

MERCER ISLAND SCHOOL DISTRICT No. 400

Fiscal Year-End Report 2021-2022



Mercer Island Washington

“Students are the Priority”

*Presented to the Mercer Island School District Board of Directors
on December 6th, 2022*

December 6th, 2022

Board of Directors
Mercer Island School District #400
4160 86th Ave SE
Mercer Island, WA 98040

Dear School Board Members:

The Mercer Island School District Annual Financial Statements (F-196) for fiscal year 2021-2022 are attached along with the summary. The Superintendent and the Executive Director of Finance & Operations assume responsibility for data accuracy and completeness. These annual financial statements present the district's unaudited financial results as of August 31, 2022.

The development and review of the 2021-2022 General Fund, Capital Fund, Debt Service Fund, Associated Student Body (ASB) Fund, and the Transportation Fund. Annual financial statements were completed with a comprehensive review of revenue and expenditures. Information on each fund's annual financial statement is provided in this document. The state required F-196 Annual Financial Report is also included at the end of this document.

We are pleased to publish and disseminate this annual financial statement information to you and the community. We welcome the opportunity to present and discuss results and related financial outcomes with all interested parties. We believe that interaction among interested and objective groups consistently leads to operational and educational improvements for students in the Mercer Island School District.

Our goal with this document, our Fiscal Year-End Report, is to provide reliable and easily understood financial information to our community about the educational programs and services for fiscal year-end 2021-2022. We believe this document fulfills our promise to strengthen the presentation of our annual financial statements and to help make them more transparent and reader friendly.



Dr. Fred Rundle
Superintendent



Matt Sullivan
Executive Director of Finance & Operations

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Executive Summary

A preliminary budget was presented in early August, with a final budget approved by the Board in late August. Implementation of the budget commenced on September 1, 2021.

Expenditures

The Mercer Island School District operates six (6) individual funds, allowed by state law, specifically RCW 28A.320.330, they are as follows: **General, Capital Projects, Debt Service, Associated Student Body (ASB), Transportation and a Benefit Trust Fund.**

General Fund -

Accounts for the day-to-day operation of the district. Included are all the normal and recurring financial activities of the district that are not accounted for in other funds. Expenditures include salaries and benefit costs, non-salary costs such as supplies and materials, books and other instructional materials, utilities, purchased services and equipment, which is referred to as MSOC (Materials Supplies and Operating Costs). Revenue for the General Fund includes local, state, and federal funds.

Capital Projects Fund -

Accounts for financing and expenditures of capital projects. It can include modernization, new construction, replacement of systems, equipping of new facilities, site improvements, major renovations, and technology systems. Revenue for the Capital Projects Fund includes state matching funds, investment earnings, impact fees, the Cap/Tech levy, and bonds.

Debt Service Fund -

Provides for the redemption and payment of interest on voted bonds. Each year an amount is levied which provides for redemption of bonds currently due, interest payments and related costs.

Associated Student Body Fund (ASB) -

Accounts for the student extracurricular activities in each school. These funds *are* public monies raised on behalf of and by students, and are used for optional, extra-curricular events of a cultural, athletic, recreational, or social nature (CARS).

Transportation Fund -

Accounts for the purchase of buses and major bus repairs, though major repairs are allowed only with OSPI approval. Revenue for this fund can include state depreciation funds, transportation vehicle levy funds, and investment income.

Expenditures

The following chart presents a comparison of the proposed budget vs. actual expenditures for fiscal year 2021-2022 for all funds as well as 2020-2021 actual expenditures.

Total Expenditures for All District Funds				
Fund	Actual 2020-2021	Budgeted 2021-2022	Actual 2021-2022	% Change*
General	68,459,656	72,749,347	70,158,266	+2.48%
Capital Projects	4,976,356	15,673,655	11,150,424	+124.06%
Debt Service	7,826,600	8,149,125	8,139,725	+4.00%
ASB	493,911	1,909,818	1,464,231	+286.67%
Transportation	554,792	1,050,000	252,538	-54.48%

**Percent change is between 2020-2021 Actual and 2021-2022 Actual*

Analysis of Total Expenditures for All District Funds

General Fund, +2.48% slight increase due to bargained staff pay, sub costs due to COVID, increase out of district placements, food service back to normal, and increase in utilities

Capital Projects Fund, +124.06% increase due to new Pathways building at Northwood, South Mercer Playfields and high school library and culinary arts classroom remodels

Debt Service Fund, +4.00% slight increase due to amortization schedule for bond payments

Associated Student Body Fund (ASB), +286.67% increase due to students, clubs and sports are back! Increase travel, sports, clubs, and activities

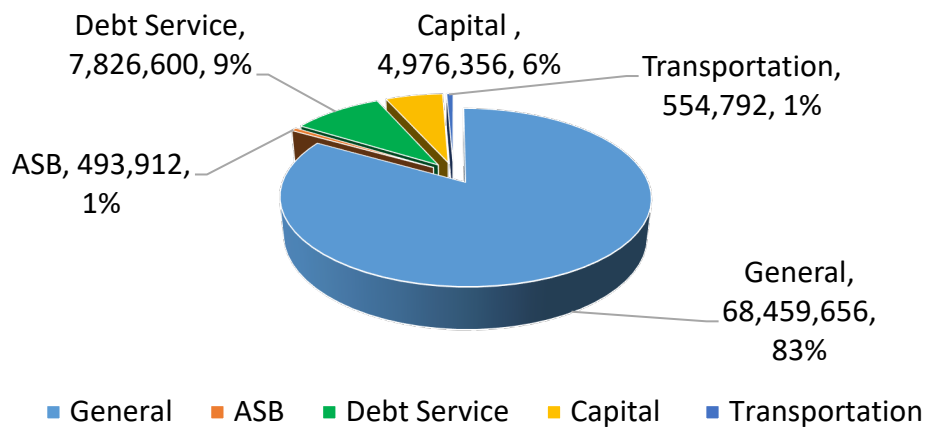
Transportation Fund, -54.48% decrease due to no major bus purchases; prior year purchase of four (4) small buses

Education of students and the operation of a school district is a labor-intensive enterprise, as reflected in personnel costs. The workforce of the district is determined by staffing guidelines and collective bargaining agreements (CBA's) in relation to projected student enrollment and curriculum and grant requirements.

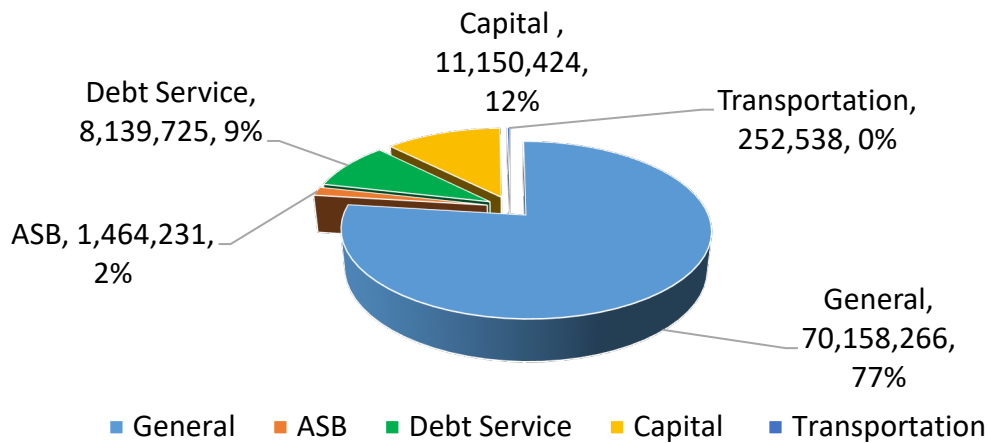
For fiscal year 2021-2022, salaries and benefits constituted 84.1% of all General Fund expenditures. For fiscal year 2020-2021, salaries and benefits constituted 86.8% of all General Fund expenditures. In fiscal year 2019-2020, salaries and benefits constituted 87.8%.

The following pie charts provide a comparison of actual expenditures by fund for the 2020-2021 and 2021-2022 fiscal years based on actual expenditures.

2020-2021 Actual Expenditures by Fund



2021-2022 Actual Expenditures by Fund



Revenues

Financial support for district operated programs and services is mainly derived from state apportionment, but more and more it's supported by local sources of revenue, such as the Educational Programs & Operations (EP&O) levy and the Technology and Facilities Capital Projects (Cap/Tech) Levy, which is funded by local property taxes, and from generous donations from civic and educational support organizations, such as the Mercer Island Schools Foundation (MISF).

The following chart presents a comparison of the proposed budget vs. actual revenues for fiscal year 2021-2022 for all funds as well as 2020-2021 actual revenues.

Total Revenues for All District Funds				
Fund	Actual 2020-2021	Budgeted 2021-2022	Actual 2021-2022	% Change*
General	65,909,948	67,616,175	67,688,923	+2.69%
Capital	6,500,676	6,790,958	6,821,876	+4.94%
Debt Service	8,046,325	8,299,999	8,279,339	+2.89%
ASB	640,877	1,922,760	1,059,893	+65.38%
Transportation	326,431	303,000	368,621	+12.92%

**Percent change is between 2020-2021 Actual and 2021-2022 Actual*

Analysis of Total Revenues for All District Funds

General Fund, +2.69% increase due to ESSER funds, Enrollment & Transportation Stabilization, and an increase in the BEA (basic education allocation) per student FTE

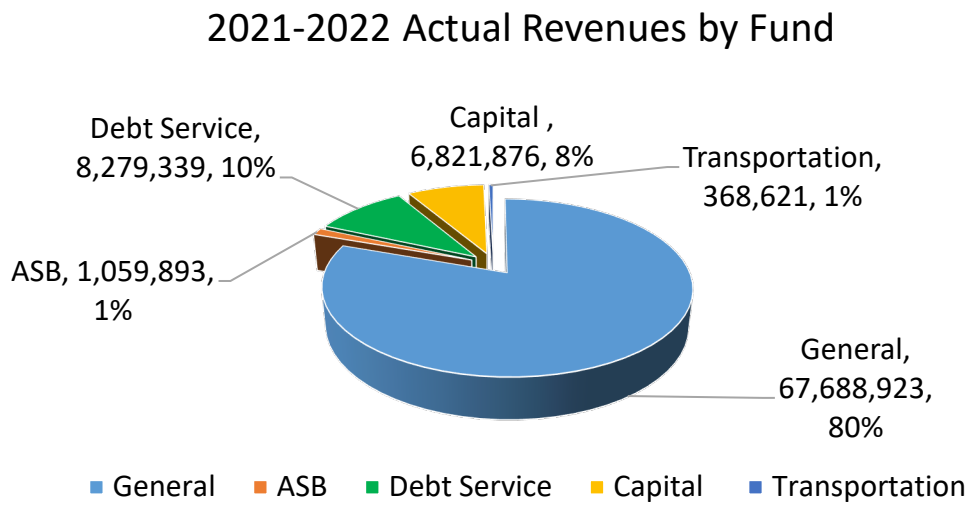
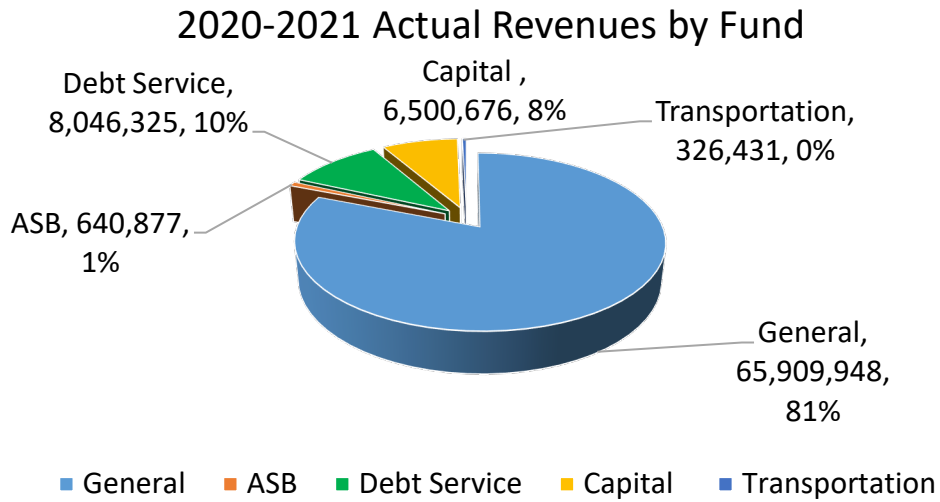
Capital Projects Fund, +4.94% increase due to tax collections via King County and a large donation from the PTA for the high school library (\$170)

Debt Service Fund, +2.89% increase due to amortization schedule for bond payments, hence increase in tax collections

Associated Student Body Fund (ASB), +65.38% increase was due to students returning, raising funds for events and activities, sports equipment, and trips

Transportation Fund, +12.92% increase due to depreciation from buses via OSPI and sale of surplus bus.

The following pie charts provide a comparison of revenues by fund for the 2020-2021 and 2021-2022 fiscal years based on actual revenues.



Fund Balance

The district maintains a positive balance in each of the five funds, which provides savings and future spending flexibility. The Fund Balance is “cash-in-the-bank,” but only the Unassigned funds are true savings. Per OE-7 (Operational Expectation), *it is the district’s goal to maintain annual budget reserves of at least 8%, with a target of 10%, for the prior fiscal year ended as of August 31st, that are adequate to be consistent with best financial practices for public school districts.*

General Fund Balance consists mainly of committed reserves, restricted funds, assigned contingencies and unassigned reserves. It should be noted that Committed and Assigned funds are for specific programs and/or liabilities. The Fund Balance percent is calculated by dividing the year end (or monthly) actual amount by the total annual budgeted expenditures.

Capital Projects Fund Balance consists of designated capital fund reserves and collected bond and Cap/Tech Levy funds.

Debt Service Fund Balance consists of local taxes that have yet to be used for bond principal and interest payments.

Associated Student Body Fund (ASB) Balance accounts for student extracurricular activities in each school.

Transportation Fund Balance accounts for the purchase of and major repairs of buses.

The table below shows the 2021-2022 ending fund balances (budgeted amount and actual) and the 2020-2021 actual amount.

Ending Fund Balance for All Funds					
Fund	Actual 2020-2021	Budgeted 2021-2022	Actual 2021-2022	% Change*	Fund Balance Percent
General Fund	4,228,443	471,061	1,759,100	-58.39%	2.41%
Capital Projects	15,382,232	7,418,748	11,053,684	-28.13%	70.52%
Debt Service	5,908,839	5,646,885	6,048,454	+2.36%	74.22%
ASB	903,153	1,005,867	498,815	-44.76%	26.11%
Transportation	1,257,818	491,414	1,413,901	+12.40%	134.6%

**Percent change is between 2020-2021 Actual and 2021-2022 Actual*

Analysis of Ending Fund Balance for All Funds

General Fund, -58.39% decrease due to loss of enrollment, missed enrollment projections, unbalanced budget, and EP&O Levy cap

Capital Projects Fund, -29.13% decrease due to completion and/or finishing of major projects during the prior year (e.g., culinary arts classroom, high school library etc.)

Debt Service Fund, +2.36% increase was due to continued payments on the bond as determined by the amortization schedule.

Associated Student Body Fund (ASB), -44.76% decrease due to students back and spending on trips, sports, travel, and equipment/events

Transportation Fund, +12.40% increase due to no major purchases of buses, hence unused depreciation funds adding to the overall fund balance

Interfund Loan

In the Spring of 2022, the district made an interfund loan transfer from the Capital Projects Fund to the General Fund in the amount of \$2MM. This loan from "ourselves" was taken in April of 2022 to cover salaries and benefits through the end of the fiscal year. More specifically, the loan was needed for several reasons:

- The use of fund balance (reserves) as part of COVID recovery
- Missed enrollment projections and a drop in enrollment due to the pandemic
- EP&O levy collection authority, which was reduced by the state, known as "The McCleary decision"
- Lastly, due to Inflation and rising staff costs

This "interfund loan" was supposed to be repaid in fiscal year 2021-22 but was not. This loan is on-going into fiscal year 2022-22 and will need to be repaid by April of 2023 along with all interest.



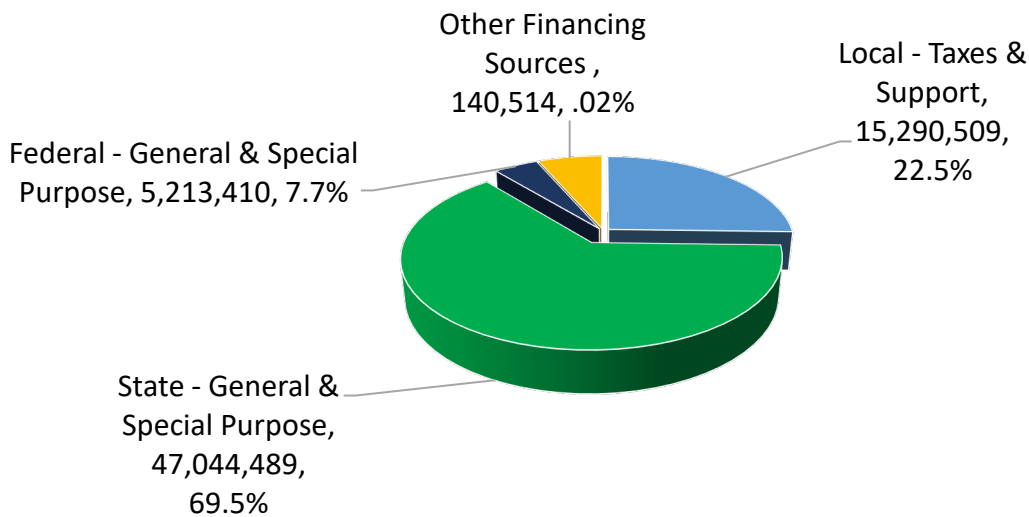
Mercer Island High School

General Fund Summary

The General Fund accounts for the day-to-day operations of the district. Included are all the normal and recurring financial activities of the district that are not accounted for in other funds. Expenditures include salary and benefit costs and non-salary costs such as supplies, materials, books, instructional materials, utilities, insurance, purchased services and equipment, which is called MSOC (Materials Supplies and Operating Costs). Revenue for the General Fund includes local and state taxes, federal grants, and other monies.

Total General Fund Revenue by Source

2021-2022 Total Actual Revenue by Source



Local - Taxes & Support, 22.5% - This funding source includes local property taxes – the EP&O levy, timber excise tax, tuition and student fees, investment earnings, and private donations from individuals and community support.

State – General & Special Purpose, 69.5% - This is the largest revenue source for the district, which includes state apportionment. The amount of apportionment is driven by the number of full-time equivalent students (FTE) in the district, and a series of other formulas driven by both the number of full-time equivalent students (FTE) and operational rates set by the legislature.

The 2021-2022 state allocation per student FTE was \$9,719. The 2020-2021 state allocation per student FTE was \$9,618 and the 2019-2020 state allocation per student FTE was \$9,454. State General and Special Purpose funding also includes Special Education, Career and Technical Education (CCR aka = CTE), Learning Assistance Program (LAP), Alternative Learning Experience (ALE/CREST), Transitional Bilingual, Food Services, and Highly Capable.

Federal – General & Special Purpose, 7.7% - This funding source includes ESSER, Special Education grants, reimbursements via Medicaid, Title I - Disadvantaged, Title II – Professional Development, Title III – Bilingual, Title IV – Supplemental to Title I & II, Nutrition Support, and other numerous grants.

Other Financing Sources, .02% - This funding source includes the sale of surplus real property and equipment, facility use fees.

Total Expenditures for the General Fund

The table below shows the 2021-2022 year-end Object balances (budgeted amount and actual) and the 2020-2021 actual amount.

Total Expenditures by Object – General Fund					
Object	Description	Actual 2020-2021	Budgeted 2021-2022	Actual 2021-2022	% Change*
2	Salaries-Certified	31,460,182	32,632,781	31,738,585	+.88%
3	Salaries-Classified	11,791,734	13,650,933	11,824,388	+.27%
4	Benefits	16,233,947	16,257,313	15,386,063	-5.22%
5	Supplies & Materials	1,612,470	2,394,216	1,762,700	+9.31%
7	Purchased Services	7,045,057	7,553,047	9,191,976	+30.47%
8	Travel	19,123	30,800	115,909	+506.13%
9	Capital Purchases	297,141	230,257	138,642	-53.34%

**Percent change is between 2020-2021 Actual and 2021-2022 Actual*

Analysis of Total Expenditures by Object – General Fund

Salaries – Certified, +.88%, increase due to bargained certified pay increases

Salaries – Classified, +.27%, increase due to bargained classified base pay increases

Benefits, -5.22%, decrease due to overall retirement rate decreased, along with a SEBB (benefits) decrease

Supplies & Materials, +9.31% increase due to students and staff back in person from COVID and purchasing much needed supplies and materials

(Supplies & Materials are items such as: postage, accessories, and parts, building and hardware supplies, copy supplies, custodial supplies, tools, office and library supplies, forms, paper products, workbooks and kits, fuel, and food for Food Service, etc.)

Purchased Services, +30.47% increase due to the return of in person students and staff; food services back and serving in person lunches

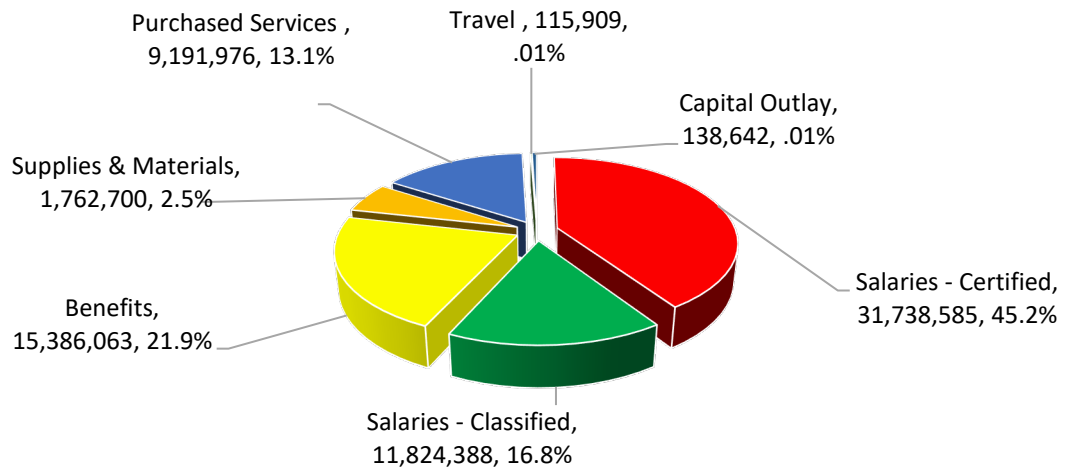
(Purchased Services are items such as: election fees, legal services, audit costs, NWRDC – financial and student software, insurance, student transportation (busing) contract, Food Service vendor contract, tutoring and LINK contracts, personal service contracts, and utilities, etc.)

Travel 61.5%, +506.13% – increase due to the return of in person students and staff, hence travel for trainings, events, sports, etc.

Capital Outlay, -53.34% - decrease due to no major (+\$5k) purchases

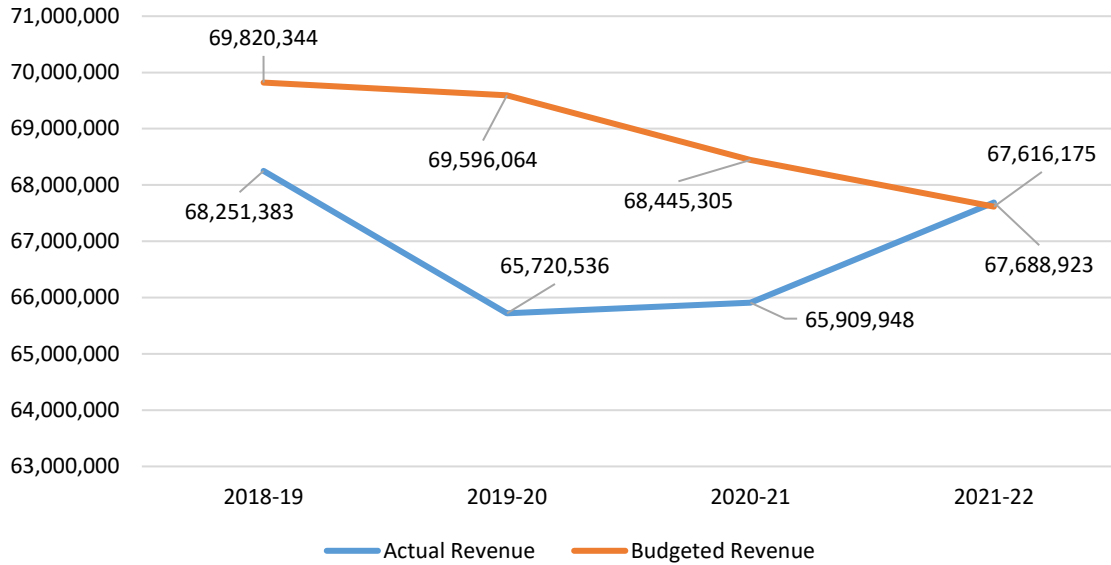
The following pie chart provides a comparison of expenditures by Object via the General Fund for the 2021-2022 fiscal year.

2021-2022 Actual Expenditures by General Fund

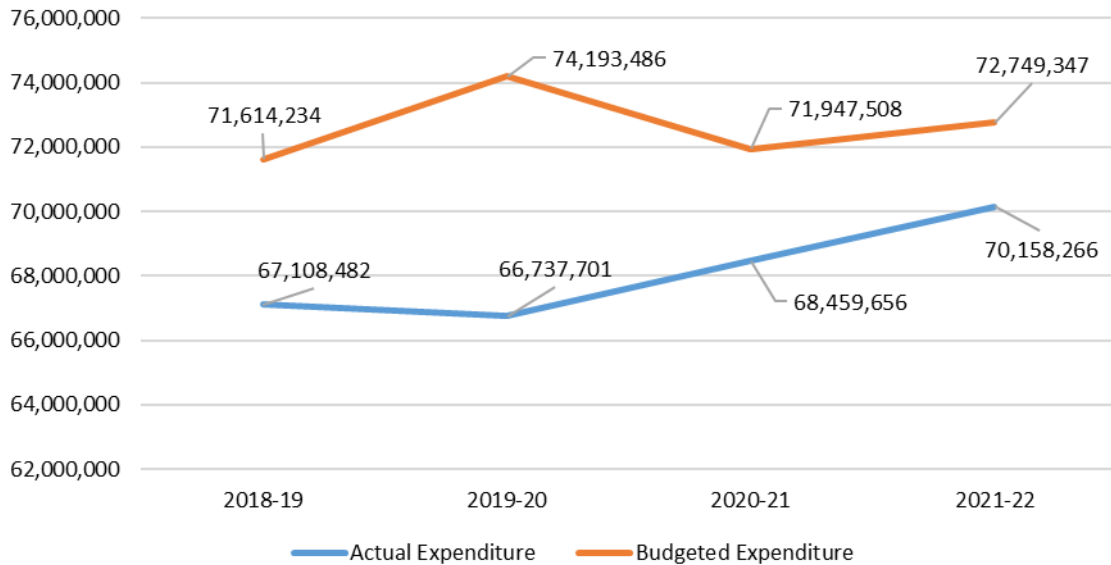


Historical General Fund Revenues & Expenditures

Historical General Fund Actual Revenues vs. Budget

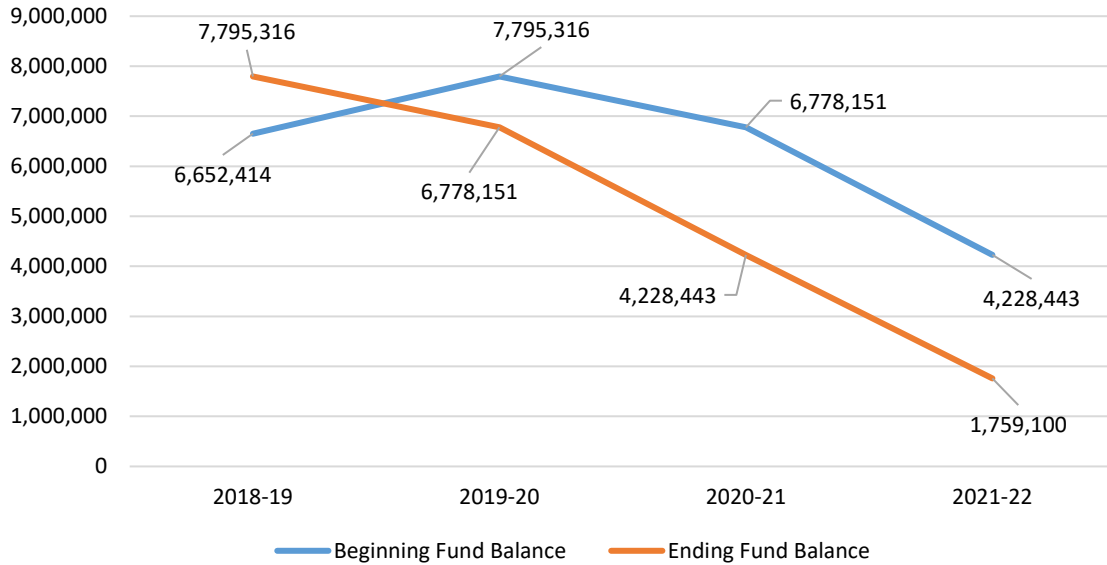


Historical General Fund Actual Expenditures vs. Budget

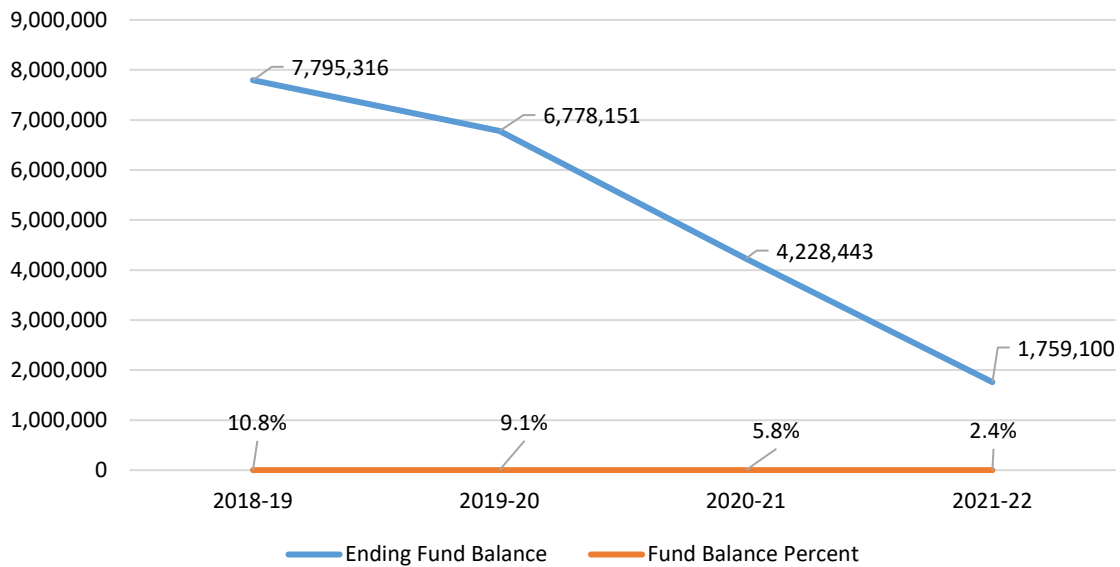


Historical General Fund - Fund Balance

Historical Fund Balance Beginning vs. Ending



Historical Fund Balance Percent



Year-End 2021-2022 General Fund – Ending Fund Balance Allocation

Description	2020-2021 Ending Allocation	2021-2022 Ending Allocation
Nonspendable - Carryover	134,364	86,259
Restricted	306,200	246,001
Unassigned	3,787,878	1,426,839
ACTUAL YEAR-END TOTAL	4,228,44	1,759,100
<i>Budget (Estimate)</i>	<i>3,327,219</i>	<i>2,544,148</i>

Due to the COVID-19 pandemic, we saw a decrease in enrollment, which affected revenue via the EP&O Levy (Educational Programs and Operations). It should be noted that the fund balance is a critical reserve, “savings” if you will, which is needed to pay salaries and benefits during the “lean” months (typically October & April) when local taxes are not remitted to the district from King County until month-end.

Other Funds – Fund Summaries

Capital Projects Fund

The Capital Projects Fund provides resources to construct or perform significant remodels and/or restoration of facilities. The district receives revenue for the Capital Projects Fund through long-term leases, land sales, state capital project grant reimbursements, investment earnings, and local capital levies and/or bond elections.

Fund	Actual 2020-21	Budget 2021-22	Actual 2021-22
Capital Projects	15,382,232	7,418,748	11,053,684

Debt Service Fund

The Debt Service Fund is used to pay off outstanding long-term bond debt authorized by the Board and approved by the voters. The district pays interest on its debt twice a year (December and June) and principal once a year (December). Property taxes are collected by King County on behalf of the district. King County invests the taxes received to maximize return and maintain as small a tax rate as possible.

The use of a Debt Service Fund allows for property taxes to remain stable over long periods of time. The Debt Service Fund is closely monitored by multiple agencies, King County, our bank (US Bank) and our bond agent (Piper-Sandler) to ensure it stays at a level that allows payment of our long-term debt. Interest earned is used to pay down the debt quicker as approved by the Board via the bond resolution.

Fund	Actual 2020-21	Budget 2021-22	Actual 2021-22
Debt Service	5,908,839	5,646,885	6,048,454

Associated Student Body Fund (ASB)

The ASB Fund is run by the students under the supervision of a faculty advisor. Each school's ASB account remains separate from all the other school funds. The students raise money in a variety of ways including dues from ASB cards, athletic and club fees and various fund-raising activities. The year-end balance for the ASB Fund for all schools is roughly around \$900,00.00 but can increase and/or decrease due to major events and activities, specifically out-of-state or out-of-country trips/travel. This allows for sufficient reserves to cover unexpected events at any of the schools.

Fund	Actual 2020-21	Budget 2021-22	Actual 2021-22
ASB	903,153	1,005,867	498,815

Transportation Fund

The Transportation Fund receives revenue from the State of Washington in the form of school bus depreciation for district owned buses. The fund also invests its reserves and thus earns interest via King County. The district currently owns and operates twenty-five (25) eighty-four passenger bus passenger buses and fifteen (15) smaller special services buses.

Fund	Actual 2020-21	Budget 2021-22	Actual 2021-22
Transportation	1,257,818	491,414	1,413,901

District-Wide Information

Assets

Most of the district's financial activity occurs in the General Fund. The King County Treasurer acts as our *Ex Officio Treasurer* in conjunction with our banking institution (US Bank).

The district maintains a small amount of cash to cover urgent warrants (checks), roughly \$20,000, known as the "imprest account." The King County Investment Pool invests cash reserves for all County agencies and approximately 100+ special purpose districts and other public entities such as fire, school (MISD), sewer and water districts and other public authorities. It is one of the largest investment pools in the State of Washington, with an average asset balance of nearly \$5 billion.

An oversight board, the Investment Pool Advisory Committee (IPAC), consisting of representatives of various institutions required to be part of the investment pool (county agencies, school districts, water districts, fire districts, sewer districts, etc.) was established to lend oversight to the King County Investment Pool. Reappointed as of April 21st, 2021, the Executive Director of Finance & Operations serves as the Board Chair, as appointed by King County Executive Dow Constantine.

In addition, receivables are monitored, and accounts reconciled monthly and when accounts become more than thirty days past due, we communicate with the organizations or individuals who owe us money.

Liabilities and Fund Balance

The district pays bills after an invoice is received and the materials/services are confirmed to be acceptable. Paying bills twice a month per RCW 42.24.180, allows the district to maintain an average weighted age of accounts payable (AP) of thirty days. To cover urgent needs, the district operates an imprest (checking) account, per Resolution 719, that is monitored daily and reconciled monthly with a \$20,000 limit as approved by the Board.

Fund balance consists of reserves that are committed, restricted, unassigned and/or assigned for items. These include student fees collected for programmatic needs, donation carryover and commitments for curriculum adoptions and long-term debt. Another, and the largest portion of fund balance, is unassigned as the minimum fund balance. This minimum fund balance is set by Board **OE-7 – Operational Expectations**, which states that the district shall, "***maintain annual budget reserves of at least 8%, with a target of 10%, for the prior fiscal year ended as of August 31st, that are adequate to be consistent with best financial practices for public school districts;***"

In addition, "***regularly inform the board while the fund balance is below 5% and how it is being rebuilt. Once above 5%, the superintendent will require board approval to spend below the 5% fund balance floor.***"

Physical Assets

The district owns and operates the following schools and facilities:

- 4 elementary schools – **West Mercer / Northwood / Island Park / Lakeridge**
- 1 middle school – **Islander Middle School**
- 1 high school – **Mercer Island High School**
- 1 alternative learning experience (ALE) school – **Crest Learning Center**
- 1 maintenance & transportation building – **“MOT”**
- 1 administration building
- 1 maintenance garage
- 1 Pool – **Mary Wayte Pool**
- **South Mercer Playfield**

The total land owned by the district is 98.12 acres with a total insurable value (TIV) of buildings and equipment at \$267,149,128 million as estimated by our insurance provider as of the 2022-2023 school year. The TIV is reviewed every three (3) to five (5) years by our insurance provider, The Washington Schools Risk Management Pool (WSRMP).

Since the district is not required to maintain fixed assets or depreciate them, it becomes important to provide the Board and community with a listing of those assets along with the TIV. The TIV represents the insurance coverage carried by the district. Building values (as noted above) are based on a construction cost per square foot that is updated every three (3) to five (5) years by our insurance carrier, the Washington Schools Risk Management Pool (WSRMP). This organization is a cooperative between 90+ school districts whose risk history is among the best in the State of Washington. Equipment value represents a factor applied to the costs of construction and then modified to cover items such as special equipment, etc.

2021-2022 Student Enrollment

	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	AVERAGE
KINDERGARTEN	226.00	228.77	229.55	231.55	233.55	237.55	238.55	238.55	236.55	234.55	233.52
FIRST	243.02	241.89	241.89	243.87	246.37	247.37	247.37	247.50	248.41	249.41	245.71
SECOND	227.95	227.95	226.95	226.95	227.95	230.95	231.95	234.85	233.85	233.95	230.33
THIRD	247.02	247.34	247.69	247.32	246.87	248.87	249.87	248.87	250.87	250.87	248.56
FOURTH	298.23	297.80	298.77	299.77	300.77	302.77	301.77	299.77	299.77	300.77	300.02
FIFTH	283.50	283.34	283.34	284.34	288.34	289.34	289.34	289.34	288.34	288.16	286.74
SIXTH	293.69	294.66	296.66	299.34	300.34	305.34	306.06	306.06	306.93	305.93	301.50
SEVENTH	313.53	313.58	313.56	316.23	316.25	313.25	315.25	316.25	315.05	314.05	314.70
EIGHTH	342.15	343.07	343.19	345.23	345.19	346.22	347.22	346.15	346.95	346.94	345.23
NINTH	360.42	360.73	361.91	361.28	361.13	357.65	358.49	356.74	359.61	359.67	359.76
TENTH	378.96	380.40	380.06	378.78	377.57	380.26	381.19	381.38	377.38	376.89	379.29
ELEVENTH	358.25	357.64	356.82	356.36	355.83	356.48	356.71	353.62	353.09	353.32	355.81
TWELFTH	358.01	358.36	355.00	353.70	355.72	341.51	341.59	343.66	344.69	343.72	349.60
*** TOTALS	3,930.73	3,935.53	3,935.39	3,944.72	3,955.88	3,957.56	3,965.36	3,962.74	3,961.49	3,958.23	3,950.76

(Year-end enrollment actuals via the State of Washington – OSPI report 1251)

F-196
(State Financial Year-End Report)