



KENAI PENINSULA BOROUGH SCHOOL DISTRICT

Finance

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February 7, 2009

MEMORANDUM

TO: Board of Education

THROUGH: Dr. Donna Peterson, Superintendent *Donna Peterson*

FROM: Melody Douglas, CFO *MDouglas*

SUBJECT: FY10 Budget

BACKGROUND

Annually, the administration presents a recommended spending plan for the subsequent year to the Board of Education for approval. After Board approval and prior to May 1, the budget must be forwarded to the Kenai Peninsula Borough Assembly for action in keeping with Alaska State Statute 14.14.060. Within 30 days after receipt of the budget, the Assembly will determine the total amount of local effort funding to be provided to the District.

PERTINENT INFORMATION:

The FY10 budget information remains the same as presented in the Preliminary Budget dated February 16, 2009, with the exception of a minor change to local effort resulting from a recent review of revenue projections. Local effort funding is an unknown at this time; please expect updates when information becomes available.

Issues that affect the FY10 budget include the collective bargaining process currently underway, adjustments to property, liability, and workers compensation insurance, and other in-kind budget adjustments. A FY10 budget revision will be presented to the Board to address these matters when more information is known.

The recommended spending plan provides for sustainability of current programs and staffing.

It was hoped that the collective bargaining process would be completed in time to adjust the budget prior to Board action on the budget. Although interest based-bargaining is progressing well the process is not finished at this time. It is hoped that bargaining will wrap up to allow for a budget revision before the Assembly acts on the District's budget.

Attached is information documenting a current estimate of the District's fund balance.

RECOMMENDATION:

The administration recommends the Board of Education approve a general fund budget of \$123,739,902 and special revenue funds totaling \$18,085,300 for a total FY10 budget for all funds of \$141,825,202 as presented. This recommendation includes local effort funding at the cap and an allocation of fund balance in the amount of \$1,245,667.

The use of fund balance for ongoing operational expenses creates a potential challenge in budgeting for subsequent years. In the future, additional revenue will be needed to offset the use of fund balance. If sufficient funds are not realized to address routine annual increases and/or the amount covered by the fund balance allocation, the District will need to make reductions to the future year budgets.

ADDITIONAL INFORMATION:

FY10 Budget Revision Summary:

Revenue Budget

Preliminary general fund revenue budget	<u>\$122,533,842</u>
Local Effort	(39,607)
Allocation of fund balance	<u>1,245,667</u>
Recommended general fund revenue budget	<u>123,739,902</u>
Special revenue funds	18,085,300
Total recommended revenue budget	<u>\$141,825,202</u>

Expenditure Budget

Preliminary general fund expenditure budget	<u>\$123,739,902</u>
Special Revenue funds	18,085,300
Total recommended expenditure budget	<u>\$141,825,202</u>

KENAI PENINSULA BOROUGH SCHOOL DISTRICT

**2009-2010 Budget
All Government Funds - Revenue**

2005-06 Actual	2006-07 Actual	2007-08 Actual	Revenue Source	Original 2008-09 Budget	Revised 2008-09 Budget	Preliminary 2009-10 Budget	Change	% of Chg
General Fund Revenue:								
\$ 7,386,090	\$ 7,553,047	\$ 7,755,139	Borough In-Kind	\$ 8,430,622	\$ 8,430,622	\$ 8,153,940	\$ (276,682)	(3)
27,587,592	30,388,629	29,945,978	Borough Appropriation	32,456,264	32,716,323	34,829,436	2,113,113	6
494,410	1,067,126	1,746,568	Interest	420,000	420,000	420,000	-	-
508,938	657,616	722,224	E-Rate	636,320	636,320	646,000	9,680	2
17,100	16,600	25,100	Rentals	30,000	30,000	30,000	-	-
68,292	85,620	202,895	Other Local Revenue	50,000	50,000	50,000	-	-
-	-	-	Allocation of Fund Balance	1,668,872	440,627	1,245,667	805,040	183
<u>36,062,422</u>	<u>39,768,638</u>	<u>40,397,904</u>	Total Local Revenue	<u>43,692,078</u>	<u>42,723,892</u>	<u>45,375,043</u>	<u>2,651,151</u>	<u>6</u>
State Revenue:								
49,779,053	59,959,314	54,567,210	Foundation Program	61,187,238	62,317,926 *	63,027,255	709,329	1
-	-	5,955,888	1/4 ISER per Governor's Budget Proposal	-	-	-	-	100
-	-	19,322,147	PERS/TRS Payment	14,640,379	14,640,379 **	14,640,379	-	100
224,126	995,531	223,093	Learning Opportunity Grant/Quality Schools	239,561	245,599	247,225	1,626	1
-	-	1,517,638	School Improvement Grant	-	-	-	-	-
110,355	120,577	1,394,329	Other State Revenue	-	-	-	-	-
<u>50,113,534</u>	<u>61,075,422</u>	<u>82,980,305</u>	Total State Revenue	<u>76,067,178</u>	<u>77,203,904</u>	<u>77,914,859</u>	<u>710,955</u>	<u>1</u>
Federal Revenue:								
526,918	492,697	549,023	Medicaid	450,000	450,000	450,000	-	-
-	-	233	Crude Oil Refund	-	-	-	-	-
17,250	-	-	Hurricane Katrina	-	-	-	-	-
<u>544,168</u>	<u>492,697</u>	<u>549,256</u>	Total Federal Revenue	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>	<u>-</u>	<u>-</u>
<u>86,720,124</u>	<u>101,336,757</u>	<u>123,927,465</u>	Total General Fund Revenue	<u>120,209,256</u>	<u>120,377,796</u>	<u>123,739,902</u>	<u>3,362,106</u>	<u>3</u>
Special Revenue Funds Revenue and Other Financing Sources								
-	-	95,616	Alaska Works	245,607	279,261	250,000	-	-
224,804	187,143	140,144	Carl Perkins Fund	192,032	198,740	202,715	3,975	2
346,106	39,530	40,921	Charter Schools Fund	-	-	-	-	-
197,606	-	-	Community Schools Fund	-	-	-	-	-
29,106	41,160	44,810	Community Theater Fund	60,000	60,000	60,000	-	-
460,000	146,707	367,243	Legislative Grants **	-	825,427	725,000	(100,427)	(12)
2,644,242	2,633,722	2,676,004	Food Service Fund	2,960,000	2,970,800	2,859,000	(111,800)	(4)
800,632	568,998	382,685	Miscellaneous Grants Fund	350,000	414,488	450,000	35,512	9
4,011,938	2,957,723	3,715,958	NCLB Fund	3,346,077	4,973,850	3,601,823	(1,372,027)	(28)
-	237,534	455,481	Principal Coach	455,500	413,000	417,250	4,250	1
4,592,424	4,542,449	4,445,097	Pupil Transportation Fund	4,861,652	5,453,205	5,771,986	318,781	6
262,813	282,055	365,526	Statewide Mentorship	370,145	76,436	77,965	1,529	2
2,697,723	2,276,794	1,856,626	Title VI-B Fund	2,215,378	3,114,869	2,375,465	(739,404)	(24)
270,719	290,474	287,390	Title VII, Indian Education Fund	310,000	317,861	310,000	(7,861)	(2)
-	111,678	99,638	Youth First	100,000	100,000	100,000	-	-
206,573	213,720	208,785	Youth In Detention	210,000	217,356	210,000	(7,356)	(3)
<u>16,744,686</u>	<u>14,529,687</u>	<u>15,181,924</u>	Total Special Revenue Funds Revenue	<u>15,676,391</u>	<u>19,415,293</u>	<u>17,411,204</u>	<u>(1,974,828)</u>	<u>(10)</u>
<u>\$ 103,464,810</u>	<u>\$ 115,866,444</u>	<u>\$ 139,109,389</u>	Total Revenues and Other Financing Sources	<u>\$ 135,885,647</u>	<u>\$ 139,793,089</u>	<u>\$ 141,151,106</u>	<u>\$ 1,387,278</u>	<u>1</u>

** Multi-year Grant Awards

KENAI PENINSULA BOROUGH SCHOOL DISTRICT

2009-2010 Budget
All Government Funds - Expenditures

2005-06 Actual	2006-07 Actual	2007-08 Actual	Expenditure Summary by Function	Original 2008-09 Budget	Revised 2008-09 Budget	Preliminary 2009-10 Budget	Change	% of Chg
General Fund Expenditures								
\$ 40,582,039	\$ 45,362,472	\$ 56,412,077	Instruction	\$ 59,335,432	\$ 58,570,043	\$ 60,861,411	\$ 2,291,368	4
8,584,176	9,513,798	12,667,079	Special Education - Instruction	12,656,362	12,940,826	13,130,349	189,523	1
3,208,595	3,528,292	4,357,216	Special Education - Student Services	4,426,259	4,640,418	4,802,719	162,301	3
2,570,227	2,854,976	3,561,659	Support Services - Student	3,538,947	3,590,355	3,688,685	98,330	3
1,939,417	2,061,766	2,391,393	Support Service - Instruction	2,411,036	2,463,492	2,463,473	(19)	-
4,447,682	4,712,425	5,636,598	School Administration	5,430,301	5,456,208	5,511,331	55,123	1
3,186,117	3,415,962	3,771,157	School Administration - Support	3,716,377	4,048,939	4,109,130	60,191	1
806,948	826,561	950,172	District Administration	988,573	999,621	1,034,876	35,255	4
3,393,748	3,765,948	4,545,472	District Administration Support Svcs	5,241,229	5,315,773	5,267,842	(47,931)	-
15,517,792	16,142,036	17,687,432	Operation of Plant	20,175,333	20,034,552	20,493,579	459,027	2
1,199,233	1,606,325	1,751,011	Pupil Activities	1,668,376	1,696,538	1,702,411	5,873	0
-	-	-	Transfer to Other Funds	621,031	621,031	674,096	53,065	9
<u>85,435,974</u>	<u>93,790,561</u>	<u>113,731,266</u>	Total General Fund Expenditures	<u>120,209,256</u>	<u>120,377,796</u>	<u>123,739,902</u>	<u>3,362,106</u>	<u>3</u>
Special Revenue Funds Expenditures and Other Financing Uses - Transfer to General Fund								
-	-	95,616	AK Works	245,607	279,261	250,000	-	-
224,804	187,143	140,144	Carl Perkins Fund	192,032	198,740	202,715	3,975	2
346,106	39,530	40,921	Charter Schools Fund	-	-	-	-	-
237,910	-	-	Community Schools Fund	-	-	-	-	-
33,945	56,971	56,027	Community Theater Fund	60,000	60,000	60,000	-	-
460,000	146,707	367,243	Legislative Grant **	-	825,427	725,000	(100,427)	(12)
2,985,532	2,974,349	2,973,342	Food Service Fund	3,581,031	3,591,831	3,533,096	(58,735)	(2)
797,087	601,134	470,250	Miscellaneous Grants Fund	350,000	414,488	450,000	35,512	9
4,011,938	2,957,723	3,715,958	NCLB Fund	3,346,077	4,973,850	3,601,823	(1,372,027)	(28)
-	237,534	455,481	Principal Coach	455,500	413,000	417,250	4,250	1
4,674,831	5,147,858	5,405,975	Pupil Transportation Fund	5,453,205	5,453,205	5,771,986	318,781	6
262,813	282,055	365,526	Statewide Mentorship	370,145	76,436	77,965	1,529	2
2,697,273	2,276,794	1,856,626	Title VI-B Fund	2,215,378	3,114,869	2,375,465	(739,404)	(24)
270,719	290,474	287,390	Title VII, Indian Education Fund	310,000	317,861	310,000	(7,861)	(2)
-	111,678	99,638	Youth First	100,000	100,000	100,000	-	-
206,573	213,720	208,785	Youth In Detention	210,000	217,356	210,000	(7,356)	(3)
<u>17,209,531</u>	<u>15,523,670</u>	<u>16,443,306</u>	Total Special Revenue Fund Expenditures	<u>16,888,975</u>	<u>20,036,324</u>	<u>18,085,300</u>	<u>(1,921,763)</u>	<u>(10)</u>
<u>102,645,505</u>	<u>109,314,231</u>	<u>130,174,572</u>	Total Expenditures	<u>137,098,231</u>	<u>140,414,120</u>	<u>141,825,202</u>	<u>1,440,343</u>	<u>1</u>
819,305	6,552,213	8,934,817	Excess (Deficiency) of Revenues Over Expenditures	(1,212,584)	(621,031)	(674,096)	(53,065)	9
Other Financing Sources (Uses):								
385,948	2,722,720	4,293,736	Transfers In	621,031	621,031	674,096	53,065	-
(385,948)	(2,722,720)	(4,293,736)	Transfers Out	(621,031)	(621,031)	(674,096)	(53,065)	-
-	-	-	Total Other Financing Sources (Uses)	-	-	-	-	-
<u>819,305</u>	<u>6,552,213</u>	<u>8,934,817</u>	Net Change in Fund Balances	<u>(1,212,584)</u>	<u>(621,031)</u>	<u>(674,096)</u>	<u>(53,065)</u>	<u>9</u>
<u>8,521,285</u>	<u>9,340,590</u>	<u>15,892,803</u>	Fund Balances, Beginning as Previously Reported	<u>24,827,620</u>	<u>23,615,036</u>	<u>22,994,005</u>	<u>(621,031)</u>	<u>(3)</u>
<u>8,521,285</u>	<u>9,340,590</u>	<u>15,892,803</u>	Adjusted Fund Balance, Beginning of Year	<u>24,827,620</u>	<u>23,615,036</u>	<u>23,615,036</u>	<u>(621,031)</u>	<u>(3)</u>
<u>\$ 9,340,590</u>	<u>\$ 15,892,803</u>	<u>\$ 24,827,620</u>	Fund Balances, End of Year	<u>\$ 23,615,036</u>	<u>\$ 22,994,005</u>	<u>\$ 22,940,940</u>	<u>\$ (674,096)</u>	<u>(3)</u>



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April 6, 2009

MEMORANDUM

TO: Ms. Milli Martin, President, KPB Assembly
KPB Assembly Members

THROUGH: Ms. Sammy Crawford, President
KPB Board of Education

FROM: Dr. Donna Peterson, Superintendent
Melody Douglas, CFO

RE: Fund Balance – General Fund
Funding at the Cap

The District appreciates the challenge before the Assembly in balancing the wants and needs of its constituents. Those in the public sector must be accountable on all levels, hence, the Assembly and Mayor Carey's commitment to understand the components of its investment. In this case, the financial accounting for educating the students of the Kenai Peninsula is necessary and welcomed.

This information is provided in response to the Assembly's request for additional information relative to the District's fund balance and plans.

The District's Comprehensive Annual Financial Report and Annual Budget are routinely posted on the District's website as well as a historical archive of Board Meeting Packet materials. Also included on the website is information about District initiatives, the progress toward implementing those initiatives, budget information, and a myriad of other items that may be of interest.

Attached is a recap of state statutes and board policies pertinent to the District's fund balance along with an explanation of the components of the District's current fund balance, and other information.

BACKGROUND INFORMATION

Description: Fund balance is the cumulative difference between revenues and expenditures; it approximates available resources absent significant liabilities. Components of fund balance consist of reserved funds, which are not available for appropriation, and unreserved funds, which are available for appropriation. Unreserved fund balance includes designated funds, which reflect targeted future spending plans authorized by the governing body, and undesignated funds.

Standards: The District’s fund balance practice has been one of fiscal conservatism complicated by a lack of appropriate funding from the state. It was only in 2007 that the District’s fund balance began to move toward the appropriate amounts per state statute, board policy, and the Government Finance Officer’s Association recommendation of “1) no less than 5 to 15 percent of regular general fund operating revenues, or 2) no less than one to two months of regular general fund operating expenditures. A government’s particular situation, of course, may require levels of *unreserved fund balance* in the general fund, significantly in excess of these recommended minimum levels”. The FY09 estimated unreserved fund balance (including designated and undesignated amounts) is \$11,964,738 which is in compliance with AS 14.14.505, requiring no more than 10% of current year expenditures.

Purpose: Adequate fund balance is critical to the financial well being of an organization because it provides financial stability to:

- address unexpected situations such as a shortfall in enrollment (that results in a decline in state revenue), increasing utility costs, self-funded health care (as opposed to purchasing insurance), and other insurance costs, a major equipment or software failure, etc.
- plan for such situations as contract negotiations that generally cover three years that may include years where state funding changes are unknown. *The focus of this process is to have competitive salaries and benefits with other large school districts on the road system.*
- demonstrate commitment to plans such as the District’s Technology Plan, implemented in FY01 that was seeded by the Borough (Ordinance 2000-14) with the understanding the District would not ask for similar funding in future.

One other element of fund balance is to demonstrate credit worthiness of the District. The District’s fund balance history would not have warranted the excellent bond rating the Borough experiences. (In 2001, the District needed the support of the Borough to enter into a loan to purchase copiers for district schools). *The District will not need the Borough’s assistance to acquire the copiers scheduled for replacement the summer of 2009.*

Fund Balance Comparison: To put the District’s fund balance into perspective, on June 30, 2008, the respective fund balances as a percentage of expenditures for the following entities were:

Kenai Peninsula Borough	26.0%
Kenai Peninsula Borough School District	9.1%
Mat-Su Borough	43.0%
City of Wasilla	40.0%
Mat-Su Borough School District	.02%
Fairbanks North Star Borough	21.5%
Fairbanks North Star Borough School District	7.0%

The estimated fund balance percentage for FY09 is:

Kenai Peninsula Borough	26%
Kenai Peninsula Borough School District	10%

KPBSD FUND BALANCE

The District’s fund balance plan is to sustain current programs and staffing through FY12. Below is a recap of the District’s current fund balance including estimated fund balance through 2012. Please note that estimating four years out is less reliable than the financial knowns of today.

	Audited		Estimated	Estimated	Estimated	Estimated
	<u>Actual</u>	<u>Actual 2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	<u>2007</u>					
Fund Balance, Beginning of Year	\$ 8,668,172	\$13,491,648	\$19,394,111	\$19,345,176	\$16,234,704	\$14,277,508
Add Revenues and Other Financing Sources	101,336,757	123,927,465	120,219,478	122,533,842	127,874,785	128,324,269
Deduct Expenditures	(93,790,561)	(113,731,266)	(119,647,382)	(124,970,218)	(129,157,885)	(134,600,678)
Deduct Other Financing Uses	<u>(2,722,720)</u>	<u>(4,293,736)</u>	<u>(621,031)</u>	<u>(674,096)</u>	<u>(674,096)</u>	<u>(674,096)</u>
Total Expenditures and Other Financing Uses	<u>(96,513,281)</u>	<u>(118,025,002)</u>	<u>(120,268,413)</u>	<u>(125,644,314)</u>	<u>(129,831,981)</u>	<u>(135,274,774)</u>
Fund Balance, End of Year	<u>13,491,648</u>	<u>19,394,111</u>	<u>19,345,176</u>	<u>16,234,704</u>	<u>14,277,508</u>	<u>7,327,003</u>
Ten (10) percent of expenditures per AS 14.17.505	9,379,056	11,373,127	11,964,738	12,497,022	12,915,789	13,460,068
Total Unreserved per AS 14.17.505 (may not exceed 10% of total expenditures)	<u>9,183,137</u>	<u>10,335,940</u>	<u>11,964,738</u>	<u>11,954,786</u>	<u>12,915,788</u>	<u>6,080,267</u>
Unreserved Fund Balance as a Percentage of Expenditures	9.8%	9.1%	10.0%	9.6%	10.0%	4.5%
GFOA Recommended Minimum Fund Balance (1.5 months of operating expenditures)	11,723,820	14,216,408	14,955,923	15,621,277	16,144,736	16,825,085
KPBSD Compared to GFOA Recommendation	\$ (2,540,683)	\$ (3,880,468)	\$ (2,991,185)	\$ (3,666,491)	\$ (3,228,948)	\$(10,744,818)

This recap reflects that the District does not and is not expected to meet minimum fund balance standards under which governmental entities should operate. It also shows that the District will be challenged to maintain current programs and staffing. More information is found in Attachment 3.

Please note that due to the District’s inability to generate an adequate fund balance, the Assembly in the past, has authorized the use of the KPB’s Equipment Fund for the purchase of a warehouse delivery truck, the student nutrition point-of-sale system, and the District’s contribution toward the purchase of the Arctic Winter Game buses.

Future use of fund balance

State Funding: Forward funding of state revenue for education is enacted through FY11. (The volatility of oil prices, reduced volume of oil coming from the North Slope, and

diminished oil explorations affect the State's ability to fund significant formula increases beyond FY11.) In addition, given the current revenue picture for State funding, the FY11 education funding formula is not certain.

Complicating the District's state revenue picture is continuation of the on-behalf payments awarded by the Legislature in the years ahead. There may be a time when the state may not support this supplemental funding paid directly to the retirement systems for the District and other governmental entities. Should that happen, the employer TRS and PERS retirement rates will increase. This situation is further complicated by current legislation to repeal the defined contribution retirement program.

KPBSD: The FY09 budget process strategically involved the hiring of 60 FTE teachers to address student needs including reinstating course offerings that had been cut in recent years, counselors, interventionists, vocational education, etc., with the clear understanding of sustainability. Absent additional resources, the District is prepared to allocate fund balance to ensure the retention of this staff.

Sustainability of viable plans is the hallmark of the District's budget process along with fiscal conservatism. Programs are evaluated each year for continuation and every position that becomes vacant is evaluated based on need before advertised.

The chart shows that the District has inadequate fund balance per governmental accounting recommendations and it reflects that increasing allocations of fund balance in the years ahead, most significantly reserving \$6,950,505 in FY11 for the FY12 school year, to balance the District's general fund budget will be necessary.

FUNDING AT THE CAP

In the months ahead, the Assembly will need to address funding at the cap for two fiscal years, FY09 and FY10. Economic circumstances dictate this will be a challenging and difficult time for the Assembly; your time on this important matter is greatly appreciated.

The District's historical communication cycle with the Borough has included initial budget approval with revisions generally requested at this time of year if increased enrollment is realized or the District receives additional grant funding. Such situations may cause the total budget to increase.

Per AS 14.14.060 the Assembly is required to approve the District's total budget.

In the past, the Borough has funded less than approved funding to the District due to enrollment shortfalls. For example, in FY06 Ordinance 2005-019 authorized \$35,054,596 for District operations. Actual local effort was \$34,973,682; the difference was retained by the Borough.

The residents of the Kenai Peninsula Borough are not being asked to make up the many years of insufficient state revenue, but are being asked to continue their historical priority placed on educating the students of the Kenai Peninsula Borough.

FY09 Request

The Board of Education has requested supplemental funding for FY09 because more students enrolled than expected this year. In addition, grant funding increased; consequently, the total budget increased.

Clearly, the District can absorb the amount of \$260,059 requested of the Assembly. The issue at stake here is the impact of losing funding at the cap at a critical point in time to significantly affect state funding. The District has been under-funded for many years at the state level. Legislative work is currently underway to review the district cost factor (DCF) component of the funding formula. This is the part of the formula that addresses the cost of doing business the farther away a district is from the state's business hub, which is Anchorage. For many years, Kenai was funded nearly on par with Anchorage; Anchorage's DCF is 1.000 and Kenai's DCF was 1.004. It was hard to fathom how the cost of housing, getting equipment, supplies and materials to Tyonek, Seldovia, Nanwalek, and Port Graham was comparable to the cost of delivering items to schools across Anchorage. The District's cost factor, as recommended by a study conducted for the Legislature by the Institute of Social and Economic Research, is being phased in over five years; the FY10 DCF is 1.109

For the first time in Alaska's history, funding increases are included in statute for FY09, FY10, and FY11. Much legislative work needs to be done to continue this precedent setting action by the 2008 Legislature.

The next step in addressing the state funding formula is for the joint legislative Education Funding District Cost Factor Commission to review the DCF component of the funding formula. That work is expected to begin after the current legislative session adjourns. KPBSD Assistant Superintendent, Mr. Dave Jones, was appointed by Governor Palin to sit on this Commission – he is the only non-legislator serving on this commission.

Continued funding at the cap is essential in communicating that the Kenai Peninsula Borough values education enough to support full local effort funding. This Kenai message significantly impacted the enactment of forward funding in state statute. The Assembly and the residents of this Borough are to be commended for their part in providing for Alaska's future.

As was noted at the last Assembly meeting, the Borough has received funding over expectations this fiscal year; consequently, funds are available to support requested funding to the cap.

FY10 Request

The FY10 budget approval will be an action item on the April 13, 2009 Board of Education agenda. The administrative recommendation will be to approve the budget as presented at the March 2, 2009 meeting since the collective bargaining process is still underway. It is hoped that this process will be finalized in time to allow the Assembly to address the District's revised total budget when scheduled to act on it.

This may require a change in the general fund budget and the total budget (general fund and special revenue funds) from the number initially presented to the Assembly. Please note that the local effort request will not change as a result of the settlement of employee

bargaining. If collective bargaining isn't concluded by the time the Assembly acts on the District's budget, then it will be necessary to bring a request forward separately at a later time that represents the outcome of negotiations.

The budget plan presented to the Board of Education includes a \$1.2 million dollar allocation of fund balance; this amount will likely increase as a result of the collective bargaining process.

The District is compelled to remove the approval of 84 teaching contracts from the April 13, 2009 Board of Education agenda, due to the uncertainty of local effort funding. The required minimum local effort contribution is \$23,192,450 and the maximum local effort contribution is \$42,983,376.

The District's FY10 budget request will formally be made by May 1, 2009 as outlined per AS 14.14.060.

Stimulus Funds

There is much discussion on all levels of federal funds passing through the state to public entities. These funds are authorized to be expended over the next two years for targeted purposes and needs. Plans for these funds include acceleration of the District's student focused initiatives; a copy of the information provided to KPB legislators is attached. A requirement of this funding is the assurance to not obligate the District to long-term financial commitments.

Please note that these funds may not be used for general fund expenditures; use of these funds in this manner would be supplanting, which is not an allowed use of these funds.

REQUEST

The District is using the established communication process between the District and Borough administrations and between the Board of Education and the Assembly. It appears these processes and practices need re-examination. Changes are difficult mid-stream; consequently, permanent changes will likely need to be discussed and implemented for the next budget cycle. In the meantime, the Board of Education is available to participate in another joint work session with the Assembly to discuss the District's budget, fund balance, and operating plan. Assuming questions remain, the District requests a work session be scheduled before the Assembly acts on the District's FY10 budget request?

Thank you for your continued service. We are available to discuss any aspects of this memo, the District's budget, and District operations.

Cc: D. Carey
C. Chapman
S. Atwater
D. Jones

Attachments:

1. Recap of state statutes, board policy, and the District's fund balance categories
2. June 30, 2008 audited general fund balance sheet – included in the District's Comprehensive Annual Financial Report posted on the District's website
3. Schedule of estimated fund balance through fiscal year 2012
4. KPBSD fund balance history included in the District's budget document posted on the District's website
5. KPBSD Proposed Use of Stimulus Funds

Recap of Relationship Between KPB and KPBSD, and Fund Balance Statutes, Board Policy, and KBPSD Fund Balance Categories

State Statute

AS 14.14.060 Relationship between the borough school district and borough; finances and buildings. (c) Except as otherwise provided by municipal ordinance, the borough school board shall submit the school budget for the following school year to the borough assembly by May 1 for approval of the total amount. Within 30 days after receipt of the budget, the assembly shall determine the total amount of money to be made available from local sources for school purposes and shall furnish the school board with a statement of the sum to be made available. If the assembly does not, within 30 days, furnish the school board with a statement of the sum to be made available, the amount requested in the budget is automatically approved. Except as otherwise provided by municipal ordinance, by June 30, the assembly shall appropriate the amount to be made available from local sources from money available for the purpose.

Alaska Statute and Alaska Administrative Code govern accounting for school district fund balance in keeping with Generally Accepted Accounting Principles and standards.

AS 14.17.505 Fund Balance in School Operating Fund. (a) A district may not accumulate in a fiscal year an unreserved portion of its year-end fund balance in its school operating fund, as defined by department regulations that is greater than 10 percent of its expenditure for that fiscal year. (b) The department shall review each district's annual audit under AS 14.14.050 for the preceding fiscal year to ascertain its year-end operating fund balance. The amount by which the unreserved portion of that balance exceeds the amount permitted in (a) this section shall be deducted from the state aid that would otherwise be paid to the district in the current fiscal year.

4AAC 09.160 Fund balance (a) Eligible reserves in the year-end fund balance in a school's operating fund may be only in the following categories: (1) encumbrances, (2) inventory, (3) prepaid expenses including fuel, (4) retirement incentive program, (5) self-insurance and (6) federal impact aid received in response to the application submitted during the fiscal year of the audit under 4 AAC 09.130. (b) Other uses of a school's balance must be listed under the unreserved portion of the fund balance as "designations".

Board Policy

BP 3400 Management of District Assets/Accounts The Superintendent shall provide ongoing internal accounting controls and a means for the accounting of income and expenditures as outlined in the adopted budget.

Outstanding Encumbrances: Encumbrances outstanding at the end of any fiscal year shall be designated as non-lapsing appropriations to be carried forward to the subsequent year's budget.

Fund Balance: Designations of fund balance shall be approved by the Board.

Audits: The Board shall provide for an annual audit of District accounts by a certified public accountant who has no personal interest in District fiscal affairs. The audit shall be conducted in accordance with the requirements of state and federal regulations.

BP 3470 Reserves It is understood that planning for the future is an integral component of financial management. The District is expected to have situations in which multi-year financial liabilities exist and/or there will be significant acquisitions which may be anticipated and scheduled. The Superintendent shall be responsible for ensuring the District maintains required reserves for future liabilities, and making recommendations for creating discretionary reserves when fiscally appropriate.

In addition, BP 3571 Equipment Reserve Fund authorizes the use of a special revenue fund to use in replacing capital assets. Allocating fund balance for district operations is governed by 4 AAC 09.120 Budget Review and KPBSD AR3100 Budget.

KPBSD Fund Balance Categories

General Fund

Reserved fund balance (4 AAC 09.160) – legally restricted or otherwise unavailable

Encumbrances: Purchase orders that are outstanding at the end of the fiscal year for equipment, materials, and supplies arrive during the summer months for the subsequent school year. Examples include curriculum adoption materials, computer technology, and paper.

Inventories: The District maintains a supply warehouse for office, classroom, custodial and food service items. The value of the KPB maintenance department warehouse is included in this category.

Prepaid Expenses: Legislation establishing FY09 funding, including energy relief funds, was awarded for FY08. This funding came late in the year rendering it ineffective for FY08 utility expenditures. With approval of the Alaska Regulatory Commission, the District and HEA reached an agreement to pre-pay utilities for FY09.

Self-Insurance for health care and worker's compensation: Reserves are in place to address significantly increasing costs in these employee benefit categories.

Unreserved fund balance (AS 14.17.505)

Charter Schools: AS 14.03.260 determines how charter schools are to receive their funding. Charter schools with funds remaining at the end of the year maintain a fund balance for unforeseen or emergency situations and planning purposes.

Facilities Maintenance: The District is required to record the cost of services provided by KPB to the District in the operating fund. This category holds the fund balance for the maintenance program in the event costs exceed the budget for such situations as extra-ordinary snow removal and/or sanding.

FY09 Operations: This category reflects the amount budgeted in the general fund for FY09. The Department of Education and Early Development reviews all school district budgets to ensure fund balance is available for operations.

Potential Interest Shortfall: Resolution 2002-029 enacted the District receiving the interest earnings on the funds managed by the KPB finance department per the Borough's investment policy.

School Incentive Purchases: There was a time when a 'use it or lose it' mentality was in place because school funds lapsed at the end of the school year. This imprudent purchasing practice was not in the best interest of schools nor is it a sound fiscal policy. In FY02, the Board of Education authorized the School Incentive Fund to allow administrators to save unused discretionary funds (they do not have access to salary, benefit, or utility funds) for use in a subsequent year.

Technology Plan II: This category sets aside and accumulates funds to implement on-going phases of the District's technology plan designed to systematically replace classroom technology. The complete plan is available to interested parties on the District website under the Information Services department tab.

Special Revenue Funds – special purpose funds

Equipment Fund: These funds are set aside to address the infrastructure needs of District instructional programs currently in development such as vocational education, distance delivery, wireless technology, and other equipment needs such as warehouse delivery vehicles and forklifts.

Grant Funds: These programs involve funding received by the District from state, federal, and other sources for programs such as student transportation, student nutrition, and other targeted programs.

KENAI PENINSULA BOROUGH SCHOOL DISTRICT
GENERAL FUND
BALANCE SHEET
As of June 30, 2008 and 2007

<u>ASSETS</u>	2008	2007
Cash on hand	\$ 41,925	\$ 39,676
Equity in Central Treasury	21,467,988	19,096,846
Accounts receivable	834,214	144,700
Prepaid items	2,800,000	22,000
Due from Special Revenue Funds	2,735,537	2,467,848
Inventory	746,736	746,137
Total Assets	\$ 28,626,400	\$ 22,517,207
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 583,223	\$ 657,131
Accrued liabilities:		
Payroll	4,102,158	3,862,414
Retirement	309,858	339,311
Payroll taxes	1,461,118	1,397,726
Payroll deductions	31,642	32,931
Health	2,744,290	2,736,046
Total Accrued Liabilities	8,649,066	8,368,428
Total Liabilities	9,232,289	9,025,559
Fund Balance:		
Reserved for encumbrances	1,998,510	1,081,225
Reserved for inventory	746,736	746,137
Reserved for prepaid expenses	2,800,000	-
Reserved for self insurance - health care	3,262,925	2,256,149
Reserved for self insurance - workers compensation	250,000	225,000
Unreserved:		
Designated for software replacement	-	-
Designated Technology Plan II	1,087,500	870,000
Designated for potential interest shortfall	400,000	400,000
Designated for school/dept incentive purchases	883,187	833,129
Designated for charter schools	2,394,188	1,641,086
Designated for FY08 Operations	1,668,872	2,094,604
Designated for facilities maintenance	1,181,985	655,983
Undesignated	2,720,208	2,688,335
Total Fund Balance	19,394,111	13,491,648
Total Liabilities and Fund Balance	\$ 28,626,400	\$ 22,517,207

Attachment 3

Kenai Peninsula Borough School District
General Fund
Estimated Changes in Fund Balance and Detailed Fund Balance

	Audited		Estimated 2009	Estimated 2010	**	** & ***
	Actual 2007	Actual 2008			Estimated 2011	Estimated 2012
Fund Balance, Beginning of Year	\$ 8,668,172	\$ 13,491,648	\$ 19,394,111	\$ 19,345,176	\$ 16,234,704	\$ 14,277,508
Add Revenues and Other Financing Sources	101,336,757	123,927,465	120,219,478	122,533,842 *	127,874,785 *	128,324,269
Deduct Expenditures	(93,790,561)	(113,731,266)	(119,647,382)	(124,970,218)	(129,157,885)	(134,600,678)
Deduct Other Financing Uses	(2,722,720)	(4,293,736)	(621,031)	(674,096)	(674,096)	(674,096)
Total Expenditures and Other Financing Uses	(96,513,281)	(118,025,002)	(120,268,413)	(125,644,314)	(129,831,981)	(135,274,774)
Fund Balance, End of Year	13,491,648	19,394,111	19,345,176	16,234,704	14,277,508	7,327,003

Ten (10) percent of expenditures per AS 14.17.505

* Local Effort At the Cap

** Assessed Value estimated with a 2% increase

*** DCF increase is the only change to the funding formula calculation

FY07 and FY08 data from page 66 of the audited Comprehensive Annual Financial Report posted on the District's website

**Note: The recap below must tie to the fund balance number above and the unreserved number may not exceed 10% of expenditures
The significance of this recap is to show that in FY11 \$6,950,505 is required for FY12 operations**

FUND BALANCE

Fund Balance:

To Be Determined	-	-	-	4,279,918	1,361,720	1,246,736
Reserved for encumbrances	1,081,225	1,998,510	2,409,476	-	-	-
Reserved for inventory	746,137	746,736	746,736	-	-	-
Reserved for prepaid expenses	-	2,800,000	-	-	-	-
Reserved for self insurance - health care	2,256,149	3,262,925	3,949,226	-	-	-
Reserved for self insurance - workers compensation	225,000	250,000	275,000	-	-	-
Total Reserved per 4 AAC 09.120	4,308,511	9,058,171	7,380,438	4,279,918	1,361,720	1,246,736

Unreserved:

To Be Determined	-	-	-	9,997,590	5,965,283	6,080,267
Designated Technology Plan II	870,000	1,087,500	1,305,000	-	-	-
Designated for potential interest shortfall	400,000	400,000	400,000	-	-	-
Designated for school/dept incentive purchases	833,129	883,187	883,187	-	-	-
Designated for charter schools	1,641,086	2,394,188	2,394,188	-	-	-
Designated for Subsequent Year Operations	2,094,604	1,668,872	3,110,472	1,957,196	6,950,505	-
Designated for facilities maintenance	655,983	1,181,985	1,181,985	-	-	-
Undesignated	2,688,335	2,720,208	2,689,906	-	-	-

Total Unreserved per AS 14.17.505
(may not exceed 10% of total expenditures)

Total Fund Balance	13,491,648	19,394,111	19,345,176	16,234,704	14,277,508	7,327,003
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GFOA Recommended Minimum Fund Balance
(1.5 months of operating expenditures)

Unreserved Fund Balance as a Percentage of Expenditures

KPBSD Compared to GFOA Recommendation

FY07 and FY08 data from page 65 of the audited Comprehensive Annual Financial Report posted on the District's website

KENAI PENINSULA BOROUGH SCHOOL DISTRICT

General Fund
Schedule of Fund Balance
June 30, 2009

	Actual FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	Estimated FY09	Estimated FY10
Fund Balance												
Reserved:												
To Be Determined	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,279,918
Reserve for encumbrances	616,068	818,752	601,041	252,622	1,098,521	130,801	329,151	1,050,902	1,081,225	1,998,510	2,409,476	-
Reserve for inventory	671,210	703,036	828,117	784,654	796,771	761,573	722,943	711,505	746,137	746,736	746,736	-
Reserved for charter schools	-	-	-	107,533	465,765	657,545	979,415	1,010,775	-	-	-	-
Reserved for Prepaid Expenses	-	-	-	-	-	-	-	-	-	2,800,000	-	-
Reserved for Self Insurance - Health Care	-	-	-	-	-	-	-	-	2,256,149	3,262,925	3,949,226	-
Reserved for Self Insurance - W/Comp	-	-	-	-	-	-	-	-	225,000	250,000	275,000	-
Total Reserved	1,287,278	1,521,788	1,429,158	1,144,809	2,361,057	1,549,919	2,031,509	2,773,182	4,308,511	9,058,171	7,380,438	4,279,918
Unreserved:												
To Be Determined	-	-	-	-	-	-	-	-	-	-	-	9,997,590
Designated for Charter Schools	-	-	-	-	-	-	-	-	1,641,086	2,394,188	2,394,188	-
Designated for compensated absences	-	-	-	1,798,388	1,949,817	-	-	-	-	-	-	-
Designated for equipment	507,409	500,000	500,000	500,000	-	-	-	-	-	-	-	-
Designated for facilities maintenance	-	-	-	-	-	-	640,080	857,334	655,983	1,181,985	1,181,985	-
Designated potential interest shortfall	-	-	-	400,000	400,000	400,000	-	400,000	400,000	400,000	400,000	-
Designated for school incentive purchases	-	-	-	20,682	322,605	414,068	484,500	557,829	833,129	883,187	883,187	-
Designated for software replacement	-	-	-	-	-	-	400,000	400,000	-	-	-	-
Designated for subsequent year operations	-	-	-	-	1,600,000	1,600,000	1,927,108	-	2,094,604	1,668,872	3,110,472	1,957,196
Designated for technology plan	-	-	-	-	-	217,500	217,500	652,500	870,000	1,087,500	1,305,000	-
Undesignated	189,960	397,187	363,919	1,542,679	376,419	1,255,627	2,069,273	3,027,327	2,688,335	2,720,208	2,689,906	-
Total Unreserved	697,369	897,187	863,919	4,261,749	4,648,841	3,887,195	5,738,461	5,894,990	9,183,137	10,335,940	11,964,738	11,954,786
Total Fund Balance	\$ 1,984,647	\$ 2,418,975	\$ 2,293,077	\$ 5,406,558	\$ 7,009,898	\$ 5,437,114	\$ 7,769,970	\$ 8,668,172	\$ 13,491,648	\$ 19,394,111	\$ 19,345,176	\$ 16,234,704
Expenditures												
Total Expenditures	\$ 72,683,536	\$ 73,233,548	\$ 73,156,774	\$ 76,507,102	\$ 74,241,026	\$ 74,054,386	\$ 78,763,792	\$ 85,435,974	\$ 93,790,561	\$ 113,731,266	\$ 119,647,382	\$ 124,970,218
AS 14.17.505 - 10% of Expenditures	\$ 7,268,354	\$ 7,323,355	\$ 7,315,677	\$ 7,650,710	\$ 7,424,103	\$ 7,405,439	\$ 7,876,379	\$ 8,543,597	\$ 9,379,056	\$ 11,373,127	\$ 11,964,738	\$ 12,497,022
Unreserved FB as a Percentage of Expenditures	1.0%	1.2%	1.2%	5.6%	6.3%	5.2%	7.3%	6.9%	9.8%	9.1%	10.0%	9.6%
Monthly Expenditures on 12 Month Basis	\$ 6,056,961	\$ 6,102,796	\$ 6,096,398	\$ 6,375,592	\$ 6,186,752	\$ 6,171,199	\$ 6,563,649	\$ 7,119,665	\$ 7,815,880	\$ 9,477,606	\$ 9,970,615	\$ 10,414,185
GFOA Recommended Minimum Fund Balance (1.5 months of expenditures)	\$ 9,085,442	\$ 9,154,194	\$ 9,144,597	\$ 9,563,388	\$ 9,280,128	\$ 9,256,798	\$ 9,845,474	\$ 10,679,497	\$ 11,723,820	\$ 14,216,408	\$ 14,955,923	\$ 15,621,277
Actual to Recommended	\$ (8,388,073)	\$ (8,257,007)	\$ (8,280,678)	\$ (5,301,639)	\$ (4,631,287)	\$ (5,369,603)	\$ (4,107,013)	\$ (4,784,507)	\$ (2,540,683)	\$ (3,880,468)	\$ (2,991,185)	\$ (3,666,491)

Kenai Peninsula Borough School District Proposed Use of Stimulus Funds

What follows is a summary of KPBSD's proposed use of the estimated 5 million dollars in stimulus funds. They will be considered special revenue funds and will not be used to supplant current expenditures. The stimulus money will be used to expand the capacity of the District through training opportunities and by improving its technological infrastructure. The District expects that these funds will lead to increased teacher quality and a higher level of student achievement.

Title VI-B

Training staff on the use of intervention materials

IEP Development training for special education staff

Preschool Disabled

Assistive technology

Training for determination of preschool disabled students

Title I

Development of a Longitude Data System (LDS) that would allow all the various databases to "talk" to each other.

Interventionist training (tier I and II)

Software for early literacy acquisition

Classroom labs for intervention

Development of a tool to assess effectiveness of preschool and area Head Start programs

Fiscal support for Project Grad Program

Title II D

Wire schools to offer wireless learning environment

Develop more on-line learning opportunities

Train teachers on how to integrate technology into instruction

Fiscal Stabilization Funds

New teacher orientation

Technology training lab

Stimulus funds coordinator