

Date: December 14, 2017

For ACTION X

For INFORMATION

Board Agenda: Yes X
No

FROM: Michael Covington, Director of Accounting

THROUGH: Lois F. Berlin, Ed.D., Interim Superintendent of Schools
Michael R. Herbstman, Chief Financial Officer

TO: The Honorable Ramee A. Gentry, Chair, and Members of the Alexandria City School Board

TOPIC: FY 2017 Comprehensive Annual Financial Report (CAFR)

BACKGROUND: The independent auditors from CliftonLarsonAllen LLP (CLA) have reviewed the comprehensive annual financial report (CAFR) as prepared by ACPS financial staff and completed the FY 2017 annual financial report on November 15, 2017. This was conducted in accordance with the standards applicable to financial audits, including Government Auditing Standards issued by the Comptroller General of the United States and the specific standards of audits for local jurisdictions issued by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. The auditors' primary focus is to obtain reasonable assurance about whether the financial statements are free of material misstatement and to ensure that internal controls as defined by the audit standards are in place.

As required by the Code of Virginia, Section 15.2-2510, the attached audited financial report for the Alexandria City Public Schools for the fiscal year ended June 30, 2017 was submitted on November 30, 2017 to the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. The CLA auditors are prepared to discuss this report at the School Board meeting scheduled for December 14.

SUMMARY: CliftonLarsonAllen LLP the City and Schools' external auditors, have audited the CAFR and issued an unmodified (or "clean") opinion indicating that the financial statements fairly represented the financial position of ACPS as of June 30, 2017 (CAFR, page 19).

Additionally, CLA has issued their report on the Division's internal control over financial reporting and on compliance and other matters (CAFR, page 140). No significant deficiencies or material weaknesses of internal control or instances of noncompliance with certain provisions of laws, regulations, contracts or grant agreements or other matters were noted that could have a direct and material effect on the financial statement amounts.

The CAFR follows the format prescribed by the Governmental Accounting Standards Board (GASB). It includes: (1) an introductory section which provides general information on the school division's structure and the services it provides; (2) a financial section which contains the basic financial statements as well as the independent auditor's report; and (3) a statistical section which provides a broad range of financial and demographic information useful in assessing ACPS' economic condition, much of it in the form of ten-year trend data.

Changes in Accounting Standards

In FY 2015, ACPS implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.

As a result of these GASB statements, the amounts reported, related to our pension plans, continue to have a significant and adverse impact to our net position as shown in the Statement of Net Position (CAFR, Exhibit I, page 42) and are highlighted below.

- Net pension assets for the Employees Supplemental Retirement Plan and ACPS' portion of the Virginia Retirement Systems (VRS) Political Subdivision Retirement Plan, totaled \$4.4 million for FY 2017, compared to \$15.9 million for FY 2016. This decrease is primarily due to increases in pension liabilities during the fiscal year.
- Net pension liability for our proportionate share of the VRS Teacher Employers Retirement Plan, totaled \$259.6 million for FY 2017, compared to \$226.7 million for FY 2016. This increase is primarily due to higher pension expenses during the fiscal year.
- Net position (deficit) for FY 2017, the total net position deficit decreased \$4.1 million to \$163.6 million, compared to a deficit of \$167.7 million for FY 2016.

Generally, net pension assets are created when total pension plan assets exceed corresponding total pension liabilities. Alternatively, net pension liabilities are created when pension liabilities are greater than the corresponding accumulated pension plan assets. For the VRS Teachers Plan, the total (unfunded) net pension liability, including all Virginia school districts, was \$14.0 billion at June 30, 2016 (the most recent year reported), compared to \$12.6 billion for the prior year. ACPS' proportionate share of this liability was \$259.6 million. ACPS is not able to implement a financial plan to address this liability as annual VRS contribution rates are set solely by the Virginia General Assembly.

The following key financial highlights are reflected in the report:

General Fund

For the fiscal year ended June 30, 2017, total revenues for the General Fund, were \$245.4 million, a 2.6% increase over FY 2016 actual revenues and \$1.2 million greater than final budgeted revenues for FY 2017. Total expenditures for the General Fund for FY 2017 were \$252.9 million, a 6.8% increase over FY 2016 actual expenditures and \$0.8 million greater than final budgeted expenditures. Total other financing transfers to the General Fund were \$4.7 million, net for FY 2017 (CAFR, Exhibit IV, page 46).

The City of Alexandria appropriated \$204.0 million to cover General Fund expenditures for FY 2017, an increase of 2.6% or \$5.2 million over FY 2016 (CAFR, Exhibit IV, page 46).

At June 30, 2017, the General Fund reported a total ending fund balance of \$12.2 million, a decrease of \$2.8 million from FY 2016 (CAFR, Exhibit IV, page 46). The fund balance is comprised of the following, as shown in CAFR, Exhibit III, page 44):

- a) *Nonspendable*- The nonspendable portion of the fund balance amounts to \$1.2 million to cover prepaid items.
- b) *Committed*- The committed portion was \$5.0 million designated by the School Board for use in FY 2017.
- c) *Assigned*- The assigned portion was \$1.2 million, designated for various program encumbrances carried forward into FY 2018 from FY 2017.

d) *Unassigned*- The unassigned portion was \$4.7 million, or 1.8% of total General Fund expenditures.

Grants and Special Projects Funds

Total revenues from Grants and Special Projects funds were \$13.6 million for FY 2017, an increase of \$1.8 million from FY 2016 or 14.3%. During FY 2017, federal grant revenues increased \$2.0 million from FY 2016 to \$8.9 million, while state grant revenues increased \$0.1 million from FY 2016 to \$3.8 million (CAFR, Exhibit IV, page 46):

School Nutrition Fund

Total revenues in the School Nutrition fund were \$8.8 million for FY 2017, an increase of \$0.6 million or 7.3% over FY 2016. During FY 2017, federal and state revenues increased \$0.6 million from FY2016 to \$7.0 million and food service expenditures increased \$0.7 million from FY 2016 to \$8.3 million (CAFR, Exhibit IV, page 46). The School Nutrition fund balance increased \$0.6 million in FY 2017 to \$5.2 million. The School Nutrition Fund is required to keep sufficient reserves on hand to fund three months of operations. The current fund balance level equates to approx. 4.4 months of operations.

Employees' Supplemental Retirement Plan

The plan year for the ACPS Supplemental Retirement Plan ended August 31, 2016. The financial status of this fund is strong. As of this plan year end, the Plan financial statements reflect a total pension liability of \$114.0 million and plan fiduciary net position of \$116.5 million, resulting in plan assets in excess of total pension liability of \$2.5 million (CAFR, page 89). For the plan ended August 31, 2016, the total pension liability increased \$12.0 million, representing the current year net pension cost. Since January 2013, no employer contributions were made to the Plan. All contributions made to the Plan were by employees, at the rate of 1.50% of payroll, and totaled \$2.4 million for the fiscal year ending June 30, 2017. During FY 2017, total Plan additions were \$13.4 million, which included employee contributions of \$2.4 million and investment income of \$10.9 million. Total fund deductions were \$6.3 million and consisted primarily of retiree benefit payments of \$6.2 million (CAFR, Exhibit XV, page 116).

Other Post-Employment Benefits Trust Fund (OPEB)

As of June 30, 2017, the ACPS Other Post-Employment Benefits (OPEB) Trust fund reflected total net position of \$16.8 million (CAFR, Exhibit XIV, page 115).

ACPS contributed \$2.2 million to OPEB during FY2017. ACPS contributions included \$1.5 million to cover the cost of retiree health premium subsidies in the current fiscal year and \$0.7 million to the OPEB Investment Trust to fund future retiree subsidy liabilities.

Total fund deductions were \$1.5 million and consisted primarily of healthcare benefit payments made to the Health Benefits Fund to subsidize retiree health coverage (CAFR, Exhibit XV, page 116).

Health Benefits Fund

For FY 2017, total revenues in the Health Benefits Fund were \$24.0 million, and reflected a medical premium holiday given to all eligible employees and retirees, which was valued at approx. \$2.0 million. Total expenses were \$27.8 million and funds transfers to the General Fund were \$2.5 million. At June 30, 2017, the Health Benefits Fund net position was \$5.4 million (CAFR, Exhibit V, page 48). This reflected a decrease of \$6.3 million from FY 2016 (CAFR, Exhibit VI, page 49).

The ACPS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017 can be found on-line at <http://www.acps.k12.va.us/Page/487>.

The auditors' letter of communication to ACPS governance will be provided to the School Board under separate cover.

RECOMMENDATION: The Superintendent recommends that the School Board accept the FY 2017 Comprehensive Annual Financial Report (CAFR).

CONTACT PERSON: Michael Covington, Director, Accounting, 703-619-8040

ATTACHMENT: FY 2017 Comprehensive Annual Financial Report