

Date: December 11, 2019
 To: Board of Directors
 From: Rosalind Medina, Chief Financial Officer *Rosalind Medina*
 Subject: September 2019 Unaudited Financial Report

This report provides a brief summary of the general fund financial operations through September 30, 2019. Enrollment information also includes the official state count through the month of September 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 September 30 for fiscal years 2018-19 and 2019-20.

Table 1

General Fund Comparison for the fiscal period ended	September 30, 2018	September 30, 2019	Variance Higher/(lower)
Beginning Fund Balance	\$ 32,969,307	\$ 39,945,306	\$ 6,975,999
Revenue	41,482,078	31,105,922	(10,376,156)
Other Financing Sources	12,800	500	(12,300)
Total Resources Available	74,464,185	71,051,728	(3,412,457)
Expenditures	34,287,620	40,173,632	5,886,012
Other Financing Uses	-	-	-
Total Use of Resources	34,287,620	40,173,632	5,886,012
Ending Fund Balance	\$ 40,176,565	\$ 30,878,096	\$ (9,298,469)

REVENUES

- General fund revenues and other financing sources as of September 30, 2019 were \$31,106,422. This was \$10,388,456 (-25.0%) less than this time last year.

Highlights:

- **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 decreased \$120,209 (-12.8%) compared to this time last year. This variance is the result of the following:

- \$113,294 decrease from tuition collected from foreign exchange students due to 10 less participating students as well as some students only participating for half the school year
 - 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 hold-harmless provision budgeted at \$7.8 million to the Tacoma district for the 2019-20 school year. Tacoma qualified for this provision because local tax revenue, under the new funding structure for the calendar year 2019, is less than what the district would have received under prior formulas. In calendar year 2020, the district will no longer be eligible for this due to changes in the allocation calculation which allows the district to collect at the higher tax amount.

Revenue in this category decreased \$11,128,556 (-32.2%) compared to this time last year. This variance was the result of the following:

- Total apportionment revenue decreased \$11,128,556 from last year at this time. The district received a one-time hold-harmless provision of \$12 million paid in full in September of last year. Although the district is budgeted to receive \$7.8 million in hold-harmless funding in the 2019-20 school year, it will be distributed in monthly installments throughout the year.

- **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 \$544,812 (+8.8%) compared to this time last year. This variance was the result of the following:

- \$380,488 increase in Special Education revenue due to a projected increase of 117 resident FTE as well as an increase in the Special Education Basic Education Allocation (BEA) rate
- \$189,933 increase in Transportation Operations revenue due to an increase in rider revenue
- 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 \$251,169 (+505.5%) compared to this time last year. This variance was the result of the following:

- \$169,706 increase in Title IA funding which provides financial assistance to schools with high percentages of children from low-income families
- \$78,351 increase in supplemental Special Education funding
- 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 decreased \$142,678 (-521.5%) compared to this time last year. This variance was the result of the following:

- \$142,678 decrease in revenue from other districts for Special Education services for non-resident FTE. This variance reflects a difference in the timing of when revenue was collected last year compared to this year.

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

Revenue in this category increased \$219,307 (+98.5%) compared to this time last year. This variance was the result of the following:

- \$225,686 increase in revenue for Early Childhood Education and Assistance Program (ECEAP) due to a correction made last year that caused the program to start 2018-19 with a negative balance
- 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 September 2018	Percent of Total	Through September 2019	Percent of Total	Variance higher/(lower)	
Local Taxes	\$ -	0.00%	\$ -	0.00%	\$ -	
Local Non-Tax	940,359	2.27%	820,150	2.64%	(120,209)	
State, General Purpose	34,553,467	83.27%	23,424,911	75.31%	(11,128,556)	
State, Special Purpose	6,188,662	14.91%	6,733,474	21.65%	544,812	
Federal, General Purpose	-	0.00%	-	0.00%	-	
Federal, Special Purpose	49,685	0.12%	300,854	0.97%	251,169	
Revenue - Other Districts	(27,359)	(0.07%)	(170,037)	(0.55%)	(142,678)	
Revenue - Other Agencies	(222,736)	(0.54%)	(3,429)	(0.01%)	219,307	
Revenue - Other Financing	12,800	0.03%	500	0.00%	(12,300)	
Total Revenue	\$ 41,494,878	100.00%	\$ 31,106,422	100.00%	\$ (10,388,456)	

EXPENDITURES

- General fund expenditures through September 30, 2019 were \$40,173,632; this was \$5,886,012 (+17.2%) more than this time last year.

- **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 \$2,245,534 (+15.1%) from this time last year. This variance was the result of the following:

- \$2,141,230 increase in regular salaries due negotiated salary increases, including +3.0% increase for teachers
- 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 \$270,860 (+4.8%) from this time last year. This variance was the result of the following:

- \$188,233 increase in in regular salaries due negotiated salary increases, including +8.5% increase for transportation and +3.0% increase for office professional and professional technical positions
- 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 \$1,080,652 (+10.0%) compared to this time last year. This variance is a result of an increase in health care and retirement rates for the 2019-20 school year.

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

Expenditures in this category increased \$1,481,966 (+83.3%) compared to this time last year. This variance was the result of the following:

- \$850,772 increase in software purchases, including a software component of the recent math curriculum adoption
- \$498,166 increase in food costs for the National School Lunch Program
- 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 \$809,869 (+71.3%) compared to this time last year. This variance was the result of the following:

- \$698,269 increase in total district-wide utilities. The was due to an accrual that occurred last year that moved September 2018 utility payments into the 2017-18 year. Due to changes in processing times, this accrual did not occur in September 2019.
- \$171,789 increase in contracted services used for the Special Education program
- 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 September 2018	Percent of Total	Through September 2019	Percent of Total	Variance higher/(lower)
Certificated Salaries	\$ 14,916,014	43.50%	\$ 17,161,548	42.72%	\$ 2,245,534
Classified Salaries	5,615,804	16.38%	5,886,664	14.65%	270,860
Employee Benefits	10,797,283	31.49%	11,877,935	29.57%	1,080,652
Supplies and Materials	1,778,316	5.19%	3,260,282	8.12%	1,481,966
Contractual Services	1,136,101	3.31%	1,945,970	4.84%	809,869
Local Mileage & Travel	35,787	0.10%	17,668	0.04%	(18,119)
Capital Outlay	8,315	0.02%	23,566	0.06%	15,251
Total Expenditures	\$ 34,287,620	100.00%	\$ 40,173,632	100.00%	\$ 5,886,012

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 September the district is at 6.56%. 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 September 30, 2018 and September 30, 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

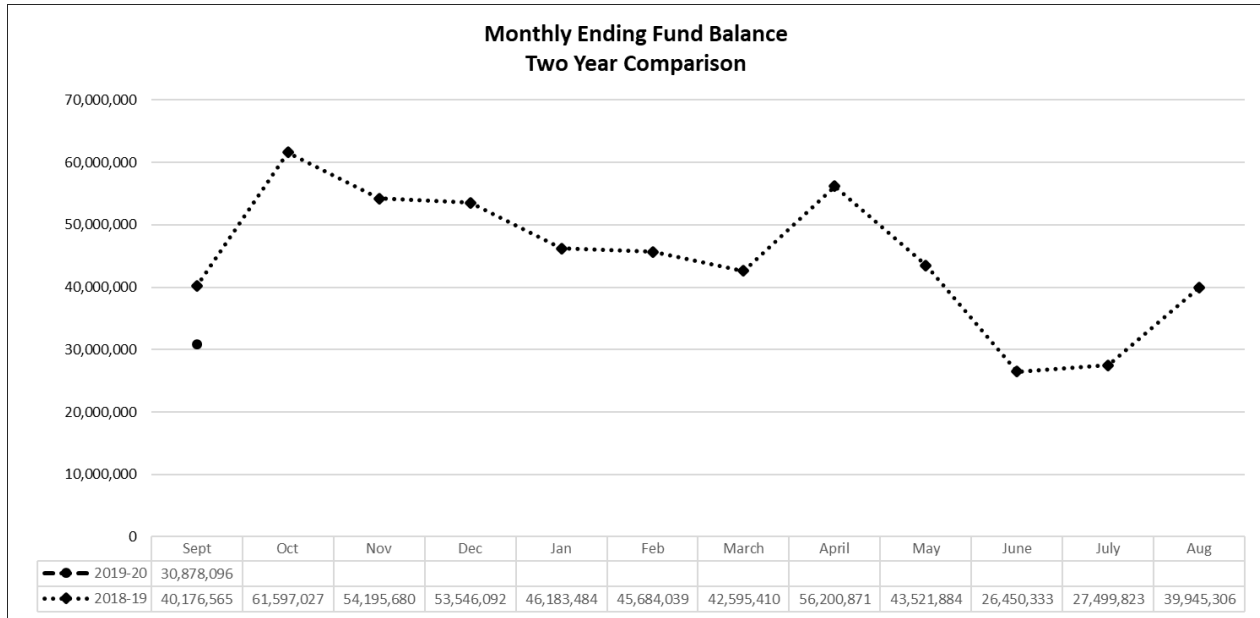
Fund Balance Descriptions for the fiscal period ended	Fund Balance Comparison by Year				
	September 2018	Percent of Revenue	September 2019	Percent of Revenue	Variance higher/(lower)
Nonspendable - Inventory & Prepaid Items	\$ 4,294,404	0.93%	\$ 4,333,231	0.92%	\$ 38,827
Committed to Debt and Fiscal Management	-	0.00%	-	0.00%	-
Committed to Encumbrances	213,631	0.05%	207,939	0.04%	(5,692)
Committed to Contingencies	1,000,000	0.22%	1,000,000	0.21%	-
Total Debt & Fiscal Management Fund Balance	\$ 5,508,035	1.19%	\$ 5,541,170	1.18%	\$ 33,134
Restricted for Carryover	\$ 1,060,151	0.23%	\$ 2,084,993	0.44%	\$ 1,024,842
Restricted for Debt Service	425,906	0.09%	323,798	0.07%	(102,107)
Assigned to Carryover	1,050,624	0.23%	2,218,341	0.47%	1,167,717
Assigned to Curriculum & Instruction	2,083,677	0.45%	3,157,779	0.67%	1,074,102
Assigned to Future Operations	7,600,551	1.65%	4,393,592	0.93%	(3,206,959)
Restricted or Assigned Fund Balance	\$ 12,220,909	2.65%	\$ 12,178,503	2.59%	\$ (42,406)
Total Nonspendable, Restricted, Committed and Assigned Fund Balance	\$ 17,728,944	3.85%	\$ 17,719,673	3.76%	\$ (9,272)
Unassigned Fund Balance	\$ 6,660,326	1.44%	\$ (4,839,986)	-1.03%	(11,500,313)
Unassigned for Minimum FB Policy	\$ 15,787,294	3.42%	\$ 17,998,409	3.82%	2,211,115
Total Unassigned Fund Balance	\$ 22,447,621	4.87%	\$ 13,158,423	2.79%	\$ (11,500,313)
Total Fund Balance	\$ 40,176,565	8.71%	\$ 30,878,096	6.56%	\$ (9,298,468)
Revenue less other financing	\$ 461,049,431 *		\$ 470,791,586 **		

*2018-19 total actual revenue less other financing sources as of August 31, 2019

**2019-20 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 September, total cash on hand was \$45,531,060 and daily expenditures amounted to \$1,339,121 per day which when used in the formula [cash on hand / daily expenditures] equates to 34.00 days of cash on hand.

Table 6 displays a comparison of cash on hand records through the period ending September 30 for fiscal years 2018-19 and 2019-20.

Table 6

<u>Cash Balance Comparison by Year</u>				
	September 2018	September 2019	Variance higher/(lower)	
230 - Cash with Key Bank	\$ 947,600	\$ 196,173	\$	(751,426)
240 - Cash with Treasurer	4,491,529	5,506,660		1,015,131
241 - Warrants Outstanding	(3,359,419)	(4,771,983)		(1,412,564)
45x - Investments	50,500,000	44,600,210		(5,899,790)
Total Cash on Hand	\$ 52,579,710	\$ 45,531,060	\$	(7,048,649)
Avg Daily Balance	\$ 1,752,657	\$ 1,517,702	\$	(234,955)
Days Cash on Hand	46.00	34.00		(12.00)

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 28,159 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 September 2019. The projected annual adjusted average is currently 130 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 - 19	27,616	27,641	25
	Oct - 19	27,462	27,880	418
	Nov - 19	27,665	27,896	231
	Dec - 19	27,657	27,888	231
	Jan - 20	27,595	27,826	231
	Feb - 20	27,430	27,659	229
	Mar - 20	27,418	27,646	228
	Apr - 20	27,307	27,534	227
	May - 20	27,279	27,506	227
	Jun - 20	27,189	27,414	225
		<u>27,462</u>	<u>27,689</u>	<u>227</u>
Average				
Running Start		279	294	15
TCC Fresh Start		162	176	14
Reengagement		149	106	(43)
Goodwill		31	10	(21)
Alternative Learning Experience		41	15	(26)
Adjusted Average		<u>28,159</u>	<u>28,290</u>	<u>130</u>
* Actual data through September 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).

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 2020. 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

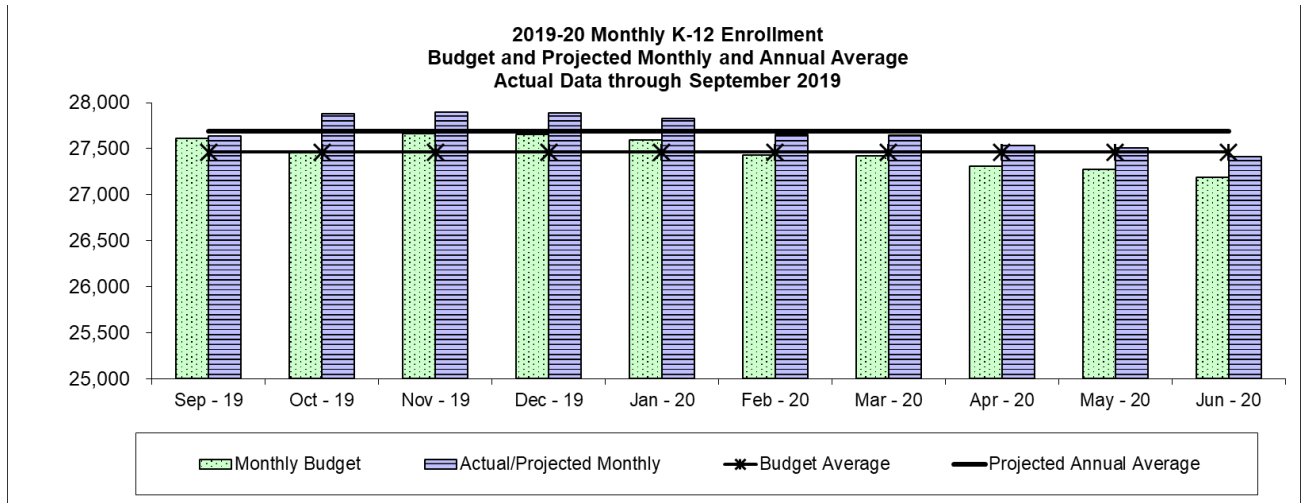


Table 9 displays the variances between actual and projected annual average FTE by individual grade level for 2018-19 and 2019-20, and the variance between projected and budgeted average FTE for 2019-20.

The projected average for 2019-20 enrollment varies from 2018-19 actual enrollment as follows (**Table 9, Column (D)**):

- Elementary schools (grades K-5) decreased by 173 FTE;
- Middle schools (grades 6-8) increased by 198 FTE;
- High schools (grades 9-12) increased by 103 FTE;
- Running Start (college level courses) increased by 4 FTE;
- TCC Fresh Start increased by 7 FTE;
- Reengagement Center decreased by 46 FTE;
- Goodwill decreased by 19 FTE;
- ALE (Alternative Learning Experience) decreased by 17 FTE

The combined variances result in an average increase of 57 student FTE from the previous year.

Table 9

K-12 Annual Average FTE Enrollment Two Year Comparison					
	(A) 2018-19 Actual	(B) 2019-20 Budget	(C) 2019-20 Projected	(D) Variance (C)-(A)	(E) Variance (C)-(B)
Kindergarten	2,248	2,272	2,242	(7)	(31)
Grade 1	2,202	2,178	2,253	51	74
Grade 2	2,228	2,108	2,195	(33)	87
Grade 3	2,256	2,142	2,208	(48)	66
Grade 4	2,288	2,152	2,246	(42)	94
Grade 5	2,380	2,204	2,286	(94)	82
Elementary	13,602	13,057	13,429	(173)	372
Grade 6	2,346	2,257	2,303	(42)	46
Grade 7	2,188	2,300	2,310	122	10
Grade 8	2,049	2,184	2,167	118	(16)
Middle School	6,582	6,740	6,780	198	40
Grade 9	2,187	2,127	2,103	(85)	(25)
Grade 10	1,925	2,137	2,146	221	9
Grade 11	1,754	1,744	1,677	(77)	(68)
Grade 12	1,511	1,655	1,554	44	(101)
High School	7,377	7,664	7,479	103	(185)
Running Start	290	293	294	4	1
TCC Fresh Start **	168	183	176	7	(7)
Reengagement Center **	152	149	106	(46)	(44)
Goodwill **	29	31	10	(19)	(21)
Alternative Learning Experience	32	41	15	(17)	(27)
Grand Total *	28,233	28,159	28,290	57	130
Actual data through September 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.