

Date: May 20, 2019

To: Board of Directors

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

Subject: April 2019 Unaudited Financial Report

This report provides a brief summary of the general fund financial operations through April 30, 2019. Enrollment information also includes the official state count through the month of January 2019 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 April 30 for fiscal years 2017-18 and 2018-19.

**Table 1**

General Fund Comparison for the fiscal period ended	April 30, 2018	April 30, 2019	Variance Higher/(lower)
Beginning Fund Balance	\$ 34,036,362	\$ 32,969,307	\$ (1,067,056)
Revenue	291,908,730	326,940,447	35,031,717
Other Financing Sources	34,985	31,390	(3,595)
<b>Total Resources Available</b>	<b>325,980,078</b>	<b>359,941,144</b>	<b>33,961,066</b>
Expenditures	275,937,913	303,740,273	27,802,360
Other Financing Uses-Transfers Out	-	-	-
<b>Total Use of Resources</b>	<b>275,937,913</b>	<b>303,740,273</b>	<b>27,802,360</b>
<b>Ending Fund Balance</b>	<b>\$ 50,042,164</b>	<b>\$ 56,200,871</b>	<b>\$ 6,158,705</b>

## **REVENUES**

- General fund revenues and other financing sources as of April 30, 2019 were \$326,971,837. This was \$35,028,122 (+12.0%) 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 decreased \$17,967,146 (-12.7%) compared to this time last year and represent calendar year collections. This variance reflects 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 \$399,936 (+8.0%) compared to this time last year. This variance is the result of the following:

- \$482,542 increase in investment earnings
- \$215,274 increase insurance recoveries
- \$89,428 decrease in procurement card rebates
- \$80,259 decrease in gifts, grants & donations
- 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 \$42,333,301 (+29.2%) compared to this time last year. This variance was the result of the following:

- Total apportionment revenue increased \$45,317,947 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 decreased \$2,984,672 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 \$11,017,330 (+26.3%) compared to this time last year. This variance was the result of the following:

- \$6,291,822 increase in Special Education revenue due to a projected increase of 159 resident FTE as well as an increase in the district's Basic Education Allocation (BEA) rate
- \$2,346,608 increase in transportation operations revenue due to the compensation increase with the passage of E2SSB 6362
- \$2,007,711 increase in Learning Assistance Program (LAP) and LAP – High Poverty due to the Certificated Instructional Staff (CIS) salary increases
- \$641,281 decrease in transitional bilingual revenue due to a delay in allocations being awarded, as a result of a delay in approvals
- 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 decreased \$909,259 (-4.1%) compared to this time last year. This variance was the result of the following:

- \$825,401 increase in supplemental Special Education funding
- \$591,985 decrease in funding to bridge the gap between low-income and at-risk students and other students (Title 1)
- \$508,615 decrease in USDA commodities
- \$449,949 decrease in free & reduced meal reimbursement
- \$481,455 decrease in Head Start support due to timing differences from when funds were received last year
- \$335,245 increase in federally funded school improvement grant revenue, including Title II and Title IV
- The remaining variance is due to smaller variances in several other programs

- **Revenue – Other Districts** are reimbursements for services rendered to students from other school districts.

Revenues in this category increased \$248,426 (+22.1%) compared to this time last year. This variance was the result of the following:

- \$236,268 increase in revenue from other districts for Special Education services for non-resident FTE. This variance was due to an increase of 8 FTE students in the Special Education program where facilities and/or staff are not available in their resident district to provide the required services.

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

Revenue in this category decreased \$125,312 (-20.6%) compared to this time last year. This variance was the result of the following:

- \$77,073 decrease in Tacoma Whole Child Initiative funding

- \$45,000 decrease in College Spark Washington grant funding due to a timing difference of when revenue was received this year vs last year
- 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**

<u>Revenue and Other Financing Sources Comparison by Year</u>						
Revenue Source	Through	Percent	Through	Percent	Variance higher/(lower)	
	April 2018	of Total	April 2019	of Total		
Local Taxes	\$ 75,761,463	25.95%	\$ 57,794,317	17.68%	\$ (17,967,146)	
Local Non-Tax	5,016,439	1.72%	5,416,375	1.66%	399,936	
State, General Purpose	144,820,714	49.61%	187,154,015	57.24%	42,333,301	
State, Special Purpose	41,917,293	14.36%	52,934,623	16.19%	11,017,330	
Federal, General Purpose	193,994	0.07%	228,436	0.07%	34,442	
Federal, Special Purpose	22,466,510	7.70%	21,557,251	6.59%	(909,259)	
Revenue - Other Districts	1,124,528	0.39%	1,372,954	0.42%	248,426	
Revenue - Other Agencies	607,788	0.21%	482,476	0.15%	(125,312)	
Revenue - Other Financing	34,985	0.01%	31,390	0.01%	(3,595)	
<b>Total Revenue</b>	<b>\$ 291,943,715</b>	<b>100.00%</b>	<b>\$ 326,971,837</b>	<b>100.00%</b>	<b>\$ 35,028,122</b>	

**EXPENDITURES**

- General fund expenditures through April 30, 2019 were \$303,740,273; this was \$27,802,360 (+10.1%) 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 \$16,519,579 (+13.4%) from this time last year. This variance was the result of the following:

- \$18,513,443 increase in regular salaries due to negotiated salary increases, including a +14.4% increase for teachers
- \$1,461,073 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

- \$498,156 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 \$2,712,947 (+5.7%) from this time last year. This variance was the result of the following:

- \$2,573,794 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 \$3,944,735 (+5.8%) compared to this time last year. This variance is a result of an increased 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 \$1,726,698 (-14.2%) compared to this time last year. This variance was the result of the following:

- \$1,565,357 decrease in district-wide instructional technology from the purchase of HP notebooks, charging stations and laptop batteries made in 2017-18
  - \$525,542 decrease in total district-wide food costs
  - \$439,200 increase in textbooks, teaching materials & curriculum supplies purchased through the Curriculum & Instruction department
  - 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 \$6,835,978 (+29.1%) compared to this time last year. This variance was the result of the following:

- \$3,704,410 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 in current insurance premiums
- \$1,618,359 increase in the transportation base rate
- \$718,229 increase in district-wide software licensing, including Infor, Kronos and iReady license renewals
- \$266,163 increase in district-wide contracted transportation including transportation provided for McKinney-Vento students
- \$215,450 increase in consultant fees including Microsoft strategic analytics and TransPar school bus optimization services
- The remaining variance is due to smaller variances in several other programs

- **Local Mileage & Travel** consists of expenditures for local mileage and extended travel for both district staff and students.

Expenditures in this category decreased \$132,853 (-22.5%) compared to this time last year. This variance was the result of the following:

- \$207,297 decrease in district staff travel
- \$75,394 increase in student travel
- 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 \$351,329 (-39.0%) compared to this time last year. This variance was the result of the following:

- \$235,109 decrease in non-barcoded equipment, including purchases made in 2017-18 for salt spreaders and four new Chevy trucks for Facilities, and three new Ford vehicles for Safety & Security
- \$101,818 decrease in building & grounds improvements including safety upgrades executed at IDEA last year
- 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**

<b><u>Expenditure and Other Financing Uses Comparison by Year</u></b>					
<b>Expenditure Objects</b>	<b>Through April 2018</b>	<b>Percent of Total</b>	<b>Through April 2019</b>	<b>Percent of Total</b>	<b>Variance higher/(lower)</b>
Certificated Salaries	\$ 122,952,799	44.56%	\$ 139,472,378	45.92%	\$ 16,519,579
Classified Salaries	47,685,770	17.28%	50,398,717	16.59%	2,712,947
Employee Benefits	68,131,639	24.69%	72,076,374	23.73%	3,944,735
Supplies and Materials	12,151,494	4.40%	10,424,796	3.43%	(1,726,698)
Contractual Services	23,526,263	8.53%	30,362,241	10.00%	6,835,978
Local Mileage & Travel	589,288	0.21%	456,435	0.15%	(132,853)
Capital Outlay	900,661	0.33%	549,332	0.18%	(351,329)
<b>Total Expenditures</b>	<b>\$ 275,937,913</b>	<b>100.00%</b>	<b>\$ 303,740,273</b>	<b>100.00%</b>	<b>\$ 27,802,360</b>

**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 12.09%. 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 April 30, 2018 and April 20, 2019. 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**

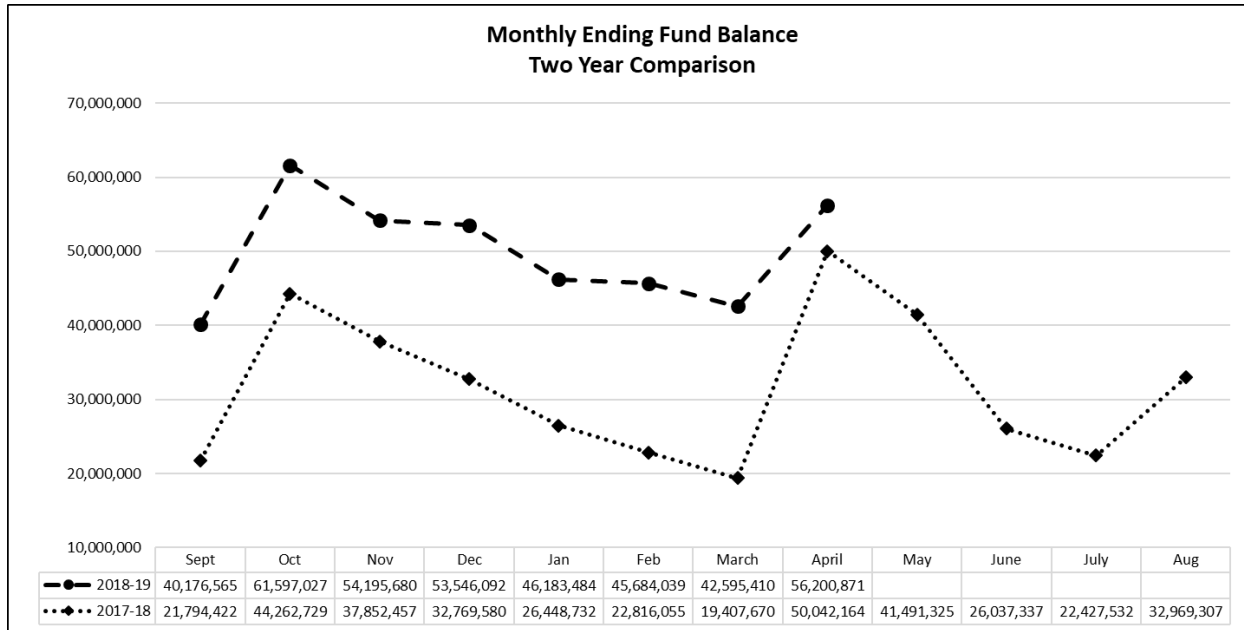
Fund Balance Descriptions for the fiscal period ended	Fund Balance Comparison by Year				
	April 2018	Percent of Revenue	April 2019	Percent of Revenue	Variance higher/(lower)
Nonspendable - Inventory & Prepaid Items	\$ 4,294,404	1.03%	\$ 4,294,404	0.92%	\$ -
Committed to Debt and Fiscal Management	-	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
<b>Total Debt &amp; Fiscal Management Fund Balance</b>	<b>\$ 5,655,627</b>	<b>1.36%</b>	<b>\$ 5,508,035</b>	<b>1.18%</b>	<b>\$ (147,592)</b>
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
<b>Restricted or Assigned Fund Balance</b>	<b>\$ 13,044,825</b>	<b>3.14%</b>	<b>\$ 12,220,909</b>	<b>2.63%</b>	<b>\$ (823,917)</b>
<b>Total Nonspendable, Restricted, Committed and Assigned Fund Balance</b>	<b>\$ 18,700,452</b>	<b>4.51%</b>	<b>\$ 17,728,944</b>	<b>3.81%</b>	<b>\$ (971,509)</b>
Unassigned Fund Balance	\$ 16,005,802	3.86%	\$ 22,684,632	4.88%	6,678,830
Unassigned for Minimum FB Policy	\$ 15,335,910	3.70%	\$ 15,787,294	3.40%	451,384
<b>Total Unassigned Fund Balance</b>	<b>\$ 31,341,712</b>	<b>7.55%</b>	<b>\$ 38,471,927</b>	<b>8.27%</b>	<b>\$ 6,678,830</b>
<b>Total Fund Balance</b>	<b>\$ 50,042,164</b>	<b>12.06%</b>	<b>\$ 56,200,871</b>	<b>12.09%</b>	<b>\$ 6,158,707</b>
<b>Revenue less other financing</b>	<b>\$ 414,964,229 *</b>		<b>\$ 464,960,591 **</b>		

\* 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 April, total cash on hand was \$74,957,221 and daily expenditures amounted to \$1,253,069 per day which when used in the formula [cash on hand / daily expenditures] equates to 59.82 days of cash on hand.

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

**Table 6**

<b><u>Cash Balance Comparison by Year</u></b>				
	<b>April 2018</b>	<b>April 2019</b>	<b>Variance higher/(lower)</b>	
230 - Cash with Key Bank	\$ 1,233,293	\$ (493,766)	\$	(1,727,059)
240 - Cash with Treasurer	38,209,118	18,902,461		(19,306,658)
241 - Warrants Outstanding	(5,004,406)	(3,102,129)		1,902,276
45x - Investments	32,545,000	59,650,656		27,105,656
<b>Total Cash on Hand</b>	<b>\$ 66,983,005</b>	<b>\$ 74,957,221</b>	<b>\$</b>	<b>7,974,216</b>
<b>Avg Daily Balance</b>	<b>\$ 2,232,767</b>	<b>\$ 2,498,574</b>	<b>\$</b>	<b>265,807</b>
<b>Days Cash on Hand</b>	<b>59.89</b>	<b>59.82</b>		<b>(0.07)</b>

**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 April 2019. The projected annual adjusted average is currently 2 FTE less than the budgeted average.

**Table 7**

<b>Budget vs. Projected Enrollment K-12 Full Time Equivalent (FTE) Enrollment</b>				
	Month	Monthly Budget	Monthly Projected	Variance
	* Sep - 18	27,668	27,500	(168)
	* Oct - 18	27,659	27,729	70
	* Nov - 18	27,736	27,805	69
	* Dec - 18	27,716	27,798	82
	* Jan - 19	27,661	27,732	71
	* Feb - 19	27,561	27,493	(68)
	* Mar - 19	27,538	27,497	(41)
	* Apr - 19	27,397	27,421	24
	May - 19	27,384	27,409	25
	Jun - 19	27,282	27,306	24
<b>Average</b>		<u>27,560</u>	<u>27,569</u>	9
Running Start		268	289	21
TCC Fresh Start		176	173	(3)
Reengagement		147	143	(4)
Goodwill		32	29	(3)
Alternative Learning Experience		52	29	(24)
<b>Adjusted Average</b>		<u>28,235</u>	<u>28,233</u>	(2)

**Actual data through April 2019**

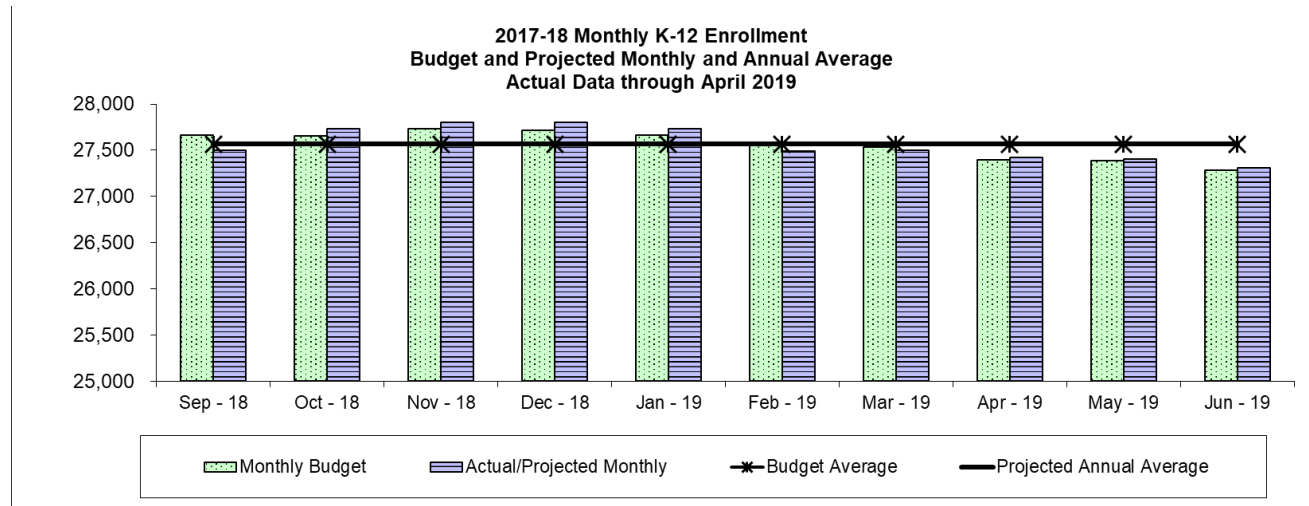
Every student enrolled is converted to a full-time equivalent (FTE) based on the number of instructional hours. A full-time equivalent student for grades 4-12 is 900 hours (i.e., 5 hours per day x 180 days) and grades 1-3 is 720 hours (i.e., 4 hours per day x 180 days), for .5 FTE (half day) kindergarten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

Memo to Board of Directors  
Subject: April 2019 Unaudited Financial Report  
May 20, 2019  
Page 14

Elementary schools (grades K-5) decreased by 384 FTE;  
Middle schools (grades 6-8) increased by 293 FTE;  
High schools (grades 9-12) increased by 24 FTE;  
Running Start (college level courses) increased by 4 FTE;  
TCC Fresh Start decreased by 1 FTE;  
Reengagement Center decreased by 10 FTE;  
Goodwill decreased by 7 FTE;  
ALE (Alternative Learning Experience) decreased by 21 FTE;

The combined variances results in an average decrease of 103 student FTE from the previous year.

**Table 9**

<b>K-12 Annual Average FTE Enrollment Two Year Comparison</b>					
	(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	2,248	7	38
Grade 1	2,265	2,228	2,199	(65)	(29)
Grade 2	2,295	2,222	2,230	(65)	8
Grade 3	2,349	2,259	2,257	(91)	(2)
Grade 4	2,428	2,308	2,287	(141)	(20)
Grade 5	2,408	2,372	2,380	(28)	8
<b>Elementary</b>	<b>13,986</b>	<b>13,599</b>	<b>13,602</b>	<b>(384)</b>	<b>3</b>
Grade 6	2,208	2,248	2,347	139	99
Grade 7	2,040	2,183	2,190	150	6
Grade 8	2,047	2,023	2,051	4	28
<b>Middle School</b>	<b>6,296</b>	<b>6,455</b>	<b>6,588</b>	<b>293</b>	<b>134</b>
Grade 9	2,004	2,052	2,188	184	135
Grade 10	2,004	1,972	1,925	(80)	(48)
Grade 11	1,717	1,857	1,756	39	(101)
Grade 12	1,630	1,624	1,510	(120)	(114)
<b>High School</b>	<b>7,355</b>	<b>7,506</b>	<b>7,379</b>	<b>24</b>	<b>(127)</b>
Running Start	285	268	289	4	21
TCC Fresh Start **	175	176	173	(1)	(3)
Reengagement Center **	153	147	143	(10)	(3)
Goodwill **	36	32	29	(7)	(2)
Alternative Learning Experience	50	52	29	(21)	(24)
<b>Grand Total *</b>	<b>28,335</b>	<b>28,235</b>	<b>28,233</b>	<b>(103)</b>	<b>(2)</b>
Actual data through April 2019					

\*\* 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.