

MODESTO CITY SCHOOLS

TO: Pamela Able, Superintendent Regular Meeting

SUBJECT: Approval of First Interim Financial Report for 2015/16 and Positive Financial Certification December 7, 2015

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, 2015. 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 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.

Approval of First Interim Financial for 2015/16 and
Positive Financial Certification

2. Average Daily Attendance Report

ADA calculations have changed since adoption. At first interim, an additional 76 ADA was reported to reflect the realized increase in 2014/15. The official reporting of period 1 attendance will take place in December and any changes will be noted at the second interim reporting.

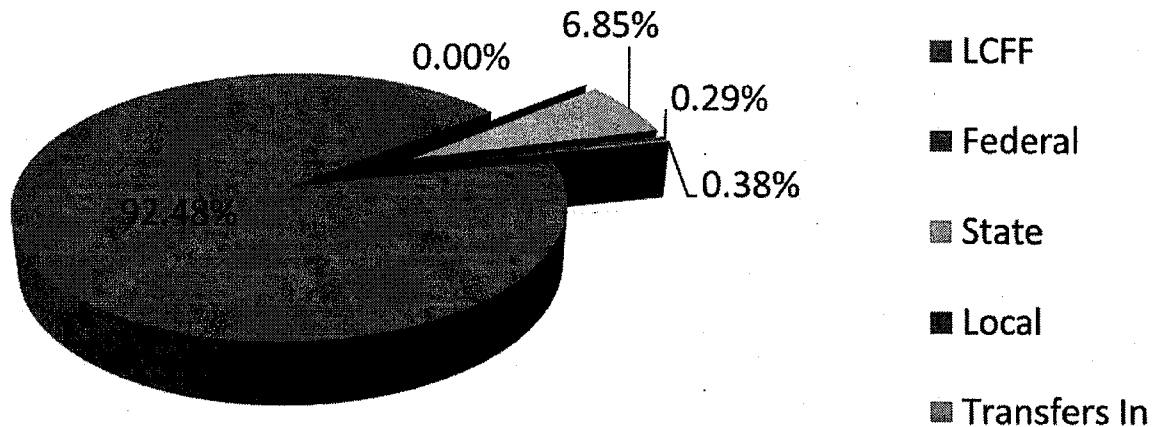
First month enrollment changes in 2015/16 are reflected in the 2016/17 and 2017/18 years. Enrollment increased in the Elementary by 134 pupils, while enrollment in the High School increased by 157 pupils.

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.

Approval of First Interim Financial for 2015/16 and
Positive Financial Certification

Unrestricted Revenue - General Fund



Revenue Factors

Local Control Funding Formula (LCFF)

- 2015/16 estimated COLA of 1.02% and estimated GAP funding of 51.52%
 - Elementary – \$17.4M increase from 2014/15
 - High School – \$18.0M increase from 2014/15
- Projected COLA
 - 2015/16 1.60%
 - 2016/17 2.48%
- Projected GAP funding
 - 2015/16 35.55%
 - 2016/17 35.11%

Federal Revenue

- Increase 2015/16 Title I Entitlement \$0.8M
- Posting of Deferred Revenue \$5.4M

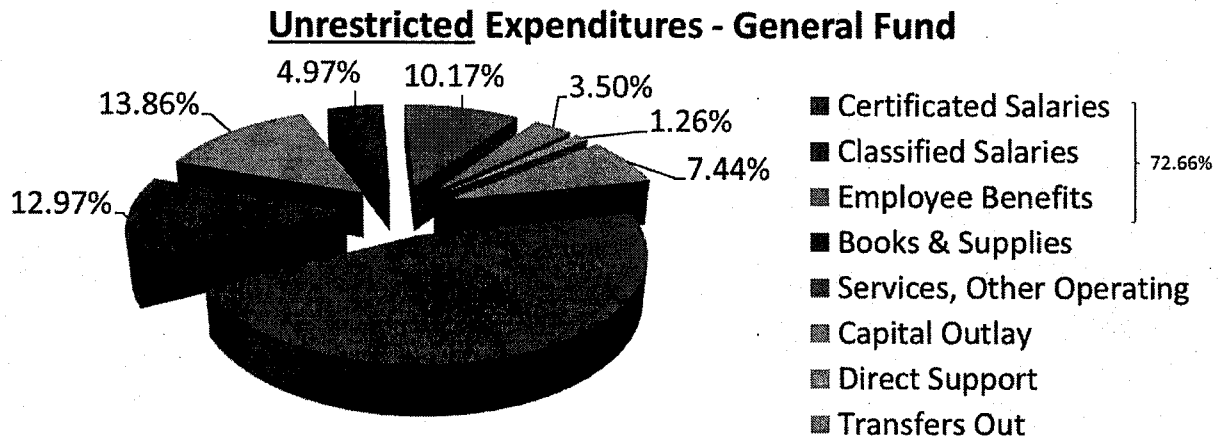
State Revenue

- One-time Educator Effectiveness approved by Governor \$2.2M

Local Revenue

- Establish the Johansen Fire Insurance Claim \$4.5M

Approval of First Interim Financial for 2015/16 and
Positive Financial Certification



Expenditure Factors

Salary and Benefits

- CSEA and MCS Managers Group salary settlements are included
- MTA proposed salary settlement is not included
- Revision for first month staffing adjustments
- Revision for first month site allocation adjustments
- Workers' Compensation Rate increase from 2.0% to 2.25% in 2016/17 and beyond

Supplies, Operating and Capital Outlay

- One-time technology increases since adoption \$2.6M
- Posting of 2014/15 carryover

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. The Board has already authorized inter-fund borrowing and County fund borrowing to address any potential cash shortages, if the need were to arise. Current projections show the District in a positive cash flow for the current and projected fiscal years.

Approval of First Interim Financial for 2015/16 and
Positive Financial Certification

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 LCFF and the District posting deferred revenue and carryover in current year. As a result, much of the "not met" status are expected.

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

- Criterion 3 – ADA to Enrollment
Due to continued historical growth, the District strives towards its growth 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 vs. current required practice.
- Criterion 6 – Other Revenue and Expenditures
Two factors contributed to the "not met" status - year one recording of revenue from the Johansen fire and the District does not reflect deferrals or carryover at adoption.
- Criterion 8 – Deficit Spending
Deficit is planned due to the spending down of one-time carryover funds.
- Criterion S5 – Contributions
The Board of Education approved a one-time transfer of \$2M Emergency Maintenance needs the night of the 2015/16 adoption; therefore, this is a change in the originally completed document presented that evening.

6. Other Funds

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

Cafeteria Fund

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

Approval of First Interim Financial for 2015/16 and
Positive Financial Certification

Self Insurance Fund

This fund continues to show a decrease in fund balance. An actuarial study will 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 2015/16 and Positive Financial Certification.

Originating Department: Financial Services


Recommended by:

APPROVED

Approved for Recommendation
to the Governing Board by:


Julie A. Betschart

Associate Superintendent, Business Services
Chief Business Official


Pamela Able

Superintendent