

**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 2017 due to 4.4% new money (2.25% SSA), controlled staffing, and a continuation of no textbook adoptions. The District has not done formal adoptions for several years, instead \$650,000 is budgeted for curriculum resources.

The Board has been diligent in increasing financial solvency through the board's decision to deliberately levy additional cash reserves. Over the last fifteen years, the district has increased its financial solvency from a negative 6.3% to a positive 17.7%. While the first five years (fiscal years 2006-2010) of this time period included state funding of 4%, two of those years included across the board cuts. This was followed with low funding at 2% for fiscal years 2011 and 2013 and 0% for fiscal year 2012. Funding increased for the next two years-fiscal 2014 was 2% with an additional one-time 2% and 4% for fiscal year 2015. Fiscal years 2016 and 2017 returned to low state funding at 1.25% and 2.25%, respectfully.

The budget reductions from fiscal year 2015 along with controlled staffing and reallocated curriculum resources have enabled the district to increase financial solvency from 14% to 17.7% for fiscal year 2017. This has set the district up for the increased costs of opening a new high school building and renovated middle school, both with considerable increased square footage, as well as increasing teacher positions due to enrollment demands that can no longer be deferred. Future state funding remains questionable as the state revenues have not kept up with demands, so the district will need to continue to keep a tight hold on staffing.

The general fund balance increased \$3.0 million and financial solvency increased from 14% to 17.7%. Restricted fund balances increased \$44,544, and represent fund balances that can only be spent for specific purposes. Some of the large balances are Preschool \$512,107 and TLC \$595,128. Total restricted fund balance is \$1,636,871 making up 11.1% of the overall total fund balance of \$14,744,018 as of the end of the year.

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 \$750,000 in addition to the \$4 million cash reserve to support SBRC requests was included in the board's actions in a desire to increase the financial solvency ratio, fund supplemental state aid for increased enrollment, and protect the district against unfunded state aid.

At the end of fiscal 2017, the District has a positive fund balance, financial solvency ratio in excess of the target, and unspent balance within the target and increasing. This will help cushion the district for increased staffing costs to meet increased enrollment. Looking out beyond fiscal year 17, it will be necessary to levy cash reserves when possible to maintain acceptable levels within the financial indicators. It will also be important to monitor and adjust recurring expenses such as salaries and benefits to maintain acceptable unspent balance, especially since state funding is uncertain.

Financial Indicators Summary Sheet

2013 2014 2015 2016 2017

Balance Sheet Comparison					
Assets	1.0%	3.1%	10.4%	10.7%	6.9%
Liabilities	8.2%	2.9%	5.0%	0.7%	0.6%
Fund Balance	-30.5%	4.9%	46.5%	58.0%	26.2%
Rev. & Expend. Comparison					
Revenues	-0.4%	6.7%	7.9%	5.9%	3.1%
Expenditures	5.5%	2.7%	4.9%	3.3%	5.1%
Fund Balance	-30.5%	4.9%	46.5%	58.0%	26.2%
Current Ratio, Measures Short-term Solvency	114.7%	115.0%	120.9%	132.8%	141.2%
Day's Net Cash Ratio Short Term Solvency (Days)	64	61	73	94	102
Financial Solvency Ratio , District Equity Position	6.8%	6.7%	8.9%	14.0%	17.7%
Percent Revenues Spent	103.4%	99.6%	96.9%	94.5%	96.3%
Annual Unspent Ratio	-2.46%	-0.83%	2.40%	2.35%	2.13%
Fund balance to unspent balance, Measures fiscal health.	-26%	-16%	-4%	25%	25%
Unspent Balance Ratio, Unbudgeted Spending Reserves:					
Regular	9.3%	8.4%	10.1%	11.7%	12.9%
Unreserved	8.2%	7.2%	8.3%	9.7%	11.0%
Employee Cost Ratio	81.6%	82.3%	81.5%	81.9%	78.4%

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: $\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$. 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: $\text{wages plus benefits} / \text{general fund expenditures}$.

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: $\text{financial solvency ratio} = \frac{\text{unassigned plus assigned general fund balance}}{\text{general fund revenues} - \text{AEA flow thru}}$. 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: $\text{unspent balance ratio} = \frac{\text{unspent cumulative spending authority}}{\text{maximum budget authority}}$. 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>fy13</u>	<u>fy14</u>	<u>fy15</u>	<u>fy16</u>	<u>fy17</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:							
Cash & Investments	\$ 11,122,579	\$ 10,863,544	\$ 13,603,745	\$ 18,291,764	\$ 20,734,693	\$ 2,442,929	13.4%
Receivables	26,348,117	27,792,780	29,099,613	28,942,970	29,775,258	\$ 832,288	2.9%
Inventories	49,391	44,569	44,102	66,752	60,138	\$ (6,614)	-9.9%
ISCAP						\$ -	\$ -
Other Assets	7,900	3,295	-	-	-	\$ -	\$ -
Total Assets	37,527,987	38,704,188	42,747,460	47,301,486	50,570,089	\$ 3,268,603	6.9%
Liabilities:							
Payables	1,162,946	1,346,255	1,606,807	1,605,379	1,828,880	\$ 223,501	13.9%
Payroll	6,617,948	6,584,939	6,867,058	6,936,024	7,369,829	\$ 433,805	6.3%
Other Liabilities	24,935,452	25,727,973	26,880,393	27,077,893	26,627,362	\$ (450,531)	-1.7%
Total Liabilities	32,716,346	33,659,167	35,354,258	35,619,296	35,826,071	206,775	0.6%
Fund Balance:							
Restricted	791,882	849,391	1,327,468	1,592,327	1,636,871	\$ 44,544	2.8%
Unassigned	4,019,759	4,195,630	6,065,734	10,089,863	13,107,148	\$ 3,017,285	29.9%
Total Fund Balance	\$4,811,641	\$5,045,021	\$7,393,202	\$11,682,190	\$14,744,018	\$3,061,828	26.2%

Note: The large receivables and payables include fy18 property taxes certified by the county auditor. GASB reporting requires the inclusion of these taxes when certified.

Revenue & Expenditures Comparison General Fund Only

	<u>fy13</u>	<u>fy14</u>	<u>fy15</u>	<u>fy16</u>	<u>fy17</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues:							
Local tax sources	\$ 22,964,453	\$ 24,611,063	\$ 25,486,419	\$ 26,484,241	\$ 26,838,771	\$ 354,530	1.3%
State sources	31,648,589	33,865,879	38,063,762	\$ 40,660,813	\$ 42,716,604	\$ 2,055,791	5.1%
Federal sources	1,765,183	1,898,661	2,066,035	\$ 2,126,015	\$ 2,317,665	\$ 191,650	9.0%
Other local sources	4,932,018	5,017,799	4,950,701	\$ 5,484,298	\$ 5,220,169	\$ (264,129)	-4.8%
Total revenues	61,310,243	65,393,402	70,566,917	74,755,367	77,093,209	2,337,842	3.1%
Expenditures:							
Instruction	44,266,367	45,235,757	48,109,356	49,471,569	52,036,025	\$ 2,564,456	5.2%
Support services	16,874,724	17,495,218	17,533,913	18,319,946	19,230,046	\$ 910,100	5.0%
Noninstructional	35,760	45,200	134,427	138,485	142,490	\$ 4,005	2.9%
Other expenditures	2,307,835	2,448,847	2,610,924	2,746,923	2,840,921	\$ 93,998	3.4%
Total expenditures	63,484,686	65,225,022	68,388,620	70,676,923	74,249,482	3,572,559	5.1%
Operating Transfers	65,000	65,000	169,884	210,544	218,102	\$ 7,558	
Upward Adjustment						\$ -	
Changes in fund balance:	(2,109,443)	233,380	2,348,181	4,288,988	3,061,829	\$ (1,227,159)	
Excess(deficiency) of Revenues and Expenditures	(2,109,443)	233,380	2,348,181	4,288,988	3,061,829	(1,227,159)	

Contribution Ratio General Fund

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

Year	2013	2014	2015	2016	2017
Local	\$22,964,453	\$24,611,063	\$25,486,419	\$26,484,241	\$26,838,771
State	31,648,589	33,865,879	38,063,762	40,660,813	42,716,604
Federal	1,765,183	1,898,661	2,066,035	2,126,015	2,317,665
Other	4,932,018	5,017,799	4,950,701	5,484,298	5,220,169
Total	\$61,310,243	\$65,393,402	\$70,566,917	\$74,755,367	\$77,093,209

Year	2013	2014	2015	2016	2017
Local	37.5%	37.6%	36.1%	35.4%	34.8%
State	51.6%	51.8%	53.9%	54.4%	55.4%
Federal	2.9%	2.9%	2.9%	2.8%	3.0%
Other	8.0%	7.7%	7.0%	7.3%	6.8%
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

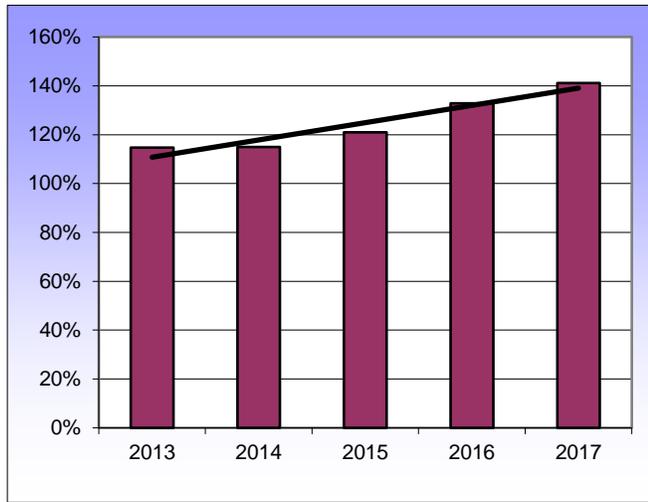
Current Ratio

Current Assets

Current Liabilities

Financial Information and Computation:

Year	2013	2014	2015	2016	2017
Assets	\$ 37,527,987	\$ 38,704,188	\$ 42,747,460	\$ 47,301,486	\$ 50,570,089
Liabilities	\$ 32,716,346	\$ 33,659,167	\$ 35,354,258	\$ 35,619,296	\$ 35,826,071
Ratio	114.71%	114.99%	120.91%	132.80%	141.15%



Purpose: Measures short - term solvency

Trend: FY 15 budget reductions, controlled staffing FY 16 and FY17, new money 4.4% (2.25% 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

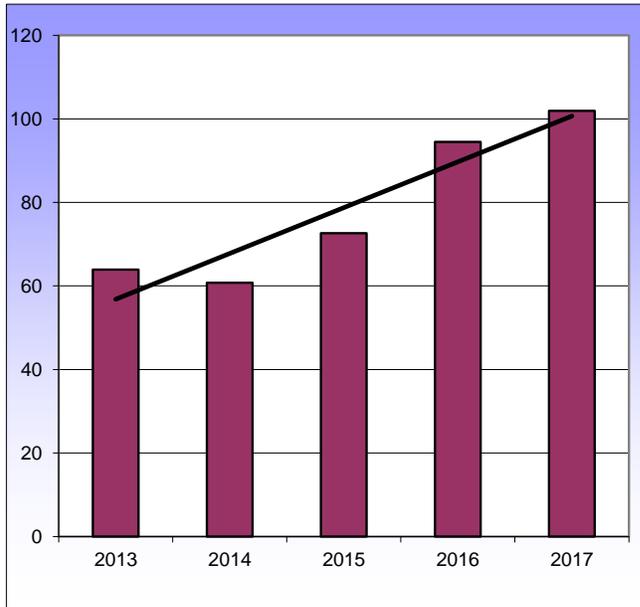
Day's Net Cash Ratio

Formula: Cash & Investments

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

Financial Information and Computation:

Year	2013	2014	2015	2016	2017
Cash & Investment	\$ 11,122,579	\$ 10,863,544	\$ 13,603,745	\$ 18,291,764	\$ 20,734,693
Total Expenditures	\$ 63,484,686	\$ 65,225,022	\$ 68,388,620	\$ 70,676,923	\$ 74,249,482
Daily (365) Expenditures	\$173,931	\$178,699	\$187,366	\$193,635	\$203,423
Ratio In Days	64	61	73	94	102



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

Trend: Upward

Target: 90 days

This indicator is now at the target but will need continued monitoring.

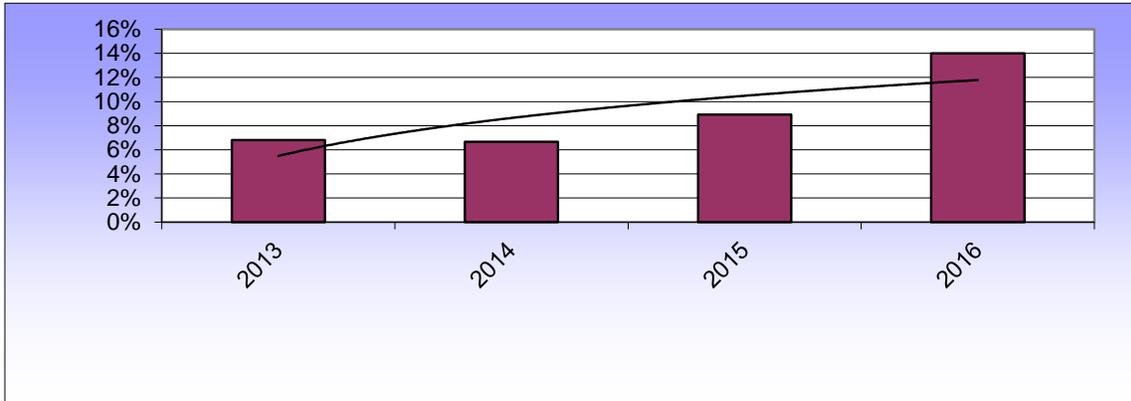
Corrective Action: Continue to levy cash reserve

Financial Solvency Ratio*

Financial Information and Computation:

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

Year	2013	2014	2015	2016	2017**
UUFB	\$ 4,019,759	\$ 4,195,630	\$ 6,065,734	\$10,089,863	\$ 13,107,148
Revenue	\$ 59,067,408	\$ 63,009,555	\$ 67,955,993	\$ 72,008,444	\$ 74,252,288
F/S Ratio	6.8%	6.7%	8.9%	14.0%	17.7%



- 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

Purpose:

Measures the District's Fund Equity position

Trend:

The percent spent is indicative of state funding coupled with expenses- FY 13 math adoption and 2% funding, FY 14 no adoption and 2+2% funding, FY 15 social studies adoption, \$1M budget reductions and 4% funding, followed by FY 16 4.5% new money (1.25% SSA), FY 17 4.4% new money, no adoptions, and controlled staffing.

Target:

Minimum of 5%, Goal 10%

Need/Concern:

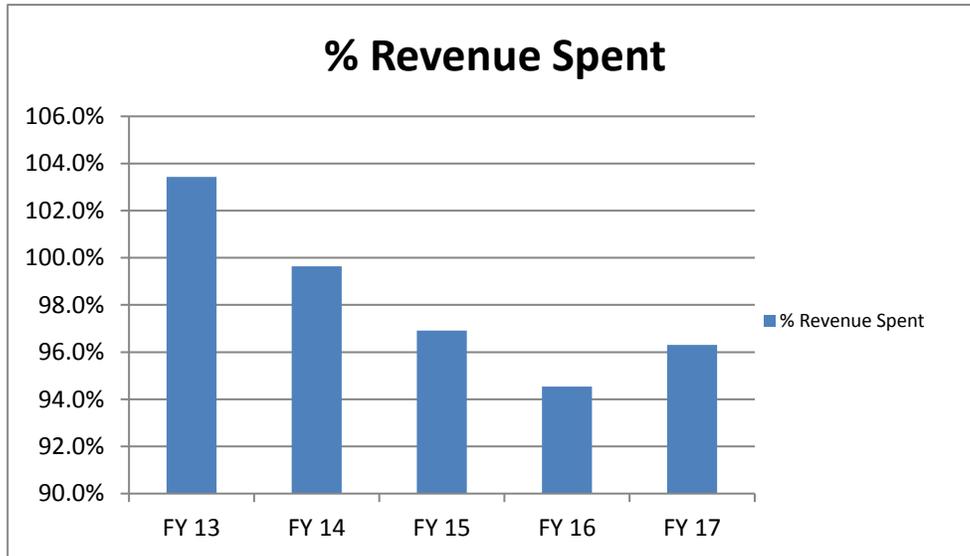
The target has been met due to cash reserve levy, FY 15 budget reductions carried forward with controlled staffing FY 17 and no textbook adoptions.

Corrective Action:

Continue to levy cash reserve, monitor and adjust recurring sal/ben expenses

% Revenue Spent

	FY 13	FY 14	FY 15	FY 16	FY 17
Expenditures	63,484,686	65,225,022	68,388,620	70,676,923	74,249,482
Revenues	61,375,243	65,458,402	70,566,917	74,755,367	77,093,209
% Spent	103.4%	99.6%	96.9%	94.5%	96.3%



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- FY 13 math adoption and 2% funding, FY 14 no adoption and 2+2% funding, FY 15 social studies adoption, \$1M budget reductions and 4% funding, followed by FY 16 4.5% new money (1.25% SSA), FY 17 4.4% new money, no adoptions, and controlled staffing.

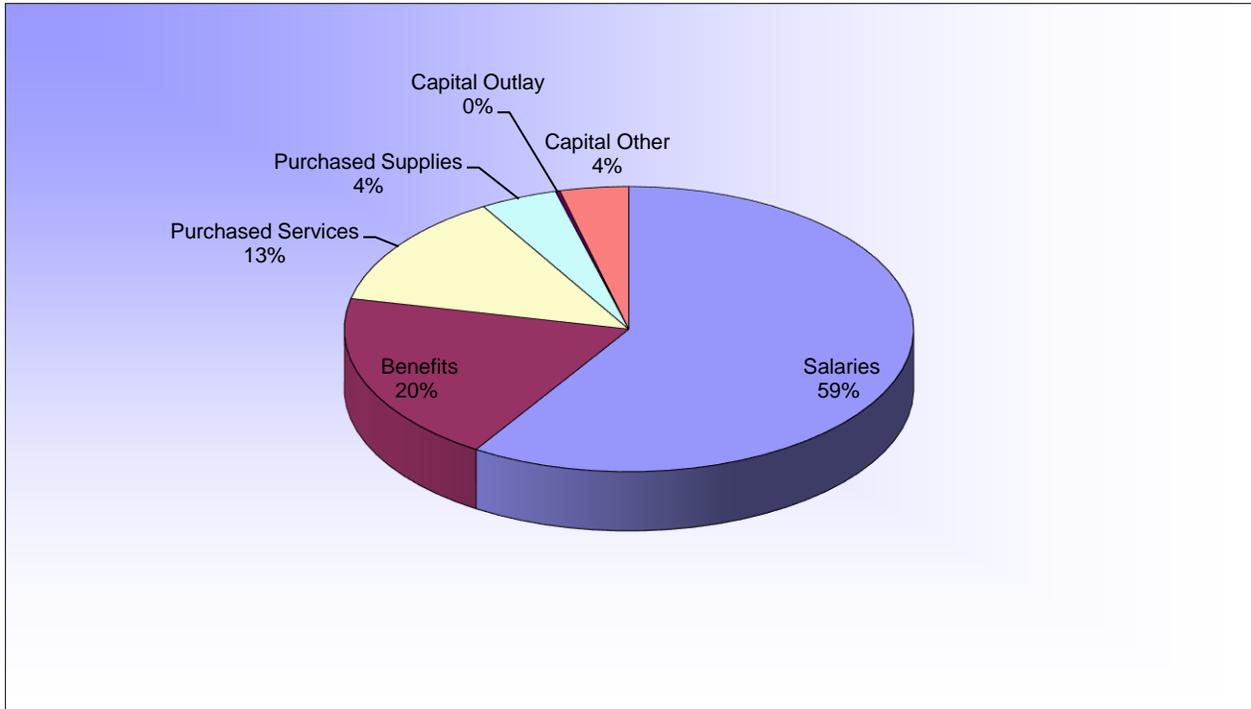
Target: Once solvency ratio goal is obtained, then stabilize at 100% if cash reserve levy matches spending authority needs

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

GENERAL FUND DISTRICT EXPENDITURES, BY OBJECT

Last Ten Fiscal Years

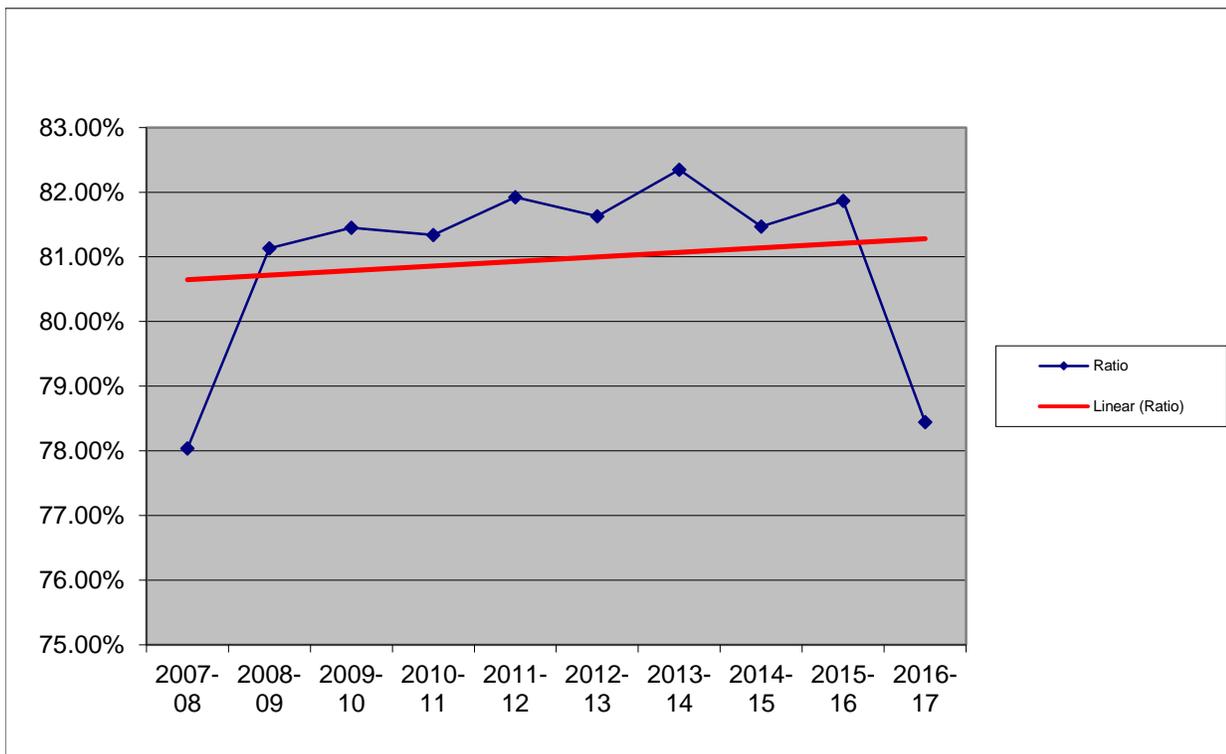
Fiscal Year	Salaries	Benefits	Purchased Services	Supplies	Capital Outlay	Other	Total
2016-17	\$43,808,211	\$14,436,051	\$ 9,665,408	\$3,252,436	\$182,486	\$2,904,890	\$74,249,482
2015-16	43,762,900	14,097,689	6,637,354	3,127,224	240,037	2,811,719	70,676,923
2014-15	42,176,915	13,539,660	6,262,212	3,588,852	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



Source: 2017 Certified Annual Report

Employee Cost Ratio General Fund Last Ten Fiscal Years

Fiscal Year	Wages & Benefits	Total Expenditures	Ratio
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%
2015-16	\$ 57,860,589	\$ 70,676,923	81.87%
2016-17	\$ 58,244,262	\$ 74,249,482	78.44%



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

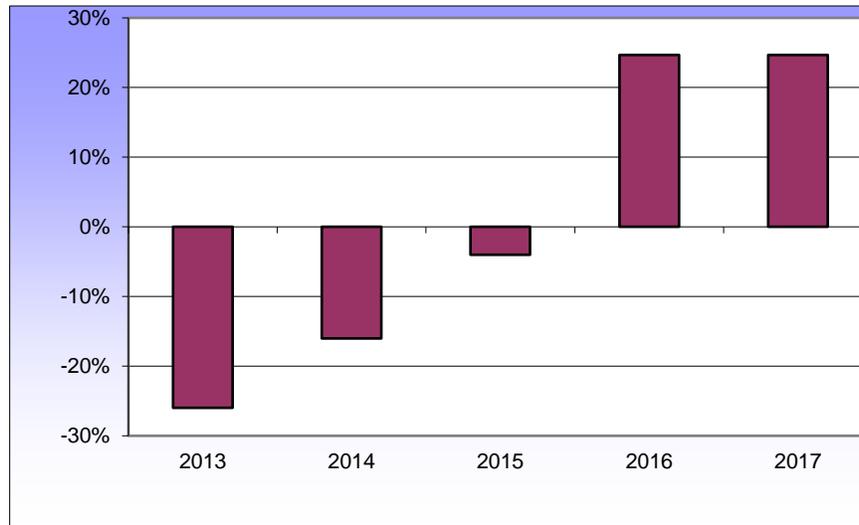
Trend: Percent decreased with the move to outsourced transportation FY17, with trend close to 81-82% for the eight years prior.

Target: 79-82%, and stabilize

Need/concern: Continue to monitor salaries and benefits.

Fund Balance vs. Unspent Balance

Year	2013	2014	2015	2016	2017
Unspent Balance	\$ 6,517,814	\$ 5,982,645	\$ 7,666,495	\$ 9,368,423	\$ 10,986,612
Fund Balance	4,811,641	5,045,021	7,393,202	11,682,190	14,744,018
Percent funded	-26%	-16%	-4%	25%	25%



Purpose: Measures District's unfunded spending reserves

Trend: Trend has increased since FY 13 which had a lower cash reserve levy coupled with low 2% allowable growth, math adoption, and increased operating costs, FY 14 had increased funding (2+2%), no textbook adoption, FY 15 adequate funding at 4%, social studies adoption offset with \$1M budget reductions, and FY 16 4.5% new money (1.25% SSA), FY 17 4.4% new money, no adoptions, and controlled staffing.

Target: District reserves (unspent balance) fully funded-at least 100%

Need/Concern: The reverse of the trend to upward gives the district the opportunity to spend reserves if put in that situation.

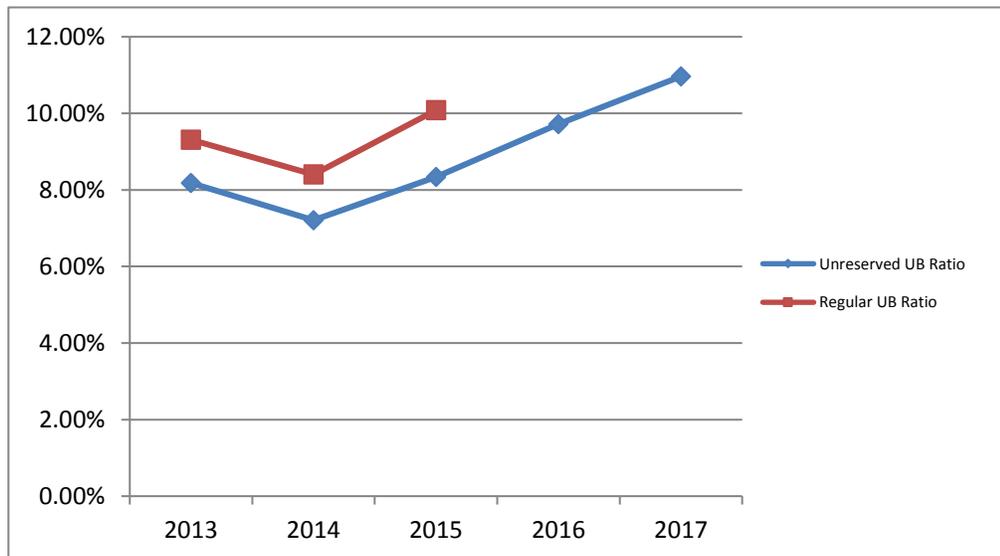
Corrective Action: Continue to levy cash reserve and monitor

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
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	76,055,115	\$ 7,666,495	6,339,027	10.08%	8.33%
2016	80,045,346	\$ 9,368,423	7,776,096	11.70%	9.71%
2017	85,212,448	\$ 10,986,612	9,343,127	12.89%	10.96%



*Estimated

Purpose: Measures the District's unbudgeted spending reserves

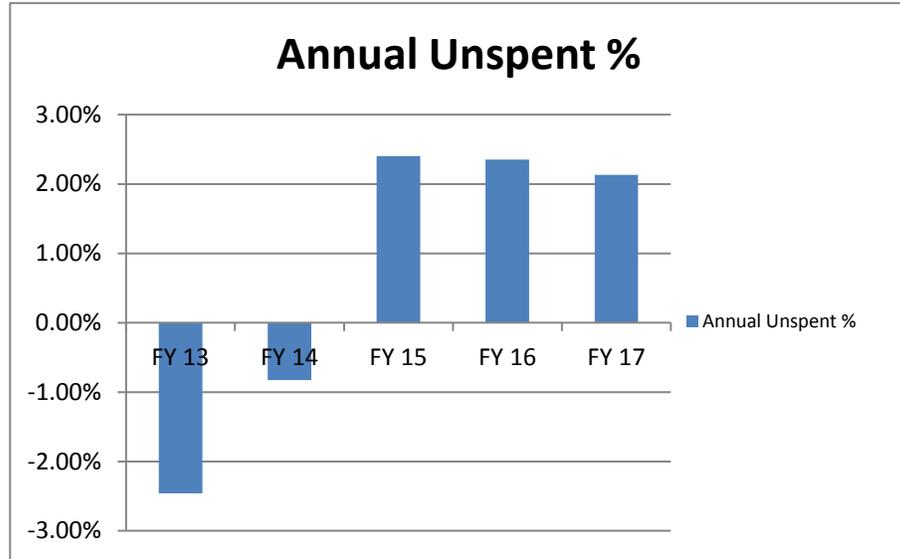
Trend: It was a downward trend until the budget reductions of FY 15 and 4% state funding turned the trend upward. FY 16 continued the upward trend with 4.5% new money (1.25% SSA), no textbook adoption, and controlled staffing, and FY 17 with 4.4% new money.

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.

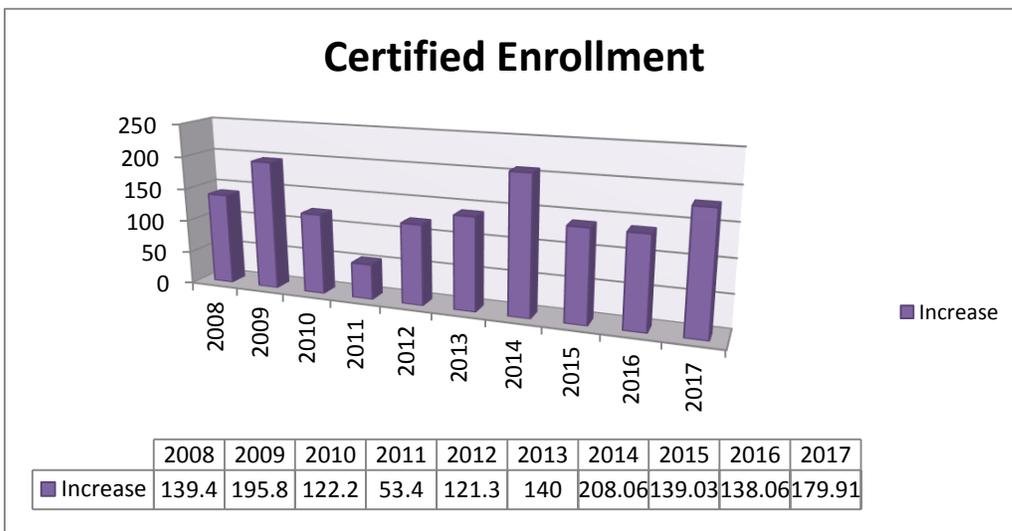
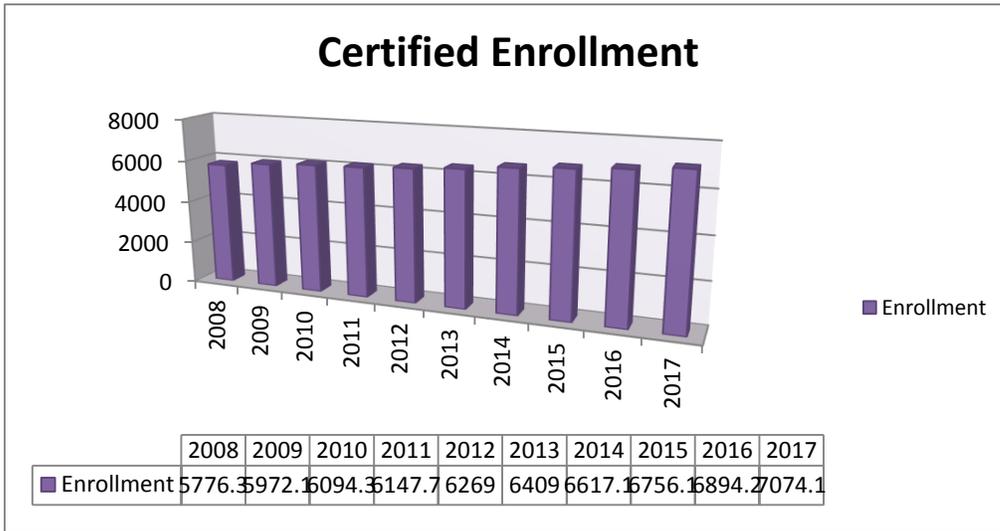
Annual Unspent %

	FY 13	FY 14	FY 15	FY 16	FY 17
Max. Authorized Budget	70,002,500	71,207,667	76,055,115	80,045,346	85,212,448
UAB Previous Year	8,042,698	6,517,814	5,982,645	7,666,495	9,368,423
Total Expenditures	63,484,686	65,225,022	68,388,620	70,676,923	74,225,836
	-2.46%	-0.83%	2.40%	2.35%	2.13%



- 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	SUPP. STATE AID	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	4.00%	3.21%	4.60%	3.70%	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%	4.54%
FY 17		3.74%		3.48%	3.00%	2.25%	4.40%

