

**MARION INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL HEALTH REPORT**

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November 1, 2010



TABLE OF CONTENTS

| | |
|---|-----------|
| Description of Financial Indicator Ratios----- | 1 |
| Executive Summary----- | 3 |
| Balance Sheet Comparisons----- | 4 |
| Revenue and Expenditures Comparison----- | 5 |
| Contribution Ratio----- | 6 |
| Current Ratio----- | 7 |
| Day's Net Cash Ratio----- | 8 |
| Foundation Aid Ratio----- | 9 |
| Financial Solvency Ratio----- | 10 |
| Investment Income Ratio----- | 11 |
| Receivables & Inventory Ratio----- | 12 |
| Unspent Balance Ratio----- | 13 |

Description of Financial Indicator Ratios

An operational definition has been constructed for each ratio used in this report. There is not one single standard under which all ratios have a consistent definition. For the purpose of this report the most commonly identified methods were used to construct the ratio definition. Where a common computational method was not identified, a logical "best guess" candidate was used and applied consistent with Iowa school business practice. Most of the ratios use the Certified Annual Report (CAR) required by the Iowa Department of Education on September 15 of each year.

Current Ratio (CR):

The Current Ratio is one of the most widely used measures of short-term liquidity for both public and private sector organizations. It is used to predict the schools ability to meet its current obligations from current assets from continuing operations. If this were a private business it would in essence measure working capital. The operational equation is: [current ratio = current assets / current liabilities]. The minimum target range for this indicator is 1.0. An indicator of less than 1.0 would indicate a condition where the district has more current liabilities than assets.

Day's Net Cash Ratio (DCR):

The Day's Net Cash Ratio is typically calculated at the end of a fiscal period and gives a good indication of how long a district can operate without the additional infusion of revenue. One of the limitations of this indicator is that district expenditures are most generally made in large amounts on only a few days each month. An example would be monthly or bi-monthly payroll and board approved vendor payments once or twice per month. At the same time, most schools receive revenue in large amounts only a few times per month. An example would be state aid distributions, which are received once per month, or property tax distributions that are received twice per year. The timing of these receipts and expenditures is important to maintaining effective business operations. For this reason the Day's Net Cash Ratio is important. Inadequate cash on hand to service expenditure obligations requires the school to borrow funds creating added debt expense not directly tied to student instruction. An over abundance of cash, however, is also irresponsible management. Excessive accumulations of cash from community taxpayers' does not fit well within the purpose of most K-12 school operations. The operational equation is: [day's net cash ratio = (cash + investments) / (total general fund expenditures / 365)]. The target range for this indicator is 90 to 120 days. In Iowa, it is especially important to note that state foundation aid to schools ends each fiscal year in mid June. The first payment of state aid for the new fiscal year does not begin again until mid September, a full 90 day gap. In addition to this gap, districts typically secure new fiscal year supplies during the summer months so expenditures increase during a time when revenue is not received.

Direct Foundation Aid Ratio (FAR):

The Foundation Aid Ratio measures the amount of total General Fund revenue coming directly in the form of state aid. Since state aid is pupil driven under the Iowa funding formula, assumptions are this ratio would fluctuate in direct relationship to enrollment trends. While this is technically true, the Iowa funding formula does provide schools with a type of safety net when experiencing enrollment decline. This "scale down" provision has the effect of softening or delaying the revenue declines caused by the loss of students. State aid is the largest single source of school revenue. The operational equation is: [foundation aid ratio = state aid revenues / general fund revenue]. No suggested target range for Iowa schools can be determined for the indicator at this time.

Interest Income Ratio (IIR):

The Interest Income Ratio measures earnings on idle monies. This indicator can tell how aggressively the district's money has been managed and what contribution the investment income is making to total revenue. It is anticipated that this ratio should rise and fall in direct relationship to the Days Net Cash Ratio. One reservation about using this ratio is that it is very susceptible to market fluctuations that are not within the control of district management. The operational equation is: [interest income ratio = interest income / revenue]. The target for this ratio is simply the higher the better. A low ratio could indicate poor money management, few liquid cash assets, poor market conditions, or a combination of these factors.

Description of Financial Indicator Ratios - Continued

Receivables and Inventory Ratio (RIR):

The Receivables and Inventory Ratio provides a measure of total current assets tied up in accounts receivable and inventory. Accounts receivable and inventory items are not truly available as working capital and are not available for the district to pay bills with. It is possible that when a greater proportion of the current assets are in receivables and inventory, the district balance sheet would look healthy but the district does not have the ability to meet immediate expenditure needs. This ratio may also provide insight on the timeliness of state aid payments and other intergovernmental obligations owed to the district. The ratio also gives an indication of how well the district is managing accounts receivable and if inventory stockpiling is occurring. The operational equation is: $[\text{receivables and inventory ratio} = (\text{receivables} + \text{inventories}) / \text{current assets}]$. The target for this ratio should be as close to zero as possible.

Unspent Balance Ratio (UBR):

The Unspent Balance Ratio measures the amount of cumulative district spending authority not spent at the end of each fiscal year. This ratio is unique to Iowa schools. Iowa schools are funded according to a state formula, which is different than any other in the country. Because spending authority is vitally important to the financial health of any Iowa district, it must be included as an indicator in any test group of ratios designed to assess fiscal health. The data for this indicator are provided by the Iowa Department of Management on the report titled Unspent Balance Calculations. The operational equation is: $[\text{unspent balance ratio} = \text{unspent cumulative spending authority} / \text{maximum budget authority}]$. The target range for this indicator logically is roughly equal to that of fund balance. This is because fund balance is the closest approximation of this indicator defined in previous research done in other states. The suggested minimum target for this indicator should be 5%.

Financial Solvency Ratio (FSR):

This is a measure of financial health that resulted from the "Study of School Corporation Financial Operations" study conducted in 1990 by Ehlers. The ratio of unreserved undesignated general fund balance to actual revenues is defined in the following operational equation: $(\text{financial solvency ratio} = \text{unreserved undesignated general fund balance} / \text{general fund revenues})$. The target ranges and classification criteria established by the Ehlers study are as follows: (a) target solvency position equals 5.00% through 10.00%, (b) acceptable solvency position equals 0.00% through 4.99%, (c) solvency alert equals -3.00% through -0.01%, and (d) solvency concern equals less than -3.00% (ISCAP, 1991).

Executive Summary

The District's overall financial condition worsened from FY2008 to FY2009.

- The District's unreserved / undesignated general fund balance decreased from \$1,176,969 to \$216,666. This decreased the district's financial solvency ratio from 6.25% in FY2009 to 1.11% for FY2010 which is below the target range of 5%-10%.
- The MISD certified enrollment count taken the fall of 2009, was 1,817.4. This count represents 32.2 fewer students than the prior year. Unless there is a new development with an influx of students the growth in future years is expected to be minimal. The open enrollment in increased by 8.7students to 652.7.
- Interest rates remained low during FY2010 at less than .5% causing interest income to decrease.
- The Day's Net Cash Ratio shows that the District's cash flow capacity declined. On June 30, 2010 the District had a combination of cash and investments on hand totaling \$3,013,015. This amount when divided by FY2010 average daily expenditures of \$56,926 yields 53 days of operating cash flow.
- The District's cash/investment balance on June 30, 2010 decreased compared to the prior year. The ending balance was \$3,013,015 compared to \$3,483,519 the year before. The decreased was caused by the mid year 10% across the board cut.

**Simple Balance Sheet Comparisons
General Fund Only**

| | FY09 | FY10 | \$ Change | % Change |
|---------------------------|--------------------|--------------------|--------------------|--------------|
| Assets: | | | | |
| Cash & Investments | \$3,483,519 | \$3,013,015 | (\$470,504) | -13.5% |
| Receivables | \$5,439,997 | \$5,946,122 | \$506,125 | 9.3% |
| Other Assets | \$3,734 | \$4,484 | \$750 | |
| Total Assets | \$8,927,250 | \$8,963,621 | \$36,371 | 0.4% |
| Liabilities: | | | | |
| Payables | \$588,059 | \$706,438 | \$118,379 | 20.1% |
| Payroll | \$2,197,072 | \$2,138,633 | (\$58,439) | -2.7% |
| Other Liabilities | \$4,812,816 | \$5,370,802 | \$557,986 | 11.6% |
| Total Liabilities | \$7,597,947 | \$8,215,873 | \$617,926 | 8.1% |
| Fund Balance: | | | | |
| Reserved | \$152,334 | \$531,082 | \$378,748 | |
| Unreserved | \$1,176,969 | \$216,666 | (\$960,303) | 81.6% |
| Total Fund Balance | \$1,329,303 | \$747,748 | (\$581,555) | 43.7% |

**Simple Revenue & Expenditures Comparison
General Fund Only**

| | FY09 | FY10 | \$ Change | % Change |
|---|--------------|--------------|-------------|----------|
| Revenues: | | | | |
| Local sources | \$8,672,369 | \$9,038,847 | \$366,478 | 4.2% |
| State sources | \$10,020,602 | \$9,299,692 | (\$720,910) | -7.2% |
| Federal sources | \$975,253 | \$1,841,651 | \$866,398 | 88.8% |
| Other sources | \$7,655 | \$16,262 | \$8,607 | 112.4% |
| Total revenues | \$19,675,879 | \$20,196,452 | \$520,573 | 2.6% |
| Expenditures: | | | | |
| Instruction | \$14,012,811 | \$14,569,575 | \$556,764 | 4.0% |
| Support services | \$5,554,158 | \$5,409,775 | (\$144,383) | -2.6% |
| Other expenditures | \$667,084 | \$798,657 | \$131,573 | 19.7% |
| Total expenditures | \$20,234,053 | \$20,778,007 | \$543,954 | 2.7% |
| Changes in fund balance: | | | | |
| Excess (deficiency) of revenues over/(under) expenditures | (\$558,174) | (\$581,555) | (\$23,381) | 4.2% |

Contribution Ratio

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

Financial Information and Computation:

| | FY 2010 | |
|---------|--------------|--------|
| Line | Amount | Ratio |
| Source | | |
| Local | \$9,038,847 | 44.8% |
| State | \$9,299,692 | 46.0% |
| Federal | \$1,841,651 | 9.1% |
| Other | \$16,262 | 0.2% |
| Total | \$20,196,452 | 100.0% |

| | FY 2009 | |
|---------|--------------|--------|
| Line | Amount | Ratio |
| Source | | |
| Local | \$8,672,369 | 44.1% |
| State | \$10,020,602 | 50.9% |
| Federal | \$975,253 | 5.0% |
| Other | \$7,655 | 0.1% |
| Total | \$19,675,879 | 100.0% |

| Year | Local | State | Federal | Other |
|------|-------|--------|---------|-------|
| 2005 | 48.0% | 49.9% | 2.1% | 0.0% |
| 2006 | 47.2% | 50.4% | 2.2% | 0.2% |
| 2007 | 50.2% | 47.20% | 2.5% | 0.2% |
| 2008 | 48.3% | 49.2% | 2.4% | 0.1% |
| 2009 | 44.1% | 50.9% | 5.0% | 0.1% |
| 2010 | 44.8% | 46.0% | 9.1% | 2.0% |

Purpose: Measures local taxation effort

Trend: NA

Target: NA

Need/Concern: As a district's property tax wealth grows the school aid formula shifts financial responsibility from the state to the local district. This can be seen in the table above.

Corrective Action: NA

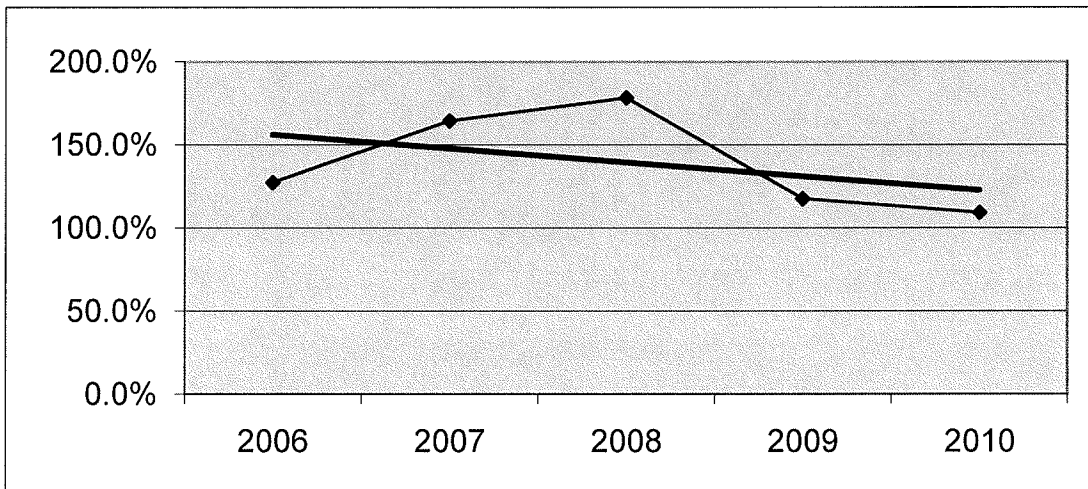
Current Ratio

Formula:
$$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

Financial Information and Computation:

| Year | Assets | Liabilities | Ratio |
|------|-------------|-------------|--------|
| 2006 | \$6,148,356 | \$4,830,107 | 127.3% |
| 2007 | \$3,664,638 | \$2,231,694 | 164.2% |
| 2008 | \$4,301,273 | \$2,413,796 | 178.2% |
| 2009 | \$8,927,250 | \$7,597,947 | 117.5% |
| 2010 | \$8,963,621 | \$8,215,873 | 109.1% |

Ratio explanation: Short-term solvency represents xx.x% of assets to liabilities



Purpose: Measures the district's short-term solvency position .

Trend: Down

Target: A minimum target would be 100%. An indicator less than this would indicate a condition where the district has more liabilities than assets.

Need/Concern: None at this time.

Corrective Action: None needed at this time

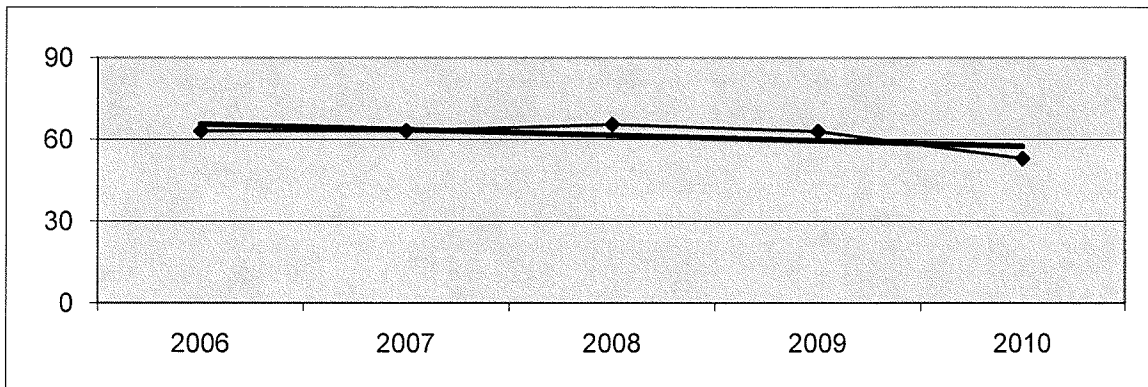
Day's Net Cash Ratio

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

Financial Information and Computation:

| Year | Cash & Investments | Total Expenditures | Daily (365) Expenditures | Ratio In Days |
|------|--------------------|--------------------|--------------------------|---------------|
| 2006 | \$2,867,016 | \$16,599,144 | \$45,477 | 63 |
| 2007 | \$3,051,230 | \$17,643,456 | \$48,338 | 63 |
| 2008 | \$3,368,483 | \$18,788,442 | \$51,475 | 65 |
| 2009 | \$3,483,519 | \$20,234,053 | \$55,436 | 63 |
| 2010 | \$3,013,015 | \$20,778,007 | \$56,926 | 53 |

Ratio explanation: Number of days the district can carry expenditures without cash infusion



- Purpose:** Measures short-term solvency and the ability to cash flow expenditures without receiving additional revenue.
- Trend:** Declining
- Target:** 90 days
- Need/Concern:** We are declining because of the 10% budget reduction.
- Corrective Action:** Levy for cash reserve

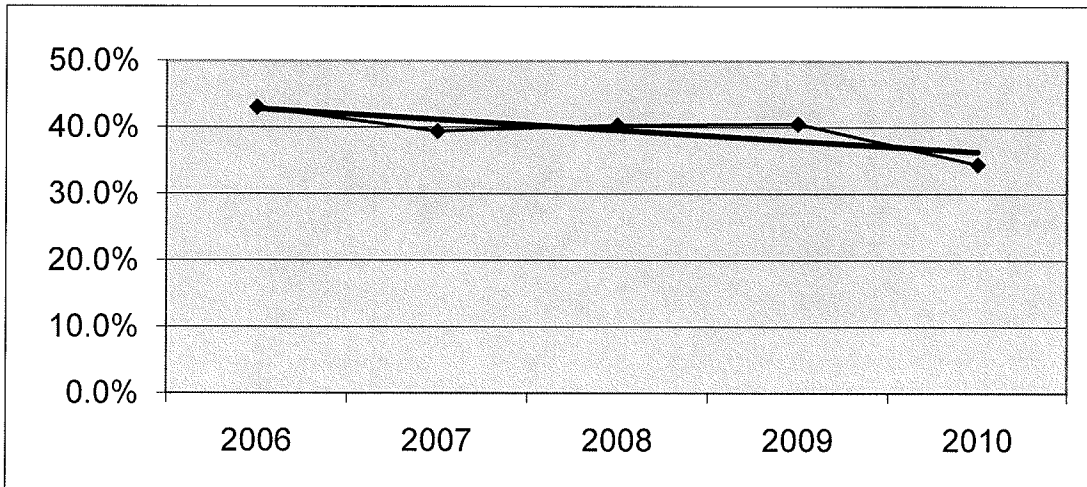
Foundation Aid Ratio

Formula:
$$\frac{\text{Direct State Aid}}{\text{Total General Fund Revenue}}$$

Financial Information and Computation:

| Year | State Aid | Total Revenue | Ratio |
|------|-------------|---------------|-------|
| 2006 | \$7,426,118 | \$17,271,410 | 43.0% |
| 2007 | \$6,994,101 | \$17,758,151 | 39.4% |
| 2008 | \$7,752,878 | \$19,242,975 | 40.3% |
| 2009 | \$7,963,182 | \$19,675,879 | 40.5% |
| 2010 | \$6,948,999 | \$20,196,453 | 34.4% |

Ratio explanation: What xx.x% of total revenue does foundation aid represent.



Purpose: Measures resource contribution.

Trend: Declining

Target: No target is established for this ratio. A rule of thumb is that as a district's property wealth grows a smaller percentage of the total revenue is contributed in the form of formula foundation aid.

Need/Concern: None at this time.

Corrective Action: None needed at this time

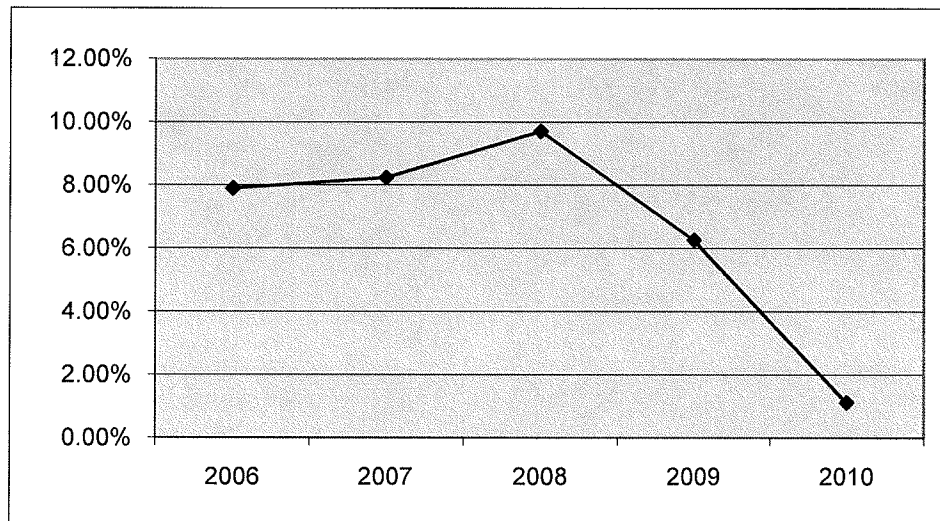
Financial Solvency Ratio

Formula:
$$\frac{\text{Unreserved Undesignated Fund Balance (UUFB)}}{\text{Total GF Revenue}}$$

Financial Information and Computation:

| Year | UUFB | Total Revenue | Ratio |
|------|-------------|---------------|-------|
| 2006 | \$1,318,248 | \$16,708,902 | 7.89% |
| 2007 | \$1,412,842 | \$17,180,201 | 8.22% |
| 2008 | \$1,806,543 | \$18,626,948 | 9.70% |
| 2009 | \$1,176,969 | \$18,828,841 | 6.25% |
| 2010 | \$ 216,666 | \$19,451,572 | 1.11% |

Ratio explanation: What xx.x% of total revenue does fund equity represent.



Purpose: Measures the District's Fund Equity position

Trend: Down

Target: Long-term 10%

Need/Concern: Full funding of budget revenue resources

Corrective Action: A need for budget reductions or increased property taxes or a combination of both.

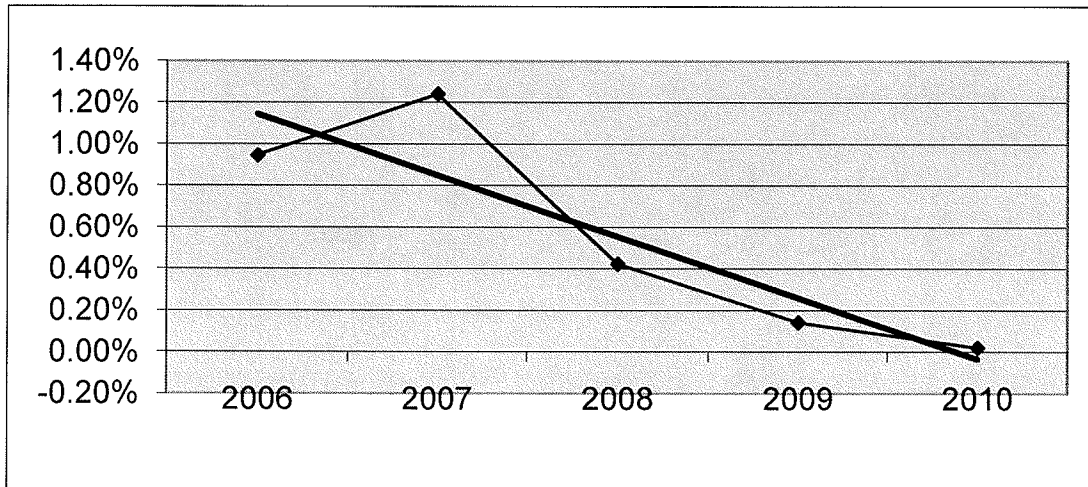
Investment Income Ratio

Formula:
$$\frac{\text{Interest Income}}{\text{Total General Fund Revenue}}$$

Financial Information and Computation:

| Year | Interest | Total Revenue | Ratio |
|------|-----------|---------------|-------|
| 2006 | \$163,209 | \$17,271,410 | 0.94% |
| 2007 | \$220,135 | \$17,758,151 | 1.24% |
| 2008 | \$81,361 | \$19,242,975 | 0.42% |
| 2009 | \$27,763 | \$19,675,879 | 0.14% |
| 2010 | \$3,955 | \$20,196,453 | 0.02% |

Ratio explanation: What xx.xx% of total revenue does interest in idle funds represent.



Purpose: Measures operating results.

Trend: Down

Target: Stable to upward trends are desirable for this indicator.

Need/Concern: None

Corrective Action: Nothing can be done at this time.

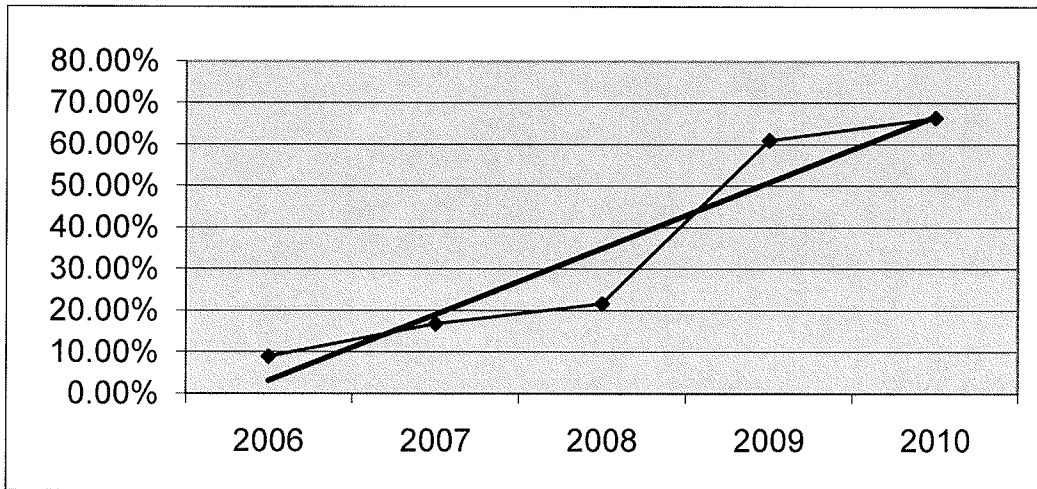
Receivables & Inventory Ratio

Formula:
$$\frac{\text{Receivables and Inventory}}{\text{Total Current Assets}}$$

Financial Information and Computation:

| Year | Receivables & Inventory | Total Assets | Ratio |
|------|-------------------------|--------------|--------|
| 2006 | \$543,832 | \$6,148,356 | 8.85% |
| 2007 | \$613,201 | \$3,664,638 | 16.73% |
| 2008 | \$930,299 | \$4,301,273 | 21.63% |
| 2009 | \$5,439,997 | \$8,927,450 | 60.94% |
| 2010 | \$5,946,122 | \$8,963,621 | 66.34% |

Ratio explanation: What xx.xx% of total revenue does rec. / inv. represent.



Purpose: Measures movement and distribution of current assets.

Trend: UP

Target: Stable to lower is desirable for this indicator.

Need/Concern: None at this time

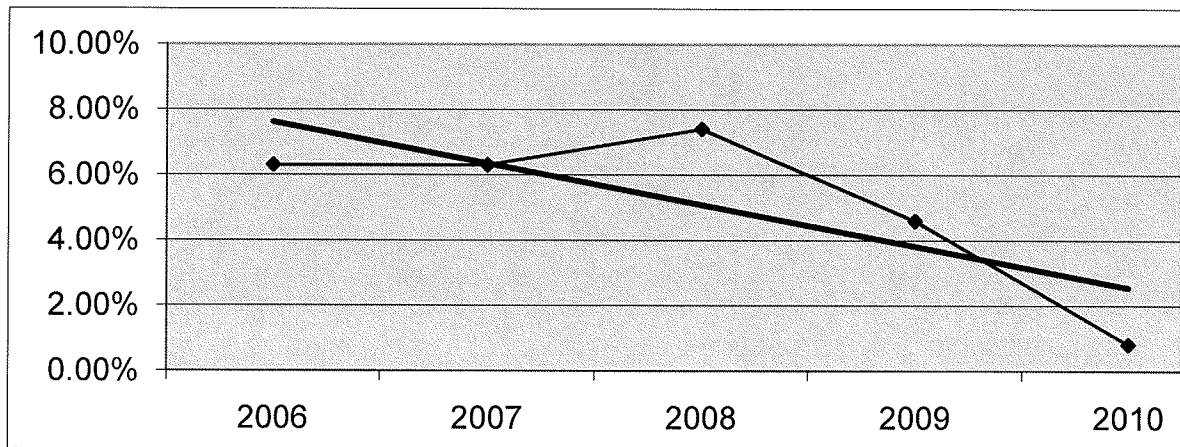
Corrective Action: Manage accounts receivables and inventory levels carefully.

Unspent Balance Ratio

Formula:
$$\frac{\text{Unspent Spending Authority}}{\text{Maximum Budget Authority}}$$

Financial Information and Computation:

| Year | Maximum Authorized | Regular Unspent Bal. | Unreserved Unspent Bal. | Regular UB Ratio | Unreserv. UB Ratio |
|------|--------------------|----------------------|-------------------------|------------------|--------------------|
| 2006 | \$20,915,263 | \$4,316,119 | \$1,318,248 | 20.64% | 6.30% |
| 2007 | \$22,434,018 | \$4,790,562 | \$1,412,842 | 21.35% | 6.30% |
| 2008 | \$24,413,537 | \$5,625,095 | \$1,806,543 | 23.04% | 7.40% |
| 2009 | \$25,657,312 | \$5,423,259 | \$1,176,969 | 21.14% | 4.59% |
| 2010 | \$26,530,031 | \$5,752,023 | \$216,666 | 21.68% | 0.82% |



Purpose: Measures the District's unbudgeted spending reserves

Trend: Stable

Target: Unreserved unspent for short-term at 5-10 percent
Long-term 5 percent above accrued payroll liabilities

Need/Concern: An adequate level of budget reserves are important so the District can respond to emergencies. Conventional wisdom, when engaged in construction projects, suggests a minimum of 5% of the total project for contingency expenditures. The Operating Fund is no different.

Corrective Action: Spend less than allowed each budget year.