

Date: March 8, 2019

To: Board of Directors

From: Rosalind Medina, Chief Financial Officer *Rosalind Medina*

Subject: December 2018 Unaudited Financial Report

This report provides a brief summary of the general fund financial operations through December 31, 2018. Enrollment information also includes the official state count through the month of December 2018 and the projected annual average full-time equivalent (FTE) students for the year.

Table 1 displays a comparison of summary financial data through the period ending December 31 for fiscal years 2017-18 and 2018-19.

Table 1

General Fund Comparison for the fiscal period ended	December 31, 2017	December 31, 2018	Variance Higher/(lower)
Beginning Fund Balance	\$ 34,036,362	\$ 32,969,307	\$ (1,067,056)
Revenue	137,508,339	169,448,203	31,939,865
Other Financing Sources	13,393	24,395	11,002
Total Resources Available	171,558,094	202,441,905	30,883,811
Expenditures	138,788,514	148,895,813	10,107,300
Other Financing Uses-Transfers Out	-	-	-
Total Use of Resources	138,788,514	148,895,813	10,107,300
Ending Fund Balance	\$ 32,769,581	\$ 53,546,092	\$ 20,776,510

REVENUES

- General fund revenues and other financing sources as of December 31, 2018 were \$169,472,599. This was \$31,950,867 (+23.2%) more than this time last year.

Highlights:

- **Local tax** revenues consist of tax receipts from the educational programs and operations levies. In February 2018, Tacoma voters approved a levy that would allow the district to collect \$72 million a year, although under the state's new formula, the district will only be allowed to collect \$43 million a year. Local tax revenues increased \$392,866 (+1.0%) compared to this time last year and represent calendar year collections. This variance reflects a difference in the timing of when revenue was collected last year compared to this year. Overall, tax revenue will decrease over the course of the year due to the legislative changes in local voter-approved levy capacity which currently only allows the district to collect \$1.50 per \$1,000 of district property values.
- **Local non-tax** revenue consists of student lunch receipts, sales from vocational programs, tuition for summer school, interest earned from the investment of available cash, and several other small sources.

Revenue in this category increased \$227,436 (+8.3%) compared to this time last year. This variance is the result of the following:

- \$203,856 increase insurance recoveries
 - \$189,514 increase in investment earnings
 - \$74,174 decrease in tuition collected from foreign exchange students.
 - The remaining difference is due to smaller variances in several other programs
- **State general purpose** revenue comes from two sources – Apportionment and Local Effort Assistance (LEA). Apportionment is the revenue received through a state funding formula that is based on the average number of students enrolled which drives the number of staff allocated to the district. Starting in the 2018-19 school year, the formula also includes a supplemental regionalization factor which is based on local housing cost factors. LEA is revenue provided by the state to equalize local levy rates for districts with a proportionally lower assessed valuation tax base. The state calculates a statewide average levy rate and if, when compared with the statewide rate, the local district's levy rate is higher, the state provides LEA funds to the district to help reduce the local tax burden on taxpayers. In addition to these two sources, the Legislature has included a one-time hold-harmless provision of \$12 million to the Tacoma district for the 2018-19 school year. Tacoma qualified for this provision because local tax revenue, under the new funding structure, is less than what the district would have received under prior formulas.

Revenue in this category increased \$28,186,344 (+41.2%) compared to this time last year. This variance was the result of the following:

- Total apportionment revenue increased \$27,857,263 from last year at this time, due to increases in school and district generated entitlement as well as the inclusion of the district's \$12 million one-time hold-harmless provision.
- LEA increased \$328,815 from this time last year
- The remaining difference is due to smaller variances in several other programs

- **State special purpose** revenue consists of funding for the following programs: Special Education, Learning Assistance Program (LAP), Remann Hall, Transitional Bilingual, Child Nutrition Services, Student Transportation, Special & Pilot Programs, as well as various other small instructional programs.

Revenue in this category increased \$3,423,021 (+18.0%) compared to this time last year. This variance was the result of the following:

- \$2,935,151 increase in Special Education revenue due to a projected increase of 172 resident FTE
- \$1,147,725 decrease in transitional bilingual revenue due to a delay in allocations being awarded, as a result of a delay in approvals
- \$963,490 increase in Learning Assistance Program (LAP) and LAP – High Poverty due to the Certificated Instructional Staff (CIS) salary increases
- \$837,637 increase in transportation operations revenue due to the compensation increase with the passage of E2SSB 6362
- The remaining difference is due to smaller variances in several other programs

- **Federal special purpose** revenue consists of funding for the following programs: Special Education Federal Flow Through, Perkins Vocational Education, Title 1 – Disadvantaged, School Improvement, Head Start, Limited English Proficiency, Indian Education, federal reimbursement for student meals, as well as several other instructional programs. Revenues in this category are on a reimbursement basis. Therefore, the fluctuation in this category is often due to the timing of reporting expenditures and the processing of reimbursements by the funding agency. Program managers are given expenditure authority only for the approved amount of the grant awards; so variances should not have a negative impact on the district's basic education budget.

Revenue in this category increased \$75,119 (+0.8%) compared to this time last year. This variance was the result of the following:

- \$580,588 increase in supplemental Special Education funding
- \$500,109 increase in Head Start support due to timing differences from when funds were received last year
- \$380,072 decrease in USDA commodities
- \$364,185 decrease in free & reduced meal reimbursement
- \$138,475 decrease in Limited English proficiency funding
- The remaining variance is due to smaller variances in several other programs

➤ **Revenue – Other Agencies** consists of funding from education service districts, other governmental entities and private foundations.

Revenue in this category decreased \$304,704 (-101.9%) compared to this time last year. This variance was the result of the following:

- \$214,919 decrease in revenue for Early Childhood Education and Assistance Program (ECEAP) due to a correction made in 2018-19, as a result of an inaccurate accrual to the 2017-18 funding amount
- The remaining variance is due to smaller variances in several other programs

Revenue from various sources and the increases or decreases from this time last year are shown in **Table 2**.

Table 2

Revenue and Other Financing Sources Comparison by Year					
Revenue Source	Through December 2017	Percent of Total	Through December 2018	Percent of Total	Variance higher/(lower)
Local Taxes	\$ 37,764,510	27.46%	\$ 38,157,376	22.52%	\$ 392,866
Local Non-Tax	2,731,612	1.99%	2,959,048	1.75%	227,436
State, General Purpose	68,442,712	49.77%	96,629,056	57.02%	28,186,344
State, Special Purpose	18,996,569	13.81%	22,419,590	13.23%	3,423,021
Federal, General Purpose	73,662	0.05%	45,329	0.03%	(28,333)
Federal, Special Purpose	9,183,492	6.68%	9,258,611	5.46%	75,119
Revenue - Other Districts	16,809	0.01%	(15,076)	(0.01%)	(31,885)
Revenue - Other Agencies	298,972	0.22%	(5,732)	(0.00%)	(304,704)
Revenue - Other Financing	13,393	0.01%	24,395	0.01%	11,002
Total Revenue	\$ 137,521,732	100.00%	\$ 169,472,599	100.00%	\$ 31,950,867

EXPENDITURES

- General fund expenditures through December 31, 2018 were \$148,895,813; this was \$10,107,300 (+7.3%) more than this time last year.

Highlights:

- **Certificated salaries** consist of compensation including, but not limited to, regular salaries, substitutes, extended contracts, extra work for extra pay and training for employees holding an educational certificate, (e.g., teachers, principals, librarians, etc.).

Expenditures in this category increased \$8,325,050 (+13.7%) from this time last year. This variance was the result of the following:

- \$9,184,914 increase in regular salaries due to an increase of 4 FTE compared to this time last year as well as negotiated salary increases, including a +14.4% increase for teachers
 - \$620,817 decrease in optional day wages due to the new Tacoma Education Association (TEA) agreement with the district which reformatted budgeted optional days into base salary calculation and professional development
 - \$258,227 decrease in extra work pay
 - The remaining difference is due to smaller variances in several other programs
- **Classified salaries** consist of compensation costs for employees who do not hold an educational certificate (e.g., secretarial, technical, custodial, etc.) including but not limited to regular salaries, staff development, training and extra work for extra pay.

Expenditures in this category increased \$1,271,386 (+5.3%) from this time last year. This variance was the result of the following:

- \$1,136,097 increase in in regular salaries due to negotiated salary increases, including a +14% increase for professional technical employees and +19% for office professionals and paraeducators
- The remaining difference is due to smaller variances in several other programs

- **Employee benefits** consist of expenditures for the district's portion of employee benefits (e.g., retirement, social security, health insurance, etc.). This category increases or decreases in proportion to the number of staff, salaries and changes in benefit rates.

Expenditures in this category increased \$2,004,010 (+5.7%) compared to this time last year. This variance is a result of an increase of 3 total FTE and raised rates for the 2018-19 school year.

- **Supplies and materials** consist of expenditures for supplies, instructional materials, and equipment costing less than \$5,000.

Expenditures in this category decreased \$1,503,247 (-20.3%) compared to this time last year. This variance was the result of the following:

- \$881,229 decrease in instructional technology replacement from the purchase of HP notebooks, charging stations and laptop batteries made in 2017-18
- \$485,339 decrease in IT non-capitalized equipment due to purchases made from Title I funds last year to buy HP notebooks for 11 district schools
- \$396,688 increase in textbooks, teaching materials & curriculum supplies purchased through the Curriculum & Instruction department
- \$250,939 decrease in total food costs
- The remaining variance is due to smaller variances in several other programs

- **Contractual services** consist of expenditures for services rendered to the district under expressed or implied contracts, with the exception of travel.

Expenditures in this category increased \$393,973 (+3.9%) compared to this time last year. This variance was the result of the following:

- \$3,701,017 increase in general liability insurance due to an adjustment in how these payments are accounted for, in order to better align with GAAP (Generally Accepted Accounting Principles), as well as a significant cost increase in current insurance premiums
- \$2,022,193 decrease in the transportation base rate due to a timing difference of when payments were made this year vs last year
- \$412,718 decrease in district utilities due to a timing difference of when payments were made this year vs last year
- \$354,111 increase in district-wide software licensing, including the renewal of i-Ready math & reading
- \$223,734 decrease in architects & engineers from a contracted facilities condition assessment performed last school year
- The remaining variance is due to smaller variances in several other programs

- **Capital Outlay** expenditures consist of payments for items costing more than \$5,000 each and are not consumable by nature.

Expenditures in this category decreased \$329,409 (-41.2%) compared to this time last year. This variance was the result of the following:

- \$262,889 decrease in non-barcoded equipment, including the purchases made in 2017-18 for salt spreaders and four new Chevy trucks for Facilities, and three new Ford vehicles for Safety & Security
- The remaining variance is due to smaller variances in several other programs

The levels of expenditures within various object categories and the increases or decreases from this time last year are shown in **Table 3**.

Table 3

<u>Expenditure and Other Financing Uses Comparison by Year</u>					
Expenditure Objects	Through December 2017	Percent of Total	Through December 2018	Percent of Total	Variance higher/(lower)
Certificated Salaries	\$ 60,736,460	43.76%	\$ 69,061,510	46.38%	\$ 8,325,050
Classified Salaries	24,101,801	17.37%	25,373,187	17.04%	1,271,386
Employee Benefits	35,292,526	25.43%	37,296,536	25.05%	2,004,010
Supplies and Materials	7,425,237	5.35%	5,921,990	3.98%	(1,503,247)
Contractual Services	10,151,308	7.31%	10,545,281	7.08%	393,973
Local Mileage & Travel	281,309	0.20%	226,847	0.15%	(54,462)
Capital Outlay	799,872	0.58%	470,463	0.32%	(329,409)
Total Expenditures	\$ 138,788,514	100.00%	\$ 148,895,813	100.00%	\$ 10,107,300

FUND BALANCE

Fund balance is the excess of assets of a governmental unit over its liabilities (i.e., beginning fund balance plus revenues, less expenditures and transfers, equals ending fund balance). In accordance with Government Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definition* are as follows: Nonspendable, Restricted, Committed, Assigned or Unassigned. Funds that are designated for a specific purpose are placed in fund balance accounts per the Board's Debt and Fiscal Management Policy 6015 and generally accepted accounting principles (GAAP). The Debt and Fiscal Management Regulation targets the fund balance to be 5% of budgeted general fund revenues less other financing sources, and for the month of November, the district is at 11.52%. These fund balance accounts are structured to facilitate the prudent fiscal operation of the district. These accounts should remain at the designated levels unless there is substantial change in the district's operational requirements. The accounts are frequently reviewed in relation to board policies and GAAP requirements.

Table 4 shows a comparison of fund balance as of December 31, 2017 and December 31, 2018. The fund balance fluctuates with both the receipt of revenues and the flow of expenditures. This yearly cycle of revenues and expenditures is considered when developing both projections for the current year and the budget for the upcoming year. The district has earmarked all available funds, not otherwise restricted, committed or assigned to be placed in the assigned to future operations category as a onetime source to help balance future operating budgets.

Table 4

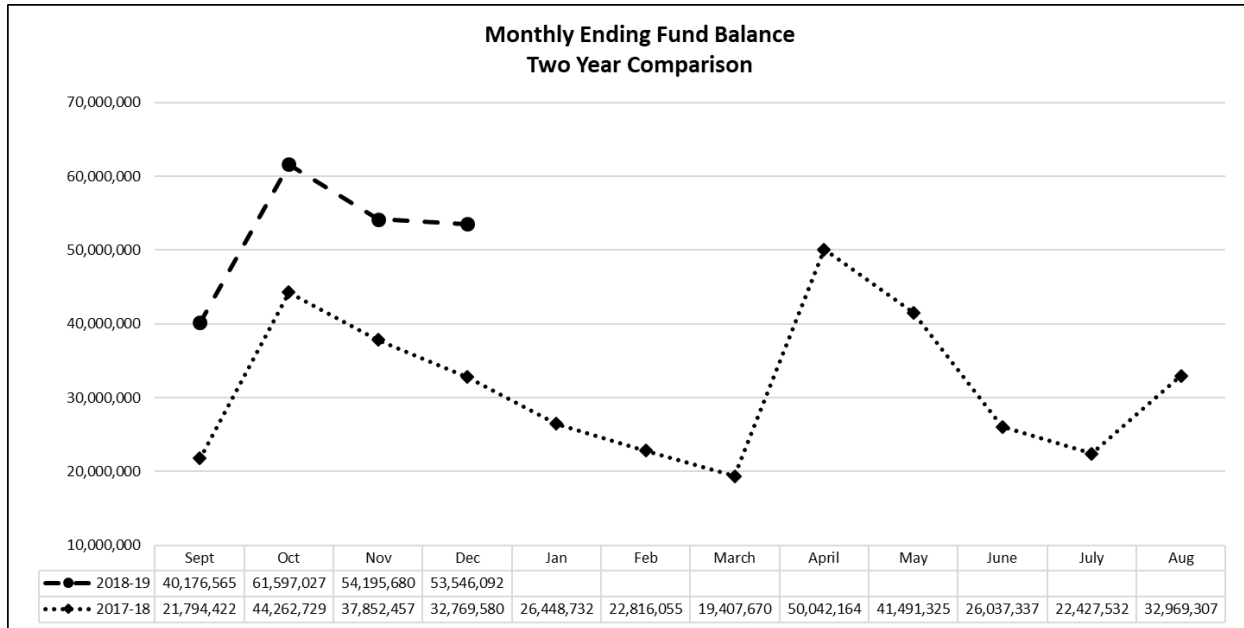
Fund Balance Descriptions for the fiscal period ended	Fund Balance Comparison by Year				
	December 2017	Percent of Revenue	December 2018	Percent of Revenue	Variance higher/(lower)
Nonspendable - Inventory & Prepaid Items	\$ 4,294,404	1.03%	\$ 4,294,404	0.92%	\$ -
Committed to Debt and Fiscal Management	-	0.00%	-	0.00%	-
Committed to Encumbrances	1,361,223	0.33%	213,631	0.05%	(1,147,592)
Committed to Contingencies	-	0.00%	1,000,000	0.22%	1,000,000
Total Debt & Fiscal Management Fund Balance	\$ 5,655,627	1.36%	\$ 5,508,035	1.18%	\$ (147,592)
Restricted for Carryover	\$ 655,799	0.16%	\$ 1,060,151	0.23%	\$ 404,352
Restricted for Debt Service	425,906	0.10%	425,906	0.09%	-
Assigned to Carryover	1,459,648	0.35%	1,050,624	0.23%	(409,024)
Assigned to Curriculum & Instruction	2,938,537	0.71%	2,083,677	0.45%	(854,860)
Assigned to Future Operations	7,564,935	1.82%	7,600,551	1.63%	35,616
Restricted or Assigned Fund Balance	\$ 13,044,825	3.14%	\$ 12,220,909	2.63%	\$ (823,917)
Total Nonspendable, Restricted, Committed and Assigned Fund Balance	\$ 18,700,452	4.51%	\$ 17,728,944	3.81%	\$ (971,509)
Unassigned Fund Balance	\$ (1,266,782)	-0.31%	\$ 20,029,853	4.31%	21,296,635
Unassigned for Minimum FB Policy	\$ 15,335,910	3.70%	\$ 15,787,294	3.40%	451,384
Total Unassigned Fund Balance	\$ 14,069,129	3.39%	\$ 35,817,148	7.70%	\$ 21,296,635
Total Fund Balance	\$ 32,769,580	7.90%	\$ 53,546,092	11.52%	\$ 20,776,511
Revenue less other financing	\$ 414,964,229 *		\$ 464,960,591 **		

* 2016-17 total actual revenue less other financing sources as of August 31, 2018

** 2017-18 budgeted revenue less other financing sources

Table 5 shows a two-year history of the monthly ending fund balance. The ending fund balance will appropriately fluctuate based upon when certain revenues are received and expenses accrued. The fund balance typically increases in October and April when the district receives property tax revenue.

Table 5



Cash Management

In addition to the fund balance, another key performance indicator used to monitor the financial health of the district is cash on hand. The district uses cash to meet payroll and pay bills as they arise. Because revenue is not received on a regular schedule over the course of the year, the cash on hand balance will fluctuate as those expenditures occur. For the month of December, total cash on hand was \$71,202,991 and daily expenditures amounted to \$1,142,479 per day which when used in the formula [cash on hand / daily expenditures] equates to 62.32 days of cash on hand.

Table 6 displays a comparison of cash on hand records through the period ending December 31 for fiscal years 2017-18 and 2018-19.

Table 6

<u>Cash Balance Comparison by Year</u>				
	December		Variance	
	2017	2018	higher/(lower)	
230 - Cash with Key Bank	\$ (288,559)	\$ 216,829	\$	505,388
240 - Cash with Treasurer	6,273,870	3,428,497		(2,845,373)
241 - Warrants Outstanding	(6,045,065)	(377,336)		5,667,729
45x - Investments	51,740,000	67,935,000		16,195,000
Total Cash on Hand	\$ 51,680,246	\$ 71,202,991	\$	19,522,745
Avg Daily Balance	\$ 1,667,105	\$ 2,296,871	\$	629,766
Days Cash on Hand	46.42	62.32		15.91

ENROLLMENT

State funding for school districts is based on the annual average full-time equivalent (FTE) students enrolled in the district. FTE is calculated based on the number of classroom hours of instruction received.

The budgeted annual average FTE enrollment of 28,235 is based on the demographer's October projection including a 0.5% discount and a 3 year weighted average of October to year-end enrollment. Monthly budgeted enrollment is also based on a three year weighted average.

Table 7 shows monthly budgeted, projected enrollment counts and actual counts through December 2018. The projected annual adjusted average is currently 59 FTE more than the budgeted average.

Table 7

Budget vs. Projected Enrollment K-12 Full Time Equivalent (FTE) Enrollment				
	Month	Monthly Budget	Monthly Projected	Variance
	* Sep - 18	27,668	27,497	(171)
	* Oct - 18	27,659	27,727	68
	* Nov - 18	27,736	27,805	69
	* Dec - 18	27,716	27,807	91
	Jan - 19	27,661	27,752	91
	Feb - 19	27,561	27,651	90
	Mar - 19	27,538	27,628	90
	Apr - 19	27,397	27,485	88
	May - 19	27,384	27,473	89
	Jun - 19	27,282	27,369	87
Average		27,560	27,619	59
Running Start		268	293	25
TCC Fresh Start		176	205	29
Reengagement		147	112	(35)
Goodwill		32	34	2
Alternative Learning Experience		52	32	(20)
Adjusted Average		28,235	28,294	59
* Actual data through December 2018				

Every student enrolled is converted to a full-time equivalent (FTE) based on the number of instructional hours. A full-time equivalent student for grades 4-12 is 900 hours (i.e., 5 hours per day x 180 days) and grades 1-3 is 720 hours (i.e., 4 hours per day x 180 days), for .5 FTE (half day) kindergarten student is 360 hours (i.e., 2 hours per day x 180 days).

2018-19 is the twelfth school year full-day kindergarten has been available. Funding for the program was phased-in beginning with the schools with the highest poverty levels, (i.e., schools with the highest percentage of students qualifying for free and reduced lunch in the prior school year) and is now offered at all 35 elementary schools.

Students who participate for only part of the year or part of each day are calculated as a portion of an FTE. Any district may choose to serve students more hours per day or per year than the state definition of full-time equivalent. However, those students who attend classes more hours per day will not generate more than one FTE for funding purposes.

Student enrollment is typically highest in October, but for funding purposes, monthly enrollment is averaged for the year. The graph in **Table 8** shows the budget and actual monthly enrollment through June and the budgeted and projected average enrollment for the year. Although this graph only lists September through June, the figures include projected annual average counts through August 2019. This is done to include corrections to prior monthly reports and enrollment that falls outside of the traditional school year (e.g., Running Start, Summer School, etc.) in the annual average.

Table 8

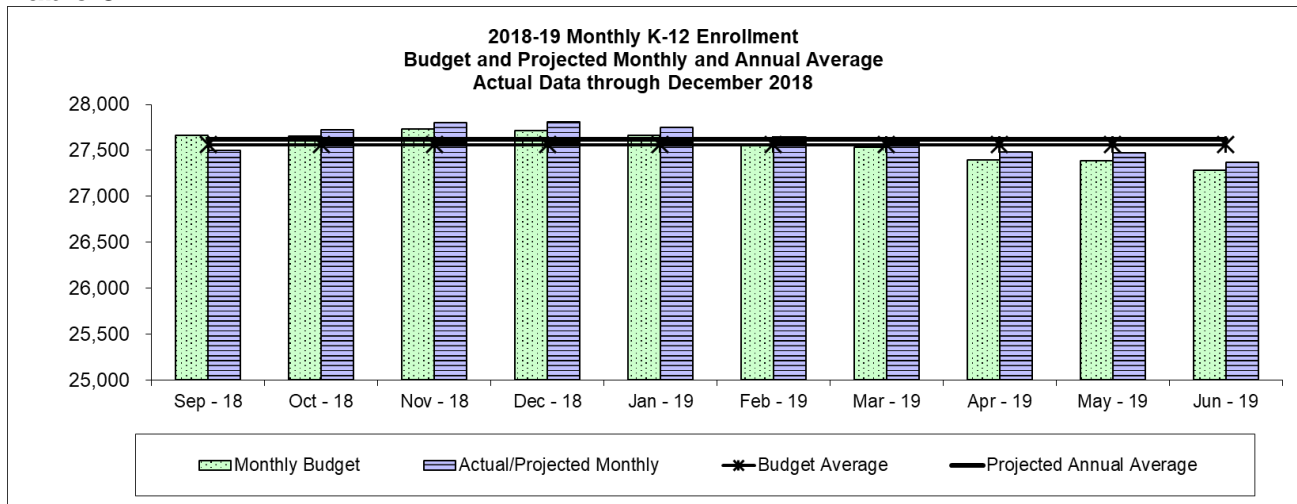


Table 9 displays the variances between actual and projected annual average FTE by individual grade level for 2017-18 and 2018-19, and the variance between projected and budgeted average FTE for 2018-19.

The projected average for 2018-19 enrollment varies from 2017-18 actual enrollment as follows (**Table 9, Column (D)**):

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Elementary schools (grades K-5) decreased by 395 FTE;
Middle schools (grades 6-8) increased by 315 FTE;
High schools (grades 9-12) decreased by 63 FTE;
Running Start (college level courses) increased by 8 FTE;
TCC Fresh Start increased by 30 FTE;
Reengagement Center decreased by 42 FTE;
Goodwill decreased by 2 FTE;
ALE (Alternative Learning Experience) decreased by 18 FTE;

The combined variances results in an average decrease of 41 student FTE from the previous year.

Table 9

K-12 Annual Average FTE Enrollment Two Year Comparison					
	(A) 2017-18 Actual	(B) 2018-19 Budget	(C) 2018-19 Projected	(D) Variance (C)-(A)	(E) Variance (C)-(B)
Kindergarten	2,241	2,210	2,249	8	39
Grade 1	2,265	2,228	2,191	(74)	(37)
Grade 2	2,295	2,222	2,231	(65)	9
Grade 3	2,349	2,259	2,252	(97)	(7)
Grade 4	2,428	2,308	2,285	(143)	(22)
Grade 5	2,408	2,372	2,384	(25)	11
Elementary	13,986	13,599	13,591	(395)	(8)
Grade 6	2,208	2,248	2,355	147	107
Grade 7	2,040	2,183	2,198	158	14
Grade 8	2,047	2,023	2,058	10	35
Middle School	6,296	6,455	6,610	315	155
Grade 9	2,004	2,052	2,198	195	146
Grade 10	2,004	1,972	1,935	(69)	(37)
Grade 11	1,717	1,857	1,765	48	(92)
Grade 12	1,630	1,624	1,520	(110)	(104)
High School	7,355	7,506	7,418	63	(88)
Running Start	285	268	293	8	24
TCC Fresh Start **	175	176	205	30	29
Reengagement Center **	153	147	112	(42)	(35)
Goodwill **	36	32	34	(2)	2
Alternative Learning Experience	50	52	32	(18)	(21)
Grand Total *	28,335	28,235	28,294	(41)	59
Actual data through December 2018					

** Open Doors - 1418 Programs

CONCLUSION

Fiscal operations and performance to budget are being closely monitored. The district administration continually reviews legislation and operations to make improvements for the benefit of the students, employees, and in stewardship of district assets.