Manhattan Beach Unified School District

2014-15 Second Interim Budget Report

(Actuals through January 31, 2015)

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INTRODUCTION

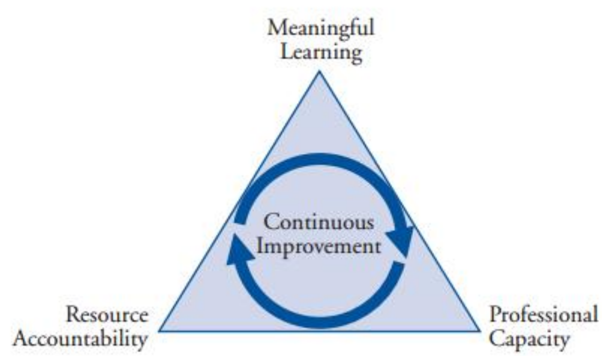
California has embarked on something radical.

- David Plank, executive director, Policy Analysis for California Education

We are at a rare moment of change.

- Jannelle Kubinec, Director, Comprehensive School Assistance Program, WestEd

In a report published by Policy Analysis for California Education this January, Linda Darling-Hammond and David Plank argue that California, through the implementation of the Local Control Funding Formula (LCFF) and its associated legislation, has committed to ensuring that students engage in meaningful learning, supported locally by districts that have the resources and flexibility necessary to accomplish this goal, and provided by educators who are engaged in initial and ongoing professional learning activities that ensure their ability to facilitate such learning. This paradigm rests upon a system of "reciprocal accountability," where the state must uphold its commitments while also holding local districts accountable through political, professional, and performance accountability systems. Darling-Hammond and Plank discuss the importance of an effective information and reporting system coupled with an effective structure for the California Collaborative for Educational Excellence (CCEE), the agency established under the LCFF to ensure that districts, through the LCFF and Local Control Accountability Plan (LCAP) development process, actually achieve the ongoing and continuous improvement promised by this new system.[1]



While the state is well into its second year of LCFF implementation, the system as conceived by Governor Brown and the legislature is not yet fully developed. Indeed, the CCEE held its first meeting on February 25, 2015, and the State Board of Education (SBE) is still finalizing the permanent regulations governing the LCAP template. In addition, the SBE has appointed a Rubric Design Group, which has presented Draft Evaluation Rubrics as part of the SBE's March meeting agenda.[2] Rubrics will not be finalized until the Fall of 2015. Thus, although the new system has been in place for over a year, and

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[1] Darling-Hammond, L., and Plank, D. (January 2015). *Supporting Continuous Improvement in California's Education System* [Report]. Retrieved from http://www.edpolicyinca.org/sites/default/files/PACE%20Scope%20CCEE%20January%202015.pdf.

[2] State Board of Education. Rubric Design Group. (February 2015). *Evaluation Rubrics Update* [SBE Agenda Item Attachment]. Retrieved from http://www.cde.ca.gov/be/ag/ag/yr15/documents/mar15item06a3.pdf.

districts are operating under the LCFF and implementing plans articulated in their LCAP documents, these structures, and the systems behind them, are still evolving, and Districts are needing to respond to changing requirements and expectations, as might be expected in a time period where forty years of history and experience are being replaced by something entirely new.

Furthermore, while the LCFF world continues to develop, large and fundamental issues face all school districts in California as they plan for the future. Districts are working to incorporate significant and ongoing increases in contributions to employee pension systems over the coming years. Districts are also facing potential restrictions on reserve levels, which will necessarily alter the ways in which districts are able to plan and prepare for fluctuations in the economy. Additionally, Districts, and the state as a whole, continue to struggle with issues related to funding adequacy; while the LCFF addresses issues related to equity of funding, it remains important to note that the shift to the LCFF does not address the fact that California remains among the lowest states in the nation in terms of per-pupil funding. Indeed, a recently published report from *Education Week* led some education writers to celebrate the fact that "no longer rock-bottom, California moved from 50th to 46th in per-student state spending."[3]

California – State Highlights 2015

Education Week RESEARCH CENTER

SCHOOL FINANCE ANALYSIS

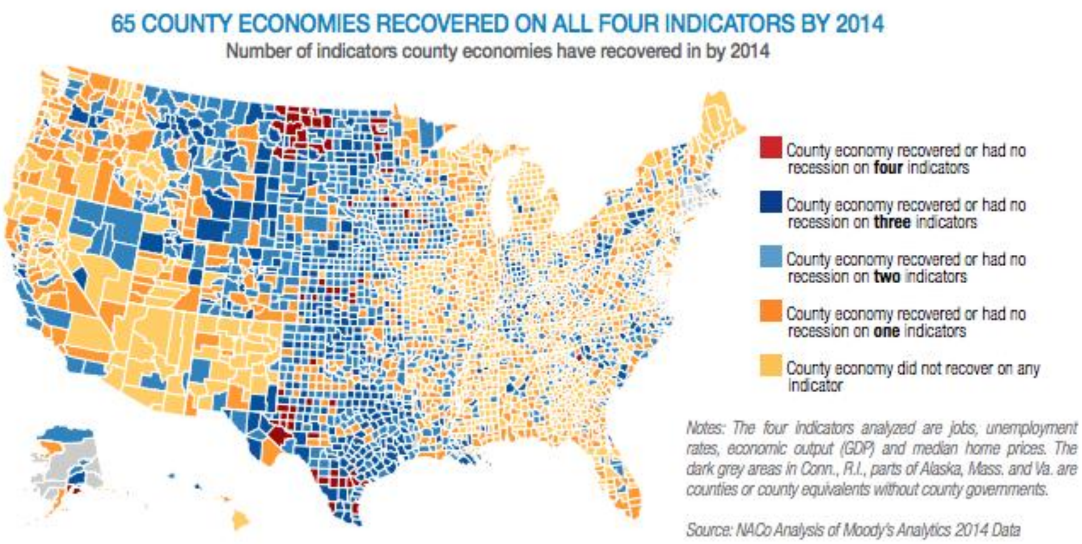
Equity and Spending Indicators

From *Quality Counts 2015*	California State Average	California Rank	National Average
Equity (2012)			
Wealth-Neutrality Score – Relationship between district funding and local property wealth	0.080	11	0.139
McLoone Index – Actual spending as percent of amount needed to bring all students to median level	90.8%	23	90.8%
Coefficient of Variation – Amount of disparity in spending across districts within a state	0.194	39	0.167
Restricted Range – Difference in per-pupil spending levels at the 95th and 5th percentiles	$3,305	16	$4,559
Spending (2012)			
Adjusted per-pupil expenditures (PPE) – Analysis accounts for regional cost differences	$8,308	46	$11,735
Students funded at or above national average – Percent of students in districts with PPE at or above U.S. average	7.9%	42	43.4%
Spending Index – Per-pupil spending levels weighted by the degree to which districts meet or approach the national average for expenditures	85.1	37	89.4
Spending on education – State expenditures on K-12 schooling as a percent of state taxable resources	2.7%	44	3.4%
GRADE	**D+**	**40**	**C**

Of note is that the *Education Week* uses 2012 funding levels, the most recent data available nation-wide, so the information available in the current report reflects the state of funding prior to the implementation of the LCFF – and it shows that California was, even then, generally at or above the

[3] Fensterwald, J. (January 7, 2015). *State no longer at bottom in spending* [Report]. Retrieved from http://edsource.org/2015/report-state-no-longer-at-bottom-in-spending/72410#.VP4vuXzF81I.

nationwide average in terms of equity of spending. It is in the area of spending levels that California ranks near the bottom; while it remains to be seen whether this ranking will continue to rise in subsequent years, it is worth noting that the economic recovery in California is mirrored by – and possibly slower than – other areas in the nation. The National Association of Counties analyzes county data on four key indicators (changes in jobs, unemployment rates, GDP, and median home prices), and this data shows that, generally speaking, as of the end of 2014, recovery was stronger in the central US. Only 65 out of 3,069 counties analyzed, most of them small, with fewer than 50,000 people, had fully recovered to pre-recession levels, and the vast majority of the counties which had recovered on two or three indicators are outside of California. Of note for Los Angeles is that none of the 124 large counties (with more than 500,000 people) had recovered an all four indicators.[4]



This would suggest that, as more recent school funding data emerges, funding in other states would grow at similar – or greater – rates than in California, and that questions of education funding adequacy in this state will remain at the forefront for many years to come.

THE PURPOSE OF THE REPORT

The Second Interim Report is the second mandated review of the District's budget since its adoption in June 2014, after the First Interim Report published in December. Pursuant to AB 1200 and Education Code Sections 35035(g), 42130, and 42131 the District must report its financial position through the first reporting period, which ends on October 31 of each fiscal year, and after the end of the second reporting period, which ends on January 31 of each fiscal year. At each of these reporting periods, the Board must certify its findings regarding the District's ability to meet its financial obligations for the remainder of the fiscal year and the subsequent two fiscal years.

[4] Lyell, N., and Istrate, E. (January 2015). *County Economic Tracker 2014: Progress through Adversity* [Trends Analysis Paper]. Retrieved from http://www.naco.org/research/Documents/County_Economic_Tracker2014-FINAL.pdf.

The Second Interim Report makes changes to the District's budget, adopted in June 2014 and amended after the First Interim in December 2014, based on financial updates. It incorporates budget revisions to both revenues and expenditures. After its review and approval of this report in accordance with the Criteria and Standards (EC 33127), the Board is required by AB 1200 to certify the District's financial position to the State in one of three ways:

- A Positive Certification, stating that, based on current projections, the District will meet its financial obligations for the current fiscal year and two subsequent fiscal years, or
- A Qualified Certification, stating that, based on current projections, the District may not meet its financial obligations for the current fiscal year and two subsequent fiscal years, or
- A Negative Certification, stating that, based on current projections, the District will be unable to meet its financial obligations for the remainder of the current fiscal year or for the two subsequent fiscal years.

CERTIFICATION OF THE SECOND INTERIM BUDGET

Based on best available current information and budgetary assumptions, it is recommended the Board of Trustees of the Manhattan Beach Unified School District positively certify the second interim budget for 2014-15 and two subsequent fiscal years, 2015-16 and 2016-17.

It is additionally recommended the Board of Trustees continue its balanced yet conservative approach to budget planning, including the maintenance of a strong general fund reserve in anticipation of ongoing cash flow considerations and fiscal uncertainty of the coming school years.

THE DISTRICT

The Manhattan Beach Unified School District (MBUSD) ranks as the third highest performing unified school district in the State of California with a 2013 Growth Academic Performance Index (API) of 935. It serves approximately 7,000 students from preschool to twelfth grade at eight school campuses—one preschool, five elementary schools, one middle school, and one high school. Mira Costa High School's Growth API of 912 places it in the top 1.5% of public, comprehensive high schools in California. Robinson Elementary School was recognized as a National Blue Ribbon School in 2013. Six MBUSD schools have been honored as California Distinguished Schools: Mira Costa High School (2011), Manhattan Beach Middle School (2009), Grand View Elementary (2014), Pacific Elementary (2014), Pennekamp Elementary (2014), and Robinson Elementary (2014). In 2012, Grand View Elementary was named a National Green Ribbon School, joining just 77 other schools in the United States so honored that year. In both 2014 and 2015, the state of California has recognized MBUSD teachers as state teachers of the year: in 2014 Michael Hayden was one of five California Teachers of the Year, and in 2015 Maggie Mabery has been selected as the state's nominee for National Teacher of the Year.

In addition to outstanding students and excellent teachers, MBUSD is extremely fortunate to have a high level of parental involvement in the schools and very strong partnerships with community partners such as the Manhattan Beach Education Foundation, PTAs/PTSAs, MBX—Beyond the Classroom, the City of Manhattan Beach, Chevron, Continental Development, the Manhattan Beach Chamber of Commerce, and other local organizations and businesses. These local partnerships have been and continue to be critical in providing the resources to allow MBUSD to continue to offer the outstanding educational programs that it maintained through the recession and continues to build upon as it moves forward.

Vision

The vision of the Manhattan Beach Unified School District is to prepare our students to become good citizens, parents, workers and leaders in the complex, rapidly changing world they will inherit. They will develop strong self-discipline, inter-personal skills, personal values, social and civic responsibilities and respect for nature and for others. They will be able to move beyond us, each prepared to earn a living, cultivate a dream and make a difference.

Mission

The mission of the Manhattan Beach Unified School District is to prepare all of our students to meet the challenges of a rapidly changing, highly complex, technology rich, global society. We will continually strive for excellence in all aspects of the education process. We will teach our students to understand and appreciate human and cultural diversity. We will harness the resources of the entire community, including students, parents, teachers, staff, administrators, college and business leaders and others. We will empower students to be lifelong learners, to demonstrate high achievement and to develop the skills and characteristics needed to enjoy happy and successful lives.

Goals

For the 2014-15 school year, the Manhattan Beach Unified School District Board of Trustees will operate with the following goals:

Focus on Successful Academic Strategies

- The MBUSD K-12 CCSS Math Team will make a recommendation for curriculum and instructional methodology during the 2014-15 school year, for implementation in the 2015-16 school year.
    - Utilize Math TOSA and UCLA research-practitioners to analyze the success of students in secondary math classes
    - Develop math common assessments to analyze student progress toward agreed upon standards.
- Collaboratively study and develop an academic calendar that meets the needs of high school students, including preparation for Advanced Placement classes, a semester break prior to Winter Break, and alignment with off campus summer opportunities.
- Engaging more students in innovative K-12 STEM (Science, Tech, Engineering and Math) lessons, classes and extracurricular opportunities.
    - Maker classes/clubs
    - Robotics
    - Fab Lab/Maker
    - More students in STEM middle school classes
- Continue focus on student-centered instruction, stressing that student learning will go far beyond memorization, and having students spend more time on the 21st Century Skills of critical thinking, collaboration, communication, creativity and character.

- Promoting the development of knowledgeable, responsible and caring students through a strengthened emphasis on social and emotional learning.

Focusing on Career Development and Continuous Learning for all Staff: Teachers, Support Staff, Counseling and Administration

- Hire and support staff who recognize that their primary goals are to provide the highest quality education for all students, to embrace the value of lifelong learners, to create an environment of trust, respect and mutual support within the school and broader community and to support students as unique individuals.
- Developing best strategies for teaching ELA Common Core standards across all curricular areas.
- Integrating technology as a 21st Century tool for teaching and learning, utilizing TOSAs to support teachers and developing recommended uses for technology at each grade level and/or subject area.
- Utilizing formative assessment data and common assessments effectively to assess student progress, analyze results, then adapt curriculum. Using summative assessment data to develop effective programs and adapt instruction.
- Implementing the Pilot Standards-Based Teacher Evaluation System.
- Implementing the new standards-based administrator evaluation system.
- Developing a standards-based evaluation system for counselors.
- Developing a new classified evaluation system

Continuous Improvement of Secondary Schools

- Developing strategies to personalize school for all students through differentiation, engagement, communication and the effective use of technology.
- Creating clear pathways for college and career, including increasing visibility of the college and career center and having MBUSD college counselors visit colleges regularly.
- Optimizing the master schedule based on student requests.
- Maximizing preparation for college by increasing the number of students succeeding in AP classes.
- Effectively utilizing PowerSchool with frequent grade updates to communicate assignments, grades and progress to families. Provide training as necessary to achieve this goal.
- Examining the role of career-technical education, both in our schools and at SoCalROC.
- Improve communications with students at Mira Costa High School, including lunches, and making sure that there is two-way communication between student board members and MCHS students.
- Determining district policy on high school summer school classes that will be accepted for credit.

Maintain a Sound Budget Focused on Maximizing Student Achievement

- Communicating and maintaining transparency in the Board's budget process.
- Successfully transition to a new Assistant Superintendent of Administrative Services.

- Support the MBUSD/MBUTA/CSEA Health Benefits Committee's efforts to reduce costs of health and welfare benefits.
- Increase efforts to communicate the district budget and financial conditions to employees, parents and the public.
- Collaborating and clarifying relationships with MBEF, PTAs and MBX.
  - Examine and clarify PTA vs. district funding for department and supplies
- Delivering the Mira Costa Measure BB-funded construction project on time and on budget.
- Making total compensation of MBUSD employees competitive with like districts.
- Develop long term facilities plan using long-term student enrollment plans.
  - Examine safety and fencing at all campuses

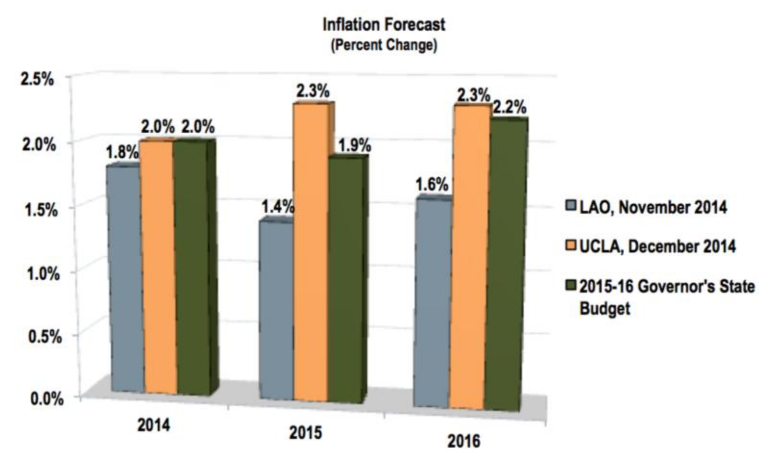
Board Goals Approved on August 20, 2014 by MBUSD Board of Trustees

STATE BUDGET OUTLOOK

In its Fiscal Outlook for 2015-16,[5] The Legislative Analyst's Office (LAO) noted that the US economy began its recovery in 2009 and is now in its sixth year, while the average duration of expansions since World War II has been approximately five years. Despite this historical pattern, the LAO continued to project ongoing growth through at least 2017.

In its *February Finance Bulletin*,[6] the LAO states that both the state and the nation showed ongoing economic growth through the end of 2014. It notes ongoing labor market and construction growth, though indicators for the real estate market were more mixed. The state's revenues continue to be higher than forecasted, and year-to-date revenues are now $472 million above the forecasted $60.655 billion.

State and federal agencies are not projecting another recession; however economists note that increased volatility in the stock and commodities markets may point to some instability. In addition, while there is general agreement that personal income will continue to rise, it also appears that inflation may rise more quickly than previously projected.[7]



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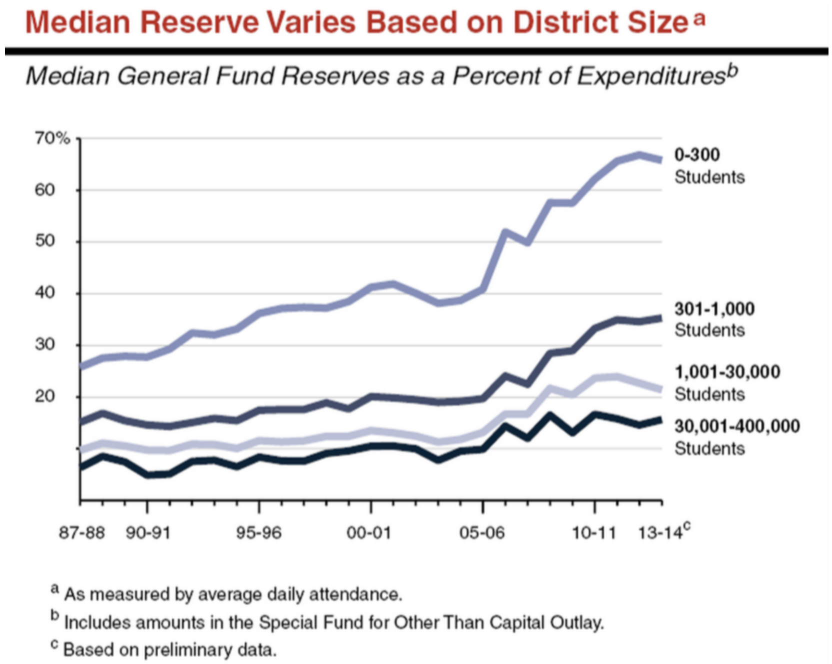
[5] Legislative Analyst's Office (November 19, 2014). *The 2015-16 Budget: California's Fiscal Outlook*. Retrieved from http://lao.ca.gov/reports/2014/budget/fiscal-outlook/fiscal-outlook-111914.aspx.

[6] Legislative Analyst's Office (February 2015). *Finance Bulletin, February 2015*. Retrieved from http://www.dof.ca.gov/finance_bulletins/2015/february/.

[7] School Services of California. *Governor's Proposals for the 2015-16 State Budget and K-12 Education.* Retrieved from http://www.sscal.com/workshops/workshop_resources.cfm?workshop=583.

In this context, the Legislative Analyst's Office recently released an *Analysis of District Reserves*[8] in response to legislation enacted alongside voter approval of the establishment of the Governor's Rainy Day Fund, which will cap district reserves under certain conditions. The LAO notes that Districts hold reserves for a number of reasons, including the need to protect themselves from funding volatility and unexpected costs, to save for larger purchases, to obtain higher credit ratings, and to manage cash flow. In looking at historical reserves, the LAO further observed that smaller districts tend to hold larger reserves because their smaller total budgets mean that even with a larger percentage in reserve, a single large expense could consume almost the entire reserve. For small districts, the median reserve in 2013-14 was 66%, while for districts similar in size to MBUSD, the median reserve was 21%.



In completing its analysis the LAO notes that the legislative cap will present difficulties for districts in maintaining programs in difficult fiscal times, will not allow districts to effectively address unanticipated expenditures, will create greater fiscal distress for districts, and will result in lowered credit ratings and therefore increase the cost to borrow money. The LAO recommends that the reserve cap be repealed and that disclosure requirements be refined to apply to all districts showing a difference between their current reserve levels and their locally defined reserve policies, and not just to districts whose reserves are higher than their policies would suggest.

Should the reserve cap not be repealed, when reserve cap limits are implemented, MBUSD would be required to limit its reserves to 6%, or twice the minimum reserve required by the state. In contrast, many fiscal advisors advocate that agencies maintain reserves of up to 30%, and the Government Finance Officer's Association recommends maintaining a reserve of at least two months' operating revenue or expenses (16.6%) and more if a local agency's circumstances so indicate.[9] Reducing districts' capacity to build their own reserves will mean that public education in California will be increasingly

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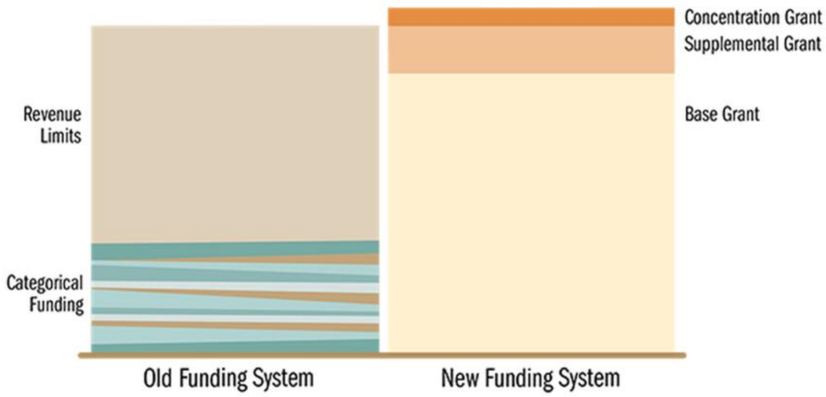
[8] Legislative Analyst's Office (January 21, 2015). *Analysis of School District Reserves*. Retrieved from http://www.lao.ca.gov/reports/2015/edu/district-reserves/district-reserves-012115.aspx.

[9] Government Finance Officers Association. (October 2009). *Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund*. Retrieved from http://www.gfoa.org/determining-appropriate-level-unrestricted-fund-balance-general-fund.

reliant upon the state to protect schools during economic downturns, despite recent history which demonstrated the state's willingness to reduce education funding more than all other areas in such a circumstance.

ASSUMPTIONS



EdSource Local Control Funding Formula Guide

Now in its second full year of implementation, the Local Control Funding Formula (LCFF) brings the most significant and fundamental change in the structure of school funding in the last forty years, eliminating the old revenue limit system and its accompanying myriad categorical funds.[10] School funding in California now provides a per pupil "base" grant which will be augmented through "supplemental" and "concentration" grants whose size will be determined by the unduplicated count of high need youth enrolled in the District. The total of these three amounts will create a "target" funding level, which the State hopes to fully fund by 2020-2021. LCFF funding levels are based on a hold harmless guarantee now referred to as "minimum state aid," providing all districts at least the same amount of funding they received in 2012-2013 plus prior year "gap" funding. Districts receive this amount plus any additional gap funding needed to bring the district to the current target funding level.

In building its budget, the District relies upon guidance from the Los Angeles County Office of Education (LACOE)[11], which is the body responsible for evaluating district budgets and certifying the status of the report to the state. Due to what it refers to as a "high degree of uncertainty in State revenues," the County requests that districts be "prudent" in their budgeting processes.

LCFF Funding

On January 9, 2015, Governor Brown introduced his Proposed 2015-16 State Budget, which included Proposition 98 funding of $65.7 billion for 2015-16, an increase of $4.1 billion over the current year. This represents a total increase in Proposition 98 funding of $13.8 billion since 2012-13. The increased revenues are primarily projected to be used to increase the Local Control Funding Formula (LCFF) and to fully eliminate K-12 inter-year apportionment deferrals.

Later that month, the Department of Finance released its five-year projections for LCFF gap funding percentages. It projected LCFF increases of $4.7 billion in 2014-15 and $4 billion in 2015-16, smaller

[10] EdSource. *Local Control Funding Formula Guide.* Retrieved from http://edsource.org/publications/local-control-funding-formula-guide#.VHsplWTF_3o.
[11] Price, S. (February 25, 2015). *2014-15 Second Interim Financial Reporting* [Bulletin]. Retrieved from http://www.lacoe.edu//Portals/0/Bulletins/4043.pdf.

increases of $2.3 billion in 2016-17 and $2.5 billion in 2017-18, and then only $976 million in 2018-19. This is a result of the expiration of Proposition 30's temporary taxes, which will slow General Fund revenue growth and, in turn, Proposition 98 funding. In addition, as the Governor pays down the "wall of debt," including the elimination of the maintenance factor, which is the amount owed to education due to cuts in Proposition 98 funding made during the Great Recession, school funding will grow more slowly since there is no longer this obligation the be paid.

The significant result of this combination of projected events is that in 2018-19, according to an analysis conducted by School Services of California, the $976 million in projected funding increases will be insufficient to cover the projected 2.8% COLA, meaning that not only will there be no gap closure that year, but the equivalent of what was previously referred to as a "deficit factor" will be created.

As a result of this uncertainty, while LACOE advises districts to base revenue projections on the DOF numbers, it also recommends "that districts carefully consider any actions related to any projected increases in expenditures related to projected LCFF revenue, and consider assigning any of these increases in revenue, as a result of Gap Funding in 2015-16 and subsequent years."

The County advises changes to Base Grant rates for 2014-15 and 2015-16 as follows:

Grade Level	2013-14 Base Grant Amount per ADA (Target)	COLA 0.85%	2014-15 Base Grant (Target)	2015-16 COLA 1.58%	2015-16 Base Grant (Target)
K-3	$ 6,952	$ 60	$ 7,012	$111	$7,112
4-6	$ 7,056	$ 61	$ 7,117	$112	$7,228
7-8	$ 7,266	$ 62	$ 7,328	$116	$7,444
9-12	$ 8,419	$ 72	$ 8,491	$134	$8,625

This represents a decrease in COLA for 2015-16 from 2.19 percent to 1.58 percent, and a slight increase for 2016-17 from 2.14 percent to 2.17 percent. As in the past, the County notes that the COLA affects only the calculation of the LCFF Target and does not describe the net increase in funding for each district. Thus, the base grant amount described above sets the target, and the difference between last year's actual per pupil funding amount (the "hold harmless") and the new target defines the "gap" to be filled.

County guidance, aligned with guidance from the Department of Finance (DOF), continues to project that gap funding for the current year will fill 29.56% of the existing gap. It now projects that that 32.19% of next year's gap will be filled in 2015-16 (up from 20.68% at first interim) and that 23.71% of the subsequent year's gap will be closed in 2016-17 (down from 25.48% at first interim), and it has added a projection for 2017-18 indicating that that year's gap will be closed by 26.43%. It is important to note that other financial advisors, including School Services of California (SSC), consider this to be an optimistic forecast and advise significantly more conservative revenue budgeting for future years; SSC projects gap funding at only 11% for 2016-17 and 12.82% for 2017-18. Furthermore, the impending expiration of temporary tax increases authorized by the voters through Proposition 30, which will phase out in 2016 and 2018, may negatively impact the state's ability to fund future years' increases in LCFF funding.

Following LACOE's guidance, the second interim report reflects the higher (DOF) rate of gap funding along with the assignment of increased LCFF funds in future years, meaning that these funds are held aside as a component of the ending fund balance rather than being incorporated into the unassigned/undesignated amount.

LACOE also notes that the gap funding percentages do not equate to a consistent increase for every district. Each district's increase is defined by its particular target and its particular gap. LACOE's calculations indicate that within Los Angeles County, actual increases in funding based on LCFF revenues between 2014-15 and 2015-16 will range from below 4.6% to above 12.8% per ADA. For Manhattan Beach, the increase is currently estimated to be 6%

Maintenance of Effort

For 2013-14 and 2014-15, a maintenance of effort provision was in place which required districts to continue to expend funds on ROP/C, Adult Education, and Home to School Transportation at the same rates as were in place in 2012-13. This requirement will no longer be in place in 2015-16, and each district will need to make a local determination as to the future of such programs. Districts will continue to be required to provide programs for career and technical education (and to include this component in their LCAPs beginning in 2014-15), and districts will also be required to work with regional consortia to articulate career and technical education programs with adult education and college coursework, but the parameters for such programs will be locally defined. In Manhattan Beach, discussions are ongoing with regards to the Southern California Regional Occupational Center (SCROC) and adult education. Understanding that funding structures and allocations may change as an outcome of these conversations, the district is currently maintaining existing budgetary levels for these programs.

The Governor's 2015-16 Proposed Budget includes $500 million in new funding for an Adult Education Block Grant dedicated to funding adult education programs in 2015-16. The new funds will supplant the LCFF funds school districts may have been allocating for Adult Education programs in the past year(s). In the initial year, 2015-16, funding will be provided directly to K-12 school districts in the amount equal to their 2014-15 MOE expenditures. Future allocations will be distributed per the direction of local allocation committees.

LCAP

Alongside the LCFF, as noted at the beginning of this report, the State last year implemented a requirement that each district develop a Local Control Accountability Plan (LCAP) intended to describe how the district will meet annual goals for all pupils, including high needs pupils, and how these plans tie to the District's budget. Before the budget can be formally adopted, the district is required to consult with its stakeholders to develop its plan, establish and gather input from a Parent Advisory Committee as well as its already established English Learner Advisory Committee, and hold a public hearing regarding the LCAP and its proposed budget. In reviewing a district's budget, county offices of education are required to determine whether or not the budget includes expenditures sufficient to support the actions and strategies described in the LCAP.

In September 2014 the State Board of Education (SBE) approved changes to the LCAP template and the regulations governing use of Supplemental and Concentration funds. While the LCAP developed and approved in 2013-14 was largely a reporting document, the current revisions mark the beginnings of the use of the LCAP as an accountability document.

In this transition, the State Board of Education (SBE) has reviewed draft rubrics for evaluating performance in these areas and will adopt final rubrics by October 1, 2015. Districts that do not make sufficient progress in these areas will receive advice and assistance from the new California Collaborative for Education Excellence and, if the Collaborative and the SBE determine it is necessary, will face intervention by the state superintendent.

MBUSD is in the process of initiating its LCAP review and development process in order to prepare for budgeting for the 2015-16 fiscal year.

<u>Reserve Requirements</u>
As noted previously, Senate Bill (SB) 858 (Chapter 32/Statutes 2014) establishes new transparency requirements and contains a provision that will, under certain conditions, place a hard cap on the combined assigned and unassigned unrestricted ending fund balance.

Beginning with budgets adopted by a school district for 2015-16, a district's public hearing for budget adoption must include the following for review and discussion:

- The minimum recommended Reserve for Economic Uncertainties (REU) for each fiscal year identified in the budget;
- The combined assigned and unassigned ending fund balances of the General Fund (Fund 01) and Special Reserve Fund (Fund 17), that are in excess of the minimum recommended REU for each fiscal year; and
- A statement of reasons that substantiates the need for an assigned and unassigned ending fund balance in excess of the minimum recommended REU for each fiscal year.

In addition, if a transfer is made to the Public School System Stabilization Account, then the reserve cap provisions come into effect. In the fiscal year immediately after a transfer is made, a school district's adopted or revised budget is prohibited from containing a combined assigned or unassigned ending fund balance in excess of either two times (for schools with 400,000 ADA or less) or three times (for schools with 400,001 ADA or more) the minimum required REU. The County Office may waive the prohibition, pursuant to specified conditions, for up to two consecutive fiscal years within a three-year period if the school district provides documentation indicating that extraordinary fiscal circumstances substantiate the need for the additional reserves. Documentation indicating extraordinary fiscal circumstances may include, but is not limited to, multi-year infrastructure or technology projects. The cap on reserves became operative on December 15, 2014.

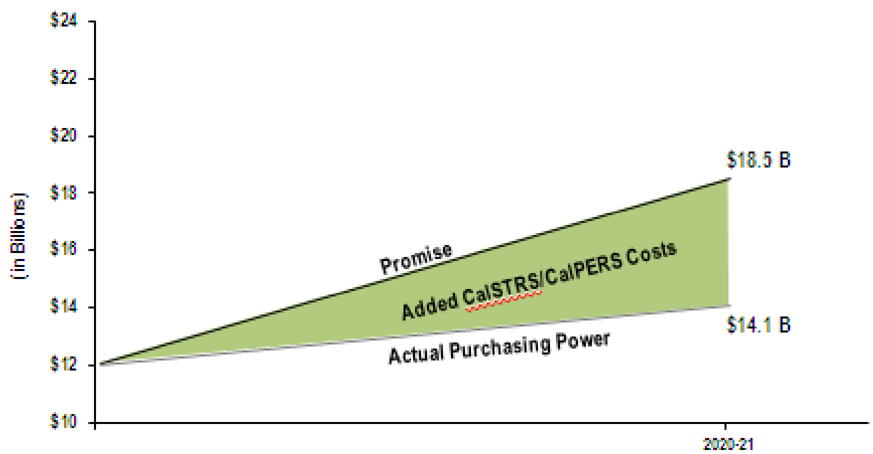
It remains to be seen whether the conditions for the implementation of the reserve cap will be met this year. Different agencies have provided varied forecasts; School Services of California has indicated that it is a possibility that all of the required conditions may be met in the current year or in the coming year; the Department of Finance and the Legislative Analysts Office currently indicate that this is unlikely.

Regardless, the public reporting requirements will be in effect beginning with the 2015-16 budget year. Given the Board's currently established reserve amount of 5%, a statement of reasons will be required. As noted previously, most financial advisers support the need for districts to maintain reserves at levels higher than the minimum recommended REU. LACOE concurs with this guidance and states, "Cash management challenges make it even more imperative that districts consider reserve levels greater than the minimums required within the State's Criteria and Standards. Reserves are especially critical in order to have sufficient cash to meet payroll and other obligations." In accord with this, the district intends to maintain an REU of at least 5% for the current and subsequent two fiscal years.

The Governor's Budget Proposal states that "the Administration appreciates the concerns expressed by stakeholders regarding potential caps on school district reserves and will engage in a dialogue with these groups in the coming months to protect the financial security and health of local school districts." The first of these discussions was scheduled for March 9; as yet, no formally proposed changes to legislation have been disclosed.

Retirement Contributions

As the state has worked to address the unfunded liability represented by pension plans such as CalSTRS and CalPERS, it has been necessary to increase state, employee and employer contribution rates for both systems. While this issue was critical to resolve, the rate increases will result in costs to the district that are estimated at double the current expenditure level and will significantly impact the district's ability to utilize new LCFF funding to support increased and improved services. It is estimated that these increased costs will require the investment of nearly 24% of all new LCFF funds provided to districts. [12]



The projected employer contribution increases will continue through 2020-21 as described in the chart below:

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
CalSTRS	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%
CalPERS	11.77%	12.60%	15.00%	16.60%	18.20%	19.90%	20.40%

Mandated Costs

Districts have the option of participating in the Mandate Block Grant program, which provides a per-ADA allocation to offset the costs of state-mandated requirements imposed on districts. Comparing funding

[12] School Services of California. *Governor's Proposals for the 2015-16 State Budget and K-12 Education.* Retrieved from http://www.sscal.com/workshops/workshop_resources.cfm?workshop=583.

under the Mandate Block Grant program with the amount owed to the district under the traditional filing system, it has been determined that, while the receipt of this revenue may be indefinitely delayed, waiting for reimbursement under the traditional system will eventually result in a significantly higher amount of revenue; thus the district has opted not to participate in the Mandate Block Grant program.

The 2014-15 State Budget included $400 million in one-time funds to pay down a portion of the debt owed to districts for mandated cost reimbursement. The legislature advised that its intent was for districts to prioritize these funds for CCSS implementation, but this is not a requirement, and the funds may be used for any purpose as determined by the district's Governing Board. The distribution of the mandate reimbursement was made on a per-ADA basis, and was apportioned regardless of whether or not the LEA had any prior year claims; MBUSD received $400,000 in funding through this source.

The Governor's Budget Proposal includes a second allocation of funds for Mandated Cost Reimbursement, again with the note that the intent is for districts to prioritize these funds for CCSS implementation, though this will not be a requirement if enacted as proposed. The proposed allocation is $1.1 billion, which is currently estimated at $171 per ADA, or approximately $1.16 million for MBUSD. LACOE's guidance is that if districts choose to include these funds in their budgets, a contingency or alternative plan must be in place should the funds fail to materialize. In light of this guidance, the district has not included these revenues in its budget projections at this time.

Principal Apportionment Deferrals

In his budget, the Governor proposes to eliminate all remaining 2014-15 deferrals. However, this would require the Department of Finance to determine on or before May 14, 2015, whether state revenues are actually higher than projected. If this determination is not made by this date, then any elimination of deferrals would take place with the enaction of the 2015-16 state budget, after the last of the 2014-15 deferrals have already been made. The deferred payments would then be repaid in July. LACOE currently recommends that districts continue to project 2014-15 interyear deferrals and also reminds districts that repayment of deferrals provides one-time cash and not additional revenue.

Other Assumptions

Listed below are additional assumptions provided by the Los Angeles County Office of Education in their February 25, 2015 bulletin (# 4043), to be used in preparation of multiyear budget projections; the district utilizes these figures, with two exceptions.

The district assumes flat funding on special education and categorical programs and assuming a higher CPI of 2.5% in 2015-16 per prior Board direction.

In addition, LACOE has acknowledged an error in its assumptions for Gap Funding listed below; the current Department of Finance estimate for this funding source for 2014-15 is 29.15% and not 29.56% as listed by LACOE. Per LACOE guidance provided by the district's Business Services Consultant, MBUSD has adjusted its revenue projections using the lower gap funding percentage.

It is also important to understand that gap funding percentages are never finalized until after the close of the fiscal year, when the state has received final ADA numbers and final revenue numbers; this information is then used to determine the actual amount of funding available and distributed to districts on a per-ADA basis.

REVENUE LIMITS	2014-15	2015-16	2016-17
Statutory COLA / Net Funded COLA	0.85%	1.58%	2.17%
Gap Funding[1]	29.56%	32.19%	23.71%
SPECIAL EDUCATION AND CATEGORICAL PROGRAMS	**2014-15**	**2015-16**	**2016-17**
Special Ed COLA (on state and local share only)	0.85%	1.58%	2.17%
Categorical COLA – Tier I Programs	-0-	-0-	-0-
Categorical COLA – Tier II and III Programs	-0-	-0-	-0-
LOTTERY REVENUE[2]	**2014-15**	**2015-16**	**2016-17**
Unrestricted	$128.00/ADA	$128.00/ADA	$128.00/ADA
Restricted for Instructional Materials	34.00/ADA	34.00/ADA	34.00/ADA
Total Lottery Revenue	$162.00/ADA	$162.00/ADA	$162.00/ADA
OTHER FACTORS	**2014-15**	**2015-16**	**2016-17**
CalSTRS Employer Rates	8.88%	10.73%	12.58%
CalPERS Employer Rates	11.771%	12.60%	15.00%
Interest Rate for 10-year Treasuries	2.20%	2.50%	2.80%
California Consumer Price Index (CPI)	2.10%	2.30%	2.50%
Other Expenses (4000s – 6000s)	2013-14+CPI	2014-15+CPI	2015-16+CPI

1 There is no statutory requirement to provide Gap funding in any year; when projecting LCFF increases in the "out years" it is recommended that districts assign, reserve or otherwise set-aside any projected increase in LCFF revenues as a result of Gap funding or at least have a contingency plan in place if anticipated revenues do not materialize

2 Lottery funding is based on actual ADA (e.g., excluding excused absences), multiplied by a statewide excused absence rate of 1.04446. For 2009-10 through 2014-15, 2007-08 ADA is used for Adult Education and ROC/Ps.

GENERAL FUND

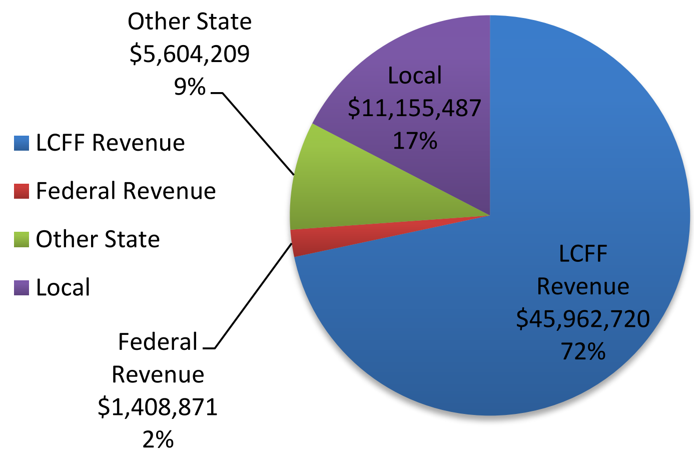
Multi-Year Projection

As a result of changes to both revenue and expenditure data available to date, including the information described above, the district has developed an updated multi-year projection for the current and subsequent two fiscal years. This projection indicates that while the district will end the year with a significant reserve, ongoing deficit spending will result in diminishing ending fund balances and the district will go from approximately 13.5% in in its reserve and unassigned balances in the current year to 5.5% in 2016-17.

		2014-15 Adopted	2014-15 First Interim	2014-15 2nd Interim		2015-16		2016-17	
Revenues		**Totals**	**Totals**	% change	Totals	% change	Totals	% change	Totals
Revenue (LCFF)	8010-8099	$45,708,102	$46,008,923	0.00%	$45,962,720	6.89%	$49,130,254	4.04%	$51,117,523
Federal Revenue	8100-8299	$1,456,980	$1,278,217	10.22%	$1,408,871	-9.27%	$1,278,217	0.00%	$1,278,217
Other State	8300-8599	$3,999,227	$5,341,368	4.92%	$5,604,209	-12.29%	$4,915,361	0.00%	$4,915,361
Local	8600-8799	$8,415,983	$10,740,254	3.87%	$11,155,487	-6.39%	$10,443,059	-5.77%	$9,840,254
Contributions	8980-8990								
Total Revenue		**$59,580,292**	**$63,368,762**		**$64,131,287**		**$65,766,891**		**$67,151,355**
Change in revenue			$3,788,470		$762,525		$1,635,604		$1,384,464
Expenditures									
Certificated Salaries	1000-1999	$30,300,357	$30,714,572		$30,799,053		$30,493,736		$30,890,154
Classified Salaries	2000-2999	$9,064,556	$9,423,592		$9,465,801		$9,664,111		$9,789,745
Benefits	3000-3999	$11,379,016	$11,376,217	0.08%	$11,385,543	8.17%	$12,315,948	9.27%	$13,457,681
Books & Supplies	4000-4999	$1,989,020	$4,590,081	4.92%	$4,816,081	-15.16%	$4,086,122	2.50%	$4,188,275
Services	5000-5999	$8,454,755	$8,888,104	6.09%	$9,429,297	0.74%	$9,499,119	2.50%	$9,736,597
Capital Outlay	6000-6999		$238,395	-100.00%	$0	0.00%	$0	0.00%	$0
Other Outgo	7100-7299	$1,659,395	$1,534,747	0.00%	$1,534,747	-0.33%	$1,529,719	0.00%	$1,529,719
Indirect	7300-7399	($55,000)	($102,000)		($102,000)		($102,000)		($102,000)
Debt Service	7400-7499	$0		100.00%	$501,236	-52.44%	$238,395	0.00%	$238,395
Other Uses	7610-7699								
Total Expense		**$62,792,099**	**$66,663,708**	**1.74%**	**$67,829,758**	**-0.15%**	**$67,725,150**	**2.96%**	**$69,728,566**
Change in expenses			$3,870,121		$1,162,203		($104,608)		$2,003,416
Net Increase/ (decrease)		($3,211,807)	($3,294,946)		($3,698,471)		($1,958,259)		($2,577,211)
Net beginning fund balance		$14,445,649	$14,445,649		$14,445,649		$10,747,178		$8,788,919
Ending Fund Balance		$11,233,842	$11,150,703		$10,747,178		$8,788,919		$6,211,708
Revolving Cash		($10,000)	($10,000)		($10,000)		($10,000)		($10,000)
Stores		($20,000)	($20,000)		($20,000)		($20,000)		($20,000)
		$11,203,842	$11,120,703		$10,717,178		$8,758,919		$6,181,708
REU = 5% of Total Exp.		$3,139,604	$3,333,185		$3,391,488		$3,386,258		$3,486,428
3-Year Escrow		$1,000,000	$1,000,000		$1,000,000		$1,500,000		
Gap Funding Assignment							$2,860,787		$1,769,409
Other Salary			$533,529		$533,529		$540,465		$563,705
Undesignated Amount		**$7,064,238**	**$6,253,989**		**$5,792,161**		**$471,409**		**$362,166**

Revenue

Since the first interim reporting period, total revenue projections have increased by $762,525. The majority of this is due to increased funding in the amount of $415,233 from local revenue sources, including PTA's and boosters. In addition, the district recently received Proposition 39 funding for both 2013-14 and 2014-15, resulting in increased state funding of $262,841; these funds are restricted funds to support the district's current energy savings project. Federal funding for special education also increased by $130,654. Finally, LCFF projections have decreased by just under $50,000, as a result of the most recent Department of Finance Projections, which lower projections for gap funding from 29.56% to 29.15%.



Revenue projections for 2015-16 have been increased by $1.5 million due to an increase in the projected LCFF gap funding percentage from 29.56% to 32.19%, increased kindergarten enrollment assumptions (now based on a 3-year average rather than a 1-year history), and updated Proposition 39 revenue assumptions.

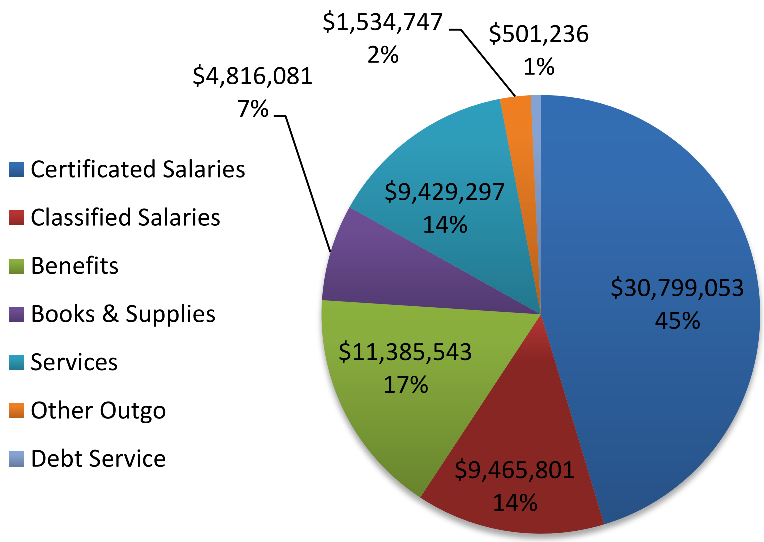
In 2016-17, revenue projections have been increased by $865,571. In this year, the projected LCFF gap funding percentage decreased from 25.48% to 23.71%, but this was offset by the same increased kindergarten enrollment assumption described above to result in a net gain in projected LCFF funding. Updated Proposition 39 and local revenue assumptions have been incorporated, including the loss of revenue represented by the conclusion of the district's current joint use agreement with the City of Manhattan Beach.

It is important to note that the District's current-year revenue assumptions are based upon an assumption that the California Department of Education will approve the district's application for a waiver in the calculation of the MBUSD ADA for the current year. This application was made as a result of the district's need to close Mira Costa High School for two days as a result of online threats made via the social media platform Yik Yak. If this application is denied, it will result in a loss of funding to the district in the amount of approximately $360,000.

In addition, it is important to note that there may be further impacts on district revenue resulting from the expiration of the temporary taxes associated with Proposition 30. As the sales tax phases out in 2016 and the personal income tax ends in 2018, state revenues will decrease, and there may be a negative impact on the state's ability to continue to fund increases in the LCFF as noted previously.

<u>Expenditures</u>

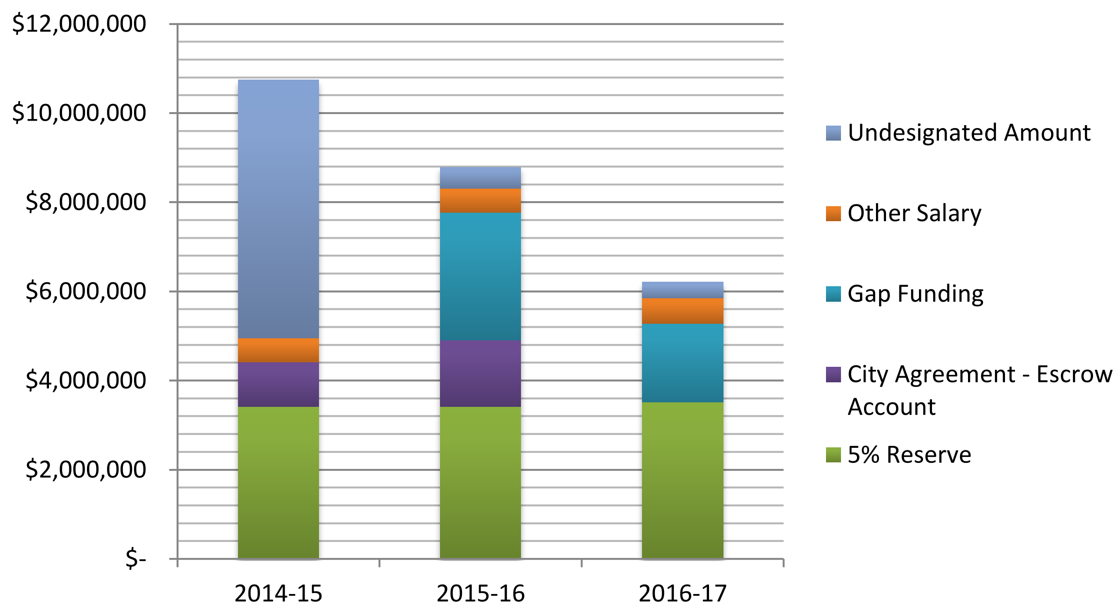
Since the First Interim Budget, there have been changes resulting in increased expenditures by $1.2 million and a revised total expenditure projection of $67.8 million. Increased expenditures include approximately $250,000 in new expenses offset by contributions from local organizations such as PTA/PTSA, MBX, and ASB. In addition, the additional $262,841 in Proposition 39 revenue mentioned in the previous section has been matched by corresponding expenditures of these funds. Expenditures of funds supported by grants from MBEF have also been adjusted by approximately $113,000 to match specific grant allocations. Approximately $400,000 in expenditures that were originally allocated to Fund 25 but which are classified as maintenance expenditures and therefore need to be transferred to the general fund. Planned professional development expenditure amounts have been adjusted to include approximately $118,000 in additional expenses. In addition, personnel expenses have been adjusted to include additional staffing to support the theater program and facility rentals.



Expenditure projections in 2015-16 and 2016-17 have been increased by over $800,000 per year. This is due to the ongoing nature of the maintenance expenditures transferred to the general fund in the current year, as well as continuing expenditures of Proposition 39 funds in these two years. In addition, personnel costs are slightly increased to include added positions. Further, due to updated assumptions provided by a variety of health insurance plan administrators, projections for increased health benefits costs have been increased from an assumption of a 3.5% rate increase to an assumption of a 4.5% increase. It should also be noted that statutory benefits costs will increase by $694,000 in 2015-16 and by $894,000 in 2016-17 in order to provide for the mandated increases in employer contributions to STRS and PERS. Increases in other statutory benefits (state disability, unemployment, workers' compensation, and Medicare) are not currently projected, but rate changes are a possibility in those areas as well.

Ending Fund Balance

The ending fund balance and multiyear projections reflected in the Second Interim Budget Report reflect deficit spending in the current and subsequent two fiscal years ranging from $3.7 million this year to $2 million next year and $2.6 million in 2016-17. As noted previously, this will result in declining ending fund balances, beginning with $10.7 million in the current year to $6.2 million in 2016-17. Removing the assigned and reserved portions of this ending fund balance, the district can anticipate ending 2016-17 with only $362,000 in undesignated funds.



This scenario assumes that the funds held in escrow through the district's agreement with the City of Manhattan Beach will be released in 2016-17. It also puts aside funding for potential salary increases for other employee groups not included in the district's current tentative agreement with MBUTA. As has been previously noted, uncertainty related to future funding levels suggests that ongoing fiscal prudence is advisable, and the district therefore continues to reserve higher than the minimum REU and to assign future gap funding increases. Further, due to the projected depletion of the ending fund balance, the district's structural deficit will need to be addressed in order to sustain current salary, staffing, and programs beyond the 2016-17 fiscal year.

Ongoing Concerns and Priorities

It should be noted that in future years, the District will need to address a number of funding and expenditure challenges both in the near and long term:

- The elimination of EPA (Proposition 30) funding over the years between 2016-17 and 2019-20.
- Ongoing increases to the District's contribution to benefits for STRS and PERS as these systems address their unfunded liabilities.

- The need to address long-deferred investments in new textbooks; the state has delayed its adoption schedules, but it is anticipated that these requirements will be reinstated as the economy grows and LCFF funding increases.
- The need to replace and upgrade aging technology infrastructure and hardware on an ongoing basis.
- Deferred maintenance needs as buildings and systems age.
- Potential debt services expenditures for repayment of Energy Project loan.
- Unanswered questions regarding the district's ongoing support for ROP/C and adult education programs.
- Ongoing expenditures for professional development (proposed at $504,000 per year).
- Other program enhancements or additions

OTHER FUNDS

This narrative will outline current projections for funds other than the General Fund, including changes since the first interim budget report.

CAFETERIA FUND (Fund 13)

The only change in this fund since first interim is an additional $5,000 in revenue from interest earned.

Fund 13.0	Beginning Balance	Revenues	Expenditures	(Deficit)/Increase	Ending Fund Balance
First Interim Budget	$1,563,635	$1,982,500	$2,127,192	$(144,692)	$1,418,943
Changes	$0	$5,000	$0	$5,000	$5,000
Second Interim Budget	$1,563,635	$1,987,500	$2,127,192	$(139,692)	$1,423,943

Based on current projections, this fund continues to reflect a positive ending fund balance.

DEFERRED MAINTENANCE FUND (Fund 14)

The only change in this fund since first interim is an additional $240 in revenue from interest earned.

Fund 14.0	Beginning Balance	Revenues	Expenditures	(Deficit)/Increase	Ending Fund Balance
First Interim Budget	$117,746	$250	$29,761	$(29,511)	$88,235
Changes	$0	$240	$0	$240	$240
Second Interim Budget	$117,746	$490	$29,761	$(29,271)	$88,475

Based on current projections, this fund continues to reflect a positive ending fund balance.

BUILDING FUND (Fund 21)

The only change in this fund since first interim is an additional $15,000 in revenue from interest earned.

Fund 21.0	Beginning Balance	Revenues	Expenditures	(Deficit)/Increase	Ending Fund Balance
First Interim Budget	$10,447,556	$20,000	$9,812,565	$(9,792,565)	$654,991
Changes	$0	$15,000	$0	$15,000	$15,000
Second Interim Budget	$10,447,556	$35,000	$9,812,565	$(9,777,565)	$669,991

Based on current projections, this fund continues to reflect a positive ending fund balance.

CAPITAL FACILITIES FUND (Fund 25)

Since the first interim budget report, a number of changes have occurred in this fund. Developer fee collections have continued on pace with last year's trend, above the prior year, and so revenue projections have been increased. At the same time, a review of budgeted expenditures revealed that a number of maintenance expenses had been budgeted to this fund; as funds collected from developers through construction fees are to support the expansion of school facilities to support new enrollment generated by new construction, these expenditures are not appropriate for this fund and have been transferred to the general fund. This transfer amounts to $400,000, which will reduce expenditures in this fund by a corresponding amount. Subsequently, the Board approved the expenditure of approximately $120,000 out of this fund to support the expansion of the Mira Costa High School Campus through new buildings currently under construction. In addition, the district is currently in the midst of the development of a Facilities Master Plan; expenses related to this process, estimated at $234,000 have also been budgeted to Fund 25.

Fund 25.0	Beginning Balance	Revenues	Expenditures	(Deficit)/Increase	Ending Fund Balance
First Interim Budget	$677,707	$404,000	$800,000	$(396,000)	$281,707
Changes	$0	$250,000	$(46,054)	$296,054	$296,054
Second Interim Budget	$677,707	$654,000	$753,946	$(99,946)	$577,761

Based on current projections, this fund continues to reflect a positive ending fund balance.

CAPITAL PROJECTS FUND (Fund 40)

No changes have been made in this fund since the first interim budget report

Fund 40.0	Beginning Balance	Revenues	Expenditures	(Deficit)/Increase	Ending Fund Balance
First Interim Budget	$4,352,197	$15,000	$3,268,688	$(3,253,688)	$1,098,509
Changes	$0	$0	$0	$0	$0
Second Interim Budget	$4,352,197	$15,000	$3,268,688	$(3,253,688)	$1,098,509

Based on current projections, this fund continues to reflect a positive ending fund balance.

BOND INTEREST AND REDEMPTION FUND (Fund 51)

No changes have been made in this fund since the first interim budget report

Fund 51.0	Beginning Balance	Revenues	Expenditures	(Deficit)/Increase	Ending Fund Balance
First Interim Budget	$10,932,167	$9,960,318	$10,575,561	$(615,243)	$10,316,924
Changes	$0	$0	$0	$0	$0
Second Interim Budget	$10,932,167	$9,960,318	$10,575,561	$(615,243)	$10,316,924

Based on current projections, this fund continues to reflect a positive ending fund balance.

OTHER ENTERPRISE FUND (Fund 63)

Subsequent to first interim, the Board approved increases to fees charged for this program. This, along with changes in enrollment, has resulted in increased revenue.

Fund 63.0	Beginning Balance	Revenues	Expenditures	(Deficit)/Increase	Ending Fund Balance
First Interim Budget	$1,771,263	$3,312,000	$4,356,877	$(1,044,877)	$726,386
Changes	$0	$76,000	$0	$76,000	$76,000
Second Interim Budget	$1,771,263	$3,388,000	$4,356,877	$(968,877)	$802,386

Based on current projections, this fund continues to reflect a positive ending fund balance.

SELF INSURANCE FUND (Fund 67)

Since first interim, the District has experienced a theft of equipment from an elementary school. This has resulted in increased expenditures to pay for the replacement of this equipment and the insurance deductible, along with increased revenue to reimburse this fund from insurance proceeds.

Fund 67.0	Beginning Balance	Revenues	Expenditures	(Deficit)/Increase	Ending Fund Balance
First Interim Budget	$105,314	$300	$2,000	$(1,700)	$103,614
Changes	$0	$30,000	$30,500	$(500)	$14,143
Second Interim Budget	$105,314	$30,300	$32,500	$(2,200)	$103,114

Based on current projections, this fund continues to reflect a positive ending fund balance.

RETIREE BENEFIT FUND (Fund 71)

No changes have been made in this fund since the first interim budget report

Fund 71.0	Beginning Balance	Revenues	Expenditures	(Deficit)/Increase	Ending Fund Balance
First Interim Budget	$410,677	$2,000	$67,900	$(65,900)	$344,777
Changes	$0	$0	$0	$0	$0
Second Interim Budget	$410,677	$2,000	$67,900	$(65,900)	$344,777

Based on current projections, this fund continues to reflect a positive ending fund balance.

THE BUDGET REPORT

The following pages include the detailed budget documents. The budget format established by the State and LACOE and complies with the Standardized Account Code Structure (SACS) used throughout the state as well as any locally prescribed requirements.

Budget Forms

Each fund is reported separately in the SACS format and provides a columnar view of the adopted, current operating budget, expenditures based on the close of the prescribed reporting period, proposed budget, and the difference between proposed and approved operating budget. In addition to the columnar review of fiscal year change the budget is broken down by description of revenue, expenditures, excess (deficiency of revenue over expenditures), other financing sources, net change to fund balance for the year, and the resulting ending balance based on the beginning balance (prior year closing ending balance). Definitions[13] are as follows:

> Revenue: The primary financial source of a fund. Revenues are recognized when assets are increased without increasing liabilities or incurring an expenditures reimbursement.
>
> Expenditures: The costs of goods delivered or services rendered, whether paid or unpaid, included expenses, provisions for debt. The expenses are to benefit the current fiscal period.
>
> Other Financing Sources/Uses: Reporting of sources includes long-term debt proceeds, operating transfers in, and material proceeds of fixed asset dispositions. Reporting of uses includes operating transfers out.
>
> Fund Balance: The difference between assets and liabilities. The fund equity of governmental and trust funds.

Criteria and Standards

The criteria and standards were created to develop, review, and assess school district and county office of education budgets and interim financial reports. They are intended to provide a measurement system for fiscal solvency on a periodic basis. The District's budget is measured against the stansdards,

[13] California School Accounting Manual, Revised October 2011. Glossary Section

and a determination of whether the standards have been "met" or "not met" is made; this determination is intended to foster dialog, explanations and more detailed analysis on the part of the Board of Education, Staff, and the County Office in their review. The areas included are:

Standard Categories
1. Fund and Cash Balances
2. Reserves
3. Deficit Spending
4. Average Daily Attendance
5. Enrollment
6. Comparison of Enrollment to ADA
7. Local Control Funding Formula Revenue
8. Salaries and Benefits in Proportion to Expenditures
9. Changes in Other Revenues and Expenditures
10. Facilities Maintenance

Supplemental information
S-1 Contingent liabilities disclosure
S-2 Using one time revenues to fund ongoing expenses
S-3 Contingent revenues due
S-4 Contribution amounts
S-5 Long-term commitments disclosure
S-6 Unfunded liabilities
S-7 Temporary Interfund Borrowings
S-8 Status of Labor Agreements Disclosure
S-9 Status of Other Funds

Additional Fiscal Indicators
A-1 Negative Cash Flow
A-2 Independent Position Control
A-3 Declining Enrollment
A-4 Charter School Impact
A-5 Salary increases to COLA
A-6 Uncapped health benefits
A-7 Independent financial system
A-8 Fiscal distress reports
A-9 Change of CBO or Superintendent in a year

<u>SACS Budget Report</u>
The District's SACS Budget Report has been prepared and is presented simultaneously with the Budget Narrative; the documents are published and posted alongside each other to the Board and to the public.