

ANCHORAGE SCHOOL DISTRICT
ANCHORAGE, ALASKA

ASD MEMORANDUM #92 (2008-2009)

October 27, 2008

TO: SCHOOL BOARD

FROM: OFFICE OF THE SUPERINTENDENT

SUBJECT: TREASURER'S REPORT/FINANCIAL RECAP:
September 30, 2008

ASD Goal: Ensure public accountability through continued participation in the state and federal required testing programs, continued preparation and publication of the Profile of Performance, budget basics, and budget and bond summaries, effective consultation with community to ensure wise use of financial resources and responsible construction and maintenance of facilities; and effective communication with students, staff, parents, community and government at all levels.

PERTINENT FACTS:

The attached report consists of three parts: the Graphic Overview, the Treasurer's Report and the Financial Recap. The Graphic Overview is presented on a quarterly basis and the Treasurer's Report and the Financial Recap are presented on a monthly basis. The report as a whole includes year-to-date information as of September 30, 2008.

I. GRAPHIC OVERVIEW

District investments are primarily made through the Municipality of Anchorage. Overnight repurchase agreements are made through the District's banking services, whereas, the Student Activities Fund investments are made by individual schools in insured accounts.

Included on page 1 of the report is a graph representing the types of investment instruments held by the District as of September 30, 2008, except for the Student Activities Fund. In addition, a monthly comparison of cumulative interest earnings for fiscal year 2007-2008 and fiscal year 2008-2009 is presented on page 2. As of September 30, 2008, the District had invested \$93.087 million in the Municipal Investment Pool, \$41.909 million in commercial paper, \$34.507 million

in U.S. Government Securities, and \$14.715 million invested in repurchase agreements.

The graph on page 3 is titled Weighted Average Interest Rate for Investments Purchased. This graph compares the weighted monthly average yield on investments acquired in the current year with the figures for the prior fiscal year.

I. TREASURER'S REPORT

The Anchorage School District Treasurer's Report includes a summary of the total demand deposits and investments, which are on hand as of September 30, 2008, and a summary of the investment transactions completed September 1 through September 30, 2008 and all investments held at the end of the month, including a separate report for the Municipal Investment Pool.

The demand deposits in the General Fund as of September 30, 2008 reported negative funds available of (\$621,357) as listed on page 4. The District's banking services contract includes the investment of the bank float that provides additional interest revenue to the District.

The total amount of investments on hand at September 30, 2008 was \$163,001,677 and the combined total of these liquid assets consisting of the demand deposits and investments were \$162,380,320. A schedule of investments is presented on pages 6 and 7.

Funds that are restricted such as bond proceeds, or other funds held in trust or escrow are not included within the Municipal Investment Pool but invested as direct investments. The Anchorage School District requires direct investments, in excess of any insured amount, to be collateralized at all times with United States Government guaranteed securities having a market value, plus accrued interest, which equals or exceeds the collateralized amount of the investment. Additionally, the Board Policy provides that the District can request the Municipality to invest funds on its behalf following the investment policy in the Municipal Code which allows for additional investment types that typically provide higher yields in secure investment vehicles.

The Municipality of Anchorage created the Municipal Investment Pool as a vehicle to enhance interest earnings for the Municipality and District through investing non-restricted funds into a pooled environment held in trust and managed through three external investment management groups. The external investment managers actively manage investments within the Municipal Investment Pool to maximize performance while ensuring all District and Municipal investments

meet the Districts' Board Policy 724.32 and Anchorage Municipal Code 06.50.030 as required.

Due to the uncertain market conditions, the Pool has posted an unrealized loss to the District portfolios September month-end market value of gross investments. However, even with the downward slide of interest rates, and unstable market conditions, the Municipal Investment Pool has returned significantly increased interest earnings over the past year and remains a good investment income vehicle for the District. The unrealized gains and losses that are currently affecting the District's portfolio are primarily "paper entries" that show the difference in the current fair value and the purchase price. Significant market adjustments can greatly influence this value on a daily basis, but true gains and losses only occur if the investments are sold above or below the original purchase value. The change in market value is recorded as a gain or loss along with all other earnings accumulated each month as investment income. The current yield on investments held at month-end for the Pool was 4.37 percent while the yield to maturity on bonds held at month-end was 8.41 percent.

Funds invested in the Municipal Investment Pool are presented on page 5 of the Treasurer's Report. The beginning market value for the District's funds was \$102,766,401. Based on necessary cash flow, deductions occurred in the month in the amount of \$8,500,000. The ending market value of \$93,086,625 represents accrued interest and accrued coupon payments as well as the change in market value of all securities held as of the month end. The total investment income recorded from the Municipal Investment Pool for the month end was negative. Interest income was \$284,016, but the total change in value based on market value at the end of September was (\$1,463,792) netting a total loss of (\$1,179,776) for the month. The average daily balance of the District's pooled investments for the month was \$101,633,068.

The District transacted 70 direct investments during the month of September. The specific direct investments purchased are presented commencing with page 8 of the Treasurer's Report. The anticipated earnings for these new investments is \$130,122, which will be recorded in the General Fund and Capital Projects Fund. The interest earnings on direct investments made by the District are recorded upon receipt of the actual interest earnings on the various dates of maturity. The interest earnings on investments made by the Municipality of Anchorage on behalf of the District are accrued monthly.

In summary, the District's investment performance for fiscal year 2008-2009 year-to-date is shown by the following portfolio yield calculations:

- The Weighted Average Interest Rate for investments purchased during September was 2.52 percent and is noted on page 10.
- The Yield to Maturity, as listed on page 10 represents the yield if all investments are held to their maturity date. This is a combined yield for the direct investments and the Municipal Investment Pool. For the month of September 2008, the Yield to Maturity is 8.34 percent. The investment pool is currently drawing the total yield to maturity significantly higher than direct investments because this calculation takes into account the unrealized losses as expected future gains in addition to the existing coupon payments as investment income in relation to the current market value.
- The Year-to-Date Cumulative Yield, noted on page 10, represents the weighted average yield of all investments purchased by the District since July 1, 2008. On September 30th, the Year-to-Date Cumulative Yield was negative 2.97 percent from the unrealized losses in the investment pool.

II. FINANCIAL RECAP

The Financial Recap is a summary of revenues, expenditures and encumbrances for the current fiscal year through September 30, 2008. The funds presented are the General Fund; Debt Service Fund; Food Service and Local/State/Federal Grants Special Revenue Funds; and Capital Projects Fund. The expenditures are on generally accepted accounting principles (GAAP) basis. This means the amount in expenditures include payments on encumbrances from the prior year. For example, the working budget on expenditures for the General Fund includes the current year's revised budget plus the encumbrances from prior year of approximately \$22.103 million. Year-to-date expenditures therefore reflect expenditures from the current fiscal year and expenditures from prior years' encumbrances that were carried forward. The appropriations from the prior years for these encumbrances were also carried forward.

The General Fund revised budget for fiscal year 2008-2009 totals \$580,915,706 million and was approved by the School Board (ASD Memorandum #168) and the Anchorage Assembly (AR No. 2008-63(S)) on February 7, 2008 and April 29, 2008, respectively. The School Board later revised the budget (ASD Memorandum #326) on June 23, 2008. This budget includes an increase in expenditures by approximately \$4.8 million, less than a one percent increase over the prior year budget.

The fiscal 2008-2009 budget includes funding from the approved Senate Bill 125, which reduces the employer's required contributions to the retirement system through the State of Alaska's direct payment to the retirement systems on behalf

of the member organizations. This results in the District paying the same contribution rates as the previous fiscal year.

This year is the first year of the implementation of the passed legislation stemming from the Joint Legislative Education Funding task force from the summer of 2007. The task force recommendations were passed in House Bill 273 in the second session of the 25th Alaska State Legislature and signed by the Governor shortly thereafter. The significant changes in funding provided by this passage occur through adjustments to the Alaska Public School Funding Program. The components of the bill that have significant effects for the Anchorage School District include:

- Significant adjustments to the intensive needs student funding by increasing the multiplier from 5 to 9 in fiscal year 2008-2009 and to 11 and 13 for the subsequent fiscal years 2009-2010 and 2010-2011 respectively.
- Increase in the base student allocation of \$100 for each of the next three fiscal years.
- Recalibration of pupil transportation based off fiscal year 2006-2007 costs and include a consumer price index increase to maintain the increases in related expenditures.
- Expedition of school appropriations within the legislative sessions and for future year, forward funding to allow for early hiring and more accurate future year budget allocations.

Additional items were included within the recommendations and HB 273 that had positive affects to the district and others around the state, including the phasing in of new district cost factors based on the ISER study completed in 2003. The district cost factors provide considerable funding for all other districts in the state, but Anchorage is used as the base for the cost factors and thus, no additional funding is received through the increased district cost factors.

Local revenue increases over the prior fiscal year occurred through an increase in local tax appropriation from the Municipality of Anchorage of approximately \$9.3 million. Additionally, investment income was budgeted higher than the previous year, but with existing financial market conditions, actual investment income may not meet the budgeted amount.

Anticipated State revenues were reduced over the final previous fiscal year state revenues by approximately \$9.1 million because of an anticipated reduced student enrollment. The official state student count period ends on October 24th and as of the writing of the memorandum, the student count from September 30th was higher than projected, which means that actual Alaska Public School Funding

Program revenues may be greater than budgeted if the official count period data remains higher than budgeted.

Federal revenue remained similar to the budgeted amount of the prior fiscal year in total, although there were some adjustments through the removal of the Medicaid reimbursement revenue. In the spring of 2008, the program was to terminate and was therefore not budgeted for in the following fiscal year. The District received tentative notification this summer that the program is authorized for two more trimesters and may continue after that. Thus, federal revenue may exceed the budgeted amount if Medicaid reimbursement revenues are realized.

General Fund revenue and expenditure budgets and actuals are presented in summary categories starting on page 12. Reports including a variety of detail are provided for both revenues and expenditures in subsequent pages.

Included in these reports are the fiscal 2008-2009 revised budget of \$580.916 million and the prior year encumbrance budget of \$22.103 million to combine to the General Fund working budget in the amount of \$603.019 million. The cumulative actual GAAP expenditures and encumbrances for the three-month period ended September 30, 2008 were \$101.406 million or 16.8 percent of the \$603.019 million working budget.

On page 33 the Cumulative Expenditures by Month for Four Fiscal Years begins which provides information concerning the actual and projected expenditures for fiscal year 2008-2009 compared to the actual cumulative expenditures by month for the prior three years. In addition, a Comparative Ratio of Monthly Expenditures to Total Expenditures is presented beginning on page 34 to provide the actual expenditures and relative percentages by month for the current and three prior fiscal years for comparative purposes. Actual expenditures are 1.3 percent below projections for the three-month period ended September 30, 2008 primarily because the PERS and TRS employer relief revenue and expenditures have not yet been booked for the first quarter.

Summary and detailed budget reports are available for each school, department, and other budgetary unit on IFAS on-line with current up-to-date data. This information is available to assist in daily operations.

CC/JS/CS
Attachment

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