



MEMORANDUM

DATE: May 27, 2015

TO: Board of Trustees

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

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

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

Summary – The District's financial picture has not changed significantly from the Second Interim Report to the Board in March.

- The Unrestricted General Fund has minor adjustments to match new information, with the net difference being a decrease of **\$.1 million** to the estimated ending fund balance.
- The Restricted General Fund reflects additional resources and associated expenses that were budgeted since the last report, with no significant net change to the ending fund balance.
- Other Funds are not required as part of this report.
- Staff recommendation is to submit a "Qualified" Third 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.

Third 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 Third Interim Report provides the District's financial picture as of April 30, 2015. After budget adoption in June, the District adjusts its budget periodically to incorporate current information. The Second Interim Report, presented to the Board on March 11, 2015, is the latest version of the 2014-15 Budget. It is used as a point of comparison to the Third Interim Report. After Board approval, the Third Interim Report become the latest version of the budget and 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 unrestricted portion of the District's General Fund as currently anticipated in the Third Interim to the Second Interim.

Unrestricted General Fund	2014-15 THIRD INTERIM	2014-15 SECOND INTERIM	Diff
Local Control Funding Formula (LCFF) Revenues	\$ 295,316,598	\$ 294,670,434	\$ 646,164
Other State & Federal Revenue	8,913,443	8,897,576	15,867
Local Revenue	25,642,832	25,545,948	96,884
Transfer-in & Sources	734,067	734,067	-
Total Revenues & Sources a	330,606,940	329,848,025	758,915
Salaries,Supplies,Services & Equipment	272,153,587	272,118,636	34,951
Other Outgo (Pass Throughs / Debt Service)	6,398,953	6,298,953	100,000
Indirect Cost (Expense Offset)	(5,933,561)	(5,635,536)	(298,025)
Contributions & Transfers Out	50,952,006	49,921,749	1,030,257
Total Expenses & Uses b	323,570,985	322,703,802	867,183
Change in Fund Balance a-b=c	\$ 7,035,955	\$ 7,144,223	\$ (108,268)
Beginning Fund Balance	d 14,037,840	14,037,840	-
Ending Fund Balance c+d=e	\$ 21,073,795	\$ 21,182,063	\$ (108,268)
Note - See the assumptions for explanation of differences			

Revenues: Unrestricted revenues are estimated to increase by **\$0.76 million**. Local Control Funding Formula (LCFF) revenue is expected to increase by **\$0.65 million**. This is due to an increase in enrollment of 88 students. Local revenues also increased by **\$0.10 million** as donations received since January have been included in the budget.

Expenditures: Expenses and Uses are expected to increase by approximately \$0.9 M primarily due to an increase of \$1.0 M in the contribution to Programs for Exceptional Children (PEC) in non-public school/non-public agency expenses.

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

Unrestricted General Fund	2014-15 THIRD INTERIM	2014-15 SECOND INTERIM	Diff
Ending Fund Balance	\$ 21,073,795	\$ 21,182,063	\$ (108,268)
Components of the Ending Fund Balance:			
Reserve for Economic Uncertainty	\$ 8,916,332	\$ 9,054,924	(138,592)
Designated for the Following:			
Audit & Audit Findings (ONE-TIME)	4,812,205	4,781,881	30,324
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	\$ 21,073,795	\$ 21,182,063	\$ (108,268)
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 ensured a positive cash balance through April, when the temporary loan was repaid. The District projects positive cash balances through the end of the fiscal year, with an ending cash balance of **\$8.8 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		\$ 295,316,598	\$ 319,370,618	\$ 333,215,017
Other Revenue		34,556,274	38,602,874	32,233,364
Transfer-In, Sources & Contrib		(49,492,939)	(55,218,908)	(56,331,947)
Total Revenues & Sources	a	280,379,933	302,754,585	309,116,434
Salaries,Supplies,Services & Equipment		272,153,587	286,326,108	289,186,350
Other outgo (Pass Throughs / Debt Service)		6,298,069	6,176,162	6,176,162
Indirect Cost (Expense Offset)		(5,832,677)	(10,291,077)	(10,207,330)
Transfers Out		725,000	725,000	725,000
Total Expenses & Uses	b	273,343,979	282,936,193	285,880,183
Change in Fund Balance	a-b=c	7,035,954	19,818,392	23,236,251
Beginning Fund Balance	d	14,037,840	21,073,794	40,892,186
Ending Fund Balance	c+d=e	\$ 21,073,794	\$ 40,892,186	\$ 64,128,438

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 **\$9.3 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 **\$13.3 million** in 2015-16 and **\$10.7 million** in 2016-17 are also assumed.



Restricted General Fund		2014-15	2015-16	2016-17
Restricted LCFF Revenues		\$ 1,922,840	\$ 1,922,840	\$ 1,922,840
Other Revenue		110,402,994	119,702,994	116,602,161
Transfer-In, Sources & Contrib		50,227,006	55,952,975	57,066,014
Total Revenues & Sources	a	162,552,840	177,578,809	175,591,015
Salaries,Supplies,Services & Equipment		167,477,859	173,906,409	170,551,657
Other outgo (Pass Throughs / Debt Service)		800,000	800,000	800,000
Indirect Cost (Expense Offset)		4,194,748	4,357,517	4,273,769
Transfers Out		-	-	-
Total Expenses & Uses	b	172,472,606	179,063,925	175,625,426
Change in Fund Balance	a-b=c	(9,919,766)	(1,485,117)	(34,411)
Beginning Fund Balance	d	11,495,360	1,575,594	90,477
Ending Fund Balance	c+d=e	\$ 1,575,594	\$ 90,477	\$ 56,067