



Action Item

TO: Board of Trustees and Superintendent of Schools

PREPARED BY: Patsy Thomas, Director Fiscal Services

PRESENTED BY: Stephen Dickinson, Assistant Superintendent Administrative Services

BOARD AGENDA ITEM: Consideration of Approval of the First Interim Report, Fiscal Year 2016-2017

BOARD MEETING DATE: December 14, 2016

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.

PROCESS

- Original budget adoption by July 1st
- First Interim Report – December 2016
- Second Interim Report – March 2017
- Unaudited Actual Report – September 2017
- Final Audit Report – Dec 2017/Jan 2018

ADMINISTRATIVE DISCUSSION

The 2016-2017 First Interim Report includes budget activity through October 31, 2016. Administration will highlight all major topics of the First Interim Report as well as long-term financial planning issues at the December 14th meeting.

FISCAL IMPLICATION

Estimated June 30, 2017 Reserve for Economic Uncertainty is increased by \$176,762 – from \$8.76 million (at the time of budget adoption) to \$8.93 million with this First Interim Report.

RECOMMENDATION

It is the recommendation of the District administration that the Board of Trustees approve the 2016-2017 First Interim Financial Report and authorize the Superintendent or designee to sign the First Interim Financial Report School District Certification.

2016-2017 First Interim

The First Interim is based on current budget information which contains information related to the final Adopted Budget for 2016-17, which was signed by Governor Brown on June 27, 2016. Changes include \$214 per ADA allocation to offset the outstanding mandate backlog which is included in the 1st Interim.

Other One-Time funding included in the adopted state budget but not included in the 1st Interim, includes College Readiness Block Grant-provide support to increase the number of students who enroll at institutions of higher education and complete undergraduate degree within four years, Truancy and Dropout Prevention-aimed at reducing truancy and supporting pupils at risk of dropping out of school, Teacher Workforce Development for Classified School Employees Credentialing Program-provide grants to recruit non-certificated school employees to participate in a teacher preparation program and become certificated classroom teachers in public school, California Center on Teaching Careers, Water-to improve access to quality drinking water in schools and Breakfast Startup Grant-to enhance the existing School Breakfast Startup Grant.

The District administration will continue to work with the Board of Trustees on maintaining a balanced budget and long-term financial stability.

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 California School Accounting Manual (CSAM) 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 \$8,933,602 which represents 4.33% of total budgeted expenditures and other outgo.
- Board Policy 3100 establishes a minimum reserve for economic uncertainty (REU) in the range of 3 – 5%. For clarity, 5% is not the maximum, but rather the upper end of the minimum range.
- Other Funds, Forms 11-73, are reported in the documentation for the First Interim Report. They include Adult Education, Cafeteria, Building, Capital Facilities, and Foundation Trust. All of these Other Funds are in a solvent budgeted status as of First Interim.
- The First Interim Report of Average Daily Attendance, Form A, is a reflection of the current ongoing district wide ADA/Enrollment status. We have conservatively budgeted prior year P2 ADA.
- 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 First Interim Report should allow the County Superintendent of Schools to approve the District's First Interim Financial Statement, once considered and approved by the Board of Trustees.

II. The First 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 adopted budget.

	<u>Adopted Budget</u>	<u>First Interim</u>	<u>Changes</u>
Unrestricted General Fund			
<u>Summary of Balances, Revenue and Expenditures</u>			
Beginning Balance	\$ 10,952,062	\$ 20,712,815	\$ 9,760,753
Revenues	161,382,765	164,804,021	3,421,256
Other Financing Sources	-	-	0
	<u>161,382,765</u>	<u>164,804,021</u>	<u>3,421,256</u>
Expenditures	147,438,895	156,644,678	9,205,783
Transfers Out	3,463,836	3,564,284	100,448
Encroachment	10,165,256	11,273,310	1,108,054
	<u>161,067,987</u>	<u>171,482,272</u>	<u>10,414,285</u>
Excess/(Deficit)	314,778	(6,678,251)	(6,993,029)
Ending Balance	11,266,840	14,034,564	2,767,724
Reserves & Designated Balances	11,266,840	12,435,378	1,168,538
Undesignated Balance	<u>\$ -</u>	<u>\$ 1,599,186</u>	<u>\$ 1,599,186</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 and revolving funds and assigned.

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

Since the Adopted Budget, the ending balance has increased by \$2,767,724. The actual beginning balance was more than projected at adopted. Carryover and one time funds attributed to the increase in the ending fund balance.

<u>Unrestricted General Fund</u>			
<u>Components of the Ending Balance</u>			
	<u>Adopted Budget</u>	<u>First Interim</u>	<u>Changes</u>
Beginning Balance	\$ 10,952,062	\$ 20,712,815	\$ 9,760,753
Operating Surplus (Deficit)	314,778	(6,678,251)	(6,993,029)
Ending Balance	<u>11,266,840</u>	<u>14,034,564</u>	<u>2,767,724</u>
Reserve for Economic Uncertainties	8,756,840	8,933,602	176,762
Assigned	2,300,000	3,291,776	991,776
Revolving Cash Fund and Stores	210,000	210,000	0
Total Reserves and Designations	11,266,840	12,435,378	1,168,538
Undesignated Balance	-	1,599,186	1,599,186
Ending Balance	<u>\$ 11,266,840</u>	<u>\$ 14,034,564</u>	<u>\$ 2,767,724</u>

The schedule below displays changes to the undesignated fund balance.

UNRESTRICTED GENERAL FUND UNDESIGNATED FUND BALANCE AT	Adopted Budget	0
<u>Items Contributing to the Increase in Undesignated Fund Balance of</u>		
PY closing changes in the projected beginning balance at the adoption.	\$	9,760,753
Changes in LCFF Revenue Increase in ADA projection due to increase in enrollment and an increase in the GAP Funding.		1,501,787
Changes in Other State Revenue Increase due to 2016-17 One Time Funds and an increase in unrestricted Lottery Funds.		1,229,742
Changes in Other Local Revenue Increase is due to budgeting of reimbursable programs such as ASB, ROP Transportation and budgeting for prior year workers compensation rebate.		689,727
Changes in Other Outgo Indirect Indirect costs were increased due to the budgeting of carryover in restricted programs, increase in Special Education expenditures.		79,325
TOTAL INCREASE	(+)	13,261,334
<u>Items Contributing to the Decrease in Undesignated Fund Balance of</u>		
Changes in Certificated Salaries Increase is due to the budgeting of the 2014-15 and 2015-16 US Contra account, increase in 2016-17 US Contra account, the PBIS pilot program and the 7% increase for management.		(4,203,630)
Changes in Classified Salaries Increase is due to the budgeting of the 2015-16 Me Too Contra account and 2016-17 Me Too Contra, new position for the Secretary/Textbook at RCHS, hourly temp and sub positions, summer school and ASB reimbursable programs.		(1,338,801)
Changes in Benefits Increase in benefits due to increase in salaries.		(1,187,248)
Changes in Books and Supplies Increase is due to budgeting for AE CalWorks, donations, principals budget, reimbursable expenditures and transfers between objects to clear negative balances.		(670,720)
Changes in Other Services/Operating Expenditures Increase due to outside Home to School transportation for SPED students, budgeting for site LCAP, principals budget carryover and transfers between objects to clear negative balances.		(563,355)
Changes in Capital Outlay Increase is due to budgeting for 6 new buses and 2 adult transition vans.		(1,321,354)
Changes in Transfers Out Increase is due to budget transfer for Oxnard #8 start up and increase in facility use for GED program at Adult Ed.		(100,448)
Changes in Contributions Increase is due to an increase of 7.50 FTE in SPED Paraeducators and the 7% pay increase for SPED and Routine Restricted Maintenance		(1,108,054)
Changes in Assigned Due to budgeting for School Buses, Adult Transition Vans, Oxnard #8 Startup, LCAP Pilot Project and assigning 2016-17 One Time Funds		(991,776)
Increase for Economic Uncertainties due to increase in expenditures.		(176,762)
TOTAL DECREASE	(-)	(11,662,148)
Unrestricted General Fund Undesignated Fund Balance at	First Interim	(=) \$1,599,186

IV. Forecast Income

The total Unrestricted General Fund revenues are forecast to increase by \$3,421,256 due to the following:

LCFF Revenue: The net increase of \$1,501,787 is due to an increase in ADA due to an increase in enrollment, a decrease in GAP funding of <.66%> and an increase of 1.56% in the unduplicated pupil percentage.

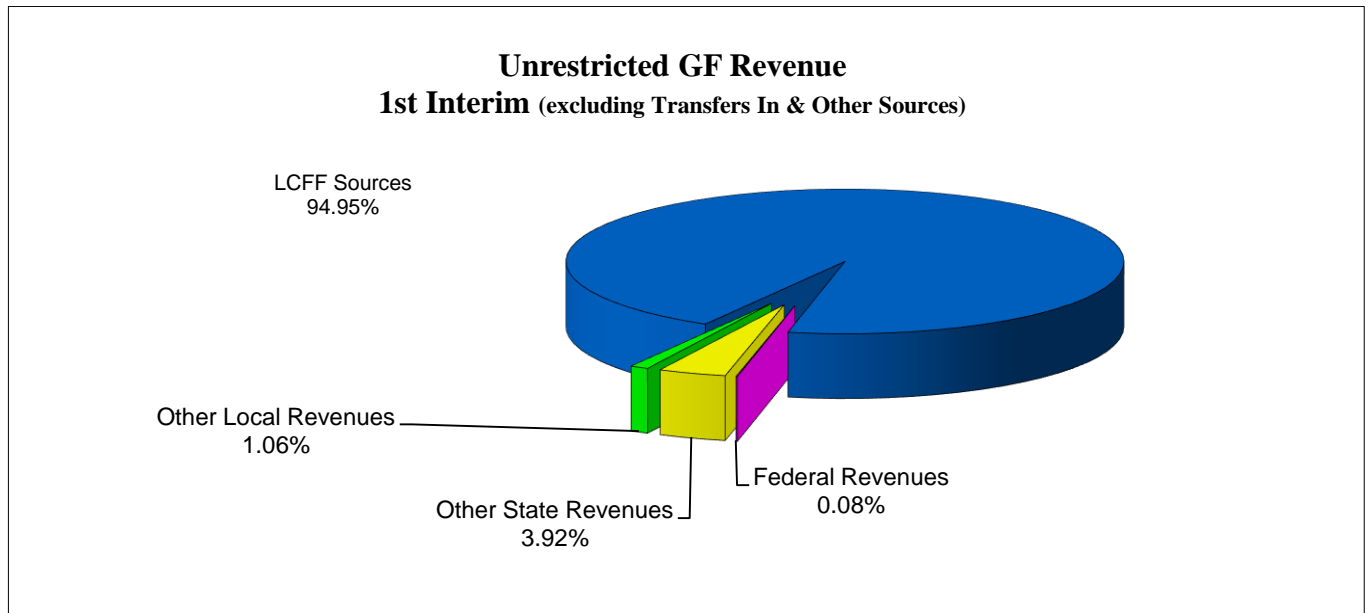
Federal Revenues: No Change

Other State Revenues: The net increase of \$1,229,742 is due to an increase in Unrestricted Lottery of \$37,966 and \$1,191,776 in One Time Funding.

Other Local Revenues: The net increase of \$689,727 is due to \$292,831 for prior years Workers Compensation rebate, \$58,578 for Energy Software rebates, \$50,550 for ROP Transportation Reimbursement, \$272,393 in ASB and Safety Credit Reimbursement and \$15,375 in Rental revenue and other miscellaneous revenue.

The following schedule displays revenue source.

Unrestricted General Fund Summary of Revenue			
	Adopted Budget	First Interim	Changes
Revenues			
LCFF Sources	\$ 154,974,160	\$ 156,475,947	\$ 1,501,787
Federal Revenues	132,935	132,935	0
Other State Revenues	5,223,702	6,453,444	1,229,742
Other Local Revenues	1,051,968	1,741,695	689,727
	<u>161,382,765</u>	<u>164,804,021</u>	<u>3,421,256</u>
Transfers In	-	-	0
Other Sources	-	-	0
Total Revenues	<u>\$ 161,382,765</u>	<u>\$ 164,804,021</u>	<u>3,421,256</u>



V. Forecast Expenditures

The total Unrestricted General Fund expenditures are forecast to be \$10,414,285 more than the adopted budget due to the following major changes:

The Certificated Salary projected to increase \$4,203,630 is due to budgeting \$3,170,212 of the 2014-15 and 2015-16 Unit Share Contra account and increase to the 2016-17 Contra account. An increase of \$342,498 for the 7% pay increase for Certificated Management which is offset in the Me-Too Contra account in object 2499, \$751,214 in LCAP for the PBIS Pilot program and <\$80,111> in other miscellaneous changes and \$19,817 for the 7% pay increase for non-unit share certificated employees and certificated summer school salary not budgeted.

The Classified Salary projected to increase \$1,338,801 is due to an increase \$44,285 for unit share walk on coaches that is offset with the unit share contra account, an increase \$87,819 in Classified Subs, Temps and overtime, \$25,202 in Classified Summer School that was not budgeted, \$17,416 in Reimbursable salaries and an increase \$1,164,079 for the 2015-16 Me Too Contra, 2016-17 Me Too Contra and the 7% pay increase.

The Employee Benefits projected to increase \$1,187,248 is due to the 7% pay increase and additional health and welfare election.

The Books and Supplies projected to increase \$670,720 is due to an increase \$179,029 for carryover of Principals budget, \$209,093 for reimbursable expenditures (ASB, Safety Credits, etc.), \$16,325 for carryover donations, \$134,918 Adult Ed CalWORKs carryover, \$80,237 for LCAP PBIS and Site LCAP budgeting and \$51,118 in miscellaneous budget revisions between objects.

The Other Services and Operating Expenditures projected to increase \$563,355 is due to \$140,848 in home to school transportation for SPED students, \$98,388 for LCAP PBIS and site LCAP budgeting, \$38,163 for carryover and negative balances in principals' budgets. \$125,000 increase for APEX, \$70,174 increase to MOT budget and \$71,301 increase to Administrative Services for Safety Credits which were all offset by other budgets. The increase \$19,481 in miscellaneous budget revisions between objects.

The Capital Outlay projected to increase \$1,321,354 is due to \$1,221,168 for the budgeting of six school buses and two adult transition vans and \$100,186 in MOT budget which was offset by other budgets.

The Direct Support/Indirect Costs projected increase \$79,325 is due to budgeting for carryover categorical programs, increase in SPED expenditures and increase in Routine Restricted Maintenance Account expenditures.

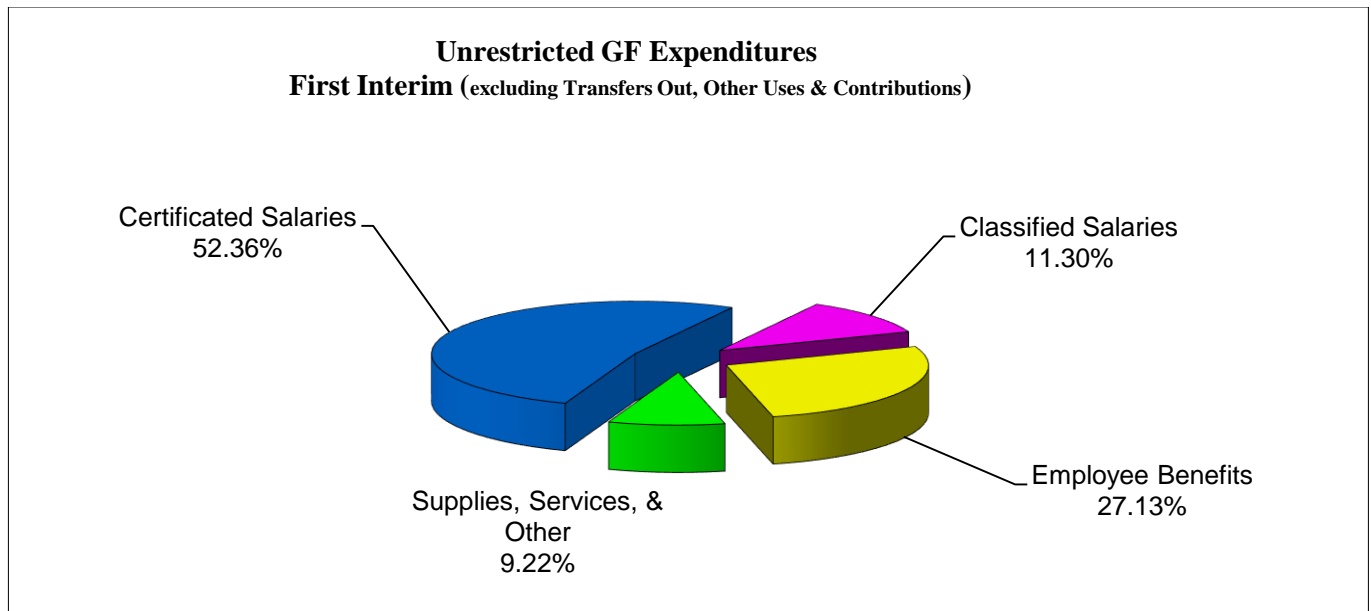
The Transfers Out projected to increase \$100,448 is for the budgeting of the transfer of \$100,000 for the Oxnard #8 Startup and \$448 increase for facility use at Adult Ed. for the GED program.

The Contributions projected to increase \$1,108,054 is due to \$1,019,216 in Special Education contribution for 7.75 FTE paraeducator positions and the 7% pay increase. \$88,838 is for the 7% pay increase for Routine Restricted Maintenance Account.

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.

<u>Unrestricted General Fund</u>			
<u>Summary of Expenditures</u>			
Expenditures	Adopted Budget	First Interim	Changes
Certificated Salaries	\$ 77,808,255	\$ 82,011,885	\$ 4,203,630
Classified Salaries	16,359,204	17,698,005	1,338,801
Employee Benefits	41,303,416	42,490,664	1,187,248
	<u>135,470,875</u>	<u>142,200,554</u>	<u>6,729,679</u>
Books and Supplies	3,369,356	4,040,076	670,720
Services, Other Operating Expenses	8,896,405	9,459,760	563,355
Capital Outlay	83,000	1,404,354	1,321,354
Other Outgo (Excluding Support)	1,570,281	1,570,281	0
Direct Support/Indirect Costs	<u>(1,951,022)</u>	<u>(2,030,347)</u>	<u>(79,325)</u>
	147,438,895	156,644,678	9,205,783
Transfers-out	3,463,836	3,564,284	100,448
Encroachment	10,165,256	11,273,310	1,108,054
Total Expenditures	<u>\$ 161,067,987</u>	<u>\$ 171,482,272</u>	<u>\$ 10,414,285</u>



VI. Contributions to Restricted Programs

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

Summary of Contributions from Unrestricted Revenue

	<u>Adopted Budget</u>	<u>First Interim</u>	<u>Changes</u>
Special Ed	4,698,083	5,717,299	1,019,216
Routine Restricted Maintenance	5,467,173	5,556,011	88,838
Total Support	\$ 10,165,256	\$ 11,273,310	\$ 1,108,054

VII. Multi-Year Projection

The multiple year projection, Form MYP1 for both unrestricted and restricted funds, document that the District will be able to meet Board Policy 3100 and the specified future year's obligations for 2017-2018 and 2018-2019. District administration will be working with the Board of Trustees after the Governor's 2017-2018 Budget is released in January 2017. Budget plans, with appropriate contingencies, will be developed to ensure that the district maintains financial stability.

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 2016-2017 is now the 4th 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.
- 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 2016-2017 First 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, 2017; will be able to meet current fiscal year obligations; and will be able to meet future years' financial obligations 2017-2018 and 2018-2019.