FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Monterey County Office of Education

Regarding

King City Union School District

Fiscal Review

August 13, 2008

Joel D. Montero
Chief Executive Officer

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

August 13, 2008

Dr. Nancy Kotowski, Superintendent
Monterey County Office of Education
901 Blanco Circle
Salinas, California 93912-0851

Dear Superintendent Kotowski:

In April 2008, the Monterey County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to provide a study of the King City Union School District's fiscal operations. This agreement was amended on May 16, 2008 to include an analysis and review of staffing levels in the district office.

The county office requested that FCMAT perform the following:

1. Conduct an in-depth review of the district's 2007-08 second interim financial report and complete a multiyear financial projection for the current and two subsequent fiscal years. The team shall utilize FCMAT's Budget Explorer v.3.0 multiyear financial projection software to complete this projection. Recommendations will be provided for revenue enhancements or expenditure reductions, as applicable.
2. Conduct an analysis and review of staffing levels for the district office and make recommendations to improve the effectiveness and efficiency to both the elementary and high school districts as a common administration and support team.

FCMAT visited the district in May 2008. This report is the result of those activities.

We appreciate the opportunity to serve you and please extend our thanks to all the staff of the Monterey County Office of Education and the King City Union School District.

Sincerely,

Joel D. Montero
Chief Executive Officer

FCMAT
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Foreword

FCMAT Background

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

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

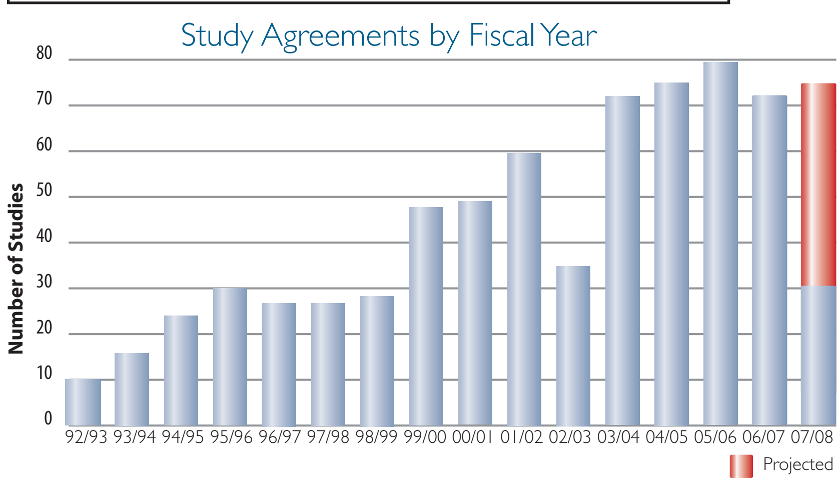
Since 1992, FCMAT has been engaged to perform nearly 700 reviews for local educational agencies, including school districts, county offices of education, charter schools and community colleges. Services range from fiscal crisis intervention to management review and assistance. FCMAT also provides professional development training. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The agency is guided under the leadership of Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Total Number of Studies............ 694
Total Number of Districts in CA 982

- Management Assistance..........658 (94.8%)
- Fiscal Crisis/Emergency..............36 (5.2%)

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

(Rev. 2/21/08)



Introduction

Background

The King City Public Schools are located in the heart of the Salinas Valley in Monterey County. King City has two separate school districts: King City Union School District and King City Joint High School District. Each district is governed by a separate five member Governing Board, but has several administrative positions that are common to both districts, including the Superintendent and the Chief Business Official (CBO).

The King City Union School District is comprised of three elementary schools and one middle school. The district opened Chalone Peaks Middle School at the beginning of the 2007-2008 fiscal year. The Governing Board recently voted to close San Lorenzo Elementary as a cost-cutting measure taken in part because of declining enrollment. The school houses 479 students in fourth and fifth grades.

On April 14, 2008, the Monterey County Office of Education contracted with FCMAT to conduct a review of specific financial issues concerning the King City Union School District following a negative certification of the second interim report. The agreement was amended on May 16, 2008 to include an analysis and review of district office staffing to improve the effectiveness and efficiency of service delivery to both districts. The study agreement states that FCMAT will do the following:

1. Conduct an in depth review of the district's 2007-08 Second Interim Financial report and complete a Multi-Year Financial Projection for the current and two subsequent fiscal years. The team shall utilize FCMAT's Budget Explorer v.3.0 multi-year financial projection software to complete this projection. Recommendations will be provided for revenue enhancements or expenditure reductions, as applicable.
2. Conduct an analysis and review of staffing levels for the district office and make recommendations to improve the effectiveness and efficiency to both the elementary and high school districts as a common administration and support team.

Study Guidelines

FCMAT representatives visited the district in May 2008 to conduct interviews, collect data and review documents. This report is the result of those activities.

To complete this study, FCMAT obtained the district's organization chart, comparative staffing information, job descriptions and financial data and information. In addition, the team reviewed data processing systems and the ability of staff members to utilize existing technology in their work assignments.

Study Team

The FCMAT study team was composed of the following members:

Deborah Deal
FCMAT Fiscal Intervention Specialist
San Luis Obispo County, California

Terry Manges
FCMAT Consultant
Chula Vista, CA

Leonel Martínez
FCMAT Public Information Specialist
Bakersfield, California

Margaret Rosales
FCMAT Consultant
Kingsburg, California

Jim Cerreta
FCMAT Special Projects
Petaluma, CA

Executive Summary

In May 5, 2008, the Monterey County Office of Education declared the King City Union School District a lack of going concern after the district submitted a negative second interim report. A lack of a going concern occurs when an organization's fiscal health is suspect or is deemed to have a risk of insolvency. Education Code Section 42127.6 provides authority for the County Superintendent of Schools to assess the financial condition of a school district in its jurisdiction. In accordance with Education Code 42127.8(c)(2), the Monterey County Superintendent of Schools requested that FCMAT review the fiscal and budgetary condition of King City Union School District. The county office has placed a fiscal advisor and a fiscal expert on site to assist with a fiscal recovery plan.

Based on the district's current financial status and multiyear budget assumptions, it is projected that the district will have a negative fund balance for the current and two subsequent fiscal years and will not meet the 3% required reserve level without a detailed plan to reduce expenditures and cease deficit spending. The board, administration and community should identify potential areas of reduction to eliminate deficit spending and sustain fiscal solvency. This will help the district avoid the necessity of obtaining outside financial assistance and the potential loss of local governance and decision-making authority.

FCMAT has identified multiple issues that have contributed to the district's financial condition, including three consecutive years of declining enrollment and deficit spending. Numerous personnel changes have been made that have caused both leadership and governance crises in the district. The district has had three superintendents in the last three years and most recently hired a new CBO in May 2008. The Accounting Supervisor was hired in 2007, and the Director of Fiscal Services position has been vacant for two years. During this period of staff turnover, the district has lacked the fiscal expertise and direction necessary to appropriately develop and monitor the district's multifund budget.

More than half the state's school districts are experiencing declining enrollment. King City Union's enrollment over the past four fiscal years indicates a net loss of 161 students or 7.5%. The effects of this decline on the general fund are worsened by the state's current economic status, including the projected state deficit. The state budget has improved since January, but does not provide adequate funding consistent with state standards and expectations for overall student performance and does not keep pace with general cost-of-living adjustments (COLAs). The district faces substantial fiscal challenges that will require difficult decisions to be made regarding educational programs that affect students.

Districts that exceed their reserve requirements can deficit spend for a period of time. However, districts that fail to address deficit spending trends and/or continued declining enrollment eventually experience a depletion of cash resources. It appears that King City Union will experience cash shortages for several months over the next two fiscal years, which may require state intervention. State intervention occurs when a district is unable to support payroll and other financial obligations with its existing cash resources, either internally or externally. The district's financial situation is extremely serious and will require both short- and long-term solutions. King City Union will have to strategically manage its cash reserves while making budget reductions or it could fall under state receivership, requiring an emergency loan. If that occurs, the Superintendent of Public Instruction or State Administrator could exercise several options under Education Code 41325-41326. Based on the district's projected budget and levels of deficit spending, FCMAT projects that the district will need to make substantial budget reductions in the multiyear financial projection (MYFP) or require state intervention.

It is essential to maintain competitive salaries and benefits to retain staff members, but school districts experiencing declining enrollment should exercise caution regarding negotiations. Districts are funded on average daily attendance (ADA) calculated using the number of days students attend school for a defined number of days in a fiscal year. Increasing the percentage of ADA would increase the district's revenue limit funding with minimal or no increases in staffing. It is imperative that the district monitor enrollment and ADA projections on an ongoing basis to aid in revenue projections and maximize funding.

The single largest expense for a school district is salaries and benefits. To prepare for potential certificated layoffs, the district exercised Education Code provisions by March 15, 2008 and provided the required legal notification. After that notification, the district received sufficient nonre-elect and/or retirement notices to allow the Governing Board to rescind all certificated layoff notices. However, with the planned closure of San Lorenzo Elementary School, the board eliminated 10 classified positions for the 2008-09 school year. The district should review current class loads to maximize student-teacher ratios.

The district has a tentative agreement with the certificated bargaining unit for the current year, but has not resolved salary compensation issues for the classified bargaining unit. Retaining qualified staff members while balancing the budget will be a difficult challenge. AB 1200 and AB 2756 require districts to clearly delineate their ability to support the effects of any collective bargaining agreement.

To maximize unrestricted general fund resources, the district should consider charging the full indirect cost rate legally allowed to all restricted programs and maximize the use of the federal, AB 825 and mega-item flexibility transfer options.

The district initially contracted with the Monterey County Management Assistance Team (MCMAT) on a part-time basis to help fill the vacancy for the CBO position, which has recently been filled, and provide fiscal services due to the vacancy of the Director of Fiscal Services position. The MCMAT team includes one fiscal advisor and one fiscal expert for each school district. The CBO is working diligently with the district staff and the county office to identify and address budget concerns.

The FCMAT team prepared a comprehensive multiyear report based on information known at the time of fieldwork for this report. It is FCMAT's normal protocol to pick a point in time in the budget process from which to project the district's financial position. However, due to the potential fiscal crisis in the district, the FCMAT team conducted additional subsequent analysis. As the report was finalized the district's Governing Board adopted the 2008-09 budget. Included in this budget were substantial budget adjustments that have a positive effect on the current situation but were not included in this report. A description of these adjustments is included in the "Subsequent Events" section of this report.

Findings and Recommendations

Multiyear Financial Projection

California school districts and county offices use many different methods and software products to prepare multiyear financial projections. FCMAT's Web-based fiscal forecasting software, Budget Explorer, is designed for California school districts and county offices and is available at no cost. Budget Explorer allows the district to access, create, and update financial projections and interface with the State Account Code Software (SACS) directly from the district's financial system. When developing and implementing the MYFP, the goal is for the district to project the budget over several years given certain budget assumptions, allowing the district to achieve and sustain a balanced budget. Budget Explorer also provides management with a tool to make more informed budget decisions and incorporate educational goals and objectives into a financial scenario.
To deal with an estimated $3,916,419 negative shortfall in the 2008-09 fiscal year, the district should immediately begin to prepare for a period of fiscal uncertainty. When attempting 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 not hesitate to take immediate actions that will help ensure solvency over the next two fiscal years.

FCMAT's MYFP indicates that the district will not meet its 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 general fund projection uses the 2007-08 third interim district budget as a base year for salary and benefits, which had substantial adjustments since the filing of the second interim report, and the 2008-09 Governor's state budget proposal and the May Revise School Services of California (SSC) Financial Dartboard for the subsequent two fiscal years. The projection excludes annual COLAs for employee salaries in the current or two subsequent fiscal years because this item is locally negotiated.

To evaluate a multiyear projection, much attention is focused on the district's ability to meet its reserve requirement demonstrating a positive, unappropriated fund balance. The team has analyzed deficit spending trends and enrollment projections that signal the need to make adjustments to increase revenue and/or decrease expenditures to maintain a positive unappropriated fund balance. If the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB1200 guidelines. The unrestricted general fund summary, excluding lottery and class size reduction funding, indicates a negative balance in all three fiscal years.

MYFP, Unrestricted General Fund Summary, without Lottery and Class Size Reduction Funding

Name		Object Code	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10
Revenues					
	Revenue Limit Sources	8010 - 8099	$11,964,693.29	$11,743,745.61	$11,981,034.55
	Federal Revenues	8100 - 8299	$0.00	$0.00	$0.00
	Other State Revenues	8300 - 8599	$1,624.00	$1,518.44	$1,591.78
	Other Local Revenues	8600 - 8799	$192,601.00	$195,715.00	$199,802.70
Total Revenues			**$12,158,918.29**	**$11,940,979.05**	**$12,182,429.03**
Expenditures					
	Certificated Salaries	1000 - 1999	$5,735,348.00	$5,796,680.48	$5,905,104.53
	Classified Salaries	2000 - 2999	$1,304,208.00	$1,254,006.16	$1,278,758.66
	Employee Benefits	3000 - 3999	$2,876,463.00	$3,000,132.62	$3,210,853.18
	Books and Supplies	4000 - 4999	$330,025.00	$330,275.17	$332,423.94
	Services and Other Operating Expenditures	5000 - 5999	$1,075,628.00	$1,172,796.80	$1,134,366.24
	Capital Outlay	6000 - 6900	$4,500.00	$4,500.00	$4,500.00
	Other Outgo	7000 - 7299	$0.00	$0.00	$0.00
	Direct Support/Indirect Cost	7300 - 7399	($235,485.00)	($215,523.01)	($222,956.93)
	Debt Service	7430 - 7439	$0.00	$0.00	$0.00
Total Expenditures			**$11,090,687.00**	**$11,342,868.22**	**$11,643,049.62**
Excess (Deficiency) of Revenues Over Expenditures			**$1,068,231.29**	**$598,110.83**	**$539,379.41**
Other Financing Sources\Uses					
	Interfund Transfers In	8910 - 8929	$0.00	$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	($2,716,771.87)	($3,180,776.46)	($2,993,052.06)
Total Other Financing Sources\Uses			**($2,716,771.87)**	**($3,180,776.46)**	**($2,993,052.06)**
Net Increase (Decrease) in Fund Balance			**($1,648,540.58)**	**($2,582,665.63)**	**($2,453,672.65)**
Fund Balance					
	Beginning Fund Balance	9791	$932,009.72	($716,530.86)	($3,299,196.49)
	Audit Adjustments	9793	$0.00	$0.00	$0.00
	Other Restatements	9795	$0.00	$0.00	$0.00
	Adjusted Beginning Fund Balance		$932,009.72	($716,530.86)	($3,299,196.49)
	Ending Fund Balance		($716,530.86)	($3,299,196.49)	($5,752,869.14)

Because employee salaries and benefits comprise an average of more than 89.56% of the unrestricted general fund balance of elementary districts throughout the state, school districts should develop staffing formulas for all positions and ensure that ratios are within employee contract guidelines, meet students' needs and agree with approved goals and objectives, including the goal of maintaining fiscal solvency. King City Union commits 90.65% of its unrestricted general fund budget to salaries and benefits. This is higher than the statewide average and illustrates the relative increase in employee-related expenses compared with nonpersonnel expenses such as books, supplies, utilities and contracted services. This higher-than-average salary and benefits percentage also reflects the shortfall in funding because of declining enrollment and reductions in state funding to offset expenditure increases.

The district's challenge is to reduce expenditures to remain fiscally solvent while still incurring increased expenditures beyond its control. The budget trend reinforces the importance of managing personnel-related expenditures and demonstrates the difficulty of avoiding personnel reductions.

The district's overall expenditure budget has grown, and increases in employee salaries and benefits have outpaced increases in funding. funding. Increased costs for health benefits and county office special education services have contributed significantly to this trend. Contributions from unrestricted to restricted programs continue to increase each fiscal year. Several restricted programs require unrestricted general fund support. District management should carefully review these contributions and insist that restricted programs be self-sustaining except for the special education and home-to-school transportation programs. These traditionally encroach on the unrestricted general fund because of insufficient state and federal funding.

One of the district's greatest obstacles will be deciding which areas to reduce among the various operational and program priorities. A first step is to create a list of required and/or essential services and estimate their cost. Afterward, the district can begin to determine how much money, if any, is left for discretionary uses, which can be one-time or ongoing if there is a dedicated, ongoing revenue source. This process will also help raise general awareness of the district's financial status and may prompt collaborative efforts to find solutions.

Multiyear projections (MYFPs) are required by Assembly Bill (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 the County Office of Education and their ability to intervene during fiscal crises.

The following 15 conditions represent the most common indicators of fiscal distress and are referenced in AB 2756 (Daucher) and included in recently amended 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

Conditions at King City Union meet several of the criteria for districts needing assistance from either the county office of education or the state of California.

When developing and implementing the MYFP, the district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The MYFP helps identify specific planning milestones that will help the district make appropriate decisions.

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 governing board and the SPI. The county office is required to follow Education Code section 42127.6 when assisting a school district in this situation. Monterey County Office of Education has assigned a fiscal expert and fiscal advisor to advise the district on financial issues, conduct a study of the district's financial and budgetary conditions and required 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 help the county and the district formulate a plan to regain fiscal solvency and restore the required ending fund balance reserves levels.

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

Regular and frequent budget monitoring is always a sound fiscal practice and becomes critical in times of fiscal uncertainty. The district will need to ensure that multiyear forecasts are up to date and that the information they contain is accurate and based on the most current assumptions. Economic indicators will change rapidly as California struggles to assess and project tax revenues to balance the state budget, so staying connected to current financial information and support such as that provided by School Services of California will help keep the district informed. The district should run multiple budget scenarios to assess the affects of the apportionment deferrals, cost-of-living and deficit reduction proposals under consideration by both the Assembly and Senate subcommittees.

The MYFP developed for this report indicates that the district *will not* be able to maintain its required reserve of 3% in all three fiscal years without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending. The district faces substantial fiscal challenges that require difficult decisions to be made and implemented immediately.

Multiyear Forecast Assumptions

FCMAT's projections for the district's general fund were prepared using the team's Budget Explorer Multiyear Financial Projection software.

Any forecast of financial data has inherent limitations because calculations are based on certain assumptions and criteria that include enrollment trends, projected cost-of-living increases, projections for deferrals, forecasts for utilities, fuel and other consumables as well as economic conditions at the state, federal and local levels. Therefore, the budget forecasting model should be evaluated based on certain criteria and assumptions rather considered a prediction of exact numbers. Multiyear financial projections help provide for more informed decision making and the ability to forecast the fiscal effect of current decisions, but should be updated at least during each interim financial reporting period and in preparation for negotiations.

To evaluate a multiyear projection, attention is focused on the district's ability to meet its reserve requirement, demonstrating a positive unappropriated fund balance. FCMAT has analyzed deficit spending trends that demonstrate the need for the district to make adjustments to increase revenue, decrease expenditures or both to maintain a positive unappropriated fund balance. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budgeted expenditures must be reduced to meet the reserve requirements under AB1200 guidelines.

Multiyear expenditure decisions require the district to analyze the compounding effects over several years. According to AB1200 guidelines, the district is required to estimate the cost of the effects of a tentative agreement for salary and benefits in the current and two subsequent fiscal years. The district staff can clearly determine the effect of these decisions on the unappropriated fund balance from year to year.

FCMAT reviewed the district's records, interviewed staff members and examined financial reports to gather the information needed for the multiyear financial projection. The initial review included an assessment of the district's 2006-07 audited financial statements, the 2007-08 first interim, second interim and third interim reports. The review also included a fiscal analysis of the projected revenues, expenditures, transfers and components of the general fund's ending fund balance. FCMAT's multiyear projection uses the district's 2007-08 third interim financial report as the MYFP baseline. The team reviewed the district's budget assumptions to validate the 2007-08 budget and multiyear financial projections for the 2008-09 and 2009-10 fiscal years. FCMAT verified revenue limit calculations, enrollment calculations, grant and categorical awards for the current year and long-term debt commitments. Other revenues and expenditures were analyzed extensively, but were not audited, and accordingly, FCMAT does not express any opinion in this regard.

FCMAT budget assumptions are based on the 2008-09 Governor's May Revision budget proposal along with the May Revise School Services of California (SSC) Financial Dartboard assumptions. FCMAT's MYFP does not include any increases for salary 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 2%
- A 10% increase in health and welfare costs
- Increases in general operating expenditures based on the California Consumer Price Index and other economic indicators.

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

- Approval letters from the county office regarding the adopted budget and/or interim reports
- Outside review, analysis or recommendations relative to the district's financial condition
- The 2007-08 SACS electronic dat. file for the second interim report
- Financial system budget comparative reports that correspond to amounts in the 2007-08 second interim report, 2007-08 actuals to date, and 2006-07 unaudited actuals
- The financial summary report reflecting all general ledger balance sheet accounts by fund for 2006-07 and 2007-08
- A list of approved budget adjustments subsequent to the 2007-08 adoption budget for all funds first, second and third interim reports, including assumptions, narrative and PowerPoint presentations for the Governing Board
- The 2006-07 unaudited actuals reports for all funds and supporting schedules
- Revenue limit worksheets, including all supporting schedules for 2006-07 and 2007-08
- Historical enrollment information for the current year and prior three fiscal years and projections for the subsequent five years
- Data regarding inter- and intra-district transfers for 2007-08
- Data regarding housing starts
- P1, P2 and annual attendance reports and CBEDS data for the district and the charter school 2005-06 through 2007-08

- Information on supplemental revenue sources such as forest reserves, impact aid, parcel taxes, foundations, redevelopment funds, general obligation bonds, etc.
- Identification of any one-time revenues or expenditures included in the 2007-08 budget
- Position control spreadsheets identifying approved positions, account code, FTE, salary and benefit placement
- Actual payroll registers in the current year
- Salary schedules and salary placement information for all employee groups
- Staffing allocations formulas by site for classified and certificated personnel
- District and departmental organization charts
- General fund cash flow statements for 2007-08 and any projections for subsequent years
- Long-term debt schedules for 2006-07 and 2007-08
- Any district calculated multiyear projections done outside the SACS multiyear format for 2007-08
- Collective bargaining agreements for all employee groups
- AB1200 disclosure documents for the most recent salary settlement for all employee groups
- Current salary proposals by both the district and the bargaining units
- Actuarial reports for health and welfare and worker's compensation as required by GASB
- Historical information on the health and welfare rates for the prior four years
- Independent audit reports, 2004-05 through 2006-07
- Ballot language for the general obligation bonds
- Copies of COPs agreements or any other financing mechanism for facility financing
- Modernization approvals from the Office of Public School Construction
- Board approval documentation for construction or modernization bids

General Fund

2007-08 Unrestricted General Fund

FCMAT has focused attention on the unrestricted portion of the district's general fund budget. Most restricted programs should be self-balancing, however, some such as special education and home-to-school transportation require contributions from the district's unrestricted general fund to support shortfalls in federal and state funding. The team has analyzed the effect of general fund contributions to restricted programs, and several restricted programs encroach on the district's general fund. (This will be characterized more completely later in the report.)

It is important to note that the affect of the latest state budget information does not include the impact of the special education programs operated by the county office. As state reduction/cuts affect district programs, they will also affect county office, and this could prompt larger excess cost billings because the district participates in county office-operated special education programs.

The following table illustrates the projection variables that were utilized to project the district's multiyear general fund for 2007-08, 2008-09 and 2009-10:

Table 1: Multiyear Projection Rules

Multiyear Projection Rules	**Year 1**	**Year 2**	**Year 3**
	2007-08	2008-09	2009-10
Certificated Step/Column %	2%	2%	2%
Classified Step %	2%	2%	2%
CPI (SSC)	3.20%	2.80%	2.60%
Lottery – Restricted (SSC)	$16.10	$16.50	$16.75
Lottery – Unrestricted (SSC)	$114.75	$115.00	$115.50
Interest (SSC)	4.10%	3.46%	4.39%
Revenue Limit Deficit (SSC)	0.00%	5.36%	5.36%
Special Education COLA (SSC)	4.53%	0.00%	4.83%
State Categorical COLA (SSC)	4.53%	-6.50%	4.83%
Title I Part A (Basic Grant)	Included	3.2%	3.2%
Special Education 3310	Included	1.4%	1.4%
Title II Part A 4035	Included	0.70%	0.70%
Federal Program, Title II, Part D (Enhancing Education Through Technology)	Included	-6.9%	-6.9%
Title III Language Acquisition	Included	4.7%	4.7%
Federal Program, Title IV (Safe and Drug Free Schools)	Included	-15.4%	-15.4%
Title V, Part A 4110	Included	-100.0%	-100.0%
Statutory COLA (SSC)	4.53%	5.66%	4.83%
Health and Welfare Increase	Included	10.0%	10.0%

(SSC) – based on School Services of California Financial Dartboard May 2008

Revenues

Revenue Limit Sources - Revenue-limit sources are the single largest sources of income for the district's general fund. Calculations are based on ADA, COLA augmentations from the state and deficit adjustments. FCMAT calculated the district's revenue limit for 2007-08 using state budget information from both the 2007-08 and the May Revise SSC Financial Dartboard. These factors include the estimated statutory COLA of 4.53% for 2007-08, 5.66% for 2008-09, 4.83% for 2009-10 and a revenue limit deficit of 5.36% beginning in 2008-09 and continuing throughout the projection period.

Federal Revenues - Restricted federal revenues were adjusted in 2007-08 based on the prior year carryover and current year allocations as reported by the California Department of Education (CDE). Subsequent year funding was reduced or eliminated in some programs based on the most recent information from the federal government. Projections for 2008-09 include a 15.4% reduction in the Drug Free Education Grant, 6.9% reduction in Enhancing Education through Technology and the elimination of Title V funding for Innovative Education Strategies.

Federal legislation may require further reductions that could affect the district's unrestricted general fund if the district needs to augment program expenditures. Preliminary estimates are projected for increases to Title I Part A, but required set-asides under No Child Left Behind may limit the amount of additional funding that will result in increases to current grant levels.

State Revenues - FCMAT did not budget for mandated cost reimbursement claim funding in the current and projection years because these revenues have not been included in the state's 2007-08 budget.

State revenues were calculated with a 6.5% deficit in 2008-09 and a 4.83% increase in 2009-10 according to the most recent SSC Financial Projection Dartboard in May 2008.

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

Local Revenues - Revenue was adjusted based on the district's current receipts and projected annual collections. As interest rates continue to decline, FCMAT used the most current information available to project these revenues.

Expenditures

Certificated Salaries – FCMAT's multiyear projection includes the effect of a 2% ongoing cost of step-and-column movement for contracted salaries in the projection years and no other adjustments for salary enhancements because those are locally negotiated. The MFYP does not reduce the number of certificated teaching staff members since this action was rescinded by the board in April 2008.

Classified Salaries – FCMAT included the cost of step movement at 2% and no other adjustments for salary enhancements because those are locally negotiated. The MFYP includes a reduction of 10 classified positions from the closure San Lorenzo Elementary School next fall.

Employee Benefits – Employee benefits are difficult to project because the district pays for the entire health and welfare benefit package. Therefore, increases in subsequent years will directly affect the district's overall budget. FCMAT adjusted statutory benefits in proportion to certificated and classified salary changes and increased the projected cost of employer-paid health and welfare contributions by 10% in 2008-09 and 10% in 2009-10.

Books and Supplies – FCMAT adjusted the budget for materials and supplies using the Consumer Price Index (CPI) inflation factor from the SSC Dartboard and the projected reduction in student enrollment.

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

Capital Outlay – No adjustments were made.

Other Outgo – No adjustments were made.

Direct Support/Indirect Costs – Adjustments were made to this category where the budgeted indirect costs exceeded the amount allowed by statute.

Debt Service – Adjustments were made to reflect the repayment of $15,204 for the purchase of buses.

Other Financing Sources/Uses

Transfers Out – The transfer to deferred maintenance is included in resource 8150, contributions to restricted programs. The district is projected to contribute to the following restricted programs in the current and projection years:

Table 2: MYFP - Projected contributions to restricted programs

Name	Resource Code	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10
Unrestricted Resources				
Unrestricted	0000	($2,716,771.87)	($3,180,776.46)	($2,993,052.06)
Total Unrestricted		**($2,716,771.87)**	**($3,180,776.46)**	**($2,993,052.06)**
Restricted Resources				
NCLB-Title I, Part A, Basic Grants Low Income and Neglected	3010	$117,389.00	$122,676.66	$125,880.80
NCLB-Title I Part B, Reading First Program	3030	$0.00	$222,221.25	$0.00
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611 (formerly P	3310	$245,654.00	$147,767.53	$162,627.51
NCLB: Title IV, Part A, Drug Free Schools	3710	$8,557.00	$2,309.72	$6,960.45
NCLB: Title II, Part A, Teacher Quality	4035	$0.00	$0.00	$3,446.35
NCLB: Title II, Part D, Enhancing Education Through Technology, Formula Grants	4045	$7,997.00	$0.00	$0.00
Teacher Recruitment and Student Support	6275	$37,736.00	$0.00	$0.00
Special Education	6500	$1,362,053.00	$1,330,093.53	$1,303,581.59
Tobacco-Use Prevention Education: Elementary Grades 4-8	6660	$0.00	$9.68	$19.85
Arts and Music Block Grant	6760	$0.00	$57.04	$117.00
Supplemental School Counseling Program	7080	$37,041.87	$44,396.19	$45,218.86
Economic Impact Aid (EIA)	7090	$0.00	$175,154.69	$184,316.89
Instructional Materials Realignment, IMFRP (AB 1781)	7156	$0.00	$3,440.53	$6,646.45
Transportation: Home to School	7230	$278,570.00	$294,411.42	$299,987.14
Transportation: Bus Replacement	7235	$115,527.00	$0.00	$0.00
Targeted Instructional Improvement Block Grant	7394	($159,946.00)	($149,549.51)	($156,772.75)
School and Library Improvement Block Grant	7395	$43,386.00	$156,028.71	$157,741.98
Discretionary Block Grant School District	7397	$12,418.00	$0.00	$0.00
Ongoing & Major Maintenance Account (RMA: Education Code Section 17070.75)	8150	$588,388.00	$831,759.02	$853,279.94
Total Restricted		**$2,716,771.87**	**$3,180,776.46**	**$2,993,052.06**

Although encroachments are common in special education, home-to-school transportation and ongoing and major maintenance programs, the district is contributing $286,526 to other grant and categorically funded programs that should be self-sustaining in the current year. These encroachments continue in future years. The district should review the encroachment in these programs and make adjustments as necessary.

The district's special education bill-back for services provided by the county office is included in the budget.

Information from the third interim SACS report submitted to the county office was used as the base year. The second interim SACS data file and the multiyear projection spreadsheet approved by the Governing Board were originally used for this purpose, but these two documents did not agree. The combined general fund totals in the document presented to the board listed $157,205 more in revenues and a combination of expenditures that equaled $157,205 of additional expense. The additional revenue and expenditures had no effect on the combined ending fund balance.

To build the base year of the multiyear projection, FCMAT utilized the position control files dated June 11, 2008 for certificated and classified salary and benefit costs; the actual year-to-date paid activity of stipends and other extra salary expenses not listed on the position control; internal and external documents and the CDE Web site to verify the district's current year revenues; and a review of the actual revenue detail to identify any fiscal effect from positive or negative prior year revenue adjustments.

A posting for a prior year audit adjustment of $375,000 had been moved to an inter-fund transfer revenue account in the transportation home-to-school program. The district has subsequently corrected that entry, and the beginning balance in fiscal year 2007-08 now agrees with the ending balance on the 2006-07 audit report.

The following represents a detailed listing of adjustments made by FCMAT in the 2007-08 base year:

Unrestricted
Resource 0000 – Unrestricted

<u>Revenues</u>
Revenue limit sources were reduced by $157,205 due to posting a credit entry for the transfer of in-lieu property tax for the charter school.

<u>Expenditures</u>
A person-by-person review was performed, and the district's position control for certificated and classified staffing was updated to reflect the appropriate funding resources for the employee cost for salaries and benefits as follows:

- Certificated salaries – Decreased by $1,045,704 in unrestricted based on the person-to-person review and the June 11 position control
- Classified salaries – Increased by $68,632 based on the June 11, 2008 position control information and staffing review
- Employee Benefits – Reduced by $14,043 to reflect employee costs according to the updated June 11 position control information
- Indirect Cost – Increased by $3,840 due to recapturing the additional indirect cost from a restricted resource.

- Contributions to Restricted – An increase of $569,783 to the support ongoing cost to restricted programs.

Restricted

Resource 3010 – Title I, Basic Grant. Revenues were reduced by $1,471 due to a prior year negative adjustment. Certificated and classified salaries were increased by $132,556 and $10,155, respectively, along with a decrease of $3,999 in employee benefits. Other expenses for books, supplies and other services were reduced to the current-year level of year-to-date expenditures. A contribution from unrestricted was increased to $117,389 to balance the expenditures to the current year revenue funding level.

Resource 3030 – Reading First Program. Revenues were reduced by $3,250 for a prior year negative revenue adjustment. Certificated salaries were increased by $42,303 and employee benefits by $456 to agree with the staffing review and updated position control file. The budget for books and supplies was reduced to maintain expenditures at the funding level.

Resource 3060 – Migrant Education. Certificated salaries were increased by $17,986; classified salaries were reduced by $350, and employee benefits were increased by $9,778 to agree with the staffing review and updated position control file. The budget for books and supplies was reduced to maintain expenditures at the current funding level for this reimbursement program.

Resource 3310 – Special Education IDEA, Basic Local Assistance Entitlement. Revenues were reduced by $95,540 to reflect the anticipated current year revenue and a prior year negative accounts receivable for $106,928 that may not be forthcoming. Classified salaries were reduced by $3,239, and employee benefits were increased by $751 to reflect the district's updated position control information. The budgets for books, supplies and other services were reduced to the current level of year-to-date spending, and an increase of $93,052 in the district's contribution from unrestricted was required to balance the expenditures to the current year funding level.

Resource 3710- Drug Free Schools. Revenues were decreased by $8,542 for a prior year revenue negative adjustment. Salary and employee benefit expenditures were adjusted to match the updated position control information. Additionally, the budget for books and supplies was reduced to the current year-to-date expenditure activity, and a contribution of $8,557 was required to maintain expenditures at the funding level.

Resource 4035 – Title II, Teacher Quality. Revenues were reduced by $22,824 for a prior-year revenue adjustment. In addition, the budget for certificated salaries and benefits was eliminated based on a review of staffing allocations and the updated position control information. A budget for travel and conferences was established for anticipated staffing conference expenditure needs and to maintain budgeted expense at the current year funding level.

Resource 4045 – Title II, Enhancing Education Through Technology. The revenues were reduced to $7,643, the current year funding level plus a revenue adjustment for prior year. The expenditures were reduced to the current year-to-date level of activity, and a contribution of $7,997 was required to balance the expenditures to the revenue funding level. This resource is not funded in the future and does not show any fiscal activity in the projection years.

Resource 4050 – CA Mathematics and Science Partnership. A negative prior year reduction of $22,001 was posted, and a contribution of the same amount was necessary to close this program in the current year. This program is not funded and does not show any revenue/expenditure activity in the projection years.

Resource 4110 – Title V, Innovative Education Strategies. The revenues were adjusted to $6,289, the current year level of funding plus a prior year negative revenue adjustment. The budget for books and supplies was increased to maintain expenditures at the current funding level.

Resource 4201 – Title II, Immigrant Education Program. This resource did not show a funding level on the CDE Web site and did not show any current year revenue or expenditures activity. Therefore, the budgets for revenue and expenditures were eliminated.

Resource 4203 – Title III, Limited English Proficiency (LEP) Student Program. Revenues were reduced by $18,944 for a prior year negative revenue adjustment. Expenditures for certificated salaries and employee benefits were increased by $13,159 and $18,405 to agree with the staffing review and the district's updated position control information. Expenditures were reduced in the expenditure categories for books and supplies to maintain expenditures at the projected revenue funding level.

Resource 5640 – Medi-Cal Billing. Revenues were increased to $30,000 based on the year-to-date actual revenue detail. Expenditures for books and supplies were increased to maintain expenditures at the anticipated funding level.

Resource 6275 - Teacher Recruitment and Student Support. Revenues were adjusted to $30,895, the current year anticipated level of funding. Expenditures for salaries and benefits were adjusted to the current year-to-date actual activity, and a contribution from unrestricted for $37,736 was posted to support the current level of expenditures.

Resource 6285 – Community Based English Tutoring. Salaries and benefits expenditures were adjusted for certificated and classified based on the current year-to-date actual activity. A subsequent decrease was made to the budget for books and supplies to maintain expenditures at the funding level.

Resource 6286 – English Language Acquisition. Current year funding was increased to $62,513, the funding level per the CDE Web site along with a prior-year deferred revenue. Expenditures for certificated salaries and benefits were adjusted to $15,154 and $3,812; other books and supplies were increased, and the contribution from unrestricted was eliminated to balance expenditures to the increased funding level.

Resource 6300 – Lottery Instructional Materials. Revenues were increased to $54,485, the anticipated state funding level, and expenditures for books and supplies was adjusted to match the revenues and balance the revenues/expenditures for this resource.

Resource 6405 – School Safety and Violence Prevention, Grades 8 – 12. Revenues were adjusted to $10,093, the funding level posted on the CDE Web site. Expenditures for books and supplies were increased to maintain expenditures at the current year funding level.

Resource 6500 – Special Education. Local revenues were reduced by $103,919 based on an analysis of actual year-to-date activity of revenues received as of the June 11 financial report. Expenditures for certificated salaries were increased by $274,643, and employee benefits were decreased by $7,345 to the budget level as listed on the updated position control file. The contribution from unrestricted was increased to balance this resource and maintain the current expenditure level in the categories of books and supplies, other services and excess costs to the county office of education.

Resource 6660 – Tobacco-Use Prevention Education, Grades 4 – 8. Revenues were adjusted to $5,075, as posted on the CDE Web site. Expenditures were adjusted accordingly to maintain expenditures at the funding level.

Resource 6760 – Arts and Music Block Grant. Revenue was increased by $1,936 to the funding level posted on the CDE Web site and expenditures for books and supplies was increased to match the anticipated revenue level.

Resource 6761 – Arts, Music and Physical Education Supplies and Equipment. Expenditures for classified staff and employee benefits were adjusted to the current year-to-date activity, and the category for books and supplies was decreased to maintain expenditures at the revenue level. All fiscal activity was cleared in the projection years for this particular funding resource.

Resource 7080 – Middle and High School Supplemental Counseling. Revenue was adjusted to match the $35,036 posting on the CDE Web site in addition to a prior year adjustment of $1,295. Certificated salaries of $56,509 and employee benefits of $15,489 were added based on the staffing review and updated position control file. A contribution from unrestricted was increased to maintain expenditures at the current year funding level.

Resource 7090 – Economic Impact Act. Certificated salaries were adjusted to $433,934, classified salaries to $145,361 and employee benefits to $200,194 for a net increase of $232,481 to the salaries and benefits. Budgeted expenditures for books and supplies were decreased, and a program beginning balance was used to balance this resource and maintain expenditures at the base-year funding level. To maintain the current base year level of expenditures, this resource will begin to encroach on the unrestricted general fund in the projection years.

Resource 7140 – Gifted and Talented Education (GATE). Revenues were adjusted to $22,376, the current posted funding level on the CDE Web site along with a prior year adjustment. Expenditures for certificated salaries, employee benefits, books and supplies were adjusted to maintain spending within budget and match anticipated revenues.

Resource 7156 – Instructional Materials Realignment Program. Revenues were adjusted to $162,440 to agree with the CDE Web site posted level of funding. Expenditures for books and supplies were increased to maintain expenditures at the funding level.

Resource 7230 – Transportation, Home to School. Revenues were adjusted to the current funding level of $105,669 per the CDE Web site, a decrease of $223,484. The expenditures for classified salaries and employee benefits were decreased by $33,984 in salaries and $10,762 in benefits. The expenditures for capital outlay for the loan and purchase of equipment was moved to the appropriate resource 7235, Transportation, Bus Replacement. The district's contribution was adjusted to support expenditures and balance this restricted resource.

Resource 7235 – Transportation, Bus Replacement. The budget of $375,000 for capital outlay for the purchase of equipment was moved from resource 7230 and increased to $504,832 for the increase in the current year-to-date actual activity for those expenditures. A transaction that was posted as an inter-fund transfer in for $375,000 was listed as a prior year audit adjustment and was moved from a transfer in to an adjustment to the beginning balance. Additionally, an unrestricted contribution of $115,527 was required to offset expenditures and balance this resource in the base year. The debt payment of $15,204 was reclassified to principal and interest object codes.

Resource 7258 – High Priority Schools Grant. Expenditures in certificated salaries were increased by $155,097, classified salaries by $76,768 and employee benefits by $81,980. Expenditures for books, supplies and other services were reduced to maintain expenditures at the state funding level.

Resource 7271 – California Peer Assistance and Review. Revenues were increased by $2,177 to the level posted on the CDE Web site. Expenditures for books and supplies were increased by the same amount to maintain spending at the funding level.

Resource 7276 – Certificated Staff Mentoring Program. Expenditures were realigned to cover employee benefits that were included in the budget for certificated salaries.

Resource 7294 – Staff Development Mathematics and Reading. Revenue was adjusted to $137,500 based on the year-to-date actual activity of revenues received. The budget category for other services and indirect cost were increased to fully budget the revenues in the base year for this one-time funding grant. Additionally a contribution from unrestricted was eliminated in the base year, and all fiscal activity was cleared out in the projection years.

Resource 7393 – Professional Development Block Grant. State revenues were reduced by $45,495 to the current funding level posted on the CDE Web site. In addition, the expenditures for other services were decreased and the unrestricted contribution eliminated to balance revenues to expenditures for this resource.

Resource 7394 – Targeted Instructional Improvement Block Grant. Revenues were increased by $6,316 to the funding level posted on the CDE Web site. A flexibility revenue transfer to resource 6500, special education was increased by the same amount to fully utilize these funds to reduce the unrestricted contribution to the special education program.

Resource 7395 – School and Library Improvement Block Grant. Expenditures for salaries and benefits were increased by the following amounts: Certificated salaries by $38,326; classified salaries by $51,050 and employee benefits by $34,842 based on the comparison to the position control report. A contribution of $43,386 from unrestricted was required to maintain expenditures at the current revenue funding level.

Resource 7396 – Discretionary Block Grant School Site. Revenues of $32,691 were eliminated for this prior year one-time funding grant. Expenditures were decreased, and a beginning balance was used to balance expenditures to the current revenue resource. No further fiscal activity is budgeted in the projection years for this resource.

Resource 7397 – Discretionary Block Grant, School District. A negative prior year revenue adjustment of $12,418 is posted for this prior year one-time grant. A subsequent contribution from the unrestricted general fund in the same amount is utilized to balance this resource. No further fiscal activity is budgeted in the projection years for this resource.

Resource 7400 – Quality Education Investment Act (QEIA). Salaries and employee benefits for certificated staffing were increased by $334,756 and $138,614 based on the staffing review of appropriate funding. Other services and operating expenses were reduced by the same amount to maintain expenditures at the funding level.

Resource 8150 – Ongoing and Major Maintenance Account (RMA). Classified salaries and employee benefits were reduced by $41,956 and $21,057 for a total reduction of $63,013. Additionally, the unrestricted contribution was reduced to the appropriate calculation of 3% based on budgeted expenditures listed on the board-approved adopted budget. A contribution from fund 09, charter school for $31,202 was posted as a transfer in, and a beginning balance in this resource was utilized to maintain expenditures at the required district contribution level.

Enrollment

Proper enrollment tracking and analysis of ADA are essential to providing a solid foundation for budget planning. When enrollment and related ADA decline, the district must exercise extreme caution regarding significant budgetary impacts such as negotiations with collective bargaining units, staffing ratios and deficit spending to avoid fiscal insolvency. Diligent planning will enable the district to better understand its financial objectives and strategies to sustain future financial stability.

FCMAT reviewed the district's enrollment and ADA trends for 2004-05 through 2007-08. The review compared the October California Basic Educational Data System (CBEDS) student enrollment counts to the April 2008 P-2 ADA actual data.

Historical data indicates the district has experienced declining enrollment for several years, with a slight increase this year. When adjusting for charter school enrollment, enrollment consistently decreases, including in the current year. FCMAT projects this trend will continue for the next two years.

Methodology

The method utilized to project enrollment for King City Union is the traditional cohort-survival technique, which groups students by grade level upon entry and tracks them annually. This method focuses on the number of students passing from one grade to the next in the subsequent year. It closely accounts for retention as well as students who enter and leave the district on a grade-by-grade basis. Although other enrollment forecasting techniques are available, the cohort-survival method is usually 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 percentage of increase or decrease in enrollment between any two grades. For example, if 100 students enrolled in first grade in 2006-07, and that number increased to104 students in second grade in 2007-08, the percentage of survival would have been 104%, or a ratio of 1.04. These ratios are calculated between each pair of grades or years in the school district over several recent years. The ratios are important in developing reliable projections since they consider the variables that could account for an increase or decrease in enrollment from one grade to the next.

Enrollment variables include the following:

- Birth rates and trends
- The historical ratio of enrollment progression between grade levels
- Changes in educational programs
- Inter-district transfers
- Migration patterns to and from schools
- Changes in local and regional demographics

- Industry changes such as a new industry coming to the area or an existing one moving out
- Residential housing starts and the correlation of housing starts with local, state or national economics
- The approval of charter schools, pending applications, and the recruitment efforts of approved charter schools

FCMAT projected kindergarten enrollments utilizing a birth-rate analysis that averaged the previous three-year ratio of kindergarten enrollments to Monterey County birth counts five years ago. This calculation blends the most current three-year enrollment ratio with kindergarten-eligible students for the upcoming school year. The projection was then decreased to account for the estimated number of students who transferred to the in-district charter school. The following table reflects the data and method utilized for the kindergarten enrollment projection.

Table 3: Kindergarten Enrollment Projections

Calendar Year	**1999**	**2000**	**2001**
Number of live births	6,718	6,900	7,176
School year – five years later	2004-05	2005-06	2006-07
Kindergarten enrollment	278	287	274
Ratio – enrollment to births	4.14%	4.16%	3.82%
Three-year average			4.04%

Source: Department of Health Services Statistical Data

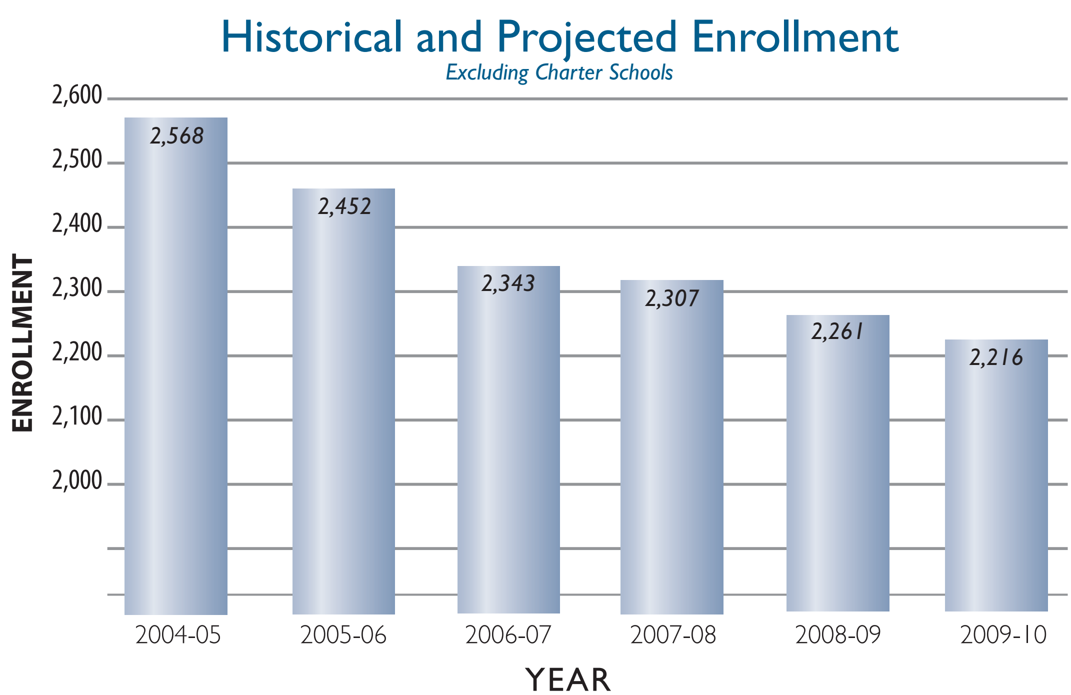
FCMAT used a weighted average of four years utilizing CBEDS historical enrollment information and applying the cohort-survival technique to project enrollment for grades one through eight. The following two tables and bar graph reflect the district's historical and projected enrollment:

Table 4: Historical Enrollment Data

	2004-05	2005-06	2006-07	2007-08
Elementary (K-5)	**1,661**	**1,606**	**1,533**	**1,508**
K	278	287	274	279
1	288	266	287	269
2	265	260	240	267
3	279	254	236	236
4	281	275	237	223
5	270	264	259	234
Middle (6-8)	**870**	**813**	**772**	**763**
6	287	266	261	258
7	294	289	259	255
8	289	258	252	250
Ungraded	**37**	**33**	**38**	**36**
Sub-total excluding charter school (K-8)	**2,568**	**2,452**	**2,343**	**2,307**
Charter school	33	53	91	148
Total (K-8)	**2,601**	**2,505**	**2,434**	**2,455**

Table 5: Projected Enrollment Data

	2008-09	2009-10
Elementary (K-5)	**1,505**	**1,508**
K	288	287
1	274	273
2	248	252
3	255	237
4	225	242
5	215	217
Middle (6-8)	**721**	**675**
6	232	213
7	255	228
8	234	234
Ungraded	**35**	**33**
Sub-total excluding charter school (K-8)	**2,261**	**2,216**
Charter school	245	405
Total K-8	**2,506**	**2,621**



Average Daily Attendance

To calculate the district's revenue limit, state aid is calculated using the greater of current or prior year period two (P-2) reports for ADA. Because the district is in declining enrollment, the multiyear projection will use the prior-year ADA to calculate the state apportionment.

Since ADA is the primary source of resources for the general fund, the district should apply the appropriate time and resources necessary to manage and monitor these projections. ADA projections will change over time and should be adjusted frequently, at a minimum during the adoption of the district budget and during the interim budget report filing periods. Monthly adjustments that calculate the difference between the projected ADA and the actual ADA reported would provide the district with the most up-to-date information and would allow management to respond to changes in trends. Historical and future trends require careful analysis that considers a variety of factors, including charter schools, county and district special education programs, nonpublic school attendance, and prior-year adjustments.

Fund Balance and Reserve Level

<u>Net Increase/Decrease in Fund Balance</u> - The difference in the 2007-08 budgeted unrestricted revenues and expenditures is ($1,643,186), leaving a projected ending fund balance of ($711,176).

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

MYFP, Unrestricted General Fund Summary

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

Name	Object Code	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10
Revenues				
Revenue Limit Sources	8010 - 8099	$11,964,693.29	$11,743,745.61	$11,981,034.55
Federal Revenues	8100 - 8299	$0.00	$0.00	$0.00
Other State Revenues	8300 - 8599	$1,523,853.99	$1,429,869.52	$1,413,469.73
Other Local Revenues	8600 - 8799	$195,301.00	$198,508.42	$202,718.75
Total Revenues		**$13,683,848.28**	**$13,372,123.55**	**$13,597,223.03**
Expenditures				
Certificated Salaries	1000 - 1999	$7,254,923.00	$7,346,646.98	$7,486,070.36
Classified Salaries	2000 - 2999	$1,304,208.00	$1,254,006.16	$1,278,758.66
Employee Benefits	3000 - 3999	$2,876,463.00	$3,000,132.62	$3,210,853.18
Books and Supplies	4000 - 4999	$330,025.00	$330,275.17	$332,423.94
Services and Other Operating Expenditures	5000 - 5999	$1,075,628.00	$1,172,796.80	$1,134,366.24
Capital Outlay	6000 - 6900	$4,500.00	$4,500.00	$4,500.00
Other Outgo	7000 - 7299	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($235,485.00)	($215,523.01)	($222,956.93)
Debt Service	7430 - 7439	$0.00	$0.00	$0.00
Total Expenditures		**$12,610,262.00**	**$12,892,834.72**	**$13,224,015.45**
Excess (Deficiency) of Revenues Over Expenditures		**$1,073,586.28**	**$479,288.83**	**$373,207.58**
Other Financing Sources\Uses				
Interfund Transfers In	8910 - 8929	$0.00	$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	($2,716,771.87)	($3,180,776.46)	($2,993,052.06)
Total Other Financing Sources\Uses		**($2,716,771.87)**	**($3,180,776.46)**	**($2,993,052.06)**
Net Increase (Decrease) in Fund Balance		**($1,643,185.59)**	**($2,701,487.63)**	**($2,619,844.48)**
Fund Balance				
Beginning Fund Balance	9791	$932,009.72	($711,175.87)	($3,412,663.50)
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$932,009.72	($711,175.87)	($3,412,663.50)
Ending Fund Balance		($711,175.87)	($3,412,663.50)	($6,032,507.98)
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Revolving Cash	9711	$5,000.00	$5,000.00	$5,000.00
Stores	9712	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$167,000.00	$167,000.00	$167,000.00
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%	2%	2%
Designated for Economic Uncertainties	9770	$715,676.36	$331,755.90	$339,949.98
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	($1,598,852.23)	($3,916,419.40)	($6,544,457.96)

MYFP, Restricted General Fund

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

Name	Object Code	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10
Revenues				
Revenue Limit Sources	8010 - 8099	$204,174.00	$218,445.76	$233,715.12
Federal Revenues	8100 - 8299	$1,743,080.00	$1,492,222.46	$1,810,815.71
Other State Revenues	8300 - 8599	$3,376,190.00	$2,825,085.68	$2,942,588.60
Other Local Revenues	8600 - 8799	$1,371,603.00	$1,376,452.40	$1,421,762.20
Total Revenues		**$6,695,047.00**	**$5,912,206.30**	**$6,408,881.63**
Expenditures				
Certificated Salaries	1000 - 1999	$2,671,143.00	$2,513,031.96	$2,562,821.83
Classified Salaries	2000 - 2999	$1,392,177.00	$1,325,412.14	$1,352,750.34
Employee Benefits	3000 - 3999	$1,434,591.00	$1,434,296.15	$1,533,523.06
Books and Supplies	4000 - 4999	$2,148,481.49	$1,165,110.33	$1,162,382.58
Services and Other Operating Expenditures	5000 - 5999	$1,160,836.31	$872,083.78	$904,139.88
Capital Outlay	6000 - 6900	$524,152.00	$19,320.00	$19,320.00
Other Outgo	7000 - 7299	$1,581,729.00	$1,581,729.00	$1,581,729.00
Direct Support/Indirect Cost	7300 - 7399	$200,485.00	$180,523.01	$187,956.93
Debt Service	7430 - 7439	$15,204.00	$15,204.00	$15,204.00
Total Expenditures		**$11,128,798.80**	**$9,106,710.37**	**$9,319,827.62**
Excess (Deficiency) of Revenues Over Expenditures		**($4,433,751.80)**	**($3,194,504.07)**	**($2,910,945.99)**
Other Financing Sources\Uses				
Interfund Transfers In	8910 - 8929	$131,970.00	$131,970.00	$131,970.00
Interfund Transfers Out	7600 - 7629	$116,818.00	$117,515.00	$119,489.00
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	$2,716,771.87	$3,180,776.46	$2,993,052.06
Total Other Financing Sources\Uses		**$2,731,923.87**	**$3,195,231.46**	**$3,005,533.06**
Net Increase (Decrease) in Fund Balance		**($1,701,827.93)**	**$727.39**	**$94,587.07**
Fund Balance				
Beginning Fund Balance	9791	$1,326,827.93	$0.00	$727.39
Audit Adjustments	9793	$375,000.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$1,701,827.93	$0.00	$727.39
Ending Fund Balance		$0.00	$727.39	$95,314.46
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	$0.00	$727.39	$95,314.46
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

MYFP, Unrestricted and Restricted General Fund

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

Name	Object Code	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10
Revenues				
Revenue Limit Sources	8010 - 8099	$12,168,867.29	$11,962,191.37	$12,214,749.67
Federal Revenues	8100 - 8299	$1,743,080.00	$1,492,222.46	$1,810,815.71
Other State Revenues	8300 - 8599	$4,900,043.99	$4,254,955.20	$4,356,058.33
Other Local Revenues	8600 - 8799	$1,566,904.00	$1,574,960.82	$1,624,480.95
Total Revenues		**$20,378,895.28**	**$19,284,329.85**	**$20,006,104.66**
Expenditures				
Certificated Salaries	1000 - 1999	$9,926,066.00	$9,859,678.94	$10,048,892.19
Classified Salaries	2000 - 2999	$2,696,385.00	$2,579,418.30	$2,631,509.00
Employee Benefits	3000 - 3999	$4,311,054.00	$4,434,428.77	$4,744,376.24
Books and Supplies	4000 - 4999	$2,478,506.49	$1,495,385.50	$1,494,806.52
Services and Other Operating Expenditures	5000 - 5999	$2,236,464.31	$2,044,880.58	$2,038,506.12
Capital Outlay	6000 - 6900	$528,652.00	$23,820.00	$23,820.00
Other Outgo	7000 - 7299	$1,581,729.00	$1,581,729.00	$1,581,729.00
Direct Support/Indirect Cost	7300 - 7399	($35,000.00)	($35,000.00)	($35,000.00)
Debt Service	7430 - 7439	$15,204.00	$15,204.00	$15,204.00
Total Expenditures		**$23,739,060.80**	**$21,999,545.09**	**$22,543,843.07**
Excess (Deficiency) of Revenues Over Expenditures		**($3,360,165.52)**	**($2,715,215.24)**	**($2,537,738.41)**
Other Financing Sources\Uses				
Interfund Transfers In	8910 - 8929	$131,970.00	$131,970.00	$131,970.00
Interfund Transfers Out	7600 - 7629	$116,818.00	$117,515.00	$119,489.00
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		**$15,152.00**	**$14,455.00**	**$12,481.00**
Net Increase (Decrease) in Fund Balance		**($3,345,013.52)**	**($2,700,760.24)**	**($2,525,257.41)**
Fund Balance				
Beginning Fund Balance	9791	$2,258,837.65	($711,175.87)	($3,411,936.11)
Audit Adjustments	9793	$375,000.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$2,633,837.65	($711,175.87)	($3,411,936.11)
Ending Fund Balance		($711,175.87)	($3,411,936.11)	($5,937,193.52)
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Revolving Cash	9711	$5,000.00	$5,000.00	$5,000.00
Stores	9712	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$167,000.00	$167,000.00	$167,000.00
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	$727.39	$95,314.46
Economic Uncertainties Percentage		3%	2%	2%
Designated for Economic Uncertainties	9770	$715,676.36	$331,755.90	$339,949.98
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	($1,598,852.23)	($3,916,419.40)	($6,544,457.96)

The following table compares the SACS report in the financial system with the information submitted to the Governing Board for approval during the second-interim reporting period. The district should ensure the Governing Board approves the correct report.

MYFP, Schedule of Differences – Financial Documents at 2nd Interim

Name	Object Code	SACS System Document Combined 2007 - 08	Per Board Meeting Combined 2007 - 08	Differences 2007 - 08
Revenue Limit Sources	8010 - 8099	12,168,867	12,326,072	157,205
Federal Revenues	8100 - 8299	1,936,114	1,936,114	-
Other State Revenues	8300 - 8599	5,014,377	5,014,377	-
Other Local Revenues	8600 - 8799	2,011,314	2,011,314	-
Total Revenues		**21,130,672**	**21,287,877**	**157,205**
Certificated Salaries	1000 - 1999	9,844,331	9,894,401	50,070
Classified Salaries	2000 - 2999	2,555,420	2,529,010	(26,410)
Employee Benefits	3000 - 3999	4,137,608	4,148,837	11,229
Books and Supplies	4000 - 4999	2,889,935	2,978,375	88,440
Services and Other Operating Expenditures	5000 - 5999	2,739,307	2,773,183	33,876
Capital Outlay	6000 - 6900	515,514	515,514	-
Other Outgo	7000 - 7299	1,581,729	1,546,729	(35,000)
Direct Support/ Indirect Cost	7300 - 7399	(35,000)	-	35,000
Debt Service	7430 - 7439	-	-	-
Total Expenditures		**24,228,844**	**24,386,049**	**157,205**
Excess (Deficiency) of Revenues Over Expenditures		**(3,098,172)**	**(3,098,172)**	**-**

	Interfund Transfers In	8910 - 8929	-		-		-
	Interfund Transfers Out	7600 - 7629	116,818		116,818		-
	All Other Financing Sources	8930 - 8979	375,000		375,000		-
	All Other Financing Uses	7630 - 7699	-		-		-
	Contributions	8980 - 8999	-		-		-
Total Other Financing Sources\Uses			**258,182**		**258,182**		**-**
Net Increase (Decrease) in Fund Balance			**(2,839,990)**		**(2,839,990)**		**-**
	Beginning Fund Balance	9791	2,258,838		2,258,838		-
	Audit Adjustments	9793	-		-		-
	Other Restatements	9795	-		-		-
	Adjusted Beginning Fund Balance		2,258,838		2,258,838		-
	Ending Fund Balance		(581,153)		(581,152)		0

Communication with the Governing Board, faculty and community is essential during this time of fiscal uncertainty. The information used should be current and accurate to assist these groups in making appropriate decisions.

The recommendations listed below provide a framework for the district to use in implementing budget reductions, cost containment strategies or other adjustments. Although there is no definitive list of procedures that all districts should follow when identifying areas to assess to maintain solvency, many of the recommendations are common to most school districts.

Recommendations

The district should:

Enrollment and ADA

1. Ensure that enrollment and ADA projections are up to date and based on current data. Compare the projection to the actual California Basic Educational Data System (CBEDS) P1 and P2 reporting periods and make the necessary adjustments to align the district's projection to actual data.
2. Review the ratio of student attendance/enrollment percentages along with projections monthly, comparing data from the current attendance month to the same time period in the prior year. Share this information monthly with the superintendent's cabinet, school site principals and the Governing Board. Discuss ways that school sites can increase this percentage to maximize district funding and hold sites accountable.

Staffing Impacts

3. Review staffing ratios and class sizes in accordance with district guidelines and bargaining unit contracts and class size reduction funding provisions.
4. Project the range of the declining enrollment and hire staff members based on the largest estimated decline, but prepare the budget based on the smallest decline. When school starts, the district can hire additional staffing if there is an increase in enrollment.
5. Prepare seniority lists for all bargaining unit members in case employee layoff notifications need to be issued.
6. Review all vacant management, certificated and classified positions to determine on a case-by-case basis which vacancies must be filled and which can remain open.
7. Eliminate overtime, extra time and the use of substitutes when possible.
8. Eliminate any special assignment positions.
9. Reconcile position control data to budget and actual payroll records for salaries and benefits, and capture excess dollars where possible.

Health Benefits

10. Review the current health plan for cost-containment opportunities such as encouraging urgent care facilities instead of emergency room visits, second opinion requirements and mail-in prescription drug programs.
11. Conduct a re-enrollment of employees eligible for health benefits to ensure that employees are not covered after separation from the district, that only eligible dependents are on the policy, and that retiree benefits are not being offered after age 65.
12. Review the method used to coordinate Medicare benefits with retiree health plan benefits.
13. Establish a policy of primary and secondary coverages for employees that are covered under other health insurance policies.
14. Consider negotiating a soft or hard cap on health benefit plans with the collective bargaining units.

Reduction in Force (RIF)

15. Prepare for a reduction in force (RIF) for management, certificated and classified employees. It is likely that the district will be required to consider a RIF in fiscal years 2008-09 and 2009-10 because of continued declining enrollment and reductions in state revenues. The district cannot maintain current staff levels in this economic environment.

Negotiations

16. Carefully estimate the effect of future collective bargaining agreements in accordance with AB1200 and AB2756 guidelines and demonstrate its ability to support the increases in conjunction with the budget adjustments necessary to balance the general fund budget. The district settled negotiations with the certificated bargaining unit for 2008-09 with no increase in compensation, however, the district has agreed to support medical and dental benefit increases for that year estimated at 13%. The district has not settled with the classified bargaining unit or management staff.

Restricted Program Dollars and Encroachments

17. Ensure that categorical restricted resources and other funds are self-supporting to limit general fund contributions. This should include paying for indirect costs and post-retirement benefits percentage attributable to restricted programs.
18. Consider the several proposed flexibility options provided by the state, including the following:
    a. Reduce set-aside requirements for routine restricted maintenance account from 3% to 2%.
    b. Decrease the designation for economic uncertainties from 3% to 1.5%. The district should consider this option only along with a viable plan to restore the full percentage in 2010-11 as required.
    c. Eliminate the deferred maintenance match requirements for 2008-09 only.
    d. Redirect restricted categorical carryover balances from 2007-08 to unrestricted general fund; however, the district will need to identify categorically funded activities that will no longer be offered if these program dollars shift.
    e. Redirect up to 2% of restricted resource (some specific programs are excluded from this option) funding that will be available for revenue limit purposes.
    f. Redirect cafeteria funds to unrestricted general fund. Limitations apply because the district participates in the Federal Free and Reduced Lunch Program.
    g. Investigate increased use of mega-item transfers, which are proposed to increase to 50% out of and 55% into mega-item programs.
    h. Maximize mega-item flexibility in any AB825 Block Grant program transfer-out from 15% to 20% and transfers-in from 20% to 25%.
    i. Maximize federal flexibility options.
19. Expend restricted dollars first whenever possible. Complete an in-depth review of expenditures being charged to unrestricted funding. Identify what constitutes a core program as opposed to an auxiliary support service and redirect restricted resources to activities, programs and positions funded with unrestricted dollars.
20. Review existing encumbrances in all restricted programs and liquidate any balances that will not be expended.
21. Align categorical resources to the district goals to compliment unrestricted dollars.

Consultants, Contracted services and Leases

22. Review consultant service agreements and all contracted professional agreements. Prepare requests for proposals where appropriate to ensure that the district receives the best possible price for the expected level of service.
23. Compare the per-copy cost of leases, materials and agreements on existing copiers at school sites and offices. Monitor copy machine costs and usage by site and department monthly and allocate overages to individual site budgets. Investigate using an outside vendor for expensive services. This can be more cost effective because of the cost to maintain and replace parts on older machines.

Budget

24. Identify and obtain board approval for budget reductions and/or revenue enhancements that adjust the budget and multiyear projections in 2007-08 to eliminate deficit spending and meet the reserve requirement in the current and two subsequent fiscal years.
25. Prepare multiyear projections that provide current data and a recovery plan for use in making decisions to achieve financial stability and solvency.
26. In the multiyear projection, identify all one-time sources of revenue and/or expenditures in the budget to present the most accurate financial position.
27. Delay making final decisions on any new ongoing costs, such as collective bargaining negotiations and capital leases, until reliable fiscal information regarding the state budget is available to enable a better understanding of the multiyear effect on the district's budget.
28. Ensure that the Governing Board approves the correct SACS report at periodic reporting periods.

Facilities

29. Ensure that the 3% administrative charge is being assessed from the developer fee fund as allowed by law to reimburse a school district for the administrative cost of collecting and administering developer fees.

Transportation

30. Consider increasing student nontransportation distances to reduce the number of buses needed and/or the number of driver hours.

Fiscal Health Risk Analysis

Key Fiscal Indicators

FCMAT developed the Fiscal Health and Risk Analysis 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.

The Fiscal Health and Risk Analysis includes 17 components of key fiscal indicators to measure a district's potential risk.

Fiscal Health and Risk Analysis Assessment

1. **Deficit Spending**
    - Is the district avoiding deficit spending in the current year?
    - Is the district avoiding deficit spending in the two subsequent fiscal years?
    - Has the district controlled deficit spending over the past two fiscal years?
    - Is the issue of deficit spending addressed by fund balance, ongoing revenues, or expenditure reductions?
    - Has the board approved a plan to eliminate deficit spending?

    Rating: No

    The district is projected to deficit spend in the current and subsequent two fiscal years. During the past two fiscal years, the district overspent by $745,437 in 2005-06, but had an excess of $499,837 in 2006-07. The Governing Board is working on potential budget adjustments. To date, the district has taken action to close one elementary school and reduce classified staffing by 10 positions. The district will be unable to meet AB 1200 requirements if expenditure trends continue at the current rate.

2. **Fund Balance**
    - Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty?
    - Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions?
    - Does the fund balance include any designated reserves for unfunded liabilities

or one-time costs above the recommended reserve level?

Rating: No

The district's fund balance is not at or above the recommended reserve for economic uncertainty and therefore, the district will be unable to meet its reserve requirement in the current and subsequent two years. The fund balance will experience a significant decline by 2009-10 fiscal year unless a viable fiscal recovery plan is implemented.

3. **Reserve for Economic Uncertainty**
   - 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?
   - Does the district have additional reserves in fund 17, special reserve for noncapital projects
   - If not, is there a plan to restore the reserve for economic uncertainties in the district's multiyear financial projection?

Rating: No

The district is unable to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends. The district does not have a special reserve fund.

4. **Enrollment**
   - Has the district's enrollment been increasing or stable for multiple years?
   - Is the district's enrollment projection updated at least semiannually?
   - Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends?
   - Does the district analyze enrollment and ADA data?
   - Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes?
   - Has the district implemented any attendance programs to increase ADA?
   - Have approved charter schools had little or no impact on the district's student enrollment
   - 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?

Rating: No

The district's enrollment has been in decline for the last four years. Enrollment projections are not updated semiannually. Monitoring ADA trends in a district that is experiencing declining enrollment is a critical function. The district should designate resources to project and monitor enrollment and ADA trends. The district recently filled the position of CBO and still has a vacancy for the Director of Fiscal Services position; therefore, enrollment projections and adjustments have not been made. The second interim report for 2007-08 indicates that the district has increased the ADA percentage over the prior year from 91.6% to 94.2%. The district is making staffing adjustments commensurate with declining enrollment.

The district sponsors one charter school. The school's enrollment has shown a steady increase in enrollment. There is a minor impact since the school employs one full time principal that currently serves 148 students.

5. **Interfund Borrowing**
   - Can the district manage its cash flow in all funds without interfund borrowing?
   - Is the district repaying the funds within the statutory period in accordance with Education Code Section 42603?

   Rating: No

   The district is unable to sustain adequate cash in the general fund without borrowing from other funds. The second interim report for 2007-08 indicates that it has cash available in the building and capital facilities funds. During the current year, the district has not required interfund loans; however, in 2008-09 and 2009-10, the district will need to borrow funds both internally and externally.

6. **Bargaining Agreements**
   - Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years?
   - Did the district conduct a presettlement analysis identifying an ongoing revenue source to support the agreement?
   - Did the district correctly identify the related costs above the COLA, (i.e. statutory benefits, step and column)?
   - Did the district address budget reductions necessary to sustain the total compensation increase including a board-adopted plan?
   - Did the superintendent and CBO certify the agreement prior to ratification?
   - Is the governing board's action consistent with the superintendent's/CBO's certification?
   - Did the district submit to the county office of education the AB 1200\2756 full disclosure as required?

Rating: No

The district has settled negotiations for the 2008-09 fiscal year with the certificated bargaining unit with no increase in compensation; however, the district will support the total increase in costs for the health and dental plans. The tentative agreement was submitted to the county office under AB1200 and AB2756 disclosure guidelines with the appropriate superintendent and CBO certifications.

The district has not settled negotiations with the classified bargaining unit or management staff beyond the 2007-08 fiscal year. The district should carefully review and estimate the cost for proposals that have compounding effects in future years.

7. **General Fund**
   - Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average?
   - Is the district making sure that only ongoing restricted dollars pay for permanent staff?
   - 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?
   - 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?

Rating: No

As the following data shows, the district's average salary and benefit cost is 90.65% which is higher than the statewide average for elementary districts.

Statewide Averages	2006-07
Unified	90.84%
Elementary	89.56%
High School	89.73%

Source: School Services of California

The district should ensure that only ongoing restricted dollars pay for permanent staff members. All one-time revenues and expenditures have been denoted in the budget and sunset within the proper fiscal year.

8. **Encroachment**
   - Is the district aware of the contributions to restricted programs in the current year? (Identify cost, programs and funds)
   - Does the district have a reasonable plan to address increased encroachment

trends?
- Does the district manage encroachment from other funds such as adult, cafeteria, child development, etc.?

Rating: No

Several restricted programs encroach on the unrestricted general fund in the current and subsequent two fiscal years. The district should prepare a reasonable plan to address increased encroachment trends.

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

Rating: No

The financial information is timely; however, it has large fluctuations in salaries and benefits between unrestricted and restricted programs and between resources as district and county office personnel adjust employees into the appropriate programs. This type of fluctuation tends to make the information unreliable to the users of the financial statements (Details are attached in the appendix section of this report).

The district is on the same financial system as the county office, but does not utilize the position control module.

10. Position Control
- Does the district maintain a reliable position control system?
- Is position control integrated with payroll?
- Does the district control unauthorized hiring?
- Are the appropriate levels of internal controls in place between the business and personnel departments to prevent fraudulent activity?
- Does the district use position control data for budget development?
- Is position control reconciled against the budget during the fiscal year?

Rating: No

The district does not have a reliable position control system. The district uses spreadsheets to track employees and their salary placement. This information is not integrated with the payroll system or the budget system. As a result, position control does not agree with the budget, and the budget does not agree with the actual payroll records. (Details are attached in appendix section of this report). During fieldwork, the staff had not reconciled payroll with the budget or position control.

The district lacks established internal controls between the Business and Personnel departments to prevent or detect fraudulent activity.

11. Budget Monitoring

- Are budget revisions completed in a timely manner?
- Does the district openly discuss the impact of budget revisions at the board level?
- Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified?
- Has the district's long-term debt decreased from the prior fiscal year?
- Has the district identified the repayment sources for long-term debt or nonvoter-approved debt, i.e. certificates of participation, capital leases?
- Does the district's financial system have a hard-coded warning regarding insufficient funds for requisitions and purchase orders?
- Does the district encumber salaries and benefits?

Rating: No

The district has not implemented a periodic system to monitor the budget. Salaries and benefits are not encumbered in the financial system, and as a result, it is difficult to determine whether the district is staying within budget at any point in time. Compounding this situation is that the district pays for a number of common administrative positions and bills the high school district at year end. The high school district pays some other administrative positions that are billed back at year end.

The district should consider establishing a locally defined resource object to offset the costs that will be billed back at year end as well as the amounts that will be paid to the other district at year end to obtain a clearer picture of its financial position at any point in the school year.

Budget revisions should be updated and reported to the Governing Board monthly, especially when a district experiences fiscal distress and declining enrollment. It is essential to keep the board and senior management informed regarding the district's budget.

The district has incurred additional long-term debt during the last fiscal year to purchase school buses without a defined revenue stream to support this cost. The debt service payments from the developer fee fund exceed the developer fees collected annually. The current year budget in the developer fee fund and the deferred maintenance fund is $51,967 short of the actual payments made in these funds. The district should correct the budgets in these funds and evaluate how to support the future lease payments from other sources.

The district's financial system lacks a hard code warning when requisitions or purchase orders are submitted and insufficient funds are budgeted.

12. Retiree Health Benefits

- Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements?
- Does the district have a plan for addressing the retiree benefits liabilities?
- Has the district conducted a re-enrollment process to identify eligible retirees?

Rating: No

The district has not conducted re-enrollment to identify eligible dependents or retirees past age 65. In July 2004, the Governmental Accounting Standards Board released GASB No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB). School districts generally use a pay-as-you-go method, which fails to recognize or measure the cost of OPEB during the period(s) that employees render services. GASB No. 45 has a phase-in period for implementation. The district will be required to implement provisions of this statement by fiscal year 2009-10 and is in the process of determining the effect of this pronouncement on the financial statements.

The district has obligations for STRS Early Retirement and SERP Early Retirement totaling $450,554. The current year payment on this debt is $87,829.

13. Leadership/Stability

- Does the district have a superintendent and/or CBO that has been with the district more than two years?
- Does the governing board adopt clear and timely policies and support the administration in their implementation?
- Is the district's fiscal health acceptable in the following areas?

Rating: No

The district has had three superintendents over the last three fiscal years. The CBO has been with the district for only a few months, and the business office has had a vacant Director of Fiscal Services position for more than two years. The district lacks the leadership and the technical skills necessary to oversee and manage the district's multifund budgets.

14. Charter Schools

- Has the district identified a specific employee or department to be responsible for oversight of the charter?
- Has the charter school submitted the required financial reports?
- Has the charter school commissioned an independent audit?
- Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency
- 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?

Rating: Yes

The district has one in-district charter school, King City Arts Charter School, pursuant to Education Code 47605. The charter school is operated by the district, and all financial activities are presented in the charter school special revenue fund.

15. Audit Report

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

Rating: Yes

The district's last audit report for fiscal year 2006-07 showed no findings representing significant deficiencies or material weaknesses. There were no instances of noncompliance related to the financial statements that were required to be reported in accordance with Governmental Auditing Standards or OMB Circular A-133.

1. Facilities

- Has the district passed a general obligation bond?
- Has the district met the audit and reporting requirements of Proposition 39?
- Is the district participating in the state's School Facilities Program?
- Does the district have sufficient personnel to properly track and account for facility-related projects?
- Has the district met the reporting requirements of the Williams Act?
- Is the district properly accounting for the 3% routine repair and maintenance

account requirement at the time of budget adoption?

- If needed, does the district have surplus property that may be sold or used for lease revenues?
- If needed, are there other potential statutory options?
  - ✓ 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?

Rating: Yes

The district has three general obligation bonds (GO bonds) that represent voter-approved debt. Education Code 15100 authorizes a school district to issues GO bonds for capital outlay. The bonds can include the land acquisition, new construction of building(s) or the modernization of existing buildings. The total outstanding balance as of June 30, 2007 was $13,315,659.

The district also participates in the state's School Facilities Program. Participation in this program requires that the district properly account for a 3% routine repair and maintenance account in the general fund at the time of budget adoption. The audit for the fiscal year ended June 30, 2007 indicated that the district was deficient in its contribution by $168,281. Subsequently, the district restored this contribution in full.

2. General Ledger

- Has the district closed the general ledger (books) within the time prescribed by the county office of education?
- Does the district follow a year-end closing schedule?
- Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year?
- 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?
- Does the district reconcile all payroll suspense accounts at the close of the fiscal year?

Rating: No

The district has met all time lines prescribed by the county office for annual closing activities. The team corrected numerous accounts receivable accruals in restricted resources as previously denoted in this report.

Total “No” Responses: 14

Key

Low Risk:	0-4 “No” Responses
Moderate Risk:	5-9 “No” Responses.
High Risk:	10-14 “No” Responses
Extremely High Risk:	15-17 “No” Responses

Risk Analysis
The district’s number of “no” responses places it in the high-risk category.

Cash Management

As the previous section demonstrates, the district's financial situation is serious and will require both short- and long-terms solutions. In FCMAT's Fiscal Health and Risk Analysis, the district had "no" responses to14 of the 17 key indicators that measure fiscal solvency. Deficit spending, declining enrollment, lack of stable leadership, lack of a position control system, lack of budget monitoring, and many other indicators have contributed to the district's fiscal distress. It is crucial for the district to strategically manage cash reserves while making budget reductions, or it will require a state emergency apportionment. To qualify for an emergency apportionment, a district must lack sufficient internal or external cash reserves to make payroll and fulfill other financial obligations.

Education Code Sections 41325 – 41328 define the conditions of on emergency apportionments, intervention by the Superintendent of Public Instruction (SPI) or State Administrator and several other options that the SPI could authorize for an insolvent district. Under state receivership, the SPI assumes control of the district to ensure it regains solvency. Based on King City Union's projected budget and levels of deficit spending, it will need to make substantial reductions in the MYFP or require state intervention in the 2008-09 fiscal year.

California school districts rely on state revenue limit sources, most of which are made up of state aid and local property taxes. The largest cash expenditure is for salary and benefits. The average elementary school district spends 89.56% of total general fund on salary and benefits. At King City Union, employee compensation accounts for 90.65% of the unrestricted general fund.

State revenue limit funds are distributed to school districts monthly throughout the fiscal year on four different schedules. However, most property taxes are received in December and April. Payroll for most districts start in July and increases significantly in September when teachers and school support staff members return to school. As a result, fluctuations in cash flow generally occur in November, December, March and April, because of the unequal distribution of property taxes throughout the fiscal year.

District Apportionment Schedule

The Education Code provides four apportionment schedules for school districts and county offices. The district is apportioned according to EC Section 14041(a) (1). This section requires school districts to be issued warrants of 6% in July, 12% in August, 10% in September, and 8% in each remaining month of the fiscal year as a part of the advance apportionment. Warrants in February to May, inclusive, are required to be for amounts equivalent to one-sixth of the difference between the amounts certified by the Superintendent of Public Instruction as the first principal apportionment and paid as certified by the advanced apportionment. The first principal apportionment (P1) is the mid-year ADA certified by the school district in December. After districts report the final ADA to the Superintendent of Public Instruction in April commonly referred to as the second principal apportionment (P2), the state recalculates the remaining amount due for the month of June.

In accordance with EC Section 14041.5(a) and starting with the 2002-03 fiscal year, warrants for the apportionments for June are required to be drawn in July of the same calendar year. This deferral of cash by the state is continued throughout FCMAT's cash flow statements.

July Apportionment Deferral

On February 16, 2008, the Governor signed special session bill ABX3 4 under the provisions of Proposition 58. For 2008-09 *only*, the bill shifts 99.1% of the July 2008 advance apportionment to September 2008 with some limited exceptions.

As the state continues to evaluate the scope of the current fiscal crisis and ways to manage it, cash is a significant factor. The state seeks to defer apportionment payments so it can meet its own cash obligations. Local educational agencies (LEA) will be affected by this crisis, including the proposal to shift the 2008-09 advanced apportionment payment from July to September 2008. *According to specific language in the provisions of ABX34, the deferral of the July apportionment will apply to King City Union.*

The legislature is also considering several other deferrals that could affect categorical apportionments.

Internal Borrowing

Education Code Section 42603 allows local agencies to borrow between funds temporarily to address cash flow shortages. According to FCMAT's assessment of the district's cash flow, the district may need to borrow funds in August through November 2008 and again in January, March, May and June 2009 to meet its financial obligations. This situation will need to be assessed monthly and will depend on the district's spending pattern throughout the fiscal year. Borrowing between funds is a common method for school districts to cover cash shortages if there is cash available in other funds. It appears that the district can borrow from the building and capital facilities funds.

The limitations of this type of borrowing stipulate that no more than 75% of the money held in any fund during the current fiscal year can be transferred. In addition, funds must be repaid in the same fiscal year (that is, by June 30) if the transfer is completed prior to the last 120 days of the fiscal year. If funds are transferred within the last 120 days of the fiscal year, repayment must be made prior to June 30 of the subsequent year.

External Borrowing

External borrowing requires additional time because it requires an LEA to access funds from an outside agency. Options for external borrowing include the following:

Borrowing from the county office - This option, detailed in Education Code Sections 42621 and 42622, depends on the county office's willingness and ability to provide funds. Based on the current economic outlook, this may not be an option because county offices are monitoring their own cash for the future. The district should discuss this option with the county office.

Borrowing from the county treasurer - Education Code Section 42620 allows districts to borrow from the county treasurer. Under Article XVI, Section 6, of the California Constitution the county treasurer is required to provide funds to an LEA that is unable meet its obligations. However, the county treasurer cannot loan districts money after the last Monday in April of the current fiscal year. In addition, the governing board's approval by formal resolution is required. The loan cannot exceed 85% of direct taxes levied on behalf of the school district. An advantage to this approach is that the treasurer can take repayment directly from property tax receipts before they are distributed to the school district. Repayment must be made from the first monies received by the school district before any other obligation is paid.

Borrowing with TRANs - The most common external borrowing mechanism is using Tax and Revenue Anticipation Notes (TRANs). This form of short-term borrowing allows a LEAs to sell notes against future tax receipts. Since tax receipts do not come monthly, but are received in April and December, it is common for school districts to utilize this option. *However, the district is not eligible for this type of short-term borrowing because of the district's negative certification for the 2007-2008 fiscal year*.

Internal Controls

Internal controls are designed to provide reasonable assurance that assets are safeguarded, financial information is reliable, and appropriate separation of duties and operations is effective and efficient. Senior management sets the tone and establishes and environment, creating policies and procedures that discourage and detect fraud.

Strong internal controls exist when the organizational structure clearly identifies key areas of authority and responsibility, includes policies and procedures for the district staff, and provides information and accounting systems that incorporate authorization and security levels. Management should also foster professionalism and ethics among employees. An important part of an effective internal control system is periodically monitoring activities. It is essential that the district have a reliable system of internal controls.

Position Control

A reliable position control system has board-authorized positions by site or department and prevents overstaffing. The district should develop current staffing formulas for all positions and ensure that staffing ratios are within employee contract guidelines, meet students' needs, and coincide with approved district goals and objectives, including the goal of maintaining fiscal solvency. For effective position control, the system should be fully integrated with other financial modules such as the budget development system and payroll.

The position control functions should be separated to ensure strong internal controls between departments, creating proper checks and balances. Internal controls should be designed so that only board-authorized positions are entered into the system by the Personnel Department and paid by the business office.

Strong internal controls help ensure efficient operations, reliable financial information and legal compliance. They also protect the district from material weaknesses, serious errors and fraud. These controls should be in place regardless of the type of position control system.

Separation of duties is a key factor in a reliable position control system. The following table illustrates a recommended distribution of duties between the Business and Personnel departments that help ensure the necessary internal control structure.

Table 6: Recommended Distribution of Duties to Ensure Internal Controls

Task	Responsibility
Authorize positions	Governing Board
Enter authorized position into position control with a unique position control number and estimated salary and benefits	Business office
Enter demographic data into position control, including employee name, employee address, social security number, credential information, salary classification, salary schedule placement and other demographic information.	Personnel Department
Update employee benefits Review and update employee work calendars Annually review and update salary schedules	Business office
Assign account codes Develop the budget and projections Perform multiyear projections Perform salary and benefit projections	Business office

It is important to have a distribution and separation of duties between the Business and Personnel departments to help provide the necessary internal control structure for the position control system to operate efficiently and effectively. Proper checks and balances should exist between personnel decisions and budgeted appropriations, and the process should involve key administrators. A system that validates new authorized positions, resignations, changes in assignments, changes in budget codes, adjustments to salaries or benefits and termination of positions should be fully documented. The district's current practice lacks some critical components of an effective position control system

The district recently updated its position control system, which operates separately from the county office's financial system. The district system provides information for the budget, but not the payroll module. The district lacks a system that reconciles position control data with the information in the budget and with the amounts paid to employees. The district should adopt a process that periodically compares budget data with position control data to ensure that information agrees with payroll records at specific points in time, including during budget adoption and first- and second-interim reporting periods.

FCMAT completed a reconciliation to ensure that only authorized positions were included in the April 2008 payroll. This reconciliation found several differences in amounts paid to employees, budget codes to which salaries were charged, and percentages paid in various resources and functions. (Details are attached to the appendix section of this report)

A position control analysis found $94,322 in the system that was identified as a placeholder for hourly stipends. The district should distribute the correct amounts to the proper programs.

Recommendations

The district should:

1. Develop current staffing formulas for all positions and ensure that ratios comply with employee contract guidelines, meet student needs and agree with approved district goals and objectives, including the goal of maintaining fiscal solvency.
2. Ensure that there is a distribution and separation of duties between the Business and Personnel departments. Ensure that proper checks and balances exist between personnel decisions and budgeted appropriations, and ensure that key administrators are involved in the process.
3. Adopt a process that periodically compares budget data with position control and ensures that this information agrees with payroll records during budget adoption and first- and second-interim reporting periods.
4. Develop a system to adequately budget the cost of hourly stipends to the correct programs.
5. Convert the manual tracking system to the county office position control module.
6. Fully integrate position control with budget preparation and payroll.

Shared Administrative and Business Office Staffing

The district office serves two separate districts, the King City Joint Union High School District and the King City Union School District, which together serve more than 4,400 students in grades K-12. Several management positions are common to both districts. The two are governed by separate governing boards, but share certificated and classified administration and classified support services similarly to a unified school district.

Both districts have benefited substantially from the economies of scale that result from a number of shared classified and administrative positions. This has significantly reduced administrative and operational overhead costs. Despite the obvious economic benefits for both districts, several district office staff members work for only one district. This arrangement does not maximize operational efficiency or allow the district to cross-train employees. The administration should ensure all shared personnel provide service to both districts and are crossed trained in business functions.

The district recently filled a vacancy for CBO. This position is essential to the organization. Because the CBO is responsible for determining the district's financial condition and the effect of negotiations on the district's budget, it is important for this position to be included in negotiations and to be involved in discussions that relate to negotiations and budget adjustments.

The following positions are shared equally by the districts:

- District Superintendent
- Chief Business Official
- Accounting Supervisor
- Executive Assistant
- Director, Personnel and Administration
- Director of Maintenance and Operations (2 positions)
- Director of Transportation
- Technology Technician

Throughout the fiscal year, one district pays for these shared positions and bills the other district for its percentage at year end. The budget indicates the appropriate percentage in each individual district.

There were several irregularities between the position control and budget amounts posted for each district regarding salaries and benefits. The CBO is charged twice in the elementary district in two different function codes.

The chart following this section of the report displays the district office's organizational structure. Positions located in the district office are funded by either the elementary district or the high school district.

The Superintendent supervises the school principals, two directors of curriculum/instruction/assessment (one for each district), directors of special education, human resources and program improvement and compliance as well as an Assistant Superintendent, Business. With nine schools and six department head under his supervision, the superintendent has an excessive level of responsibility.

The level of administrative support for the superintendent office is marginal. One Superintendent's Secretary meets the demands of two districts, including responsibilities related to two governing boards with separate board meetings. The level of administrative support for the office of the Assistant Superintendent, Business is also insufficient since the business office is required to keep two separate sets of books, prepare separate budgets and reports for the county office, track grant and categorical programs for the two districts, and prepare separate payrolls and commercial warrant batches.

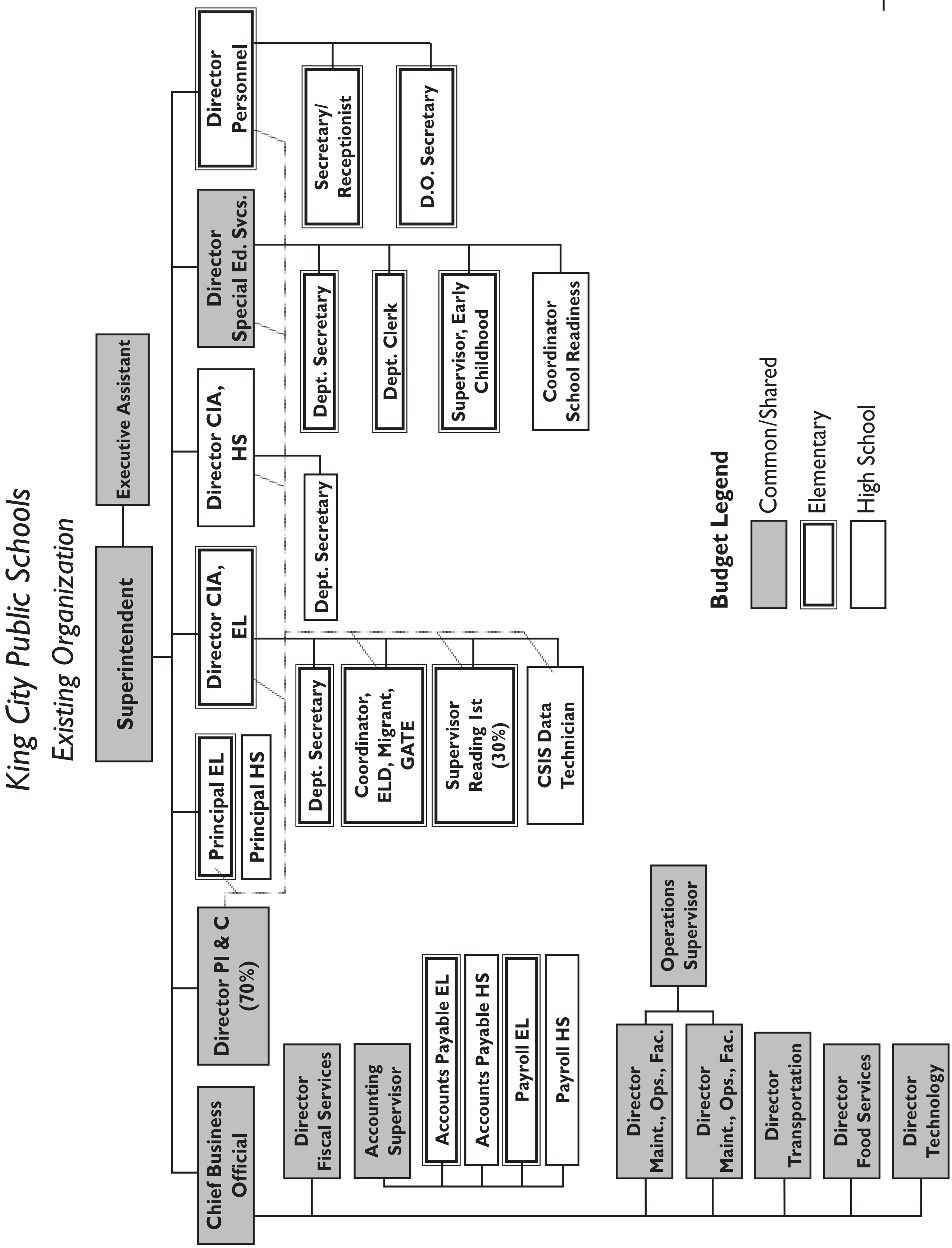
Each district has separate certificated and classified bargaining units, collective bargaining agreements and salary schedules. Position titles and salary levels are sometimes different even within an office/department although duties and responsibilities are comparable. This type of disparity can lead to poor morale and reduced effectiveness, particularly when positions/employees are designated as elementary or high school employees. The fiscal duties of the two account clerks are not segregated to avoid potential conflict. For example, the same employee can perform accounts payable and receivable duties.

The district's organizational structure includes curriculum/instruction/assessment (CIA) offices for each district. Each CIA office is headed by a director. The two CIA offices combined have two secretarial and one clerical support position(s). Increased consistency, clarity of direction, and economies of scale could be gained by combining the CIA offices into a single Office of Educational Services. The existing Program Improvement, Compliance (PI and C) function headed by a director could be incorporated with the combined Educational Services office as a coordinator.

The recent designation of the CBO as an Assistant Superintendent, Business is appropriate. The Assistant Superintendent, Business supervises the budget/accounting office (with two accounting/clerical and two payroll positions) because the Director, Fiscal Services position is vacant, and the Accounting Supervisor is occupied with special project assignments. In addition, two directors of maintenance, operations and facilities (MOF) and the directors of transportation, food services and technology report to the Assistant Superintendent for Business.

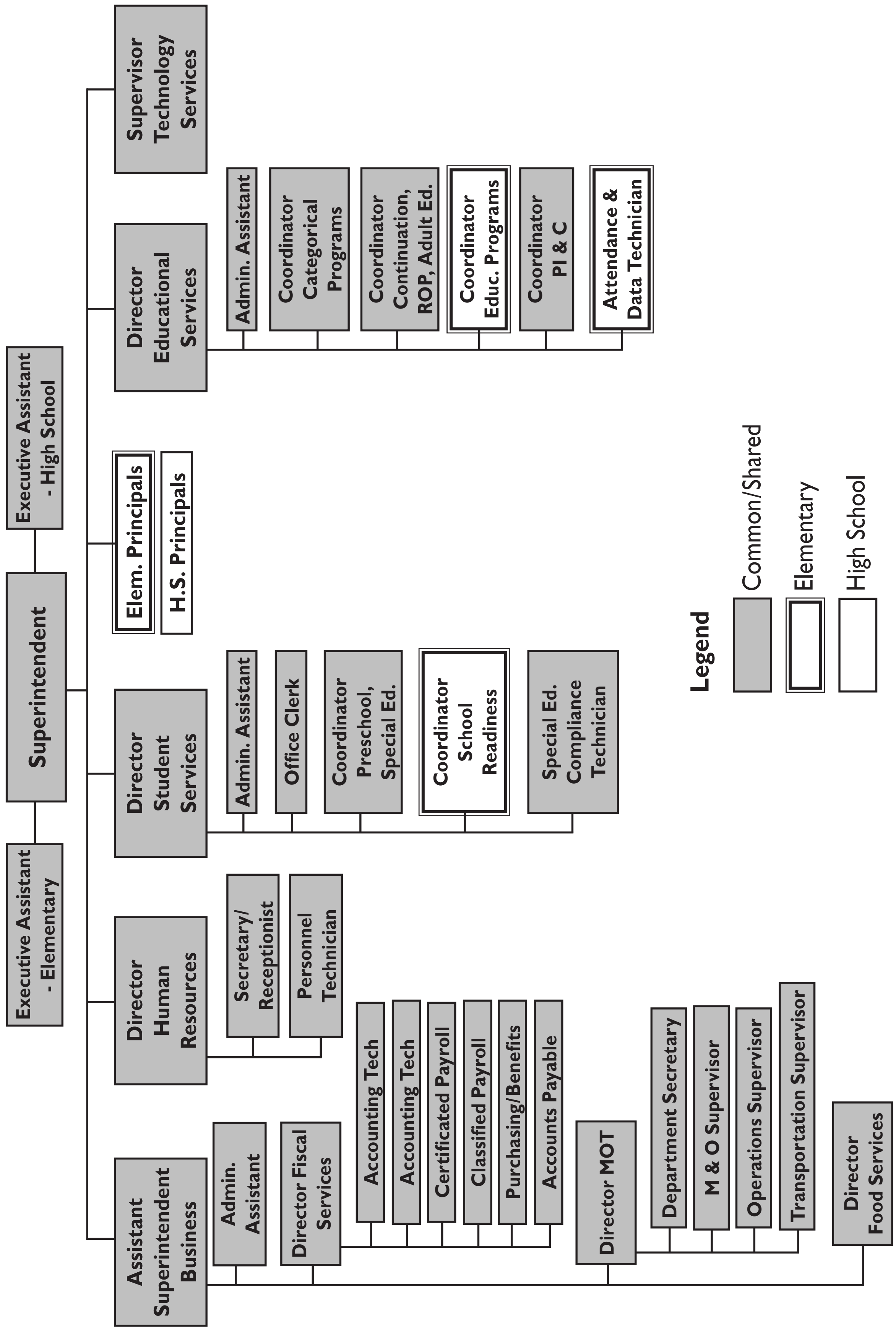
The designation of all of the Business Services Division department heads as directors is atypical of other districts of similar size. The existence of two MOF Directors (who divide responsibility for the two comprehensive high schools and share the leadership for other MOF function) is cumbersome and unnecessary.

Including the Transportation and Food Services departments in the business services division under the Assistant superintendent for Business is consistent with best practices in California public schools. However, instructional technology support frequently is included in the Educational Services Division.


King City Public Schools
Existing Organization
Superintendent
Executive Assistant
Chief Business Official
Director PI & C (70%)
Principal EL
Principal HS
Director CIA, EL
Director CIA, HS
Director Special Ed. Svcs.
Director Personnel
Dept. Secretary
Coordinator, ELD, Migrant, GATE
Supervisor Reading 1st (30%)
CSIS Data Technician
Dept. Secretary
Dept. Secretary
Dept. Clerk
Supervisor, Early Childhood
Coordinator School Readiness
Secretary/ Receptionist
D.O. Secretary
Director Fiscal Services
Accounting Supervisor
Accounts Payable EL
Accounts Payable HS
Payroll EL
Payroll HS
Operations Supervisor
Director Maint., Ops., Fac.
Director Maint., Ops., Fac.
Director Transportation
Director Food Services
Director Technology
Budget Legend
Common/Shared
Elementary
High School

King City Public Schools

Alternative Organizational Structure



Administrator Staffing Comparisons

The team utilized data from 10 high school districts that King City Joint Union normally uses to compare administrator staffing. These districts were the Atascadero, Carmel, Monterey Peninsula, Pacific Grove, and Pajaro Valley unified school districts and the Gonzales, Paso Robles and Salinas unified high school districts.

Assistant Principal Comparisons

The following table displays the student enrollment and numbers of assistant principals (AP) in each of the high schools in the comparison districts. The survey results are expressed as a factor of the number of enrolled students per AP. The average number of students per AP in the surveyed districts was 701.23, while the median was 672.92.

Each comprehensive King City high school has one assistant principal. Assistant principals are assigned support roles for the continuation school and the adult high school programs in addition to their traditional responsibilities. None of the comparison high schools reported assigning continuation school or adult school responsibilities to their assistant principals.

The number of students per assistant principal at King City High School (1,121 enrollment) was 59.9% above the survey average. The number of students per assistant principal at Greenfield High School (932 enrollment) was 32.9% above the survey average. If the district high schools had assistant principal staffing at the average level of the comparison high schools, King City High School would have 1.6 FTE assistant principals and Greenfield High School would have 1.3 FTEs. If ancillary duties continue to be assigned, a higher level of assistant principal staffing would be indicated.

Table 7: Assistant Principal Staffing in Selected School Districts

District	School	Grades	Enrollment*	Admin		Students per AP
Atascadero USD	Atascadero HS	9-12	1,649	AP	1.00	1,649.00
Carmel USD	Carmel HS	9-12	763	AP	2.00	381.50
Gonzales UHSD	Gonzales HS	9-12	699	AP	1.00	699.00
Monterey Peninsula USD	Monterey HS	9-12	1,455	AP	2.00	727.50
	Seaside HS	9-12	1,355	AP	2.00	677.50
Pacific Grove USD	Pacific Grove HS	9-12	615	AP	1.00	615.00
Pajaro Valley USD	Pajaro Valley HS	9-12	1,521	AP	4.00	380.25
	Aptos HS	9-12	1,433	AP	3.00	477.67
	Watsonville HS	9-12	2,169	AP	4.00	542.25
Paso Robles JUHSD	Paso Robles HS	9-12	2,202	AP	3.00	734.00
Salinas UHSD	Alisal HS	9-12	2,483	AP	3.00	827.67
	Everett Alveraz HS	9-12	2,171	AP	3.00	723.67
	North Salinas HS	9-12	2,005	AP	3.00	668.33
	Salinas HS	9-12	2,518	AP	3.00	839.33
San Benito JUHSD	San Benito HS	9-12	2,949	AP	3.00	983.00
Santa Cruz City HSD	Harbor HS	9-12	1,131	AP	2.00	565.50
	Santa Cruz HS	9-12	1,064	AP	2.00	532.00
	Soquel HS	9-12	1,198	AP	2.00	599.00
			Average AP/Student			**701.23**
			Median AP/ Student			**672.92**
			Maximum AP/Student			**1649.00**
			Minimum AP/Student			**380.25**
King City JUHSD	**King City HS**	**9-12**	**1,121**	**AP**	**1.00**	
	Greenfield HS	**9-12**	**932**	**AP**	**1.00**	

* As Reflected in 2006-07 CBEDS

Recommendations

The district should:

District Office Staffing and Organization

1. Negotiate a solution to the problem of having classified support positions in the district office with disparate titles and salaries. Possible strategies include the following
   - Combining the separate CSEA classified bargaining units in the elementary and high school districts.
   - Negotiating a common classified salary schedule for district office classified support staff.
   - Negotiating changes to titles and pay rates for affected district office classified job classifications/positions in the respective bargaining units.

   Except as noted, all positions should be K-12 common funded positions. The organizational chart at the end of this section displays an alternative organizational structure that incorporates the following recommendations:

Superintendent's Office

2. Convert the Superintendent's Secretary position to an Executive Assistant. Add one additional Executive Assistant position reporting to the Superintendent. Each Executive Assistant would provide support for the Superintendent/Governing Board for the elementary and high school districts, respectively.

Program Improvement and Compliance

3. Eliminate the Director of PI and C position. Assign these duties to a coordinator position in the Educational Services Division.

Educational Services

4. Convert one Curriculum/Instruction/Assessment (CIA) Director position to a Director, Educational Services responsible for K-12 CIA functions. Eliminate the remaining CIA Director position.
5. Convert one of the two secretarial positions in the CIA Directors' offices to Administrative Assistant and eliminate the remaining secretarial position. Eliminate the existing clerical position in the elementary CIA Director office.
6. Convert the Coordinator ELD, Migrant Education, GATE position to a Coordinator, Categorical Programs position in the Educational Services Division.

7. Establish a new position of Coordinator Continuation, ROP, Adult Education in the Educational Services Division.
8. Convert CSIS Data Tech position to Attendance and Data Technician.

Student Services

9. Convert the Director of Special Education to Director of Student Services.
10. Convert the secretarial position in the office of the Director of Special Education to Administrative Assistant, and retain the clerical position.
11. Retain the Supervisor of Early Childhood and Coordinator School Readiness positions.

Business Services

12. Establish a new Administrative Assistant position reporting to the Assistant Superintendent, Business.
13. Immediately fill the Director of Fiscal Services position and place the fiscal/clerical and payroll positions under his/her direct supervision. Convert the Accounting Supervisor to Accounting Technician and create an additional Accounting Technician to perform higher-level, more technically difficult accounting and budgeting work.
14. Assign all K-12 accounts payable responsibilities to one of the existing Account Clerk positions who would not perform any accounts receivable functions. Assign K-12 purchasing/clerical and employee benefits functions to one of the existing Account Clerk positions. Divide the two Payroll Clerk positions between K-12 certificated and classified payroll responsibilities instead of by district.
15. Convert one of the MOF Director positions to Director of Maintenance, Operations and Transportation (MOT) and convert the remaining MOF Director position to Maintenance Supervisor. Fill the vacant Operations Supervisor position and convert the Director of Transportation to Transportation Supervisor. These actions would create a small department under the Assistant Superintendent of Business, reducing the number of direct reports and providing increased levels of training, supervision and quality control in the maintenance and operations areas. A Department Secretary position should be created to provide administrative support for the MOT Department.

Human Resources

16. Convert one of the existing Secretary/Receptionist positions to Personnel Technician to provide technical/clerical support to the human resources office. Retain the remaining Secretary/Receptionist positions under the Human Resources Division to provide general reception and information for the district office and support for employment activities in the human resources area.

Technology Services

17. Convert the existing Technology Director to Technology Supervisor. This position provides support to the instructional technology and administrative computing service areas. Accordingly, place this position under the supervision of the Superintendent to reduce the potential for conflicts resulting from competing priorities in these two areas. Alternatively, this position could be incorporated within the new Educational Services Division

Subsequent Events

FCMAT prepared a comprehensive multiyear report based on the information known at the time of preparation of this report. It is FCMAT's normal protocol to pick a point in time in the budget process from which to project the district's financial position. However, due to the potential fiscal crisis in the district, the FCMAT team conducted additional subsequent analysis. As this report was finalized, the Governing Board adopted the 2008-2009 budget. Included in this budget were substantial budget adjustments that improve the current situation, but were not included in this report.

The district anticipates that the ending fund balance for estimated actuals in the 2007-2008 general fund budget will be ($947,282) compared to ($1,598,852) projected by the FCMAT team at the time of field work. Year-end projections by the district consider previously processed purchase orders that will be closed or reopened in the next fiscal year, timing differences between projections coupled with additional budget adjustments approved by the Governing Board, and a freeze on spending.

Budget Adjustments to the 2008-2009 General Fund Budget

For the adopted 2008-2009 budget, the Governing Board approved $1,431,510 in budget adjustments that were recommended by the Budget Advisory Committee and $480,000 reduction in special education bill-back charges for inclusion services that the district will support from the county office.

Governor's Proposed Flexibility Options

As previously noted, the Governor has proposed several flexibility options. The district has incorporated the following options in the 2008-2009 adopted budget, totaling $981,596:

- Reduction of the reserve for economic from 3% to 1.5%
- A categorical "sweep," which allows the district to use unspent categorical funds, with some restrictions, upon closing the 2007-2008 fiscal year.
- Maximization of mega-item transfer options

Conclusion

The district is experiencing a serious fiscal crisis that requires immediate intervention. The district's Governing Board and administration have been proactive in their approach as evidenced by the substantial budget adjustments approved and included in the 2008-2009 adopted budget.

The board and administration are working diligently to attain fiscal solvency while navigating through a very difficult and evolving state budget crisis. Great care must be taken to balance the educational needs of students with availability of resources to support programs.

Budget projections are inherently subject to change, especially when federal, state and local economics conditions are uncertain. The district will need to ensure that multiyear forecasts are up to date and that the information they contain is accurate and based on the most current assumptions. Because economic indicators will change rapidly as California struggles to assess and project tax revenues to balance the state budget, staying abreast of the most current financial information and support will help keep the Governing Board informed. The district should run several budget scenarios to assess the affects of the apportionment deferrals, cost-of-living and deficit reduction proposals under consideration by both the Assembly and Senate subcommittees until the state budget is adopted.

Appendices

Appendix A

Enrollment Forecasts

Appendix B

Certificated Staff Comparison by Reporting Periods

Appendix C

Variances Between Second Interim and Third Interim Report with Noted Concerns

Appendix D

Study Agreement

Appendix A

Enrollment Forecasts

Forecasts	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Elementary School (grades K-6)	**4229**	**4327**	**4439**	**4544**	**4667**
King City Elementary	**1919**	**1955**	**1994**	**2026**	**2054**
Kindergarten	324	330	337	343	350
1st	315	320	326	333	339
2nd	275	288	292	298	304
3rd	278	266	278	282	288
4th	261	270	258	270	273
5th	234	249	257	246	257
6th	232	232	246	254	243
Bradley	**30**	**25**	**23**	**18**	**13**
Kindergarten	3	1	0	0	0
1st	3	3	1	0	0
2nd	8	3	3	1	0
3rd	5	7	3	3	1
4th	5	5	7	3	3
5th	1	5	5	7	3
6th	5	1	4	4	6
San Ardo	**98**	**90**	**83**	**80**	**70**
Kindergarten	15	14	12	11	10
1st	11	12	11	10	9
2nd	15	9	10	9	8
3rd	18	17	10	11	10
4th	10	18	17	10	11
5th	12	8	15	14	8
6th	17	12	8	15	14
San Lucas	52	45	43	40	38
Kindergarten	7	7	6	6	5
1st	8	7	7	6	6
2nd	7	6	6	6	5
3rd	6	7	6	6	6
4th	8	6	7	6	6
5th	6	7	5	6	5
6th	10	5	6	4	5

San Antonio	**164**	**163**	**160**	**152**	**145**
Kindergarten	23	22	21	20	19
1st	22	21	20	19	18
2nd	21	22	21	20	19
3rd	26	23	24	23	22
4th	28	25	22	23	22
5th	23	29	26	23	24
6th	21	21	26	24	21
Greenfield	**1966**	**2049**	**2136**	**2228**	**2347**
Kindergarten	351	369	388	407	425
1st	315	322	339	356	373
2nd	234	313	320	337	354
3rd	270	235	314	321	338
4th	282	269	234	313	319
5th	264	277	264	230	308
6th	250	264	277	264	230
Middle School (grades 6-8)	**1019**	**965**	**907**	**851**	**800**
King City Elmentary	**468**	**437**	**409**	**380**	**353**
7th	238	223	208	193	179
8th	230	214	201	187	174
Bradley	**5**	**3**	**2**	**1**	**0**
7th	2	1	1	0	0
8th	3	2	1	1	0
San Ardo	**23**	**24**	**24**	**24**	**24**
7th	12	12	12	12	12
8th	11	12	12	12	12
San Lucas	**12**	**7**	**2**	**0**	**0**
7th	5	3	0	0	0
8th	7	4	2	0	0
San Antonio	**32**	**36**	**37**	**38**	**39**
7th	20	20	21	21	22
8th	12	16	16	17	17
Greenfield	**479**	**458**	**433**	**408**	**384**

7th	237	224	212	199	187
8th	242	234	221	209	197
High School (grades 9-12)	**2175**	**2119**	**2139**	**2122**	**2113**
King City High	**2175**	**2119**	**2139**	**2122**	**2113**
9th	604	601	599	596	594
10th	590	578	575	573	570
11th	478	519	508	506	504
12th	503	421	457	447	445

Appendix B

Certificated Staff Comparison by Reporting Periods

King City Union School District
Certificated Review – 2007/08Comparing
Reporting Periods By Employee

Salary and Benefits

Name	Resource	2nd.Interim	3rd Interim	Bill Back to HS	June 11, 2008 Position Control	April 2008 Payroll Prelist
	00000		52,667			
A Plugged Number, Total			**52,667**			
	30300	104,853	104,853		104,853	104,853
Employee		**104,853**	**104,853**		**104,853**	**104,853**
	00000	68,898				68,898
	72580		68,898		68,898	
Employee		**68,898**	**68,898**		**68,898**	**68,898**
	00000				(145,133)	
	70900				145,133	
Adjust, Chalone Peaks Total					**0**	
	00000				(230,472)	
	30100				39,182	
	74000				191,290	
Adjust, Del Rey Total					**0**	
	00000				(210,267)	
	74000				210,267	
Adjust, Santa Lucia Total					**0**	
	00000	5,599				
Admin Stipends, Total		**5,599**				
	00000	83,034	83,034		83,034	83,034
Employee		**83,034**	**83,034**		**83,034**	**83,034**
	00000	96,411	96,411		96,411	96,411
Employee		**96,411**	**96,411**		**96,411**	**96,411**

	00000	74,205	74,205	74,205	74,205
Employee		**74,205**	**74,205**	**74,205**	**74,205**
	13000	50,664			
	42030		50,664	69,876	
	70900		25,692		
	72580				50,664
Employee		**50,664**	**76,356**	**69,876**	**50,664**
	00000	90,272	90,272	90,272	90,272
Employee		**90,272**	**90,272**	**90,272**	**90,272**
	00000		15,210	15,210	
Athletic Coaches, Total			**15,210**	**15,210**	
	00000	92,502	92,502	92,502	92,502
Employee		**92,502**	**92,502**	**92,502**	**92,502**
	00000	97,703	97,703	97,703	97,703
Employee		**97,703**	**97,703**	**97,703**	**97,703**
	00000	125,507	125,507	125,507	62,753
	73950				62,757
Employee		**125,507**	**125,507**	**125,507**	**125,510**
	13000	20,535			
	30600		20,535	20,535	20,535
	70900	61,605	61,605	61,605	61,605
Employee		**82,141**	**82,141**	**82,141**	**82,141**
	00000	76,759	76,759	76,759	76,759
Employee		**76,759**	**76,759**	**76,759**	**76,759**
	00000	19,092	19,092	19,092	19,093
Employee		**19,092**	**19,092**	**19,092**	**19,093**
	00000	128,185	128,185	128,185	51,274
	30100				44,865
	73950				32,046
Employee		**128,185**	**128,185**	**128,185**	**128,185**
	65000	93,651	93,651	93,651	93,651
Employee		**93,651**	**93,651**	**93,651**	**93,651**
	00000	55,840	55,840	55,840	55,840
Employee		**55,840**	**55,840**	**55,840**	**55,840**
	00000	50,462	50,462	50,462	50,462
Employee		**50,462**	**50,462**	**50,462**	**50,462**
	65000	78,621	78,621	78,621	78,621
Employee		**78,621**	**78,621**	**78,621**	**78,621**
	00000	60,963	60,963	60,963	60,963
Employee		**60,963**	**60,963**	**60,963**	**60,963**
	00000	50,624	50,624	50,624	50,624

Employee		**50,624**	**50,624**	**50,624**	**50,624**
	00000	76,413	76,413	76,413	76,413
Employee		**76,413**	**76,413**	**76,413**	**76,413**
	00000	100,676	100,676	100,676	100,676
Employee		**100,676**	**100,676**	**100,676**	**100,676**
	00000	77,727	77,727	77,727	77,727
Employee		**77,727**	**77,727**	**77,727**	**77,727**
	00000	76,413	76,413	76,413	76,413
Employee		**76,413**	**76,413**	**76,413**	**76,413**
	00000	54,340			
	65000		54,340	54,340	54,340
Employee		**54,340**	**54,340**	**54,340**	**54,340**
	00000	75,520	75,520	75,520	75,520
Employee		**75,520**	**75,520**	**75,520**	**75,520**
	00000	64,484	64,484	64,484	64,484
Employee		**64,484**	**64,484**	**64,484**	**64,484**
	00000	60,189	60,189	60,189	60,189
Employee		**60,189**	**60,189**	**60,189**	**60,189**
	00000	68,061	68,061	68,061	68,061
Employee		**68,061**	**68,061**	**68,061**	**68,061**
	00000	96,961	96,961	96,961	96,961
Employee		**96,961**	**96,961**	**96,961**	**96,961**
	00000	71,998			
	70800		71,998	71,998	71,998
Employee		**71,998**	**71,998**	**71,998**	**71,998**
	00000	78,620	78,620	78,620	78,620
Employee		**78,620**	**78,620**	**78,620**	**78,620**
	00000	94,181		45,181	
	30100		94,181	47,091	94,181
Employee		**94,181**	**94,181**	**92,273**	**94,181**
	00000	19,209	19,209	19,209	19,210
Employee		**19,209**	**19,209**	**19,209**	**19,210**
	00000	74,205	74,205	74,205	74,205
Employee		**74,205**	**74,205**	**74,205**	**74,205**
	00000	71,122	71,122	71,819	71,122
Employee		**71,122**	**71,122**	**71,819**	**71,122**
	65000	71,063	71,063	71,063	71,063
Employee		**71,063**	**71,063**	**71,063**	**71,063**
	00000	53,448	53,448	53,448	53,448
Employee		**53,448**	**53,448**	**53,448**	**53,448**
	00000	92,502	92,502	92,502	92,502
Employee		**92,502**	**92,502**	**92,502**	**92,502**
	00000	92,502	92,502	92,502	92,502

Employee		**92,502**	**92,502**	**92,502**	**92,502**
	00000	91,952	91,952	91,952	91,952
Employee		**91,952**	**91,952**	**91,952**	**91,952**
	00000	86,751	86,751	86,751	86,751
Employee		**86,751**	**86,751**	**86,751**	**86,751**
	00000	87,299	87,299	87,299	87,299
Employee		**87,299**	**87,299**	**87,299**	**87,299**
	00000	127,813	127,813	127,813	63,906
	30100				44,734
	73950				19,172
Employee		**127,813**	**127,813**	**127,813**	**127,813**
	00000	57,083	57,083	57,083	57,083
Employee		**57,083**	**57,083**	**57,083**	**57,083**
	00000	50,664	50,664	50,664	50,664
Employee		**50,664**	**50,664**	**50,664**	**50,664**
	00000	83,284	83,284	83,284	83,284
Employee		**83,284**	**83,284**	**83,284**	**83,284**
	00000	52,133	52,133	52,133	51,125
Employee		**52,133**	**52,133**	**52,133**	**51,125**
	00000	72,410	72,410	72,410	72,410
Employee		**72,410**	**72,410**	**72,410**	**72,410**
	00000	34,453	34,453	34,453	34,453
Employee		**34,453**	**34,453**	**34,453**	**34,453**
	00000	77,727	77,727	77,727	77,727
Employee		**77,727**	**77,727**	**77,727**	**77,727**
	00000	77,727	77,727	77,727	77,727
Employee		**77,727**	**77,727**	**77,727**	**77,727**
	00000	88,785	88,785	88,785	88,785
Employee		**88,785**	**88,785**	**88,785**	**88,785**
	00000	88,043	88,043	88,043	88,043
Employee		**88,043**	**88,043**	**88,043**	**88,043**
	30100	68,261	68,261	68,261	68,261
	30600	22,754	22,754	22,754	22,754
Employee		**91,015**	**91,015**	**91,015**	**91,015**
	00000	76,413	76,413	76,413	76,413
Employee		**76,413**	**76,413**	**76,413**	**76,413**
	00000	93,988	93,988	93,988	93,988
Employee		**93,988**	**93,988**	**93,988**	**93,988**
	00000	53,448	53,448	53,448	61,688
Employee		**53,448**	**53,448**	**53,448**	**61,688**
	00000	57,083	57,083	57,083	57,083
Employee		**57,083**	**57,083**	**57,083**	**57,083**
	00000		2,465	2,241	

	72580		224	224	
Hourly, Total			**2,689**	**2,465**	
	00000	77,727	77,727	77,727	77,727
Employee		**77,727**	**77,727**	**77,727**	**77,727**
	00000	31,805	31,805	31,805	31,805
Employee		**31,805**	**31,805**	**31,805**	**31,805**
	00000	88,786	88,786	88,786	88,786
Employee		**88,786**	**88,786**	**88,786**	**88,786**
	00000	88,043	88,043	88,043	88,043
Employee		**88,043**	**88,043**	**88,043**	**88,043**
	00000				52,133
	70900	52,133			
	72580		52,133	52,133	
Employee		**52,133**	**52,133**	**52,133**	**52,133**
	00000	76,413	76,413	76,413	76,413
Employee		**76,413**	**76,413**	**76,413**	**76,413**
	00000	87,493	87,493	87,493	87,493
Employee		**87,493**	**87,493**	**87,493**	**87,493**
	00000	60,189	60,189	60,189	
	72580				60,189
Employee		**60,189**	**60,189**	**60,189**	**60,189**
	00000	75,520	75,520	75,520	75,520
Employee		**75,520**	**75,520**	**75,520**	**75,520**
	00000				88,043
	70900	88,043	88,043	88,043	
Employee		**88,043**	**88,043**	**88,043**	**88,043**
	00000	90,273	90,273	90,273	90,273
Employee		**90,273**	**90,273**	**90,273**	**90,273**
	00000	58,015	58,015	58,015	
	72580				58,015
Employee		**58,015**	**58,015**	**58,015**	**58,015**
	00000	96,961	96,961	96,961	96,961
Employee		**96,961**	**96,961**	**96,961**	**96,961**
	00000	36,139	51,260	51,260	51,260
Employee		**36,139**	**51,260**	**51,260**	**51,260**
	00000	97,154	97,154	97,154	97,154
Employee		**97,154**	**97,154**	**97,154**	**97,154**
	00000	96,217	96,217	96,217	96,217
Employee		**96,217**	**96,217**	**96,217**	**96,217**
	00000	50,176	50,176	50,176	25,088
	30100				50,176
	33100	50,176	50,176	50,176	25,088

Employee		**100,351**	**100,351**		**100,351**	**100,351**
	00000	63,711	63,711		63,714	63,711
Employee		**63,711**	**63,711**		**63,714**	**63,711**
	00000	90,272				90,272
	72580		90,272		90,272	
Employee		**90,272**	**90,272**		**90,272**	**90,272**
	00000	91,758	91,758		91,758	91,758
Employee		**91,758**	**91,758**		**91,758**	**91,758**
	00000	62,277	62,277		62,277	62,277
Employee		**62,277**	**62,277**		**62,277**	**62,277**
	00000	52,133	52,133		52,133	52,133
Employee		**52,133**	**52,133**		**52,133**	**52,133**
	00000	78,620	78,620		78,620	78,620
Employee		**78,620**	**78,620**		**78,620**	**78,620**
	00000	108,574	108,574	(103,926)	108,574	202,142
Employee		**108,574**	**108,574**	**(103,926)**	**108,574**	**202,142**
	00000	87,299				87,299
	30100		87,299		87,299	
Employee		**87,299**	**87,299**		**87,299**	**87,299**
	00000	73,313	73,313		73,313	73,313
Employee		**73,313**	**73,313**		**73,313**	**73,313**
	00000	47,737				
	65000	47,737	101,596		101,596	95,473
Employee		**95,474**	**101,596**		**101,596**	**95,473**
	00000	72,929	72,929		72,929	72,929
Employee		**72,929**	**72,929**		**72,929**	**72,929**
	00000	64,484	64,484		64,484	64,484
Employee		**64,484**	**64,484**		**64,484**	**64,484**
	00000	90,271	13,540			
	37100				13,540	13,541
	70900		27,081		27,081	27,082
	73950		49,650		49,650	49,650
Employee		**90,271**	**90,271**		**90,271**	**90,272**
	00000	97,703	97,703		97,703	97,703
Employee		**97,703**	**97,703**		**97,703**	**97,703**
	00000	69,791				
	65000		69,791		69,791	69,791
Employee		**69,791**	**69,791**		**69,791**	**69,791**
	00000	65,482	34,620		34,620	
Employee		**65,482**	**34,620**		**34,620**	
	00000	32,741	69,240		69,240	
Employee		**32,741**	**69,240**		**69,240**	

	00000	80,827	80,827		80,827	80,827
Employee		**80,827**	**80,827**		**80,827**	**80,827**
	00000	52,133	52,133		52,133	52,133
Employee		**52,133**	**52,133**		**52,133**	**52,133**
	30300	89,529	89,529		89,529	89,529
Employee		**89,529**	**89,529**		**89,529**	**89,529**
	00000	51,239	51,239		51,239	51,239
Employee		**51,239**	**51,239**		**51,239**	**51,239**
	00000	49,025	49,025		49,025	49,025
Employee		**49,025**	**49,025**		**49,025**	**49,025**
	00000	89,529	89,529		89,529	89,529
Employee		**89,529**	**89,529**		**89,529**	**89,529**
	00000	3,919	3,919		3,919	
Other Assignment, Total		**3,919**	**3,919**		**3,919**	
	00000	41,430				
Other Cert Stipends, Total		**41,430**				
	00000	62,277	62,277		62,277	62,277
Employee		**62,277**	**62,277**		**62,277**	**62,277**
	00000	95,668	95,668		95,668	95,668
Employee		**95,668**	**95,668**		**95,668**	**95,668**
	00000	47,718	47,718		47,718	47,718
Employee		**47,718**	**47,718**		**47,718**	**47,718**
	00000	96,961	96,961		96,961	96,961
Employee		**96,961**	**96,961**		**96,961**	**96,961**
	30600	16,896	16,896		16,896	16,896
	70900	50,688	50,688		50,688	50,688
Employee		**67,584**	**67,584**		**67,584**	**67,584**
	00000	99,190	99,190		99,190	99,190
Employee		**99,190**	**99,190**		**99,190**	**99,190**
	00000	48,449	48,449		48,449	48,449
Employee		**48,449**	**48,449**		**48,449**	**48,449**
	00000	71,106	71,106		71,106	71,106
Employee		**71,106**	**71,106**		**71,106**	**71,106**
	65000	71,106			71,107	73,313
Employee		**71,106**			**71,107**	**73,313**
	00000				41,655	
Plugged Hourly, To Balance					**41,655**	
	00000	47,718	47,718		47,718	47,718
Employee		**47,718**	**47,718**		**47,718**	**47,718**

	00000	133,231	133,231		133,231	133,231
Employee		**133,231**	**133,231**		**133,231**	**133,231**
	65000	88,043	88,043		88,043	88,043
Employee		**88,043**	**88,043**		**88,043**	**88,043**
	00000	58,755	58,755		58,755	58,755
Employee		**58,755**	**58,755**		**58,755**	**58,755**
	00000	88,043	88,043		88,043	88,043
Employee		**88,043**	**88,043**		**88,043**	**88,043**
	00000	69,791	69,791		69,791	
	30100					69,791
Employee		**69,791**	**69,791**		**69,791**	**69,791**
	00000	52,133	52,133		52,133	52,133
Employee		**52,133**	**52,133**		**52,133**	**52,133**
	00000	53,448	53,448		53,448	53,448
Employee		**53,448**	**53,448**		**53,448**	**53,448**
	00000	64,857	64,857		64,857	64,857
Employee		**64,857**	**64,857**		**64,857**	**64,857**
	00000	77,727	77,727		77,727	77,727
Employee		**77,727**	**77,727**		**77,727**	**77,727**
	00000	91,758	91,758		91,758	91,758
Employee		**91,758**	**91,758**		**91,758**	**91,758**
	00000					73,313
	13000	73,313				
	74000		73,313		73,313	
Employee		**73,313**	**73,313**		**73,313**	**73,313**
	00000	84,349	84,349		84,349	84,349
Employee		**84,349**	**84,349**		**84,349**	**84,349**
	00000	78,620	78,620		78,620	78,620
Employee		**78,620**	**78,620**		**78,620**	**78,620**
	00000	72,050	72,050	(69,994)	72,050	
Employee		**72,050**	**72,050**	**(69,994)**	**72,050**	
	00000	47,142	47,142		47,142	67,584
Employee		**47,142**	**47,142**		**47,142**	**67,584**
	00000	71,106	71,106		71,106	71,106
Employee		**71,106**	**71,106**		**71,106**	**71,106**
	00000	49,317			42,924	49,317
	72580		49,317			
Employee		**49,317**	**49,317**		**42,924**	**49,317**
	65000	17,916	17,916		17,916	
SE Substitutes, Total		**17,916**	**17,916**		**17,916**	
	00000	51,239	51,239		51,239	51,239

Employee		**51,239**	**51,239**	**51,239**	**51,239**
	65000	85,264	85,264	85,264	85,264
Employee		**85,264**	**85,264**	**85,264**	**85,264**
	00000	130,512	130,512	130,512	65,256
	30100				45,679
	73950				19,577
Employee		**130,512**	**130,512**	**130,512**	**130,512**
	00000	90,272	90,272	90,272	90,272
Employee		**90,272**	**90,272**	**90,272**	**90,272**
	00000	73,313	73,313	73,313	73,313
Employee		**73,313**	**73,313**	**73,313**	**73,313**
	30600			27,135	
	40350	108,541	108,541		
	42030				108,541
	62860			18,452	
	70900			54,271	
Employee		**108,541**	**108,541**	**99,858**	**108,541**
	00000	66,691	66,691	66,691	66,691
Employee		**66,691**	**66,691**	**66,691**	**66,691**
	00000	86,556	86,556	86,556	86,556
Employee		**86,556**	**86,556**	**86,556**	**86,556**
	00000	51,239	51,239	51,239	51,239
Employee		**51,239**	**51,239**	**51,239**	**51,239**
	90102		14,596	14,596	
Stipend - Outdoor Ed, Total			**14,596**	**14,596**	
	00000	84,803			
Stipends, Hourly, Total		**84,803**			
	00000	63,711	63,711	63,711	63,711
Employee		**63,711**	**63,711**	**63,711**	**63,711**
	00000		2,239	2,239	
Substitute Mileage, Total			**2,239**	**2,239**	
	00000	2,074			
Substitute Mileage, 11 Total		**2,074**			
	00000	2,074			

Substitute Mileage, 12 Total		**2,074**				
	00000	2,074				
Substitute Mileage, 13 Total		**2,074**				
	00000	2,074				
Substitute Mileage, 14 Total		**2,074**				
	00000		352,034		352,034	
	13000	76,590				
	30100		5,599		5,599	
Substitutes, Total		**76,590**	**357,633**		**357,633**	
	00000	104,867				
Substitutes, Chalone Total		**104,867**				
	00000	74,913				
Substitutes, Del Rey Total		**74,913**				
	00000	69,001				
Substitutes, San Lorenzo Total		**69,001**				
	00000	75,226				
Substitutes, Santa Lucia Total		**75,226**				
	00000	92,502	92,502		92,502	92,502
Employee		**92,502**	**92,502**		**92,502**	**92,502**
	65000	89,530	89,530		89,530	89,530
Employee		**89,530**	**89,530**		**89,530**	**89,530**
	00000	50,664	50,664		50,664	50,664
Employee		**50,664**	**50,664**		**50,664**	**50,664**
	30300	29,902	29,902		30,360	29,902
Employee		**29,902**	**29,902**		**30,360**	**29,902**
	00000	89,381	89,381		89,381	89,381
Employee		**89,381**	**89,381**		**89,381**	**89,381**
	00000	91,758	91,758		91,758	91,758
Employee		**91,758**	**91,758**		**91,758**	**91,758**
	00000	68,061				
	65000		68,061		68,061	68,061
Employee		**68,061**	**68,061**		**68,061**	**68,061**

	00000	66,691	66,691		66,691	66,688
Employee		**66,691**	**66,691**		**66,691**	**66,688**
	00000	70,571	70,571		70,571	70,571
Employee		**70,571**	**70,571**		**70,571**	**70,571**
	00000	73,313	73,313		73,313	73,313
Employee		**73,313**	**73,313**		**73,313**	**73,313**
	00000	124,021	124,021		124,021	14,942
	30100					67,240
	70900	25,402	25,402		25,402	67,240
Employee		**149,423**	**149,423**		**149,423**	**149,423**
	00000	82,142	82,142		82,142	82,142
Employee		**82,142**	**82,142**		**82,142**	**82,142**
	00000	84,349	84,349		84,349	84,346
Employee		**84,349**	**84,349**		**84,349**	**84,346**
	65000	148,240	148,240		148,240	149,360
Employee		**148,240**	**148,240**		**148,240**	**149,360**
	00000	76,413	76,413		76,413	76,413
Employee		**76,413**	**76,413**		**76,413**	**76,413**
	00000	68,889	68,889		68,889	68,889
Employee		**68,889**	**68,889**		**68,889**	**68,889**
	00000	91,758	91,758		91,758	91,758
Employee		**91,758**	**91,758**		**91,758**	**91,758**
	00000				55,315	
	30100	85,100				
	70900				29,785	
Employee		**85,100**			**85,100**	
	00000	47,142	47,142		47,142	47,142
Employee		**47,142**	**47,142**		**47,142**	**47,142**
	00000	87,751	87,751		87,751	87,751
Employee		**87,751**	**87,751**		**87,751**	**87,751**
	70900	73,313	73,313		73,313	
	72580					73,313
Employee		**73,313**	**73,313**		**73,313**	**73,313**
	00000	46,168				46,168
	65000		46,168		46,168	
Employee		**46,168**	**46,168**		**46,168**	**46,168**
Grand Total		**12,602,891**	**12,403,564**	**(173,921)**	**12,526,229**	**11,924,644**

Appendix C

Variances Between Second Interim and Third Interim Report With Noted Concerns

	Third Interim Per District			
Working Resource Code	Certificated	Classified	Benefits	
00000	5,561,126	1,324,261	2,457,942	
11000	368,250			Salary but no benefits
13000	1,151,325		0	Salary but no benefits
30100	259,676	137,669	198,731	
30300	132,179		49,803	
30600	50,635	33,480	27,582	
33100	39,876	226,589	115,595	
37100	10,452		3,088	
40350	88,950		19,397	
40450				
40500	50,600		0	Salary but no benefits
41100				
42010				
42030	38,311		16,354	
56400				
62260				
62750	58,700		0	Salary but no benefits
62850	1,400	50	0	Salary but no benefits
62860	45,000	2,600	0	Salary but no benefits
62960				
63000				
64050				
65000	802,465		329,818	
66600				
67600				

67610		10,500	11,887	Benefits exceed salary
70260				
70800	56,509		15,489	
70900	428,872	105,508	245,233	Major increases from Second Interim
71400	2,500		0	Salary but no benefits
71560				
71580				
72300		184,171	90,352	
72350				
72500				
72580	195,500	76,988	94,708	
72710	0		0	
72760	78,927		0	Salary but no benefits
72940	4,500		0	Salary but no benefits
73930				
73950	55,482	133,024	111,302	
73960				
73980				
74000	281,718		119,840	Major increases from Second Interim
81500		215,737	118,606	
90100	210	132,640	57,895	
90101				
90102	2,100		12,496	Benefits exceed salary
90120				
90160				
Totals				
District	9,765,263	2,583,217	4,096,118	
Budget Explorer	9,909,647	2,586,272	4,272,046	
Difference	-144,384	-3,055	-175,928	

Appendix D

Study Agreement

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

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
April 14, 2008
Amended May 16, 2008

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Monterey County Office of Education, hereinafter referred to as the COE, 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 King City Union School District fiscal operations on behalf of the Monterey County Office of Education. 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

In April 2008, the King City Union School District filed a negative certification for the 2007-08 Second Interim Financial report with the COE, projecting significant general fund shortfalls in 2007-08, 2008-09, and 2009-2010. The COE is taking action to appoint a fiscal advisor to assist the district in restoring fiscal solvency.

The County Office of Education is requesting the Team to complete the following:

1. Conduct an in depth review of the District's 2007-08 Second Interim Financial report and complete a Multi-Year Financial Projection for the current and two subsequent fiscal years. The Team shall utilize FCMAT's Budget Explorer v.3.0 Multi-Year Financial projection software to complete this projection. Recommendations will be provided for revenue enhancements or expenditure reductions, as applicable.

Amendment to the Scope of Work

2. Conduct an analysis and review of staffing levels for the district office and make recommendations to improve the effectiveness and efficiency to both the elementary and high school districts as a common administrative and support team.

B. Services and Products to be Provided

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

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

3) Progress Reports - The Team will hold an exit meeting at the conclusion of the on-site review to inform the COE 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 COE administration for review and comment.

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

7) Follow-Up Support – Six months after the completion of the study, FCMAT will return to the COE, if requested, to confirm the COE's progress in implementing the recommendations included in the report, at no costs. Status of the recommendations will be documented to the COE 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. Debi Deal, Fiscal Intervention Specialist
B. Margaret Rosales, FCMAT Fiscal Consultant
C. Katherine D. Prevel, FCMAT Consultant
D. Terry Manges, FCMAT Human Resources Consultant

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

4. **PROJECT COSTS**

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

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

B. All out-of-pocket expenses, including travel, meals, lodging, etc. The COE will be billed for the daily rate and expenses of the independent consultant, only. Based on the elements noted in section 2 A, the total cost of the study is estimated at **$6,000**. The COE 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 Project Costs

Based on the addition of scope items 2 on May 16, 2008, the cost of the study has been increased for a total estimated cost of **$11,000**.

The COE is eligible for reimbursement of 25% of the cost incurred for this review under the provisions of AB 1200, following approval of the claim for reimbursement by the California Departments of Education and Finance.

C. Any change to the scope will affect the estimate of total cost referenced in item 4B and shall be mutually agreed upon. The terms and conditions proposed by FCMAT may be accepted by the COE within a thirty day period from the receipt of this agreement. All terms and conditions contained herein will become null and void should the COE fail to execute this agreement within the specified time period.

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

5. RESPONSIBILITIES OF THE COUNTY OFFICE

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

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

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

C. The COE 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

Scheduling of the review will be confirmed following notice by the COE to FCMAT of approval by the County Superintendent.

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

Orientation:	April, 2008
Staff Interviews:	April & May, 2008
Exit Interviews:	May, 2008
Preliminary Report Submitted:	to be determined
Final Report Submitted:	to be determined
Board Presentation:	to be determined
Six Month Follow-Up Review, Recommended:	Estimated November 2008

7. **CONTACT PERSON**

Please print name of contact person: Garry Bousum, Assistant Superintendent, Administration and Business Services (CBO)

Telephone 831-755-0300 FAX 408-753-7888

Internet Address gbousum@monterey.k12.ca.us

For [signature] 5-19-08

Nancy Kotowski, Ph. D. Date
Monterey County Office of Education

Barbara Dean

April 14, 2008

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

Approval of Amendment dated February 5, 2008

For [signature] 5-19-08

Nancy Kotowski, Ph. D., Superintendent of Schools Date
Monterey County Office of Education

Barbara Dean

May 16, 2008

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

REVIEWED FOR FISCAL IMPACT AND ADHERANCE TO MCOE REGULATIONS, POLICIES AND PROCEDURES

AUTHORIZED SIGNATURE

#0100-0000-8-0000-7200-580000-000-8757-103