

Board Office Use: Legislative File Info.	
File ID	17-1046
Introduction Date	5-24-2017
Enactment Number	17-0667
Enactment Date	5/24/2017 <i>02</i>



Memo

To Board of Education

From Devin Dillon, Interim Superintendent & Board Secretary
Vernon Hal, Senior Business Officer

Board Meeting Date May 24, 2017

Subject Third Interim Financial Report - Fiscal Year 2016-17

Action Requested Approval by the Board of Education of the Third Interim Financial Report and authorization for submittal to the Alameda County Superintendent of Schools as "Qualified" certification based upon the Oakland Unified School District's Fiscal Year 2016-2017 report.

Background The California Education Code Sections 42130, 43131, (a)(1), and 43131,(a)(2), require school districts to prepare a financial and budgetary report for the period ending April 30, of each year. This report must certify whether or not the district is able to meet its financial obligation for the remainder of the fiscal year, and also to meet any multi-year commitments.

Recommendation Approval by the Board of Education of the Third Interim Financial Report and authorization for submittal to the Alameda County Superintendent of Schools as "Qualified" certification based upon the Oakland Unified School District's Fiscal Year 2016-2017 report.

Attachments

- Form TCI - Table of Contents
- Form 01 - General Fund Summary: Revenues Expenditures and Changes in Fund Balance
- Form A1- Average Daily Attendance
- Form Cash - Cash Flow Worksheet
- Form MYP1 - Multiyear Projections
- Form TRC - Technical Review Checks



OAKLAND UNIFIED
SCHOOL DISTRICT

Community Schools, Thriving Students

Third Interim 2016-2017 Fiscal Year

**Prepared For:
Board of Education Meeting
Wednesday, May 24, 2017**

**RESOLUTION OF THE BOARD OF EDUCATION
OF THE
OAKLAND UNIFIED SCHOOL DISTRICT**

Resolution No. 1617-0189

Approving District's Third Interim Financial Report for Fiscal Year 2016-2017 and Certification of said Report to the Alameda County Superintendent of Schools as "Qualified"

WHEREAS, the Board of Education of the Oakland Unified School District by action herein approving the District's 2016-2017 Third Interim Financial Report, in the General Fund balance sum of \$551,532,997 on today and submitting the same to the Alameda County Superintendent of Schools, as required by law; and

WHEREAS, California Education Code Section 42131(e) requires district's to submit to the County Superintendent of Schools a Third Interim Financial Report detailing projection of receipts and expenditures in a Fiscal year including a statement as to whether the district can meet its financial obligations in subsequent years; and

WHEREAS, the Third Interim Financial Report for the Quarter ending April 30, 2017 for the Oakland Unified School District is due to the County Superintendent of Schools on June 1, 2017 and in the SACS Report attached shows that the District is not currently insolvent and is not likely to become insolvent during the current year; and

NOW, THEREFORE BE IT RESOLVED AND ORDERED that the Board of Education hereby approves the District's Third Interim Financial Report for Fiscal Year 2016-2017 and Certification of said report to the Alameda County Superintendent of Schools as "Qualified".

PASSED AND ADOPTED by the Governing Board of the Oakland Unified School District on this 24 day of May 2017, by the following vote:

AYES: Jody London, Aimee Eng, Shanthi Gonzales, Roseann Torres, Jumoke Hinton Hodge, Vice President Nina Senn, President James Harris

NOES: None

ABSTAINED: None

ABSENT: None

I hereby certify that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Education of the Oakland Unified School District at a publicly noticed Regular Meeting of said Board held May 24, 2017.



Devin Dillion
Interim Superintendent & Board Secretary
Oakland Unified School District
Alameda County, California



MEMORANDUM

DATE: May 24, 2017

TO: Board of Trustees

FROM: Dr. Devin Dillon, Interim Superintendent
Vernon Hal, Senior Business Officer

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

The purpose of this memo is to provide the background and summary of the District’s 2016-17 Third 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 Third Interim (Budgetary Increases/Decreases and Transfers). The agenda package includes separate resolutions for these actions.

Third 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 is “qualified”, a third interim report is required. The Third Interim Report provides the District’s financial picture as of April 30, 2017. After budget adoption in June, the District adjusts its budget periodically to incorporate current information. The Second Interim Budget, presented to the Board on March 8, 2017, is used as the point of comparison for Third Interim. After Board approval, the Third Interim Report is submitted to the ACOE by June 1. 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 Third Interim to the Second Interim.

Unrestricted General Fund		2016-17 THIRD INTERIM	2016-17 SECOND INTERIM	Diff
Local Control Funding Formula (LCFF) Revenues		\$ 354,727,290	\$ 354,812,444	\$ (85,154)
Other State & Federal Revenue		15,648,598	15,648,598	-
Local Revenue		34,836,462	34,582,577	253,885
Transfer-In & Sources		847,032	735,130	111,902
Total Revenues & Sources	a	406,059,382	405,778,749	280,633
Salaries,Supplies,Services & Equipment		334,961,959	331,853,183	3,108,776
Other Outgo (Pass Throughs / Debt Service)		6,077,046	6,077,046	-
Indirect Cost (Expense Offset)		(5,363,263)	(5,354,089)	(9,173)
Contributions & Transfers Out		74,408,884	74,381,281	27,603
Total Expenses & Uses	b	410,084,626	406,957,421	3,127,205
Change in Fund Balance	a-b=c	\$ (4,025,244)	\$ (1,178,671)	\$ (2,846,573)
Beginning Fund Balance	d	12,063,851	12,063,851	-
Audit Adjustment	e	392,864	392,864	-
Beginning Fund Balance	d+e=f	\$ 12,456,715	\$ 12,456,715	\$ -
Ending Fund Balance	f+c=g	\$ 8,431,471	\$ 11,278,044	\$ (2,846,573)



Unrestricted Revenues and Sources: Revenues increased approximately **\$3 million** based primarily on the following:

- Local Control Funding Formula (LCFF) Revenues
 - ✓ \$90K net decrease – reduction in LCFF revenue primarily due to a reduction in GAP funding of 55.03% from 55.28%
- Local Revenue
 - ✓ \$.3M net increase - updated charter schools oversight fees and interest income
- Transfers In
 - ✓ \$.1M net increase - updated Self Assurance (Fund 67) transfer to cover additional eligible expenses

Expenditures: Unrestricted expenditures increased by approximately **\$3.1 M** from the Second Interim Budget.

- Salaries, Supplies, Services & Equipment Increased **\$3.1M** primarily due to the following:
 - ✓ \$1.8M estimated increase is based on expenses not captured by the Spending Limitation Protocol enacted in January 2017
 - ✓ \$.7M increase to cover Registrar of Voter election expense
 - ✓ \$.5M increase in transportation budget due to increase Special Education student ridership
 - ✓ \$.1M increase to cover 2014-15 School Improvement Grant (SIG) audit finding expense
- Contributions and Transfers Out increased by approximately **\$30K**:
 - ✓ \$550K increase in transfer from General Fund to Early Childhood Education (ECE)
 - ✓ \$522K reduction in Special Education contribution from General Fund

Fund Balance: The net result is an Unrestricted Ending Fund Balance is approximately **\$2.8M** less than the Second Interim Budget.

Unrestricted General Fund	2016-17 THIRD INTERIM	2016-17 SECOND INTERIM	Diff
Ending Fund Balance	\$ 8,431,471	\$ 11,278,044	\$ (2,846,573)
Components of the Ending Fund Balance:			
Reserve for Economic Uncertainty	8,281,471	11,128,044	(2,846,573)
Designated for the Following:			
Revolving Cash	150,000	150,000	-
Total Ending Fund Balance	\$ 8,431,471	\$ 11,278,044	\$ (2,846,573)

The District is not estimated to meet the required reserve for economic uncertainty, required by the State at 2% and the Board at 3%. The shortfall in the ending fund balance is \$2.8M and represents 1.5% of the State required 2%. The shortfall will be addressed at 2017-18 Budget Adoption.



Cash Flow:

Cash flow for projected months (07/01/16 to 06/30/17) are primarily based on Federal, State and Local cash payment schedules and prior year actuals. To meet financial obligations during the year, the District temporarily borrowed \$26 million in November 2016. The temporary loan is scheduled to be paid back in May of 2017.

Although the Deferrals were eliminated the past few years, State funding are still apportioned over twelve uneven payments. The temporary borrowing has helped OUSD meet some of its cash needs for the fiscal year. With repayment of temporary borrowing, the 2016-17 Cash Flow projections reflect positive cash balance of \$10.1 million.

Actual Cash Balance	July 2016 Actual	August 2016 Actual	September 2016 Actual	October 2016 Actual	November 2016 Actual	December 2016 Actual
Beginning Cash	\$ 39,882,755	\$ 26,777,385	\$ 29,594,180	\$ 25,301,444	\$ 251,558	\$ 13,385,702
Total Receipts	18,283,011	15,346,273	41,388,842	24,273,918	29,880,628	123,325,310
Total Disbursements	16,494,975	17,770,657	46,099,648	53,285,892	47,607,382	49,739,807
A/R & A/P	(14,893,407)	5,241,179	418,069	3,962,088	30,860,897	444,919
Net Increase / Decrease	(13,105,370)	2,816,795	(4,292,736)	(25,049,886)	13,134,143	74,030,421
Ending Cash	\$ 26,777,385	\$ 29,594,180	\$ 25,301,444	\$ 251,558	\$ 13,385,702	\$ 87,416,123
Actual Cash Balance	January 2017 Actual	February 2017 Actual	March 2017 Actual	April 2017 Actual	May 2017 Projected	June 2017 Projected
Beginning Cash	87,416,123	66,573,816	50,374,464	36,537,321	55,405,709	10,234,419
Total Receipts	28,987,948	28,126,791	36,739,753	67,659,271	41,866,762	82,629,354
Total Disbursements	48,146,149	48,487,399	47,595,994	48,269,534	51,643,577	80,860,844
A/R & A/P	(1,684,106)	4,161,255	(2,980,902)	(521,349)	(35,394,474)	(1,914,388)
Net Increase / Decrease	(20,842,307)	(16,199,353)	(13,837,143)	18,868,388	(45,171,290)	(145,877)
Ending Cash	\$ 66,573,816	\$ 50,374,464	\$ 36,537,321	\$ 55,405,709	\$ 10,234,419	\$ 10,088,542

Multiyear Projections: An essential part of interim reporting is the multiyear projections. The State requires an unrestricted fund balance that includes a 2% reserve for uncertainty, and Board policy requires a 3% reserve. As of third interim the District is NOT estimated to meet the 2% reserve requirement. The reserve for economic uncertainty is estimated to be \$2.8M short, which is 1.5% of the State requirement of 2%. As part of the 2017-18 budget development process, the District will make additional reductions to replenish the reserve.

Using a reasonable set of assumptions about future years, the District has projected to meet the State required 2% reserve for economic uncertainty over the next two years. These results assume stable enrollment and slightly increased funding from LCFF of approximately .01% for 2017-18 and 3.5% for 2018-19.

The other key assumptions are step and column increases, the growth in health and retirement benefits, and removing one-time items.



In order to meet the State's 2% reserve requirement for 2017-18, the District's unrestricted projections assumes reductions of \$23 million. This is a \$9 million dollar increase over the \$14 million dollar reduction plan outlined in the Board's resolution for 2017-18 reductions passed January 2017.

The restricted balance is expected to decrease as the fund balance is spent down for 2017-18. The same key assumptions are used as described above for unrestricted. Overall restricted costs decrease by an estimated \$2.7 million in 2017-18 and increase by \$1.9 million in 2018-19 respectively.

Unrestricted General Fund		2016-17	2017-18	2018-19
Unrestricted LCFF Revenues		\$ 354,727,290	\$ 359,690,383	\$ 372,394,107
Other Revenue		50,485,060	45,048,298	44,764,809
Transfer-In, Sources & Contrib		(69,092,992)	(71,933,604)	(74,718,581)
Total Revenues & Sources	a	336,119,358	332,805,077	342,440,335
Salaries,Supplies,Services & Equipment		334,961,959	320,970,403	330,874,043
Other outgo (Pass Throughs / Debt Service)		6,077,046	6,077,046	6,077,046
Indirect Cost (Expense Offset)		(5,363,263)	(5,316,564)	(5,352,971)
Transfers Out		4,468,860	4,569,856	4,683,645
Total Expenses & Uses	b	340,144,601	326,300,740	336,281,763
Change in Fund Balance	a-b=c	(4,025,244)	6,504,337	6,158,571
Beginning Fund Balance	d	12,456,715	8,431,471	14,935,808
Ending Fund Balance	c+d=e	\$ 8,431,471	\$ 14,935,808	\$ 21,094,380

Restricted General Fund		2016-17	2017-18	2018-19
Restricted LCFF Revenues		\$ 2,675,158	\$ 2,675,158	\$ 2,675,158
Other Revenue		130,620,353	136,404,460	148,001,468
Transfer-In, Sources & Contrib		69,940,024	72,609,573	75,394,550
Total Revenues & Sources	a	203,235,535	211,689,192	226,071,176
Salaries,Supplies,Services & Equipment		209,207,236	206,625,380	208,496,140
Other outgo (Pass Throughs / Debt Service)		2,813,994	2,813,994	2,813,994
Indirect Cost (Expense Offset)		3,836,025	3,789,327	3,825,733
Transfers Out		-	-	-
Total Expenses & Uses	b	215,857,255	213,228,700	215,135,868
Change in Fund Balance	a-b=c	(12,621,720)	(1,539,509)	10,935,309
Beginning Fund Balance	d	22,437,844	9,816,124	8,276,615
Ending Fund Balance	c+d=e	\$ 9,816,124	\$ 8,276,615	\$ 19,211,924



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.

Based on the concerns previously communicated by Alameda County Office of Education (ACOE) at First Interim regarding factors impacting District funding such as declining enrollment, increasing contributions from the unrestricted General Fund to restricted programs and a reserve estimate that is less than the 2% required, staff is recommending submittal of the Third Interim Financial Report to the ACOE with a “Qualified” certification, which is consistent with the Second Interim submission.