



2006-07

Second Interim Financial Report

Los Angeles Unified School District

Office of the Chief Financial Officer

March 13, 2007

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Second Interim Report

Recommendation

Recommendation

Based on current available financial information and projections, it is recommended for the District to file a **positive** certification and certify that the LAUSD is able to meet its financial obligations for 2006-07, 2007-08 and 2008-09

Second Interim Report

Background

Financial Reports to LAUSD Board

Document	Due	Authority
Provisional Budget (or Preliminary Budget)	June 30, 2006	Mandated
Final Budget	September 8, 2006	Mandated
First Interim (as of October)	December 15, 2006	Mandated
Second Interim * (as of January)	March 15, 2007	Mandated

*Note: Pursuant to Education Code Section 42131 (e), a Third Interim Report is required to be filed by June 1 if the Second Interim certification is not positive.

Financial Reports to LAUSD Board

Document	Due	Authority
Unaudited Actuals (Annual Financial Report— Unaudited)	September 15, 2007	Mandated
Audit Report (Comprehensive Annual Financial Report—Audited)	December 15, 2007	Mandated

AB 1200 Oversight

- Empowered county offices of education with oversight for school district's fiscal condition
- Sets financial standards for school districts
- Was enacted in response to a number of near bankruptcies, requests for state loans & defaults on district financial obligations

AB 2756 Oversight

- Effective July 2004
- In response to emergency loans and districts in financial crisis
- Increased oversight at all levels

AB 2756 Oversight—Districts

- Superintendent and Chief Financial Officer must sign collective bargaining disclaimers and certify they are affordable
- Must allow more time for review by the County Office of Education
- Cuts must be acted on by board

AB 2756 Oversight—County Office of Education (COE)

County Superintendent must take action:

- Earlier intervention
- Must qualify or make negative if procedures not followed
- Conditional approval of shaky budgets
- Must take action to correct deficiencies

AB 2756 Oversight—FCMAT

Fiscal Crisis and Management Assistance Team (FCMAT) has an increased role:

- Greater support for districts and COEs
- Hands-on assistance to troubled districts
- More training and professional development to avoid crisis

Purpose of Interim Report

1. Governing Boards of each local educational agencies (LEA's) are required by California Education Code to certify at least twice a year to the LEA's ability to meet its financial obligations for the remainder of that fiscal year and for the subsequent two fiscal years. (LACOE Bulletin No. 245)
2. The Second Interim Report is required to be filed within 45 days of January 31, 2007.
3. The Report is based on actual income/expenditures through January 31, 2007.

Certification Definition

- Positive = A school district that, based on current projections, will be able to meet its financial obligations for the current fiscal year and subsequent two fiscal years.
- Qualified = A school district that, based on current projections, may not meet its financial obligations for the current fiscal year or subsequent two fiscal years.
- Negative = A school district that, based on current projections, will be unable to meet its financial obligations for the current fiscal year or for subsequent two fiscal years.

Second Interim Report

2006-07 Projection

Bottom Line for LAUSD

1. District will meet all current financial obligations for 2006-07 and two subsequent fiscal years.
2. The 2006-07 Ending Balance is projected to be \$556.9 million.
3. The Ending Balance reserve level exceeds the minimum statutory requirement.



General Fund Balances, Revenues & Expenditures—2006-07

(Dollars in Millions)

	(A)	(B)	(C)	(D)
	Original Budget	Modified Budget	Second Interim	Variance (C - B)
Beginning Balance	\$ 434.5	\$ 434.5	\$ 434.5	\$ 0.0
Rev./Other Financing Sources	7,106.7	7,106.7	7,013.1	(93.6)
Exp./Other Financing Uses	6,993.9	6,996.4	6,890.7	(105.7)
Operating Surplus/(Deficit)	112.8	110.3	122.4	12.1
Ending Balance	\$ 547.3	\$ 544.8	\$ 556.9	\$ 12.1

General Fund Balances, Revenues & Expenditures—2006-07

(Dollars in Millions)

	(A)	(B)	(C)	(D)	(E)
	Original Budget	Modified Budget	First Interim	Second Interim	Variance (D-C)
Beginning Balance	<u>\$ 434.5</u>	<u>\$ 434.5</u>	<u>\$ 434.5</u>	<u>\$ 434.5</u>	<u>\$ 0.0</u>
Rev./Other Financing Sources	7,106.7	7,106.7	7,024.1	7,013.1	(11.0)
Exp./Other Financing Uses	6,993.9	6,996.4	6,838.3	6,890.7	52.4
Operating Surplus/(Deficit)	<u>112.8</u>	<u>110.3</u>	<u>185.8</u>	<u>122.4</u>	<u>(63.4)</u>
Ending Balance	<u><u>\$ 547.3</u></u>	<u><u>\$ 544.8</u></u>	<u><u>\$ 620.3</u></u>	<u><u>\$ 556.9</u></u>	<u><u>\$ (63.4)</u></u>

Components of Ending Balance

(Dollars in Millions)

	(A)	(B)	(C)	(D)
	Original Budget	Modified Budget	Second Interim	Variance (C-B)
Reserves	\$ 15.6	\$ 15.6	\$ 15.6	\$ 0.0
Legally Restricted	186.6	186.0	293.2	107.2
Reserve for Economic Uncertainties	71.5	71.5	71.5	0.0
Carryovers	203.8	203.8	76.3	(127.5)
Subtotal	\$ 477.5	\$ 476.9	\$ 456.6	\$ (20.3)
Available for 07-08 Purposes	69.8	67.9	100.3	32.4
2006-07 Ending Balance	\$ 547.3	\$ 544.8	\$ 556.9	\$ 12.1

- Carryovers include estimated unspent funds to be carried over to next fiscal year 07-08.
- Reserves of the ending balance represent the statutory 1% reserve requirement and asset reserves such as imprest accounts and stores inventory.
- The Legally Restricted portion of the ending balances are those funds received by LAUSD for a specific purpose and must be spent for the same purpose under the legal restrictions.
- Amount Required to Balance Next Year's Budget represents that portion of the ending balance that is needed in order to have a balanced budget in the subsequent year(s).

Components of Ending Balance

(Dollars in Millions)

	(A)	(B)	(C)	(D)	(E)
	Original Budget	Modified Budget	First Interim	Second Interim	Variance (D-C)
Reserves	\$ 15.6	\$ 15.6	\$ 15.6	\$ 15.6	\$ 0.0
Legally Restricted	186.6	186.0	299.9	293.2	(6.7)
Reserve for Economic Uncertainties	71.5	71.5	71.5	71.5	0.0
Carryovers	203.8	203.8	128.2	76.3	(51.9)
Subtotal	\$ 477.5	\$ 476.9	\$ 515.2	\$ 456.6	\$ (58.6)
Available for 07-08 Purposes	69.8	67.9	105.1	100.3	(4.8)
2006-07 Ending Balance	\$ 547.3	\$ 544.8	\$ 620.3	\$ 556.9	\$ (63.4)

- Carryovers include estimated unspent funds to be carried over to next fiscal year.
- Reserves of the ending balance represent the statutory 1% reserve requirement and asset reserves such as imprest accounts and stores inventory.
- The Legally Restricted portion of the ending balances are those funds received by LAUSD for a specific purpose and must be spent for the same purpose under the legal restrictions.
- Amount Required to Balance Next Year's Budget represents that portion of the ending balance that is needed in order to have a balanced budget in the subsequent year(s).

Revenues

(Dollars in Millions)

	(A) Original Budget	(B) Modified Budget	(C) Second Interim	(D) Variance (C-B)
Revenue Limit Sources	\$ 3,662.8	\$ 3,662.8	\$ 3,704.7	\$ 41.9
Federal Revenues	942.6	942.6	833.5	(109.1)
Other State Revenues	2,267.7	2,267.7	2,235.4	(32.3)
Other Local Revenues	105.6	105.6	100.6	(5.0)
Other Sources	128.0	128.0	138.9	10.9
Total Revenues	\$ 7,106.7	\$ 7,106.7	\$ 7,013.1	\$ (93.6)

- Revenue Limit Sources include state apportionment based on average daily attendance of students and other components. A portion of this is based on property taxes received, and there is an inverse relationship between state aid and taxes.
- Federal Revenues include funds received from the federal government such as Special Education Individuals with Disabilities Education Act.
- Other State Revenues are state funds received other than revenue limit. This include Special Education Master Plan, class size reduction, instructional materials block grant, Targeted Inst. Improvement Program, lottery and others.
- Other Local Revenues include interest income, donations, E-rate and others.
- Other Sources include interfund transfers from other funds into General Fund.

Revenues

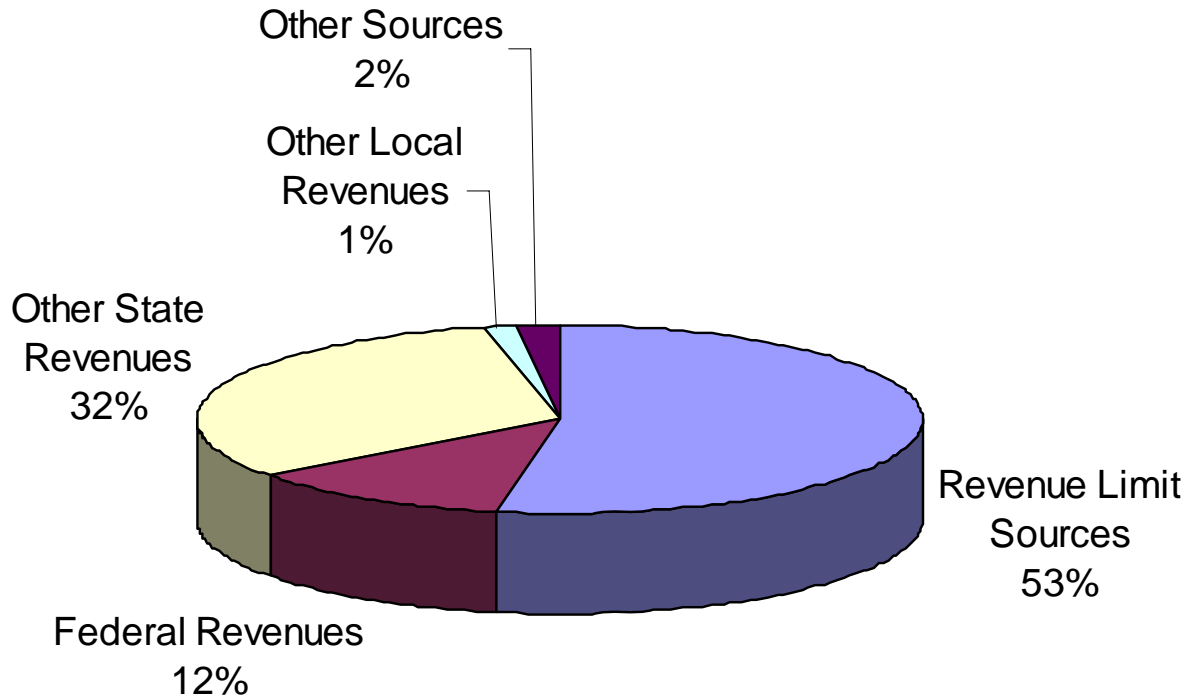
(Dollars in Millions)

	(A)	(B)	(C)	(D)	(E)
	Original Budget	Modified Budget	First Interim	Second Interim	Variance (D-C)
Revenue Limit Sources	\$ 3,662.8	\$ 3,662.8	\$ 3,702.4	\$ 3,704.7	\$ 2.3
Federal Revenues	942.6	942.6	823.8	833.5	9.7
Other State Revenues	2,267.7	2,267.7	2,239.3	2,235.4	(3.9)
Other Local Revenues	105.6	105.6	100.2	100.6	0.4
Other Sources	128.0	128.0	158.4	138.9	(19.5)
Total Revenues	\$ 7,106.7	\$ 7,106.7	\$ 7,024.1	\$ 7,013.1	\$ (11.0)

- Revenue Limit Sources include state apportionment based on average daily attendance of students and other components. A portion of this is based on property taxes received, and there is an inverse relationship between state aid and taxes.
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Revenues

Projected General Fund Revenues



Expenditures

(Dollars in Millions)

	(A) Original Budget	(B) Modified Budget	(C) Second Interim	(D) Variance (C-B)
Certificated Salaries	\$ 3,137.2	\$ 3,083.5	\$ 3,262.5	\$ 179.0
Classified Salaries	971.2	957.8	1,020.7	62.9
Employee Benefits	1,347.8	1,361.7	1,366.1	4.4
Books & Supplies	672.3	670.5	387.5	(283.0)
Services & Operating Exp.	733.8	825.6	716.0	(109.6)
Capital Outlay	76.7	36.6	41.9	5.3
Other Outgo	54.9	60.7	96.0	35.3
Total Expenditures	\$ 6,993.9	\$ 6,996.4	\$ 6,890.7	\$ (105.7)

- Certificated Salaries are salaries for positions that require a credential issued by the Commission on Teacher Credentialing (CCTC). This includes salaries for teachers, principals and other certificated administrators.
- Classified Salaries are salaries for services that do not require a credential issued by CCTC. This includes salaries for instructional aides, office support personnel, clerical, bus drivers, custodians, maintenance workers, cafeteria workers, finance personnel and others.
- Employee Benefits include the District's employer contribution to retirement plans, social security and medicare, health and welfare benefits, state unemployment insurance, workers' compensation insurance and other benefits.
- Books and Supplies are textbooks, reference books and supplies for students, teachers and offices.
- Services and Other Operating Expenditures are for contracting services, rentals, leases, contracts, travel, insurance, utilities and other operating needs.
- Capital Outlay include expenditures for equipment, land, land improvements, buildings, building improvements and other capitalized assets.
- Other Outgo include expenditures for debt service, interfund transfers out to other funds such as deferred maintenance, and others. Reserves for anticipated underspending and for program/salary increases were budgeted under this category.

Expenditures

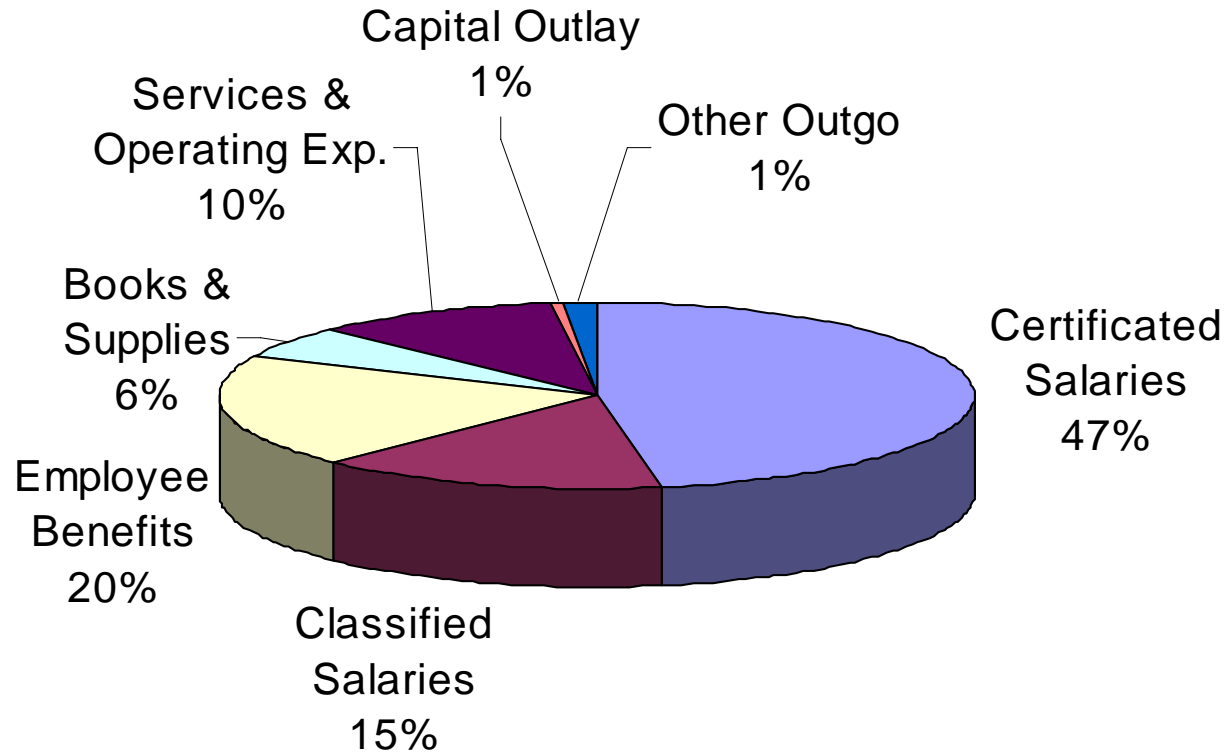
(Dollars in Millions)

	(A) Original Budget	(B) Modified Budget	(C) First Interim	(D) Second Interim	(E) Variance (D-C)
Certificated Salaries	\$ 3,137.2	\$ 3,083.5	\$ 3,199.5	\$ 3,262.5	\$ 63.0
Classified Salaries	971.2	957.8	993.2	1,020.7	27.5
Employee Benefits	1,347.8	1,361.7	1,345.3	1,366.1	20.8
Books & Supplies	672.3	670.5	425.3	387.5	(37.8)
Services & Operating Exp.	733.8	825.6	711.2	716.0	4.8
Capital Outlay	76.7	36.6	64.3	41.9	(22.4)
Other Outgo	54.9	60.7	99.5	96.0	(3.5)
Total Expenditures	\$ 6,993.9	\$ 6,996.4	\$ 6,838.3	\$ 6,890.7	\$ 52.4

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Expenditures

Projected General Fund Expenditures

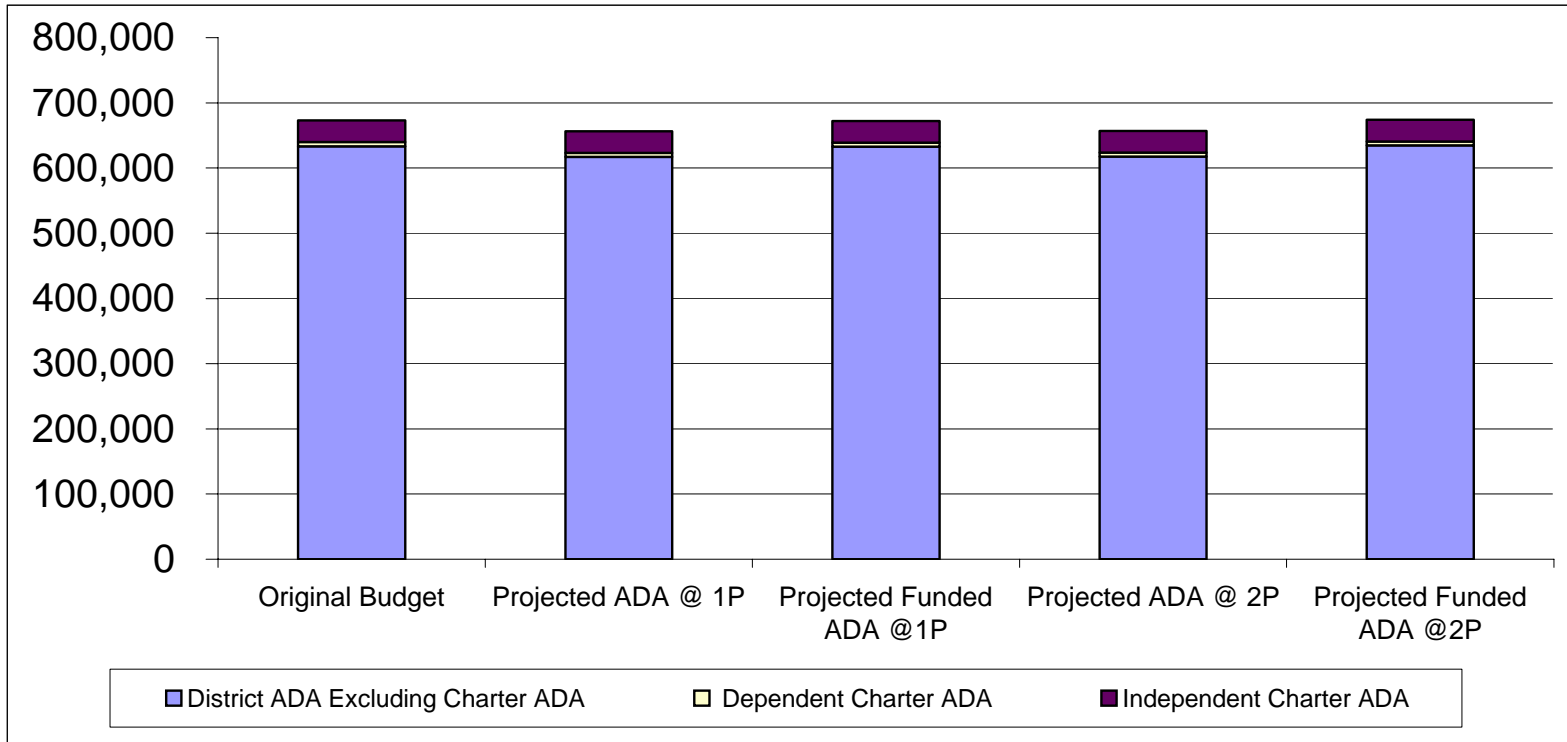


Second Interim Report

Assumptions

Average Daily Attendance

	District ADA Excluding Charter ADA	Dependent Charter ADA	Independent Charter ADA	Total
Original Budget	633,445	6,248	33,171	672,864
Projected ADA @ 1P	617,417	5,910	33,217	656,544
Projected Funded ADA @1P	632,941	5,910	33,217	672,068
Projected ADA @ 2P	617,809	5,916	33,068	656,793
Projected Funded ADA @2P	634,906	5,916	33,068	673,890



Revenue Assumptions

1. Cost of Living Adjustment (COLA) = 5.92%

This COLA is used to fund increases in utilities, fuel, health and welfare benefits, salary, steps and column movements, and others.

2. Deficit factor = none

3. Revenue Limit ADA was based on the assumption that the District can take advantage of the Declining Enrollment Adjustment provision.

Revenue Assumptions—Cont.

3. Federal income is based on all known specially funded programs, grants and entitlements as of January 31.
4. State and local income is based on known specially funded programs and other revenues as of January 31 or projected ADA for the current year.

Expenditure Assumptions

1. A 7.5% compensation increase—6% for Salary and 1.5% for full funding of Health & Welfare benefits—was included in the projected expenditures for “Certificated Salaries, Classified Salaries and Benefits” for all employee groups.

Expenditure Assumptions – Cont.

2. Comparisons of actual expenditures as of January 31, 2006 and 05-06 expenditures were made to validate projections. In addition, any major differences between prior year and current year spending and program initiatives have been considered.
3. Various Division and offices were consulted to determine their projected expenditures.
4. Lower expenditures in books and supplies were projected in the new categorical programs, such as Discretionary Block Grants, Arts, Music and Physical Education Block Grant. Specially Funded Programs grant projections were also lower.
5. Other categories of expenditures are projected to be lower.

What Does It Mean?

- LAUSD depends on the state for the majority of its revenue. Revenue Limit sources, taxes and other state revenues equal to 85% of total revenues.
- Federal revenues are 12% of total revenues.
- Local revenues and other sources are 3% of total revenues.
- **With very limited control of its income, the LAUSD board and superintendent have managed its financial affairs in a prudent and responsible manner.**