FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Adelanto Elementary School District

Fiscal Review

June 1, 2009

Joel D. Montero
Chief Executive Officer

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

June 1, 2009

Mr. Chris van Zee, Superintendent
Adelanto Elementary School District
11824 Air Expressway
Adelanto, CA 92301

Dear Superintendent van Zee,

In February 2009, the Adelanto Elementary School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to provide a review of the district's business division. Specifically, the agreement states that FCMAT will perform the following:

1. The district requests that the team provide an in-depth review of the Business Division's processes and procedures and make recommendations, if needed, to improve the efficiency and productivity of the department. The district's assistant superintendent of business services recently retired and the position is currently vacant. Due to the status and uncertainty of the current state budget and the absence of this leadership position, the district is requesting that the team conduct this component of the study on an urgency basis. The following functions of the Business Department will be reviewed:

    - Budget development
    - Internal controls
    - Payroll
    - Accounts payable
    - Cash management
    - Categorical programs
    - Financial reporting
    - Other funds
    - Year-end closing

    In addition, the team will identify, analyze and provide recommendations for changes, if necessary, for leadership positions reporting to Business Services including:

    - Director of transportation
    - Director and manager of child nutrition

- Director of facilities
- Purchasing manager
- Maintenance manager

FCMAT's report will include suggestions on duties that could be combined for effectiveness and efficiency and discuss whether workloads are distributed equitably among the existing staff.

2. An additional request under the scope of work shall be conducted as a separate component and can be added or deleted by the district based upon the total estimated cost of the study components. As referenced above in item one, the governor's proposed budget identifies a $41.6 billion gap between projected revenues and expenditure requirements by the end of the 2009-10 fiscal year for the state of California. Based upon the uncertainty of the state budget status, the district is requesting that the team review the district's proposed budget assumptions and reductions in reference to the current proposals in the governor's budget and the fiscal impact to the general fund budget.

   The team will utilize FCMAT's Budget Explorer multiyear forecasting software to analyze the proposed assumptions and reductions. The district's current budget including the latest reductions or most recent interim financial reports will be utilized as a baseline to analyze the district's current proposals, and the fiscal impact for the current and two subsequent fiscal years.

The attached final report contains the study team's findings and recommendations.

We appreciate the opportunity to serve you and we extend our thanks to all the staff of the Adelanto Elementary School District.

Sincerely,

Joel D. Montero
Chief Executive Officer

Table of Contents

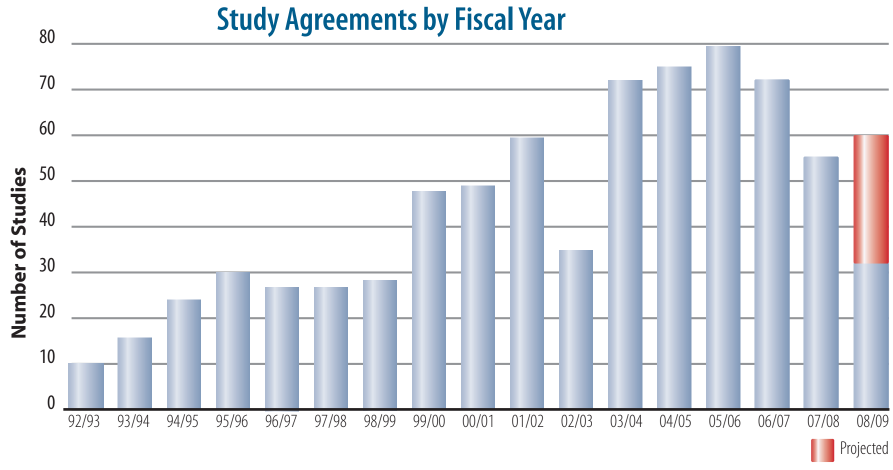
Foreword - FCMAT Background

The Fiscal Crisis and Management Assistance Team (FCMAT) was created by legislation in accordance with Assembly Bill 1200 in 1992 as a service to assist local educational agencies (LEAs) in complying with fiscal accountability standards.

AB 1200 was established from a need to ensure that LEAs throughout California were adequately prepared to meet and sustain their financial obligations. AB 1200 is also a statewide plan for county offices of education and school districts to work together on a local level to improve fiscal procedures and accountability standards. The legislation expanded the role of the county office in monitoring school districts under certain fiscal constraints to ensure these districts could meet their financial commitments on a multiyear basis. AB 2756 provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans. These include comprehensive assessments in five major operational areas and periodic reports that identify the district's progress on the improvement plans.

In January 2006, SB 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform nearly 750 reviews for local educational agencies, including school districts, county offices of education, charter schools and community colleges. Services range from fiscal crisis intervention to management review and assistance. FCMAT also provides professional development training. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The agency is guided under the leadership of Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.



Total Number of Studies.................... 743
Total Number of Districts in CA.......... 982

- Management Assistance............................. 705 (94.886%)
- Fiscal Crisis/Emergency 38 (5.114%)

Note: Some districts had multiple studies.
Districts (7) that have received emergency loans from the state.
(Rev. 1/22/09)

Introduction

Background

Located in San Bernardino County, the Adelanto Elementary School District has a five-member elected governing board. The district serves approximately 8,250 students in kindergarten through eighth grade at nine elementary, one K-8 school and two middle schools. The district's enrollment increased from 1993-94 through 2007-08; however, based on the October 2008 CBEDS count, the district's enrollment has declined for the first time in fifteen years.

In February 2009, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request for management assistance from the district. The study agreement specifies that FCMAT will complete the following:

1. The district requests that the team provide an in depth review of the Business Division's processes and procedures and make recommendations, if needed, to improve the efficiency and productivity of the department. The district's Assistant Superintendent of Business Services recently retired and the position is currently vacant. Due to the status and uncertainty of the current state budget and the absence of this leadership position, the district is requesting that the team conduct this component of the study on an urgency basis. The following functions of the Business Department will be reviewed:

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Study Guidelines

FCMAT visited the district on March 11-13, 2009 to conduct interviews, collect data and review documentation. This report is the result of those activities and is divided into the following sections:

I. Executive Summary

II. Business Services Processes and Procedures

III. Business Services Staffing

IV. Multiyear Projections

V. Appendices

Study Team

The FCMAT study team was composed of the following members:

Anthony Bridges
FCMAT Deputy Executive Officer
Bakersfield, California

Diane Branham
FCMAT Fiscal Intervention Specialist
Bakersfield, California

Julie Auvil, CPA*
Chief Administrator of Business Services
Tehachapi Unified School District
Tehachapi, California

Margaret Rosales
FCMAT Consultant
Kingsburg, California

John Lotze
FCMAT Public Information Specialist
Bakersfield, California

*As a member of this study team, this consultant was not representing her employer but was working solely as an independent contractor for FCMAT.

Executive Summary

Multiyear Financial Projections

The district has a governing board of five members, three of whom were newly elected in November 2008. The financial crisis at the state and national levels make it an especially challenging time financially for school districts statewide. The 2008-09 and 2009-10 state budget acts included significant cuts to school district budgets; this situation requires the governing board to make extremely difficult decisions to balance the budget and remain fiscally solvent.

FCMAT's multiyear financial projection (MYFP) indicates that the district **will not** meet its recommended reserve requirement in the two subsequent fiscal years (2009-10 and 2010-11) without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending. The district's enrollment is projected to increase minimally in the two subsequent fiscal years, but not sufficiently to overcome the projected budget shortfall. The district has not made the appropriate budget adjustments or reacted in a timely manner based on declining revenues projected from the state.

To evaluate the multiyear projection, the district should focus on its ability to meet its reserve requirement of 3% and demonstrate a positive unappropriated fund balance. FCMAT has analyzed all funding sources and expenditure categories by resource. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines. The unrestricted general fund summary below indicates that the district will have a projected negative unrestricted fund balance for fiscal years 2009-10 and 2010-11 without substantial reductions or revenue enhancements.

To protect the district's financial solvency and eliminate the projected shortfalls of $3.7 million in fiscal year 2009-10 and $9.3 million in 2010-11, the district should begin preparing immediately for a period of fiscal instability. The district should adopt a budget and multiyear projections that eliminate deficit spending and meet reserve requirements; develop appropriate staffing formulas for all positions; review estimated enrollment and average daily attendance (ADA) calculations for accuracy; review its redevelopment agency (RDA) agreements to determine if the funds may be used for the routine restricted maintenance and/or deferrred maintenance contributions; review contributions to restricted programs; immediately review and analyze the impacts of home foreclosures on enrollment; ensure that its multiyear financial projections are accurate and up-to-date; and take other measures recommended in the multiyear financial projection section of this report.

To balance the budget, the district will need to make difficult choices about which expenditures and programs will continue to be funded and which will be scaled back, reconfigured or eliminated. In the short term, the district needs to take immediate action to address the projected budget shortfall for the two subsequent fiscal years of the MYFP analysis.

Multi-Year Financial Projection
Unrestricted General Fund-Summary

Name	Object Code	Historical Year 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Revenues					
Total Revenues		$51,942,898.14	$45,788,795.07	$44,242,637.78	$44,544,553.37
Expenditures					
Total Expenditures		$43,864,941.13	$43,304,474.00	$43,938,012.42	$45,024,254.39
Excess (Deficiency) of Revenues Over Expenditures		$8,077,957.01	$2,484,321.07	$304,625.36	($479,701.02)
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$3,513.17	$2,076,000.00	$2,076,000.00	$2,076,000.00
Interfund Transfers Out	7600 - 7629	$2,032,279.48	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($5,199,699.40)	($6,371,293.67)	($7,094,195.15)	($7,150,701.88)
Total Other Financing Sources\Uses		($7,228,465.71)	($4,295,293.67)	($5,018,195.15)	($5,074,701.88)
Net Increase (Decrease) in Fund Balance		$849,491.30	($1,810,972.60)	($4,713,569.79)	($5,554,402.90)
Fund Balance					
Beginning Fund Balance	9791	$3,901,250.09	$4,750,741.39	$2,939,768.79	($1,773,801.00)
Adjusted Beginning Fund Balance		$3,901,250.09	$4,750,741.39	$2,939,768.79	($1,773,801.00)
Ending Fund Balance		$4,750,741.39	$2,939,768.79	($1,773,801.00)	($7,328,203.90)
Components of Ending Fund Balance					
Revolving Cash	9711	$0.00	$60,000.00	$60,000.00	$60,000.00
Stores	9712	$0.00	$96,242.50	$96,242.50	$96,242.50
Economic Uncertainties Percentage		3%	3%	3%	3%
Designated for Economic Uncertainties	9770	$1,903,794.99	$1,850,769.56	$1,834,365.53	$1,876,004.91
Undesignated/ Unappropriated	9790	$2,846,946.40	$932,756.73	$0.00	$0.00
Shortfall	9790	$0.00	$0.00	($3,764,409.03)	($9,360,451.31)

Assembly Bill 1200 was enacted in 1991 and provided additional authority and responsibility to county offices. Assembly Bill 2756 was passed in June 2004 and made substantial changes to the financial accountability and oversight of the fiscal condition of school districts and county offices of education. AB 2756 strengthened the role of the Superintendent of Public Instruction (SPI), the county office of education and the Fiscal

Crisis and Management Assistance Team (FCMAT) and their ability to intervene during fiscal crises.

If a district is not able to meet its financial obligations for the current and two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools must notify the governing board of the district and the SPI. The county office must follow Education Code section 42127.6 when assisting a school district in this situation. Assistance may include assigning a fiscal expert to advise the district on financial issues, conducting a study of the district's financial and budgetary conditions, and requiring the district to submit a proposal for addressing its fiscal condition. If these steps are not successful, the district may require outside financial assistance to eliminate deficit spending and restore the required reserves, and may face the loss of local governance and decision-making authority.

Business Services Staffing

The district should be staffed according to standards used in other school agencies of like size and type, and in accord with generally accepted theories of organizational structure. These include span of control, chain of command, and line and staff authority.

The secretary to the assistant superintendent and two facilities accountants have left the district's business office during the past year, and these positions have not been filled. In addition, the assistant superintendent of business services retired in the fall of 2008; the district has advertised but not yet filled this position.

In the absence of an assistant superintendent of business services, the superintendent is acting in this role with the help of the director of fiscal services and the director of facilities. The lack of a permanent, full-time assistant superintendent of business services has required the director of fiscal services to spend more time acting as the division's representative at management, cabinet and board meetings, reducing the amount of time available to complete the director duties. The void in this position also reduces representation of the district's operational functions at the cabinet and site management levels; may compromise internal controls; affects the district's ability to stay current with state, federal and local financial information; and creates a void in oversight, support and evaluation of managers in the business services division.

The district needs to fill the assistant superintendent of business services position with a permanent, full-time employee, and maintain the position's administrative level.

The district should consider having the purchasing agent report directly to the assistant superintendent rather than to the director of fiscal services. As indicated on the district's current organizational chart, the directors of fiscal services, facilities, transportation and child nutrition and the maintenance manager should continue to report to the assistant superintendent of business services.

Based on a review of comparison school districts and interviews with staff, the number of business office support staff who report to the director of fiscal services is sufficient. The district should consider moving some of the director of fiscal services' routine duties to the support staff.

When funding allows, the district should consider filling the custodial supervisor and bus driver trainer positions, which have been approved but not filled. This would provide additional oversight and consistency in custodial duties, allow the district to train more bus drivers, and reduce the need for substitute drivers and contracting out for field trip transportation.

Business Services Processes and Procedures

In the absence of an assistant superintendent of business services, the business department staff members have continued to perform their routine duties and have made a concerted effort to fill the void created by not having a person in this leadership role. A review of any district's processes and procedures will indicate areas where improvements can be made.

Internal controls are the foundation of sound financial management and allow districts to fulfill their educational mission while helping to ensure efficient operations, reliable financial information and legal compliance. Internal controls also help protect the district from material weaknesses, serious errors and fraud.

A sound internal control system will ensure that more than one employee is trained in each area of responsibility. Several of the district's employees have prior experience and knowledge of other job duties and areas within the fiscal services department. However, more cross-training should take place in some of the department's key functions such as purchasing, ASB accounting, accounts receivable and accounts payable. The lack of cross-training could place the district at risk. The district should also provide time for each business office staff member to develop a procedures manual for their position and require that the manuals be updated as changes occur.

The district should create and implement a district-specific budget development calendar that lists tasks, their time lines and the position responsible for them. Site and department managers should also be included in the process of developing their respective budgets.

Employee salary and benefit costs are the largest part of a school district's budget. To ensure that these costs are accurately projected and to maintain sound internal controls, the responsibilities for position control should be separated between the business and human resources departments. The position control system should be updated continually and should indicate the actual salary and benefit costs of each position. The system should also be used to upload salary and benefit information at each reporting period.

Payroll and accounts payable warrants are processed by the San Bernardino County Superintendent of Schools and returned to the district for distribution. The district's current procedures present a control weakness by allowing the payroll and accounts payable staff members to have custody of the warrants after they are processed by the county office. Proper internal controls include separation of duties, preventing the same person from initiating and distributing warrants. The district should review its warrant distribution process and make adjustments as needed.

Payments to employees which are subject to Form W-2 reporting can come in the form of cash or non-cash, such as fringe benefits. The district should work with its independent auditors and the county office to ensure that it is reporting fringe benefits on the employees' W-2 in compliance with IRS regulations.

One employee is responsible for invoicing, collecting cash and checks, and preparing bank deposits. Additional procedures need to be implemented that segregate duties for invoicing and the receipt and recording cash. The district should also use a locking, fireproof cabinet to safeguard cash and checks.

A more formal process should be implemented for handling small amounts of cash. Department and site personnel should also ensure that they receive and reconcile receipts from the district office to confirm all funds sent to the district office have been deposited.

Credit card use must be monitored closely. The district should develop a more comprehensive user agreement and require that each board member and employee sign the agreement prior to receipt of the credit card. Board policy states that credit cards should not be used for personal expenses. The district should ensure that this policy is followed.

The district should consider implementing additional cost saving measures for conference attendance and work with its independent auditors to ensure that procedures for per diem meal reimbursements comply with IRS regulations. The district's per diem rate for meals is higher than some of the amounts the IRS lists for California cities.

The district's contract for professional services and its bid documents should be reviewed by the district's legal counsel and insurance carriers and updated to ensure that they comply with current law, protect the district's interests and are consistent.

During the current budget crisis, cash management is a chief concern for school districts. The state has increased funding deferrals to school districts to balance its own cash shortfall. It is vital that every school district monitor its level of cash frequently and project future cash flow to determine whether there will be sufficient cash to meet its financial needs. The district should ensure that its cash flow projections include all the cash deferrals included in the state budget acts, complete cash flow projections for the current and next fiscal year, and update the projections at least monthly with the latest budget and cash flow information.

The district does not use charts and graphs of budget trends in its budget presentations. Recognizing budget trends is essential to maintaining a school district's financial health. The district's budget presentations should include charts and graphs that depict trends over time in key areas.

Findings and Recommendations

Business Services Processes and Procedures

Internal Controls

Internal controls are the foundation of sound financial management and allow districts to fulfill their educational mission while helping to ensure efficient operations, reliable financial information and legal compliance. Internal controls also help protect the district from material weaknesses, serious errors and fraud.

All educational agencies should establish internal control procedures to do the following:

1. Prevent internal controls from being overridden by management.
2. Ensure ongoing state and federal compliance.
3. Provide assurance to management that the internal control system is sound.
4. Help identify and correct inefficient processes.
5. Ensure that employees are aware of the proper internal control expectations.

Districts should apply the following basic concepts and procedures to their transactions and reporting processes to build a sound internal control structure:

System of checks and balances
Formal procedures should be implemented to initiate, approve, execute, record and reconcile transactions. The procedures should identify the employee responsible for each step and the time period for completion. Key areas of checks and balances include payroll, purchasing, accounts payable and cash receipts.

Segregation of duties
Adequate internal accounting procedures should be implemented and changes made as needed to segregate job duties and properly protect the district's assets. No single employee should handle a transaction from initiation to reconciliation, and no single employee should have custody of an asset (such as cash or inventory) and maintain the records of related transactions.

Staff cross-training
More than one person should be able to perform each job. All staff should be required to use accrued vacation, during which time another staff member performs their duties. Inadequate cross-training is often a problem even in the largest central business offices.

Use of prenumbered documents
An outside printer should print checks, sales/cash receipts, purchase orders, receiving reports and tickets. Physical controls should be maintained over the check stock, cash receipt books and tickets. It is not sufficient to simply use

pre-numbered documents. A log of the documents and numbers should be maintained and reconciliation performed periodically.

Asset security
Cash should be deposited daily, computer equipment should be secured, and access to supplies/stores, food stock, tools and gasoline should be restricted to designated employees.

Timely reconciliations
Bank statements and account balances should be reconciled monthly by a person independent from the original transaction and recording process. For example, a central office accountant should reconcile ASB accounts every month, and the district office employee who reconciles the revolving checking account should not also maintain the check stock.

Comprehensive annual budget
The annual budget should include revenues and expenditures by school site, department and resource in sufficient detail to identify variances and determine whether financial goals were achieved. Material variances in revenues and expenditures should be investigated promptly and thoroughly. This includes ensuring that potential revenues and expenditures for ASB funds are identified at the start of each year.

Inventory records
Inventory records should be maintained that identify both the items and quantities purchased and the items and quantities sold or designated as surplus. Physical inventory should be taken periodically and reconciled with inventory records. Typical inventoried items include computer equipment, warehouse supplies, food service commodities, maintenance and transportation parts, and student store goods.

Although several of the district's employees have prior experience and knowledge of other job duties and areas within the fiscal services department, little or no cross-training is taking place for some of the department's key functions. This includes some of the tasks associated with purchasing, ASB accounting, accounts receivable and payroll, which are discussed in detail later in this report. These tasks are essential to the district's operations, and the lack of cross-training could place the district at risk.

Desk manuals of procedures are important to ensure proper internal controls and provide a better understanding of the responsibilities of each position. The fiscal services department lacks procedural manuals that include step-by-step procedures for most job duties.

Recommendations

The district should:

1. Ensure that effective internal control processes are in place and that employees are cross-trained in all key areas of responsibility.

2. Develop individual desk manuals for each position and ensure that each employee includes the step-by-step procedure for all assigned duties in their desk manual.

Budgeting and Accounting

The budgeting and accounting section of the fiscal services department consists of the director of fiscal services and the accountant. In addition, the director of facilities provides assistance in this area while district construction projects are on hold pending release of funding from the state. The major duties of this section include staff supervision, budget development, position control review, state reporting, payroll supervision, purchase order review and approval, budget transfers and journal entries.

Budget Development

The district adopts its annual budget within the statutory time lines established by California Education Code section 42127, which requires that on or before July 1, the governing board shall hold a public hearing on the budget to be adopted for the subsequent fiscal year. No later than five days after that adoption, or by July 1, whichever occurs first, the governing board shall file that budget with the county superintendent of schools. The budget should reflect the district's goals and objectives, which are developed annually and approved by the board. School district budgets are not static; the revenues, expenses and estimated ending balance of each fund can change because of items such as the state-adopted budget, changes in personnel, and negotiated settlements of employee bargaining agreements.

Budget development is a detailed process that begins as early as November or December of the prior year in some districts. During budget development, position control is revised and updated, revenues are estimated, and the district prioritizes its goals and ensures that expenditures reflect those goals. Effective budget development also includes development of a budget calendar so that each staff member is aware of deadlines and meets them. FCMAT's interviews with various district personnel revealed that the district does not have a budget development calendar. However, the San Bernardino County Superintendent of Schools (county office) provides a calendar to help the district meet the county office's deadlines. The district needs to review its budget development tasks and time lines and construct a district-specific annual budget development calendar.

The district's director of fiscal services has primary responsibility for budget development, including developing site and department budgets. Although having a single staff member create the budget may speed budget development, site managers have expressed a desire to have some input and control in the process. This would help create a sense of shared ownership and responsibility, a deeper understanding of budgetary issues, and possibly fewer budget transfers during the year. Implementing such a process would require a significant effort at the beginning. The fiscal services department would need to prepare budget development materials, provide a budget workshop and be more available to provide assistance and answer questions as work progresses. However, the end result would be an improved budget development process.

Sites have online access to the financial system and can review account line budgets. If a budget transfer is needed, site and department personnel send an e-mail to the director of fiscal services requesting that a transfer be completed. Implementing an electronic budget transfer form would help provide uniformity and better internal controls.

As detailed in the Multiyear Financial Projection section of this report, the district's average daily attendance (ADA) projections are higher than those of the professional demographer hired by the district. As a result, the district will need to review and adjust these projections as needed when developing its budget.

The district receives approximately 13% of its revenues from state categorical programs. With the February 2009 passage of SBX3 4, all state categorical programs were sorted into one of three tiers:

- Tier I: No cuts to funding and no flexibility options
- Tier II: Subject to cuts but no flexibility options
- Tier III: Subject to cuts with flexibility options

Resources subject to cuts will receive a 15.38% funding reduction for the 2008-09 school year and an additional 4.46% funding reduction in 2009-10. Programs with a flexibility option are subject to two parts within that option. Part one allows for one-time transfers of the 2007-08 ending fund balance to the unrestricted portion of the general fund, with some specific programs excepted. The second part of the flexibility option allows the current year revenue to be used for any educational purpose for fiscal years 2008-09 through 2012-13.

The district used a spreadsheet to categorize resources according to the tiered system and calculate the revenue streams from the programs for fiscal years 2008-09 and 2009-10. FCMAT noted the following errors in the spreadsheet:

- The tobacco use prevention education (TUPE) (resource 6660) is listed as a Tier III program but should be categorized as Tier I.
- The instructional materials fund (resource 7156) is listed as Tier III with flexibility but should correctly be categorized as Tier III without the option to sweep the 2007-08 ending fund balance.

The erroneous categorization of TUPE would cause revenues to be underreported by $3,434 in 2008-09 and by $996 in 2009-10. While these errors are not material to the district's total budget, it is important that the district correctly estimate its categorical revenues and maintain the ability to determine which programs will allow their balances to be transferred to the unrestricted portion of the general fund to help mitigate reductions in revenue limit funding.

Employee salary and benefit costs represent the largest part of a school district's budget. Statewide, employee salaries and benefits average between 85% and 92% of the unrestricted general fund budget for school districts. The district's second interim report reveals that 90.39% of its 2008-09 unrestricted expenditure budget and 80.1% of its total general fund budget are projected to be used for employee compensation. The second interim report also indicates that the district is projected to deficit spend approximately $6.7 million in 2008-09: $4.4 million in unrestricted funds and $2.3 million restricted funds.

FCMAT analyzed the district's certificated staffing as it relates to the number of students and found that the student-to-teacher ratio ranged between 21.07:1 and 28.27:1, with a districtwide average of 23.74:1. Article 19.2 of the collective bargaining agreement with the Adelanto District Teachers Association states that, "When possible, the maximum class size shall be 30 in non-class size reduction classes." The contract also places other limits on class sizes, depending on the classroom's student population. While small class sizes are admirable, they hinder the district's ability to maintain the required reserve for economic uncertainties in the general fund. The district needs to conduct an in-depth review of its staffing at each grade level. The district also needs to develop staffing formulas for all positions and ensure that ratios are within contract guidelines, meet students' needs and agree with approved goals and objectives, including the goal of fiscal solvency.

Position Control

Because employee salary and benefit costs average approximately 90% of the unrestricted general fund budget in elementary school districts throughout California, accurately projecting these costs is a crucial element in budgeting for expenditures.

A reliable position control system establishes positions by site or department and helps prevent over- or under-budgeting by including all district-approved positions. In addition, a reliable position control system prevents a district from omitting from the budget routine annual expenses such as substitutes, extra duty pay, stipends, vacation payouts and estimated column changes.

To be effective, a single position control system needs to be used and integrated with other financial modules such as budget and payroll. In addition, position control functions need to be separated to ensure proper internal controls. The controls should ensure that only board-authorized positions are entered into the system, that human resources hires only employees for authorized positions, and that the payroll department pays only employees hired for authorized positions. The proper separation of duties is a key factor in creating strong internal controls and a reliable position control system.

Sound internal controls should be in place for any position control system. The following table provides a suggested distribution of labor between the business and personnel departments to help provide the necessary internal control structure for position control.

Table 1: Suggested distribution of labor to ensure internal controls for position control

Task	Responsibility
Approve or authorize position	Governing board
Input approved position into position control, with estimated salary/budget. Each position is given a unique number.	Business department
Enter demographic data into the main demographic screen, including: Employee name Employee address Social Security number Credential Classification Salary schedule placement Annual review of employee assignments	Personnel department
Update employee benefits. Review and update employee work calendars.	Business or personnel department
Annually review and update salary schedules.	Business department
Account codes Budget development Budget projections Multiyear projections Salary projections	Business department

Rolling over position control data from the current fiscal year to the budget year provides a starting point for developing the district's budget and should be completed early in the budget development process. Position control files for the budget year should then be updated to eliminate positions, add new approved positions, make changes in statutory and health and welfare benefit rates, and make any other adjustments that will affect salaries and benefits for the budget year. A fully functioning position control system helps districts maintain accurate budget projections, employee demographic data and salary and benefit information. The system should be used to update the budget at each reporting period.

The human resources department is responsible for maintaining the district's position control system. The director of fiscal services is responsible for loading the Position Control 2000 application into the district's budgeting software (Budget Development 2000) and converting that data into the district's accounting software. The district uploads data from the position control system to the budget during initial budget development but does not do so for the other reporting periods.

Position Control 2000 lists all of the positions in the district, regardless of whether or not the position is filled. If a position is vacant and the district has decided not to fill it, position control still keeps the salary, statutory benefits and health and welfare benefits attached to the position. The district's position control report provided to FCMAT listed approximately 45 positions as vacant, with statutory benefits and health and welfare amounts attached to each. As a result, manual entries are needed to remove from the budget the amounts associated with the vacant positions. This is time-consuming and increases the chance of error. A more effective approach would be to revise the Position Control 2000 application to allow positions that are vacant for a portion of the year to show the salary and benefits for the remainder of the year, and link positions that are vacant for the entire year to a salary schedule that indicates a minimal amount, such as $1. This would eliminate the need for manual calculations and allow the district to retain positions within position control while providing more accurate budget information.

The district's position control system contains only contracted positions. Although it has the capability to do so, it does not include routine annual expenses for items such as substitutes, extra duty pay, stipends, vacation payouts and column changes. The annual cost of individual retiree health and welfare benefits, and individuals' participation in the supplemental early retirement program (SERP) are also not included in position control, but could be. This would reduce the need for separate spreadsheets and the likelihood of errors. The district needs to update and revise its position control system to include these items.

Because the district receives funding from the state's School Facility Grant Program, Education Code section 17070.75(b)(1) requires that it maintain a routine restricted maintenance account (RRMA) to provide ongoing and major maintenance of school buildings. Education Code section 17070.77 defines major maintenance as follows:

> …all actions necessary to keep roofing, siding, painting, floor and window coverings, fixtures, cabinets, heating and cooling systems, landscaping, fences, and other items designated by the governing board of the school district in good repair.

Major maintenance does not include keeping the facilities clean or maintenance of the grounds because these duties are classified as operational (see California School Accounting Manual, 2008 Edition, Procedure 325-30 through 325-31).

A portion of the district's custodial and grounds personnel positions are charged to resource 8150, routine restricted maintenance. The district needs to ensure that the portion of these positions coded to RRMA is in accordance the California School Accounting Manual (CSAM). The remainder of the employees' time should be coded to the unrestricted general fund, resource 0000.

Recommendations

The district should:

1. Review its budget development tasks and time lines and construct a district-specific annual budget development calendar.
2. Assign sites the task of creating their site budgets. Ensure that the fiscal services department develops and designs budget materials and a workshop to provide sites with the tools and knowledge needed to complete this task.
3. Develop and implement a budget transfer form and make it available electronically to site and department managers.
4. Review estimated enrollment and ADA calculations to ensure that they are as accurate and conservative as possible to avoid overstating revenues.
5. Review its categorical revenue estimates in conjunction with the tiered system provided by SBX3 4 to ensure that all revenues and flexibility options have been projected correctly.
6. Conduct an in-depth review of staffing at each grade level.
7. Separate position control duties between the human resources and business services departments to provide for proper internal controls.
8. Keep the position control system current at all times, and use the position control system to upload salary and benefit information for each reporting period.
9. Revise the Position Control 2000 software to indicate a nominal salary schedule for positions that are projected to be vacant for the entire year, and to indicate the actual remaining salary and benefits of positions that are vacant for a portion of the fiscal year.
10. Update and revise Position Control 2000 to include items such as substitutes, extra duty pay, stipends, vacation payouts, estimated column changes, retiree health and welfare benefits, and the cost of an individual retiree's participation in the supplemental early retirement program.
11. Review and correct as necessary the account coding for custodial and grounds positions to ensure that they it complies with the California School Accounting Manual.

Payroll

The payroll services section of the fiscal services department consists of two payroll technicians. These employees have been in the district several years and come to the department with a variety of work experience, including classified positions at sites and the district office and payroll experience at another school district. Payroll personnel process the following payrolls each month:

- Classified and certificated substitute and hourly payroll, paid on the ninth of the month.
- Contracted classified employee payroll, paid at the end of the month.
- Contracted certificated employee payroll, paid on the first of the month.

One technician processes the classified payroll and the other processes the certificated payroll and the health and welfare insurance payments.

The director of fiscal services is responsible for supervising the payroll section of the fiscal services department. Supervisory duties include responsibility for budgeting employee salary and benefit costs, analysis of bargaining unit contract negotiations, monthly review of each payroll batch, and preparation of all district payroll tax forms.

The payroll section is driven by internal and external deadlines for each pay cycle, including deadlines related to time sheet submission. Certificated and classified employees submit a substantial number of time sheets each month for substitute assignments, extra pay and overtime compensation. Payroll technicians review and process time sheets, then each time sheet is reviewed and signed by the director of fiscal services. To meet the county office's processing deadlines, the director routinely takes the time sheets home for review. It was also reported that late submission of time sheets and lack of prior authorization for work performed are common. In addition, some time sheets are submitted after the fiscal year has ended.

The district's payroll warrants are processed by the county office. After warrants have been issued by the county office, they are returned to the district for distribution. The payroll technicians match the checks received to the payroll roster and prepare them for delivery. The district's current system allows the payroll technicians to have custody of the warrants once they have been issued by the by the county office. Proper internal controls and separation of duties would prevent the same person from initiating and distributing payroll warrants.

The payroll technicians receive telephone inquiries to confirm employment. Because of the risk of identity theft when providing employment verification over the telephone, it would be prudent to check with employees before providing verification to ensure that the confirmation was authorized by the employee.

Payments to employees which are subject to reporting on Form W-2 can come in the form of cash as well as non-cash payments. Cash payments are often found within individual employment contracts or collective bargaining agreements. Examples include annual salary, stipends, and professional growth payments. They may also include items such as uniform allowances and monthly payments in lieu of district-paid insurance coverage. Many times, however, non-cash payments are provided. These may be local practice and may not be in the employment agreement. An example that has become the focus of recent Internal Revenue Service (IRS) audits is an employer providing a car for an employee's use, particularly if the employee uses the vehicle to commute to and from work. The IRS defines this type of non-cash payment as a fringe benefit, and IRS publication 15-B states the following:

> A fringe benefit is a form of pay for the performance of services. For example, you provide an employee with a fringe benefit when you allow the employee to use a business vehicle to commute to and from work.

The publication further states:

> Any fringe benefit you provide is taxable and must be included in the recipient's pay unless the law specifically excludes it.

According to Publication 15-B, only the portion of an employee's use of a business vehicle that is related to business use may be excluded from the W-2; miles driven for an employee's personal use are to be included in Box 1 of the employee's W-2. During interviews, district employees indicated that the district provides both cash and fringe benefits to its employees and does not include the fringe benefits on the recipients' W-2s.

Recommendations

The district should:

1. Provide sites and departments with additional in-service training regarding payroll procedures and deadlines to ensure that employees meet established payroll deadlines, avoid late submissions of time sheets and cease authorization of overtime after the fact.
2. Shift the responsibility for reviewing and signing time sheets from the director of fiscal services to another member of the fiscal services department to avoid having time sheets leave the district office.
3. Ensure that the staff member who processes a particular payroll warrant does not have access to the warrant when it is received from the county office of education.
4. Require staff to check with employees before providing confirmation of their employment over the telephone.
5. Work with its independent auditors and the county office to review all employment contracts and the district's local practices to identify items that should be reported on Form W-2.

Accounts Payable

The accounts payable section of the fiscal services department has an accounting clerk and an accounts payable (A/P) technician. The accounting clerk is responsible for organizing and date-stamping all invoices, assembling payment documentation (matching invoices to packing slips and purchase orders) for further processing by the A/P technician, mailing warrants, and performing student attendance reporting. The A/P technician's responsibilities include processing all payments made by the district (excluding cafeteria) through both the county office of education's financial software and the revolving account.

The county office processes and issues the district's warrants. After they are issued, the warrants are returned to the district for further processing, mailing and distribution. The accounting clerk matches the warrants received to the batch list, marks the invoices "paid" and mails the warrants. If a warrant requires further processing, such as delivery instead of mailing or attaching items to the warrant for the vendor to properly apply the payment, the warrant is returned to the A/P technician. Effective internal controls and separation of duties would prevent the same person from initiating, processing and mailing transactions, and from posting the transaction in the accounting records. The district's current system allows the A/P technician to have custody of the warrants once they have been issued by the county office. No control is in place that would detect whether the A/P technician processes the warrant as noted.

The A/P technician's duties include preparing and processing checks from the district's revolving account. Some vendors do not accept purchase orders and require cash or a check. One of these vendors is United Parcel Service (UPS). Because of this vendor's requirements, the district must routinely process revolving checks within a short amount of time. Opening an online account with UPS might speed these transactions and eliminate the need to use revolving checks with this vendor.

Board Policy (BP) 3350 provides that reimbursement for conference attendance expenses be submitted, "…as soon as possible, usually within ten days, after return from the conference." It was reported that reimbursements are not submitted in accordance with this policy and have been as late as 16 months. Governmental funds operate under the current financial resources principle and the modified accrual basis of accounting. As such, "Revenues are recognized in the period when they become available and measurable, and expenditures are recognized when a liability is incurred." (California School Accounting Manual, Procedure 101-3). Without timely submittal of reimbursement for expenses, the district fails to meet this accounting standard because it cannot recognize expenditures until reimbursements are submitted.

Recommendations

The district should:

1. Review and adjust warrant processing procedures to ensure that warrants do not return to the custody of the A/P technician once they are issued.
2. Investigate opening an online account with UPS to speed transactions and eliminate the need to use revolving checks with this vendor.
3. Require adherence to the deadlines established in BP 3350 related to reimbursements for conference expenses.

Cash Management

With the current budget crises at the state and national level, cash management has become one of the main concerns for every school district. The state has a history of deferring payments to school districts, starting with deferral of the 2002-03 June apportionment to the 2003-04 fiscal year and every year thereafter. The 2008-09 and 2009-10 budget acts have numerous deferrals. The original 2008-09 Budget Act deferred a majority of the July 2008 advanced apportionment to September 2008. The revised 2008-09 and the 2009-10 Budget Act defers a portion of the February 2009 apportionment to July 2009; defers a portion of the February 2009 K-3 class size reduction (CSR) program apportionment to July 2009; and defers a portion of the July 2009 and August 2009 principal apportionments to October 2009.

As a result, it is vital that every school district monitor its level of cash frequently and project cash flow into the future to determine whether there will be sufficient cash to meet its financial needs. The district's staff use the financial system to monitor the district's current cash balance, and use a cash flow spreadsheet to project the district's cash flow for the current year. FCMAT's review of the district's cash flow spreadsheet revealed that it does not recognize the K-3 CSR deferral discussed above and included in the state's revised 2008-09 budget.

In addition to tracking cash flow using spreadsheets, the district is required to prepare a cash flow worksheet in conjunction with its first and second interim reports. A cash flow projection is also required with a third interim report should one be necessary due to a qualified or negative certification at the first or second interim reporting period. The district's cash flow worksheet for the second interim report indicates a negative $316,964 expenditure reported as "Other Disbursements/Non-Expenditures." This amount was not included in the second interim general fund budget. District staff explained that the county office suggested including this category to incorporate amounts credited back to the district, most commonly in the form of health and welfare benefit costs that are ultimately resolved and included in the accounts at year-end closing. Incorporating such items into the cash flow worksheet before those amounts are actually received hampers the district's ability to maintain a conservative approach to cash flow.

The second interim cash flow worksheet also includes a $2,076,000 transfer to the general fund from the special reserve fund for other than capital outlay projects. In addition, supplemental information question S3 on page 13 of criteria and standards indicates that the district is contemplating borrowing from Fund 35, county school facilities fund; from Fund 67, self-insurance fund; and from a constitutional advance and tax revenue anticipation note (TRAN) to meet cash flow needs in June 2009 and mitigate the impact of apportionment deferrals. Interviews revealed that the district is also considering temporary borrowing from Fund 25, capital facilities fund. Administrative Regulation 3110 and Education Code section 42603 require the district to ensure that all loans between funds are repaid within statutory time lines. Caution should also be exercised in borrowing temporarily from funds from outside sources, such as those contained within Fund 35.

In addition to borrowing, the district has proposed reducing funding for books and supplies by 66.21% in the unrestricted general fund and by 40.4% in the restricted general fund. Both of these reductions would be effective for the 2009-10 school year; however, staff indicate that no plan for how to implement such cuts is being considered. Even in the face of a significant reduction in revenues in the current year, the district did not implement an early purchase order cut-off date to conserve cash.

Recommendations

The district should:

1. Review assumptions regarding deferrals to ensure the proper capture of all deferrals included in the revised state budget act.
2. Complete and update cash flow projections for fiscal years 2008-09 and 2009-10 at least monthly.
3. Refrain from incorporating estimated but unrealized credits to expenditures into the cash flow worksheet until those amounts are received.
4. Ensure that all loans between funds are repaid within the statutory time lines.
5. Evaluate its cash management plans and procedures to more aggressively manage its cash position.

Categorical Programs

The education code states that amounts budgeted in each major object category shall be the maximum amount that can be expended under each classification. Revisions are subject to board approval. The budget needs to be monitored and adjusted regularly; it should be reviewed and updated monthly to reduce the chance of overspending and to ensure that revenues received and expenditures made are the same as projected. The review should be at both the resource and object levels to ensure that the district knows the projected fund balance at any given time. Budget transfers, adjustments and journal entries should also be completed monthly.

Revenues and expenditures for categorical programs should be reviewed and evaluated in the same manner as the unrestricted general fund. Categorical program budget development should be integrated with the district's goals and used to address student needs. Deferred revenue and categorical program fund balances should be similarly monitored to avoid spending unrestricted dollars while restricted dollars remain idle, and to ensure that time limits for the deferred revenue or fund balance are not violated.

An encumbrance is a commitment to purchase goods and services, including employee salary and benefit obligations. Encumbrances help provide a picture of the district's finances and are a major means of budgetary control to prevent overspending of appropriations and budget lines. They are also an excellent way to monitor budgets to ensure that monies that have been committed are protected from being spent in any other manner. Encumbering salaries and benefits is also essential so that any differences between position control and payroll are readily recognized. Statutory and health and welfare benefits should follow the salary accounts for each employee to ensure that each program is being charged correctly.

Categorical funding should be spent in the year it is earned whenever possible, and in a manner consistent with categorical funding guidelines. In some cases there is a plan in place for carryover to be used for a large future purchase. These types of exceptions should be approved by a district's administration, and sites should understand that carryover of large restricted balances is an exception. The state budget act allows fiscal year 2007-08 ending balances in some categorical programs to be transferred to the unrestricted general fund in fiscal year 2008-09.

The district's deferred revenue and fund balances from the unaudited actuals listed on the 2007-08 form CAT indicate that there was a reduction in the carryover in some programs, but other programs' carryover had increased significantly since fiscal year 2006-07 (see Table 2). For example, the district reports a $99,871.68 increase in the carryover balance in Title I and an increase of $45,565.99 in Title II, Part A, which is one of the federal programs that allow funding to be transferred in or out to better align resources to the district's needs. For example, if the district's technology needs are not being met, the district might consider taking advantage of the federal flexibility rules and transfer funds from Title II, Part A to Title II, Part D. Districts that are not in program improvement have more federal flexibility options than those in program improvement.

Table 2: Form CAT analysis

Resources with Increasing Deferred Revenue/ Carryover Balances				
		Beginning Carryover Balance	Ending Carryover Balance	Carryover Increase
Resource	Program Name			
3010	Title I	$32,330.66	$132,202.34	$99,871.68
3175	Title I, Part A	$54,496.47	$57,981.27	$3,484.80
4035	Title II, Part A	$ -	$45,565.99	$45,565.99
4203	Title III	$42,162.61	$119,590.24	$77,427.63
7026	School Garden Grant	$ -	$2,250.00	$2,250.00
	TOTAL			$228,600.10

Resources with Increasing Fund Balances				
		Beginning Fund Balance	Ending Fund Balance	Fund Balance Increase
Resource	Program Name			
6285	Community Based English Tutoring	$ -	$42,544.26	$42,544.26
6405	School Violence	$ -	$15,884.00	$15,884.00
6760	Art & Music Block Grant	$111,686.09	$184,221.16	$72,535.07
7091	EIA	$499,752.67	$681,855.59	$182,102.92
7140	GATE	$ -	$3,566.88	$3,566.88
7393	Professional Development Block Grant	$ -	$26,805.09	$26,805.09
9010	VVEDA	$1,132,652.06	$1,395,094.96	$262,442.90
	TOTAL			**$605,881.12**

The 2007-08 form CAT also indicates that the district has not used its mega-item and AB 825 block grant flexibility transfer options to the fullest extent allowed, particularly in gifted and talented education, peer assistance and review, professional development block grant, targeted instruction block grant, and school and library improvement block grant. The district needs to review its categorical programs to ensure that restricted dollars are being used to the greatest extent possible and determine whether further use of the federal, mega-item and AB 825 block grant flexibility options would provide additional funding flexibility. The 2008-09 and 2009-10 state budget acts have repealed the mega-item transfer option beginning in 2008-09 and has provided additional flexibility options in the Tier III categorical programs for fiscal years 2008-09 through 2012-13.

Most districts do not receive adequate funding for special education, and thus it requires a contribution from the unrestricted general fund. Special education receives federal and state funding and, as with most programs, its largest expenditures are for employee salaries and benefits. One such expenditure for classified employees is the payment to the Public Employees Retirement System (PERS) based on a percentage of each qualified employee's salary. This payment is divided between employer and employee, with employers paying 13.02% of salaries and the employee paying 7%. For fiscal year 2008-09, the employer portion is further divided between regular PERS at 9.428% and PERS reduction at 3.592%. PERS reduction is an amount reported as a reduction within the revenue limit calculation, and the majority is recaptured by the state; however, it is not required to be paid on salaries associated with federal programs.

FCMAT's review of positions allocated to the state funding portion of special education revealed that there is approximately $787,000 in classified positions coded to this resource. Assuming that all employees in these positions are members of PERS, the 3.592% PERS reduction results in the district paying approximately $28,000 in unnecessary costs. Changing the coding of classified positions in special education (resource 6500) to Individuals with Disabilities Education Act (IDEA) base local assistance entitlement part B (resource 3310) would reduce or eliminate the PERS reduction cost associated with these salaries.

The district participates in the K-3 class size reduction (CSR) program. The program requires that a 20:1 student-to-teacher ratio be implemented in a specific order: first grade, then second grade followed by kindergarten or third grade, or both. The district has chosen to implement the program fully in all first grade classes and partially in some second grade classrooms. Prior to passage of the 2008-09 revised budget act, classes with an annual average greater than or equal to 21.9 (measured from the first day of class through April 15) would lose 100% of funding for that particular classroom. However, the 2008-09 revised budget act increased flexibility in this program by reducing the penalties associated with average enrollment. The penalties are now assessed on a sliding scale for classes with an average enrollment at 20.45 and above. Classes with an average enrollment of 24.95 or more will now receive 70% of the incentive funding; however, incentive funding is limited to 20 students per class.

The districtwide student-to-teacher ratio is 23.74:1, which indicates that a modified CSR program has been implemented districtwide without the benefit of additional state funding. Because of the changes in the K-3 CSR program for 2008-09 through 2011-12, the district will need to review the average size of classes participating in the K-3 CSR program. Based on the April 17, 2009 letter from the California Department of Education

(CDE) (see Appendix A), it appears that funding will be limited based on the number of classes included on the district's 2008-09 K-3 CSR operations application.

A review of the district's comparative budget report also indicates that the district needs to change accounting procedures in the K-3 CSR program. The district currently matches revenues received to a lump sum of expenditures. It is not assigning specific teachers to the program, or charging the program for items such as substitutes, professional development or indirect costs to determine the total cost of the program. While including these costs may result in encroachment, the district could use funding from other restricted programs to help offset the added encroachment each year. For example, Title II, Part A, which had an increased carryover amount as of June 30, 2008, may be used.

Government Accounting Standards Board (GASB) Statement 45, released in June 2004, established standards for employers to measure and report their costs and obligations relating to other post-employment benefits (OPEB). In December 2006, AB 1802 created funding of up to $15,000 for each school district or charter school that has outstanding long-term fiscal obligations for OPEB and that completes a plan for meeting those obligations. The district contracted with an actuary to perform a valuation of its OPEB obligation in February of 2007, and that valuation was valid for two years. The district is now planning to contract for another actuarial valuation. As of June 30, 2008, the district had set aside approximately $2 million toward OPEB and continues to set aside 1% of employee wages annually. Because the district has in essence created a plan to fund its OPEB, it could benefit from applying for funding under the fiscal solvency plans program to help offset the cost of the actuarial study and staff time spent preparing documents for the actuary.

Recommendations

The district should:

1. Review categorical programs that have increasing carryover, deferred revenue or fund balances to ensure that restricted dollars are used to the greatest extent possible.
2. Investigate the feasibility of further using the federal and state flexibility options to determine whether they would provide additional funding flexibility.
3. Change the coding of special education classified positions (resource 6500) to IDEA base local assistance entitlement Part B (resource 3310) to reduce or eliminate the PERS Reduction cost associated with those salaries.
4. Review the average class size in each classroom that participates in the K-3 CSR program and determine if the district would benefit from implementing the flexibility options in the 2008-09 revised state budget.
5. Consider revising accounting procedures within the K-3 CSR program.

6. Consider applying for funding under the fiscal solvency plans program to help offset the cost of the actuarial study of the OPEB obligation and the staff time spent preparing documents for this task.

Financial Reporting

Education Code section 42100 requires that by September 15 the governing board of each district shall approve a statement of all receipts and expenditures of the district for the preceding fiscal year. This statement and an estimate of the district's total expenses for the current year is also known as the unaudited actuals report, which is filed with the county office and the California Department of Education (CDE). This report also serves as the basis for the district's independent auditors' review of the district's books and subsequent audited financial statements. Form CAT, which is contained in the unaudited actuals report, provides financial information for all of the district's categorical programs. In the case of the district's CAT, the same resource or categorical program had as many as five columns reporting its activity. Consolidating these multiple columns of activity into one column for each program would make reporting easier.

The unaudited actuals report also contains the schedule of long-term liabilities, which reports long-term debt and the activity that occurred during the fiscal year within each debt category. The amounts associated with employees' unused vacation balances are reported on the line labeled, "Compensated Absences Payable." The district reported only an increase within this category, and staff indicated that this number represented the increase in unused vacation balances after deducting the payments made during the year. It is important to indicate both increases and decreases within the schedule so that all parties can have a clear understanding of what occurred during the year.

FCMAT's review of the 2008-09 second interim report revealed that the amounts used in the column titled "Board Approved Operating Budget" did not match the projected year totals approved in the first interim report. Unless the district's board has approved another budget between the first and second interim reports, first interim projected year totals should be shown in this column of the second interim report.

Government Code section 3547.5 requires that the public be made aware of the costs associated with a tentative collective bargaining agreement before it becomes binding upon the school district. Assembly Bill (AB) 1200, signed into law in 1992 and AB 2756, signed into law in 2004, provide additional requirements for fiscal accountability. In response to these requirements, county offices of education have prepared and distributed to districts templates for disclosing collective bargaining information. The district provided FCMAT with copies of several of the disclosure documents presented to the governing board during the past two years, including charts that indicated the budget adjustments needed to implement the proposed settlements, with columns titled as follows:

- Column 1:
  Latest Board-Approved Budget Before Settlement – As of _______ (enter date).
- Column 2:
  Adjustments as a Direct Result of this Proposed Settlement.
- Column 3:
  Other Revisions (Including Other Proposed Bargaining Agreements).

- Column 4:
  Projected District Budget After Settlement of Agreement (Cols. 1+2+3).

However, in the district's case, information that should be distributed among the first three columns was combined and reported in the first column. Heeding the column headings when completing the form would provide an understandable link between the latest board-approved budget and the adjustments needed to proceed with a collective bargaining agreement.

The district is responsible for reporting quarterly to the IRS on Form 941 (Employer's Quarterly Federal Tax Return) the total wages paid and amounts withheld from employees' wages for payment of federal income taxes. To help file these tax forms and reconcile the forms against the tax report received from the county office, the district has developed a set of spreadsheets labeled with the calendar year and TAX (e.g. 2008TAX for the 2008 calendar year). Cells in the spreadsheets that could have been linked to other cells instead contained static numbers. This can cause unintended errors if a number changes and the person working with the spreadsheet does not manually change all instances of that number. Linking cells would help avoid such errors.

The director of fiscal services prepares the quarterly payroll tax reports. Assigning this task to the payroll staff and having either the accountant or the director double check the reports for accuracy would remove this routine duty from the director's responsibilities and provide additional cross-training opportunities in the payroll department.

Associated student body (ASB) accounts are a common source of audit findings, and the majority of the findings in the district's audited financial statements were related to ASB cash transactions. The district is required to review audit findings, formulate a resolution and report the issue to the governing board and the public through the audited financial statements. In interviews, staff indicated that the district provides internal ASB training and support to sites that have ASB accounts; however, the district's auditors report the same types of findings each year. In addition, although each finding is reported to the site which generated it, there may be little cooperation from the site in resolving the finding. Mandatory training for all ASB financial personnel at sites and the district office could give staff the tools needed to properly oversee accounts and hold site personnel accountable for resolving ASB audit findings.

The district's transportation facility includes a fuel station that is used for buses and other district vehicles. Interviews with staff indicated that not all of the district's departments are charged for their fuel use. In addition, there is no secure system for tracking and reporting the use of the fuel pumps or ensuring that only authorized individuals have access to them.

Reporting to the Governing Board

The governing board is provided with the state's standardized account code structure (SACS) forms and a PowerPoint presentation at each budget reporting period. The

PowerPoint presentation includes summarized financial data for each fund and the assumptions used for budget adoption. Recognizing budget trends is essential to maintaining a school district's financial health. However, the district's budget presentation lacks charts and graphs that depict trends over time in key areas such as enrollment history and projections; ADA history and projections; net ending balances for the unrestricted and restricted general fund; deficit spending and net change in the ending balance for both the unrestricted and restricted general fund; and general fund contributions to special education and other programs.

Recommendations

The district should:

1. Consider consolidating multiple columns of activity for one resource into one column for ease of reporting on Form CAT.
2. Show both increases and decreases, rather than the net amount, on the schedule of long-term debt or any similar schedules.
3. Carefully review the amounts reported in the board-approved operating budget column of reports to ensure that the last board-approved budget is shown.
4. Follow the column headings when completing the collective bargaining settlement disclosure form.
5. Link cells together in spreadsheets to help avoid errors.
6. Consider moving the responsibility for quarterly payroll tax reporting from the director of fiscal services to the payroll staff.
7. Provide mandatory training to all ASB financial personnel at the district and sites and hold site personnel responsible for resolving ASB audit findings.
8. Ensure that all department budgets are charged and the transportation budget is credited for fuel usage.
9. Implement a secure system so that only authorized individuals are able to access the fuel station.
10. Consider including additional charts and graphs in budget presentations to show year-over-year trends in key budget areas.

Accounts Receivable

The fiscal services department's accounts receivable section consists of one account clerk who is responsible for preparing invoices, collecting cash and checks, coding transactions to the appropriate accounts in the QuickBooks system, preparing a spreadsheet of all funds received, and preparing bank deposits. The account clerk is also responsible for providing training, auditing and financial assistance to the district's ASB organizations.

A sound internal control structure requires job duties to be segregated to properly protect the district's assets. No single employee should handle a transaction from initiation to reconciliation, and no single employee should have custody of an asset (such as cash) and maintain the records of related transactions.

The district lacks complete procedures to provide appropriate segregation of duties for the receipt and recording of cash. One way to increase the segregation of duties would be to have the employee who opens the mail make a control list of all receipts and mark all checks received "for deposit only" to help prevent unauthorized endorsement of checks prior to deposit. After the accounts receivable staff has processed and deposited funds to the bank, a separate employee could compare the deposit slips to the control list to ensure that all funds have been deposited. The person who receives the cash and checks should not also prepare invoices.

Implementing these procedures for all of the district's cash collection locations would improve the district's internal controls. Additional procedures that should be added when dealing with large amounts of cash, as in the case of cafeteria collections, include duplicate counting at the collection site, signatures at delivery, and another cash count to verify before the deposit is made.

School sites are allowed to send cash to the district office along with the regular intradistrict mail. A different and more secure method of cash transfer from sites is needed. For example, the intradistrict mail courier could obtain the cash from the site secretary in a separate bag and sign a receipt for pickup, then deliver the bag directly to the staff member at the district office who is assigned to process the cash. Best practices also include site personnel ensuring that they receive and reconcile receipts from the district office to confirm that all funds have been deposited.

Deposits are made weekly by armored car pick-up. As cash and checks are received and processed during the week, they are placed in a locked file cabinet. A locking fireproof cabinet would provide safer and more secure storage.

In general, retail sales of tangible goods in California are subject to sales tax. Likewise, a use tax is applied to merchandise on which sales tax is not paid but that is used, stored or otherwise consumed in California. The district is responsible for all sales and use taxes on purchases made on its behalf, including purchases by ASB clubs because they are legally a part of the district.

Purchases made via the Internet from a vendor outside of California is an example of a purchase commonly subject to use tax. In these instances the district's accounts payable clerk is to pay the vendor the invoiced amount and set up a liability so that the tax can be paid via the district's annual sales and use tax return. However, the district's ASBs are reportedly not following this procedure and thus there are instances when the tax has not been paid. This places the district at risk of interest and penalties if the State Board of Equalization investigates a particular transaction. Including sales and use tax issues in ASB staff training and conducting periodic internal audits of ASB funds would help resolve this issue.

Since January 1, 2001, California law has required any business or government entity that is required to file federal From 1099-MISC for services received to also report specific independent contractor information to the Employment Development Department (EDD) on EDD Form DE 542. This information must be reported within 20 days of entering into a contract for $600 or more or, if there is no contract, within 20 days of when the payments total $600 in any calendar year, whichever is earlier. The EDD uses the independent contractor information to locate parents who are delinquent in their child support obligations. If the EDD finds that an independent contractor hired by the district is delinquent in child support, the EDD will notify the district of the steps to be taken.

The district does not have a procedure to ensure that this requirement is followed regarding its ASB accounts and could incur a penalty of $24 for each failure to comply within the required time. Revising procedures to require ASBs to immediately file EDD Form DE 542 when contracting with an independent contractor would help avoid these penalties. Including this topic in ASB staff training and conducting periodic internal audits of ASB funds to ensure compliance would also help resolve this issue.

Recommendations

The district should:

1. Implement a system of checks and balances so that no single employee handles a transaction from initiation to reconciliation, and no single employee has custody of an asset and maintains the records for the related transactions.
2. Separate duties in the invoicing and cash receipts process.
3. Discontinue sending cash through the regular district mail and implement a separate method for cash collections from the sites.
4. Ensure that site and department personnel reconcile receipts from accounts receivable to confirm that all funds have been deposited.
5. Use a locking, fireproof cabinet to safeguard cash and checks.
6. Ensure that training of ASB staff includes information related to sales and use taxes, and conduct periodic audits of ASB funds to ensure compliance.
7. Require ASBs to file EDD Form DE 542 immediately when entering into a contract with an independent contractor.

8. Include the topic of filing EDD Form DE 542 in the training provided to ASB personnel, and conduct periodic audits of the ASB funds to ensure compliance.

Purchasing

The fiscal services department has a purchasing manager and a purchasing technician, who is supervised by the manager. These employees are responsible for all purchases in the district, inventory control, contracts for outside services, and all bidding except construction bids.

In compliance with federal regulations, Administrative Regulation (AR) 3440 states that a physical inventory is to be conducted at least every two years. The purchasing personnel's responsibilities include placing an inventory control tag on all equipment with a value of $500 or more and entering the information in the Financial 2000/Reflections software system. Interviews indicated that sites and departments are instructed to conduct an annual equipment inventory; however, there are no procedures to ensure that this occurs.

Credit Cards

Credit cards are typically issued to employees to assist them in purchasing from vendors who may not accept purchase orders, or to expedite purchases such as registration fees for a conference. Credit card purchases should be accompanied by a purchase order (for encumbrance) and should receive prior approval. The district has issued a total of 34 credit cards (Cal-Cards) to its board members and to district staff, including the superintendent, assistant superintendents, maintenance personnel, mechanics and grounds personnel. When an employee or board member first receives a card they are required to sign a copy of the district's Cal-Card Contract, which states the following:

> I have been issued a Cal-Card by U.S. Bank through the Adelanto School District. I understand that I am responsible for ensuring the bank card is used appropriately and all purchase of commodities are within the Adelanto School District's purchasing procedures and policies. I have received and understand all terms of the Cal-Card Manual. I understand that any violations of these terms will result in the forfeiture of my Cal-Card.

The director of fiscal services reviews all Cal-Card statements except his own, which is reviewed by the superintendent. Although credit cards provide flexibility in purchasing, they have been misused in some educational agencies. Credit card use must be closely monitored to ensure conformity to policies and procedures. In the district's case, a more comprehensive user agreement signed by users would be beneficial. An effective agreement would require the individual to acknowledge receipt of the card and agree to the district's terms for its use and for reimbursement procedures. A sample user agreement is provided in Appendix B.

Several district personnel reported that Cal-Card statements must be scrutinized monthly to ensure that only district-related expenses are being charged. When personal charges are discovered, credit card holders are invoiced for their individual use and have paid those invoices. Board Policy 3350 states that Cal-Cards are issued to provide flexibility for business purchases only, and personal expenses should not be charged to district credit cards. Consequently, there should be no personal charges and thus no need to invoice individuals for them. Better internal controls could help eliminate personal expenses from being charged on Cal-Cards. Similarly, requiring purchase orders to be issued and approved for purchases over a specific dollar amount before a Cal-Card is used and reducing the number of individuals who hold cards would increase controls and reduce exposure to unauthorized expenditures.

Conference Forms

The district uses a conference/workshop attendance request form for employees wishing to attend conferences, trainings and workshops. This form authorizes the employee to attend and summarizes the costs associated with the event. The district lacks a number of cost-saving procedures used in other school districts, including the following:

- Having employees indicate departure or arrival times to qualify for pre- or post-conference hotel accommodations and meals.
- Requiring two employees of the same gender to share a room if overnight accommodations are necessary.
- Excluding meal allowances for events which include food in the registration fee.
- Sharing automobile transportation if multiple people are attending the same event.

The district does have some cost-saving measures in place, such as the requirement to use a district vehicle for conferences more than 30 miles away. If a district vehicle is available for use but was not requested and is not used, the conference attendee is no longer eligible for mileage reimbursement. However, this practice does not adhere to the district's Board Policy (BP) 3350, which states that district vehicles may be used when available. The district needs to revise BP 3350 to reflect actual practice, or revise its practices to conform to BP 3350. Reviewing current policies and practices with the goal of implementing additional cost-saving policies for conferences would be beneficial. Printing district conference attendance policies on the back of the attendance request form would also help employees comply with the policies and complete the form accurately.

Because the district's employees are government employees, hotels may waive the transient occupancy tax, resulting in substantial savings over the course of a fiscal year. When making hotel reservations, employees can ask whether the hotel will allow a waiver and, if they do, fax to the hotel or take with them a hotel/motel transient occupancy tax waiver exemption claim for governmental agencies form (see Appendix C). It would benefit the district to require employees to inquire whether a hotel will waive the transient occupancy tax and to use the waiver form if they do.

Many hotels also offer a state government rate to employees of local education agencies when they are traveling for school business. Ensuring that employees inquire about and obtain this discounted rate when available would also be beneficial.

Internal Revenue Service revenue ruling 2006-56, dated November 13, 2006, requires organizations to track and record employee per diem meal reimbursements. Per diem reimbursements that are higher than the federal per diem rates must be included as gross wages on the employee's W-2. In addition, per diem rates cannot be used for non-overnight travel. Actual receipts are required but the maximum dollar amount applicable to each type of meal may be subject to district policy. Table 4 of IRS Publication No. 1542 sets federal per diem rates at $39 per day for all locations except those specifically listed in that publication. The district requires itemized receipts for all meal reimbursements and has a per diem rate of $100 per day, which is higher than the rate for some of the California cities listed in IRS Publication 1542.

Consultants and Independent Contractors

Although no single factor is used to determine whether a contractual relationship is that of employer-employee or independent contractor, IRS Revenue Ruling 87-41 provides an analytical tool to help determine if a vendor is an independent contractor. Once this determination is made, each independent contractor should be provided with a contract specifying the duties of the vendor and the district. The purchasing department's manual titled, *How To Do Business with The Purchasing Department* provides examples of the hold harmless agreement and the facilitator contract, which are used with consultants or independent contractors. These forms do not contain sufficient language to protect the district should the contractual relationship prove unsatisfactory. For example, the forms lack general liability insurance requirements and state that the vendors' insurance is to be used first in case of accident. The forms also lack standard fingerprinting and supervisory clauses designed to protect children. A more comprehensive professional services agreement is needed for use with contractors.

Construction and Facilities

Many construction and facilities projects are subject to bidding under Public Contract Code section 20111, which sets bidding limits of $15,000 for public works projects and $76,700 (for calendar year 2009) for equipment, materials, or supplies to be furnished, sold or leased to the district (Public Contract Code 20111, 20651, 22002). This means that districts must seek competitive bids on projects or purchases/leases costing more than the stated limit.

The limit for public works projects has not been adjusted for many years. However, the limit associated with equipment, materials or supplies is adjusted annually for inflation; the new limit is issued each December and is effective the following January 1. The district's Administrative Regulation (AR) 3311 was last approved in 1998 and sets the limit for the purchase of equipment, materials, or supplies at $72,400, which is lower than the amount currently specified in law. Revising the language in AR 3311 to allow for the bid limit to automatically change annually to match the law would be beneficial.

The district's board resolution No. 03-04-04, dated September 16, 2003, indicates that the district has adopted the uniform public construction cost accounting procedures per Public Contract Code section 22000 and following. This board resolution includes a limit of $100,000 for informal bids for public works projects; however, this limit has increased to $125,000 per Public Contract Code Section 22032. Board action to change the district's informal bid limit to match that of the public contract code would be beneficial, as would revising AR 3311 to indicate its adoption of the these alternative bidding procedures.

Public Contract Code section 20111 requires a district that needs a public works project to award that project to the lowest responsible bidder. To determine the lowest responsible bidder, districts provide all bidders with bid packets containing various documents including, but not limited to, the advertisement for bid, information for bidders, bid specifications, general conditions, bond forms, sample agreement and various certifications and affidavits.

The district reports that its purchasing department compiled its bid packets after reviewing forms from the county office, various workshops attended by employees and examples from other districts. FCMAT noted some items that the district may wish to review with its legal counsel and insurance carriers and revise to better represent the district's interests. For example, the bid bond requires the bidder to include with its bid security of not less than $500 for any project, regardless of size. The district may want to consider changing the amount so that it is more closely tied to the amount of the contract, such as specifying a bid bond that is 10% of the contract amount.

In addition, paragraph 54 of the district's general conditions states that:

- The contractor will install, at their own expense, a physical barrier at the project site.
- The district may assign a district employee to accompany the contractor's employees in student-occupied areas, with the cost being borne by the contractor; or the contractor may provide its own supervisory personnel if the contractor determines that their employee has received clearance from the Department of Justice (DOJ).

All of these measures comply with Education Code section 45125.1 or 45125.2. However, the following requirements on the form titled "Certification by Contractor Criminal Records Check" contradict the terms of the general conditions:

- The requirement that the contractor declare under penalty of perjury that it has read the Notice to Contractors Regarding Criminal Records Checks, which is not part of the bid packet
- The statement that the contractor's employees may have contact with students; the requirement that none of their employees have been convicted of a violent or serious felony as defined by Penal Code section 1192.7; and the requirement that this be verified by a fingerprint check through the department of justice (DOJ).

Recommendations

The district should:

1. Implement procedures to ensure that an equipment inventory is completed in compliance with federal regulations and AR 3440.
2. Develop a more comprehensive Cal-Card user agreement for all users to sign before issuing a district credit card.
3. Review internal controls to eliminate charges for personal expenses on district-issued Cal-Cards.
4. Consider requiring that employees obtain a purchase order and have it approved before using a Cal-Card for purchases over a specific dollar amount.
5. Consider reducing the number of individuals who hold Cal-Cards to strengthen internal controls and reduce exposure to unauthorized expenditures.
6. Revise conference attendance practices to conform to BP 3350, or revise board policy to reflect actual practice.
7. Consider implementing additional cost-saving policies for conferences.
8. Consider printing conference attendance policies and procedures on the back of the attendance request form to help employees comply with those policies and complete the form accurately.
9. Modify conference attendance procedures to require the employee making hotel reservations to inquire about the hotel's waiver of the transient occupancy tax. If the hotel grants a waiver, provide employees with a hotel/motel transient occupancy tax waiver exemption claim for governmental agencies form.
10. Implement procedures to obtain the state government rate discount for hotel accommodations whenever it is available.
11. Confer with its independent auditors to determine if procedures for per diem meal reimbursements comply with IRS regulations.
12. Consult with legal counsel to obtain and implement a more comprehensive professional services agreement for use with contractors/consultants.
13. Review AR 3311 and consider revising it to specify the bid limit allowed by law rather than a set dollar amount.
14. Consider taking board action to match the informal bid limit in the uniform public construction cost accounting procedures with the limit in the public contract code, and consider revising AR 3311 to indicate adoption of these alternative bidding procedures.
15. Consult with legal counsel and insurance carriers for a complete review of bid packet documents to ensure that they comply with current law, protect the district's interests and are consistent with one another.

Other Funds

Cafeteria Fund (Fund 13)

The district uses the Financial 2000/Reflections accounting software program provided through the county office to process payroll and vendor payments for every fund except the cafeteria fund (Fund 13). Although the district discloses activity for the cafeteria fund in all of its required reports, Fund 13 is not recognized in the district's chart of accounts.

All positions that should be coded to Fund 13 are first coded to the unrestricted portion of the general fund, function 3700. This makes it necessary to perform manual entries in budgets and actual expenses to show the activities of both funds. In addition, the food services department's use of QuickBooks software requires the district to manually charge the department for payroll expenses at each pay cycle; the food service department then writes a check to the district for those salaries and benefits. Converting the food services department to the Financial 2000/Reflections accounting system would provide more accurate reporting and eliminate the need to manually transfer budget and actual expenses into the cafeteria fund.

Using QuickBooks also prevents oversight by the county office when processing and auditing vendor warrants. The food services department secretary process payments, generates the checks from QuickBooks, and provides them to her supervisor to review and sign. The checks are then sent to the fiscal services department, where they are reviewed and receive a dual signature before being sent back to the food services secretary for mailing. As with the accounts payable process discussed above, this process lacks appropriate internal controls. Adequate internal controls and separation of duties would prevent the same person from initiating, processing, mailing and posting the transactions in the accounting records. Under the district's current process, there is no way to detect whether or not the food services secretary processes a check for mailing.

Capital Facilities/Developer Fee Fund (Fund 25)

Education Code sections 17620-17626 state that a capital facilities fund, otherwise known as the developer fee fund (Fund 25), is to be used primarily to account for funds received from fees levied on developers or other agencies as a condition of approving a development. Expenditures from this fund are limited to the purposes specified in Government Code sections 65970-65981 or to specific items in agreements with developers (Government Code Section 66006).

The district's developer fee activity five-year report presented to the board on December 11, 2008 indicates that in 2006-07, $4.5 million was recorded as other revenue. Conversations with district staff revealed that this revenue consisted of proceeds from the sale of property to the Victor Valley Union High School District. The California School Accounting Manual (CSAM) states that Fund 25 is intended to be "…used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development." The CSAM indicates that proceeds from the sale of land and buildings should be placed into a special reserve fund for capital outlay projects (Fund 40). The five-year report also showed expenditures from Fund 25 for construction of the district office and warehouse facilities. The district will need to transfer the $4.5 million in proceeds from the sale of property and the expenditures for the construction of the district office and warehouse to Fund 40 to properly track these items so that they are not confused or commingled with fees collected from developers.

Self-Insurance Fund (Fund 67)

As discussed earlier, the Governmental Accounting Standards Board (GASB) has established standards for employers to measure and report their costs and obligations relating to other postemployment benefits (OPEB). The district's June 2007 actuarial study valued the unfunded actuarial accrued liability at $4,237,420 as of February 1, 2007. Since that time, the district has elected to transfer approximately $2 million to its self-insurance fund (Fund 67) to set aside money toward payment of this liability. The CSAM and the CDE's February 26, 2007 letter providing accounting guidance related to OPEB both describe the use of Fund 67 in conjunction with a district's self-insurance activities for its active employee health and welfare costs. The CSAM describes a special reserve fund for postemployment benefits being used "…to account for amounts the LEA has earmarked for the future cost of postemployment benefits but has not contributed irrevocably to a separate trust for the postemployment benefit plan." Because the district does not self-insure for its active employee health and welfare costs, the use of Fund 67 may not be appropriate for the funds the district has set aside for OPEB. The district's independent auditors could help determine if the district's procedures comply with the CSAM and the CDE's guidance.

Recommendations

The district should:

1. Consider requiring the food services department to convert to the Financial 2000/ Reflections accounting system for all of its financial transactions.
2. Revise procedures so that warrants do not return to the food services secretary's custody for mailing or further processing after they are issued.
3. Transfer to Fund 40 the $4.5 million in proceeds from the sale of property and the expenditures for the construction of the district office and warehouse.
4. Consult with its independent auditors to determine if its procedures for the use of a self-insurance fund (Fund 67) comply with the CSAM and the CDE's guidance regarding setting aside funds for OPEB.

Year-End Closing

Year-end closing is a time consuming process in which nominal accounts are closed. The end product is a post-closing trial balance and the unaudited actuals report. Completion of the post-closing trial balance requires many fiscal services department functions to work together in a specific sequence to meet deadlines. For example, the prior year's postings to accounts receivable and accounts payable need to be resolved and cleared to zero by January. In addition, purchase orders are discontinued on a specific date and all amounts due to or from other funds that existed as of June 30 of the prior year must be repaid (Education Code section 42603 and Administrative Regulation 3110).

Many districts develop a year-end closing calendar so that each staff member is aware of their deadlines and is prepared to meet them. However, the district does not use a year-end closing calendar. As a result, some of the activities that should have taken place before June 30 instead occur when the books are being closed, and purchase orders are processed later than is reasonable.

On December 15, 2006, the CDE issued a letter to districts regarding an account coding change in the costs of districts' annual independent audits conducted pursuant to Education Code section 14503 and the Single Audit Act. The change involves separating the single audit cost from the total audit cost to include the single audit in the indirect cost pool. The cost of the single audit conducted pursuant to the Office of Management and Budget (OMB) Circular A-133 should indicate a function code of 7190, while the remainder of the audit charge should retain its function code of 7100. This separation was not completed on the district's 2007-08 indirect cost rate worksheet, which would cause the district's indirect cost rate for 2009-10 to be underreported.

The CDE's December 15, 2006 letter (available online at http://www.cde.ca.gov/fg/ac/co/icr121506plan.asp) also provided information about the costs paid by the district when an employee separates from service. Normal separation costs include accumulated unused leave or severance pay offered pursuant to a district's policy. Abnormal/mass separation costs are defined as early retirement incentives. The district's contract with the certificated bargaining unit includes a supplemental early retirement program (SERP). The district needs to consult with its independent auditors to determine if the costs associated with the SERP qualify as abnormal/mass separation costs and should therefore be included in the indirect cost rate worksheet.

Education Code section 41372 requires that a minimum percentage of education costs be expended annually for classroom staff compensation. The percentage varies depending upon the type of district. For elementary districts, it is set at 60%. Failure to meet the minimum percentage can result in financial penalties. The district's 2007-08 current expense formula/minimum classroom compensation form indicates that the district spent 60.74% of education costs on classroom compensation in that year and that OPEB costs for active employees were not listed in part II, line 9. To ensure that they are properly included on this form, expenditures for retiree health and welfare benefits for active employees need to be coded to objects 3751 and 3752.

Governmental Accounting Standards Board (GASB) Statement No. 34 established new financial reporting requirements for state and local governments to improve the clarity and usefulness of the financial statements. Because of GASB 34, school districts must prepare conversion entries to translate their fund financial statements to governmentwide financial statements. These conversion entries are included in the standardized account code structure (SACS) forms that districts complete at year end. In interviews, staff indicated that the district's independent auditors were reviewing the GASB 34 conversion entries and preparing revisions to those entries before auditing them. Preparing these items is a management functions and the auditors' assistance may impair the auditors' independence.

Chapter 3, paragraph 3.26 of Government Auditing Standards, July 2007 Revision issued by the United States comptroller general states the following:

> Nonaudit services in which auditors provide technical advice based on their technical knowledge and expertise do not impair auditor independence with respect to entities they audit and do not require the audit organization to apply the supplemental safeguards. <u>However, auditor independence would be impaired if the extent or nature of the advice resulted in the auditors' making management decisions or performing management functions</u>.*
>
> *emphasis added

Recommendations

The district should:

1. Review year-end closing tasks and time lines, and develop and use an annual closing calendar.
2. Revise the coding of costs related to the annual independent audit to comply with the CDE's advice regarding separating audit costs to properly report and use indirect costs.
3. Consult with its independent auditors to determine if the costs associated with the SERP qualify as abnormal/mass separation costs and should therefore be included in the indirect cost rate worksheet.
4. Review entries for the 2008-09 fiscal year to ensure that expenditures for retiree health and welfare benefits for active employees are being coded to objects 3751 and 3752 so that they can be included on the current expense formula/ minimum classroom compensation form.
5. Consult with its independent auditors to review their processes associated with the conversion entries in the unaudited actuals and ensure that government auditing standards are being followed.

Staffing

Principles of Organizational Structure

A school district's organizational structure should establish the framework for leadership and for delegating duties and responsibilities. The organizational structure should adapt as the district's enrollment increases or declines. A district should be staffed according to generally accepted theories of organizational structure and standards used in other school agencies of like size and type. The most common of theories of organizational structure are span of control, chain of command, and line and staff authority.

Span of Control

Span of control refers to the number of subordinates reporting directly to a supervisor. Although there is no agreed upon ideal number of subordinates for span of control, it is generally agreed that the span can be larger at lower levels of an organization than at higher levels, because subordinates at lower levels typically perform more routine duties and can therefore be supervised more easily.[1]

Chain of Command

Chain of command refers to the flow of authority within an organization and is characterized by two significant principles: unity of command, where a subordinate is only accountable to one supervisor; and the scalar principle, which suggests that authority and responsibility should flow in a direct vertical line from top management to the lowest level. The result is a hierarchical division of labor.[2]

Line and Staff Authority

Line authority is the relationship between supervisors and subordinates. It refers to the direct line in the chain of command. For example, the assistant superintendent of business services has direct line authority over the director of fiscal services, and the director of fiscal services has direct line authority over the fiscal services department staff. Conversely, staff authority is advisory in nature. Staff personnel do not have the authority to make and implement decisions; rather they act in support roles to line personnel.[3] The organizational structure of local educational agencies contains both line and staff authority.

The purpose of any organizational structure is to help district management make key decisions to facilitate student learning while balancing its financial resources. The organizational design should outline the management process and its links to the system of communication, authority and responsibility necessary to achieve the district's goals and objectives.

[1]Principles of School Business Management, Association of School Business Officials, International, Wood, R.Craig, Thompson, David C., Picus, Lawrence O., Tharpe, Don I., 2nd Edition (1995)

[2]Ibid

[3]Ibid

Business Services Structure and Staffing

The district's assistant superintendent of business services resigned in the fall of 2008, and the district has advertised but not yet filled the position. The secretary to the assistant superintendent also retired in the fall of 2008 and has not been replaced. The district's organizational chart indicates that the following department heads report directly to the assistant superintendent of business services: fiscal services; facilities, maintenance and operations, transportation, and child nutrition.

In the absence of an assistant superintendent of business services, the superintendent is acting in this role with the help of the director of fiscal services and the director of facilities. The lack of a permanent, full-time assistant superintendent of business services has required the director of fiscal services to spend more time acting as the division's representative at management, cabinet and board meetings. This does not allow the director the time needed to support and supervise the fiscal services department staff, respond to fiscal questions from the school sites and other departments, and complete all his normal duties in a timely manner.

The absence of an assistant superintendent of business services creates a lack of representation for the departments in the business services division at the cabinet and site management levels. As a result, decisions may be made without taking into consideration all of the district's operational functions. In addition, internal controls may be comprised because there is no assistant superintendent to help oversee and review items such as budget development, interim reports and the year-end closing process. The lack of an assistant superintendent also creates a void in the oversight, support and evaluation of the managers in the business services division. The district's ability to stay current with state, federal and local financial information is also hampered.

The district's maintenance manager and its directors of fiscal services, facilities, transportation and child nutrition all normally report to the assistant superintendent of business services. However, in the absence of an assistant superintendent, each of these positions is reporting directly to the superintendent.

The district needs to fill the assistant superintendent of business services position with a permanent, full-time employee. Some districts give this position a different title. However, regardless of whether the district chooses to change the title, the position should remain at the same administrative level and continue to report directly to the superintendent.

Fiscal Services

The director of fiscal services supervises the fiscal services staff, which includes an accountant, an accounts payable technician, two accounting clerks, two payroll specialists, a purchasing manager and a purchasing/accounting technician. The department is responsible for budget functions, state financial reporting, payroll, accounts payable, accounts receivable, purchasing, student attendance and associated student body accounting.

The director of fiscal services also supervises the purchasing manager. The purchasing department works closely with sites and departments on bids. Having the purchasing manager report directly to the assistant superintendent of business services would help provide more direct access for the two positions to meet and resolve bid issues as well as information about contracts, bid schedules and bid awards.

Facilities

In the absence of an assistant superintendent, the director of facilities is helping the fiscal services department with budgeting. The facilities department had two facilities accountants, but one resigned and the other transferred to the fiscal services department. The district has decided not to fill these positions at this time because of the statewide hold placed on construction funding for school projects and the slowdown in the district's new construction projects.

The district's enrollment has grown substantially over the years. Districtwide enrollment increased from 2,535 in 1993-94 to 8,249 in 2008-09, creating a need for several new construction projects. The district has built eight new schools during this time and is currently building a new district office/warehouse facility. The district has submitted applications to the state's Office of Public School Construction for additional new school construction projects but has not yet received approval or funding.

Maintenance and Operations

The maintenance manager supervises the maintenance and operations department, which is responsible for maintenance, custodial and grounds keeping functions.

The department's support staff consists of one secretary who provides clerical support for the maintenance manager. The department also has four maintenance positions, five grounds positions and 46 custodian positions, for which the maintenance manager has direct responsibility. The site principals complete employee performance evaluations for the site custodial staff and review them with the maintenance manager. The district had anticipated hiring a custodial supervisor, but the position has not been filled because of budget concerns. Filling this position in the future would help provide additional oversight to the custodial staff, particularly those who work the afternoon and evening shifts.

Transportation

The director of transportation supervises the transportation department. The department is responsible for home-to-school and special education transportation, and the maintenance of buses and other district vehicles. The department also provides transportation for the district's special education students who are served by county office-operated programs.

Support staff for the department consists of a clerk who provides clerical support for the director and functions as the dispatcher. The department is responsible for 27 bus routes and has 23 contracted bus drivers, substitute drivers and two mechanics. The director and a bus driver are responsible for providing the bus drivers with driver training. The district contracts with a charter company for most of its field trips because the district reportedly does not have enough buses or drivers to provide these trips. A bus driver training position was reportedly approved two years ago but was not filled. Filling this position in the future may help provide additional opportunities for the district to obtain and train additional bus drivers, which would reduce the need for substitutes and the cost of contracting out for field trips.

Child Nutrition

The director of child nutrition supervises the child nutrition department, which is responsible for providing meals to the district's students and the students attending the district's county-operated special education programs. District staff indicated that 78% of the students are eligible to receive free or reduced-price meals.

Support staff for the department includes a secretary and a part-time clerk, who provide clerical support for the director and process all the department's accounts payable transactions. The department includes 80 full-time and part-time staff, including a production manager and a supervisor.

The 2007-08 unaudited actuals report and the 2008-09 second interim report indicate that the cafeteria fund is self-sustaining and does not require a contribution from the general fund. The district is allowed to charge the lesser of the average statewide indirect cost rate or the district's indirect cost rate. This allowed for the district to charge the cafeteria fund an indirect cost rate of 4.64% in 2007-08. However, the cafeteria fund was only charged 4.54%.

Staffing Comparisons

To develop a comparison of business services management and support staffing, FCMAT obtained data from five California elementary school districts with student enrollment similar to that of Adelanto Elementary.

FCMAT included one elementary district, Victor Elementary, that is located in San Bernardino County that is closest in size and that has been used by Adelanto Elementary for other comparison purposes. The remaining four comparison districts, located throughout the state, are Hueneme, Greenfield Union, Tulare City, and Hawthorne..

Comparative information is useful but should not be thought of as the only measure of appropriate staffing levels. California school districts are complex organizations that vary widely in demographics and resources; careful evaluation is needed when comparing them. Generalizations can be misleading if significant circumstances are not taken into account. The following issues were considered in FCMAT's comparison:

- Grade level configuration (K-8).
- Size of district.
- Revenue limit districts (rather than basic aid).
- Percentage of students who are eligible for free and reduced-price meals.

Table 3 lists each district's student enrollment as indicated in the 2007-08 California Basic Education Data System (CBEDS), and the data obtained from the comparison districts regarding business office staff and department managers that report directly to the assistant superintendent of business services.

Table 3: Comparison of business services division staffing in selected California elementary school districts

District	Adelanto	Hueneme**	Greenfield***	Tulare City****	Hawthorne*****	Victor
Enrollment*	8,653	8,091	8,521	8,750	9,180	11,982
Business Department	Assistant Superintendent (Vacant) Director, Fiscal Services Accountant Accounts Payable Technician Accounting Clerk (2 FTE) Payroll Specialist (2 FTE) Purchasing Manager Purchasing/Accounting Tech	Senior Director, CBO Uses superintendent's secretary for clerical support District Accountant Accounting Specialist Payroll Clerk (2.5 FTE) Purchasing Agent Account Clerk II Account Clerk	Assistant Superintendent Director, Fiscal Services Coordinator, Budgeting/ Facilities Planning Payroll Technician (2 FTE) Bookkeeper/AP (2 FTE)	Assistant Superintendent Secretary Accounting Supervisor Secretary Account Clerk Payroll Clerk (2 FTE) Payable Clerk (2 FTE)	Assistant Superintendent Administrative Assistant Director, Fiscal Services Payroll Technician (2 FTE) A/P Technician (2 FTE) Accounting Technician Business Tech Specialist Budget Analyst Director, Purchasing (reports to CBO) Purchasing Assistant Purchasing Clerk	Assistant Superintendent Secretary Clerk (.5 FTE) Director, Fiscal Services Secretary Accountant Payroll Clerk (2 FTE) A/P Clerk (2.5 FTE) Clerk Typist (1.5 FTE) Director, Purchasing (reports to CBO) Purchasing Clerk
Facilities Department	Director, Facilities	Construction mgt firm used for new construction projects	Done by Business/ Transportation depts	Done by Business/Maint depts	See Maintenance Dept	Director, Facilities Secretary (.75 FTE) Supervisor, Facilities
Maintenance Department	Maintenance Manager Secretary	HR Supervises Dept Asst Director, Custodial & Grounds Secretary (shared with transportation)	Director, Maint/Grounds/ Custodial/Safety Secretary (shared with Director of Transportation)	Director, Maint/ Grounds Uses business office staff for clerical support	Supt Supervises Dept Director, Maintenance Secretaries (2 FTE) Assistant Facilities Director Facilities Accountant	Supervisor, Maint/ Grounds Supervisor, Custodial Clerical (3 FTE – shared with Transportation/ Technology)
Transportation Department	Director, Transportation Clerk	HR Supervises Dept Asst Director, Facilities/ Maint/Transportation Secretary (shared with custodial/grounds) Dispatcher Driver Training (provided by driver with a stipend)	Director, Transp/ Facilities/ Warehouse/ Purchasing Secretary (shared with Director of Maintenance) Transp/Safety Manager Dispatcher	Director, Transp/ Custodial Uses business office staff for clerical support Dispatcher/Driver Trainer	Contracts out for services	Supervisor, Transp/Safety Clerical (3 FTE – shared with Maint/Custodial/ Technology) Contracts out for driving services
Child Nutrition Department	Director, Child Nutrition Secretary Clerk (part time)	Director, Food Service Technician Clerk	Director, Child Nutrition Secretary	Coordinator, Food Svc & Nutrition Secretary Audit Clerk II	Director, Child Nutrition Secretary Accounting Supervisor	Director, Nutritional Services Clerical (3 FTE)

*2007-2008 CBEDS
**Human Resources Division supervises Maintenance, Operations and Transportation.
***Business Division also supervises Technology Department.
****Business Division also supervises Receptionist/Student Records Clerk and Attendance Officer.
*****District Superintendent supervises Maintenance Department.

Based on the districts surveyed, the span of control and number of management level staff that report directly to the assistant superintendent of business services in Adelanto Elementary are comparable to other districts. The Hueneme School District's chief business official (CBO) has the title of senior director rather than assistant superintendent, and this school district has also reduced the CBO's span of control by assigning the maintenance and transportation departments to the assistant superintendent of human resources. The Hawthorne School District creates a unique span of control by having the maintenance department under the direct supervision of the superintendent.

The comparison indicates that the district needs a permanent full-time employee in the position of assistant superintendent of business services, and that the number of business office support staff who report to the director of fiscal services is sufficient to accomplish the tasks assigned to the department.

Recommendations

The district should:

1. Fill the assistant superintendent of business services position with a permanent, full-time employee. The position should be comparable to other cabinet-level positions and should report directly to the superintendent.
2. Consider having the purchasing agent report directly to the assistant superintendent of business services.
3. When funding allows, consider filling the position of custodial supervisor.
4. When funding allows, consider filling the position of bus driver trainer.
5. Charge the full allowable indirect cost rate to the cafeteria fund.

Multiyear Financial Projections

Multiyear financial projections are required by AB 1200 and AB 2756 and are a part of the adoption budget and interim reporting process. In June 2004, AB 2756 (Daucher) was passed and signed into law on an urgency basis. This legislation made substantive changes to the financial accountability and oversight used to monitor the fiscal position of school districts and county offices. Among other things, AB 2756 strengthened the roles of the superintendent of public instruction (SPI) and county offices of education and their ability to intervene during fiscal crises, including requesting assistance from FCMAT.

Financial planning is crucial for every school district, regardless of its size or structure. Long-term financial planning helps a district strategically align its budget with its instructional goals and programs, and should be a part of annual budget development.

Multiyear financial projections (MYFPs) help districts make more informed decisions and provide the ability to forecast the effect of current decisions, and should be evaluated and updated at least during each interim financial reporting period and in preparation for negotiations.

State Budget-Overview

On February 20, 2009, after months of delays, Governor Schwarzenegger signed a 17-month budget, senate bill (SB) 1, Chapter 1, Statutes of 2009, which runs through June 2010. The enacted state budget is devastating to K-12 education, reducing education spending by $8.6 billion over the next 17 months. To address the state's $41.6 billion budget deficit, state lawmakers reduced expenditures by $14.9 billion, added $12.5 billion in new taxes, borrowed $5.4 billion and offset the difference with $7.9 billion in federal stimulus package funds.

Since the budget was signed, many economic indicators have deteriorated significantly, including California's unemployment rate, which reached a record high of 11.2% in March 2009. This was 0.6% higher than in February 2009 and 5.0% higher than in March 2008. Job losses totaled 62,500 for the month of March. The Legislative Analyst's Office (LAO) anticipates an additional K-14 education revenue decrease of approximately $3.6 billion in the Proposition 98 minimum funding guarantee. This would mean a loss of approximately $600 per average daily attendance (ADA).

The enacted budget is also predicated on the passage of multiple ballot measures to go before the voters on May 19, 2009. If the following propositions fail, the projected cost to the state may be as much as $6 billion:

- <u>Proposition 1A – Increases Rainy Day Budget Stabilization Fund</u>
  Increases the size of the rainy day fund from 5% to 12.5% of the general fund and could have a significant impact on the state's budgeting practices in the future. If this proposition is approved, several tax increases passed on February 20 would be extended by one or two more years.

- Proposition 1B - Education Funding, Payment Plan
  This measure requires the state to make supplemental payments to the revenue limit for K-14 education beginning in 2011-12 and totaling $9.3 billion. These payments replace payments due by the state under current law for the maintenance factor obligations created in fiscal years 2007-08 and 2008-09 fiscal years. If Proposition 1A is not approved by the voters, then the provisions of Proposition 1B will not take effect.
- Proposition 1C - Lottery Modernization Act
  Allows the state to borrow $5 billion from future lottery profits to help balance the 2009-10 budget. This measure protects the current level of lottery revenue funding to schools by adding the 2008-09 funding to the Proposition 98 guarantee beginning in 2009-10. Over the last ten years, the Proposition 98 average funding level grew by 5.6% while the increase in lottery funding was 2.8%. Therefore, it is expected that schools will average more revenue over time under Proposition 1C.
- Proposition 1D – Children's Services Funding. Helps Balance State Budget
  Temporarily redirects existing tobacco tax money to protect children's programs in difficult economic times.
- Proposition 1E – Mental Health Funding. Temporary Reallocation. Helps Balance State Budget
  Amends Proposition 63, the Mental Health Services Act, of 2004, for a two-year period by directing funds from mental health programs to mental health services for children and young adults.
- Proposition 1F – Elected Officials' Salaries. Prevents Pay Increases during Budget Deficit Years
  Prevents elected members of the Legislature, constitutional officers and other elected state officials from receiving pay increases in years when the state is experiencing a deficit as defined by the director of finance.

According to recent reports, California is the first state to benefit from President Obama's stimulus package, and $4 billion has been distributed by the federal government. Most of the funding is intended for local school districts, yet the governor may insist that the state needs this funding for other priorities. Although little else is known about this special funding for states, loopholes created by congress may allow this type of budget scenario.

Table 4 shows significant differences between the final state budget approved in February 2009 and the governor's January proposal used by the district in its submittal to the San Bernardino County Superintendent of Schools for the second interim financial report.

Table 4: Comparison of governor's proposal and enacted state budget assumptions:

	Fiscal Year	*Proposed Budget 2009-10 used by District*	*Enacted Budget 2009-10 used by FCMAT*	*Difference*
Revenue Limit – Deficit				
	2008-09	9.685%	7.844%	-1.841%
	2009-10	16.161%	13.094%	-3.067%
	2010-11	16.161%	13.094%	-3.067%
State Categorical Program Funding Reductions				
	2008-09	0.00%	15.38%	15.38%
	2009-10	0.00%	4.46%	4.46%
	2010-11	0.00%	0.00%	0.00%

As detailed in the Budget Development section of this report, the district receives approximately 13% of its revenue from state categorical programs, and the February 2009 passage of SBX3 4 distributes these programs into three tiers with varying levels of funding reductions and flexibility options.

Budgeting Flexibility

Sections 5, 15, and 42 of SBX3 4 provide budgeting flexibility for local educational agencies (LEAs) through the following measures:

- LEAs may use 100% of general fund or cafeteria fund restricted balances as of June 30, 2008 for any educational purpose (but note caution below on use of cafeteria fund balances).
- For 2008-09 through 2012-13, LEAs may use for any educational purpose the funding formerly restricted to 39 specified categorical programs.
- For 2008-09 through 2012-13, the required contribution to the routine restricted maintenance account (RRMA) is reduced from 3% to 1% of an LEA's total general fund expenditures and other financing uses.
- For 2008-09 through 2012-13, the local match requirement for deferred maintenance program eligibility is eliminated.

In contrast to similar flexibility provisions in the 2002-03 state budget, SBX3 4 does not limit an LEA's budgeting flexibility to the amount of revenue limit and categorical funding reductions the LEA sustains. **SBX3 4 also does not reduce the level of an LEA's required 3% reserve for economic uncertainties.**

Restricted Balance Flexibility

Section 42 of SBX3 4 provides that, with the following specific exceptions, 100% of general fund and cafeteria fund restricted account balances as of June 30, 2008 may be used for any educational purposes.

The exceptions are restricted reserves committed for capital outlay; bond or sinking funds; federal funds; and balances in the following programs:

- California High School Exit Exam intensive intervention program
- Economic Impact Aid (EIA)
- Home-to-school transportation (including special education and school bus replacement)
- Instructional materials
- Quality Education Investment Act (QEIA)
- Special education
- Targeted Improvement Grant

Section 15 of SBX3 4 *(*California Education Code section 42605) authorizes complete flexibility in the use of funds appropriated in 39 budget act items. For 2008-09 through 2012-13, school districts, county offices of education and charter schools may use funds from these 39 items for any educational purpose. The funds are therefore unrestricted: program or funding requirements, as otherwise provided in statute, regulation and budget act provisional language associated with the funding, are not in effect. **FCMAT did not include any flexibility transfers in the MYFP analysis because these are subject to**

local approval by the board of trustees. FCMAT's analysis does include a reduction of 15.38% in fiscal year 2008-09 and 4.46% in fiscal year 2009-10 to the affected state categorical programs.

K-3 Class Size Reduction

SBX3 4 changed the budget item source of appropriations, but not the total state support, for the kindergarten and grades 1-3 (K-3 CSR) program in 2008-09, and closed the program in 2009-10 through 2011-12 to participants that did not apply for 2008-09 funds. In addition, SBX3 4 established a new schedule of funding reduction percentages in Education Code section 52124.3 for classes exceeding 20.44 pupils. For the four year period from 2008-09 through 2011-12, this new schedule replaces the schedule of funding reduction percentages established previously in Education Code section 52124. The new schedule provides for funding reductions as follows:

- 5% for classes ranging from 20.45 to 21.44 students, inclusive
- 10% for classes ranging from 21.45 to 22.44 students, inclusive
- 15% for classes ranging from 22.45 to 22.94 students, inclusive
- 20% for classes ranging from 22.95 to 24.94 students, inclusive
- 30% for classes with 24.95 students and more.

Like the previous schedule, funding for classes in excess of 20.44 pupils will be calculated based on a count of 20 pupils multiplied by the funding rate, less the funding reduction percentage. **In FCMAT's MYFP analysis, no adjustments have been made to the K-3 CSR program**.

Deferred Maintenance Program

The local matching contribution normally required as a condition of eligibility for deferred maintenance basic grant funding is eliminated for 2008-09 through 2012-13.

The deferred maintenance program is funded by the state one year in arrears. Funding for which LEAs apply in 2007-08 is appropriated by the state and apportioned to LEAs in 2008-09.

The funding apportioned to LEAs in 2008-09 is the first year of funding for which the local match is not required. In addition to the elimination of the local match requirement, deferred maintenance program funding is one of the 39 budget items made flexible by Education Code section 42605 for 2008-09 through 2012-13. Funding related to this budget item is therefore unrestricted for this five-year period and may be used for any educational purpose. **The district makes an annual contribution of $300,000 to the deferred maintenance fund and FCMAT continued this contribution in the MYFP analysis absent a formal decision by the district's board of trustees.**

Routine Restricted Maintenance Account Contribution

For 2008-09 through 2012-13, the contribution to the routine restricted maintenance account (RRMA), which is required for LEAs participating in the state school facility program, is reduced from 3% to 1% of an LEA's total general fund expenditures and other financing uses. **The District participates in the state school facility program**

and contributes approximately $2.1 million annually to RRMA resource 8150 in the general fund. In FCMAT's MYFP analysis, the full 3% contribution continues absent a local decision by the district's board of trustees.

Multiyear Financial Projection Method

FCMAT reviewed and used the district's second interim report for the general fund and the assumptions included with the multiyear financial projections for fiscal years 2008-09 through 2010-11 as a baseline for a multiyear financial projection (MYFP) analysis. FCMAT also reviewed the following items to prepare an independent MYFP:

- Board-approved options for budget adjustments.
- Enrollment and average daily attendance (ADA) projections for the current and two subsequent fiscal years.
- Revenue limit and cash flow documents.
- Documentation supporting the district's budget assumptions.
- Position control data by fund and resource.
- Monthly payroll data by fund and resource.

California school districts and county offices of education use many different software products to prepare MYFPs. For Adelanto School District's MYFP, FCMAT's used its Budget Explorer Web-based MYFP software, which was designed exclusively for California school districts and county offices of education and is available to them free of charge.

Budget Explorer allows school districts to create and update financial projections instantly by interfacing with the standardized account code structure (SACS) or importing data directly from a district's financial system. With its comprehensive modeling capabilities, school districts and county offices can produce multiyear financial projections more efficiently, more accurately and more rapidly than with conventional spreadsheets. Districts can use Budget Explorer to make more informed budget decisions and incorporate educational goals and objectives into multiple financial scenarios.

Multiyear Financial Projection Assumptions

Any forecast of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including enrollment trends, cost of living adjustments (COLAs), and forecasts for utilities, fuel, supplies and equipment. Financial projections must account for the changing economic conditions at the state, federal and local levels.

When making multiyear expenditure decisions about salaries and benefits, a district must analyze the compounding effects over multiple years. According to AB 1200 guidelines, school districts are required to estimate the cost of a tentative agreement for salary and benefits in the current and two subsequent fiscal years. Using a multiyear software program allows district staff to clearly determine the effect of these proposals on the unappropriated fund balance from year to year to ensure that reserve levels are maintained. In developing the multiyear financial projection (MYFP), FCMAT did not include staffing reductions for certificated or classified employees. The MYFP in the district's second interim financial report included a reduction of 38 certificated staff and 10 classified staff to meet the reserve requirements for the current and two subsequent fiscal years. **Because of the lack of formal board action, FCMAT did not include these proposed reductions**.

FCMAT's projection includes the impact of the approved SBX3 4 emergency legislation that amended the state budget act for fiscal years 2008-09 and 2009-10. This includes significant midyear funding reductions to the categorical programs of 15.38% in the current fiscal year and 4.46% in fiscal year 2009-10.

The MYFP prepared by FCMAT uses the district's 2007-08 unaudited actuals financial report as the baseline. FCMAT also used budget assumptions based on the 2008-09 state budget act as amended on February 20, 2009 following the special legislation session, and School Services of California's (SSC's) Financial Dartboard assumptions. FCMAT's MYFP does not include any salary increase in the current or projection years beyond the current negotiated agreement. Included in the projection years are the following:

- The average cost of step and column movement for all contracted salaries and the associated cost of employer-paid statutory benefits of 2% for certificated staff and 2.50% for classified staff.
- A 0% increase (cap) for health and welfare costs in 2009-10 and 2010-11.
- Increases in general operating expenditures based on the California consumer price index (CPI) and the most recent economic indicators.

To build the base year (2008-09) for the multiyear projection, FCMAT did the following:

- Prepared spreadsheets for certificated, classified and management salary and benefit costs using actual year-to-date salary expense activity.
- Reviewed internal and external documents and the CDE's Web site to verify the district's current year revenues.

- Reviewed the district's actual revenue and expenditure detail to identify adjustments in each resource and in major object code sections of the general fund.

In addition to staff interviews, FCMAT used a number of district documents to develop a baseline and future assumptions for the MYFP, including the following:

- Approval letters from the county office regarding the adopted and interim budget reports.
- Outside review, analysis and recommendations related to the district's financial condition using SSC's Financial Dartboard.
- Financial system budget comparative reports that correspond to amounts in the 2007-08 unaudited actuals financial report and 2008-09 actuals to date.
- The financial summary report showing all general ledger balance sheet accounts by fund for 2007-08 and 2008-09.
- Revenue limit worksheets, including all supporting schedules for 2007-08 and 2008-09.
- Historical enrollment information for the current and prior three fiscal years, and projections for the subsequent five years.
- Period one (P-1), period two (P-2), and annual attendance reports, including CBEDS data, for 2005-06 through 2008-09.
- Identification of any one-time revenues and expenditures included in the 2007-08 budget.
- Salary schedules and salary placement information for all employee groups.
- District and department organization charts.
- Long-term debt schedules from the 2007-08 audited financial statements and related contracts.
- The district's calculations of multiyear projections done outside the SACS multiyear format for 2007-08.
- Collective bargaining agreements for all employee groups.
- AB 1200 disclosure documents for the most recent salary settlement for all employee groups.
- Information on the health and welfare rates for the prior three fiscal years.
- Independent audit reports.

Table 5 includes economic factors used by FCMAT in completing the district's multiyear financial projection:

Table 5: Multiyear Projection Rules

Rule	Description	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11	Note
CertCOLA	Certificated COLA %	0.00%	0.00%	0.00%	
ClassCOLA	Classified COLA %	0.00%	0.00%	0.00%	
CertColumn%	Certificated Staff Column Increase %	2.00%	2.00%	2.00%	(1)
CertStep%	Certificated Staff Step Increase %	0.00%	0.00%	0.00%	
ClasStep%	Classified Staff Step Increase %	2.50%	2.50%	2.50%	(2)
CPI	California CPI (SSC)	1.90%	0.80%	1.90%	(3)
LOT-Res	California Lottery Restricted (SSC)	$11.50	$11.50	$11.50	(4)
LOT-Unr	California Lottery Unrestricted (SSC)	$109.50	$109.50	$109.50	(5)
INT	Interest Rate Trend for 10 Year Treasuries (SSC)	2.90%	3.00%	3.40%	(6)
NetCOLA	Net Funded Revenue Limit COLA (SSC)	-2.63%	-0.10%	0.70%	(7)
RLDef	Revenue Limit Deficit: K-12 (SSC)	7.84%	12.45%	12.45%	(8)
SpEdDef	Special Education Base Deficit (SSC)	0.00%	0.00%	0.00%	(9)
CatCOLA	State Categorical COLA (SSC)	0.00%	0.00%	0.70%	(10)
StCOLA	Statutory COLA (SSC)	5.66%	4.25%	0.70%	(11)
HW%	Health & Welfare Benefit Increase	0.00%	0.00%	0.00%	
CustAmt	Custom Amount	$0.00	$0.00	$0.00	
Cust%	Custom Percent	0.00%	0.00%	0.00%	
Cust1Amt	Custom One Time Amount	$0.00	$0.00	$0.00	
Cust1%	Custom One Time Percent	0.00%	0.00%	0.00%	
ManInput	Manual Input	$0.00	$0.00	$0.00	
PRO	Proportional	0.00%	0.00%	0.00%	
Zap	Zero Out	$0.00	$0.00	$0.00	
Enr	Year-to-Year Change in Enrollment	-4.67%	1.44%	0.55%	
RL-ADA	Year-to-Year Change in RL ADA	0.00%	1.13%	0.55%	
TchrStfg	Year-to-Year Change in Teacher Staffing	0.00%	0.00%	0.00%	
SalFrcstr	Salary Forecaster	$0.00	$0.00	$0.00	
P2ADA	P2-ADA/ PRIOR YEAR ANNUAL ESTIMATE	0.00	7,840.67	7,929.52	
TierI	Tier I Programs	0.00%	0.00%	0.70%	(12)
TierII	Tier II Programs	-15.38%	-4.46%	0.70%	(13)
TierIII	Tier III Programs	-15.38%	-4.46%	0.70%	(14)
RLDefCOE	County Office Revenue Limit Deficit	5.36%	5.36%	5.36%	(15)
	Available	0.00%	0.00%	0.00%	
	Available	0.00%	0.00%	0.00%	
	Available	0.00%	0.00%	0.00%	
	Available	0.00%	0.00%	0.00%	(16)
	Available	0.00%	0.00%	0.00%	(17)
	Available	0.00%	0.00%	0.00%	(18)
	Available	0.00%	0.00%	0.00%	(19)
CTechEdGrant	Career and Technical Ed Grants	0.00%	0.00%	0.00%	(20)
SSC CSR	SSC-CSR/ SSC CSR	$0.00	$0.00	$0.00	
K3 CSR	K3-CSR/ K3 CSR	$0.00	$0.00	$0.00	
AutoBal	Autobalance Rule	$0.00	$0.00	$0.00	(21)
Rule	**Description**	**Base Year 2008 - 09**	**Year 1 2009 - 10**	**Year 2 2010 - 11**	**Note**

Block Grant 4410 Educational Technology 7390 AB 825 Pupil Retention Block Grant Gifted and Talented Education (GATE) AB 825 School Safety Consolidated 7268 High Priority Schools and II/USP (see "Note") 7395 AB 825 School and Library Improvement Administrator Training Program (AB 430) 7015 Indian Education Centers Adult Education Instructional Materials Fund Alternative Credentialing 7286 International Baccalaur

(1) 2% Step/Column Movement per district.

(2) 2.5% Step Movement per district.

(3) California CPI

(4) The forecast for Lottery funding per ADA includes only the amount restricted by Proposition 20 (2000) for instructional materials. Lottery funding is based on prior year annual ADA times the statewide average excused absence factor of 1.04446.

(5) The forecast for Lottery funding per ADA includes only the base (unrestricted) funding. Lottery funding is based on prior year annual ADA times the statewide average excused absence factor of 1.04446.

(6) Interest Rate for 10-year Treasuries

(7) Net Funded Revenue Limit Change

(8) Revenue Limit Deficits K-12

(9) Special Education Base Deficit

(10) State Categorial COLA (including adult ed, ROC/P)

(11) Statutory COLA (use for K-12 and COE Revenue Limits and Special Education)

(12) Tier I Programs: No reduction in funding for 2008-09 and 2009-10 (remains at 2007-08 level adjusted for growth/decline). Programs Affected: 6010 After School Education and Safety 7230 Home to School Transportation Child Development 1300 K-3 Class Size Reduction Child Nutrition 7400 Quality Education Investment Act 7090 Economic Impact Aid (EIA) 6500 Special Education

(13) Tier II Programs: Reduction of approximately 15.4% in 2008-09, plus additional reduction of 4.5% in 2009-10 (plus adjustment for growth/decline). Programs Affected: 6015 Adults in Correctional Facilities Foster Youth Educational Services Apprenticeship Programs 7126 K-12 High Speed Network 7010 Agricultural Vocational Education 7220 Partnership Academies 6030 Charter School Facility Grants Pupil Testing County Office Oversight (FCMAT) Year-Round Education English Language Acquisition Program

(14) Tier III Programs: Reduction of approximately 15.4% in 2008-09, plus additional reduction of 4.5% in 2009-10 (plus adjustment for growth/decline) with flexibility to transfer funds from any of these programs to any "educational purpose" (includes unrestricted General Fund or other categorical programs) for the period from 2008-09 to 2012-13. Programs Affected: 7394 AB 825 Targeted Instructional Improvement Block Grant 1200 Class-Size Reduction-9th Grade 7392 AB 825 Teacher Credentialing Block Grant 6205 Deferred Maintenance 7393 AB 825 Professional Development

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(15) County Office Revenue Limit Deficit

(16) Title V, Part A (Innovative Programs) Resource 4110

(17) Title IV Part B (21st Century Learning Centers) Resource 4124

(18) Title I, Part B, Subpart 1 (Reading First) Resource 3030

(19) Title I, Part B, Subpart 3 (Even Start) Resource 3105

(20) Career and Technical Ed Grants

(21) Autobalance Rule

(22) Federal COLA

(23) Indirect Rate

(SSC) = based on School Services of California Financial Dartboard February 2009

Multiyear Financial Projection Analysis

The primary purpose of a MYFP is to project the district's budget over multiple fiscal years using budget assumptions that will allow the district to achieve and sustain a balanced budget and meet the recommended 3% minimum reserve for economic uncertainties.

To evaluate the multiyear projection, attention is focused on the district's ability to meet its reserve requirement of 3% and demonstrate a positive, unappropriated fund balance. FCMAT has analyzed all funding sources and expenditure categories by resource. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines. The unrestricted general fund summary below indicates that the district will have a negative balance for both the 2009-10 and 2010-11 fiscal years without substantial reductions or revenue increases.

To protect the district's financial solvency and eliminate the projected shortfalls of $3.7 million shortfall in fiscal year 2009-10, and $9.3 million in fiscal year 2010-11, the district will need to begin preparing immediately for a period of fiscal instability. To balance the budget, the district will need to make difficult choices about which expenditures and programs will continue to be funded and which will be scaled back, reconfigured or eliminated. In the short term, the district needs to take immediate actions to address the projected budget shortfall for the two subsequent fiscal years of the MYFP analysis.

<u>FCMAT's MYFP indicates that the district **will not** meet its recommended reserve requirement in the two subsequent fiscal years (2009-10 and 2010-11) without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending</u>. The district's enrollment is projected to increase minimally in the two subsequent fiscal years, but is not sufficient to overcome the districts projected budget shortfall.

In 2008-09 the unrestricted general fund continues to require an interfund transfer of approximately $2,076,000 from the special reserve, Fund 17. By the end of this fiscal year, 2008-09, Fund 17 is estimated to have a remaining balance of approximately $800,000. In the two subsequent fiscal years, the unrestricted general fund would need to transfer funding from the district's retiree benefits, Fund 67 and exhaust the remaining balances in Fund 17 to sustain the same level of support. In addition to the transfers, the general fund is supported in the current and two subsequent fiscal years by approximately $900,000 in redevelopment agency (RDA) revenue, which will not continue in perpetuity. The district needs to review its RDA agreements and determine if these funds may be used for the routine restricted maintenance and/or the deferred maintenance contributions.

FCMAT's general fund MYFP uses the 2007-08 audited actuals as a base year for salary and benefits and the 2008-09 state budget revisions from the special emergency legislative session that ended in February 2009. The projection excludes annual increases for cost of living adjustments (COLAs) for employee salaries and does not include any reductions in staffing in the current or two subsequent fiscal years.

Table 6: MYFP Unrestricted General Fund Summary

Name	Object Code	Historical Year 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Revenues					
Revenue Limit Sources	8010 - 8099	$48,058,728.59	$42,790,032.07	$41,355,328.85	$41,691,583.22
Federal Revenues	8100 - 8299	$266,095.00	$76,000.00	$76,000.00	$76,000.00
Other State Revenues	8300 - 8599	$2,735,269.83	$2,484,895.00	$2,512,751.93	$2,535,860.55
Other Local Revenues	8600 - 8799	$882,804.72	$437,868.00	$298,557.00	$241,109.60
Total Revenues		**$51,942,898.14**	**$45,788,795.07**	**$44,242,637.78**	**$44,544,553.37**
Expenditures					
Certificated Salaries	1000 - 1999	$24,643,020.57	$23,699,316.00	$23,919,226.74	$24,625,655.14
Classified Salaries	2000 - 2999	$6,284,451.37	$6,625,365.00	$6,790,439.13	$6,959,640.08
Employee Benefits	3000 - 3999	$8,455,598.78	$8,818,961.00	$9,009,395.58	$9,105,854.40
Books and Supplies	4000 - 4999	$1,176,349.15	$739,762.00	$754,106.28	$772,660.71
Services and Other Operating Expenditures	5000 - 5999	$3,669,393.20	$3,802,033.00	$3,864,877.69	$3,960,477.06
Capital Outlay	6000 - 6900	$29,477.20	$72,412.00	$72,412.00	$72,412.00
Other Outgo	7000 - 7299	$18,599.64	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($514,607.81)	($472,445.00)	($472,445.00)	($472,445.00)
Debt Service	7430 - 7439	$102,659.03	$19,070.00	$0.00	$0.00
Total Expenditures		**$43,864,941.13**	**$43,304,474.00**	**$43,938,012.42**	**$45,024,254.39**
Excess (Deficiency) of Revenues Over Expenditures		**$8,077,957.01**	**$2,484,321.07**	**$304,625.36**	**($479,701.02)**
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$3,513.17	$2,076,000.00	$2,076,000.00	$2,076,000.00
Interfund Transfers Out	7600 - 7629	$2,032,279.48	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($5,199,699.40)	($6,371,293.67)	($7,094,195.15)	($7,150,701.88)
Total Other Financing Sources\Uses		**($7,228,465.71)**	**($4,295,293.67)**	**($5,018,195.15)**	**($5,074,701.88)**
Net Increase (Decrease) in Fund Balance		**$849,491.30**	**($1,810,972.60)**	**($4,713,569.79)**	**($5,554,402.90)**
Fund Balance					
Beginning Fund Balance	9791	$3,901,250.09	$4,750,741.39	$2,939,768.79	($1,773,801.00)
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$3,901,250.09	$4,750,741.39	$2,939,768.79	($1,773,801.00)
Ending Fund Balance		$4,750,741.39	$2,939,768.79	($1,773,801.00)	($7,328,203.90)
Components of Ending Fund Balance					
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$0.00	$60,000.00	$60,000.00	$60,000.00
Stores	9712	$0.00	$96,242.50	$96,242.50	$96,242.50
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$0.00	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		3%	3%	3%	3%
Designated for Economic Uncertainties	9770	$1,903,794.99	$1,850,769.56	$1,834,365.53	$1,876,004.91
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$2,846,946.40	$932,756.73	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	($3,764,409.03)	($9,360,451.31)

As discussed in the Budget Development section of this report, because the district uses 90.39% of its unrestricted general fund budget for employee compensation it needs to develop staffing formulas for all positions to ensure that ratios are within employee contract guidelines, meet students' needs and agree with approved goals and objectives, including the goal of fiscal solvency.

The district's contributions from unrestricted to restricted programs continue to increase each fiscal year. The multiyear projection indicates that several restricted programs require unrestricted general fund support. The district needs to carefully review these contributions and ensure that all restricted programs are self-sustaining. The only exceptions should be special education and home-to-school transportation programs because these programs typically have insufficient state and federal funding.

Some of the district's greatest challenges will be for health care benefits for current and retired employees, reducing staffing levels, increasing the ratio of enrollment to ADA, and developing a plan to attract students to the district. The process of solving these issues will help raise awareness of the district's financial status and may prompt collaborative efforts to find solutions.

The business office staff can access a detailed analysis of the district's general fund by resource using the Budget Explorer software at www.fcmat.org. A summary of the unrestricted, restricted and combined general fund is included in the appendix section of this report.

Enrollment and Average Daily Attendance (ADA)

The district traditionally uses information compiled from a variety of sources (School Innovations & Advocacy, School Services of California and the county office) and combines it with its own information to calculate estimated enrollment numbers. These enrollment numbers are then used as a predictor of average daily attendance (ADA), based on historical ratios.

The district has also hired a demographer to provide enrollment estimates. These estimates are often used in applications for new construction funding from the state's Office of Public School Construction.

FCMAT compared projections in the demographer's fall 2008-09 report with enrollment projections reported in the criteria and standards section of the district's second interim report. The district estimates that it will have 8,327 students for the 2009-10 school year, while the demographer's estimate is 8,104 students. For the 2010-11 school year, the district estimates 8,417 students and the demographer estimates 8,129. To avoid overstating revenue projections in these difficult economic times, the district will need to review its estimated enrollment and ADA calculations to ensure that they are accurate and conservative.

According to the district's second interim multiyear financial projection (MYFP), one way the district is proposing to increase its average daily attendance (ADA) for the 2009-10 school year is to implement a "4 year old Kindergarten program (with existing staff)." Education Code Section 48000 states, in part, the following:

(a) A child shall be admitted to a kindergarten at the beginning of a school year, or at any later time in the same year if the child will have his or her fifth birthday on or before December 2 of that school year.

(b) The governing board of any school district maintaining one or more kindergartens may, on a case-by-case basis, admit to a kindergarten a child having attained the age of five years at any time during the school year with the approval of the parent or guardian, subject to the following conditions:

  (1) The governing board determines that the admittance is in the best interests of the child.

  (2) The parent or guardian is given information regarding the advantages and disadvantages and any other explanatory information about the effect of this early admittance.

The district's proposed kindergarten program for four-year-olds does not follow the requirements outlined in the education code. The district needs to consult with its legal counsel and independent auditors regarding the exact details of the proposed program prior to implementing it.

Because the district's primary funding is based on the total number of student days in the attendance cycle, monitoring and projecting student enrollment and analyzing ADA and attendance are essential to budget planning. When enrollment and related ADA decline, the district must consider the budgetary effect of the decline on teacher-to-student ratios and plan accordingly.

FCMAT reviewed the district's enrollment and ADA trends for 2003-04 through 2008-09, comparing the October California Basic Educational Data System (CBEDS) student enrollment counts to the period two (P-2) principal apportionment to determine the average enrollment-to-ADA ratios.

Enrollment Projection

To project the district's future enrollment, FCMAT used the cohort survival method, which groups students by grade level upon entry and tracks them through each year that they stay in school. This method evaluates the longitudinal relationship of the number of students passing from one grade to the next in a subsequent year. In doing so, it more closely accounts for retention, dropouts and in-and out-migration, grade by grade. Although other enrollment forecasting techniques are available, the cohort survival method usually is the best choice for school districts because of its sensitivity to incremental changes in several key variables (see below).

Percentages are calculated from historical enrollment data to determine a reliable weighted average percentage of increase or decrease in enrollment between any two grades over the projection period. Ratios are calculated between grade levels from year to year, usually using data from the last five years. For example, if 100 students enrolled in first grade in 2006-07 and increased to104 students in second grade in 2007-08, the percentage of survival would have been 104%, or a ratio of 1.04.

Enrollment variables include the following:

- Birth rates and trends.
- The historical ratio of enrollment progression between grade levels.
- Changes in educational programs.
- Interdistrict and intradistrict transfers.
- Migration patterns.
- Changes in local and regional demographics.
- Industry changes such as a new industry coming to the area or an industry leaving.
- Residential housing starts and the generation factor per household.
- The approval of charter schools, pending applications, and the recruitment efforts of approved charter schools within the district's boundaries.

Table 7 shows the district's historical and projected enrollment using the cohort survival method.

Table 7: Historical and Projected Enrollment

Enrollment	Historical 5 2003 - 04	Historical 4 2004 - 05	Historical 3 2005-06	Historical 2 2006-07	Historical 1 2007-08	Base Year 2008-09	Pojection Year 1 2009-10	Projection Year 2 2010 - 11
K	660	738	832	863	880	849	859	861
1	696	766	903	964	940	925	935	936
2	681	783	859	1,021	941	878	929	926
3	704	757	883	946	1,049	896	897	938
4	696	765	851	1,000	930	968	899	886
5	679	739	871	920	1,008	893	984	903
Subtotal (K - 5)	4,116	4,548	5,199	5,714	5,748	5,409	5,503	5,450
6	694	752	840	962	953	983	925	1,008
7	642	791	879	945	1,008	924	1,026	953
8	689	722	864	921	944	933	914	1,003
Subtotal (6 - 8)	2,025	2,265	2,583	2,828	2,905	2,840	2,865	2,964
Subtotal Excluding Charter Schools	6,141	6,813	7,782	8,542	8,653	8,249	8,368	8,414
Total	6,141	6,813	7,782	8,542	8,653	8,249	8,368	8,414
P2ADA	Historical 5 2003 - 04	Historical 4 2004 - 05	Historical 3 2005 - 06	Historical 2 2006 - 07	Historical 1 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Excluding Charter Schools	5,831.49	6,520.72	7,473.83	8,094.40	8,082.77	7,840.67	7,929.52	7,973.11
Charter Schools (to calculate in-lieu property taxes)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
COE CommSchs/ SpEd	0.00	0.00	0.00	0.00	52.64	52.64	52.64	52.64
Total	5,831.49	6,520.72	7,473.83	8,094.40	8,135.41	7,893.31	7,982.16	8,025.75
Enrollment Factors	Historical 5 2003 - 04	Historical 4 2004 - 05	Historical 3 2005 - 06	Historical 2 2006 - 07	Historical 1 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Excluding Charter Schools	0.9496	0.9571	0.9604	0.9476	0.9341	0.9505	0.9476	0.9476

Falling Home Values and Foreclosures (not included in current analysis)
Geographically, San Bernardino County is the largest county in the United States, and it is experiencing one of the highest home foreclosure rates in the state, particularly in the most populous areas in the southwest portion of the county, commonly referred to as the Inland Empire. Although the Adelanto School District is not located in this region and is not part of the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA), the district will need to immediately review and analyze the impact of home foreclosures on its enrollment.

The county's staff have been tracking foreclosures and notices of default since early 2008. In its current and future enrollment projections, the district will need to increase its focus on the effect of foreclosures and residential housing starts. **The district's projected enrollment may need additional adjustments. In FCMAT's analysis, the enrollment continues to increase minimally and should be evaluated monthly**.

Going Concern

Assembly Bill 1200 was enacted in 1991 and provided additional authority and responsibility to county offices. In June 2004, Assembly Bill 2756 (Daucher) was passed and signed into law on an urgency basis. The legislation made substantive changes to the financial accountability and oversight processes used to monitor the fiscal condition of school districts and county offices of education. AB 2756 strengthened the roles of the superintendent of public instruction (SPI), the county office of education (COE) and the Fiscal Crisis and Management Assistance Team (FCMAT) and their ability to intervene during fiscal crises.

The 15 most common predictors of a school district needing intervention, as referenced in AB 2756 and included in Education Code sections 42127 and 42127.6 are as follows:

1. Governance crisis.
2. Absence of communication to the education community.
3. Lack of interagency cooperation.
4. Failure to recognize year-to-year trends.
5. Flawed ADA projections.
6. Failure to maintain reserves.
7. Insufficient consideration of the effects of long-term bargaining agreements.
8. Flawed multiyear projections.
9. Inaccurate revenue and expenditure estimates.
10. Poor cash flow analysis and reconciliation.
11, Bargaining agreements beyond state COLA.
12. No integration of position control with payroll.
13. Limited access to timely personnel, payroll and budget control data and reports.
14. Escalating general fund encroachment by categorical programs.
15. Lack of regular budget monitoring.

The district is experiencing several of these conditions and they will require immediate attention and decisions by the governing board and administration based on the state's current budget crisis.

The term "going concern," when applied to an agency, business or organization, means that the entity is fiscally healthy and able to meet its financial obligations. An organization the fiscal health of which is suspect or which is deemed to have a risk of insolvency is considered and called "not a going concern" or "lack of going concern." Education

Code section 42127.6 has often been referred to as the “going concern” section, and was amended to include the provisions of AB 2756. These provisions include the following:

I. A district shall, pursuant to E.C. 42127.6, provide the county superintendent of schools with a copy of any study, report, evaluation, or audit that contains evidence that the school district is showing fiscal distress under the standards and criteria adopted in Section 33127, or a report on the district by FCMAT or any regional team created pursuant to subdivision (i) of Section 42127.8.

II. The county superintendent of schools shall review and consider these studies, reports, evaluations or audits that contain evidence that the district is demonstrating fiscal distress under the standards and criteria, or that contain a finding by an external reviewer that more than three of the 15 most common predictors of a school district needing intervention, as determined by the County Office Fiscal Crisis and Management Assistance Team, are present.

III. The county superintendent of schools shall investigate the financial condition of the school district and determine if the school district may be unable to meet its financial obligations for the current or two subsequent fiscal years, or should receive a qualified or negative interim financial certification pursuant to E.C. Section 42131.

   1. If at any time during the fiscal year the county superintendent of schools determines that a school district may be unable to meet its financial obligations for the current or two subsequent fiscal years, or if the district has a qualified or negative certification, the county superintendent shall notify the governing board and the SPI in writing of that determination and the reasons for the determination. The notification shall include the assumptions used and shall be available to the public. The county superintendent shall report to the SPI on the financial condition of the district and proposed remedial actions. The county superintendent shall adhere to E.C. 42127.6 in assisting the school district by doing at least one of the following (This is a paraphrased narrative of the code section. Please refer to E.C. 42127.6 for a complete listing):

      (A) Assign a fiscal expert, paid for by the county superintendent, to advise the district on its financial problems.

      (B) Conduct a study of the financial and budgetary conditions of the district. If expertise is needed for the study, the COE may hire staff with the approval of the SPI. The school district shall pay 75 percent and the COE shall pay 25 percent of those staff costs. County offices of education are eligible to request their 25 percent costs through a FCMAT reimbursement with the approval of the California Department of Education and the Department of Finance.

      (C) Direct the school district to submit a financial projection of all fund and cash balances of the district for the current and subsequent fiscal years.

(D) Require the district to encumber all contracts and other obligations, to prepare appropriate cash flow analyses and budget revisions, and to record all receivables and payables.

(E) Direct the district to submit a proposal for addressing its fiscal condition.

(F) Withhold compensation of the members of the governing board and district superintendent for failure to provide requested financial information. This action may be appealed to the SPI.

(G) Assign FCMAT to review teacher hiring practices, teacher retention rate, percentage of provision of highly qualified teachers and the extent of teacher misassignment in the school district. If a review team is assigned, the district shall follow the recommendations of the team.

Any contract entered into by the county superintendent of schools for the purposes of this subdivision is subject to the approval of the SPI.

2. If, after taking any or all of the actions cited in E.C. 42127.6 (A-G), the county superintendent determines that a district will be unable to meet its financial obligations for the current or subsequent fiscal year, the county superintendent shall notify the governing board and SPI in writing. The notification shall include the county superintendent's assumptions in making the determination and shall be provided to the superintendent of the school district and the parent and teacher organization of the district. Within five days of the determination, an appeal may be made to the SPI by the district. Within 10 days of the appeal, the SPI shall sustain or deny any or all parts of the appeal. During the appeal process, the county superintendent may stay any action of the governing board that is inconsistent with the district's ability to meet its financial obligations in the current or subsequent fiscal year [E.C. 42127.6 (c) (d)].
3. If the appeal is denied or not filed, or if the district has a negative certification, the county superintendent, in consultation with the SPI, shall, take at least one of the actions described in paragraphs (A) to (E), and all actions that are necessary to ensure that the district meets its financial obligations. These actions include the following (refer to E.C. 42127.6 (e) for a complete listing):

   (A) Develop and impose, in consultation with the SPI and the governing board, a budget revision.

   (B) Stay or rescind any action that is determined to be inconsistent with the school district's ability to meet its obligations for the current or subsequent fiscal year.

   (C) Assist in developing, in consultation with the governing board of the school district, a financial plan that will enable the district to meet its future obligations.

(D) Assist in developing, in consultation with the governing board of the school district, a budget for the subsequent fiscal year.

(E) As necessary, appoint a fiscal advisor to perform any or all of the duties required of the county superintendent under this section.

4. No later than five days after receipt of the notice that the county superintendent of schools is proposing changes to the district's budget pursuant to E.C. 42127.6 (e), the district may appeal the change to the SPI on the basis of impact to programs, requirement of unnecessary reductions or conflict with state and federal law. The SPI has five days to deny or uphold the appeal [E.C. 42127.9].
5. Any action taken by the county superintendent of schools under this subdivision shall be accompanied by a notification that shall include the actions to be taken, the reasons for the actions, and the assumptions used to support the necessity for these actions.
6. The school district shall pay 75 percent and the COE shall pay 25 percent of the administrative expenses incurred pursuant to E.C. Section 42127.6 (e) or costs associated with improving the district's financial management practices. County offices of education are eligible to request their 25 percent costs through a FCMAT reimbursement with the approval of the California Department of Education and the Department of Finance.

IV. This section does not authorize the county superintendent to abrogate any provisions of a collective bargaining agreement that was entered into by a school district prior to the date upon which the county superintendent of schools assumed authority [E.C. 42127.6 (g)].

AB 1200 Oversight

If at any time during the fiscal year a district is unable to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district's governing board and the SPI. The county office is required to follow Education Code section 42127.6 in assisting a school district in this situation.

Regular and frequent budget monitoring becomes critical in times of fiscal uncertainty. The district will need to ensure that multiyear financial projections are kept up to date and that the information they contain is accurate and based on the most current assumptions. Economic indicators will change rapidly as California continues to struggle to balance its budget, so staying current with updated financial information will help keep the district informed.

FCMAT has updated the multiyear projections to include the latest budget adjustments signed into law from the special state legislative session that ended in February 2009. **The MYFP developed for this report indicates that the district *will not* be able to maintain its required reserve of 3% in the two subsequent fiscal years**. The district faces substantial fiscal challenges that will require it to make and implement difficult decisions immediately.

Recommendations

The district should:

1. Begin preparing immediately for a period of fiscal instability.
2. Adopt a budget and multiyear projections that eliminate deficit spending and meet reserve requirements in the budget and projection years.
3. Develop staffing formulas for all positions and ensure that ratios are within employee contract guidelines, meet students' needs and agree with approved goals and objectives, including the goal of fiscal solvency.
4. Review contributions to restricted programs and ensure that all restricted programs are self-sustaining, except special education and home-to-school transportation.
5. Review its RDA agreements and determine if these funds may be used for the routine restricted maintenance and/or the deferred maintenance contributions.
6. Review estimated enrollment and ADA calculations to ensure that they are accurate and conservative.
7. Consult with legal counsel and its independent auditors to determine whether it should abandon plans for implementing a kindergarten program for four-year-olds.

8. Immediately review and analyze the impacts of home foreclosures on its enrollment.
9. Ensure that current and future enrollment projections have an increased focus on the effect of foreclosures and residential housing starts.
10. Ensure that its governing board immediately begins making decisions to address any conditions in the district that are indicators of fiscal distress as listed in this report.
11. Ensure that multiyear financial projections are accurate and up to date.

Appendices

Appendix A

April 17, 2009 letter from CDE

Attachment A – Appropriation Deferrals

Attachment B – Categorical Flexibility Programs

Appendix B

District Cal-Card Usage Policies & Procedures

Appendix C

Hotel/Motel Transient Occupancy Tax Waiver Exemption Claim For Government Agencies

Appendix D

Multiyear Financial Projection

Appendix E

Study Agreement

Appendix A

April 17, 2009 letter from CDE

Attachment A – Appropriation Deferrals

Attachment B – Categorical Flexibility Programs

CALIFORNIA
DEPARTMENT OF
EDUCATION

JACK O'CONNELL
STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

April 17, 2009

Dear County and District Chief Business Officials and Charter School Administrators:

FISCAL ISSUES RELATING TO BUDGET REDUCTIONS AND FLEXIBILITY PROVISIONS

This letter expands upon guidance in the California Department of Education's (CDE) letter of February 25, 2009, regarding the CDE's understanding and implementation of education trailer bill Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4) (Chapter 12, Statutes of 2009). SBX3 4 enacts numerous significant changes to law, which include funding reductions to certain Kindergarten through Grade Twelve education programs and, to mitigate the effects of these reductions, unprecedented budgeting flexibility to local educational agencies (LEAs). The February 25 letter is available on the Web at http://www.cde.ca.gov/fg/fr/eb/yr09budgetacts.asp.

Following the enactment of SBX3 4, the CDE has worked extensively with Department of Finance, Legislative Analyst's Office, and legislative staff to clarify the intent and meaning of numerous provisions in the bill. This letter describes the clarifications achieved to date, gives fiscal and accounting guidance relating to the budget reductions and flexibility provisions, and notes anticipated changes to be enacted through cleanup legislation. The CDE is continuing to pursue those issues still requiring clarification.

BUDGETING FLEXIBILITY

Sections 5, 15, and 42 of SBX3 4 provide budgeting flexibility for LEAs through the following measures:

- LEAs may use 100% of General Fund or Cafeteria Fund restricted balances as of June 30, 2008, for any educational purpose (but note caution below on use of Cafeteria Fund balances).
- For 2008-09 through 2012-13, LEAs may use funding formerly restricted for 39 specified categorical programs for any educational purpose.
- For 2008-09 through 2012-13, the required contribution to the routine restricted maintenance account (RRMA) is reduced from 3% to 1% of an LEA's total general fund expenditures and other financing uses.

- For 2008-09 through 2012-13, the local match requirement for Deferred Maintenance Program eligibility is eliminated.

These flexibility provisions are discussed in depth in the following sections.

In contrast to similar flexibility provisions in the 2002-03 state budget, SBX3 4 does not limit an LEA's budgeting flexibility to the amount of revenue limit and categorical funding reductions the LEA sustains. SBX3 4 also does not reduce the level of an LEA's required reserve for economic uncertainties.

Restricted Balance Flexibility

Section 42 of SBX3 4 provides that, with the following specific exceptions, 100% of General Fund and Cafeteria Fund restricted account balances as of June 30, 2008, may be used for any educational purpose.

The exceptions are restricted reserves committed for capital outlay, bond or sinking funds, federal funds, and balances in the following programs:

- California High School Exit Exam Intensive Intervention Program
- Economic Impact Aid (EIA)
- Home-to-School Transportation (including Special Education and School Bus Replacement)
- Instructional Materials
- Quality Education Investment Act (QEIA)
- Special Education
- Targeted Instructional Improvement Grant

Note that SBX3 4 makes specific statutory reference to the original Targeted Instructional Improvement Grant, which ended in 2004-05, rather than to the current Targeted Instructional Improvement Block Grant, which replaced it.

The bill stipulates that balances of restricted accounts do not include appropriations deferred from 2006-07 to 2007-08 or appropriations deferred from 2007-08 to 2008-09. Attachment A lists the appropriation deferrals excluded from the provisions of SBX3 4. The bill also stipulates that restricted ending balances may not be used if that use would violate federal maintenance of effort requirements. Please see discussion of the effects on maintenance of effort requirements later in this letter.

It is the intent of the Legislature to allow LEAs to access surplus balances in the Cafeteria Fund. However, for districts participating in federal food programs, flexibility may be limited. Federal law requires school food authorities to establish a nonprofit school food service, and further requires that federal, state and local revenues received by the school food service be used only for the operation or improvement of such service. Therefore, you should exercise caution if your district receives federal funds and has established a school food service in accordance with federal guidelines, so as to ensure program compliance and avoid a federal audit exception.

The calculation of restricted balances eligible for flexibility and the accounting for transfers of restricted balances are discussed in the section titled Accounting for Flexible Uses of Funds, later in this letter.

Categorical Program Flexibility

Section 15 of SBX3 4 *(California Education Code (EC)* Section 42605) authorizes complete flexibility in the use of funds appropriated in 39 budget act items. For 2008-09 through 2012-13, school districts, county offices of education, and charter schools may use funds from these 39 items for any educational purpose. The funds are therefore unrestricted; program or funding requirements, as otherwise provided in statute, regulation, and budget act provisional language associated with the funding, are not in effect. Note that although *EC* 42605(e) describes certain continuing requirements with which LEAs must comply relating to the provision of instructional materials and the delivery of CalWORKS services, the existence of these requirements does not alter the newly unrestricted nature of the funding.

An LEA may choose to use funds from one or more of the 39 items in a manner completely different from how the funds could be used in years prior to 2008-09. Conversely, an LEA may choose to use the funds to continue to operate a program in the same manner as in the past. Both of these scenarios reflect a local decision as allowed by the flexibility provisions; any restrictions imposed on the funds from these 39 items are therefore local restrictions. There are no state restrictions or requirements, such as expenditure reports or compliance reviews, associated with the funding.

The accounting for categorical program flexibility is discussed in the section titled Accounting for Flexible Uses of Funds, later in this letter.

Attachment B lists the programs specified in *EC* 42605.

Public Hearing

There is ambiguity in SBX3 4 with regard to the public hearing requirement. The CDE has received clarification from the bill's authors that a public hearing as provided in *EC* 42605(c)(2) is a condition for receipt of funds from the 39 budget items made flexible by the bill, but is not a condition of the funds being flexible as is suggested in *EC* 42605(e)(4). To receive funds, the governing board, at a regularly scheduled open public hearing, shall take testimony from the public and shall discuss and approve or disapprove the proposed use of funding. It is the intent of the authors that the annual governing board budget adoption may satisfy this requirement.

Action by the governing board to transfer funds from one use to another is not necessary for the funds to be flexible. Accordingly, there is no requirement for a public hearing on the proposed transfer of funds for the funds to be deemed flexible. The funds are deemed flexible upon receipt and retroactively to July 1, 2008.

Consistent with past practice, funds will be allocated to LEAs prior to any determination as to whether a public hearing occurred. If a subsequent compliance review were conducted and a determination made that the public hearing requirement was not met, the LEA would be subject to potential return of the funds. Due to the statutory timelines of the 2008-09 audit guide development, the CDE anticipates no audit of the public hearing requirement in 2008-09.

Base Year Funding Provisions

SBX3 4 provides that amounts appropriated in the "flexed" 39 budget act items in 2009-10 through 2012-13 shall be apportioned to an LEA in the same relative statewide proportion as the LEA received those items for 2008-09. In other words, if an LEA received 2% of the funds allocated in a budget act item in 2008-09, that LEA will receive 2% of the amount appropriated in that same budget act item in each of 2009-10 through 2012-13.

This base year relative percentage formula supersedes all previous funding formulas, and is consistent with the concept of flexible funding. Accordingly, through 2012-13, the CDE will not require applications, will not monitor participation levels such as hourly attendance and average daily attendance, and will not collect other documents or data previously required for funding. All funding and program requirements are deemed satisfied.

Of concern is using 2008-09 as the base year when there are no provisions of law in effect by which an LEA could report meaningful participation in 2008-09, such as average daily attendance or hours. As such, for a relatively small number of the 39 budget items, representatives of the Administration and Legislature anticipate legislation that will change the base year to 2007-08. At this time, the budget items that appear to be candidates for a legislative change to the base year are:

- Item 6110-104-0001 Remedial Supplemental Instruction Programs
- Item 6110-105-0001 Regional Occupational Centers and Programs
- Item 6110-156-0001 Adult Education
- Item 6110-190-0001 Community Day Schools
- Item 6110-193-0001 (Schedule 3) Reader Services for Blind Teachers
- Item 6110-198-0001 Cal-SAFE
- Item 6110-232-0001 Class Size Reduction Grade 9
- Item 6110-240-0001 (Schedule 2) Advanced Placement Fee Waiver Program

LEAs will see changes to apportionments in 2008-09 to reflect funding reductions resulting from SBX3 4 (see the CDE's February 25, 2009 letter). Apportionments for those items whose base year will likely change to 2007-08 will be adjusted when that change is enacted into law. In the interim, 2008-09 will be treated as the base year.

Charter Schools

As currently written, the SBX3 4 requirement that an LEA's receipt of budget act item funds in 2009-10 through 2012-13 be based on the amount that the LEA received from that item in 2008-09 prevents charter schools established after 2008-09 from receiving funds from the 39 flexed budget act items, including the charter school categorical block grant. The CDE anticipates legislation to address this and other unintended consequences.

K-3 Class Size Reduction

SBX3 4 changed the budget item source of appropriations, but not the total state support, for the Kindergarten and Grades One Through Three (K-3 CSR) Program in 2008-09, and also closed the program in 2009-10 through 2011-12 to participants that did not apply for 2008-09 funds. In addition, SBX3 4 established a new schedule of funding reduction percentages in *EC* 52124.3 for classes exceeding 20.44 pupils. This new schedule replaces, for the four-year period from 2008-09 through 2011-12, the schedule of funding reduction percentages established previously in *EC* 52124. The new schedule provides for funding reductions as follows:

- 5% for classes ranging from 20.45 to 21.44, inclusive
- 10% for classes ranging from 21.45 to 22.44, inclusive
- 15% for classes ranging from 22.45 to 22.94, inclusive
- 20% for classes ranging from 22.95 to 24.94, inclusive, and
- 30% for classes ranging from 24.95 and more.

Like the previous schedule, funding for classes in excess of 20.44 pupils will be calculated based on a count of 20 pupils multiplied by the funding rate, less the funding reduction percentage multiplied by 20 times the funding rate.

As currently written, SBX3 4 also limits any funding to classes in the grade level or levels for which the LEA applied for 2008-09 funds, with this limit to be in effect for the four-year period from 2008-09 through 2011-12. It is our understanding, however, that clean-up legislation will be enacted to limit any funding to the number of classes, instead of the number of grades, for which LEAs applied for 2008-09 funds. The grade level implementation priorities remain in effect; at each school, grade one must be implemented first, followed by grade two. Once all classes in grades one and two at the school have been reduced, the classes in grade three or kindergarten may be reduced. However, if an LEA implementing grades one through three later chose to implement kindergarten instead of grade three, this would be allowed; the LEA’s claim to funds would only be limited to the number of classes for which it applied for funds in 2008-09. We also anticipate that the clean-up legislation will change the date by which 2008-09 applications must have been received from December 10, 2008, to January 31, 2009.

Average Daily Attendance

Discussions are underway among state agencies, the Administration, and the Legislature regarding the impact of the change in average daily attendance reporting on other areas and entitlement formulas such as Proposition 98, lottery, and county office other purpose funding.

Repeal of Budget Act Section 12.40

SBX3 4 repealed Section 12.40 of the 2008 Budget Act, which allowed limited flexibility for transfers of funds among certain categorical programs. Any Section 12.40 transfers made in 2008-09 should be reversed.

Deferred Maintenance Program

The local matching contribution normally required as a condition of eligibility for Deferred Maintenance basic grant funding is eliminated for 2008-09 through 2012-13. In response to many questions from LEAs about this provision, the CDE gives the following clarification.

To preface, the Deferred Maintenance Program is funded by the state one year in arrears. Funding for which LEAs apply in 2007-08 is appropriated by the state and apportioned to LEAs in 2008-09, and so on.

Procedure 510 of the California School Accounting Manual, Recognition of Common Revenue Sources, provides (page 510-3):

> The Deferred Maintenance Apportionment is recognized in the year it is appropriated in the State Budget Act and apportioned to LEAs. The LEA's matching transfer to the deferred maintenance fund is recognized in the year that it is made or accrued.

The funding appropriated by the state and apportioned to LEAs in 2008-09 is therefore recognized in 2008-09, regardless of the fact that the LEA applied for it in 2007-08 and regardless of the year in which the LEA made its qualifying local match.

The funding apportioned to LEAs in 2008-09 is the first year of funding for which the local match is not required. The CDE is aware that by the time that SBX3 4 was enacted, LEAs may have already transferred their local match to the Deferred Maintenance Fund. Accordingly, the CDE believes that if an LEA already transferred its local match to the Deferred Maintenance Fund to be eligible for funds appropriated in the 2008-09 Budget Act, the LEA may reverse that transfer because the match is not required.

In addition to the elimination of the local match requirement, deferred maintenance program funding is one of the 39 budget items made flexible by *EC* 42605 for 2008-09 through 2012-13. Funding related to this budget item is therefore unrestricted for this five-year period and may be used for any educational purpose. Please see discussion in the section titled "Accounting for Flexible Uses of Funds," later in this letter.

Routine Restricted Maintenance Account Contribution

The contribution to the routine restricted maintenance account (RRMA), required for LEAs participating in the School Facility Program, is reduced from 3% to 1% of an

LEA’s total general fund expenditures and other financing uses for 2008-09 through 2012-13. The accounting for RRMA contributions is discussed in the *California School Accounting Manual* (*CSAM*), Procedure 650, Facility Maintenance Program—Coding Examples.

2008-09 Audit Guide

The Office of the State Controller is issuing guidance on the changes to the 2008-09 audit guide that reflect the new flexibility provisions.

ACCOUNTING FOR FLEXIBLE USES OF FUNDS

The unprecedented flexibility provided by SBX3 4 means that eligible balances and funds can be used for any educational purpose, whether that purpose was originally intended for that program or not.

This has some sweeping implications for accounting in the Standardized Account Code Structure. Given the now-unrestricted character of these balances and funds, in most instances the restricted resource codes formerly assigned to them are no longer meaningful and the continued use of restricted resource codes would be misleading.

The following sections provide accounting guidance for the flexibility provisions of SBX3 4.

Accounting for Transfers of Restricted Balances Pursuant to Section 42

The restricted balance flexibility pursuant to SBX3 4 effectively transforms the June 30, 2008, restricted account balances eligible for flexibility from restricted to unrestricted retroactively to July 1, 2008, and, with certain exceptions discussed below, the balances should be accounted for accordingly.

Transfers of restricted balances eligible for flexibility should be reported in Object 8997, Transfers of Restricted Balances, as a debit to the restricted resource from which the balance is being transferred and as a credit to Resource 0000, Unrestricted. This accounting reflects the change in the character of these formerly restricted balances to unrestricted pursuant to SBX3 4.

For purposes of identifying the restricted account balances available for transfer, include amounts in the restricted ending fund balance account as well as amounts in the deferred revenue account. This is consistent with the intent that "restricted account balances" is synonymous with "carryover," that is, the difference between the amount of a program award available for expenditure and the amount of the award that the LEA has actually expended so far, without regard to how that carryover is treated for purposes of accounting.

In very few instances, it is also appropriate to include amounts that were not in any account on the LEA's books as of June 30, 2008, but that still meet the above definition of "carryover." An example would be an expenditure-driven grant in which only 75% of the funding was advanced to the LEA. If by June 30, 2008, the LEA had not expended more than the 75% advanced, the remaining 25% of the grant funds would not be part of either the LEA's restricted ending fund balance account or its deferred revenue account. However, since the LEA would have been entitled to expend the remaining 25% by June 30, 2008, the 25% would be considered in the LEA's calculation of restricted balances available for transfer.

The CDE notes that for multi-year grants such as Healthy Start, LEA balances as of June 30, 2008, are eligible for restricted balance flexibility, but amounts not yet allocated to the LEA and not allowable for expenditure by the LEA until a future year should not be recognized by the LEA and are not considered "balances" for this purpose.

Although SBX3 4 allows that available restricted account balances as of June 30, 2008, may be transferred at any time prior to closing the books for either 2008-09 or 2009-10, the CDE emphasizes that LEAs should complete all transfers as of 2008-09 to accurately portray in the 2008-09 financial reports that the balances are no longer subject to external restrictions. The CDE emphasizes that, except as discussed below, given the removal of external restrictions on these balances, use of the original restricted program resource, or even a locally defined restricted program resource, for these balances after June 30, 2008, is not appropriate regardless of whether the LEA has yet decided how it intends to use the balances.

The CDE will close the restricted SACS resource codes associated with balances eligible for transfer using the following approach. These codes will not be available in the Budget release of the CDE's 2009-10 financial reporting software being released in the next few weeks.

- Restricted resource codes for programs whose restricted balance is eligible for transfer, and whose ongoing funding is unrestricted pursuant to Section 15 of SBX3 4 or for which there is no ongoing funding, will be closed as of the end of 2008-09. LEAs should transfer all restricted balances in these accounts by the end of 2008-09.

- Restricted resource codes for programs whose restricted balance is eligible for transfer, but whose ongoing funding is not unrestricted pursuant to

Section 15 of SBX3 4, will be left open. LEAs that elect not to transfer these balances should continue to report them in the original restricted resource.

- Restricted resource codes for programs that do not have either of the above characteristics will be considered on a case by case basis.

Accounting for Categorical Program Flexibility Pursuant to Section 15

Section 15 of SBX3 4 states that LEAs using the categorical program flexibility provisions “shall be deemed to be in compliance with the program and funding requirements contained in statutory, regulatory, and provisional language associated with the items.”

This freedom from reporting and spending restrictions effectively transforms the ongoing funding allocated for the 39 budget items specified in the bill from restricted to unrestricted retroactively to July 1, 2008. The funding should therefore be accounted for accordingly. The transformation of these funds to unrestricted is not conditional on the required public hearing about the intended use of the funds; the public hearing is a condition of receipt of the funds, but is not a condition of the funds’ newly unrestricted character.

Accounting for 2008-09 through 2012-13: Except as discussed in “Categorical Program Flexibility Accounting Issues Unique to 2008-09” below, LEAs must account for all revenues and expenditures relating to funding from the 39 budget act items enumerated in Education Code Section 42605 as unrestricted. Apportionment letters from the CDE will reflect this effective immediately.

Although LEAs that choose to use funds from one or more of these 39 items to operate a program in the same manner as in the past must now account for the program as unrestricted, they may use a locally defined unrestricted resource code in the range 0001-0999 to identify the program if they wish. Locally defined unrestricted resource codes must be rolled up to Resource 0000, Unrestricted, when reporting year-end financial data to the CDE. The CDE emphasizes that given the removal of external restrictions on these funds, use of the original restricted program resource, or even a locally defined restricted program resource, is not appropriate.

Note that the statutes requiring that state funding formerly restricted to the Deferred Maintenance and Adult Education programs be deposited into the Deferred Maintenance and Adult Education funds are made inoperable by SBX3 4. Revenues relating to these budget items should now be deposited to the General Fund. The CDE is researching statutory and accounting requirements relating to the continued use of the Deferred Maintenance Fund and the Adult Education Fund, and will issue further guidance when that research is complete.

Accounting Issues Unique to 2008-09: Because SBX3 4 was not enacted until nearly three quarters of the way through 2008-09, accounting accurately for funds made flexible in 2008-09 is almost certain to be problematic. Most LEAs have operated the original programs relating to these 39 items for most of the year in accordance with the restrictions formerly applicable to the funds. Although the restrictions were removed retroactive to July 1, the CDE recognizes that it may not be practicable or preferable for LEAs to adjust their accounting this late in the year to portray these funds as unrestricted.

The CDE acknowledges that inconsistencies in the SACS data collected for 2008-09 will be inevitable due to the authorization of funding flexibility so late in the fiscal year. Nevertheless, the CDE encourages LEAs to report their 2008-09 uses of these funds in as meaningful a manner as possible within practical constraints. Possible accounting approaches include:

- Report activities relating to these funds as unrestricted for the entire year by reclassifying year-to-date activity from a restricted resource to an unrestricted resource, and by accounting for the remainder of the year’s activity as unrestricted. The CDE believes this is the most accurate portrayal, but recognizes that it is the most time intensive.
- Report activities relating to these funds as restricted until February 20, 2009 (the date that SBX3 4 was enacted) or until the date that the LEA began to use funds flexibly. After that date use Object 8998, Categorical Flexibility Transfers, to transfer unspent balances in the formerly restricted resources to an unrestricted resource, and account for the remainder of the year’s activity as unrestricted.
- Report activities relating to these funds as restricted for the entire year. At the end of the year use Object 8998, Categorical Flexibility Transfers, to transfer unspent balances in the formerly restricted resources to an unrestricted resource and account for the ending balances as unrestricted.
- The CDE believes this approach involves the least effort, but in the interest of making accounting data as meaningful as possible, the CDE suggests that an LEA should use this approach only if its uses of the funds following enactment of SBX3 4 were largely consistent with the former restrictions relating to those funds. If the LEA’s uses of the funds following enactment of SBX3 4 differed significantly from the original restrictions, the CDE encourages the LEA to report the use of the funds in an unrestricted resource rather than in the original restricted resource.

Regardless of which approach an LEA takes to report its 2008-09 activities relating to these 39 budget items, at the end of 2008-09 all LEAs, without exception, should use Object 8998, Categorical Flexibility Transfers, to show the transfer of any unspent balances in these formerly restricted program resources to unrestricted and to accurately portray in the 2008-09 financial reports that the balances are not subject to external restrictions.

The CDE will close most of the restricted resource codes associated with the 39 budget items as of the end of 2008-09. These codes will not be available in the Budget release of the CDE's 2009-10 financial reporting software being released in the next few weeks.

As noted previously, SBX3 4 repealed Section 12.40 of the 2008 Budget Act. Any Section 12.40 transfers made previously in 2008-09 should be reversed. The title of Object 8998, Categorical Flexibility Transfers, has been changed to remove mention of Budget Act Section 12.40.

IMPORTANT CONSIDERATIONS RELATING TO TRANSFERS OF RESTRICTED BALANCES

Effect on Federal Maintenance of Effort Requirements

As mentioned previously, SBX3 4 stipulates that "[an LEA] governing board shall not use the ending balance in any restricted account if that use would violate a federal maintenance of effort requirement."

The CDE notes that the transfer of formerly restricted balances from a restricted resource to an unrestricted resource is unlikely to have an effect on LEA-level MOE requirements. Rather, it is the *use* of the balances, once transferred, that might potentially impact an LEA's MOE. However, the CDE believes that the likelihood of an LEA compromising an MOE requirement by expending its formerly restricted balances "for any educational purposes" as allowed by SBX3 4 is remote.

To illustrate:

- No Child Left Behind (NCLB) MOE: Generally, all of an LEA's expenditures of non-federal funds for educational purposes, whether restricted or unrestricted, are counted for purposes of the NCLB MOE requirement. Transfers of formerly restricted balances to unrestricted, as long as the resulting expenditures are "for any educational purpose," would have no effect on the NCLB MOE.

- Special Education MOE: If Special Education balances were used for an educational purpose not relating to Special Education, the Special Education MOE might be compromised. However, Special Education balances are not eligible for flexibility.

LEAs should be aware that waiver provisions exist for when MOE requirements are not met. For example, NCLB regulations provide that if there is an unprecedented decline in state revenues, individual LEAs may apply directly to the federal government for a waiver of the MOE requirements. If you are unsure whether a particular federal program has a required MOE or whether an MOE requirement can be waived, you should contact the appropriate CDE program office.

Voter-approved initiatives

Because the Legislature generally has no authority to amend a voter-approved initiative unless the measure itself so provides, balances generated as a result of a voter-approved initiative are not available for flexibility purposes. Examples of such programs include:

After School Education and Safety – Proposition 49
Lottery Instructional Materials - Proposition 20
Tobacco Use & Prevention Education (TUPE) - Proposition 10

Contractual obligations with external parties

We also recommend that you use caution when applying SBX3 4 flexibility so that you do not violate contractual obligations with external parties. The Legislature's authority to abrogate contractual obligations is limited, and legal issues may arise if you unilaterally cancel contracts with external parties. The Legislature's authority does extend, however, to contracts and grants between state and local governmental agencies, where state funds are involved.

CASH FLOW ISSUES

The state's current year budget cuts and appropriation deferrals may result in cash flow management problems for LEAs in the current year. To alleviate cash shortfalls, you may wish to consider the following options.

Interfund Borrowings

EC 42603 provides that moneys held in any fund or account may be temporarily transferred to another fund or account for payment of obligations, with certain limitations.

- Amounts transferred shall be repaid either in the same fiscal year, or in the following fiscal year if the transfer takes place within the final 120 calendar days of a fiscal year.
- Borrowing shall occur only when the fund receiving the money will earn sufficient income during the current fiscal year to repay the amount transferred.
- No more than 75% of the maximum of moneys held in any fund during a current fiscal year may be transferred.

Accounting for Interfund Borrowings: *EC* 42603 provides that the transfer shall be accounted for as temporary borrowing between funds or accounts and shall not be available for appropriation or be considered income to the borrowing fund or account. The accounting is a debit to Object Code 9310, *Due From Other Funds,* with a credit to *Cash* in the lending fund, and a debit to *Cash* with a credit to Object Code 9610, *Due To Other Funds,* in the borrowing fund. These amounts are then carried on the balance sheet until the entry is reversed when the funds are repaid. Temporary borrowings are not accounted for as interfund transfers, and do not affect the fund balance for either the borrowing or lending fund.

If you are considering borrowing from restricted programs and are concerned about the legality of doing so, we suggest you discuss the issue with your legal counsel. Also note that borrowings from certain restricted funds should be repaid with interest, if there are interest requirements relating to those programs or funds.

Short-term Borrowings from External Sources

If it is not possible to alleviate temporary cash shortfalls by interfund borrowing, it may be necessary for LEAs to borrow funds on a short-term basis from external sources. Following are some possible sources.

- Tax Revenue Anticipation Notes. Tax Revenue Anticipation Notes (TRANs) are short-term, interest bearing notes issued by a government in anticipation of tax revenues that will be received at a later date. The notes are retired from the tax revenues to which they are related. Many LEAs issue TRANs for cash flow management purposes every year.

- County Office of Education. EC sections 42621 and 42622 authorize county offices of education to loan funds to school districts. The funds must be repaid either within the fiscal year or within the next fiscal year, depending on the type of loan that is granted. Certain other restrictions apply, as indicated in the applicable statutes. Such loans are discretionary and are subject to availability of funds at the county office level.
- County Treasurer. EC 42620 requires the county board of supervisors to loan money to school districts when certain conditions exist. However, Section 6 of Article XVI of the Constitution of the State of California requires that such loans must be made before the last Monday in April. Loan and repayment terms vary by county, so you may wish to coordinate with your county office of education.

FUTURE CDE EFFORTS REGARDING SBX3 4

The CDE will continue working with other agency staff to clarify remaining issues relating to implementation of SBX3 4 and will communicate these issues as they are identified.

The CDE anticipates posting Frequently Asked Questions in the near future on the Web at http://www.cde.ca.gov/fg/fr/eb/yr09budgetacts.asp. For now, we encourage LEAs to implement the budgetary and accounting guidance contained in this letter as they develop their 2009-10 budgets, revise their 2008-09 budgets, and prepare their 2008-09 year-end financial reports.

For questions relating to the applicability of SBX3 4 to a particular program, please contact the program office directly. Program contact information can be found on the SACS Query page at http://www.cde.ca.gov/fg/ac/ac or by using the Search CDE Funding Web page at http://www.cde.ca.gov/fg/gp/sf.

For accounting questions relating to the flexibility provisions of SBX3 4, please contact the Office of Financial Accountability and Information Services at 916-322-1770 or sacsinfo@cde.ca.gov.

For questions regarding the state education budget overall, please contact the Fiscal Policy Division at 916-324-4728. You may also contact Carol Bingham, Director, Fiscal Policy Division, by e-mail at cbingham@cde.ca.gov.

All other questions may be directed to Scott Hannan, Director of the School Fiscal Services Division, at 916-322-3024.

These are challenging fiscal times for the state and for LEAs and we hope that the guidance in this letter is helpful. We appreciate your patience as we have worked to get clarification on some of the extraordinary provisions of SBX3 4 and as we continue to work to resolve the remaining issues.

Sincerely,

Scott Hannan, Director
School Fiscal Services Division

SH:pwo
Attachments
Y2009-1101

Appropriations Deferred from 2006-07 to 2007-08 ($ in thousands)

Budget Act Item	Resource	Program Name	Total Amount Appropriated for 2006-07	Deferred Amount	Deferral as a Percent of Total 2006-07 Appropriation
6110-103-0001	6350/6390	Apprenticeship	$18,255	$6,227	34.1%
6110-104-0001	0000	Remedial Supplemental Instruction	$402,554	$90,117	22.4%
6110-105-0001	6350	Regional Occupational Programs (ROP)	$457,608	$39,630	8.7%
6110-156-0001	6390	Adult Education	$703,467	$45,896	6.5%
6110-190-0001	2430	Community Day Schools	$49,746	$4,751	9.6%
6110-211-0001	0000	Charter School Categorical Block Grants	$101,032	$5,947	5.9%
6110-228-0001	6405	School Safety & Violence Prevention	$96,659	$38,720	40.1%
6110-246-0001	7394	Targeted Instructional Improvement Block Grants	$1,034,076	$100,118	9.7%

Appropriations Deferred from 2007-08 to 2008-09 ($ in thousands)

Budget Act Item	Resource	Program Name	Total Amount Appropriated for 2007-08	Deferred Amount	Deferral as a Percent of Total 2007-08 Appropriation
6110-103-0001	6350/6390	Apprenticeship	$18,963	$6,227	32.8%
6110-104-0001	0000	Remedial Supplemental Instruction	$420,789	$90,117	21.4%
6110-105-0001	6350	Regional Occupational Programs (ROP)	$485,656	$39,630	8%
6110-156-0001	6390	Adult Education	$753,717	$45,896	6.1%
6110-190-0001	2430	Community Day Schools	$51,999	$4,751	9.1%
6110-211-0001	0000	Charter School Categorical Block Grants	$151,474	$5,947	3.8%
6110-228-0001	6405	School Safety & Violence Prevention	$100,553	$38,720	38.5%
6110-246-0001	7394	Targeted Instructional Improvement Block Grants	$1,075,731	$100,118	9.3%

2008-09 Budget Act Items Subject to Categorical Flexibility

Budget Act Item	Resource	Program
6110-232-0001	1200	Class Size Reduction, Grade Nine (Grade 9)
6110-190-0001	2430	Community Day Schools
6110-198-0001	6091	Cal-SAFE Academic and Supportive Services
	6092	Cal-SAFE Child Care and Development Services
	6093	Cal-SAFE County Classroom
6110-188-0001	6205	Deferred Maintenance Apportionment
6110-260-0001	6258	Physical Education Teacher Incentive Grants
6110-195-0001	6267	National Board Certification Teacher Incentive Grant
6110-227-0001	6285	Community-Based English Tutoring
6110-105-0001	6350	Regional Occupational Centers and Programs (ROCP)
6110-156-0001	6390	Adult Education
6110-228-0001	6405	School Safety & Violence Prevention, Grades 8-12
6110-265-0001	6760	Arts and Music Block Grant
6110-204-0001	7055	California High School Exit Exam (CAHSEE) Intensive Instruction and Services
6110-108-0001	7080	Supplemental School Counseling Program
6110-181-0001	7110	Education Technology: CTAP, SETS, & Supplemental Grants
6110-124-0001	7140	Gifted and Talented Education (GATE)
6110-189-0001	7156	Instructional Materials Realignment, IMFRP (AB 1781)
6110-150-0001	7210	American Indian Early Childhood Education
6110-123-0001	7258	High Priority Schools Grant Program (HPSGP)
	7268	High Priority Schools: Corrective Action
6110-193-0001	7271	California Peer Assistance & Review Program for Teachers (PAR)
	7275	Staff Development: Bilingual Teacher Training (BTTP)
6110-267-0001	7276	Certificated Staff Mentoring Program
6110-240-0001	7286	International Baccalaureate (IB) Program: Staff Development and Startup
6110-137-0001	7294	Staff Development: Mathematics and Reading (SB 472)
6110-193-0001	7295	Staff Development: Reading Services for Blind Teachers
6110-144-0001	7325	Staff Development: Administrator Training
6110-242-0001	7360	Student Organizations Vocational Education (California Association of Student Councils)
6110-122-0001	7370	Specialized Secondary Programs
6110-266-0001	7385	County Oversight - Williams
6110-243-0001	7390	Pupil Retention Block Grant

2008-09 Budget Act Items Subject to Categorical Flexibility

Budget Act Item	Resource	Program
6110-248-0001	7391	School Community Violence Prevention Grant
6110-244-0001	7392	Teacher Credentialing Block Grant
6110-245-0001	7393	Professional Development Block Grant
6110-246-0001	7394	Targeted Instructional Improvement Block Grant
6110-247-0001	7395	School and Library Improvement Block Grant
6110-208-0001	7810	Other State: Center for Civic Education
6110-104-0001	0000	Remedial Supplemental Instruction Programs
6110-209-0001	0000	Teacher Dismissal Apportionment
6110-211-0001	0000	Charter School Categorical Block Grant
6110-240-0001	0000	Advanced Placement Fee Waiver Program
6110-268-0001	0000	Oral Health Assessments
6110-151-0001	NA*	American Indian Education Centers

*Funding not distributed to LEAs

Appendix B

District Cal-Card Usage Policies & Procedures

EXAMPLE

District Cal-Card Usage Policies & Procedures

Congratulations! You have been selected as a site/department for the District's CAL-Card Program. The broad intent of the program is to assist the District in allowing additional flexibility for your site/departmental purchasing needs. The card's intent is that it be used for conferences (advance approval for conferences must still be obtained through the Conference Attendance Form process and POs will be necessary for the items to be paid with the CAL-Card) and Internet purchases ***only*** at this time (POs must still be submitted and approved in advance of making the purchase in order to encumber the funds property). By accepting the attached CAL-Card and signing below, you agree as follows:

1. To read, review and abide by the terms of the attached Cardholder Guide.

2. To sign the back of the card and call U.S. Bank Customer Service at the telephone number on the front side of the card to activate. Be aware that you might be asked for your "CVV" numbers, which stands for "Card Verification Value." The "CVV" number is a three-digit number following the account number within the signature block on the reverse side of your card. You may also be asked for the following information:

   a. Single Purchase Limit:

   b. 30-Day Limit:

   c. Telephone Number Assigned to Card:

   d. Zip Code Assigned to Card:

   Once this has been accomplished, your card is ready for use.

3. To allow no one, other than yourself, to use the card and to retain physical custody of the card in a safe and secure location at all times.

4. To retain physical, hard copy proof of all purchases made with your card. In the event that the receipt cannot be located, you agree to notify me in writing of such circumstances. You further agree to include in the notification all facts surrounding the missing receipt as well as all documentation available to provide evidence of receipt of the merchandise. Due to audit requirements, recurring and/or frequent instances of missing receipts may result in forfeiture of your card.

5. To review, reconcile and sign your monthly statement immediately upon receipt but in no circumstances later than 5 days after receipt of the statement – our billing cycle date is the 22nd of each month and we typically receive statements around the 1st of the next month. You are also to provide a complete description of each item purchased on the appropriate description line of the monthly statement and attach the original receipts. The executed, reconciled statements should then be forwarded to me. The sooner these reconciled statements are processed and sent to me for review and then forwarded to Accounts Payable for payment, the larger the payment rebate received by the District and the larger your site's/department's portion of the rebate. For example, if the rebate was $100 based on total District purchases of $3,000 and your purchases totaled $600, your portion of the rebate would be calculated as follows: $600/$3,000 = 20% x $100 = $20.

6. You understand that should interest charges be incurred due to your failure to process your monthly statement in accordance with item number 4 above, those charges will be applied first to directly reduce your portion of the rebate and any remainder will be applied against budgeted amounts. Recurring and/or frequent instances of untimely submission of monthly statements may result in forfeiture of your card.

7. If, because of travel or extended leave, you are scheduled to be away for more than 5 days at the time you would normally receive the monthly statement, you agree to contact me so that we can make arrangements for your monthly statement to be processed on a timely basis.

8. Should there be an error on the statement, you agree to be responsible for the completion of the Cardholder Statement of Questioned Item form (CSQI) and forwarding it to the U.S. Bank Government Services address or fax number listed below. A copy of the CSQI is also to be included with your executed and reconciled monthly statement. Keep in mind that the District will loose its dispute rights if the CSQI is not submitted within 60 days from the cycle date.

   U.S. Bank Government Services
   P.O. Box 6346
   Fargo, ND 58125-6346

   Fax: (701) 461-3910

   Toll free: (800) 227-6736
   Outside the U.S., call collect: (701) 461-2020

   You further agree to attempt to resolve the dispute directly with the vendor and keep detailed records of those attempts. This documentation will be required by U.S. Bank and must be submitted along with the cardholder CSQI form.

9. Once disputes are resolved and you have received notification from U.S. Bank, you agree that you are responsible for instructing the Billing Office (Accounts Payble) to either apply a credit or certify a payment to the original Statement of Account where the dispute occurred.

   Purchases are to be for work-related expenses only. Please refer to page 7 of the Cardholder Guide for a list of Prohibited Purchases. Your CAL-Card has been programmed so that use of it for these Prohibited Purchases will be disallowed at the time of the transaction. Keep in mind that should you use the card for meals while traveling on District business, no alcohol can be purchased using the CAL-Card – ask your waitress for a separate bill and use another means for payment (e.g. cash or your personal credit card). Additionally, should you use the card for business related meals while traveling, your per diem will be adjusted accordingly. For example, if you were to receive 3 complete days of meals ($43/day x 3 = $129) and used the CAL-Card for lunch (spending $16 on that lunch), the per diem payable to you at the end of the trip would be $113 ($129 - $16). In the event that you received the per diem in advance, you would be required to submit your personal check for all meals purchased at the time of submission of your executed and reconciled statement.

   Use of the CAL-Card for personal items will result in termination of your CAL-Card privileges and confiscation of the card. Should you inadvertently use the CAL-Card for a personal charge, you should notify me immediately (e-mail or voice mail messages are perfectly acceptable given you may be out of town at the time) and payment for the charge should be submitted upon your return.

10. To immediately report lost or stolen cards to U.S. Bank Government Services at the number provided in the Cardholder Guide. You are also to immediately notify me via telephone or e-mail of such loss.

11. Likewise, any fraudulent activity must be immediately reported to the U.S. Bank Government Services -- see your Cardholder Guide for contact information. The activity must also be reported to me with the following particulars:

   - The account number on which the fraud has been detected;
   - The date and dollar amount of the fraudulent transaction(s);
   - The date the cardholder first contacted, or was contacted by, U.S. Bank regarding the fraud;
   - The name of the U.S. Bank Fraud Representative investigating the account; and
   - The new account number (if established).

You should reconcile your Statement of Account by circling any unauthorized items and writing "fraud" next to the item(s). Deduct the fraudulent charges from the total amount owed and process the statement as usual. Do not submit a cardholder CSQI for fraudulent transactions.

You are also responsible to:

- Monitor future statements for (a) any trailing fraudulent charges; and (b) credits for previous fraud charges; and
- When the credit appears on the statement, provide written instructions on the Statement of Account for the Billing Office to apply the credit to the previous Statement of Account where withheld the payment(s) and/or fraudulent charge(s) originally appeared.

Again, welcome to the CAL-Card Program. We hope that you will find it to be a more convenient system to aid you in making purchases. Should you have questions or concerns, please do not hesitate to contact me.

I hereby acknowledge receipt of CAL-Card Number ________________________________ and the Cardholder Guide. I also hereby acknowledge that I have read the foregoing and agree to the conditions therein.

____ ____________________
Signature Date

Print Name: _____________________________________

Appendix C

Hotel/Motel Transient Occupancy Tax Waiver Exemption Claim For Government Agencies

EXAMPLE

HOTEL/MOTEL TRANSIENT OCCUPANCY TAX WAIVER EXEMPTION CLAIM FOR GOVERNMENT AGENCIES

Name: ____

Title: ____

Employed By: _________________ UNIFIED SCHOOL DISTRICT
(Federal Tax I.D. No. ____________________)

Hotel/Motel: ____

Location: ____

Arrival: ____

Departure: ____

This is to certify that I, the undersigned, am a representative or employee of the school district indicated above. The district is an agency of the State of California. The charges for the occupancy at the above establishment on the dates set forth have been, or will be, paid for by such governmental agency, and such charges are incurred in the performance of my official duties as a representative or employee of the above-noted governmental agency.

I hereby declare, under penalty of perjury, that the foregoing statements are true and correct.

_______________________________________ ___________________________
Signature of Employee Date

INSTRUCTIONS TO EMPLOYEE: Please check with the hotel/motel when making your reservations to see if they allow Transient Occupancy Tax Exemptions. If they do, complete this form and fax it to the hotel/motel either ahead of your arrival or, if acceptable to them, at the time of registration.

INSTRUCTIONS TO HOTEL/MOTEL: Please retain this form for your files in order to substantiate your tax report.

Appendix D

Multiyear Financial Projection

General Fund/County School Service Fund
Unrestricted Resources Only
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Revenues					
Revenue Limit Sources	8010 - 8099	$48,058,728.59	$42,790,032.07	$41,355,328.85	$41,691,583.22
Federal Revenues	8100 - 8299	$266,095.00	$76,000.00	$76,000.00	$76,000.00
Other State Revenues	8300 - 8599	$2,735,269.83	$2,484,895.00	$2,512,751.93	$2,535,860.55
Other Local Revenues	8600 - 8799	$882,804.72	$437,868.00	$298,557.00	$241,109.60
Total Revenues		$51,942,898.14	$45,788,795.07	$44,242,637.78	$44,544,553.37
Expenditures					
Certificated Salaries	1000 - 1999	$24,643,020.57	$23,699,316.00	$23,919,226.74	$24,625,655.14
Classified Salaries	2000 - 2999	$6,284,451.37	$6,625,365.00	$6,790,439.13	$6,959,640.08
Employee Benefits	3000 - 3999	$8,455,598.78	$8,818,961.00	$9,009,395.58	$9,105,854.40
Books and Supplies	4000 - 4999	$1,176,349.15	$739,762.00	$754,106.28	$772,660.71
Services and Other Operating Expenditures	5000 - 5999	$3,669,393.20	$3,802,033.00	$3,864,877.69	$3,960,477.06
Capital Outlay	6000 - 6900	$29,477.20	$72,412.00	$72,412.00	$72,412.00
Other Outgo	7000 - 7299	$18,599.64	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($514,607.81)	($472,445.00)	($472,445.00)	($472,445.00)
Debt Service	7430 - 7439	$102,659.03	$19,070.00	$0.00	$0.00
Total Expenditures		$43,864,941.13	$43,304,474.00	$43,938,012.42	$45,024,254.39
Excess (Deficiency) of Revenues Over Expenditures		$8,077,957.01	$2,484,321.07	$304,625.36	($479,701.02)
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$3,513.17	$2,076,000.00	$2,076,000.00	$2,076,000.00
Interfund Transfers Out	7600 - 7629	$2,032,279.48	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($5,199,699.40)	($6,371,293.67)	($7,094,195.15)	($7,150,701.88)
Total Other Financing Sources\Uses		($7,228,465.71)	($4,295,293.67)	($5,018,195.15)	($5,074,701.88)
Net Increase (Decrease) in Fund Balance		$849,491.30	($1,810,972.60)	($4,713,569.79)	($5,554,402.90)
Fund Balance					
Beginning Fund Balance	9791	$3,901,250.09	$4,750,741.39	$2,939,768.79	($1,773,801.00)
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$3,901,250.09	$4,750,741.39	$2,939,768.79	($1,773,801.00)
Ending Fund Balance		$4,750,741.39	$2,939,768.79	($1,773,801.00)	($7,328,203.90)
Components of Ending Fund Balance					
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$0.00	$60,000.00	$60,000.00	$60,000.00
Stores	9712	$0.00	$96,242.50	$96,242.50	$96,242.50
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$0.00	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		3.00%	3.00%	3.00%	3.00%
Designated for Economic Uncertainties	9770	$1,903,794.99	$1,850,769.56	$1,834,365.53	$1,876,004.91
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$2,846,946.40	$932,756.73	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	($3,764,409.03)	($9,360,451.31)

Source	Note
Resource: 0000 - Unrestricted Object: 1201 - Five Day Management Furlough	Calculation has been provided by the District; the number is a placeholder and adjusts the budget for the certificated management; the division between classified and certificated management was not provided
Resource: 0000 - Unrestricted Object: 1202 - Postpone Step & Column Management	See note for resource 0000, object 1201
Resource: 0000 - Unrestricted Object: 3402 - Health & Welfare Benefits	Increase in HW, per district's Multi-Year-Projection.
Resource: 0000 - Unrestricted Object: 3931 - SERP / Golden Handshake	SERP liability based on Long Term Debt Schedule.
Resource: 0000 - Unrestricted Object: 8047 - Community Redevelopment Funds	Added From Revenue Limit Screen
Resource: 0000 - Unrestricted Object: 8290 - All Other Federal Revenue	Increase 08/09 based on current year receipts.
Resource: 0000 - Unrestricted Object: 8590 - All Other State Revenue	Increase 08/09 based on current year receipts.
Resource: 0000 - Unrestricted Object: 8699 - All Other Local Revenue	Increase 08/09 based on current year receipts. District states last year of grant is 09/10 in the amount of $62,000 and will not continue in 10-11

Resource: 0000 - Unrestricted Object: 8912 - Between General Fund and Special Reserve Fund	Board Approved transfer after 2nd Interim for Cash Flow purposes.
Resource: 1100 - Lottery: Unrestricted Object: 8560 - State Lottery Revenue	08/09 - (7893 x 1.04446) x $109.50
Resource: 1100 - Lottery: Unrestricted Object: 8300-8599 - Other State Revenues	Adjusted revenue to P-2 ADA

General Fund/County School Service Fund
Restricted Resources Only
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Revenues					
Revenue Limit Sources	8010 - 8099	$1,293,614.00	$1,354,438.00	$1,531,733.93	$1,732,237.90
Federal Revenues	8100 - 8299	$2,995,970.31	$3,069,645.53	$2,695,023.00	$2,695,023.00
Other State Revenues	8300 - 8599	$5,602,782.68	$4,498,826.54	$3,919,358.29	$3,946,649.99
Other Local Revenues	8600 - 8799	$2,491,020.32	$2,724,404.00	$2,793,239.00	$2,867,337.00
Total Revenues		$12,383,387.31	$11,647,314.07	$10,939,354.22	$11,241,247.89
Expenditures					
Certificated Salaries	1000 - 1999	$4,320,897.84	$4,723,815.42	$4,774,101.84	$4,869,536.07
Classified Salaries	2000 - 2999	$4,220,801.90	$4,134,239.00	$4,237,544.27	$4,343,432.16
Employee Benefits	3000 - 3999	$2,482,108.72	$2,908,592.77	$2,933,103.32	$2,969,950.12
Books and Supplies	4000 - 4999	$2,923,507.82	$3,304,315.18	$2,327,151.24	$2,361,195.18
Services and Other Operating Expenditures	5000 - 5999	$2,877,112.65	$2,553,048.01	$2,176,345.46	$2,205,869.85
Capital Outlay	6000 - 6900	$173,115.04	$67,927.00	$67,927.00	$67,927.00
Other Outgo	7000 - 7299	$0.00	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	$357,271.54	$301,861.34	$297,286.34	$297,286.34
Debt Service	7430 - 7439	$7,796.91	$94,045.95	$94,045.94	$94,045.94
Total Expenditures		$17,362,612.42	$18,087,844.67	$16,907,505.41	$17,209,242.66
Excess (Deficiency) of Revenues Over Expenditures		($4,979,225.11)	($6,440,530.60)	($5,968,151.19)	($5,967,994.77)
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$51,815.96	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$200,000.00	$300,000.00	$300,000.00	$300,000.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$5,199,699.40	$6,371,293.67	$7,094,195.15	$7,150,701.88
Total Other Financing Sources\Uses		$5,051,515.36	$6,071,293.67	$6,794,195.15	$6,850,701.88
Net Increase (Decrease) in Fund Balance		$72,290.25	($369,236.93)	$826,043.96	$882,707.11
Fund Balance					
Beginning Fund Balance	9791	$2,509,580.86	$2,581,871.11	$2,212,634.18	$3,038,678.14
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$2,509,580.86	$2,581,871.11	$2,212,634.18	$3,038,678.14
Ending Fund Balance		$2,581,871.11	$2,212,634.18	$3,038,678.14	$3,921,385.25
Components of Ending Fund Balance					
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$0.00	$0.00	$0.00	$0.00
Stores	9712	$0.00	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$2,581,871.11	$2,212,634.18	$3,038,678.14	$3,921,385.25
Designated for Economic Uncertainties	9770	$0.00	$0.00	$0.00	$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$0.00	$0.00	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00	$0.00

Source	Note
Resource: 3010 - NCLB-Title I, Part A, Basic Grants Low Income and Neglected Object: 5810 - Custom Object	Reducded expenditures by prior year revenues to reduce contributions by $132,202.34 or to 2007-08 level
Resource: 3010 - NCLB-Title I, Part A, Basic Grants Low Income and Neglected Object: 8291 - Prior Year Revenues	Prior Year Carryover changed to match CAT form.
Resource: 3710 - NCLB: Title IV, Part A, Drug Free Schools Object: 8290 - All Other Federal Revenue	08/09 - Funding per CDE web site
Resource: 4035 - NCLB: Title II, Part A, Teacher Quality Object: 4310 - Custom Object	Reduced expenditures to eliminate potential contributions\due to prior year carry over and increased expenditures from 2007-08 to 2008-09
Resource: 4035 - NCLB: Title II, Part A, Teacher Quality Object: 8290 - All Other Federal Revenue	08/09 - Funding per CDE web site
Resource: 4203 - NCLB: Title III, Limited English Proficiency (LEP) Student Program Object: 4310 - Custom Object	Reduced expenditures by prior year carry over amount of 119,590
Resource: 6285 - Community-Based English Tutoring Object: 4310 - Custom Object	Reduced expenditures by prior year carry over in an effort to not increase contributions from unrestricted
Resource: 6285 - Community-Based English Tutoring Object: 8590 - All Other State Revenue	Adjusted for Tier III reductions; 15.38% for 2008-09; 4.46 for 2009-10
Resource: 6285 - Community-Based English Tutoring	Adjusted for carryover per District spreadsheet

Object: 8591 - Prior Year Carryover	
Resource: 6285 - Community-Based English Tutoring Object: 8980 - Contributions from Unrestricted Revenues	Reduced expenditures by prior year carry over amount in an effort to reduce contributions from unrestricted
Resource: 6300 - Lottery: Instructional Materials Object: 4310 - Custom Object	Reduced expenditures by prior year ending fund balance
Resource: 6300 - Lottery: Instructional Materials Object: 8560 - State Lottery Revenue	08/09 - (7893 x 1.04446) x $11.50
Resource: 6405 - School Safety & Violence Prevention, Grades 8-12 Object: 5810 - Custom Object	Reduced expenditures by prior year carry over
Resource: 6405 - School Safety & Violence Prevention, Grades 8-12 Object: 8590 - All Other State Revenue	Adjusted for Tier III reductions; 15.38% for 2008-09; 4.46% for 2009-10
Resource: 6405 - School Safety & Violence Prevention, Grades 8-12 Object: 8591 - Carryover per District Spreadsheet	Prior year carryover per District spreadsheet
Resource: 6660 - Tobacco-Use Prevention Education: Elementary Grades 4-8 Object: 4310 - Custom Object	Reduced expenditures by prior year revenue
Resource: 6660 - Tobacco-Use Prevention Education: Elementary Grades 4-8 Object: 8590 - All Other State Revenue	08/09 - Per CDE web site ($16,807)
Resource: 6660 - Tobacco-Use Prevention Education: Elementary Grades 4-8 Object: 8591 - Prior Year Revenues	Prior year balance per CAT Form; amount does not agree to district spreadsheet
Resource: 6760 - Arts and Music Block Grant Object: 8590 - All Other State Revenue	08/09 - Funding based on CDE web site and reduced by 15.38%; 09/10 funding reducted by 4.46%
Resource: 7091 - Economic Impact Aid: Limited English Object: 4310 - Custom Object	Reduced expenditures by prior year carry over
Resource: 7091 - Economic Impact Aid: Limited English Object: 5220 - Custom Object	Reduced expenditures by prior year
Resource: 7091 - Economic Impact Aid: Limited English Object: 5810 - Custom Object	Reduced expenditures by prior year
Resource: 7140 - Gifted & Talented Education (GATE) Object: 4310 - Custom Object	Reduced by prior year carry over
Resource: 7140 - Gifted & Talented Education (GATE) Object: 8311 - Other State Apportionments—Current Year	Reduced per Tier III reductions; 15.38% for 2008-09; 4.46% for 2009-10
Resource: 7156 - Instructional Materials Realignment, IMFRP (AB 1781) Object: 8590 - All Other State Revenue	08/09 - Funding based on CDE web site ($599,567), reduced 15.38%; 09/10 reduced 4.46%
Resource: 7240 - Transportation: Special Education (Severely Disabled/Orthopedically Impaired) Object: 8311 - Other State Apportionments—Current Year	08/09 - Funding per CDE web site
Resource: 7258 - High Priority Schools Grants Program Object: 8590 - All Other State Revenue	State budget eliminates funding in 2009/10
Resource: 7393 - Professional Development Block Grant Object: 8590 - All Other State Revenue	08/09 - Funding per CDE web site ($83,063), reduced by 15.38%; 09/10 reduced by 4.46%
Resource: 7394 - Targeted Instructional Improvement Block Grant Object: 8590 - All Other State Revenue	08/09 - Funding per CDE web site ($234,147), reduced 15.38%; 09/10 reduced 4.46%
Resource: 7395 - School and Library Improvement Block Grant Object: 4310 - Custom Object	Reduced by prior year carry over
Resource: 7395 - School and Library Improvement Block Grant Object: 8590 - All Other State Revenue	08/09 - Funding per CDE web site ($469,811), reduced 15.38%; 09/10 reduced 4.46%
Resource: 3175 - NCLB: Title I, Part A, Program Improvement District Intervention Object: 8600-8799 - Other Local Revenues	2 Year funding source. Prior Year carryover revenue only in current year.
Resource: 6760 - Arts and Music Block Grant Object: 4000-4999 - Books and Supplies	Reduced expenditures by prior year carry over

General Fund/County School Service Fund
Unrestricted and Restricted Resources
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Revenues					
Revenue Limit Sources	8010 - 8099	$49,352,342.59	$44,144,470.07	$42,887,062.78	$43,423,821.12
Federal Revenues	8100 - 8299	$3,262,065.31	$3,145,645.53	$2,771,023.00	$2,771,023.00
Other State Revenues	8300 - 8599	$8,338,052.51	$6,983,721.54	$6,432,110.22	$6,482,510.54
Other Local Revenues	8600 - 8799	$3,373,825.04	$3,162,272.00	$3,091,796.00	$3,108,446.60
Total Revenues		$64,326,285.45	$57,436,109.14	$55,181,992.00	$55,785,801.26
Expenditures					
Certificated Salaries	1000 - 1999	$28,963,918.41	$28,423,131.42	$28,693,328.58	$29,495,191.21
Classified Salaries	2000 - 2999	$10,505,253.27	$10,759,604.00	$11,027,983.40	$11,303,072.24
Employee Benefits	3000 - 3999	$10,937,707.50	$11,727,553.77	$11,942,498.90	$12,075,804.52
Books and Supplies	4000 - 4999	$4,099,856.97	$4,044,077.18	$3,081,257.52	$3,133,855.89
Services and Other Operating Expenditures	5000 - 5999	$6,546,505.85	$6,355,081.01	$6,041,223.15	$6,166,346.91
Capital Outlay	6000 - 6900	$202,592.24	$140,339.00	$140,339.00	$140,339.00
Other Outgo	7000 - 7299	$18,599.64	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($157,336.27)	($170,583.66)	($175,158.66)	($175,158.66)
Debt Service	7430 - 7439	$110,455.94	$113,115.95	$94,045.94	$94,045.94
Total Expenditures		$61,227,553.55	$61,392,318.67	$60,845,517.83	$62,233,497.05
Excess (Deficiency) of Revenues Over Expenditures		$3,098,731.90	($3,956,209.53)	($5,663,525.83)	($6,447,695.79)
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$55,329.13	$2,076,000.00	$2,076,000.00	$2,076,000.00
Interfund Transfers Out	7600 - 7629	$2,232,279.48	$300,000.00	$300,000.00	$300,000.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00	$0.00
Total Other Financing Sources\Uses		($2,176,950.35)	$1,776,000.00	$1,776,000.00	$1,776,000.00
Net Increase (Decrease) in Fund Balance		$921,781.55	($2,180,209.53)	($3,887,525.83)	($4,671,695.79)
Fund Balance					
Beginning Fund Balance	9791	$6,410,830.95	$7,332,612.50	$5,152,402.97	$1,264,877.14
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$6,410,830.95	$7,332,612.50	$5,152,402.97	$1,264,877.14
Ending Fund Balance		$7,332,612.50	$5,152,402.97	$1,264,877.14	($3,406,818.65)
Components of Ending Fund Balance					
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$0.00	$60,000.00	$60,000.00	$60,000.00
Stores	9712	$0.00	$96,242.50	$96,242.50	$96,242.50
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$2,581,871.11	$2,212,634.18	$905,505.31	($385,413.52)
Economic Uncertainties Percentage		3.00%	3.00%	3.00%	3.00%
Designated for Economic Uncertainties	9770	$1,903,794.99	$1,850,769.56	$1,834,365.53	$1,876,004.91
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$2,846,946.40	$932,756.73	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	($1,631,236.20)	($5,053,652.54)

Source	Note
Resource: 0000 - Unrestricted Object: 1201 - Five Day Management Furlough	Calculation has been provided by the District; the number is a placeholder and adjusts the budget for the certificated management; the division between classified and certificated management was not provided
Resource: 0000 - Unrestricted Object: 1202 - Postpone Step & Column Management	See note for resource 0000, object 1201
Resource: 0000 - Unrestricted Object: 3402 - Health & Welfare Benefits	Increase in HW, per district's Multi-Year-Projection.
Resource: 0000 - Unrestricted Object: 3931 - SERP / Golden Handshake	SERP liability based on Long Term Debt Schedule.
Resource: 0000 - Unrestricted Object: 8047 - Community Redevelopment Funds	Added From Revenue Limit Screen
Resource: 0000 - Unrestricted Object: 8290 - All Other Federal Revenue	Increase 08/09 based on current year receipts.
Resource: 0000 - Unrestricted Object: 8590 - All Other State Revenue	Increase 08/09 based on current year receipts.
Resource: 0000 - Unrestricted Object: 8699 - All Other Local Revenue	Increase 08/09 based on current year receipts. District states last year of grant is 09/10 in the amount of $62,000 and will not continue in 10-11

Resource: 0000 - Unrestricted Object: 8912 - Between General Fund and Special Reserve Fund	Board Approved transfer after 2nd Interim for Cash Flow purposes.
Resource: 1100 - Lottery: Unrestricted Object: 8560 - State Lottery Revenue	08/09 - (7893 x 1.04446) x $109.50
Resource: 3010 - NCLB-Title I, Part A, Basic Grants Low Income and Neglected Object: 5810 - Custom Object	Reducded expenditures by prior year revenues to reduce contributions by $132,202.34 or to 2007-08 level
Resource: 3010 - NCLB-Title I, Part A, Basic Grants Low Income and Neglected Object: 8291 - Prior Year Revenues	Prior Year Carryover changed to match CAT form.
Resource: 3710 - NCLB: Title IV, Part A, Drug Free Schools Object: 8290 - All Other Federal Revenue	08/09 - Funding per CDE web site
Resource: 4035 - NCLB: Title II, Part A, Teacher Quality Object: 4310 - Custom Object	Reduced expenditures to eliminate potential contributions\due to prior year carry over and increased expenditures from 2007-08 to 2008-09
Resource: 4035 - NCLB: Title II, Part A, Teacher Quality Object: 8290 - All Other Federal Revenue	08/09 - Funding per CDE web site
Resource: 4203 - NCLB: Title III, Limited English Proficiency (LEP) Student Program Object: 4310 - Custom Object	Reduced expenditures by prior year carry over amount of 119,590
Resource: 6285 - Community-Based English Tutoring Object: 4310 - Custom Object	Reduced expenditures by prior year carry over in an effort to not increase contributions from unrestricted
Resource: 6285 - Community-Based English Tutoring Object: 8590 - All Other State Revenue	Adjusted for Tier III reductions; 15.38% for 2008-09; 4.46 for 2009-10
Resource: 6285 - Community-Based English Tutoring Object: 8591 - Prior Year Carryover	Adjusted for carryover per District spreadsheet
Resource: 6285 - Community-Based English Tutoring Object: 8980 - Contributions from Unrestricted Revenues	Reduced expenditures by prior year carry over amount in an effort to reduce contributions from unrestricted
Resource: 6300 - Lottery: Instructional Materials Object: 4310 - Custom Object	Reduced expenditures by prior year ending fund balance
Resource: 6300 - Lottery: Instructional Materials Object: 8560 - State Lottery Revenue	08/09 - (7893 x 1.04446) x $11.50
Resource: 6405 - School Safety & Violence Prevention, Grades 8-12 Object: 5810 - Custom Object	Reduced expenditures by prior year carry over
Resource: 6405 - School Safety & Violence Prevention, Grades 8-12 Object: 8590 - All Other State Revenue	Adjusted for Tier III reductions; 15.38% for 2008-09; 4.46% for 2009-10
Resource: 6405 - School Safety & Violence Prevention, Grades 8-12 Object: 8591 - Carryover per District Spreadsheet	Prior year carryover per District spreadsheet
Resource: 6660 - Tobacco-Use Prevention Education: Elementary Grades 4-8 Object: 4310 - Custom Object	Reduced expenditures by prior year revenue
Resource: 6660 - Tobacco-Use Prevention Education: Elementary Grades 4-8 Object: 8590 - All Other State Revenue	08/09 - Per CDE web site ($16,807)
Resource: 6660 - Tobacco-Use Prevention Education: Elementary Grades 4-8 Object: 8591 - Prior Year Revenues	Prior year balance per CAT Form; amount does not agree to district spreadsheet
Resource: 6760 - Arts and Music Block Grant Object: 8590 - All Other State Revenue	08/09 - Funding based on CDE web site and reduced by 15.38%; 09/10 funding reducted by 4.46%
Resource: 7091 - Economic Impact Aid: Limited English Object: 4310 - Custom Object	Reduced expenditures by prior year carry over
Resource: 7091 - Economic Impact Aid: Limited English Object: 5220 - Custom Object	Reduced expenditures by prior year
Resource: 7091 - Economic Impact Aid: Limited English Object: 5810 - Custom Object	Reduced expenditures by prior year
Resource: 7140 - Gifted & Talented Education (GATE) Object: 4310 - Custom Object	Reduced by prior year carry over
Resource: 7140 - Gifted & Talented Education (GATE) Object: 8311 - Other State Apportionments—Current Year	Reduced per Tier III reductions; 15.38% for 2008-09; 4.46% for 2009-10
Resource: 7156 - Instructional Materials Realignment, IMFRP (AB 1781) Object: 8590 - All Other State Revenue	08/09 - Funding based on CDE web site ($599,567), reduced 15.38%; 09/10 reduced 4.46%
Resource: 7240 - Transportation: Special Education (Severely Disabled/Orthopedically Impaired) Object: 8311 - Other State Apportionments—Current Year	08/09 - Funding per CDE web site
Resource: 7258 - High Priority Schools Grants Program Object: 8590 - All Other State Revenue	State budget eliminates funding in 2009/10
Resource: 7393 - Professional Development Block Grant Object: 8590 - All Other State Revenue	08/09 - Funding per CDE web site ($83,063), reduced by 15.38%; 09/10 reduced by 4.46%
Resource: 7394 - Targeted Instructional Improvement Block Grant Object: 8590 - All Other State Revenue	08/09 - Funding per CDE web site ($234,147), reduced 15.38%; 09/10 reduced 4.46%
Resource: 7395 - School and Library Improvement Block Grant Object: 4310 - Custom Object	Reduced by prior year carry over
Resource: 7395 - School and Library Improvement Block Grant Object: 8590 - All Other State Revenue	08/09 - Funding per CDE web site ($469,811), reduced 15.38%; 09/10 reduced 4.46%
Resource: 1100 - Lottery: Unrestricted Object: 8300-8599 - Other State Revenues	Adjusted revenue to P-2 ADA
Resource: 3175 - NCLB: Title I, Part A, Program Improvement District Intervention Object: 8600-8799 - Other Local Revenues	2 Year funding source. Prior Year carryover revenue only in current year.
Resource: 6760 - Arts and Music Block Grant Object: 4000-4999 - Books and Supplies	Reduced expenditures by prior year carry over

Appendix E

Study Agreement

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
February 11, 2009

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Adelanto Elementary School District, hereinafter referred to as the District, mutually agree as follows:

1. BASIS OF AGREEMENT

The Team provides a variety of services to school districts, county offices of education, community colleges and charter schools upon request. The District has requested that the Team provide for the assignment of professionals to study specific aspects of the financial operations. These professionals may include staff of the Team, County Offices of Education, the California State Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this Agreement.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

1) The District requests that the team provide an in depth review of the Business Divisions processes and procedures and make recommendations, if needed to improve the efficiency and productivity of the department. The District's Assistant Superintendent of Business Services recently retired and the position is currently vacant. Due to the status and uncertainty of the current state budget and the absence of this leadership position, the District is requesting that the Team conduct this component of the study on an urgency basis. The following functions of the Business Department will be reviewed:

- Budget Development
- Internal Controls
- Payroll
- Accounts Payable
- Cash Management
- Categorical Programs
- Financial Reporting
- Other Funds
- Year End Closing

In addition, the Team will identify, analyze, and provide recommendations for changes, if necessary, for leadership positions reporting to Business Services including:

- Director of Transportation
- Director and Manager of Child Nutrition
- Director of Facilities
- Purchasing Manager
- Maintenance Manager

FCMAT's report will include suggestions on duties could be combined for effectiveness and efficiency and whether workloads are distributed equitably among the existing staff.

2) An additional request under the scope of work shall be conducted as a separate component and can be added or deleted by the District based upon the total estimated cost of the study components. As referenced above in item one, the Governor's proposed budget identifies a $41.6 billion dollar gap between projected revenues and expenditure requirements by the end of the 2009-10 fiscal year for the State of California. Based upon the uncertainty of the State budget status, the District is requesting that the Team review the District's proposed budget assumptions and reductions in reference to the current proposals in the Governor's budget and the fiscal impact to the General Fund budget.

The team will utilize FCMAT's Budget Explorer Multi-Year Forecasting Software to analyze the proposed assumptions and reductions. The District's current budget including the latest reductions or most recent Interim Financial Report will be utilized as a baseline to analyze the District's current proposals, and the fiscal impact for the current and two subsequent fiscal years.

B. Services and Products to be provided

1) Orientation Meeting - The Team will conduct an orientation session at the District to brief management and supervisory personnel on the procedures of the Team and on the purpose and schedule of the study.

2) On-site Review - The Team will conduct an on-site review at the District office and at school sites if necessary.

3) Progress Reports - The Team will hold an exit meeting at the conclusion of the on-site review to inform the District of significant findings and recommendations to that point.

4) Exit Letter - The Team will issue an exit letter approximately 10 days after the exit meeting detailing significant findings and recommendations to date and

memorializing the topics discussed in the exit meeting.

5) Draft Reports - Sufficient copies of a preliminary draft report will be delivered to the District administration for review and comment.

6) Final Report - Sufficient copies of the final study report will be delivered to the COE and District following completion of the review.

7) Follow-Up Support – Six months after the completion of the study, FCMAT will return to the District, if requested, to confirm the District's progress in implementing the recommendations included in the report, at no cost. Status of the recommendations will be documented to District in a FCMAT Management Letter.

3. PROJECT PERSONNEL

The study team will be supervised by Anthony L. Bridges, Deputy Executive Officer Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

A. Diane Branham, FCMAT Fiscal Intervention Specialist and\or;
B. Debi Deal, FCMAT Fiscal Intervention Specialist and\or;
C. FCMAT Consultant to be determined

Other equally qualified consultants will be substituted in the event one of the above noted individuals is unable to participate in the study.

4. PROJECT COSTS:

The cost for studies requested pursuant to E.C. 42127.8(d)(1) shall be:

A. $500.00 per day for each Team Member while on site, conducting fieldwork and analysis at other locations, preparing and presenting reports, or participating in meetings.

B. All out-of-pocket expenses, including travel, meals, lodging, etc. Based on the scope of work identified in section 2 A, an estimated total cost is provided as separate components:

Item 2 A (1) Review of Business Services	$11,250.00
Item 2 A (2) Review of Budget Assumptions	$ 3,500.00
Total estimated cost for both items:	$14,750.00

The District will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the District.

C. ***Any change to the scope will affect the estimate of total cost. Subsequent to approval of this agreement by the District's Governing Board or by a Board designee authorized to enter into the agreement on its behalf, the District shall FAX a copy of the signed agreement to 661 636-4647 and mail a copy of the agreement with original signature to:***

FCMAT
Kern County Superintendent of Schools
1300 17th Street
Bakersfield, CA 93301

5. RESPONSIBILITIES OF THE DISTRICT:

A. The District will provide office and conference room space while on-site reviews are in progress.

B. The District will provide the following (if requested):

1) A map of the local area
2) Existing policies, regulations and prior reports addressing the study request
3) Current organizational charts
4) Current and four (4) prior years' audit reports
5) Any documents requested on a supplemental listing

C. The District Administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the Team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with or District pupils. The District shall take appropriate steps to comply with EC 45125.1(c).

Payments for FCMAT services are payable to Kern County Superintendent of Schools-Administrative Agent.

6. **PROJECT SCHEDULE**

The following schedule outlines the planned completion dates for key study milestones:

Orientation:	***to be determined***
Staff Interviews:	***to be determined***
Exit Interviews:	***to be determined***
Preliminary Report Submitted:	***to be determined***
Final Report Submitted:	***to be determined***
Board Presentation:	***to be determined***
Follow-Up Support:	***If requested***

7. **CONTACT PERSON**

Please print name of contact person: Debbie Budd, Director of Facilities

Telephone (760)-246-8691 FAX

Internet Address Debbie_budd@aesd.net

Authorization – Mark one

Scope A 1 Only ____________

Scope A 2 Only ____________

Scope A 1 & 2 ____X____

C. m Zee

Christopher van Zee, Superintendent Date
Adelanto Elementary School District

Barbara Dean

February 11, 2009

Barbara (Dean) Murphy, Deputy Administrative Officer Date
Fiscal Crisis and Management Assistance Team

In keeping with the provisions of AB1200, the County Superintendent will be notified of this agreement between the District and FCMAT and will receive a copy of the final report.