

ED COMMITTEE #3  
July 26, 2012  
**Discussion**

**MEMORANDUM**

July 25, 2012

TO: Education Committee

FROM: Essie McGuire, Senior Legislative Analyst 

SUBJECT: **Discussion – Format for FY13 MCPS Monthly Financial Reports**

Today the Education Committee will discuss the format of the Monthly Financial Reports of the Montgomery County Public Schools (MCPS).

**Background**

The Inspector General, Edward Blansitt, on January 9, 2012, released a report titled “Evaluation of Budget and Financial Information Provided by Montgomery County Public Schools”. This report addressed four areas of findings and recommendations, one of which related to the Monthly Financial Reports produced by MCPS, presented to the Board of Education, and provided to the Council.

The Education Committee received a briefing on this report from the Inspector General on January 23. The Committee discussed the findings and recommendations in the four areas identified in the report, and concurred overall with the report’s recommended next steps. Specific to the Monthly Financial Reports, the Education Committee:

- Discussed the current Monthly Financial Reports and how other supporting information should be provided to the Council. Recommended:
  - The Council receive monthly budget-funds available reports showing expenditures and encumbrances by State category and detailed expenditure description;
  - The Council receive a final fiscal year-end report in addition to the Comprehensive Annual Financial Report (CAFR) that provides actual operating results compared to the final budget and more closely aligns with the format of the Monthly Financial Report;
  - Council staff work with MCPS staff to develop a proposed revised format for the Monthly Financial Report that includes additional detail regarding projected revenue and expenditure variances and positions.

## Update

Council staff and MCPS staff have worked together to identify information that can be expanded or included in the monthly financial reports. MCPS drafted a model of potential changes to the report that reflects these discussions. This model was presented to and discussed by the Board of Education's Fiscal Management Committee on July 24 (materials attached at circles 1-10).

**In Council staff's view, this model is a helpful first step in expanding and improving the report. It is important to note that this will be an ongoing process.** First, Council and MCPS staff will continue to work through how to expand and address additional areas of information, such as lapse and turnover. Second, as the Council and the Board begin to receive the new financial reports, members may have questions or suggestions that can be incorporated going forward.

MCPS does not produce the first monthly financial report until November, when data for the first quarter of the fiscal year (through September 30) is available. Staff will continue to discuss the report and related information both at the staff level and with Council and Board members as the fiscal year progresses.

## Revised Report

Circle 1 lists the primary changes reflected in the revised model report that follows (using data already presented through April 30, 2012). Council staff highlights the following:

- The narrative descriptions of the category variances (circles 5-7) are expanded to include more detail.
- The expenditure table (circles 9-10) is significantly expanded to include actual year-to-date expenditures as well as encumbrances. This table also now breaks each State category down into the major components of position salaries, non-position salaries, and operating expenses.
- Council staff will receive the monthly Funds Available Report each month to provide more detail about category expenditures. Council staff will begin to receive this report in advance of the formal monthly reports which do not begin until November.
- MCPS will produce a fiscal year-end report that follows the monthly report format, to facilitate comparisons. The Board is scheduled to receive an FY12 year-end update on July 30, and Council staff understands that this report will mirror the monthly presentation. The Committee will review the FY12 year-end report in the fall.

Office of the Chief Operating Officer  
MONTGOMERY COUNTY PUBLIC SCHOOLS  
Rockville, Maryland

July 20, 2012

MEMORANDUM

To: Members of the Board of Education Fiscal Management Committee

From: Larry A. Bowers, Chief Operating Officer 

Subject: Monthly Financial Report Format

As a result of the report of the Montgomery County Inspector General regarding the Montgomery County Public Schools (MCPS) Monthly Financial Report, MCPS staff has been working with Council staff to implement the report's recommendations. The Council's Education Committee has scheduled an item for its July 26, 2012, meeting to review progress on the implementation of the recommendations regarding changes in the format of the Monthly Financial Report.

Based on our discussions, we have identified the following steps that can be taken to improve the usefulness of this report.

1. Include information on actual year-to-date expenditures for each month in addition to the total of expenditures and encumbrances.
2. Provide greater detail on the reasons for a surplus or deficit in each state category.
3. For each tax-supported category, indicate on the expenditure detail attachment the year-to-date total of actual expenditures, encumbrances, and total expenditures and encumbrances for position salaries, non-position salaries, and operating expenses. Projections would continue to be shown for the category as a whole.
4. Provide an explanation of what types of expenditures each state category includes.
5. Provide explanations of the sources of revenue for each type of revenue discussed in the report.
6. Provide Council staff with a detailed monthly Funds Available Report. This detail would not be part of the monthly financial report.

MCPS staff has prepared a draft model of potential changes based on data originally presented to the Board of Education in the Financial Report of June 14, 2012. Attached for your review is a revised version of the June Monthly Financial Report based on the revised format, including a revised expenditure attachment. MCPS will continue to work with Council to provide needed financial information and continue to implement desirable improvements in the Monthly Financial Report.

If you have any questions, please contact me at 301-279-3626 or Dr. Marshall C. Spatz, director, Department of Management, Budget, and Planning at 301-279-3547.

LAB:mcs

Attachments

Copy to:

Mrs. DeGraba

Mr. Doody

Dr. Spatz

Office of the Superintendent of Schools  
MONTGOMERY COUNTY PUBLIC SCHOOLS  
Rockville, Maryland

June 14, 2012

MEMORANDUM

To: Members of the Board of Education  
From: Joshua P. Starr, Superintendent of Schools  
Subject: Monthly Financial Report

This financial report reflects the actual financial condition of Montgomery County Public Schools (MCPS) as of April 30, 2012, and projections through June 30, 2012, based on program requirements and estimates made by primary and secondary account managers. At this time, expenditures have a projected surplus of \$23,000,000. Revenues have a projected surplus of \$400,000.

Due to Fiscal Year (FY) 2011 comprehensive expenditure restrictions, including a hiring freeze, MCPS achieved a reduction of expenditures compared to budget. The FY 2012 Operating Budget included fund balance of \$17.0 million of the total savings as a source of appropriation, leaving fund balance of \$11.9 million available for appropriation in FY 2013 or future years. This unappropriated FY 2011 ending fund balance, together with the FY 2012 projected surplus of \$23.4 million, equals \$35.3 million that will be available to fund future year operating budgets. The County Council used \$17.0 million of the fund balance as a source of revenue for the FY 2013 Operating Budget, leaving an available balance of \$18.3 million. My expectation is that the available fund balance will be used for appropriation over several years to avoid any sudden increase in the need for local contribution to replace fund balance as a revenue source.

Staff will continue to closely monitor both revenues and expenditures. A discussion of the actual financial condition of MCPS as of April 30, 2012, and projected revenues and expenditures through June 30, 2012, follows.

REVENUE

Total revenue is projected to be \$2,109,037,603.

**County**

The projected revenue from the county is \$1,370,101,480.

**State**

The projected revenue from the state is \$559,537,103, a \$300,000 decrease from the original budget projection for FY 2012. The decrease is due to a reduction in state revenue for out-of-county-living tuition.

**Federal**

The projected revenue from Impact Aid is \$445,000, a \$200,000 increase from the original budget projection for FY 2012.

**Other**

The projected revenue from other sources is \$4,225,708, a \$500,000 increase from the original budget projection for FY 2012. The increase is due to additional summer school tuition fees and continuing professional development fees.

**Appropriated Fund Balance**

The amount appropriated from fund balance is \$23,370,994. This includes \$6,370,994 of prior-year encumbrances that were reappropriated in FY 2012.

**Enterprise Funds**

The projected revenue from enterprise funds is \$56,634,601.

**Supported Projects**

The anticipated revenue for supported projects is \$94,722,717. This estimate includes \$15,379,137 carried forward from FY 2011. Projects approved through April 30, 2012, have been assigned \$91,178,077.

**EXPENDITURES**

There is a projected surplus of \$23,000,000. There are projected surpluses in Category 1, Administration; Category 2, Mid-level Administration; Category 3, Instructional Salaries; Category 5, Other Instructional Costs; Category 6, Special Education; Category 10, Operation of Plant and Equipment; and Category 12, Fixed Charges. The projected surplus is partially offset by a deficit projected in Category 9, Student Transportation. Position balances indicate higher than normal salary lapse and turnover savings, primarily resulting from an increased turnover rate and greater than normal retirements during FY 2011 and lower than normal new hire rates in FY 2012. There were more than 500 retirements in FY 2011, approximately 35 percent greater than the previous year. Budgeted hiring rates for new employees are higher than actual hiring rates for FY 2012, in part to maintain equity with existing employees who have not received salary increment increases for the past two years.

The following provides an explanation for each of the categorical variations:

**Category 1—Administration**

The projected surplus of \$500,000 in Category 1, Administration, has increased by \$300,000 to \$800,000. The increase in surplus is due to higher than anticipated position salary lapse and turnover savings. The surplus is primarily a result of higher than anticipated salary lapse and turnover savings (\$900,000). There also are savings in non-position salary accounts (\$400,000). The surplus in salary accounts is offset by a projected deficit of \$500,000 in operating expenses, primarily due to expenditures for information technology applications offset in other categories and legal expenses.

**Category 2—Mid-level Administration**

The projected surplus of \$2,800,000 in Category 2, Mid-level Administration, is unchanged from last month. The surplus is primarily a result of savings in position salary accounts due to higher than anticipated lapse and turnover (\$1,800,000). There also are savings in non-position salary accounts (\$500,000) and a variety of operating expenses (\$500,000).

**Category 3—Instructional Salaries**

The projected surplus of \$10,000,000 in Category 3, Instructional Salaries, has increased by \$1,000,000 to \$11,000,000. The increase in surplus is due to higher than anticipated savings in non-position salaries. The projected surplus is primarily a result of higher than anticipated salary lapse and turnover savings (\$9,900,000). The higher than anticipated number of retirements and the lower than budgeted rate for new hires significantly affects the projected surplus in this category. There also are savings in a variety of non-position salary accounts, primarily in the expenditures for substitutes (\$1,100,000).

**Category 4—Textbooks and Instructional Supplies**

Category 4, Textbooks and Instructional Supplies, is projected on budget.

**Category 5—Other Instructional Costs**

The projected surplus of \$500,000 in Category 5, Other Instructional Costs, is unchanged from last month. The projected surplus is primarily a result of savings in consultant and contractual services in a wide variety of accounts (\$400,000). There also are projected savings in local travel expenditures (\$100,000).

**Category 6—Special Education**

The projected surplus of \$1,500,000 in Category 6, Special Education, has increased by \$500,000 to \$2,000,000. The increase in surplus is due to higher than anticipated salary lapse and turnover savings (\$400,000) and savings in non-position salaries (\$100,000). The surplus is

primarily the result of salary savings due to higher than anticipated lapse and turnover savings (\$2,600,000). This surplus is partially offset by projected deficits in operating expenses, including higher than anticipated non-public tuition costs (\$500,000) and contractual costs for speech-language therapy (\$100,000).

#### **Category 7—Student Personnel Services**

Category 7, Student Personnel Services, is projected to be on budget. Position salary surplus resulting from salary lapse and turnover savings (\$50,000) is offset by higher than anticipated non-position salary costs primarily resulting from long-term leave (\$50,000).

#### **Category 9—Student Transportation**

The projected deficit of \$1,000,000 in Category 9, Student Transportation, has increased by \$100,000 to \$1,100,000. The increase in deficit is due to the higher than projected rate for diesel fuel. The deficit is primarily the result of higher than projected costs for diesel fuel for school buses (\$2,000,000) and bus parts (\$200,000). Diesel fuel was budgeted at \$2.87 per gallon for FY 2012, and actual current diesel fuel cost is \$3.17 per gallon. This deficit is partially offset by a surplus in salary accounts due to higher than anticipated lapse and turnover savings in position accounts (\$1,100,000). Some work budgeted in position accounts is typically charged to regular rate overtime and other non-position accounts.

#### **Category 10—Operation of Plant and Equipment**

The projected surplus of \$5,300,000 in Category 10, Operation of Plant and Equipment, has increased by \$200,000 to \$5,500,000. The increased surplus is due to lower than projected costs for utilities as a result of the warmer winter. The surplus results primarily from lower projected costs for utilities expenditures resulting from energy conservation savings and lower electricity prices (\$4,500,000). Utilities savings are reflected in the estimates in the FY 2013 Operating Budget. The surplus also is the result of salary savings due to higher than anticipated lapse and turnover (\$1,500,000), partially offset by higher than anticipated non-position salary expenditures resulting from moving schools undergoing modernizations during winter break (\$500,000).

#### **Category 11—Maintenance of Plant**

Category 11, Maintenance of Plant, is projected to be on budget. Savings in position salaries due to higher than anticipated lapse and turnover (\$400,000) is offset by projected deficits in contractual maintenance (\$200,000), maintenance supplies (\$100,000), and vehicle operations due to higher fuel costs (\$100,000).

#### **Category 12—Fixed Charges**

The projected surplus of \$1,500,000 in Category 12, Fixed Charges, is unchanged from last month. The projected surplus results primarily from the fact that the employee benefits costs that

will be charged to federal grants are greater than the budgeted amount, which has reduced the amount of local funds that need to be contributed to the Employee Benefit Plan (\$800,000). Other savings in FICA costs due to higher than anticipated salary lapse and turnover savings (\$800,000) and university partnership tuition expenses (\$700,000) are partially offset by a projected deficit in tuition reimbursement for employees (\$700,000) and unemployment insurance payments (\$100,000). In addition to the projections for Category 12, the most recent report on the Employee Benefit Plan (EBP) Trust Fund indicates a projected surplus in FY 2012 of \$2.8 million due to lower than anticipated claims expenses for active employees and retirees. The projected surplus would increase the year-end EBP fund balance.

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Attachments

**MONTGOMERY COUNTY PUBLIC SCHOOLS**  
**Monthly Financial Report and Year-end Projections**  
**As of April 30, 2012**

**REVENUE**

Source	FY 2012 Original Budget	Revised Budget(a)	Projection		Current Report Variance Over (Under) Revised Budget
			As of 4/30/2012	As of 3/31/2012	
County	\$ 1,370,101,480	\$ 1,370,101,480	\$ 1,370,101,480	\$ 1,370,101,480	\$ -
State	559,837,103	559,837,103	559,537,103	559,537,103	(300,000)
Federal	245,000	245,000	445,000	445,000	200,000
Other	3,725,708	3,725,708	4,225,708	4,225,708	500,000
Appropriated fund balance	17,000,000	23,370,994 (b)	23,370,994	23,370,994	-
<b>Subtotal</b>	<b>1,950,909,291</b>	<b>1,957,280,285</b>	<b>1,957,680,285</b>	<b>1,957,680,285</b>	<b>400,000</b>
Food Services	46,897,045	46,901,145	46,901,145	46,901,145	-
Real Estate Management	3,266,430	3,282,512	3,282,512	3,282,512	-
Field Trip	2,122,819	2,122,819	2,122,819	2,122,819	-
Entrepreneurial Activities	2,822,448	2,903,125	2,903,125	2,903,125	-
Instructional Television	1,425,000	1,425,000	1,425,000	1,425,000	-
Supported Projects	79,343,580	94,722,717 (c)	94,722,717	94,722,717	-
<b>Total</b>	<b><u>\$ 2,086,786,613</u></b>	<b><u>\$ 2,108,637,603</u></b>	<b><u>\$ 2,109,037,603</u></b>	<b><u>\$ 2,109,037,603</u></b>	<b><u>\$ 400,000</u></b>

Notes:

- (a) Revised budget includes carryover of prior-year encumbrances.  
(b) Includes \$6,370,994 for prior-year encumbrances.  
(c) Includes \$15,379,137 carried forward from FY 2011.

**MONTGOMERY COUNTY PUBLIC SCHOOLS**  
**Monthly Financial Report and Year-end Projections**  
**As of April 30, 2012**

**EXPENDITURES**

Category	Authorized Expenditures	Actual Year-to-Date Expenditures 4/30/2012	Encumbrances 4/30/2012	Expenditures and Encumbrances 4/30/2012	Projected Expenditures 6/30/2012	Current Report Projected Year-end Balance	Prior Report Projected Year-end Balance	Variance Over (Under)	(a) Percentage
01 Administration	\$ 38,024,304	\$ 28,251,529	\$ 7,816,495	\$ 36,068,024	\$ 1,156,280	\$ 800,000	\$ 500,000	\$ 300,000	2.10
Position salaries		21,891,115	6,464,569	28,355,684					
Non-position salaries		621,375	14,438	635,813					
Operating expenses		5,739,039	1,337,488	7,076,527					
02 Mid-level Administration	133,941,064	\$ 100,299,552	\$ 29,943,514	\$ 130,243,066	897,998	2,800,000	2,800,000	-	2.09
Position salaries		97,578,249	29,146,425	126,724,674					
Non-position salaries		1,258,495	83,879	1,342,374					
Operating expenses		1,462,808	713,210	2,176,018					
03 Instructional Salaries	797,806,057	608,027,703	167,231,116	775,258,819	11,547,238	11,000,000	10,000,000	1,000,000	1.38
Position salaries		576,599,838	166,767,875	743,367,713					
Non-position salaries		31,427,865	463,241	31,891,106					
04 Textbooks and Supplies	25,228,612	19,359,245	2,842,008	22,201,253	3,027,359	\$ -	\$ -	\$ -	-
05 Other Instructional Costs	12,646,434	8,466,277	1,478,029	9,944,306	2,202,128	\$ 500,000	\$ 500,000	\$ -	3.95
06 Special Education	245,993,527	185,367,284	59,591,959	244,959,243	(965,716)	2,000,000	1,500,000	500,000	0.81
Position salaries		153,116,472	45,292,490	198,408,962					
Non-position salaries		4,246,013	200,652	4,446,665					
Operating expenses		28,004,799	14,098,817	42,103,616					
07 Student Personnel Services	10,285,093	7,881,369	2,255,429	10,136,798	148,295	-	-	-	-
Position salaries		7,637,807	2,255,429	9,893,236					
Non-position salaries		83,264		83,264					
Operating expenses		160,298		160,298					
08 Health Services	54,670	16,447		16,447	38,223	\$ -	\$ -	\$ -	-

6

**MONTGOMERY COUNTY PUBLIC SCHOOLS**  
**Monthly Financial Report and Year-end Projections**  
**As of April 30, 2012**

**EXPENDITURES**

Category	Authorized Expenditures	Actual Year-to-Date Expenditures 4/30/2012	Encumbrances 4/30/2012	Expenditures and Encumbrances 4/30/2012	Projected Expenditures 6/30/2012	Current Report Projected Year-end Balance	Prior Report Projected Year-end Balance	Variance Over (Under)	(a) Percentage
09 Student Transportation	93,476,908	69,935,613	18,752,379	88,687,992	5,888,916	(1,100,000)	(1,100,000)	-	(1.18)
Position salaries		45,655,048	14,081,728	59,736,776					
Non-position salaries		4,994,011	40,352	5,034,363					
Operating expenses		19,286,554	4,630,299	23,916,853					
10 Operation of Plant & Equipment	116,532,056	84,493,965	14,676,063	99,170,028	11,862,028	5,500,000	5,300,000	200,000	4.72
Position salaries		45,533,131	13,710,279	59,243,410					
Non-position salaries		2,276,190	153,277	2,429,467					
Operating expenses		36,684,644	812,507	37,497,151					
11 Maintenance of Plant	32,676,152	24,448,985	6,367,327	30,816,312	1,859,840	-	-	-	-
Position salaries		17,449,832	5,202,030	22,651,862					
Non-position salaries		567,129	101,717	668,846					
Operating expenses		6,432,024	1,063,580	7,495,604					
12 Fixed Charges	450,565,409	390,875,160	819,800	391,694,961	57,370,448	\$ 1,500,000	\$ 1,500,000	\$ -	0.33
14 Community Services	50,000	-	50,000	50,000	-	-	-	-	-
Subtotal	1,957,280,286	1,527,423,129	311,824,119	1,839,247,249	95,033,037	23,000,000	21,000,000	2,000,000	1.18
61 Food Services	46,901,145	38,428,464	3,956,259	42,384,723	4,516,422	-	-	-	-
51 Real Estate Management	3,282,512	2,746,229	309,424	3,055,653	226,859	-	-	-	-
71 Field Trip	2,122,819	1,301,891	66,709	1,368,600	754,219	-	-	-	-
81 Entrepreneurial Activities	2,903,125	1,617,505	130,335	1,747,840	1,155,285	-	-	-	-
37 Instructional Television Supported Projects	1,425,000	1,203,948	223,279	1,427,227	(2,227)	-	-	-	-
Supported Projects	94,722,717	66,681,943	9,871,926	76,553,869	18,168,848	-	-	-	-
<b>Total</b>	<b>\$ 2,108,637,604</b>	<b>\$ 1,639,403,109</b>	<b>\$ 326,382,051</b>	<b>\$ 1,965,785,161</b>	<b>\$ 119,852,443</b>	<b>\$ 23,000,000</b>	<b>\$ 21,000,000</b>	<b>\$ 2,000,000</b>	<b>1.09</b>

Note:

(a) Percentage of projected year-end balance to authorized expenditures.