



MEMORANDUM

DATE: December 10, 2014

TO: Board of Trustees

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

RE: 2014-15 First Interim Report - Briefing for Board

The purpose of this memo is to provide the background and summary of the District’s 2014-15 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, and if either of the reports are “qualified”, a third interim report. The First Interim Report provides the District’s financial picture as of October 31, 2014. After budget adoption in June, the District adjusts its budget periodically to incorporate current information. The Revised Budget, presented to the Board on August 1, 2014, is latest version of the 2014-15 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 First Interim to the Revised Budget.

Unrestricted General Fund		2014-15 FIRST INTERIM	2014-15 REVISED TO STATE BGT	Diff
Local Control Funding Formula (LCFF) Revenues		\$ 295,068,835	\$ 292,468,200	\$ 2,600,635
Other State & Federal Revenue		8,846,886	9,075,477	(228,591)
Local Revenue		25,644,682	26,207,225	(562,543)
Transfer-In & Sources		734,067	734,067	-
Total Revenues & Sources	a	330,294,470	328,484,969	1,809,501
Salaries,Supplies,Services & Equipment		271,981,095	268,691,392	3,289,703
Other Outgo (Pass Throughs / Debt Service)		6,177,046	8,351,091	(2,174,045)
Indirect Cost (Expense Offset)		(4,800,940)	(3,779,733)	(1,021,207)
Contributions & Transfers Out		49,521,749	46,544,564	2,977,185
Total Expenses & Uses	b	322,878,951	319,807,314	3,071,637
Change in Fund Balance	a-b=c	\$ 7,415,520	\$ 8,677,655	\$ (1,262,135)
Beginning Fund Balance	d	14,037,840	14,095,544	(57,704)
Ending Fund Balance	c+d=e	\$ 21,453,360	\$ 22,773,199	\$ (1,319,839)



Revenues: Unrestricted revenues are estimated to increase by \$1.8 million. Local Control Funding Formula (LCFF) revenue is expected to increase by \$2.6 million due to the expected increase in average daily attendance (ADA) by 330, and the increase in the LCFF factor (unduplicated count of students who are low income, English language learners, or foster youth) from 77.59% to 78.95%. The reimbursement for prior year mandated costs has been confirmed at \$2.35 million, a one-time revenue. Other State and local revenues are reduced by approximately \$1 million based on prior year actuals, reduced facility use agreements with certain charters, and other adjustments. All of the charters in Oakland are now directly funded by the State, so the \$2.2 million in pass through revenues (and associated expenditures) have been removed.

Expenditures: Unrestricted expenditures are estimated to increase by approximately \$3.1 million. The largest increase is the \$2.2 million in additional resources provided to schools to accommodate increased enrollment. Investments of \$1.1 million are also made in District priorities such as the Educator Effectiveness Program. The estimated contribution is expected to increase by \$3 million based on an increased contribution to Programs for Exceptional Children (PEC) of \$2.7 million and an additional contribution of \$300,000 to Buildings & Grounds for the increase in requests for their services. The charge for indirect costs, which is an offset to expenditures, is expected to increase by \$1 million in line with increases in restricted budgets. And, as noted above, the pass-through of \$2.2 million to charter schools has been eliminated.

Fund Balance: The net result is a slightly lower fund balance than the revised budget.

Unrestricted General Fund	2014-15 FIRST INTERIM	2014-15 REVISED TO STATE BGT	Diff
Ending Fund Balance	\$ 21,453,360	\$ 22,773,199	\$ (1,319,839)
Components of the Ending Fund Balance:			
Reserve for Economic Uncertainty	\$ 8,893,067	\$ 8,281,172	611,896
Designated for the Following:			
Audit & Audit Findings (ONE-TIME)	5,215,034	4,769,115	445,920
Set Aside for Ongoing Items (ON-GOING)	6,300,000	8,677,655	(2,377,655)
Early Retirement Pgm Approved 2011-12 (ONE-TIME)	895,258	895,258	-
Revolving Cash (ONE-TIME)	150,000	150,000	-
Total Ending Fund Balance	\$ 21,453,360	\$ 22,773,199	\$ (1,319,839)
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 \$12.8 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 20.68% of gap funding in 2015-16 and 25.48% gap funding in 2016-17. The other key assumptions are cost of living increases, no salary increases, step and column increases, and removing one-time items.

Unrestricted General Fund		2014-15	2015-16	2016-17
Unrestricted LCFF Revenues		\$ 295,068,836	\$ 310,801,777	\$ 328,120,258
Other Revenue		34,491,568	32,138,168	32,166,218
Transfer-In, Sources & Contrib		(48,462,682)	(54,555,205)	(55,663,308)
Total Revenues & Sources	a	281,097,722	288,384,739	304,623,168
Salaries,Supplies,Services & Equipment		271,981,095	280,107,149	288,995,136
Other outgo (Pass Throughs / Debt Service)		6,177,046	6,177,046	6,177,046
Indirect Cost (Expense Offset)		(4,800,940)	(4,995,845)	(4,924,899)
Transfers Out		325,000	-	-
Total Expenses & Uses	b	273,682,201	281,288,350	290,247,282
Change in Fund Balance	a-b=c	7,415,520	7,096,390	14,375,886
Beginning Fund Balance	d	14,037,840	21,453,360	28,549,750
Ending Fund Balance	c+d=e	\$ 21,453,360	\$ 28,549,750	\$ 42,925,637

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 \$12.7 million in Measure N parcel tax revenues each year. Reductions in overall restricted costs of \$800,000 in 2015-16 and \$10 million in 2016-17 are also assumed.

Restricted General Fund		2014-15	2015-16	2016-17
Unrestricted LCFF Revenues		\$ 1,754,113	\$ 1,754,113	\$ 1,754,113
Other Revenue		107,561,886	120,273,181	116,939,848
Transfer-In, Sources & Contrib		49,196,749	55,289,272	56,397,375
Total Revenues & Sources	a	158,512,748	177,316,566	175,091,336
Salaries,Supplies,Services & Equipment		164,492,051	174,815,034	171,039,024
Other outgo (Pass Throughs / Debt Service)		800,000	800,000	800,000
Indirect Cost (Expense Offset)		3,096,765	3,291,671	3,220,725
Transfers Out		-	-	-
Total Expenses & Uses	b	168,388,816	178,906,704	175,059,749
Change in Fund Balance	a-b=c	(9,876,068)	(1,590,138)	31,587
Beginning Fund Balance	d	11,495,360	1,619,292	29,154
Ending Fund Balance	c+d=e	\$ 1,619,292	\$ 29,154	\$ 60,742

Qualification: Although our current financial condition is stable, the lack of current audits creates uncertainty. Staff recommendation is to submit a “Qualified” First 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.