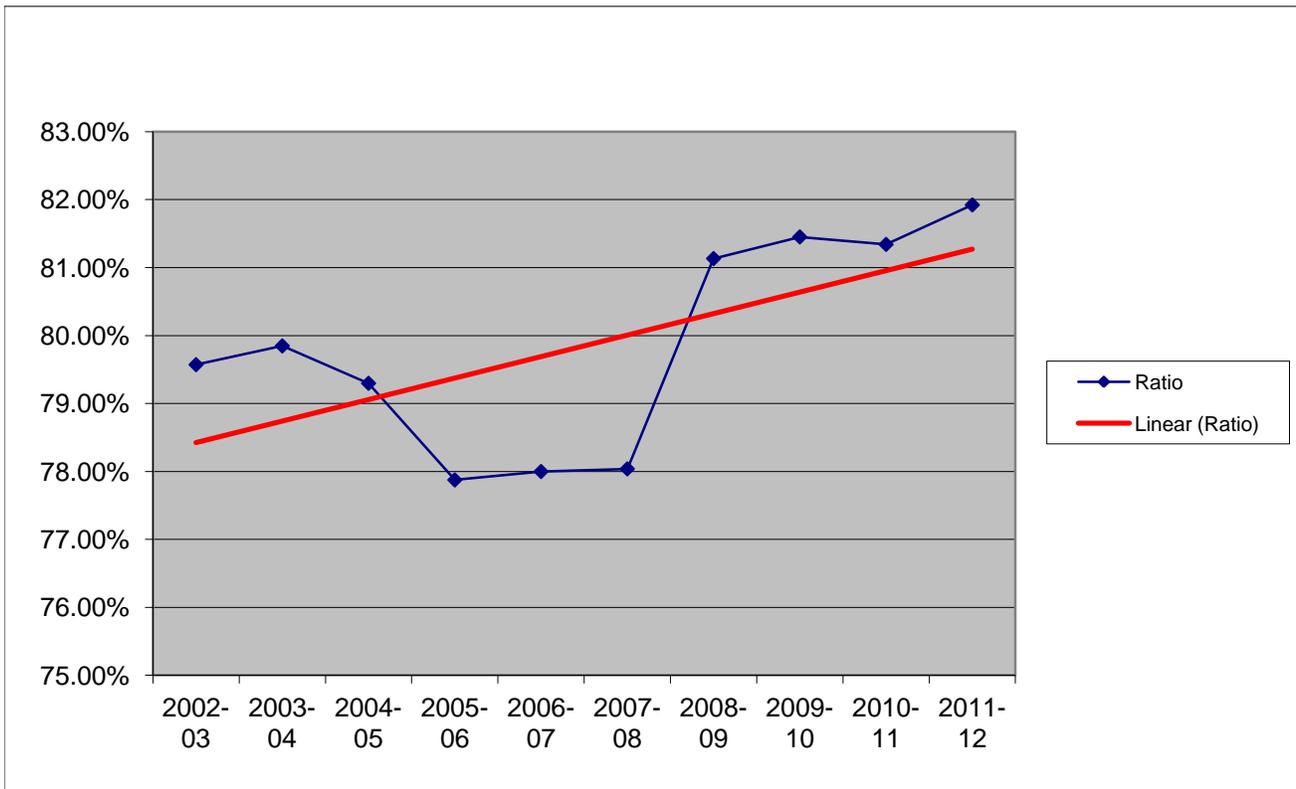
Fiscal Year	Salaries	Benefits	Purchased Services	Supplies	Capital Outlay	Other	Total
2011-12	\$37,612,794	\$11,665,760	\$5,242,777	\$3,250,804	\$ 79,028	\$2,301,976	\$60,153,139
2010-11	36,399,406	10,697,119	4,919,049	3,400,912	92,771	2,390,968	57,900,225
2009-10	35,114,493	9,717,685	4,529,897	3,340,165	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
2002-03	19,031,924	4,736,267	2,849,270	1,505,519	281,775	1,465,633	29,870,388



Source: 2012 Certified Annual Report

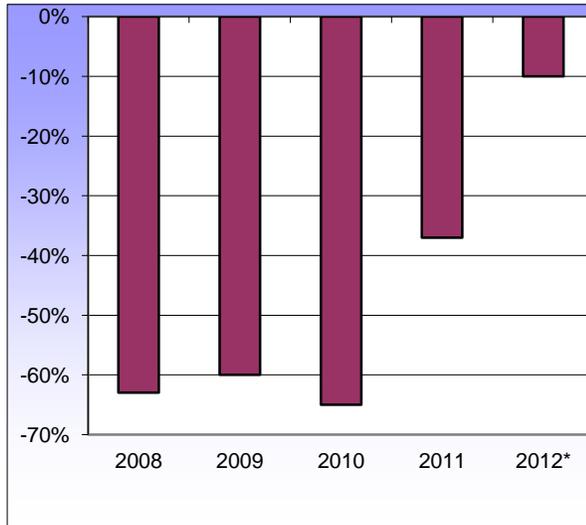
**Employee Cost Ratio General Fund
Last Ten Fiscal Years**

Fiscal Year	Wages & Benefits	Total Expenditures	Ratio
2002-03	\$ 23,768,191	\$ 29,870,388	79.57%
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%



Fund Balance vs. Unspent Balance

Year	2008	2009	2010	2011	2012*
Unspent Balance	\$ 8,584,445	\$ 7,370,385	\$ 7,603,216	\$ 8,876,609	\$ 7,965,092
Fund Balance	3,211,317	2,982,428	2,643,298	5,529,396	6,921,084
Percent funded	-63%	-60%	-65%	-37%	-10%



*Estimated

Purpose: Measures District's unfunded spending reserves

Trend: Decreasing, opened TR Fy08 followed by 1.5% ATB cut FY 09, followed by 10% ATB cut FY 10. Increased cash reserve/ed jobs funding FY11, and increased cash reserves FY12 offset by 0% allowable growth, no ARRA, and science adoption

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

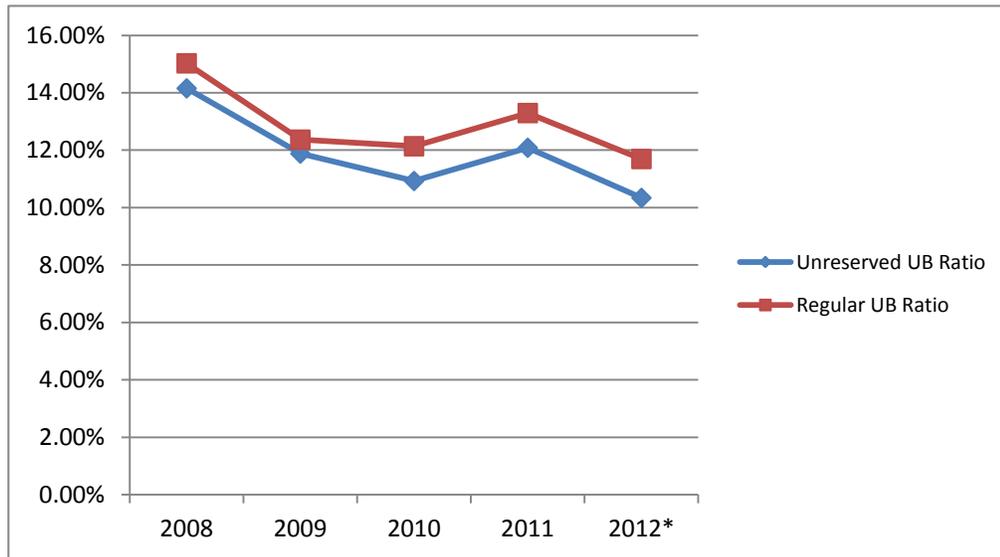
Corrective Action: Continue to levy cash reserve until 100% funded

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
2008	57,135,097	\$ 8,584,445	8,086,483	15.02%	14.15%
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*	68,118,231	\$ 7,965,092	7,042,140	11.69%	10.34%



*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

