



MEMORANDUM

DATE: December 14, 2016

TO: Board of Trustees

FROM: Antwan Wilson, Superintendent
Vernon Hal, Senior Business Officer
Gloria Gamblin, Interim Chief Financial Officer

RE: 2016-17 First Interim Report - Briefing for Board

The purpose of this memo is to provide the background and summary of the District’s 2016-17 First Interim Financial Report. Also attached is the PowerPoint with additional information for the Board meeting. The Board will be asked to approve the report to submit to the Alameda County Office of Education (ACOE). The Board will also be asked to approve the changes to the budget that are reported in the First Interim (Budgetary Increases/Decreases and Transfers). The agenda package includes separate resolutions for these actions.

First Interim Report – Background: California school districts are required to file a first and second interim report with their county office of education, if either of the reports are “positive”. Report provides the District’s financial picture as of October 31, 2016. After budget adoption in June, the District adjusts its budget periodically to incorporate current information. The Adopted Budget, presented to the Board on June 22, 2016, is latest version of the 2016-17 Budget. It is used as a point of comparison to the First Interim Report. After Board approval, the First Interim Report is submitted to the ACOE by December 15. ACOE will review it and provide comments back to the District, and will report to the State within 75 days.

Unrestricted General Fund Results: The table below compares the revenues and expenditures of the First Interim to the Adopted Budget.

Unrestricted General Fund		2016-17 1ST INTERIM	2016-17 ADOPTED BUDGET	Diff
Local Control Funding Formula (LCFF) Revenues		\$ 354,832,928	\$ 358,772,847	\$ (3,939,919)
Other State & Federal Revenue		15,609,571	16,070,645	(461,074)
Local Revenue		33,407,747	29,209,741	4,198,006
Transfer-In & Sources		735,130	564,067	171,063
Total Revenues & Sources	a	404,585,376	404,617,300	(31,924)
Salaries,Supplies,Services & Equipment		335,307,549	335,403,605	(96,056)
Other Outgo (Pass Throughs / Debt Service)		6,077,046	6,242,046	(165,000)
Indirect Cost (Expense Offset)		(5,162,308)	(4,340,769)	(821,539)
Contributions & Transfers Out		69,449,044	67,183,784	2,265,260
Total Expenses & Uses	b	405,671,331	404,488,666	1,182,665
Change in Fund Balance	a-b=c	\$ (1,085,954)	\$ 128,634	\$ (1,214,589)
Beginning Fund Balance	d	12,063,851	17,559,526	(5,495,675)
Audit Adjustment	e	-	-	-
Adjusted Beginning Balance	d+e=f	\$ 12,063,851	\$ 17,559,526	\$ (5,495,675)
Ending Fund Balance	c+f=g	\$ 10,977,897	\$ 17,688,160	\$ (6,710,264)

Note - See the assumptions for explanation of differences



Revenues: Unrestricted revenues decreased by **\$32 thousand** from the Adopted Budget.

The decrease in Local Control Funding Formula (LCFF) Revenue in the amount of \$3.9M is the result of a decline in the current year ADA from the prior year. State Revenues funded by ADA also decreased by \$461K. Local Revenue increased by \$4.2M due to Redevelopment Agency (RDA) and the reclassification of the E-Rate Credit during the Closing of the Books for 2015-2016. Plus, the General Fund received \$171K from the Self Insurance Fund for the move of Central Offices to 1000 Broadway from Lakeview, netting an increase in revenue of \$32K.

Expenditures: Unrestricted expenditures increased by approximately **\$1.1 million**.

Schools and Central Offices major factors causing a decreased of \$96K is due to the allocation of \$800K for textbooks, Call for Quality to Schools and offset of Reclassifying the ERATE Credit.

Other Outgo decreased by \$165K is a result of a prior year write off of invoices owed but not paid by charters related to PEC services.

Indirect Costs increased by \$821K because Restricted Programs increased their expenses that are subject to Indirect Costs.

Contributions and Transfer Out increased by \$2.3M to cover the increased costs of salaries and bonuses for employees related to the negotiated labor agreements and is comprised of:

- \$1.8 M increase Transfer to the Cafeteria Fund
- \$500K increase Transfer to the Early Childhood Education Fund
- \$34K decrease in Contribution for Programs for Exceptional Children (PEC)

Fund Balance: The net result is an Unrestricted Ending Fund Balance that is \$6.7M less than the Adopted budget.

Unrestricted General Fund	2016-17 1ST INTERIM	2016-17 ADOPTED BUDGET	Diff
Ending Fund Balance	\$ 10,977,897	\$ 17,688,160	\$ (6,710,264)
Components of the Ending Fund Balance:			
Reserve for Economic Uncertainty	10,800,878	10,393,218	407,660
Designated for the Following:			
Audit & Audit Findings (ONE-TIME)	27,019	6,540,200	(6,513,181)
Early Retirement Pgm Approved 2011-12 (ONE-TIME)	-	604,742	(604,742)
Revolving Cash (ONE-TIME)	150,000	150,000	-
Total Ending Fund Balance	\$ 10,977,897	\$ 17,688,160	\$ (6,710,263)
Reserve for Economic Uncertainty is the 2% minimum required for OUSD per State Dept. of Ed, however the Board policy requires 3%. Staff has been directed by the board to lower this reserve to the 2% required by the State and designate the difference to Audit and Audit Findings.			



Cash Flow: Due to the predictable, but uneven, stream of revenue from federal and local sources, monitoring cash flow is critical to making payroll and paying vendors. To buffer against the risk of a cash shortfall, the District borrows against its tax revenues from Alameda County. The \$26million loan was taken in Nov 2016 and will be repaid in June 2017. The District projects positive cash balances through the end of the fiscal year, with an ending cash balance of \$36.7 million on June 30, 2017. The State does not expect to defer payments due to school districts from one fiscal year to the next, which improves the District’s cash position. The District does not expect to borrow across fiscal years.

Multiyear Projections: An essential part of interim reporting is the multiyear projections. Using a reasonable set of assumptions about future years, the District has projected a slight increase in the unrestricted fund balance over the next two years. These results are based on stable enrollment and an increase in funding from LCFF assuming 72.99% of gap funding in 2017-18 and 40.39% gap funding in 2018-19.

The other key assumptions are cost of living increases (which are incorporated into the LCFF full funding levels), step and column increases, the growth in health and retirement benefits, and removing or adding one-time items. The unrestricted General Fund is estimated to increase slightly over the next two years.

The restricted balance is expected to decrease as the fund balance is spent down. The same key assumptions are used as described above for unrestricted. Reductions in overall restricted costs of \$11 million in 2016-17 and \$13 million in 2017-18 are also assumed.

Unrestricted General Fund		2016-17	2017-18	2018-19
Unrestricted LCFF Revenues		\$ 354,832,928	\$ 364,685,361	\$ 370,240,075
Other Revenue		49,017,318	41,883,485	42,768,392
Transfer-In, Sources & Contrib		(64,795,054)	(66,398,676)	(67,865,017)
Total Revenues & Sources	a	339,055,192	340,170,170	345,143,450
Salaries,Supplies,Services & Equipment		335,307,549	330,692,065	334,249,099
Other outgo (Pass Throughs / Debt Service)		6,077,046	9,974,125	11,641,125
Indirect Cost (Expense Offset)		(5,162,308)	(5,246,553)	(5,118,048)
Transfers Out		3,918,860	3,997,237	4,097,168
Total Expenses & Uses	b	340,141,146	339,416,873	344,869,343
Change in Fund Balance	a-b=c	(1,085,954)	753,296	274,107
Beginning Fund Balance	d	12,063,851	10,977,897	11,731,193
Ending Fund Balance	c+d=e	\$ 10,977,897	\$ 11,731,193	\$ 12,005,301



Restricted General Fund		2016-17	2017-18	2018-19
Restricted LCFF Revenues		\$ 2,326,800	\$ 2,326,800	\$ 2,326,800
Other Revenue		120,543,765	126,216,022	129,270,450
Transfer-In, Sources & Contrib		65,530,184	66,962,744	68,429,084
Total Revenues & Sources	a	188,400,749	195,505,565	200,026,334
Salaries,Supplies,Services & Equipment		193,534,670	197,994,049	190,992,013
Other outgo (Pass Throughs / Debt Service)		2,813,994	2,813,994	2,813,994
Indirect Cost (Expense Offset)		3,554,075	3,638,320	3,509,815
Transfers Out		-	-	-
Total Expenses & Uses	b	199,902,739	204,446,363	197,315,822
Change in Fund Balance	a-b=c	(11,501,990)	(8,940,798)	2,710,512
Beginning Fund Balance	d	22,438,844	10,936,854	1,996,056
Ending Fund Balance	c+d=e	\$ 10,936,854	\$ 1,996,056	\$ 4,706,568

Qualification: The District can self-certify each interim as “Positive”, indicating that it will meet its obligations in the current year and two subsequent years; as “Qualified”, indicating that it may not meet its financial obligations for the current fiscal year or two subsequent fiscal years; or “Negative”, indicating that it will not meet its financial obligations for the current fiscal year or two subsequent years.

Our current financial condition is stable, all outstanding audit years are up to date and the restoration of our credit rating substantiate Staff’s recommendation to submit a “Positive” First Interim Report. A “Positive” negates the District preparing a 3rd Interim report in May.