FCMAT
FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Hamilton Union Elementary School District

Fiscal Review

March 24, 2008

Joel D. Montero
Chief Executive Officer

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

March 24, 2007

Hector Gonzalez, Superintendent
Hamilton Union Elementary School District
277 Capay Street
Hamilton City, CA 95951

Dear Superintendent Gonzalez:

In May 2007 the Hamilton Union Elementary School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to provide a fiscal review of the district and a multiyear financial projection. Specifically, the agreement states that FCMAT will perform the following:

1. Prepare a multiyear financial projection of the district's general fund using FCMAT's Budget Explorer to identify the financial condition of the district's general fund in 2007-08 and 2008-09 using identified industry variables. The projection will be based on revenue and expenditure trends of recent years as well as enrollment projections, identified district assumptions, and the impact of scenarios that may be considered in upcoming negotiation sessions.

The attached final report contains the study team's findings and recommendations. We appreciate the opportunity to serve you and we extend our thanks to all the staff of the Hamilton Union Elementary School District.

Sincerely,

Joel D Montero
Chief Executive Officer

FCMAT
Joel D. Montero, Chief Executive Officer
1300 17th 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
Administrative Agent: Larry E. Reider - Office of Kern County Superintendent of Schools

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Foreword

FCMAT Background

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

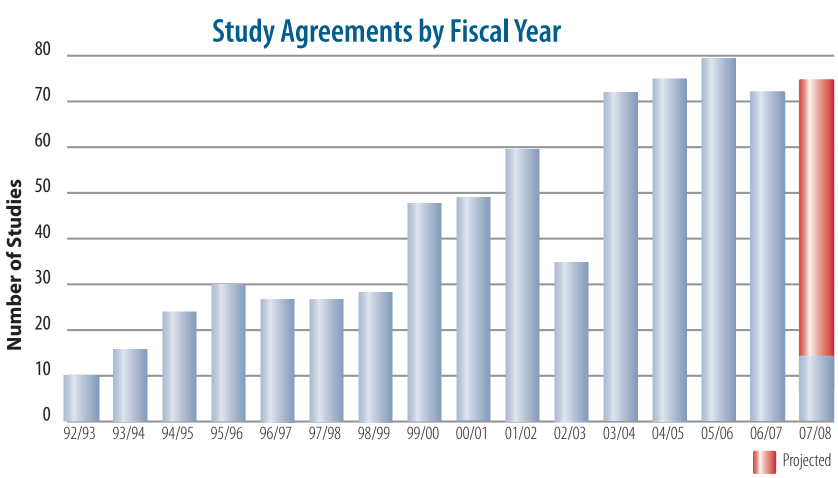
AB 1200 was established from a need to ensure that local educational agencies throughout California were adequately prepared to meet and sustain their financial obligations. AB 1200 is also a statewide plan for county offices of education and school districts to work together on a local level to improve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

Since 1992, FCMAT has been engaged to perform more than 600 reviews for local educational agencies, including school districts, county offices of education, charter schools and community colleges. Services range from fiscal crisis intervention to management review and assistance. FCMAT also provides professional development training. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The agency is guided under the leadership of Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Total Number of Studies.................... 667
Total Number of Districts in CA.......... 982

Management Assistance	631	(94.6%)
Fiscal Crisis/Emergency	36	(5.4%)

Note: Some districts had multiple studies.
Seven Districts have received emergency loans from the state.
(Rev. 10/10/07)



Introduction

Background

The Hamilton Union Elementary School District is located in Hamilton City in Glenn County. The district was established in 1919 and consists of a single kindergarten through eighth grade school with an enrollment of 466 students. The district operates one alternative program, a community day school, which served four students in grades 4-6 in 2006-07. The Glenn County Office of Education also provides special education services for approximately 21 of the district's students.

The district's enrollment has declined by 18 students, or 3.7%, since 2005-06. The district is projecting a slight increase of six students for 2008-09, which is considered static in terms of growth. More than half of California school districts are declining in enrollment. The district's situation is not unique; however, given the projected enrollment, decisions must be made concerning the use of funds to maintain programs and compensation.

In April 2007, the Fiscal Crisis and Management Assistance Team received a request from the district for management assistance. FCMAT and the district subsequently entered into an agreement for a fiscal review. The study agreement specifies that FCMAT will perform the following:

1. Prepare a multiyear financial projection of the district's general fund using FCMAT's Budget Explorer to identify the financial condition of the district's general fund in 2007-08 and 2008-09 using identified industry variables. The projection will be based on revenue and expenditure trends of recent years as well as enrollment projections, identified district assumptions, and the impact of scenarios that may be considered in upcoming negotiation sessions.

Study Guidelines

FCMAT visited the district on May 24 and 25, 2007 and in October 2007 to conduct interviews, collect data, review documents, recompute financial data and develop budget projections for 2007-08 and 2008-09. This report is the result of those activities and is divided into the following sections:

I. Executive Summary

II. Multiyear Financial Projection

III. Position Control

IV. Year-End Functions

V. Other Post-Employement Benefits (OPEB)

VI. Appendix

Study Team

The study team was comprised of the following members:

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

Diane Branham
Fiscal Intervention Specialist
FCMAT
Bakersfield, California

John Lotze
Public Information Specialist
FCMAT
Bakersfield, California

Executive Summary

The Hamilton Union Elementary School District has experienced a decline in enrollment over the past two years. The district had an increase in enrollment in 2005-06. However, the decline in student enrollment subsequent to 2005-06 is a statewide issue affecting more than 52% of California school districts. Maintaining academic programs is a top priority for the district along with continuing to provide competitive compensation to staff. In addition to declining enrollment, the state of California and the nation as a whole are experiencing an economic downturn, and the effect on educational agencies for the current and subsequent year is still unknown.

Hamilton Union Elementary School District is the largest elementary district in Glenn County. CBEDS data indicates that from 2005-06 to 2007-08 the district has declined by 18 students, or 3.7% of total enrollment.

Assembly bills 1200 and 2756 require districts to meet specific criteria and certify that they will meet financial obligations for the current and two subsequent fiscal years. The district has maintained a positive certification of its budget, and a review of the district's finances indicates that the district *will* be able to meet its required 4% reserve through 2008-09 based on projected revenues and expenditures. When developing and implementing the multiyear financial projection, the district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance.

Table 1: Multiyear Financial Projection Summary, General Fund Unrestricted Resources Only

Description	Base Year 2006-07	Year 1 2007-08	Year 2 2008-09
Total Revenues	$2,906,838	$2,930,898	$2,852,848
Total Expenditures	2,494,273	2,635,072	2,649,003
Excess (Deficiency)	412,565	295,826	203,845
Total Other Sources/Uses	-259,766	-198,383	-232,766
Net Increase/Decrease	152,799	97,443	-28,921
Beginning Balance	285,725	340,995	438,439
Restatements	-97,529	0	0
Ending Balance	340,995	438,439	409,517
4% Reserve	134,043	137,133	136,676
Revolving	1,550	1,550	1,550
Other Designated	58,576	102,646	120,694
Undesignated/Unappropriated	$146,826	$197,109	$150,597
Negative Shortfall			

Rounding used in all calculations

FCMAT has projected the district's revenues and expenditures for the 2007-08 and 2008-09 fiscal years and included these in the multiyear financial projection. However, since most California school districts spend between 85% to 91% of their unrestricted general fund budget on salaries and benefits, the opportunities to decrease expenditures when enrollment declines are limited. The percentage of the district's general fund unrestricted budget that is projected to be expended for salaries and benefits in 2006-07, 2007-08 and 2008-09 is 89%, 85% and 87%, respectively. Thus resources available for other operating costs are 11%, 15% and 13%, respectively, excluding the district's required reserve for economic uncertainties.

FCMAT identified a restatement of the district's 2006-07 beginning fund balance based on the 2005-06 closing. The entry is to restate the health and welfare benefits for the certificated instructional employees, which was reduced below zero in the 2005-06 fiscal year prior to closing books. The district's negotiations with the teachers' union are currently at impasse and it is critical that, prior to any settlement agreement, the financial records reflect the accurate district expenses for the 2005-06 fiscal year. A settlement without the appropriate and accurate amounts restated for the prior year will affect the district negatively in the current and future fiscal years.

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

1. In the next couple of years, the district will be required by the Governmental Accounting Standards Board (GASB) Statement 45 to recognize the unfunded liability associated with the obligation to provide retiree health benefits for active and retired employees. GASB 45 does not require funding, but does require recognition. The district will be required to identify the other post-employment benefits liability in its financial statements in 2009-10. However, the district should not wait to address the issue and will need to develop a plan to fund the current liability for OPEB. These benefits for current and retired employees are currently funded on a pay-as-you-go basis; increased contributions may be needed to fund the liability.
2. The state of California's current economic status, including the loss of revenue and the fiscal emergency declared by the Governor in January 2008, increases the fiscal challenge.
3. Declining enrollment is occurring in large, medium, and small districts throughout the state. There is no single cause for this; rather, there is usually a combination of factors that vary from district to district. These factors include the following:

    Reduced birthrates

    Cost of housing

    Surrounding growth areas

    Migration to other parts of the state or out of state

    Available land for new housing

Depressed housing market

Charter schools

Economic conditions

Employment opportunities

The California Department of Finance projects that California's K-12 population will continue to decline through 2010 but return to the current level by 2013, followed by high growth through 2025.

Many school agencies have contracted with outside firms to conduct a demographic study which will assist with enrollment projections. The district has not used a demographic firm to provide information regarding student enrollment to help ensure the accuracy of enrollment projections for budgeting purposes.

Declining enrollment has a severe effect on district finances because districts find it difficult to offset ongoing expenses at a rate equal to the decrease in revenues caused by the loss of students. Because of the nature of fixed costs in school district budgets, revenues decrease faster than expenses can be reduced.

Findings and Recommendations

Multiyear Financial Projection

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

If a district is not able to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools must notify the governing board of the district and the Superintendent of Public Instruction (SPI). The county office must follow Education Code 42127.6 when assisting a school district in this situation. Assistance may include assigning a fiscal expert to advise the district on financial issues, conducting a study of the district's financial and budgetary conditions, and requiring the district to submit a proposal for addressing its fiscal condition. In the case of a district that does not meet its required reserve levels, the intent of the MYFP is to assist the county and the district in formulating a plan for the district to regain fiscal solvency and restore the required ending fund balance.

Public school districts receive funding from a variety of local, state and federal sources. Some funds are for specific purposes, such as special education and home-to-school transportation, while most of the funds are used to support the district's general operating expenses. The complex state revenue limit funding calculation provides for funding per average daily attendance (ADA) using a combination of local property taxes and state taxes.

The district's salary negotiations for 2006-07 and the current year are ongoing and have not been settled with the bargaining units. The MYFP projects salaries and benefits as 89% of the district's unrestricted general fund expenditure budget in 2006-07, 85% in 2007-08 and 87% in 2008-09. The MYFP maintains staffing in the projection years at the level of the 2006-07 unaudited actuals.

The district is not charging categorical programs the full allowable indirect cost rate. The district needs to consider charging the full indirect cost rate to recapture allowable costs according to program guidelines and to reflect the true cost of each program. The MYFP does not include a charge for indirect cost for all restricted programs because the district has decided not to charge indirect costs on all programs to help ensure that the funds are used for students' needs.

Multiyear Forecast Method and Assumptions

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

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

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

FCMAT reviewed the district's records, interviewed staff members and examined financial reports to gather the information needed for the multiyear financial projection. The initial review included a summary assessment of the district's 2005-06 unaudited actuals, 2006-07 second interim budget, 2006-07 estimated actuals budget, and 2006-07 unaudited actuals. The review also included a fiscal analysis of the projected revenues, expenditures, transfers and components of the ending fund balance for the general fund. FCMAT's multiyear analysis uses the district's 2006-07 unaudited actuals dated December 18, 2007 as the baseline for the MYFP. FCMAT reviewed the district's 2006-07 unaudited actuals and multiyear financial projections for the two subsequent years.

FCMAT budget assumptions depict conservative economic factors and estimates as addressed in the 2007-08 state budget and the 2008-09 Governor's Budget Proposal as outlined by School Services of California (SSC) in its current Financial Dartboard. FCMAT's MYFP does not include any salary increases or increases in the district's contribution toward health and welfare benefits in 2006-07 or in two subsequent years because those costs are considered during the local collective bargaining process. The average cost of step and column movement for all contracted salaries and the associated cost of employer-paid statutory benefits are included in the projection years, 2007-08 and 2008-09.

General Fund

2006-07 Unrestricted Projected Ending Balances

There are differences between the unaudited 2006-07 ending balance determined by the district as of December 18, 2007 and the ending balance determined by FCMAT, as shown in Table 2.

Table 2: Comparison of District and FCMAT 2006-07 Ending Balance

Unrestricted General Fund	Object Code	District Unaudited Actuals	FCMAT Base Year	Difference
Fund Balance				
Beginning Fund Balance (as of July 1 - Unaudited)	9791	285,725.10	285,725.10	-
Audit Adjustments	9793	-	-	-
Other Restatements	9795	-	(97,529.25)	(97,529.25)
Adjusted Beginning Fund Balance		285,725.10	188,195.85	(97,529.25)
*Ending Fund Balance		438,524.39	340,995.14	(97,529.25)
*The ending fund balance has not been reduced for the required reserve and board-approved designations.				

Table 3 accounts for a difference of ($97,529) between the district's and FCMAT's unrestricted ending balance. This difference is specifically related to the health and welfare costs for certificated instructional employees which were eliminated from the unrestricted expenditure account, object code 3401, during the 2005-06 closing process. Actual expenditures (warrants written to a vendor) were initially recognized in 2005-06 in the amount of $278,578. However, the final reports from the Quintessential School System (QSS), the financial system used by the district, indicate a recognition of $175,409.75 for health and welfare benefits. The total difference is $103,168.25, including both restricted and unrestricted resources. FCMAT is showing the unrestricted portion of the unaudited actuals as a restatement in the MYFP and is not including a restatement for the restricted portion of the unaudited actuals. The unrestricted portion accounts for a decrease of $97,529.25 in the ending fund balance. The district should also review the difference associated with the restricted portion of the ending balance because it may affect funds granted to the district and the reporting to the granting agencies. This issue appears to have occurred as the result of closing a prior year liability to the health and welfare accounts.

Table 3: Detail of the Unrestricted Difference of ($97,529)

Resource-Function	Vendor Statement	Balance as of June 30, 2006*	Difference	Subtotal Unrestricted Resources
0000-1000	99,900.00	(857.00)	100,757.00	
0000-2700 0000-7150	17,843.00	20,731.00	(2,888.00)	
1300-1000	119,765.00	120,104.75	(339.75)	97,529.25
2430-1000	15,170.00	12,998.00	2,172.00	
3150-1000	25,900.00	22,433.00	3,467.00	
Totals	278,578.00	175,409.75	103,168.25	

**FAR 300 Report*

FCMAT has focused attention on the unrestricted portion of the district's general fund budget, including the impact of general fund contributions to the No Child Left Behind (NCLB) Schoolwide Program, transportation, and the restricted maintenance account required for the ongoing and major maintenance program (3% of total general fund expenditures). FCMAT's projection expended the district's restricted ending fund balance where appropriate in the future years and transferred funds, using both restricted and unrestricted funds if necessary. FCMAT maximized the use of restricted funds to the extent possible; however, this may also reduce amounts available for specific programs. If the district does not use these flexibility options, the unrestricted ending balance will be lower as a result of additional contributions to the categorical programs.

The following MYFP prepared by FCMAT identifies the district's projected revenues, expenditures and changes in fund balance for the unrestricted general fund in 2006-07 and two subsequent fiscal years. FCMAT's MYFP is based on the latest information from the governor regarding the 2008-09 budget and uses the SSC Financial Dartboard, including the projected increases for COLA, deficits and consumer price index (CPI) for the 2007-08 and 2008-09 fiscal years.

Multi-Year Financial Projections — Unrestricted Resources

Table 4: FCMAT MYFP, General Fund Unrestricted Resources

Name	Object Code	Base Year 2006 - 07	Year 1 2007 - 08	Year 2 2008 - 09
Revenues				
Revenue Limit Sources	8010 - 8099	$2,501,885.84	$2,578,793.06	$2,514,095.59
Federal Revenues	8100 - 8299	$2,808.77	$2,808.77	$0.00
Other State Revenues	8300 - 8599	$349,607.94	$296,695.35	$284,559.02
Other Local Revenues	8600 - 8799	$52,535.05	$52,600.68	$54,193.22
Total Revenues		$2,906,837.60	$2,930,897.86	$2,852,847.83
Expenditures				
Certificated Salaries	1000 - 1999	$1,367,952.88	$1,402,151.70	$1,437,205.49
Classified Salaries	2000 - 2999	$210,089.72	$213,241.07	$216,439.69
Employee Benefits	3000 - 3999	$632,717.00	$638,588.25	$644,593.11
Books and Supplies	4000 - 4999	$40,402.21	$41,590.84	$42,765.04
Services and Other Operating Expenditures	5000 - 5999	$196,844.89	$202,943.98	$208,521.81
Capital Outlay	6000 - 6900	($2,523.00)	$42,000.00	$0.00
Other Outgo	7000 - 7299	$48,956.00	$109,386.00	$113,386.00
Direct Support/Indirect Cost	7300 - 7399	($5,059.57)	($14,830.22)	($13,907.80)
Debt Service	7430 - 7439	$4,892.34	$0.00	$0.00
Total Expenditures		$2,494,272.47	$2,635,071.62	$2,649,003.34
Excess (Deficiency) of Revenues Over Expenditures		$412,565.13	$295,826.24	$203,844.49
Other Financing Sources\Uses				
Interfund Transfers In	8910 - 8929	$5,089.57	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$63,967.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($200,888.41)	($198,382.84)	($232,766.03)
Total Other Financing Sources\Uses		($259,765.84)	($198,382.84)	($232,766.03)
Net Increase (Decrease) in Fund Balance		$152,799.29	$97,443.40	($28,921.54)
Fund Balance				
Beginning Fund Balance (as of July 1 – Unaudited)	9791	$285,725.10	$340,995.14	$438,438.54
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	($97,529.25)	$0.00	$0.00
Adjusted Beginning Fund Balance		$188,195.85	$340,995.14	$438,438.54
Ending Fund Balance		$340,995.14	$438,438.54	$409,517.00
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Revolving Cash	9711	$1,550.00	$1,550.00	$1,550.00
Stores	9712	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		4.00%	4.00%	4.00%
Designated for Economic Uncertainties	9770	$134,042.98	$137,132.68	$136,675.85
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Designated	9780	$58,575.85	$102,646.37	$120,694.35
Undesignated/Unappropriated	9790	$146,826.31	$197,109.49	$150,596.80
Negative Shortfall	9790	$0.00	$0.00	$0.00

The MYFP used the following rules for 2007-08 and 2008-09, based on the School Services Dartboard, dated January 11, 2008.

Table 5: FCMAT MYFP rules

Multiyear Projection Rules	Year 1 2007-08	Year 2 2008-09
Certificated Step/Column %	2.50%	2.50%
Classified Step %	1.50%	1.50%
CPI (SSC)	3.20%	2.70%
Lottery - Restricted	$22.00	$22.50
Lottery - Unrestricted	$121.00	$121.00
Interest (SSC)	4.20%	4.10%
RL Deficit (SSC)	0.00%	6.99%
Special Education COLA (SSC)	4.53%	(6.50%)
State Categorical COLA (SSC)	4.53%	(6.50%)
Statutory COLA (SSC)	4.53%	4.94%
Health and Welfare Increase	0.00%	0.00%

It is important to note that the projected impact of the latest budget information does not include the impact on the county office of education's programs. The district participates in the county office special education program, including special education transportation. The county office will also be affected by the state's budget reductions, which could increase the excess costs billed to the district.

Enrollment and Average Daily Attendance

FCMAT's review of the district's enrollment and average daily attendance (ADA) trends for 2001-02 through 2006-07 compared the October CBEDS student enrollment count to the April period 2 (P-2) ADA data. FCMAT's multiyear projection indicates a decrease in ADA for 2007-08 and a slight increase for 2008-09. The projection uses historical CBEDS data, the county birthrate and the cohort survival method to project enrollment.

Table 6 illustrates historical enrollment trends as indicated in CBEDS and P-2 ADA data and includes FCMAT's projected CBEDS and ADA calculations.

Table 6: Historical and Projected Enrollment Trends

Enrollment & ADA

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08*	2008/09*
CBEDS	443	456	445	449	484	473	466	472
P-2 ADA	427.10	417.56	435.30	438.04	468.76	461.30	460.13	460.66
ADA/CBEDS %	96.4%	91.6%	97.8%	97.6%	96.8%	97.5%	98.7%	97.6%

Note: This table does not include special day class (SDC) enrollment and ADA.
* Indicates projected enrollment and ADA.

The district experienced a 7.8% increase in student enrollment in 2005-06. However, enrollment declined in 2006-07 and is projected to continue declining in 2007-08 based on actual enrollment for the 2007-08 school year. The largest funding source for the district is revenue limit funding, which is based on ADA. It is critical that the district project enrollment using accurate information that allows for a small margin of error, then use that information to develop the adopted budget and update it throughout the year. Most of the district's funding is based on P-2 ADA, but not all. Several other funding sources, including lottery and community day school, are based on annual attendance counts, so it is important to ensure that students attend school every day.

The district has a community day program with low enrollment. The enrollment needs to be monitored closely throughout the school year to determine funding and the potential effect on the unrestricted general fund.

The district has projected an ADA-to-enrollment ratio for 2007-08 that is higher than in previous years; if this enrollment level is not maintained, state aid could fall below the projected amount. The district will need to monitor the ADA projection for 2007-08.

Revenues

Revenue Limit Sources – FCMAT calculated the district's revenue limit for 2006-07 and 2007-08 using the state budget information from the July 2006 California School Finance and Management Conference, the 2007 California School Finance and Management Conference, and factors from the current 2008 SSC Financial Dartboard, updated January 2008. These factors include a statutory COLA of 4.53% for 2007-08 with an estimated 4.94% statutory COLA projection for 2008-09 with a deficit of 6.99%. Because enrollment was declining and the law allows the district to use the greater of the current or prior year ADA, the district was funded in 2006-07 using prior year ADA.

The proposed 2008 budget released by the governor on January 10, 2008 will affect the district's revenue limit funding in 2008-09. The effect of the 6.99% proposed deficit is included in the MYFP. The loss in revenue to the district is $187,482.80 in 2008-09 and will continue in future years until the deficit is eliminated by the state.

Federal Revenues – The district is budgeting a negligible amount in the unrestricted federal revenues in 2007-08 for forest reserve funds. FCMAT eliminated this budget item in 2008-09 based on elimination of this funding source in the federal budget.

Restricted federal revenues were adjusted based on the current allocation as reported by the California Department of Education (CDE) and prior year carryover. Some federal resources are projected to decline in future years, and a 3% decline was used for 2008-09.

State Revenues – FCMAT did not budget for mandated cost reimbursement claim funding in 2007-08 or 2008-09 because these revenues have not been included in the state's proposed budget. The district received $56,651 for mandated cost claims still subject to state audit in 2006-07. These are one-time dollars. The SSC Financial Dartboard was used for lottery rates in the current and two subsequent fiscal years.

Restricted state revenues were adjusted based on the current allocation as reported by the CDE and prior year carryover. All 2006-07 one-time restricted revenues were eliminated from the two subsequent years, and all other ongoing state revenues were increased by the COLA of 4.53% in 2007-08 and reduced by the estimated COLA of (6.5%) for 2008-09.

FCMAT did not reduce the 2007-08 state categorical funding at this time. State legislators have been called into a special session under Proposition 58 to address the state's fiscal emergency and the changes, if any, are not known at this time.

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

Expenditures

Certificated Salaries – The FCMAT multiyear projection includes the impact of a 2.0% ongoing cost of step and column movement for contracted salaries in the projection years and *no other adjustments* for salary enhancements because those are determined through local negotiations. FCMAT's MYFP maintains the 2006-07 level of certificated staffing.

There is an inherent increase in cost from year to year because of annual step and column changes.

Classified Salaries – FCMAT included the cost of step movement at 1.5% and included *no other adjustments* for salary enhancements because those are determined by local negotiations. FCMAT's MYFP maintains the 2006-07 level of classified staffing.

There is an inherent increase in cost from year to year because of annual step changes.

Employee Benefits – FCMAT increased statutory benefits in proportion to certificated and classified salary changes and made *no increase* to the current level of employer-paid health and welfare contributions in the projection years. The district has a cap on benefits of $11,100 per employee per year.

Books and Supplies – FCMAT adjusted the budget for materials and supplies using the CPI inflation factor from the SSC Financial Dartboard.

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

Capital Outlay – The budget was increased to $42,000 in 2007-08 for one-time equipment purchases.

Other Outgo – The budget was increased based on the estimated costs of county special education services.

Direct Support/Indirect Costs – An indirect cost rate of 4.09% was used for the NCLB Schoolwide Program, the English Language Acquisition Program, Arts & Music Block Grant, School Based Coordinated Program, California Peer Assistance, and School and Library Improvement Block Grant.

Other Financing Sources/Uses

Transfers In – FCMAT eliminated the 2006-07 one-time transfer of $5,089.57 in the projection years.

Transfers Out – FCMAT eliminated the 2006-07 one-time transfers of $42,888 to the special reserve fund and $21,079 to the cafeteria fund in the projection years.

The cafeteria fund has been deficit spending for a number of years and has required annual contributions from the general fund. The district has projected that the annual contributions will not be needed in 2007-08 or 2008-09. The district will need to closely monitor the cafeteria program to ensure it does not require continued contributions from the general fund.

Contributions to Restricted Programs - The district is projected to contribute to the following restricted resources in the current and projection years: NCLB Schoolwide Program, supplemental school counseling, home-to-school transportation, School-Based Coordinated Program, and the required 3% contribution to the ongoing and major maintenance program. FCMAT maximized the use of the School and Library Improvement Block Grant in 2008-09 by transferring out the allowable 15% to the School-Based Coordinated Program and the Professional Development Block Grant. FCMAT reviewed all programs that require contributions to ensure that the allowable restricted program transfers were used in the most efficient manner to reduce the amount required from the general fund unrestricted budget. If these transfer flexibility options are not used, the unrestricted ending balance will be reduced.

Net Increase/Decrease in Fund Balance - The difference in the 2006-07 budgeted unrestricted revenues and expenditures, taking into account the contributions to restricted programs, is $152,799. This leaves a projected ending fund balance of $438,524 before the recommended restatement of $97,529. After the restatement, but prior to the statutory reserves, the adjusted ending fund balance is $340,995. The district's required 4% reserve for economic uncertainties is $134,042.

Reserve Level – The FCMAT projection indicates that the district *will* be able to meet the 4% minimum required reserve level in the current and projection years.

Table 7: Projected Reserve Level

Unrestricted General Fund	2006/07	2007/08	2008/09
Projected Ending Balance (before reserves and designations)	$340,995	$438,439	$409,517
Projected 4%Required Reserve	$134,043	$137,133	$136,676

Other Designated Reserves – The following additional items have been reserved in the unrestricted general fund balance:

Table 8: Unrestricted Designations

Title	2007-08	2008-09
Scholarship	15,933.45	15,933.45
Summer School	2,286.26	2,286.26
Lottery	50,143.66	68,305.64
1% Increase for Economic Uncertainty (Total of 5% per Board discussion)	34,283.00	34,169.00
Total	102,646.00	120,694.00

The district's governing board has verbally indicated a desire to maintain a 5% reserve for economic uncertainties; however, no formal policy has been established to require this reserve level. The district needs to establish a board policy to ensure that the desired 5% reserve is maintained.

Budget Monitoring

The budget should reflect the district's goals and objectives that are developed annually and approved by the governing board. There needs to be a process of checks and balances regarding the budget and the budget assumptions. In a district of less than 5,000 ADA, this may occur between the district's chief business official (CBO) and the superintendent. While the numbers show the results, the assumptions used to develop the numbers can be better identified and validated through communication and joint discussion.

The district's CBO/business manager is the sole support for the superintendent regarding financial information. The district is currently at impasse in negotiations with both the certificated and classified bargaining units. However, the CBO has not been involved in meetings that address how the district's current or projected financial condition may affect negotiations or in the portions of closed session meetings when negotiations are discussed. The CBO is responsible for determining the district's financial condition and the impact of negotiations on the district's budget in the current and subsequent years. Thus, without the CBO's involvement it is difficult to determine what financial projections are needed for negotiations. The CBO needs to be included in all discussions of financial issues, including those related to negotiations.

The education code states that amounts budgeted in each major object category shall be the maximum amount that can be expended under each classification. Budgets should be monitored during the fiscal year to ensure that appropriations are not overspent and that revenues received and expenditures made are the same as expected. If revisions need to be made, they are subject to board approval. Budgets should be reviewed and updated monthly at both the resource and object levels to ensure that the district knows its projected fund balance at any given time. As in most districts, budget transfers are needed throughout the fiscal year. It is important that budget transfers be completed monthly so that the financial system will remain up to date and can be relied upon when making financial decisions.

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

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

District staff members have not received regularly scheduled training regarding accounting, auditing, financial systems and other aspects of fiscal operations. The district should work with the county office and/or other outside organizations to provide the training needed in these areas.

Position Control

Because California elementary school districts spend an average of approximately 90% of their unrestricted budget on employee salaries and benefits, accurately projecting these costs is one of the most important elements in effective budgeting. A sound position control system with effective internal controls is crucial to this task.

A reliable position control system establishes positions by site or department and helps prevent overstaffing by ensuring that staffing levels conform to district-approved formulas and standards. To be effective, the position control system must be integrated with other financial modules such as budget and payroll. Position control functions must be separated to ensure proper internal controls. The controls must ensure that only board-authorized positions are entered into the system, that human resources hires only employees authorized by the board, and that payroll staff pay only employees hired for authorized positions. The proper separation of duties is a key factor in creating strong internal controls and a reliable position control system.

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

Table 9: Suggested Distribution of Labor for Position Control

Task	Responsibility
Approve or authorize position	Governing board
Input approved position into position control, with estimated salary/budget. Each position is given a unique number.	Business department
Enter demographic data into the main demographic screen, including: Employee name Employee address Social Security number Credential Classification Salary schedule placement Annual review of employee assignments	Personnel department
Update employee benefits Review and update employee work calendars Annually review and update salary schedules	Business department
Account codes Budget development Budget projections Multiyear projections Salary projections	Business department

The rollover of position control data from the current fiscal year to the budget year provides a starting point for developing the district's budget and needs to be completed early in the cycle. Position control files for the budget year need to then be updated to eliminate positions, add new approved positions, make changes in statutory and health and welfare benefit rates, and make any other adjustments that will affect salaries and benefits for the budget year. A fully functioning position control system helps districts maintain accurate budget projections, employee demographic data and salary and benefit information. An effective system will be fully integrated with the payroll and budget modules and will be used to update the budget at each reporting period.

The district uses the Quintessential School System (QSS) financial software, which includes a position control module; however, the district is not using this module. The district should request information from the Glenn County Office of Education (county office) regarding the steps needed to implement the position control module. An integrated position control system would allow the district to coordinate in a single system the functions of payroll, budgeting, hiring and monitoring staffing levels. This would reduce the time staff spend maintaining and processing data and improve the district's ability to monitor and project salary and benefit costs.

Year-End Functions

A review of the 2006-07 unaudited actuals CAT form indicated that transfers were made under the NCLB regulations. However, upon further inquiry, FCMAT found that the transfers were conducted under the Schoolwide program. It is important to distinguish the difference between the type of transfer (NCLB versus the Schoolwide programs) because there are additional notification and percentage thresholds that must be followed for compliance under NCLB. The contributions are within the NCLB programs, but not into the Schoolwide program from the NCLB programs.

It is important for the district to review all transactions before an approval is entered into the QSS financial system to help ensure that transactions are being posted accurately to the district's financial system.

Other Post-Employment Benefits (OPEB)

In the next couple of years, the district will face a challenge regarding OPEB. Specifically, the district will be required to recognize the unfunded liability associated with the obligation to provide retiree health benefits for active and retired employees. Recognizing this obligation is a new requirement under accounting standards issued by the Governmental Accounting Standards Board (GASB). The new standard provides an opportunity for the district to establish a practice of funding the currently unfunded liability. This is difficult to accomplish when a plan is not identified and implemented, particularly when enrollment is declining.

Increased funds may be needed to pay the other post-employment benefits (OPEB) (health and welfare benefits) for current and retired employees. These are currently funded on a pay-as-you-go basis.

The district will be required to identify the OPEB liability in its financial statements in 2009-10; however, the district should not wait until that time to address the issue. GASB 45 does not require funding, but does require recognition. An absence of funding for the liability will negatively affect the district when it seeks to obtain any outside financing or sell bonds. The effect on cash flow must also be considered when meeting the annual retiree benefits obligation.

Recommendations

The district should:

1. Consider charging the full indirect cost rate allowed to all categorical programs to maximize unrestricted resources and show the true cost of each program.
2. Consider using all of the categorical program flexibility options to minimize contributions from the unrestricted general fund.
3. Consider hiring a demographic firm to provide student enrollment projections.
4. Continue to monitor the cafeteria program to ensure it does not require contributions from the general fund.
5. Establish a board policy to ensure that the 5% reserve discussed and desired by the board is maintained.
6. Include the CBO in all discussions regarding financial issues, including those related to negotiations. The CBO and superintendent should meet at least monthly to discuss revenue and expenditure allocations and projections.
7. Perform budget monitoring by resource and object codes monthly, not only for submission to the board but for the transfers that have been entered into the financial system and not approved monthly.
8. Work with the county office and/or outside organizations to provide training for district staff in the areas of accounting and fiscal operations.
9. Encumber all expenditures in the financial system, including salary and benefit amounts if the software provides this capability.
10. Work with the county office to implement the position control module of the QSS financial system. Once the position control system is implemented, the district should keep it current at all times and fully integrate the system with the budgeting, personnel and payroll functions. The system should also be used to upload salary and benefit information for each reporting period.
11. Review all financial transactions and data in the QSS financial system and all Standardized Account Code System (SACS) fund forms and supplemental forms before submitting data to the CDE.
14. Work with the county office to establish written procedures detailing the roles and responsibilities of each organization with regard to budget transfers and journal entries for all accounts.
15. Contract with an actuarial firm or work with the county office to identify the district's obligation for OPEB as required by GASB 45.

Appendices

Appendix A
MYFP Data

Unrestricted Resources

Restricted Resources

Combined Resources

Appendix B
Study Agreement

Appendix A

MYFP Data

Unrestricted Resources

Name	Object Code	Base Year 2006 - 07	Year 1 2007 - 08	Year 2 2008 - 09
Revenues				
Revenue Limit Sources	8010 - 8099	$2,501,885.84	$2,578,793.06	$2,514,095.59
Federal Revenues	8100 - 8299	$2,808.77	$2,808.77	$0.00
Other State Revenues	8300 - 8599	$349,607.94	$296,695.35	$284,559.02
Other Local Revenues	8600 - 8799	$52,535.05	$52,600.68	$54,193.22
Total Revenues		$2,906,837.60	$2,930,897.86	$2,852,847.83
Expenditures				
Certificated Salaries	1000 - 1999	$1,367,952.88	$1,402,151.70	$1,437,205.49
Classified Salaries	2000 - 2999	$210,089.72	$213,241.07	$216,439.69
Employee Benefits	3000 - 3999	$632,717.00	$638,588.25	$644,593.11
Books and Supplies	4000 - 4999	$40,402.21	$41,590.84	$42,765.04
Services and Other Operating Expenditures	5000 - 5999	$196,844.89	$202,943.98	$208,521.81
Capital Outlay	6000 - 6900	($2,523.00)	$42,000.00	$0.00
Other Outgo	7000 - 7299	$48,956.00	$109,386.00	$113,386.00
Direct Support/Indirect Cost	7300 - 7399	($5,059.57)	($14,830.22)	($13,907.80)
Debt Service	7430 - 7439	$4,892.34	$0.00	$0.00
Total Expenditures		$2,494,272.47	$2,635,071.62	$2,649,003.34
Excess (Deficiency) of Revenues Over Expenditures		$412,565.13	$295,826.24	$203,844.49
Other Financing Sources\Uses				
Interfund Transfers In	8910 - 8929	$5,089.57	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$63,967.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($200,888.41)	($198,382.84)	($232,766.03)
Total Other Financing Sources\Uses		($259,765.84)	($198,382.84)	($232,766.03)
Net Increase (Decrease) in Fund Balance		$152,799.29	$97,443.40	($28,921.54)
Fund Balance				
Beginning Fund Balance (as of July 1 – Unaudited)	9791	$285,725.10	$340,995.14	$438,438.54
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	($97,529.25)	$0.00	$0.00
Adjusted Beginning Fund Balance		$188,195.85	$340,995.14	$438,438.54
Ending Fund Balance		$340,995.14	$438,438.54	$409,517.00
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Revolving Cash	9711	$1,550.00	$1,550.00	$1,550.00
Stores	9712	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		4.00%	4.00%	4.00%
Designated for Economic Uncertainties	9770	$134,042.98	$137,132.68	$136,675.85
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Designated	9780	$58,575.85	$102,646.37	$120,694.35
Undesignated/Unappropriated	9790	$146,826.31	$197,109.49	$150,596.80
Negative Shortfall	9790	$0.00	$0.00	$0.00

Restricted Resources

Name	Object Code	Base Year 2006 - 07	Year 1 2007 - 08	Year 2 2008 - 09
Revenues				
Revenue Limit Sources	8010 - 8099	$104,115.00	$99,320.17	$99,423.00
Federal Revenues	8100 - 8299	$220,283.98	$190,555.24	$174,560.31
Other State Revenues	8300 - 8599	$398,013.61	$314,003.42	$294,505.86
Other Local Revenues	8600 - 8799	$4,918.30	$5,009.40	$5,102.07
Total Revenues		$727,330.89	$608,888.23	$573,591.24
Expenditures				
Certificated Salaries	1000 - 1999	$223,443.18	$229,029.26	$234,754.99
Classified Salaries	2000 - 2999	$163,046.45	$165,492.14	$167,974.51
Employee Benefits	3000 - 3999	$131,117.22	$132,369.85	$133,648.21
Books and Supplies	4000 - 4999	$112,968.28	$125,982.69	$128,441.66
Services and Other Operating Expenditures	5000 - 5999	$49,468.48	$54,508.35	$55,847.69
Capital Outlay	6000 - 6900	$0.00	$37,627.76	$0.00
Other Outgo	7000 - 7299	$16,115.00	$15,113.00	$15,026.00
Direct Support/Indirect Cost	7300 - 7399	$5,059.57	$14,830.22	$13,907.80
Debt Service	7430 - 7439	$73,324.79	$0.00	$0.00
Total Expenditures		$774,542.97	$774,953.27	$749,600.86
Excess (Deficiency) of Revenues Over Expenditures		($47,212.08)	($166,065.04)	($176,009.62)
Other Financing Sources\Uses				
Interfund Transfers In	8910 - 8929	$30,323.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$18,292.00	$18,292.00	$18,292.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$200,888.41	$198,382.84	$232,766.03
Total Other Financing Sources\Uses		$212,919.41	$180,090.84	$214,474.03
Net Increase (Decrease) in Fund Balance		$165,707.33	$14,025.80	$38,464.41
Fund Balance				
Beginning Fund Balance (as of July 1 – Unaudited)	9791	$99,259.97	$264,967.30	$278,993.10
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$99,259.97	$264,967.30	$278,993.10
Ending Fund Balance		$264,967.30	$278,993.10	$317,457.51
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Revolving Cash	9711	$0.00	$0.00	$0.00
Stores	9712	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$264,967.30	$278,993.10	$317,457.51
Designated for Economic Uncertainties	9770	$0.00	$0.00	$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$0.00	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00

Combined Resources

Name	Object Code	Base Year 2006 - 07	Year 1 2007 - 08	Year 2 2008 - 09
Revenues				
Revenue Limit Sources	8010 - 8099	$2,606,000.84	$2,678,113.23	$2,613,518.59
Federal Revenues	8100 - 8299	$223,092.75	$193,364.01	$174,560.31
Other State Revenues	8300 - 8599	$747,621.55	$610,698.77	$579,064.88
Other Local Revenues	8600 - 8799	$57,453.35	$57,610.08	$59,295.29
Total Revenues		$3,634,168.49	$3,539,786.09	$3,426,439.07
Expenditures				
Certificated Salaries	1000 - 1999	$1,591,396.06	$1,631,180.96	$1,671,960.48
Classified Salaries	2000 - 2999	$373,136.17	$378,733.21	$384,414.20
Employee Benefits	3000 - 3999	$763,834.22	$770,958.10	$778,241.32
Books and Supplies	4000 - 4999	$153,370.49	$167,573.53	$171,206.70
Services and Other Operating Expenditures	5000 - 5999	$246,313.37	$257,452.33	$264,369.50
Capital Outlay	6000 - 6900	($2,523.00)	$79,627.76	$0.00
Other Outgo	7000 - 7299	$65,071.00	$124,499.00	$128,412.00
Direct Support/Indirect Cost	7300 - 7399	$0.00	$0.00	$0.00
Debt Service	7430 - 7439	$78,217.13	$0.00	$0.00
Total Expenditures		$3,268,815.44	$3,410,024.89	$3,398,604.20
Excess (Deficiency) of Revenues Over Expenditures		$365,353.05	$129,761.20	$27,834.87
Other Financing Sources\Uses				
Interfund Transfers In	8910 - 8929	$35,412.57	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$82,259.00	$18,292.00	$18,292.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00
Total Other Financing Sources\Uses		($46,846.43)	($18,292.00)	($18,292.00)
Net Increase (Decrease) in Fund Balance		$318,506.62	$111,469.20	$9,542.87
Fund Balance				
Beginning Fund Balance (as of July 1 – Unaudited)	9791	$384,985.07	$605,962.44	$717,431.64
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	($97,529.25)	$0.00	$0.00
Adjusted Beginning Fund Balance		$287,455.82	$605,962.44	$717,431.64
Ending Fund Balance		$605,962.44	$717,431.64	$726,974.51
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Revolving Cash	9711	$1,550.00	$1,550.00	$1,550.00
Stores	9712	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$264,967.30	$278,993.10	$317,457.51
Economic Uncertainties Percentage		4.00%	4.00%	4.00%
Designated for Economic Uncertainties	9770	$134,042.98	$137,132.68	$136,675.85
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Designated	9780	$58,575.85	$102,646.37	$120,694.35
Undesignated/Unappropriated	9790	$146,826.31	$197,109.49	$150,596.80
Negative Shortfall	9790	$0.00	$0.00	$0.00

Appendix B

Study Agreement

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
May 7, 2007

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Hamilton Union 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 Hamilton Union 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 using FCMAT's Budget Explorer to identify the financial condition of the District's general fund in 2007-08 and 2008-09 using identified industry variables. The projection will be based on revenue and expenditure trends of recent years as well as enrollment projections, identified District assumptions, and the impact of scenarios that may be considered in upcoming negotiation sessions.

B. Services and Products to be Provided

1) Orientation Meeting - The Team will conduct an orientation session at the District to brief District management and supervisory personnel on the procedures of the Team and on the purpose and schedule of the study.

2) On-site Review - The Team will conduct an on-site review at the District office and at school sites if necessary.

3) Progress Reports - The Team will hold an exit meeting at the conclusion of the on-site review to inform the District of significant findings and recommendations to that point.

4) Exit Letter - The Team will issue an exit letter approximately 10 days after the exit meeting detailing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.

5) Draft Reports - Sufficient copies of a preliminary draft report will be

delivered to the District administration for review and comment.

6) Final Report - Sufficient copies of the final study report will be delivered to the District following completion of the review.

3. PROJECT PERSONNEL

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

A. Michele Huntoon, FCMAT Chief Management Analyst
B. Diane Branham, FCMAT Fiscal Intervention Specialist

Other equally qualified consultants will be substituted in the event one of the above noted individuals is unable to participate in the study.

4. PROJECT COSTS

The cost for studies requested pursuant to E.C. 42127.8(d)(1) shall be:

A. $500.00 per day for each Team Member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings.

B. All out-of-pocket expenses, including travel, meals, lodging, etc. Based on the elements noted in section 2 A, the total cost of the study will not exceed $3,000. The District will be invoiced at actual costs, with 50% of the 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:	May 24, 2007
Staff Interviews:	May 24-25, 2007
Exit Interviews:	May 25, 2007
Preliminary Report Submitted:	July 6, 2007
Final Report Submitted:	To be Determined
Board Presentation:	To be Determined

7. CONTACT PERSON

Please print name of contact person: Cheryl Robbins, Chief Business Official

Telephone 530 826-3058, ext 227 FAX 530 826-0419

Internet Address crobbins@huesd.org

John Kissam 5-7-07

John Kissam, Superintendent Date
Hamilton Union Elementary School District

Barbara Dean May 7, 2007

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

In keeping with the provisions of AB1200, the County Superintendent will be notified of this agreement between the District and FCMAT and will receive a copy of the final report.

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

CSIS California School Information Services

Memo

FCMAT DOCUMENT CHECKLIST

FISCAL

- ☐ Second Interim 2006-07 SACS Dat. file (Electronic SACS data file) email to Study Team Leader, Michele Huntoon at mhuntoon@fcmat.org
- ☐ Financial system budget reports that correspond to amounts in 2006-07 Second Interim SACS Dat file
- ☐ June adoption budget(s), SACS document, all funds, including narrative for Board presentation for fiscal years 2001-02 through 2005-06 (June if single cycle budget district, September if dual adoption budget cycle budget district)
- ☐ First, Second and Third (if required) Interim reports, SACS documents, all funds, including narrative for Board Presentation for fiscal years 2001-02 through 2005-06
- ☐ Unaudited actuals SACS forms, including all schedules, for fiscal years 2001-02 through 2005-06
- ☐ Revenue limit worksheets, including all schedules, for fiscal years 2001-02 through 2005-06
- ☐ Independent audit reports for 2001-02 through 2005-06
- ☐ Long term debt schedule
- ☐ Any district 2006-07 multi year projections outside of the SACS multi year format (Excel for example)
- ☐ Any outside review or analysis or recommendations relative to the district's financial condition
- ☐ Information on supplemental revenue sources, such as forest reserves, impact aid, parcel taxes, foundations, redevelopment funds, General Obligation Bonds etc. for fiscal years 2001-02 through 2006-07
- ☐ 2005-06 and 2006-07 projected general fund cash flow statements

COLLECTIVE BARGAINNING

- ☐ Current salary proposals, both district and bargaining unit(s)
- ☐ AB1200 impact of salary settlement disclosure for all groups
- ☐ Salary schedules & Scatter gram, all employee groups
- ☐ Collective Bargaining Agreements, all employee groups

- ☐ Position Control spreadsheet, district wide summary by fund, identifying FTE, and formatted by unrestricted and restricted totals, if available
- ☐ District organizational chart, Departmental organizational charts

ENROLLMENT & ADA

- ☐ Historical & current enrollment, by grade level
- ☐ Enrollment projections for next five years
- ☐ Current Fiscal Year CBEDS, by grade level
- ☐ Staffing allocation formulas by fund, resource and grade level, if applicable, classified and certificated
- ☐ Data regarding inter & intra-district transfers
- ☐ Data regarding residential housing starts
- ☐ Current Student Generation Factor (SGF), if applicable

CHARTER SCHOOLS

- ☐ Historical & current enrollment, by grade level
- ☐ Enrollment projections for next five years (if available)
- ☐ Current Fiscal Year CBEDS, by grade level
- ☐ Current and Prior Year Audit Reports

RISK MANAGAMENT

- ☐ Actuarial Report for Health & Welfare Benefits, if required by GASB
- ☐ Actuarial Report for Workers Compensation, if required by GASB
- ☐ History of Health & Welfare Rates- Prior 6 years
- ☐ Copy of District Plan to address Retiree Benefits, if applicable
- ☐ Copy of Golden Handshake provisions including cost analysis, if applicable

FACILITIES

- ☐ Copy of Ballot Language for General Obligation Bonds
- ☐ Copy of COPs or other financing mechanisms for facilities funding
- ☐ Annual Developer Fee Justification Report
- ☐ Developer Fee Facilities Needs Analysis Report
- ☐ Facility Master Plan
- ☐ Facility Cash Flow – all Capital Projects Funds
- ☐ List of Surplus Property

All documents should be ready and available on May 24, with the exception of the Second Interim SACS file which should be forwarded electronically via email to Michele Huntoon.