

MODESTO CITY SCHOOLS

TO: Pamela Able, Superintendent Regular Meeting

SUBJECT: Approval of First Interim Financial Report for 2014/15 and Positive Financial Certification December 8, 2014

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, 2014. 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 through October 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 levels and meet all mandatory obligations.

2. Average Daily Attendance Report

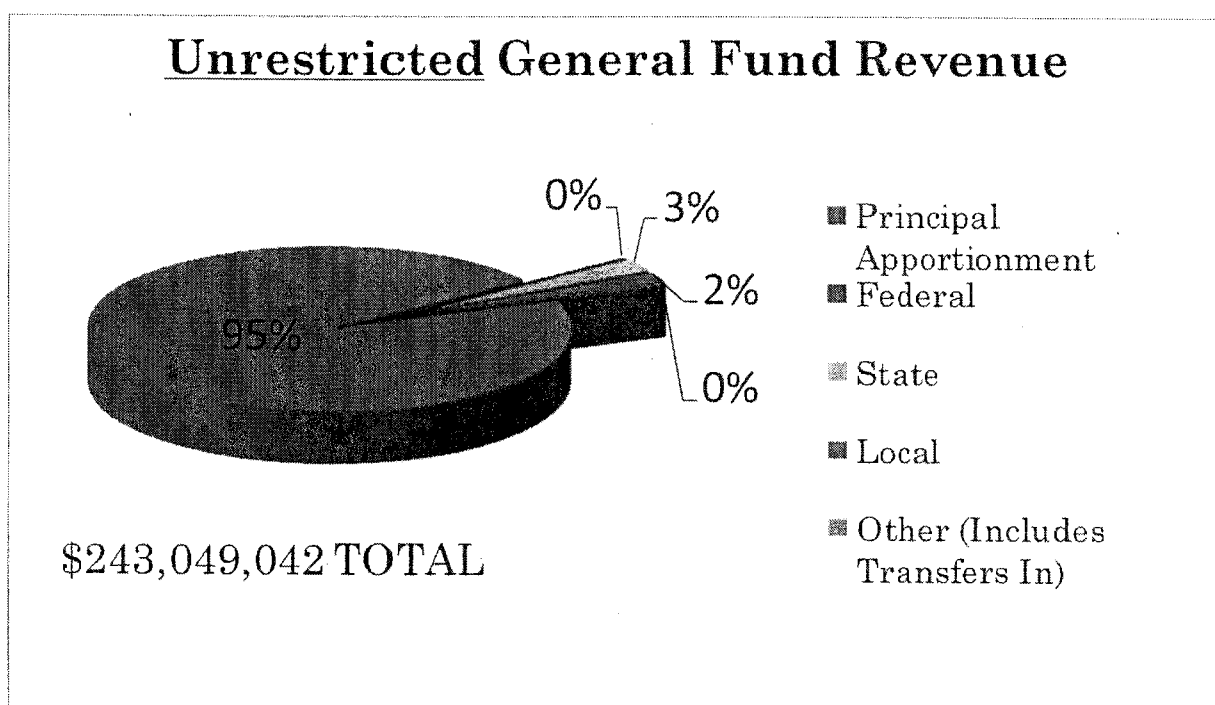
ADA calculations have changed since adoption. At first interim, an additional 4.29 ADA was reported to reflect the realized increase in 2013/14. The official reporting of period 1 attendance will take place in December and any changes will be noted at the second interim reporting.

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First month enrollment changes in 2014/15 are reflected in the 2015/16 and 2016/17 years. Enrollment decreased in the Elementary by <126> pupils, while enrollment in the High School increased by 105 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.



Local Control Funding Formula (LCFF)

- 2014/15 estimated COLA of 0.85% and estimated GAP funding of 28.06%
 - Elementary – \$13.9M increase from 2013/14
 - High School – \$11.7M increase from 2013/14
- Projected COLA
 - 2015/16 2.19%
 - 2016/17 2.14%
- Projected GAP funding
 - 2015/16 20.68%
 - 2016/17 25.48%

Federal Revenue

- Increase 2014/15 Title I Entitlement \$0.4M

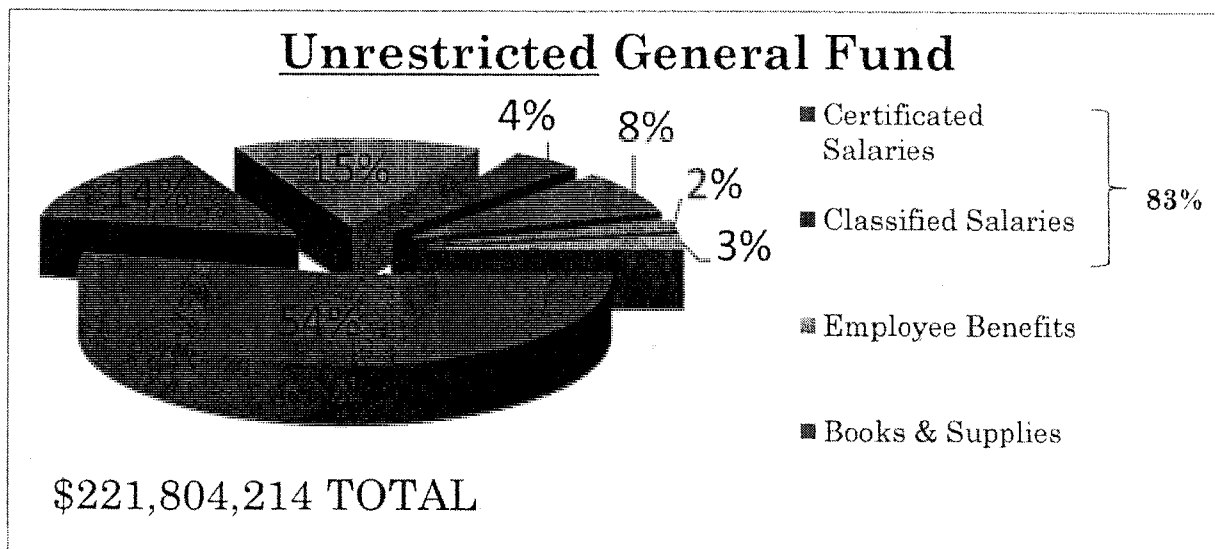
State Revenue

- Onetime Mandate Claim Reimbursement \$1.7M

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Local Revenue

- Microsoft Voucher Reimbursements \$1.0M
- CalRecycle Grant \$0.2M



Expenditures

- Implementation of the Local Control Accountability Plan (LCAP) items
- Implementation of Facility and Deferred Maintenance Allocations
- Onetime increase to Technology \$2.7M
- 2013/14 carryover and deferred revenue is reflected
- Pension Reform Impact \$13.3M over three years or 4% of the budget by 2016/17
 - 2014/15 STRS additional \$939,488; PERS additional \$156,417
 - 2015/16 STRS additional \$2,713,383; PERS additional \$387,531
 - 2016/17 STRS additional \$2,713,383; PERS additional \$1,121,926

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.

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.

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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.

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.
- Criterion 6 – Other Revenue and Expenditures
The District does not reflect deferrals or carryover at adoption.
- Criterion 8 – Deficit Spending
Deficit spending is a result of salary settlements and the spending down of onetime carryover funds.
- Criterion 10 – Reserves
Due to the uncertainty of State LCFF implementation, as recommended by School Services of California, the District has placed the LCFF projected growth for the out years on an assigned reserve line. Should the projected LCFF GAP funding percentages materialize into revenue received, the District will have sufficient funds to meet its reserve for economic uncertainties and all other assigned reserve lines.

6. Other Funds

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

- The Cafeteria Fund is intentionally decreasing the fund balance as outlined in the Federal Spending Plan.
- The Self Insurance Fund has shown 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.

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RECOMMENDATION

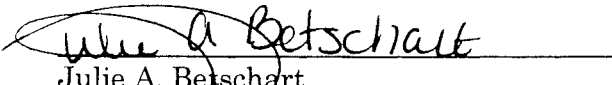
It is recommended that the Board of Education approve the First Interim Financial Report for 2014/15 and Positive Financial Certification.

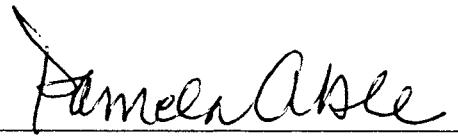
Originating Department: Financial Services

Recommended by:

APPROVED

Approved for Recommendation
to the Governing Board by:


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


Pamela Able
Superintendent