



FAME Public Charter School

Fiscal Review

February 10, 2010

Joel D. Montero
Chief Executive Officer



CSIS California School Information Services

February 10, 2010

Maram Alaiwat, Chief Executive Officer
FAME Public Charter School
39899 Balentine Drive, Suite 335
Newark, CA 94560

Dear Ms. Alaiwat,

In August 2009, the FAME Public Charter School and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to provide a review of the charter school's fiscal status. Specifically, the agreement stated that FCMAT would:

1. Review the charter's 2009-10 general fund budget, multiyear financial projections for 2010-11 through 2013-14, and cash flow projections for 2009-10 and 2010-11 for the purpose of validating the assumptions used by the charter to develop the data.

The team will provide recommendations for changes, as necessary. Completion of the scope of work by the team is contingent on the ability of the charter to deliver all supporting documentation within the requested timeline.

The attached final report contains the study team's findings with regard to the above areas of review. We appreciate the opportunity to serve you, and we extend our thanks to all the staff of the FAME Public Charter School.

Sincerely,

Joel Montero
Chief Executive Officer

FCMAT

Joel D. Montero, Chief Executive Officer

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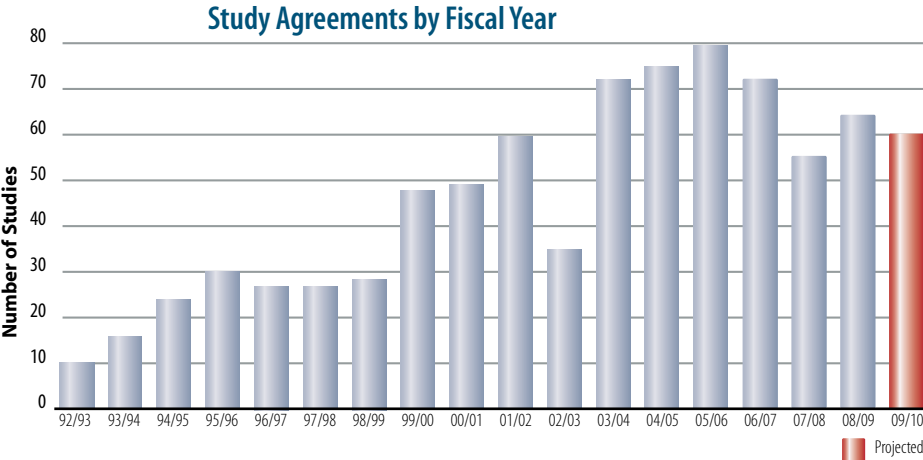
Foreword - FCMAT Background

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

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

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

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



| | |
|---|---------------|
| Total Number of Studies..... | 743 |
| Total Number of Districts in CA..... | 1,050 |
| Management Assistance..... | 705 (94.886%) |
| Fiscal Crisis/Emergency | 38 (5.114%) |
| Note: Some districts had multiple studies. | |
| Eight (8) districts have received emergency loans from the state. | |
| (Rev. 12/8/09) | |

Introduction

Background

California Education Code Section 47600, also known as the Charter Schools Act of 1992, was enacted “to provide opportunities for teachers, parents, pupils, and community members to establish and maintain schools that operate independently from the existing school district structure.” Charter schools are a part of the public school system but differ from traditional public schools because they are exempt from many state laws relating to specific educational programs. Specific goals and operating procedures for the charter school are detailed in an agreement, or charter, between the authorizing agency and the charter school organizers. Charter schools may elect to operate as corporations organized under the Nonprofit Public Benefit Corporation Law of the Internal Revenue Code [26 U.S.C. Sec. 501(c)(3)].

Charters offer a more flexible school governance model but are accountable for student achievement and fiscal management. The chartering agency is responsible for adequate and appropriate oversight, including determining if a charter is following prudent business practices and generally accepted accounting principles (GAAP) in accounting for revenues and expenditures and preparing financial reports. The chartering agency may be a school district, county office of education, or the California State Board of Education.

The Families of Alameda for Multi-Cultural/Multi-Lingual Education (FAME) Public Charter School was authorized in May 2005 by the Alameda County Office of Education. The school is direct-funded and is operated by BASIS, Inc., which is a nonprofit corporation. FAME serves approximately 1,442 students in kindergarten through grade 12 in classroom and non-classroom settings.

In August 2009, FCMAT and the charter school entered into a study agreement, which specifies that FCMAT will complete the following:

1. Review the charter’s 2009-10 general fund budget, multiyear financial projections for 2010-11 through 2013-14, and cash flow projections for 2009-10 and 2010-11 for the purpose of validating the assumptions used by the charter to develop the data.

The team will provide recommendations for changes, as necessary. Completion of the scope of work by the team is contingent on the ability of the charter to deliver all supporting documentation within the requested timeline.

Study Guidelines

FCMAT visited the charter school on September 28 through October 1, 2009 to conduct interviews, collect data and review documents. This report is the result of those activities and is divided into the following sections:

- Executive Summary
- General Fund Budget and Multiyear Financial Projections
- Cash Flow Projections
- Appendix

Study Team

The FCMAT study team was composed of the following members:

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Margaret Rosales
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Executive Summary

Budget and Multiyear Financial Projections

Multiyear financial projections (MYFPs) help local education agencies make more informed decisions and forecast the effect of current decisions. Projections should be a part of annual budget development and evaluated and updated during each interim financial reporting period and before any significant budget adjustments, such as salary increases. In developing and implementing the multiyear financial projection, the charter school's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The financial crisis at the state and national levels make it an especially challenging time financially for educational agencies statewide. The 2008-09 and 2009-10 state budget acts included significant cuts to the education budget, and this situation requires local governing boards to make extremely difficult decisions to balance the budget and remain fiscally solvent.

FCMAT's review of the 2009-10 draft first interim budget, MYFPs, and cash flow projections indicate that charter school staff have put a great deal of effort into completing the documents. As with processes and procedures in all local education agencies, there are areas that may be improved and efficiencies that may be achieved following review by an external, independent organization.

Although FAME used conservative enrollment and ADA projections when building its 2009-10 budget and MYFPs, the October 2009 CBEDS enrollment is 58 students less than the amount used in the charter school's current year enrollment projection. This will have a negative impact on each funding source that is generated by enrollment or average daily attendance if the charter school is unable to increase these factors prior to the second principal apportionment (P-2). Thus, the charter school should reduce its 2009-10 revenue budget based on the October 2009 CBEDS data and review its enrollment projections for subsequent years to ensure they are not overstated. The charter school should also continue to monitor student enrollment and attendance and make any necessary adjustments at each reporting period.

The charter school's draft first interim budget included the one-time revenue reduction of \$252.83 per prior year ADA twice. The charter school should adjust the budget to ensure that the reduction is only reflected once in the 2009-10 budget and is not included on an ongoing basis in the multiyear financial projections. In addition, the budget includes \$345,719 for State Fiscal Stabilization Funds (SFSF) and funds from the American Recovery and Reinvestment Act (ARRA) for IDEA. However, the information posted by the CDE and the funds received in 2009-10 from the SELPA total \$153,366. Because it has not yet been determined how much additional funding the charter school will receive for SFSF and ARRA funds, it is recommended that the budget be reduced to account for

the amount that has been allocated to date and wait for additional funding information from the CDE and SELPA before including additional dollars in the budget.

The charter school's draft first interim budget for services and other operating expenditures has been reduced by approximately \$500,000 compared to the 2008-09 unaudited actuals report. While some savings may be realized in 2009-10, it does not appear that the current budget is sufficient to cover all expenses in the 5000 object codes. The charter school staff should review the budget for services and other operating expenses and determine if it needs to be increased.

To ensure that the most current information is included in the working budget, the charter school staff should monitor the CDE Web site throughout the year and make changes as necessary to the budgets for categorical program funding and other applicable state funding sources. The charter school should also use the revenue and expense budget projection variables reflected in the most current School Services of California (SSC) Financial Dartboard at each budget reporting period.

Review of the Multi-Year Projection Assumption Worksheet and the Multi-Year Projection – Alternative Form completed during budget adoption found that some of the information was not consistent between the two documents. The charter school should ensure the reported information is consistent and include a list of the specific assumptions used for the budget and MYFP for each revenue and expense category at each reporting period. FAME should also consider implementing budget spreadsheets that include the same object code categories as reflected on the Alternative Form that is used for budget adoption.

Cash Flow Projections

The purpose of a cash flow statement is to project the timing of receipts and expenses so that an organization can understand its cash flow needs. The cash flow statement reflects the charter school's ability to meet its payroll and other financial obligations.

Based on the continued and increased cash deferrals included in the state's 2009-10 budget, including deferrals equaling 25% of the current year funding into 2010-11, it is imperative that the charter school continue to monitor its current year and subsequent year cash flow at least monthly and carefully monitor its annual budget to ensure that expenditures do not exceed revenues.

The charter school should work with its independent auditors to determine whether the ending monthly cash balance reflected on the cash flow statement should be taken from the reconciled bank statements or from object codes 9110 and 9120 on the monthly trial balance. The charter school's cash flow statement should also include columns for all transactions that affect cash including: current year and prior year revenue and expense accruals, a total column that balances back to the current working budget, and prior year accounts payable data.

The charter school should also work with the county office to determine, given the capabilities of the county treasurer's finance system, if the general purpose block grant funds can be transferred to the charter school in the month they are received by the county office. In addition, the charter school should review the funding schedule for in-lieu property taxes as outlined in Education Code section 47635(b) and work with the affected school districts to ensure that funds are received in accordance with the education code requirements.

Subsequent Events

On January 8, 2010, the governor submitted his proposed 2010-11 state budget, which includes expenditure reductions, revenue shifts and increased federal funding to address the estimated \$19.9 billion state budget shortfall. The governor also declared a fiscal emergency and called for another special session of the Legislature, as provided in Proposition 58, to deal with the state's budget crisis.

The proposed 2010-11 education budget includes a negative COLA of .38% as well as an ongoing reduction to revenue limits, which equates to a cut in the general purpose block grant funding of \$191 per grade K-8 ADA and \$231 per grade 9-12 ADA. The charter school should update its MYFP to include these proposed cuts to education and begin making decisions now to determine how to balance the projected year budgets and maintain fiscal solvency.



Findings and Recommendations

General Fund Budget and Multiyear Financial Projections

State Budget - Overview

Fiscal years 2008-09 and 2009-10 have been unprecedented budget years for California's local educational agencies. In November 2008, the governor called for a special session when it became clear that financial projections showed a growing multibillion-dollar state budget deficit. During the emergency session, the governor released the 2009-10 proposed budget in December, a month earlier than normal.

On February 20, 2009, after months of delays, the governor signed a 17-month budget, Senate Bill (SB) 1, Chapter 1, Statutes of 2009, which runs through June 2010 and included revisions to the 2008-09 budget and approval of the 2009-10 state budget. The enacted budget reduced education spending by \$8.6 billion over the next 17 months. To address the state's \$41.6 billion budget deficit, state lawmakers reduced expenditures, added new taxes, borrowed money and offset the difference with federal stimulus funds.

The state budget revisions enacted in February provide some flexibility to local educational agencies including K-3 Class Size Reduction. SBX3 4 closed the program in 2009-10 through 2011-12 to participants that did not apply for 2008-09 funds and established a new schedule of funding reduction percentages in Education Code section 52124.3 for classes exceeding 20.44 pupils. From 2008-09 through 2011-12, this new schedule replaces the schedule of funding reduction percentages previously established in Education Code section 52124. The new schedule provides for reductions to funding as follows:

Schedule of CSR Funding Reductions

| Funding Reduction | Class Size Range, Inclusive |
|--------------------------|------------------------------------|
| 5% | 20.45 to 21.44 |
| 10% | 21.45 to 22.44 |
| 15% | 22.45 to 22.94 |
| 20% | 22.95 to 24.94 |
| 30% | 24.95 or more |

Like the previous schedule, funding for classes of more than 20.44 pupils will be calculated based on a count not to exceed 20 pupils multiplied by the funding rate, less the funding reduction percentage.

The enacted budget depended on the passage of several ballot measures that went before the voters on May 19, 2009. All failed with the exception of Proposition 1F. Therefore, the governor's May revise included further cuts to education funding.

In July, the governor called for another special session to address the additional \$24 billion deficit in the state's budget. On July 28, 2009, the governor signed a package of bills that amended the 2008-09 and 2009-10 state budgets and included substantial additional cuts to education funding. These cuts included the following:

- Proposition 98 – In an effort to avoid suspending Proposition 98, the state swept \$1.6 billion in 2008-09 unallocated categorical funds and restored this amount in 2009-10, less funding for High Priority Schools grants that ended in 2008-09. The state then acted to reduce each local education agency's 2009-10 revenue limit, on a one-time basis, by approximately \$253 per 2008-09 ADA.
- Revenue Limit Deficit – The July state budget revisions included an increase in the revenue limit deficit factor. The 2009-10 deficit is 18.355%. This means that education will receive approximately 82 cents on the dollar in revenue limit funding. Additionally, selected state categorical programs will experience a 19.84% reduction over a two-year period. This is a significant reduction in funding when compared with the 2008-09 adopted budget.

Comparison of Governor's Proposal and Actual State Budget

| Fiscal Year | Proposed Budget 2009-10 | Enacted Budget 2009-10 | May Revise Budget 2009-10 | July Revised Budget 2009-10 |
|---|----------------------------|---------------------------|------------------------------|--------------------------------|
| <u>Revenue Limit - Deficit</u> | | | | |
| 2008-09 | 9.685% | 7.844% | 11.428% | 7.844% |
| 2009-10 | 16.161% | 13.094% | 17.967% | 18.355% |
| 2010-11 | 16.161% | 13.094% | 17.967% | 18.355% |
| <u>State Categorical Program Funding Reductions (Tier II and III)</u> | | | | |
| 2008-09 | 0.00% | 15.38% | 15.38% | 15.38% |
| 2009-10 | 0.00% | 4.46% | 4.46% | 4.46% |
| 2010-11 | 0.00% | 0.00% | 0.00% | 0.00% |

During the signing of the budget bills, the governor and legislative leaders indicated that additional budget adjustments may be required as California's budget crisis remains challenging and state cash collections are less than projected. Therefore, the charter school should be prepared to implement additional budget cuts that may occur in the 2009-10 fiscal year. It is critical for local education agencies to monitor their spending and cash flow and make reductions as needed to maintain reserves and weather the state's fiscal crisis.

Additional information regarding the 2009 Budget Act may be accessed at the following Web site: www.cde.ca.gov/nr/el/le/2009budgetact.asp

In an effort to save jobs, stimulate the economy, improve academic achievement and support school reform, the federal government enacted the American Recovery and Reinvestment Act (ARRA). ARRA funds are provided in the following three areas:

- State Fiscal Stabilization Funding (SFSF) – These funds can be utilized for a broad range of purposes beginning April 17, 2009.
- Title I – These funds can be expended beginning February 17, 2009. The use of these funds is subject to cost and accounting rules under OMB-A87 and A133 and is subject to maintenance-of-effort requirements.
- Individuals with Disabilities Education Act (IDEA) – These funds can be expended beginning February 17, 2009 and are being sent to SELPAs for distribution. The use of these funds is subject to maintenance-of-effort requirements.

More information regarding the ARRA funds can be found on the following CDE Web sites:

SFSF - <http://www.cde.ca.gov/ar/sf/index.asp>

Title I - <http://www.cde.ca.gov/fg/aa/ca/nclbtitlei.asp>

IDEA - <http://www.cde.ca.gov/fg/fo/r18/arralocass09result.asp>

Multiyear Financial Projections

Education Code section 47604.33 requires that charter schools complete the following reports and submit them to the county superintendent of schools:

1. On or before July 1, a preliminary budget.
2. On or before December 15, an interim financial report, reflecting information through October 31.
3. On or before March 15, a second interim financial report, reflecting information through January 31.
4. On or before September 15, an unaudited report for the prior year.

In addition, the memorandum of understanding (MOU) between the charter school and the county office dated August 23, 2005 requires that the financial reports include a cash flow statement for the current year and financial projections for the two subsequent years. The MOU also states that the charter school “shall maintain an appropriate level of funding reserve which shall not be less than 3% of the School’s total annual expenditures.”

Multiyear financial projections (MYFPs) help local education agencies make more informed decisions and forecast the effect of current decisions. Projections should be a part of annual budget development and should be evaluated and updated during each interim financial reporting period and before any significant budget adjustments, such as

salary increases. In developing and implementing the multiyear financial projection, the charter school's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local government. The MYFP helps identify specific planning milestones that will help the charter school make decisions.

Financial planning is crucial for every local education agency, regardless of its size or structure. Long-term financial planning helps a charter school strategically align its budget with its instructional goals and programs, and should be part of annual budget development. In addition, recognizing financial trends is essential to maintaining a charter school's fiscal health. Reviewing and analyzing year-over-year trends in key budget areas is helpful in evaluating the charter's budget direction and in highlighting possible areas of concern.

Any forecast of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment trends, cost-of-living adjustments, forecasts for utilities, supplies and equipment, and changing economic conditions at the state, federal and local levels. Therefore, the budget projection model should be evaluated as a trend based on certain criteria and assumptions instead of a prediction of exact numbers.

Local education agencies throughout the state have been forced to update multiyear assumptions and projections several times during the 2008-09 and 2009-10 fiscal years as the state continues to experience severe revenue declines. Multiyear projections in a time of fiscal instability can become somewhat unreliable, especially in the subsequent fiscal years, as projected revenue information from the state may frequently change. However, the MYFP still provides guidance with decisions that cover several fiscal years, and the charter school must continue to update and reassess the ramifications of state-imposed budget adjustments.

Budget and Multiyear Financial Projection Assumptions

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

To evaluate the multiyear projection, attention is focused on the charter school's ability to meet its reserve requirement of 3% and demonstrate a positive, unappropriated fund balance. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced to meet the reserve requirement. The projections completed by the charter school and reflected in the summary below indicate that it will meet its 3% reserve requirement in the current and subsequent years. However, FCMAT's review of the charter school's budget assumptions, as outlined below, indicate that some of the assumptions may not materialize and that revenue may need to be increased and/or expenses decreased to maintain the 3% reserve requirement in the projection years.

FAME's Multiyear Financial Projection Summary
General Fund

| Description | Unaudited Actuals 2008-09 | First Interim Draft Budget 2009-10 | Projected Year 1 2010-11 | Projected Year 2 2011-12 | Projected Year 3 2012-13 | Projected Year 4 2013-14 |
|---|---------------------------------|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Revenue Limit Sources | 7,842,362 | 7,290,422 | 7,549,337 | 7,826,476 | 8,339,082 | 8,755,155 |
| Federal | 441,042 | 0 | 0 | 0 | 0 | 0 |
| Other State | 2,698,542 | 2,863,159 | 2,422,803 | 2,471,530 | 2,578,600 | 2,647,980 |
| Other Local | 37,667 | 34,000 | 35,000 | 36,050 | 37,132 | 38,245 |
| Total Revenues | 11,019,613 | 10,187,581 | 10,007,140 | 10,334,056 | 10,954,814 | 11,441,380 |
| Certificated Salaries | 3,506,984 | 3,513,530 | 3,562,328 | 3,627,185 | 3,784,367 | 3,977,847 |
| Noncertificated Salaries | 1,698,266 | 1,805,157 | 1,836,491 | 1,961,585 | 2,105,433 | 2,168,596 |
| Employee Benefits | 900,045 | 1,000,878 | 1,037,726 | 1,081,151 | 1,156,892 | 1,245,665 |
| Books and Supplies | 682,618 | 672,791 | 711,742 | 786,214 | 783,939 | 833,251 |
| Services and Other Operating | 3,456,438 | 2,953,396 | 2,747,643 | 2,763,824 | 3,006,236 | 3,099,076 |
| Capital Outlay (depreciation) | 147,285 | 145,481 | 109,327 | 109,327 | 109,327 | 109,327 |
| Other Outgo | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Expenditures | 10,391,636 | 10,091,233 | 10,005,257 | 10,329,286 | 10,946,194 | 11,433,762 |
| Net Increase (Decrease) in Fund Balance | 627,977 | 96,348 | 1,883 | 4,770 | 8,620 | 7,618 |
| Fund Balance: | | | | | | |
| Beginning Balance | 408,103 | 928,503 | 1,122,059 | 1,123,942 | 1,128,712 | 1,137,332 |
| Adjustments/Restatements* | (107,577) | 97,208 | 0 | 0 | 0 | 0 |
| Total Ending Balance | 928,503 | 1,122,059 | 1,123,942 | 1,128,712 | 1,137,332 | 1,144,950 |
| Components of Ending Fund Balance: | | | | | | |
| Reserve for Prepaid Expenditures | 37,054 | 0 | 0 | 0 | 0 | 0 |
| 3% Reserve Requirement | 311,749 | 302,737 | 300,158 | 309,879 | 328,386 | 343,013 |
| Undesignated/Unappropriated | 579,700 | 819,322 | 823,784 | 818,833 | 808,946 | 801,937 |

First interim draft budget, dated September 27, 2009, and projection years, dated September 14, 2009.

*Adjustments/Restatements reflected in annual independent audit reports.

FCMAT's analysis of the budget assumptions used by the charter school in preparing the 2009-10 draft first interim budget, dated September 27, 2009, and the 2010-11 through 2013-14 multiyear projections, dated September 14, 2009, are included below.

Revenues

Enrollment and Average Daily Attendance (ADA) – Proper enrollment tracking and analysis of ADA are essential to providing a solid foundation for budget planning.

Because the charter school's primary funding is based on student attendance, monitoring and projecting student enrollment and attendance is a crucial function. When enrollment and related ADA decline, the charter school must consider the budgetary impacts of the decline on teacher-to-student ratios and related expenditures and plan accordingly.

To validate the charter school's enrollment projections, FCMAT used the cohort survival method, which groups students by grade level upon entry and tracks them through each year they stay in school. This method evaluates the longitudinal relationship of the number of students passing from one grade to the next in a subsequent year. This method more closely accounts for retention, dropouts and students transferring to and from the charter school grade by grade. Although other enrollment forecasting techniques are

available, the cohort survival method usually is the best choice for local education agencies because of its sensitivity to incremental changes to several key variables including:

- Birth rates and trends.
- The historical ratio of enrollment progression between grade levels.
- Changes in educational programs.
- Migration patterns.
- Changes in local and regional demographics.

FAME has shown continued enrollment growth, from a CBEDS enrollment of 785 students in fiscal year 2005-06 to an enrollment of 1,442 in 2009-10, an 84% increase during that period. Due to facilities limitations and charter enrollment restrictions included in the charter school petition, the administration is planning for moderate growth in the site-based educational program with a slight decline in the independent study educational component of the charter. The following table reflects the charter school's historical and current year enrollment and ADA data along with the enrollment and ADA data developed by the charter school for the projection years.

| Enrollment & ADA | | | | | | | | | |
|------------------|---------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|
| | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10* | 2010-11** | 2011-12** | 2012-13** | 2013-14** |
| CBEDS | 785 | 1,143 | 1,286 | 1,398 | 1,442 | 1,540 | 1,565 | 1,630 | 1,660 |
| P-2 ADA | 805.87 | 1,146.66 | 1,257.77 | 1,362.14 | 1,407.92 | 1,480.75 | 1,504.05 | 1,564.90 | 1,593.10 |
| ADA % | 102.66% | 100.32% | 97.80% | 97.43% | 97.64% | 96.15% | 96.11% | 96.01% | 95.97% |

*P-2 ADA projected by FCMAT based on actual CBEDS and average percentage of prior two year's ADA by grade level.

**Enrollment/ADA projected by FAME.

FCMAT reviewed the charter school's enrollment and ADA projections for reasonableness. Based on the growth realized since the school's inception, FAME used conservative enrollment and ADA projections in building its 2009-10 budget and MYFPs. Charter school staff reported that enrollment was 1,503 during the first week of school. However, enrollment has declined since the start of the 2009-10 school year, and the October 2009 CBEDS enrollment of 1,442 is less than the amount used in the charter school's current year enrollment projection of 1,500. Based on the P-2 ADA to enrollment average of the prior two fiscal years, this decrease in enrollment and related ADA will have an estimated negative impact of \$207,500 on the charter school's general purpose block grant funding and will reduce the categorical block grant funding by an estimated \$14,200. It will also negatively affect all other revenue generated by enrollment or ADA. The charter school should reduce its revenue budget based on the October 2009 CBEDS information and review its enrollment projections for subsequent years to ensure they are not overstated.

Charter school staff indicated that they are aware of the enrollment decline and are accepting new students to help meet the enrollment projections. Staff also indicated that expenses are being reduced in several areas. For example, staffing costs have been reduced by not filling new and vacated positions.

Other Revenue Limit Sources – The July 2009 state budget revisions included a one-time reduction of \$252.83 per 2008-09 ADA. The charter school's 2009-10 draft first interim budget includes a one-time reduction of \$364,922 to account for the state budget revision. However, the backup documentation indicates that the reduction was made twice; once to the general purpose block grant rates and again as a separate line item. This resulted in an understatement of approximately \$364,922 in revenue for 2009-10. In addition, the latest information provided by the California Department of Education (CDE) indicates that the one-time reduction will be \$344,358. An adjustment should be made in the current year budget to ensure that the reduction is only included once and to reflect the information from CDE.

The charter school's 2010-11 through 2013-14 Projected Revenue spreadsheets include the one-time reduction of \$252.83 per ADA on an ongoing basis. This reduction should only be included in the 2009-10 budget.

Federal – The spreadsheets provided by the charter school reflecting the current year draft first interim budget and the projection year budgets do not include a separate category for federal funds. However, based on the backup documentation provided, the charter school has included \$345,719 in its 2009-10 budget for the remaining federal dollars to be received for State Fiscal Stabilization Funds (SFSF) and funds from the American Recovery and Reinvestment Act (ARRA) for IDEA. The CDE Web site indicates that the charter school will receive \$128,292 in the second apportionment for SFSF; the charter school reported that these funds were received in September 2009. However, it has not yet been determined how much each local educational agency will receive from the next distribution of SFSF. The charter school also reported that they received \$25,074 in September 2009 from ARRA funds for IDEA. However, documentation has not been received from the SELPA regarding additional ARRA funds. The charter school should reduce its 2009-10 revenue budget to account for the \$153,366 that has been allocated to date, and wait for funding information from the CDE and the SELPA before including additional dollars in the revenue budget.

In addition, the charter school has included the SFSF and ARRA budgets for 2009-10 in the general purpose block grant line item on the 2009-10 budget spreadsheet. An adjustment should be made to the spreadsheet to reflect SFSF and ARRA as federal funding sources. The charter school also included funding for other federal programs such as Title II, Part A, and Title III in the other state revenue line item on the 2009-10 budget spreadsheet. An adjustment should be made to the spreadsheet to reflect these items as federal funding sources.

State – The charter school's 2009-10 draft first interim budget includes an estimate of \$500,000 from the Charter School Facility Grant Program. Following FCMAT's fieldwork, the CDE posted a grant award of \$489,983. Charter school staff indicated that they are aware of this adjustment and plan to include it in the first interim report.

The charter school's budget includes an estimate of \$846,841 for special education funding. Documentation from the county office indicates that the 2008-09 special education apportionment was \$634.03 per prior year ADA. Assuming the charter school receives \$634.03 per prior year ADA in 2009-10, the special education budget would be \$863,548. However, this amount has not yet been verified by the SELPA. Once the amount is verified, the charter school should adjust its budget to reflect the funding amount provided.

The draft first interim budget includes \$14,212 for the California High School Exit Exam (CAHSEE) and \$32,111 for the Arts and Music Block Grant. The latest information available from CDE indicates that the 2009-10 CAHSEE funding will be \$11,392 and that the 2008-09 Arts and Music Block Grant was \$20,110. The charter school should continue to review the information available from CDE throughout the year to ensure the most current data is included in the working budget and that the funding for Tier II and Tier III categorical programs is reduced by 4.46% in 2009-10.

FCMAT did not have access to the backup documentation regarding the charter school's estimates for some of the categorical programs including the Local Assistance Entitlement, and was therefore unable to assess the budgets for these items. Charter school staff indicated that the Local Assistance Entitlement is passed through the county office and backup documentation is not provided to FAME. The charter school should work with the county office to obtain the backup documentation for each applicable funding source.

The charter school's MYP assumption worksheet submitted with its 2009-10 adopted budget includes no COLA for revenue in 2010-11 and a 1% COLA for state revenue in 2011-12. In addition, the projected annual statutory COLA is not included in the charter school's MYFP, dated September 14, 2009, in each of the projection years for the categorical block grant and EIA funding. The charter school should use the statutory COLA included on the School Services of California (SSC) Financial Dartboard to project increases in state categorical funding for future years. (The SSC dartboard is included in the appendix of this report. The appendix also includes the revised dartboard based on the governor's January budget proposal.) Based on the state's current economic situation, the charter school should also have a contingency plan in place if the COLA is not funded.

Local – Based on the 2008-09 actuals, the budget for local revenue appears reasonable.

Expenditures

Certificated Salaries – FCMAT reviewed the charter school's Projected Salaries spreadsheet for 2009-10 dated September 27, 2009 and the October 2009 payroll records. Although the spreadsheet includes an error in the formula for the Dublin independent study teachers' salaries and does not include salary increases for two staff members, the total 2009-10 budget for certificated salaries appears reasonable.

Due to facility limitations and charter enrollment restrictions, the teacher salaries reflect a shift in teaching positions by a decrease in independent study positions to an increase in classroom teaching positions in the projection years.

The charter school's MYP assumption worksheet submitted with the 2009-10 adopted budget includes an increase of one FTE in 2010-11 and three FTE in 2011-12 based on the projected increase in enrollment. These two projection years also include a 1% COLA. The MYP assumption worksheet does not include an amount for step and column increases. In addition, the Projected Salaries spreadsheet for 2010-11 does not include a step increase for the full-time independent study teachers. FCMAT recommends that the charter school include the annual costs for step and column increases for certificated staff on the MYP assumption worksheet and not include a COLA until it is approved by the governing board.

Non-Certificated Salaries – FCMAT reviewed the charter school's Projected Salaries spreadsheet for 2009-10 dated September 27, 2009 and the October 2009 payroll records. The total 2009-10 budget for non-certificated salaries appears reasonable.

The charter school's MYP assumption worksheet submitted with the 2009-10 adopted budget does not include any changes in classified salaries in 2010-11 but includes a COLA of 1% in 2011-12. Because the charter school's classified salary schedule does not include an automatic step increase, no cost is included in the charter's MYFP. The Projected Budget spreadsheets dated September 14, 2009, include a 3% COLA per year beginning in 2011-12. It is recommended that the MYFP not include a COLA for non-certificated salaries until it is approved by the governing board.

The charter school's budget spreadsheets include the following new positions in the projection years:

- 1 Facilities Manager – Newark
- 2 Arabic Enrichment Aides – Fremont
- 1 Accountant – Newark
- 1 Arabic Enrichment Aide – San Leandro
- Increased Hours for an Existing Aide – San Leandro

Employee Benefits – The charter school's MYP assumption worksheet submitted with the 2009-10 adopted budget includes a statutory benefit rate of 11.93% for certificated and 19.31% for classified personnel. These amounts are based on the following current year rates:

- STRS – 8.25%
- PERS – 9.428%
- OASDI – 6.20%

- Medicare – 1.45%
- SUI – 0.30%
- W/C – 1.93%

The charter school's Projected Salaries spreadsheet dated September 27, 2009 includes a PERS rate of 9.75%. However, the 2009-10 PERS contribution rate for employers is 9.709%. The school should make revisions to the budget based on the current year PERS rate and carefully monitor the estimated PERS employer rates, as they are projected to increase annually through 2013-14. As reported by SSC, the estimated PERS employer contribution rates are:

| | |
|---------|-------|
| 2010-11 | 10.2% |
| 2011-12 | 11.6% |
| 2012-13 | 13.7% |
| 2013-14 | 14.0% |

The charter school staff reported that they were able to negotiate a better rate for workers' compensation costs of 1.55% and have included the reduction in the draft first interim report.

The MYP assumption worksheet submitted with the 2009-10 adopted budget indicates that an increase for health and welfare benefits has not been included in the projection years. However, increases are included in the Multiyear Projection - Alternative Form. The charter school should ensure that the documents are consistent in the amounts reported.

The FAME Employee Handbook dated August 2009 states the following:

Currently, FAME contributes a set dollar amount to pay for premiums for medical coverage, and the employee must pay for any additional costs. FAME contributes the entire monthly premium payment for vision and dental insurance for the employee. However, FAME reviews all coverage periodically and employer contributions are subject to change based on budgetary considerations.

Based on the language above, the charter school should continue to work with its insurance providers to obtain an estimate of any proposed premium increases for the projection years and determine if increases for medical coverage, in addition to increases for dental and vision insurance, will be included in the MYFP prior to specific governing board approval for increased medical insurance contributions..

Books and Supplies – Based on the 2008-09 unaudited actuals report, the 2009-10 budget for books and supplies appears reasonable.

The charter school's MYP assumption worksheet submitted with the 2009-10 adopted budget reflects an increase of 1% in fiscal years 2010-11 and 2011-12. The charter school should use the annual consumer price index (CPI) as reflected on the most recent

SSC Financial Projection Dashboard to project expenditures for books and supplies. In addition, the school should make adjustments to this expenditure category based on the projected enrollment growth/decline in each fiscal year.

Services and Other Operating Expenditures – The charter school’s 2008-09 unaudited actuals report includes expenses of \$3.45 million in services and other operating expenditures. However, the 2009-10 draft first interim report includes a budget of \$2.95 million in this category. FCMAT’s review of the 2008-09 expenditures and the projected expenses for 2009-10 indicate that the budget needs to be increased by approximately \$280,000. While it appears that some savings will be realized compared to the 2008-09 unaudited actuals, including interest expense due to the payoff of all loans from individuals in 2008-09 and a reduction in consultant services due to the hiring of a chief operating officer, it does not appear that the charter’s current year budget for services and other operating expenditures is sufficient to cover all expenses.

The charter school’s 2009-10 budget includes a 3% oversight fee of \$231,108 payable to the county office of education as the authorizing agency. The memorandum of understanding (MOU) between the county office and the charter school dated August 23, 2005 states the following:

OVERSIGHT: As provided in Education Code Section 47605.5, for the first year of its operation, the School shall pay to the County Superintendent the actual expenses of oversight, monitoring and reporting in an amount not to exceed 2% of the general purpose block grant and categorical block grant revenues for oversight services.

In the second and each subsequent year of its operation, the School shall pay to the County Superintendent the actual expenses of oversight, monitoring and reporting in an amount not to exceed 3% of the general purpose block grant and categorical block grant revenues for oversight services.

Education Code Section 47605.6(c) states the following:

A county board of education that approves a petition for the operation of a countywide charter may, as a condition of charter approval, enter into an agreement with a third party, at the expense of the charter school, to oversee, monitor, and report to the county board of education on the operations of the charter school. The county board of education may prescribe the aspects of the charter school’s operations to be monitored by the third party and may prescribe appropriate requirements regarding the reporting of information concerning the operations of the charter school to the county board of education.

Charter school staff stated that their conversations with county office personnel indicate that a 3% oversight fee is being charged because FAME is a countywide charter and the county office is serving as the LEA for special education services. The charter school

should work with the county office to ensure the correct Education Code citation is included in the MOU. The charter school should also obtain a copy of the third party agreement between the county board of education and the county superintendent to include with its backup documentation for the oversight payments.

The charter school's MYP assumption worksheet submitted with the 2009-10 adopted budget indicates that no adjustments were made to this expenditure category in the projection years. FCMAT recommends that the school use the annual CPI as reflected on the most recent SSC Financial Dartboard. In addition, the school should make adjustments to this expenditure category based on the projected enrollment growth/decline in each fiscal year.

Capital Outlay – The charter school's 2009-10 draft first interim budget includes depreciation expense of \$145,481. While this amount appears reasonable based on the 2008-09 unaudited actuals report, FCMAT did not have access to the charter schools fixed asset depreciation schedule to validate this information.

The MYP assumption worksheet submitted with the 2009-10 adopted budget does not include any change in the capital outlay expense in the projection years. However, the charter school has reduced its budget in the MYFP to \$109,327 per year. The charter school should review its fixed asset depreciation schedule to ensure the projection year budgets are correct.

Adjustments/Restatements to Beginning Balance – The charter school's 2008-09 unaudited actuals report includes an adjustment to the beginning fund balance of \$323,732.76. Charter school staff indicated that this adjustment was based on the encroachment of special education. The charter school should reflect encroachment of special education, and any other restricted programs, in the contributions between unrestricted and restricted accounts line of the Alternative Form rather than as an adjustment to the beginning balance.

The 2008-09 annual independent audit depicts net ending assets of \$1,025,711, and the charter school's 2008-09 unaudited actuals report reflects a balance of \$928,503. However, the audit report does not include a reconciliation schedule that includes the specific line item adjustments. The charter school staff reported that they have reviewed the adjustments with the auditor and concur with the changes.

The charter school's spreadsheets for the draft first interim report and the projection year budgets is not in the same format as the Alternative Form used at budget adoption. The school should consider implementing a spreadsheet that includes the same object code categories as the Alternative Form, and included in the California School Accounting Manual. This change should help to make tracking revenue and expenditure projections between reporting periods more efficient. It would also be beneficial to include both unrestricted and restricted categories on the spreadsheets to help ensure that restricted dollars are tracked properly throughout the year.

The charter school staff has prepared a significant amount of information for the projection years regarding enrollment, general purpose block grant funding, and salary information. The charter school should also include a list of the specific budget assumptions used by fiscal year for each of the other revenue and expense categories and update the list of assumptions at each reporting period. This would provide staff a history of the changes in revenue, expense and the ending fund balance throughout the year and should help when reporting changes to the governing board and the public.

Recommendations

The charter school should:

1. Reduce its revenue budget based on the October 2009 CBEDS information and review its enrollment projections for subsequent years to ensure they are not overstated.
2. Adjust the 2009-10 budget to reflect the one-time reduction of \$252.83 per prior year ADA once rather than twice. Ensure that this one-time reduction is not included on an ongoing basis in the multiyear financial projections.
3. Adjust the current year budget to reflect the one-time revenue reduction of \$344,358 as indicated by the CDE, instead of \$364,922.
4. Reduce its 2009-10 revenue budget to account for the \$153,366 in SFSF and ARRA funds that have been allocated to date, and wait for funding information from the CDE and the SELPA before including additional dollars in the revenue budget.
5. Adjust the 2009-10 budget spreadsheet to reflect SFSF, ARRA, Title II, Title III and any other funds received from federal sources in a separate line item for federal revenue.
6. Adjust its 2009-10 budget to reflect the award amount posted by CDE for the Charter School Facility Grant Program.
7. Adjust its 2009-10 budget to reflect the funding amount provided by the SELPA once the amount has been verified.
8. Review the latest funding information for categorical programs available from the CDE to ensure the most current estimates are included in the 2009-10 budget, and ensure that the estimated funding for Tier II and Tier III categorical programs is reduced by 4.46% in 2009-10.
9. Work with the county office to obtain backup documentation for each funding source.
10. Use the statutory COLA included on the SSC Financial Dashboard to project increases in for the categorical block grant and other state categorical funding in each projection year budget.
11. Include the projected annual costs for step and column increases for certificated staff in its MYFP and on the MYP assumption worksheet.
12. Not include a COLA for certificated and non-certificated staff members in the MYFP until it is approved by the governing board.

13. Revise its PERS employer contribution rate to 9.709% for the 2009-10 budget and include the estimated increased PERS employer rates in the projection year budgets.
14. Ensure that the information reflected on the MYP assumption worksheet is consistent with the information included on the Multiyear Projection - Alternative Form.
15. Determine if increases for medical coverage, in addition to increases for dental and vision insurance, should be included in the MYFP prior to specific action by the governing board to increase contributions for medical coverage.
16. Use the annual CPI as reflected on the most recent SSC Financial Dartboard when projecting expenditures for books and supplies and make adjustments to this expenditure category based on the projected enrollment growth/decline in each fiscal year.
17. Review the current budget for services and other operating expenses and determine if it needs to be increased.
18. Work with county office personnel to ensure the correct Education Code citation regarding oversight fees is included in the MOU and obtain a copy of the third-party agreement between the county board of education and the county superintendent for oversight fees.
19. Use the annual CPI as reflected on the most recent SSC Financial Dartboard to project expenditures for services and other operating expenses, and make adjustments to this expenditure category as needed based on the projected enrollment growth/decline in each fiscal year.
20. Review its fixed asset depreciation schedule to ensure the projection year budgets for depreciation are correct.
21. Reflect encroachment of special education, and any other restricted programs, in the contributions between unrestricted and restricted accounts line of the Alternative Form used for reporting the unaudited actuals rather than as an adjustment to the beginning balance.
22. Request that the 2008-09 annual independent audit report include a reconciliation schedule that includes each adjustment to the ending balance.
23. Consider implementing budget spreadsheets that include the same object code categories as the Alternative Form, and include unrestricted and restricted resource categories on the spreadsheets.
24. Include a list of the specific budget assumptions used for the MYFP for each revenue and expense category and update the list of assumptions at each reporting period.

Cash Flow Projections

The purpose of a cash flow statement is to project the timing of receipts and expenses so that an organization can understand its monthly or even daily cash needs. The cash flow statement reflects the charter’s liquidity and ability to meet its current payroll and other required financial obligations. As an analytical tool, the cash flow analysis should not be confused with the charter school’s budget and fund balance; it excludes transactions that do not directly affect cash receipts and payments.

Any forecast of financial data for cash flow purposes has inherent limitations, including issues such as unanticipated changes in enrollment trends and changing economic conditions at the state, federal and local levels. Therefore, the cash flow forecasting model should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. Multiyear cash flow projections help provide for more informed decision making and the ability to forecast the fiscal impact of current decisions. The cash flow projections should be updated each month to accurately account for all revenues, expenditures and other changes related to cash.

The July 2009 state budget revisions included SBX4 16, which changed the statutory apportionment schedules for local education agencies and pushes state funding to later in the fiscal year. In addition, several additional cash deferrals were enacted with the July budget revisions, making cash flow for local education agencies an even larger challenge than in previous years and making it imperative to place emphasis on cash flow analysis.

**Apportionment & Cash Payment Schedules
2009-10**

| Month | Apportionment | Cash Payment |
|------------------------|---------------|---------------|
| July | 5.0% | 1.0% |
| August | 5.0% | 0.0% |
| September | 9.0% | 9.0% |
| October | 9.0% | 14.0% |
| November | 9.0% | 4.5% |
| December | 9.0% | 13.0% |
| January | 9.0% | 13.5% |
| February | 9.0% | 0.5% |
| March | 9.0% | 9.0% |
| April | 9.0% | 6.0% |
| May | 9.0% | 4.5% |
| June | 9.0% | 0.0% |
| Subsequent Year | | |
| July | | 17.5% |
| August | | 7.5% |
| Total | 100.0% | 100.0% |

Charter school staff indicated that the cash flow statement is updated each month and that updates are presented monthly at a governing board meeting. Board meeting minutes indicate that these presentations began at the April 14, 2009 meeting. The June 18, 2009 board meeting minutes indicate that a fiscal policies manual was approved. The manual includes Policy 2100.1, Financial Accounting and Reporting, and 2300.1, Budget Policy, which require that a cash flow statement be provided to the governing board monthly.

During FCMAT's fieldwork, charter school staff provided a copy of the 2009-10 cash flow statement that contained actual monthly data through August 2009. An updated copy of the cash flow statement provided to FCMAT following fieldwork contained actual data through October 2009. The 2009-10 beginning cash balance on the cash flow statement is \$1,941,441. This does not match the charter school's unaudited actual and audited cash balance of \$1,995,062.45, which includes cash in county treasury, cash on hand, and cash in banks (object codes 9110 and 9120). Discussions with charter school staff indicated that the monthly cash balance is taken from the reconciled bank statements rather than from object codes 9110 and 9120 on the monthly trial balance. The charter school should discuss this issue with their independent auditors to determine what source should be used to report the ending monthly cash balance.

The charter school's most recent cash flow projection for 2009-10 includes actual receipts and expenditures through the month of October. However, the statement does not include a column for current year accruals and does not include a total column that balances back to the current working budget. The cash flow spreadsheet should be updated to include these columns to help ensure that the budgeted amounts for each category are reflected appropriately on the cash flow statement. In addition, it appears that formulas are not used on the spreadsheet which requires the user to calculate the monthly projections manually.

The current year cash flow statement includes line items to account for prior year accounts receivable; however, it does not include line items to account for prior year payables. The charter school should include a line item for prior year accounts payable on its cash flow spreadsheet to ensure that all items that affect cash are reflected on the monthly statement.

A review of the general purpose block grant line item indicates that the monthly apportionment is deposited to the charter school's bank account during the month after it is received by the county office. Charter school staff indicated that the funds are deposited the same day the check is received from the county office. The charter school should review the timing of these receipts with the county office and determine if, based on the processing capabilities of the county treasurer's financial system, it is possible to receive the apportionment in the month the funds are received by the county office.

The October cash flow statement also reflects that in-lieu property taxes have not been received in the months of July-October. In addition, the projection months do not include the receipt of property taxes. Education Code section 47635(b) states that the sponsoring local educational agency must transfer the in-lieu of property tax funds to the charter school by the 15th of each month and specifies the transfer schedule. The charter school should review this schedule and work with the affected school districts to ensure that funds are received per the schedule indicated in the Education Code.

The current year cash flow statement includes a line item for net payments to employees and includes a line item for taxes/withholdings that appears to include amounts withheld from employee wages and amounts paid by the employer for some of the statutory benefits. The charter school should include gross wages paid to employees under the 1000 and 2000 (certificated and classified salaries) object codes and report the benefits paid by the charter school on behalf of its employees in the 3000 object codes (employee benefits).

The charter school's current year cash flow statement includes a separate line item for each individual object code in the 4000 (books and supplies) and 5000 (services and other operating expenses) major object code series. This appears to add a level of detail to the cash flow statement that is not necessary and requires a significant amount of additional work by the staff member who updates the statement. The charter school should consider eliminating the individual lines items for these object codes and report one line item for books and supplies and one line item for services and other operating expenses.

On July 9, 2008 the charter school obtained a revenue anticipation note (RAN) from Wells Fargo Institutional Securities, LLC of \$2 million that matured on September 1, 2009 and was repaid by the charter school in August 2009. The \$2 million repayment is included on the 2009-10 cash flow statement. On April 28, 2009 the charter school obtained a RAN from Wells Fargo Institutional Securities, LLC of \$1.575 million that matures on September 1, 2010.

Although the charter school's 2009-10 cash flow statement does not reflect a negative cash balance in any month, it does include additional borrowing of \$1.3 million in June 2010 to end the year with a positive cash balance.

The 2010-11 Cash Flow Projection spreadsheet prepared by the charter school does not include a column for current year and prior year accruals, and the total column for each line item does not balance to either the MYFP that was presented at budget adoption or the Projected Budget spreadsheets dated September 14, 2009. The charter school should ensure that the revenue and expense included in the cash flow statement balance to the current working budget and MYFP for each fiscal year.

The 2010-11 cash flow statement does not reflect a negative ending balance in any month. However, it does include an additional borrowing of \$1 million in July as well as the

repayment of the April 2009 RAN of \$1.575 million. In addition, it does not yet include the cash deferrals for the months of February, April and May as indicated in Education Code section 14041.6.

Recommendations

The charter school should:

1. Continue to monitor its current year and subsequent year cash flow at least monthly.
2. Contact its independent external auditors and determine what source should be used to report the monthly ending cash balance.
3. Update the current year and projection year cash flow statements to include a column for current year and prior year accruals, ensure that the total column for each line item balances to the budget for that respective year, and include formulas to calculate the projection months.
4. Include a line item for prior year accounts payable on its cash flow statement to ensure that all items that affect cash are reflected.
5. Work with the county office to determine, given the capabilities of the county treasurer's finance system, if the general purpose block grant funds can be forwarded to the charter school in the same month they are received by the county office.
6. Review the funding schedule for in-lieu property taxes included in Education Code section 47635(b) and work with the affected school districts to ensure that funds are received as specified by the Education Code.
7. Include the gross wages paid to employees under the 1000 and 2000 (certificated and classified salaries) object codes and report the benefits paid by the charter school on behalf of its employees in the 3000 (employee benefits) object codes on its cash flow statement.
8. Consider eliminating the individual lines items for the 4000 and 5000 object codes on the current year cash flow statement. Instead, use one line item for books and supplies and one line item for services and other operating expenses.
9. Include cash deferrals as reflected in Education Code section 14041.6 in the 2010-11 cash flow projection.

Appendices

Appendix A – School Services of California Dartboard – 2009-10 Final Budget Version and 2010-11 Governor’s Budget Proposal

Appendix B – Study Agreement

Appendix A

**2009 SSC School District and County Office Financial Projection Dashboard
ABX4 1 Budget Version (Updated September 14, 2009)**

This version of SSC’s Financial Projection Dashboard is based on the 2009-10 ABX4 1 State Budget revision. We have updated the COLA, CPI, and ten-year T-bill factors per the latest economic forecasts, and this resulted in changes to virtually every factor for 2008-09 and thereafter. We rely on various state agencies and outside sources in developing these factors, but we assume responsibility for them with the understanding that they are, at best, general guidelines.

| Factor | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|--|----------|-------------------|--------------------|--------------------|----------|----------|
| Statutory COLA (use for K-12 and COE Revenue Limits) | 5.66% | 4.25% | 0.50% ¹ | 2.30% ¹ | 2.50% | 3.00% |
| Revenue Limit Deficits: | | | | | | |
| Eliminates COLA | .94643 | .90785 | .90785 | .90785 | .90785 | .90785 |
| Further RL Cut | .97372 | .89932 | .89932 | .89932 | .89932 | .89932 |
| Total Deficit % | 7.844% | 18.355% | 18.355% | 18.355% | 18.355% | 18.355% |
| Net Revenue Limit Change: K-12 | -2.63% | -7.64% | 0.50% | 2.30% | 2.50% | 3.00% |
| Revenue Limit Deficits—COEs: | | | | | | |
| Eliminates COLA | .94643 | .90785 | .90785 | .90785 | .90785 | .90785 |
| Further RL Cut | .97377 | .89639 | .89639 | .89639 | .89639 | .89639 |
| Total Deficit % | 7.839% | 18.621% | 18.621% | 18.621% | 18.621% | 18.621% |
| Net Revenue Limit Change: COEs | -2.62% | -7.95% | 0.50% | 2.30% | 2.50% | 3.00% |
| Other Revenue Limit Adjustments ² | – | -\$252.83 per ADA | – | – | – | – |
| Special Education COLA (on state and local share only) | 0.00% | 0.00% | 0.50% | 2.30% | 2.50% | 3.00% |
| State Categorical Funding (including adult education and ROC/P) ³ | | | | | | |
| Tier I | 0.00% | 0.00% | 0.50% | 2.30% | 2.50% | 3.00% |
| Tier II | -15.38% | -4.46% | 0.50% | 2.30% | 2.50% | 3.00% |
| Tier III | -15.38% | -4.46% | 0.50% | 2.30% | 2.50% | 3.00% |
| California CPI | 1.20% | 0.50% | 1.90% | 2.20% | 2.70% | 3.00% |
| California Lottery ⁴ | | | | | | |
| Base | \$109.50 | \$111.00 | \$111.00 | \$111.50 | \$111.50 | \$111.50 |
| Proposition 20 | \$11.50 | \$13.25 | \$13.25 | \$13.50 | \$13.50 | \$13.50 |
| Interest Rate for Ten-Year Treasuries | 3.10% | 3.60% | 4.10% | 4.40% | 4.70% | 4.90% |

| ESTIMATED STATEWIDE AVERAGE BASE REVENUE LIMITS PER ADA “UNDEFICITED” | | | |
|---|------------|-------------|---------|
| Year | Elementary | High School | Unified |
| 2008-09 Statewide Average (est.) | \$5,882 | \$7,069 | \$6,150 |
| 2009-10 Inflation Increase @ 4.25% COLA | \$250 | \$300 | \$261 |
| 2009-10 Statewide Average (est.) | \$6,132 | \$7,369 | \$6,411 |

| 2009-10 BUDGET ACT ESTIMATED CHARTER SCHOOL RATES | | | | |
|--|---------|---------|---------|---------|
| | K-3 | 4-6 | 7-8 | 9-12 |
| General Purpose Block Grant (will change at each apportionment) ² | \$4,778 | \$4,855 | \$5,003 | \$5,845 |
| Categorical Block Grant (est.) ⁵ | \$401 | \$401 | \$401 | \$401 |
| Total | \$5,179 | \$5,256 | \$5,404 | \$6,246 |

¹ While a positive statutory COLA is projected for 2010-11, the state’s ability to fund it is suspect. Districts should have a contingency plan should the state decide not to fund this COLA percentage.

² The 2009 Budget Revision did not include the 11.428% deficit for 2008-09, which was proposed in the May Revision. Instead, the Budget Revision requires school district, COEs, and charter schools to reduce revenue limits by \$252.83 per ADA on a one-time basis in 2009-10. The charter school general purpose rates displayed above include this one-time reduction.

³ The categorical cut percentages are based on the amount of cuts from prior-year funding.

⁴ The forecast for Lottery funding per ADA includes both base (unrestricted) funding and the amount restricted by Proposition 20 (2009) for instructional materials.

⁵ The Charter School Categorical Block Grant rates do not include Economic Impact Aid funding, which is provided separately.



2010 SSC School District and County Office Financial Projection Dartboard Governor's 2010-11 Budget Proposal

This version of SSC's Financial Projection Dartboard is based on the Governor's 2010-11 State Budget proposal. We have updated the COLA, CPI, and ten-year T-bill factors per the latest economic forecasts, and this resulted in changes to virtually every factor for 2009-10 and thereafter. We rely on various state agencies and outside sources in developing these factors, but we assume responsibility for them with the understanding that they are, at best, general guidelines.

| Factor | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|--|-----------------------------------|--|---|---|---|---|
| Statutory COLA (use for K-12 and COE Revenue Limits) | 4.25% | -0.38% | 1.80% ¹ | 2.40% | 2.80% | 3.10% |
| Revenue Limit Deficits: | | | | | | |
| Eliminates COLA | .90785 | .90785 | .90785 | .90785 | .90785 | .90785 |
| Further RL Cut | .89932 | .89932 | .89932 | .89932 | .89932 | .89932 |
| Total Deficit % | 18.355% | 18.355% | 18.355% | 18.355% | 18.355% | 18.355% |
| Net Revenue Limit Change: K-12 | -7.64% | -0.38% | 1.80% | 2.40% | 2.80% | 3.10% |
| Revenue Limit Deficits—COEs: | | | | | | |
| Eliminates COLA | .90785 | .90785 | .90785 | .90785 | .90785 | .90785 |
| Further RL Cut | .89639 | .89639 | .89639 | .89639 | .89639 | .89639 |
| Total Deficit % | 18.621% | 18.621% | 18.621% | 18.621% | 18.621% | 18.621% |
| Net Revenue Limit Change: COEs | -7.95% | -0.38% | 1.80% | 2.40% | 2.80% | 3.10% |
| Other Revenue Limit Adjustments | -\$252.83 ² per ADA | -\$191 Elem ³ -\$231 High ³ -\$201 Unified ³ per ADA | -\$191 Elem -\$231 High -\$201 Unified per ADA | -\$191 Elem -\$231 High -\$201 Unified per ADA | -\$191 Elem -\$231 High -\$201 Unified per ADA | -\$191 Elem -\$231 High -\$201 Unified per ADA |
| Special Education COLA (on state and local share only) | 0.00% | -0.38% | 1.80% | 2.40% | 2.80% | 3.10% |
| State Categorical Funding (including adult education and ROC/P) ⁴ | | | | | | |
| Tier I | 0.00% | N/A ⁴ | 1.80% | 2.40% | 2.80% | 3.10% |
| Tier II | -4.46% | -0.38% | 1.80% | 2.40% | 2.80% | 3.10% |
| Tier III | -4.46% | -0.38% | 1.80% | 2.40% | 2.80% | 3.10% |
| California CPI | 0.80% | 2.00% | 2.60% | 2.90% | 3.20% | 3.40% |
| California Lottery | | | | | | |
| Base | \$110.00 | \$110.00 | \$110.00 | \$110.00 | \$110.00 | \$110.00 |
| Proposition 20 | \$13.00 | \$13.00 | \$13.00 | \$13.00 | \$13.00 | \$13.00 |
| Interest Rate for Ten-Year Treasuries | 3.50% | 3.90% | 4.30% | 4.70% | 5.00% | 5.20% |

ESTIMATED STATEWIDE AVERAGE BASE REVENUE LIMITS PER ADA "UNDEFICITED"

| Year | Elementary | High School | Unified |
|--|------------|-------------|---------|
| 2009-10 Statewide Average (est.) | \$6,132 | \$7,369 | \$6,411 |
| 2010-11 Inflation Increase @ -0.38% COLA | -\$23 | -\$28 | -\$24 |
| 2010-11 Statewide Average (est.) | \$6,109 | \$7,341 | \$6,387 |

2010-11 BUDGET ACT ESTIMATED CHARTER SCHOOL RATES

| | K-3 | 4-6 | 7-8 | 9-12 |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| General Purpose Block Grant (will change at each apportionment) | \$4,983 -\$191 ³ | \$5,058 -\$191 ³ | \$5,203 -\$191 ³ | \$6,040 -\$231 ³ |
| Categorical Block Grant (est.) ⁵ | \$399 | \$399 | \$399 | \$399 |
| Total | \$5,191 | \$5,266 | \$5,411 | \$6,208 |

¹ While a positive statutory COLA is projected for 2011-12, the state's ability to fund it is suspect. Districts should have a contingency plan if the state decides not to fund this COLA percentage.

² The 2009 Budget Revision did not include the 11.428% deficit for 2008-09, which was proposed in the May Revision. Instead, the Budget Revision requires school districts, COEs, and charter schools to reduce revenue limits by \$252.83 per ADA on a one-time basis in 2009-10.

³ The Governor's Budget proposes an ongoing revenue limit adjustment of \$191 for elementary, \$231 for high school, and \$201 for unified revenue limits tied to reductions to school district administration, and contracting out. \$45 million reduction to COEs to be determined.

⁴ The categorical cut percentages are based on the amount of cuts from prior-year funding. In 2010-11, Tier I programs have various funding rates.

⁵ The Charter School Categorical Block Grant rates do not include Economic Impact Aid funding, which is provided separately.



Appendix B



FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
July 27, 2009

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Fame Public Charter School, hereinafter referred to as the Charter, mutually agree as follows:

1. BASIS OF AGREEMENT

The Team provides a variety of services to school districts, county offices of education, charter schools, and community colleges upon request. Senate Bill 430 (2005) and Education Code 42127.8 (d) (1) established the ability of a charter school to request management assistance services by the Team. The Charter has requested that the Team provide for the assignment of professionals to study specific aspects of the Fame Public Charter School 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) Review the Charter's 2009-10 general fund budget, multiyear financial projections for 2010-11 through 2013-14, and cash flow projections for 2009-10 and 2010-11 for the purpose of validating the assumptions used by the Charter to develop the data.

The Team will provide recommendations for changes, as necessary. Completion of the scope of work by the Team is contingent on the ability of the Charter to deliver all supporting documentation within the requested timeline.

B. Services and Products to be Provided

- 1) Orientation Meeting - The Team will conduct an orientation session at the Charter to brief Charter 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 Charter office to gather documentation and conduct interviews. The Team will request assistance from the Charter in setting up interview schedules with staff and compiling the requested documentation.
- 3) Progress Reports - The Team will hold an exit meeting at the conclusion of the on-site reviews to inform the Charter 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 electronically to the Charter administration for review and comment.
- 6) Final Report – An electronic version of the final report will be delivered to the Charter following completion of the review. Up to 15 hardcopies of the final report will be provided to the Charter, if requested.
- 7) Follow-Up Support – Six months after the completion of the study, FCMAT will return to the Charter, if requested, to confirm the Charter’s progress in implementing the recommendations included in the report, at no cost. Status of the recommendations will be documented to the Charter in a FCMAT Management Letter.

3. PROJECT PERSONNEL

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

- A. ***Diane Branham, FCMAT Fiscal Intervention Specialist***
- B. ***Jim Cerreta, FCMAT Fiscal Intervention Specialist***
- C. ***Margaret Rosales, 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 \$15,500. The Charter 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 Charter.

- 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 CHARTER

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

- B. The Charter 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 Charter Administration will receive an electronic draft copy of the preliminary report for review. Any comments from the Charter regarding the accuracy of the data presented in the report will be reviewed by the Team prior to completion of the final report.

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

6. PROJECT SCHEDULE

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

| | |
|--------------------------------------|---------------------------------------|
| <i>Orientation:</i> | <i>September 28, 2009</i> |
| <i>Staff Interviews:</i> | <i>September 28 – October 1, 2009</i> |
| <i>Exit Interview:</i> | <i>October 1, 2009</i> |
| <i>Preliminary Report Submitted:</i> | <i>to be determined</i> |
| <i>Final Report Submitted:</i> | <i>to be determined</i> |
| <i>Board Presentation:</i> | <i>to be determined</i> |
| <i>Follow-Up Support:</i> | <i>If requested</i> |

7. CONTACT PERSON

Please print name of contact person: Maram Alaiwat, Chief Executive Officer

Telephone 916 847-6481 FAX

Internet Address basischarter@aol.com

 Maram Alaiwat, Chief Executive Officer Date
 Fame Public Charter School

Barbara Dean

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