

**Denton Independent School District  
Office of the Superintendent**

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**M E M O R A N D U M**

October 10, 2011

To: Board of Trustees

From: Ray Braswell

Subject: Assignment of Fund Balance Reserves

In looking at specific data from our pending financial audit, I am pleased to report that increases in revenue from last year will positively impact our reserves and provide some flexibility for the Board to consider. Hopefully, this will help offset the \$6 million we lose next year in state funding.

We had planned and communicated throughout our budget presentations that we planned to roll forward a minimum of \$2.5 million in reserve primarily because of additional state aid throughout the year (template changes, adjustments in WADA, etc.) and in other general expenditure reductions. We will meet and moderately exceed this expectation due primarily to other increases in revenues along with some reductions of note in expenditures.

Revenues:

We did increase our state funding by \$1.45M as mentioned earlier during fiscal 2010-11. We also had revenue improvements of \$2M (+2%) in tax collections which is due in part to better collections and due in part to increases in our tax base through the supplemental tax rolls we receive throughout the year.

The other large increase was \$2M revenue in the Federal SHARS program which was not budgeted for expenditures because of the unknown stability of continued funding.

SHARS (School Health and Related Services) is a Medicaid financing program and is a joint program of the Texas Education Agency and the Texas Health and Human Services Commission (HHSC). SHARS allows local school districts to obtain Medicaid reimbursement for certain health-related services provided to students in special education. This is the second year that we have received a large SHARS reimbursement. The prospect of this funding continuing in future years is unknown therefore the use of these funds should certainly be of a one-time nature.

We also captured for the first time \$825K in indirect costs from the child nutrition program. This was our first time to make use of this provision. In the past, we did not extract the indirect cost, leaving these revenues within the child nutrition program.

We did have other areas of increased revenue, but often these were offset by increases in expenditures within the same area.

### Expenditures:

The larger items in which we spent less money than we budgeted were in total salaries in which we saved \$302.5K (and were 99.8% on target), \$0.5M in District Wide funds, (drop in TASB insurance costs and funds not expended from our emergency fuel allocation) and \$231K (97% on target) in utility savings. We did spend \$418K more in operations because of the unusual weather related damage - some of which was offset by revenue donations from contractors and architects to cover our deductibles. I mention this as a precursor in that we need to look at an option for this in our planning.

### Total Reserve Increase

All total, our reserves will increase by \$8.213M although much of this will be roll forward monies or funds “assigned” for specific use.

### Roll Forward and Fund Balance Assignments

In looking at the reserve increases itself, \$0.5M of this increase comes from funds that we roll over year to year for campuses and various departments and should be continued as assigned reserves. Another \$0.5M comes from funds that are encumbered to pay for projects that start one fiscal year and extend into another (accounting rules change will require us to “assign” this hence forth).

We have \$2.641M in reserves for our Extended School Day and we would recommend assigning these funds to the Extended School Day Program and to the future opening of Middle School Seven. It is important to remember over \$2M of the reserve from Extended School Day has accumulated since the inception of the program. Approximately \$500K of the \$2.641M is 2010-2011 revenue. Of these funds \$641K would be reserved for Extended School Day. The remaining \$2M of this assignment would be dedicated to Middle School Seven with \$1M for supplies and equipment under 5,000K (some of which we used to take from bond), and another \$1M which would be set aside for middle school salaries – helping to spread the salary costs over multiple years.

Other “Assignments” that we would recommend include:

CATE - \$100,000 – we are in need of equipment upgrade and enhancements, and we just barely met our “maintenance of effort” requirement for this program. This assignment should cover these issues.

Major Maintenance - \$500,000 – we no longer budget a line item for major maintenance and we recommend that we have an assignment in reserve set aside for any unplanned expenditures.

Additional K-1 FTEs - \$1M – since the state provided no relief to the 22:1 requirements, the new waiver provisions added this year for funding shortfall could be removed the next biennium. We would recommend hiring 17 FTEs at the Kindergarten and First Grade sections out of compliance to help both with our transition to compliance, and to help the staff members with the unique challenges of these early grades. I use the term FTEs because some campuses (in consultation with their perspective grade-level teachers) may choose to use instructional aides (2 aides = 1 teacher) the remainder of this year instead of hiring a teacher and splitting the classes after nine weeks. All of these units would be transitioned to teacher units for the coming year. Our growth plans indicate that we will need additional elementary teachers next year so this use of assigned reserve will allow us to get a head start on this issue.

Communities in Schools – \$250,000 – The 21<sup>st</sup> century grant, impacting many of our schools had to be scaled back this year because the district was not in a position to meet its match. While the remodeled program is working and in place, we can reach more students and be more successful with this outreach if we can increase our contribution for the 2012-2013 school year.

All total, “Assigned Reserves” and Roll Forward monies total \$5.438M.

Unassigned Reserve

An amount of \$2.773M will be added to undesignated/unassigned reserves to help offset the \$6M reduction in state funds next year which is a slight improvement to the \$2.5M that we discussed during the budget process. As we look at our plans for next year – and years following – we can use reserve to help us transition through these reductions.

As trustees, you always have the right to assign these funds in any manner. We want to be careful in how we assign reserves for “ongoing costs” unless the expenditure can help transition us from one year to the next.

Thank you for your time and consideration in this important matter.