



MEMORANDUM

DATE: March 11, 2015

TO: Board of Trustees

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

RE: 2014-15 Second Interim Report – Executive Summary for Board

The purpose of this memo is to provide the background and summary of the District’s 2014-15 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.

Summary – The District’s financial picture has not changed significantly from the First Interim Report to the Board in December.

- The Unrestricted General Fund has minor adjustments to match new information, with the net difference being a decrease of **\$.3 million** to the estimated ending fund balance.
- The Restricted General Fund reflects additional resources and associated expenses that were budgeted since the last report totaling **\$5.4 million**.
- Funds other than the General Fund have also been adjusted to reflect new information, with increases to facilities project budgets being the most significant.
- Staff recommendation is to submit a “Qualified” Second Interim Report. A “Qualified” certification indicates that based on current projections, the District **may not** meet its financial obligations for the current fiscal year or two subsequent fiscal years. Although our current financial condition is stable, the lack of current audits creates uncertainty.

The information below provides background and more in-depth information on the Unrestricted General Fund.

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, 2015. After budget adoption in June, the District adjusts its budget periodically to incorporate current information. The First Interim Report, presented to the Board on December 10, 2014, is latest version of the 2014-15 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 16. 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 unrestricted portion of the District’s General Fund as currently anticipated in the Second Interim to the First Interim.

Unrestricted General Fund		2014-15 SECOND INTERIM	2014-15 FIRST INTERIM	Diff
Local Control Funding Formula (LCFF) Revenues		\$ 294,670,434	\$ 295,068,835	\$ (398,401)
Other State & Federal Revenue		8,897,576	8,846,886	50,690
Local Revenue		25,545,948	25,644,682	(98,734)
Transfer-In & Sources		734,067	734,067	-
Total Revenues & Sources	a	329,848,025	330,294,470	(446,445)
Salaries,Supplies,Services & Equipment		272,118,636	271,981,095	137,540
Other Outgo (Pass Throughs / Debt Service)		6,298,953	6,177,046	121,907
Indirect Cost (Expense Offset)		(5,635,536)	(4,800,940)	(834,596)
Contributions & Transfers Out		49,921,749	49,521,749	400,000
Total Expenses & Uses	b	322,703,802	322,878,951	(175,149)
Change in Fund Balance	a-b=c	\$ 7,144,223	\$ 7,415,520	\$ (271,297)
Beginning Fund Balance	d	14,037,840	14,037,840	-
Ending Fund Balance	c+d=e	\$ 21,182,063	\$ 21,453,360	\$ (271,297)
Note - See the assumptions for explanation of differences				

Revenues: Unrestricted revenues are estimated to decrease by **\$0.45 million**. Local Control Funding Formula (LCFF) revenue is expected to decrease by **\$0.4 million**. This is due to the State decreasing the LCFF “gap funding” from **29.56%** to **29.15%** as a result of increases in statewide enrollment. Changes in other revenues were minor.

Expenditures: Unrestricted expenditures are estimated to decrease by approximately **\$0.2 million**. This is primarily due to an increase in the indirect cost reimbursement to the General Fund of **\$0.8 million** as additional restricted resources are added to other parts of the budget. This is offset with a transfer to Child Nutrition Services of **\$0.4 million**, the write-off of unrecoverable receivables due to charter closures in 2013-14, and a slight increase in unrestricted budgets.



Fund Balance: The net result is a slightly lower fund balance than projected at First Interim.

Unrestricted General Fund	2014-15 SECOND INTERIM	2014-15 FIRST INTERIM	Diff
Ending Fund Balance	\$ 21,182,063	\$ 21,453,360	\$ (271,297)
Components of the Ending Fund Balance:			
Reserve for Economic Uncertainty	\$ 8,946,986	\$ 8,893,067	53,919
Designated for the Following:			
Audit & Audit Findings (ONE-TIME)	4,889,819	5,215,034	(325,216)
Set Aside for Ongoing Items (ON-GOING)	6,300,000	6,300,000	-
Early Retirement Pgm Approved 2011-12 (ONE-TIME)	895,258	895,258	-
Revolving Cash (ONE-TIME)	150,000	150,000	-
Total Ending Fund Balance	\$ 21,182,063	\$ 21,453,360	\$ (271,297)
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 State, federal and local sources, monitoring cash flow is critical to making payroll and paying vendors. Based on cash projections, the District borrowed \$15 million from the Alameda County Treasurer on a temporary basis in anticipation of local tax revenues. This infusion of cash will ensure a positive cash balance through April, when the temporary loan is repaid. The District projects positive cash balances through the end of the fiscal year, with an ending cash balance of **\$8.9 million** on June 30, 2015. The State does not expect to defer a significant amount of the payments due to school districts from one fiscal year to the next, which improves the District's cash position. Even with the remaining deferral of State funds from June to July 2015, the District does not expect to borrow across fiscal years at this time.

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 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 **32.19%** of gap funding in 2015-16 and **23.71%** gap funding in 2016-17. One-time State revenues in 2015-16 of **\$6.4 million**, and associated expenditures are assumed. The other key assumptions are no salary increases, however cost of living increases, step and column increases, and adding and removing other one-time items.



Unrestricted General Fund		2014-15	2015-16	2016-17
Unrestricted LCFF Revenues		\$ 294,670,434	\$ 318,599,125	\$ 332,374,039
Other Revenue		34,443,524	38,490,124	32,120,613
Transfer-In, Sources & Contrib		(48,462,682)	(54,214,188)	(55,300,800)
Total Revenues & Sources	a	280,651,275	302,875,062	309,193,853
Salaries,Supplies,Services & Equipment		272,118,636	286,603,317	289,484,077
Other outgo (Pass Throughs / Debt Service)		6,298,953	6,177,046	6,177,046
Indirect Cost (Expense Offset)		(5,635,536)	(5,777,224)	(5,699,390)
Transfers Out		725,000	725,000	725,000
Total Expenses & Uses	b	273,507,053	287,728,138	290,686,733
Change in Fund Balance	a-b=c	7,144,222	15,146,923	18,507,119
Beginning Fund Balance	d	14,037,840	21,182,062	36,328,986
Ending Fund Balance	c+d=e	\$ 21,182,062	\$ 36,328,986	\$ 54,836,106

Restricted General Fund Results: 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. In addition, the District anticipates **\$8.9 million** in Measure N parcel tax revenues, exclusive of charter schools portion, each year and associated expenditures; and an increase in expenditures for Programs for Exceptional Children (PEC). Reductions in overall restricted costs of **\$13.6 million** in 2015-16 and **\$10.6 million** in 2016-17 are also assumed.

Restricted General Fund		2014-15	2015-16	2016-17
Restricted LCFF Revenues		\$ 1,754,113	\$ 1,754,113	\$ 1,754,113
Other Revenue		112,962,626	121,862,626	118,751,793
Transfer-In, Sources & Contrib		49,196,749	54,948,255	56,034,867
Total Revenues & Sources	a	163,913,488	178,564,994	176,540,773
Salaries,Supplies,Services & Equipment		169,134,783	175,201,610	171,822,012
Other outgo (Pass Throughs / Debt Service)		800,000	800,000	800,000
Indirect Cost (Expense Offset)		3,907,472	4,049,160	3,971,326
Transfers Out		-	-	-
Total Expenses & Uses	b	173,842,255	180,050,771	176,593,338
Change in Fund Balance	a-b=c	(9,928,767)	(1,485,777)	(52,565)
Beginning Fund Balance	d	11,495,360	1,566,593	80,817
Ending Fund Balance	c+d=e	\$ 1,566,593	\$ 80,817	\$ 28,251