FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Cotati-Rohnert Park Unified School District

Management Review

October 22, 2007

Joel D. Montero
Chief Executive Officer

October 22, 2007

Barbara Vrankovich, Superintendent
Cotati-Rohnert Park Unified School District
5860 Labath Avenue
Rohnert Park, CA 94928

Dear Superintendent Vrankovich:

In April 2007, the Cotati-Rohnert Park Unified School District entered into an agreement with the Fiscal Crisis and Management Assistance Team (FCMAT) for a review of facility studies and a multiyear financial projection. The agreement specified that FCMAT would:

1. Conduct a review of the district's recent Demographic Study and Facilities Master Plan performed by external consultants and incorporate the results into a FCMAT Multiyear Financial Projection of the district's general fund. The FCMAT study team will utilize the 2006-07 second interim and 2006-07 estimated actual financial reports as the baseline for this projection. This evaluation will include the fiscal impact of continued declining enrollment on staffing and facilities that corresponds with the enrollment trends.

2. The FCMAT study team will provide a fiscal analysis and recommendations to assist the district with the preparation of planning documents for potential school closure and/or consolidation of sites, if any. Any nexus established regarding the closure or consolidation of schools will be validated through FCMAT's independent analysis of the district's MYFP and the planning documents referenced in item 1.

The attached final report contains the study team's findings with regard to the above areas of review. We appreciate the opportunity to serve you, and we extend our thanks to all the staff of the Cotati-Rohnert Park Unified School District.

Sincerely,

Joel D. Montero
Chief Executive Officer

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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 in complying with fiscal accountability standards.

AB 1200 was established from a need to ensure that local educational agencies 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.

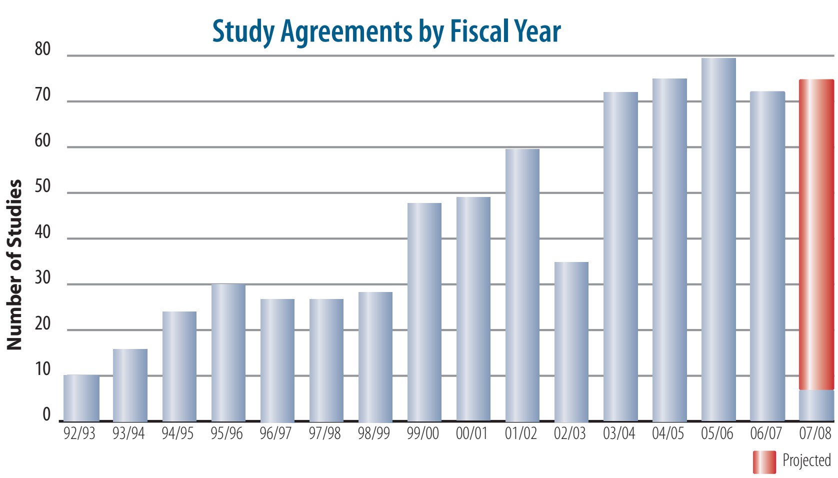
Since 1992, FCMAT has been engaged to perform more than 600 reviews for local educational agencies, including school districts, county offices of education, charter schools and community colleges. Services range from fiscal crisis intervention to management review and assistance. FCMAT also provides 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....................660
Total Number of Districts in CA..........982

- Management Assistance............................625 (94.7%)
- Fiscal Crisis/Emergency..............................35 (5.3%)

Note: Some districts had multiple studies.
- Districts (7) that have received emergency loans from the state.

(Rev. 8/6/07)



Introduction

Background

The Cotati-Rohnert Park Unified School District is located in Sonoma County in the city of Rohnert Park. Established in 1978, the district maintains eight elementary schools, two middle schools, and a comprehensive high school. The district also operates several alternative programs, including a continuation high school, a necessary small high school, a community day school, a technology high school, and an adult education program. In 2006-07, the district served 6,847 students in grades K through 12.

Cotati-Rohnert Park USD enrollment has declined by 831 students since 2002-03. However, the district has declined by 1,461 students since 1999. The overall decrease in student enrollment is 18% since 1999. The projected decline in enrollment through 2009-10 will increase that percentage to 28%. More than half of California school districts are declining in enrollment. Although the district's situation is not unique, decisions must be made concerning the possible closure of schools and/or consolidation to maintain programs and compensation.

The scope of work for this management review determined by the district and FCMAT is as follows:

1. Conduct a review of the district's recent Demographic Study and Facilities Master Plan performed by external consultants and incorporate the results into a FCMAT Multiyear Financial Projection of the district's general fund. The FCMAT study team will utilize the 2006-07 second interim and 2006-07 estimated actual financial reports as the baseline for this projection. This evaluation will include the fiscal impact of continued declining enrollment on staffing and facilities that corresponds with the enrollment trends.

2. The FCMAT study team will provide a fiscal analysis and recommendations to assist the district with the preparation of planning documents for potential school closure and/or consolidation of sites, if any. Any nexus established regarding the closure or consolidation of schools will be validated through FCMAT's independent analysis of the district's MYFP and the planning documents referenced in item 1.

Study Team

The study team included the following members:

Michele A. Huntoon, CPA
FCMAT Chief Management Analyst
Newcastle, California

Diane Branham
FCMAT Fiscal Intervention Specialist
Tehachapi, California

Laura Haywood
FCMAT Public Information Specialist
Bakersfield, California

John Palmer
FCMAT Consultant
Rocklin, California

Study Guidelines

FCMAT consultants visited the district in July 2007 to perform the following:

- Conduct interviews with administration and the staff
- Recompute key financial data
- Develop projections of budgets for 2007-08, 2008-09, and 2009-10
- Review policies and procedures
- Review external facility studies

This report is the result of those activities and is divided into the following sections:

I. Executive Summary
II. Multiyear Financial Projection
III. Facilities Review

Executive Summary

The Cotati-Rohnert Park Unified School District has been declining in student enrollment since before the 2002-03 fiscal year. In 2002, the district closed a school. School closures are always difficult for the district and community, and many factors should be considered before making such a decision. Maintaining academic programs is the top priority along with continuing to provide compensation to the staff. However, even after reductions in staff and expenditures, many declining-enrollment districts at some point are forced to consider the capacity and efficient use of their facilities.

The district has maintained a positive certification of its budget. However, a review of the district's current financial situation indicates that the district will not be able to meet its required 3% reserve in 2009-10 based on projected revenues and expenditures. This development stems from declining student enrollment. In addition, the district will be able to meet its reserve in 2008-09 only by utilizing funds that were set aside to prepare for the enrollment decline.

FCMAT adjusted the adopted budget revenues and expenditures for each of the years included in the Multiyear Financial Projection. However, since most of a school agency's budget is utilized for salaries and benefits (an average of 85% to 91% statewide), the opportunities to decrease expenditures are fewer as the enrollment decline continues. The district has lost more than 1,400 students since 1999.

Many other factors have also affected the district and caused deficits. Because the district has already made budget reductions and adjustments to compensate for declining enrollment, it is increasingly difficult to keep budget cuts from directly affecting the classroom. The board, administration, and community will need to continue identifying potential areas of reduction to offset declining enrollment and provide for staff salaries while maintaining fiscal solvency.

The following issues may also significantly affect the district's general fund balance in subsequent budget years:

1. Increased funds may be needed to pay the health benefit cost for current and retired employees, which are currently funded on a pay-as-you-go basis.

2. In the next couple of years, the district will face a challenge regarding other post employment benefits (OPEB). Specifically, the district will be required to recognize the unfunded liability associated with the obligation to provide health benefits for retirees. Recognizing this obligation is a new requirement under accounting standards issued by the Governmental Accounting Standards Board.

> The new standard provides an opportunity for the district to establish a practice for funding the unfunded liability, but this is difficult to accomplish when revenue sources are decreasing.

Cotati-Rohnert Park USD is the third largest district in Sonoma County. Based on CBEDS data, the district has declined from 8,308 students in the 1999-00 school year to 6,847 students in 2006-07, an 18% decline. The district has continued to use its closed elementary school to house other programs. A demographic report prepared in June 2007 concludes that district enrollment will continue to decline through 2013.

Declining enrollment is occurring in large, medium, and small districts throughout the state. There is no single explanation as to the cause, which is usually a combination of factors that vary from district to district. Factors that affect declining enrollment include the following:

- Reduced birthrates
- The cost of housing
- Surrounding growth areas
- Migration to other parts of the state or out of state
- Available land for new housing
- The depressed housing market
- Charter schools
- Economic conditions
- Employment opportunities

The State Department of Finance projects that the K-12 population in California will continue to decline through 2010 and return to the current level by 2013, followed by high growth through 2025. A number of the previously mentioned factors apply to Cotati-Rohnert Park Unified and may provide an explanation for present and future enrollment decline.

Declining enrollment has a severe effect on district finances since districts find it difficult to offset ongoing expenses as revenues decrease. Facilities consolidation/closure can be a solution. The district is considering a number of facilities and asset management actions to address the situation.

The district collects Level 1 developer fees and has identified a planned housing project within its boundaries, but development will not occur for the next five years. Project completion would take at least 18 years given the limit of 225 new units per year. The district owns 31 acres of vacant property adjacent to Creekside Middle School, and the District Advisory 711 Committee has recommended to the Governing Board that this property be declared surplus and sold. In June 2005, this property was appraised at a projected value of $2.82 million to $3.13 million. According to Article 4, Section 17456 of the Education Code, these funds are a one-time source of revenue to be expended only "for capital outlay purposes, including the acquisition of real property for intended use as a school site and the construction, reconstruction, and renovation of school facilities." Therefore, these funds would not include short-term relief for operational costs.

FCMAT reviewed the District Advisory 711 Committee's Final Report dated January 10, 2006, a district report titled "Dealing with Declining Enrollment Draft Timeline and Potential Benchmarks Update" dated June 26, 2007, and the district's developer fee justification study to evaluate the impact of declining enrollment on facilities.

Findings and Recommendations

Multiyear Financial Projection

Multiyear financial projections (MYFP) are required by AB 1200 (Chp 1213/1991) and AB 2756 (Chp 52/2004) and are a part of the budget and interim reports. They should be produced accurately and timely and contain the most current fiscal information available. These projections allow the district and the county office to project revenues and expenditures and help ensure that the district will be able to meet its financial obligations in the current and two subsequent fiscal years. In developing and implementing its multiyear financial projection, the district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The MYFP helps identify specific planning milestones that will aid the district in making important decisions.

If a district cannot 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 must notify the Governing Board of the district and the Superintendent of Public Instruction (SPI). The county office must follow Education Code 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. In the case of a district that does not meet its required reserve levels, the intent of the MYFP is to assist the county office and the district in formulating a plan to regain fiscal solvency and restore the required ending fund balance.

Public school districts receive funding from a variety of local, state, and federal sources. Some funds are earmarked for specific purposes, such as special education and home-to-school transportation, while most of the funds are used to support the general purpose operating expense of the district. California statutes provide funding through a combination of local property taxes and state taxes on a per-ADA basis.

Salary negotiations between Cotati-Rohnert Park Unified and the employee bargaining units are ongoing for the current year. The MYFP projects salaries and benefits will comprise 90% of the unrestricted expenditure budget in 2007-08, 89% in 2008-09, and 91% in 2009-10. The MYFP maintains staffing at the 2007-08 budget level in the projection years, with a decrease of 13 full-time equivalent (FTE) teaching positions in 2008-09 and eight FTE in 2009-10, due to the projected enrollment decrease. Staff reduction costs were based on an average salary of $64,585, with a total certificated salaries reduction of $839,599 in 2008-09 and $1.3 million in 2009-10.

The district has a stable staff that has been with the district for many years, with retirements on the horizon. The district should consider the impact of retirements when determining the necessary staffing levels from one year to the next. Because average costs do not consider the effect of few or no retirements, it may be necessary to recalculate the exact number of FTE reductions.

School agencies are allowed to charge an indirect cost rate to categorical programs, but only if this is allowable under the program. FCMAT noted that the district is either not charging all categorical programs the full allowable indirect cost rate or is charging only a portion. The district should consider charging the full indirect cost rate to recapture allowable costs according to program guidelines and to reflect the actual cost of each program.

Multiyear Forecast Assumptions

California school agencies use many different methods and software products to prepare multiyear financial projections. FCMAT's projections for the general fund were prepared using FCMAT's Budget Explorer multiyear projection software. This software application is a Web-based forecasting tool that is available at no cost to all California school agencies.

Any forecast of financial data has inherent limitations that include issues such as unanticipated changes in local property tax, enrollment trends and changing economic conditions at the state, federal and local levels. Therefore, the budget-forecasting model should be evaluated as a trend based on certain criteria and assumptions instead of a prediction of exact numbers. Multiyear financial projections help provide for more informed decision-making and the ability to forecast the fiscal impact of current decisions. To maintain the most accurate data, the projection should be updated at least at each interim financial reporting period (i.e., first interim, second interim) and before settling negotiations.

To evaluate the multiyear projection, much attention is focused on the bottom line, which demonstrates the district's undesignated, unappropriated fund balance. For example, if the bottom line demonstrates a positive unappropriated fund balance, this amount may be used by the board and/or Superintendent to improve educational programs, increase employee compensation or spend in other categories. However, if the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced to sustain the recommended reserve levels under AB 1200 guidelines. The projection must be viewed comprehensively, and the district must determine what compounding effects using any or all of the unappropriated fund balance will have on the projection in the current and future years.

FCMAT reviewed district records, interviewed staff members, and examined financial reports to gather the information needed for the multiyear financial projection. The initial review included a summary assessment of the district's 2006-07 unaudited actuals and the 2007-08 adopted budget. The review also included a fiscal analysis of the projected revenues, expenditures, transfers and components of the ending fund balance for the general fund. FCMAT's multiyear analysis utilizes the district's 2007-08 adopted budget as the baseline for the MYFP. FCMAT reviewed the district's budget assumptions to validate the 2007-08 budget and multiyear financial projections for the two subsequent years.

FCMAT's budget assumptions depict conservative economic factors and estimates as addressed in the 2007-08 state budget and outlined by School Services of California in its current Financial Dartboard. FCMAT's MYFP does not include any increases for salary in the current or projection years because those costs are considered during the local collective bargaining process. Included in the projection years are the average cost of step-and-column movement for all contracted salaries and the associated cost of employer paid statutory benefits.

General Fund

2007-08 Unrestricted Projected Ending Balances

There are differences between the projected 2007-08 ending balance determined by the district in the adopted budget and the projected ending balance determined by FCMAT, as shown in the following table:

Unrestricted General Fund	Object Code	District Working Budget	FCMAT Base Year	Difference
Revenues				
Revenue Limit Sources	8010 - 8099	$36,785,452.00	$36,762,866.13	-$22,585.87
Federal Revenues	8100 - 8299			-
Other State Revenues	8300 - 8599	3,049,500.00	3,056,619.01	+7,119.01
Other Local Revenues	8600 - 8799	736,642.00	736,642.00	-
Total Revenues		**40,571,594.00**	**40,556,127.14**	**-15,466.86**
Expenditures				
Certificated Salaries	1000 - 1999	20,984,032.00	20,984,032.00	-
Classified Salaries	2000 - 2999	3,748,448.00	3,748,448.00	-
Employee Benefits	3000 - 3999	8,443,095.00	8,443,095.00	-
Books and Supplies	4000 - 4999	663,673.33	663,673.33	-
Services and Other Operating Expenditures	5000 - 5999	3,046,635.85	3,046,635.85	-
Capital Outlay	6000 - 6900	7,939.00	7,939.00	-
Other Outgo	7000 - 7299	621,705.00	521,705.00	-100,000.00
Direct Support/Indirect Cost	7300 - 7399	(248,946.00)	(221,517.00)	+27,429.00
Debt Service	7430 - 7439			
Total Expenditures		**37,266,582.18**	**37,194,011.18**	-72,571.00
Excess (Deficiency) of Revenues Over Expenditures		**3,305,011.82**	**3,362,115.96**	+57,104.14
Other Financing Sources\Uses				
Interfund Transfers In	8910 - 8929	1,500.00	1,500.00	-
Interfund Transfers Out	7600 - 7629			
All Other Financing Sources	8930 - 8979			
All Other Financing Uses	7630 - 7699			
Contributions	8980 - 8999	(4,191,314.30)	(4,202,722.65)	-11,408.35
Total Other Financing Sources\Uses		**(4,189,814.30)**	**(4,201,222.65)**	-11,408.35
Net Increase (Decrease) in Fund Balance		**(884,802.48)**	**(839,106.69)**	-45,695.79
Fund Balance				
Beginning Fund Balance (as of July 1 - Unaudited)	9791	3,160,713.73	3,160,713.73	-
Audit Adjustments	9793			-
Other Restatements	9795			-
Adjusted Beginning Fund Balance				
Ending Fund Balance		**2,275,911.25**	**2,321,607.04**	+45,695.79

The following items account for an unrestricted difference of $54,304.21 between the district and FCMAT's numbers:

- A decrease in ADA for calculation of the revenue limit.
- An adjustment in supplemental hourly programs increasing revenue.
- An adjustment in the routine maintenance account for corrections in the 2006-07 indirect cost for restricted programs, reducing the indirect cost.
- An adjustment to the restricted programs, which required an increase in contributions.

FCMAT has focused attention on the unrestricted portion of the district's general fund budget, including the impact of general fund contributions on special education programs, home-to-school and special education transportation, the Pupil Retention Block Grant and the 3% required ongoing and major maintenance contribution. The community day school is also projected to require a general fund contribution in the 2009-10 fiscal year. The PARs program is expected to be paid off in 2008-09, so there was a reduction of $735,000 from the original MYP developed by the district in the 2009-10 fiscal year. FCMAT's projection expended the district's restricted ending fund balance where appropriate in the future years and reduced supplies, services and equipment if necessary to remain within the projected revenue resources. However, this action may also affect programs by reducing expenditures for these items.

The following MYFP prepared by FCMAT identifies the district's projected revenues, expenditures, and changes in fund balance for the unrestricted general fund in the current and two subsequent fiscal years with no school closure.

Name	Object Code	Historical Year 2006 - 07	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10
Revenues					
Revenue Limit Sources	8010 - 8099	$36,595,828.92	$36,762,866.13	$37,344,488.63	$36,281,996.94
Federal Revenues	8100 - 8299	$18,887.00	$0.00	$0.00	$0.00
Other State Revenues	8300 - 8599	$3,885,958.67	$3,056,619.01	$2,997,624.81	$2,965,983.64
Other Local Revenues	8600 - 8799	$1,048,404.73	$736,642.00	$747,340.14	$758,779.41
Total Revenues		**$41,549,079.32**	**$40,556,127.14**	**$41,089,453.58**	**$40,006,759.99**
Expenditures					
Certificated Salaries	1000 - 1999	$20,780,934.11	$20,984,032.00	$20,459,193.46	$20,261,998.35
Classified Salaries	2000 - 2999	$3,755,743.31	$3,748,448.00	$3,785,932.48	$3,823,791.80
Employee Benefits	3000 - 3999	$8,045,597.49	$8,443,095.00	$8,616,195.13	$8,982,289.54
Books and Supplies	4000 - 4999	$470,149.90	$663,673.33	$644,466.09	$642,076.86
Services and Other Operating Expenditures	5000 - 5999	$3,190,926.91	$3,046,635.85	$3,026,497.70	$2,310,243.53
Capital Outlay	6000 - 6900	$39,031.01	$7,939.00	$7,939.00	$7,939.00
Other Outgo	7000 - 7299	$573,148.00	$521,705.00	$536,154.80	$652,800.97
Direct Support/Indirect Cost	7300 - 7399	($366,636.21)	($221,517.00)	($211,400.00)	($211,400.00)
Debt Service	7430 - 7439	$2,042.71	$0.00	$0.00	$0.00
Total Expenditures		**$36,490,937.23**	**$37,194,011.18**	**$36,864,978.66**	**$36,469,740.05**
Excess (Deficiency) of Revenues Over		**$5,058,142.09**	**$3,362,115.96**	**$4,224,474.92**	**$3,537,019.94**
Other Financing Sources\Uses					
Interfund Transfers In	8910 - 8929	$1,500.00	$1,500.00	$1,500.00	$1,500.00
Interfund Transfers Out	7600 - 7629	$1,225,500.00	$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	($3,871,120.56)	($4,202,722.65)	($4,621,654.54)	($5,017,202.05)
Total Other Financing Sources\Uses		**($5,095,120.56)**	**($4,201,222.65)**	**($4,620,154.54)**	**($5,015,702.05)**
Net Increase (Decrease) in Fund Balance		**($36,978.47)**	**($839,106.69)**	**($395,679.62)**	**($1,478,682.11)**
Fund Balance					
Beginning Fund Balance (as of July 1 - Unaudited)	9791	$3,197,692.20	$3,160,713.73	$2,321,607.04	$1,925,927.42
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		$3,197,692.20	$3,160,713.73	$2,321,607.04	$1,925,927.42
Ending Fund Balance		$3,160,713.73	$2,321,607.04	$1,925,927.42	$447,245.31
Components of Ending Fund Balance					
Fund Balance, Reserved	9700 - 9709	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$5,000.00	$5,000.00	$5,000.00	$5,000.00
Stores	9712	$0.00	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$110,663.30	$75,000.00	$0.00	$0.00
Other Reserves	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730 - 9739	$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 - 9774	$1,674,660.11	$1,727,273.56	$1,670,849.11	$1,671,730.34
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$407,209.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$963,181.32	$514,333.48	$250,078.31	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00	($1,229,485.03)

FCMAT explored the impact of a single elementary school closure using an average savings of $300,000, with the closure occurring in the 2008-09 fiscal year. It is important to recognize that closing a school will reduce administrative costs, but the instructional staff will still be required to serve the students that are relocated from one school to another. In addition, there are fixed costs associated with a vacant facility. As discussed later in this report, the development of an asset management plan should be considered when reviewing the aspects of school closure. The following table shows the impact of closing a single elementary school site in the 2008-09 fiscal year and the fiscal impact on the budget in 2008-09 and 2009-10.

Name	Object Code	Historical Year 2006 - 07	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10
Revenues					
Revenue Limit Sources	8010 - 8099	$36,595,828.92	$36,762,866.13	$37,344,488.63	$36,281,996.94
Federal Revenues	8100 - 8299	$18,887.00	$0.00	$0.00	$0.00
Other State Revenues	8300 - 8599	$3,885,958.67	$3,056,619.01	$2,997,624.81	$2,965,983.64
Other Local Revenues	8600 - 8799	$1,048,404.73	$736,642.00	$747,340.14	$758,779.41
Total Revenues		**$41,549,079.32**	**$40,556,127.14**	**$41,089,453.58**	**$40,006,759.99**
Expenditures					
Certificated Salaries	1000 - 1999	$20,780,934.11	$20,984,032.00	$20,459,193.46	$20,261,998.35
Classified Salaries	2000 - 2999	$3,755,743.31	$3,748,448.00	$3,785,932.48	$3,823,791.80
Employee Benefits	3000 - 3999	$8,045,597.49	$8,443,095.00	$8,616,195.13	$8,982,289.54
Books and Supplies	4000 - 4999	$470,149.90	$663,673.33	$644,466.09	$642,076.86
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Capital Outlay	6000 - 6900	$39,031.01	$7,939.00	$7,939.00	$7,939.00
Other Outgo	7000 - 7299	$573,148.00	$521,705.00	$236,154.80	$352,800.97
Direct Support/Indirect Cost	7300 - 7399	($366,636.21)	($221,517.00)	($211,400.00)	($211,400.00)
Debt Service	7430 - 7439	$2,042.71	$0.00	$0.00	$0.00
Total Expenditures		**$36,490,937.23**	**$37,194,011.18**	**$36,564,978.66**	**$36,169,740.05**
Excess (Deficiency) of Revenues Over		**$5,058,142.09**	**$3,362,115.96**	**$4,524,474.92**	**$3,837,019.94**
Other Financing Sources\Uses					
Interfund Transfers In	8910 - 8929	$1,500.00	$1,500.00	$1,500.00	$1,500.00
Interfund Transfers Out	7600 - 7629	$1,225,500.00	$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	($3,871,120.56)	($4,202,722.65)	($4,621,654.54)	($5,017,202.05)
Total Other Financing Sources\Uses		**($5,095,120.56)**	**($4,201,222.65)**	**($4,620,154.54)**	**($5,015,702.05)**
Net Increase (Decrease) in Fund Balance		**($36,978.47)**	**($839,106.69)**	**($95,679.62)**	**($1,178,682.11)**
Fund Balance					
Beginning Fund Balance (as of July 1 - Unaudited)	9791	$3,197,692.20	$3,160,713.73	$2,321,607.04	$2,225,927.42
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		$3,197,692.20	$3,160,713.73	$2,321,607.04	$2,225,927.42
Ending Fund Balance		$3,160,713.73	$2,321,607.04	$2,225,927.42	$1,047,245.31
Components of Ending Fund Balance					
Fund Balance, Reserved	9700 - 9709	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$5,000.00	$5,000.00	$5,000.00	$5,000.00
Stores	9712	$0.00	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$110,663.30	$75,000.00	$0.00	$0.00
Other Reserves	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730 - 9739	$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 - 9774	$1,674,660.11	$1,727,273.56	$1,661,849.11	$1,662,730.34
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$407,209.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$963,181.32	$514,333.48	$559,078.31	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00	($620,485.03)

In addition, FCMAT considered the impact of the closure of two school sites using an average savings of $300,000 per school site, with the closures occurring in the 2008-09 fiscal year. The same issues regarding the reduction of administrative staff and fixed costs of a vacant facility would apply to this scenario. The asset management plan is essential to the discussion in addressing school closures. The following table shows the impact of closing two elementary school sites in the 2008-09 fiscal year and the fiscal impact on the budget in 2008-09 and 2009-10.

Name	Object Code	Historical Year 2006 - 07	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10
Revenues					
Revenue Limit Sources	8010 - 8099	$36,595,828.92	$36,762,866.13	$37,344,488.63	$36,281,996.94
Federal Revenues	8100 - 8299	$18,887.00	$0.00	$0.00	$0.00
Other State Revenues	8300 - 8599	$3,885,958.67	$3,056,619.01	$2,997,624.81	$2,965,983.64
Other Local Revenues	8600 - 8799	$1,048,404.73	$736,642.00	$747,340.14	$758,779.41
Total Revenues		**$41,549,079.32**	**$40,556,127.14**	**$41,089,453.58**	**$40,006,759.99**
Expenditures					
Certificated Salaries	1000 - 1999	$20,780,934.11	$20,984,032.00	$20,459,193.46	$20,261,998.35
Classified Salaries	2000 - 2999	$3,755,743.31	$3,748,448.00	$3,785,932.48	$3,823,791.80
Employee Benefits	3000 - 3999	$8,045,597.49	$8,443,095.00	$8,616,195.13	$8,982,289.54
Books and Supplies	4000 - 4999	$470,149.90	$663,673.33	$644,466.09	$642,076.86
Services and Other Operating Expenditures	5000 - 5999	$3,190,926.91	$3,046,635.85	$3,026,497.70	$2,310,243.53
Capital Outlay	6000 - 6900	$39,031.01	$7,939.00	$7,939.00	$7,939.00
Other Outgo	7000 - 7299	$573,148.00	$521,705.00	($63,845.20)	$52,800.97
Direct Support/Indirect Cost	7300 - 7399	($366,636.21)	($221,517.00)	($211,400.00)	($211,400.00)
Debt Service	7430 - 7439	$2,042.71	$0.00	$0.00	$0.00
Total Expenditures		**$36,490,937.23**	**$37,194,011.18**	**$36,264,978.66**	**$35,869,740.05**
Excess (Deficiency) of Revenues Over		**$5,058,142.09**	**$3,362,115.96**	**$4,824,474.92**	**$4,137,019.94**
Other Financing Sources\Uses					
Interfund Transfers In	8910 - 8929	$1,500.00	$1,500.00	$1,500.00	$1,500.00
Interfund Transfers Out	7600 - 7629	$1,225,500.00	$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	($3,871,120.56)	($4,202,722.65)	($4,621,654.54)	($5,017,202.05)
Total Other Financing Sources\Uses		**($5,095,120.56)**	**($4,201,222.65)**	**($4,620,154.54)**	**($5,015,702.05)**
Net Increase (Decrease) in Fund Balance		**($36,978.47)**	**($839,106.69)**	**$204,320.38**	**($878,682.11)**
Fund Balance					
Beginning Fund Balance (as of July 1 - Unaudited)	9791	$3,197,692.20	$3,160,713.73	$2,321,607.04	$2,525,927.42
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		$3,197,692.20	$3,160,713.73	$2,321,607.04	$2,525,927.42
Ending Fund Balance		$3,160,713.73	$2,321,607.04	$2,525,927.42	$1,647,245.31
Components of Ending Fund Balance					
Fund Balance, Reserved	9700 - 9709	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$5,000.00	$5,000.00	$5,000.00	$5,000.00
Stores	9712	$0.00	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$110,663.30	$75,000.00	$0.00	$0.00
Other Reserves	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730 - 9739	$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 - 9774	$1,674,660.11	$1,727,273.56	$1,652,849.11	$1,653,730.34
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Other Designated	9780	$407,209.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$963,181.32	$514,333.48	$868,078.31	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00	($11,485.03)

The average savings of a school closure ranges from $300,000 to $500,000. However, every district has varying factors that must be considered regarding the age of the facilities, the structure of those facilities (e.g., whether they are portables or permanent buildings), available capacity at the sites, and land availability.

As indicated in the two previous tables, the closure of either one or two school sites in 2008-09 will provide a reduction in expenditures in both 2008-09 and 2009-10. However, it will be necessary to utilize the funds in fund 17 specifically placed in that fund for declining enrollment. Even with the use of those available funds, the district would end the year with a negative balance of $655,235 in 2009-10 with a single school site closure, and a negative balance of $55,235 in 2009-10 with two school site closures based on the projections of the decline in enrollment and the proposed increase in COLA.

Enrollment and Average Daily Attendance

FCMAT reviewed the district's enrollment and average daily attendance (ADA) trends for 2002-03 through 2006-07. The review compared the October CBEDS student enrollment count with the April period two (P-2) ADA data. FCMAT used the district's enrollment as of September 10, 2007 for the current year estimate. In its multiyear projection, FCMAT predicts an enrollment decrease and has used the district's projected enrollment figures from the 2007-08 adopted budget assumptions.

The following chart illustrates the historical trends of CBEDS, P-2 ADA and includes FCMAT's projected CBEDS and ADA calculations.

Enrollment & ADA

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08*	2008/09*	2009/10*
CBEDS	7,678	7,482	7,260	7,023	6,847	6,639	6,300	6,113
P-2 ADA	7,329.22	7,128.68	6,924.00	6,679.25	6,488.27	6,315.68	5,989.41	5,810.41
ADA/CBEDS %	95.46%	95.28%	95.37%	95.11%	94.76%	95.13%	95.07%	95.05%

**Estimated*

Revenues

Revenue Limit Sources - FCMAT calculated the district's revenue limit for 2007-08 using the state budget information from the September 2007 California School Finance and Management Conference and the current 2007-08 School Services of California (SSC) Dartboard. These factors include the estimated statutory cost-of-living adjustment (COLA) of 4.3% for 2008-09 and 2.5% for 2009-10 and continued elimination of the deficit. The district is funded using prior year ADA since it is greater than the projected current year ADA.

Federal Revenues - The district did not budget for unrestricted federal revenues in the current year, and FCMAT continued this trend in the projection years.

Restricted federal revenues were adjusted based on prior year allocation as reported by the California Department of Education and estimated 2007-08 funding reductions in some programs. The programs were also adjusted for prior year carryover.

State Revenues – FCMAT did not budget for mandated cost reimbursement claim funding in the current and projection years because these revenues have not been included in the state's 2007-08 budget. The SSC Dartboard was used for lottery rates in the current and projected fiscal years.

Restricted state revenues were adjusted based on the prior year allocation as reported by the California Department of Education and estimated increases for COLA. The programs were also adjusted for prior year carryover.

Local Revenues – No changes were made to this category of revenues.

Expenditures

Certificated Salaries - The FCMAT multiyear projection includes the impact of a 1.5% ongoing cost of step-and-column movement for contracted salaries in the projection years and *no other adjustments* for salary enhancements since those are determined through local negotiations. FCMAT's MYFP decreases the number of certificated instructional staff members by 13 FTE in 2008-09 and 8 FTE in 2009-10 based on estimated enrollment. The Assistant Superintendent, Human Resources was promoted to Superintendent at the beginning of the 2007-08 school year. The position of Assistant Superintendent, Human Resources will not be filled for the 2007-08 and 2008-09 fiscal years. This is a savings of $100,000 each year.

Classified Salaries – FCMAT included the cost of step movement at 1.0%, and *no other adjustments* were included for salary enhancements as those are determined by local negotiations.

Employee Benefits - FCMAT increased statutory benefits in proportion to certificated and classified salary changes and increased the projected cost of employer paid health and welfare contributions by 10% in each of the projection years.

Books and Supplies - FCMAT adjusted the budget for materials and supplies using the consumer price index (CPI) inflation factor from the SSC Dartboard.

Services and other Operating Expenditures – The budget was adjusted using the CPI.

Capital Outlay - The equipment budget was increased by the CPI.

Other Outgo – No changes were made to this category.

Direct Support/Indirect Costs – Changes were made to reflect a correction in the amount charged to the routine maintenance account in 2006-07 and to continue charging indirect cost to the Supplemental School Counseling program.

The budget includes charging indirect costs to expenses in object code 5110, Subagreements, in some programs. The California School Accounting Manual has established object code 7310 for indirect costs to the applicable programs. FCMAT's MYFP adjusts the indirect costs based on the exclusion of the expenses budgeted in object code 5110, with the correction to object code 7310, transfers of indirect costs.

Other Financing Sources/Uses

Transfers Out – The 2007-08 adopted budget includes a complete reduction of the transfer to deferred maintenance from RMA due to a remaining balance in unmatched carryover as reported by the county office. A change was made in the projection years to increase the transfer back to one-half of 1%.

Contributions to Restricted Programs - The district is projected to contribute to the following restricted resources in the current and two projection years**:** Special education, special education preschool, home-to-school and special education transportation, the pupil retention block grant and the required 3% contribution to the restricted maintenance account (RMA). The projection years indicate that the RMA will necessitate a contribution in excess of the required 3% in 2008-09 and 2009-10. The excess contribution is projected to be paid from the general fund, while the 3% is provided by the bond fund. A contribution is also projected for the community day school in 2009-10.

The district currently uses bond and redevelopment agency funds for the required 3% contribution to RMA. Although the multiyear projection required by statute does not extend beyond two fiscal years, the district should address the source of funding for the RMA (bond funds) immediately since the bond funds could be exhausted within the next few years, which would necessitate taking the RMA contribution from the general fund. The county office has also noted this issue in its periodic reporting period response letters to the district.

Net Increase/Decrease in Fund Balance - Taking into account the contributions to restricted programs, there is an excess of expenditures over revenues in the 2007-08 unrestricted budget of $839,106.69, leaving a projected ending fund balance of $2.3 million. The district's required 3% reserve for economic uncertainties is $1.7 million.

Reserve Level - The FCMAT projection indicates that the district will be able to meet the 3% minimum required reserve level in the current and projection years. The district should be aware that a balance in Fund 17 may be used to help meet the required reserve level if the funds have not already been committed elsewhere. The district's 2006-07 unaudited actuals reflect a balance of $1,386,588 in Fund 17, Special Reserve for Other Than Capital Outlay.

Projected Reserve Level

No School Closure

Unrestricted General Fund	2007-08	2008-09	2009-10
Projected Ending Balance	$2,321,607	$1,925,927	*$447,245
Projected Economic Uncertainty Reserve Level	1,727,274	1,670,849	1,671,730

* Amount is less than reserve requirement, which provides an overall ending fund balance for unrestricted general fund.

Projected Reserve Level
Closure of One School Site
Scenario I

Unrestricted General Fund	2007-08	2008-09	2009-10
Projected Ending Balance	$2,321,607	$2,225,927	*$1,047,245
Projected Economic Uncertainty Reserve Level	1,727,274	1,661,849	1,662,730

* Amount is less than reserve requirement, which provides an overall ending fund balance for unrestricted general fund.

Projected Reserve Level
Closure of Two School Sites
Scenario II

Unrestricted General Fund	2007-08	2008-09	2009-10
Projected Ending Balance	$2,321,607	$2,525,927	*$1,647,245
Projected Economic Uncertainty Reserve Level	1,727,274	1,652,849	1,653,730

* Amount is less than reserve requirement, which provides an overall ending fund balance for unrestricted general fund.

The tables for all scenarios show that in 2009-10, the district will not meet its 3% reserve requirement in the general fund. The district can include Fund 17, Special Reserve for Other Than Capital Outlay, in 2009-10. In obtaining fiscal solvency, the district's 3% reserve requirement should be met by sources available in the unrestricted general fund.

Budget Monitoring

The budget should reflect the district's goals and objectives that are developed annually and approved by the Governing Board. The Education Code states that amounts budgeted in each major object category shall be the maximum amount that can be expended under each classification. Budgets should be monitored during the fiscal year to ensure that appropriations are not overspent and that revenues received and expenditures made are the same as those expected. If revisions need to be made, they are subject to board approval. Budgets should be reviewed and updated monthly. The review should be at both the resource and object levels to ensure the district knows its projected fund balance at any given time.

An encumbrance is a commitment to purchase goods and services, including salary and employee benefit obligations. Encumbrances are a major source of budgetary control and are important in preventing the overexpenditure of an appropriation and budget line. They are also an excellent way to monitor budgets to ensure that committed monies are protected from being spent in any other manner. Encumbrances are of utmost importance to districts experiencing fiscal distress because they are a key to providing a full picture of the district's finances. Encumbering payroll (salary and benefits) is also essential so that any differences between position control and payroll are readily recognized.

Revenues and expenditures for categorical programs should be reviewed and evaluated in the same manner as the unrestricted general fund. Carryover and deferred revenue of categorical programs should be similarly monitored. Categorical program budget development should be integrated with the district's goals and used to address student needs. Categorical funding should be spent in the year it is earned, whenever possible.

The district's Governing Board has verbally indicated a desire to maintain a 5% reserve for economic uncertainties. However, no formal policy has been established to require the reserve level. The district should establish a board policy to ensure that a five percent reserve level is maintained. The reserve becomes more important during times of declining enrollment. Three percent is the minimum percentage required by the state, but it is not the maximum percentage. For a district experiencing declining enrollment, maintaining even the lower reserve percentage can be challenging.

The cafeteria fund has required a contribution from the general fund in past years and includes a transfer in the budget year. The district should perform an in-depth analysis of this program to evaluate how it can become self-sustaining. The district has not charged the full amount legally allowed for indirect costs to this fund. The district should consider charging the full amount for indirect costs to reflect the true costs of the program. The district's general ledger dated July 13, 2007 indicates that interfund loans made to the cafeteria fund have not been paid back within the statutory time lines outlined in Education Code 42603. The district should close out these loans by repaying the general fund or reflecting them as a permanent transfer to the cafeteria fund.

Position Control

One of the most critical elements in budgeting for expenditures is accurately projecting employee salary and benefit costs. These costs are the largest part of school district budgets, averaging approximately 91% of the unrestricted budget in unified school districts throughout California.

A reliable position control system establishes positions by site or department and helps prevent overstaffing by ensuring that staffing levels conform to district-approved formulas and standards. To be effective, the position control system must be integrated with other financial modules such as budget and payroll. Position control functions must be separated to ensure proper internal controls. The controls must ensure that only board-authorized positions are entered into the system, that Human Resources hires only employees authorized by the board, and that the payroll staff 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.

Internal controls help ensure efficient operations, reliable financial information and legal compliance. They also help protect the district from material weaknesses, serious errors and fraud. These controls should be in place for any position control system. The following table provides a suggested distribution of labor to help provide the necessary internal control structure.

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 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 development of the district's budget and should be completed early in the cycle (i.e., February, March). Position control files for the budget year should then be updated to eliminate positions as necessary, 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 fully integrated with payroll and budget modules and used to update the budget at each reporting period.

An integrated position control system would permit the district to incorporate the functions of payroll, budgeting, hiring and monitoring staffing levels into one system, reducing the amount of staff time needed to maintain and process data. This would enhance the district's ability to adequately project and monitor salary and benefit costs.

The district utilizes the integrated position control module of the California Educational Computer Consortium (CECC) financial system and is involved in a review of a countywide conversion to a new financial system. The district should ensure that any new financial system also has an integrated position control system.

Any new positions the district adds should be submitted to the Governing Board for approval before hiring occurs in any classifications, certificated, classified, or management. At present, the district submits some positions to the board for approval, but not all classifications consistently are handled using the same procedure. The district indicates that this is because of the timing of board meetings, which are held once a month.

Other Post employment Benefits

In June 2004, a new accounting standard was issued by the Governmental Accounting Standards Board. GASB 45 requires state and local government agencies to report their financial obligations regarding health benefits for retired employees. Cotati-Rohnert Park will begin recognizing the unfunded liability in its financial statements beginning in 2008-09. The district's obligation has been determined to be $13.3 million. There is no requirement to fund the unfunded liability; however, a decision not to fund any portion of it will very quickly appear as a highlighted item in the district's audit report in the next two to three years. For example, the recognition of the unfunded liability will increase significantly each year. Without any sources to fund this liability, it will negatively impact the financial statements. Further, this decision will probably hinder future external financing or the ability to sell bonds at a reasonable rate as well as affect the district's bond rating.

Cotati-Rohnert Park provides employees with health benefits until age 65. The benefits are not extended to dependents, but the cost is funded by the district on a pay-as-you-go basis. This method can become burdensome without a plan to meet future obligations as they become due. As the population matures, there will be an increased demand on resources. On average, a pay-as-you-go method comprises approximately 1% of the total expenditures, but this percentage is expected to increase to more than 3% in a few years.

The unfunded liability was calculated under the condition that the district would begin to fund it by setting aside $300,000 from Fund 17. Without the contribution of those funds, the unfunded liability balance would increase. The district's decision to include the $300,000 calculation was prudent. It will be important to continue funding the unfunded liability at some level to ensure that the district can meet its obligation in the future. The MYP did not take funding of the unfunded liability into account.

Recommendations

The district should:

1. Consider charging all programs and funds the maximum amount legally allowed for indirect costs to maximize unrestricted resources and reflect the true cost of each program. The district should also consider charging the 3% administration fee on developer fees collected each year and transfer it to the general fund.

2. Ensure that indirect costs are charged to object code 7310, transfers of indirect costs.

3. Address the issue of funding the restricted maintenance account with bond funds, since bond funds are expected to be exhausted within the next few years. The district's routine repair maintenance account is maintained at a three percent level and funded through bond funds. Although the multiyear projection required by statutes does not extend beyond two years, this issue should be addressed since the bond funds could potentially be exhausted within seven years.

4. Encumber all expenditures in the financial system, including salary and benefit amount, as part of a fully integrated system.

5. Establish a board policy to ensure that a five percent reserve is maintained.

6. Perform an in-depth analysis of the cafeteria program to evaluate how it can become self-sustaining.

7. Ensure that all interfund loans are repaid within the statutory time lines as outlined in Education Code 42603.

8. As a sound fiscal practice, encourage the Governing Board to follow applicable guidelines to ensure equitable treatment for all classifications and to ensure that the district's budget can sustain new positions. If feasible, the district should submit all new positions to the board for approval before hiring in all employee classifications.

9. Ensure that any new financial system has an integrated position control system.

Facilities Review

This facilities portion of this review focuses on the impact of declining enrollment on facilities and the potential for school closure and/or consolidation of sites. This section is based on the analysis of the district's demographics report, dated June 2007, the facilities master plan, dated August 2005, staff interviews, and other pertinent documents. The district's master plan, demographics report and developer fee justification study were prepared by SchoolWorks Inc.

Facilities Master Plan

The district's facilities master plan (FMP) was prepared in August 2005. However, continued growth and declining enrollment both require the plan to be regularly updated. The district's 2005 plan effectively analyzed district facilities and capacities using a computer mapping system (GIS) to show students attending within and outside each of the district's schools boundaries. These mapping systems overlay student information data on computerized maps that have been customized according to district boundaries. GIS is a valuable tool that can be used to easily change boundaries and reassign students if the district proceeds with school consolidation/closure.

The facilities master plan shows that the district has 242 permanent classrooms and 74 portable classrooms for a total capacity of 8,444 students. The 2006-07 district enrollment is 6,847 students. The plan concludes by projecting that the district will have as many as 39 empty elementary classrooms by 2010, but would still have enough classroom capacity if any one of the elementary schools were closed.

The master plan's August 2005 enrollment projection used the state cohort method to accurately estimate the actual enrollment of 6,847 students for 2006-07. A comparison of the elementary capacity figures of 3,696 with the actual enrollment of 2,983 in 2006-07 shows that the district has an excess capacity of 713 students. Assuming the district serves an average of 25 students per classroom, there is an excess of 28.5 classrooms. The average elementary school in the district has 22 classrooms, indicating a possibility of closing one elementary school.

Demographics Report

The district demographics report used a method similar to the facilities master plan, but extends the plan's projections to the 2012-13 school year. The report includes data on transfer students, including information on how students would be transferred to and from schools. The projections show that the district will have 317 fewer students in the 2007-08 school year and that the enrollment will continue to decline to 5,673 students by the 2012-13 school year. The majority of the decline will occur at the high school level. The report uses the same state cohort projection method used by the State Allocation Board to determine funding for school construction projects. The demographics report provides valuable student information regarding student residence locations and transferring students in the district. This information will be useful in adjusting boundaries if the options of consolidation and/or closure of a school are pursued by the district.

Developer Fee Justification Study

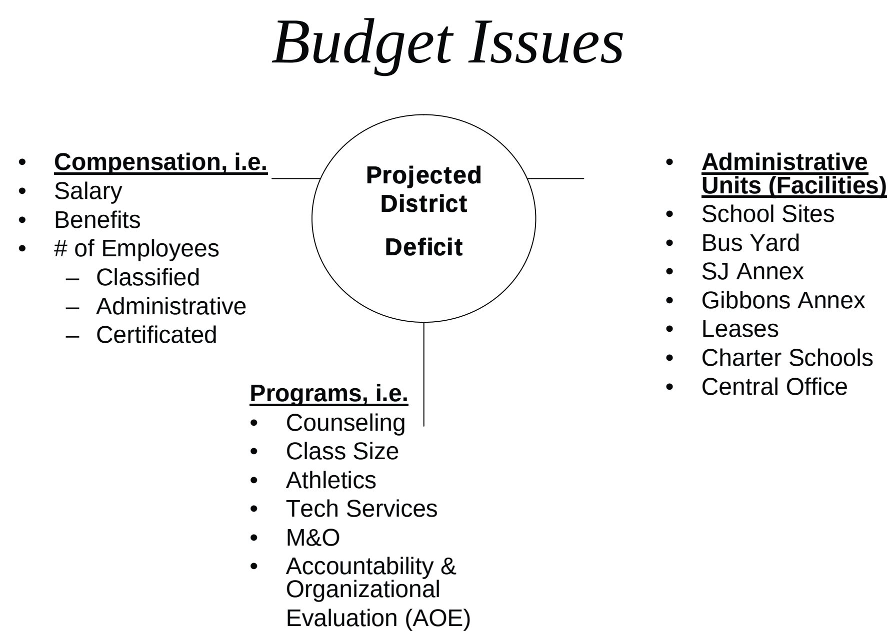
The purpose of the developer fee study was to demonstrate that even with declining enrollment, future district growth will justify the need to levy developer fees. Although overall district capacity was greater than enrollment, space was available for new students only at the elementary and middle school levels and not at the high school level. The report established that maximum developer fees were justified because a reasonable relationship existed between residential, commercial, and industrial development and the need for additional school facilities. The report identified a 9.67% enrollment decline in the four years before the study was issued and an available capacity of 1,030 students. In the five years since the report was written, the decline has increased to 10.8%.

The developer fee justification study predicted that growth would continue in certain areas of the district, but the overall enrollment decline would also persist. The excess capacity of 1,550 students at the elementary and middle school levels shown in the report supports the need for the district to consider consolidation/closure of a school.

School Closure Considerations

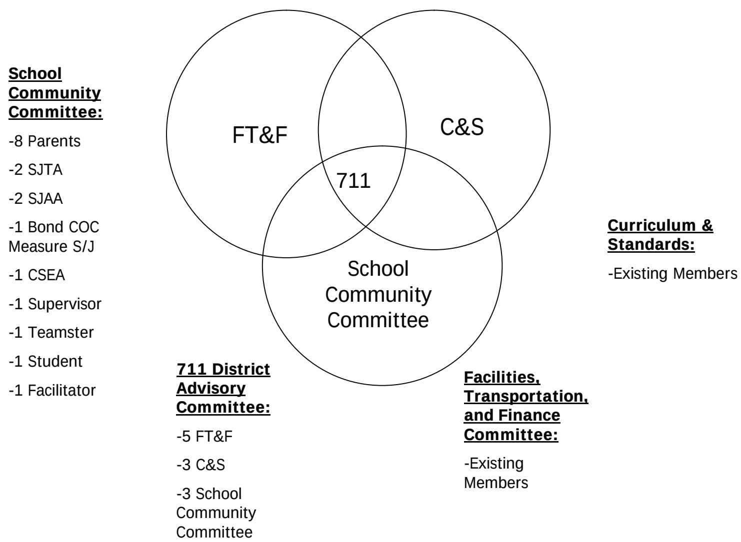
The district has adequate demographic data regarding capacity and projected student enrollment to support the closure of a school site. An evaluation should be completed to determine the effect of school closure and declining enrollment on district finances, programs, compensation and facilities.

As shown in the following diagram, a reduction in district revenues because of declining enrollment will affect all these areas. Consolidating or closing a district school may minimize the impact on programs and compensation.



A process should be developed to involve parents, community members, teachers, and administrators in making decisions on closure. An example of the committees used by one district in the school closure process is shown in the following diagram. An inclusive process can provide the necessary support to make these difficult decisions. Closure of facilities will typically be supported by parents and community members as a better option than reducing programs or compensation.

Committee Membership



Savings from the closure of an elementary school are estimated to be between $300,000 and $500,000. These savings would be realized from the salaries of the principal, clerical staff, custodial staff, and operating costs (maintenance and utilities). The actual savings will be based on the district's plan to reuse the facility. An asset management plan can evaluate possible uses of closed sites and determine ways to turn the closed facility into a revenue source. The district may declare the property as surplus and sell or lease it. Since districts are often reluctant to sell property based on potential future increased enrollment, leasing may be a better option. A closed site can also provide the opportunity for consolidating district operations, which could lead to the selling of sites not used for classroom instruction. The district is considering many of these options.

Determining the number of students per school site will involve the review of several factors. The California Department of Education provides for capacity based on the number of acres available for each type of school: elementary, middle and high schools. This information is helpful when a district begins the process of building a new school, and can also be useful for existing schools. The demographic study will contain the most helpful data for the committee that researches this issue. The study is due to be provided to the district at the end of October. Utilizing the demographic study as an overlay to the current school boundaries will assist with the generation of students within those boundaries. It will also be important to determine the condition of each school site in operation or that could be operated regarding maintenance, modernization, operational costs, and distances between school sites. Adding portables to the site is an option, but this should be reviewed in terms of the life expectancy and maintenance costs of the portables.

An alternative to school closure is assigning a single administrator to two sites. Although this would eliminate the cost of an administrator, it presents some serious operational problems. Unless the schools sharing an administrator were physically next to each other, it may be difficult to ensure an administrator is on site if a problem occurs. This option also does not eliminate the ongoing custodial, maintenance and other operational costs associated with running a school. The district also could not benefit from using a closed site as a source of revenue.

Recommendations

The district should:

1. Consider proceeding with plans to close or consolidate a school or schools. The necessity of this closure is supported by continued reduced revenues due to declining enrollment as well as the data shown in the district's facility master plan, demographics report, and developer fee justification study.

2. Update the facility master plan to include a section on asset management, which would consider the options of selling or leasing surplus property. Consideration should be given to establishing a community committee that would have a larger representation than the 711 committee. The community committee could develop criteria that would be used to determine which site needed to be closed. The district advisory 711 committee would make a final recommendation to the board regarding the sale or lease of surplus property.

3. Use the information in the asset management plan, facility master plan and demographic report in making a decision on the use of these facilities. The district is fortunate to have these documents since they can provide objective data for making decisions.

Appendices

A. Study Agreement

FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
April 3, 2007

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the **Cotati-Rohnert Park Unified 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 and county offices of education upon request. The District has requested that the Team provide for the assignment of professionals to study specific aspects of the Cotati-Rohnert Park Unified School District 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

The scope and objectives of this study are to:

1) Conduct a review of the District's recent Demographic Study and Facilities Master Plan performed by external consultants and incorporate the results into a FCMAT Multi-Year Financial Projection of the District's General Fund. The FCMAT Team will utilize the 2006-07 Second Interim Financial Report as the baseline for this projection. This evaluation will include the fiscal impact of continued declining enrollment on staffing and facilities that corresponds with the enrollment trends.

2) The FCMAT Team will provide fiscal analysis and recommendations to assist the District with the preparation of planning documents for potential school closure and/or consolidation of sites, if any. Any nexus established regarding the closure or consolidation of schools will be validated through FCMAT's independent analysis of the District's MYFP and the planning documents referenced in item 1.

B. Services and Products to be provided

1) Orientation Meeting - The Team will conduct an orientation session at the District to brief District 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 District following completion of the review.

3. PROJECT PERSONNEL

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

A. Michelle Huntoon, FCMAT Chief Management Analyst
B. Diane Branham, FCMAT Intervention Specialist
C. FCMAT Facilities Consultant

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 at other locations, presenting reports, or participating in meetings.

B. All out-of-pocket expenses, including travel, meals, lodging, etc.

C. Based on the elements noted in section 2, A, (1), the cost of the study is estimated at $17,000. The District will be invoiced at actual costs.

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

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 (See attached Exhibit)

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 District pupils. The District shall take appropriate steps to comply with EC 45125.1(c).

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

7. CONTACT PERSON

Please print name of contact person: J. Wade Roach, Chief Financial Officer

Telephone 707-792-4705 FAX 707-792-4537

Internet Address wade_roach@crpusd.org

Michael Watenpaugh 4/18/07

Michael Watenpaugh, Superintendent — Date
Cotati-Rohnert Park Unified School District

Barbara Dean Apr 03, 2007

Barbara Dean, 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.

FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

CSIS California School Information Services

Date: April 3, 2007

To: J. Wade Roach, Chief Financial Officer
Cotati-Rohnert Park Unified School District

From: Anthony L. Bridges, Deputy Executive Officer
Fiscal Crisis & Management Assistance Team

Subject: Documents needed for the FCMAT study:
(Documents may be retained by FCMAT until completion of study.)

- ☐ Current SACS file for 2006-07 2nd Interim\data upload into FCMAT's Budget Explorer Multi Year Financial Software
- ☐ Business office organizational chart
- ☐ Salary schedules, all groups
- ☐ All employee group contracts

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AB1200 impact of most recent salary settlement disclosure
Two most recent independent auditor reports
2006-07 Revised Adopted budget, SACS document, all funds, including narrative for Board presentation
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Approval letters from County Office for Budget, and Interim reports, 2006-07 and 2005-06
Long term debt schedule
2006-07 Revenue limit worksheets, including all schedules
Staffing analysis by school and grade level
Any district multi year projections done outside of the SACS multi year format
Any outside review or analysis documents relative to the district's budget
Position Control spreadsheet, district wide summary by fund, identifying FTE, $'s, and grouped for unrestricted and restricted totals, if possible.
Information on any supplemental revenue sources, like parcel taxes, foundations, redevelopment funds, etc.
Identification of one time dollars in 2006-07, including ending balances and deferred revenue carried over from 2005-06.
Information from a Budget committee, if one exists.
Copies of source documents for budget development in 2006-07 – spreadsheets, grant awards, supplies formulas, etc.

FACILITIES:

Current Facilities Master Plan
Current Demographic Study
Office of Public School Construction documents, 50-01, 02; etc;
Annual Developer Fee Report
Developer Fee Justification Study, if any
Classroom utilization report
List of all school sites
List of all surplus property or vacant sites

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