FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Los Angeles County Office of Education

regarding the

Gorman Joint Elementary School District

Fiscal Review

December 6, 2007

Joel D. Montero
Chief Executive Officer

December 6, 2007

Kenneth Shelton, Assistant Superintendent, Business Services
Los Angeles County Office of Education
9300 Imperial Highway
Downey, CA 90242

Dear Assistant Superintendent Shelton:

In August 2007, the Fiscal Crisis and Management Assistance Team (FCMAT) and the Los Angeles County Office of Education entered into an agreement for a fiscal review of the Gorman Elementary School District. Specifically, the study agreement asked FCMAT to do the following:

1. Conduct a review of the district's 2007-08 adoption budget and incorporate the results into a multiyear financial projection of the general fund to assess the long-term and fiscal solvency of the district. The FCMAT Team will utilize the 2007-08 adoption budget as the baseline for this projection. This evaluation will include the fiscal impact of continued declining enrollment, the loss of charter school administrative fees and any other factors that could impact the long-term organizational and fiscal viability of the district.

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 Los Angeles County Office of Education and the Gorman Elementary School District.

Sincerely,

Joel D. Montero
Chief Executive Officer

c: Darline Robles, Superintendent, Los Angeles County Office of Education
Deborah Simons, Director, Division of Business Advisory Services, Los Angeles County Office of Education
Danny Villanueva, Assistant Director, Regionalized Business Services, Los Angeles County Office of Education
Sue Page, Superintendent/Principal, Gorman Joint Elementary School District

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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.

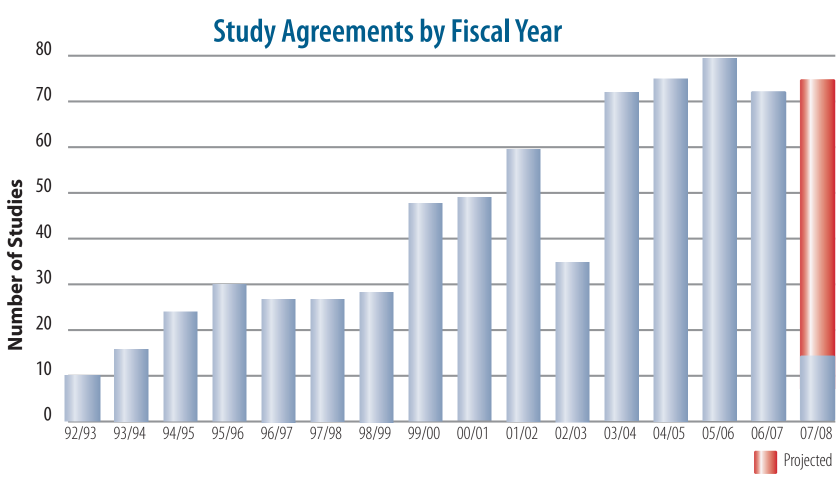
AB 1200 was established from a need to ensure that local educational agencies throughout California were adequately prepared to meet and sustain their financial obligations. AB 1200 is also a statewide plan for county offices of education and school districts to work together on a local level to improve 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

Located in Los Angeles County, with a portion of its attendance boundaries in Kern County, the Gorman Joint Elementary School District has a three member elected governing board and serves approximately 49 students in one K-8 school. The district is also the sponsoring agency for the Gorman Learning Center, a charter school that serves approximately 927 students in an independent study setting.

In July 2007 the Fiscal Crisis and Management Assistance Team (FCMAT) received a request for management assistance from the Los Angeles County Office of Education for the Gorman Joint Elementary School District. The study agreement specifies that FCMAT will perform the following:

1. Conduct a review of the district's 2007-08 adoption budget and incorporate the results into a multiyear financial projection of the general fund to assess the long-term and fiscal solvency of the district. The FCMAT team will utilize the 2007-08 adoption budget as the baseline for this projection. This evaluation will include the fiscal impact of continued declining enrollment, the loss of charter school administrative fees and any other factors that could impact the long-term organizational and fiscal viability of the district.

Study Guidelines

FCMAT visited the county office on August 21, 2007 and the district on August 24 and 30, 2007 to conduct interviews, collect data and review documentation. This report is the result of those activities and is divided into the following sections:

I. Executive Summary
II. Lack of Going Concern
III. Multiyear Financial Projection
IV. Lapsation
V. District Procedures
VI. Appendices

Study Team

The study team was composed of the following members:

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Executive Summary

The Los Angeles County Office of Education (county office) is at a critical juncture in assessing the fiscal solvency and long-term viability of the Gorman Joint Elementary School District (Gorman). Gorman is confronted by severe fiscal challenges that require difficult decisions to be made and implemented. The board, administration and community need to identify potential areas of expenditure reduction or revenue enhancement to eliminate deficit spending and sustain fiscal solvency. If this is not done, it is likely the district will require an emergency appropriation (state loan). This action would initiate a state takeover of the school district and precipitate the loss of local governance.

California Education Code Section 48300 establishes the guidelines for school districts of choice. Initially, the governing board of the district must have adopted a resolution stating their intent to be a school district of choice and thereby accept interdistrict transfer students under this section. Education Code Section 48301 sets out the guidelines for accepting students within this provision. All the students attending Gorman reside in other school districts. Although the district believes they are a district of choice, FCMAT was unable to verify this assumption either through board minutes or resolution. Given that the district is not formally established as a school district of choice and receives no ADA for students residing within the district, Gorman should consider, in conjunction with the county office, whether or not they can remain viable under Education Code Sections 35780-35785 regarding lapsation, particularly if the district is unable to balance its budget in fiscal years 2008-09 and 2009-10.

Lack of Going Concern

The term "lack of going concern," when applied to an agency, business or organization, means that the entity is not fiscally healthy and is unable to meet its current and/or future financial obligations.

The county office, under Education Code Section 42127, must continually assess the fiscal condition and viability of school districts. The adopted budget of a district is approved by the county office if it meets certain criteria and standards set by the state. Furthermore, the county office must establish that the district's budget will enable the district to meet their financial obligations not only for the current year but also for two subsequent years. Conditions in Gorman do not match the criteria established in EC 42127 and consequently qualify it as a district needing assistance from the county office and/or the state of California.

The Los Angeles County Superintendent of Schools *disapproved* the district's 2007-08 budget on July 17, 2007. Based on the district's current spending pattern and multiyear budget assumptions, the district *will not* meet the 5% required reserve level in 2008-09 and 2009-10 without a detailed plan to cease deficit spending and reduce expenditures and/or increase revenue by $56,859 in 2008-09 and an additional $382,378 in 2009-10. Deficit spending is projected to be $331,052 in 2007-08; $346,424 in 2008-09; and $382,378 in 2009-10.

The county office needs to examine relevant factors and determine whether or not the district is able to continue as a "going concern" and take action to assist Gorman with developing a fiscal recovery plan.

Multiyear Financial Projection

When developing and implementing a multiyear financial projection (MYFP), a district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. Gorman's goal of sustaining a balanced budget will be extremely challenging because of declining enrollment and its current spending projections.

FCMAT's MYFP shows that the district *will not* meet its 5% reserve requirement in the 2008-09 and 2009-10 fiscal years. FCMAT's MYFP for the general fund uses the 2007-08 state budget and the Financial Dartboard outlined by School Services of California (SSC). This projection *does not include any annual cost-of-living adjustments for employee salaries in the current or two subsequent fiscal years because these are determined at the local level.* The MYFP summary contained in Table 1 shows the fund balance below the required 5% reserve in 2008-09 and shows a negative balance in 2009-10.

Table 1: MYFP Summary

Multiyear Financial Projection Summary			
General Fund			
Unrestricted Resources Only			
	Base Year	Year 1	Year 2
Description	2007-08	2008-09	2009-10
Total Revenues	$462,849	$474,060	$468,478
Total Expenditures	753,848	760,268	790,197
Total Other Financing Sources/Uses	-40,053	-60,216	-60,659
Net Increase (Decrease) in Fund Balance	-331,052	-346,424	-382,378
Fund Balance:			
Beginning Balance	684,323	353,271	6,847
Total Ending Balance	353,271	6,847	-375,531
Components of Ending Fund Balance:			
Revolving Cash	500	500	500
Prepaid Expenditures	10,207	10,207	10,207
5% Reserve Requirement	53,000	53,000	53,000
Undesignated/Unappropriated	$289,564	$0	$0
Negative Shortfall	$0	-$56,859	-$439,237
Total Ending Balance %	36.4%	0.70%	-37.05%

Rounding is used in all calculations.

The district should develop and adopt a fiscal recovery plan for the current and two subsequent years that eliminates deficit spending and establishes the 5% reserve requirement. The plan should address the feasibility of charging categorical programs and other funds for the full allowable indirect cost rate and the use of federal, mega item and AB 825 block grant flexibility transfer options.

Operation as a District of Choice

FCMAT's enrollment projections are calculated based on the district continuing to operate as a school district of choice. However, FCMAT has not been able to validate that Gorman is a district of choice within the requirements of Education Code Section 48300. The recent legislation reauthorizing this program ends on June 30, 2009. If the reauthorization is not extended or the district is no longer able to operate as a school district of choice, enrollment will be greatly compromised.

Gorman's current level of enrollment, even if sustained, is not sufficient to maintain its current level of certificated and classified staffing.

Repayment of Funds Owed to Gorman Learning Center

FCMAT's MYFP does not include repayment of $1.7 million that the district may owe to the Gorman Learning Center, based on the March 2007 review completed by MGT of America, Inc. *If required*, repayment of these funds would severely affect the district's financial resources by further reducing its projected reserve in 2007-08 from 36.40% to -138.77%; in 2008-09 from 0.70% to -172.69%; and in 2009-10 from -37.05% to -204.79%. This constitutes a total unrestricted ending balance of negative $1,346,729 in 2007-08, negative $1,693,153 in 2008-09; and negative $2,075,531 in 2009-10.

In addition, part of the district's current cash balance includes liabilities of approximately $1.25 million that district staff indicate have been set up but not yet paid to the Gorman Learning Center for Special Education revenues and property taxes. Payment of this liability will reduce the district's cash balance by 44% based on the district's 2006-07 year end general fund cash balance of $2,832,888 as reported on the trial balance dated August 15, 2007. The district should monitor its cash balances closely to ensure that obligations can be met.

Health & Welfare Benefits

Gorman does not currently have a cap on health benefits. A cap on health and welfare benefits could represent a savings for the district and should be considered within the context of their negotiated agreements.

The district's Board Bylaw 9250, Remuneration, Reimbursement and Other Benefits, states, "Health and welfare benefits for Board members shall be no greater than that received by district's nonsafety employees with the most generous schedule of benefits. (Government Code 53208.5)." The bylaw goes on to state, "The district shall pay $______ as a reimbursement for costs of approved health plans that have been paid by the Board member." This bylaw needs to be updated to include the dollar amount that "the district shall pay as reimbursement for costs of approved health plans that have been paid by the board member" or reworded to include language stating that reimbursement may be no greater than the amount paid on behalf of the district's nonsafety employees. If a board member chooses to be reimbursed, proof of payment needs to accompany the reimbursement request.

Subsidizing of the Cafeteria Fund

The cafeteria fund is expected to continue to require a $25,000 annual contribution from the general fund. The district should perform an in-depth analysis of the cafeteria program to evaluate how it may become self-sustaining. The district should also consider the feasibility of charging indirect costs to the fund in order to reflect the true costs of the program.

Lapsation

Lapsation is the discontinuance or cessation of a school district if a district's average daily attendance has declined to a level below the minimum required by law (Education Code Sections 35780-35785). A proposal to lapse a district may also be brought forward to the Los Angeles County Committee on School District Organization by community members, the Gorman Board of Education, the Los Angeles County Board of Supervisors or by the County Committee itself (Education Code Sections 35720-35721).

As of September 14, 2007, the district had an enrollment of 49 students, *none* of whom reside within the district's attendance boundaries. The district reported that two students live within the Gorman boundaries but are attending a neighboring school district. If Gorman is unable to balance its budget in 2008-09 and 2009-10, Gorman should, in conjunction with the county office, evaluate the option of lapsation of the district.

District Procedures

To provide for proper internal controls, related duties should be segregated among more than one staff member. No single employee should handle a transaction from initiation to reconciliation and no single employee should have custody of an asset (such as cash or inventory) and maintain the records of related transactions. The district should revise its procedures to ensure that internal controls are in place for all areas of responsibility.

Note:
On November 13, 2007, Gorman's governing board rescinded the revocation of the Antelope Valley Desert Montessori Charter School, subject to receiving specified information within 30 days. As of November 27, 2007, the charter school has not responded to the request for information. If Gorman becomes the sponsor for the charter school, the district would receive approximately $14,000 per year in oversight fees based on a reported enrollment of 234 students. This revenue is not included in FCMAT's projections as the status is unknown as this time.

Findings and Recommendations

Assembly Bill 1200, enacted in 1991, provided additional authority and responsibility to county offices of education. Assembly Bill 2756 (Daucher) was passed in June 2004 and made substantial changes to the financial accountability and oversight processes used to monitor the fiscal condition of school districts and county offices of education. AB 2756 strengthened the role of the Superintendent of Public Instruction (SPI), the county office of education (COE) and the Fiscal Crisis and Management Assistance Team (FCMAT) and their ability to intervene during fiscal crises.

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 interim report certification, the county superintendent of schools must notify the governing board of the district and the 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.

Lack of Going Concern

The term "lack of going concern," when applied to an agency, business or organization, means that the entity is not fiscally healthy and is unable to meet its financial obligations. Education Code Section 42127.6 has often been referred to as the "lack of going concern" section and was recently amended to include the provisions of AB 2756, which are included in Appendix A.

The 15 most common predictors of a school district needing intervention, as referenced in AB 2756 and included in the recently amended Education Code Sections 42127 and 42127.6, are as follows:

1. Governance crisis.
2. Absence of communication to the education community.
3. Lack of interagency cooperation.
4. Failure to recognize year-to-year trends.
5. Flawed ADA projections.
6. Failure to maintain reserves.
7. Insufficient consideration of the effects of long-term bargaining agreements.
8. Flawed multiyear projections.
9. Inaccurate revenue and expenditure estimates.
10. Poor cash flow analysis and reconciliation.

11. Bargaining agreements beyond state COLA.
12. No integration of position control with payroll.
13. Limited access to timely personnel, payroll and budget control data and reports.
14. Escalating general fund encroachment by categorical programs.
15. Lack of regular monitoring of categorical programs.

Conditions in the Gorman Joint Elementary School District match *several* of these criteria for districts needing assistance from the county office and/or the state of California.

The Los Angeles County Office of Education *disapproved* the district's 2007-08 budget on July 17, 2007 and identified the following areas of concern:

- Reserve for economic uncertainties.
- Deficit spending.
- Average Daily Attendance (ADA) and Necessary Small School Funding.
- Potential impact from Gorman Learning Center charter school.
- Labor settlements.

The budget presented by Gorman Elementary showed deficit spending in the budget year and the two projection years. The budget also projected that the district would not be able to meet the required reserve for economic uncertainties in the 2008-09 and 2009-10 fiscal years and would have a negative ending balance in 2009-10.

Based on the current spending pattern and multiyear budget assumptions, the district *will not* meet the 5% required reserve level in 2008-09 and 2009-10 without a detailed fiscal recovery plan and related board actions to reduce expenditures and/or increase revenue and cease deficit spending. The board, administration and community will need to identify areas of reduction to sustain fiscal solvency. Otherwise, it is likely that the district will require an emergency appropriation and face the loss of local governance.

Several issues have contributed to the district's current budget situation. The district's enrollment has decreased from 159 students in 1998-99 to 49 students currently. Prior to the 2007-08 fiscal year, the district was the sponsoring agency for three charter schools: Gorman Learning Center, Lifeline Education and the Antelope Valley Desert Montessori charter school. However, a change in charter school regulations made the district unable to sponsor the Lifeline Education Charter School, and the district revoked the charter for Antelope Valley Desert Montessori charter school for the 2007-08 fiscal year. In addition, the Gorman Learning Center has experienced a significant decline in enrollment from 2169 students in 2005-06 to its present enrollment of 927. The decline in charter school enrollment has significantly reduced the amount of oversight fees the district receives, thereby significantly reducing the district's revenues.

The district has been and is projecting to continue deficit spending and is maintaining staffing levels beyond what the current budget can support.

The county office is at a critical juncture in assessing Gorman's financial solvency and long-term viability as a district. Based on the findings and recommendations of this report, the district's inability to sustain the required reserve levels in 2008-09 and 2009-10 and the district's current and projected deficit spending patterns, the county office needs to determine whether or not the district is able to continue as a "going concern."

Recommendations

The county office should:

1. Evaluate the findings and recommendations in this report and determine whether or not the district is able to continue as a "going concern."
2. Closely monitor the district's cash flow to ensure that the monthly cash balance is sufficient to meet financial obligations.

Multiyear Financial Projection

Multiyear financial projections (MYFPs) are required by AB 1200 and AB 2756 and are part of a district's budget and interim reports. They should be accurate, timely and contain the most current fiscal information available. MYFPs 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, a district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The MYFP helps identify specific planning milestones that will aid the district in making decisions.

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 to regain fiscal solvency and restore the required ending fund balance.

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

The district's 2007-08 adopted budget was disapproved by the Los Angeles County Office of Education on July 17, 2007. The budget presented by the district reflected deficit spending in the budget year and the two projection years. The budget also projected that the district would not be able to meet the required 5% reserve for economic uncertainties in the 2008-09 and 2009-10 fiscal years, and would have a negative ending balance in 2009-10.

The district has been deficit spending, and an available reserve of 65% in 2003-04 (as reflected in the 2005-06 independent audit report) has quickly eroded. The district's fiscal challenges include declining enrollment, low class sizes and a reduction in charter school enrollment and related oversight fees.

Prior to 2007-08, the district received Necessary Small School funding for three teachers based on an ADA of 48.50-72.49. However, when the ADA dropped below 48.50 the district continued to employ three classroom teachers even though funding was only provided for two. This practice has direct financial implications on the district's fiscal solvency. Considering a reduction in force to bring the district's staffing in line with ADA would save Gorman approximately $51,700 to $66,100 annually based on the current cost of salaries and benefits.

During the current school year (2007-08), the district has begun sharing two positions with the Gorman Learning Center: the administrative assistant and the special education coordinator. Although this provides a savings, the district's current enrollment of 49 students is not sufficient to maintain the current level of staffing. The MYFP projects salaries and benefits as 132% of the unrestricted revenue budget in 2007-08, 133% in 2008-09 and 139% in 2009-10. The district reported that the classified salary schedule was increased by 3% in 2006-07 and that the certificated salary schedule has not been increased since 2001-02.

Categorical programs and other funds are not being charged the full allowable indirect cost rate, and federal, mega-item and AB 825 block grant flexibility transfer options are not being used.

The district is not filing mandated cost claims annually. District staff indicated that many of the district's claims would be under $1,000 each and thus are not claimable.

The MYFP developed for this report shows that the district *will not* be able to maintain its required reserve of 5% in the two subsequent fiscal years without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending. The district is confronted by substantial fiscal challenges that require difficult decisions to be made and implemented. The board, administration and community need to identify potential areas of reduction to eliminate deficit spending and sustain fiscal solvency. If this is not done, it is likely that the district will need an emergency appropriation and will face the loss of local governance and decision-making authority.

Multiyear Forecast Assumptions

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

Certain limitations are inherent to any forecast of financial data. In the case of MYFPs for school districts, these limitations include issues such as unanticipated changes in 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 as a prediction of exact numbers.* A multiyear financial projection helps provide for more informed decisions 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 increasing salaries and benefits.

Evaluating a multiyear projection includes focusing much attention on the bottom line, which shows the district's undesignated, unappropriated fund balance. For example, if the bottom line shows a positive unappropriated fund balance, this amount may be used by the board and/or superintendent to improve educational programs, increase employee compensation or spend in other categories. However, if the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced to sustain the recommended reserve levels under AB 1200 guidelines. A MYFP 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 MYFP. The initial review included a summary assessment of the district's 2006-07 unaudited actuals and the 2007-08 adopted budget. The review also included a fiscal analysis of the projected revenues, expenditures, transfers and components of the ending fund balance for the general fund. FCMAT used the district's 2007-08 adopted budget as the baseline for the MYFP and reviewed the district's budget assumptions to validate the 2007-08 budget 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 outlined by School Services of California (SSC) in its current Financial Dartboard. FCMAT's MYFP *does not include any increases for salary in the current or projection years because those costs are considered at the local level.* 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.

General Fund

2007-08 Unrestricted Projected Ending Balances

Differences between the projected 2007-08 ending balance determined by the district in the adopted budget and the projected ending balance determined by FCMAT are shown in Table 2.

Table 2: Unrestricted Comparison

Gorman Joint Elementary School District				
2007-2008 Projected Budget				
Unrestricted		District	FCMAT	Increase/ Decrease
Revenues				
	Revenue Limit Sources	$395,612	$307,014	$(88,598)
	Federal Revenues	-	-	-
	State Revenues	23,314	23,712	398
	Local Revenues	86,800	132,123	45,323
	Total Revenues	505,726	462,849	(42,877)
Expenditures				
	Certificated Salaries	258,469	242,396	(16,073)
	Classified Salaries	166,516	165,687	(829)
	Employee Benefits	220,088	200,618	(19,470)
	Books/Supplies	14,392	14,392	-
	Services, Other Operating Expenses	83,575	130,755	47,180
	Capital Outlay	-	-	-
	Other Outgo	101,777	-	(101,777)
	Direct/Indirect Cost	-	-	-
	Total Expenditures	844,817	753,848	(90,969)
Other Financing Sources				
	Transfers Out	(31,007)	(31,007)	-
	Contributions	-	(9,046)	(9,046)
	Total Other Financing Sources	(31,007)	(40,053)	(9,046)
Net Increase (Decrease) in Fund Balance		(370,098)	(331,052)	
Beginning Balance		684,323	684,323	
Unrestricted - Ending Balance		$314,225	$353,271	$39,046

The following items account for an unrestricted difference of $39,046 between the district's and FCMAT's numbers:

Revenue

- Revenue limit resources were decreased by a total of $88,598. There was a projected increase of $13,179 based on the district's September 14, 2007 enrollment and the use of the base revenue limit funding rather than Necessary Small Schools Funding. There was a decrease of $101,777 because of an account code change which uses object 8096 rather than object 7280 for the transfer of property taxes to charter schools.
- State revenues were increased by $398 based on the current forecast for lottery revenue.
- Local revenue was increased by $45,323 based on the current memorandum of understanding with the Gorman Learning Center, which specifies 3% for oversight fees.

Expenditures

- Certificated salaries were reduced by $16,073 because the salaries attributed to class size reduction had been budgeted twice.
- Classified salaries were reduced by $829 because 90% of the administrative assistant's salary is paid by the Gorman Learning Center and because the chief business official's salary was restored to full time.
- Employee benefits were decreased by $19,470 to reflect the proper percentage for statutory benefits and the previously mentioned salary changes.
- Services were increased by $47,180 to include costs for election expenses; legal fees based on historical costs; possible legal fees associated with the Antelope Valley Desert Montessori Charter School appeal; and utilities based on 2006-07 costs plus the consumer price index (CPI).
- Other outgo was decreased by $101,777 because of the account code change associated with the transfer of charter school property taxes.
- Contributions to restricted resources were increased by $9,046 to account for a reduction in special education revenue and a reduction in expense because the Gorman Learning Center is using the district's special education coordinator 90% of the time.

FCMAT has focused on the unrestricted portion of the district's general fund budget, including the effect of general fund contributions to special education and the cafeteria fund.

FCMAT's MYFP reduced supplies or services in the restricted resources if needed to remain within the projected revenue estimates. However, this action may also affect programs by reducing expenditures for these items. A review of the restricted resources shows that economic impact aid has been reduced by $67,999 in the current fiscal year compared to fiscal year 2006-07. The California Department of Education (CDE) states that this reduction is a result of the loss of charter school enrollment and the decrease in free lunches served.

The following MYFP prepared by FCMAT identifies the projected revenues, expenditures and changes in fund balance for the district's unrestricted general fund in the current and two subsequent fiscal years.

Table 3: Multiyear Financial Projection for General Fund/Unrestricted Resources

Name	Object Code	Historical Year 2006 - 07	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10
Revenues					
Revenue Limit Sources	8010 - 8099	$880,816.82	$307,014.11	$317,888.61	$312,794.98
Federal Revenues	8100 - 8299	$0.00	$0.00	$0.00	$0.00
Other State Revenues	8300 - 8599	$84,267.30	$23,712.00	$23,108.83	$21,614.95
Other Local Revenues	8600 - 8799	$217,680.88	$132,123.00	$133,063.00	$134,068.12
Total Revenues		**$1,182,765.00**	**$462,849.11**	**$474,060.44**	**$468,478.05**
Expenditures					
Certificated Salaries	1000 - 1999	$239,344.47	$242,396.00	$246,031.95	$249,722.43
Classified Salaries	2000 - 2999	$197,329.40	$165,687.00	$168,562.51	$171,481.16
Employee Benefits	3000 - 3999	$192,903.40	$200,618.00	$214,983.60	$230,680.61
Books and Supplies	4000 - 4999	$18,066.55	$14,392.00	$13,842.85	$12,982.60
Services and Other Operating Expenditures	5000 - 5999	$113,434.92	$130,755.00	$116,847.31	$125,330.50
Capital Outlay	6000 - 6900	$4,749.33	$0.00	$0.00	$0.00
Other Outgo	7000 - 7299	$467,138.00	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	$0.00	$0.00	$0.00	$0.00
Debt Service	7430 - 7439	$0.00	$0.00	$0.00	$0.00
Total Expenditures		**$1,232,966.07**	**$753,848.00**	**$760,268.22**	**$790,197.30**
Excess (Deficiency) of Revenues Over		**($50,201.07)**	**($290,998.89)**	**($286,207.78)**	**($321,719.25)**
Other Financing Sources\Uses					
Interfund Transfers In	8910 - 8929	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$22,007.00	$31,007.00	$31,007.00	$31,007.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	($9,045.93)	($29,208.54)	($29,651.80)
Total Other Financing Sources\Uses		**($22,007.00)**	**($40,052.93)**	**($60,215.54)**	**($60,658.80)**
Net Increase (Decrease) in Fund Balance		**($72,208.07)**	**($331,051.82)**	**($346,423.32)**	**($382,378.05)**
Fund Balance					
Beginning Fund Balance (as of July 1 - Unaudited)	9791	$756,530.63	$684,322.56	$353,270.74	$6,847.42
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$756,530.63	$684,322.56	$353,270.74	$6,847.42
Ending Fund Balance		$684,322.56	$353,270.74	$6,847.42	($375,530.63)
Components of Ending Fund Balance					
Fund Balance, Reserved	9700 - 9709	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$500.00	$500.00	$500.00	$500.00
Stores	9712	$0.00	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$10,206.60	$10,206.60	$10,206.60	$10,206.60
Other Reserves	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730 - 9739	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$0.00	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		5%	5%	5%	5%
Designated for Economic Uncertainties	9770 - 9774	$72,300.03	$53,000.00	$53,000.00	$53,000.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$9,114.92	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$592,201.01	$289,564.14	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	($56,859.18)	($439,237.23)

Enrollment, Average Daily Attendance and Staffing

FCMAT reviewed the district's enrollment and average daily attendance (ADA) trends for 2002-03 through 2006-07. The review compares the October California Basic Educational Data System (CBEDS) student enrollment count to the April P-2 ADA data. FCMAT used the district's enrollment as of September 14, 2007 for the current year estimate; the projection includes a decrease in enrollment.

Methodology

The method used most frequently to prepare school enrollment forecasts is the cohort survival method. With this method, percentages are calculated from the historical enrollment data to determine a reliable percentage of increase or decrease in enrollment between any two grades. For example, if 100 students enrolled in first grade in 2005-06 and increased to 104 students in second grade in 2006-07, the cohort survival percentage would be 104%. Ratios such as this are calculated between each pair of grades or years in school over several years. The ratios are key factors in the reliability of the projections, given the validity of the data at the starting point.

The strength of these ratios lies in the fact that each ratio collectively includes the many variables that could account for an increase or decrease in the size of a grade cohort as it moves on to the next grade. Each ratio represents the cumulative effect of factors such as the following:

- Migration patterns in/out of schools.
- Retention in the same grade.
- Changes in school program.
- Dropouts, interdistrict transfers and similar changes.
- Birth rates.
- Residential housing starts.
- Charter/private school enrollments.

When based on a reasonable set of assumptions for each of these factors, ratios are indicative of present/future trends and can be determined for each pair of grades or years. To project future enrollment, the ratios thus selected are applied to the present enrollment statistics for a predetermined number of years.

It is critical that enrollment projections be updated if any of the assumptions need to be altered in the future. This provides an opportunity for the district to plan adequately for any changes that might occur over time.

Table 4 illustrates the historical trends of CBEDS, period two (P-2) ADA and includes FCMAT's projected CBEDS and ADA calculations. The district should be aware that neighboring school districts that currently have students attending classes in Gorman, under the assumption that it is designated a "school district of choice," may reconsider this practice when and if the districts have to cooperatively enter into interdistrict attendance agreements.

Table 4: Historical and Projected Enrollment Data

Enrollment & ADA								
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08*	2008/09*	2009/10*
CBEDS	79	66	63	52	48	49	46	42
P-2 ADA	68.94	60.06	59.56	49.01	43.98	45.50	42.74	39.03
ADA/CBEDS %	87.27%	91.00%	94.54%	94.25%	91.63%	92.86%	92.91%	92.93%
*Estimated								

FCMAT's enrollment projections assume that the district will continue to operate as a school district of choice. The recent Education Code reauthorization of this program ends on June 30, 2009. If the reauthorization is not extended or the district is no longer able to operate as a school district of choice, enrollment will be compromised.

There is discussion regarding a possible housing development called Centennial, which could result in as many as 23,000 homes within the district's boundaries. If plans for the development are approved, building would not begin until 2010 at the earliest. Because of the uncertainty of this project, it was not included in FCMAT's multiyear projections.

The district's ratio of ADA to enrollment is lower than the statewide average. As reported by SSC, the 2005-06 statewide average of ADA to enrollment for grades K-8 was 94.98%. Keeping students in school for more days each year would increase the district's revenue limit, and possibly the Necessary Small Schools funding, without requiring staffing increases.

Revenues

Revenue Limit Sources

FCMAT calculated the district's revenue limit for 2007-08 using the state budget information from the September 2007 California School Finance and Management Conference and the current 2007-08 SSC Dartboard. These factors include the estimated statutory COLA of 4.3% for 2008-09, 2.5% for 2009-10, and continued absence of a revenue limit deficit.

Federal Revenues

The district anticipates no unrestricted federal revenues in the current year, and FCMAT continued this trend in the projection years. Restricted federal revenues were adjusted based on the prior year allocation as reported by the CDE and estimated 2007-08 funding reductions in some programs. Restricted federal revenues were not projected to increase in future years.

State Revenues

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

Restricted state revenues were adjusted based on the current year allocation as reported by the CDE, if available. For resources not yet posted by the CDE, the prior year allocation was used with estimated increases for COLA.

Local Revenues
Revenue was adjusted based on oversight fees of 3% from the Gorman Learning Center charter school. The 3% fee was calculated using the general purpose and categorical block grant funding on an estimated ADA of 885.66.

Expenditures

Certificated Salaries
The FCMAT multiyear projection includes a 1.50% ongoing cost of contracted salary step and column movement in the projection years, but *no other adjustments* for salary enhancements because those are determined at the local level. FCMAT's MYFP reflects the current level of certificated staffing.

Classified Salaries
FCMAT included the cost of step movement at 1.50%, but no other adjustments were included for salary enhancements because those are determined at the local level. FCMAT's MYFP reflects the current level of classified staffing.

Employee Benefits
FCMAT increased statutory benefits in proportion to certificated and classified salary changes, and increased the projected cost of employer-paid health and welfare contributions by 10% in each of the projection years as the district does not have a cap on benefits.

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

Services and other Operating Expenditures
The budget was adjusted using the CPI and the projected decrease in enrollment where appropriate.

Capital Outlay
No adjustments were made to this category because the 2007-08 budget did not include budget amounts for capital outlay.

Other Outgo
No adjustments were made to this category.

Direct Support/Indirect Costs
No adjustments were made to this category because the district does not currently budget for direct or indirect costs.

Other Financing Sources/Uses

Transfers Out

The property tax transfer for the charter school was moved from this object code to a revenue object code.

Contributions to Restricted Programs

The district is projected to contribute to the special education program in the current and projection years.

The district budgeted a $25,000 contribution to the cafeteria fund in the current year, and that contribution is continued in the projection years.

Fund Balance/Reserve Level

Net Increase/Decrease in Fund Balance

For 2007-08, unrestricted expenditures exceed unrestricted revenues by $331,052, leaving a projected ending fund balance of $353,271. The district's required 5% reserve for economic uncertainties is $53,000.

Reserve Level

The FCMAT projection indicates that the district *will not* be able to meet the 5% minimum required reserve level in fiscal years 2008-09 and 2009-10.

Table 5: Projected Reserve

Projected Reserve			
Unrestricted General Fund			
	2007/08	2008/09	2009/10
Projected Ending Balance	$353,271	$6,847	$(375,531)
Projected Reserve Level	36.40%	0.70%	-37.05%

The March 2007 review of the Gorman Learning Center and the Lifeline Education Charter Schools completed by MGT of America, Inc. states, "In total, between fiscal years 2003-04 to 2005-06, Gorman Charter appears to have paid the district more than $1.7 million in excess of amounts allowed by law." The report goes on to state, "To the extent that Gorman Charter paid or provided benefits to its sponsoring district more than 1 percent in prior years, it should work with independent legal counsel to facilitate repayment from the district or should report to LACOE and CDE its basis for not pursuing recovery."

FCMAT's multiyear projection does not include repayment of the $1.7 million to the Gorman Learning Center because the issue has not yet been resolved. If the district is required to repay these funds, absent any other budget adjustments, the district's reserve levels would further decrease from the levels shown in Table 5.

Recommendations

The district should:

1. Adopt a budget and multiyear projections in 2007-08 that eliminate deficit spending and meet the 5% reserve requirement.
2. Compare staffing levels with districts of like size and type because the present budget cannot maintain the current staffing level.
3. Consider the feasibility of charging the full indirect cost rate legally allowed to all categorical programs and funds to show the true cost of each program and to maximize unrestricted resources.
4. Investigate the feasibility of using the federal, AB 825 and mega-item flexibility transfer options to determine whether they would provide any additional funding flexibility.
5. Consider joining a consortium of districts for filing mandated cost claims to meet the $1,000 minimum and maximize future mandate reimbursement.
6. Investigate methods to improve the ratio of ADA to enrollment.

Lapsation

Lapsation means the discontinuance or cessation of a school district because the average daily attendance has declined to a level below the minimum required by Education Code Section 35780. This code section states in part that any school district which has been organized for more than three years shall be lapsed if the number of registered electors in the district is less than six or the average daily attendance of pupils is less than six in grades 1-8. Per Education Code Sections 35720 and 35721, a proposal to lapse a district may also be brought forward to the Los Angeles County Committee on School District Organization by community members, the Gorman Board of Education, the Los Angeles County Board of Supervisors or by the County Committee itself.

The district operates as a school district of choice. Senate Bill 80 reauthorized the school district of choice program for districts that elected to participate on or before August 23, 2007. Education Code 48300 states, "'School district of choice' means a school district for which a resolution is in effect as described in subdivision (a) of Section 48301." FCMAT was unable to verify that a district resolution declaring Gorman a school district of choice exists or that prior agendas or minutes are in evidence indicating that the board took such an action.

If the governing board officially declared Gorman a school district of choice on or before August 23, 2007, the district should be aware that the existing reauthorization ends on June 30, 2009 and that the district's enrollment may decline if the program is not reauthorized beyond 2009. If the governing board did not officially declare Gorman a school district of choice on or before August 23, 2007, the interdistrict transfer provisions outlined in Education Code 46600 and 48204 should be reviewed and used where appropriate to authorize pupils who live outside the district's boundaries to attend school in the district.

As of September 14, 2007, *none* of the district's 49 enrolled students resided within the district's attendance boundaries. The enrollment consisted of students residing in the following districts: El Tejon Unified, 68%; Westside Elementary, 30%; and Southern Kern Unified, 2%. The district reported that two students live within its boundaries but both attend school in a neighboring district.

Recommendation

The district should:

1. Review its student enrollment data and financial situation with the Los Angeles County Office of Education to determine if the district should be lapsed.

District Procedures

Budget Monitoring

The district's budget needs to reflect the goals and objectives developed annually and approved by the governing board. The Education Code states that amounts budgeted in each major object category shall be the maximum amount that can be expended under each classification. The budget needs to 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. Revisions to the budget are subject to board approval. Reviewing and updating the budget monthly can reduce the chance of overspending. Both the resource and object levels should be reviewed to ensure that the district knows its projected fund balance at any given time. Budget transfers, adjustments and journal entries should also be completed monthly.

An encumbrance is a commitment to purchase goods and services, including salaries and employee benefits. Encumbrances are a major source of budget control and help prevent overspending of appropriations and budget lines. 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. Because encumbrances are a key to providing a full picture of a district's finances, they are of utmost importance to districts in fiscal distress. Encumbering salaries and benefits (payroll) is also a helpful tool to ensure that any differences between position control and payroll are readily detected.

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

The amount of cash in each fund needs to be monitored closely throughout the year to ensure that the necessary balances are maintained. Part of the district's current cash balance is for liabilities of approximately $1.25 million that district staff state have been set up but not yet paid to the Gorman Learning Center for special education revenues and property taxes. Payment of this liability will significantly reduce the district's cash balance.

The cafeteria fund has required a contribution from the general fund in past years and is projected to require a transfer in the current and two subsequent fiscal years. An in-depth analysis of the cafeteria program is needed to evaluate how it may be made self-sustaining. The district has not charged the amount legally allowed for indirect costs to this fund, thus the true cost of this program is not being shown.

Internal Controls

Internal controls are the policies and procedures developed and implemented to help ensure that staff duties are segregated to guard against fraud; resources are used appropriately; transactions are processed in a timely manner; financial information is reported accurately; and transactions are in accordance with laws, regulations and district policy. Internal controls are the foundation of sound financial management and allow districts to fulfill their educational mission while ensuring a solid financial structure and credible financial information.

When all duties surrounding a particular function are regularly performed by one individual, the potential for fraud and inappropriate use of district assets is greater. Segregation of duties among district staff provides internal control through a system of checks and balances. This helps ensure the proper use of district assets and protects employees.

One district employee is currently responsible for all duties related to accounts receivable, including receipt of funds, deposit of funds and balancing the monthly statements. To provide for proper internal controls, the accounts receivable duties need to be segregated among more than one staff member. No single employee should handle a transaction from initiation to reconciliation, and no single employee should have custody of an asset (such as cash or inventory) and maintain the records of related transactions.

Health and Welfare Benefits

The district's Board Bylaw 9250, Remuneration, Reimbursement and Other Benefits, states, "Health and welfare benefits for Board members shall be no greater than that received by district's nonsafety employees with the most generous schedule of benefits. (Government Code 53208.5)." The bylaw goes on to state, "The district shall pay $______ as a reimbursement for costs of approved health plans that have been paid by the Board member." This bylaw needs to be updated to include the dollar amount that "the district shall pay as reimbursement for costs of approved health plans that have been paid by the board member" or reworded to include language stating that reimbursement may be no greater than the amount paid on behalf of the district's nonsafety employees. If a board member chooses to be reimbursed, proof of payment needs to accompany the reimbursement request.

Direct Services

The district's enrollment and the enrollment of the charter school it sponsors have both declined significantly in the current fiscal year. The total combined enrollment is now less than 1,000 students. Because of this decline, the district needs to discuss with the county office reinstating the memorandum of understanding between the two agencies that would automatically transfer to Gorman the direct service funding received by the county office.

Recommendations

The district should:

1. Monitor the budget by resource and object monthly, and submit budget transfers and budget adjustments to the board for approval monthly.
2. Encumber all expenditures in the financial system, including salary and benefit amounts if the software provides this capability.
3. Monitor the cash flow in each fund at least biweekly.
4. Complete an in-depth analysis of the cafeteria program to evaluate how it can become self-sustaining, and consider charging indirect costs to this fund to show the true costs of the program.
5. Segregate the accounts receivable duties among more than one staff member.
6. Update Board Bylaw 9250 to include the dollar amount for reimbursement of health and welfare benefits for board members, and require proof of payment for reimbursement requests.
7. Discuss with the county office reinstating a Memorandum of Understanding to transfer direct service funding directly to the district.

Appendices

Appendix A

Provisions of Assembly Bill 2756

Appendix B

General Fund/Unrestricted Resources Multiyear Financial Projection

General Fund/Restricted Resources Multiyear Financial Projection

General Fund/Combined Resources Multiyear Financial Projection

Appendix C

Study Agreement

Appendix A

Provisions of Assembly Bill 2756

I. A district shall, pursuant to E.C. 42127.6, provide the county superintendent of schools with a copy of any study, report, evaluation, or audit that contains evidence that the school district is showing fiscal distress under the standards and criteria adopted in Section 33127, or a report on the district by FCMAT or any regional team created pursuant to subdivision (i) of Section 42127.8.

II. The county superintendent of schools shall review and consider these studies, reports, evaluations or audits that contain evidence that the district is demonstrating fiscal distress under the standards and criteria, or that contain a finding by an external reviewer that more than three of the 15 most common predictors of a school district needing intervention, as determined by the County Office Fiscal Crisis and Management Assistance Team, are present.

III. The county superintendent of schools shall investigate the financial condition of the school district and determine if the school district may be unable to meet its financial obligations for the current or two subsequent fiscal years, or should receive a qualified or negative interim financial certification pursuant to E.C. Section 42131.

1. If at any time during the fiscal year the county superintendent of schools determines that a school district may be unable to meet its financial obligations for the current or two subsequent fiscal years, or if the district has a qualified or negative certification, the county superintendent shall notify the governing board and the SPI in writing of that determination and the reasons for the determination. The notification shall include the assumptions used and shall be available to the public. The county superintendent shall report to the SPI on the financial condition of the district and proposed remedial actions. The county superintendent shall adhere to E.C. 42127.6 in assisting the school district by doing at least one of the following (This is a paraphrased narrative of the code section. Please refer to E.C. 42127.6 for a complete listing):
   - (A) Assign a fiscal expert, paid for by the county superintendent, to advise the district on its financial problems.
   - (B) Conduct a study of the financial and budgetary conditions of the district. If expertise is needed for the study, the COE may hire staff with the approval of the SPI. The school district shall pay 75 percent and the COE shall pay 25 percent of those staff costs. County offices of education are eligible to request their 25 percent costs through a FCMAT reimbursement with the approval of the California Department of Education and the Department of Finance.

(C) Direct the school district to submit a financial projection of all fund and cash balances of the district for the current and subsequent fiscal years.
(D) Require the district to encumber all contracts and other obligations, to prepare appropriate cash flow analyses and budget revisions, and to record all receivables and payables.
(E) Direct the district to submit a proposal for addressing its fiscal condition.
(F) Withhold compensation of the members of the governing board and district superintendent for failure to provide requested financial information. This action may be appealed to the SPI.
(G) Assign FCMAT to review teacher hiring practices, teacher retention rate, percentage of provision of highly qualified teachers and the extent of teacher misassignment in the school district. If a review team is assigned, the district shall follow the recommendations of the team.

Any contract entered into by the county superintendent of schools for the purposes of this subdivision is subject to the approval of the SPI.

2. If, after taking any or all of the actions cited in E.C. 42127.6 (A-G), the county superintendent determines that a district will be unable to meet its financial obligations for the current or subsequent fiscal year, the county superintendent shall notify the governing board and SPI in writing. The notification shall include the county superintendent's assumptions in making the determination and shall be provided to the superintendent of the school district and the parent and teacher organization of the district. Within five days of the determination, an appeal may be made to the SPI by the district. Within 10 days of the appeal, the SPI shall sustain or deny any or all parts of the appeal. During the appeal process, the county superintendent may stay any action of the governing board that is inconsistent with the district's ability to meet its financial obligations in the current or subsequent fiscal year [E.C. 42127.6 (c) (d)].
3. If the appeal is denied or not filed, or if the district has a negative certification, the county superintendent, in consultation with the SPI, shall, take at least one of the actions described in paragraphs (A) to (E), and all actions that are necessary to ensure that the district meets its financial obligations. These actions include the following (refer to E.C. 42127.6 (e) for a complete listing):
   (A) Develop and impose, in consultation with the SPI and the governing board, a budget revision.
   (B) Stay or rescind any action that is determined to be inconsistent with the school district's ability to meet its obligations for the current or subsequent fiscal year.
   (C) Assist in developing, in consultation with the governing board of

the school district, a financial plan that will enable the district to meet its future obligations.

(D) Assist in developing, in consultation with the governing board of the school district, a budget for the subsequent fiscal year.

(E) As necessary, appoint a fiscal advisor to perform any or all of the duties required of the county superintendent under this section.

4. No later than five days after receipt of the notice that the county superintendent of schools is proposing changes to the district's budget pursuant to E.C. 42127.6 (e), the district may appeal the change to the SPI on the basis of impact to programs, requirement of unnecessary reductions or conflict with state and federal law. The SPI has five days to deny or uphold the appeal [E.C. 42127.9].
5. Any action taken by the county superintendent of schools under this subdivision shall be accompanied by a notification that shall include the actions to be taken, the reasons for the actions, and the assumptions used to support the necessity for these actions.
6. The school district shall pay 75 percent and the COE shall pay 25 percent of the administrative expenses incurred pursuant to E.C. Section 42127.6 (e) or costs associated with improving the district's financial management practices. County offices of education are eligible to request their 25 percent costs through a FCMAT reimbursement with the approval of the California Department of Education and the Department of Finance.

IV. This section does not authorize the county superintendent to abrogate any provisions of a collective bargaining agreement that was entered into by a school district prior to the date upon which the county superintendent of schools assumed authority [E.C. 42127.6 (g)].

Appendix B

General Fund/Unrestricted Resources Multiyear Financial Projection

General Fund/Restricted Resources Multiyear Financial Projection

General Fund/Combined Resources Multiyear Financial Projection

Multiyear Financial Projection: General Fund/Unrestricted Resources

Name	Object Code	Historical Year 2006 - 07	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10
Revenues					
Revenue Limit Sources	8010 - 8099	$880,816.82	$307,014.11	$317,888.61	$312,794.98
Federal Revenues	8100 - 8299	$0.00	$0.00	$0.00	$0.00
Other State Revenues	8300 - 8599	$84,267.30	$23,712.00	$23,108.83	$21,614.95
Other Local Revenues	8600 - 8799	$217,680.88	$132,123.00	$133,063.00	$134,068.12
Total Revenues		**$1,182,765.00**	**$462,849.11**	**$474,060.44**	**$468,478.05**
Expenditures					
Certificated Salaries	1000 - 1999	$239,344.47	$242,396.00	$246,031.95	$249,722.43
Classified Salaries	2000 - 2999	$197,329.40	$165,687.00	$168,562.51	$171,481.16
Employee Benefits	3000 - 3999	$192,903.40	$200,618.00	$214,983.60	$230,680.61
Books and Supplies	4000 - 4999	$18,066.55	$14,392.00	$13,842.85	$12,982.60
Services and Other Operating Expenditures	5000 - 5999	$113,434.92	$130,755.00	$116,847.31	$125,330.50
Capital Outlay	6000 - 6900	$4,749.33	$0.00	$0.00	$0.00
Other Outgo	7000 - 7299	$467,138.00	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	$0.00	$0.00	$0.00	$0.00
Debt Service	7430 - 7439	$0.00	$0.00	$0.00	$0.00
Total Expenditures		**$1,232,966.07**	**$753,848.00**	**$760,268.22**	**$790,197.30**
Excess (Deficiency) of Revenues Over		**($50,201.07)**	**($290,998.89)**	**($286,207.78)**	**($321,719.25)**
Other Financing Sources\Uses					
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All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	($9,045.93)	($29,208.54)	($29,651.80)
Total Other Financing Sources\Uses		**($22,007.00)**	**($40,052.93)**	**($60,215.54)**	**($60,658.80)**
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Ending Fund Balance		$684,322.56	$353,270.74	$6,847.42	($375,530.63)
Components of Ending Fund Balance					
Fund Balance, Reserved	9700 - 9709	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$500.00	$500.00	$500.00	$500.00
Stores	9712	$0.00	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$10,206.60	$10,206.60	$10,206.60	$10,206.60
Other Reserves	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730 - 9739	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$0.00	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		5%	5%	5%	5%
Designated for Economic Uncertainties	9770 - 9774	$72,300.03	$53,000.00	$53,000.00	$53,000.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$9,114.92	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$592,201.01	$289,564.14	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	($56,859.18)	($439,237.23)

Multiyear Financial Projection: General Fund/Restricted Resources

Name	Object Code	Historical Year 2006 - 07	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10
Revenues					
Revenue Limit Sources	8010 - 8099	$0.00	$0.00	$0.00	$0.00
Federal Revenues	8100 - 8299	$19,203.57	$11,350.00	$11,350.00	$11,350.00
Other State Revenues	8300 - 8599	$243,962.91	$165,435.00	$171,765.98	$175,432.10
Other Local Revenues	8600 - 8799	$48,049.14	$0.00	$0.00	$0.00
Total Revenues		**$311,215.62**	**$176,785.00**	**$183,115.98**	**$186,782.10**
Expenditures					
Certificated Salaries	1000 - 1999	$38,068.97	$17,750.00	$18,016.25	$18,286.49
Classified Salaries	2000 - 2999	$8,688.86	$6,435.00	$6,531.53	$6,629.51
Employee Benefits	3000 - 3999	$3,357.96	$3,157.00	$3,204.39	$3,252.42
Books and Supplies	4000 - 4999	$24,457.00	$55,759.74	$56,393.81	$56,227.67
Services and Other Operating Expenditures	5000 - 5999	$110,854.37	$102,500.00	$105,047.33	$107,874.02
Capital Outlay	6000 - 6900	$5,600.42	$0.00	$0.00	$0.00
Other Outgo	7000 - 7299	$0.00	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	$0.00	$0.00	$0.00	$0.00
Debt Service	7430 - 7439	$0.00	$0.00	$0.00	$0.00
Total Expenditures		**$191,027.58**	**$185,601.74**	**$189,193.31**	**$192,270.11**
Excess (Deficiency) of Revenues Over		**$120,188.04**	**($8,816.74)**	**($6,077.33)**	**($5,488.01)**
Other Financing Sources\Uses					
Interfund Transfers In	8910 - 8929	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$0.00	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$9,045.93	$29,208.54	$29,651.80
Total Other Financing Sources\Uses		**$0.00**	**$9,045.93**	**$29,208.54**	**$29,651.80**
Net Increase (Decrease) in Fund Balance		**$120,188.04**	**$229.19**	**$23,131.21**	**$24,163.79**
Fund Balance					
Beginning Fund Balance (as of July 1 - Unaudited)	9791	$72,532.23	$192,720.27	$192,949.46	$216,080.67
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$72,532.23	$192,720.27	$192,949.46	$216,080.67
Ending Fund Balance		$192,720.27	$192,949.46	$216,080.67	$240,244.46
Components of Ending Fund Balance					
Fund Balance, Reserved	9700 - 9709	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$0.00	$0.00	$0.00	$0.00
Stores	9712	$0.00	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00
Other Reserves	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730 - 9739	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$192,720.27	$192,949.46	$216,080.67	$240,244.46
Designated for Economic Uncertainties	9770 - 9774	$0.00	$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	$0.00
Other Designated	9780	$0.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$0.00	$0.00	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00	$0.00

Multiyear Financial Projection: General Fund/Combined Resources

Name	Object Code	Historical Year 2006 - 07	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10
Revenues					
Revenue Limit Sources	8010 - 8099	$880,816.82	$307,014.11	$317,888.61	$312,794.98
Federal Revenues	8100 - 8299	$19,203.57	$11,350.00	$11,350.00	$11,350.00
Other State Revenues	8300 - 8599	$328,230.21	$189,147.00	$194,874.81	$197,047.05
Other Local Revenues	8600 - 8799	$265,730.02	$132,123.00	$133,063.00	$134,068.12
Total Revenues		**$1,493,980.62**	**$639,634.11**	**$657,176.42**	**$655,260.15**
Expenditures					
Certificated Salaries	1000 - 1999	$277,413.44	$260,146.00	$264,048.20	$268,008.92
Classified Salaries	2000 - 2999	$206,018.26	$172,122.00	$175,094.04	$178,110.67
Employee Benefits	3000 - 3999	$196,261.36	$203,775.00	$218,187.99	$233,933.03
Books and Supplies	4000 - 4999	$42,523.55	$70,151.74	$70,236.66	$69,210.27
Services and Other Operating Expenditures	5000 - 5999	$224,289.29	$233,255.00	$221,894.64	$233,204.52
Capital Outlay	6000 - 6900	$10,349.75	$0.00	$0.00	$0.00
Other Outgo	7000 - 7299	$467,138.00	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	$0.00	$0.00	$0.00	$0.00
Debt Service	7430 - 7439	$0.00	$0.00	$0.00	$0.00
Total Expenditures		**$1,423,993.65**	**$939,449.74**	**$949,461.53**	**$982,467.41**
Excess (Deficiency) of Revenues Over		**$69,986.97**	**($299,815.63)**	**($292,285.11)**	**($327,207.26)**
Other Financing Sources\Uses					
Interfund Transfers In	8910 - 8929	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$22,007.00	$31,007.00	$31,007.00	$31,007.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00	$0.00
Total Other Financing Sources\Uses		**($22,007.00)**	**($31,007.00)**	**($31,007.00)**	**($31,007.00)**
Net Increase (Decrease) in Fund Balance		**$47,979.97**	**($330,822.63)**	**($323,292.11)**	**($358,214.26)**
Fund Balance					
Beginning Fund Balance (as of July 1 - Unaudited)	9791	$829,062.86	$877,042.83	$546,220.20	$222,928.09
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$829,062.86	$877,042.83	$546,220.20	$222,928.09
Ending Fund Balance		$877,042.83	$546,220.20	$222,928.09	($135,286.17)
Components of Ending Fund Balance					
Fund Balance, Reserved	9700 - 9709	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$500.00	$500.00	$500.00	$500.00
Stores	9712	$0.00	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$10,206.60	$10,206.60	$10,206.60	$10,206.60
Other Reserves	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730 - 9739	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$192,720.27	$192,949.46	$216,080.67	$240,244.46
Economic Uncertainties Percentage		5%	5%	5%	5%
Designated for Economic Uncertainties	9770 - 9774	$72,300.03	$53,000.00	$53,000.00	$53,000.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$9,114.92	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$592,201.01	$289,564.14	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	($56,859.18)	($439,237.23)

Appendix C

Study Agreement

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
August 2, 2007

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Los Angeles County Office of Education, hereafter referred to as LACOE, on behalf of the Gorman Elementary School District, mutually agree as follows:

1. BASIS OF AGREEMENT

The Team provides a variety of services to California school districts and county offices of education upon request. LACOE has requested that the Team provide for the assignment of professionals to analyze the financial conditions and study other specific aspects of the Gorman 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) Conduct a review of the District's 2007-08 Adoption Budget and incorporate the results into a Multi-Year Financial Projection of the General Fund to assess the long term and fiscal solvency of the District. The FCMAT Team will utilize the 2007-08 Adoption Budget as the baseline for this projection. This evaluation will include the fiscal impact of continued declining enrollment, the loss of Charter School Administrative fees and any other factors that could impact the long-term organizational and fiscal viability of the District.

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 and LACOE staff 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-school site, if necessary.

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

4) Exit Letter - The Team will issue an exit letter to the District and LACOE 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 and LACOE administration for review and comment.

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

3. PROJECT PERSONNEL

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

A. Diane Branham, FCMAT Intervention Specialist
B. Debi Deal, FCMAT Intervention Specialist
C. 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, presenting reports, or participating in meetings.

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

C. Based on the elements noted in section 2, A, (1), the cost of the study is estimated at $7,500. LACOE will be invoiced at actual costs, unless the Team recommends to the FCMAT CEO and FCMAT Board that the District be declared in "Fiscal Emergency", per E.C. 42127.8(e).

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

5. RESPONSIBILITIES OF THE DISTRICT

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

B. The District will provide the following (if requested):

1) A map of the local area
2) Existing policies, regulations and prior reports addressing the study request
3) Current organizational charts
4) Current and four (4) prior years' audit reports
5) Any documents requested on a supplemental listing (See attached Exhibit)

C. The District Administration and LACOE will review a preliminary draft copy of the study. Any comments regarding the factual 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 and acknowledges that the final report will be considered by the District and LACOE in the development of an approvable 2007-08 budget with adjusted multiyear projections:

Orientation:	Prior to the start of school
Staff Interviews:	(To be determined)
Exit Interviews:	(To be determined)
Preliminary Report Submitted:	(To be determined)
Final Report Submitted:	(To be determined)
Board Presentation:	(To be determined)

7. CONTACT PERSON

For LACOE –

Kenneth Shelton, Assistant Superintendent, Business Services
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Deborah L. Simons, Director, Division, Business Advisory Services
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For Gorman Elementary School District –

Sue Page, Superintendent
Telephone (661) 248-6441 FAX (661) 248-6849
Internet Address: spage@lws.lacoe.edu

Ronald Kenneth Shelton for Darline Robles Aug. 2, 2007

Darline P. Robles, Ph.D., Superintendent — Date
Los Angeles County Office of Education

Barbara Dean

August 2, 2007

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