

## MODESTO CITY SCHOOLS

TO: Pamela Able, Superintendent Regular Meeting

SUBJECT: Approval of First Interim Financial Report for 2016/17 and Positive Financial Certification December 5, 2016

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### BACKGROUND

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. Positive The District **will be able** to meet its financial obligations for the current and two subsequent fiscal years.
2. Qualified The District **may not** meet its financial obligations for the current and two subsequent fiscal years.
3. Negative The District **will not be able** to meet its financial obligations for the current and two subsequent fiscal years.

### ISSUE

The first interim report, based on October 31 financial data, is due to the Stanislaus County Office of Education by December 15, 2016. The report requires Board approval to be finalized.

### PROPOSAL

The Board of Education can make a **positive certification** that the District **will be able** to meet its financial commitments for the current and 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 October 31, projected year-end totals, and differences. There are three separate reports for the General Fund – a combined Restricted and Unrestricted resources, an Unrestricted resource only portion and a Restricted resource only portion.

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

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## 2. Average Daily Attendance Report

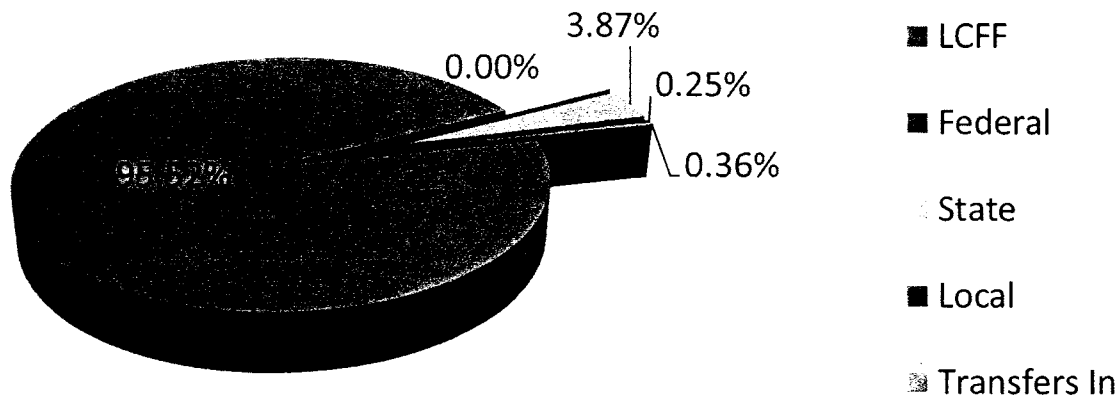
ADA calculations have changed since adoption. At first interim, an additional four ADA was reported to reflect the realized increase in 2015/16. The official reporting of Period 1 attendance will take place in December and any changes will be noted at the second interim reporting.

First month enrollment increased in the Elementary by 49 pupils, while enrollment in the High School increased by 146 pupils. These 2016/17 increases are reflected in the 2017/18 and 2018/19 years.

## 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.

### Unrestricted Revenue - General Fund



### Revenue Factors

#### Local Control Funding Formula (LCFF)

- 2016/17 estimated COLA of 0.00% and estimated GAP funding of 54.18%
  - Elementary – \$9.4M increase over 2015/16
  - High School – \$9.7M increase over 2015/16
- Projected COLA
  - 2017/18 1.10%
  - 2018/16 2.42%

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Revenue Factors

- Projected GAP funding
  - 2017/18 72.99%
  - 2018/19 40.36%

Federal Revenue

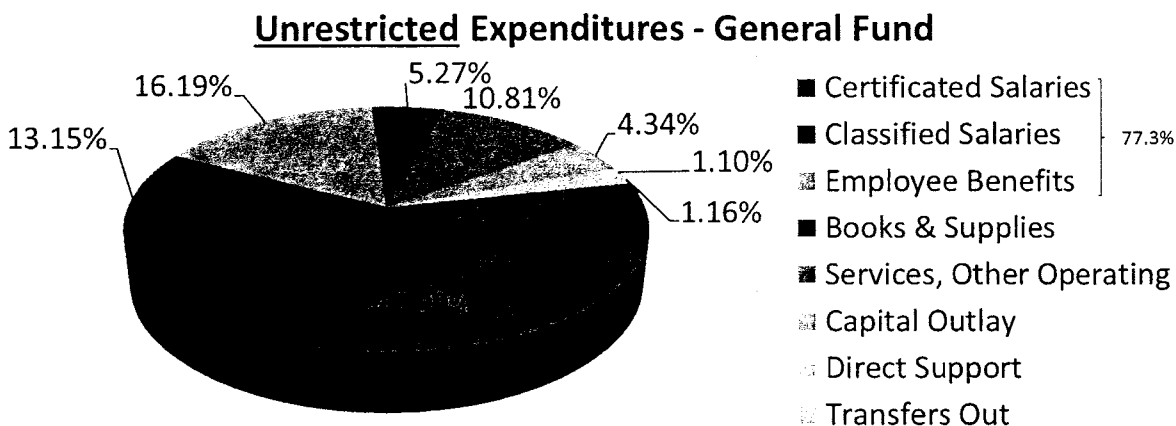
- Increase 2016/17 Title I Entitlement \$589K
- Posting of Deferred Revenue for 2016/17 only \$5.6M

State Revenue

- Decrease 2016/17 Mandate One-time Funding <\$455K>
- No additional Mandate One-time Funding in subsequent years projected
- Decrease in Prior Year Lottery Revenue <\$162K>
- Establish Partnership Academy Grants \$494K
- Establish Agricultural Career Technical Education Incentive Grants \$48K
- Posting of Career Technical Education Incentive Grant Carryover \$2.9M
- Shifting of Career Technical Education Adult Programs to Fund 11 <\$130K>
- Expiration of Proposition 30 is reflected
- Proposition 55 is not reflected in the 2018/19 fiscal year since the recent passage on November 8, 2016

Local Revenue

- Establish the Johansen Fire Insurance Claim \$5.5M
- Establish the Modesto High School Room 91 Claim \$90K
- Shifting of Career Technical Education Adult Programs to Fund 11 <\$170K>



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### Expenditure Factors

#### Salary and Benefits

- Pension Reform Increases are reflected
  - CalSTRS
    - 2017/18 increase 1.85%
    - 2018/19 increase 1.85%
  - CalPERS
    - 2017/18 increase 1.612%
    - 2018/19 increase 1.60%
- Collective Bargaining negotiations are taking place. No settlement is included.
- First month staffing adjustments for 2016/17
- First month site allocation adjustments for 2016/17
- Additional six (6) Computer Technician II positions beginning in 2017/18 not included for the implementation of 1:1 devices at the remaining 9-12 sites.

#### Supplies, Operating and Capital Outlay

- First month site allocation adjustments for 2016/17
- 2015/16 carryover and deferred revenue posted in 2016/17
- One-time approved expenditures are reflected in 2016/17
- Lease/Purchase agreement payments for 1:1 devices at the remaining 9-12 sites beginning in 2017/18 are not included.

#### 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 for the current and projected fiscal years.

#### 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 still 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. Variances occur as a result of the change in revenue stream from the former Revenue Limit to LCFE and the District posting deferred revenue and carryover in current year. As a result, much of the "not met" status are expected.

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Five categories reflect a “not met” status at this time:

- **Criterion 3 – ADA to Enrollment**  
The District continues to focus on increasing its attendance ratio as it strives towards its target of 98%.
- **Criterion 5 – Salary and Benefits**  
LCFF calculation changes now require the transfer of apportionment to the County Office of Education in lieu of the State paying directly via the Revenue Limit calculation. This change in calculations has skewed the historical average versus current required practice.
- **Criterion 6 – Other Revenue and Expenditures**  
Three factors contributed to the “not met” status – Recording of the Career Technical Education Incentive Grant (CTEIG), recording of revenue from the Johansen fire insurance claim and the District not reflecting deferrals or carryover at adoption.
- **Criterion 8 – Deficit Spending**  
The District budgets full expenditures at budget adoption and reflects savings at each of the reporting periods throughout the year. The projected deficit will be offset by unspent base and supplemental/concentration dollars that are currently budgeted.
- **Criterion S5 – Transfers Out**  
The change in transfers out for 2016/17 are a result of the CalWORKS Adult Career Technical Education (CTE) carryover funds transferring to the Adult Education Fund for correct reporting. The increase in transfers out for the second subsequent year 2018/19 is a result of the CalWORKS Adult CTE one-time carryover funds being fully expended; the program will require a transfer from the General Fund to maintain program offerings.

## 6. Other Funds

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

### Adult Education Fund

Career Technical Education programs for adult participants was shifted to the Adult Education Fund as directed by the California Department of Education School Account Code Structure.

### Cafeteria Fund

This fund continues to intentionally decrease the fund balance as outlined in the Federal Spending Plan.

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Self Insurance Fund

This fund continues to show a decrease in fund balance. An actuarial study will need to be performed to either determine future year adjustments or an increase in the contribution from the Unrestricted General Fund.

FISCAL IMPACT

The first 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 years. A positive certification can be filed.

RECOMMENDATION

It is recommended that the Board of Education approve the First Interim Financial Report for 2016/17 and Positive Financial Certification.


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Originating Department: Financial Services

Recommended by:

**APPROVED**

Approved for Recommendation  
to the Governing Board by:

  
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Julie A. Betschart  
Associate Superintendent, Business Services  
Chief Business Official

  
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Pamela Able  
Superintendent