FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Cotati-Rohnert Park Unified School District

Fiscal Review

April 28, 2009

Joel D. Montero
Chief Executive Officer

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

April 28, 2009

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

Dear Superintendent Vrankovich:

In November 2008 the Fiscal Crisis and Management Assistance Team (FCMAT) and the Cotati-Rohnert Park Unified School District entered into an agreement for a review of the transfer of funds from the district's bond fund to its general fund. Specifically, the study agreement specified that FCMAT would:

1. Conduct a review of the transfer of funds from the district's 1990 bond proceeds to the general fund to determine the amounts which were above and beyond what is allowed, if any, that must be repaid to the bond fund.

2. Identify potential options for repayment of the identified overages that are consistent with governmental accounting standards and debt service requirements.

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

We appreciate the opportunity to serve you and we extend our thanks to all the staff of the Cotati-Rohnert Park Unified School District.

Sincerely,

Joel D. Montero
Chief Executive Officer

FCMAT
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Foreword - FCMAT Background

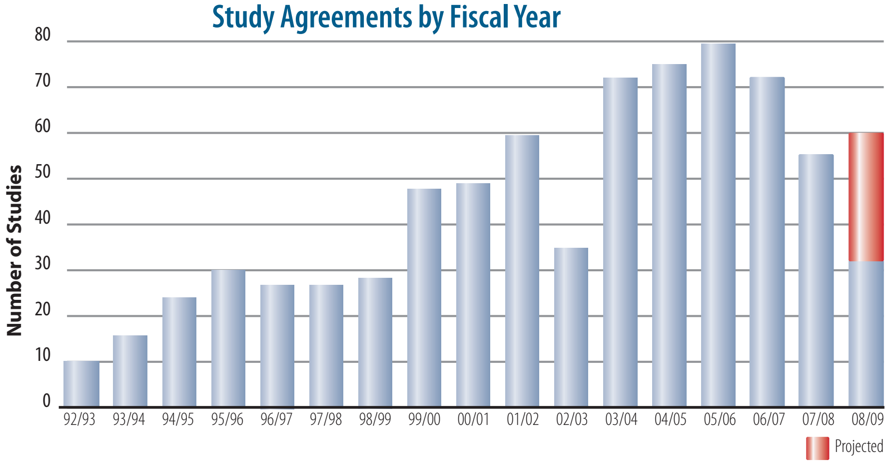
The Fiscal Crisis and Management Assistance Team (FCMAT) was created by legislation in accordance with Assembly Bill 1200 in 1992 as a service to assist local educational agencies (LEAs) in complying with fiscal accountability standards.

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

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

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

Study Agreements by Fiscal Year



Total Number of Studies.................... 743

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

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

Note: Some districts had multiple studies.

- Districts (7) that have received emergency loans from the state.

(Rev. 1/22/09)

Introduction

Background

The Cotati-Rohnert Park Unified School District is located in Sonoma County, approximately 50 miles north of San Francisco. The district is comprised of six elementary schools, two middle schools, a community day school, a comprehensive high school, a technology high school, one necessary small high school, and one continuation high school. The district serves approximately 6,400 students in the cities of Cotati and Rohnert Park and neighboring areas of Sonoma County, and is supported by the Education Foundation of Cotati & Rohnert Park. This year marks the thirtieth anniversary of the formation of the district.

Student enrollment has been declining since the 1999-2000 school year, and the district projects that it will continue to decline through the 2013-14 school year. As a result, the district has implemented significant expenditure reductions, closing three elementary schools between 2002 and 2008. A parcel tax measure that would have provided additional funds for educational programs was placed on the ballot in 2005 but was unsuccessful.

Since 1990, the district's facilities program has been partially funded by an $85 million local general obligation bond. During this time, the district has completed multiple facility modernization and construction projects.

In their 2007-08 audit report, the district's independent external financial auditors recommended that the district discontinue its practice of transferring interest earnings on bond proceeds to the general fund until the state attorney general made a final determination regarding whether such transfers are allowable. The district asked FCMAT to conduct a study to determine if the transfer of interest earnings from the district's bond program to the general fund were above and beyond what is allowed, and identify potential options for the district to repay any identified overages in a manner consistent with governmental accounting standards and debt service requirements.

Study Guidelines

A FCMAT study team visited the district January 14 and 15, 2009 to conduct interviews, collect data and review documents. This report is the result of those activities and is divided into the following sections:

I.Executive Summary

II.Findings and Recommendations

III.Appendices

Study Team

Jim Cerreta
Fiscal Intervention Specialist
FCMAT
Bakersfield, CA

John Lotze
Public Information Specialist
FCMAT
Bakersfield, CA

Executive Summary

Since the passage of an $85 million general obligation bond in 1990 to finance the purchase of land and buildings and fund construction and modernization of facilities, the district has transferred more than $9.8 million from the building fund to other funds to pay for capital expenditures incurred outside the building fund.

A series of legal opinions issued in the 1990s concluded that the district could use interest earnings on bond proceeds for capital project expenditures, as long as the expenditures were consistent with the original ballot measure language.

In 2008, the district's auditors questioned the district's authority to make transfers from the building fund to other funds and found that the district should discontinue the practice of transferring interest earnings on bond proceeds to the general fund until the state attorney general made a final determination regarding whether such transfers were allowable.

FCMAT concludes that the district has not transferred more funds than allowed from its bond proceeds to the general fund. Because of this conclusion, FCMAT did not identify options for the district to repay identified overages in a manner consistent with governmental accounting standards and debt service requirements.

However, the district should seek an updated legal opinion regarding its practice of transferring interest earnings on bond proceeds to the general fund, and to what extent the attorney general's January 2009 opinion regarding the appropriate use of bond refunding proceeds is applicable to the district's practices.

The district should also adjust its accounting practices to clarify how transferred funds are expended in the general fund.

FCMAT did not compile, review or audit any of the documentation of individual transactions that support analysis prepared by the district because this was not within the scope of the review.

Findings and Recommendations

Historical Context

In 1990, the Cotati-Rohnert Park Unified School District authorized an $85 million general obligation bond election to finance the purchase of land and buildings, and to fund the construction and modernization of facilities. The district's electorate voted to approve the measure, setting the facility program into motion.

At the same time, public education in California was severely affected by an economic recession that would last several years. The district sought legal opinions regarding authorization to use bond interest earnings to fund certain soft costs (such as furniture and equipment) from bond proceeds, as well as other non-capital project expenditures.

A series of legal opinions issued in the 1990s concluded that the district could use interest earnings on bond proceeds for capital project expenditures, provided that such expenditures were consistent with the language of the original ballot measure. The ballot language provided a broad description of the projects, leaving the district with much discretion in determining which projects to fund with bond proceeds and interest earnings.

Since the 1990-91 fiscal year, more than $9.8 million of the bond proceeds and earned bond interest has been transferred from the building fund to other funds to pay for capital expenditures incurred outside the building fund. Of these transfers, $7.3 million were made to the general fund and $2.5 million to various capital projects funds for capital expenditures (of the $7.3 million transferred to the general fund, $1.4 million was further transferred to the deferred maintenance fund as a match for state funding of the deferred maintenance program). District staff indicated that all of the amounts transferred to the general fund are for capital expenditures, including $6.8 million transferred to the routine restricted maintenance account (RRMA).

In 2008, the district's auditors questioned the district's authority to make the transfers noted above. Their audit report included a finding that the district should discontinue its practice of transferring interest earnings on bond proceeds to the general fund until the state attorney general made a final determination regarding whether such transfers were allowable. To date, the attorney general's office has not provided any opinions regarding this matter, although it did issue an opinion in January 2009 regarding the appropriate use of proceeds from bond refunding, a procedure through which a district refinances an existing issue of bonds with a new issue.

Transfers of Bond Proceeds and Interest

FCMAT concludes that the district has not transferred more funds than allowed to the general fund from its bond proceeds and interest earned thereon. Because of this conclusion, FCMAT did not find it necessary to identify potential options for the district to repay identified overages in a manner consistent with governmental accounting standards and debt service requirements.

FCMAT's conclusion is based on a review of information provided by district staff, including the following:

- Ballot measure resolution
- Bond sale official statements
- Analysis of building fund sources and uses, including details regarding bond proceeds, interest earnings, expenditures and interfund transfers since the inception of the bond program in 1990
- District budget reports
- District audit reports
- Legal opinions provided to the district

FCMAT did not review documentation supporting individual bond proceed receipts, disbursements or interest earnings because this was not within the scope of this study.

Sources and Uses

District staff prepared an analysis of the sources and uses of bond program financing since the first bond sale in 1990, The analysis is titled "Bond Interest and Usage - Initial Review" and is included in Appendix A.

The analysis provides a year-by-year summary of actual bond program sources, including bond sale proceeds, interfund transfers in and interest earnings. It also includes bond program uses, including building fund expenditures and interfund transfers out. Projections through fiscal year 2012-13 are also presented; staff estimated that the building fund balance will be approximately $2.2 million on June 30, 2013.

District staff used several assumptions to develop this analysis, including the following:

1. All capital building projects initially paid for from any fund, including deferred maintenance, qualify for reimbursement from the $85 million in bond capital.
2. Interest earned on bond proceeds can be used for capital projects and other district building maintenance needs.
3. The intent of the board, the original bond language and a legal opinion support the district's position regarding the use of bond interest and original capital.

The district based these assumptions on a variety of legal opinions received during the 1990's from district bond counsel and other legal counsel. Detail regarding these opinions is provided later in this report.

FCMAT prepared an independent analysis of the sources and uses of building fund proceeds and other revenues from the inception of the bond program in 1990-91 through fiscal year 2007-08. The full analysis is contained in Appendix B. Table 1 provides a summary of the data in Appendix B.

Table 1: Summary of building fund - sources and uses of funds

Beginning Balance, July 1, 1990	$ -
Sources:	
Bond sale proceeds - new bond sales	$84,964,468
Bond sale proceeds – refundings	61,948,947
Interest earnings/other local	7,694,810
Other sources	38,164
Interfund Transfers In:	
Capital Facilities Fund	140,000
County/State School Building Fund	6,010,798
Total Sources	$160,797,187
Uses:	
Project Costs/Other	$83,544,707
Bond sale proceeds – refundings to escrow	60,939,315
Other uses	13,904
Interfund Transfers Out:	
General Fund	500,000
General Fund - RRMA	6,815,362
Capital Facilities Fund	309,022
County/State School Building Fund	1,022,811
Deferred Maintenance Fund	1,242,057
Total Uses	$154,387,178
Ending Balance, June 30, 2008	$6,410,009
Source - CRPUSD external financial audit reports	

FCMAT reviewed and used the following district documents as the source of information for the amounts shown in Table 1:

- Audited financial statements from fiscal years 1990-91 through 2007-08
- Unaudited actual reports from fiscal years 1990-91 through 2007-08
- Summary financial reports prepared by the district, beginning with fiscal year 2005-06

The sources of funds include the following:

- Proceeds of nine bond sales, series A through I, conducted from 1990 through 2006

- Proceeds of three bond refundings (refinancing an existing issue of bonds with a new issue) during the same time period
- Interest earnings
- Interfund transfers in from other district funds to partially finance bond program capital projects

Two bond refundings were not deposited to the building fund; these were issued in the following years in the following amounts:

2001 - $9,455,000

2005 - $25,765,000 and $6,450,000 (two series)

Proceeds of these bond refundings were deposited in an irrevocable trust with an escrow agent and were used to support debt service payments on the refunded bonds.
Uses of funds and interest earned thereon included the following:

- Project and other costs coded to standardized account code structure (SACS) expenditure object codes 2000-6999, per the district's audit reports
- Payments of accrued interest on the refunding bonds, funded from the proceeds of the refunding bonds
- Transfer of bond refunding proceeds to escrow accounts
- Interfund transfers out to other district funds to finance capital project expenditures

Because cumulative interest earned on bond principal from the beginning of the bond program in 1990-91 through fiscal year 2007-08 exceeds the total amount transferred from the building fund to the general fund, FCMAT concludes that no bond proceeds were transferred to the general fund RRMA account through fiscal year 2007-08.

The district's analysis of bond program sources and uses (Appendix A) indicates that the amounts to be transferred in the future, beginning with fiscal year 2008-09, will be limited to accumulated interest earnings. There is no plan to transfer bond principal out of the building fund to the general fund.

Transfers

FCMAT prepared an independent analysis of transfers from the building fund to all other district funds from the inception of the bond program in 1990-91 through fiscal year 2007-08. More than $9.8 million was transferred from the building fund to other funds during this time. The district and its auditors described the purpose of these transfers as funding for capital expenditures. Table 2 summarizes these transfers by fund and by fiscal year.

Table 2: Building fund - interfund transfers out

Fiscal Year	General Fund	General Fund RRMA	Capital Facilities Fund	County and State School Building Funds	Deferred Maintenance Fund	Total
1990-1991	$500,000	$0	$0	$0	$0	$500,000
1991-1992	$0	$0	$0	$426,229	$0	$426,229
1992-1993	$0	$0	$5,316	$0	$43,326	$48,642
1993-1994	$0	$0	$195,478	$0	$65,554	$261,032
1994-1995	$0	$0	$96,994	$126,597	$65,000	$288,591
1995-1996	$0	$0	$11,234	$0	$65,000	$76,234
1996-1997	$0	$0	$0	$0	$70,000	$70,000
1997-1998	$0	$0	$0	$0	$138,429	$138,429
1998-1999	$0	$0	$0	$0	$208,018	$208,018
1999-2000	$0	$455,201	$0	$0	$168,495	$623,696
2000-2001	$0	$502,359	$0	$0	$178,148	$680,507
2001-2002	$0	$279,652	$0	$0	$240,087	$519,739
2002-2003	$0	$732,177	$0	$0	$199,954	$932,131
2003-2004	$0	$841,902	$0	$0	$263,440	$1,105,342
2004-2005	$0	$686,560	$0	$469,985	$263,440	$1,419,985
2005-2006	$0	$495,111	$0	$0	$281,259	$776,370
2006-2007	$0	$288,894	$0	$0	$295,413	$584,307
2007-2008	$0	$1,132,010	$0	$0	$97,990	$1,230,000
Total	$500,000	$5,413,866*	$309,022	$1,022,811	$2,643,553*	$9,889,252

*The difference between the amounts included in Table 2 and those included in Table 1 are transfers of $1,401,496 from the routine restricted maintenance account (RRMA) to the deferred maintenance fund.

FCMAT reviewed and used the following district documents as the source of information for the amounts included in Table 2:

- Audited financial statements from fiscal years 1990-91 through 2007-08
- Unaudited actual reports from the same time period
- Summary financial reports prepared by the district, beginning with fiscal year 2005-06

As indicated in Table 2, all but the original transfer from the building fund to the general fund were deposited into the routine restricted maintenance account (RRMA). The original amount was transferred to the general fund in 1990-91. A footnote to the district's external independent financial audit report for that year indicates that these funds were used for capital expenditures.

The district's audit reports and information provided by staff indicate that transfers were also made from the building fund to the capital facilities fund, the county/state school building fund and the deferred maintenance fund for capital projects.

FCMAT prepared an independent analysis of transfers to the building fund from other district funds since the inception of the bond program in 1990-91 through fiscal year 2007-08. More than $6.1 million was transferred to the building fund from other funds during this time. The district and its auditors described the purpose of these transfers as funding for capital expenditures. Table 3 summarizes these transfers by fund and by fiscal year.

Table 3: Building fund - interfund transfers in

Fiscal Year	Capital Facilities Fund	County and State School Building Funds	Total
1990-1991	$0	$0	$0
1991-1992	$0	$0	$0
1992-1993	$0	$0	$0
1993-1994	$0	$0	$0
1994-1995	$0	$0	$0
1995-1996	$0	$0	$0
1996-1997	$140,000	$0	$140,000
1997-1998	$0	$146,503	$146,503
1998-1999	$0	$0	$0
1999-2000	$0	$0	$0
2000-2001	$0	$0	$0
2001-2002	$0	$404,843	$404,843
2002-2003	$0	$4,362,787	$4,362,787
2003-2004	$0	$115,860	$115,860
2004-2005	$0	$980,803	$980,803
2005-2006	$0	$2	$2
2006-2007	$0	$0	$0
2007-2008	$0	$0	$0
Total	$140,000	$6,010,798	$6,150,798

FCMAT reviewed and used the following district documents as the source of information for the amounts included in Table 3:

- Audited financial statements for fiscal years 1990-91 through 2007-08
- Unaudited actual reports from the same time period
- Summary financial reports prepared by the district, beginning with fiscal year 2005-06

FCMAT did not review original source documentation supporting the transfers included in either Table 2 or Table 3 because that was not within the scope of this review.

Routine Restricted Maintenance Account (RRMA)

As noted in Table 2, all but one of the interfund transfers from the building fund to the general fund were deposited into the routine restricted maintenance account (RRMA), SACS resource 8150. This account is mandated by the education code whenever a school district participates in and receives an apportionment from the state's school facilities program.

California Education Code section 17070.75(b)(1) states that school districts shall do the following:

> Establish a restricted account within the general fund of the school district for the exclusive purpose of providing moneys for ongoing and major maintenance of school buildings, according the highest priority to funding for the purposes set forth in subdivision (a).

Ongoing and major maintenance can include both capital and operating expenditures. The district's accounting for expenditures of funds transferred from the building fund to the RRMA, including salaries and benefits, does not distinguish between capital and operating expenditures. Such a distinction is necessary to demonstrate that all of the interfund transfers from the building fund were expended on capital expenditures, consistent with the opinions received by the district's legal counsel and noted later in this report.

Of particular interest are expenditures for salaries and benefits, which accounted for approximately 50-60% of the expenditures of the routine restricted maintenance account annually. Documentation of the time staff members spend supporting capital projects should be provided to support charging the bond-funded portion of the RRMA with such costs.

Ballot Measure

The language of the June 5, 1990 ballot measure authorizing an $85 million general obligation bond provides the district with wide discretion in determining the specific projects to be funded with bond proceeds. It reads as follows (emphasis added):

> Shall the Cotati-Rohnert Park Unified School District incur bonded indebtedness and be authorized to issue and sell bonds in the amount of EIGHTY-FIVE MILLION DOLLARS ($85,000,000) at a rate of interest not to exceed 12% (twelve percent) per annum, the bonds to be sold and the indebtedness incurred for, but not limited to, the following purposes (which are hereby united and shall be voted on as one single proposition): *(a) the building or purchasing of school buildings, structures and facilities and purchasing land for schools; (b) the permanent improvement of the school sites; (c) the making of permanent alterations, additions or fixtures to school buildings, structure and facilities; and*

(d) the building or construction of improvements both on and off the school sites that are essential to the development of the schools.

This language is critical to an analysis of the bond program because it provides the authority for determining uses of the bond proceeds, including interest earned on those proceeds. The district's legal counsel concluded that this language, in concert with statute, regulations and legislative intent, provided the district with the authority to make interfund transfers to the general fund to fund capital expenditures.

Legal counsel also opined that the district could deposit the transfers into the its routine restricted maintenance account within the general fund, provided the language of the ballot measure contained "words *such as* 'maintenance,' 'repair' or 'rehabilitation'" (emphasis added).

Legal Analysis

At about the same time that the district conducted a successful general obligation bond election authorizing $85 million in bond funds to finance land acquisition and school facility construction and modernization, the state of California reduced funding for public education in response to an economic recession. This left the school district searching for options to fund bond project-related soft costs (such as furniture and equipment) that, according to statute, could not be funded from bond proceeds.

On June 21, 1990 the district's bond counsel concluded in writing that, pursuant to education code section 41015 and government code section 53647, the district could use bond proceeds' interest earnings for any purposes for which the district is authorized to expend general fund or other fund monies.

On December 28, 1991, the same bond counsel reversed their position and wrote an opinion concluding that the district may use interest earned on the proceeds only for the purposes set forth in the bond measure; in other words, it may not use interest earnings for equipment, soft costs or other non-bond project costs.

On March 12, 1992 the district received another written legal opinion from different legal counsel. This opinion concluded that the district's bond documents did not limit the use of bond proceed interest earnings to purposes set forth in the bond measure as the previous counsel had advised, and further, the district had legal foundation for this conclusion in general law, statute and legislative intent. In essence, this counsels' opinion concurred with the original opinion of the district's bond counsel. However, because of the risk of legal challenge, this counsel recommended using interest earnings only for capital expenditures.

In 1999, the district again sought an opinion from bond counsel, this time regarding the district's authority to use bond proceeds to fund its RRMA for ongoing and major maintenance of school buildings, per education code section 17070.75. This section of law requires school districts that participate in the state facility grant program to place at least 3% of their adopted budget expenditures into the RRMA to fund such maintenance. On

May 10, 1999, bond counsel opined that the district may deposit bond proceeds into the RRMA as long as the following conditions are met:

1. Such proceeds are restricted in their application to the payment of major maintenance repairs that may be characterized as capital expenditures as opposed to expenses.
2. The ballot measure applicable to such bond proceeds lists, as a permitted use of bond proceeds, maintenance or repair of school buildings, or words to that effect.

District staff indicated that all transfers of building funds to the RRMA were used for capital expenditures. However, disbursements from the proceeds of these interfund transfers were not separated between capital and operating expenditures in the district's financial records, thus FCMAT could not verify the specific uses of interfund transfers. FCMAT concludes that the above legal opinions support the district's practices regarding allocation of bond proceeds and interest earnings to ballot-authorized capital expenditures (including the transfer of interest earnings to the district's general fund) since the inception of the bond program in 1990.

Auditors' Finding

The district's independent external financial auditors report for fiscal year 2007-08 contained a finding of a material weakness in the district's internal controls regarding deficit spending, available reserves and nontraditional funding sources.

The finding focused on the district's practice of transferring unspent interest earnings and bond proceeds from the building fund to the general fund to fund the RRMA. The auditors recommended that the district refrain from any such transfers until the California state attorney general issues a legal opinion regarding whether such transfers are allowable.

The auditors' finding included the following narrative:

> Criteria:
>
> 4. In order to minimize the risk of making significant financial decisions that may adversely affect the going concern status of the district, limited reliance should be placed on legal opinions, which have not yet been fully tested or confirmed at the state level.
>
> Conditions:
>
> 4. The transfer…involving interest earnings on unspent bond proceeds, was made based primarily on a variety of legal opinions received by the district, which have not yet been fully tested or confirmed at the state level. (As of the completion of the annual audit, the state is currently working on its own legal opinion as to the allowability of such transfers.)

Questioned Costs:

3-4. . . . if an adverse opinion is issued at a later date, the full amount of any transfer deemed unallowable may need to be repaid from the unrestricted resources of the general fund.

Effects:

3-4. If an adverse opinion is issued that prevents interest earnings on unspent bond proceeds from being used to provide funding for the district's contribution to the routine restricted maintenance account, the district will not only lose a significant source of funding, but will also be faced with the additional burden of having to use unrestricted general fund resources to repay the building fund for any amounts improperly transferred.

Causes:

3-4. The district believed that it had a legal basis for transferring the interest earnings generated by unspent bond proceeds to the general fund, and has chosen to follow the legal opinions they have received, rather than reducing or eliminating school programs further.

Recommendations:

3-4. The district should discontinue making transfers of interest earnings from unspent bond proceeds, to the general fund, until a final determination has been made as to the allowability of such transfers.

The district's response to this finding included the following:

District Response:

1-4. The board recognizes the need to support the routine restricted maintenance account (RRMA) with an ongoing source of revenue; however, the district is not currently in a position to discontinue the transfers at this time.

The auditors' criteria for this finding indicates serious concern for the financial condition of the school district. FCMAT shares this concern and understands that financial challenges have affected a large number of school districts throughout the state, and that all districts should mange their finances prudently.

However, to date the attorney general's office has not issued an opinion regarding the use of bond proceeds and interest earnings thereon; rather, it has released an opinion regarding the use of bond proceeds from refunding.

Attorney General's Opinion

In January 2009, the state attorney general issued an opinion that addressed the appropriate use of proceeds of bond refunding, a procedure through which a district refinances an existing issue of bonds with a new issue. The refunding bonds are typically issued at an interest rate that is lower than the previous issue, producing a savings for the district's taxpayers. FCMAT found no reference in the attorney general's opinion regarding the transfer of bond proceeds and interest earnings to a district's general fund.

Although the district has implemented five bond refundings since the inception of the program, a review of these transactions was not within the scope of FCMAT's study and thus is not addressed in this report.

Recommendations

The district should:

1. Seek an updated legal opinion regarding its practice of transferring bond interest earnings to the general fund, and the extent to which the attorney general's January 2009 opinion is applicable to this practice. The district should also seek an opinion regarding the transfer of bond proceeds for the same purpose.
2. Seek a legal opinion regarding its practice of charging salaries and benefits to that portion of the routine restricted maintenance account funded by the interfund transfer of bond interest earnings.
3. Separate revenues and expenditures of the general fund's routine restricted maintenance account to demonstrate that all interfund transfers from the building fund were expended on capital expenditures, consistent with opinions provided by the district's legal counsel.
4. Direct legal counsel to investigate the status of any opinion under development by the attorney general regarding the transfer of bond proceeds and interest earnings to the general fund.
5. Seek a legal opinion on the effect of the attorney general's January 2009 opinion on bond refundings conducted by the district.

Appendices

Appendix A

Bond Interest and Usage: Internal Review

	Bond Revenue Sources/Uses Net	Bond Interest	Bond Fund Expenditures	General Fund Transfer in from Bond	Capital Facilities Fund Transfer in from Bond
1989/1990	$ -	$ -	$ -		
1990/1991	$12,000,000.00	$757,116.00	$3,177,455.00	$500,000.00	
1991/1992	$12,000,400.00	$1,013,613.00	$11,347,779.00	$ -	
1992/1993	$11,000,000.00	$690,634.00	$7,567,363.00	$ -	$5,316.00
1993/1994	$444,630.00	$647,609.00	$6,316,732.00	$ -	$195,478.00
1994/1995	$16,006,938.00	$542,277.00	$14,010,528.00	$ -	$96,994.00
1995/1996	$(9,255.00)	$281,961.00	$8,454,233.00	$ -	$11,234.00
1996/1997	$8,992,194.00	$293,567.00	$2,111,768.00	$ -	$(140,000.00)
1997/1998	$ -	$457,037.05	$2,903,672.00	$ -	$ -
1998/1999	$ -	$297,532.28	$3,445,859.00	$ -	$ -
1999/2000	$6,398,152.00	$471,677.03	$4,505,390.00	$ -	$ -
2000/2001	$7,553,033.00	$261,736.19	$5,174,122.00	$ -	$ -
2001/2002	$ -	$280,838.67	$2,826,433.00	$ -	$ -
2002/2003	$ -	$161,520.62	$1,717,811.00	$ -	$ -
2003/2004	$ -	$122,222.86	$2,225,325.95	$ -	$ -
2004/2005	$ -	$88,471.96	$127,894.00	$ -	$ -
2005/2006	$ -	$116,520.95	$139,253.00	$ -	$ -
2006/2007	$11,005,000.00	$600,315.62	$588,758.00	$ -	$ -
2007/2008	$ -	$449,647.00	$6,301,166.00	$ -	$ -
2008/2009(budget)	$ -	$120,000.00	$438,609.00	$ -	$ -
2009/2010(proj)	$ -	$96,494.00	$70,000.00	$ -	$ -
2010/2011(proj)	$ -	$70,494.00	$70,000.00	$ -	$ -
2011/2012(proj)	$ -	$40,000.00	$70,000.00	$ -	$ -
2012/2013(proj)	$ -	$35,000.00	$70,000.00	$ -	$ -
	$85,391,092.00	$7,896,285.23	$ 83,660,150.95	$500,000.00	$169,022.00
	PRIN.(Capital Proj)	INT.(RRMA)			Issuance/other
	$90,379,079.00	$7,896,285.23			$85,391,092.00
Fund 21	$83,660,150.95				
Fund 25	$169,022.00	$7,853,623.00	Fund 1 – RRMA		$(78,672,163.95)
Fund 14	$3,840,796.00			=	$(500,000.00)
Fund 1	$500,000.00				$(169,022.00)
	$2,209,110.05	$42,662.23			$(3,840,796.00)
		$2,251,772.28			$2,209,110.05

	County and State School Building Funds Transfer in from Bond	Deferred Maintenance Transfer in from Bond	Restricted Maintenance Transfer in from Bond	Total Annual Transfer out from Bond	Cumulative Total Transfer out from Bond
1989/1990		$ -	$ -	$ -	$ -
1990/1991		$ -	$ -	$500,000.00	$500,000.00
1991/1992	$426,229.00	$ -	$ -	$426,229.00	$926,229.00
1992/1993	$ -	$43,326.00	$ -	$48,642.00	$974,871.00
1993/1994	$ -	$65,554.00	$ -	$261,032.00	$1,235,903.00
1994/1995	$126,597.00	$65,000.00	$ -	$288,591.00	$1,524,494.00
1995/1996	$ -	$65,000.00	$ -	$76,234.00	$1,600,728.00
1996/1997	$ -	$70,000.00	$ -	$(70,000.00)	$1,530,728.00
1997/1998	$(146,503.00)	$138,429.00	$ -	$(8,074.00)	$1,522,654.00
1998/1999	$ -	$208,018.00	$ -	$208,018.00	$1,730,672.00
1999/2000	$ -	$168,495.00	$455,201.00	$623,696.00	$2,354,368.00
2000/2001	$ -	$178,148.00	$502,359.00	$680,507.00	$3,034,875.00
2001/2002	$(404,843.00)	$240,087.00	$279,652.00	$114,896.00	$3,149,771.00
2002/2003	$(4,362,787.00)	$199,954.00	$732,177.00	$(3,430,656.00)	$(280,885.00)
2003/2004	$(115,860.00)	$263,440.00	$841,902.00	$989,482.00	$708,597.00
2004/2005	$(510,818.00)	$263,440.00	$686,560.00	$439,182.00	$1,147,779.00
2005/2006	$(2.00)	$281,259.00	$495,111.00	$776,368.00	$1,924,147.00
2006/2007	$ -	$295,413.00	$288,894.00	$584,307.00	$2,508,454.00
2007/2008	$ -	$97,990.00	$1,132,010.00	$1,230,000.00	$3,738,454.00
2008/2009(budget)	$ -	$197,243.00	$1,039,757.00	$1,237,000.00	$4,975,454.00
2009/2010(proj)	$ -	$250,000.00	$1,000,000.00	$1,250,000.00	$6,225,454.00
2010/2011(proj)	$ -	$250,000.00	$400,000.00	$650,000.00	$6,875,454.00
2011/2012(proj)	$ -	$250,000.00	$ -	$250,000.00	$7,125,454.00
2012/2013(proj)	$ -	$250,000.00	$ -	$250,000.00	$7,375,454.00
	$(4,987,987.00)	$3,840,796.00	$7,853,623.00	$7,375,454.00	
					$2,251,772.28
		Interest	Revenue		07/01/2013 bond fund balance
		$7,896,285.23	$93,287,377.23		
Fund 21					
Fund 25		$(7,853,623.00)			
Fund 14					
Fund 1					
		$42,662.23	$2,251,772.28		

District assumptions regarding bond interest and usage:

1. All capital building projects, initially paid for from any fund, including deferred maintenance, qualify for reimbursement from the $85 million in bond capital.

2. Interest earned on bond proceeds can be used for capital projects and other District building maintenance needs.

3. The intent of the Board, the original Bond language and a legal opinion support the District's position regarding the use of Bond interest and original capital.

Appendix B

Analysis of the sources and uses of building fund proceeds and other revenues from the inception of the district's bond program in 1990-91 through fiscal year 2007-08.

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Beginning Fund Balance	$0	$9,079,661	$10,319,666	$14,405,468	$9,022,092	$11,285,859	$3,028,100	$10,272,093	$7,833,532	$4,485,187
Revenues:										
Bond sale proceeds - new bond sales	$12,000,000	$12,000,000	$11,000,000	$0	$16,009,190	$0	$8,999,095	$0	$0	$6,398,152
Bond sale proceeds - refundings	$0	$0	$0	$26,990,000	$0	$0	$0	$0	$0	$0
Interest earnings/other local	$757,116	$1,014,013	$701,807	$749,758	$551,444	$281,963	$293,567	$457,037	$305,532	$501,298
Other sources	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Interfund Transfers In:										
General Fund	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
General Fund - RRMA	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Capital Facilities Fund	$0	$0	$0	$0	$0	$0	$140,000	$0	$0	$0
County/State School Building Fund	$0	$0	$0	$0	$0	$0	$0	$146,503	$0	$0
Deferred Maintenance Fund	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Revenues	$12,757,116	$13,014,013	$11,701,807	$27,739,758	$16,560,634	$281,963	$9,432,662	$603,540	$305,532	$6,899,450
Expenditures:										
Project Costs/Other	$3,177,455	$11,347,779	$7,567,363	$6,316,732	$14,010,528	$8,454,233	$2,111,768	$2,903,672	$3,445,859	$4,505,390
Bond sale proceeds - refundings to escrow	$0	$0	$0	$26,545,370	$0	$0	$0	$0	$0	$0
Other uses	$0	$0	$0	$0	-$2,252	$9,255	$6,901	$0	$0	$0
Interfund Transfers Out:										
General Fund	$500,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
General Fund - RRMA	$0	$0	$0	$0	$0	$0	$0	$0	$0	$455,201
Capital Facilities Fund	$0	$0	$5,316	$195,478	$96,994	$11,234	$0	$0	$0	$0
County/State School Building Fund	$0	$426,229	$0	$0	$126,597	$0	$0	$0	$0	$0
Deferred Maintenance Fund	$0	$0	$43,326	$65,554	$65,000	$65,000	$70,000	$138,429	$208,018	$168,495
Total Expenditures	$3,677,455	$11,774,008	$7,616,005	$33,123,134	$14,296,867	$8,539,722	$2,188,669	$3,042,101	$3,653,877	$5,129,086
Ending Fund Balance	$9,079,661	$10,319,666	$14,405,468	$9,022,092	$11,285,859	$3,028,100	$10,272,093	$7,833,532	$4,485,187	$6,255,551

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Beginning Fund Balance	$6,255,551	$8,215,691	$5,555,201	$7,429,567	$4,336,982	$3,858,378	$3,059,278	$13,491,529	$0
Revenues:									
Bond sale proceeds - new bond sales	$7,553,031	$0	$0	$0	$0	$0	$11,005,000	$0	$84,964,468
Bond sale proceeds - refundings	$16,433,947	$0	$0	$18,525,000	$0	$0	$0	$0	$61,948,947
Interest earnings/other local	$261,736	$280,839	$161,521	$122,223	$88,472	$116,521	$600,316	$449,647	$7,694,810
Other sources	$0	$0	$0	$38,164	$0	$0	$0	$0	$38,164
Interfund Transfers In:									
General Fund	$0	$0	$0	$0	$0	$0	$0	$0	$0
General Fund - RRMA	$0	$0	$0	$0	$0	$0	$0	$0	$0
Capital Facilities Fund	$0	$0	$0	$0	$0	$0	$0	$0	$140,000
County/State School Building Fund	$0	$404,843	$4,362,787	$115,860	$980,803	$2	$0	$0	$6,010,798
Deferred Maintenance Fund	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Revenues	$24,248,714	$685,682	$4,524,308	$18,801,247	$1,069,275	$116,523	$11,605,316	$449,647	$160,797,187
Expenditures:									
Project Costs/Other	$5,174,122	$2,826,433	$1,717,811	$2,828,490	$127,894	$139,253	$588,758	$6,301,167	$83,544,707
Bond sale proceeds - refundings to escrow	$16,433,945	$0	$0	$17,960,000	$0	$0	$0	$0	$60,939,315
Other uses	$0	$0	$0	$0	$0	$0	$0	$0	$13,904
Interfund Transfers Out:									
General Fund	$0	$0	$0	$0	$0	$0	$0	$0	$500,000
General Fund - RRMA	$502,359	$279,652	$932,131	$1,105,342	$950,000	$776,370	$584,307	$1,230,000	$6,815,362
Capital Facilities Fund	$0	$0	$0	$0	$0	$0	$0	$0	$309,022
County/State School Building Fund	$0	$0	$0	$0	$469,985	$0	$0	$0	$1,022,811
Deferred Maintenance Fund	$178,148	$240,087	$0	$0	$0	$0	$0	$0	$1,242,057
Total Expenditures	$22,288,574	$3,346,172	$2,649,942	$21,893,832	$1,547,879	$915,623	$1,173,065	$7,531,167	$154,387,178
Ending Fund Balance	$8,215,691	$5,555,201	$7,429,567	$4,336,982	$3,858,378	$3,059,278	$13,491,529	$6,410,009	$6,410,009

Source - CRPUSD external financial audit reports

Appendix C

Study Agreement

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
October 21, 2008

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 transfer of funds from the District's 1990 bond proceeds to the General Fund to determine the amounts which were above and beyond what is allowed, if any, that must be repaid to the bond fund.

2) Identify potential options for repayment of the identified overages that are consistent with governmental accounting standards and debt service requirements.

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 staff on the procedures of the Team and on the purpose and schedule of the study.

2) On-site Review - The Team will conduct on-site meetings at the District office to gather documentation and conduct interviews. The Team will request assistance from the District in setting up interview schedules with staff.

3) Progress Reports - The Team will hold an exit meeting at the conclusion of the on-site reviews to inform the District representatives 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.

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

3. PROJECT PERSONNEL

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

A. FCMAT Fiscal Intervention Specialist

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, preparing and presenting reports, or participating in meetings.

B. All out-of-pocket expenses, including travel, meals, lodging, etc. Based on the elements noted in section 2 A, the total cost of the study is estimated at $3,500. The District will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the District.

C. Any change to the scope will affect the estimate of total cost.

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 year's audit reports
5) Any documents requested on a supplemental listing

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

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with 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:	(Estimated) January 2009
Staff Interviews:	to be determined
Exit Interviews:	to be determined
Preliminary Report Submitted:	to be determined
Final Report Submitted:	to be determined
Board Presentation:	to be determined
Follow-Up Support:	If requested

7. CONTACT PERSON

Please print name of contact person: J. Wade Roach, CFO

Telephone 707 792-4722 FAX

Internet Address wade_roach@crpusd.org

Barbara Vrankovich

Dr. Barbara Vrankovich, Superintendent — 11-4-08 — Date
Cotati-Rohnert Park Unified School District

Barbara Dean — October 21, 2008

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.