

MODESTO CITY SCHOOLS

TO: Pamela Able, Superintendent Regular Meeting

SUBJECT: Approval of Second Interim Financial Report for 2013/14 and Positive Financial Certification March 10, 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 second interim report, based on January 31 financial data, is due to the Stanislaus County Office of Education by March 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 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 levels and meet all mandatory obligations. The figures also include an annual estimate of the salary and expenditure savings rather than the historical periodic reductions that have been reflected at interim reporting periods.

Approval of Second Interim Financial Report for 2013/14 and Positive Financial Certification

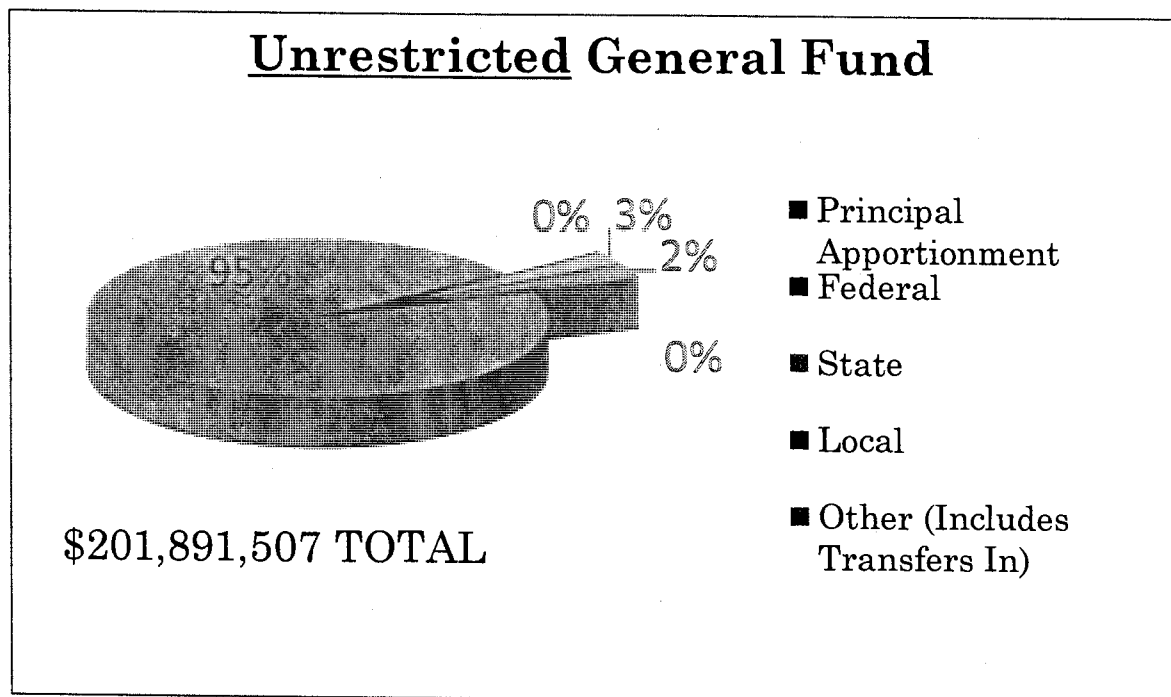
2. Average Daily Attendance Report

ADA calculations have changed since adoption. At first interim, an additional .38 ADA was reported to reflect the realized increase in 2012/13. The official reporting of period 1 attendance took place in December and enrollment has materialized into average daily attendance.

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.



Revenue Limit

- Estimated Local Control Funding Formula (LCFF) apportionment using the FCMAT Calculator.
 - Elementary = \$6,819,259 additional funding. This amount is inclusive of:
 - County ADA Transfer - \$257,021
 - High School = \$5,341,243 additional funding. This amount is inclusive of:
 - County ADA Transfer - \$3,960,165
- 13/14 current COLA of 1.565%
- 14/15 project COLA 0.86%; 15/16 projected COLA of 2.12%
- 13/14 current GAP funding of 11.78%
- 14/15 projected GAP funding of 28.05%; 15/16 projected GAP funding of 33.95%

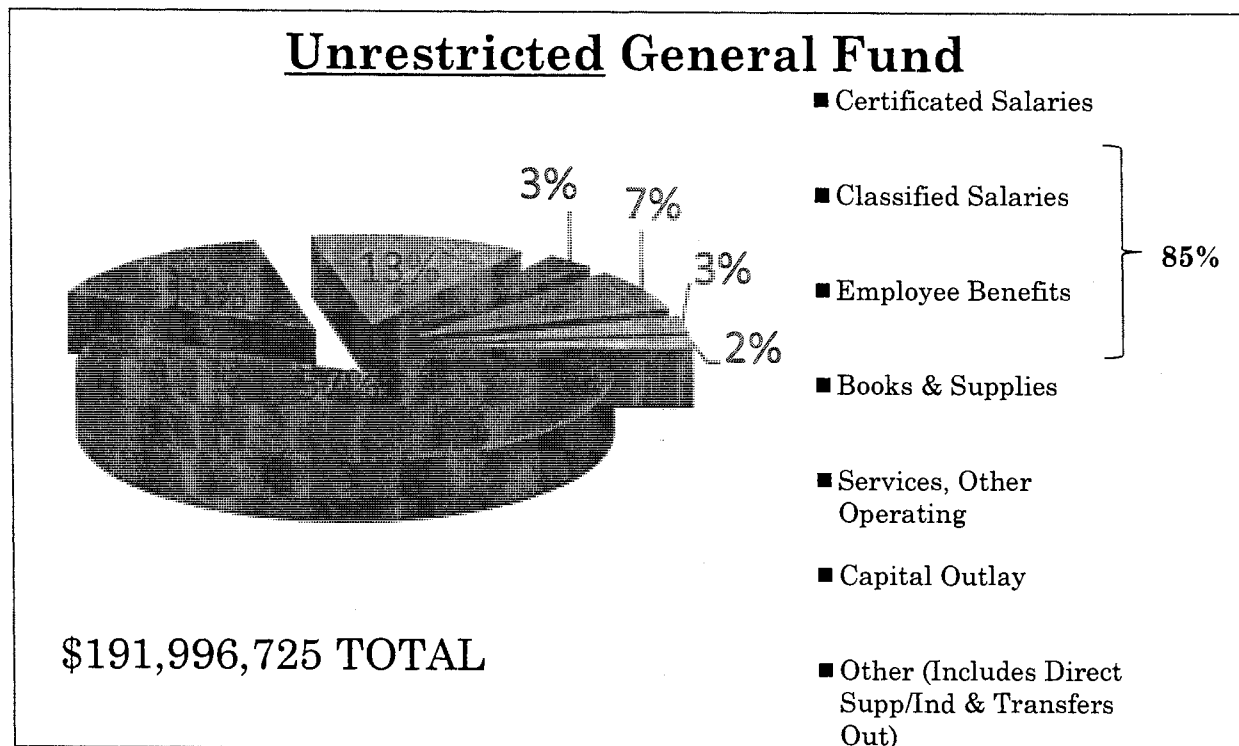
Approval of Second Interim Financial Report for 2013/14 and Positive Financial Certification

Federal Revenue

- Estimated reductions for federal sequestration, with the exception of:
 - Title I - \$904,815 increase
 - Title III, Immigrant Education - <\$6,722> decrease
 - Title III, Limited English Proficient - <\$26,719> decrease

State Revenue

- One-time Common Core apportionment in 2013/14 only
- Removal of Tier III Categoricals, Home-to-School Transportation and Economic Impact Aid (EIA). These funds are now considered part of the “base” funding through LCFF
- Standardized Testing and Reporting (STAR) Prior Year Revenue



Expenditures

- **State categorical programs included in LCFF shifted to unrestricted**
- Additional “contribution” to Transportation as a result of Targeted Instructional Improvement Grant (TIIG) shifting to an Unrestricted revenue stream - \$795,334
- Additional contribution to Special Education as a result of Targeted Instructional Improvement Grant (TIIG) shifting to an Unrestricted revenue stream- \$795,333
- Estimated annual savings by major object code reflected in all fiscal years.
- Addition of one-time off the salary schedule payment equal to one percent (1%) of the actual end-of-month earnings from July 1, 2012 through June 30, 2013 for classified, certificated and management unit members
- Elimination of negotiated 2009/10 and 2010/11 furlough agreements with classified, certificated and management unit members by July 1, 2013

Approval of Second Interim Financial Report for 2013/14 and
Positive Financial Certification

- Elimination of negotiated 2009/10 and 2010/11 salary reduction agreements with classified and management unit members by July 1, 2013
- Reinstatement of 2% of negotiated 2009/10 and 2010/11 salary reduction agreement with certificated unit members by July 1, 2013; remaining salary reduction due to the continued K-6 release from child supervision duties outside the classroom
- Employer portion of the PERS contribution is estimated to increase 1.1% in each of the out-years
- One-time Common Core expenditure in 2013/14 only
- Removal of carryover and one-time expenditures in 2014/15 and 2015/16
- Creation of "Digital" Davis High Program in 2013/14
- Addition of Feb 25, 2013 Board approved Security Division lockdown latch installation
- 2014/15 restricted budget reflects an additional \$1.8 million in on-going cuts to remain fiscally self-sustaining (does not include EIA reduction)
- 2015/16 restricted budget reflects an additional \$2.4 million in on-going cuts to remain fiscally self-sustaining (does not include EIA reduction)

Fund Balance

- Continue "assigned" designations as approved by the Governing Board
- Increase to the assigned County Cash Fair Market Value Adjustment
- Assignment of Digital Davis High Program in 2014/15 & 2015/16
- Assignment of LCFF reserve in 2014/15 and 2015/16, due to pending LCAP process

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 passage of Proposition 30 accelerated the State buy-down of 2012/13 deferrals. As a result, the projected cross fiscal year deferrals for 2013/14 have been reduced. At this time, an estimated 21.42% of principal apportionment funding dollars will be delayed until the following year.

The Board has already authorized inter-fund borrowing and County fund borrowing to address any potential cash shortages, if the need were to arise.

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.

Approval of Second Interim Financial Report for 2013/14 and
Positive Financial Certification

6. Other Funds

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

FISCAL 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 years. A positive certification can be filed.

RECOMMENDATION

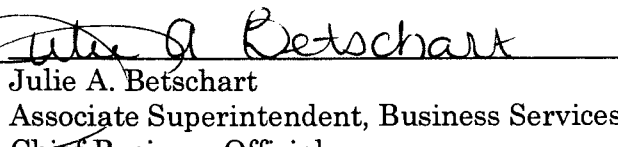
It is recommended that the Board of Education approve the Second Interim Financial Report for 2013/14 and Positive Financial Certification.

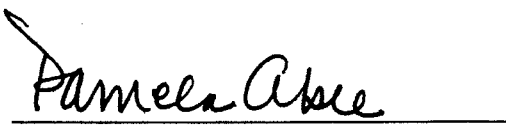
Originating Department: Budget/Finance

APPROVED

Reviewed and Recommended by:

Approved for Recommendation
to the Governing Board by:


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


Pamela Able
Superintendent