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# NEWHALL SCHOOL DISTRICT

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## Second Interim Budget Report FY-17/18

### Budget Narrative and Assumptions

Prepared By

Business Services Division

# Second Interim Budget Report - FY 17/18

## NARRATIVE AND ASSUMPTIONS

### PURPOSE

This budget narrative and assumptions provides the District with an infrastructure for preparing the proposed 2017-18 2nd Interim Budget Report. The predominant influences in the assumptions are the State budget and information provided by the Los Angeles County Office of Education (LACOE). The District is filing a **Positive Budget Certification** for the 2nd Interim Budget Report.

### EXECUTIVE SUMMARY – CHANGES FROM FIRST INTERIM

|   | 1st Interim | 2nd Interim | Difference |
|---|-------------|-------------|------------|
| REVENUES  | 65,399,676  | 65,640,508  | 240,832    |
| EXPENDITURES  | 66,877,812  | 66,881,512  | 3,700      |
| Net Incr./Decr. in Fund Balance                                   | (1,478,136) | (1,241,004) | 237,132    |
| Beginning Balance   | 10,070,745  | 10,070,745  | 0          |
| Ending Balance, 6/30/ (Proj.)                                     | 8,592,609   | 8,829,741   | 237,132    |
| COMPONENTS OF ENDING BALANCE                                      |             |             | 0          |
| Non-spendable (Restricted, Stores, etc.)                          | 667,166     | 684,230     | 17,064     |
| Assigned (Extra-Legal Costs)                                      | 40,000      | 40,000      | 0          |
| Reserve for Econ. Uncert. (6% + staffing reserve for ADA decline) | 4,554,949   | 4,645,551   | 90,602     |
| Unassigned  | 3,360,382   | 3,459,960   | 99,578     |
| Total Available Reserves - By Dollars                             | 7,915,331   | 8,105,511   | 190,180    |
| Total Available Reserves - By Percentage                          | 11.84%      | 12.11%      | 0.27%      |

### Major Changes to REVENUES (Since the First Interim Budget Revision)

| Description of Changes   | 2nd Interim    |
|--|----------------|
| LCFF Revenue Adjustments<br><i>(Update LCFF calculators – Enrollment Adjustments)</i>                              | 47,695         |
| Federal Revenues Adjustments<br><i>(Prior year MAA funding received – recognized when received)</i>                | 26,625         |
| Other State Revenues:<br><i>(Update Miscellaneous Allocations, i.e. CELDT and STAR – recognized when received)</i> | 29,888         |
| Other Local Revenues Adjustments<br><i>(Facilities Rental Income, Interest Income, donations, etc. )</i>           | 136,624        |
| <b>TOTALS (Net of Changes)</b>   | <b>240,832</b> |

## Second Interim Budget Report - FY 17/18

### Major Changes to EXPENDITURES (Since the First Interim Revision)

| Description of Changes   | 2nd Interim    |
|--|----------------|
| 1000-Certificated Salaries<br><i>(Teacher and admin adjustments, training budgets adjustments)</i>                     | (\$65,531)     |
| 2000- Classified Salaries<br><i>(Site curriculum staff adjustments, operations and district staff adjustments)</i>     | (\$142,212)    |
| 3000- Benefits<br><i>(Benefits follow salary adjustments)</i>  | (\$24,502)     |
| 4000- Books, Material & Supplies<br><i>(Site books, supplies &amp; software; district training, maintenance, etc.)</i> | \$155,138      |
| 5000- Services & Other Operating Expenses<br><i>(Conferences, repairs, field trips, contracts, etc.)</i>               | \$65,098       |
| 6000- Capital Outlay –<br><i>(Site improvement projects)</i>   | \$2,209        |
| 7000-Other Financing Uses & Transfers Out<br><i>(BTSA fee payment)</i>   | \$13,500       |
| <b>TOTALS (Net of changes)</b>   | <b>\$3,700</b> |

### OVERALL ASSUMPTIONS

- Enrollment projections for the purpose of calculating state funding are as follows:

The District is projecting a **decrease of 168 students for the 2017-18 school year**. At the Adopted Budget, the district projected a 140-student decrease for 2017-18. Utilizing a 97% attendance rate, this equates to a decrease of **161 ADA** (funded attendance of **6,340 ADA**). In declining years, the State funds either a school district's prior year P2 ADA (6,501) or budget year projected P2 ADA (**6,340**). Since our 2017-18, projected ADA is lower than the 2016-17 P2 ADA, our budget is based on 6,501 P2 ADA.

|                                   |              |
|-----------------------------------|--------------|
| Enrollment at 16/17 P2            | 6,704        |
| Projected Enrollment, 17/18       | <b>6,536</b> |
| Decrease in Enrollment from 16/17 | <b>168</b>   |
| Budgeted Attendance Rate, 16-17   | 97%          |
| Projected ADA, 17/18              | <b>6,340</b> |
| P2 ADA, 16/17                     | 6,501        |
| Budgeted ADA for 17/18            | 6,501        |

## Second Interim Budget Report - FY 17/18

2. Both site and staffing budget allocations are by formulas as follows:

Site budget formula = \$75 per enrolled student for LCFF Base funding.

Staffing for teaching is based on:

- Transitional Kindergarten/Kindergarten – 3rd 24:1
- Grades 4, 5, 6 30:1

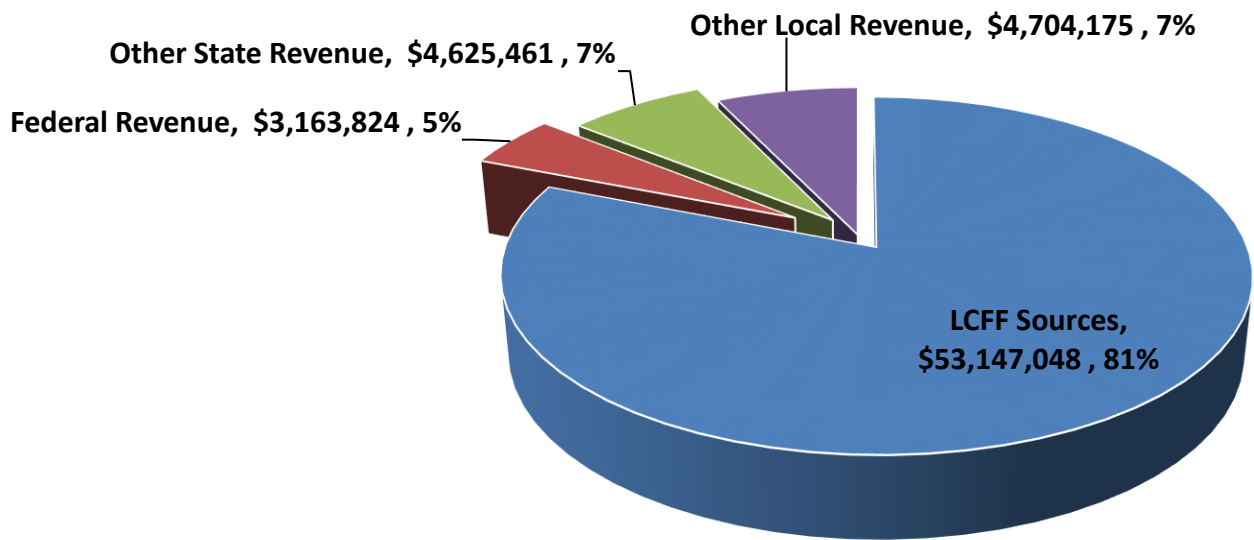
### FUND BALANCE

3. The General Fund Beginning balance for the 2017-18 fiscal year is **\$10,070,745**. **This is unchanged from the 1st Interim Budget.**

### REVENUE

#### **Revenue - Summary - Total Revenues \$65,640,508**

Source - 2nd Interim SACS Report



### LOCAL CONTROL FUNDING FORMULA

4. The Local Control Funding Formula (LCFF) is in the fifth year of implementation. **The Governor's January 2018-19 Budget Proposal anticipates full funding by 2018-19. This is two years earlier than the previous estimate of by 2020-21.** Each year the state legislature will determine what increased level of funding is available to fund the gap between current funding and full implementation in **2018-19**. In 2015-16 and 2016-17, the gap percentages funded were 52.2% and 55.03%, respectively. The 2nd Interim Budget for 2017-18 shows an estimate for the gap percentage at **43.19%**. The current Department of Finance (DOF) percentage estimates for 2018-19 and 2019-20 **are both at 100%**.

## Second Interim Budget Report - FY 17/18

LCFF for 2017-18 is estimated to be and average **\$8,175** per ADA (Base, Supplemental Grants, and K-3 adjustment). The Supplemental funding estimate is **\$4,139,817**. The Supplemental Grant is intended to be used for the improvement of, or increase in, services for English Language Learners, Economically Disadvantaged and Foster students (unduplicated count pupils). The improvement of, and increase in services must be greater than the 2016-17 year. Staff will be tracking use of the funding based on the District's Local Control Accountability Plan (LCAP).

The LCAP encompasses the 2017-18 through 2019-20 years. This plan describes the District's use of funding that addresses state and local priorities. This plan also describes how the Supplemental Grant funding will be used to improve or increase services for the unduplicated eligible pupils.

### STATE REVENUE

5. The District has state funding, outside of the LCFF, for After School Education & Safety Program (ASES), Special Education, Lottery, and Mandated Cost Reimbursement through the Mandate Block Grant.

- **ASES funding is expected to be \$240,295 in the 2017-18 year. This is in the 1st Interim Budget.**

- Special Education funding is estimated to receive a 1.56% cost of living adjustment (COLA) on state funding. The **2nd Interim Budget** estimate is **\$3,428,224** based on current Special Education Local Plan Area (SELPA) calculations. **The estimate has not changed from the 1st Interim Budget.** Starting with the 2017-18 year the SELPA is using a different calculation agreed upon by the districts.

- Lottery funding is estimated at **\$194** per ADA multiplied by a factor of 1.04446. **The 2nd Interim Budget estimate is \$1,371,703. This is the same as the 1st Interim Budget estimate.**

- Mandated Costs Reimbursement is received through the Mandated Block Grant with funding of **\$30.34** per ADA. **The 2nd Interim Budget estimate is \$197,240. The estimate has not changed from the 1st Interim Budget.**

- One Time Mandated Costs Reimbursement is included in the **2nd Interim Budget with an estimate of \$955,647, \$147 per ADA. The estimate has not changed from the 1st Interim Budget.**

## Second Interim Budget Report - FY 17/18

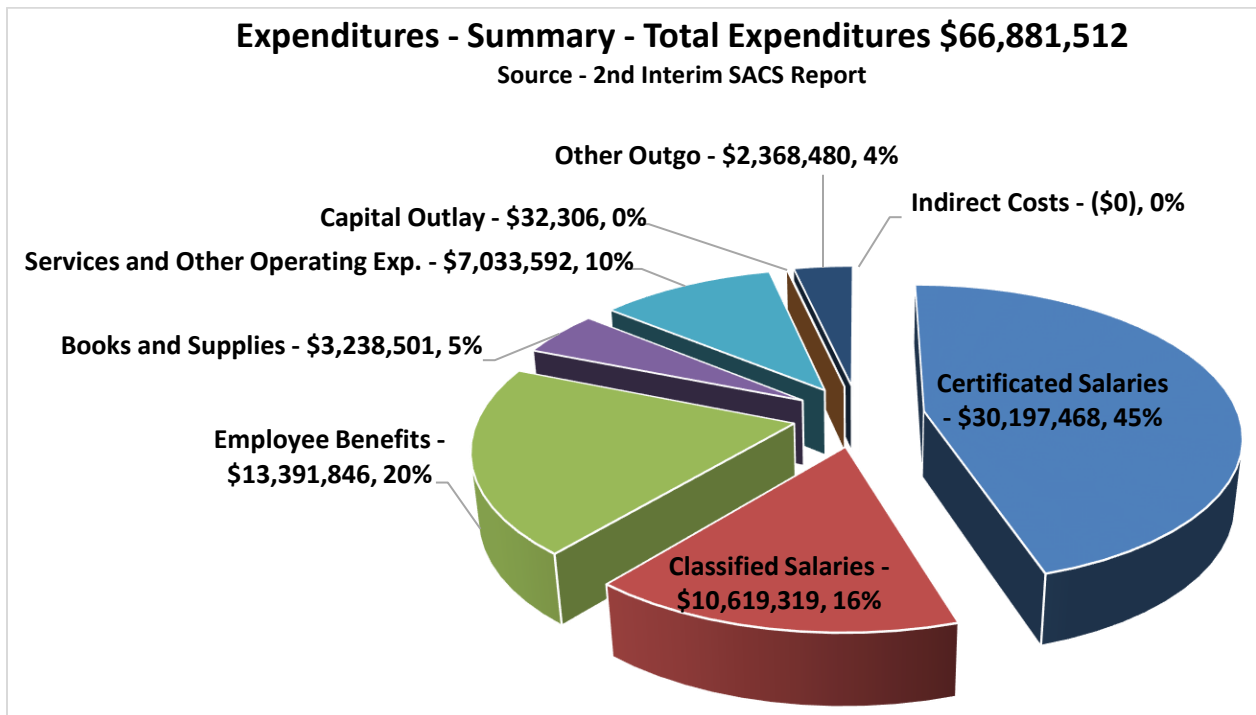
### FEDERAL REVENUE

6. The Federal Revenue estimates are adjusted as shown below:

| <u>Funding Source</u>        | <u>2nd Interim</u> | <u>1st Interim</u> | <u>Change</u> |
|------------------------------|--------------------|--------------------|---------------|
| Title I                      | \$1,224,245        | \$1,224,245        | \$ 0          |
| IDEA Local Assistance        | \$ 924,056         | \$ 924,056         | \$ 0          |
| IDEA Loc.Assist-Priv Schools | \$ 3,525           | \$ 3,525           | \$ 0          |
| IDEA Federal Preschool       | \$ 49,983          | \$ 49,983          | \$ 0          |
| IDEA Preschool Local         | \$ 189,300         | \$ 189,300         | \$ 0          |
| IDEA Preschool Staff Dev     | \$ 512             | \$ 512             | \$ 0          |
| Title II                     | \$ 176,677         | \$ 176,677         | \$ 0          |
| Title III                    | \$ 171,894         | \$ 343,901         | \$ 0          |
| Medi-Cal                     | \$ 225,000         | \$ 225,000         | \$ 0          |

The Title I, Title II and Title III budgets have been updated based on award letters received and also include funding deferred from the 2016-17 fiscal year. The IDEA budgets are based on estimates from the SCV SELPA. The Medi-Cal budget is based on estimated receipts in the 2017-18 year. All other estimates are based on prior year awards adjusted for decrease in enrollment.

### EXPENDITURES



### Increase/Decrease in Fund Balance

7. The 2017-18 **1st Interim Budget** projected a fund balance decrease (revenue less expenditures) of \$1,478,136, resulting in a projected Ending Fund Balance of

## Second Interim Budget Report - FY 17/18

\$8,592,609. The 2017-18 **2nd Interim Budget** is projecting a fund balance decrease of **\$1,241,004**, resulting in a projected Ending Fund Balance of **\$8,829,741**. The multi-year projection indicates a fund balance **increase of \$1,718,120** in 2018-19 and a fund balance **increase of \$305,304** in 2019-20. The 2018-19 and 2019-20 fiscal year projections include increases in Supplemental Expenses for additional costs included in the budget due to the increase in LCFF Supplemental funding.

The fund balance increases/decreases reflected in the multi-year projections are a result of employee salary and related benefit (STRS/PERS) cost increases.

**Increases in fund balance for the 2018-19 and 2019-20 years include the effect of the Governor's January Budget for 2018-19, which included One Time funding of \$295/ADA, or \$1,870,300.** The budgets for the 2018-19 and 2019-20 years are built with the assumption that additional LCFF funding will be received. The multi-year Reserve for Economic Uncertainties percentages are **6.95% for 2017-18, 6.96% for 2018-19, and 7.11% for 2019-20.** In addition, the district has unassigned available fund balance percentages of **5.2% for 2017-18, 6.48% for 2018-19 and 7.21% for 2019-20.**

### SALARIES

8. All salaries have decreased over the prior year, reflecting the 2% bonus paid in 2016-17 that is not an ongoing expense. Less staff is projected for the expected decline in enrollment. Certificated staff has increased for an additional SDC class, but decreased for less SLP teachers, and two Intervention teachers. Classified staff has increased for a Theater Manager and additional Behavioral Support Supervisors.

### STEP & COLUMN

9. Based on updated 2017-18 salary projections, the value of a 1% increase for all employees would be **\$460,962**. Step and column raises for 2016-17 totaled \$764,413, which was equivalent to a 2.16% for all employees. The estimate for step and column in the 2017-18 **1st Interim Budget** was \$828,549, equivalent to a 1.78% increase for all employees. **The 2017-18 2nd Interim Budget estimate is \$661,960, equivalent to a 1.44% salary increase for all employees.** Salary increases reflect longevity of employment and can vary from year to year.

#### Step and Column History

|                  |                  |
|------------------|------------------|
| 2013-14          | \$728,216        |
| 2014-15          | \$643,321        |
| 2015-16          | \$854,035        |
| 2016-17          | \$764,413        |
| 2017-18 estimate | <b>\$661,960</b> |

## Second Interim Budget Report - FY 17/18

### STATUTORY BENEFITS

10. Statutory benefit rates are budgeted as follows:

|              |                                  |
|--------------|----------------------------------|
| STRS         | 14.43% (was 12.58% in 2016-17)   |
| PERS         | 15.531% (was 13.888% in 2016-17) |
| OASDI        | 6.20%                            |
| Medicare     | 1.45%                            |
| Workers Comp | 1.915%                           |
| Unemployment | 0.05%                            |

STRS and PERS benefits are projected to increase each year. The State Budget for 2017-18 **and the CALPERS recent board estimates** shows these percentages for STRS and PERS. Projected future rates for 2018-19 and 2019-20 have decreased from the 1st Interim Budget as shown below:

|      | <u>2017-18</u> | <u>2018-19</u>           | <u>2019-20</u>           |
|------|----------------|--------------------------|--------------------------|
| STRS | 14.43%         | 16.28%                   | 18.13%                   |
| PERS | 15.531%        | <b>17.7% (was 18.1%)</b> | <b>20.0% (was 20.8%)</b> |

11. GASB 68 states the district must include STRS On-Behalf Pension Contribution estimates in the district financials. The current income estimate is \$1,818,643 to be included in the budget. This is offset by an equal amount of expenditure of \$1,818,643 included in the budget.

### HEALTH BENEFITS

#### 12. ACTIVE EMPLOYEES

The health insurance premium “cap” currently negotiated is \$8,054 per year for full time employees who are covered by employee representative master agreements. For 2017-18, all budgets continue to reflect this “cap” for employees covered by collective bargaining agreements (Newhall Teachers Association and Newhall Educational Support Personnel).

Based on current employee enrollment information, health benefit costs up to the District cap level in 2017-18 are projected to be **\$3,459,133. This estimate is \$7,339 higher than the estimate in the 1st Interim Budget, and is based on actual enrollment in health benefit plans.**

It should be noted that employee health benefits are negotiable. Actual health premium projections are based on projected premium rates and current employees eligible to receive health benefit plans.

The health insurance premium for management and confidential employees is based on a 3-tier cap. All employees in these classifications contribute out of pocket to benefit costs that exceed the cap. The District does not pay for premium cost increases above the cap.



## Second Interim Budget Report - FY 17/18

### RETIREEES

The District estimate for providing retiree health benefits in the 2017-18 1st Interim Budget was \$373,690. **There is no change in the 2nd Interim Budget.** The estimate is based on projected retiree enrollment in health benefit plans information, including additional retirees for the 2017-18 year.

#### NSD Cost - Retiree Health Benefits History

|                  |           |
|------------------|-----------|
| 2013-14          | \$318,200 |
| 2014-15          | \$277,916 |
| 2015-16          | \$318,467 |
| 2016-17          | \$374,978 |
| 2017-18 estimate | \$373,690 |

### NEGOTIATIONS

13. Negotiations have not been settled for 2017-18 with the Newhall Teachers Association (NTA) and Newhall Educational Support Personnel (NESP).

### SPECIAL EDUCATION

14. Special education expenditure budgets will be reduced where possible, however special education budgets are developed based on the needs of the students and therefore cannot be reduced to match revenue. The 1st Interim Budget contribution estimate was \$6,313,473. **The 2nd Interim Budget estimate is the same.**

#### Special Education Contribution

|                  |             |
|------------------|-------------|
| 2013-14          | \$3,806,699 |
| 2014-15          | \$3,622,164 |
| 2015-16          | \$4,822,022 |
| 2016-17          | \$5,465,602 |
| 2017-18 estimate | \$6,313,473 |

### PRESCHOOL

15. The District preschool programs continue to need contribution from the General Fund. The estimated shortage included in the 2017-18 1st Interim Budget was \$25,500. **The 2nd Interim Budget estimate is the same.**

#### Preschool Contribution

|                  |           |
|------------------|-----------|
| 2013-14          | \$104,998 |
| 2014-15          | \$53,618  |
| 2015-16          | \$42,000  |
| 2016-17          | \$142,695 |
| 2017-18 estimate | \$25,500  |

## Second Interim Budget Report - FY 17/18

### PROPERTY & LIABILITY INSURANCE

16. The property and liability insurance premiums are based on actual costs of \$349,842 in the 2017-18 year.

### UTILITIES

17. The District included the following utility increases in the 2017-18 Adopted Budget for utilities based on current staff inquiries of utility companies:

|                    |           |
|--------------------|-----------|
| Natural Gas        | 0%        |
| Electricity        | 1.8%      |
| Water              | 9%        |
| Waste Disposal     | 1.6%      |
| Telecommunications | <b>8%</b> |
| Gas / Diesel       | 0%        |

The 2017-18 Adopted Budget estimate was \$1,443,689. **The 2nd Interim Budget estimate is \$1,549,748**, net of expected energy savings of \$238,361, **and with other utility estimate increases of \$24,730 from the 1st Interim Budget. The estimate includes and increase for internet usage related to new hotspots.** The 2016-17 actual utility costs were \$1,568,654, and in 2015-16 were \$1,629,040.

### LONG TERM DEBT

18. The District entered into a long-term energy savings contract in 2014-15 for energy efficiency projects. A Capital Lease was issued in March 2015 to cover the cost of the improvements needed to realize energy savings. The capital lease will be paid using utility cost savings in the 2017-18 fiscal year.

### TRANSPORTATION

19. Transportation costs for 2017-18 were projected in the 2017-18 1st Interim Budget at \$1,603,168. **This estimate has not changed in the 2nd Interim Budget.**

| <u>Transportation</u> | <u>Expenditures</u> | <u>Encroachment/Underfunding</u> |
|-----------------------|---------------------|----------------------------------|
| 2013-14               | \$1,595,475         | \$1,436,189                      |
| 2014-15               | \$1,589,873         | \$1,362,758                      |
| 2015-16               | \$1,522,044         | \$1,434,371                      |
| 2016-17               | \$1,547,247         | \$1,387,961                      |
| 2017-18 estimate      | \$1,603,168         | \$1,443,882                      |

Transportation funding has not changed since 2008-09. The funding is unrestricted and part of the LCFF but the district must use this funding for Transportation purposes.

## Second Interim Budget Report - FY 17/18

### DEFERRED MAINTENANCE

20. This funding has been rolled into the LCFF funding plan beginning with the 2013-14 year and is no longer separately funded. The District continues to budget a transfer to the Deferred Maintenance Fund of \$265,000 in the 2017-18 2nd Interim Budget. **This transfer amount is the same in the 1st Interim Budget.** Transfers are needed to be able to properly maintain school facilities.

### LEGAL FEES

21. Legal fees were budgeted at \$246,000 in the 2017-18 1st Interim Budget. **This estimate is the same in the 2nd Interim Budget.** Legal fees paid in 2016-17 were \$231,398, in 2015-16 were \$244,924, and in 2014-15 were \$188,577.

### INDIRECT COSTS

22. Inter-program indirect costs will be calculated at the maximum allowable rate per program. The District approved indirect cost rate for 2017-18 is 8.25%.

### FOOD SERVICES

23. The Newhall School District is a member of the Santa Clarita Valley School Food Services Agency (SCVSFSA), which provides breakfast and lunch to all schools in the Newhall School District, Castaic Union School District, Saugus Union School District and Sulphur Springs School District.

The SCVSFSA reimburses member districts a portion of “direct costs” associated with food service operations at each school. Direct costs include utilities, waste disposal, custodial, supervision, supplies and other related costs. The 1<sup>st</sup> Interim Budget estimate for the 2017-2018 fiscal year, based on information from the SCVSFSA, was \$108,644. **This estimate is the same in the 2nd Interim Budget.**

### LACOE SERVICES

24. Based on preliminary information from LACOE, staff budgeted \$137,148 for services in the 2017-18 1<sup>st</sup> Interim Budget. **This estimate has not changed in the 2nd Interim Budget.** The services provided by LACOE include: Information Systems, Accounting, Payroll and Budget. Included in the amount above is an additional payment of \$74,814 for a new accounting system. This additional payment will be made for five years, starting with the 2017-18 fiscal year. The district will be paying for both accounting systems during the five year implementation period.

## Second Interim Budget Report - FY 17/18

### THEFT and VANDALISM

25. \$10,000 was included in the 2017-18 1<sup>st</sup> Interim Budget for site loss due to theft and vandalism. **There is no change in the 2nd Interim Budget.** Actual costs were \$6,814 in 2016-17, \$9,178 in 2015-16 and \$11,690 in 2014-15.

### TRANSFERS OUT

26. The transfers out are budgeted as shown in the detail below. This is no change from the 1st Interim Budget:

|                           | <u>2017-18 1st Interim</u> | <u>2017-18 2nd Interim</u> |
|---------------------------|----------------------------|----------------------------|
| State Preschool           | \$0                        | \$0                        |
| District Preschools       | \$25,500                   | \$25,500                   |
| Deferred Maintenance      | \$265,000                  | \$265,000                  |
| Spec. Res. Capital Outlay | \$789,480                  | \$789,480 (to Fund 40)     |

### RESERVE FOR ECONOMIC UNCERTAINTIES

27. The Governing Board has adopted a Reserve for Economic Uncertainty policy that calls for a reserve of 6% plus an additional reserve amount for declining enrollment. The **2nd Interim Budget** reflects a reserve of **6.95%** for the 2017-18 fiscal year, **6.96%** for the 2018-19 fiscal year and **7.11%** for the 2019-20 fiscal year (assumes COLA of 1.56% is funded in 2017-18, **2.51%** is funded in 2018-19 **2.41%** is funded in 2019-20, and additional LCFF funds will be received in 2018-19 and 2019-20.) Beginning with the 2015-16 Adopted Budget the district must describe the amount of unassigned and assigned fund balances in excess of the state minimum reserve of 3% and how the excess will be used. The district's excess reserve (greater than 3%) will be used to maintain positive cash flow and to ensure funding for more teachers if a decline in enrollment does not materialize.

### ROUTINE REPAIR & RESTRICTED MAINTENANCE

28. For the 2017-18 through 2019-20 years, the District is required to use 3% of the general fund expenditures. The 2017-18 1st Interim Budget 3% estimate was \$1,975,042. **The 2nd Interim Budget is \$2,011,399. This is an increase of \$36,357 primarily related to expected materials cost increases.**

### MULTI-YEAR PROJECTION

29. The District is required as part of the **2nd Interim Budget** to include a multi-year budget projection that includes the current budget year plus the next two fiscal years.  
The district continues to support Curriculum Specialists for Science and PE, an additional Art teacher and Teachers on Special Assignments (TOSA) for staff training, and additional teachers, as needed for Music and SDC classes. The

## Second Interim Budget Report - FY 17/18

State DOF projects additional LCFF funding of the gap between full implementation and the current level of funding of **100% for 2018-19 and 2019-20**. Certificated and Classified salaries and benefits are adjusted for declining enrollment projections. Enrollment is projected to decline in 2018-19 and 2019-20. The projections for 2018-19 include **(less 7 FTE)** and for 2019-20 include **(less 8 FTE)**. Step and column increase projections are included. STRS and PERS cost increases are included in the 2018-19 and 2019-20 projections. Cost reductions of 1% in the supplies and other operating budgets are included in the 2018-19 and 2019-20 budgets. Increases in Supplemental grant funding estimates are included in 2018-19 and 2019-20 projections. If additional LCFF funding is not received, the reserve percentage will decrease.

### **Second Interim FY 17/18 Multi-Year Projection (MYP)**

|   | <b>FY 17/18</b>    | <b>FY 18/19</b> | <b>FY 19/20</b> |
|---|--------------------|-----------------|-----------------|
| REVENUES  | 65,640,508         | 67,513,920      | 65,451,153      |
| EXPENDITURES                                    | 66,881,512         | 65,795,801      | 65,145,848      |
| Net Incr./Decr. in Fund Balance                 | <b>(1,241,004)</b> | 1,718,120       | 305,304         |
| Beginning Balance                               | 10,070,745         | 8,829,741       | 10,547,861      |
| Ending Balance, 6/30/ (Proj.)                   | 8,829,741          | 10,547,861      | 10,853,165      |
| <b>COMPONENTS OF ENDING BALANCE</b>             |                    |                 |                 |
| Non-spendable (Restricted, Stores, etc.)        | 684,230            | 553,594         | 442,783         |
| Assigned (Extra-Legal Costs, Technology)        | 40,000             | 290,000         | 290,000         |
| Reserve for Econ. Uncert. (6%)                  | 4,645,551          | 4,580,408       | 4,631,791       |
| Unassigned                                      | 3,459,960          | 4,266,339       | 4,696,046       |
| <i>Total Available Reserves - By Dollars</i>    | 8,105,511          | 8,846,747       | 9,327,837       |
| <i>Total Available Reserves - By Percentage</i> | <b>12.11%</b>      | <b>13.45%</b>   | <b>14.32%</b>   |

## CONCLUSION

The Newhall School District **2nd Interim** Financial Report LCFF budget assumptions are based upon information provided by LACOE. Expenditure assumptions are based upon our best estimate of program expenditures, operating costs for the current fiscal year and the priorities for spending contained in the District's Local Control Accountability Plan. The District is filing a **Positive Budget Certification** for the 2nd Interim Budget Report.