



# **Curtis Creek Elementary School District**

## **Fiscal Review Phase 1**

July 16, 2008





July 16, 2008

Britta Skavdahl, Superintendent  
Curtis Creek Elementary School District  
18755 Standard Road  
Sonora, CA 95370

Dear Superintendent Skavdahl:

In March 2008, the Curtis Creek Elementary School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into a study agreement to provide a fiscal review of the district. Specifically, the agreement asked FCMAT to perform the following:

1. Prepare a multiyear financial projection of the district's general fund for the 2008-09 and 2009-2010 fiscal years after validating the projected revenues and expenditures identified in the district's 2007-08 second interim report.
2. Complete FCMAT's Fiscal Health and Risk Analysis to assist the district in identifying factors that may affect the district's future fiscal and operational stability.

As agreed at the exit conference conducted at the district, the attached report covers phase one of FCMAT's two-part review and contains the study team's findings and recommendations related to FCMAT's Fiscal Health and Risk Analysis and in the area of budget development and monitoring.

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

Sincerely,

Joel D. Montero  
Chief Executive Officer

FCMAT

Joel D. Montero, Chief Executive Officer

1300 17<sup>th</sup> Street - CITY CENTRE, Bakersfield, CA 93301-4533 • Telephone 661-636-4611 • Fax 661-636-4647  
422 Petaluma Blvd North, Suite. C, Petaluma, CA 94952 • Telephone: 707-775-2850 • Fax: 707-775-2854 • [www.fcmat.org](http://www.fcmat.org)  
Administrative Agent: Larry E. Reider - Office of Kern County Superintendent of Schools



Table of Contents

Foreword .....iii

Introduction ..... I

*Background* ..... I

*Study Guidelines* ..... 2

*Study Team* ..... 2

Executive Summary ..... 3

Findings and Recommendations ..... 5

*Fiscal Health and Risk Analysis* ..... 5

*Budget Development and Monitoring* ..... 19

Appendix ..... 23



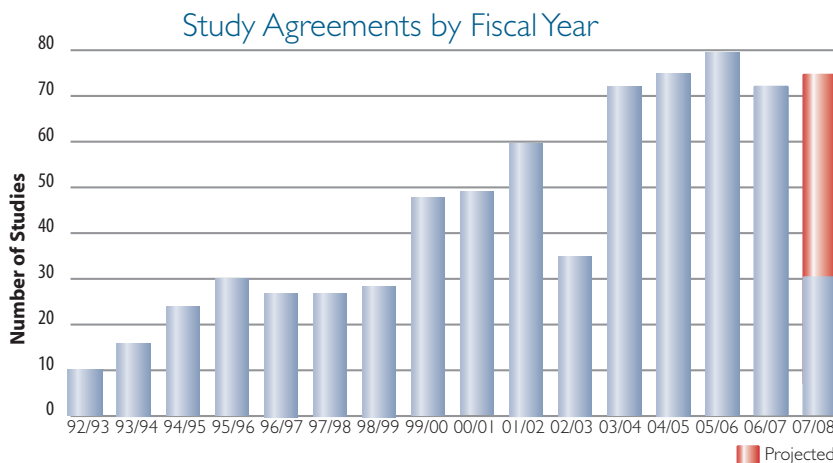
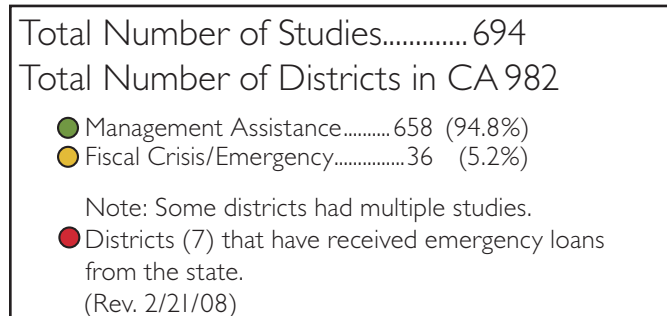
# Foreword

## 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 nearly 700 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.







# Introduction

## *Background*

The Curtis Creek Elementary School District is located in the city of Sonora in the Sierra Nevada foothills of Tuolumne County. The area is in the heart of California's Gold County, making it a popular tourist and recreational area. The city of Sonora has a population of approximately 4,668. Curtis Creek Elementary is the second largest of three K-8 elementary school districts based in Sonora, with a student enrollment of 627 as of October 2007. The district operates two school sites: Curtis Creek Elementary School serves 443 students in grades K-8 and three students in a community day school; Sullivan Creek Elementary School serves 181 students in grades K-5. Sullivan Creek students transition to Curtis Creek Elementary School for grades 6-8.

The district superintendent contacted the Fiscal Crisis and Management Assistance Team in February 2008 to request a fiscal review of the district. In addition to declining enrollment, the district has been faced with decreasing Forest Reserve revenues. The district's fiscal analysis of future years has confirmed that, without revenue enhancements or expenditure reductions, reserve levels will drop to the minimum amount required by the state in fiscal year 2009-10.

The district's governing board approved a study agreement with FCMAT in March 2008. The agreement states that FCMAT will complete the following:

1. Prepare a multiyear financial projection of the district's general fund for 2008-09 and 2009-2010 after validating the projected revenues and expenditures identified in the district's 2007-08 second interim report.
2. Complete FCMAT's Fiscal Health Risk Analysis to assist the district in identifying factors that may affect the district's future fiscal and operational stability.

A FCMAT study team visited the district in May 2008, prior to the May revision of the governor's proposed budget. During the exit meeting it was agreed that the FCMAT report would be delivered in two phases. Phase one of FCMAT's report will include the Fiscal Health and Risk Analysis, which analyzes five years of data and information in seventeen areas to rate the district's overall fiscal health and level of risk. The analysis is not limited to financial trends; it takes into account factors such as leadership, technology systems, facilities, audit findings, enrollment, cash management, and other factors. Phase one of the report will also include information on effective budget monitoring and accountability guidelines that can be extended to the school site and department levels for food service, transportation, and maintenance and operations.

Phase two of FCMAT's report will include a multiyear financial projection for the district that will be useful in planning for 2009-10 and 2010-11. FCMAT's projection will use the district's 2008-09 adoption budget as the base year and will be developed using FCMAT's Budget Explorer software.

This report presents information related to phase one. The study team will return to the district in July 2008 to collect updated information on the 2008-09 fiscal year budget. The phase two report will be delivered to the district in August 2008.

### ***Study Guidelines***

The study team visited the district on May 12-13, 2008 to conduct interviews, collect data and review information. This report is the result of these phase one activities and is divided into the following sections:

- I. Executive Summary
- II. Fiscal Health and Risk Analysis
- III. Budget Development and Monitoring

### ***Study Team***

Barbara Dean  
Deputy Administrative Officer  
FCMAT  
Bakersfield, CA

John Lotze  
Public Information Specialist  
FCMAT  
Bakersfield, CA

## Executive Summary

Like many small rural school districts in Northern California, the Curtis Creek Elementary School District is affected by a slowing economy, declining enrollment, and the potential loss of Forest Reserve revenues. The district has an 11.2% reserve for economic uncertainties as of 2007-08 second interim reporting. However, if the district does not mitigate the impact of deficit spending, it will deplete its reserves and be left with only the 4% minimum reserve required by the state in 2009-10.

After completing its review of the district's second interim report, the Tuolumne County Superintendent of Schools requested that the district submit a deficit reduction plan and a third interim report by June 1, 2008. At the time of FCMAT's visit in May, the district's administration and governing board had approved staffing and expenditure reductions for 2008-09 and were within \$170,000 of meeting their goal.

FCMAT completed a Fiscal Health and Risk Analysis of the district based on information from 2001-02 through the present. The analysis indicates that the district is at risk in the areas of leadership, deficit spending, position control and audits. The district can improve its ratings by becoming better able to retain a superintendent for more than two years, controlling or eliminating deficit spending, implementing a position control system that integrates personnel data and budget development, and updating and implementing procedures that will lead to a clean audit.

The district can also benefit from expanding its budget development and monitoring process to include participation and accountability on the part of site principles and department directors and managers.

Food service and operations staffing can be compared to industry standards using a meals per labor hour formula for food service staff and the California Association of School Business Officials (CASBO) formula for custodians. Both formulas are accepted as industry standards for comparison purposes. Special conditions that a district the size of Curtis Creek might experience should be considered along with the formula results.

The district should evaluate whether it is maximizing the use of bus drivers and student transport vehicles to transport students to school in an acceptable period of time.

The district's administration and governing board are to be commended for being proactive in managing the district's fiscal solvency as required by AB 1200 and AB 2756, particularly within the confines of a challenging state budget.



# Findings and Recommendations

## *Fiscal Health and Risk Analysis*

### *Key Fiscal Indicators*

The Fiscal Health and Risk Analysis was developed by FCMAT as a management tool to evaluate key fiscal indicators that will assist a school district in measuring its financial solvency for the current and two subsequent fiscal years as recommended by AB 1200. The presence of any single criteria is not necessarily an indication of a district in fiscal crisis. However, districts exceeding the risk threshold of six or more “No” responses may have cause for concern and require some level of fiscal intervention. Diligent planning will enable a district to better understand its financial objectives and strategies to sustain its financial solvency. A district must continually update its budget as new information becomes available from within the district or from other funding and regulatory agencies.

The Fiscal Health and Risk Analysis includes 17 components of key fiscal indicators to measure a district’s potential risk. Any of the 17 individual components receiving a simple majority of “No” responses to the questions it contains should be rated with an overall “No” response. For this review, general fund data used in the comparison of trends is from fiscal years 2001-02 through 2006-07, plus the 2007-08 Second Interim report.

## ***Is the district’s fiscal health acceptable in the following areas?***

### **1. Deficit Spending No**

For comparison purposes in this analysis, deficit spending is defined as the negative difference between fiscal year revenue and expenditure amounts, not including transfers in, transfers out, other sources or uses.

- Is the district avoiding deficit spending in the current year? .....No
- Is the district avoiding deficit spending in the two subsequent fiscal years? .....No
- Has the district controlled deficit spending over the past two fiscal years? .....Yes
- Is the issue of deficit spending addressed by fund balance, ongoing revenues, or expenditure reductions? .....Yes
- Has the board approved a plan to eliminate deficit spending? .....Yes

Since January 2008 the district has focused on reducing expenditures in the 2008-09 fiscal year. At the time of FCMAT’s visit on May 12-13, 2008, the district’s administration and governing board had approved specific expenditure reductions and were within approximately \$170,000 of meeting their stated goal. In its response to the district’s second interim report, the Tuolumne County

Superintendent of Schools requested that the district submit a deficit reduction plan and a third interim report by June 1, 2008.

	<b>Audited 2001-02</b>	<b>Audited 2002-03</b>	<b>Audited 2003-04</b>	<b>Audited 2004-05</b>	<b>Audited 2005-06</b>	<b>Audited 2006-07</b>	<b>2007-08 Second Interim</b>
Increase/ Decrease	(\$193,765)	(\$146,326)	\$1,179	(\$25,808)	\$228,935	\$348,515	(\$34,077)

## 2. Fund Balance

**Yes**

- Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty? .....Yes
- Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions? .....Yes

The district's fund balance increased each year from 2003-04 through 2006-07 and decreased in the second interim report for 2007-08.

- Does the fund balance include any designated reserves for unfunded liabilities or one time costs above the recommended reserve level? .....Yes

The 2007-08 second interim report includes \$89,605 in Forest Reserve funds that will be transferred to Fund 20, Special Reserve Fund for Post-Employment Benefits.

	<b>Audited 2001-02</b>	<b>Audited 2002-03</b>	<b>Audited 2003-04</b>	<b>Audited 2004-05</b>	<b>Audited 2005-06</b>	<b>Audited 2006-07</b>	<b>2007-08 Second Interim</b>
Fund Balance	\$301,905	\$130,319	\$76,111	\$219,652	\$401,075	\$581,423	\$390,586

## 3. Reserve for Economic Uncertainty

**Yes**

- Is the district able to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends? .....Yes
- Does the district have additional reserves in Fund 17, Special Reserve for Non Capital Projects? .....Yes

Without expenditure reductions in the general fund in fiscal years 2008-09 and 2009-10, the district will deplete Fund 17 balances by the end of 2009-10 and will risk being unable to maintain the required 4% reserve.

- If not, is there a plan to restore the reserve for economic uncertainties in the district's multiyear financial projection? ..... N/A

	<b>Audited 2001-02</b>	<b>Audited 2002-03</b>	<b>Audited 2003-04</b>	<b>Audited 2004-05</b>	<b>Audited 2005-06</b>	<b>Audited 2006-07</b>	<b>2007-08 Second Interim</b>
Reserve Level	6.91%	7.99%	9.18%	6.55%	6.87%	16.09%	11.2%

#### 4. Enrollment

**Yes**

- Has the district's enrollment been increasing or stable for multiple years? ..... No
- Is the district's enrollment projection updated at least semiannually? ..... Yes
- Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends? ..... Yes
- Does the district analyze enrollment and average daily attendance (ADA) data? ..... Yes
- Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes? ..... Yes
- Has the district implemented any attendance programs to increase ADA? ..... Yes
- Have approved charter schools had little or no impact on the district's student enrollment? ..... N/A
- Does the district have a board policy that attempts to reduce the effect that transfers out of the district have on the district's enrollment? ..... Yes

One of the board's 2006-07 stated goals was to review its policy on interdistrict and intradistrict attendance. The district has analyzed the number of its students with interdistrict transfers to other districts compared to the number of students from other districts with interdistrict transfers to Curtis Creek ESD schools since 2003-04. From 2003-04 through August 2007, 86 students had requested transfers out and 37 students had requested transfers in. Thirty-seven percent of the outgoing inter-district transfers were based on the location of parent employment, 30% were due to students having previously attended other districts, and 37% were due to the location of available child care. To reduce transfers out due to child care, the district is considering establishing a child care option.

***Enrollment and average daily attendance (ADA)***

<b>CBEDS</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Enrollment	722	756	724	738	630	647	627
P-2 ADA	691	704	678	688	596	615	
ADA as % of Enrollment	95.71%	93.12%	93.65%	93.22%	94.60%	95.05%	

The district offered families early kindergarten registration to confirm the number of kindergarten classes and teachers that will be needed for the upcoming school year.

The ratio of ADA to enrollment has increased since 2004-05. If the ratio had increased by one additional percentage point in 2006-07, revenues would have increased by approximately \$34,000. Good attendance benefits the students and the district.

**5. Interfund Borrowing** **Yes**

- Can the district manage its cash flow in all funds without interfund borrowing? .....No

The district's 2007-08 second interim report identified negative general fund cash flow balances in October and November 2007 and a projected negative balance in March 2008. In January 2008 a transfer was made from the general fund to the special reserve fund in the amount of \$273,000 to repay a temporary loan. Like other California school districts, Curtis Creek Elementary will need to resort to interfund borrowing because of planned deferrals of state apportionments in 2008-09.

- Is the district repaying the funds within the statutory period in accordance with Education Code section 42603? .....Yes

**6. Bargaining Agreements** **Yes**

- Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years? .....Yes
- Did the district conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement? .....Yes
- Did the district correctly identify the related costs above the COLA, (i.e. statutory benefits, step and column)? .....Yes
- Did the district address budget reductions necessary to sustain the total compensation increase including a board-adopted plan? ..... N/A



- Did the superintendent and CBO certify the agreement prior to ratification? ..... Not available
- Is the governing board's action consistent with the superintendent's/CBO's certification? ..... Not available
- Did the district submit to the county office of education the AB 1200/AB2756 full disclosure as required? ..... Not available

	2004-05	2005-06	2006-07	2007-08
Funded State COLA*	2.41%	4.23%	5.92%	4.53%
Curtis Creek Negotiated Settlements				
Certificated	2.25%	2.0%	4.25%	
Classified	2.25%	2.0%	4.0%	0%

\*Sources: School Services of California, revenue limit COLAs since 1978-79 and district records.

## 7. General Fund Yes

- Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average? .....Partially

### *Statewide average salary and benefit expense as a percentage of total expenses*

				Unrestricted General Fund	Total General Fund
	2002-03	2003-04	2004-05	2005-06	2005-06
Unified	89.53%	91.26%	92.03%	91.38%	82.63%
<b>Elementary</b>	<b>88.13%</b>	<b>89.84%</b>	<b>90.30%</b>	<b>89.95%</b>	<b>81.96%</b>
High School	86.52%	88.30%	88.64%	87.92%	80.00%

Source: School Services of California

For comparison the following table identifies Curtis Creek Elementary School District's percentages for the same periods.

### *Curtis Creek ESD average salary and benefit expense as a percentage of total expenses*

			Unrestricted General Fund	Total General Fund
2002-03	2003-04	2004-05	2005-06	2005-06
89.37%	87.57%	89.70%	88.29%	83.68%

As the percentage of unrestricted costs for salaries and benefits increases, an LEA has fewer discretionary dollars available to support other costs such

as supplies, utilities, insurance and capital outlay. In 2002-03, the percentage of unrestricted fund dollars the district expended for salaries and benefits was higher than the statewide average for elementary districts. In 2005-06, the percentage of combined (unrestricted and restricted) funds the district expended for salaries and benefits was higher than the statewide average for elementary districts.

- Is the district making sure that only ongoing restricted dollars pay for permanent staff? ..... Yes
- Does the budget include reductions in expenditures proportionate to one-time revenue sources, such as parcel taxes, that will terminate in the current or two subsequent fiscal years? ..... Yes
- If the district receives redevelopment revenue that is subject to AB 1290 and SB 617, has it made the required offset to the revenue limit? ..... N/A

The district does not receive redevelopment revenues.

## 8. Encroachment Yes

- Is the district aware of the Contributions to Restricted Programs in the current year? (Identify cost, programs and funds) ..... Yes
- Does the district have a reasonable plan to address increased encroachment trends? ..... Yes

The district is considering options to reduce encroachment.

- Does the district manage encroachment from other funds such as Adult, Cafeteria, Child Development, etc.? ..... No

The Cafeteria and Child Development funds each required general fund support in 2007-08.

### *General fund contributions*

Audited 2001-02	Audited 2002-03	Audited 2003-04	Audited 2004-05	Audited 2005-06	Audited 2006-07	Second Interim 2007-08
(\$122,170)	(\$263,375)	(\$447,299)	(\$386,331)	(384,308)	(\$300,237)	(\$430,904)

A more specific comparison of contributions to restricted programs is shown for 2006-07 and 2007-08. The majority of the district's general fund contribution is to the routine restricted maintenance account to comply with the requirement that districts which receive state facility funds must transfer a percentage of the general fund expenditures to a restricted account to adequately maintain district facilities. As an elementary school district with an ADA of less than 900, the district may be permitted to certify to the State Allocation Board (SAB) that it can

reasonably maintain its facilities with a contribution of less than the 3% required for larger districts (E.C. 17070.75 (3)(c)). The district should contact the SAB to confirm that the district meets the criteria for this provision.

***General fund contributions by type, 2006-07 and 2007-08***

	<b>Unaudited 2006-07</b>	<b>Adopted Budget 2007-08</b>	<b>Second Interim 2007-08</b>
Special Education	\$27,320	\$141,065	\$135,689
Routine Restricted Maintenance	\$270,931	\$215,533	\$295,215
Other Local	\$1,986		
Total	\$300,237	\$356,598	\$430,904

**9. Management Information Systems** **Yes**

- Is the district's financial data accurate and timely? .....Yes
- Are the county and state reports filed in a timely manner? .....Yes
- Are key fiscal reports readily available and understandable? .....Yes
- Is the district on the same financial system as the county? .....Yes
- If the district is on a separate financial system, is there an automated interface with the financial system maintained by the county? ..... N/A

The district uses Win School software to manage its student data and is considering the purchase of a new software system such as Aeries or Zangle using 2007-08 Forest Reserve funds.

**10. Position Control** **No**

- Does the district maintain a reliable position control system?.....No
- Is position control integrated with payroll? .....No
- Does the district control unauthorized hiring? .....Yes
- Are the appropriate levels of internal controls in place between the business and personnel departments to prevent fraudulent activity? .....Yes
- Does the district use position control data for budget development? .....No
- Is position control reconciled against the budget during the fiscal year? .....Yes

Position control information is updated and maintained by the business manager in Excel. The QSS financial system includes a position control module which the

district could use. An integrated financial/position control system does provide the benefit of reducing errors, automating the largest component of budget development and multiyear projections, and maintaining controls on filling vacant positions. At the present time, however, the amount of time needed to load and reconcile employee salary and benefit information into the QSS system would negatively affect staff. Other California school districts of comparable size also continue to use Excel for position control.

## 11. Budget Monitoring Yes

- Are budget revisions completed in a timely manner? .....Yes
- Does the district openly discuss the impact of budget revisions at the board level? .....Yes
- Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified? ..... N/A
- Have the district's long term liabilities decreased from the prior fiscal year? .....No

The most recent audited information shows that long term liability increased from \$178,395 in 2005-06 to \$255,419 in 2006-07 due to changes in post-employment benefits, including health benefits for qualifying retirees and an early retirement incentive program.

- Has the district identified the repayment sources for long term debt or non voter-approved debt (i.e. certificates of participation, capital leases)? .....Yes

The current capital lease for a tractor will be paid off in 2007-08.

- Does the district's financial system have a hard coded warning regarding insufficient funds for requisitions and purchase orders? ..... N/A
- Does the district encumber salaries and benefits? .....No

The current financial system does not encumber salaries and benefits.

**12. Retiree Health Benefits****Yes**

- Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements? ..... N/A

GASB 45 requires LEAs with total revenues of less than \$10 million to implement GASB 45 in fiscal year 2009-10. The district is in this category.

- Does the district have a plan for addressing the retiree benefits liabilities? ..... Yes

The district uses the pay as you go method to support the cost of retiree benefits. Seven employees were eligible for the benefit in 2006-07. District information shows that 11 employees are eligible in 2007-08 at an annual cost of \$54,712; 12 employees will be eligible in 2008-09 at a cost of \$69,934; and 12 employees will be eligible in 2009-10 at a cost of \$64,185. In 2007-08 the district has a designated balance of \$130,200 to support these costs and projects a long term shortfall of (\$106,738) by 2016-17.

- Has the district conducted a re-enrollment process to identify eligible retirees? ..... N/A

Because of the small number of district employees, a re-enrollment process is not necessary.

**13. Leadership/Stability****No**

- Does the district have a superintendent and/or chief business official that has been with the district more than two years? ..... No

The district's superintendent and business manager have been with the district since July 1, 2007. The current superintendent is the fourth since 2001-02, including a one year interim superintendent in 2006-07. Prior to 2001-02 the last superintendent stayed with the district for approximately five years.

- Does the governing board adopt clear and timely policies and support the administration in their implementation? ..... Yes

Board policies were updated in 2006-07 through the California School Boards Association (CSBA).

**14. Charter Schools****N/A**

- Has the district identified a specific employee or department to be responsible for oversight of the charter? ..... N/A
- Has the charter school submitted the required financial reports? ..... N/A
- Has the charter school commissioned an independent audit? ..... N/A
- Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency? ..... N/A
- Is the district monitoring and reporting the current status to the board to ensure that an informed decision can be made regarding the reauthorization of the charter? ..... N/A

**15. Audit Report****No**

- Did the district receive an audit report without material findings? .....No

The most recent (2006-07) independent audit report prepared by Stephan Roatch Accountancy Corporation reported two areas of material weakness and three areas of significant deficiency.

Material weaknesses include the following:

*Financial reporting*

To paraphrase the audit report, like most districts, Curtis Creek ESD does not have policies and procedures in place to ensure that complete and accurate financial statements, footnote disclosures, and management's discussion and analysis are prepared and reviewed prior to the arrival of the independent auditor per GASB 34 requirements. The auditor recommended that the district weigh the cost of the control weakness against the benefits to be received. The district's response noted that the cost of fully implementing the provisions of GASB 34 would outweigh the benefits received. The district's leadership agreed to develop alternative procedures that can help to mitigate financial reporting risk.

*Segregation of Duties*

Because of the limited size of the business office staff, the district is not always able to maintain an appropriate segregation of duties. The auditor recommended that the district develop alternative procedures that can help mitigate the financial reporting risk. The district's leadership agreed to develop alternative procedures.

Significant deficiencies include the following:

*Accounts Payable – Reconciliation*

The accounts payable accruals that were established in 2005-06 were not reconciled to the amounts actually paid in 2006-07, resulting in numerous uncleared balances. The auditor recommended that all accounts payable accruals be reconciled and that differences between the amounts accrued and the actual payments be investigated and cleared in a timely manner. The district agreed to update their procedures, reconcile amounts paid and investigate any differences.

*Cash Disbursements*

Packing slips for cafeteria purchases did not contain evidence that the goods received were checked for accuracy and completeness, resulting in no evidence to support payment of invoices for the goods. The auditor recommended that the district actively enforce existing policy. The district agreed to enforce its policy and not process payments until documented evidence of receipt of goods or services is provided.

*Payroll*

Payroll calculations are not always independently reviewed for accuracy by a second employee. The auditor recommended that the district establish procedures that provide for an independent review prior to processing payroll. The district agreed to establish independent approval procedures.

- Can the audit findings be addressed without impacting the district's fiscal health? .....Yes
- Has the audit report been completed and presented within the statutory time line? .....Yes
- Are audit findings and recommendations reviewed with the board? .....Yes
- Did the audit report meet both GAAP and GASB standards? .....Yes

**16. Facilities****Yes**

- Has the district passed a general obligation bond? .....No
- Has the district met the audit and reporting requirements of Proposition 39? ..... N/A
- Is the district participating in the state's School Facilities Program? .....Yes

A \$1.6 million modernization project at Curtis Creek Elementary School was closed out by the Office of Public School Construction in November 2005; an extreme hardship apportionment for Curtis Creek Elementary School plumbing was approved by the SAB in December 2007; and a paving project for Sullivan Creek Elementary School is listed on the May 29 deferred maintenance/extreme hardship unfunded SAB approval list.

- Does the district have sufficient personnel to properly track and account for facility-related projects? .....Yes
- Has the district met the reporting requirements of the Williams Act? .....Yes

The district regularly inspects the condition of school facilities and reports the findings in the school accountability report cards.

- Is the district properly accounting for the 3% Routine Repair and Maintenance Account requirement at the time of budget adoption? .....Yes

However, as an elementary school district with an ADA of less than 900, Curtis Creek Elementary may be permitted to certify to the SAB that it can reasonably maintain its facilities with a contribution of less than the 3% required for larger districts. (E.C. 17070.75 (3)(c)). The district should contact the SAB to confirm that the district meets the criteria for this provision.

- If needed, does the district have surplus property that may be sold or used for lease revenues? .....Yes

The district has a small parcel in the area and pays the annual property tax bill. Before considering sale or lease of the property, the district should review how the property came to be owned by the district. If the property was donated to the district by an individual rather than purchased outright, it is possible that a reversionary clause would return the property to the individual or his/her survivors if the district decides to dispose of the property.

- If needed, are there other potential statutory options? .....Unknown
  - Joint Use: Can the district enter into a joint use agreement with some entities without declaring the property surplus and without bidding?
  - Joint Occupancy: The Education Code provides for a joint venture that can authorize private development of district property that will result in some educational use.



- Does the district have a facilities master plan that was completed or updated in the last two years? .....No

## 17. General Ledger Yes

- Has the district closed the general ledger (books) within the time prescribed by the county office of education?? .....  
Yes

- Does the district follow a year-end closing schedule? .....  
Yes

The Tuolumne County Office of Education provides school districts with a comprehensive year end closing checklist as a general guide to assist in closing the books.

- Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year? .....Yes

The county office posts beginning balances after the closing of the books has been completed.

- Does the district adjust prior year accruals if the amounts actually received (A/R) or paid (A/P) are greater or less than the amounts accrued? .....No

As previously noted, the 2006-07 audit report found a significant deficiency in accounts payable reconciliations. Procedures have been updated for 2007-08.

- Does the district reconcile all payroll suspense accounts at the close of the fiscal year? .....Yes

**Total “No” Responses 4**

## Risk Analysis

### Method

1. Total the number of component areas in which the district’s fiscal health is not acceptable (“No” responses).
2. Use the key below to determine the level of risk to the district’s fiscal health.

0 – 4

Low

5 – 9

Moderate

10 – 14

High

15 – 17

Extremely High

## **Results**

With a total of four “No” ratings, the district scores a rating of low risk. The four categories in which the district did not receive a “Yes” rating are leadership, deficit spending, position control, and the audit.

### ***Leadership***

The ‘No’ rating in the Leadership category is directly related to the frequent turnover in the superintendent position since the 2001-02 fiscal year. The current superintendent and business manager both began working for the district in July 2007. The previous business manager had been with the district for a number of years before leaving to go to the high school district.

### ***Audit***

The most recent independent audit available during FCMAT’s visit was for fiscal year 2006-07. Two material weakness findings and three significant deficiencies were reported. In its response to these findings the district agreed to update and adhere to its policies and procedures in each of the reported areas. The independent audit for 2007-08 that will be delivered to the district board in January 2009 will confirm the district’s progress in making the necessary changes.

### ***Position Control***

The district uses Microsoft Excel software as its position control tool for budget development and monitoring. Many small districts use a similar application. The QSS financial system used by the district and maintained by the county office of education has an integrated position control module that the district could use for budgeting and employee position assignments. Once salary and benefit information is entered into the position control module, it can be loaded into the budget development module automatically.

To begin using this module, the business manager or district clerk would need to make time in their schedule to input and reconcile the data. In view of the recent reduction in the business manager’s work year, transitioning to an integrated system could be delayed until a later date.

### ***Deficit Spending***

Since January 2008 the district’s administration and governing board has been working on an expenditure reduction plan that will ensure that the district can continue to maintain an appropriate reserve level. During FCMAT’s review, the Tuolumne County Superintendent of Schools requested that the district prepare a deficit reduction plan and third interim report, due by June 1, 2008. Based on the actions already taken, the district is commended for being proactive in managing their fiscal solvency as required by AB 1200 and AB 2756.

## *Budget Development and Monitoring*

Regardless of a school district's financial condition, the process of developing an annual spending plan should be viewed as a high priority from January through June of each year. The budget serves as a fiscal road map to support district operations and programs through the year. Ideally, the process is one of collaboration between the business office, administrative cabinet, department heads and school site administrators. The original budget adopted by the board in June represents *anticipated* revenue and expenditure allocations that are based on known variables, including but not limited to the following:

- Changes in enrollment/ADA
- State cost of living adjustment (COLA)
- Inflation factors (CPI, interest)
- Changes in staffing, salaries, and benefits
- Increases or decreases in staff
- Adjustments for utility costs
- Equipment purchases
- Contributions to restricted programs
- Long term debt/liabilities
- Impact of new requirements/compliance issues

As part of the annual budget development process, all site and program administrators should play an active role in the development of their budgets; site plans should be reviewed to ensure that budgets are built to reflect site goals; and district goals should be revisited to ensure that the budget accurately reflects overall goals and objectives. The district should consider using a formal, documented budget development process so that all stakeholders understand and participate in the process.

Although large districts may begin the budget development process in the fall, average size and small districts typically start budget development activities by adopting a budget calendar in January after the release of the Governor's proposed budget. The calendar identifies dates for the completion of each function in the process and assigns responsibility for completion to a specific individual, department and/or school site.

Many types of budget development models exist, including the following:

- *Decentralized budgeting*  
Major budgeting and related decisions are made at the school site level.
- *Centralized budgeting*  
Budget decisions are made centrally, using a "top-down" method. This method is commonly used when a district is small, has a severe financial condition, or needs to exert greater fiscal control over the annual spending plan.
- *Blended decentralized/centralized method*  
Combines the two previous models and uses budget committees to gain broad participation while maintaining control.

- *Zero-based budgeting*  
The entire budget is analyzed and recreated each year.
- *Rollover budgeting*  
Prior year budgets are moved forward and updated with additions or deletions.
- *Enrollment-based budgets*  
Accurate demographic information becomes the basis for budget allocations.
- *Program budgeting*  
Spending plans are based on the expected services to be performed by the organizational units.

Because one budget approach seldom meets all of a district's needs or requirements, many districts have created a process that combines elements from several models. The primary consideration in choosing a budget development process is to assess the district's budget needs and tailor the process to the district's unique characteristics. All budget methods must be carefully communicated to interested parties so that the advantages of the chosen method are evident.

The district currently uses a decentralized approach, including the rollover budgeting method, to prepare each upcoming annual budget. Districts that use rollover budgeting should consider using a more comprehensive method every other year. Rollover budgeting starts with the prior year working budget as a base, with added adjustments for the annual impact of step and column movement, utility increases and other areas in which costs increase annually due to inflation. Districts that use rollover budgeting often strategically adjust budgets further based on need or local priorities. However, because of the constant change in instructional programs, fiscal reporting, district goals and objectives, and compliance, taking the time to review the budget with new objectivity will help the district keep pace with new priorities and the changing economy.

In interviews, the district's site principals and department supervisor and directors indicated that they would benefit from greater collaboration with the business office regarding the budget. In addition to the benefits of being involved in budget development from the beginning, greater collaboration means that the principals and program managers can also become more accountable in monitoring expenses. This group may also be better prepared to plan ahead for future needs.

Budget guidelines are defining statements that include criteria by which the budget should be developed to best reflect the goals and objectives adopted by the board. The following are examples of budget guidelines:

- A. General fund budgeted expenditures will not exceed budgeted revenue and/or reserves, except by the amount of authorized funds carried over from the fiscal year 20xx-xx budget, in accordance with board policy and state law.
- B. The budget format will be based on the California School Accounting Manual and will use the Standardized Account Code Structure (SACS).

- C. Basic allocations for staffing and budget will be established in the same manner at each school site, regardless of availability of supplemental resources (e.g. Title I) to ensure that the district complies with Title I comparability requirements.
- D. The Cafeteria Fund operating budget will show a positive fund balance as stipulated by Education Code requirements and the board of trustees.
- E. Projected costs of current operations will be budgeted within the general fund based on enrollment projections, revenue calculations and reasonable inflation factors. Information from the county office and School Services of California will be applied to revenue and expenditure allocations where appropriate.
- F. A transfer to the Deferred Maintenance Fund will be budgeted at a level which will, at a minimum, entitle the district to the maximum amount of state matching funds and ensure continuing eligibility for modernization and hardship funding. The funds will be expended for projects approved by the state under the district's five-year plan.
- G. Funds generated from developer fees will be placed in the Capital Facilities Fund-Developer Fees, and expenditures will be incurred in accordance with board-approved construction/reconstruction projects.
- H. Staffing in food services shall take into consideration productivity levels in comparison to the meals per labor hour formula. The MPLH formula is based on the total number of labor hours directly involved in the preparation and serving of meals, divided by the total number of breakfast, lunch, and a la carte equivalents served.
- I. Custodial staff shall take into consideration the results of the California Association of School Business Officials' staffing formula, plus any local exceptions that affect the amount of space to be cleaned. The formula is based on one fourth of the sum of the following: one custodian for every 13 teachers (Teacher Factor); plus one custodian for every 325 pupils (Pupil Factor); plus one custodian for every 15 rooms to be cleaned (Room Factor); plus one custodian for every 18,000 square feet of building area (Square Foot Factor).
- J. Staffing in the transportation program should be based on maximizing the number of drivers and student transport vehicles, using routes that are the most efficient for transporting students to school in an acceptable time period.

The adoption budget includes an estimate of the beginning balance for the new year; the actual beginning balance will not be confirmed by the business office until the financial records for the fiscal year have been closed out in August or September. The estimated beginning balance used in the adoption budget should be validated by a thorough fiscal analysis of the projected ending balances through June 30. This analysis should be completed in May.

Reconciliation of projected enrollment and staffing full time equivalents should be completed through a joint effort of the business office, curriculum/instruction, and personnel office. Staffing levels should reflect and comply with formulas included in collective bargaining agreements.

**Recommendations**

*The district should:*

1. Continue its efforts to reduce deficit spending in the general fund, and monitor the impact of expenditure reductions to ensure that savings are realized.
2. Develop a plan to prioritize the restoration of programs and staffing if funding sources increase in the future.
3. Determine and confirm a reserve level that will continue to protect the district from unforeseen circumstances.
4. Continue to develop incentives to maintain and improve student attendance, increasing the amount of discretionary income that is earned.
5. Closely monitor cash flow needs in view of the deferral of state revenues and diminishing forest reserve funds.
6. Carefully analyze the impact of bargaining unit proposals before coming to agreement. Provide a completed AB 1200 disclosure form to the county office for review in addition to the superintendent's and business manager's certification required by AB 2756.
7. Transition to using the QSS system position control module to automate the inclusion of salary and benefit information in budget development. This can be completed as staff members have time available to input and reconcile the required data.
8. Ensure that each provision agreed to for audit findings in the 2006-07 independent audit has been fulfilled and is maintained.
9. Consider implementing a more collaborative budget development model to assist the site principals and program supervisors/directors in getting to know their budgets better and becoming more accountable for controlling their costs.
10. Consider applying industry standards for staffing in the food services and operations departments, and consider maximizing the use of bus drivers and student transport vehicles in the transportation program.

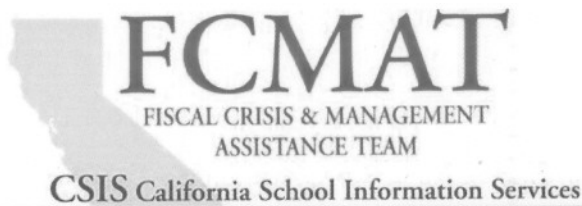




# Appendix

## *Study Agreement*





FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM  
STUDY AGREEMENT  
March 5, 2008

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

1. BASIS OF AGREEMENT

The Team provides a variety of services to school districts 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 Curtis Creek Elementary 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) Prepare a Multi Year Financial Projection of the District's general fund for 2008-09 and 2009-2010 after validating the projected revenues and expenditures identified in the District's 2007-08 Second Interim report.
- 2) Complete FCMAT's Fiscal Health Risk Analysis to assist the District in identifying factors that may affect the districts future fiscal and operational stability.

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
- B. FCMAT Fiscal 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, 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 \$4,000. 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.

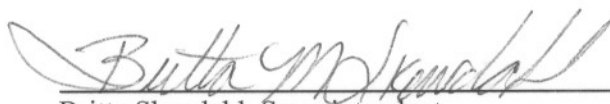
Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with District pupils. The District shall take appropriate steps to comply with EC 45125.1(c).

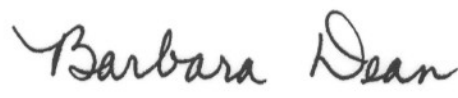
## 6. PROJECT SCHEDULE

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

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

7. CONTACT PERSONPlease print name of contact person: Britta SkavdahlTelephone 209 533-1083 FAX 209 532-6080Internet Address bskavdahl@ccreek.k12.ca.us

 3/25/08  
Britta Skavdahl, Superintendent Date  
Curtis Creek Elementary School District

 March 5, 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.