



MEMORANDUM

DATE: December 13, 2017

TO: Board of Trustees

FROM: Kyla Johnson, Superintendent
Vernon Hal, Senior Business Officer

RE: 2017-18 First Interim Report - Briefing for Board

The purpose of this memo is to provide the background and summary of the District's 2017-18 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, 2017. After budget adoption in June, the District adjusts its budget periodically to incorporate current information. The Adopted Budget, presented to the Board on June 28, 2017, is the latest version of the 2017-18 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.



| OUSD BUDGET 2017-18 | General Unrestricted 1st Interim | General Unrestricted Adopted | General Unrestricted Change |
|----------------------------------|---|-------------------------------------|------------------------------------|
| Beginning Balance | \$ 3,420,073 | \$ 8,431,472 | \$ (5,011,399) |
| Income | | | |
| LCFF Sources | 361,813,016 | 359,593,984 | 2,219,032 |
| Federal Revenues | 63,500 | 63,500 | - |
| State Revenues | 13,347,383 | 13,205,696 | 141,687 |
| Local Revenues | 35,369,881 | 34,469,643 | 900,238 |
| Total Revenues | 410,593,780 | 407,332,823 | 3,260,957 |
| Expenses | | | |
| Certificated Salaries | 141,103,328 | 138,911,376 | 2,191,951 |
| Classified Salaries | 57,933,585 | 55,651,598 | 2,281,987 |
| Employee Benefits | 82,384,610 | 80,776,605 | 1,608,005 |
| Supplies | 8,288,944 | 14,538,817 | (6,249,873) |
| Services | 39,686,160 | 36,270,665 | 3,415,496 |
| Capital Outlay | 74,514 | - | 74,514 |
| Other Outgo | 6,087,521 | 6,087,521 | - |
| Indirect Cost | (4,808,061) | (4,271,913) | (536,148) |
| Total Expenses | 330,750,602 | 327,964,670 | 2,785,932 |
| Income less Expenditures | 79,843,178 | 79,368,153 | 475,025 |
| Transfers | | | |
| Transfers In | 597,844 | 564,067 | 33,777 |
| Transfers Out | 2,704,588 | 1,504,588 | 1,200,000 |
| Other Sources/Uses | - | - | - |
| Contributions | (71,006,060) | (70,327,977) | (678,083) |
| Total Transfers | (73,112,805) | (71,268,498) | (1,844,307) |
| Net Increase / (Decrease) | 6,730,373 | 8,099,655 | (1,369,282) |
| Ending Balances | \$ 10,150,446 | \$ 16,531,127 | (6,380,681) |

Revenues: Unrestricted revenues increased by **\$3.3 million** from the Adopted Budget.

The increase in Local Control Funding Formula (LCFF) Revenue in the amount of \$2.2M is the result of an increase in the current ADA from projection used at Adoption. State Revenues funded by ADA also increased by \$141K primarily due to an estimated increase in Mandated Block Grant and one-time State funds. Local Revenue increased by \$.9M due to Redevelopment Agency (RDA).

Expenditures: Unrestricted expenditures increased by approximately **\$2.8 million**.

- **Salaries, Supplies, Services & Equipment**

- ✓ **\$2.4M** increase in additional investments (Transportation \$1M, Beginning Teacher Support & Assessment [BTSA] \$.7M, Instructional Teacher Leaders [ITLs] \$.5M).
- ✓ **\$2.6M** increase for budgetary clean up and adjustments (Personnel Placements \$.8M; Long term substitutes \$.7M; Measure G reconciliations \$.5M; Executive Principal stipends \$.1M).
- ✓ **\$0.4M** increase to reflect expending prepaid technology licenses from 2016-17.
- ✓ **(\$1.6M)** reduction to employee costs based on the hiring freeze initiated at the beginning of year (i.e. increase in vacancy offset).
- ✓ **(\$0.5M)** increase in Indirect Costs reimbursements due to the additional budgeting of expenditures for restricted funds, which indirect cost reimbursement is charged.
- ✓ **(\$0.4M)** overall reduction to school budgets due to "20th-Day Fall Enrollment Adjustments".



- **Net Other Uses** of unrestricted funds increased by approximately \$1.8M based primarily on the following:
 - ✓ **\$1.2M** net transfer increase to Food Services
 - ✓ **\$0.8M** increase in additional contribution to Special Education (PEC)
 - ✓ **(\$0.2M)** reduction from miscellaneous contribution

Fund Balance: The net result is an Unrestricted Ending Fund Balance that is \$6.4M less than the Adopted budget.

| Unrestricted General Fund | 2017-18 1st INTERIM | 2017-18 ADOPTION | Diff |
|--|------------------------|----------------------|-----------------------|
| Ending Fund Balance | \$ 10,150,446 | \$ 16,531,127 | \$ (6,380,681) |
| Components of the Ending Fund Balance: | | | |
| Reserve for Economic Uncertainty | 10,000,446 | 10,498,275 | (497,829) |
| Reserved for Instructional Teacher Leaders | | 500,000 | |
| Add'l Reserve for Closing of the books for 2016-17 | | 5,382,852 | |
| Designated for the Following: | | | |
| Revolving Cash | 150,000 | 150,000 | - |
| Total Ending Fund Balance | \$ 10,150,446 | \$ 16,531,127 | \$ (6,380,681) |

The ending fund balance is projected to fall \$1.1M short of 2% of total General Fund Expenditures. At this level, the District will NOT meet the 2% minimum State requirement of Reserves for Economic Uncertainty, nor will it meet the current Board policy requirement of a 3% reserve.

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 Treasurer. The \$26 million loan was taken in Oct 2017 and will be repaid in April 2018.. 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. The District projects positive cash balances through the end of the fiscal year, with an ending cash balance of \$7.5 million on June 30, 2018.



| Actual Cash Balance | July 2017 Actual | August 2017 Actual | September 2017 Actual | October 2017 Actual | November 2017 Projected | December 2017 Projected |
|-------------------------|---------------------|-----------------------|--------------------------|------------------------|----------------------------|----------------------------|
| Beginning Cash | \$ 23,822,827 | \$ 13,123,012 | \$ 12,139,338 | \$ 16,364,564 | \$ 13,001,004 | \$ 16,975,995 |
| Total Receipts | 17,765,515 | 14,064,227 | 42,463,665 | 26,066,616 | 37,156,359 | 113,186,670 |
| Total Disbursements | 15,672,714 | 20,146,701 | 42,200,394 | 47,528,629 | 44,454,894 | 53,264,807 |
| A/R & A/P | (12,792,616) | 5,098,801 | 3,961,954 | 18,098,453 | 11,273,525 | (9,689,916) |
| Net Increase / Decrease | (10,699,815) | (983,674) | 4,225,226 | (3,363,560) | 3,974,990 | 50,231,947 |
| Ending Cash | \$ 13,123,012 | \$ 12,139,338 | \$ 16,364,564 | \$ 13,001,004 | \$ 16,975,995 | \$ 67,207,942 |

| Actual Cash Balance | January 2018 Projected | February 2018 Projected | March 2018 Projected | April 2018 Projected | May 2018 Projected | June 2018 Projected |
|-------------------------|---------------------------|----------------------------|-------------------------|-------------------------|-----------------------|------------------------|
| Beginning Cash | 67,207,942 | 44,215,941 | 44,728,735 | 40,350,272 | 30,225,414 | 15,608,009 |
| Total Receipts | 29,006,473 | 51,233,451 | 43,759,885 | 66,631,406 | 33,369,962 | 63,587,440 |
| Total Disbursements | 50,196,149 | 50,607,118 | 49,542,193 | 49,189,213 | 49,423,940 | 67,896,181 |
| A/R & A/P | (1,802,325) | (113,539) | 1,403,846 | (27,567,050) | 1,436,573 | (3,785,724) |
| Net Increase / Decrease | (22,992,001) | 512,794 | (4,378,463) | (10,124,857) | (14,617,405) | (8,094,465) |
| Ending Cash | \$ 44,215,941 | \$ 44,728,735 | \$ 40,350,272 | \$ 30,225,414 | \$ 15,608,009 | \$ 7,513,544 |

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 66.12% of gap funding in 2018-19 and 64.92% gap funding in 2019-20.

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. Reductions in overall restricted costs of \$1 million in 2018-19 and \$9 million in 2019-20 are also assumed.

| Unrestricted General Fund | | 2017-18 | 2018-19 | 2019-20 |
|--|--------------|----------------------|----------------------|----------------------|
| Unrestricted LCFF Revenues | | \$361,813,016 | \$371,399,521 | \$380,992,594 |
| Other Revenue | | 48,780,764 | 43,046,652 | 43,613,931 |
| Transfer-In, Sources & Contrib | | (70,408,217) | (73,139,110) | (75,975,033) |
| Total Revenues & Sources | a | 340,185,563 | 341,307,063 | 348,631,492 |
| Salaries, Supplies, Services & Equipment | | 329,471,142 | 335,890,866 | 344,437,825 |
| Other outgo (Pass Throughs / Debt Service) | | 6,087,521 | 6,087,521 | 6,087,521 |
| Indirect Cost (Expense Offset) | | (4,808,061) | (4,912,772) | (4,784,670) |
| Transfers Out | | 2,704,588 | 2,778,153 | 2,859,275 |
| Total Expenses & Uses | b | 333,455,190 | 339,843,768 | 348,599,951 |
| Change in Fund Balance | a-b=c | 6,730,373 | 1,463,295 | 31,541 |
| Beginning Fund Balance | d | 3,420,073 | 10,150,446 | 11,613,741 |
| Ending Fund Balance | c+d=e | \$ 10,150,446 | \$ 11,613,741 | \$ 11,645,282 |



| Restricted General Fund | | 2017-18 | 2018-19 | 2019-20 |
|--|--------------|----------------------|---------------------|--------------------|
| Restricted LCFF Revenues | | \$ 2,412,110 | \$ 2,412,110 | \$ 2,412,110 |
| Other Revenue | | 141,952,670 | 141,952,670 | 141,952,670 |
| Transfer-In, Sources & Contrib | | 71,006,060 | 73,736,953 | 76,572,876 |
| Total Revenues & Sources | a | 215,370,840 | 218,101,733 | 220,937,656 |
| Salaries,Supplies,Services & Equipment | | 217,441,724 | 224,798,340 | 215,798,340 |
| Other outgo (Pass Throughs / Debt Service) | | 2,040,000 | 2,040,000 | 2,040,000 |
| Indirect Cost (Expense Offset) | | 3,094,969 | 3,199,680 | 3,071,578 |
| Transfers Out | | - | - | - |
| Total Expenses & Uses | b | 222,576,694 | 230,038,020 | 220,909,918 |
| Change in Fund Balance | a-b=c | (7,205,854) | (11,936,287) | 27,738 |
| Beginning Fund Balance | d | 20,055,782 | 12,849,929 | 913,642 |
| Adjusted Beginning Balance | | 20,055,782 | 12,849,929 | 913,642 |
| Ending Fund Balance | c+d=e | \$ 12,849,929 | \$ 913,642 | \$ 941,380 |

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 “Qualified” First Interim Report.