



# SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item# 10.2

**Meeting Date:** March 3, 2011

**Subject:** 2010-11 Second Interim Financial Report

- Information Item Only
- Approval on Consent Agenda
- Conference (for discussion only)
- Conference/First Reading (Action Anticipated: \_\_\_\_\_)
- Conference/Action
- Action
- Public Hearing

**Learning Support Unit/Department:** Administrative Services

**Recommendation:** Approve the 2010-11 Second Interim Financial Report with a Qualified Certification.

**Background/Rationale:** Education Code Section 42130 requires school districts to prepare Interim Financial Reports each year. The intent of these reports is to provide an “early warning” system to indicate whether a district can meet its current or future year financial obligations. This is the second of two Interim Financial Reports presented to the Board of Education for the 2010-11 year. The report provides financial information as of January 31, 2011.

**Financial Considerations:** With current projections and assumptions in using the state final budget signed by the Governor on October 8, 2010, the district believes it will end the current year in a positive financial condition. However, as discussed at the February 3 and February 17, 2011 Board meetings, the projected worst case budget deficit for 2011-12 is \$22.35 million. At the February 17, 2011 meeting, the Board took actions totaling \$14.5 million to help reduce this deficit. Staff are anticipating further Board approval of recommendations to take place at the March 3, 2011 meeting. Despite the balanced current year and subsequent year budget balancing actions, staff are recommending a “qualified” certification status. This status indicates that the district cannot certify that it will meet its financial obligations for the current fiscal year and two subsequent years, as required for a “positive” certification by the Sacramento County Office of Education.

**Documents Attached:**

1. Executive Summary
2. 2010-2011 Second Interim Financial Report

**Estimated Time of Presentation:** 10 Minutes

**Submitted by:** Gerardo Castillo, CPA, Director III, Budget Services

**Approved by:** Patricia A. Hagemeyer, Chief Business Officer



## **I. Overview/History:**

School districts are required to file two Interim Financial Reports during the year. The First Interim Report, as of October 31, requires Board approval by December 15. The Second Interim Report, as of January 31, requires Board approval by March 15.

When interim reports are submitted, a district must designate a certification as to their financial condition. A positive certification would indicate that the district would meet its financial obligations for the current fiscal year as well as the two subsequent fiscal years. A qualified certification means that the district may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A negative certification would mean that the district is unable to meet its financial obligations for the remainder of the current fiscal year or for the future fiscal year.

Over the past several years, as the impact of declining enrollment and reduced state funding has resulted in severe budget reductions, the district has submitted its interim reports as "Qualified" and the Sacramento County Office of Education has agreed with the recommendation. The district will again be submitting its Second Interim Report with a "Qualified" status. While the budget is balanced for the 2010-11 fiscal year, there are significant reductions that need Board approval to maintain a balanced budget for 2011-12 and 2012-13. At the February 17, 2011 Board meeting, the staff recommendation of \$14.51 million in expenditure reductions was approved. At the March 3, 2011 Board meeting, staff will recommend additional reductions to ensure a balanced 2011-12 budget. However, the Board will not have taken action to balance the 2012-13 budget. When a district submits a "Qualified" interim report, they are required by Education Code to submit a Third Interim Report by June 1. This report reflects the period ending April 30 and provides projections of district funds and cash balances.

Documents attached are primarily state-required reports. Key information includes the budget assumptions and multi-year projection.

# Board of Education Executive Summary

## Administrative Services

2010-11 Second Interim Financial Report

March 3, 2011

---

### II. Driving Governance:

- Education Code section 42130 requires the Superintendent to submit two reports to the Board of Education during each fiscal year. The first report shall cover the financial and budgetary status of the district for the period ending October 31. The second report shall cover the period ending January 31. All reports required shall be in a format or on forms prescribed by the Superintendent of Public Instruction.
- Education Code section 42131 requires the Board of Education to certify, in writing, whether the district is able to meet its financial obligations for the remainder of the fiscal year and, based on current forecasts, for the subsequent fiscal year. Certifications shall be based on the Board's assessment of the district budget. Certifications shall be classified as positive, qualified or negative. This education code section also outlines the role of the County Office of Education.
- Education Code section 42131 (3)(e) directs districts to provide additional reports to the County Office of Education as of June 1 if a Qualified or Negative Certification is reported as of the Second Interim Report.

### III. Budget:

The budget is a fluid document and while the budget is balanced for 2010-11, the 2011-12 fiscal year is proving to be a challenge. In preparing the assumptions for the multi-year projections, items such as one-time funds used to balance 2010-11, increased costs for step and column salary increases as well as health benefit increases must be factored in. Staff continue to closely monitor enrollment, average daily attendance, state revenue and other areas that could impact the budget in the current or outlying years. The Second Interim Financial Report includes assumptions and projections made with the best available information and includes expectations based on a worst case scenario should tax extensions not pass in June.

### IV. Goals, Objectives and Measures:

Maintain a balanced budget for 2010-11 and continue to follow the timeline to ensure a balanced 2011-12 budget. It will be important to reduce the reliance of one-time funds used to balance the budget.

### V. Major Initiatives:

Use the Second Interim Financial Report information to help guide budget development for 2011-12 and 2012-13.

# **Board of Education Executive Summary**

## **Administrative Services**

2010-11 Second Interim Financial Report

March 3, 2011

---

### **VI. Results:**

Budget development for 2011-12 will follow the calendar approved by the Board. Required Board actions will take place in order to ensure a balanced Adopted Budget is in place on or before July 1, 2011.

### **VII. Lessons Learned/Next Steps:**

- Follow the approved calendar with adjustments made as necessary.
- Continue to monitor the state budget and its impact on the district finances.
- Continue to engage stakeholders in the budget development process through community budget meetings.

