



# 2017-18

## First Interim Report

December 14, 2017

219 N "E" Street  
Imperial, CA 92251  
(760) 355-3200

### Narrative

The California Education Code requires school boards to approve and certify four financial reports each year.

- First Interim (July 1 to October 30)
- Second Interim (July 1 to January 31)
- Estimated Actuals (July 1 to June 30)
- Unaudited Actuals

This First Interim Report is prepared as of October 31, 2017, and meets Ed Code format requirements.

The Imperial Unified School District's First Interim Report is submitted with a Positive Certification.

This report represents the District's best estimates for the 2017-18 school year and is based on the most current information available, including any updates from Federal, State, and County Office of Education sources, as well as updated local figures regarding staffing and other expenditure projections. This report will highlight the changes made to the 2017-18 Budget since the District's last update, which occurred in September of 2017.

The following forms are included within the report for the Board's Review:

- District Certification of 2017-18 Interim (Form CI)
- Section A
  - General Fund (Form 01I)
  - Local Control Accountability Formula Summary Pages
  - Average Daily Attendance (Form AI)
  - Summary and Interfund Activities (Form SIAI)
  - Adult Education (Form 11I)
  - Building Fund (Form 21)
  - Cafeteria (Form 13I)
  - Capital Facilities Fund (Form 25I)
  - Special Reserve-Capital Projects Fund (Form 40I)
  - CALPADS 1.17 Report:
- Section B First Interim Budget Report
- Section C Variance Report
- Section D Multi-year Projections Form MYPI:
- Section E Cash Flow Spreadsheet 2017-18
- Section F Special Education Maintenance of Effort Report SEMAI
- Section G Technical Review Checks
- Section H Criteria and Standards (Form 01CSI)

The General Fund Summary shown as section (A) details the changes made since adoption of the 2017-18 budget. Column A is the Adopted Budget as adopted in June 2017. Column B is the current Revised Adopted Budget, and Column C represents actual income received and expenditures made to October 31, 2017. Column D is the projected year totals. Also included as section (B) is a separate summary showing the budget which is separated by unrestricted and restricted income and expenditures. The Second Interim Report will be prepared as of the end of January 2018.

## STATE BUDGET OUTLOOK

The Governor's proposed 2017-18 budget in January 2017, provided increases to ongoing education funding. His plan called for closing the remaining Local Control Funding Formula (LCFF) gap by 23.67% in 2017-18. In the May Revise Budget, the Governor proposed an increase. The final approved gap percentage increase to the LCFF was set at 43.19%. As the State moves closer to total fully funding LCFF, district will see shrinking funding in the future. The Legislative Analyst Office (LAO) has given a healthy financial project and all indications are that the Governor will recommend fully funding the LCFF.

### 2017-18 IUSD GENERAL FUND BUDGET

#### **LOCAL CONTROL FUNDING FORMULA (LCFF)**

The LCFF is intended to provide a funding mechanism that is simple and transparent while allowing local educational agencies maximum flexibility in allocating resources to meet local needs. With the LCFF, there are four driving factors:

- **ADA**- Similar to revenue limits, funding is calculated on Average Daily Attendance (ADA)
- **Annual COLA (Cost of Living Adjustment)**- Determined by the Department of Finance (DOF) for two subsequent years for use in Multi Year Projections (MYP's)
  - Applied to Grade Level Base Grants, which then drives grade span adjustment and Supplemental and Concentration grant calculations
- **Unduplicated Percentages**- Certified through an LEAs CALPADS data each fall (applied to supplemental and concentration grant calculations)
- **Percentage of GAP Funding: During Transition**- Set by the DOF for the current year and estimated by the DOF for the two subsequent years for use in MYPs.

*Shown below is a chart of DOF and SSC estimates of the GAP funding. As in the past, this budget was developed using SSC's gap estimates.*

	2017-18	2018-19	2019-20
COLA	1.56%	2.15%	2.35%
Department of Finance (Estimated Gap Funding)	43.97%	66.12%	64.92%
School Services of California (Est. Gap Funding)	43.19%	39.12%	41.60%

#### **TREATMENT OF ADA UNDER LCFF**

While many of the elements used to calculate ADA remain unchanged under the LCFF, the basic calculations of the target grant begins with a measurement of ADA by grade span.

Under the LCFF, ADA served in county-operated programs such as special day classes and community schools are reported as district ADA. Under the LCFF, apportionments generated by county operated ADA will remain with the district. For 2017-18 the district transfer to ICOE for these supplemental services is estimated at \$365,178.

#### **COST OF LIVING ADJUSTMENTS**

During the transition to full implementation, COLA is not the key determinant of increases in funding. The difference between a districts' starting point, its LCFF target (gap) and the state's LCFF gap percentage funding will be the drivers of funding for all districts until full implementation.

Under the LCFF, the 2017-18 COLA of 1.56% is applied to the entitlement targets. Districts are funded at 43.19% of the difference between 2016-17 revenues and the target amounts. Districts whose current funding exceeds their LCFF target amount, which is not the case for our district, will not receive a COLA. Annual COLAs are applied to LCFF target amounts. Once LCFF is fully funded, the base LCFF amounts will receive annual COLA increases when funded.

#### **SUPPLEMENTAL AND CONCENTRATION GRANTS**

Education Code 42238.02 increases the LCFF base grant by a supplemental grant and a concentration grant. These are determined by the district's unduplicated count of pupils who are eligible for free and reduced price meals, or who are classified as English Learners, or as Foster Youth.

The supplemental grant is equal to 20% of the grade span base grant as increased by the grade-span adjustment of 10.4% in K-3 and 2.6% in 9-12, multiplied by the unduplicated pupil count percentage reported through the California Longitudinal Pupil Achievement Data System (CALPADS). The supplemental grant shall be expended in accordance with the regulations adopted pursuant to Education Code 42238.07.

If the LEAs unduplicated pupil count percentage exceeds 55% then the district will receive a concentration grant. The concentration grant is equal to 50% of the grade span base grant for each applicable grade level, after being increased by the additional adjustments for the K-3 and 9-12 grade span adjustments. **Our district does not meet this threshold and currently will receive no concentration grant funding.** Any concentration grant funding received by an LEA shall be expended in accordance with the regulations adopted pursuant to Education Code 42238.07.

### **ADVANCED APPORTIONMENT**

The advanced apportionment for 2017-18 is based on a statutory derivation pursuant to Education Code Sections 14002 through 14007 and 14301. Section 41330 directs the California Department of Education (CDE) to apportion money in the advance apportionment on the basis of the second principal apportionment (P-2) from the preceding fiscal year. It includes categorical funding entitlements from 2012-13 rolled into the LCFF. Actual final funding under the LCFF formulas will differ from this advance.

## **SUMMARY OF CHANGES SINCE SEPTEMBER BUDGET REVISION**

The district budgeted 2017-18 based on the prior year P-2 ADA of 4042. This 4,042 includes 41.58 ADA for county office operated services and 4,000.42 district ADA.

The district normally maintains approximately 97.5% ADA, or higher, of the enrollment. Current enrollment numbers indicate an estimated 60 increased ADA to be budgeted.

Revenues and expenditures for the district are divided into two categories: **unrestricted** and **restricted**. **Unrestricted** revenues can be used for any type of expenditure. **Restricted** revenues are restricted to a specific type of expense, (i.e. special education, mental health, migrant, etc.).

The following is a comparison of the revenue and expenditure changes of the district by their unrestricted and restricted nature that are being approved by the Board. In addition, to the following comparison in section (C), is a variance report detailing the changes, by object code, from the 2017-18 Revised Adopted to the 2017-18 First Interim.

### **UNRESTRICTED**

The unrestricted changes from the 2017-18 Revised Adopted to the 2017-18 First Interim Budget Report are detailed below and in section (B) of this budget packet:

#### **Revenues**

- Revenue Limit Sources (8011-8099) – Decrease Revenue Limit funding by \$398,191 for property tax adjustments.
- Federal Revenue (8100-8299) – No changes to this category.
- State Revenue (8300-8599) - Increase by \$944.00 for revised mandated block grant allocation.
- Local Revenue (8600-8799) – No changes to this category.
- Inter-fund Transfers In (8912-8919) - No changes to this category.

#### **Expenditures**

- Certificated Salaries (1000-1999) – Decrease by \$26,302 for staffing change adjustments.

- Classified Salaries - (2000-2999) - Decrease by \$64,791 for staffing change adjustments.
- Employee Benefits (3000-3999) - Decrease by \$39,752 for adjustments to salaries.
- Materials and Supplies (4000-4999) – Decrease by \$44,451 for revised projections.
- Other Operating Expenses (5000-5999) - Increase by \$18,074 for settlement cost adjustments.
- Capital Outlay (6000-6999) - Increased by \$10,477 for equipment revised projections.
- Other Outgo (7100-7399) – Decreased by \$1,888 for revised projections.

**Other Financing Sources**

- Inter-Fund Transfers In (8900-8929) - No changes to this category.
- Inter-Fund Transfers Out (7600-7629) - No changes in this category

**RESTRICTED**

The restricted changes from the Revised Adopted to the First Interim Report are detailed below and in section (B) of this budget packet:

**Revenues**

- Revenue Limit Sources (8010-8099) – No changes to this category.
- Federal Revenue (8100-8299) Increase by \$5,262 for revised entitlements.
- State Revenue (8300-8599) - Increase by \$89,475 for revised rate change \$1,628,865 for State’s on behalf STRS contribution adjustment.
- Local Revenue (8600-8799) – No changes to this category.

**Expenditures**

- Certificated Salaries (1000-1999) – Increase by \$67,761 for staffing adjustments.
- Classified Salaries (2000-2999) - Increase by \$21,961 for staffing adjustments.
- Employee Benefits (3000-3999) - Increase by \$137,230 for staffing adjustments \$1,628,865 for State’s on behalf STRS contribution.
- Materials and Supplies (4000-4999) – Increase by \$30,971 for revised projections.
- Other Operating Expenses (5000-5999) - Increase by \$102,462 for revised projections.
- Capital Outlay (6000-6999) – No changes to this category.
- Other Outgo (7100-7399) – Increase by \$1,888 for revised projections.

**Other Financing Sources**

- Inter-Fund Transfers In (8900-8929) - No changes to this category.
- Inter-Fund Transfers Out (7600-7629) - No changes to this category

Below is the amount of Unrestricted General Fund money needed to operate remaining Restricted Programs. For 2017-18, these amounts are:

Special Ed – IDEA (3310)	\$ 13,406
Medi-Cal Billing (5640)	\$ 100,429
Special Education (6500)	\$ 3,114,852
Mental Health (6512)	\$ 100,667
Routine Restricted Maintenance Acct. (8150)	\$ <u>1,214,040</u>
<b>TOTAL CONTRIBUTIONS</b>	<b>\$ 4,543,395</b>

Special Ed receives an allocation from the state which is insufficient to cover the expenses of running the programs. The Routine Restricted Maintenance Account (RRMA) is primarily a bookkeeping procedure used because the district has received state funds for building projects. After not being mandatory for many years districts are now required to contribute 3% towards RRMA expenses. This is the maintenance department (not including custodial) budget.

**OPERATING BUDGET DEFICIT/EXCESS**

For 2017-18 the district has a current operating deficit of \$1,851,101 which will reduce at second interim when the revised ADA is included. Since the current year is budgeted as though we will spend all monies budgeted it is possible that not all of these monies will be spent which could further decrease this deficit at year end closing. Any decrease to the current year operating deficit will offset the operating budget deficits in the out years.

**NEGOTIATIONS**

Negotiation have not been settled with any of the bargaining groups.

## **CASH POSITION**

The most significant change to cash flow for districts occurred in 2012-13 with the passage of Prop 30, which established the Education Protection Act (EPA). Prop 30 increased Personal Income Tax (PIT) rates on high-income tax payers from 2012 through 2018 and a state sales tax increase from 2013 through 2016. In November 2016 the tax increase to high-income earners was extended by twelve years to 2023. This however, provides no additional monies to schools. Funds created by Prop 30 are an offset to state aid - one more slice of the pie that makes up what used to be the base revenue limit which is now our funding under LCFF. So when the EPA goes away upon expiration of the temporary taxes, state aid will be required to backfill the amounts that have been going to local agencies.

Cash flow projections for 2017-18 are included as section (E). Actual cash is reported through the month of October 2017. The district projects a positive cash balance of \$5,806,986 at June 30, 2017.

## **FUTURE YEARS' PROJECTIONS**

The district is projecting a declining fund balance for this year and expects the trend to continue in the next two fiscal years. For the Fiscal Years 2016-17 through 2018-19 the following assumptions have been made as shown on the MYP forms is section (D).

Using these assumptions, future projections show that the district will be able to meet its financial obligations for the current year and the next two fiscal years, and will have available the required 3% Reserve for Economic Uncertainties each year. The state requires that the district submit a projection for the next two years' income and expenditures. This projection is included in this report as Form MYPI in section (D).

## **OTHER FUNDS**

### **ADULT EDUCATION – FUND 11**

The Adult Ed program began in the 2015-16 school year and has a cash balance of \$24,390 as of October 31, 2017. These funds are used for adult education of basic skills and English as a second language.

### **CAFETERIA FUND - Fund 13**

The Cafeteria Fund beginning balance for July 1, 2017 was \$260,141. The cash balance as of October 31, 2017 was \$221,544. The General Fund has contributed \$75,000 towards the operations of the cafeteria this year. This contribution is to offset for the loss in the Meals for the Needy funding eliminated.

### **CAPITAL FACILITIES FUND (DEVELOPER FEES) - FUND 25**

The Developer Fee Fund had a cash balance at October 31, 2017 of \$11,235,163. Developer fees will be used to pay part of future growth projects in the district, lease or purchase of portable buildings, district share of building projects and other items caused by growth.

### **SPECIAL RESERVE FUND FOR CAPITAL PROJECTS - FUND 40**

As the yearly allocations are received from the state they will be deposited back into this fund.

As of October 31, 2017 the Special Reserve Fund had a cash balance of \$934,881.

The board indicated its intentions to restore the monies that were transferred out for employee health insurance benefits associated with the 2012-13 negotiations. This transfer was to occur at a minimum of 10% after any year the district had an operating budget excess. No transfer out has been budgeted for this year.

Along with restoring the monies transferred out for employee health insurance costs it would be prudent of the board to start planning to begin to transfer additional monies into this fund for future building projects or possible cash flow needs.

## **SUMMARY**

The district has a current operating deficit which may decrease if all lines budgeted are not spent. Multi-year projections show the district will be able to maintain its required reserve for this year and the next two years. Any amounts that may be remaining in the health care excess premium accounts will be used as a reserve from which the District may pay future claims or premiums. The district's long term obligations consist of bond repayment, which is paid by property tax proceeds.

The district's Special Education Maintenance of Effort Report is included as section (F). The district meets its Maintenance of Effort Requirements.

The Technical Review Checklist is included in this package as section (G).

The Criterion and Standards for the First Interim Report are attached as (H). This is a comparison of various items which affect a district's financial stability.

The Imperial Unified School District is in a satisfactory financial condition as of October 31, 2017. It is recommended that, based upon this First Interim Report, the Governing Board Approve the following:



*A positive certification that Imperial Unified School District may be able to meet its fiscal obligations for the current and the subsequent two fiscal years.*

**The district will continue to monitor the budget and send budget amendments to the Board of Trustees as necessary.**