



Action Item

TO: Board of Trustees and Superintendent

PREPARED BY: Patsy Thomas, Director Fiscal Services

PRESENTED BY: Stephen Dickinson, Assistant Superintendent – Administrative Services

BOARD AGENDA ITEM: Consideration of Approval of Second Interim Report, Fiscal Year 2014-2015

BOARD MEETING DATE: March 11, 2015

BACKGROUND:

Education Code sections 42130 and 42131, as amended by AB 1200, require each district superintendent to prepare and submit interim financial reports to the governing board so the governing board can certify to the County Superintendent of Schools, the State Controller, and the State Superintendent of Public Instruction whether or not the school district is able to meet its financial obligations for the remainder of the fiscal year.

ADMINISTRATIVE DISCUSSION:

The 2014-2015 Second Interim Report includes budget activity through January 31, 2015. Administration will highlight all major topics of the Second Interim Report as well as long-term financial planning issues at the March 11th meeting.

FISCAL IMPACT:

Decrease of \$1,129,447 in the 2014-2015 projected fund balance.

RECOMMENDATION:

It is the recommendation of District administration that the Board of Trustees approve the 2014-2015 Second Interim Financial Report and authorize the Superintendent or designee to sign the Second Interim Financial Report School District Certification.

2014-2015 2nd Interim

The Second Interim is based on current information which includes the Local Control Funding Formula (LCFF). The 2014-2015 fiscal year is the second year of the LCFF, a new distribution system for funding which replaces the revenue limit and numerous state categorical programs by creating three components: Base, Supplemental and Concentration. The Supplemental and Concentration portions of the LCFF are based on the District's unduplicated counts of low income students, English Learner students and foster youth.

The District will continue to work on increasing its reserves for future economic uncertainties.

I. Comments and Changes

- For the readers understanding of the various SACS reports, it is important to look at the headings, especially if they indicate unrestricted or restricted resources. The State Accounting Manual prescribes certain accounting principles and practices specific to unrestricted and restricted programs/funding. Some of the reports combine unrestricted and restricted accounts and they are so labeled.
- The projected Reserve for Economic Uncertainties (REU), in Form 01 on page 2 under Projected Year Totals, amounts to \$7,056,361 which represents 4.42% of total budgeted expenditures and other outgo.
- Board Policy #3100 for 2014-2015 establishes a minimum reserve for economic uncertainty (REU) in the range of 3% – 5%. For clarity, 5% is not the minimum, but rather the upper end of the minimum range.
- Other Funds, Forms 11-73, are reported in the documentation for the Second Interim Report. They include Cafeteria, Building, Capital Facilities, and Foundation Trust. All of these Other Funds are in a solvent budgeted status as of Second Interim.
- The Second Interim Report of Average Daily Attendance, Form A, is a reflection of the current ongoing district wide ADA/Enrollment status. Included is an increase in ADA due to the increase in enrollment at CBEDS.
- The actual and estimated cash flows, Form CASH, indicate the District will end the fiscal year in a positive cash position.
- The report of Criteria and Standards, Form 01CS, for the Second Interim Report should allow the County Superintendent of Schools to approve the District's Second Interim Financial Statement, once considered and approved by the Board of Trustees.

II. The Second Period Interim Report – Methodology and Impact

Modifications included are: inclusion of unrestricted carry forward amounts and adjustments to reflect the previous fiscal year financial closing process.

The following schedule displays the change in projected balances, revenues and expenditures from the Second Interim.

<u>Unrestricted General Fund</u>				
<u>Summary of Balances, Revenue and Expenditures</u>				
	<u>Adopted Budget</u>	<u>First Interim</u>	<u>Second Interim</u>	<u>Changes</u>
Beginning Balance	\$ 7,696,821	\$ 7,889,116	\$ 7,889,116	\$ -
Revenues	130,376,058	134,660,176	134,389,844	(270,332)
Other Financing Sources	5,357	6,515	6,515	0
	<u>130,381,415</u>	<u>134,666,691</u>	<u>134,396,359</u>	<u>(270,332)</u>
Expenditures	111,894,794	115,023,600	115,321,611	298,011
Transfers Out	666,049	788,078	801,744	13,666
Contributions	17,031,567	18,304,790	18,852,228	547,438
	<u>129,592,410</u>	<u>134,116,468</u>	<u>134,975,583</u>	<u>859,115</u>
Excess/(Deficit)	789,005	550,223	(579,224)	(1,129,447)
Ending Balance	8,485,826	8,439,339	7,309,892	(1,129,447)
Reserves & Designated Balances	8,485,826	8,439,339	7,309,892	(1,129,447)
Undesignated Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

III. Forecast Ending Balance

Historically, actual year-end ending balances are more favorable than those forecasted during the fiscal year. While there is no assurance that the district will realize a higher ending balance as the year progresses, it is a possibility because of the district's conservative approach to budget development.

The components of the Ending Balance, as reflected in the schedule below, include a reserve for economic uncertainties, reserves for warehouse stores inventory, revolving funds and assigned balances.

Not included are restricted balances related to categorical programs and special education. The District budgets restricted programs to use all revenue and prior year carry forwards in the current budget year thru the next two years.

Since the First Interim, the ending balance has decreased by \$1,129,447. The schedule on page 5 details the changes that affect the unobligated fund balance.

<u>Unrestricted General Fund</u>				
<u>Components of the Ending Balance</u>				
	<u>Adopted Budget</u>	<u>First Interim</u>	<u>Second Interim</u>	<u>Changes</u>
Beginning Balance	\$ 7,696,821	\$ 7,889,116	\$ 7,889,116	\$ -
Operating Surplus (Deficit)	789,005	550,223	<i>(579,224)</i>	<i>(1,129,447)</i>
Ending Balance	<u>8,485,826</u>	<u>8,439,339</u>	<u>7,309,892</u>	<u><i>(1,129,447)</i></u>
Reserve for Economic Uncertainties	7,486,821	8,089,144	7,056,361	<i>(1,032,783)</i>
Assigned	789,005	62,955	0	<i>(62,955)</i>
Revolving Cash Fund and Stores	210,000	287,240	253,531	<i>(33,709)</i>
Total Reserves	8,485,826	8,439,339	7,309,892	<i>(1,129,447)</i>
Undesignated Balance	0	0	0	0
Ending Balance	<u>\$ 8,485,826</u>	<u>\$ 8,439,339</u>	<u>\$ 7,309,892</u>	<u>\$ <i>(1,129,447)</i></u>

IV. Forecast Income

The total Unrestricted General Fund revenues are forecast to decrease by \$270,332 due to the following changes:

LCFF Revenues: The net decrease of (\$530,296) is due to a decrease in estimated P2 ADA and a decrease in the gap funding from 29.56% to 29.15%.

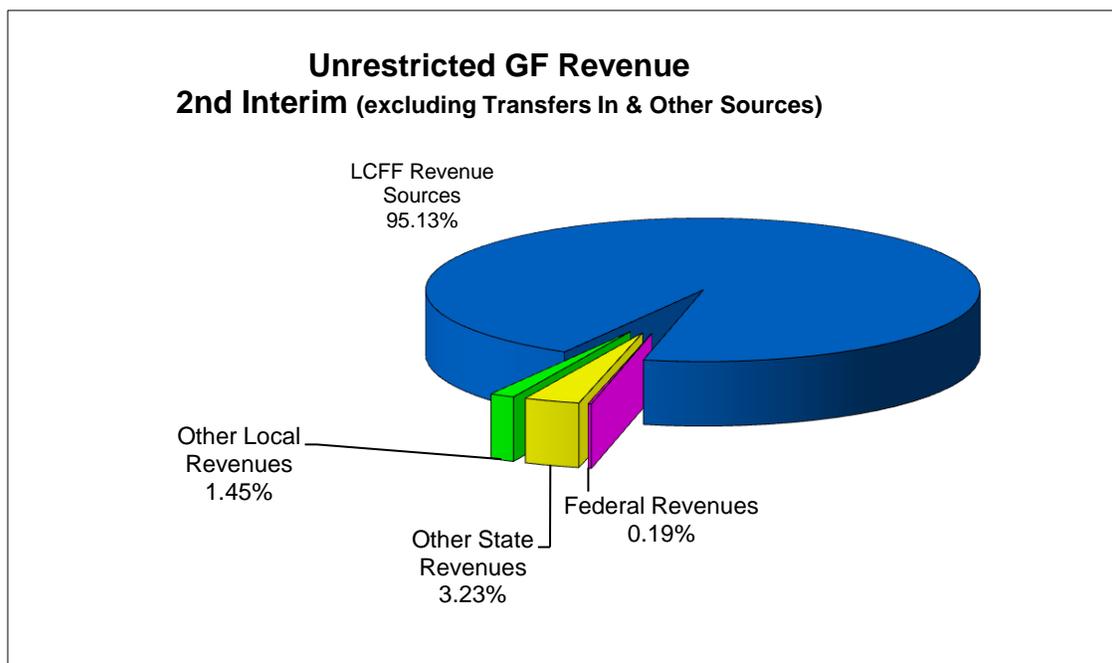
Federal Revenues: The net increase of \$2,430 is due to the COLA applied to the ROTC salary reimbursement.

Other State Revenues: The net increase of \$32,219 is due to \$12,189 increase in the PY Mandated Cost funds, \$21,996 in Lottery funds and a decrease of (\$1,966) in the Mandated Block Grant due to recalculation.

Other Local Revenues: The net increase of \$225,315 is mainly due to the budgeting of revenue for reimbursable ASB costs.

The following schedule displays revenue source.

Unrestricted General Fund				
Summary of Revenue				
Revenues	Adopted Budget	First Interim	Second Interim	Changes
	\$			
LCFF Revenue	125,462,631	\$ 128,378,675	\$ 127,848,379	\$ (530,296)
Federal Revenues	364,523	252,184	254,614	2,430
Other State Revenues	3,260,087	4,312,398	4,344,617	32,219
Other Local Revenues	1,288,817	1,716,919	1,942,234	225,315
	130,376,058	134,660,176	134,389,844	(270,332)
Transfers In	5,357	6,515	6,515	0
Other Sources	0	0	0	0
	\$			
Total Revenues	130,381,415	\$ 134,666,691	\$ 134,396,359	\$ (270,332)



V. Forecast Expenditures

The total Unrestricted General Fund expenditures are forecast to be \$859,115 more than the First Interim due to the following major changes:

The Certificated Salary projected increase in the amount of \$476,668 is due to .167 FTE's that were budgeted only for 1st semester but continued into 2nd semester, 2nd semester temporary teachers and class changes.

Classified Salary projected decrease in the amount of \$29,543 is due to an increase of \$56,441 for the authorization of 6 Health Clerks, a decrease of (\$182,667) in substitute and overtime in Operations, an increase of \$16,598 in Adult Education overtime, and increase of \$122,599 in reimbursable Walk on Coaches and Advisors (paid through ASB), an increase of \$27,288 in clerical temps, overtime and subs and a decrease of (\$10,716) in campus supervisors due to budgeting for the full year but revised for 2nd semester

The Employee Benefits projected decrease in the amount of (\$40,355) is mainly due to the reduction in budgeted ACA (Affordable Care Act) and changes associated with salary adjustments.

The Books and Supplies projected increase in the amount of \$59,571 is due to miscellaneous budget revisions to eliminate negative line items within a budget.

The Other Services and Operating Expenditures projected decrease in the amount of (\$433,825) is mainly due to the budget reduction for the disproportionate SPED services that will be addressed and expensed in 2015-2016.

The Capital Outlay projected decrease in the amount of (\$57,117) is due to IT miscellaneous budget revisions to eliminate negative line items within the entire budget.

The Other Outgo (excluding indirect) projected increase in the amount of \$288,655 is mainly due to the budgeting of the transfer to students that are served in a County Operated School. Prior to LCFF, the revenue was transferred through the state apportionment which was a component of the revenue calculation. With the implementation of the LCFF, the district receives the ADA generated revenue which requires a transfer to the County Superintendent of Schools.

The Transfers of Indirect Costs projected decrease in the amount of (\$33,957) is due to reduction in Routine Restricted Maintenance and the budgeting of sub agreements for services which are not includable in the indirect direct calculation.

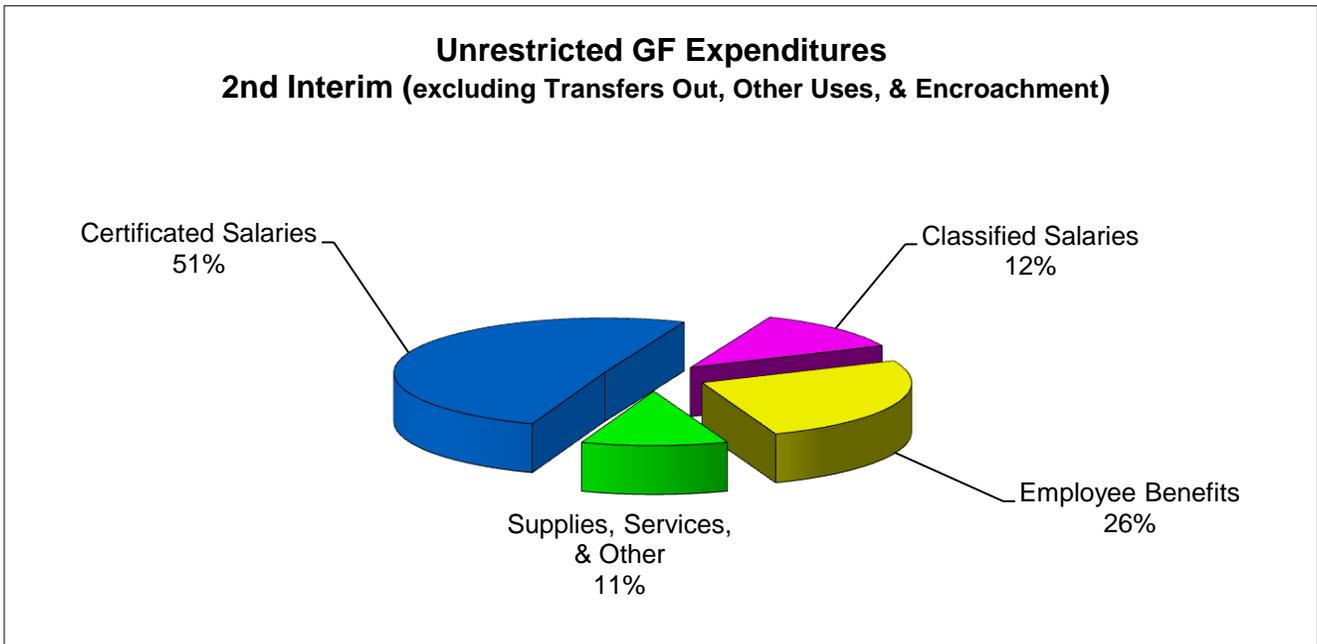
The Transfers Out projected increase in the amount of \$13,666 is due to the contribution to Food Service. Salary and benefits increased due to the increase in substitute costs which the majority of the increase was offset by an increase to revenue.

The Contributions projected increase in the amount of \$547,438 is mainly due to a decrease in expenditures of (\$105,373) Routine Restricted Maintenance and increase of \$652,811 in Special Education Costs which includes \$187,570 increase of 5.25 FTE for Paraeducators, (\$199,899) decrease in Mental Health/Out of Bed revenue, \$123,685 increase in Triton Academy, \$98,039 increase for certificated and classified summer school, (\$249,664) decrease in AB602 revenue, (\$203,693) decrease of 3.4 FTE for certificated staff and (\$2,353) in miscellaneous changes.

Categorical programs are budgeted and perpetually monitored to balance revenues to expenditures. Categorical programs are not included on this schedule.

The schedule below shows Unrestricted General Fund expenditures by type.

Unrestricted General Fund				
Summary of Expenditures				
Expenditures	Adopted Budget	First Interim	Second Interim	Changes
Certificated Salaries	\$ 56,310,491	\$ 57,899,021	\$ 58,375,689	\$ 476,668
Classified Salaries	13,570,227	14,133,930	14,104,387	<i>(29,543)</i>
Employee Benefits	29,703,288	29,935,613	29,895,258	<i>(40,355)</i>
	99,584,006	101,968,564	102,375,334	406,770
Books and Supplies	3,369,507	4,831,875	4,891,446	59,571
Services, Other Operating Expenses	8,913,766	8,424,435	7,990,610	<i>(433,825)</i>
Capital Outlay	165,344	267,629	210,512	<i>(57,117)</i>
Other Outgo (Excluding Support)	1,682,374	1,682,374	1,971,029	288,655
Direct Support/Indirect Costs	<i>(1,820,203)</i>	<i>(2,151,277)</i>	<i>(2,117,320)</i>	33,957
	111,894,794	115,023,600	115,321,611	298,011
Transfers-out	666,049	788,078	801,744	13,666
Encroachment	17,031,567	18,304,790	18,852,228	547,438
Total Expenditures	\$ 129,592,410	\$ 134,116,468	\$ 134,975,583	\$ 859,115



VI. Contributions to Restricted Programs

The following table shows Unrestricted General Fund support to restricted programs.

Unrestricted General Fund
Summary of Contributions from Unrestricted Revenue

	<u>Adopted Budget</u>	<u>First Interim</u>	<u>Second Interim</u>	<u>Changes</u>
Special Education	13,826,792	14,386,809	15,039,620	652,811
Routine Restricted Maintenance	3,204,775	3,917,981	3,812,608	(105,373)
Total Support	\$ 17,031,567	\$ 18,304,790	\$ 18,852,228	\$ 547,438

VII. Multi-Year Projection

The multiple year projection, Form MYPI for both unrestricted and restricted funds document that the District will be able to meet Board Policy #3100 in the current fiscal year and the specified future year's obligations for 2015-2016 and 2016-2017. District Administration will continue to work with the Board of Trustees and all stakeholders to develop the Local Control Accountability Plan (LCAP) that prioritizes new expenditures and makes investments in the educational mission while maintaining fiscal strength and flexibility.

VIII. Summary

The Ventura County Office of Education (VCOE) oversees the budgeting process of OUHSD and the other school districts within Ventura County. Each year VCOE provides its school districts with several common messages regarding budgeting that should be considered, including:

- Although 2014-2015 is now the 2nd year of LCFF implementation, the fiscal operating environment for districts remains somewhat uncertain, and each district must address its own unique set of risk factors in determining budget priorities and creating multi-year projections.
- The precise level of LCFF funding provided in any given year is subject to economic conditions as well as political decisions by the Governor and Legislature.
- The LCFF entitlements are dependent on shifting unduplicated eligible pupil counts, as well as ADA, which adds a level of complexity to revenue forecasting that was not present under the revenue limit system.
- Future expenditure uncertainty includes changing requirements as a result of LCAP development.
- Additional future expenditure uncertainty includes changes in legislative mandates such as STRS, PERS, OPEB, Affordable Care Act and the Healthy Families Act.
- The requirement to restore Routine Restricted Maintenance to the 3% minimum level returns in 2015-2016.
- Reserves and fiscal flexibility are necessary to protect the integrity of the educational program in an unpredictable operating environment. Achieving this level of flexibility will require districts to build trust among constituents through clear, ongoing, and transparent communications regarding the general uncertainty and the unique situational challenges facing the district.

VIV. Recommendation

The staff recommendation is to approve the 2014-2015 Second Interim Report and therefore certify to the County Superintendent of Schools that the Oxnard Union High School District will have a minimum Reserve for Economic Uncertainties of 3%; a positive cash balance as of June 30, 2015; will be able to meet current fiscal year obligations; and will be able to meet future years' financial obligations for 2015-2016 and 2016-2017.