

**Buckeye Union School District  
2018-19 FIRST INTERIM REPORT  
Financial Report as of October 31, 2018  
Presented: December 12, 2018**

**Background**

The California Education Code, as updated by AB1200 and AB2756, requires school districts to report on their financial condition at the time of budget adoption and after closing the books with the unaudited actuals. Two interim reports are also required during the Fiscal Year. The First Interim report illustrates a district's financial condition and projections as of October 31<sup>st</sup> as well as budget revisions based on expenditure and revenue trends and other available information. The following is a summary of the financial position of the Buckeye Union School District as of October 31, 2018. The Governing Board of a school district certifies the district's financial condition to the County Office of Education through these reports. Based on the information contained in the enacted 2018-19 California State budget and the financial information provided in the interim reports, the Buckeye Union School District certifies the District's financial position is positive; the District will meet its financial obligations in the current and subsequent two fiscal years.

For ease and clarity, I have summarized within this report the activities and position of each fund and included detailed analysis of items of particular interest. Original state reports are available in the district office and can be forwarded to you upon request.

**Comparison of the State's Proposed and Enacted Budget**

During the preparation of the Enacted State Budget, there were various components of the May Revision Budget that were either changed, removed, or not included in the Enacted State Budget. Since the District's budget is prepared based on the May Revision, the First Interim incorporates changes made by the Enacted State Budget.

Illustrated below is a comparison of the LCFF Base Grant funding, COLA percentages and one-time discretionary funding between the proposed and Enacted State Budget.

DESCRIPTION	2018-2019	2019-2020	2020-2021	2021-2022
LCFF Gap Funding % - Proposed	100%	-	-	-
LCFF Gap Funding % - Enacted	100%	-	-	-
Annual COLA – Proposed	3.0%*	2.57%	2.67%	2.90%

**Local Control  
Funding  
Formula and  
Proposition  
98**

*Proposition 98 establishes the minimum funding level for K-14 education. The Legislature and Governor decide annually at what level to fund various educational programs. The Local Control Funding Formula is the model by which state funds are allocated to Local Educational Agencies (LEAs)*

*LCFF's goal is to: 1) increase transparency and reduce complexity; 2) reduce administrative burden; 3) improve funding equity across school district; and 4) improve local accountability.*

<b>Annual COLA - Enacted</b>	3.70**	2.57%	2.67%	3.42%
<b>One Time Discretionary Funding - Proposed</b>	\$344			
<b>One Time Discretionary Funding - Enacted</b>	\$184			

\*Includes statutory COLA of 2.71% plus an additional 0.29% represented by an additional \$166 million appropriated above LCFF targets

\*\* Includes statutory COLA of 2.71% plus an augmentation of 0.99% represented by an additional \$570 million for school districts and charter schools. County offices of education receive only the statutory COLA.

DESCRIPTION	K-3	4-6	7-8
<b>LCFF Base Grant – Proposed</b>	\$7,409	\$7,520	\$7,744
<b>LCFF Base Grant - Enacted</b>	\$7,459	\$7,571	\$7,796

As the above charts illustrate, there are primarily two material changes to the District’s original 2018-19 budget. The District estimated State funding based upon the Governor’s May Revision budget. Subsequent to the development of the District’s budget, the State passed its budget with materially different calculations for the Local Control Funding Formula.

- LCFF funding is now adjusted upward by approximately \$50.00 for each grade span base grant.
- One-time funding is adjusted downward by approximately \$160 per ADA, which requires an adjustment made reflecting a decrease of approximately \$465,000.

It is significant to note, however, that although this creates a decrease in total revenues, and thus a negative effect on the District’s ending fund balance since budget adoption, since the LCFF funding is on-going, the difference between the two funding sources essentially zeros out over the three-year projection and the on-going funding will continued to be received in perpetuity.

### **Low-Performing Student Block Grant**

The State budget also included a one-time block grant to help address the achievement gap for all students. The funding is distributed on a per-pupil basis to school districts, charter schools and COEs for pupils that are identified as low-performing on the latest available state English language arts or mathematics assessments and who are neither identified for special education services nor identified as low-income, English learner or foster youth.

As a condition for receiving grant funds, the LEA shall develop a plan describing how the funds will increase or improve evidence-based services for the identified pupils to accelerate increases in academic achievement, and how the effectiveness of the services will be measured. The plan shall include information regarding how the services align with and are described in the LEA’s local control and accountability plan. Finally, the plan shall be discussed and adopted at a regularly scheduled board meeting of the LEA’s governing body

These block grant funds may be expended through 2020-21 and shall be used for evidence-based services that directly support pupil academic achievement, including, but not limited to, professional development activities for certificated staff, instructional materials, or additional supports for pupils.

The District must satisfy two reporting requirements: the first due on or before March 1, 2019 regarding the adopted plan and the second due on or before November 1, 2021 regarding the implementation of the plan including strategies used and whether the plan was successful in reducing the academic achievement gap for the target pupils.

	<b>16-17 Total Eligible Students</b>	<b>18-19 Preliminary Entitlement</b>
<b>Buckeye Union School District</b>	138	\$272,691
<b>Valley View Charter Montessori</b>	10	\$19,760
<b>TOTAL</b>		\$292,451

### **Routine First Interim Budget Adjustments**

In addition to the non-routine items noted above, the District reviews all of its accounts and has adjusted its First Interim budget projections to reflect the following:

- Based upon current enrollment data, the District adjusted its revenue accounts that are based on Average Data Attendance (ADA). Start-of-school enrollment is materially different from budget projections, so revenues have been recalculated based upon updated ADA projections.

<b>DESCRIPTION</b>	<b>TRADITIONAL AND CHARTER</b>
<b>2018-2019 Budgeted ADA</b>	Average Daily Attendance (ADA) is estimated at 4,644.55 (3,985.88 Traditional and 658.67 Charter), which is lower than 2017-18. Due to a decline in enrollment the funded ADA will be based on the prior year adjusted ADA of 4,195.56 Traditional and current year ADA of 658.67 Charter, for a total budgeted ADA of 4,854.23
<b>2018-2019 FIRST INTERIM ADA ADJUSTMENT</b>	As of 11/30/18 ADA is estimated at 4,543.42 (3912 Traditional and 631.42 Charter), which is lower than 2017-2018. As a result, the funded ADA for the traditional program will be based on prior year adjusted ADA of 4,195.56 and current year 631.42 Charter, for a total budgeted ADA of 4,826.98. Revenues have been recalculated based upon updated ADA projections.

- Categorical revenue accounts are updated to most recent information received from the state and federal governments. Corresponding expenditure accounts are also adjusted accordingly.
- Indirect costs are updated to reflect changes in total estimated expenditures.
- Other income accounts are analyzed and adjusted to reflect year-to-date receipts and estimated year-end amounts.
- Revenues and expenditures of programs that supported by contributions from the General Fund are updated to current projections and adjusted accordingly.
- Salary and benefit accounts are adjusted to reflect updated staffing levels and changes to benefit costs. All budgets reflect the most current negotiated agreements with employee bargaining units.

- All expenditure accounts analyzed and adjusted to reflect year-to-date expenditures and estimated expenditures to finish the year.
- Carryovers from prior year budgets are adjusted accordingly.

## **Reserves**

**District Reserve Requirements (Senate Bill 858):** The 2014 State Budget Act and the passage of Proposition 2 in November 2014 established a hard cap on district reserves, if all of the following conditions are met:

- The Proposition 98 maintenance factor must be fully repaid; and
- Proposition 98 must be funded based on Test 1; and
- Proposition 98 provides sufficient funds to support enrollment growth and the statutory COLA; and
- A deposit must be made into the Proposition 98 reserve when capital gains revenues exceed 8% of General Fund revenues.

Existing law specifies that in any fiscal year immediately following a year in which a transfer of any amount is made to the Public School System Stabilization Account, a district's assigned or unassigned fund balance (including Fund 01 and Fund 17) may not exceed two times the reserve for economic uncertainty (three times the reserve for economic uncertainty for districts with more than 400,000 ADA).

Currently, the District reserve cap is not activated in 2018-19 and is not expected to be activated in 2019-20. The likelihood of the reserve cap being activated in future years remains low but if this does come to pass, districts have the option to request a waiver from the county superintendent of schools for up to two consecutive years in a three-year period.

Senate Bill (SB) 858 continues to require that school districts, starting with the 2015-16 adopted budgets, provide the following disclosures at the public hearing beginning with the 2015-16 budget adoption:

- The minimum reserve level required in each year; and
- The amount of assigned and unassigned ending fund balance that exceeds the minimum in each year; and
- Reasons for the reserve being greater than the minimum.

Uncertainty over state revenues, the implementation of Affordable Care Act penalty regimes, costs associated with AB 1522 (expanded sick leave), AB 2393 requirements for classified differential pay, ongoing increases in the state minimum wage, ongoing increases to employee retirement systems, and future facility needs, et cetera, are example of issues the District needs to vigilantly monitor and build in contingencies for these types of expenditure obligations. It is also important to maintain fiscal flexibility by limiting commitments to future increased expenditures based on projections of future revenue growth and to maintain adequate reserves to allow for unanticipated circumstances.

In summary, the LCFF is intended to provide a funding mechanism that is simple and transparent while allowing local educational agencies (LEAs) maximum flexibility in allocating resources to meet local needs. While in theory it is relatively straightforward, it is not in application due to significant unanticipated expenditures being passed on to school districts to cover increased costs such as STRS and PERS, which has adversely affected the financial flexibility that was the cornerstone of the transition from revenue limit funding to the LCFF funding model. Maintaining fiscal flexibility and sufficient reserves will be key to operating in the LCFF funding environment.

**Cash Management**

Even though the LCFF is projected to bring fiscal relief to LEAs, cash management is also still essential. To date, the District has borrowed only internally for cash, relying on other funds in the District that have cash balances to wait out the time when the EPA funds will be received. Staff is closely watching cash balances and is taking the necessary steps to ensure that the District is able to meet its financial obligations.

**Positive Certification**

While the District certifies itself as positive, it is important to remember that there are many unpredictable factors affecting revenues and expenditures and the First Interim Report is based on the best information available at the time the financial reports are approved. The First Interim Report, therefore, should be considered a “snapshot in time” of the financial plan of the District on the date it is adopted. As the school year progresses, variables change which may require the District to make revisions to its current and multi-year projections. Staff closely monitors these variables throughout the fiscal year to ensure fiscal solvency.

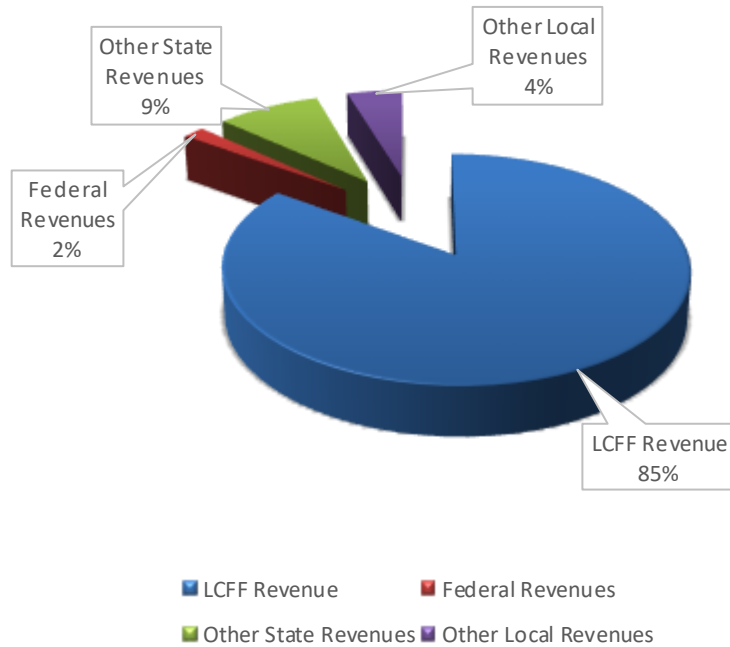
**Financial Analysis of the General Fund**  
**Unrestricted & Restricted Revenue and Expense**

**REVENUE**

The District receives funding for its general operations from various sources. A summary of the major funding sources for 2018-2019 is illustrated below:

Description	Unrestricted	Combined
LCFF Revenue	\$38,842,897	\$38,842,897
Federal Revenues	\$62,455	\$812,364
Other State Revenues	\$1,700,004	\$3,953,863
Other Local Revenues	\$474,813	\$2,109,345
<b>TOTAL</b>	<b>\$35,114,610*</b>	<b>\$45,718,469</b>

\* Includes general fund contribution to restricted programs of \$5,965,559



**Revenue:** Revenue has been revised to include full funding under the Local Control Funding Formula in the current and subsequent years. For Fiscal Year 2018-19 the total funded LCFF Revenue is approximately \$38,842,897. Projected LCFF funding for Fiscal Year 2019-20 and Fiscal Year 2020-21 is \$39,261,302 and \$40,197,427, respectively.

**Summary of Unrestricted Revenue Changes:**

LCFF Revenue	\$672,686	Reflects recalculation of LCFF Entitlement based on increased base grants and enrollment
Federal		No Adjustment
Other State	(\$416,055)	Reflects recalculation of budgeted one-time discretionary funds
Local Revenues		No Adjustment
Contributions to Restricted Programs	(\$211,154)	Increased General Fund support and reallocated to restricted revenue
<b>TOTAL</b>	<b>\$45,477</b>	

**Summary of Restricted Revenue Changes:**

LCFF Revenue		No Adjustment
Federal	(\$46,590)	Reflects recalculation of Title I, II, III and IV entitlements
Other State	\$352,619	Reflects adjustment for Low Performing Student Block Grant and Prop 20 Lottery
Local Revenue		No Adjustment

Contributions to Restricted Programs	\$211,154	Increased General Fund support and reallocated to restricted revenue
<b>TOTAL</b>	<b>\$517,183</b>	

### **Multi-Year Financial Projections**

One of the most important elements of the First Interim Report is the three-year projection for the General Fund. In this forecast, the District projects its financial prognosis for the current and subsequent two years. The purpose of the projection is to report to its stakeholders on the continued fiscal viability of the District. The projection provides the rationale for the District's choice of certification options (Positive, Qualified, or Negative) on its Certification of Financial Condition.

### **Multi-Year Combined Revenue Projections:**

Description	2018-2019 Combined	2019-2020 Combined	2020-2021 Combined
LCFF Revenue	\$38,842,897	\$39,261,302	\$40,197,427
Federal Revenues	\$812,364	\$901,985	\$901,985
Other State Revenues	\$3,953,863	\$2,724,615	\$2,724,615
Other Local Revenues	\$2,109,345	\$2,152,111	\$2,106,470
<b>TOTAL</b>	<b>\$45,718,469</b>	<b>\$45,040,013</b>	<b>\$45,930,497</b>

### **EXPENSES**

The General Fund is used for the majority of the functions within the District. At First Interim, adjustments were made to salaries and benefits to reflect changes in position control since Budget Adoption. The other major change to expenditures is the appropriation of unrestricted site carryovers and the appropriation of the designated curriculum funds. As illustrated below, salaries and benefits comprise approximately 86% of the District's budget

Description	Unrestricted	Combined
Certificated Salaries	\$18,005,231	\$20,111,801
Classified Salaries	\$4,589,148	\$6,948,992
Employee Benefits (H&W; Taxes; STRS/PERS)	\$7,577,594	\$10,825,469
Books and Supplies	\$3,841,138	\$5,747,380
Other Operating Expenditures	\$1,277,523	\$3,116,208
Capital Outlay	\$50,298	\$50,298
Other Outgo	\$318,460	\$524,125
<b>TOTAL</b>	<b>\$35,527,779*</b>	<b>\$47,324,273</b>

\* Includes indirect support @ (\$131,612)

Summary of Unrestricted Expenditure Changes:

Certificated Salaries	(\$34,584)	Alignment of Budget; Certificated Staffing Adjustment in Position Control Since May
Classified Salaries	\$30,992	Alignment of Budget; Classified Staffing Adjustment in Position Control Since May
Benefits	\$10,400	Adjustment in Benefits based on use trends and changes in position control since May
Books & Supplies	\$1,599,495	Posting of Site carryover/SLBG/Technology/CCSS Curriculum
Operating Exp.	-	
Capital Outlay	-	
Other Outgo	(\$153,392)	Posting of Deferred Maintenance Contribution
<b>TOTAL</b>	<b>\$1,452,912</b>	

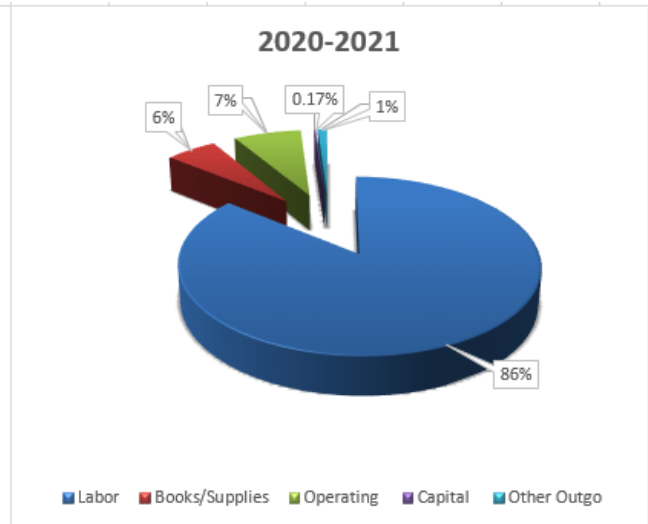
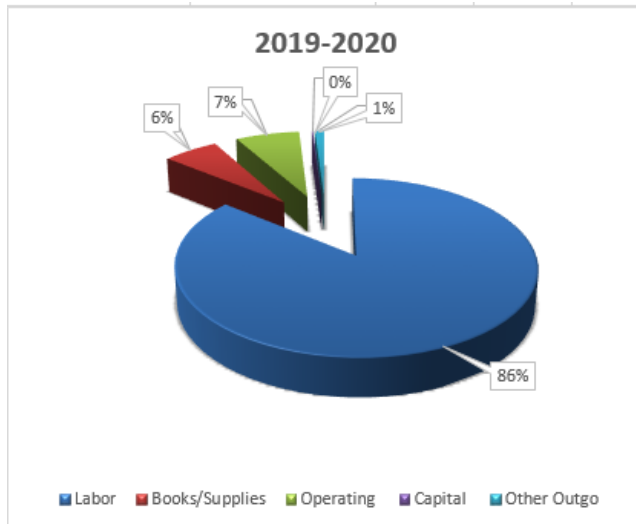
Summary of Restricted Expenditure Changes:

Certificated Salaries	\$63,534	Alignment of Budget; Certificated Staffing Adjustment in Position Control Since May
Classified Salaries	\$54,214	Alignment of Budget; Classified Staffing Adjustment in Position Control Since May
Benefits	\$14,596	Adjustment in Benefits based on adjustments in staffing
Books & Supplies	\$1,425,498	Posting of Site carryover/SLBG/Technology/CCSS Curriculum
Operating Exp.	(\$3,024)	Reallocation of Site carryover
Capital Outlay	-	
Other Outgo	\$155,000	Adjustment of Special Program costs to align with Purchase Orders Since May
<b>TOTAL</b>	<b>\$1,709,818</b>	

**Multi-Year Combined Expenditure Projections:**

<b>Description</b>	2018-2019	2019-2020	2020-2021
	<b>Combined</b>	<b>Combined</b>	<b>Combined</b>
Certificated Salaries	\$20,111,801	\$20,311,801	\$20,108,956
Classified Salaries	\$6,948,992	\$7,048,992	\$7,004,611
Employee Benefits (H&W; Taxes; STRS/PERS)	\$10,825,469	\$11,486,301	\$11,896,381
Books and Supplies	\$5,747,380	\$2,516,035	\$2,532,920
Other Operating Expenditures	\$3,116,208	\$3,284,232	\$3,349,285
Capital Outlay	\$50,298	\$50,298	\$75,000
Other Outgo	\$524,125	\$524,125	\$461,043
<b>TOTAL</b>	<b>\$47,324,273</b>	<b>\$45,221,784</b>	<b>\$45,428,196</b>





As illustrated above, salaries and benefits comprise approximately 86% of the District’s budget in the current multi-year projection. No labor settlement agreements have been reached for 2019-2020 or 2020-2021.

The following discusses the most significant items in the three-year projection:

- LCFF: The District is utilizing the Department of Finance's estimated COLAs, gap funding percent, and resulting LCFF Funding Rate percentages.
- The Legislature has fully funded LCFF in the 2018-19 fiscal year.
- BUSD Unduplicated Percentage of enrollment for 2018-19 through 2020-21 ranges from 17.04% to 17.98%, based on a rolling three-year average.
- ADA: The District’s LCFF funding is based on the ADA in the 2017-18 fiscal year. The LCFF calculation allows a one year “hold harmless” on the loss of revenues due to ADA decline. Therefore, the decrease in ADA is reflected in the LCFF calculation for 2019-20. The District is projecting no change in enrollment in 2020-2021.
- Mandated Cost Reimbursement One-time Revenues: One-time revenues are adjusted for in the three-year projection. No additional one-time revenues are projected after the 2018-19 budget year.
- Employee Compensation: Normal ongoing step and column increases are included in the three-year projection. Additional expense to the District caused by the increase in the STRS and PERS rates is also included.
- Reasonable increases to supply and operating expense accounts;
- Reasonable increases to technology expense accounts

- Changes to the number of staff to support students in general education, special programs, class sizes, and curriculum adoptions;
- No COLA Adjustments, with exception of programs outside of LCFF (Transportation and TIG Add-ons receive no COLA)

Given these assumptions, it is projected that the district will have an operating deficit of approximately (\$413,169) in fiscal 2018-2019 in its Unrestricted Funds. It is also projected that the district will have an operating deficit in its Restricted Funds of approximately \$1,192,635. However, it should be noted that at Budget Adoption “carry over” was not included in the revenue available to balance the restricted resources. We have since closed the books and the restricted resources balance, with a projected ending balance at first interim of \$490,069.

### Summary of Reserves

School finance experts, including the El Dorado County Office of Education, continue to reinforce the need for reserves in excess of the minimum reserve for economic uncertainty. Prudent reserves afford districts and their governing boards’ time to thoughtfully identify and implement budget adjustments over time. The District’s multiyear projection anticipates the District’s Reserves for Economic Uncertainty over the next three budget years to be as follows:

2018-2019	2019-2020	2020-2021
14.95%	15.24%	16.27%

### **Other Funds**

The only major changes to other funds in the District were to building funds. Staff is adjusting income and expenditure budgets as contracts are encumbered and finished with respect to the Valley View Charter Montessori Building Addition Project and the Blue Oak Elementary Modernization Project. Total expenditures are expected to both increase and decrease as the district moves through its various projects.

### **Conclusion**

The First Interim Report is an important document in the District's ongoing communications to its stakeholders. The report and certification provide accountability and evidence of stewardship to our community. The Buckeye Union School District certifies the District’s financial position is positive; the District will meet its financial obligations in the current and subsequent two fiscal years.