

C.6. Approval of Second Interim Financial Report for 2021/22 and Positive Financial Certification

Rationale

Goal Four: Ensure the District is fiscally and operationally sound.

Education Code Section 42130 *et. seq.* requires that districts prepare two interim financial reports and projections during the fiscal year. The Board of Education is required to file one of three certifications with the County Office of Education for each interim report.

1. PositiveThe District **will be able** to meet its financial obligations for the current and two subsequent fiscal years.
2. QualifiedThe District **may not** meet its financial obligations for the current and two subsequent fiscal years.
3. NegativeThe District **will not be able** to meet its financial obligations for the current and two subsequent fiscal years.

The Second Interim report, based on January 31 financial data, is due to the Stanislaus County Office of Education by March 15, 2022. The report requires Board approval to be finalized.

Financial Impact

The Second Interim report and multi-year projection show that the District will be able to meet all of its financial obligations for the current and subsequent two years. A positive certification can be filed.

Recommended Motion

It is recommended that the Board of Education approve the Second Interim Financial Report for 2021/22 and Positive Financial Certification.

Actions Taken

Motion Passed:

It is recommended that the Board of Education approve the Second Interim Financial Report for 2021/22 and Positive Financial Certification.

Passed with a motion by Homero Mejia and a second by Dr. Charlene West.

MODESTO CITY SCHOOLS

TO: Dr. Sara Noguchi, Superintendent Regular Meeting

SUBJECT: Approval of Second Interim Financial Report for 2021/22 and Positive Financial Certification March 7, 2022

The Board of Education can make a **positive certification** that the District **will be able** to meet its financial commitments for the current and two subsequent fiscal years based upon the following reports (copies of the complete report are available in the Business Services Office). All current year assumptions are based on known factors at the time of this report.

1. General Fund Summary

These reports show the originally adopted budget, adjusted operating budget, actual expenditures through January 31, projected year-end totals, and differences. There are three separate reports for the combined Restricted and Unrestricted General Fund, the Unrestricted portion of the General Fund budget, and the Restricted portion of the General Fund budget.

Projected year-end totals maintain the required 3% Unrestricted General Fund reserve level in all years and meet all mandatory obligations.

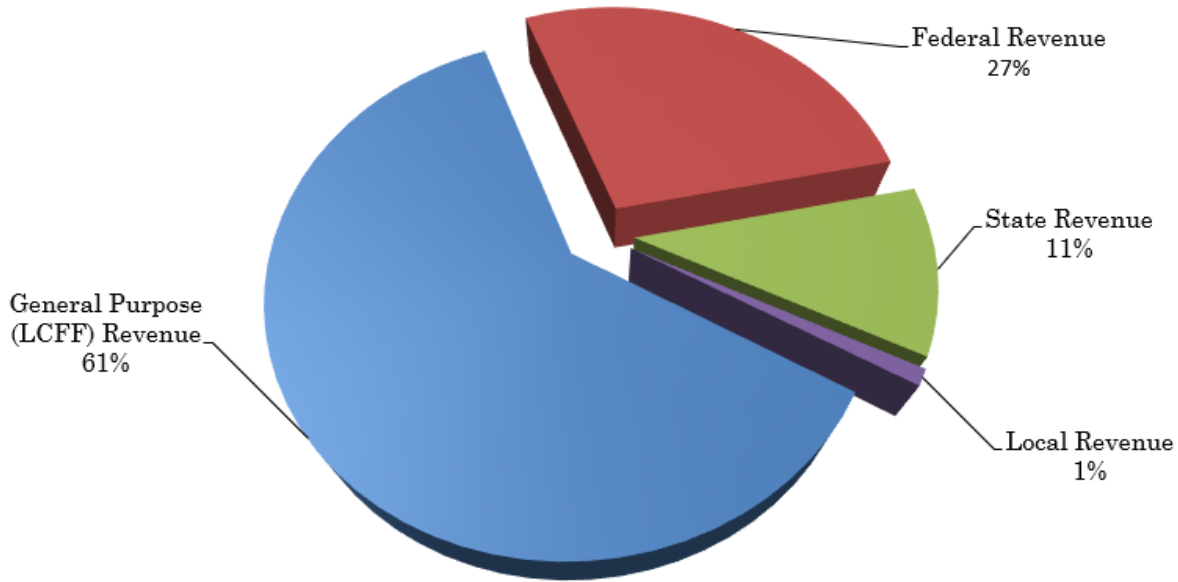
2. Average Daily Attendance Report

In an effort to stabilize school funding, the Governor's budget package extended the hold-harmless clause for calculating Local Control Funding Formula for the 2021/22 year by allowing 2020/21 and 2021/22 funding to be based on 2019/20 ADA.

3. Multi-Year Financial Projection

A district's financial certification must include a look forward for the two subsequent fiscal years. This forces a look at the long-term effects of current financial decisions. The three-year financial projections are based on known factors and estimates of future costs of current District operations.

Total General Fund (01) Revenue



Revenue Factors

Local Control Funding Formula (LCFF)

- LCFF ADA Projected COLA
 - 2021/22 5.07%
 - 2022/23 2.48%
 - 2023/24 3.11%

Federal Revenue

- Establish American Rescue Plan Homeless Grant \$73K
- Establish Education for Homeless Children and Youth Grant \$23K

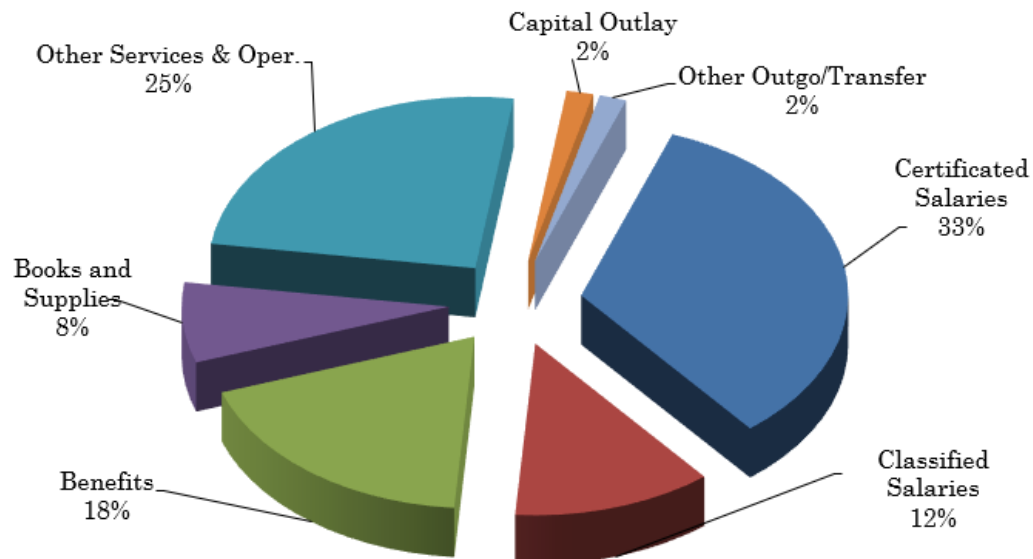
State Revenue

- Increase Agriculture Incentive Grant \$66K
- Establish State Library Grant \$67K

Local Revenue

- Increase CalSTRS Defined Benefit Employer Refund \$218K
- Increase Mandate Block Grant \$52K
- Increase Misc. Local Grants \$50K

Total General Fund (01) Expenditures



Expenditures

- Increase classified salaries to reflect Low-End Salary Increases
- Public Employees Retirement System (PERS) rates increases
 - 2022/23 – 26.10% - Additional 3.19% or \$2.0M over 2021/22
 - 2023/24 – 27.10% - Additional 1.00% or \$2.4M over 2021/22
- Proposed State Teachers Retirement System (STRS) rate increases
 - 2022/23 – 19.10% - Additional 2.18% or \$3.9M over 2021/22
 - 2023/24 – 19.10%
- Increase Pupil Transportation Equipment Replacement Transfer for Bus Replacements
- Onetime approved expenditures are reflected in 2021/22 but removed from subsequent years
- Restricted categorical resources will make the necessary reductions to remain fiscally solvent.

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4. Cash Flow Summary

Districts monitor both fund balance and actual cash balances available to pay obligations. Since many funding sources are distributed in arrears, diligent monitoring of cash on hand is required. Current projections show the District in a positive cash flow position for the current and projected fiscal years; therefore, transfers are not anticipated.

5. Criteria and Standards

The criteria and standards software automatically compares a district's financial and enrollment data to arbitrarily calculated averages. These comparisons can alert a district to financial anomalies but can also be arbitrary and not relevant to a particular district's situation. "Not met" standards require an explanation.

The format does not factor in fiscal anomalies that skew the three-year average calculations. These variances can result in "not met" status for items throughout the criteria and standards.

Two categories reflect a "not met" status at this time:

- 3 – ADA to Enrollment
The District continues an attendance campaign which will result in increased ADA at all grade levels in current and future years.
- 6b – Other Expenditures
The change year over year reflects the removal of onetime expenditures in the out years. The change from First Interim reflects estimated savings assumptions.

6. Other Funds

The status as of January 31 for all other special funds maintained by the District is shown.

- The Cafeteria Fund is intentionally decreasing the fund balance as prescribed in the Federal Spending Plan.
- The Self-Insurance Fund Property & Liability continues to be monitored closely for potential increases in contribution from the General Fund.

ADDITIONAL BUDGETARY CONSIDERATIONS

The following items are not reflected in the Second Interim report but may have a future impact on the existing fund balance:

- California School Employees Association Tentative Agreement for 2021/22
- Governor's 2022/23 Proposed Budget Assumptions
- California Public Employees Retirement Fund Proposal for Decreased Rates