



*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 Second Interim Report, Fiscal Year 2016-2017

BOARD MEETING DATE: March 15, 2017

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**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 1<sup>st</sup>
- First Interim Report – December 2016
- Second Interim Report – March 2017
- Unaudited Actual Report – September 2017
- Final Audit Report – December 2017/January 2018

**ADMINISTRATIVE DISCUSSION:**

The 2016-2017 Second Interim Report includes budget activity through January 31, 2017. Administration will highlight all major topics of the Second Interim Report as well as long-term financial planning issues at the March 15<sup>th</sup> meeting.

**FISCAL IMPLICATION:**

Estimated June 30, 2017 Reserve for Economic Uncertainty is decreased by \$968,536 - from \$8.93 million (at First Interim) to \$7.96 million with this Second Interim Report.

**RECOMMENDATION:**

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

## 2016-2017 2<sup>nd</sup> Interim

The Second Interim is based on current information which includes the Local Control Funding Formula (LCFF). The 2016-2017 fiscal year is the fourth 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 \$7,965,066 which represents 4.04% 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 maximum, 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 Adult Education, 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 decrease in ADA due to the decrease 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 First Interim.

<b><u>Unrestricted General Fund</u></b>				
<b><u>Summary of Balances, Revenue and Expenditures</u></b>				
	<b><u>Adopted Budget</u></b>	<b><u>First Interim</u></b>	<b><u>Second Interim</u></b>	<b><u>Changes</u></b>
Beginning Balance	\$ 10,952,062	\$ 20,712,815	\$ 20,712,815	\$ -
Revenues	161,382,765	164,804,021	164,455,819	(348,202)
Other Financing Sources	-	-	0	0
	161,382,765	164,804,021	164,455,819	(348,202)
Expenditures	147,438,895	156,644,678	158,189,967	1,545,289
Transfers Out	3,463,836	3,564,284	3,664,284	100,000
Contributions	10,165,256	11,273,310	11,707,541	434,231
	161,067,987	171,482,272	173,561,792	2,079,520
Excess/(Deficit)	314,778	(6,678,251)	(9,105,973)	(2,427,722)
Ending Balance	<b>11,266,840</b>	<b>14,034,564</b>	<b>11,606,842</b>	<b>(2,427,722)</b>
Reserves & Designated Balances	11,266,840	12,435,378	11,606,842	(828,536)
Undesignated Balance	<b>\$ -</b>	<b>\$ 1,599,186</b>	<b>\$ -</b>	<b>\$(1,599,186)</b>

### 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 \$2,427,722. The schedule on page 5 details the changes that affect the undesignated fund balance.

<b><u>Unrestricted General Fund</u></b>				
<b><u>Components of the Ending Balance</u></b>				
	<b><u>Adopted Budget</u></b>	<b><u>First Interim</u></b>	<b><u>Second Interim</u></b>	<b><u>Changes</u></b>
Beginning Balance	\$ 10,952,062	\$ 20,712,815	\$ 20,712,815	\$ -
Operating Surplus (Deficit)	314,778	(6,678,251)	(9,105,973)	(2,427,722)
Ending Balance	<u>11,266,840</u>	<u>14,034,564</u>	<u>11,606,842</u>	<u>(2,427,722)</u>
Reserve for Economic Uncertainties	8,756,840	8,933,602	7,965,066	(968,536)
Assigned	2,300,000	3,291,776	3,431,776	140,000
Revolving Cash Fund and Stores	210,000	210,000	210,000	0
Total Reserves and Designations	11,266,840	12,435,378	11,606,842	(828,536)
<b>Undesignated Balance</b>	<b>-</b>	<b>1,599,186</b>	<b>0</b>	<b>(1,599,186)</b>
Ending Balance	<b><u>\$ 11,266,840</u></b>	<b><u>\$14,034,564</u></b>	<b><u>\$ 11,606,842</u></b>	<b><u>\$ (2,427,722)</u></b>

<b>UNRESTRICTED GENERAL FUND UNDESIGNATED FUND BALANCE AT</b>	<b>First Interim</b>	<b>1,599,186</b>
<b><u>Items Contributing to the Increase in Undesignated Fund Balance of</u></b>		
Changes in State Revenue is due to increases in PY Mandate funding and Lottery.		70,590
Changes in Other Local Revenue is due to budgeting for the reimbursable costs.		246,425
Changes in Benefits is due to miscellaneous changes to salary adjustments and retiree benefit budget adjustments.		249,605
Changes in Other Outgo is due to indirect costs for College Readiness.		28,908
Changes in the Reserve for Economic Uncertainties is due to reduction in fund balance.		968,536
	<b>TOTAL INCREASE</b>	<b>(+) 1,564,064</b>
<b><u>Items Contributing to the Decrease in Undesignated Fund Balance of</u></b>		
Changes in LCFF Revenue is due to decrease in estimated ADA.		(652,620)
Changes in Federal Revenue is due to resignation of ROTC Instructor.		(12,597)
Changes in Certificated Salaries is due to reallocation of management contra account. Additional Speech Therapist not budgeted.		(432,182)
Changes in Classified Salaries is due to budgeting for reimbursable ASB costs and reductions due to vacancies.		(37,305)
Changes in Books and Supplies is due to Hueneme language lab, laptops for Rancho Campana and non-capital equipment for Maintenance, Operations and Transportation.		(702,049)
Changes in Services and Other Operating Expenditures is due to electrical costs at Rancho Campana, JET and SSC reviews, temporary services, and AP testing subsidy.		(317,176)
Changes in Capital Outlay is due to equipment for Maintenance, Operations and Transportation and copiers in the main offices at the sites.		(288,939)
Changes to Other Outgo is due to the interest on the solar project payment.		(46,151)
Changes to Transfers Out is due to the transfer for Oxnard #8 Start Up.		(100,000)
Changes to Contributions due to additional 1:1 paraeducators, SPED review and retiree costs.		(434,231)
Changes to Assigned due to Technology Equity Plan.		(140,000)
	<b>TOTAL DECREASE</b>	<b>(-) (3,163,250)</b>
<b>UNRESTRICTED GENERAL FUND UNDESIGNATED FUND BALANCE AT</b>	<b>Second Interim</b>	<b>(=) 0</b>

**IV. Forecast Income**

The total Unrestricted General Fund revenues are forecast to decrease by \$348,202 due to the following changes:

LCFF Revenues: The net decrease of (\$652,620) is due to a decrease in estimated P2 ADA.

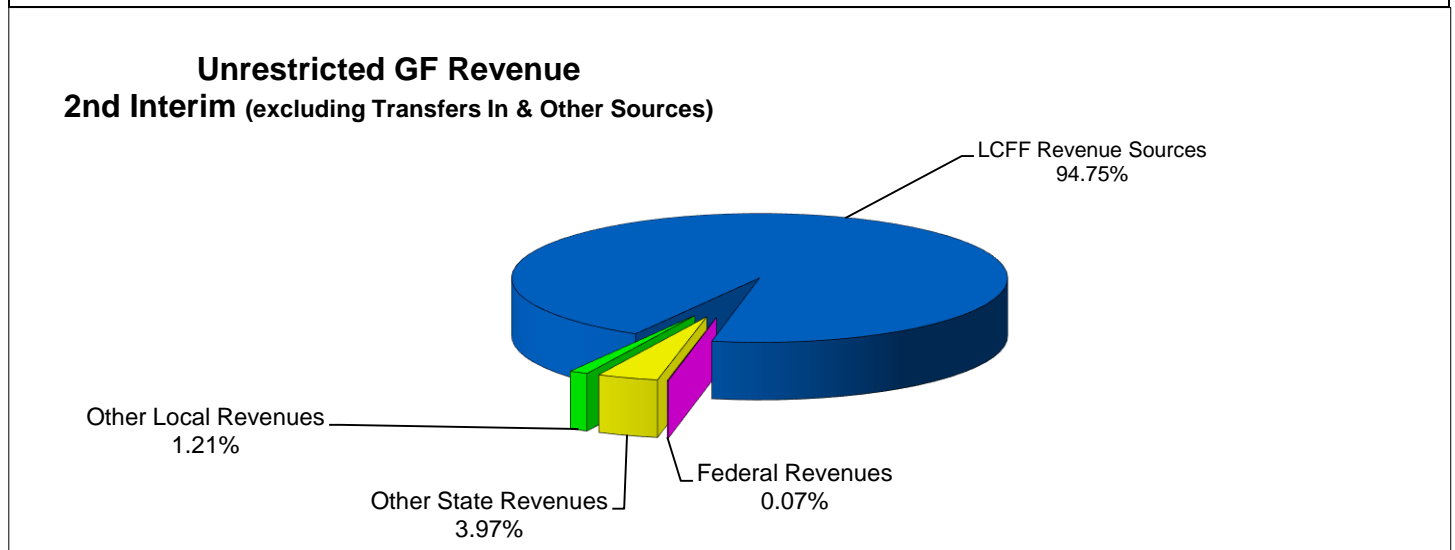
Federal Revenues: The net decrease of (\$12,597) is due to a decrease in reimbursement for Oxnard High ROTC due to resignation.

Other State Revenues: The net increase of \$70,590 is due to an increase in unrestricted Lottery Funds of \$85,746 for PY lottery adjustment and increase in the per ADA allocation. The decrease of (\$14,082) is due to the estimated ADA for Mandated revenue being less than projected and (\$1,074) in one-time funding estimate being slightly higher than funding.

Other Local Revenues: The net increase of \$246,425 is mainly due to the budgeting of revenue for reimbursable ASB costs.

The following schedule displays revenue source.

<b>Unrestricted General Fund Summary of Revenue</b>				
	<b>Adopted Budget</b>	<b>First Interim</b>	<b>Second Interim</b>	<b>Changes</b>
<b>Revenues</b>				
LCFF Revenue Sources	\$ 154,974,160	\$ 156,475,947	\$ 155,823,327	<i>(652,620)</i>
Federal Revenues	132,935	132,935	120,338	<i>(12,597)</i>
Other State Revenues	5,223,702	6,453,444	6,524,034	70,590
Other Local Revenues	1,051,968	1,741,695	1,988,120	246,425
	<u>161,382,765</u>	<u>164,804,021</u>	<u>164,455,819</u>	<i>(348,202)</i>
Transfers In	-	-	0	0
Other Sources	-	-	0	0
<b>Total Revenues</b>	<u>\$ 161,382,765</u>	<u>\$ 164,804,021</u>	<u>\$ 164,455,819</u>	<i>(348,202)</i>



## V. Forecast Expenditures

The total Unrestricted General Fund expenditures are forecast to be \$2,79,520 more than the First Interim due to the following major changes:

The Certificated Salary projected increase in the amount of \$432,182 is due to the increase of \$117,000 in Speech Therapist salaries that were not previously budgeted, \$315,624 in Management contra account that was previously budget in classified Me Too contra account and (\$442) in miscellaneous revisions.

Classified Salary projected increase in the amount of \$37,305 is due to reallocation of contra accounts for each bargaining unit which resulted in an increase of \$56,828. The reduction in the budget of (\$19,523) is the result of reductions in vacant positions, increases for reimbursable salaries, increases in classified substitute costs and miscellaneous revisions.

The Employee Benefits projected decrease in the amount of \$249,605 is due to changes associated with salary adjustments, vacancies, and budgeting actual retiree benefit costs.

The Books and Supplies projected increase in the amount of \$702,049 is due to the increases approved at the January 18, 2017 board meeting which included equipment for Maintenance, Operation and Transportation budget, musical instruments, Hueneme High School language lab, Rancho Campana High School 4<sup>th</sup> year laptops, and miscellaneous revisions between budgets.

The Other Services and Operating Expenditures projected increase in the amount of \$317,176 is due to \$100,000 increase in electrical costs for Rancho Campana, \$53,500 for the JET and SSC reviews, \$40,000 for outside temporary worker services for employees out due to medical or work related injuries, \$125,000 for AP testing subsidy approved at the January 18, 2017 board meeting and (\$1,324) miscellaneous revisions between budgets.

The Capital Outlay projected increase in the amount of \$288,939 is mainly due to copier for main offices at sites in the amount of \$250,000 and equipment for Maintenance, Operation, and Transportation budget in the amount of \$41,654 approved at the January 18, 2017 board meeting. Decreases in the amount of (\$2,715) were due to miscellaneous revisions between budgets.

The Other Outgo (excluding indirect) increase of \$46,151 is due to the reduction in the federal interest reimbursement for the solar project.

The Transfers of Indirect Costs projected increase in the amount of \$28,908 is mainly due to the funding of the College Readiness Block Grant.

The Transfers Out increase in the amount of \$100,000 is for the transfer to Oxnard #8 approved at the January 18, 2017 board meeting.

The Contributions increased in the amount of \$434,231 is mainly due to \$310,199 in estimated SPED excess costs. Other increased included 4 FTE in paraeducators and an increase to retiree benefits due to a paraeducator retirement.

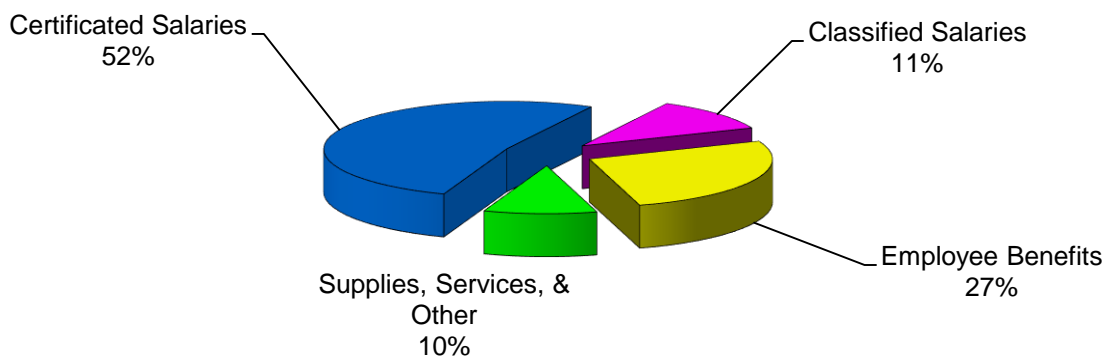
Categorical programs are budgeted and perpetually monitored to balance revenues to expenditures. Categorical programs are not included on this schedule.

The schedule below shows Unrestricted General Fund expenditures by type.

**Unrestricted General Fund**  
**Summary of Expenditures**

<b>Expenditures</b>	<b>Adopted Budget</b>	<b>First Interim</b>	<b>Second Interim</b>	<b>Changes</b>
Certificated Salaries	\$ 77,808,255	\$ 82,011,885	\$ 82,444,067	\$ 432,182
Classified Salaries	16,359,204	17,698,005	17,735,310	37,305
Employee Benefits	41,303,416	42,490,664	42,241,059	<i>(249,605)</i>
	135,470,875	142,200,554	142,420,436	219,882
Books and Supplies	3,369,356	4,040,076	4,742,125	702,049
Services, Other Operating Expenses	8,896,405	9,459,760	9,776,936	317,176
Capital Outlay	83,000	1,404,354	1,693,293	288,939
Other Outgo (Excluding Support)	1,570,281	1,570,281	1,616,432	46,151
Direct Support/Indirect Costs	<i>(1,951,022)</i>	<i>(2,030,347)</i>	<i>(2,059,255)</i>	<i>(28,908)</i>
	147,438,895	156,644,678	158,189,967	1,545,289
Transfers-out	3,463,836	3,564,284	3,664,284	100,000
Encroachment	10,165,256	11,273,310	11,707,541	434,231
<b>Total Expenditures</b>	<b>\$ 161,067,987</b>	<b>\$ 171,482,272</b>	<b>\$ 173,561,792</b>	<b>\$ 2,079,520</b>

**Unrestricted GF Expenditures**  
**2nd Interim (excluding Transfers Out, Other Uses, & Encroachment)**





## VI. Contributions to Restricted Programs

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

	<u>Unrestricted General Fund</u>			
	<u>Summary of Contributions from Unrestricted Revenue</u>			
	<u>Adopted Budget</u>	<u>First Interim</u>	<u>Second Interim</u>	<u>Changes</u>
Special Education	4,698,083	5,717,299	6,151,530	434,231
Routine Restricted Maintenance	5,467,173	5,556,011	5,556,011	0
<b>Total Support</b>	<b>\$ 10,165,256</b>	<b>\$ 11,273,310</b>	<b>\$ 11,707,541</b>	<b>\$ 434,231</b>

## 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 obligation for 2017-2018 with deficit spending. In 2018-2019 with deficit spending the district will not be able to make the state minimum reserve for economic uncertainties of 3% if no actions are taken to reduce expenditures and/or increase revenues. 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 2016-2017 is now the 4<sup>th</sup> 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.

## IV. Recommendation

The staff recommendation is to approve the 2016-2017 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, 2017; will be able to meet current fiscal year obligations; and will be able to meet future years' financial obligations for 2017-2018 and 2018-2019 with reduced expenditures and/or increase in revenues.