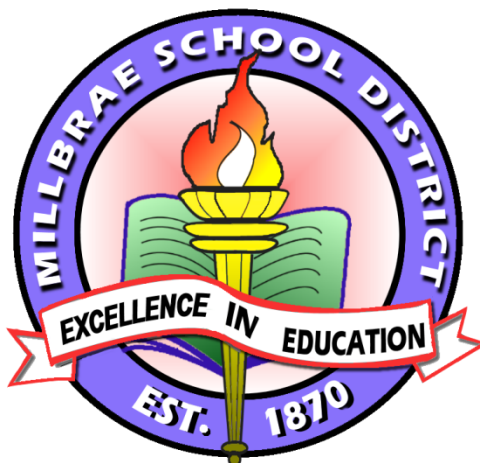


Millbrae Elementary School District

First Interim for Fiscal Year 2016-2017



Board of Trustees

Frank Barbaro

Denis Fama

Lynne Ferrario

Maggie Musa

D. Don Revelo

Administration

Vahn Phayprasert, Superintendent

Richard Champion, Chief Business Official

Claire Beltrami, Assistant Superintendent – Educational Services

Anita Allardice, Director of Special Education

Fiscal Year Budget Calendar

October 2016	First Interim cut-off FY 2016/2017
December 2016	Board approval First Interim FY 2016/2017 Release of Auditor's Report for FY 2015/2016
January 2017	Board approval of Auditor's Report for FY 2015/2016 Governor's release of State budget proposal for FY 2017/2018 Second Interim cut-off for FY 2016/2017 Review of staffing for FY 2017/2018
February 2017	Board/Staff conducts budget study based upon Governor's release Board approval of Second Interim for FY 2016/2017
April 2017	Board may conduct additional budget study sessions
May 2017	Governor's release of State budget May-Revise for FY 2017/2018 Board/Staff conducts additional budget study sessions
June 2017	Board adopts FY 2017/2018 budget & LCAP
July 2017	Business office staff begins Year-End Closing (FY 2015/2016)
September 2017	Board approval FY unaudited actuals 2015/2016
October 2017	First Interim cut-off FY 2017/2018

District's Vision

“In order to empower students as co-creators of their own learning, the Millbrae School District commits to implementing the Common Core State Standards by engaging students in contemporary and authentic learning which propels them toward college and career readiness in preparation for active leadership in our global society.”

Executive Summary

The Executive Summary is an overview of the financial data reported to the County of San Mateo Office of Education in the Standardized Account Code Structure (SACS) format. The following data and related exhibits are intended to assist all readers in understanding the information as reported.

The Millbrae School District financial status is comprised of three major components: (1) Fund Balance (*Ending and Beginning Balance*); (2) Revenues; and (3) Expenditures. The overall financial goal for the district is to maintain an appropriate level of reserves, maximize district revenues and expend district resources in areas achieving the highest educational value

Education Code 42300 requires California school districts to report its financial data twice a year. This report is referred to as the “Interim Report.” The First Interim Report shall reflect changes to the board approved budget from July 1, 2016 through October 31, 2016: The Second Interim financial report shall reflect and report changes to the board approved budget from July 1, 2016 through January 31, 2017.

In addition to the Interim Reports, the District submits a Multiple Year Projection (MYP) report. These report examines the District's enrollment, spending pattern, ending fund balance, and reserve for economic uncertainties for the current fiscal year (*FY 2016/2017*) and the two (2) subsequent years (*FY 2017/2018 & FY 2018/2019*).

The objectives of reports are:

1. To provide a review of the District's financial condition at periodic intervals during the fiscal year.
2. To provide a status report to the Board of Education and the public of the financial condition of the District.
3. To determine necessary budget revisions as a result of current or projected financial information.

CERTIFICATION

Based on the information contained in this report, the District's Board of Trustees must certify as to whether the District will be able to meet its financial obligations for the remainder of the current fiscal year (*FY 2016/2017*) and for the two (2) fiscal years following (*FY 2017/2018 & FY 2018/2019*).

The intent of the MYP report is to certify the District's ability to meet its financial obligations. The District will issue one of the following certifications:

- Positive Certification: The District **WILL MEET** their financial obligations for the current and two (2) subsequent fiscal years, OR
- Qualified Certification: The District **MAY NOT MEET** their financial obligations for the current or two (2) subsequent fiscal years, OR
- Negative Certification: The District **WILL BE UNABLE TO MEET** their financial obligations for the remainder of the current year or subsequent fiscal years based upon current projections (not meeting reserves in current year or negative fund balances in any year)

RECOMMENDATION

It is recommended that the Board:

1. Give a positive certification to the County Superintendent that the District can meet its financial obligations through the end of the fiscal year and for the subsequent two years.
2. Approve the budget revisions listed in the projected year totals.

Financial Report Information:

The District's Budget and Accounting format are based on the California School Accounting Manual (CSAM) and utilize the Standardized Account Code Structure (SACS). Accounting is the fiscal information system for business. The District's accounting, referred to as Governmental Accounting, is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitation.

General Fund (*Fund 01*)

The General Fund is the main operating fund for the District. It is used to account for the ordinary operations of the District. All transactions, except those required or permitted by law to be in another fund, are accounted for in this fund. The General Fund consists of unrestricted and restricted funds.

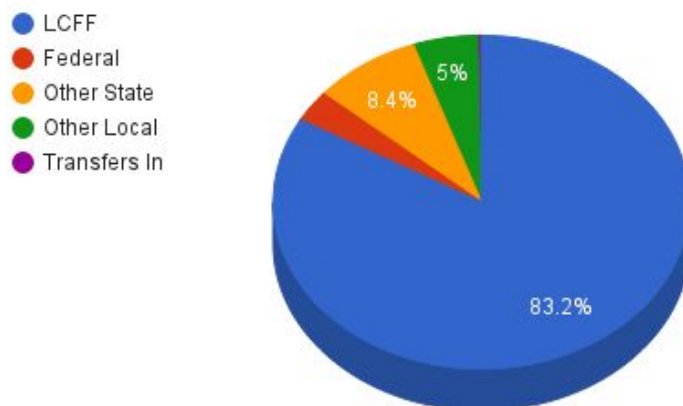
- General Fund, Unrestricted accounts for projects and activities that are funded with unrestricted revenues.
- General Fund, Restricted accounts for projects and activities that are funded by external revenue sources that are legally restricted or restricted by the grantor for specific purposes..

1st Interim Report FY 2016-2017

General Fund (*Fund 01*) Revenues: \$23,560,585

(Unrestricted \$16,700,971; Restricted \$6,859,614)

FY 16/17 First Interim Total General Fund Revenues



Local Control Funding Formula (LCFF) Revenue Source (Object 8010-8099): \$19,603,127
(Unrestricted \$18,399,070; Restricted \$1,204,057)

LCFF revenue source represents 83.2% of the total General Fund revenues. It is the primary source of revenue for the District. The unrestricted portions represent the estimated Proposition 98 education funding including the Principal Apportionment (P2 Average Daily Attendance) and property taxes. This revenue amount is based on Local Control Funding Formula. LCFF revenue sources have increased from the original budget by \$54,799. Although there was a slight decrease in gap funding from 54.84% to 54.18%, overall ADA estimates are approximately 13.76 ADA higher than reflected on the adopted budget. Also, the unduplicated count of English Learners, students eligible for free and reduced priced meals and foster youth increased minimally from the adopted budget estimate by 0.80%.

Federal Revenue (Object 8100-8299): \$724,382
(all of these revenues are restricted)

Federal Revenue represents 3.1% of the total General Fund revenues. It includes funding for Special Education in the amount of \$429,439; No Child Left Behind (NCLB) in the amount of \$294,942, including Title I, Title II and Title III, which includes \$40,637 carryover from prior year. When compared to the original budget, the Federal Revenue has increased \$46,903 from the adopted budget.

Other State Revenue (Object 8300-8599): \$1,978,697
(Unrestricted \$947,377; Restricted \$1,031,320)

Other State Revenue represents 8.4% of the total General Fund revenues. The revenues in this source include Lottery funds (\$118,612-Restricted: \$360,760 Unrestricted) Special Education (\$4,829 Unrestricted), ASES grant (\$105,277 Unrestricted), Mandated Costs (\$573,804 Unrestricted) and STRS on Behalf recognition (\$802,602 Unrestricted).

Other State Revenues increased from the original budget by \$50,435

Other Local Revenue (Object 8600-8799): \$1,184,263
(Unrestricted \$565,639; Restricted \$618,624)

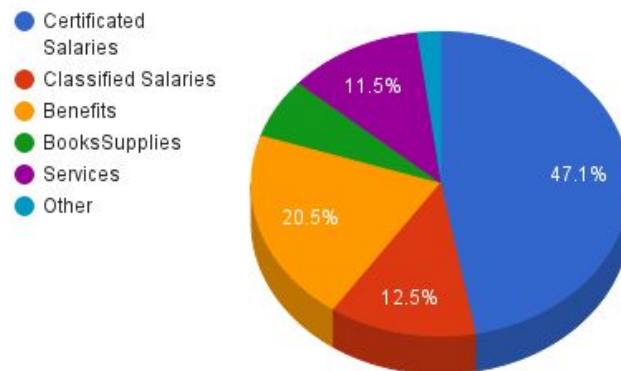
Other Local Revenue represents 5% of the total General Fund revenues. Compared to the original budget, local revenue has increased by \$177,116. The increase is due to local and school site donations received throughout the year and prior year's carryover. Revenue is recognized in the budget when the funds are available or received. The unrestricted funds include interest income, Leases and Rentals, and other non-restricted sources. Contributions from the Millbrae Education Fund (MEF) are included as restricted funds in other local revenue.

Transfers In (Object 8900-8929): \$70,116
(Unrestricted \$45,000; restricted \$25,116)

Transfers In represent less than 0.3% of the total General Fund revenues. This transfer reflects interest income from Fund 17-Special Reserve Fund.

General Fund (Fund 01) Expenditures: \$24,721,714
(Unrestricted \$17,533,994; Restricted \$7,187,720)

FY 16/17 First Interim General Fund Expenditures



Certificated Salaries (Object 1000-1999): \$11,627,753
(Unrestricted \$9,909,891; Restricted \$1,717,862)

Certificated Salaries, including administrative staff positions, require a credential or permit issued by the Commission on Teacher Credentialing. The total Full Time Equivalent (FTE) was budgeted FY 2016-2017 for 137.90 as compared to 137.40 in FY 2015-2016. First Interim FTE has increased to 138.10, Teaching Positions represent 115.90 FTEs at 1st Interim. The decrease of \$149,805 is the result of adjustments in staffing. Additionally, speech and language positions FTEs at Budget are 5.8. An increase from 2.4 from FY 2015-2016 budget reporting period. Increases are added to reflect increases in caseloads.

Certificated salaries represent 47% of the total General Fund expenditures; approximately 85.2% of the total certificated positions are funded by unrestricted funds, and 14.8% of the total positions are funded by restricted funds.

Classified Salaries (Object 2000-2999): \$3,079,121

(Unrestricted \$1,896,317; Restricted \$1,182,804)

Classified Salaries represent the positions that do not require a credential or permit issued by the Commission on Teacher Credentialing. The positions in this classification are Chief Business Official, Administrative Assistant, Administrative Secretary, Attendance Secretary, District Office Staff, Instructional Aide, occupational therapist, special day class instructional aides and Maintenance and Operations staff. The classified FTEs are 57.57; excluding food services personnel who are funded outside the General Fund. This expenditure decreased from the original budget by \$89,516 due to unfilled positions at beginning of fiscal 2016/2017 and other staffing adjustments. Classified Salaries are about 12.5% of the total General Fund expenditures. Approximately 61.6% of the total classified positions are funded by unrestricted funds, and 38.4% of the total classified positions are funded by restricted funds. Negotiations with CSEA has reached a tentative agreement as of November 17, 2016, and accordingly, classified salaries have been revised to reflect the fiscal impact of the agreement.

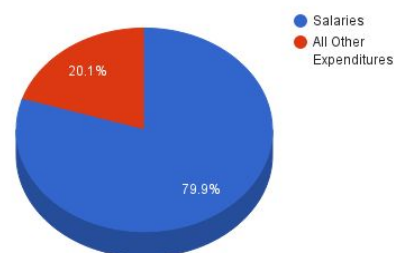
Employee Benefits (Object 3000-3999): \$5,076,374

(Unrestricted \$3,447,040; Restricted \$1,629,334)

Employee Benefits account for employers' contributions to retirement plans: State mandated increased for the State Teachers' Retirement System (STRS) and the Public Employees' Retirement System (PERS) has been updated, Health and Welfare benefits and the payroll related statutory costs, such as Workers' Compensation, State Unemployment Insurance, FICA, and Medicare also have been updated to reflect the best information as of the date of this report. Employee benefits represent approximately 20.6% of the total General Fund expenditures. Employee benefits decreased from the original budget by \$74,662. The decrease is attributed to the change in Certificated and Classified salaries. Classified employee benefits have been adjusted accordingly to include the November 17, 2016 tentative agreement with the CSEA for Classified employees.

Education is a people business. It takes people to teach students. Therefore, the biggest expenses for the District are salaries and benefits. Total compensation of employees in the district is \$19,783,248 representing 80% of total expenditures.

FY 16/17 First Interim Salaries (Fund 01)



Books and Supplies (Object 4000-4999): \$1,574,168

(Unrestricted \$1,129,962; Restricted \$444,206)

This is to account for expenditures for books and supplies, other reference materials, and non-capitalized equipment. It is the smallest expenditures classification and represents about 6.4% of the total expenditures. From the original budget, books and supplies *increased* by \$264,916. The majority of the expenditures are from the restricted portion of the budget and has been revised to include prior year carryover for Titles I and III, and lottery.

Services and Other Operating Expenditures (Object 5000-5999): \$2,843,509

(Unrestricted \$1,151,246; Restricted \$1,692,263)

Services and Other Operating Expenditures account for expenditures for services, rentals, leases, maintenance contracts, dues, travel and conference, insurance, utilities, legal and other operating expenditures. It is about 11.5% of the total expenditures. From the original budget, services and other operating expenditures *increased* by \$634,560 to include prior year carryover for Title III, Proposition 39 (Energy Eff.) and Educator Effectiveness grants. Special Education has been revised to reflect student placements and contracted services to replace leave of absences. Additionally, expenditures for one-time funds for technology utilization has been accounted for.

Capital Outlay (Object 6000-6999): \$0.00

This category accounts for any capital outlay expenditures. During the last few years this is the category that has not been projected for any purchases.

Other Outgo (Object 7100-7299, 7400-7499): \$557,278

(Unrestricted \$49,580; Restricted \$507,698)

The unrestricted amount of Other Outgo represents Indirect Costs. The restricted portion represents the payment and tuition to County programs and other Local Educational Agencies for Special Education programs. This expenditure *increased* by \$168,676 (*restricted*) from the original budget. This is mainly due to changes with student placements.

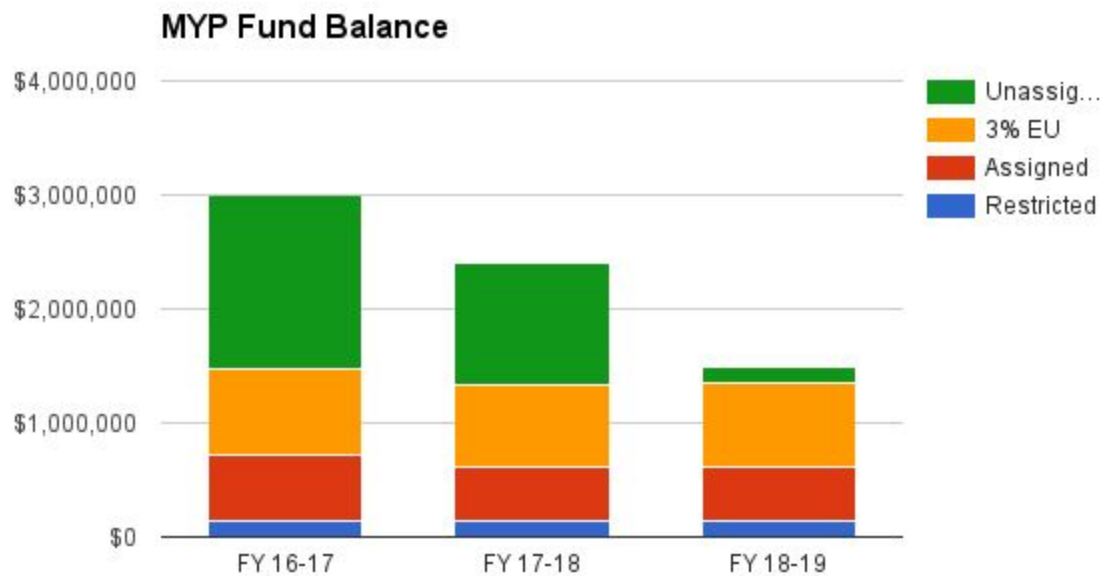
Transfer Out (Object 7600-7699): \$50,000 (Unrestricted \$50,000)

A portion of the transfer out represents a transfer from General Fund to Cafeteria Fund. Under the LCFF funding model the transfer to the Cafeteria Fund is done as a transfer out. The district will continue to monitor and revise as program grows and moves toward new food service model.

Analysis of the General Fund Fund Fund Balance - MYP

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the ending fund balances shall be classified as follows:

- **Non-spendable** (*such as revolving cash, stores, and prepaid items*)
- **Restricted** (*subject to external parties, constitutional provision, or enabling legislation*)
- **Committed** (*self-imposed by MESD's Board of Education*)
- **Assigned** (*intended for a particular purpose and imposed prior to financial statements*)
- **Unassigned** (*not classified above*)



	FY 16-17	FY17-18	FY 18-19
Non Spendable	\$2,500	\$2,500	\$2,500
Restricted	\$148,315	\$148,315	\$148,315
Assigned	\$575,945	\$466,101	\$466,101
3% EU	\$743,151	\$715,091	\$731,315
Unassigned	<u>\$1,534,727</u>	<u>\$1,068,402</u>	<u>\$143,478</u>
Ending Balance	<u>\$3,004,638</u>	<u>\$2,400,409</u>	<u>\$1,491,709</u>

Multi-Year Projections:

The Multi-Year Projection (MYP), a required component of budget development and demonstrates the requirement that the District will meet its financial obligations in the current and subsequent two years. The Multi-Year Projection also indicates the District's ability to maintain the required reserve for economic uncertainties for the current and subsequent two years. The Multi-Year Projection for the First Interim Report has been created by utilizing recommendations from the School Service of California's Dartboard, San Mateo County Office of Education's Common Message and Fiscal Crisis Management Assistance Team's (FCMAT) LCFF calculator.

Listed below are highlights of the assumptions used for the MYP. Attached is the MYP Budget assumptions for FY 2016-17 1st INTERIM as submitted to San Mateo County Office of Education.

Assumptions for the 1st Interim report for FY 2016-2017

- 180 instructional days
- Two (2) staff development days on work calendar, one (1) off work schedule
- COLA factor 0.00%
- One-time allocations: \$214/ADA
- 54.18% LCFF gap funding percentage
- ADA Funding-2,369.92 (97%): Enrollment-2,433 (*see chart below*)
- Unduplicated pupil percentage of 36.99%
- Step and Column increases for certificated staff and Step increases for classified staff
- STRS: 12.58%: PERS: 13.888%
- Classified salaries: tentative agreement reached
- Reserve for economic uncertainty - 3%

The assumptions for FY 2017-2018:

- 180 instructional days
- Two (2) staff development days on work calendar, one (1) off work schedule
- COLA factor 1.11%
- One-time allocations: \$0/ADA
- 72.99% LCFF gap funding percentage
- ADA funding-2,358.67 (97%): Enrollment-2,426 (*see chart below*)
- Unduplicated pupil percentage of 36.57%
- Step and Column increases for certificated staff and Step increases for classified staff
- STRS: 14.43%: PERS: 15.55%
- Reserve for economic uncertainty - 3%

The assumptions for FY 2018-2019:

- 180 instructional days
- Two (2) staff development days on work calendar, one (1) off work schedule
- COLA factor 2.42%
- One-time allocations: \$0/ADA
- 40.36% LCFF gap funding percentage
- ADA Funding - 2,339.17 (97%): Enrollment - 2,407 (*see chart below*)
- Unduplicated pupil percentage of 37.43%
- Step and Column increases for certificated staff and Step increases for classified staff
- STRS: 16.28%: PERS: 17.10%
- Reserve for economic uncertainty - 3%

Enrollment vs. ADA Trends

The most significant characteristic for determining District income is the calculation of the average number of students who are in school and in attendance on a daily basis. This average daily attendance, or ADA, is multiplied by the District's LCFF rate per ADA to determine the total income for the District.

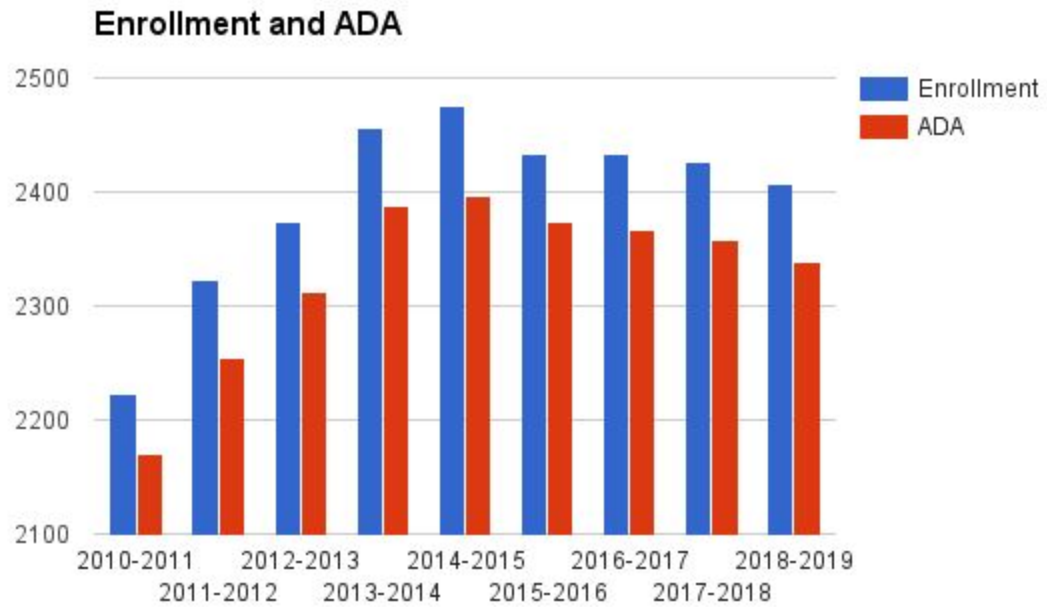
Since ADA is such an important part of the District's income base, the projection of ADA for the next fiscal year and subsequent years is an important part of projecting the District's income. Even small fluctuations in the District's ADA can mean a gain or loss of tens of thousands of dollars in income. District attendance records are monitored monthly and ADA is updated throughout the year to ensure that the projected LCFF income matches the District's budgeted or revised projections.

Enrollment is reported each October. The Average Daily Attendance (ADA) is prepared to the State three (3) times during the fiscal year.

- ➔ P1 - 1st period: The average attendance over the first four (4) months of school,
- ➔ P2 - 2nd period: The average attendance for the first eight (8) months of school,
- ➔ Annual: The average attendance for the entire school year.

Public schools are the only agencies that receive income based on the population they serve. Cities or counties, as an example, do not have either increases or decreases in their revenue based on the number of citizens in their community. Public schools, however, receive most of their income based on attendance. The state does not pay the District for enrollment—just attendance. Therefore of the costs of setting up the instructional program will be a loss unless the student attends every day.

The following chart illustrates the School District's enrollment and ADA over the last 6 years and estimated current plus 2 years out.



Changes/Adjustments since Approved Budget/MYP adoption

Unrestricted/Restricted MYP	2016 - 2017					
Source: Form MYP1	Board Approved Budget				Total	Significant
	Unrestricted	Restricted	Unrestricted	Restricted	1st Interim	Changes
Fund Balance: Beginning			\$3,739,346	\$476,421	\$4,215,767	
Revenue	\$19,941,123	\$3,220,093	\$19,912,086	\$3,578,383	\$23,490,469	\$329,253
Expenditures	\$17,551,089	\$6,416,456	\$17,533,994	\$7,187,720	\$24,721,714	\$754,169
Interfund Transfers In/Out	\$5,000	\$0	-\$5,000	\$25,116	\$20,116	\$15,116
NET Increase or Decrease - Unrestricted	\$2,390,034		\$2,378,092		-\$1,231,245	
NET Increase or Decrease - Restricted		-\$3,196,363		-\$3,609,337	\$412,974	
Contributions-TO Unrestricted	-\$3,196,363	\$3,196,363	-\$3,256,115	\$3,256,115		\$59,752
Net Increase or Decrease in Fund Balance	-\$811,329	\$0	-\$883,023	-\$328,106	-\$1,211,129	
1st Interim FY 2016-2017						
Fund Balance: Ending	\$3,739,346	\$476,421	\$2,856,323	\$148,315	\$3,004,638	-\$1,211,129
Restricted-Cash	\$2,500	\$0	\$2,500	\$0	\$2,500	
Reserve for Econ. Uncertainties	\$720,526	\$0	\$743,151	\$0	\$743,151	\$22,625
Restricted		\$476,421	\$0	\$148,315	\$148,315	-\$328,106
Assigned	\$575,945	\$0	\$575,945	\$0	\$575,945	
Undesignated Ending Balance	\$2,440,375	\$0	\$1,534,727	\$0	\$1,534,727	-\$905,648
Increase in Revenue due to carryover Restricted Prop. 39 Funds & One-time revenues						
Increase in Expenditures due to planned use of carryover funds						
- Prop. 39 Funds						
- Use of one-time mandated costs						
- Lottery: Instructional carryover costs						
- Use of Spec Ed restricted carryover funds						

Unrestricted/Restricted MYP	2017-2018			2018-2019		
Source: Form MYP1	1st Interim			1st Interim		
	Unrestricted	Restricted	U/R	Unrestricted	Restricted	U/R
Fund Balance: Beginning	\$2,856,323	\$148,315	\$3,004,638	\$2,252,094	\$148,315	\$2,400,409
Revenue	\$20,024,078	\$3,208,058	\$23,232,136	\$20,264,472	\$3,203,989	\$23,468,461
Expenditures	\$17,454,928	\$6,381,437	\$23,836,365	\$17,915,241	\$6,461,920	\$24,377,161
Interfund Transfers In/Out	\$0	\$0	\$0	\$0	\$0	\$0
NET Increase or Decrease - Unrestricted	\$2,569,150	-\$3,173,379	-\$604,229	\$2,349,231	-\$3,257,931	-\$908,700
NET Increase or Decrease - Restricted					\$0	
Contributions-TO Unrestricted	-\$3,173,379	\$3,173,379	\$0	-\$3,257,931	\$3,257,931	\$0
Net Increase or Decrease in Fund Balance	-\$604,229	\$0	-\$604,229	-\$908,700	\$0	-\$908,700
1st Interim FY 2016-2017						
Fund Balance: Ending (Unrestricted)	\$2,252,094	\$148,315	\$2,400,409	\$1,343,394	\$148,315	\$1,491,709
Restricted-Cash	\$2,500	\$0	\$2,500	\$2,500	\$0	\$2,500
Reserve for Econ. Uncertainties	\$715,091	\$0	\$715,091	\$731,315	\$0	\$731,315
Restricted	\$0	\$148,315	\$148,315	\$0	\$148,315	\$148,315
Assigned	\$466,101		\$466,101	\$466,101		\$466,101
Undesignated Ending Balance	\$1,068,402	\$0	\$1,068,402	\$143,478	\$0	\$143,478

Special Revenue Funds

Fund 13 – Cafeteria Fund

This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code* sections 38090 and 38093). The principal revenues in this fund are:

- Child Nutrition Programs (Federal)
- Child Nutrition Programs (State)
- Food Service Sales
- Interest All Other Local Revenue

The Cafeteria Special Revenue Fund (Fund 13) shall be used only for those expenditures authorized by the governing board as necessary for the operation of the LEA's food service program (*Education Code* sections 38091 and 38100).

FY 2016-2017 First Interim

Fund 13

Cash	\$850
Inventory	\$11,918
Restricted	<u>\$76,163</u>
Estimated Ending Fund Balance	\$88,931

Fund 17 – Special Reserve Fund for Other than Capital Outlay Projects

This fund is used primarily to provide for the accumulation of general fund moneys for general operating purposes other than for capital outlay (*Education Code* Section 42840). Amounts from this special reserve fund must first be transferred into the general fund or other appropriate fund before expenditures may be made (*Education Code* Section 42842). The ending fund is the remaining balance of one-time funds set aside and restricted in use as approved by SAB waiver.

FY 2016-2017 First Interim

Fund 17

Assigned	\$2,035
Restricted	<u>\$134,332</u>
Estimated Ending Fund Balance	\$136,367

Fund 19 – Foundation Special Revenue Fund

This fund is used to account for resources received from gifts or bequests pursuant to *Education Code* Section 41031 under which both earnings and principal may be used for purposes that Support the LEA’s own programs and where there is a formal trust agreement with the donor. Gifts or bequests not covered by a formal trust agreement should be accounted for in the General Fund.

FY 2016-2017 First Interim

Fund 19

Restricted \$50,405

Estimated Ending Fund Balance \$50,405

Fund 20 – Special Reserve Fund for Postemployment Benefits

This fund is used pursuant to *Education Code* Section 42840 to account for amounts the LEA has earmarked for the future cost of post-employment benefits (OPEB) but has not contributed irrevocably to a separate trust for the postemployment benefit plan. Amounts accumulated in this fund must be transferred back to the general fund for expenditure (*Education Code* Section 42842).

Although this fund is authorized by statute, it does not meet the GAAP definition of a special revenue fund; it functions effectively as an extension of the general fund.

FY 2016-2017 First Interim

Fund 20

Restricted \$1,927,566

Estimated Ending Fund Balance \$1,927,566

Capital Project Funds

Fund 25 – Capital Facilities Fund

This fund is used primarily to account separately for moneys received from fees levied on development projects as a condition of approval (*Education Code* sections 17620–17626 and *Government Code* Section 65995 et seq.). The authority for these levies may also be county or city ordinances (*Government Code* sections 65970–65981) or private agreements between the LEA and the developer. Interest earned in the Capital Facilities Fund (Fund 25) is restricted to that fund (*Government Code* Section 66006).

The principal revenues in this fund are:

- Interest
- Mitigation/Developer Fees

Expenditures in Fund 25, Capital Facilities Fund, are restricted to the purposes specified in *Government Code* sections 65970–65981 or *Government Code* Section 65995 et seq., or to the items specified in agreements with the developer (*Government Code* Section 66006). Costs of justifying and adopting fees may be paid from Fund 25 (*Education Code* Section 17620). Administrative costs of collecting fees may be reimbursed from Fund 25 within the limitations of *Education Code* Section 17620. Eligible expenditures incurred in another fund may be reimbursed to that fund by means of an inter-fund transfer of direct costs (see Procedure 615).

FY 2016-2017 First Interim

Fund 25

Assigned	<u>\$560,934</u>
Estimated Ending Fund Balance	\$560,934

Fund 40 – Special Reserve Fund for Capital Outlay Projects

This fund exists primarily to provide for the accumulation of general fund moneys for capital outlay purposes (*Education Code* Section 42840). This fund may also be used to account for any other revenues specifically for capital projects that are not restricted to fund 21, 25, 30, 35, or 49. Other authorized resources that may be deposited to the Special Reserve Fund for Capital Outlay Projects (Fund 40) are proceeds from the sale or lease-with-option-to-purchase of real property

(*Education Code* Section 17462) and rentals and leases of real property specifically authorized for deposit to the fund by the governing board (*Education Code* Section 41003).

The principal revenues and other sources in this fund are:

- Federal, State, or Local Revenues
- Rentals and Leases
- Interest
- Other Authorized Interfund Transfers In
- Proceeds from Sale/Lease–Purchase of Land and Buildings
- Federal Emergency Management Act (FEMA)

Transfers from the general fund to Fund 40 authorized by the governing board must be expended for capital outlay purposes. Proceeds from the sale or lease-with-option-to-purchase may be spent for capital outlay purposes, costs of maintenance of the LEA’s property, and future maintenance and renovation of school sites (*Education Code* Section 17462). Expenditures for capital outlay are most commonly made against the 6000 object codes for capital outlay. Salaries of school district employees whose work is directly related to projects financed by Fund 40 revenues are capitalized as a part of the capital facilities project.

FY 2016-2017 First Interim

Fund 40

Assigned	<u>\$12,943,947</u>
Estimated Ending Fund Balance	\$12,943,947

Guidance from San Mateo County Office of Education

The level of LCFF funding is subject to economic conditions as well as political decisions by the Governor and Legislature. Under the LCFF there are not State statutes that specify an annual appropriation to the the LCFF. Therefore, the annual LCFF entitlement will be determined by “any available appropriations”: (Ed code 42238.03 (b) (3)) Therefore adequate reserves will be crucial to guard against fiscal volatility. Continued cooperative efforts and sound decision making by the Board and staff will be key to the District’s long-term financial health.

The following comments were extracted from San Mateo County Office of Education’s letter dated September 15, 2016 Adopted Budget - Fiscal Year 2016-2017 letter:

- SMCOE is concerned about the growing deficit in the Unrestricted General Fund. The district needs to monitor and identify measures to address deficit spending and maintain its fiscal health.
- In the projection years, funding growth is expected to be limited as target funding approaches. (LCFF gap funding)
- It is critical the district makes effective use of one-time funding: Support on-going expenditures with on-going revenues (independent of one-time funds).
- District employer contributions to retirement benefits are scheduled to rise. Additionally, consider increases to rising health care costs and the ongoing implementation of the Affordable Care Act.
- Exercise caution and maintain flexibility in the collective bargaining process.
- Maintain reserves much greater than the minimum requirement.

Next Steps

As stated in the introduction, this report is intended to provide information to assist all readers of the District’s First Interim Report for fiscal year 2016-2017 and the Multi Year Projection (MYP) report. In the projection years, funding growth is expected to be limited as target funding under the LCFF implementation approaches. Additionally, employer contributions to retirement benefits are scheduled to rise along with other costs. Special attention must be paid to future year projections and the contributing factors both within and outside of the District’s decision makers. To maximize success, Millbrae School District will need to make deliberate use of resources and, collectively, prudent fiscal decisions will need to be made as requirements to improve academic performance increase.

In January the Board will be considering the implication of the Governor’s budget proposals and new State Budget announcements, and will be working toward policy level decisions that will guide the development of the budget for FY 2017-2018 and beyond. The 2nd Interim Report will be presented to the Board in March of 2017.