FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

CSIS California School Information Service

Lynwood Unified School District

Fiscal Review

November 17, 2009

Joel D. Montero
Chief Executive Officer

November 17, 2009

Patrick Leier, Acting Superintendent
Lynwood Unified School District
11321 Bullis Road
Lynwood, CA 90262

Dear Superintendent Leier:

In October 2008, the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement with the Lynwood Unified School District for a review that required FCMAT to perform the following:

1) Conduct a management assistance review of the district's general fund budget, multiyear projections, and spending patterns. The team will create an independent multiyear projection for 2009-10 and 2010-11 using Budget Explorer after validating revenue and expenditure allocations included in the district's 2008-09 adopted budget. The 2007-08 unaudited actuals will be compared to the 2008-09 adoption budget and the basis of material differences will be confirmed by the team. The base year of the Team's projection will be 2008-09.

2) Review the district's processes and procedures for annual budget development, budget monitoring, budget revisions, and reporting and communications of budget information to the governing board during the fiscal year. Provide recommendations for changes that, if implemented, will develop greater consistency with industry practices in these areas.

3) Prepare a Fiscal Health and Risk Analysis to assist the district in identifying factors that affect fiscal and operational stability. The analysis is based on 17 components of key fiscal indicators to measure a district's potential risk over a five year period. The team will verify and report on information in each category for fiscal years 2003-04 through 2007-08.

   Completion of this scope of work will be directly contingent on the ability of the district to provide the supporting documentation included in this agreement within a requested time line.

4) Conduct a review of the programs operated by the district's Curriculum and Instruction Department to verify whether program and fiscal efficiency is maximized to the fullest extent. Review available funding sources and how funds are being used, and provide recommendations for improvements to processes and procedures, as needed.

FCMAT visited the district to conduct fieldwork, interview staff, and review documents. This report is the result of that effort.

Than you for the opportunity to serve you, and please give our best regards to all the employees of the Lynwood Unified School District.

Sincerely,

Joel D. Montero
Chief Executive Officer

Table of Contents

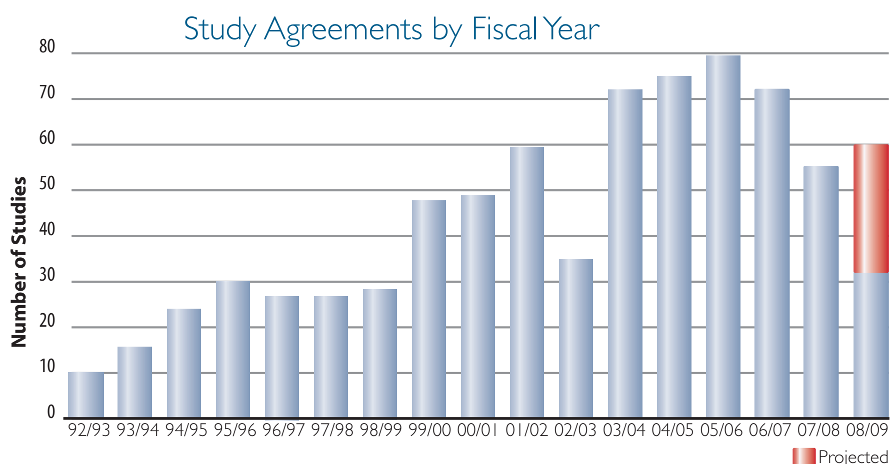
Foreword - FCMAT Background

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

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

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

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



Total Number of Studies...................... 743
Total Number of Districts in CA....982

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

Note: Some districts had multiple studies.
- Districts (7) that have received emergency loans from the state. (Rev. 1/22/09)

Introduction

Background

Located in Los Angeles County, the Lynwood Unified School District serves approximately 17,000 students in kindergarten through twelfth grade at 12 elementary, three middle schools, two comprehensive high schools, and two alternative high schools. The district also operates an adult education program. Enrollment peaked in 2003-04 and has declined each year since then.

The community supported the district by passing a general obligation bond in 2002 to help provide funding for construction of new school facilities. Since that time, the district has constructed two new elementary schools, a middle school and a high school, and has expanded some of the other existing school site facilities.

In October 2008, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request for management assistance from the district. The study agreement specifies that FCMAT will complete the following:

1. Conduct a management assistance review of the district's general fund budget, multiyear projections, and spending patterns. The team will create an independent multiyear projection for 2009-10 and 2010-2011 using Budget Explorer after validating revenue and expenditure allocations included in the district's 2008-09 adopted budget. The 2007-08 unaudited actuals will be compared to the 2008-09 adoption budget and the team will confirm the basis of material differences. The base year of the team's projection will be 2008-09.

2. Review the district's processes and procedures for annual budget development, budget monitoring, budget revisions, and reporting and communications of budget information to the governing board during the fiscal year. Provide recommendations for changes that, if implemented, will develop greater consistency with industry practices in these areas.

3. Prepare a Fiscal Health and Risk Analysis to assist the district in identifying factors that affect fiscal and operational stability. The analysis is based on 17 components of key fiscal indicators to measure a district's potential risk over a five-year period. The team will verify and report on information in each category for fiscal years 2003-04 through 2007-08.

   Completion of this scope of work will be directly contingent on the ability of the district to provide the supporting documentation included in this agreement within a requested time line.

4. Conduct a review of the programs operated by the district's Curriculum and Instruction Department to verify whether program and fiscal efficiency is maximized to the fullest extent. Review available funding sources and how funds are being used, and provide recommendations for improvements to processes and procedures, as needed.

Study Guidelines

FCMAT visited the district on January 28-30, 2009 to conduct interviews, collect data and review documentation. Because some requested documents were not provided during the January fieldwork dates, FCMAT made additional visits to the district in February, March, and April to collect the remaining data and conduct additional interviews with staff members. This report is the result of those activities and is divided into the following sections:

I. Executive Summary
II. Multiyear Financial Projections
III. Budget Processes and Procedures
IV. Fiscal Health Risk Analysis
V. Curriculum and Instruction
VI. Appendices

Study Team

The FCMAT study team was composed of the following members:

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FCMAT Fiscal Intervention Specialist
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Jim Armstrong*
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Santa Maria, California

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FCMAT Public Information Specialist
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Chief Administrator, Business Services
Tehachapi Unified School District
Tehachapi, California

Richard Crawford
FCMAT Consultant
Atascadero, California

*As members of this study team, these consultants were not representing their employers but were working solely as independent contractors for FCMAT.

Executive Summary

Multiyear Financial Projections

In developing and implementing the multiyear financial projection (MYFP), the Lynwood Unified School District's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The financial crisis at the state and national levels make it an especially challenging time financially for school districts statewide. The 2008-09 and 2009-10 state budget acts and the Governor's May Revise included significant cuts to school district budgets. This situation requires the governing board to make extremely difficult decisions to balance the budget and remain fiscally solvent.

FCMAT's multiyear financial projection indicates that the district ***will not*** *meet its recommended reserve requirement in the current and two subsequent fiscal years without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending.* Although the district has taken steps to begin addressing the budget shortfall, including board resolutions No. 08-09/20 and No. 08-09/44, they are not sufficient to overcome the projected budget shortfall.

To evaluate the MYFP, the district should focus on its ability to meet its reserve requirement of 3% and demonstrate a positive unappropriated fund balance.

When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines. FCMAT has analyzed all funding sources and expenditure categories by resource. The unrestricted general fund summary below indicates that the district is projected to have a negative unrestricted fund balance for fiscal years 2008-09, 2009-10 and 2010-11 without substantial reductions or revenue enhancements.

To protect the district's financial solvency and eliminate the projected shortfalls of $8.1 million in fiscal year 2008-09, $26.4 million in 2009-10 and $50 million in 2010-11, the district should begin preparing immediately for a period of fiscal instability. The district should revise its adopted budget and multiyear projections to eliminate deficit spending and meet reserve requirements; develop appropriate staffing formulas for all positions and ensure that position control data is accurate; maximize categorical funding and ensure that all restricted programs are self-sustaining, with the possible exceptions of special education and transportation. The district should also review estimated enrollment and average daily attendance (ADA) calculations to ensure they are accurate; complete an in-depth analysis of consultant and legal services and reduce costs where possible; evaluate and maximize all state and federal flexibility options. Other recommended steps include ensuring that all programs are charged the maximum allowable indirect cost rate; exploring options to attract and retain students and increase student attendance; ensuring that its multiyear financial projections are accurate and up-to-date; and taking other measures recommended in the multiyear financial projection section of this report.

To balance the budget, the district will need to make difficult choices about which expenditures and programs will continue to be funded and which will be scaled back, reconfigured or eliminated. In the short term, the district needs to take immediate action to address the projected budget shortfall.

Multiyear Financial Projection Summary - Unrestricted General Fund

Description	Base Year 2008-09	Year 1 2009-10	Year 2 2010-11
Total Revenues	$94,725,587	$90,495,353	$87,544,607
Total Expenditures	93,422,261	92,790,602	93,716,993
Total Other Financing Sources/Uses	-11,289,359	-16,728,213	-17,319,354
Net Increase (Decrease) in Fund Balance	-9,986,033	-19,023,462	-23,491,740
Fund Balance:			
Beginning Balance	7,606,947	-2,379,086	-21,402,548
Total Ending Balance	-2,379,086	-21,402,548	-44,894,288
Components of Ending Fund Balance:			
Revolving Cash	50,000	50,000	50,000
Stores	494,387	494,387	494,387
Other Designations	223,735	0	0
3% Reserve Requirement	5,040,979	4,548,603	4,589,509
Undesignated/Unappropriated	$0	$0	$0
Negative Shortfall	**-$8,188,187**	**-$26,495,538**	**-$50,028,184**

Assembly Bill 1200 was enacted in 1991 and provided additional authority and responsibility to county offices. Assembly Bill 2756 was passed in June 2004 and made substantial changes to the financial accountability and oversight of 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 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 and two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the governing board of the district and the SPI. The county office is required to follow Education Code section 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. If these steps are not successful, the district may require outside financial assistance to eliminate deficit spending and restore the required reserves, and may face the loss of local governance and decision-making authority.

Subsequent Events

On July 28, 2009, the governor signed a package of bills that amended the 2008-09 and 2009-10 state budgets. Following completion of its 2008-09 unaudited actuals report, the district requested FCMAT to complete an additional MYFP based on its 2009-10 adopted budget and the 2009-10 state budget revisions. Following is a summary of the MYFP prepared by FCMAT.

Multiyear Financial Projection Summary

Unrestricted General Fund

Description	Base Year 2009-10	Year 1 2010-11	Year 2 2011-12
Total Revenues	$89,989,853	$93,114,821	$93,356,921
Total Expenditures	87,693,051	94,228,759	95,587,180
Total Other Financing Sources/Uses	-11,580,272	-12,120,097	-12,351,545
Net Increase (Decrease) in Fund Balance	-9,283,470	-13,234,035	-14,581,804
Fund Balance:			
Beginning Balance	6,644,734	-2,638,736	-15,872,771
Total Ending Balance	-2,638,736	-15,872,771	-30,454,575
Components of Ending Fund Balance:			
Revolving Cash	50,000	50,000	50,000
Stores	460,720	460,720	460,720
Other Designations	0	0	0
3% Reserve Requirement	3,947,961	4,060,215	4,114,064
Undesignated/Unappropriated	$0	$0	$0
Negative Shortfall	**-$7,097,417**	**-$20,443,706**	**-$35,079,359**

When closing the books for 2008-09, the district used several one-time options to increase its ending fund balance. These included transferring categorical and deferred maintenance ending balances to the unrestricted general fund, as provided by the flexibility options included in the state budget; use of 2008-09 ARRA and SFSF funds; and elimination of the transfer to the district's workers' compensation self-insurance fund. While these options helped to increase the 2008-09 unrestricted ending fund balance, they did not eliminate the projected deficit spending pattern and the year-over-year negative ending fund balance. As reflected in the above table, FCMAT's MYFP indicates that the district *will not* meet its required reserve level in 2009-10, 2010-11 and 2011-12. In addition, based on the state's apportionment deferrals and the district's projected spending pattern, FCMAT's cash flow analysis indicates that the district will run out of cash in June 2010.

Fiscal Health Risk Analysis

The district's Fiscal Health Risk Analysis total score of 10 "no" responses is in the high-risk range. The key areas of concern are deficit spending, fund balance, reserve for economic uncertainty, enrollment, encroachment, management information systems, position control, budget monitoring, leadership/stability, and charter schools. The district should carefully consider the analysis and recommendations included in this report for each area of concern, with an immediate goal of reducing the current level of risk to the district's fiscal health. The district should complete a Fiscal Health Risk Analysis each year and continue to monitor its level of fiscal health.

Budget Processes and Procedures

School site personnel indicated they do not receive their categorical budgets until July. This is well after the budget building process has taken place and hinders the sites' ability to meet with their school site councils for planning purposes until after the school year has begun. Departments expressed similar concerns stating that the current year budget is used to create the following year's budget with no input from the department regarding necessary changes. The district should establish a budget calendar that designates the time lines and department responsible for each budget task and ensure that site and department managers are included in the budget development process.

Most of the district's funding comes through revenue limit resources, which are driven by average daily attendance (ADA). The district uses an enrollment-to-attendance ratio of 96% when developing its budget and interim reports. However, the district's historical average of California Basic Educational Data System (CBEDS) enrollment to P-2 ADA, indicated a five-year historical average of 93.45%. This overestimation of ADA causes the revenue limit funding to be overstated. The district should use its historical average when projecting ADA for budget purposes.

One of the most critical elements in budgeting for expenditures is accurately projecting employee salary and benefit costs. To help ensure proper staffing levels and budget the proper amounts for salary and benefit costs at all reporting periods, the district should develop current staffing formulas for all positions and use them as a guide to determine staffing allocations for each department and site. Staffing levels should be monitored throughout the year to prevent overstaffing.

The district should ensure that proper internal controls are maintained for the position control system by separating the duties between the Business and Human Resources departments. These controls should ensure that only board-authorized positions are entered into the system, that human resources hires only employees for authorized positions, and that the Payroll Department pays 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. The position control system should be kept current and be fully integrated to coordinate the functions of budget, personnel and payroll.

The Human Resources and Business Services departments should immediately review their policies and procedures for position control and work together to create a proper system of checks and balances. All employees who are responsible for position control data should be provided with training on the system and held accountable to ensure that accurate information is entered and procedures are followed. Immediate district follow-up should be performed in instances where controls have been ignored or overridden. The district should ensure that the budget is reviewed and updated monthly at both the resource and object levels. It is extremely important that the review be completed and then reviewed by a second employee to help ensure that all anticipated revenues and expenditures are accounted for and that the most current information available is applied when making budget revisions. It is imperative for the district to be able to project its fund balance at any given time. The district should also ensure that its annual board meeting calendar coincides with the required budget reporting time lines to allow as much time as possible for all budget documents to be submitted to the board by the required time lines.

An evaluation of the district's restricted balance to its total general fund balance indicates that the restricted balance increased proportionally over the prior three fiscal years. This may indicate underutilization of restricted funds and the district's need to evaluate, review and analyze its categorical programs to ensure that restricted dollars are being maximized.

It is essential that the Federal and State Programs Department and Business Services Department staff members communicate regarding categorical program budgeting and accounting, new grant applications, and discontinued programs. It is critical for the Business Services Department to be involved in these issues to help prevent errors and ensure the budget is accurate. These departments should review processes and procedures related to categorical program funds and develop a system of checks and balances to provide greater oversight and ensure maximization of funds.

With the current budget crises at the state and national levels, cash management has become one of the main concerns for every school district. The state has a history of deferring payments to school districts, starting with deferral of the 2002-03 June apportionment. The 2008-09 and 2009-10 state budget acts and the May Revise further complicate the situation with numerous additional deferrals. As a result, it is vital that the district monitor its current level of cash frequently and project cash flow to determine whether there will be sufficient cash to meet its future financial needs.

In August 2008, the district approved the Kaplan Academy's application to become a district-sponsored charter school. Key district personnel were not aware that the charter had been approved and knew of no district oversight duties that were performed during the fiscal year. The district should immediately establish procedures to comply with its legal obligations for charter oversight.

Curriculum and Instruction

The Curriculum and Instruction and Federal and State Programs departments are responsible for providing instructional programs and support to the district's students and school sites. It is imperative that these two departments work in unison to effectively accomplish these duties. However, communication is lacking between the departments. Clear guidelines and expectations for communication should be developed and implemented.

According to the 2008 Adequate Yearly Progress Report, Lynwood Unified is in the third year of district Program Improvement (PI) and has nine PI schools. A PI plan that explains the steps for planning, plan implementation, and corrective action required of PI districts in year three should be submitted to the governing board and affected parties. All PI steps taken previously, being taken now and in the future should be submitted to the board. The district should ensure all PI schools and the district meet the requirements of No Child Left Behind (NCLB), Legal Assurances, and the Education Code. Agendas and minutes of parent advisory groups should indicate that these groups are involved in the PI processes.

The Categorical Program Monitoring (CPM) Office completed its review of the district's categorical programs on May 30, 2008. The review requires resolution of the findings or ongoing efforts documented in writing, within 45 days of completion of the review. The governing board should be provided with evidence indicating that all CPM findings have been resolved. If some items remain unresolved, the board should be provided with copies of all correspondence with the CPM Office indicating attempts to resolve noncompliant items and the steps taken to meet requirements. In addition, procedures should be established for monitoring categorical programs at the district and site levels to ensure that categorical funds subject to supplanting regulations are used to supplement and not supplant the delivery of education expected of all public schools.

The Consolidated Application, Part II needs to include the signatures of the District Advisory Committee (DAC), the District English Learner Advisory Committee (DELAC) and the superintendent. The agendas and minutes of the DAC and DELAC meetings that indicate the review and approval of the Consolidated Application, Part II before submission to the governing board should be kept on file at the district office.

The district should ensure that the carryover amounts reported on the Consolidated Application match the district's unaudited actuals budget report. Information should be provided to the governing board regarding how categorical program expenditures are monitored, and budget reports should be made available for the board to review throughout the fiscal year. Best practices would include an annual examination, either conducted internally or by the district's external auditors, of all expenditures of federal and state categorical funds including those at the district and the school sites. Based on the lack of documentation provided regarding the use of prior year funds, a review of prior year expenditures should also be conducted.

The 2007-08 carryover amount for each federal and state categorical program should be reviewed to determine if the funds were properly reallocated and used to provide direct services to all eligible students. If they were not properly allocated, the 2008-09 Consolidated Application, Part II will need to be revised and resubmitted to the California Department of Education. If the school sites' Single Plan for Student Achievement needs to be revised to include carryover, these revisions must be approved by the governing board.

The district should verify the funding sources used for the purchase of Kaplan materials and the 2007 computer purchase. If categorical funds were used, the district should determine whether the applicable school site councils and advisory committees were involved in the decision to make these expenditures and if there was any violation of the Categorical Program Legal Assurances. If violations are found, the governing board should determine the appropriate remedy and establish procedures to ensure that no future violations occur.

Findings and Recommendations

Multiyear Financial Projections

Multiyear financial projections are required by AB 1200 and AB 2756 and are a part of the adoption budget and interim reporting process. In June 2004, AB 2756 (Daucher) was passed and signed into law on an urgency basis. This legislation made substantive changes to the financial accountability and oversight used to monitor the fiscal position of school districts and county offices. Among other things, AB 2756 strengthened the roles of the superintendent of public instruction (SPI) and county offices of education and their ability to intervene during fiscal crises, including requesting assistance from FCMAT.

MYFPs help districts make more informed decisions and forecast the effect of current decisions. Projections should be a part of annual budget development and evaluated and updated during each interim financial reporting period and in preparation for negotiations. In 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 government. The MYFP helps identify specific planning milestones that will help the district make decisions. Financial planning is crucial for every school district, regardless of its size or structure. Long-term financial planning helps a district strategically align its budget with its instructional goals and programs.

Any forecast of financial data has inherent limitations. 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 projection model should be evaluated as a trend based on certain criteria and assumptions instead of a prediction of exact numbers.

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

State Budget-Overview

Fiscal year 2008-2009 has been the most historic fiscal year on record for California school districts. In November, the governor called for a special session when it became clear that financial projections showed a growing multibillion-dollar deficit. During the emergency session, the governor released the 2009-2010 budget in December, a month earlier than normal.

On February 20, 2009, after months of delays, the governor signed a 17-month budget, senate bill (SB) 1, Chapter 1, Statutes of 2009, which runs through June 2010 and included revisions to the 2008-09 budget and approval of the 2009-10 state budget. The budget reduced education spending by $8.6 billion over the next 17 months. To address the state's $41.6 billion budget deficit, state lawmakers reduced expenditures by $14.9 billion, added $12.5 billion in new taxes, borrowed $5.4 billion and offset the difference with $7.9 billion in federal stimulus package funds.

The enacted budget depended on the passage of several ballot measures that went before the voters on May 19, 2009. All failed with the exception of Proposition 1F, which prevents pay increases for elected members of the legislature, constitutional officers and other elected state officials in years when the state has a deficit as defined by the director of finance.

The Governor's May Revise included further cuts to education funding. However, some relief to school budgets included flexibility options that allow previously restricted categorical program dollars to be used for any educational purpose, reduce the penalties for class-size reduction, lower the contribution to the routine restricted maintenance account required for local educational agencies who participate in the School Facility Program, and eliminate the deferred maintenance match.

In addition, the federal government enacted the American Recovery and Reinvestment Act (ARRA). The intent of the ARRA funds was to save jobs, stimulate the economy, improve academic outcomes and support school reform. Federal funds expected to offset cuts made earlier in the fiscal year are now needed to offset the additional cuts included in the May Revise.

California was the first state to benefit from the president's stimulus package. ARRA funds are provided in the following three areas:

- State Fiscal Stabilization Funding (SFSF) – These funds can be utilized for a broad range of purposes beginning April 17, 2009.

- Title I – These funds can be expended beginning February 17, 2009. The use of these funds is subject to cost and accounting rules under OMB-A87 and A133 and is subject to maintenance-of-effort requirements.

- Individuals with Disabilities Education Act (IDEA) – These funds can be expended beginning February 17, 2009 and are being sent to SELPAs for distribution. The use of these funds is subject to maintenance-of-effort requirements.

Funding information available at the time of this report is listed in the following table:

American Recovery and Reinvestment Act
One-Time Funding

Type of Funding	2008-09	2009-10
SFSF	$6,667,978	$0
Title I	$1,728,917	$1,728,917
IDEA	Unknown	Unknown
Total	$8,396,895	$1,728,917

School districts were scheduled to receive the first payments of SFSF and Title I dollars in June 2009 and are expected to receive the majority of the remaining dollars in July 2009. FCMAT has included in the MYFP the amounts listed in the above table; however, these amounts have not been applied to any particular program pending board direction and approval. More information regarding the ARRA funds can be found on the following CDE Web sites:

SFSF - http://www.cde.ca.gov/ar/sf/index.asp
Title I - http://www.cde.ca.gov/fg/aa/ca/nclbtitlei.asp
IDEA - http://www.cde.ca.gov/fg/fo/r18/arralocass09result.asp

The table below shows significant differences between the governor's January budget proposal for 2009-10, the state budget approved in February 2009, and the revised projections included in the May Revise. FCMAT's multiyear projection for Lynwood Unified was updated several times based on changes in the district and state budget and includes the most current projections included in the Governor's May Revise. As shown in the table below, the deficit factor that was applied to the revenue limit is 17.967% in 2009-10. This means that education will receive approximately 82 cents on the dollar in revenue limit funding. Additionally, selected state categorical programs will experience a 19.84% reduction over a two-year period. This is a significant reduction in funding when compared with the 2008-09 adopted budget.

Comparison of Governor's Proposal and Enacted State Budget

Fiscal Year	Proposed Budget 2009-10	Enacted Budget 2009-10	May Revise Budget 2009-10
Revenue Limit – Deficit			
2008-09	9.685%	7.844%	11.428%
2009-10	16.161%	13.094%	17.967%
2010-11	16.161%	13.094%	17.967%
State Categorical Program Funding Reductions			
2008-09	0.00%	15.38%	15.38%
2009-10	0.00%	4.46%	4.46%
2010-11	0.00%	0.00%	0.00%

Budgeting Flexibility - Sections 5, 15, and 42 of SBX3 4 provide budgeting flexibility for LEAs through the following measures:

- LEAs may use 100% of general fund or cafeteria fund restricted balances as of June 30, 2008, with specific exceptions, for any educational purpose (note caution below on use of cafeteria fund balances).

- For 2008-09 through 2012-13, LEAs may use funding formerly restricted for 39 specified categorical programs for any educational purpose.

- For 2008-09 through 2012-13, the required contribution to the routine restricted maintenance account (RRMA) is reduced from 3% to 1% of an LEA's total general fund expenditures and other financing uses.

- For 2008-09 through 2012-13, the local match requirement for the deferred maintenance program eligibility is eliminated. Additionally, program funding for this period is unrestricted and can be used for any educational purpose (see deferred maintenance section below.)

SBX3 4 does not limit an LEA's budgeting flexibility to the amount of revenue limit and categorical funding reductions the LEA sustains. *SBX3 4 also does not reduce the level of an LEA's required reserve for economic uncertainties.*

Restricted Balance Flexibility - SBX3 4 provides that 100% of general fund and cafeteria fund restricted account balances, as of June 30, 2008, may be used for any educational purposes with specific exceptions. The exceptions are restricted reserves committed for capital outlay, bond or sinking funds, federal funds, and balances in the following programs:

- The California High School Exit Exam Intensive Intervention Program
- Economic Impact Aid (EIA)
- Home-to-school transportation (including special education and school bus replacement)
- Instructional materials
- The Quality Education Investment Act (QEIA)
- Special education
- The Targeted Instructional Improvement Grant

Categorical Program Flexibility - Section 15 of SBX3 4 authorizes complete flexibility in the use of funds appropriated in 39 budget act items. For 2008-09 through 2012-13, these 39 programs have been reclassified from restricted to unrestricted, and program or funding requirements provided in the Education Code are not in effect.

FCMAT did not include any flexibility transfers in the MYFP analysis because they are subject to local approval by the governing board in a public hearing as a condition of funding, but not a condition of flexibility. The analysis includes a reduction of 15.38% in 2008-09 and an additional reduction of 4.46% in 2009-10 for the affected programs operated by the district.

K-3 Class Size Reduction - SBX3 4 changed the budget item source of appropriations, but not the total state support, for the kindergarten and grades one through three class size reduction program (K-3 CSR) in 2008-09 and closed the program in 2009-10 through 2011-12 to participants that did not apply for 2008-09 funds.

SBX3 4 established a new schedule of funding reduction percentages in Education Code section 52124.3 for classes exceeding 20.44 pupils. From 2008-09 through 2011-12, this new schedule replaces the schedule of funding reduction percentages previously established in Education Code section 52124. The new schedule provides for reductions to funding as follows:

Schedule of CSR Funding Reductions

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

Like the previous schedule, funding for classes of more than 20.44 pupils will be calculated based on a count not to exceed 20 pupils multiplied by the funding rate, less the funding reduction percentage. In FCMAT's MYFP analysis, no adjustments have been made to the K-3 CSR program funding.

Deferred Maintenance Program - The local matching contribution normally required as a condition of eligibility for the deferred maintenance basic grant funding is eliminated for 2008-09 through 2012-13.

The deferred maintenance program is funded by the state one year in arrears; therefore, funding for which LEAs apply in 2007-08 is appropriated by the state and apportioned to LEAs in 2008-09. The apportionment to the district in 2008-09 requires no local match.

The district makes an annual contribution of $873,800 to the deferred maintenance fund, and FCMAT continued this contribution in the MYFP analysis absent a formal decision by the governing board to utilize the flexibility option provided in the state budget.

In addition to the elimination of the local match requirement, deferred maintenance program funding is one of the 39 budget items made flexible by Education Code section 42605 for 2008-09 through 2012-13. Funding related to this budget item is therefore unrestricted for this five-year period and may be used for any educational purpose.

Routine Restricted Maintenance Account Contribution - The contribution to the routine restricted maintenance account (RRMA), required for LEAs participating in the state school facility program, is reduced from 3% to 1% of the total general fund expenditures and other financing uses for 2008-09 through 2012-13.

The district participates in the state school facility program and budgeted approximately $3.9 million at second interim to RRMA, resource 8150 in the general fund. FCMAT continued this contribution in the MYFP analysis absent a formal decision by the board to utilize the flexibility option.

A letter from the CDE dated April 17, 2009 contains additional information regarding the flexibility provisions and is located at the following CDE Web site:

http://www.cde.ca.gov/fg/ac/co/documents/sbx34budgetflex.doc

AB 1200 Oversight

If at any time during the fiscal year a district is unable 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 is required to notify the district's governing board and the state superintendent of public instruction (SPI). The county office is required to follow Education Code section 42127.6 in 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 to regain fiscal solvency and restore the required ending fund balance.

Regular and frequent budget monitoring becomes critical in times of fiscal uncertainty. The district will need to ensure that multiyear financial projections are kept up to date and that the information they contain is accurate and based on the most current assumptions. This is particularly important since economic indicators will change rapidly as California continues to struggle to balance its budget.

FCMAT has updated the multiyear projections to include the latest budget adjustments signed into law from the special state legislative session that ended in February 2009 and the governor's May Revise. *The MYFP developed for this report indicates that the district **will not** be able to maintain its required reserve of 3% in the current and two subsequent fiscal years*. The district faces substantial fiscal challenges that will require it to make and implement difficult decisions immediately.

The following 15 conditions represent the most common indicators of fiscal distress and are referenced in AB 2756 (Daucher) and included in Education Code sections 42127 and 42127.6:

1. Governance crisis
2. Absence of communication to 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 projections
10. Poor cash flow analysis and reconciliation
11. Bargaining agreements beyond state COLAs
12. Lack of integration of position control with payroll
13. Limited access to timely personnel, payroll, and budget control data and reports
14. Escalating general fund encroachment from restricted programs
15. Lack of regular budget monitoring

The district is experiencing several of these conditions that will require immediate attention. The governing board and administration will need to make difficult decisions based on the state's budget crisis.

Multiyear Financial Projection Method

FCMAT reviewed and used the district's second interim report for the general fund and the assumptions included with the multiyear financial projections for fiscal years 2008-09 through 2010-11 as a baseline for a MYFP analysis. FCMAT also reviewed the following items to prepare an independent MYFP:

- Board-approved budget adjustments.
- Enrollment and ADA projections for the current and two subsequent fiscal years.
- Revenue limit and cash flow documents.
- Documentation supporting the district's budget assumptions.
- Actual data from the district's financial system.

California school districts and county offices of education use many different software products to prepare MYFPs. For Lynwood Unified's MYFP, FCMAT used its Budget Explorer Web-based MYFP software, which was designed exclusively for California school districts and county offices of education. This tool is available to LEAs free of charge.

Budget Explorer allows school districts to create and update financial projections instantly by interfacing with the standardized account code structure (SACS) or importing data directly from a district's financial system. With its comprehensive modeling capabilities, the district can produce multiyear financial projections more efficiently, accurately and rapidly than with conventional spreadsheets. The district can use Budget Explorer to make more informed budget decisions and incorporate educational goals and objectives into several financial scenarios. The MYFP utilized in this document will be available to the district online upon completion of this report.

Multiyear Financial Projection Assumptions

Any forecast of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including enrollment trends, cost-of-living adjustments (COLAs), and forecasts for utilities, fuel, supplies and equipment. Financial projections must account for the changing economic conditions at the state, federal and local levels.

When making multiyear expenditure decisions about salaries and benefits, the district must analyze the compounding effects over multiple years. According to AB 1200 guidelines, school districts are required to estimate the cost of a tentative agreement for salary and benefits in the current and two subsequent fiscal years. Additionally, Government Code 3547.5(a) requires the major provisions of the agreement to be disclosed at a public meeting of the public school employer. Using a multiyear software program allows district staff to clearly determine the effect of these proposals on the unappropriated fund balance from year to year to ensure that reserve levels are maintained.

In developing the MYFP, FCMAT included board-authorized staffing reductions for certificated and classified employees in the 2009-10 and 2010-11 fiscal years. The district's second interim financial report included a reduction of 109 certificated and 32 classified positions; a six-day furlough for SEIU represented classified employees; some restructuring and reclassifications of positions; and a freeze of administrative salaries in an attempt to meet the reserve requirements for the current and two subsequent fiscal years. Even with these reductions, FCMAT's MYFP indicates the district will have a negative ending fund balance in the current and subsequent fiscal years.

As previously mentioned, FCMAT's projection includes the impact of the approved SBX3 4 emergency legislation that amended the state budget act for fiscal years 2008-09 and 2009-10. This includes significant midyear funding reductions to the categorical programs of 15.38% in the current fiscal year and an additional 4.46% in 2009-10.

The MYFP prepared by FCMAT uses the district's 2008-09 second interim financial report as the baseline. FCMAT also used budget assumptions based on the 2008-09 state budget act as amended on February 20, 2009 following the special legislation session, the Governor's May Revise, and School Services of California's (SSC's) Financial Dartboard assumptions updated in June 2009. FCMAT's MYFP does not include any salary increase in the current or projection years beyond the current negotiated agreement. Included in the projection years are the following:

- The average cost of step-and-column movement for all contracted salaries and the associated cost of employer-paid statutory benefits of 1.51% for certificated staff and 2.38% for classified staff.
- No increase for health and welfare costs in 2009-10 and 2010-11 because the district has a cap on these benefits.
- Increases in general operating expenditures based on the California consumer price index (CPI) and the most recent economic indicators.
- A current-year reduction for a four-day work furlough for classified staff and confidential employees totaling $509,276 in the unrestricted and restricted resources.
- Ongoing budget adjustments beginning in 2009-10 and totaling $9.26 million as approved by the governing board and included in the district's second interim report.

To verify the base year (2008-09) for the multiyear projection, FCMAT did the following:

- Prepared spreadsheet pivot tables for certificated, classified and management salary and benefit costs comparing actual year-to-date salary expense activity with budgeted information.
- Reviewed internal and third party support documentation to verify the district's current year revenues.
- Reviewed the district's actual revenue and expenditure detail to identify potential adjustments in each resource and in major object code sections of the general fund.

In addition to staff interviews, FCMAT used a number of district documents to develop a baseline and future assumptions for the MYFP, including the following:

- Approval letters from the county office regarding the adopted and interim budget reports.
- Outside review, analysis and recommendations related to the district's financial condition.
- Financial system budget comparative reports that correspond to amounts in the 2008-09 second interim financial report and actual transactions to date.

- The financial summary report showing all general ledger balance sheet accounts by fund for 2008-09 to analyze cash, accounts receivable and payables.
- Revenue-limit worksheets, including all supporting schedules for 2008-09 and 2009-10 projections.
- Historical enrollment information for the current and prior five fiscal years, and projections for the subsequent two years.
- Period one (P-1), period two (P-2), and annual attendance reports, including CBEDS data, for 2005-06 through 2008-09.
- Identification of any one-time revenues and expenditures included in the 2008-09 budget.
- Salary schedules and salary placement information for all employee groups.
- District and department organization charts.
- Long-term debt schedules from the 2007-08 audited financial statements and related contracts.
- Collective bargaining agreements for all employee groups.
- AB 1200 disclosure documents for the most recent salary settlement for all employee groups.
- Information on the health and welfare rate caps as stated in the collective bargaining agreement.
- Independent audit reports.

The following table includes the economic factors used by FCMAT in completing the district's multiyear financial projection:

Multiyear Projection Rules and Assumptions

Rule	Title	Base Yr 2008-09	Year 1 2009-10	Year 2 2010-11
Cert. COLA	Certificated COLA %	0.00%	0.00%	0.00%
Class. COLA	Classified COLA %	0.00%	0.00%	0.00%
Cert. Step%	Certificated Staff Step/Column Increase %	2.1200%	1.5100%	1.5100%
Clas. Step%	Classified Staff Step Increase %	2.05%	2.38%	2.38%
CPI	California CPI (SSC)	1.40%	0.90%	1.70%
LOT-Res	California Lottery Restricted (SSC)	$11.50	$11.50	$11.50
LOT-Unr	California Lottery Unrestricted (SSC)	$109.50	$109.50	$109.50
INT	Interest Rate Trend for 10 Year Treasuries (SSC)	3.00%	3.40%	3.70%
NetCOLA	Net Funded Revenue Limit COLA (SSC)	-6.41%	-3.45%	0.90%
RLDef	Revenue Limit Deficit: K-12 (SSC)	11.4280%	17.9670%	17.9670%
SpEdDef	Special Education COLA (SSC)	0.00%	0.00%	0.90%
CatCOLA	State Categorical COLA (SSC)	0.00%	0.00%	0.90%
StCOLA	Statutory COLA (SSC)	5.6600%	4.2500%	0.9000%
HW%	Health & Welfare Benefit Increase	0.00%	0.00%	0.00%
Enr	Year-to-Year Change in Enrollment	-2.45%	-3.24%	-2.68%
RL-ADA	Year-to-Year Change in RL ADA	0.00%	-4.27%	-2.59%
P2ADA	P2-ADA/ PRIOR YEAR ANNUAL ESTIMATE	0.00	15,915.71	15,236.03
TierI	Tier I Programs	0.00%	0.00%	0.90%
TierII	Tier II Programs	-15.38%	-4.46%	0.90%
TierIII	Tier III Programs	-15.38%	-4.46%	0.90%

(SSC) – based on School Services of California Financial Dartboard June 2009

Multiyear Financial Projection Analysis

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

To evaluate the multiyear projection, attention is focused on the district's ability to meet its reserve requirement of 3% and demonstrate a positive, unappropriated fund balance. FCMAT has analyzed all funding sources and expenditure categories by resource. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines. The unrestricted general fund summary below indicates that, without substantial reductions or revenue enhancements, the district will have a negative balance for the 2008-09, 2009-10 and 2010-11 fiscal years.

To protect the district's financial solvency and eliminate the projected $8.1 million shortfall in 2008-09, the $26.4 million shortfall in 2009-10, and the $50 million shortfall in 2010-11, the district will need to begin preparing immediately for a period of fiscal instability. To balance the budget, the district will need to make difficult choices about which expenditures and programs will continue to be funded and which will be scaled back, reconfigured or eliminated. In the short term, the district should take immediate actions to address the projected budget shortfall for the current and two subsequent fiscal years of the MYFP analysis.

FCMAT's MYFP indicates that the district **will not** meet its recommended reserve requirement in the current and two subsequent fiscal years without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending. The district's enrollment is projected to decrease during the next several fiscal years compounding the district's current financial situation.

Unrestricted General Fund - The district's general fund budget is a combination of unrestricted general purpose dollars and restricted grants and categorical funding. When analyzing the district's budget, much attention is focused on the unrestricted budget in particular the unappropriated ending fund balance. The district is in a fiscal crisis as demonstrated in the table below. The unrestricted budget is projected to have a shortfall in the general fund operating budget in all three fiscal years.

In 2008-09, the unrestricted general fund includes an interfund transfer of approximately $1 million from fund 67 to cover the post retirement benefits, including the STRS "golden handshake," that were not previously budgeted. The district reports that it is able to make this transfer due to a reduction in the balance needed for its workers' compensation reserve. By the end of this fiscal year, it is anticipated that the surplus in fund 67 will be exhausted. In the two subsequent fiscal years, the unrestricted general fund would need to support these ongoing obligations.

MYFP Unrestricted General Fund Summary

Name	Object Code	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Revenues				
Revenue Limit Sources	8010 - 8099	$84,729,836.34	$80,924,852.73	$78,086,056.26
Federal Revenues	8100 - 8299	$95,526.00	$95,526.00	$95,526.00
Other State Revenues	8300 - 8599	$9,450,225.00	$9,016,133.92	$8,894,237.52
Other Local Revenues	8600 - 8799	$450,000.00	$458,840.00	$468,787.08
Total Revenues		$94,725,587.34	$90,495,352.65	$87,544,606.86
Expenditures				
Certificated Salaries	1000 - 1999	$55,236,212.00	$49,765,591.81	$50,517,052.24
Classified Salaries	2000 - 2999	$13,220,130.00	$12,908,472.60	$13,216,602.85
Employee Benefits	3000 - 3999	$20,230,000.00	$18,816,689.88	$18,996,752.33
Books and Supplies	4000 - 4999	$1,677,290.00	$2,381,764.44	$2,045,538.59
Services and Other Operating Expenditures	5000 - 5999	$10,110,039.00	$9,200,441.85	$9,236,004.59
Capital Outlay	6000 - 6900	$0.00	$0.00	$0.00
Other Outgo (Transfer In from SFSF)	7000 - 7299	($6,667,978.00)	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($1,863,432.13)	($1,778,654.00)	($1,778,654.00)
Debt Service	7430 - 7439	$1,480,000.00	$1,496,296.00	$1,483,696.00
Total Expenditures		$93,422,260.87	$92,790,602.58	$93,716,992.60
Excess (Deficiency) of Revenues Over Expenditures		$1,303,326.47	($2,295,249.93)	($6,172,385.74)
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	$1,000,000.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$0.00	$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	($12,289,359.00)	($16,728,212.51)	($17,319,354.25)
Total Other Financing Sources\Uses		($11,289,359.00)	($16,728,212.51)	($17,319,354.25)
Net Increase (Decrease) in Fund Balance		($9,986,032.53)	($19,023,462.44)	($23,491,739.99)
Fund Balance				
Beginning Fund Balance	9791	$7,606,947.29	($2,379,085.24)	($21,402,547.68)
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$7,606,947.29	($2,379,085.24)	($21,402,547.68)
Ending Fund Balance		($2,379,085.24)	($21,402,547.68)	($44,894,287.67)
Components of Ending Fund Balance				
Reserved Balances	**9700**	$0.00	$0.00	$0.00
Revolving Cash	**9711**	$50,000.00	$50,000.00	$50,000.00
Stores	**9712**	$494,387.75	$494,387.75	$494,387.75
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		3%	3%	3%
Designated for Economic Uncertainties	**9770**	$5,040,978.63	$4,548,602.57	$4,589,508.92
Designated for the Unrealized Gains of Investments and Cash in County Treasury	**9775**	$0.00	$0.00	$0.00
Other Designated	**9780**	$223,735.00	$0.00	$0.00
Undesignated/Unappropriated	**9790**	$0.00	$0.00	$0.00
Negative Shortfall	**9790**	($8,188,186.62)	($26,495,538.00)	($50,028,184.34)

Restricted General Fund -The district has more than 60 restricted federal and state programs. Eight programs, including home-to-school transportation and special education, require a contribution from the district's unrestricted general fund in 2008-09. This encroachment increases in each subsequent year. The district needs to carefully review these contributions and ensure that all restricted programs are self-sustaining. The only exceptions should be special education and home-to-school transportation programs because these programs typically have insufficient state and federal funding support. The following table shows the district's restricted general fund budget.

Restricted General Fund Summary

Name	Object Code	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Revenues				
Revenue Limit Sources	8010 - 8099	$3,181,214.00	$3,181,214.00	$3,181,214.00
Federal Revenues	8100 - 8299	$30,254,363.50	$15,832,794.50	$14,157,243.00
Other State Revenues	8300 - 8599	$18,721,412.00	$17,345,195.88	$17,494,486.08
Other Local Revenues	8600 - 8799	$7,372,940.00	$7,341,543.72	$7,349,451.49
Total Revenues		$59,529,929.50	$43,700,748.10	$42,182,394.57
Expenditures				
Certificated Salaries	1000 - 1999	$22,688,822.00	$22,845,237.60	$23,190,200.66
Classified Salaries	2000 - 2999	$9,451,524.00	$9,829,389.11	$10,063,328.57
Employee Benefits	3000 - 3999	$9,465,202.00	$9,612,336.37	$9,720,983.61
Books and Supplies	4000 - 4999	$7,892,938.71	$2,483,485.54	$2,394,293.78
Services and Other Operating Expenditures	5000 - 5999	$11,000,897.17	$8,150,661.87	$8,002,369.09
Capital Outlay	6000 - 6900	$1,540,139.00	$90,291.51	$77,381.41
Other Outgo (Includes Transfer of SFSF)	7000 - 7299	$10,182,978.00	$3,515,000.00	$3,515,000.00
Direct Support/Indirect Cost	7300 - 7399	$1,514,059.13	$1,429,281.00	$1,429,281.00
Debt Service	7430 - 7439	$0.00	$0.00	$0.00
Total Expenditures		$73,736,560.01	$57,955,683.00	$58,392,838.12
Excess (Deficiency) of Revenues Over Expenditures		($14,206,630.51)	($14,254,934.90)	($16,210,443.55)
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$873,800.00	$873,800.00	$873,800.00
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	$12,289,359.00	$16,728,212.51	$17,319,354.25
Total Other Financing Sources\Uses		$11,415,559.00	$15,854,412.51	$16,445,554.25
Net Increase (Decrease) in Fund Balance		($2,791,071.51)	$1,599,477.61	$235,110.70
Fund Balance				
Beginning Fund Balance	9791	$5,129,627.73	$2,338,556.22	$3,938,033.83
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$5,129,627.73	$2,338,556.22	$3,938,033.83
Ending Fund Balance		$2,338,556.22	$3,938,033.83	$4,173,144.53
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**	$2,338,556.22	$3,938,033.83	$4,173,144.53
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

The district receives approximately $18.7 million of its revenue from state categorical programs, and the February 2009 passage of SBX3 4 distributes several of these programs into three tiers with varying levels of funding reductions and flexibility options in the current and subsequent fiscal years.

Complete categorical program flexibility was included with the governor's proposed budget. However, the February 20, 2009 state budget includes flexibility for only the tier III programs, which is extended through the 2012-13 year. The following tables indicate the programs included in each tier. The state flexibility options should be evaluated for each of the programs so that the district can maximize the use of its categorical funding.

Tier I programs – No Reductions and No Flexibility
After School Education and Safety
Child Development
Child Nutrition
Economic Impact Aid (EIA)
Home to School and Special Education Transportation
K-3 Class Size Reduction
Quality Education Investment Act
Special Education

Tier II programs – Reductions and No Flexibility
Adults in Correctional Facilities
Apprenticeship Programs
Agricultural Vocational Education
Charter School Facility Grants
English Language Acquisition Program
Foster Youth Educational Services
K-12 High Speed Network
Partnership Academies
Pupil Testing
Year-Round Education

Tier III programs - Reductions and Flexibility
AB 825 Targeted Instructional Improvement Block Grant
AB 825 Teacher Credentialing Block Grant
AB 825 Professional Development Block Grant
AB 825 Pupil Retention Block Grant
AB 825 School Safety Consolidated
AB 825 School and Library Improvement
Admin Training Program (AB 430)
Adult Education
Alternative Credentialing
Arts and Music Block Grant
Bilingual Teacher Training
California High School Exit Exam (CAHSEE) Intervention
California School Age Families Education (CalSAFE)

Tier III programs - Reductions and Flexibility
Student Leadership
Center for Civic Education
Certificated Staff Mentoring Program
Charter Schools Categorical Block Grant
Child Oral Health Assessments
Community Based English Tutoring (CBET)
Community Day Schools
Counselors, Grades 7-12
Class-Size Reduction-9th Grade
Deferred Maintenance
Educational Technology
Gifted and Talented Education (GATE)
High Priority Schools and II/USP
Indian Education Centers
Instructional Materials Fund
International Baccalaureate
National Board Certification
Peer Assistance and Review
Physical Education Teacher
Recruitment Grants
Readers for the Blind
Regional Occupational Centers/Programs
SB 472 Professional Development
School Safety Competitive Grant
Specialized Secondary Programs
Supplemental Hourly Programs
Teacher Dismissal Apportionments
Williams Audits

Unrestricted and Restricted General Fund - The combined unrestricted and restricted general fund shows a fund balance shortfall in the current and two subsequent fiscal years. Contributing to this shortfall was a projected cost-of-living adjustment of 0.68% at the beginning of the fiscal year, which is currently projected to be a deficit of 11.428% at the end of this fiscal year and 17.967% beginning in 2009-10. As previously mentioned, the district also experienced significant funding reductions to several state categorical programs

Combined Unrestricted and Restricted General Fund Summary

Name	Object Code	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Revenues				
Revenue Limit Sources	8010 - 8099	$87,911,050.34	$84,106,066.73	$81,267,270.26
Federal Revenues	8100 - 8299	$30,349,889.50	$15,928,320.50	$14,252,769.00
Other State Revenues	8300 - 8599	$28,171,637.00	$26,361,329.80	$26,388,723.60
Other Local Revenues	8600 - 8799	$7,822,940.00	$7,800,383.72	$7,818,238.57
Total Revenues		$154,255,516.84	$134,196,100.75	$129,727,001.43
Expenditures				
Certificated Salaries	1000 - 1999	$77,925,034.00	$72,610,829.41	$73,707,252.90
Classified Salaries	2000 - 2999	$22,671,654.00	$22,737,861.71	$23,279,931.42
Employee Benefits	3000 - 3999	$29,695,202.00	$28,429,026.25	$28,717,735.94
Books and Supplies	4000 - 4999	$9,570,228.71	$4,865,249.98	$4,439,832.37
Services and Other Operating Expenditures	5000 - 5999	$21,110,936.17	$17,351,103.72	$17,238,373.68
Capital Outlay	6000 - 6900	$1,540,139.00	$90,291.51	$77,381.41
Other Outgo	7000 - 7299	$3,515,000.00	$3,515,000.00	$3,515,000.00
Direct Support/Indirect Cost	7300 - 7399	($349,373.00)	($349,373.00)	($349,373.00)
Debt Service	7430 - 7439	$1,480,000.00	$1,496,296.00	$1,483,696.00
Total Expenditures		$167,158,820.88	$150,746,285.58	$152,109,830.72
Excess (Deficiency) of Revenues Over Expenditures		($12,903,304.04)	($16,550,184.83)	($22,382,829.29)
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	$1,000,000.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$873,800.00	$873,800.00	$873,800.00
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		$126,200.00	($873,800.00)	($873,800.00)
Net Increase (Decrease) in Fund Balance		($12,777,104.04)	($17,423,984.83)	($23,256,629.29)
Fund Balance				
Beginning Fund Balance	9791	$12,736,575.02	($40,529.02)	($17,464,513.85)
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$12,736,575.02	($40,529.02)	($17,464,513.85)
Ending Fund Balance		($40,529.02)	($17,464,513.85)	($40,721,143.14)
Components of Ending Fund Balance				
Reserved Balances	**9700**	$0.00	$0.00	$0.00
Revolving Cash	**9711**	$50,000.00	$50,000.00	$50,000.00
Stores	**9712**	$494,387.75	$494,387.75	$494,387.75
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**	$2,338,556.22	$3,938,033.83	$4,173,144.53
Economic Uncertainties Percentage		3%	3%	3%
Designated for Economic Uncertainties	**9770**	$5,040,978.63	$4,548,602.57	$4,589,508.92
Designated for the Unrealized Gains of Investments and Cash in County Treasury	**9775**	$0.00	$0.00	$0.00
Other Designated	**9780**	$223,735.00	$0.00	$0.00
Undesignated/Unappropriated	**9790**	$0.00	$0.00	$0.00
Negative Shortfall	**9790**	($8,188,186.62)	($26,495,538.00)	($50,028,184.34)

Adjustment Analysis

FCMAT's multiyear projection includes the following adjustments to the district's second interim report:

Revenue Limit – The district calculated unemployment expenditures to be $102,000. The MYFP has been adjusted to the actual projection of $281,167. In addition, the district has a charter school that is entitled to receive $46,441 in in-lieu property taxes that were previously not budgeted. Revenue limit calculations were completed based on the Governor's May Revise.

Federal Revenues - Federal revenues were balanced to the current year awards including deferred revenues and/or carryover balances. Title I, Corrective Action Plans program totaling $900,000, was not received until after second interim and has been added to the multiyear projection. FCMAT also recognized the one-time Title I ARRA funds of $1,728,917 in 2008-09 and 2009-10 and the one-time federal stimulus funds of $6,667,978 in 2008-09. All other federal programs were balanced to grant award letters.

In 2009-10, the funding for the Reading First Program is being eliminated, and funding for the Teaching American History Program is being reduced significantly.

State Revenues – Other state revenues were reduced by $200,000 based on actual funds received to date. Prior year revenues, previously not budgeted, showed receipts of $166,582. All other state programs were balanced to grant and/or entitlement letters.

Interest Earnings – The district's projection of $1.6 million has been reduced to $260,000 based on current estimates and earnings posted to date.

Other Local Revenues - The district has received $58,774 in other local revenues that were not budgeted.

Certificated Salaries – The district did not budget enough for class-size reduction teacher salaries in resource 1300. Based on actual salaries and projected costs to year end, the district needs to add approximately $8.8 million. All salary accounts were adjusted according to the year-to-date actual expenses and projections to year-end.

Classified Salaries - The furlough of four days was added in the current year and an ongoing six-day furlough was included in the subsequent fiscal years. All salary accounts were adjusted according to year-to-date actual expenses and projections to year-end.

Employee Benefits - Based on actual benefits and projected costs to year-end, the district needs to add approximately $2.5 million in employee benefits for K-3 CSR. The district projects a $1 million savings in workers' compensation costs for the current year. FCMAT has included this as a transfer in from the self-insurance fund rather than a reduction to employee benefits. All other benefits accounts were adjusted according to the year-to-date actuals and projections to year-end.

Supplies & Other Services - FCMAT made adjustments based on year-to-date expenditures and encumbrances. Total increases to the unrestricted resources, special education resources, restricted lottery and restricted routine maintenance equal $3,100,350. Several large encumbrance accounts were reduced to more accurately reflect projected expenditures based on conversations with district staff.

Other Outgo – FCMAT recognized the one-time federal stimulus funds, estimated at $6,667,978, as a negative expense in the unrestricted general fund because it is unknown at this time how the funds will be used by the district to support district programs.

Transfers In – The FCMAT analysis was based on a current-year transfer from the workers' compensation fund, Fund 67, to support the expenditures for retiree benefits. The FCMAT analysis did not include a transfer in the two subsequent fiscal years.

Indirect Cost – FCMAT's analysis includes the indirect cost for each program as projected by the district at second interim. However, the district is not charging the state-approved indirect cost rate for several of the restricted programs. The district should recalculate indirect costs for all restricted programs to properly reflect total program costs.

FCMAT's projection reduced supplies or services in the restricted resources where possible to remain within the projected revenue estimates. However, this action may also affect programs by reducing expenditures for these items.

Analysis of One-Time and Ongoing Savings – Employee Furlough Days and Other Reductions

Board resolution No. 08-09/20 approved in March 2009, included one-time unrestricted general fund savings for the 2008-09 fiscal year for a four-day reduction in payroll for classified employees and classified managers totaling $303,680. In addition, the board authorized $9.2 million in ongoing budget adjustments for the 2009-10 fiscal year to help balance the budget. The projected savings is shown in the following table:

Name	Object Code	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Expenditures				
Certificated Salaries	1000 - 1999	$0.00	($6,304,687.00)	($6,399,887.77)
Classified Salaries	2000 - 2999	($236,870.00)	($868,804.00)	($888,572.93)
Employee Benefits	3000 - 3999	($66,810.00)	($1,685,125.00)	($1,713,870.19)
Books and Supplies	4000 - 4999	$0.00	$0.00	$0.00
Services and Other Operating Expenditures	5000 - 5999	$0.00	($400,000.00)	($400,000.00)
Capital Outlay	6000 - 6900	$0.00	$0.00	$0.00
Other Outgo	7000 - 7299	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	$0.00	$0.00	$0.00
Debt Service	7430 - 7439	$0.00	$0.00	$0.00
Total Expenditures		($303,680.00)	($9,258,616.00)	($9,402,330.89)

Enrollment and Average Daily Attendance (ADA)

Proper enrollment tracking and analysis of ADA are essential to providing a solid foundation for budget planning. Because the district's primary funding is based on the total number of student days in the attendance cycle, monitoring and projecting student enrollment and attendance is a crucial function. When enrollment and related ADA decline, the district must consider the budgetary impacts of the decline on teacher-to-student ratios and plan accordingly. The district must also exercise extreme caution regarding budgetary issues such as negotiations, staffing and deficit spending to ensure fiscal solvency.

FCMAT reviewed the district's enrollment and ADA trends for 2003-04 through 2008-09. The review compared the October CBEDS student enrollment counts to the second period principal apportionment (P-2) to determine the average enrollment-to-ADA ratios. FCMAT noted several large variances between the state posted data and the information provided by the district for 2006-07, 2007-08 and 2008-09 enrollments. The district administration was unable to identify the differences. The district should ensure that enrollment data sent to the state agrees with the official district records and work with CDE to make any necessary changes to the previous years' enrollment data.

Historical data indicates the district has experienced declining enrollment for several years, including the current year. The district has lost approximately 15% of its enrollment, or 2,900 students, since 2003-04. FCMAT projects this trend will continue for at least the next two fiscal years. The district should explore options to attract and retain students and to increase its ratio of student attendance to enrollment.

<u>Enrollment Projection</u> - To project the district's future enrollment, FCMAT used the cohort survival method, which groups students by grade level upon entry and tracks them through each year that they stay in school. This method evaluates the longitudinal relationship of the number of students passing from one grade to the next in a subsequent year. This method more closely accounts for retention, dropouts and students transferring to and from the district grade by grade. Although other enrollment forecasting techniques

are available, the cohort survival method usually is the best choice for school districts because of its sensitivity to incremental changes in several key variables (see below).

Percentages are calculated from historical enrollment data to determine a reliable weighted average percentage of increase or decrease in enrollment between any two grades over the projection period. Ratios are calculated between grade levels from year to year, usually using data from the last five years. Enrollment variables include the following:

- Birth rates and trends.
- The historical ratio of enrollment progression between grade levels.
- Changes in educational programs.
- Inter-district and intra-district transfers.
- Migration patterns.
- Changes in local and regional demographics.
- Industry changes such as a new industry coming to the area or an industry leaving.
- Residential housing starts and the generation factor per household.
- The approval of charter schools, pending applications, and the recruitment efforts of approved charter schools within the district's boundaries.

The following table shows the district's historical and projected enrollment using the cohort survival method.

Historical and Projected Enrollment

Enrollment	Historical 5 2003 - 04	Historical 4 2004 - 05	Historical 3 2005 - 06	Historical 2 2006 - 07	Historical 1 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
K	1,478	1,474	1,297	1,258	1,226	1,203	1,163	1,132
1	1,550	1,502	1,436	1,337	1,336	1,320	1,267	1,233
2	1,595	1,488	1,488	1,366	1,282	1,279	1,267	1,214
3	1,606	1,532	1,415	1,394	1,304	1,236	1,221	1,211
4	1,691	1,548	1,394	1,320	1,328	1,290	1,185	1,177
5	1,549	1,612	1,463	1,360	1,288	1,275	1,247	1,146
Subtotal (K - 5)	9,469	9,156	8,493	8,035	7,764	7,603	7,350	7,113
6	1,638	1,498	1,530	1,397	1,387	1,279	1,261	1,238
7	1,567	1,535	1,462	1,458	1,392	1,327	1,240	1,222
8	1,534	1,423	1,424	1,382	1,429	1,365	1,285	1,205
Subtotal (6 - 8)	4,739	4,456	4,416	4,237	4,208	3,971	3,786	3,665
9	1,520	1,607	1,433	1,408	1,558	1,581	1,473	1,398
10	1,591	1,517	1,604	1,445	1,284	1,346	1,456	1,342
11	1,280	1,307	1,244	1,225	1,234	1,127	1,133	1,234
12	1,012	1,029	1,021	1,067	1,094	1,094	983	996
Subtotal (9 - 12)	5,403	5,460	5,302	5,145	5,170	5,148	5,045	4,970
Ungraded Elementary	44	0	0	0	0	0	0	0
Ungraded Secondary	3	0	0	0	0	0	0	0
Subtotal Excluding Charter Schools	19,658	19,072	18,211	17,417	17,142	16,722	16,181	15,748
Charter Schools (to calculate in-lieu property taxes)	0	0	0	0	164	164	164	164
Total	19,658	19,072	18,211	17,417	17,306	16,886	16,345	15,912
P2ADA	Historical 5 2003 - 04	Historical 4 2004 - 05	Historical 3 2005 - 06	Historical 2 2006 - 07	Historical 1 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Excluding Charter Schools	18,246.98	17,839.31	16,987.89	16,355.38	16,060.18	15,915.71	15,236.03	14,840.92
Charter Schools (to calculate in-lieu property taxes)	0.00	0.00	0.00	0.00	155.89	155.89	155.88	155.88
COE CommSchs/SpEd	0.00	0.00	0.00	0.00	152.31	152.31	152.31	152.31
Total	18,246.98	17,839.31	16,987.89	16,355.38	16,368.38	16,223.91	15,544.22	15,149.11
Enrollment Factors	Historical 5 2003 - 04	Historical 4 2004 - 05	Historical 3 2005 - 06	Historical 2 2006 - 07	Historical 1 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Excluding Charter Schools	0.9282	0.9354	0.9328	0.9390	0.9369	0.9518	0.9416	0.9424
Charter Schools (to calculate in-lieu property taxes)	0.0000	0.0000	0.0000	0.0000	0.9505	0.9505	0.9505	0.9505

Recommendations

The district should:

1. Begin preparing immediately for a period of fiscal instability.

2. Adopt a budget and multiyear projections that eliminate deficit spending and meet reserve requirements in the budget and projections years.

3. Ensure that the governing board immediately begins making decisions to address any conditions in the district that are indicators of fiscal distress as listed in this report.

4. Ensure that multiyear financial projections are accurate and up to date.

5. Prepare seniority lists in preparation of potential reduction in force for all bargaining units.

6. Ensure seniority lists meet the legal requirements and time lines required by the Education Code.

7. Review contributions to restricted programs and ensure all restricted programs are self-sustaining, except special education and home-to-school transportation.

8. Regularly review revenue and expenditure projections for reasonableness and make adjustments accordingly.

9. Compare budgeted expenditures to actual expenditures plus encumbrances and make adjustments accordingly.

10. Review calculations for Tier II and Tier III flexibility options to ensure the proper percentages are applied to all programs involved.

11. Carefully review ARRA funding rules for accountability and reporting requirements.

12. Compare position control data with budgeted amounts and actual payroll to ensure that what is in the budget accurately reflects board authorized positions.

13. Ensure all positions have supporting board authorization for position placement and compensation increases.

14. Complete an in-depth analysis and review of professional and legal expenditures and reduce costs where possible.

15. Review estimated enrollment and ADA calculations to ensure that they are accurate and conservative.

16. Ensure that enrollment data sent to the state agrees with the district's official records.

17. Work with the CDE to ensure that the 2006-07, 2007-08 and 2008-09 enrollment numbers are recorded correctly.

18. Evaluate and maximize all state flexibility options provided in the 2008-09 and 2009-10 state budgets.

19. Create a one-time spending plan for the federal stimulus (ARRA) funding.

20. Ensure that all programs are charged the maximum allowable indirect cost rate.

21. Explore options to attract and retain students and increase the ratio of student attendance to enrollment.

Subsequent Events

On July 28, 2009, the governor signed a package of bills that amended the 2008-09 and 2009-10 state budgets. Following completion of its 2008-09 unaudited actuals report, the district requested FCMAT to complete an additional multiyear projection based on its 2009-10 adopted budget and the state budget revisions enacted in July.

Because of a significant loss of revenue since the state adopted the 2009-10 budget in February, substantial additional cuts have been made to education funding. These cuts include the following:

- Proposition 98 – In an effort to avoid suspending Proposition 98, the state swept $1.6 billion in 2008-09 unallocated categorical funds and restored this amount in 2009-10, less funding for High Priority School Grants which ended in 2008-09. The state then acted to reduce each district's 2009-10 revenue limit on a one-time basis by approximately $253 per 2008-09 ADA. This one-time reduction is $4,059,407 for Lynwood Unified School District.

- Revenue Limit Deficit – The July state budget revisions included an increase in the revenue limit deficit factor. The 2009-10 deficit is 18.355%

- Quality Education Investment Act (QEIA) – The state budget revisions also included a cut to the revenue limit funding of districts with QEIA schools by an amount equal to what was received for QEIA. Because of significant concerns by the education community, the legislature passed ABX3 56, which repeals this funding mechanism and redirects some Title I, ARRA and SFSF funds to backfill this cut. This bill was signed by the governor on November 6, 2009; therefore, FCMAT's MYFP does not include a cut in the district's revenue limit to backfill the QEIA program.

- Transportation Funding – The budget revisions included a 19.84% reduction in home-to-school and special education transportation funding, and includes them in Tier II categorical programs.

The state budget revisions enacted in July provide some additional flexibility to school districts including:

- Categorical Funds – Authorizes districts to sweep prior year ending balances from an expanded list of programs as of June 30, 2008, including the following:
    - Instructional materials
    - Targeted Instructional Improvement Block Grant
    - California High School Exit Exam
    - Adult education
    - Deferred maintenance
-

- Routine Restricted Maintenance – Allows school districts that comply with Williams settlement requirements to reduce their contribution to routine restricted maintenance to 0% through 2012-13.

- Instructional Materials – Suspends requirements that school districts purchase newly adopted instructional materials through 2012-13, and prohibits the state board of education from initiating new adoptions during this period.

- California High School Exit Exam (CAHSEE) – Provides for an exemption for special education students on CAHSEE passage as a graduation requirement.

- Sale of Surplus Property – Allows districts to sell surplus property and use proceeds for one-time general fund purposes provided that the facility or property was purchased with local funds, there is no violation of any bond law or IRS regulations, and the district agrees to forego State School Deferred Maintenance Program hardship funding for five years.

- Reserve for Economic Uncertainties – Reduces the minimum statutory requirements for reserves to one-third of the normal statutory requirement in 2009-10. This provision requires school districts that utilize this option to make progress toward restoring reserves in 2010-11 and to fully restore the reserves in 2011-12.

- School Year – Allows school districts to reduce the number of instructional days by five days per year through 2012-13 or reduce the equivalent number of instructional minutes.

- AB 1200 Budget Review and Interim Reporting – Prohibits a county office of education from assigning a qualified or negative budget certification that is substantially based on a projected loss of one-time ARRA funds. This provision is effective only in the 2009-10 fiscal year.

The July revisions also included SBX4 16, which changed the statutory apportionment schedules for districts and pushes state funding to later in the fiscal year. In addition, several additional cash deferrals were enacted with the July budget revisions, making cash flow for school districts an even larger challenge than in previous years.

During the signing of the budget bills, the governor and legislative leaders indicated that additional budget adjustments may be required as California's budget crisis remains challenging and state cash collections are less than projected. Therefore, the district should be prepared to implement additional budget cuts that may occur in the 2009-10 fiscal year.

Additional information regarding the 2009 Budget Act may be accessed at the following Web site:

www.cde.ca.gov/nr/el/le/2009budgetact.asp

Multiyear Financial Projection Assumptions

The MYFP prepared by FCMAT uses the district's 2009-10 adopted budget as the baseline. FCMAT also used budget assumptions based on the 2009-10 state budget as revised on July 28, 2009 and School Services of California's Financial Dartboard dated September 14, 2009. The following table includes the economic factors used by FCMAT in completing the district's multiyear financial projection:

Projection Rules

Rule	Description	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
CertCOLA	Certificated COLA %	0.00%	0.00%	0.00%
ClassCOLA	Classified COLA %	0.00%	0.00%	0.00%
CertColumn%	Certificated Staff Column Increase %	0.00%	0.00%	0.00%
CertStep%	Certificated Staff Step Increase %	0.00%	1.51%	1.51%
ClasStep%	Classified Staff Step Increase %	0.00%	2.38%	2.38%
CPI	California CPI (SSC)	0.50%	1.90%	2.20%
LOT-Res	California Lottery Restricted (SSC)	$13.25	$13.25	$13.50
LOT-Unr	California Lottery Unrestricted (SSC)	$111.00	$111.00	$111.50
INT	Interest Rate Trend for 10 Year Treasuries (SSC)	3.60%	4.10%	4.40%
NetCOLA	Net Funded Revenue Limit COLA (SSC)	-7.64%	0.50%	2.30%
RLDef	Revenue Limit Deficit: K-12 (SSC)	18.36%	18.36%	18.36%
SpEdCOLA	Special Education COLA (SSC)	0.00%	0.50%	2.30%
CatCOLA	State Categorical COLA (SSC)	0.00%	0.50%	2.30%
StCOLA	Statutory COLA (SSC)	4.25%	0.50%	2.30%
HW%	Health & Welfare Benefit Increase	0.00%	0.00%	0.00%
CustAmt	Custom Amount	$0.00	$0.00	$0.00
Cust%	Custom Percent	0.00%	0.00%	0.00%
Cust1Amt	Custom One Time Amount	$0.00	$0.00	$0.00
Cust1%	Custom One Time Percent	0.00%	0.00%	0.00%
ManInput	Manual Input	$0.00	$0.00	$0.00
PRO	Proportional	0.00%	0.00%	0.00%
Zap	Zero Out	$0.00	$0.00	$0.00
Enr	Year-to-Year Change in Enrollment	-0.22%	-2.15%	-1.07%
RL-ADA	Year-to-Year Change in RL ADA	0.00%	-2.15%	-1.07%
TchrStfg	Year-to-Year Change in Teacher Staffing	0.00%	0.00%	0.00%
SalFrcstr	Salary Forecaster	$0.00	$0.00	$0.00
P2ADA	P2-ADA/ PRIOR YEAR ANNUAL ESTIMATE	0.00	15,671.49	15,335.26
TierI	Tier I Programs	0.00%	0.50%	2.30%
TierII	Tier II Programs	-4.46%	0.50%	2.30%
TierIII	Tier III Programs	-4.46%	0.50%	2.30%
RLDefCOE	County Office Revenue Limit Deficit	18.62%	18.62%	18.62%
	Available	0.00%	0.00%	0.00%
	Available	0.00%	0.00%	0.00%
	Available	0.00%	0.00%	0.00%
	Available	0.00%	0.00%	0.00%
	Available	0.00%	0.00%	0.00%
	Available	0.00%	0.00%	0.00%
	Available	0.00%	0.00%	0.00%
CTechEdGrant	Career and Technical Ed Grants	0.00%	0.00%	0.00%
SSC CSR	SSC-CSR/ SSC CSR	$0.00	$0.00	$0.00
K3 CSR	K3-CSR/ K3 CSR	$0.00	$0.00	$0.00
AutoBal	Autobalance Rule	$0.00	$0.00	$0.00
FedCOLA	Federal COLA	0.00%	0.00%	0.00%
IndirectRate	Indirect Rate	0.00%	0.00%	0.00%

FCMAT's MYFP indicates that the district *will not* meet its recommended minimum reserve requirement in the current and two subsequent fiscal years without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending.

Based on the September 2009 enrollment information provided by the district, enrollment is projected to be slightly higher than the projections completed at the 2008-09 second interim report. However, enrollment is still projected to decrease on a year-over-year basis during the current and two subsequent fiscal years.

Adjustment Analysis

Information provided to FCMAT indicated that the district made numerous unsubstantiated reductions during budget development to balance the district's 2009-10 budget and multiyear projections. This required FCMAT to make several adjustments to the current year budget before completing its MYFP. These adjustments and the adjustments based on the July 2009 revised state budget include the following:

Revenue Limit – FCMAT calculated the district's revenue limit for 2009-10 and the projection years using the state budget information from the August 2009 California School Finance and Management Conference and the current SSC Financial Dartboard, that includes the state budget revisions enacted in July 2009. These factors include the estimated statutory COLA of 4.25% for 2009-10, .50% for 2010-11, 2.30% for 2011-12 and a revenue limit deficit of 18.355% beginning in 2009-10 and continuing throughout the projection. Although the projected statutory COLAs have been included in the projection years, it is important to note that the state may not be able to fund them given the national and state economic crisis. The district should have contingency plans in place should the COLAs not be funded.

The revenue limit for 2009-10 has been adjusted to include a one-time reduction of $252.83 per 2008-09 ADA based on the 2009-10 state budget revision.

The 2009-10 revenue limit has been increased $193,868 based on estimated costs for state unemployment insurance, and a transfer of $34,932 has been included for charter school in-lieu property tax revenue that was not included in the budget.

The district's 2009-10 budget included ADA of 16,204.10, which appears to be based on the 2007-08 P-2 attendance report. This total was also reflected in the county office's 2009-10 revenue limit worksheets. The law provides that a district may claim the greater of the current year or prior year ADA. Because the district is experiencing declining enrollment, FCMAT adjusted the calculations based on the 2008-09 P-2 ADA, and included the county operated programs. The total ADA reflected in FCMAT's projection for 2009-10 is 16,023.63.

Federal Revenues – Restricted federal revenues were adjusted in 2009-10 based on the prior year carryover and current year allocations as reported by the California Department of Education (CDE) if available. This included a reduction in Title I funding and the elimination of funding for the Reading First Program.

FCMAT recognized the remaining one-time Title I ARRA funds of $2,679,822 as reflected in the estimated entitlements reported by CDE. These funds are included in the restricted ending balance of FCMAT's MYFP. The district will need to determine how to use these funds in compliance with federal regulations.

FCMAT recognized the remaining one-time IDEA ARRA funds of $1,429,720 as reflected in the SELPA award letter dated July 30, 2009. These funds are reflected in the restricted ending balance of FCMAT's MYFP. The district will need to determine how to use these funds in compliance with federal regulations.

FCMAT's MYFP also includes the remaining one-time State Fiscal Stabilization Funds of $2,360,806 as shown in the estimated entitlements reported by CDE. These funds have been used to reduce the expenditures in the unrestricted general.

State Revenues – Restricted state revenues were adjusted in 2009-10 based on prior year carryover and current year allocations as reported by the CDE if available. This included the 19.84% reduction in home-to-school and special education transportation as enacted by the July 2009 state budget revision.

The 2009 state budget includes CAHSEE (resource 7055) and Instructional Materials (resource 7156) in the Tier III categorical programs. The district should move the revenue and expenditures for these resources to the unrestricted general fund. In addition, payroll expenditures are being charged to the Supplemental School Counseling Program (resource 7080), which is now a Tier III categorical program. These expenditures should be moved to another funding source. Payroll expenditures are also being charged to the High Priority Schools Grant Program (resource 7258) which has been eliminated. These expenditures should be moved to another funding source.

Local Revenues – No changes were made.

Certificated Salaries – Salary accounts were adjusted according to the year-to-date expenditures as reflected on the district's September 28, 2009 Financial System Budget Comparative Report and projections through year-end based on the district's September 1, 2009 certificated payroll report. The FCMAT multiyear projection includes the impact of a 1.51% ongoing cost of step-and-column movement for contracted salaries in the projection years and *no other adjustments* for salary enhancements since those are determined at the local level.

Enrollment projections indicate that the district will continue to experience declining enrollment for the current and two succeeding fiscal years. FCMAT's MYFP does not include reductions in staffing based on the enrollment decline as this is a decision that is made at the local level. However, the district should review staffing in conjunction with enrollment projections and make the necessary reductions.

The MYFP includes the savings related to the 2009-10 3% salary reduction and one-day furlough for employees represented by the Lynwood Teachers Association and management employees. FCMAT added a budget for extra duty stipends since they were not included in the district's budget and increased the budget for substitutes based on year-to-date expenditures. The MYFP was also increased to include the costs for the interim superintendent and the chief academic officer. During its salary analysis, FCMAT found that the salary projections based on actual expenditures and payroll were significantly different than the district's budget in numerous resources.

Classified Salaries – Salary accounts were adjusted according to the year-to-date expenditures as reflected on the district's September 28, 2009 Financial System Budget Comparative Report and projections through year-end based on the district's October 9, 2009 classified payroll report. The FCMAT MYFP includes the impact of a 2.38% ongoing cost of step movement and *no other adjustments* for salary enhancements as those are determined at the local level.

The MYFP includes the savings related to the 2009-10 3% salary reduction and one-day furlough for confidential, management, supervisors, and nonrepresented employees. It also includes the 2009-10 savings related to the six-day furlough for employees represented by SEIU. FCMAT added a budget for overtime since it was not budgeted by the district; however, there have been costs incurred to date. During its salary analysis, FCMAT found that the salary projections based on actual expenditures and payroll were significantly different that the district's budget in numerous resources.

Employee Benefits – FCMAT adjusted statutory benefits in proportion to certificated and classified salary changes.

Books and Supplies – FCMAT adjusted the 2009-10 budget based on the 2008-09 actual expenditures, specifically in the special education and ongoing and major maintenance resources. The projection years include an increase based on the Consumer Price Index (CPI) inflation factor from the SSC Dartboard and the reduction in projected student enrollment.

Services and Operating Expenditures – FCMAT adjusted the 2009-10 budget based on the 2008-09 actual expenditures, specifically in the unrestricted, special education, special education transportation, and ongoing and major maintenance resources. The projection years include an increase based on the CPI and the reduction in projected student enrollment where appropriate.

Capital Outlay – No adjustments were made.

Other Outgo – FCMAT recognized the remaining one-time federal stimulus funds, estimated at $2,360,806, as a negative expense in the unrestricted general fund since it is unknown how the funds will be used by the district to support district programs.

Direct Support/Indirect Costs – FCMAT's MYFP includes the indirect cost for each program as projected by the district at budget adoption. However, the district projects indirect costs based on the revenue in each program rather than the projected expenses and should recalculate indirect costs for each program at the next reporting period.

Debt Service – No adjustments were made.

Contributions to/from Restricted Programs – FCMAT's projection reduced supplies or services in the restricted resources where possible to remain within the projected revenue estimates. However, this action may also affect programs by reducing expenditures for these items. The contributions from Economic Impact Aid were eliminated as this funding source does not allow for transfers out of the program. FCMAT also increased the contributions to restricted programs where necessary based on the budget adjustments indicated above.

Reserve Level - The FCMAT projection indicates that the district *will not* be able to meet the required reserve level in fiscal years 2009-10, 2010-11 and 2011-12.

General Fund/County School Service Fund
Unrestricted Resources Only
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2008 - 09	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
Revenues					
Revenue Limit Sources	8010 - 8099	$87,383,986.10	$76,226,559.45	$79,409,404.91	$79,439,127.48
Federal Revenues	8100 - 8299	$0.00	$0.00	$0.00	$0.00
Other State Revenues	8300 - 8599	$10,064,619.25	$13,393,412.00	$13,325,018.42	$13,525,647.19
Other Local Revenues	8600 - 8799	$394,071.82	$369,882.00	$380,397.88	$392,145.92
Total Revenues		$97,842,677.17	$89,989,853.45	$93,114,821.21	$93,356,920.59
Expenditures					
Certificated Salaries	1000 - 1999	$50,944,557.07	$46,692,735.00	$49,908,653.60	$50,560,482.75
Classified Salaries	2000 - 2999	$14,719,639.75	$13,882,151.00	$14,618,290.34	$14,962,636.00
Employee Benefits	3000 - 3999	$16,347,207.10	$17,024,651.00	$17,182,176.64	$17,342,637.98
Books and Supplies	4000 - 4999	$1,120,974.87	$2,295,341.00	$2,288,665.00	$2,313,988.17
Services and Other Operating Expenditures	5000 - 5999	$11,432,698.40	$10,806,023.00	$10,890,618.31	$11,069,879.38
Capital Outlay	6000 - 6900	$0.00	$17,667.00	$17,667.00	$17,667.00
Other Outgo	7000 - 7299	$0.00	($2,360,806.00)	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($1,246,940.77)	($2,161,007.00)	($2,161,007.00)	($2,161,007.00)
Debt Service	7430 - 7439	$1,479,055.51	$1,496,296.00	$1,483,696.00	$1,480,896.00
Total Expenditures		$94,797,191.93	$87,693,051.00	$94,228,759.89	$95,587,180.28
Excess (Deficiency) of Revenues Over Expenditures		$3,045,485.24	$2,296,802.45	($1,113,938.68)	($2,230,259.69)
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$3,001,336.49	$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	($7,009,034.84)	($11,580,272.00)	($12,120,096.68)	($12,351,545.01)
Total Other Financing Sources\Uses		($4,007,698.35)	($11,580,272.00)	($12,120,096.68)	($12,351,545.01)
Net Increase (Decrease) in Fund Balance		($962,213.11)	($9,283,469.55)	($13,234,035.36)	($14,581,804.70)
Fund Balance					
Beginning Fund Balance	9791	$7,606,947.29	$6,644,734.18	($2,638,735.37)	($15,872,770.73)
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		$7,606,947.29	$6,644,734.18	($2,638,735.37)	($15,872,770.73)
Ending Fund Balance		$6,644,734.18	($2,638,735.37)	($15,872,770.73)	($30,454,575.43)
Components of Ending Fund Balance					
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$50,000.00	$50,000.00	$50,000.00	$50,000.00
Stores	9712	$460,719.86	$460,719.86	$460,719.86	$460,719.86
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$0.00	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		3.00%	3.00%	3.00%	3.00%
Designated for Economic Uncertainties	9770	$4,645,687.50	$3,947,961.21	$4,060,215.17	$4,114,063.73
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	$1,488,326.82	$0.00	$0.00	$0.00
Negative Shortfall	9790	$0.00	($7,097,416.44)	($20,443,705.76)	($35,079,359.02)

General Fund/County School Service Fund
Restricted Resources Only
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2008 - 09	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
Revenues					
Revenue Limit Sources	8010 - 8099	$3,886,420.37	$3,271,444.00	$3,287,800.57	$3,363,419.39
Federal Revenues	8100 - 8299	$20,734,901.98	$29,911,375.00	$15,009,392.00	$15,009,392.00
Other State Revenues	8300 - 8599	$18,372,091.77	$12,335,929.00	$11,767,803.63	$12,031,735.42
Other Local Revenues	8600 - 8799	$7,156,675.00	$7,372,940.00	$7,372,940.00	$7,372,940.00
Total Revenues		$50,150,089.12	$52,891,688.00	$37,437,936.20	$37,777,486.81
Expenditures					
Certificated Salaries	1000 - 1999	$22,167,895.90	$10,078,948.00	$10,248,000.11	$10,400,419.52
Classified Salaries	2000 - 2999	$9,284,929.26	$7,285,926.00	$7,459,331.04	$7,636,863.11
Employee Benefits	3000 - 3999	$7,891,828.77	$6,626,272.00	$6,700,791.16	$6,774,249.11
Books and Supplies	4000 - 4999	$5,575,203.62	$5,246,176.00	$4,357,582.52	$4,338,163.80
Services and Other Operating Expenditures	5000 - 5999	$7,544,132.60	$7,182,709.00	$7,221,221.97	$7,273,762.81
Capital Outlay	6000 - 6900	$1,501,007.08	$9,699.00	$9,699.00	$9,699.00
Other Outgo	7000 - 7299	$4,355,031.00	$5,715,837.00	$3,355,031.00	$3,355,031.00
Direct Support/Indirect Cost	7300 - 7399	$865,230.00	$1,760,089.00	$1,760,089.00	$1,760,089.00
Debt Service	7430 - 7439	$0.00	$0.00	$0.00	$0.00
Total Expenditures		$59,185,258.23	$43,905,656.00	$41,111,745.80	$41,548,277.35
Excess (Deficiency) of Revenues Over Expenditures		($9,035,169.11)	$8,986,032.00	($3,673,809.60)	($3,770,790.54)
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$873,800.00	$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	$7,009,034.84	$11,580,272.00	$12,120,096.68	$12,351,545.01
Total Other Financing Sources\Uses		$6,135,234.84	$11,580,272.00	$12,120,096.68	$12,351,545.01
Net Increase (Decrease) in Fund Balance		($2,899,934.27)	$20,566,304.00	$8,446,287.08	$8,580,754.47
Fund Balance					
Beginning Fund Balance	9791	$5,284,387.16	$2,384,452.89	$22,950,756.89	$31,397,043.97
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		$5,284,387.16	$2,384,452.89	$22,950,756.89	$31,397,043.97
Ending Fund Balance		$2,384,452.89	$22,950,756.89	$31,397,043.97	$39,977,798.44
Components of Ending Fund Balance					
Reserved Balances	9700	$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 Prepay	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$2,384,452.89	$22,950,756.89	$31,397,043.97	$39,977,798.44
Designated for Economic Uncertainties	9770	$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

General Fund/County School Service Fund
Unrestricted and Restricted Resources
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2008 - 09	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
Revenues					
Revenue Limit Sources	8010 - 8099	$91,270,406.47	$79,498,003.45	$82,697,205.48	$82,802,546.87
Federal Revenues	8100 - 8299	$20,734,901.98	$29,911,375.00	$15,009,392.00	$15,009,392.00
Other State Revenues	8300 - 8599	$28,436,711.02	$25,729,341.00	$25,092,822.05	$25,557,382.61
Other Local Revenues	8600 - 8799	$7,550,746.82	$7,742,822.00	$7,753,337.88	$7,765,085.92
Total Revenues		$147,992,766.29	$142,881,541.45	$130,552,757.41	$131,134,407.40
Expenditures					
Certificated Salaries	1000 - 1999	$73,112,452.97	$56,771,683.00	$60,156,653.71	$60,960,902.27
Classified Salaries	2000 - 2999	$24,004,569.01	$21,168,077.00	$22,077,621.38	$22,599,499.11
Employee Benefits	3000 - 3999	$24,239,035.87	$23,650,923.00	$23,882,967.80	$24,116,887.09
Books and Supplies	4000 - 4999	$6,696,178.49	$7,541,517.00	$6,646,247.52	$6,652,151.97
Services and Other Operating Expenditures	5000 - 5999	$18,976,831.00	$17,988,732.00	$18,111,840.28	$18,343,642.19
Capital Outlay	6000 - 6900	$1,501,007.08	$27,366.00	$27,366.00	$27,366.00
Other Outgo	7000 - 7299	$4,355,031.00	$3,355,031.00	$3,355,031.00	$3,355,031.00
Direct Support/Indirect Cost	7300 - 7399	($381,710.77)	($400,918.00)	($400,918.00)	($400,918.00)
Debt Service	7430 - 7439	$1,479,055.51	$1,496,296.00	$1,483,696.00	$1,480,896.00
Total Expenditures		$153,982,450.16	$131,598,707.00	$135,340,505.69	$137,135,457.63
Excess (Deficiency) of Revenues Over Expenditures		($5,989,683.87)	$11,282,834.45	($4,787,748.28)	($6,001,050.23)
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$3,001,336.49	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$873,800.00	$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	$0.00	$0.00	$0.00
Total Other Financing Sources\Uses		$2,127,536.49	$0.00	$0.00	$0.00
Net Increase (Decrease) in Fund Balance		($3,862,147.38)	$11,282,834.45	($4,787,748.28)	($6,001,050.23)
Fund Balance					
Beginning Fund Balance	9791	$12,891,334.45	$9,029,187.07	$20,312,021.52	$15,524,273.24
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		$12,891,334.45	$9,029,187.07	$20,312,021.52	$15,524,273.24
Ending Fund Balance		$9,029,187.07	$20,312,021.52	$15,524,273.24	$9,523,223.01
Components of Ending Fund Balance					
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$50,000.00	$50,000.00	$50,000.00	$50,000.00
Stores	9712	$460,719.86	$460,719.86	$460,719.86	$460,719.86
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$2,384,452.89	$22,950,756.89	$31,397,043.97	$39,977,798.44
Economic Uncertainties Percentage		3.00%	3.00%	3.00%	3.00%
Designated for Economic Uncertainties	9770	$4,645,687.50	$3,947,961.21	$4,060,215.17	$4,114,063.73
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	$1,488,326.82	$0.00	$0.00	$0.00
Negative Shortfall	9790	$0.00	($7,097,416.44)	($20,443,705.76)	($35,079,359.02)

Budget Processes and Procedures

Budget Development

The district adopts its annual budget within the statutory time lines established by Education Code Section 42127. This section requires the governing board to hold a public hearing on or before July 1 on the budget to be adopted for the subsequent fiscal year. No more than five days after that adoption or by July 1, whichever occurs first, the governing board is required to file the budget with the county superintendent of schools. The budget should reflect goals and objectives that are developed annually and approved by the board. School district budgets are not static. Revenue, expense, and the estimated ending balance of each fund can change during the year because of items such as the state-adopted budget, changes in personnel and negotiated settlements of collective bargaining agreements.

Budget development is a detailed process that begins as early as November or December of the prior year for some school districts. Position control is revised and updated, revenues are estimated, and the district should prioritize its goals, ensuring that expenditures reflect them. Districts should construct a budget development calendar so that each staff member and department is aware of deadlines, can meet them and allow the next budget function to proceed. Interviews with various district personnel indicated the district does not use a budget development calendar although one is developed for the budget advisory committee. Very little communication occurs between the Federal and State Programs Department and the Business Services Department in coordinating the tasks necessary to build the annual budget. The district should review its budget development tasks and time lines and construct a district-specific annual budget development calendar to be used by all departments.

The district divides the responsibilities for its program budgets between two departments. The Federal and State Programs Department, headed by the assistant superintendent of federal and state programs, develops implements and monitors federal and state categorical programs. The Business Services Department, headed by the chief business official, develops, implements and monitors all other program budgets. Once each department builds its budget, the Business Services Department compiles the state-mandated reporting forms and presents the formal budget to the board and community.

The district controller has primary responsibility for developing all program budgets under the Business Services Department and assembling the district's budget into one cohesive document. Development of budgets for federal and state categorical programs appears to happen solely in the Federal and State Programs Department, and sites indicated they do not receive their categorical budgets until July. This is well after the budget-building process has taken place and hinders the sites' ability to meet with their school site councils to plan until after the school year has begun. Departments had similar concerns, stating that the current year budget is used to create the following year's budget with no input from the department regarding necessary changes.

While the fact that fewer people involved in creating the budget may hasten the time lines involved in budget development, sites and departments expressed a desire to have some input and control in the process. This would help the Federal and State Programs and Business Services departments by creating a sense of responsibility at the site and department levels, a better understanding of budgetary issues, and possibly fewer budget transfers during the year. Implementing such a process would require a good deal of effort at the outset with the Federal and State Programs and the Business Services departments working together to develop site- and department-specific budget workshops. However, the result would ultimately help both departments in budget development.

Most of the district's funding comes through revenue limit resources, 64.5% in 2007-08 and an estimated 60.4% in 2008-09. ADA in the second principal apportionment period (P-2) drives the revenue limit calculation. P-2 is the period from the first day of the school year through the last school month that ends on or before April 15. ADA can be estimated in a variety of ways; however, the district traditionally uses 96% of enrollment to estimate its ADA. A review of the district's historical average of CBEDS enrollment to P-2 ADA indicated a five-year historical average of 93.45%. It appears that the district includes ADA for adult education in its calculation. Because adult education is a separate fund and receives its apportionments separately, its ADA should not be included in the ADA utilized in the revenue limit calculation. This error would cause revenue to be overstated in the general fund. The district should review its estimated enrollment and ADA calculations to ensure it is as accurate and conservative as possible.

While the district determines the ADA to be used in the revenue limit calculation, the Los Angeles County Office of Education (LACOE) develops the actual calculation. The county office completes its calculations and sends them to the district for review and use in the budget process. The district's 2007-08 unaudited actuals, Line 21 of Form RL, indicated that the cost of PERS reduction for the 2007-08 fiscal year was $875,254, and the estimated cost for the 2008-09 adoption budget was $484,943. However, there was no reduction in the percentage cost associated with this benefit, and little change occurred in the estimated salary expense that the cost was based on. Underreporting PERS reduction in the revenue calculation would cause revenue to be overstated. The district's expense associated with PERS reduction may also be understated, but that could not be determined based on the information provided. The assumptions used to calculate the revenue limit should be carefully reviewed during each reporting period to avoid overreporting or underreporting.

Other revenues are based on estimates provided by various sources including School Services of California, the California Department of Education, and the county office. Two of these revenue sources are the state lottery and ninth grade class-size reduction (CSR). At budget adoption, the Business Services Department estimated the base state lottery funding would be $115 per 2007-08 annual ADA and ninth grade CSR would be $190 per eligible student. When the adoption budget was being developed, School

Services of California estimated the base state lottery revenue at $115.50 per ADA and ninth grade CSR revenue to be $213 per eligible student. These inaccuracies resulted in underreporting the base state lottery revenue by $8,838 and ninth grade CSR by $33,597 during budget adoption. While these errors are not material to the district's total budget, and budgeted amounts have changed significantly since budget adoption, the budget should include the most accurate and up-to-date information.

Based on the second interim report, the district receives approximately 19% of its revenues from state categorical programs. With the February 2009 passage of SBX3 4, all state categorical programs were sorted into one of three tiers. Those resources subject to cuts will receive a 15.38% cut in funding for the 2008-09 school year and an additional 4.46% funding cut in 2009-10. Programs with a flexibility option are subject to two parts within that option. Part one allows for transfers of the 2007-08 ending fund balance to the unrestricted portion of the general fund on a one-time basis. The second part of the flexibility option allows the current year revenue to be transferred to any educational purpose for the fiscal years 2008-09 through 2012-13. The tiers are as follows:

- Tier I: No cuts to funding and no flexibility options
- Tier II: Subject to cuts but no flexibility options
- Tier III: Subject to cuts with flexibility options

The district provided FCMAT with copies of a spreadsheet used to calculate the revenue streams from the Tier III programs for the 2008-09 and 2009-10 fiscal years. A review of that spreadsheet found that the English Language Acquisition Program (ELAP), resource 6286, is listed as a Tier III program but should be categorized as Tier II. While this does not affect the calculation of the funding for the current and subsequent fiscal years, this program does not allow flexibility to transfer its June 30, 2008 fund balance. It is important that the district correctly categorize each program to determine which allow balances to be transferred to the unrestricted portion of the general fund to help mitigate reductions in revenue limit funding.

Employee salary and benefit costs represent the largest part of a school district's budget. Statewide, employee salaries and benefits average 91% of the unrestricted general fund budget for unified school districts. The district's second interim report indicates that 88.3% of its 2008-09 unrestricted general fund expenditure budget and 78.1% of its total general fund expenditure budget are projected to be used for employee compensation. The second interim report also indicates that the district is projected to deficit spend approximately $6.9 million in 2008-09; $1.9 million in unrestricted funds and $5 million in restricted funds.

FCMAT analyzed the district's certificated staffing as it relates to the number of students and found that its student-to-teacher ratio at each school site, including special education students and teachers but not teachers on special assignment (TOSAs), ranged between 15.82:1 and 28.44:1 students per teacher with a districtwide average of 21.32:1. Article 14.2 of the collective bargaining agreement with the Lynwood Teachers Association provides for the following:

> For the term of this contract, the district agrees to staff the schools with instructional classroom teachers upon the following standards:
> a. Grades K-6 30
> b. Grades 7-8 33
> c. Grades 9-12 35

While small class sizes are admirable, they may hinder the district's ability to maintain the required reserve for economic uncertainties in the general fund. The district should conduct an in-depth review of its staffing at each grade level. The district also should develop staffing formulas for all positions. It should ensure that ratios are within contract guidelines, meet students' needs and agree with approved goals and objectives, including the goal of fiscal solvency.

Because most school districts do not receive adequate funding for special education, the program requires a transfer from unrestricted resources in the general fund, also known as encroachment. Special education receives its funding from both federal and state resources and, as with most programs, its largest expenditure is the cost of employee salaries and benefits. One of the expenditures associated with classified employees is the payment of a portion of each employee's salary to the Public Employees Retirement System (PERS). That payment is divided between employer and employee, with the employer responsible for 13.02% of salaries and the employee responsible for a 7% contribution. For the fiscal year 2008-09, the employer portion is further divided between regular PERS at 9.428% and PERS reduction at 3.592%. PERS reduction is an amount reported as a reduction to the revenue limit calculation; however, it is not required to be paid on salaries associated with federal programs.

FCMAT's review of the classified positions allocated to the state funding portion of special education indicated that approximately $1.8 million in classified positions are coded to this resource. Assuming that all employees in these positions are PERS members, the 3.592% PERS reduction results in approximately $65,000 in unnecessary costs. Food service also receives most of its funding from federal reimbursements. This program can benefit from salaries charged to a federal resource by taking advantage of the savings in PERS reduction costs. While the district codes its salaries to the child nutrition: school programs (federal resource 5310), it recognizes an expense for PERS reduction in its budget. Filing the necessary documentation with the county office and changing the coding of classified positions in special education (resource 6500) to IDEA base local assistance entitlement part B (resource 3310) would reduce or eliminate the PERS reduction costs associated with special education and food services salaries.

Because the district receives funding from the state's School Facility Grant Program, Education Code Section 17070.75(b)(1) requires that it maintain a routine restricted maintenance account (RRMA) to provide ongoing and major maintenance of school buildings. Education Code section 17070.77 defines major maintenance as follows:

> …all actions necessary to keep roofing, siding, painting, floor and window coverings, fixtures, cabinets, heating and cooling systems, landscaping, fences, and other items designated by the governing board of the school district in good repair.

Major maintenance does not include the activities related to keeping the facilities clean or maintaining the grounds because these duties are classified as operational (see California School Accounting Manual (CSAM), 2008 Edition, Procedure 325-30 through 325-31).

Based on the district's Account List by Fund and Resource Report, expenditures titled custodial/operation supplies are charged to RRMA (resource 8150). The district should ensure that expenditures coded to RRMA are in accordance with the CSAM. Expenditures that do not meet the definition of RRMA should be coded to the unrestricted general fund, resource 0000.

The district receives state funding for deferred maintenance that is deposited in the deferred maintenance fund (fund 14). As a condition of receipt of those funds, the district must also make annual matching contributions to fund 14. Those deposits can be made in one of two ways: a transfer directly from the unrestricted side of the general fund to fund 14, which is the method the district reported on its 2007-08 unaudited actuals report; or as a transfer from the RRMA account (resource 8150) to fund 14. Education Code section 17070.75(b)(2) provides that deposits to the RRMA account of more than of 2.5% may count toward the required contribution to the deferred maintenance account. To best utilize its unrestricted resources, the district should make its deferred maintenance transfer from the RRMA account.

According to Education Code sections 17582-17587 and the CSAM , a deferred maintenance fund (fund 14) is used to "…account separately for state apportionments and the LEA's contributions for deferred maintenance purposes." CSAM Procedure 305-7 and Education Code section 17582 also outline allowable expenditures from the deferred maintenance fund. Additionally, the Office of Public School Construction's Deferred Maintenance Handbook (May 2008), Section 4 – Project Expense under the heading "Force Account Labor" states the following:

> Force account labor may be recognized as an eligible deferred maintenance expenditure under the following conditions: The personnel was hired on a temporary basis to do work solely listed on the SAB approved Five Year Plan, Form SAB 40-20.

Based on the district's position control report, seven full-time positions (one electrician, two plumbers and four maintenance worker IIs) are charged to this fund. The district should review the duties assigned to these positions to determine whether they are charged appropriately.

Education Code Section 41372 requires a minimum percentage of education costs to be expended annually for classroom staff compensation. The percentage varies depending on the type of district. For unified districts, it is set at 55%. Failure to meet the minimum percentage can result in financial penalties. The district's 2007-08 Current Expense Formula/Minimum Classroom Compensation form indicates that the district spent 57.87% of education costs on classroom compensation that year; however, OPEB costs for active employees were not reflected in part II, line 9. To ensure they are properly included on this form, expenditures for retiree health and welfare benefits for actuarially determined normal costs for OPEB eligible active employees should be coded to objects 3751 and 3752 (see CSAM Procedures 330-16 and 330-17).

Government Accounting Standards Board (GASB) Statement 45, released in June 2004, established standards for employers to measure and report their costs and obligations relating to other post-employment benefits (OPEB). The district is required to implement GASB 45 in its governmentwide financial statements for the year ending June 30, 2009. To prepare for implementation, the district contracted with an actuary to perform a valuation of its OPEB obligation as of July 1, 2008. That valuation is valid for two years. The valuation includes assumptions regarding both classified and certificated positions; however, no mention was made of management positions. The district should contact its actuary to ensure that all positions for which the district is contractually required to provide retiree health and welfare benefits are included in the actuarial report to be used for the 2008-09 implementation of GASB 45.

The 2008-09 fiscal year has been difficult for school district budgets. Most districts face large budget reductions because of reduced funding from the state. Lynwood Unified has the same budget challenges and has solicited budget reduction ideas from the sites via a January 15, 2009 memorandum. The memo included a list of guidelines for developing ideas and action plans, including the "Use of ASB funds for Security and transportation for student events." The district should be cautious with any expenditure that was made by the district in the past, but became the responsibility of the associated student body (ASB) because of budget cuts. According to FCMAT's Associated Student Body Manual (2007), an ASB is prohibited from expending funds for items that are the responsibility of the district or have been provided by the district in the past.

The district participates in class-size reduction in the ninth grade and in kindergarten through third grades. The district's 2008-09 second interim report by fund indicates that the district matches the revenues received in these resources to expenditures, initially assigns specific teachers to the program, but does not charge the program for other costs including substitutes, professional development and indirect costs to determine the total outlay associated with each of the programs. While the inclusion of these costs may result in encroachment, the actual costs of each program should be reflected in the district's financial reports. The district could also consider using funds from restricted programs, such as Title I and Title II, Part A, to pay for the annual increased costs for class-size reduction. Title I reflects an increased carryover amount as of June 30, 2008 (see budget monitoring section in this report).

Position Control

One of the most important elements in budgeting for expenditures is accurately projecting employee salary and benefit costs. These costs are the largest part of school district budgets, averaging more than 91% of the unrestricted general fund expenditure budget in unified districts throughout California.

A reliable position control system establishes positions by site or department and helps prevent overbudgeting or underbudgeting of staff by including all district-approved positions. In addition, a reliable position control system helps prevent a district from omitting from the budget routine annual expenses such as substitutes, extra duty pay, stipends, vacation payouts and estimated costs for column changes.

To be effective, there should be one position control system that is 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 for authorized positions, and that the payroll department pays 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.

Sound internal controls should be a part of any position control system. The following table provides a suggested distribution of labor between the Business and Personnel departments to help provide the necessary internal control structure 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 the following: 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	Business or Personnel Department
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 development of the district's budget and should be completed early in budget development. Position control files for the budget year should then be updated to eliminate positions as necessary, 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. The system should be fully integrated with payroll and budget modules and used to update the budget during each reporting period.

When a new position is added, the district's Business Services Department assigns a position control number and provides that number to the Human Resources Department. Human Resources staff members are responsible for entering all demographic information on the position and for assigning an employee to a position.
Interviews with various district employees indicated that the position control system is accurate only about 90% of the time. Identified issues that cause the system to be inaccurate include instances of the following:

- Two position control numbers are provided for one position.
- The same position control number is used for more than one position.

- Human resources staff members manually override the system and obtain a new position control number without authorization from business services.
- Inaccurate employee data is entered into the system.
- Governing board approval for a new or replacement position does not include step-and-column information.
- The governing board may approve an employee months after the employee started work.
- The employee's assigned rate of pay does not match salary schedules for the position.

These issues are extremely problematic when trying to ensure that position control data is accurate for budget and payroll purposes. Because the position control system is not accurate, the information must be downloaded into an Excel spreadsheet and manually manipulated to reflect the correct salary and benefit information before it can be rolled into the budget development system. Manual manipulation of data leaves room for errors and should be avoided.

Overriding the systems and internal controls can have many serious financial implications. For example, fraud may be perpetrated by adding a ghost employee in the position control system, feeding that information into the payroll system, and issuing a check to the phantom employee. A check may be issued to an employee who has left the district due to inaccurate ending dates on positions; or unintentional errors in overstating or understating personnel costs in the budget development process may occur. The Human Resources Department and the Business Services Department should immediately review their policies and procedures for position control and work together to create a proper system of checks and balances. All employees who are responsible for position control data should be provided training on the system and held accountable to ensure that accurate information is entered and procedures are followed. Immediate district follow up should be performed in instances where controls have been ignored or overridden.

The district's position control system lists all actively filled positions. If a position becomes vacant, it is removed from position control and the salary, statutory benefits, and health and welfare benefits attached to that position no longer exist. Open/unfilled positions should be left in position control to reserve the funding necessary to refill the position for the rest of the fiscal year. Deleting a position that the district plans to fill provides an opportunity for the related funding to be utilized for a different purpose, possibly causing overspending within resources.

Position control includes routine annual expenses for such items as substitutes, extra duty pay, stipends, vacation payouts and column changes. Expenses related to the annual cost of individual retiree health and welfare benefits are manually added to budgets, but could also be included in position control. This would eliminate the necessity of spreadsheets and the possibility of errors resulting from reliance on a manual system.

Employee salaries in position control can be driven by contractual salary schedules that the district negotiated with bargaining units and by individual employment contracts. Most commonly, individual contracts are with employees in upper management level positions such as superintendents and assistant superintendents. These contracts are negotiated by the individual and the district and become binding on the district when approved by the governing board. When submitted to the board, these contracts become public documents. Payments to employees through these individual contracts can come in as cash or noncash payments. Cash payments may include items such as annual salary, stipends, professional growth, clothing allowances or monthly payments in lieu of district-paid insurance coverage. Noncash payments are often items such as the use of a district-purchased vehicle. Cash and noncash items are required to be reported on the employee's W-2 form. IRS Publication 15-B provides further guidance on noncash payments.

FCMAT requested copies of all of the district's employment contracts with individual employees; however, the district was unable to locate them. Staff members in the Payroll Department indicated they did not have copies either. The district's inability to locate the contracts violates a key concept in internal control. All payments made by the district should be supported with written documentation, and all contracts must include approval by the governing board. The missing employment contracts should be immediately located, a copy reflecting board approval should be placed in the employment file, and another copy reflecting board approval should be sent to the Payroll Department for inclusion in the employee's payroll file.

Interviews indicated that some payroll changes have been made based only on verbal instructions. Directives that affect an employee's payroll status must be provided to the Payroll Department on a properly executed personnel assignment order form and include the necessary back-up documentation such as board minutes or a board-approved contract before a change is made to payroll.

Recommendations

The district should:

1. Review its budget development tasks and time lines and construct a district-specific annual budget development calendar to be utilized by all district departments.

2. Assign sites and departments the task of creating their budgets, with the Business Services Department developing and designing a budgeting workshop to provide the necessary tools and knowledge to complete the task.

3. Review its estimated enrollment and ADA calculations to ensure they are as accurate and conservative as possible to avoid overstating revenues.

4. Review the revenue limit assumptions and calculations prepared by the county office to avoid instances of overreporting or underreporting.

5. Include the most accurate and up-to-date information in the budget document to avoid underreporting or overstating revenues.

6. Review its categorical resources in conjunction with the tiered system provided by SBX3 4 to ensure that programs have been correctly categorized.

7. Conduct an in-depth review of staffing at each grade level.

8. Develop staffing formulas for all positions.

9. Ensure the required documentation is filed with the county office, then change the coding of special education classified staff (resource 6500) to IDEA base local assistance entitlement Part B (resource 3310) to reduce or eliminate the PERS reduction cost associated with these salaries and remove the PERS reduction cost from the food services budget.

10. Review and correct as necessary the account coding for custodial expenditures to ensure that it complies with the California School Accounting Manual.

11. Allocate its contribution to the deferred maintenance fund (fund 14) from the routine restricted maintenance account (resource 8150).

12. Review the duties assigned to the seven positions charged to deferred maintenance (fund 14) to determine whether they are being charged appropriately.

13. Review its entries for the 2008-09 fiscal year to ensure that expenditures for retiree health and welfare benefits for active employees are being coded to objects 3751 and 3752 so that they can be included on the Current Expense Formula/ Minimum Classroom Compensation form.

14. Contact its actuary to ensure that all positions for which the district is contractually required to provide retiree health and welfare benefits are included in the actuarial reported for the 2008-09 implementation of GASB 45.

15. Carefully review its anticipated budget cuts to ensure that items previously provided by the district are not automatically transferred to the ASB for payment.

16. Consider revising its accounting procedures in the class-size reduction programs for ninth grade students and students in kindergarten through third grade.

17. Immediately instruct the Human Resources and Business Services departments to review their policies and procedures for position control and work together to create a proper system of checks and balances, train employees and hold them accountable to follow the procedures.

18. Immediately follow up on all instances where procedures and controls have been ignored or overridden.

19. Revise position control to include vacant positions to provide a reservation of funds for refilling positions and avoid possible overspending.

20. Update and revise position control to include retiree health and welfare benefits.

21. Immediately locate the signed copies of missing individual employment contracts and provide a copy reflecting approval by the governing board to human resources and payroll.

22. Work with its independent auditors and the county office to review all employment contracts and the district's local practices to identify those items that should be reported on Form W-2 in compliance with IRS regulations.

23. Ensure that the Payroll Department has a properly executed assignment order and necessary back-up documentation before affecting payroll.

Budget Monitoring/Budget Revisions

The Education Code requires amounts budgeted in each major object category to be the maximum that can be expended under each classification. Revisions are subject to board approval. The budget should be monitored and adjustments made during the fiscal year to ensure that appropriations are not overspent and that the revenues received and the expenditures made are the same as those projected. The budget should be reviewed and updated monthly at both the resource and object levels to ensure the district knows its projected fund balance at any given time. Budget transfers, adjustments and journal entries should be completed monthly.

An encumbrance is a commitment to purchase goods and services, including employee salary and benefit obligations. Encumbrances are a major source of budgetary control and are important in preventing the overexpenditure of an appropriation and budget line. Encumbrances are also an excellent way to monitor budgets to ensure that monies already committed are protected from being spent in any other manner. Encumbrances are essential to providing a full picture of the district's finances. Encumbering salaries and benefits is also important so that any differences between position control and payroll can be readily recognized. Statutory and health and welfare benefits should follow the salary accounts for each employee to ensure each program is charged correctly.

Interim Reports

According to Education Code section 42130, school districts are required to "… submit two reports to the governing board of the district during each fiscal year. The first report shall cover the financial and budgetary status of the district for the period ending October 31. The second report shall cover the period ending January 31. Both reports shall be approved by the district governing board no later than 45 days after the close of the period being reported."

The district's 2008-09 first interim report indicates that the amounts used in the column titled Board Approved Operating Budget did not match the adoption budget. Unless the district's board has approved another budget between budget adoption and the first interim report, budget adoption numbers should be reflected in the Board Approved Operating Budget column. In the 2007-08 second interim report, FCMAT found that the amounts used in the column titled Board Approved Operating Budget did not match the projected year totals approved in the first interim report. Unless the district's board has approved another budget between the first and second interim reports, first interim projected year totals should be shown in the Board Approved Operating Budget column of the second interim report. The district should carefully review the amounts reported in the Board Approved Operating Budget column to ensure that the last board-approved budget is included.

The district budgets for the estimated interest earned on each fund. It is often difficult to estimate the amount of interest that a fund will earn because of factors such as fluctuating interest rates and the timing of cash flow in each fund. However, when the district develops revisions for the second interim report, two quarters of interest should have already been received. One way to project a new estimate is by multiplying the total received for the first two quarters by two to arrive at a budget for the entire year. In reviewing the district's second interim report, interest revenue appears to be overstated or understated in several funds as follows:

- The general fund (fund 01) is budgeted at $1.6 million in interest revenue, but reflects receipt of only $89,436 through the second quarter.

- The adult education fund (fund 11) is budgeted at $10,000 in interest revenue, but reflects receipt of only $1,291 through the second quarter.

- The child development fund (fund 12) is budgeted at $20,000 in interest revenue, but reflects receipt of $13,139 through the second quarter.

- The cafeteria fund (fund 13) is budgeted at $100,000 in interest revenue, but reflects receipt of only $11,075 through the second quarter.

- The deferred maintenance fund (fund 14) is budgeted at $110,000 in interest revenue, but reflects receipt of only $29,261 through the second quarter.

- The capital facilities fund (developer fees - fund 25) is budgeted at $508,000 in interest revenue but reflects receipt of only $30,755 through the second quarter.

- The self-insurance fund (fund 67) is budgeted at $500,000 but reflects receipt of only $86,039 through the second quarter.

- The private purpose trust fund (fund 73) is budgeted at $1,000 in interest revenue but reflects receipt of only $188 through the second quarter.

Projected interest earnings should be reviewed and revised as necessary during each reporting period.

A review of the district's multiyear projections (MYFP) presented with the second interim report found that incorrect cost-of-living adjustments (COLAs) were used to estimate revenues for the 2009-10 and 2010-11 fiscal years. For 2009-10, the district used a COLA of 5.05%. According to School Services of California's Dartboard and based on the February 2009 adopted state budget, the COLA should have been 5.02%. This represents an overstatement of revenue of approximately $23,873 in 2009-10. For 2010-11, the district used 0.50% COLA and should have used 0.70%, which resulted in an understatement of revenue of approximately $152,365 in 2010-11. While neither of these specific overstatements or understatements is material to the district's financial statements, care should be taken to ensure that correct assumptions are utilized to help avoid budgeting errors.

In conjunction with the preparation of the district's multiyear projection, the district develops assumptions (including the COLAs as discussed above) upon which to base its estimated budgets for the two subsequent years. FCMAT's review of the district's interim reports found that the district did not include a comprehensive set of assumptions to provide readers with a clear outline of the projections for the subsequent years. For example, 2008-09 second interim projection reports that a reduction of $6.05 million in certificated costs will occur for the 2009-10 year. However, the projection assumptions do not identify the plan to implement this reduction. The second interim budget assumptions also do not include a comprehensive list of changes that have occurred since the first interim report.

Additionally, Exhibit A to Board Resolution No. 08-09/20, presented with the second interim report includes a $2,922,048 budget cut in 2008-09 labeled "Offsetting by maximizing categorical funds." However, there is no written explanation provided in the projection assumptions on how this is to be implemented.

The interim budget reports and adoption budget includes a form entitled School District Criteria and Standards Review (Form 01CS). This report compares standards set by either the state or the district's historical information to current and subsequent years' projections. A review of second interim Form 01CS indicated that information presented in this document did not match that shown in the multiyear projection. For example, Form 01CS reflects a reduction of 102 certificated full-time equivalent (FTE) positions in 2009-10, while the projection assumptions indicate a reduction of 6.88. Standard S8B reports the same number of classified FTEs in 2008-09 and 2009-10; however, the projection includes a reduction in classified expenditures in 2009-10. In addition, the health and welfare disclosure in Form 01CS shows that the district pays the full costs of health and welfare benefits for certificated and classified employees. However, the collective bargaining agreements for these groups include maximum amounts (or caps) that limit the amount for which the district is responsible. The information presented in the School District Criteria and Standards Review should be consistent with the other forms contained in the budget report.

Unaudited Actuals

Education Code section 42100 requires each school district governing board to approve by September 15 a statement of all receipts and expenditures for the previous fiscal year. This statement and an estimate of the district's total expenses for the current year are also known as the unaudited actuals report, which is filed with the county office and the California Department of Education (CDE). The report forms the basis for the start of the independent auditor's review of the district's books and the audited financial statements.

The carryover and fund balances, which are contained in the 2007-08 Form CAT from the unaudited actuals, indicated that while there was a reduction in the carryover and fund balances in some programs, other program balances increased significantly since 2006-07 (see Form CAT Analysis below). For example, the district reports approximately $717,000 in fund balances in resources identified as Tier III in SBX3 4, which allows the district to transfer those amounts to the unrestricted portion of the general fund. Eight programs with increasing carryover or fund balances have an increase that is almost equal to the resource's annual allocation. Additionally, several federal categorical programs contain increased carryover even though 18 of the district's 19 schools indicated on the 2008-09 Consolidated Application that more than 70% of their students are low-income.

2007-08 Form Cat Analysis

Resource	Program Name	Beginning Carryover Balance	Ending Carryover Balance	Carryover Increase
Resources with Increased Deferred Revenue/Carryover Balances				
3010	Title I	$ 406,486.93	$ 1,077,681.42	$ 671,194.49
3030	Reading First	$ 65,158.17	$ 75,035.48	$ 9,877.31
3060	Title I Migrant Ed	$ -	$ 20,916.44	$ 20,916.44
3060.8	Title I Migrant Ed Cluster**	$ -	$ 4,347.76	$ 4,347.76
3175	Program Improvement	$ 186,586.53	$ 215,355.72	$ 28,769.19
3410	Workability II	$ 79,042.48	$ 102,342.05	$ 23,299.57
3550	Carl Perkins Voc & Tech**	$ 189,040.34	$ 366,014.33	$ 176,973.99
3710	Title IV Drug-Free School	$ 72,450.18	$ 125,244.73	$ 52,794.55
4045	Title II Ed Tech Grant	$ -	$ 16,454.39	$ 16,454.39
4050	CAMSP**	$ -	$ 627,423.65	$ 627,423.65
4110	Title VI Inn Ed. Strat	$ 70,476.14	$ 88,375.82	$ 17,899.68
5810.1	Teaching America History**	$ 58,331.70	$ 484,122.83	$ 425,791.13
5810.2	Teachers Incentive Fund**	$ -	$ 2,061,298.05	$2,061,298.05
6225	Emergency Repair Program -Williams**	$ -	$ 183,403.00	$ 183,403.00
6660	TUPE	$ 8,750.66	$ 11,893.11	$ 3,142.45
7258	High Priority HPSGP	$ 270,051.61	$ 342,591.66	$ 72,540.05
	TOTAL			$4,396,125.70

Resource	Program Name	Beginning Fund Balance	Ending Fund Balance	Fund Balance Increase
Resources with Increasing Fund Balances				
7055	CAHSEE	$ 87,414.17	$ 192,476.76	$ 105,062.59
7090	EIA/SCE	$ 570,778.33	$ 611,668.80	$ 40,890.47
7157	Inst, Mat. Math/English**	$ 29,949.01	$ 179,290.31	$ 149,341.30
7393	Professional Development Block Grant	$ 113,201.69	$ 142,807.13	$ 29,605.44
7394	TIIBG Block Grant	$ 182,487.70	$ 630,911.15	$ 448,423.45
7395	SLIB Block Grant	$ 199,089.61	$ 261,095.84	$ 62,006.23
7398	IM Library & Tech Ed Grant**	$ 179,163.16	$ 194,380.13	$ 15,216.97
7400	QEIA	$ -	$ 1,185,727.08	$1,185,727.08
9635	ROP	$ 26,694.48	$ 154,759.43	$ 128,064.95
	TOTAL			$2,164,338.48

The 2007-08 Form CAT also indicates that the district did not use its mega-item flexibility transfer option to the fullest extent allowed, specifically in the Gifted and Talented Education (GATE) and Peer Assistance and Review programs. The district should review its categorical programs to ensure that restricted dollars are used to the greatest degree possible and determine whether further use of the federal and state flexibility options would provide additional funding flexibility. The 2008-09 and 2009-10 state budget acts, approved in February 2009, have repealed the mega-item transfer option beginning in 2008-09 and have provided additional flexibility options in the Tier III categorical programs for fiscal years 2008-09 through 2012-13.

Further analysis of the 2007-08 Form CAT found that seven categorical programs were allowed to close the 2007-08 fiscal year with negative carryover. The negative carryover indicates that the programs were permitted to expend more than the revenue received. This may indicate a lack of monitoring of the program budgets. Measures should be implemented to monitor expenditures within resources to avoid negative carryover.

The district receives home-to-school and special education transportation funding from the state and reports on expenditures for those programs through the Form TRAN, which is a part of the district's unaudited actuals report. The 2007-08 Form TRAN reported that the home-to-school program provided service to 114 pupils for a total of 52,985 miles with expenses of $514,800.26 or $9.716 per mile. Special education transportation provided service to 130 special education students with a total of 268,546 miles and had expenses totaling $862,016.15 or $3.21 per mile. A private carrier provides special education transportation while the district provides services listed as home-to-school transportation. However, the district staff indicated that the district does not provide home-to-school transportation, and Form TRAN instead contains the costs incurred for field trips. According to Education Code sections 41850-41857, funding for the home-to-school transportation program is specifically for transporting students from home to school. This revenue should not fund field trips. These trips may be funded in several other ways such as by using resources from parents or clubs or through a sponsorship with the Parent Teacher Organizations.

On December 15, 2006, the CDE issued a letter (available online at http://www.cde.ca.gov/fg/ac/co/icr121506plan.asp) to districts advising of an account coding change for the costs of the district's annual independent audit conducted according to Education Code section 14503 and the Single Audit Act. The change relates to the separation of the single audit cost from the total audit cost to include the single audit portion in the indirect cost pool. The portion of the cost of the audit attributable to the single audit conducted according to Office of Management and Budget Circular A-133 should reflect a function code of 7190, with the remainder of the audit charge retaining a function code of 7100. This separation was not completed on the district's 2007-08 indirect cost rate work sheet, which would cause the indirect cost rate for 2009-10 to be underreported.

The CDE's December 15, 2006 letter also provided direction regarding reporting of employment separation costs. These costs, which are paid by the district when an employee separates from service, can be categorized as either normal or abnormal/mass separation costs. Normal separation costs are defined as those costs paid for accumulated unused leave or severance pay offered according to district policy. Abnormal/mass separation costs are defined as early retirement incentives. The district should review any separation costs paid to determine if those costs should be included in the indirect cost rate worksheet.

Categorical Programs

Revenues and expenditures for categorical programs should be reviewed and evaluated in the same manner as the unrestricted general fund. Categorical program budget development should be integrated with the district's goals and used to address student needs. Deferred revenue and fund balances of categorical programs should be similarly monitored to avoid spending unrestricted dollars before restricted dollars and to ensure that time limitations for the deferred revenue or fund balance are not violated.

Categorical funding should be spent in the year it is earned whenever possible. It is important to ensure that funds are specifically allotted to cover expenditures that are consistent with categorical funding guidelines and restrictions. In some cases, there is a plan in place for carryover to be used for a large future purchase. These types of exceptions should be approved by district administration, and sites should understand that carryover of large restricted balances is an exception. The state budget act allows fiscal year 2007-08 ending balances in some categorical programs to be transferred to the unrestricted general fund in the 2008-09 fiscal year.

A fund balance is generated when revenues exceed expenditures in a fiscal year. At the end of the fiscal year, the district separates its ending balances between those that are legally restricted by outside sources and those that are available for economic uncertainties. The legally restricted balance is typically associated with categorical programs. These funding sources should be used first whenever possible to spend the dollars in the year they are received and to avoid using unrestricted dollars when categorical dollars are available. Using this method, the restricted portion of the ending fund balance should decrease or at least remain the same as a proportion of the total general fund balance. An evaluation of the district's restricted balance to its total general fund balance indicates that the restricted balance has increased proportionally over the prior three fiscal years; from 27.25% of the total fund balance in 2005-06 to 40.99% of the total fund balance in 2007-08. This may indicate underutilization of restricted funds and the district's need to evaluate, review and analyze its categorical programs to ensure that restricted dollars are being used to their greatest potential.

In addition to the indicator above, the following additional indicators generate concern regarding oversight of categorical programs:

- The April 26, 2007 Vista High School Site Council minutes indicate that "Title I requirements had changed and monies allocated from state must be used for those students only." The 2007-08 consolidated application indicates the district's schools that qualify for Title I funds are targeted assistance schools that are allowed to spend Title I dollars only on Title I students. Unless the school site was previously classified as a schoolwide program, this would indicate funds were not spent appropriately.

- Interviews indicated that staff members do not monitor hourly programs to ensure they pay for themselves, nor do they monitor annual hourly caps on programs. The April 26, 2007 Vista School Site Council minutes state Ready for America will be employed to use as an after school intervention to prepare students for the CAHSEE and STAR. Students are called into the class to work during periods 6-7 on Mondays-Thursdays. Although Ready for America was intended to be utilized as an after school program, many students were unable to remain after school which necessitated the change in scheduling." The district should be aware that only one hourly program, grades 7-12 remedial mandated, may be provided during school hours. The time provided during school hours is limited to students in grades 11 and 12 that have not passed the CAHSEE. The time must be in addition to that provided for core subject areas and physical education and cannot replace these classes.

- Some categorical programs have carryover amounts that approximate their annual allocations.

- The December 2008 special education report by School Innovations & Advocacy recommends $1.7 million in reductions.

- Restricted funds have regressed from a balanced budget during 2008-09 adoption to deficit spending of approximately $5 million during the second interim report. Most of the increase in expenditures is in certificated salaries. Some of this deficit may be due to the inclusion of carryover funds, but should be monitored closely to ensure that one-time resources are not used for ongoing costs.

- Federal and State Programs Department and Business Services Department staff members do not confer with each other on categorical program budgeting and accounting or new grant applications. Staff members from the Business Services Department were unable to answer many financial/budget inquiries related to categorical programs because they reportedly have not been involved in these tasks. It is invaluable for the Business Services Department to review and analyze these documents to help prevent errors.

Given these concerns, it is essential that the staff in the Federal and State Programs and Business Services departments review processes and procedures related to categorical program funds and develop a system of checks and balances to provide greater oversight and ensure maximization of funds. This will also be important for added responsibilities and reporting requirements that are associated with the district's receipt of federal stimulus funds. Training on categorical programs should be required for personnel in both departments.

Charter School

On August 6, 2008, the district approved the Kaplan Academy's application to become a district-sponsored charter school. As the sponsoring agency, the district assumes many responsibilities for oversight of the charter school. Education Code section 47604.32 outlines these responsibilities and includes duties such as identifying one staff member as a contact person for the charter school; visiting the charter school annually; ensuring that the charter school complies with all reports required by law; and monitoring the fiscal condition of the charter school. While the charter school opened in September 2008, FCMAT found that key district personnel were not aware that the charter had been approved and knew of no district oversight duties that had been performed during the fiscal year.

Associated Student Body

ASB accounts are a common source of audit findings. The findings are required to be reviewed, a resolution formulated and the issue reported to the governing board and the public through the audited financial statements. District personnel indicated they are concerned that funds may be missing from the Firebaugh High School ASB account. While the annual independent audit did not include this finding, external audits sometimes do not reveal fraud or misappropriation of funds. The district should require and provide training to all staff members responsible for ASB financial transactions at the site and district levels to ensure they can properly oversee ASB funds. Periodic internal audits should also be conducted by the district to ensure compliance and provide proper oversight of funds. In addition, policies and procedures should be established and implemented for reporting instances of suspected fraud.

Cash Management

With the current budget crises at the state and national levels, cash management has become one of the main concerns for every school district. The state has a history of deferring payments to school districts, starting with deferral of the 2002-03 June apportionment to the 2003-04 fiscal year and every following year. The 2008-09 and 2009-10 state budget acts further complicate the situation with numerous additional deferrals. The original 2008-09 Budget Act deferred a majority of the July 2008 principal apportionment to September 2008. The revised 2008-09 and 2009-10 Budget Act defers a portion of the February 2009 apportionment to July 2009; defers a portion of the February 2009 appropriation for K-3 class size reduction (CSR) program to July 2009; and defers a portion of the July 2009 and August 2009 principal apportionments to October 2009.

As a result, it is important for every school district to frequently monitor its cash level and project cash flow to determine whether it will be sufficient to meet financial needs. District personnel use a cash flow spreadsheet to project the district's needs for the fiscal year. In addition to internal spreadsheets, the district is required to prepare a cash flow worksheet in conjunction with its first- and second-interim reports. A cash flow projection is also required with a third-interim report if one is required because of a qualified or negative certification during the first- or second-interim reporting period. The district's cash flow analysis for the 2008-09 first- and second-interim reports include the same revenue and expenditure totals as Form 01. However, prior-year accounts receivable and accounts payable transactions do not tie back to the 2007-08 unaudited actuals report, providing an inaccurate picture of the district's cash flow. Each section of the cashflow worksheet, including revenue, expenditure, prior-year transactions, and net increase/decrease in fund balance should be carefully reviewed to ensure they match the appropriate current-year or prior-year budget document.

As with other districts throughout the state, Lynwood Unified faces budget cuts for the coming years. Although the district received significant revenue reductions in the current year and filed a qualified first interim report in December 2008, an early purchase order cut-off date was not implemented in an effort to reduce expenditures and conserve cash. In addition, the district's second-interim report reflects an increase in estimated spending for 2008-09.

Collective Bargaining

Government Code Section 3547.5 requires the public be informed of the costs of a tentative collective bargaining agreement before it becomes binding on the school district. Assembly Bill (AB) 1200, signed into law in 1992 and AB 2756, signed into law in 2004, provide additional standards and requirements for fiscal accountability. In response to these requirements, county offices of education have prepared and distributed to districts templates for disclosing collective bargaining information. The district provided FCMAT with copies of several of the disclosure documents submitted to the governing board in the past three years. These documents included charts to show the budget adjustments necessary to implement the proposed settlements. The charts contain columns titled as follows:

- Column 1: Latest Board-Approved Budget Before Settlement (As of _______ (enter date))
- Column 2: Adjustments as a Result of Settlement (compensation)
- Column 3: Other Revisions (agreement support and/or other unit agreement)
- Column 4: Total Revised Budget (Columns 1+2+3)

However, in the district's completion of some of the forms, information that should be distributed among the first three columns was combined and reported in the first column. The columnar headings should be followed when completing the settlement disclosure form to provide an understandable link between the latest board approved budget and the adjustments needed to proceed with a collective bargaining agreement.

Recommendations

The district should:

1. Carefully review the amounts reported in the board-approved operating budget column of its reports to ensure that the last board-approved budget is included.

2. Review the amounts budgeted for interest revenue and make appropriate adjustments during each reporting period.

3. Ensure that budget assumptions used for multiyear projections are based on the most current data available.

4. Ensure that detailed budget assumptions are included with multiyear projections.

5. Review the School District Criteria and Standards Review in conjunction with other forms contained in the budget report to ensure that the information is consistent.

6. Scrutinize the use of its categorical funds to maximize their use before using unrestricted general fund.

7. Review its categorical programs to ensure that restricted dollars are being used to the greatest degree possible, and determine whether further utilizing the federal and state flexibility options would provide additional funding flexibility.

8. Implement measures to monitor categorical expenditure levels relative to revenues to avoid negative carryover and encroachment.

9. Review its home-to-school transportation program to ensure that field trips are not being provided with this funding.

10. Compare the cost of providing field trips in-house with the cost of using a private carrier.

11. Modify the coding of costs related to the annual independent audit to comply with the CDE's advice regarding separating audit costs and to properly report and utilize indirect costs.

12. Review employee separation costs to determine whether they should be included in the indirect cost rate worksheet to properly report and utilize indirect costs.

13. Instruct the Federal and State Programs and Business Services departments to review processes and procedures for categorical program funds and to develop a system of checks and balances to provide greater oversight and maximization of these funds.

14. Require the Federal and State Programs and Business Services departments to attend training, including conferences and workshops, to increase knowledge of categorical programs.

15. Immediately establish policies and procedures to comply with legal obligations for oversight of the Kaplan Academy charter school.

16. Provide ASB training and require all staff members responsible for ASB financial transactions at the site and district levels to attend.

17. Conduct periodic internal ASB audits to ensure compliance and provide proper oversight of the funds.

18. Establish and implement policies and procedures for reporting instances of suspected fraud.

19. Carefully review the revenue, expenditure, prior year transactions and net increase/decrease in fund balance amounts reported in its cash flow statements to ensure they match the numbers reflected in Form 01 and the unaudited actuals report as appropriate.

20. Evaluate its cash management plans and procedures to manage cash more aggressively.

21. Follow the column headings when completing the collective bargaining settlement disclosure form.

Reporting/Communications to the Board

According to the California School Boards Association Policy Manual (Board Bylaw 9000), the governing board has several major responsibilities related to the district budget. These include establishing an effective and efficient organizational structure for the district by establishing budget priorities and adopting the budget; setting parameters for negotiations with employee organizations and ratifying collective bargaining agreements; and ensuring accountability to the public for the performance of the district's schools by monitoring and adjusting district finances.

Recognizing budget trends is essential to maintaining a district's fiscal health. During each budget reporting period, the governing board is provided with the state's standardized account code structure (SACS) forms and a PowerPoint presentation that focuses primarily on the general fund. However, the district's presentation lacks charts and graphs that depict year-over-year trends in key areas. These areas include net ending balances for the unrestricted and restricted general fund; net change in the ending balance and deficit spending for the unrestricted and restricted general fund; and special education encroachment and any other programs or funds that require a contribution from the general fund. These types of trend analyses help in evaluating the district's budget direction.

For the presentation of the 2008-09 first interim report, the governing board initially received only a PowerPoint presentation indicating budget percentages and that the district would file a qualified budget certification. The board was asked to approve the budget based on this information. The staff reported that SACS forms were not provided because some documents were not ready before the board-meeting deadline. The SACS documents were provided to the board a few days later. The annual board meeting calendar should be reviewed in conjunction with the required budget reporting time lines to ensure the meeting dates allow the district staff to present all the required budget information to the governing board members beforehand.

The board's responsibility to monitor and adjust district finance requires that board members have a basic understanding of the budget. Interviews with board members indicated they want to be better educated in school financial issues and the budget reporting forms.

Lynwood Unified is a Program Improvement (PI) district and has dealt with numerous difficult budget issues including controversial issues surrounding computer and curriculum purchases; a qualified first interim report; issuance of employee layoff notices; deficit spending in the 2005-06, 2006-07 and 2007-08 fiscal years; and anticipated deficit spending in 2008-09. The district is also scheduled to receive some one-time federal stimulus funding. These types of budget issues often require the board to make difficult decisions. The board should be provided with ongoing budget training and budget workshops. Training and information should include information regarding financial issues faced by the district or those it may face in the near future.

In reporting budget variances to the governing board and the public for financial reports, the district provides a document titled explanations of variance. This document describes the differences between a prior financial report and the report that is submitted to the board. For example, for the 2008-09 adoption budget, the explanations of variance reported the difference between the 2007-08 estimated actuals and the 2008-09 proposed budget. The explanations of variance form reports the amount of the change, but sometimes does not provide a detailed explanation for the increase or decrease. This may prompt questions from the governing board and public about why the adjustment was made. It would be beneficial to incorporate a more detailed explanation for each budget increase or decrease and provide that information during each reporting period.

The unaudited actuals report includes a form titled schedule of long-term liabilities. This schedule reports the long-term debt and activity of the fiscal year in each debt category. The amounts for employees' unused vacation balances are reported in the line labeled compensated absences payable. A review of the form indicated that the district reported only an increase in the cost of compensated absences. Staff members indicated that the amount reported represented the increase to unused vacation balances after deducting the payments made during the year. It is important for both increases and decreases to be reflected in this schedule so that those reviewing the unaudited actuals will have a clear understanding of what occurred. The district should refrain from combining increases and decreases within the schedule of long-term debt or any similar schedules, such as the schedule of assets, to present a more accurate picture of the district's activities.

Governmental Accounting Standards Board (GASB) Statement Number 34 established new financial reporting requirements for state and local governments in an effort to improve the clarity and usefulness of the financial statements. GASB 34 requires school districts to prepare conversion entries to translate their fund financial statements into governmentwide financial statements. These conversion entries are included in the SACS forms completed by the district at year-end. Staff indicated that the district's independent auditors are preparing the GASB 34 conversion entries for the district. Preparation of these items is considered a management function, and preparation by the auditor's may impair their independence in providing auditing services.

Education Code section 41020.3 provides for the following:

> By January 31 of each year, the governing body of each local education agency shall review, at a public meeting, the annual audit of the local education agency for the prior year, any audit exceptions identified in that audit, the recommendations or findings of any management letter issued by the auditor, and any description of correction or plans to correct any exceptions or management letter issue. This review shall be placed on the agenda of the meeting pursuant to Section 35145.

A review of the board minutes found that the 2005-06 annual audit report was presented at the March 27, 2007 board meeting. The 2006-07 audit report was presented at the February 26, 2008 meeting, and February 20, 2009 board meeting minutes show that an audit was submitted to the board. However, the minutes received by FCMAT did not indicate the year of the audit. Per Education Code section 41020.3, the audited financial statements are to be presented at a board meeting before January 31 of each year.

Recommendations

The district should:

1. Consider including additional charts and graphs in budget presentations to show year-over-year trends in key budget areas.

2. Review its annual board meeting calendar in conjunction with required budget reporting time lines to ensure meeting dates allow all budget documents to be submitted to the board by the required deadlines.

3. Provide the board with budget training workshops on pertinent financial issues.

4. Analyze the explanations of variance document and consider incorporating a more detailed explanation for each budget increase and decrease.

5. Refrain from netting together increases and decreases in the schedule of long-term debt and any other similar schedules, such as the schedule of assets.

6. Consult with its auditors regarding the preparation of items such as the GASB 34 conversion entries and ensure that Government Auditing Standards are followed.

7. Comply with Education Code Section 41020.3 and schedule presentation of the audited financial statements at board meetings prior to January 31 of each year.

Fiscal Health Risk Analysis

Key Fiscal Indicators

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

To complete the analysis for the district, the study team requested a comprehensive list of financial reports, enrollment and ADA data, and other supplemental documents. The team also met with several key staff members at the site and district levels.

The focus of the Fiscal Health Risk Analysis is the district's unrestricted general fund. The unrestricted general fund is not tied to a restricted categorical program, but rather represents funding sources that allow the district discretion in how they are used. The analysis includes FCMAT's assessment of the district's current level of risk as well as recommendations offered to assist the district in improving its fiscal solvency scores.

Is the District's Fiscal Health Acceptable in the Following Areas?

1. Deficit Spending - No

- **Is the district avoiding deficit spending in the current year? No**
  Both the district's second interim report and FCMAT's MYFP indicate deficit spending in the unrestricted general fund in the current fiscal year. The district filed a qualified first interim report and a positive second interim report in 2008-09.

- **Is the district avoiding deficit spending in the two subsequent fiscal years? No**
  The district's second interim report shows that the district is not projected to deficit spend in the 2009-10 and 2010-11 fiscal years. However, FCMAT's MYFP, based on the Governor's May Revise, indicates that the district is projected to deficit spend in both of these years.

- **Has the district controlled deficit spending over the past two fiscal years? No**
  As shown in the following chart, the district has been in a deficit spending pattern for four of five prior years.

Deficit Spending Unrestricted General Fund	
Year	**Amount**
2003-04	($2,363,915)
2004-05	($4,207,000)
2005-06	$54,517
2006-07	($308,746)
2007-08	($6,332,405)
2008-09*	($9,986,033)

Source: Unaudited Actuals

**Source: FCMAT's MYFP*

- **Is the issue of deficit spending addressed by fund balance, ongoing revenues, or expenditure reductions? No**

- **Has the board approved a plan to eliminate deficit spending? No**
  Although the district has taken several actions in 2008-09 to reduce deficit spending, including board resolutions No. 08-09/20 and No. 08-09/44, FCMAT's MYFP indicates that additional measures will be necessary to avoid further deficit spending and maintain the 3% reserve for economic uncertainties.

2. Fund Balance - No

- **Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty? No**
  The district's unaudited actuals reports from 2003-04 through 2007-08 indicate that the district's fund balance has been above the 3% reserve for economic uncertainties. However, based on the Governor's May Revise, FCMAT's MYFP indicates that the district will not meet the reserve level in 2008-09 given the current projected revenue and expenditures.

- **Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions? No**
  As shown in the following chart and graph, the district's fund balance has declined significantly since 2003-04. The district reports that during this period, K-3 class size reduction was implemented, and four new schools were opened.

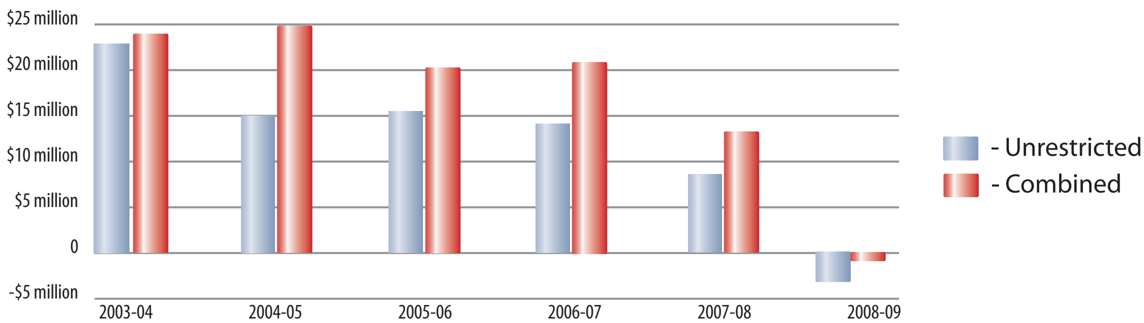
General Fund Ending Balance		
	Unrestricted	Combined**
2003-04	$22,435,663	$23,128,902
2004-05	$15,259,243	$23,629,387
2005-06	$15,303,045	$19,978,757
2006-07	$13,939,352	$20,550,840
2007-08	$7,606,947	$12,891,335
2008-09*	($2,379,085)	-$40,529

Source: Unaudited Actuals

**Source: FCMAT's MYFP*

**Source: Annual Independent Audit

General Fund Ending Balance



- **Does the fund balance include any designated reserves for unfunded liabilities or one-time costs above the recommended reserve level? No**

3. Reserve for Economic Uncertainty - No

- **Is the district able to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends? No**
  Based on FCMAT's MYFP, the district is not able to maintain the 3% reserve requirement in the current year. In addition, the MYFP indicates that the district will not meet its 3% reserve requirement in 2009-10 and 2010-11 given current revenue and expenditure patterns.

- **Does the district have additional reserves in fund 17, Special Reserve for Noncapital Projects? No**

- **If not, is there a plan to restore the reserve for economic uncertainties in the district's multiyear financial projection? Yes**
  The district's 2008-09 second interim report included reductions made based on resolution No.08-09/20, which was approved by the board in an effort to maintain the district's 3% reserve. However, the Governor's May

Revise included additional cuts to education that will require further action by the governing board to maintain fiscal solvency. Subsequent to the May Revise, the board approved Resolution No. 08-09/44, which includes further reductions to the district's budget. The district also continues to review its budget and meet with those affected to discuss additional expenditure reductions and revenue enhancements.

4. Enrollment - No

- **Has the district's enrollment been increasing or stable for multiple years? No**

  The district has experienced declining enrollment every year since 2004-05.

Enrollment								
	CBEDS 2003-04	**CBEDS 2004-05**	**CBEDS 2005-06**	**CBEDS* 2006-07**	**CBEDS* 2007-08**	**CBEDS* 2008-09**	**Projection 2009-10**	**Projection 2010-11**
K-12	19658	19072	18211	17417	17142	16722	16181	15748
Gains/Losses	194	-586	-861	-794	-275	-420	-541	-433

CBEDS data obtained from the CDE Dataquest Web site.

** CBEDS data obtained from district as CDE data does not reflect the correct grade level totals.*

Projection data obtained from FCMAT's MYFP.

- **Is the district's enrollment projection updated at least semiannually? No.**

  The district began contracting with an outside agency to complete enrollment projections annually in 2008. Before then, enrollment projections were completed in-house annually.

- **Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends? No**

  The Ed Data Web site (http://www.ed-data.k12.ca.us/) indicates that while enrollment has declined between 2003-04 and 2007-08, the number of teachers has increased. The district reports that it implemented K-3 class-size reduction during this time.

  A comparison of the district's 2007-08 and 2008-09 second interim reports indicate that while enrollment has declined year after year, the number of certificated staff members has increased by six FTE, classified staff has increased by 43 FTE, and management staff has increased by 10 FTE.

- **Does the district analyze enrollment and average daily attendance (ADA) data? No**

  The district staff reported that CBEDS, P-1, P-2 and annual attendance data are analyzed. However, the enrollment numbers provided by the district for 2006-07, 2007-08 and 2008-09 do not match the totals reflected by CDE on the Data Quest Web site. The district should work with the CDE to ensure that prior-year enrollment numbers are recorded correctly. The district should also compare the numbers reported by CDE annually to ensure they agree with the district's CBEDS totals in the future.

- **Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes? No**
  Budget documents indicate that the district uses an ADA-to-enrollment ratio of 96% for budgeting purposes. However, the district's P-2 reports and CBEDS counts reflect historical ratios as follows: 2003-04 - 92.8%; 2004-05 – 93.5%; 2005-06 – 93.3%; 2006-07 – 93.9%; 2007-08 – 93.7%; 2008-09 – 95.2%. This indicates that historical data is not being used for projection purposes. In addition, the criteria and standards section of the 2008-09 second interim report does not include the correct P-2 attendance totals for 2005-06 and 2006-07, which causes the historical average to be overstated.

- **Has the district implemented any attendance programs to increase ADA? No**
  The district offers a Saturday school program; however, the reported enrollment is too low to cover the costs of the program.

- **Have approved charter schools had little or no impact on the district's student enrollment? No**
  The district is the sponsoring agency for the Kaplan Academy, which opened in 2008-09. The charter school reported ADA of 155.89 in its initial year of operation; however, the CDE Data Quest Web site shows an enrollment of 13 students. The district should ensure that it is receiving the necessary documentation from the charter to verify the enrollment and ADA data.

- **Does the district have a board policy that attempts to reduce the effect that transfers out of the district have on the district's enrollment? Yes**
  Board Policy No. 5117 addresses inter-district attendance. However, it is unclear when the policy was adopted because no date is included on the document.

  The district reports that it has discouraged inter-district transfers, but because it is in year three of Program Improvement, the state may authorize student transfers to a school that is not in PI in another district. Data provided by the district indicate that transfers from the district exceed transfers to the district by the following number each year: 2006-07 – 398; 2007-08 – 352; 2008-09 – 365.

5. Interfund Borrowing - Yes

- **Can the district manage its cash flow in all funds without interfund borrowing? Yes**

  The district's 2008-09 second interim report and the 2007-08 unaudited actuals report indicate that there is no temporary borrowing between funds. The second interim cash flow report indicates that the district did not have a negative general fund ending cash balance in July through January, and is not projected to have a negative cash balance for the rest of the 2008-09 fiscal year. However, the district staff report that current cash projections for 2009-10 show some months will have a negative cash balance, and short-term borrowing options are being analyzed.

  With the current budget crises at the state and national level, cash management has become one of the main concerns for every school district. The state has a history of deferring payments to school districts, starting with deferral of the 2002-03 June apportionment. The state's 2008-09 and 2009-10 budget acts include numerous new deferrals, and the May Revise proposes to add more deferrals for school districts. As a result, it is important for the district to monitor its level of cash frequently and project cash flow to determine whether there will be sufficient cash to meet its financial needs.

- **Is the district repaying the funds within the statutory period in accordance with Education Code section 42603? N/A**

6. Bargaining Agreements - Yes

- **Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years? Yes**

  Based on the AB 1200 documents provided by the district, the cost of the bargaining agreements has not exceeded COLA. However, the reported total compensation increase does not include the annual cost for step-and-column movement. As of the second interim reporting period, certificated and classified contract negotiations were not yet settled for 2008-09.
  The following table reflects the increase to the certificated salary schedule and the total compensation increase for the prior three years:

Lynwood Teachers Association			
	2005-06	2006-07	2007-08
Statutory COLA	4.23%	5.92%	4.53%
Funded COLA	4.23%	5.92%	4.53%
Salary Increase	3.00%	3.50%	3.00%
Total Compensation Increase	2.75%	3.22%	2.76%

Source information for statutory/funded COLA: School Services of California (for an average district)

Source information for salary/total compensation increase: district

- **Did the district conduct a presettlement analysis identifying an ongoing revenue source to support the agreement? Yes**

- **Did the district correctly identify the related costs above the COLA, (i.e. statutory benefits, step and column)? No**
  The costs of step-and-column increases were not included in the total compensation percentage of each public disclosure document.

  The 2007-08 certificated settlement included an increase of $17.80 per month for health and welfare benefits that was not included in the total compensation cost. In addition, the agreement was approved on September 23, 2008 for the 2007-08 fiscal year and does not include the one-time cost for the retroactive payment.

- **Did the district address budget reductions necessary to sustain the total compensation increase including a board-adopted plan? Yes**
  Several of the public disclosure documents stated that the increases needed for the settlement were included in the budget, and no additional adjustments were necessary.

- **Did the superintendent and CBO certify the agreement prior to ratification? No**
  All the documents provided to FCMAT included the CBO's signature; however, two included the signature of the deputy superintendent instead of the superintendent.

- **Is the governing board's action consistent with the superintendent's/ CBO's certification? Yes**

- **Did the district submit to the county office of education the AB 1200\2756 full disclosure as required? Yes**

7. General Fund - Yes

- **Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average? Yes**
  FCMAT's MYFP for 2008-09 indicates that the district's percentage of salaries and benefits equals 88.6% of the unrestricted general fund expenditures (excluding one-time federal stimulus funds) and 77.9% of the total general fund expenditures. Below is the most recent statewide average data by type of district.

Salary and Benefit Expense as a Percentage of Total Expense

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

Source: School Services of California

- **Is the district making sure that only ongoing restricted dollars pay for permanent staff? Yes**
  Based on the restricted carryover reflected in the district's 2003-04 through 2007-08 unaudited actuals reports, only ongoing restricted dollars have been used for staff. However, with the reduction to state categorical funding of 15.38% in 2008-09 and an additional reduction of 4.46% in 2009-10, FCMAT's MYFP indicates that numerous categorical programs will not be able to support the current level of staffing.

- **Does the budget include reductions in expenditures proportionate to one-time revenue sources, such as parcel taxes, that will terminate in the current or two subsequent fiscal years? N/A**

- **If the district receives redevelopment revenue that is subject to AB 1290 and SB 617, has it made the required offset to the revenue limit? No**
  The 2007-08 unaudited actuals and the 2008-09 second interim reports reflect proceeds of approximately $54,000 and $59,000 per year respectively in redevelopment revenue. However, there is no offset reflected to the revenue limit. Each redevelopment agency agreement needs to be reviewed to determine if a revenue limit offset is necessary.

8. Encroachment - No

- **Is the district aware of the Contributions to Restricted Programs in the current year? (Identify cost, programs and funds) No**
  As required by the state's Standardized Account Code Structure (SACS), the district must balance each restricted resource using a contribution when necessary. FCMAT's MYFP projects that the encroachment in some of the restricted programs will be much larger than the amount included in the district's second interim report. The MYFP projects general fund contributions totaling over $12.2 million as reflected in the chart below. Included in this calculation, are three block grant programs that help offset the general fund encroachment. The MYFP indicates that unless expenses are reduced in these three programs in the subsequent fiscal years, they will not be able to offset the unrestricted general fund contribution.

Encroachment		
Program	**Resource**	**Contribution**
Continuation Education	2200	$922,719.00
English Language Acquisition	6286	$14,537.00
Special Education	6500	$7,098,181.00
Supplemental School Counseling	7080	$41,113.00
Education Technology	7110	$721.00
Home-to-School Transportation	7230	$248,343.00
Peer Assistance and Review	7271	$7,543.00
Professional Development Block Grant	7393	($94,646.00)
Targeted Instructional Improvement Block Grant	7394	($415,978.00)
School and Library Improvement Block Grant	7395	($297,924.00)
Ongoing & Major Maintenance Account	8150	$4,764,750.00
TOTAL		**$12,289,359.00**

- **Does the district have a reasonable plan to address increased encroachment trends? No**
  FCMAT was not provided with a plan to reduce encroachment. However, the district contracted with an outside agency in December 2008 to review its special education program and make recommendations to help contain program costs. The district should conduct a thorough review of each program that encroaches to determine whether there is a more economical way to deliver the services.

- **Does the district manage encroachment from other funds such as Adult, Cafeteria, Child Development, etc.? Yes**
  The 2007-08 unaudited actuals and the 2008-09 second interim reports did not reflect an encroachment in any of the other funds.

9. Management Information Systems - No

- **Is the district's financial data accurate and timely? No**
  Based on the changes required to be made during the 2008-09 estimated actuals reporting period, it does not appear that the financial data is revised timely. The absence of communication between the central office departments on matters that affect the budget plays a large role in this issue. This needs be rectified to help ensure that the most accurate and timely information is included in budget documents.

- **Are the county and state reports filed in a timely manner? Yes**

- **Are key fiscal reports readily available and understandable? No**
  Budget comparison reports reflecting prior-year and current-year data by account were not accessible directly from the district's finance system. Reports had to be downloaded in Excel and manually manipulated to acquire the necessary information. Beginning balance general ledger account information was also not available in summary form by object code.

- **Is the district on the same financial system as the county? Yes**

- **If the district is on a separate financial system, is there an automated interface with the financial system maintained by the county? N/A**

10. Position Control – No

- **Does the district maintain a reliable position control system? No**
  Interviews with the staff indicated that the system is only about 90% reliable, and that the Human Resources Department can override the system and enter new positions without prior board approval.

  One of the most critical elements in budgeting for expenditures is accurately projecting employee salary and benefit costs. A reliable position control system establishes authorized positions by site or department and ensures that staffing levels conform to district formulas and standards, helping to prevent overstaffing.

  For the district to maintain accurate budget projections, employee demographic data and salary and benefit information should be maintained in a position control system that is integrated with budget and payroll modules and used to update the budget at each reporting period. An integrated system could permit the district to coordinate the functions of payroll, budgeting, and monitoring of hiring and staffing levels into one system, reducing the amount of staff time needed to maintain and process data. To ensure proper internal controls, position control tasks should be shared between the Business and Personnel departments, and it should be impossible to override internal controls procedures.

- **Is position control integrated with payroll? Yes**
  Interviews with staff indicated that the position control system is integrated with the payroll system and that payroll staff members have the ability to override the system if salary information is not correct.

- **Does the district control unauthorized hiring? No**
  Staff members indicated that new positions are created and filled before board approval.

- **Are the appropriate levels of internal controls in place between the business and personnel departments to prevent fraudulent activity? No**
  See the position control section presented earlier in this report.

- **Does the district use position control data for budget development? No**
  Instead of downloading the information from position control directly into the budget development model, the data from position control is downloaded into an Excel spreadsheet and manually adjusted for items such as step-and-column and other anticipated changes. The district should implement a budget development calendar indicating the department responsible and the deadline for each task to ensure that position control data is updated continually so that it can be used at each budget reporting period.

- **Is position control reconciled against the budget during the fiscal year? Yes**
  District staff members indicated that position control is reconciled to the budget quarterly and that staffing reports are sent to school sites two times per year for principals to verify. However, based on the actual year-to-date activity in the district's June financial report, it appears that further checks and balances are needed because numerous salary and benefit accounts were underbudgeted. Communication between central office departments is crucial to ensure that all employees are charged to the correct programs and are accounted for in position control and the budget.

11. Budget Monitoring – No

- **Are budget revisions completed in a timely manner? No**
  While staff report that budget revisions are completed monthly and approved by the board at each reporting period, it appears that a large number of budget adjustments are completed during the estimated actuals reporting period instead of being done earlier in the year. For example, interest earnings should be evaluated and adjusted during each reporting period instead of making only one adjustment during estimated actuals. In addition, based on the districts actual expenditures to date and the 2007-08 unaudited actuals, certificated salaries, classified salaries, and operating expenses were greatly underprojected during the second interim reporting period.

- **Does the district openly discuss the impact of budget revisions at the board level? Yes**

- **Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified? Yes**

- **Has the district's long-term debt decreased from the prior fiscal year? Yes.**
  Based on the 2007-08 annual audit, long-term debt decreased by $497,705 in 2007-08. The district's 2008-09 second interim report indicates that no new long-term debt has been acquired.

- **Has the district identified the repayment sources for long-term debt or non voter-approved debt, i.e. certificates of participation, capital leases? Yes**
  The criteria and standards section of the 2008-09 second interim report mistakenly indicates that the general obligation bond payment is made from the general fund. This should be corrected on future reports.

- **Does the district's financial system have a hard coded warning regarding insufficient funds for requisitions and purchase orders? Yes**

- **Does the district encumber salaries and benefits? No**
  The district should investigate the possibility of having the financial system encumber salaries and benefits. Encumbering these expenditures would help the district to more closely monitor the salary and benefit accounts in a timely manner.

12. Retiree Health Benefits - Yes

- **Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements? Yes**

- **Does the district have a plan for addressing the retiree benefits liabilities? Yes**
  The district offers post-employment retiree benefits based on specific language in the respective bargaining agreements and uses the pay-as-you-go method for funding the benefits. The district has not established a plan to fund the accrued liability and the annual contribution as determined by the actuarial valuation completed on July 1, 2008.

- **Has the district conducted a re-enrollment process to identify eligible retirees? No**
  The district should consider conducting mandatory re-enrollment for all employees to ensure that only eligible individuals are included in the district's health and welfare plans.

13. Leadership/Stability - No

- **Does the district have a superintendent and/or chief business official that has been with the district more than two years? Yes**

- **Does the governing board adopt clear and timely policies and support the administration in their implementation? No**
  The board policies and administrative regulations provided to FCMAT include the date of January 1997 on the table of contents. However, a date of adoption is not included on each policy and regulation. Board policies and administrative regulations should be updated as soon as possible and maintained on an ongoing basis.

14. Charter Schools - No

- **Has the district identified a specific employee or department to be responsible for oversight of the charter? No**
  The district is the sponsoring agency for one charter school, Kaplan Academy, which was approved by the governing board in August 2008. When FCMAT completed its on-site visit in January 2009, essential Business Department staff members were not aware that a charter had been approved by the governing board and had not received from the charter school any of the financial data needed to complete oversight responsibilities.

- **Has the charter school submitted the required financial reports? No**

- **Has the charter school commissioned an independent audit? N/A**
  The charter school has not yet completed its first year of operation.

- **Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency? N/A**

- **Is the district monitoring and reporting the current status to the board to ensure that an informed decision can be made regarding the reauthorization of the charter? No**

15. Audit Report - Yes

- **Did the district receive an audit report without material findings? Yes**
  A review of the district's 2003-04, 2004-05, 2005-06, 2006-07 and 2007-08 audit reports found some findings each year. However, none of the findings were classified as material.

- **Can the audit findings be addressed without impacting the district's fiscal health? Yes**
  The 2007-08 audit report included a negative adjustment of $2,499,576 to the self-insurance fund. However, this was not included as an audit adjustment on the district's 2008-09 second interim report. The district staff indicate that they have worked with the auditors to complete the necessary journal entries using a current-year expense account instead of a balance sheet account for this adjustment.

- **Has the audit report been completed and presented within the statutory time line? No**
  Education Code section 41020.3 requires the annual audit for the prior-year to be reviewed by the board at a public meeting by January 31 of each year. The 2005-06, 2006-07 and 2007-08 audits did not meet this time line. The 2005-06 audit was placed on the board agenda on March 27, 2007, the 2006-07 audit was placed on the February 26, 2008 agenda, and it appears the 2007-08 was placed on the February 10, 2009 agenda, although the audit year could not be determined based on the minutes provided.

- **Are audit findings and recommendations reviewed with the board? Yes**

- **Did the audit report meet both GAAP and GASB standards? Yes**

16. Facilities – Yes

- **Has the district passed a general obligation bond? Yes**

- **Has the district met the audit and reporting requirements of Proposition 39? Could not be determined.**
  Interviews with district staff indicated that these reporting requirements have been met. However, FCMAT was unable to confirm because supporting documentation, such as annual audits and verification of oversight committee meetings, was not provided. The district's 2008-09 second interim report indicates that there are no bond funds remaining.

- **Is the district participating in the state's School Facilities Program? Yes**

- **Does the district have sufficient personnel to properly track and account for facility-related projects? Yes**

- **Has the district met the reporting requirements of the Williams Act? Could not be determined.**
  FCMAT was unable to determine whether the district complies with all the facility reporting requirements based on the information provided. The district provided the Condition of School Facilities report for some of the decile 1-3 schools for the second quarter of 2007-08 and copies of the Facilities Inspection Tool for some school sites. However, information was not provided regarding the quarterly reporting requirements to the governing board and the 2007-08 annual report completed by the county office for all decile 1-3 schools.

- **Is the district properly accounting for the 3% Routine Repair and Maintenance Account requirement at the time of budget adoption? Yes**
  The 2008-09 adopted budget met the 3% requirement. Flexibility options included in the revised 2008-09 state budget, approved in February 2009, allows for the district to reduce this transfer to 1% in 2008-09 through 2012-13.

- **If needed, does the district have surplus property that may be sold or used for lease revenues? No**
- **If needed, are there other potential statutory options? N/A**
  - **Joint Use: Can the district enter into a joint use agreement with some entities without declaring the property surplus and without bidding?**
  - **Joint Occupancy: The Education Code provides for a joint venture that can authorize private development of district property that will result in some educational use.**

- **Does the district have a facilities master plan that was completed or updated in the last two years? No**
  The district's facilities master plan is dated May 2000.

17. General Ledger - Yes

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

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

The district provided FCMAT with a year-end closing schedule dated February 3, 2009.

- **Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year? Could not be determined.**
  The staff reported that the balances are checked at the district and county-office levels each year.

  The reports provided to FCMAT for the 2007-08 ending balances and the 2008-09 beginning balances were not in the same format. However, these reports indicated that the general funding ending balances for 2007-08 and beginning balances for 2008-09 were the same (except object code 9791).

- **Does the district adjust prior year accruals if the amounts actually received (A/R) or paid (A/P) are greater or less than the amounts accrued? Yes**

- **Does the district reconcile all payroll suspense accounts at the close of the fiscal year? Yes**
  The staff reported that payroll suspense accounts are reconciled at year-end.

Total "No" Responses: 10

RISK ANALYSIS

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

0 – 4	**5 – 9**	**10 – 14**	**15 – 17**
Low	**Moderate**	**High**	**Extremely High**

The district's risk analysis score of 10 "no" responses is in the high range. Immediate steps should be taken to improve the district's fiscal health and reduce risk by addressing each item that includes a "no" response. The district should complete a Fiscal Health Risk Analysis annually.

Curriculum and Instruction

The Curriculum and Instruction Department administers instructional programs for district students and oversees elementary school principals. The assistant superintendent of curriculum and instruction, who reports directly to the superintendent, supervises this department.

The Federal and State Programs Department provides support to curriculum and instruction, establishes budgets for categorical programs, and oversees the Grants Department and the secondary school principals. The assistant superintendent of federal and state programs, who reports to the superintendent, supervises this department.

Based on the interviews conducted by FCMAT, communication is lacking between the Curriculum and Instruction and Federal and State Programs departments. There is no clear protocol on how the departments interact to ensure they are working together to meet the instructional needs of students.

Categorical Program Accountability – Program Improvement (PI)

Program Improvement is one of the accountability processes the U.S. Department of Education established under the No Child Left Behind (NCLB) Act of 2001. School districts, and individual schools in California are identified as needing improvement when they do not meet the achievement goals of adequate yearly progress (AYP) for two consecutive years. AYP goals require that students score proficient or advanced on state tests. For example, if one or more groups of students such as English learners, Hispanics, or African Americans do not score 35% proficient or advanced for two consecutive years, the school or district does not meet the AYP goals and may be identified as PI. Once a school or district is in Program Improvement, it will advance further in Program Improvement status if it fails to make AYP. The consequences get more severe for each year that the school or district stays in Program Improvement. To exit Program Improvement, the school or district must make AYP for two consecutive years.

In the first year of Program Improvement, the district is required to complete several steps. With state assistance, it must notify parents that the local educational agency (LEA) was identified for PI, the reasons, how parents can help improve the district, and the actions the state will take to improve district achievement. The district must also complete several documents; write an addendum to the LEA plan within three months; and reserve no less than 10% of the district's Title I allocation for high-quality professional development.

In year two, the state may continue to provide technical assistance to the district. The district must continue to implement the district plan addendum and reserve at least 10% of the district's Title I allocation for high-quality professional development.

In year three, the state may continue to provide technical assistance to the district and must take corrective action invoking at least one of seven federal sanctions. The sanctions include the following:

- Deferring programmatic funds or reducing administrative funds
- Instituting new curriculum and professional development for the staff
- Replacing district staff
- Removing individual schools from jurisdiction of the district and arranging for governance
- Appointing a trustee in place of the superintendent and school board
- Abolishing or restructuring the district
- In conjunction with one of these steps, the state may authorize student transfers to a school that is not in Program Improvement in another district, including paid transportation.

The state must also provide a public hearing within 45 days after notice of corrective action to the district. The district is required to notify parents and the public of corrective action taken by the state, revise the LEA plan to document the steps taken to fully implement the sanction assigned by the State Board of Education, and continue to reserve at least 10% of the district's Title I allocation for professional development.

Additional information about PI may be obtained at the following California Department of Education Web site: http://www.cde.ca.gov/ta/ac/ti/pirequirement.asp.

The district is in the third year of district PI and has nine PI schools, according to the 2008 Adequate Yearly Progress Report. The schools in PI are as follows:

- Year 1 - Firebaugh High
- Year 2 - Wilson Elementary, Cesar Chavez Middle, and Hosler Middle
- Year 3 - Lugo Elementary, Lynwood High, and Vista High (Continuation)
- Year 4 - Roosevelt Elementary
- Year 5 - Lynwood Middle

Several people indicated they are concerned that the district lacks a PI plan to resolve academic deficits and help the district and schools exit Program Improvement. Adequate communication is also lacking among affected parties. This includes the staff, site administrators, teachers, parents, and the governing board. A folder titled Program Improvement Plan was provided by the district and included the following documents:

- LACOE/Lynwood Support Group; Findings and Recommendations to Support the District PI Addendum, May 2007
- Local Educational Agency Plan (LEAP) Addendum, Final Copy February 6, 2008 Including Funding Sources
- Board Parent Communications - PI & Exit Strategies

A document titled LACOE/Lynwood Support Group; Findings and Recommendations acknowledged that many curriculum and instruction elements were in place. However, the document also included many urgent recommendations that had still not been implemented. Examples are as follows:

- Obtain a classified/certificated technical analyst to handle data consolidation, customized reporting, coordination of data and data verification with the student information system (AERIES), Cruncher, Kaplan and OARS. (Kaplan has since been replaced by the district core curriculum tests).
- Work with information technology (IT) or other departments to consolidate data; OARS, Kaplan, CST, etc. in one database, preferably an AERIES module and a SQL data based (cheaper than Oracle).
- Create a capacity to perform staff development with principals on data use and understanding test results.

ELL Inventory – Urgent Recommendations

- Create master plan development committee that includes stakeholders from sites and central office. Finding: current lack of usefulness and low level of priority given to existing master plan by school sites.
- Develop expected performance standards for the successful completion of ELD level at the elementary and secondary levels. Finding: Lack of monitoring and overcoming academic deficits.
- Develop a reporting system for schools and teachers that provides for the regular reporting of progress towards the attainment of ELD standards by students. Finding: failure to use data for monitoring and improvement of the ELL program.
- Provide data to sites on students who have not been reclassified after five years or more and develop guidelines to monitor interventions and effectiveness from year to year. Finding: failure to monitor students who are not making expected progress towards the attainment of ELD standards.

FCMAT requested data reports used by teachers to identify student achievement on the California Standards Test (CST), the California English Language Development Test (CELDT), the California High School Exit Exam (CAHSEE) and district testing measures. However, these reports were not provided.

A review of the Local Educational Agency Plan (LEAP) Addendum, Final Copy February 6, 2008 Including Funding Sources found that this document did not constitute a PI plan and did not address required changes for schools to exit PI. Section I of the plan was not completed in the areas of persons responsible, time line, benchmarks, or funding source. FCMAT identified the following concerns with the plan regarding English learners:

- There is a lack of differentiated teaching as evidenced by the data of the subgroups

- The LEAP did not provide strategies to meet the needs of the EL subgroup
- The effective use of data is limited by inconsistent access to current technology districtwide

The LEAP addendum lacked any indication that the goals, strategies, and actions as described were achievable by June 2008 as stated. There was no mention of the ongoing procedures of the District-Site Leadership Teams (DSLT), involvement by Los Angeles County Office of Education (LACOE), or involvement with outside service providers.

The Board Parent Communications – PI & Exit Strategies documents included the following:

- A memorandum to PI school principals dated September 16, 2008
- A letter to parents/guardians about district PI dated September 5, 2008
- Parent notification letters for each PI school dated September 17, 2008
- Notification of parent meeting for November 13, 2008
- A supplemental providers list
- Flyers from each approved supplemental provider

The parent advisory committee minutes from all schools were provided to FCMAT for 2005-2006, 2006-2007, 2007-2008 and 2008-2009 (to date). However, the minutes did not include information regarding the district's PI status. In addition, the minutes provided for schools identified as PI did not address the requirements or steps being taken to remedy their PI status and did not include information to parents that explained the rights to school-choice transportation to non-PI schools and supplemental services.

The district Program Improvement Plan explaining the steps for planning, plan implementation, and the corrective action required of PI districts in year three should be submitted to the governing board and stakeholders. In addition, information should be provided to the governing board regarding actions previously taken for the nine schools in PI and any additional action required by the board. This information should include a presentation by each of the PI school principals that includes the steps taken and progress made toward exiting PI. Records of School Site Council, English Learner Advisory Committees, and School Advisory Committee (if the school receives EIA-SCE funds) agendas should also be provided to demonstrate parent involvement at PI schools and show adequate participation in decisions about academic improvement and expenditures of categorical funds to improve student achievement.

Recommendations

The district should:

1. Develop clear guidelines and expectations for communication between the Curriculum and Instruction and Federal and State Programs departments.

2. Implement all requirements for district PI included in the NCLB guidelines, the Legal Assurances and the California Education Code.

3. Ensure that all schools identified as PI meet all requirements of the Legal Assurance and California Education Code.

4. Revise the LEAP Addendum to address the details of the district PI plan explaining the steps for planning, plan implementation, and corrective action required for PI districts in year three and present it to the governing board.

5. Regularly report all steps being taken regarding PI to the governing board to ensure that all identified schools, the district, and staff are taking all necessary steps to improve student achievement to exit PI as quickly as possible.

6. Provide the governing board with copies of the PI letters sent to parents for each year that each district school and the district have been in PI.

7. Provide information to the governing board about actions previously taken for the nine schools in PI and any additional actions required by the board.

8. Ensure that the agendas and minutes for parent advisory groups, including the District Advisory Committee and District English Learner Advisory Committee, demonstrate parent and staff involvement in PI processes and improvement in academic skills, particularly for subgroup students who are not making adequate academic progress.

Categorical Program Accountability – Categorical Program Monitoring (CPM)

State and federal laws require the CDE to monitor the implementation of categorical programs operated by school districts, often referred to as local educational agencies (LEAs). CDE monitoring is accomplished in part through categorical program monitoring (CPM). CPM is a combination of data and document review and on-site visits conducted to examine the categorical programs administered by districts. The purpose of categorical program monitoring is to monitor districts for compliance with the requirements of each categorical program, including fiscal requirements. CDE monitoring is conducted every year for one quarter of all the districts in California. This allows each district to be monitored once every four years by state staff knowledgeable in one or more of these programs. Districts are responsible for creating and maintaining compliant categorical programs. Once the state review is completed, the district has 45 days to submit to CDE a description of how the district will resolve any noncompliant items.

The district provided a folder titled CCR OR CPM Report Findings to FCMAT that included the following items:

- A CDE Notification of Findings dated May 30, 2008
- A letter from CDE English Learner Accountability Unit – Resolution of EL Findings dated December 31, 2008
- Program Placement Options (Master Plan for English Learners) Revised 10-20-08 per CPM

Following are some written findings from the state CPM report dated May 30, 2008, that are of particular concern. The entire CPM document is included as an appendix to this report.

1. Lynwood High's notification letter to parents failed to identify the teachers who had not completed all the requirements to be considered NCLB compliant.

   To correct this issue, the district should ensure the teacher's name is included in future notifications to parents.

2. After a review of SSC minutes, categorical budget information pages and expenditure reports, and interviews of SSC members, it is not clear that the SSC was adequately involved in decisions and evaluation about funds allocated to Lynwood Middle and Lynwood High School due to the set-aside by the district for "centralized services."

   To resolve this item, the district shall provide to CDE agenda, minutes, and sign-in sheets that document that categorical funds were appropriately budgeted and the SSC decided the use of the funds (Title I, EIA and Title III) including a new SPSA.

   Interviews with SSC and a review of the SPSA (Single Plan for Student Achievement) indicated each site was charged for centralized services of which the SSC did not have a clear understanding of how these funds were being utilized or of benefit to the site. This appears to be a district-wide issue.

3. For categorical programs, the LEA maintains an inventory record for each piece of equipment according to requirements (EC 35168). Although multiple large expenditures were noted in the Title I and EIA/SCE expenditure report at Lynwood High School, no equipment was listed on the inventory list for those funds.

To resolve this item, the district shall provide to CDE an inventory list to report the equipment acquired at a cost of $500 or more per unit.

4. The LEA is to use categorical funds only to supplement, and not supplant, the delivery of education expected of all public schools.

   This requirement is not met for Title I, Title III, EIA/LEP, EIA/SCE according to the review of documents, staff, and expenditure reports at Lynwood Middle, Lynwood High, and Roosevelt Elementary and Wilson Elementary schools. Positions are multifunded and many of the job duties were supplanting the General Fund. (g) In addition, the budget expenditures report for Title I and EIA/SCE at Lynwood Middle and Lynwood High show examples of expenditures that are inappropriate for those funds; e.g., fund used for materials for history and science.

   To correct this finding, the LEA shall provide CDE evidence of a district-wide review and correction of funding practices for staff at all schools in relation to the correct use of Title I, Title III, EIA-LEP and EIA-SCE. In addition, the LEA shall provide a district-led review of all expenditures of Title I, Title III, EIA/LEP and EIA/SCE at all schools.

FCMAT did not receive documentation that indicated resolution of the cross program items, including Title I, state compensatory education, PI, physical education, and child development. The CPM Office requires resolution of the findings or ongoing efforts documented in writing within 45 days of the May 30, 2008 CPM review. Evidence needs to be provided to the governing board indicating that all CPM findings have been resolved, including letters from the CPM Office indicating that the district is in compliance. If some items have not been resolved, the board should be provided with copies of all correspondence with the CPM Office indicating attempts to resolve noncompliant items and the steps taken to meet the requirements.

The letter from CDE English Learner Accountability Unit, Resolution of EL Findings dated December 31, 2008, indicated that all English learner items found noncompliant during the May 2008 CPM review were resolved. In addition, the District Master Plan for English Learners was revised on October 20, 2008 and met the requirements for compliance by the CPM team.

State and federal categorical funds are allocated to the district so additional services may be provided for specific purposes or for specific groups of students; for example, low achieving or low-income students. The added money and services are referred to as supplemental since they supplement, or increase, services previously provided by the district with other funding sources. Supplanting refers to using categorical funds in place of these other district funding sources and is prohibited by several of the federal and state categorical programs.

Procedures should be established to monitor categorical programs at the district and site levels to ensure that categorical funds subject to supplanting regulations are used to supplement and not supplant the delivery of education expected of all public schools. That involves accurate monitoring of position control for staff salaries and benefits as well as materials and equipment purchased for supplementing, and not supplanting delivery of core instruction.

Recommendations

The district should:

1. Provide the governing board with evidence that CPM items have been resolved, attempts have been made to resolve noncompliant items, and steps are being taken to meet CPM requirements.

2. Review, and revise if necessary, all practices by the district in the use of centralized services funds and Title I funding reservations.

3. Ensure that the revised English Learner Master Plan has been implemented.

4. Establish monitoring procedures at the district and school site levels to ensure that categorical funds that are subject to supplanting regulations are used to supplement existing funding sources.

5. Provide each site principal and parent advisory committee with a handbook that describes the purpose of each categorical program and the appropriate expenditures to avoid supplanting issues described in the CPM report.

Categorical Program Funds – Consolidated Applications

The Consolidated Application is used by the CDE to distribute categorical funds from various state and federal programs to county offices, school districts, and direct-funded charter schools throughout California. Each year in June, each LEA submits Part I of the application to document participation in the programs and provide assurances that the district will comply with the legal requirements of each program.

Part II of the application is submitted in the fall of each year and contains the district entitlements for each funded program. Program entitlements are determined by formulas contained in the laws that created each of the programs. Districts allocate funds for indirect costs, programs operated at the district level, and programs operated at school sites on the Consolidated Application, Part II. The following information is from Lynwood's Consolidated Application documents.

2006-07 Consolidated Application

The 2006-07 Consolidated Application, Part I listed schools in PI and the actions taken to exit PI. The Consolidated Application, Part II for 2006-2007 indicated the amounts of money the district reserved to provide school-choice transportation for students who request to transfer to non-PI schools and for those who request supplemental services, such as tutoring, from state-approved outside agencies. Supplemental services are in addition to any district or school site after-school tutoring programs. The following table provides a summary of the PI information for 2006-07.

School	Year of PI	Number of Transfers to Non-PI Schools	District Reservations for Transportation	Number of Students Receiving Supplemental Services	District Reservations for Supplemental Services
Pathway High*	1	0		0	
Mark Twain Elementary	4	0		14	
Roosevelt Elementary*	1	0		0	
Lynwood Middle	5	0		6	
Total		0	$323,196	20	$969,588

*Schools in year one PI are not eligible for transportation to non-PI schools in the district and do not receive Title I funded supplemental services.

2007-08 Consolidated Application

The 2007-08 Consolidated Application, Parts I and II provided the information as outlined in the following table regarding PI schools.

School	Year of PI	Number of Transfers to Non-PI Schools	District Reservations for Transportation	Number of Students Receiving Supplemental Services	District Reservations for Supplemental Services
Vista High*	1	0		0	
Lynwood High*	1	0		0	
Lugo Elem.*	1	0		0	
Mark Twain Elementary	4	0		260	
Roosevelt Elementary	2	0		107	
Wilson Elementary*	1	0		0	
Lynwood Middle	5	0		61	
Total		0	$305,414	428	$916,243

*Schools in year one PI are not eligible for transportation to non-PI schools in the district and do not receive Title I funded supplemental services.

2008-09 Consolidated Application

The 2008-09 Consolidated Application, Part I was not provided by the district. The 2008-09 Consolidated Application, Part II indicated the amounts of money the district reserved to provide school-choice transportation for students who requested to transfer to non-PI schools and for those who requested supplemental services from state-approved outside agencies and is summarized below.

School	Year of PI	Number of Transfers to Non-PI Schools	District Reservations for Transportation	Number of Students Receiving Supplemental Services	District Reservations for Supplemental Services
9 Schools		Unknown	$310,981	Unknown	$932,943

The 2008-09 Consolidated Application, Part II (Con App II) indicated that the application was approved by the governing board on January 27, 2009 before the state deadline of January 31, 2009. However, there are several concerns regarding the application that should be examined by the district staff and explained to the governing board. These concerns are outlined below.

The 2008-09 Consolidated Application II provided to FCMAT does not include the signatures of the District Advisory Committee (DAC), the District English Learner Advisory Committee (DELAC) and the superintendent. These signatures need to be obtained. In addition, the agendas and minutes of the DAC and DELAC meetings that indicate the review and approval of the 2008-2009 Consolidated Application, Part II prior to submission to the governing board should be kept on file at the district office.

The Title I, Part A, carryover calculation included on Page 26, line six indicates carryover of $1,278,296 as of June 30, 2008. This amount does not correspond with the 2007-08 Unaudited Actuals Federal Grant Award (Form CAT), which indicates $406,486 for Title I carryover. The assistant superintendent of federal and state programs explained that there was an error on Form CAT.

Each local educational agency is required to certify to the California State Board of Education that the agency will adhere to the legal assurances included in the Consolidated Application. The legal assurances include that the LEA will use fiscal control and accounting procedures that will ensure proper disbursement of state and federal funds paid to the agency for each program (CCR T5, §4202). Based on this required assurance, information should be provided to the governing board regarding how expenditures are monitored, and budget reports should be made available for the board to review throughout the fiscal year. Best practices would include an annual examination, either conducted internally or by the district's external auditors, of all expenditures of federal and state categorical funds including those at the district and the school sites. Based on the lack of documentation provided regarding the use of prior-year funds, a review of prior year expenditures should also be conducted.

The federal government requires districts that receive Title I, Part A funds to reserve a designated percentage of the funding for specific activities. The following table is a summary of the district's Title I reservations as indicated on the Consolidated Application, Part II since 2006-07.

Con App II	2006-07	2007-08	2008-09	Total
School Choice Transportation	$323,196	$305,414	$310,981	$939,591
Supplemental Educational Services	$969,588	$916,243	$932,943	$2,818,774
Program Improvement LEA: Professional Development	$646,393	$610,830	$621,963	$1,879,186
Professional Development – Not PI activities*	NA	NA	$304,108	$304,108
Assistance to Schools – Not PI activities*	NA	NA	$391,160	$391,160
Totals	$1,939,177	$1,832,487	$2,561,155	$6,332,819

*Beginning 2008-09 the Consolidated Application included reservations for Not PI activities.

When determining reservations for Title I funds, several factors need to be considered and discussed with district and site administrators. These include the following:

- The basis used to determine the amounts reserved for school choice transportation.
- Whether the amounts determined are based on the actual number of students in PI schools who choose to attend a school that is not in PI.
- Whether the number of students warrants reservation of more than $300,000 per year for their transportation.

For most districts, the number of PI school students who choose to attend a non-PI school ranges from none to very few. This is also consistent with the 2006-07 and 2007-08 consolidated applications for Lynwood, which indicate that no students in PI schools transferred to non-PI schools.

An additional consideration is what happens to unspent Title I funds reserved for school choice transportation. The Title I carryover amount indicated on the 2007-08 Form CAT ($406,486) does not appear to be large enough to include amounts remaining for reservations included in school choice transportation, supplemental educational services, professional development, and school site carryover amounts. As discussed later in this report, there are serious concerns about whether site carryover funds for Title I are distributed to the schools and reported on the Consolidated Application, Part II and the Single Plan for Student Achievement documents.

Another area for consideration is the number of Title I students in PI schools participating in supplemental educational services and the providers used. It is important to provide the governing board with this information along with justification for the projected costs of more than $900,000 each year. If the funds reserved for supplemental educational services are not spent each year, the district should ensure that it accounts for the remaining funds properly. As mentioned earlier in this report, the 2007-08 Form CAT and the 2008-09 Con App II reflect different amounts for the June 30, 2008 carryover of Title I funds. The district should ensure all required documents include consistent information before submitting them to the governing board for approval.

More than $600,000 in Title I funds are reserved each year for district professional development. The district should ensure there is an accountability system to monitor the effectiveness of professional development for the staff and the results on student achievement. The governing board should also be provided with reports on how funds are spent and improvements are measured.

Pages 31.1 to 31.4 of the 2008-09 Consolidated Application II indicate that schools do not receive Title I site-level carryover from the prior year. The instructions at the top of each of these pages state, “The allocations on this page are to provide direct services to eligible Title I students.” If unspent funds are returned to the district for reallocation, they must be used for direct services, such as tutoring or intervention services, to eligible Title I students. In addition, any Title I funds used for centralized services must be approved in each affected school’s Single Plan for Student Achievement (SPSA).

A comparison of the school site budgets in the 2008-09 SPSAs to the district’s spreadsheets for distribution of categorical funds indicate that the two documents are in alignment. There is also clear alignment between the Con App II, the district Excel spreadsheets reflecting site allocations, and the site budgets sent to schools as part of the single plans. However, these documents indicate that the school sites did not receive carryovers from the prior year for any of the federal or state categorical programs included on the Consolidated Application. It is unclear how those carryover funds are spent once they are collected at the district office.

The 2007-08 carryover amount for each federal and state categorical program should be reviewed to determine whether funds were properly reallocated and used to provide direct services to all eligible students. If they were not properly allocated, the Consolidated Application II for 2008-2009 will need to be revised and resubmitted to the California Department of Education. Site budgets will need to be revised at the district office and sent to each affected school site. If the school sites' SPSA needs to be revised to include carryover, the Categorical Program Legal Assurances require these revisions to be approved by the district's governing board.

Recommendations

The district should:

1. Ensure that signatures from DAC and DELAC representatives and the superintendent are included on the 2008-09 Consolidated Application, Part II.

2. Ensure that the DAC and DELAC agendas and minutes that indicate the review and approval of the 2008-2009 Consolidated Application, Part II are on file at the district office.

3. Ensure that all documents, including the Consolidated Application II and the unaudited actuals Form CAT, consistently report federal and state categorical carryover amounts.

4. Provide clear documentation to the governing board to demonstrate that all funds in the Consolidated Application, Part II for 2006-2007, 2007-2008, and 2008-2009 were spent as indicated or that the carryover is accounted for accurately in the district's unaudited actuals and budget documents.

5. Provide documentation to the governing board explaining how the 2007-08 carryover was allocated for each state and federal categorical program.

6. Reallocate 2007-08 federal and state categorical funds to the sites if necessary, make revisions to the sites' Single Plan for Student Achievement to reflect the carryover amounts, and present the revised single plans to the governing board for approval.

7. Provide documentation to the governing board that explains the scope of activities and measures of accomplishment for funds reserved for Title I activities and provide information regarding how leftover funds are being reallocated.

Categorical Program Funds - Instructional Materials Purchases

In 2005, the district began a professional relationship with Kaplan, an educational curriculum company that develops a thematic approach to curricular courseware for schools and districts. The professional development plan for implementing the Kaplan program began in 2005-2006. Several individuals indicated that there was little staff participation in the product selection, content development, or the process for classroom instructional delivery. This resulted in a lack of acceptance from the staff.

The purchase order for Kaplan for 2005-2006 was not provided; however, interviews with the staff indicated that the cost for the first year was approximately $7 million for startup materials, curriculum guides, staff training, consultants, and district test development for the secondary schools. The district also has binders titled Lynwood Unified School District Core Curriculum for secondary courses that date back to the first year of the contract.

The purchase order for the 2006-2007 school year was provided and indicated a governing board meeting date of June 27, 2006. The funding sources listed at the bottom of the board agenda item, Request Approval of Second Year of the Three Year Kaplan Academic Improvement Contract, reflected a total of $2.8 million. All the listed funding sources were from state and federal categorical programs, including Title I, Title IIA, EIA, SIP, and TIIP.

The purchase order for the 2007-2008 school year was provided and included a governing board meeting date of July 31, 2007. The funding sources listed at the bottom of the board agenda item, Request Approval of Third Year of the Three Year Kaplan Academic Improvement Contract, indicated a total of $1,569,000. All the funding sources listed were federal and state categorical programs including Title I, EIA/SCE, SIP, and TIIP. Total expenditures for Kaplan over a three-year period were as follows:

School Year	Approved Kaplan Expenditures
2005-2006	$7,000,000
2006-2007	$2,800,000
2007-2008	$1,569,000
Total	**$11, 369,000**

Because of the factors such as the negative reaction by staff members and other affected parties, the governing board did not approve a contract with Kaplan for 2008-09 and directed the Curriculum and Instruction Department to work with teachers and staff to develop a districtwide curriculum plan.

The federal NCLB and the California Education Code require each school to consolidate plans for specific categorical programs into a Single Plan for Student Achievement (SPSA). The local governing board is required to adopt policies for the development and implementation of the SPSA that are consistent with law. Acting on the recommendation of the school site council, the board then votes on the approval of the SPSA and any later revisions to the plan. The board must certify that the SPSA is consistent with the district's required plans for federal funding, and the plan must have board approval to authorize expenditures. School plans must be developed with the input and certification of the applicable school advisory committees prior to being submitted to the board for approval.

The 2005-06 minutes of the school site councils (SSCs) did not indicate that school administrators, teachers and parent representatives agreed to fund expenditures for Kaplan instructional materials, professional development, and consultant services from site categorical funds. Because the funding sources listed on the board agenda items included Title I and School Improvement Program (SIP) funds, the minutes of the SSCs should have reflected a vote of approval for each school that participated in the expenditure. It is a violation of the Categorical Program Legal Assurances submitted with the district's Consolidated Application, Part II if the SSCs did not participate in the decision to spend site categorical funds.

There was also no indication in the 2005-06 minutes of the school advisory committees (SACs) that indicated school administrators, teachers and parent representatives agreed to fund expenditures for Kaplan instructional materials, professional development, and consultant services from site categorical funds. The minutes of the SACs should have shown a vote of approval for each school that participated in the expenditure of site Economic Impact Aid (EIA) funds for this purchase. It is a violation of the Categorical Program Legal Assurances submitted with the district's Consolidated Application, Part II if the SACs did not participate in the decision to spend these site categorical funds.

The Consolidated Application includes legal assurances that provide that the state-adopted core curriculum can be supplemented, but not supplanted, with curriculum purchased with federal categorical funds. The binders containing Kaplan materials are labeled "Core Curriculum" and the staff indicated that direction was given to the principals at secondary schools stating that these materials were to serve as the course descriptions and texts for all subjects.

Because the board chose not to continue with the Kaplan contract, the 2008-2009 curriculum plan includes curriculum pacing guides developed by teachers and administrators for each grade level at the elementary schools and for each subject at the secondary schools. Quarterly benchmark tests are administered during a testing window of September through June. Measurable goals based on state standards were developed and approved by the Curriculum Committee. The governing board approved the plan in September 2008.

Information reported to FCMAT indicated that the Curriculum and Instruction Department was directed by the superintendent to provide one grade level copy of the curriculum pacing guides to each elementary school and one subject area binder to each secondary school. All other copies remain either in the Curriculum and Instruction

Department or in the Reprographics Department. Discussions with the superintendent indicated that compact discs containing the guides were to be produced for each teacher to avoid the cost of duplication. However, there is no indication that this process has been completed. Site staff members reported that they do not have sufficient curriculum pacing guides to provide adopted standards-based instruction. Each teacher should be provided with either a hard copy or CD of the district curriculum pacing guide for the grade level(s) and/or courses taught.

Recommendations

The district should:

1. Verify the funding sources used for the purchase of Kaplan materials and services and determine whether agendas and minutes of the applicable school site councils and school site advisory committees reflect approval of the expenditure.

2. Determine whether expenditures of categorical funds for Kaplan materials and services were used to supplement rather than supplant the state-approved core curriculum required for instruction.

3. Determine if there was any violation of the Categorical Program Legal Assurances for the expenditures of categorical funds in 2005-2006, 2006-2007, and 2007-2008 for the purchase of Kaplan materials. If violations are found, the governing board should determine the appropriate sanctions or remedies and establish procedures to ensure that no future violations occur.

4. Immediately provide each teacher with a copy of the district curriculum pacing guide for the grade level(s) and/or courses taught.

Categorical Program Funds - Computer Purchases

At the August 28, 2007 governing board meeting, the purchase of 3,163 computers, computer accessories, and installation from Dell Marketing LP was approved at a cost of $3,257,227. The cost of each computer was $857, plus $31 in accessories, and $60 for installation. The board agenda item indicated that the purchase order was issued on May 24, 2007. Accounts payable records show that the invoice for $3,225,846.70 was paid on September 4, 2007. The time line indicates that the goods and services were ordered and delivered before the board approved the expenditure.

The purchase order indicates that funding for the computer purchase came from Title I, Part A, EIA, district discretionary block grant, English-language acquisition program, targeted instructional improvement block grant, and state instructional materials/educational technology. However, some funding sources listed on the purchase order differ from those included in the board agenda item.

The Business Services Department provided the governing board with a report dated July 12, 2007 that indicates the computers were purchased using a piggyback contract according to Public Contract Code 20118. The report further indicates that the district's Program Improvement Action Plan, submitted to the governing board on December 12, 2006, included the expenditure of $2 million for computer purchases.

Expenditures of federal and state categorical funds must be approved by the District Advisory Committee (DAC) and funds from categorical programs for English learners must be approved by the District English Learner Advisory Committee (DELAC). DAC and DELAC minutes were not provided to indicate approval for the purchase of the 3,163 computers from the affected categorical programs. In addition, the only schools that mentioned computers in their school site council minutes were Rosa Parks Elementary which stated, "The CLIP – Computer Lab Intervention Program is offered from 1:30 to 2:30 p.m. for Title I and English Learner students only," and Lynwood Middle School stated, "Parents discussed the limited use of computers (before and after school in the library but not during school)." Hosler Middle School had an agenda item on June 8, 2008 for an eight-hour computer lab assistant but the item was tabled.

In addition, the district's Consolidated Application indicates that all schools in Lynwood are targeted assistance schools. Title I, Part A funds for targeted assistance schools may be used only for computers if there are appropriate monitoring systems to ensure that eligible Title I students have priority access. There should also be evidence that the computers are used to supplement academic instruction and result in improved achievement in the core subjects of English language arts and math. Based on the large percentage of students from low-income families at each school site, the district should consider implementing a schoolwide program instead of a targeted assistance program to provide more flexibility for the use of Title I funds. More information is available regarding schoolwide programs on the following CDE Web site: http://www.cde.ca.gov/sp/sw/rt/index.asp#request.

Several individuals indicated that many computers are still in the warehouse and those in the classrooms are not regularly used by students because software is not available or training has not been provided to the staff.

Recommendations

The district should:

1. Examine documents, particularly DAC and DELAC, agendas and minutes to determine whether the appropriate groups were involved in the decision to purchase the computers with categorical funds.

2. Determine whether there was any violation of the Categorical Program Legal Assurances for the expenditures of categorical funds for the purchase of computers. If violations are found, the governing board should determine the appropriate sanctions or remedies and establish procedures to ensure that no future violations occur.

3. Consider implementing a schoolwide program instead of a targeted assistance program to provide more flexibility for the use of Title I funds.

4. Ensure that the computers have been placed in the classrooms and are used by students.

5. Ensure that necessary software has been installed on the computers and that there is a comprehensive plan for training staff in its use so that the computers and software can be used for improving student achievement.

Appendices

A. CDE Notification of Findings dated May 30, 2008

B. Study Agreement

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

County: Los Angeles	Review Dates: 5/27-30/08	
Migrant Education Region:	Cooperative:	
CPM Coordinator: Sally Seiko	Telephone: 310-886-1695	E-mail: sseiko@lynwood.k12.ca.us

Assurance: I certify that a complete Categorical Program Monitoring (CPM) has been conducted, and that this report identifies all items found to not meet legal requirements by the CDE monitoring team using the official categorical program monitoring instruments. Because the methodology of the CPM involves sampling, it is not an assessment of all legal requirements. Nevertheless, the LEA is responsible for operating its categorical programs to meet with all applicable laws and regulations.

Program Instruments	*Name*	*Signature*	*Date Signed*	*Date Instrument Submitted to CPM Unit*
CP/UCP	*Robert Gomez*		*5-30-08*	
CE /PI	*Judi Brown*	Brown	*5-30-08*	
CE/PI	Lorene Euerle	Lorene G. Euerle	*5-30-08*	
EL	*Lorena .Carrillo*		*5-30-08*	
EL	*Celina Arias-Romero*		*5-30-08*	
EL	Mark Klinesteker		5-30-08	
PE/ITQ	*Robert Lee*		*5-30-08*	
SDATE	*Gloria Woodlock*	Gloria Woodlock	*5-30-08*	
AE	*Karen Allen*	Karen Allen	*5-30-08*	
CD	*Sandra Patitucci*	Sandra Patitucci	*5-30-08*	

Sally Seiko

Signature of LEA Coordinator/Agency Administrator

Sally Seiko

Typed Name

5-30-08

Date

Signature of CDE Team Leader

Robert Gomez

Typed Name

(916) 319-0954 rgomez@cde.ca.gov *5-30-08*

Phone E-mail Date

This is the official report of findings of the monitoring visit conducted by the California Department of Education (CDE). The LEA is required to resolve each finding within 45 calendar days from the date when the CDE Team Leader signed this document. When issues cannot be resolved within the 45-day period, the LEA must submit a proposed agreement using the "Proposed Resolution of Findings" (http://www.cde.ca.gov/ta/cr/cc/documents/resolutionofnon.doc).

The "Proposed Resolution of Findings" is due by: 7-14-08

NOTE: Copies of this report were distributed to the Local Educational Agency. This is a public report and must be made available upon request. (California Public Records Act, Government Code section 625

FOR OFFICIAL CDE USE ONLY:

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

Sites and Programs Monitored

The sites listed below were monitored for the program(s) indicated	Cross-Program	21st CCLC	Adult Education	Cal-SAFE	Cal-Serve	Career Technical Ed	Child Development	Educational Equity	English Learners	GATE	HIV/AIDS	Homeless Ed	Improve Teacher Quality	Migrant Ed	Physical Education	S&DATE	Title I, Part A and SCE	Title I, Part A: Prog Imp	Title I, Part D: N or D	UCP
District	X		X				X		X				X		X	X	X	X		X
Lynwood Adult	X		X																	X
Lynwood High	X								X				X		X	X	X	X		X
Roosevelt Elementary	X								X				X		X	X	X	X		X
Wilson Elementary	X								X				X		X	X	X	X		X
Lynwood Middle	X								X				X		X	X	X	X		X
St. Phillip Neri	X																X			X
Will Rogers CD	X						X													X
Lindberg CD	X						X													X

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

Findings by Instrument

Instrument: **Cross-Program**

☐ No Items of Noncompliance

Specify the item(s) and findings including the source and location of evidence.

Type item identifier and findings here.

I-CP 3. Parents are notified if their child has been taught for four or more consecutive weeks by a teacher who is not highly qualified

Lynwood High's notification letter to parents failed to identify the teachers who had not yet completed all the requirements to be considered NCLB compliant.

To correct this issue the district should ensure the teachers name is included in future notifications to parents.

II-CP-5. For all programs funded through the Consolidated Application and operated at the school, the school site council (SSC) annually develops reviews and updates the Single Plan for Student Achievement, including the proposed expenditures of funds allocated to the school through the Consolidated Application.

After a review of SSC minutes, categorical budget information pages and expenditure reports, and interviews of SSC members, it is not clear that the SSC was adequately involved in decisions and evaluation about funds allocated to Lynwood Middle and Lynwood High School due to the set-aside by the district for "centralized services."

To resolve this item, the district shall provide to CDE agenda, minutes, and sign-in sheets that document that categorical funds were appropriately budgeted and the SSC decided the use of the funds (Title I, EIA and Title III) including a new SPSA.

Interviews with SSC and a review of the SPSA indicated each site was charged for centralized services of which the SSC did not have clear understanding of how these funds were being utilized or of benefit to the site. This appears to be a district-wide issue.

II-CP 8. For categorical programs, the LEA maintains an inventory record for each piece of equipment according to requirements (EC 35168). Although multiple large expenditures were noted in the Title I and EIA/SCE expenditure report at Lynwood High School, no equipment was listed on the inventory list for those funds.

To resolve this item, the district shall provide to CDE an inventory list to report the equipment acquired at a cost of $500 or more per unit.

The means by which a finding is resolved is the responsibility of the LEA unless specified in law.
Authorized LEA staff may request suggestions from CDE staff on the resolution of findings.

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

Cross Programs (continued)

III-CP 10. The LEA disburses categorical funds in accordance with the approved Consolidated Application. For Title I, Part A, and Economic Impact Aid (EIA/SCE and EIA/LEP) the LEA must ensure that no less than 85 percent of the total funds received by the LEA for each categorical program are for direct services to students.

This requirement is not met according to the review of documents at each school site which identified a consistent practice removing from each school's allocation a portion of funds designated for "centralized services."

The correction for this item is described in CP5.

III-CP 11 The LEA is to use categorical funds only to supplement, and not supplant, the delivery of education expected of all public schools.

This requirement is not met for Title I, Title III, EIA/LEP and EIA/SCE according to the review of documents, staff, and expenditure reports at Lynwood Middle, Lynwood High, and Roosevelt Elementary and Wilson Elementary schools. Positions are multifunded and many of the job duties were supplanting the General Fund. Some examples of the positions were :

(a) Testing assistants at Wilson Elementary, Lynwood Middle and Lynwood High;
(b) Library technicians at Roosevelt Elementary, Lynwood Middle, Lynwood High;
(c) Teacher on Special Assignment for EL and CELDT at Lynwood Middle;
(d) Computer laboratory assistant for the computer elective course at Lynwood Middle and Roosevelt Elementary;
(e) Counselor at Lynwood High;
(f) Career Technician at Lynwood High; and,
(g) In addition, the budget expenditure reports for Title I and EIA/SCE at Lynwood Middle and Lynwood High show examples of expenditures that are inappropriate for those funds; e.g., funds used for materials for history and science.

To correct this finding, the LEA shall provide to CDE evidence of a district-wide review and correction of funding practices for staff at all schools in relation to the correct use of Title I, Title III, EIA-LEP and EIA-SCE. In addition, the LEA shall provide a district-led review of all expenditures for Title I, Title III, EIA/LEP and EIA/SCE at all schools.

IV-CP15: The LEA has implemented a process and a criteria to determine the effectiveness of programs for English learners.

A review of student progress reports, classroom observations and interviews with staff indicate that there is a lack of an ongoing monitoring mechanism to improve the implementation of the EL program and to modify the program, as needed, to ensure that each English learner achieves full proficiency in English and academic achievement at grade level.

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

Cross Programs (continued)

The district must submit to CDE, evidence of how the district will monitor the implementation of the EL program to improve the academic achievement of K-12 EL students. The plan should outline a.) Academic and language proficiency goals, criteria used to measure the effectiveness of EL programs, services, and resources (such as categorical funding) used to provide services to English learners; b.) Develop and submit procedures, time tables, and identify staff that will be in charge of implementation of the plan; c.) The district should submit master schedules for the secondary schools that contain sufficient course sections that are reflective of the different proficiency levels of classes for ELs (such as content-based ELD, SEI with SDAIE). Further, the plan should describe how district and school staff will be trained to ensure the successful implementation of systemic improvements made as a result of the plan.

Instrument: **English Learner Program**

☐ No Items of Noncompliance

Specify the item(s) and findings including the source and location of evidence.

I-EL 1. An LEA that has not made progress on annual measurable achievement objectives (AMAO) informs parents/guardians of English learners of such failure not later than 30 days after such failure occurs.

Documentation provided by the district indicates that parents/guardians of English learners have not been notified within the timeframe that the district has not made progress on AMAOs.

The district is to submit documentation of notification to parents/guardians of failure to meet AMAO for the 2008-09 school year, if such failure occurs.

I-EL 2. The ELAC is required to receive training materials and training, planned in full consultation with committee members to assist members in carrying out their legal responsibilities.

A review of ELAC agendas, minutes, and interviews with ELAC members at Roosevelt Elementary, Lynwood Middle and Lynwood High schools, revealed that the ELACs did not provide advice to the SSC on the development of the school plan. The ELAC committee also needs to address the required tasks of a needs assessment, language census (R-30) and importance of regular school attendance.

The district is to submit documentation (such as agendas and minutes) that verifies the ELAC at Roosevelt Elementary, Lynwood Middle and Lynwood High schools have addressed all required tasks.

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

English Learner Program (continued)

I-EL 3. The DELAC has advised the school district's governing board on all required tasks. In addition, the LEA has provided DELACs training materials and training planned in full consultation with committee members appropriate to assist members in carrying out their legal advisory responsibilities.

A review of agendas, minutes, and interviews with district staff and DELAC representatives, indicate that the DELAC has not had the opportunity to advise the district governing board on all the legally required areas including developing a plan to ensure compliance with any applicable teacher and instructional aide requirements; review and comment on the school district's reclassification procedures; review and comment on the written notifications required to be sent to parents and guardians. All DELAC members need to be provided training materials and training, planned in full consultation with committee members, to assist members in carrying out their legal responsibilities.

The district is to submit documentation (such as agendas and minutes) that verify the DELAC has received training and advised the district's governing board on all required tasks.

II-EL 4. The district has properly identified, assessed, and reported all students who have a primary language other than English.

Interviews with district staff and a review of student records indicate that parents/guardians of English learners and fluent English-proficient students have not been notified initially or annually within 30 days of the beginning of the school year their child's language designation, English proficiency level, program placement, program options, exit criteria from the English learner program and for English learners on IEP, how the current program will meet objectives of the IEP.

The district needs to submit evidence to CDE that parents/guardians have been notified of language designation, English proficiency level, program placement, program options, exit criteria of the English learner program and how current program will meet the IEP objectives within the required timeframe.

IV-EL 6 The LEA monitors for a minimum of two years the progress of pupils reclassified to ensure correct classification, placement, and additional academic support, if needed (6.1).

A review of documentation and interviews at Lynwood Middle and Roosevelt Elementary indicate that there is no monitoring of all reclassified students for a minimum of two years. A review of the monitoring form for reclassified students does not indicate specific evidence that students are maintaining grade-level performance and are provided interventions as needed.

The school sites mentioned above must submit to CDE evidence of the implementation of the reclassification monitoring process which includes specific interventions for the reclassified students who have not maintained grade-level performance.

V-EL 7. Teachers assigned to provide English-language development or access to core curriculum instruction for English learners are appropriately authorized or are actively in training for an English learner authorization.

Documentation and interviews indicate a teacher at Roosevelt Elementary is not authorized nor actively in training to obtain English learner authorization.

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

English Learner Program (continued)

Roosevelt Elementary must submit to CDE evidence that all teachers providing instruction to English learners hold appropriate authorization or are actively in training.

V-EL 8. The LEA provides high-quality professional development to classroom teachers, principals, administration, and other school or community-based personnel.

Reviews of pupil performance, interviews with teachers, district staff, and classroom observations demonstrate that the district has not provided sufficient professional development to improve the instruction and assessment of English learners and of direct focus, intensity, and duration to have a positive and lasting impact on the teacher's performance in the classroom.

The district must submit evidence to CDE, such as staff development plans, minutes of planning meetings and/or descriptions of program changes implemented as a result of professional development, demonstrating that it has assisted teachers to improve pupil performance by more effective and consistent use of district-adopted curricula, data from state and local assessment measures and instructional strategies designed specifically for English learners.

VI-EL 9. All pupils are placed in English-language classrooms unless a parental exception waiver has been granted for an alternative program.

A review of the board approved English Learner Master Plan, Placement and Catch-up Plan matrix, and classroom observations indicate that there is an inconsistent placement of English learners in the Structured English Immersion and English Language Mainstream program settings.

The district must submit to CDE evidence that indicates all English learners are placed in accordance with the district adopted program placement policy and that there is a clear description of less than reasonable fluency and reasonable fluency.

VII-EL 11. Each English learner receives a program of instruction in ELD in order to develop proficiency in English as rapidly and effectively as possible.

A review of policies and procedures, which describe the district's English Learner Program, as well as, classroom observations, and interviews with staff at Wilson Elementary, Roosevelt Elementary, Lynwood Middle and Lynwood High, revealed that not all English learners in the district receive structured, systematic, and comprehensive instruction in ELD, that is targeted to their English proficiency levels, and is based on the ELD standards.

To resolve this item, the district must submit a plan that outlines how structured, systematic ELD, which is targeted to their English proficiency levels, will be delivered to all English learners in all program settings until they are reclassified. The plan should also provide a comprehensive description of the program interventions that will be implemented and utilized to ensure that all English learners will begin to make significant gains in English proficiency, within a reasonable period of time. The plan must also describe the monitoring efforts that will be implemented at the district level to ensure the sites are implementing ELD as required.

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

English Learner Program (continued)

VII-EL 12. Academic instruction for English learners is designed and implemented to ensure that they meet the district's content and performance standards for their respective grade levels in a reasonable amount of time.

Classroom observations, interviews with school staff indicate that English learners at Lynwood Middle and Lynwood High schools do not receive academic instruction for English learners that is designed and implemented to ensure that they meet the district's content and performance standards in a reasonable amount of time. A review of school data at Lynwood Middle indicate that out of 618 English learners, 324 (52.43%) are receiving a "D" and/or "F" in the core subjects during the last reporting period. At Lynwood High, 736 out of 942 (78.13%) of English learners are receiving a "D" and/or "F" in the core subject area during the last reporting period.

The district must submit to CDE evidence of how English learners at Lynwood Middle and Lynwood High are provided targeted instruction to meet their academic needs to ensure they are meeting district benchmarks. Documentation must include evidence to ensure that English learners are receiving Specially Designed Academic Instruction in English (SDAIE) throughout all core content areas.

Instrument: **Title I /SCE**

☐ No Items of Noncompliance

Specify the item(s) and findings including the source and location of evidence.

V-CE 6. The school receiving Title I and Economic Impact Aid/State Compensatory Education funding devotes sufficient resources for high-quality and ONGOING professional development for staff and parents to improve instruction and support of students at risk of failing the core curriculum.

At the two secondary schools reviewed, evidence was limited to meet this requirement, based on the review of the SPSA implementation efforts, the expenditure reports of these supplemental funds allowed by Title I for professional development and parent education, and reports about professional development opportunities pursued by individual teachers.

To resolve this issue, the district, in conjunction with the faculty, administration, and school site council of each school, shall develop an implementation plan for professional development. This shall be integrated within each school's SPSA and provide a school wide focus on the improvement of instruction and joint efforts across the school and with parents to enable all students to reach proficient performance on state academic content standards.

VII-CE 10. For schools receiving Title I and Economic Impact Aid/State Compensatory Education funding, students targeted for academic assistance are to receive categorical program services. The targeted assistance schools are to use Title I and EIA/SCE resources to provide significant opportunities for all students identified by the school as most at risk of failing to obtain supplemental academic support needed to reach proficient and advanced performance levels of academic achievement in high-quality English-language arts and mathematics curriculum.

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

Title I/SCE (continued)

The array of multiple years of data presented by the secondary schools reviewed in Lynwood Unified show some improvements. However, in spite of recent changes, the rate of Title I targeted assistance students receiving D/F's are 83% at Lynwood High and over 50% at Lynwood Middle. This raises concerns for the effectiveness of the current interventions funded by Title I funds and was reinforced by the high quantity of targeted assistance students earning less than 2.0 GPA.

To resolve this issue, the Lynwood District, in conjunction with the faculties and Schools Site Councils of the two schools, shall develop an implementation plan that when implemented will provide significant opportunities for all students to reach proficiency (or above) on core content standards through high quality core curriculum. The implementation plan must prioritize ELA and Math and include the process for monitoring interim indicators and student results by both district and school. It must also describe how Title I and EIA/SCE funds are used to support this goal through effective intervention strategies to support students at risk of failing the high quality core curriculum, grades 6-12.

The implementation plan must be approved by CDE and it must then be incorporated into the single plan for student achievement for review and approval by the local school board. This needs to be done in conjunction with the work of PI 5.

Instrument: **Program Improvement**

☐ No Items of Noncompliance

Specify the item(s) and findings including the source and location of evidence.

II-PI 3. For schools in Program Improvement (PI), the LEA annually provides a written notification to parents of the parents' option to obtain supplemental educational services (SES) for their child, including the identity of approved providers within the LEA or those reasonably available in neighboring LEAs, a description of services, qualifications, and demonstrated effectiveness of providers. A review of the parent notification letter for Roosevelt Elementary does not provide parents with information on SES provider information such as description of services, qualifications, and demonstrated effectiveness. The district must submit to CDE a copy of the revised parent notification letter that contains SES provider information including a description of services, qualifications, and demonstrated effectiveness.

II-PI 5. Each school in PI is implementing its revised Single Plan for Student Achievement (SPSA). The LEA provides technical assistance as the PI school develops and implements the SPSA. (20 *USC* 6316 [b][3][C], [b][4][A])

Title I, Part A, and EIA /SCE funds must be used to provide--for students identified as at risk of failure--significant opportunities designed to enable them to reach proficient and advanced levels of achievement of the state academic content standards in English-language arts and mathematics in high quality curriculum.

The team only reviewed Program Improvement (PI) schools during the visit and all were designated as Title I "Targeted Assistance" schools.

The means by which a finding is resolved is the responsibility of the LEA unless specified in law.
Authorized LEA staff may request suggestions from CDE staff on the resolution of findings.

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

Program Improvement (continued)

A review of student achievement data at the secondary Program Improvement schools (Lynwood Middle School and Lynwood High School) indicates a level of under-achievement that has remained steady over multiple years. The data from these schools which includes a high percentage of English Learners indicate that the proportion of each school's secondary student population NOT able to meet proficiency on the California Standards Tests is at least 80% in both English-language arts and mathematics.

This raises concern for the effectiveness of strategies and interventions designed to supplement the implementation of the core instructional program as required by supplemental funding from Title I and EIA/SCE programs. This also raises concerns about the development and implementation of the single plan for student achievement (SPSA) and the related expenditure reports for the Title I and EIA/SCE funds.

To resolve this finding, the Lynwood Unified School District is to submit documentation to CDE to demonstrate that the single plan for student achievement at each school site has been revised to focus on the following for 2008-09:

(1) Through the analysis of academic performance data, determine student academic needs and identify measurable school goals. In conjunction with the faculties of the secondary schools, the LEA will provide technical assistance to assist in the examination of scientific research-based instructional strategies and activities to consider in the revision of the SPSA as needed to supplement the delivery of the core curriculum in language arts and math to enable students to reach proficient and above performance levels. The appropriate role of the school site council (SSC) shall be included in the revision process of the SPSA.

(2) The LEA will provide technical assistance with each school community in the development of revisions to the SPSA to ensure that all categorical funds are used appropriately and that there are means of monitoring, evaluating, and improving the implementation of the supplemental strategies to support student proficiency in California content standards provided in high-quality core curriculum.

(3) The district shall provide documentation to CDE that demonstrates how the LEA, the schools, and the School Site Councils shall monitor the implementation of the revised SPSA for multiple indicators of progress in student academic performance. This work will be in conjunction with the requirements of CE 10.

Instrument: **Improving Teacher Quality**
X No Items of Noncompliance
Specify the item(s) and findings including the source and location of evidence.
Type Item identifier and findings here.

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

Instrument: Physical Education

☐ No Items of Noncompliance

Specify the item(s) and findings including the source and location of evidence.

VII-PE 1. Elementary students (grades one through six) receive physical education instruction for a minimum of 200 minutes each 10 school days. (*EC* 51210.1[a][1][A])

There is insufficient documentation that elementary students at Wilson Elementary and Roosevelt Elementary receive physical education instruction for a minimum of 200 minutes each 10 school days. To resolve this issue the district should provide documentation students in identified schools receive 200 minutes of physical education instruction every ten school days

VII-PE 3. School districts that maintain a high school and elect to exempt pupils from required attendance in physical education for two years any time during grades ten to twelve, inclusive, shall offer those exempted students a variety of elective physical education courses, each with a minimum of 400 instructional minutes every 10 school days. (*EC* 51222[b])

Lynwood High School does not offer students exempted from required attendance in physical education for two years a variety of elective physical education courses, each with a minimum of 400 instructional minutes every 10 school days.

To correct this issue, the school needs to offer a variety of electives if they choose to continue to exempt students from required attendance in physical education.

Instrument: Safe and Drug-Free Schools and Tobacco Use Prevention (SDATE)

X No Items of Noncompliance

Instrument: Child Development

☐ No Findings Identified

Specify the item(s) and findings including the source and location of evidence.
II-CD 2. ELIGIBILITY - (CCTR) Contractors shall enroll families with children in the program that meet the eligibility requirements of that program, and the required documentation is complete in a basic data file. (*EC* 8263, 8236.1, *CCR*, Title 5 18081-18092.5,18103). Required documentation in the family eligibility files was incomplete or the family was not recertified within the required twelve (12) month period. To resolve the issue the district will collect adequate eligibility verification for purposes of eligibility and recertification.

The means by which a finding is resolved is the responsibility of the LEA unless specified in law.
Authorized LEA staff may request suggestions from CDE staff on the resolution of findings.

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

Child Development (continued)

II-CD 3. NEED REQUIREMENT- (CCTR) Contractors shall ensure families with children enrolled in the program meet the need requirement for child care services. (*CCR*, Title 5 18086, 18087, 18088). Not all families with children enrolled in the program met the requirement for need of child care services. Required documentation in the family eligibility file was incomplete. To resolve the issue the district will collect documentation for the need of services for each family prior to enrollment or recertification and will track seeking work days not to exceed sixty (60) days per fiscal year.

II-CD 4. ATTENDANCE - (CCTR) Contractors shall adopt policies and procedures for recording and reporting attendance. (*EC* 8208, 8246; *CCR*,Title 5 18065, 18066, 18068). The district's attendance policy did not define an unexcused absent day. The district is not tracking days of absences for excused, unexcused or Best Interest Days. To resolve the issue the district will define unexcused absent days as part of the attendance policy. The district will also implement procedures for recording and reporting attendance and will ensure all information in regards to the absent day is gained prior to making a determination of excused, unexcused, or 10 Best Interest Days.

IV-CD 7. DEVELOPMENTAL PROFILE- (CCTR) Contractors shall complete the age-appropriate Desired Results Developmental Profile (DRDP) for each child who is enrolled at least 10 hours per week. The DRDP shall be completed for each child within the first 60 days of enrollment and at least at the following interval thereafter: preschool children once every six (6) months. (*CCR*, Title 5 18270.5, 18272). Review of children's DRDP files did not reflect that children are assessed using the correct time intervals. To resolve the issue the district will development a system to track the completion of each assessments of each child enrolled for more than 10 hours per week. The DRDP summary of findings will be used for program planning.

V-CD 11. TEACHER QUALIFICATION- (CCTR) All program staff are qualified for the position held. One of the teachers does not possess the appropriate permit issued by the Commission on Teacher Credentialing. (*EC* 8208(af) To resolve the issue the district will ensure personnel are qualified and possess the appropriate Children's Center Permit.

VI-CD 12. ADULT/CHILD AND TEACHER/CHILD RATIO (CCTR) The applicable teacher-child and adult-child ratios are met for each age group. (*EC* 8264.8; *CCR* Title 5 18290-18291). During the review it was observed a group of 16 children were unsupervised by a teacher or teacher aide. During certain times of the day, early morning, nap time when the teacher is on lunch break, the teacher-child and teacher-adult ratios are not met. To resolve the issue, Title 5 staff-child and teacher-child ratios will be maintained in the Title 5 funded classrooms.

Instrument: **Uniform Complaint Procedures**

X No Findings Identified

Instrument: **Adult Education**

X No Items of Noncompliance

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

Findings by Dimension

Program	I. Involvement	II. Governance and Administration	III. Funding	IV. Standards Assessment	V. Staffing and Prof Development	VI. Opportunity and Equal Access	VII. Teaching and Learning
Cross-Program	X	X	X	X			
Adult Education							
Cal-SAFE							
CalServe							
Career Technical Education							
Educational Equity							
English Learners	X	X		X	X	X	X
Gifted and Talented Education							
HIV/AIDS Education							
Physical Education							X
Title I, Part A and SCE	X				X		X
Title I, Part A: Program Improvement		X					
Title I, Part C: Migrant Education							
Title I, Part D: Neglected or Delinquent							
Title II: Improving Teacher Quality							
Title IV, Part A: Safe Schools and Drug, Alcohol, and Tobacco Education							
Title IV, Part B: Before and After School Programs							
Title X, Part C: Homeless Education							
Uniform Complaint Procedures							

Categorical Program Monitoring
Notification of Findings

County/District Code: 1964774	LEA Name: Lynwood Unified

Child Development Program Findings by Dimension

Program	Involvement	Governance and Administration		Standards Assessment	Staffing and Prof Development	Opportunity and Equal Access	Teaching and Learning
Alternative Payment (CAPP)							
CalWORKs Stage 2 (C2AP)							
CalWORKs Stage 3 (C3AP)							
Campus w/match (CCAM)							
Center-based (CCTR)		X		X	X	X	
Extended Day Care - Latchkey (CLTK)							
Family Child Care Homes (CFCC)							
Full Day State Preschool (CFDP)							
Migrant Alternative Payment (CMAP)							
Migrant Child Care (CMIG)							
Programs for Special Needs Children (CHAN)							
Resource and Referral (CRRP)							
State Preschool (CPRE)							

The means by which a finding is resolved is the responsibility of the LEA unless specified in law. Authorized LEA staff may request suggestions from CDE staff on the resolution of findings.

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

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
August 4, 2008
Amended October 15, 2008

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

1. BASIS OF AGREEMENT

The Team provides a variety of services to school districts and county offices of education upon request. The District has requested that the Team provide for the assignment of professionals to study specific aspects of the Lynwood Unified School District operations. These professionals may include staff of the Team, County Offices of Education, the California State Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this Agreement.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The scope and objectives of this study are to:

1) Conduct a management assistance review of the District's general fund budget, multi year projections, and spending patterns. The Team will create an independent multi year projection for 2009-10 and 2010-11 using Budget Explorer after validating revenue and expenditure allocations included in the District's 2008-09 adopted budget. The 2007-08 un-audited actuals will be compared to the 2008-09 adoption budget and the basis of material differences will be confirmed by the Team. The base year of the Team's projection will be 2008-09.

2) Review the District's processes and procedures for annual budget development, budget monitoring, budget revisions, and reporting and communications of budget information to the governing board during the fiscal year. Provide recommendations for changes that, if implemented, will develop greater consistency with industry practices

in these areas.

3) Prepare a Fiscal Health and Risk Analysis to assist the District in identifying factors that affect fiscal and operational stability. The analysis is based on 17 components of key fiscal indicators to measure a district's potential risk over a five year period. The Team will verify and report on information in each category for fiscal years 2003-04 through 2007-08.

Completion of this scope of work will be directly contingent on the ability of the district to provide the supporting documentation included in this agreement within a requested timeline.

Amendment to the existing scope of work, requested October 15, 2008

4) **Conduct a review of the programs operated by the District's Curriculum and Instruction department to verify whether program and fiscal efficiency is maximized to the fullest extent. Review available funding sources and how funds are being used, and provide recommendations for improvements to processes and procedures, as needed.**

B. Services and Products to be Provided

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

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

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

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

5) Draft Reports - Sufficient copies of a preliminary draft report will be delivered to the District administration for review and comment.

6) Final Report - Sufficient copies of the final study report will be delivered

to the District following completion of the review.

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

3. PROJECT PERSONNEL

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

A. FCMAT Fiscal Intervention Specialist
B. Two FCMAT Fiscal Consultants

Additional personnel for amended scope item #4, October 15, 2008

C. Two FCMAT Curriculum and Instruction Consultants

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

4. PROJECT COSTS

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

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

B. All out-of-pocket expenses, including travel, meals, lodging, etc. Based on the elements noted in section 2 A, the total cost of the study is estimated at $15,300. The District will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the District.

Amended cost estimate based on additional scope item #4, October 15, 2008 is $30,300.

C. Any change to the scope will affect the estimate of total cost. Any delay caused by the District's ability to provide the requested documentation to the Team will affect the estimated 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):

C.
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:	January 2009
Staff Interviews:	to be determined
Exit Interviews:	to be determined
Preliminary Report Submitted:	to be determined
Final Report Submitted:	to be determined
Board Presentation:	to be determined
Follow-Up Support:	If requested

7. CONTACT PERSON

Please print name of contact person: Dr. Dhyan Lal

Telephone 310 886-1600 FAX 310 886-1449

Internet Address dlal@lynwoodusd.org

William Agopian, Business Manager/CBO — Date
Lynwood Unified School District

Barbara Dean

October 10, 2008

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

Approval for amended scope of work , October 15, 2008

10-28-08

William Agopian, Business Manager/CBO — Date
Lynwood Unified School District

Barbara Dean

October 15, 2008

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

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