



MEMORANDUM

DATE: March 9, 2016

TO: Board of Trustees

FROM: Antwan Wilson, Superintendent
Vernon Hal, Senior Business Officer
Ruth Alahydoian, Chief Financial Officer

RE: 2015-16 Second Interim Report - Briefing for Board

The purpose of this memo is to provide the background and summary of the District's 2015-16 Second 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 Second Interim (Budgetary Increases/Decreases and Transfers). The agenda package includes separate resolutions for these actions.

Second Interim Report – Background: California school districts are required to file a first and second interim report with their county office of education, and if either of the reports are “qualified”, a third interim report. The Second Interim Report provides the District's financial picture as of January 31, 2016. After first interim is reported, additional budget adjustments occur due to revenue changes, revisions to allocation strategies, balancing accounts after reconciliation of discrepancies. The First Interim Report, presented to the Board on December 15, 2015, is latest version of the 2015-16 Budget. It is used as a point of comparison to the Second Interim Report. After Board approval, the Second Interim Report is submitted to the ACOE by March 15, 2016. 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 Second Interim to the First Interim.

Unrestricted General Fund		2015-16 SECOND INTERIM	2015-16 FIRST INTERIM	Diff
Local Control Funding Formula (LCFF) Revenues		\$ 335,448,822	\$ 334,229,230	\$ 1,219,592
Other State & Federal Revenue		26,306,699	26,306,699	-
Local Revenue		29,520,144	29,383,501	136,643
Transfer-In & Sources		2,297,370	2,114,947	182,423
Total Revenues & Sources	a	393,573,035	392,034,377	1,538,658
Salaries,Supplies,Services & Equipment		329,151,532	328,353,537	797,994
Other Outgo (Pass Throughs / Debt Service)		6,687,808	6,687,808	-
Indirect Cost (Expense Offset)		(5,206,697)	(5,375,240)	168,543
Contributions & Transfers Out		63,191,745	63,191,745	(0)
Total Expenses & Uses	b	393,824,387	392,857,851	966,536
Change in Fund Balance	a-b=c	\$ (251,352)	\$ (823,474)	\$ 572,121
Beginning Fund Balance	d	16,133,721	16,133,721	(0)
Adjustments	e		-	-
Adjusted Beginning Balance	d+e=f	\$ 16,133,721	\$ 16,133,721	\$ (0)
Ending Fund Balance	c+f=g	\$ 15,882,368	\$ 15,310,247	\$ 572,121
Note - See the assumptions for explanation of differences				



REVENUES: Unrestricted revenues are estimated to increase by **\$1.5M** from the First Interim Budget.

Local Control Funding Formula (LCFF) revenues increased by **\$1.22M** due primarily to the increase in the average daily attendance (ADA) by 151 students. In addition the State increased the “gap” funding percentage from 51.52% to 51.97%. (The “gap” is the gap between the full funding according to the LCFF formula and the actual amount funded in the prior year. The percentage of the gap that the State decides to fund represents the additional funding the district receives.).

Local Revenues increased by **\$137K** due to PG&E Solar Reimbursement.

Transfers In & Sources increased by **\$182K** due to solar rebates transferred to General fund from Fund 40.

EXPENDITURES: Unrestricted expenditures are estimated to increase by approximately **\$966K**.

Salaries, Supplies, Services & Equipment increased **\$798K** primarily due to the following:

- \$430K budget increase for one time Audit Findings.
- \$207K increase for Street Academy based on higher enrollment and ADA.
- \$122K increase for expenditures related to the dissolution of the ROP program.

Indirect Costs decreased **\$168k** due to the Indirect Cost rate change from 5.94% to 5.46%.

FUND BALANCE: The net result of the changes in revenues and expenses noted above is an ending fund balance of **\$15.9M**, which is **\$572K** more than the First Interim budget.

Unrestricted General Fund	2015-16 SECOND INTERIM	2015-16 FIRST INTERIM	Diff
Ending Fund Balance	\$ 15,882,368	\$ 15,310,247	\$ 572,121
Components of the Ending Fund Balance:			
Reserve for Economic Uncertainty	\$ 10,359,287	\$ 10,274,533	\$ 84,755
Designated for the Following:			
Audit & Audit Findings (ONE-TIME)	4,477,823	3,990,456	487,367
Early Retirement Pgm Approved 2011-12 (ONE-TIME)	895,258	895,258	-
Revolving Cash (ONE-TIME)	150,000	150,000	-
Total Ending Fund Balance	\$ 15,882,368	\$ 15,310,247	\$ 572,121
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 manage against the risk of a cash shortfall, the District borrows against its tax revenues from Alameda County. The \$30M loan was taken in August 2015 and will be repaid in April 2016. The District projects positive cash balances through the end of the fiscal year, with an ending cash balance of \$11M on June 30, 2016. 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: A part of interim reporting is the multiyear projections. Using a reasonable set of assumptions about future years, the District has projected an 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 49.08% of gap funding in 2016-17 and 45.34% gap funding in 2017-18.

The other key assumptions are cost of living increases (which are incorporated into the LCFF full funding levels); projected salary increases based on negotiated labor agreements for respective bargaining units; step and column salary increases; the growth in health and retirement benefits; and removing or adding one-time items.

The unrestricted General Fund is estimated to increase over the next two years.

Unrestricted General Fund		2015-16	2016-17	2017-18
Unrestricted LCFF Revenues		\$ 335,448,822	\$ 352,786,906	\$ 360,881,006
Other Revenue		55,826,843	44,183,987	36,961,907
Transfer-In, Sources & Contrib		(59,876,338)	(61,984,077)	(63,042,694)
Total Revenues & Sources	a	331,399,327	334,986,817	334,800,219
Salaries,Supplies,Services & Equipment		329,151,531	324,328,755	324,945,239
Other outgo (Pass Throughs / Debt Service)		6,687,808	6,596,239	6,596,239
Indirect Cost (Expense Offset)		(5,206,697)	(3,535,303)	(3,535,303)
Transfers Out		1,018,037	725,000	725,000
Total Expenses & Uses	b	331,650,679	328,114,691	328,731,175
Change in Fund Balance	a-b=c	(251,352)	6,872,126	6,069,044
Beginning Fund Balance	d	16,133,721	15,882,368	22,754,494
Ending Fund Balance	c+d=e	\$ 15,882,368	\$ 22,754,494	\$ 28,823,539

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. The Restricted fund balance is projected to decrease by \$9.8M in 2016-17 and \$1.1M in 2017-18.



Restricted General Fund		2015-16	2016-17	2017-18
Restricted LCFF Revenues		\$ 1,922,840	\$ 1,922,840	\$ 1,922,840
Other Revenue		120,212,833	117,427,804	117,729,697
Transfer-In, Sources & Contrib		62,173,709	62,548,144	63,606,762
Total Revenues & Sources	a	184,309,381	181,898,789	183,259,299
Salaries,Supplies,Services & Equipment		178,950,055	184,244,098	177,033,830
Other outgo (Pass Throughs / Debt Service)		3,828,319	3,828,319	3,828,319
Indirect Cost (Expense Offset)		3,535,303	3,639,902	3,497,465
Transfers Out		-	-	-
Total Expenses & Uses	b	186,313,678	191,712,320	184,359,614
Change in Fund Balance	a-b=c	(2,004,297)	(9,813,531)	(1,100,315)
Beginning Fund Balance	d	13,234,888	11,230,591	1,417,060
Ending Fund Balance	c+d=e	\$ 11,230,591	\$ 1,417,060	\$ 316,745

Qualification: Districts 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.

Since the reporting of the 2015-16 first Interim the District’s 2013-14 audit was completed. The 2014-15 audit is in progress. Based on the significant reduction in audit uncertainty the staff recommends the 2015-16 2nd Interim be certified as “Positive”.