



*Action Item*

TO: Board of Trustees and Superintendent of Schools

PREPARED BY: Patsy Thomas, Director Fiscal Services

PRESENTED BY: Dr. Jeff Baarstad, Operations Consultant

BOARD AGENDA ITEM: Consideration of Approval of the Third Interim Financial Report, Fiscal Year 2016-17

BOARD MEETING DATE: May 24, 2017

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**BACKGROUND:**

On March 15, 2017, the Board of Trustees approved the 2016-17 Second Interim Financial Report and budget projection. The report included administrative staff's recommendation that the report be classified as positive, meaning the District could meet all of its financial obligation in the current, and future years. Following a review by the Ventura County Office of Education (VCOE), the Second Interim report was down-graded to a qualified status, based upon VCOE's concerns with consecutive year budget deficits, combined with a projected 2018-19 ending balance that was only \$538,000, far below the mandated 3% Reserve for Economic Uncertainty of approximately \$5,786,484. The Education Code requires that the governing board of a school district that files a qualified or negative Second Interim Report, or whose certification is changed to qualified or negative, shall provide The County Superintendent of Schools an End of Year Financial Statement (also referred to as the Third Interim Financial Report) as of April 30<sup>th</sup> that projects the fund and cash balances of the district through June 30<sup>th</sup>.

**ADMINISTRATIVE DISCUSSION:**

Business Services staff have carefully analyzed the 2016-17 Second Interim Budget, as well as several past budgets, and identified areas that can be legitimately revised to improve the projected ending balance. In addition, accounting staff at VCOE have provided a recommendation to remove "contra accounts" generated by the District's unit share formula from current year expense, to a designated ending balance reserve, which also serves to improve the ending balance. The 2016-2017 Third Interim Financial Report includes budget activity through April 30, 2017. Administration will highlight all major topics of the Third Interim Financial Report as well as long-term financial planning issues at the May 24<sup>th</sup> meeting.

**FISCAL IMPLICATION:**

As a result of the accounting revisions discussed above, the estimated June 30, 2017 Unrestricted Fund ending fund balance has increased by \$10,411,278 over Second Interim, to a total of \$22,018,120.

**RECOMMENDATION:**

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

## 2016-2017 3<sup>rd</sup> Interim Financial Report

The Ventura County Office of Education required the District to develop and approve a 2016-17 Third Interim Financial report in response to concerns with consecutive year budget deficits, combined with a projected 2018-19 ending balance that was only \$538,000, far below the mandated 3% Reserve for Economic Uncertainty of approximately \$5,786,484.

### 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 \$5,572,865 which represents 3% 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.
- The Third Interim Report of Average Daily Attendance, Form A, reflects the current ongoing district wide ADA/Enrollment status.
- The actual and estimated cash flows, Form CASH, indicate the District will end the fiscal year in a positive cash position.

## II. The Third Period Interim Report – Methodology and Impact

Modifications included are: inclusion of unrestricted 2015-16 carry forward amounts and adjustments to reflect the previous fiscal year financial closing process, combined with revisions to income and expense throughout the fiscal year.

The following schedule displays the change in projected revenues, expenditures, and ending balances at Third Interim.

<b><u>Unrestricted General Fund</u></b>					
<b><u>Summary of Balances, Revenue and Expenditures</u></b>					
-	<u>Adopted Budget</u>	<u>First Interim</u>	<u>Second Interim</u>	<u>Third Interim</u>	<u>Changes from Second to Third</u>
Beginning Balance	\$ 10,952,062	\$ 20,712,815	\$ 20,712,815	\$ 20,712,815	
Revenues	161,382,765	164,804,021	164,455,819	165,050,307	594,488
	161,382,765	164,804,021	164,455,819	165,050,307	594,488
Expenditures	147,438,895	156,644,678	158,189,967	150,912,605	(7,277,362)
Transfers Out	3,463,836	3,564,284	3,664,284	1,709,739	(1,954,545)
Contributions	10,165,256	11,273,310	11,707,541	11,122,658	(584,883)
	161,067,987	171,482,272	173,561,792	163,745,002	(9,816,790)
Excess/(Deficit)	314,778	(6,678,251)	(9,105,973)	1,305,305	10,411,278
Ending Balance	<b>11,266,840</b>	<b>14,034,564</b>	<b>11,606,842</b>	<b>22,018,120</b>	<b>10,411,278</b>
Reserves & Designated Balances	11,266,840	12,435,378	11,606,842	19,541,072	7,934,230
Undesignated Balance	<b>\$ -</b>	<b>\$ 1,599,186</b>	<b>\$ -</b>	<b>\$ 2,477,048</b>	<b>\$ 2,477,048</b>

### III. Forecast Ending Balance

Historically, District actual ending balances on June 30 are significantly more favorable than those forecast during the fiscal year. This is due to money “falling out” of the budget due to conservative income and expenditures line items that are not necessarily revised during the year to reflect minor changes. Given concerns with the 2016-17 Second Interim Budget, staff made a concerted effort to identify expenditure line items that were expending below budget levels, and adjusted them to more accurately project actual expenditures and ending balances at Third Interim. It is still a possibility that additional income will fall out into the ending balance on June 30 due to reduced personnel expenditures associated with leaves, and District and site level programs that expend below budgeted levels.

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 General Fund balances related to categorical programs and special education. The District generally budgets restricted programs to expend all current year revenue and prior year carry forwards in the current year budget, resulting in zero ending balances in the current year, and two year projection.

The Third Interim Unrestricted Fund ending balance has increased by \$10,411,278 from Second Interim, to \$22,018,120.

<b><u>Unrestricted General Fund</u></b>					
<b><u>Components of the Ending Balance</u></b>					
-	<b>Adopted Budget</b>	<b>First Interim</b>	<b>Second Interim</b>	<b>Third Interim</b>	<i>Changes from Second to Third</i>
Beginning Balance	\$ 10,952,062	\$ 20,712,815	\$ 20,712,815	\$ 20,712,815	\$ -
Operating Surplus (Deficit)	314,778	<b>(6,678,251)</b>	<b>(9,105,973)</b>	1,305,305	<i>10,411,278</i>
Ending Balance	11,266,840	14,034,564	11,606,842	22,018,120	<i>10,411,278</i>
Reserve for Economic Uncertainties	8,756,840	8,933,602	7,965,066	5,572,865	<b>(2,392,201)</b>
Assigned	2,300,000	3,291,776	3,431,776	13,758,207	<i>10,326,431</i>
Revolving Cash Fund and Stores	210,000	210,000	210,000	210,000	<i>0</i>
Total Reserves and Designations	11,266,840	12,435,378	11,606,842	19,541,072	<i>7,934,230</i>
<b>Undesignated Balance</b>	<b>-</b>	<b>1,599,186</b>	<b>0</b>	<b>2,477,048</b>	<b><i>2,477,048</i></b>
Ending Balance	<b>\$ 11,266,840</b>	<b>\$ 14,034,564</b>	<b>\$ 11,606,842</b>	<b>\$ 22,018,120</b>	<b><i>\$ 10,411,278</i></b>

**IV. Forecast Income**

Total Unrestricted General Fund revenues are forecast to increase by \$594,488 over Second Interim due to the following changes:

LCFF Revenues: The net increase of \$546,511 is due to the recalculation using 2016-17 P2 ADA.

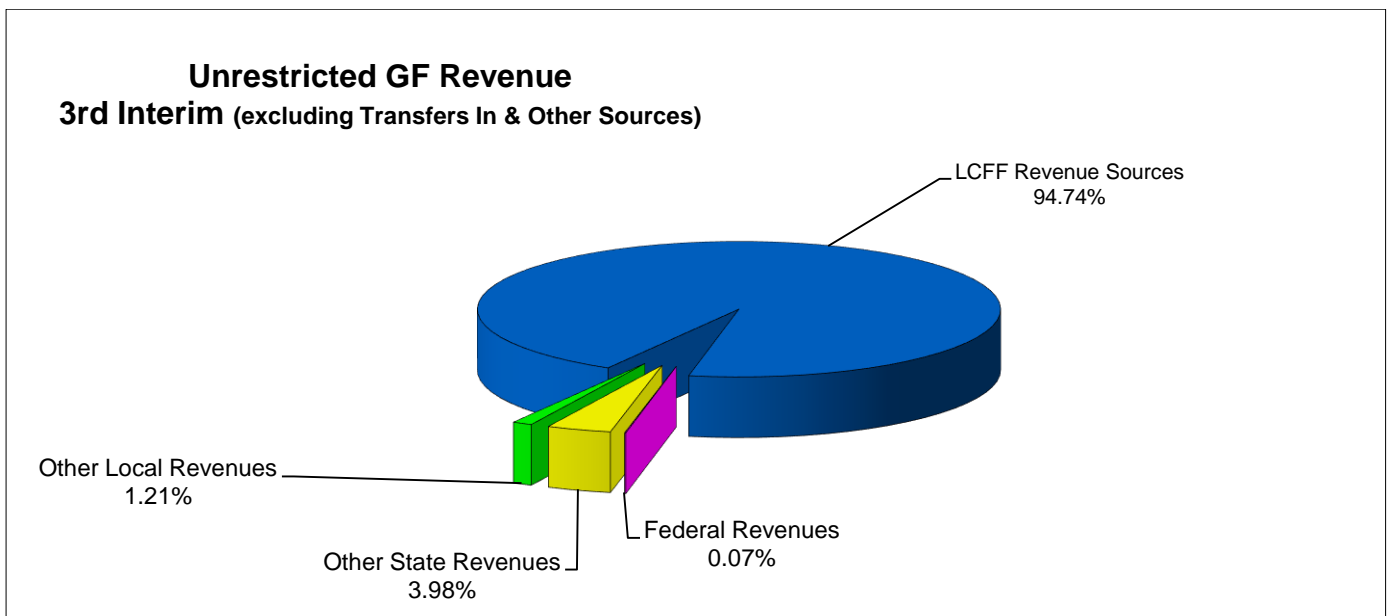
Federal Revenues: The net increase of \$538 is due to an increase in ROTC reimbursement.

Other State Revenues: The net increase of \$36,828 is due to the notification of CalWORKs funding.

Other Local Revenues: The net increase of \$10,611 is due a receipt of facility rental not previously budgeted and donations.

The following schedule displays revenue source.

<b><u>Unrestricted General Fund</u></b>					
<b><u>Summary of Revenue</u></b>					
	<b>Adopted Budget</b>	<b>First Interim</b>	<b>Second Interim</b>	<b>Third Interim</b>	<b>Changes from Second to Third</b>
<b>Revenues</b>					
LCFF Revenue Sources	\$ 154,974,160	\$ 156,475,947	\$ 155,823,327	\$ 156,369,838	\$ 546,511
Federal Revenues	132,935	132,935	120,338	120,876	538
Other State Revenues	5,223,702	6,453,444	6,524,034	6,560,862	36,828
Other Local Revenues	1,051,968	1,741,695	1,988,120	1,998,731	10,611
	<u>161,382,765</u>	<u>164,804,021</u>	<u>164,455,819</u>	<u>165,050,307</u>	<u>594,488</u>
Transfers In					
Other Sources					
<b>Total Revenues</b>	<u>\$ 161,382,765</u>	<u>\$ 164,804,021</u>	<u>\$ 164,455,819</u>	<u>\$ 165,050,307</u>	<u>\$ 594,488</u>



## V. Forecast Expenditures

Total 2016-17 Third Interim Unrestricted General Fund expenditures are forecast to decrease by \$9,976,309 from Second Interim due to the following major changes:

Certificated Salaries is projected to decrease by \$3,713,464, primarily due to removing Unit Share contra accounts (\$3,638,987) from expenditures to a designated ending balance Reserve for Unallocated Unit Share. This accounting modification was recommended by VCOE staff as a more accurate method of accounting for the unallocated Unit Share funds. Certificated Management salaries were reduced by (\$29,391), and estimated substitute costs and hourly programs were reduced by (\$45,086).

Classified Salaries is projected to decrease by \$1,418,580, again, primarily due to removing contra accounts for classified employees (\$1,137,849) from expenditures to a designated ending balance Reserve for Unallocated Compensation. An additional decrease of (\$280,731) includes savings for vacancies in IT and partial year vacancies in Fiscal, Custodial, Sites and Student Services due to resignations and retirements.

Employee Benefits is projected to decrease by \$183,387 due to reductions in mandatory fringe benefits associated with the salary reductions documented above.

Books and Supplies is projected to decrease by \$1,577,827 due to savings in textbooks (\$402,291), which will be carried over in a designated ending balance reserve, CalWORKs (\$218,629), \$162,345 of which will be carried over in a designated ending balance reserve, Unrestricted Lottery (\$1,006,322) which was carryover from FY 2015-16 and was not expended in the current year, and \$49,415 in miscellaneous reductions to DO department budgets.

Other Services and Operating Expenditures are projected to decrease by \$393,869 due to reduced expenditures for the Youth Services Officer at Rancho Campana (\$66,610), reductions to actual expense in student tablet repair (\$24,000), elimination of the annual asset inventory line item (\$62,952) that is budgeted each year but used every other year, savings in annual copier charges (\$20,000), savings for the elections budget that was not used in the current year (\$49,650), savings due to decreases in the budget for the Assistant Superintendent of Business Services (\$139,427) and (\$31,230) in miscellaneous reductions in DO department budgets.

Capital Outlay is projected to decrease by \$115,942 due to IT servers that were budgeted but will not be ordered in FY 2016-17 (\$44,979), savings for a security camera maintenance agreement for RCHS maintained and monitored in-house (\$76,030), the budgeting of \$5,368 for a desk for Pacifica's reception area and \$301 in miscellaneous budget changes.

Transfers of Indirect Costs is projected to decrease by \$125,707 due to the reduction in expenditures in Special Education and Food Service.

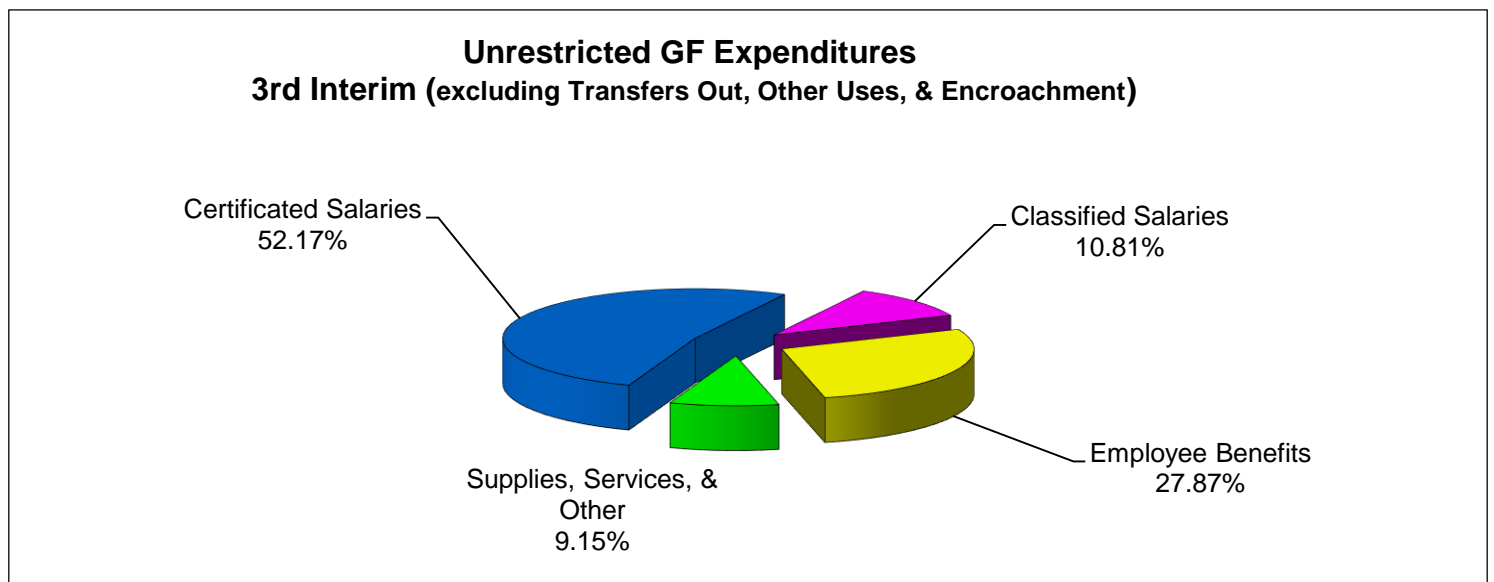
Interfund Transfers Out is projected to decrease by \$1,954,545 due to the elimination of the transfer to Adult Education (\$1,436,428). The transfer to Adult Education was included in 2016-17 Adopted Budget. It was believed that a combination of changes in income associated with the Local Control Funding Formula, combined with the movement of some Adult Education staff from the Unrestricted General Fund to the Adult Education Fund would create a deficit. However, the 2015-16 Unaudited Financial Report documented an approximate \$1.2 million Adult Education ending balance. This funding was carried over into the 2016-17 beginning balance, and is sufficient to cover the current year deficit. It is anticipated that Adult Education will require a transfer from the Unrestricted General Fund in 2017-18. The transfer to Food Service was decreased by \$518,117 after analyzing actual food and supply costs.

Contributions is projected to decrease by \$584,883 due to savings in Special Education. Upon analyzing NPS and LCI costs, it was discovered that prior year purchase orders were carried over to FY 2016-17 based on students being served all year long. The purchase orders were not revised down when students were exited from an NPS or LCI, but were adjusted up when a new student was placed. There were additional reductions due to budgets being rolled over to the current year and not being analyzed based upon actual expense.

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.

<b>Unrestricted General Fund Summary of Expenditures</b>					
<b>Expenditures</b>	<b>Adopted Budget</b>	<b>First Interim</b>	<b>Second Interim</b>	<b>Third Interim</b>	<b>Changes</b>
Certificated Salaries	\$ 77,808,255	\$ 82,011,885	\$ 82,444,067	\$ 78,730,603	\$ (3,713,464)
Classified Salaries	16,359,204	17,698,005	17,735,310	16,316,730	(1,418,580)
Employee Benefits	41,303,416	42,490,664	42,241,059	42,057,672	(183,387)
	135,470,875	142,200,554	142,420,436	137,105,005	(5,315,431)
Books and Supplies	3,369,356	4,040,076	4,742,125	3,164,298	(1,577,827)
Services, Other Operating	8,896,405	9,459,760	9,776,936	9,383,067	(393,869)
Capital Outlay	83,000	1,404,354	1,693,293	1,577,351	(115,942)
Other Outgo (Excluding Support)	1,570,281	1,570,281	1,616,432	1,616,432	0
Direct Support/Indirect Costs	(1,951,022)	(2,030,347)	(2,059,255)	(1,933,548)	125,707
	147,438,895	156,644,678	158,189,967	150,912,605	(7,277,362)
Transfers-out	3,463,836	3,564,284	3,664,284	1,709,739	(1,954,545)
Encroachment	10,165,256	11,273,310	11,707,541	11,122,658	(584,883)
<b>Total Expenditures</b>	<b>\$ 161,067,987</b>	<b>\$ 171,482,272</b>	<b>\$ 173,561,792</b>	<b>\$ 163,745,002</b>	<b>\$ (9,816,790)</b>



## 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>Second Interim</u>	<u>Third Interim</u>	<i>Changes from Second to Third</i>
Special Education	4,698,083	5,717,299	6,151,530	5,566,647	(584,883)
Routine Restricted Maintenance	5,467,176	5,556,011	5,556,011	5,556,011	0
<b>Total Support</b>	<b>\$ 10,165,259</b>	<b>\$11,273,310</b>	<b>\$ 11,707,541</b>	<b>\$ 11,122,658</b>	<b>\$ (584,883)</b>

## VII. Multi-Year Projection

The multiple year projection, Form MYPI for the combined Unrestricted and Restricted Funds, 2016-17 through 2018-19 document the District will be able to meet all projected obligations and maintain a 3% Reserve for Economic Uncertainties in the current year and the specified future years. The District is projected to end 2016-17 with an ending balance of \$24,182,215. In 2017-18, the District has a projected operating deficit of \$7,423,537, due primarily to a small Unrestricted Fund LCFF income increase combined with a significant increase in employee health and pension benefits, the expenditure of significant Unrestricted Fund one-time carryover, and the expenditure of all Restricted Fund carryover. The District is projected to end 2017-18 with a \$16,758,678 ending balance. In 2018-19, the District projected operating deficit is reduced to \$3,312,094, due to a projected large increase in Unrestricted Fund LCFF income, combined with continued growth in employee pension benefit costs. The District is projected to end 2018-19 with a \$13,446,584 ending balance. 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 prior Base 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**

Administrative staff is recommending the Board of Trustees approve the 2016-17 Third Interim Report as submitted, and certify to the Ventura County Office of Education that the Oxnard Union High School District will have a minimum Reserve for Economic Uncertainties of 3%, and a positive cash balance as of June 30, 2017; will be able to meet all current fiscal year obligations; and will be able to meet all future year financial obligations and maintain a minimum Reserve for Economic Uncertainties of 3% for 2017-18 and 2018-19.