

## MODESTO CITY SCHOOLS

TO: Pamela Able, Superintendent Regular Meeting

SUBJECT: Report on Financial Information - December 12, 2011  
Budget

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### **BACKGROUND**

A series of financial information reports are being presented to the Board of Education. The meetings are designed to review information with the Board and inform the public as to the processes that staff uses to balance quality programs and fiscal solvency.

### **REPORT**

The District budget cycle extends over eighteen (18) months. In January of each year, the Governor announces a proposed budget for the following fiscal year. The District evaluates the effects of the proposed budget and begins making budget decisions based on known factors and assumptions for the new fiscal year. In May the Governor announces revisions to the State proposed budget. The District has little time to incorporate the May revisions before the June 30<sup>th</sup> mandated District budget adoption date. The district is mandated to adopt a budget by June 30<sup>th</sup> regardless of the State adoption status. Once the State adopts a budget, the District has 45 days to report any significant changes.

When analyzing a District budget, one must understand account code language. Although the District account code structure is thirty (30) characters, the focus of the information is fund source, resource and object code. Fund is defined as the fiscal and accounting entity with a self-balancing set of accounts. Examples of District funds include General, Child Development and Cafeteria. Resource codes track the activities that are funded with revenues that have special accounting or reporting requirements or legally restricted. Resource codes are also split between unrestricted and restricted. Unrestricted resources are discretionary in nature and have fewer restrictions such as General Fund, Class Size Reduction and Tier III Categoricals; restricted resources are derived from federal, state and local grants or entitlements and usually target a specific student population or purpose such as Title I, Economic Impact Aid and Special Education. The purpose of an object code is to classify revenues by source and type, expenditures by commodity or service and balance sheet accounts by assets, liabilities or fund balance.

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## Report on Financial Information – Budget

Revenue is received through four categories; revenue limit, federal, state and local sources. The largest component is the revenue limit which is funded on a per student attendance rate. Each District receives a separate funding formula. The remaining three categories receive revenue funding via entitlements, grants and miscellaneous sources.

District expenditures can be tracked by major object codes. These codes allow for summarization and/or detailed information to be given regarding district spending. Major object code classifications include Certificated Salaries, Classified Salaries, Benefits, Books and Supplies, Services, Equipment and Other Outgo.

Fund Balance is the calculation of beginning balances, plus revenue, minus expenditures. Throughout the fiscal year, budget projections and assumptions change which impact estimated fund balances. Only after the fiscal year is closed can a District calculate the ending fund balance that will transfer to the next fiscal year. Fund balance amounts generally are one-time dollars and should be treated similarly to a savings account.

There are many components to a fund balance that indicate all dollars are not uncommitted or available to be spent. The multi-year projection (MYP) sheets define commitments against the fund balance. The commitments include revolving cash, stores, prepaid expenditures, board designated categories and the State required economic uncertainty reserve. The State required reserved is calculated on total general fund expenditures, yet can only be reserved against the unrestricted portion of the fund balance. Required reserve percentages are determined by the average daily attendance of the District and are currently 3%.

Districts throughout the State face many budgetary challenges. Years of funding cuts, deficits and deferrals have left many districts facing shorter school years, salary concessions, cash flow problems and uncertainties. AB 114 enacted “trigger” language that automatically implements a reduction to K-12 education if state revenue forecasts of \$88.5 billion are not met. The trigger has several levels of implementation if forecasts are not met; less than \$1 billion below forecast will have no change on current funding, between \$1 and \$2 billion below forecast will trigger a series of cuts including child care effective January 1, 2012 and more than \$2 billion below forecast will cut public education up to \$1.9 billion by February 1, 2012. The public education portion will reduce revenue limit funding by 4% and home-to-school transportation by 51.6%.

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Report on Financial Information – Budget

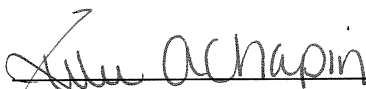
Challenges will continue to face the District budget in future years. A slow economic recovery, unemployment rates in the State surpassing the national average, the demand for public pension reform and the expiration of current flexibility and concessions will place further strain.

As staff prepares for the December 15<sup>th</sup> trigger date announcement, the preparation for the upcoming 2012-13 fiscal year begins in a few short weeks.

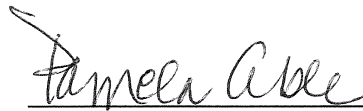
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Submitted by:

Approved for Submission  
to the Governing Board by:



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Pamela Able  
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