April 11, 2007

Dr. Michael Carey, Superintendent
Amador County Unified School District
217 Rex Avenue
Jackson, California 95642

Dear Dr Carey:

The purpose of this management letter is to report the findings and recommendations developed by the Fiscal Crisis and Management Assistance Team (FCMAT) for the Amador County Unified School District.

In early March 2007, the district contacted the FCMAT with a request for a review of the district's 2006-07 working budget and to prepare a multiyear projection of the general fund. The district and FCMAT entered into an agreement for the following:

1. Conduct a review and analysis of the district's budget including all funds, and prepare a multiyear financial projection to determine the district's solvency for the current and two subsequent years.

This management letter is a result of the March 13 and 14, 2007 visit to the district, the subsequent document review and FCMAT's own calculations. This management letter and the development of the multiyear projection conclude FCMAT's work for the Amador County Unified School District

Findings and Recommendations

Budget Development

Effective budget development is essential to any district's financial success. To create an expenditure plan that meets a district's goals and objectives, governing boards should focus on policies and procedures that facilitate the development of a budget that is balanced, understandable and reflects district priorities. The staff is responsible for focusing on specific student and district needs.

Budget development activities should be shared among administrators, including the Superintendent and principals who are responsible for their own budgets. A method of analyzing resources and allocations should be used to ensure that budgets are consistent with strategic planning objectives and to ensure accuracy. Budget managers and any staff members with responsibility for a specific program or site budget should provide input on those portions of the budget.

Categorical funds are an integral part of the budget process and should be included in budget development. Revenues and expenditures for categorical programs should be evaluated similarly to unrestricted general fund revenues and expenditures. Categorical program development should be integrated with the district's goals and used to respond to specific student needs. Policies and procedures should be established to ensure that categorical funds are expended effectively. Categorical program carryover and unearned income should be monitored and evaluated similarly to general fund unrestricted expenditures.

Whenever possible, restricted funds should be expended on district priorities first, leaving unrestricted funding for priorities that cannot be met using restricted funds. In addition, categorical funding should be used in the year the funds are generated whenever possible. Carryover and deferred revenues on these funds should be minimal.

In reviewing the district's 2006-07 adopted budget, FCMAT compared the 2005-06 actual revenues and expenditures with the 2006-07 working budget for reasonableness of revenue and expenditure assumptions and amounts. FCMAT reviewed actual amounts received and expended in 2005-06, projected them to 2006-07, and added employee step-and-column amounts, staffing changes, utility and insurance increases, and other basic expenditure and revenue changes that occurred through February 2007. Although there were differences between the district's working budget and the budget FCMAT developed, most amounts were fairly close, and all variations were explainable. FCMAT's 2006-07 budget serves as the base year of the multiyear financial projection that FCMAT prepared.

Multiyear Financial Projections

AB 1200 requires districts to develop accurate and timely multiyear financial projections (MYFPs). These projections allow the district and county office to predict estimated revenues and expenditures to determine whether the district will be able to meet its financial obligations in future years. They also allow the district to understand the impact, over a period of several years, of financial decisions made by the district. MYFPs use historical data used to identify trends.

At the district's request, FCMAT prepared a multiyear financial projection to assist in the development of a plan that eliminates deficit spending and ensures the ending fund balance continues to include a 3% reserve, which is required by criteria and standards.

Districts are advised to provide multiyear financial projections annually for each fund. MYFPs for the general fund should be provided more often, including at the time the budget is adopted, at each interim report, during collective bargaining and after bargaining concludes. This ensures good comprehension of the general fund in both the current and subsequent years. Projected fund balance reserves should be fully disclosed when the projection is presented, along with all reasonable and supportable revenue and expenditure assumptions that were incorporated into the document. All financial decisions should be made only after considering their possible effects and implications over several years.

Multiyear projections should be part of the approval process for fiscal decisions, especially as they relate to negotiations, budget cuts and recovery plans. Since the district was in mediation at the time of FCMAT's visit, the MYFP is important in ensuring the district can afford the offer that has been provided to the union and mediator.

The district's Assistant Superintendent of Business prepares MYFPs during the annual budget adoption and interim reporting periods as required by the Education Code in compliance with AB 1200. California school districts must certify either a positive, qualified, or negative certification at interim reporting periods. The criteria for each category as defined in Education Code section 42131, which states:

> A negative certification shall be assigned to any school district that, based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification shall be assigned to any school district that, based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A positive certification shall be assigned to any school district that, based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years.

In evaluating MYFPs, attention should be focused on the district's undesignated, unappropriated fund balance. If this fund balance is positive, it represents additional funds over the state-required reserve that the district can use for educational programs, employee compensation, or expenditures in other categories. An exception is when the district is deficit spending, and any ongoing additional expenditure will compound over future years. If the unappropriated fund balance is negative, it represents the amount that must be cut in order to balance the budget for that fiscal year, assuming all 2006-07 revenues and expenditures remain unchanged. If there are any new onetime expenditures or revenues in the current or subsequent years, the projection should be adjusted to reflect the changes.

The projection must be viewed comprehensively. The district must determine the compounding effects that using any or all of the unappropriated fund balance will have on the financial projection. The unappropriated balance and the corresponding compound effect can be clearly determined as the years proceed.

Because of state revenue reductions and declining enrollment, the district has self-certified as qualified for the past six years. This was an important step in recognizing the level of commitment and the seriousness of decisions that will be required to deal with budget issues promptly. The board has established a goal to approve budget adjustments as necessary to eliminate deficit, allowing the district to submit a positive interim report in the future.

	2006-07 Base Year	Projected 2007-08	Projected 2008-09
Revenues	31,974,903	32,152,622	32,703,549
Total Expenditures	31,479,702	31,529,694	32,059,178
Excess/Deficit	495,201	622,927	644,371
Other Sources/Uses	-186,538	-163,428	-163,677
Net Change	308,663	459,499	480,694
Beginning Fund Balance	2,185,933	2,508,113	2,950,747
Ending Fund Balance	2,494,596	2,967,612	3,431,441

FCMAT MYFP Summary
**** Expenditures do not include the district's recent certificated settlement.**

FCMAT used the district's 2006-07 budget with the modifications previously discussed as the baseline for the enclosed MYFP, along with other data provided by the district that FCMAT did not verify or audit extensively. The documents that were utilized in the review process and in developing the MYFP included the following:

- The 2005-06 and 2006-07 J-90 forms.
- Salary schedules for all groups.
- All employee group contracts.
- Any current salary proposals that are outstanding and/or recently approved.
- The AB 1200 impact of the most recent salary settlement disclosure.
- The audit reports for 2002-03 through 2005-06.
- The 2006-07 adopted budget, SACS document, all funds, including narrative used for the board presentation and for the county office submittal.
- The 2006-07 first and second interim reports, SACS document, all funds, including narrative used for the board presentation and for the county office submittal.
- The second interim SACS dat file.
- The district MYP submitted with the 2005-06 adopted budget and 2006-07 adopted budget, and the 2006-07 first and second interim reports with all assumptions.
- The MYPs submitted with the 2004-05 first, second and third interim reports
- The latest long-term debt schedule.
- The 2006-07 revenue limit form used for 2006-07 second interim report
- The October 2006 CBEDS by grade and by site.
- The most updated enrollment projections.
- Unrestricted FTE, by grade level and school site for current and past two years. In summary form and by site.
- Any outside review or analysis documents on the district's budget that were developed in the past couple of years. These could be from the county office or another agency that has reviewed or provided input on budget matters.
- The position control or personnel listing by fund, resource and site, and showing salary and benefits.

- Any budget cuts for the past four years.
- The 2006-07 operating budget by fund, by resource, reflecting current budget, actual expenditures, encumbrances and the remaining budget.
- The 2006-07 general ledger report by fund, by resource.

The multiyear budget forecasting is based on certain criteria and assumptions rather than on exact calculations. Limitations inherent to the projection model include factors such as the accuracy of the baseline data, the unpredictable timing of negotiations, economic conditions, and unanticipated changes in enrollment trends. To yield accurate and meaningful data, the projection must be updated throughout the year as new information becomes available, including at each interim reporting period.

FCMAT used spreadsheets and the district used the Budget Explorer forecasting software to calculate the general fund balances for the 2006-07, 2007-08 and 2008-09 fiscal years. This provided a double check of balances and projections. Projection assumptions were developed using past trends and known variables affecting revenues and expenditures. The School Services of California, Inc. (SSC) Dartboard is used for future statutory revenue cost-of-living adjustments (COLA), as well as deficit, consumer price index and interest factors.

FCMAT's multiyear financial projection demonstrates that if the district continues to operate in the same manner with the ongoing costs currently in place, such as step-and-column adjustments, utilities and other ongoing expenditures, deficit spending will continue unless budget adjustments occur. District projections have reached the same conclusion. Even more significant is that many other factors could increase the deficit, such as decreased enrollment over the number currently being projected. The district's current negotiation offers were used in this analysis. Because the district has made budget reductions/adjustments to compensate for declining enrollment, it is becoming more difficult to keep budget cuts from directly affecting the classroom.

Two issues can severely affect the district's general fund balances in subsequent budget years:

- The "pay-as-you-go" health benefit cost for current active employees and retirees. Inflation-related increases may be higher than projected unless cost containment strategies are considered and approved by the collective bargaining groups. The yearly negative impact of this issue on the general fund is unknown.

- Federal and state categorical programs may be required to contribute to the cost of postretirement health benefits. This will have a negative impact on federal and state programs each year, but a positive impact on the unrestricted general fund.

The California Department of Education requires districts of Amador County Unified's size to have an annual minimum reserve of three percent, and the district has this percentage in place. The independent audit completed for the year ended June 30, 2006 included an audit finding because of deficit spending/available reserves. The auditor's states:

> "The district has incurred operating deficits of $824,186, $975,323 and $904,770 during fiscal years 2003-04, 2004-05 and 2005-06 respectively. During this same period of time, available reserves in the General Fund have decreased $1,466,355 (59%) and available reserves as a percentage of total outgo have decreased from 9.1% down to 3.4%. The district's current available reserve in the general fund exceeds the state recommended minimum available reserve by only $115,089. If the current trend of deficit spending continues, it may significantly impair the district's ability to maintain the state recommended level of minimum available reserves in future years. The district should implement appropriate program reductions and cost savings plans to ensure the district maintains at least the state recommended level of minimum available reserves in future years".

FCMAT concurs with the independent auditor's statements.

The MYFP focuses primarily on unrestricted revenue and expenditure allocations and the amounts needed to support restricted programs such as special education, transportation, and routine restricted maintenance. Other restricted programs are carefully monitored by the district, which has had a strict practice of containing expenditures within available funding allocations. The following comments concern specific unrestricted budget allocations.

Revenues

Revenue limit sources make up the majority of the district's total general fund budgeted revenues. The revenue limit calculation is based on student ADA levels, COLA and deficit adjustments, and qualifying add-on or deduct amounts. Enrollment and ADA projections are based on an analysis of trends in student enrollment and ADA ratios, birth rates by zip code and changing enrollment levels over the past five years. Corresponding expenditure reductions in the areas of salaries and benefits will need to be incorporated into the projections to reflect reduced staffing levels in both certificated and classified categories. A total of 9.5 FTE were reduced for the 2007-08 year based on board action to date. FCMAT did not include reduced staffing levels in 2008-09 because those decisions would require additional board approval.

State revenues have been adjusted by COLA factors and changes in enrollment levels. Federal Forest Reserve funds were not included in 2007-08 and 2008-09, as legislation has not yet occurred reinstating this funding.

Restricted federal and state revenues were decreased in future years by the 2006-07 carryover balances that are included in the 2006-07 revenue accounts and are budgeted for expenditure this year. State and federal restricted expenditures were adjusted for COLA and changes in student enrollment, in addition to being reduced for restricted ending balances that were included in the base year totals.

Expenditures

Certificated salaries have been projected by including an annual 1.5 percent step-and-column adjustment. Amounts for teacher and administrative salaries were only decreased in 2007-08 based on board action. The projection years reflect the ongoing cost of the current contract language.

Classified salaries have been projected with a 1.5 percent step-and-column adjustment. The projection includes no reductions in classified positions due to decreased enrollment because the district board has not taken such an action.

Any changes in compensation other than step-and-column adjustments should be applied to MY-FPs only after negotiations have concluded, although FCMAT made some estimates to review the district's current offer and ensure it can be afforded based on actions to date.
Employee benefits are the most difficult area of the budget to project. Double-digit inflation levels for both active and retiree health benefits and increases in other benefit categories must be considered carefully in the projection years. Changes to statutory benefits such as STRS, PERS, Social Security and Medicare are proportional to changes in salary accounts. Significant increases occur in this category annually because of the many current and retired employees receiving lifetime and capped to age 65 benefits.

Employee salaries and benefits continue to increase each year due to step-and-column and health coverage increases (those that are not capped), and potential salary increases, decreasing the discretionary dollars available for materials and supplies, services and contracts, capital outlay, other outgo, and contributions to restricted programs.

Books and supplies, services and other operating expenses have been adjusted by the decline in student enrollment and the consumer price index factor. All other expenditure categories continue to be budgeted at the same level as in 2006-07 with appropriate adjustments and inflation factors. In closing, FCMAT believes the district should do the following:

1. Continue to ensure fiscal solvency as required by the provisions of AB 1200 and AB 2756.

2. Address the increasing level of deficit spending and re-establish the projected fund balance and reserves to avoid forecasted deficit balances. The district board has provided the directive to eliminate deficit spending in future years, which is an important goal in reaching future solvency.

3. Ensure that the district continues to commit every available resource to developing options and recommendations for a recovery plan that meets with board approval.

FCMAT would like to express its gratitude to the district staff for its help. If we can serve you again in the future, please do not hesitate to contact us.

Sincerely,

Michelle Plumbtree
Fiscal Intervention Specialist

	2006-07 Base Year	Projected 2007-08	Projected 2008-09
Revenues			
Revenue Limit sources	24,630,738	25,244,008	25,711,982
Federal	1,259,972	1,004,872	996,464
State	5,426,507	5,257,217	5,353,987
Local	657,686	646,525	641,116
Total Revenues	31,974,903	32,152,622	32,703,549
Expenditures			
Certificated Salaries	13,597,953	13,801,922	14,008,951
Classified Salaries	4,174,802	4,237,424	4,300,985
Employee Benefits	5,342,462	5,343,202	5,391,291
Books and Supplies	2,538,085	2,440,489	2,474,013
Services & Other Operating	3,213,928	3,212,352	3,261,926
Capital Outlay	141,435	76,262	75,624
Other Outgo	2,440,830	2,562,830	2,690,867
Direct/Indirect Costs	-144,431	-144,787	-144,479
Debt Service	174,638		
Total Expenditures	31,479,702	31,529,694	32,059,178
Excess/Deficit	495,201	622,927	644,371
Other Sources/Uses	-186,538	-163,428	-163,677
Net Change	308,663	459,499	480,694
Beginning Fund Balance	2,185,933	2,508,113	2,950,747
Ending Fund Balance	2,494,596	2,967,612	3,431,441

**** Expenditures do not include the district's recent certificated settlement.**