FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Newark Unified School District

Fiscal Review

March 18, 2009

Joel D. Montero
Chief Executive Officer

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

March 18, 2009

Kevin Harrigan, Superintendent
Newark Unified School District
5715 Musick Avenue
Newark, CA 94560

Dear Superintendent Harrigan,

In October 2008, the Newark Unified School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into a study agreement to provide a fiscal review of the district. Specifically, the study agreement specifies that FCMAT will do the following:

1. Prepare a multiyear financial projection using FCMAT's Budget Explorer software to identify the financial condition of the district's general fund in 2009-10 and 2010-11 using identified industry variables. The projection will be based on a review of the district's 2008-09 adoption budget and 2007-08 unaudited actuals report, as well as revenue and expenditure trends of recent years.

2. Prepare a fiscal health analysis using the 17 factors included in the FCMAT Fiscal Health Risk Analysis model, and identify the district's risk rating.

3. Conduct a review of the district's budget development, monitoring, and updating processes and procedures and provide recommendations that, if implemented, will help ensure that all budgets reflect current revenue and expenditure expectations.

4. Associated Student Body Organizations – Review policies, practices and procedures used by Newark Memorial High School and Newark Junior High School.

5. School-Related Organizations – Review district policies, practices and procedures for cooperation with school-related organizations such as the athletic and band boosters, education foundation, etc.

6. Internal Controls – Review internal controls for transactions such as graphic arts, catering and other related transactions that involve direct cost transfers of funds, i.e. account codes 57xx.

FCMAT
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Administrative Agent: Larry E. Reider - Office of Kern County Superintendent of Schools

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

Sincerely,

Joel D. Montero
Chief Executive Officer

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Foreword

FCMAT Background

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

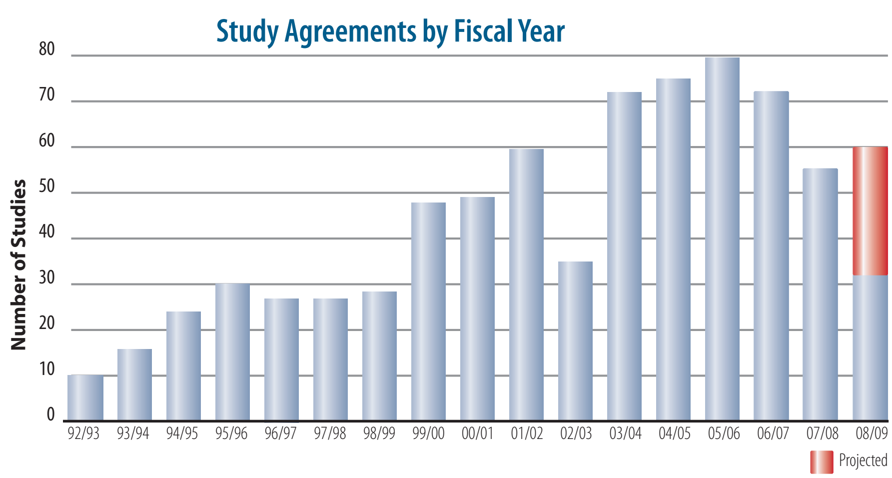
AB 1200 was established from a need to ensure that local educational agencies throughout California were adequately prepared to meet and sustain their financial obligations. AB 1200 is also a statewide plan for county offices of education and school districts to work together on a local level to improve 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.................... 743
Total Number of Districts in CA.......... 982

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

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



Introduction

Background

The Newark Unified School District is located in Alameda County in the San Francisco Bay Area. The district covers approximately eight square miles, including the east bay community of Newark. The City of Newark is a bedroom community of more than 40,000 people, situated on the southeastern edge of the San Francisco Bay, directly off of Interstate 880 and Highway 84.

Newark's public education system was established in 1865 in a one-room schoolhouse on Newark Boulevard. In 1964, voters approved the formation of the Newark Unified School District. The district serves more than 7,100 students at eight elementary schools, one junior high school, one continuation school, one alternative school and one comprehensive high school. According to the district's Web site, all of the schools maintain a shared commitment to providing students with a world class education based on a strong liberal arts foundation centered on the district's core values.

The district hired a new superintendent in July 2008 and a new chief business official (CBO) in October 2008. The new administrative team and the school board decided to have a third party evaluate the district's fiscal position.

In October 2008, the Fiscal Crisis and Management Assistance Team entered into an agreement for a review of the district's finances. The scope of the study was later expanded to include a fiscal review of Associated Student Body (ASB) and school-related organizations, as well as internal controls related to direct cost transfers.

Specifically, the study agreement states that FCMAT will do the following:

1. Prepare a multiyear financial projection using FCMAT's Budget Explorer software to identify the financial condition of the district's general fund in 2009-10 and 2010-11 using identified industry variables. The projection will be based on a review of the district's 2008-09 adoption budget and 2007-08 unaudited actuals report, as well as revenue and expenditure trends of recent years.

2. Prepare a fiscal health analysis using the 17 factors included in the FCMAT Fiscal Health Risk Analysis model, and identify the district's risk rating.

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Study Guidelines

A FCMAT study team visited the district on December 7-9, 2008 and on January 12, 2009 to conduct interviews, collect data and review documents. This report is a result of those activities and is divided into the following sections:

I. Executive Summary

II. Multiyear Financial Projection

III. Fiscal Health Risk Analysis

IV. Budget Development and Monitoring

V. Associated Student Body and School-Related Organizations

VI. Internal Controls for Direct Cost Transfers

VII. Appendices

Study Team

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Executive Summary

The severe national and global economic downturn of 2008 has affected private businesses and government entities of all types. Declining retail sales, consumer spending and home values, and sharply rising unemployment and home foreclosures, have contributed to a significant decrease in state tax revenues, which results in lower revenues for school districts.

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.

At the same time, increases in healthcare, energy, fuel, insurance, technology and equipment replacement costs often exceed revenue growth, leaving school district budgets with deficits, shortfalls and insufficient reserves.

These economic factors, combined with student performance objectives established by federal No Child Left Behind (NCLB) legislation, California's rapidly growing student population, and a competitive global economy, pose considerable fiscal challenges for public schools.

Thus it is important for the district to demonstrate leadership and the ability to meet the increasing expectations of parents, students and the community while working within the constraints of decreasing fiscal resources.

The most recent budget the district submitted to the Alameda County Office of Education (county office) received a qualified certification, meaning that the district may not be able to meet its financial obligations in the current or subsequent two years. Since that time, Governor Schwarzenegger has proposed severe cuts in public education funding that would significantly affect the district's financial position.

FCMAT's multiyear financial projection (MYFP) takes into account the effect of these proposals and indicates that the district will have a general fund balance of $847,000 at the close of the 2008-09 fiscal year, and a projected negative balance of $5 million at the close of the 2009-10 fiscal year.

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.

FCMAT's projection indicates that the district's fiscal condition may deteriorate far more than projected by the district in its 2008-09 first interim budget report. The district's next budget could receive a negative certification, meaning that the district will not be able to meet its financial obligations in the current and two subsequent years. If this occurs, the Alameda County Office of Education could assign a fiscal expert or take other fiscal intervention measures in accord with Education Code section 42127.6.

The most effective way for the district to avoid such intervention is to implement a new financial plan that addresses the governor's proposed funding reductions by identifying revenue increases or expenditure reductions. Because more than 80% of the district's budget is comprised of salaries and benefits, any solution is certain to include some form of staffing reductions. The district needs to prepare as soon as possible for this eventuality by notifying staff of pending layoffs before the statutory deadlines.

The district is currently addressing a grievance filed by the certificated bargaining unit regarding salary schedule adjustments for the 2008-09 fiscal year. Without additional and immediate expenditure reductions, the district's financial position could deteriorate further, resulting in a negative $1.7 million general fund ending balance in the 2008-09 year. However, such reductions may not be possible because most of the fiscal year has passed. Should the district not be able to take corrective action in a timely manner, the county office of education could elect to appoint a fiscal advisor to ensure that the district identifies and implements appropriate expenditure reductions.

In addition, the governor's budget has proposed cash deferrals that will reduce the district's general fund cash balances. District staff project that the district will have a negative cash balance on June 30, 2009, until a budgeted transfer of $1.4 million is made from the special reserve fund, resulting in a positive cash balance of $1.1 million. The district should continue monitoring its cash projections and take the steps needed to continue to meet payroll, pay vendors and meet other cash needs.

FCMAT used its Fiscal Health Risk Analysis tool to assess the district's financial condition against 17 risk indicators, based on the district's first interim budget report for 2008-09. The analysis indicates that the district needs immediate fiscal intervention. Although the analysis helps identify the long term impact of previous fiscal trends and management decisions, it is not necessarily an indicator of future fiscal trends. FCMAT's multiyear financial projection (MYFP) for the district includes the effects of the governor's funding reduction proposals and makes it clear that future financial trends will differ significantly from past experience. Thus, absent significant expenditure reductions or revenue enhancements, the district will require fiscal intervention by the state, including the appointment of a state administrator.

The district's budget development and monitoring process needs improvement. The reporting formats used are basic and do not connect budget allocations to district goals and objectives or student performance. Trend analysis should be expanded to provide district decision makers with more in-depth information. Because there has been a lack of confidence in the transparency of the district's budgeting process for several years, the district should implement a thorough review of the entire budget. This could be accomplished using a zero-based budgeting model. This model should also be used when developing the district's 2010-11 budget.

The oversight of Associated Student Body (ASB) organizations provided by the school board and the district's administration needs to be strengthened significantly. Numerous audit findings that identified material weaknesses in internal controls for ASBs have not been addressed for several years. The risk of fraud is significant, and the district needs to take corrective action immediately. Interviews revealed a culture of defiance and intimidation on the part of certain staff members regarding adherence to standard protocols and procedures. The school board needs to adopt policies and administrative regulations that give the superintendent the authority required to effectively administer ASB organizations. District administration should ensure that the district is in compliance with existing laws, regulations and district policy governing ASB accounting and related practices.

All staff need training regarding the effective operation of ASBs and the need for appropriate internal controls. The ASBs are to be operated for the benefit of students, who rely on adults to provide the required oversight.

School-related organizations such as booster clubs and foundations also operate for the benefit of the students. Although the school board is not directly responsible for the operation of these organizations, it can exert significant influence over them. Some of these organizations also operate with poor internal controls and inadequate management structures. The district should work closely with these organizations to improve their structure and operations.

The district's system for charging certain direct costs between internal departments has been inefficiently managed for several years. There are inequities in amounts charged, an inability to substantiate amounts charged, increasing costs, and late and inaccurate billing. Most of the issues involve charges from the district's graphic arts department, which often caused significant budget overruns for principals and departments, resulting in considerable frustration. Some processes have been adjusted in the 2008-09 fiscal year, but others still need to be addressed, including online work orders and requisitions. Staff members should work with the Escape financial program staff to implement the system's software capabilities so that staff can bill accurately and on time, and thus restore confidence in graphic arts billings. Funding sources for charges should also be reviewed to reduce budget overruns and give principals and department managers more options for charging costs.

Findings and Recommendations

Multiyear Financial Projections

Multiyear financial projections 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 processes used to monitor the fiscal position of school districts and county offices of education. Among other things, AB 2756 strengthened the roles of the Superintendent of Public Instruction (SPI), County Offices of Education and FCMAT and their ability to intervene during fiscal crises.

FCMAT prepared a multiyear financial projection (MYFP) using FCMAT's Budget Explorer software to identify the financial condition of the district's general fund in 2009-10 and 2010-11. FCMAT reviewed revenue and expenditure trends during recent years, used industry-standard variables, and based its projection on the district's 2008-09 first interim budget.

In the case of a district that does not maintain its required reserve for economic uncertainty, the intent of the MYFP is to help the county and the district create a plan to regain fiscal solvency and restore the required reserve.

Any forecast of financial data has inherent limitations because calculations are based on certain assumptions and criteria, including enrollment trends, cost of living increases, projected deferrals, forecasts of costs for utilities, fuel and other consumables, and local, state and national economic conditions. Therefore the projection should be viewed as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. Multiyear financial projections can serve as the basis for more informed decisions and the ability to forecast the fiscal effects of decisions, but should be updated at least at each interim financial reporting period and in preparation for negotiations.

When developing a MYFP, attention is focused on the district's ability to meet its required reserve for economic uncertainty and achieve a positive unappropriated fund balance. The district's deficit spending trends indicate that the district needs to increase revenue, decrease expenditures, or both, to maintain a positive unappropriated fund balance. When the unappropriated fund balance is negative, the negative balance is the amount by which budgeted expenditures must be reduced or revenues increased to meet the reserve requirements in accordance with AB 1200.

The district's fiscal condition may deteriorate far more than projected by the district at the first interim budget report. Significant factors contributing to this situation include the impact of the growing state budget crisis, the district's plan to use excess tax override proceeds in the general fund for the next several years, and an unresolved disagreement with the Newark Teachers Association (NTA) regarding interpretation of contract language surrounding compensation for the 2008-09 fiscal year.

FCMAT reviewed the district's records, interviewed staff members and examined a variety of financial documents (see Appendix A) to gather the information needed for the multiyear financial projection. FCMAT's multiyear financial projection 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.

If 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 notify the governing board of the district and the state superintendent of public instruction (SPI). The county office of education must follow Education Code section 42127.6 when assisting a school district in this situation. In the case of a district that does not maintain its required reserve for economic uncertainty, the intent of the MYFP is to help the county and the district create a plan to regain fiscal solvency and restore the required reserve.

Multiyear Financial Projection Methodology

FCMAT prepared two multiyear financial projections. Multiyear Financial Projection I assumes that the district will prevail in the grievance filed by the NTA regarding salary schedule increases (see the Collective Bargaining section of this report below) and that no salary schedule increases will be granted to NTA or other staff. Multiyear Financial Projection II assumes that the NTA will prevail.

Projection I indicates the district will have a negative ending fund balance beginning with the 2009-10 fiscal year; Projection II indicates the district will have a negative ending fund balance beginning with the 2008-09 fiscal year.

FCMAT's multiyear financial projection includes the impact of the governor's budget proposals for the 2008-09 and 2009-10 fiscal years.

Projection I

Significant Assumptions

FCMAT's MYFP includes the impact of the governor's budget proposals for the 2008-09 and 2009-10 fiscal years. These proposals include a significant midyear state funding reduction in the current fiscal year, and additional reductions in the 2009-10 budget year. Other significant assumptions include no adjustments to staff compensation throughout the projection period; continued declining enrollment; staffing reductions; and continuation of the board-approved designations of the Fund 53 (tax override fund) reserve.

The following are also included in the assumptions for Projection I:

- A 1.5% annual average cost of step and column movement for all contracted salaries and employer-paid statutory benefits.
- No increases for health and welfare costs.
- Increases in general operating expenditures based on the California consumer price index (CPI) and other economic indicators.

Appendix B provides a complete listing of all assumptions used in Projection I.

Comparison of Projection I to District Budget

FCMAT developed its first projection using a different set of assumptions than the district used in its 2008-09 first interim budget report. Table 1 provides a comparison of these differences.

Table 1: Comparison of FCMAT projection to the district's 2008-09 first interim budget report.

		FCMAT	Newark USD	Difference
Beginning General Fund Balance		$5,543,566	$5,543,566	$0
Revenues		$57,501,831	$59,608,527	($2,106,696)
Expenditures		($64,581,720)	($65,165,252)	($583,532)
Transfers In		$2,734,829	$2,734,829	$0
Transfers Out		($324,468)	($324,468)	$0
Ending General Fund Balance		$874,038	$2,397,202	($1,523,164)
Detail of Ending Fund Balance:				
	Reserve for Economic Uncertainty	$1,947,186	$1,964,692	($17,506)
	Other Reserves	$117,509	$117,509	$0
	Board Designated	$315,001	$315,001	$0
	Undesignated and Available	($1,505,658)	$0	($1,505,658)

The district assumed a 5.66% cost of living adjustment (COLA) to its revenue limit funding, reduced by a 4.713% deficit. These were the industry standards at the time the budget was prepared. FCMAT used the governor's budget midyear funding reduction proposal, which provides a 5.66% COLA and applies a 9.68% deficit. This decreased revenues by more than $2.1 million in the 2008-09 year.

The district's budget included funding for five certificated positions that remained unfilled at the time of FCMAT's fieldwork, with no plans to fill these vacancies. FCMAT reduced its expenditure projection by $300,000 in each year to account for these positions.

FCMAT's calculation of employee benefit costs was $230,000 lower than budgeted by the district, thus expenditures were decreased by this amount. In addition, FCMAT adjusted the debt service budget to actual amounts, reducing expenditures by $53,532.

The net result of these changes was to reduce the district's ending fund balance by $1.5 million, to $874,000. The reduced expenditures also resulted in a slightly smaller reserve for economic uncertainties. The total impact of the adjustments was an undesignated ending balance shortfall of $1.5 million in the general fund.

Deficit Spending

Deficit spending occurs when expenditures and other uses exceed revenues and other sources. The district began deficit spending in its general fund during the 2007-08 fiscal year, and FCMAT projects that this trend will continue through the 2010-11 fiscal year unless new and significant budget reductions are made. A comparison of the change in revenues to the change in expenditures highlights this trend: from 2005-06 through 2008-09, revenues increased 3.5%, while expenditures increased 18.8%.

Table 2 summarizes the deficit spending from 2005-06 through 2010-11, the second subsequent year of FCMAT's MYFP.

Table 2: General fund deficit spending, past, present and projected

	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Revenues	$55,572,394	$60,192,020	$58,899,915	$57,501,831	$56,349,212	$56,205,797
Expenditures	$54,357,423	$57,874,237	$61,437,079	$64,581,720	$61,993,392	$62,632,312
Subtotal	$1,214,971	$2,317,783	($2,537,164)	($7,079,889)	($5,644,180)	($6,426,515)
Transfers In/-Out	($811,773)	($134,323)	$593,786	$2,410,361	($254,428)	($287,622)
Surplus/-Deficit	**$403,198**	**$2,183,460**	**($1,943,378)**	**($4,669,528)**	**($5,898,608)**	**($6,714,137)**
Fund Balance:						
Beginning	$4,900,286	$5,303,484	$7,486,944	$5,543,566	$874,038	($5,024,570)
Ending	$5,303,484	$7,486,944	$5,543,566	$874,038	($5,024,570)	($11,738,707)

Of the $4.6 million deficit for the 2008-09 fiscal year, approximately $2.4 million was from unrestricted resources and $2.2 million from restricted resources. The entire deficit projected for the 2009-10 and 2010-11 fiscal years is from unrestricted resources, indicating a trend of significant growth in the unrestricted deficit absent new budget reductions or revenue increases.

Components of the Ending Fund Balance

Table 3 provides a summary of the ending general fund balance, per FCMAT's MYFP, which includes reserves against fund balance. The MYFP indicates that the district will experience a negative ending fund balance in excess of $5 million in the 2009-10 fiscal year absent revenue increases or new budget reductions. The projected budget shortfall is discussed in the next section.

Table 3 - Components of general fund ending fund balance

	2008-09	2009-10	2010-11
Ending Fund Balance	$874,038	($5,024,571)	($11,738,708)
Components of Ending Fund Balance:			
Revolving Cash	$25,000	$25,000	$25,000
Stores	$60,340	$60,340	$60,340
Prepaid Expenditures	$32,170	$0	$0
Designated for Economic Uncertainties	$1,947,186	$1,869,235	$1,888,498
Other Designated	$315,001	$415,001	$515,001
Undesignated/Unappropriated	$0	$0	$0
Shortfall	($1,505,658)	($7,394,146)	($14,227,547)

Budget Shortfall

The above deficits create ending fund balance shortfalls of $7.3 million and $14.2 million in 2009-10 and 2010-11, respectively. A budget shortfall is defined as the difference between the minimum recommended reserve for economic uncertainty and the projected ending fund balance. Table 4 compares the budget shortfalls projected by FCMAT to those projected by the district.

Table 4: Comparison of FCMAT's shortfall projection with district's projection

		2008-09	2009-10	2010-11
Shortfall				
	FCMAT - Projected	($1,505,658)	($7,394,146)	($14,227,547)
	Newark USD - Budgeted	$0	($3,170,595)	($5,820,350)
	Difference	($1,505,658)	($4,223,551)	($8,407,197)

State Budget Crisis 2008-09 and 2009-10

In late 2008, in response to California's rapidly deteriorating economic situation and the resulting decrease in state revenues, the governor twice declared a fiscal emergency and invoked provisions of Proposition 58, which prohibits the state from acting on any other legislation until legislation to address the fiscal crisis is signed by the governor. The Legislature has been meeting since November 2008 to develop a new state budget in response to the crisis; however, the governor and the Legislature have rejected all proposals submitted to date.

Both sides acknowledge that the solution will require significant funding reductions for public education. School Services of California (SSC) and FCMAT concur that school districts' financial planning should include the governor's proposals. Based on these proposals, SSC has calculated and published in its financial projection dartboard new school district revenue limit deficits of 9.69% in 2008-09 and 16.16% per year in 2009-10 and 2010-11.

These deficits will decrease the district's funding by $2.1 million in 2008-09, $3.1 million in 2009-10, and $4.2 million in 2010-11. The cumulative effect over the three years is a funding reduction of $9.4 million.

Categorical Program Flexibility

The governor's budget proposal would also give school districts flexibility in the allocation of state-funded categorical program funds, allowing them to be used for any purpose, subject to a public hearing. FCMAT did not incorporate these flexibility provisions into Projection I because it is the school board's prerogative to decide which categorical programs will include the flexibility option.

Enrollment

Proper enrollment tracking and analysis of average daily attendance (ADA) are essential to budget planning. When enrollment and related ADA are declining, a district must avoid fiscal insolvency by exercising extreme caution regarding actions that will affect the budget, such as negotiations with collective bargaining units, staffing ratios, and deficit spending. Diligent planning can help a district better understand its financial objectives and strategies to sustain future financial stability.

FCMAT reviewed the district's enrollment and ADA for 2003-04 through 2008-09 and compared the October California Basic Educational Data System (CBEDS) student enrollment counts to the April period 2 (P-2) ADA actual data.

The district's enrollment has been declining for several years, and FCMAT projects that this trend will continue during the period covered by FCMAT's MYFP.

The district's enrollment has been declining for several years, and FCMAT projects that this trend will continue during the period covered by FCMAT's MYFP. District CBEDS enrollment has declined from a peak of 7,421 in 2003-04 to 7,178 in 2008-09, a cumulative decrease of 3.3%. Although enrollment increased by 36 students in the 2008-09 school year, FCMAT's long-term analysis projects that enrollment will decline by 120 students to a total enrollment of 7,058 in 2010-11.

Methodology

FCMAT used the cohort survival method to project the district's enrollment. This method groups students by grade level upon entry and tracks them annually, thus evaluating the longitudinal relationship of the number of students passing from one grade to the next in the subsequent year. In doing so, it more closely accounts for retention and migration in and out, grade by grade. Although other enrollment forecasting methods 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.

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 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 school over several recent years and are the key factors in the reliability of the enrollment projections, given the validity of the data at the starting point. The strength of the ratios lies in the fact that each ratio encompasses collectively the variables that could possibly account for an increase or decrease in the size of a grade cohort as it moves on to the next grade level.

Enrollment variables include the following:

- Birth rates and trends
- Historical ratio of enrollment progression between grade levels
- Changes in educational programs
- Inter-district transfers
- Migration in and out of schools
- Changes in local and regional demographics
- Industry changes such as new industry moving into or existing industry moving out of an area
- Residential housing starts and the correlation of housing starts with local, state or national economics

FCMAT projected kindergarten enrollments by averaging the ratio of kindergarten enrollments to live births in Alameda County five years prior. This calculation blends the most current five-year enrollment ratio with that of students eligible for kindergarten in the upcoming school year.

Table 5 shows the data and method used for the kindergarten enrollment projection.

Table 5: Kindergarten enrollment projections

Calendar Year	**1998**	**1999**	**2000**	**2001**	**2002**
No. of Live Births	20,933	20,547	22,164	22,029	21,802
School Year	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Kindergarten Class	557	509	539	493	541
% of Enrollment / Births	2.66%	2.48%	2.43%	2.24%	2.48%
Five Year Average					2.46%

Source: Department of Health Services statistical data

To project the district's student enrollment for grades 1-12, FCMAT applied a weighted average of three years, using CBEDS historical enrollment information and the cohort survival method.

Tables 6 and 7 show the district's historical and projected enrollment, respectively.

FCMAT's complete projection of the district's enrollment is contained in Appendix E.

Table 6: Historical enrollment data

Grade	2003/04 CBEDS	2004/05 CBEDS	2005/06 CBEDS	2006/07 CBEDS	2007/08 CBEDS	2008/09 CBEDS
Kindergarten	557	509	539	493	541	574
1st	567	571	495	550	510	540
2nd	529	576	577	498	563	522
3rd	588	538	552	570	484	531
4th	538	591	515	548	577	508
5th	587	541	564	497	548	575
6th	563	594	526	551	513	544
7th	592	578	583	511	541	519
8th	581	614	549	576	525	547
9th	557	595	633	577	594	553
10th	574	558	579	624	591	595
11th	593	585	549	555	618	576
12th	595	584	580	552	537	594
Total CBEDS	7,421	7,434	7,241	7,102	7,142	7,178
Enrollment Change		13	(193)	(139)	40	36

Table 7: Projected enrollment data

Grade	2009/10 Projected	2010/11 Projected
Kindergarten	514	514
1st	577	523
2nd	552	587
3rd	502	534
4th	541	511
5th	505	534
6th	575	505
7th	544	569
8th	525	549
9th	574	549
10th	553	576
11th	581	539
12th	564	568
Total CBEDS	7,108	7,058
Enrollment Change	(70)	(50)

Average Daily Attendance (ADA)

The district's revenue limit funding is calculated based on the current or prior year period two (P-2) ADA report, whichever is greater. Because the district's enrollment is declining, FCMAT's MYFP uses the prior year ADA to calculate the state apportionment.

To project P-2 ADA, FCMAT used the district's average actual ratio of ADA to enrollment over the past five years, which was 95.33%. This is higher than the statewide average of 94%.

Because ADA is the basis for the majority of funding for the district's general fund, the district must take the time and resources needed to manage and monitor these projections. ADA projections will change over time and should be adjusted at least at the adoption of the district's budget and at the interim budget report filing periods. Monthly adjustments that calculate the difference between the projected ADA and the actual ADA reported would give the district the most current information and would allow management to respond to changes in enrollment trends. Historical and future trends require careful analysis that takes into consideration a variety of factors, including charter schools, county and district special education programs, nonpublic school attendance, and prior year adjustments.

Revenues

Revenue Limit Sources

FCMAT's calculations of revenue limit funding for the entire projection period are based on SSC's 2009 financial projection dartboard, the governor's budget proposal assumptions, and FCMAT's ADA projection. Table 8 provides the details of this calculation.

Table 8 - Revenue Limit Calculation

Description	2008 - 09	2009 - 10	2010 - 11
1. Base Revenue Limit Per ADA			
1.a. State Avg Base RL Per ADA (Prior Year)	$5,821	$6,150	$6,459
1.b. Base RL per ADA (Prior Year)	$5,797	$6,126	$6,435
2. Inflation Increase	$329	$309	$32
3. All Other Adjustments	$0	$0	$0
4. Current Base Revenue Limit Per ADA	$6,126	$6,435	$6,467
Revenue Limit Subject To Deficit			
5. Base Revenue Limit			
5.a. Base Revenue Limit Per ADA (Line 4)	$6,126	$6,435	$6,467
5.b. Prior Year P2 ADA	6,810.90	6,842.90	6,776.06
5.b.i. Prior Yr. ADA Adjustment	0.00	0.00	0.00
5.b.ii. Net Prior Yr. Revenue Limit ADA	6,810.90	6,842.90	6,776.06
5.c. Current Yr. RL ADA (excluding Charter ADA)	6,842.90	6,776.06	6,728.39
5.d. ADA Used for Revenue Limit (before adjustments)	6,842.90	6,842.90	6,776.06
5.d.i. Current Yr. Charter Schl. ADA	0.00	0.00	0.00
5.d.ii. Deduct: Necessary Small Schools ADA	0.00	0.00	0.00
5.d.iii. COE CommSchs/SpEd	0.00	0.00	0.00
5.e. ADA used for Revenue Limit	6,842.90	6,842.90	6,776.06
5.f. Total Base Revenue Limit	$41,918,990	$44,033,446	$43,820,170
6. Allowance for Necessary Small Schools	$0	$0	$0
7. Gain or Loss from Interdistrict Attendance Agreements	$0	$0	$0
8. Meals for Needy Pupils	$22,665	$23,803	$23,922
9. Special Revenue Limit Adjustments	$0	$0	$0
10. Beginning Teacher Salary	$146,550	$146,550	$146,550
11. Less: Class Size Penalties Adjustment	$0	$0	$0
12. Total Before Deficit	$42,088,205	$44,203,798	$43,990,642
Deficit Calculation			
13. Revenue Limit Deficit:	$0	$0	$0
13.a. Loss to Deficit	$4,078,347	$7,143,334	$7,108,888
14. SubTotal, After Deficit	$38,009,858	$37,060,465	$36,881,754
Other Revenue Limit Items Net of Any Deficit			
15. Unemployment Insurance Revenue	$123,072	$123,072	$123,072
16. Continuation High School Revenue	$0	$0	$0
17. Less: Longer Day/year Penalty	$0	$0	$0

18. Less: Excess ROC/P Reserves Adjustment	$0	$0	$0
19. Less: PERS Reduction	$282,961	$328,688	$381,803
20. PERS Safety Adjustment	$0	$0	$0
21. Total, Other Revenue Limit Items Net of any Deficit	-$159,889	-$205,616	-$258,731
22. Total, Revenue Limit	$37,849,969	$36,854,849	$36,623,023
Revenue Limit Local Sources			
23. Property Taxes	$15,029,818	$15,029,818	$15,029,818
24. Miscellaneous Taxes	$0	$0	$0
25. Community Redevelopment Funds	$0	$0	$0
26. Less: Charter Schools In-lieu Taxes	$0	$0	$0
27. Total, Revenue Limit - Local Sources	$15,029,818	$15,029,818	$15,029,818
28. Charter School General Purpose Block Grant Offset (Unified Districts Only)	$0	$0	$0
29. State Aid Portion of Revenue Limit	$22,820,151	$21,825,031	$21,593,205
Basic Aid Status			
30. Funding Model Used: ("Basic Aid" or "Revenue Limit")	Revenue Limit	Revenue Limit	Revenue Limit
31. Educational Revenue Augmentation Fund Allocation (ERAF)	$0	$0	$0
32. Total Basic Aid Funding Received	N/A	N/A	N/A
Other Items			
33. Less: County Office Funds Transfer	$0	$0	$0
34. All Other Adjustments	$0	$0	$0
35. Total, Other Items	$0	$0	$0
36. Total State Aid Portion of Revenue Limit	$22,820,151	$21,825,031	$21,593,205
Reconciliation to SACS Form 01			
37. Total State Aid Portion of Revenue Limit (Line 36)	$22,820,151	$21,825,031	$21,593,205
38. Total, Revenue Limit - Local Sources	$15,029,818	$15,029,818	$15,029,818
39. Total Combined Revenue Limit	$37,849,969	$36,854,849	$36,623,023
Revenue Limit Transfers			
40. Restricted Revenue Limit	$1,537,861	$1,355,567	$1,362,345
Reconciliation of Total Revenue Limit Sources			
41. Revenue Limit State Aid - Prior Year	$0	$0	$0
42. PERS Revenue Limit Reduction (Line 19)	$282,961	$328,688	$381,803
43. Total Unrestricted Revenue Limit Sources	$36,595,069	$35,827,970	$35,642,482

As mentioned previously, the district's 2008-09 budget used data available at the time and assumed a 5.66% cost of living adjustment (COLA) to the revenue limit funding and a 4.713% deficit. FCMAT used the governors budget midyear funding reduction proposal, which includes a 5.66% COLA and a 9.68% deficit. The net effect of the governor's midyear budget proposal is a decrease of more than $2.1 million in revenues in the 2008-09 fiscal year.

For the 2009-10 and 2010-11 fiscal years, the district prepared its revenue limit projections assuming COLAs of 5.60% and 3.5%, respectively, with deficits projected at 9.766% each fiscal year. FCMAT's projection uses a COLA of 5.02% and .50% for 2009-10 and 2010-11, respectively, and a deficit of 16.16% each of these subsequent fiscal years. Compared to the district's first interim budget report MYFP, FCMAT's assumptions result in a decrease of $3.1 million in revenue limit funding in 2009-10 and a decrease of $4.2 million in 2010-11.

Compared to the district's first interim budget report MYFP, FCMAT's assumptions result in a decrease of $3.1 million in revenue limit funding in 2009-10 and a decrease of $4.2 million in 2010-11.

Over the entire three year projection period, FCMAT's projection indicates $9.4 million less in revenue limit funding than the district has projected.

Federal and Other State and Local Revenues

FCMAT projected federal and other state and local revenues for 2008-09 at the amounts indicated in the district's 2008-09 first interim budget report. For 2009-10 and 2010-11, FCMAT assumed unchanged funding levels for federal programs and a 0.5% COLA for state programs in 2010-11 only. Locally funded program revenues were also projected to remain at current levels.

Federal Economic Stimulus Bill

Congress and the new administration are working to develop an economic stimulus package titled, "The American Recovery and Reinvestment Act." If passed in its present form, the package would provide additional funding for public schools that would benefit the district in 2009-10 and 2010-11. However, because the legislation is far from complete and it is unclear how much funding may be provided or what programs the funds would benefit, it is premature to assume any of the package's provisions in FCMAT's projection. The district needs to balance its budget based on current data. Adjustments can be made after the legislation is passed.

Interfund Transfers In

Fund 53, Tax Override

In 1975, voters in the district approved a $3.2 million tax override initiative to finance school construction projects. Debt was issued and the annual tax proceeds were used to make the annual debt payments through a nonprofit facilities financing corporation. In 1990, voters approved a continuation of the tax override to refinance the outstanding debt at lower interest rates and provide funding for additional construction projects. A new debt service retirement date of 2005 was set.

When the debt was retired and the tax ended, approximately $5.1 million in tax proceeds remained in Fund 53. Although this money was provided to pay capital project debts, the district sought and received from legal counsel an opinion that these tax proceeds could be transferred to the district's general fund. Transfers to the general fund were made over the succeeding years, and loans were also made to the general fund, the most recent of which was retired in the 2007-08 fiscal year.

In February 2009, the district's governing board approved a resolution designating all Fund 53 balances as available to transfer to the general fund to maintain the statutory reserve requirement and a positive fund balance. In addition, the resolution provides that any funds not transferred from Fund 53 cannot be used for the district's capital improvement plan unless and until the district can provide a positive certification of its budget and the county office concurs with that certification.

It was not clear to FCMAT whether the district's use of these funds was consistent with the ballot language, because this level of review was not within the scope of the study. In addtion, the California School Accounting Manual (CSAM) guidelines for Fund 53 monies do not include using these funds to support a district's general operations. Further analysis and clarification regarding the legal use of Fund 53 balances would be beneficial.

The district's 2008-09 first interim budget report indicates that Fund 53 is projected to have a balance of $3.3 million at the end of the fiscal year, $1.2 million of which will be undesignated. Because this fund cannot be replenished once it is depleted, it must be treated as a one-time funding source.

Table 9: Tax override fund 53, 2008-09 first interim budget

Beginning Fund Balance		**$3,912,968**
Revenues		$659,179
Expenditures		$0
Transfers In		$0
Transfers Out		($1,217,449)
Ending Fund Balance		**$3,354,698**
Detail of Ending Fund Balance:		
	Designated	$2,114,462
	Undesignated and Available	$1,240,236

Fund 17, Special Reserve Fund for Other than Capital Outlay

The district maintains a special reserve fund for other than capital outlay, Fund 17. This fund was created using a transfer from the district's Fund 53, tax override fund. Board policy 3050 states that the purpose of this fund is to "... establish and maintain a Reserve for Emergency Purposes above the State required reserve." Administrative regulation 3050 states the following regarding the fund:

- Will not be used for ongoing operational and instructional purposes
- Shall be established at the level of $1.5 million
- May be used as a resource to allow loans to the general fund or other funds, as necessary, which shall be repaid under terms and conditions establish by the board at the time of each such loan.

The district's 2008-09 first interim budget includes a transfer of $1,457,380 to the general fund, bringing the Fund 17 balance to $236,505 on June 30, 2009. Page 32 of the narrative included with the district's budget report to the school board contains the following comment:

> The Board of Education is approving a temporary borrowing from Fund 17. Fund 17 is to be paid back from future General Fund budgets.

The district's 2008-09 first interim cash flow worksheet indicates that these funds will be transferred to the general fund in June 2009, keeping the general fund cash balance positive at that time. Without this transfer, the general fund cash balance on June 30, 2009 would be negative $343,000. The district's first interim budget report's financial projection does not indicate when the temporary borrowing is to be repaid.

While the borrowing authority was derived from district administrative regulation 3050, Education Code section 42603 governs how school districts may borrow temporarily between funds to address cash flow shortages. This type of borrowing has several limitations. No more than 75% of the money held in any fund during the current fiscal year may be transferred; however, the district's budgeted transfer is 86%, or $186,966 more than the amount allowed. In addition, if the transfer is completed prior to the last 120 days of the fiscal year, the funds must be repaid by June 30 of the same fiscal year. If funds are transferred within the last 120 days of the fiscal year, repayment must be made before June 30 of the subsequent fiscal year.

The district needs to clarify its purpose for this borrowing to determine if it is a loan for cash flow needs and, if so, determine if the loan meets the requirements of Education Code section 42603.

While Education Code section 42603 specifies requirements for borrowing, the CSAM states that districts can transfer Fund 17 dollars to the general fund for general operating purposes other than capital outlay and references Education Code sections 42840 and 42842. Thus the district can either adjust its plan for this borrowing to meet the requirements of Education Code section 42603, or the district's governing board can take action to designate the transfers to the general fund as permanent transfers rather than temporary borrowing.

Other Funds

The district's budget includes transfers to the general fund of $30,000 each from the child development and cafeteria funds in 2009-10 and $15,000 each in 2010-11. These funds have sufficient balances to accommodate the transfers. FCMAT's MYFP includes these transfers.

Newark Teachers' Association Grievance

The Newark Teachers' Association (NTA) filed a grievance in December 2008 challenging the district's decision not to increase the salary schedule for the 2008-09 fiscal year. The disagreement involves the legal interpretation of the contract article regarding compensation. The NTA interprets the article as entitling the bargaining unit to a statutory cost of living adjustment (COLA) increase on the salary schedule. The district has not implemented an increase and has instead chosen to reopen negotiations on compensation by implementing article 21 of contract, "Term and Renegotiation."

Because the contract term does not end until June 30, 2010, it could require another statutory COLA increase for the 2009-10 fiscal year, depending on the outcome of the grievance.

The district's contract with the California School Employees Association (CSEA) bargaining unit has been interpreted by the union and the district as not providing a statutory COLA, but providing a funded COLA, to the salary schedule for the 2008-09 and 2009-10 fiscal years. However, should the NTA prevail in its grievance, the CSEA would likely seek similar adjustment.

Because the grievance remains unresolved at the time of this report, FCMAT prepared two multiyear financial projections: one assumes no salary compensation increase, and the other assumes an increase equal to the statutory COLA for the 2008-09 and 2009-10 fiscal years for both the NTA and the CSEA.

Because the grievance remains unresolved at the time of this report, FCMAT prepared two multiyear financial projections: one assumes no salary compensation increase, and the other assumes an increase equal to the statutory COLA for the 2008-09 and 2009-10 fiscal years for both the NTA and the CSEA.

The district estimates that the total cost of a 1% COLA would be $454,891, distributed as follows:

Newark Teachers Association (NTA)	= $304,446
California State Employees Association (CSEA)	= $76,535
NEWMA (management/supervisory/confidential)	= $73,910
Total Cost of 1 %	= $454,891

The above amounts include the cost of compensation funded by both restricted and unrestricted resources.

Employee Benefits

Statutory employer-paid benefit programs were increased in proportion to salary increases. No rate changes were included in the analysis. These benefits include the following:

- State Teachers Retirement System
- Public Employees Retirement System
- Social Security and Medicare
- State unemployment insurance
- Workers compensation
- PERS revenue limit reduction

FCMAT's projection assumed no increase in the district's costs for health and welfare benefits for current employees and retirees. This is consistent with the district's collective bargaining agreements, which provide a cap on the district's contributions to the premiums for these programs. FCMAT reduced the total projected benefit costs by $230,000 beginning in the 2008-09 fiscal year, per FCMAT's projections.

Other Post-Employment Benefits (OPEB)

Governmental Accounting Standards Board (GASB) statement number 43 requires school districts the size of Newark Unified to implement new accounting standards in 2008-09 for other post-employment benefits (OPEB). These standards require new accounting procedures for the liability associated with such benefits, for both current and future retirees.

The district has implemented an OPEB management plan that indicates the district will fund its benefits using a pay-as-you-go method. This approach provides funding only for the amount needed to pay the annual benefit premiums; it does not provide the entire annual required contribution (ARC). The ARC represents the full accrual of the liability by including the current year's normal costs (the present value of future benefits that employees earn by working during the current year) and an actuarially determined amount for future retiree costs amortized over 30 years.

Regardless of how the district chooses to pay for OPEBs, GASB 45 requires the district to account for its liability using the full accrual basis (ARC). The difference between the full accrual basis ARC and the pay-as-you-go cash payment represents the district's unfunded liability, which is likely to increase over time.

The district's last actuarial report estimates the unfunded liability at $8,192,296. The district's governing board has designated $315,001 of its 2008-09 unrestricted general fund ending balance to begin funding the OPEB liability, and planned to allocate $100,000 per year to this designation. In March 2009, the board approved a resolution to redesignate this amount to the district's unappropriated fund balance, thereby making it unavailable to the OPEB liability. Regardless of this, any amount designated by the board cannot be legally regarded as offsetting this liability unless the district places the reserve in an irrevocable trust.

The district last received an OPEB actuarial study on March 21, 2005; the study was effective July 1, 2004. The OPEB management plan requires that plans with 200 or more members (active and retired employees) conduct a new study every two years, thus a new study is overdue.

Books and Supplies, Services and Other Operating Costs and Capital Outlay

FCMAT assumed that all books and supplies, services and other operating costs' line items would increase each year by the California consumer price index (CPI). Capital outlay expenditures were reduced to $0 in the 2009-10 and 2010-11 fiscal years of the projection, consistent with the district's 2008-09 first interim budget report's financial projection.

Other Outgo, Direct and Indirect Support Costs and Debt Service

Other outgo consists primarily of transfers of regional occupational program (ROP) apportionment funding to the county ROP. No changes from the district's budget were assumed. The district's budgets for direct and indirect support cost charges to restricted programs and grants were not changed in the FCMAT projection, and FCMAT adjusted its debt service projection to match the district's current debt service obligations.

Interfund Transfers Out

The district's budget includes a transfer from the general fund's routine restricted maintenance account (RRMA) to the deferred maintenance fund to match the state's contribution to the deferred maintenance program. FCMAT's MYFP includes these same transfers. It would be to the district's benefit to determine the legality of transferring funds from Fund 53 tax override fund to the general fund to provide a funding source for the deferred maintenance transfer. This would reduce the contribution to the RRMA from the general fund.

Contributions to Restricted Programs

As indicated in Table 10, the district's contributions to restricted programs are projected to increase in future years. The district will need to review and adjust these contributions to avoid increases.

Table 10: Contributions to restricted programs

Name	Resource Code	2008 - 09	2009 - 10	2010 - 11
Unrestricted Resources				
Unrestricted	0000	-$4,591,539	-$5,017,999	-$5,221,557
Lottery: Unrestricted	1100	$0	$20,762	$47,745
Class Size Reduction, Grades 9	1200	$51,017	$55,651	$58,852
Class Size Reduction Operations, Grades K-3	1300	$1,149,483	$1,221,781	$1,277,342
Total Unrestricted		**-$3,391,039**	**-$3,719,805**	**-$3,837,618**
Restricted Resources				
Continuation Education (Education Code sections 42244 and 48438)	2200	$338,261	$395,481	$404,376
Community Day Schools	2430	$84,449	$108,025	$112,071
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611 (formerly P	3310	$9,962	$22,218	$34,657
Special Ed: IDEA Preschool Grants, Part B, Sec 619	3315	$103,559	$103,725	$104,067
Special Ed: IDEA Preschool Local Entitlement, Part B, Sec 611	3320	$26,351	$27,693	$29,055
NCLB: Title III, Immigrant Education Program	4201	$0	$6,197	$6,843
Medi-Cal Billing Option	5640	$0	$6,572	$6,779
Special Education	6500	$1,201,684	$1,377,325	$1,438,409
Special Education-Project Workability (97/98)	6520	$39,175	$39,989	$40,672
Staff Development	6535	$6,211	$6,211	$6,211
Supplemental School Counseling Program	7080	$0	$36,901	$39,657
Gifted & Talented Education (GATE)	7140	-$6,334	$0	$0
Transportation: Home to School	7230	$3,766	$0	$0
Transportation: Special Education (Severely Disabled/Orthopedically Impaired)	7240	$91,027	$92,276	$92,831
California Peer Assistance & Review Program for Teacher (CPARP)	7271	-$3,762	$0	$0
Pupil Retention Block Grant	7390	-$141,173	-$149,827	-$150,752
Professional Development Block Grant	7393	-$289,268	-$288,934	-$289,941
Ongoing & Major Maintenance Account (RMA: Education Code Section 17070.75)	8150	$1,927,131	$1,935,953	$1,962,685
Total Restricted		**$3,391,039**	**$3,719,805**	**$3,837,618**

Other Funds

FCMAT did not review all of the district's other funds. Although FCMAT used data from some of these funds' budgets to develop its general fund projection, the study team did not prepare a multiyear financial projection for the following funds:

- Fund 11, Adult Education Fund
- Fund 12, Child Development Fund
- Fund 13, Cafeteria Fund
- Fund 14, Deferred Maintenance Fund
- Fund 17, Special Reserve Fund for Other than Capital Outlay
- Fund 21, Building Fund
- Fund 25, Capital Facilities Fund
- Fund 40, Special Reserve Fund for Capital Projects
- Fund 51, Bond Interest and Redemption Fund
- Fund 53, Tax Override Fund

Carryover of Restricted Funds

The district's budget report contained restricted categorical funds from the 2007-08 fiscal year that were carried over and included in the 2008-09 budget. FCMAT took many of these amounts out of the budget for the 2009-10 fiscal year, determining that carryover will be spent or used in flexibility options that may become available. Amounts left in are immaterial to the MYFP and do not affect FCMAT's findings or recommendations.

Financial Projection Tools

The district has historically developed its MYFPs using Excel spreadsheets and other tools outside of the district's Escape financial program. Staff reported that preparation of MYFPs in prior years did not include extensive analysis and that these documents were not valued as a key component of the district's financial planning. To increase the effectiveness of its MYFPs and help guide its financial planning, the district should consider using FCMAT's free Web-based Budget Explorer financial projection software.

FCMAT's Fiscal Health Risk Analysis

Included later in this report is FCMAT's detailed Fiscal Health Risk Analysis, which assesses the district's fiscal health based on 17 risk indicators. Because The Fiscal Health Risk Analysis is not necessarily an indicator or projection of future trends, it did not take into consideration FCMAT's MYFP, which indicates that future financial trends will differ significantly from past experience. While FCMAT's Fiscal Health Risk Analysis indicates that the district may need immediate financial intervention, the MYFP indicates that without significant budget reductions or revenue enhancements, the district will require fiscal intervention by the state, including the appointment of a state administrator.

FCMAT's MYFP for Projection I is included in Appendix G.

Projection II Assumptions

FCMAT' second MYFP, Projection II, contains the same assumptions as Projection I in all areas except the outcome of the NTA's grievance. Projection II assumes that the NTA will prevail in its grievance and that the statutory COLA will be applied to the salary schedules for all district employees in 2008-09 and 2009-10. The 2008-09 COLA would be 5.66%* and would be effective July 1, 2008. The 2009-10 COLA would be 5.02%* and would be effective July 1, 2009. The cost of 1% before application of the COLA is $454,891**

This outcome would significantly increase the district's general fund deficit and shortfall, and result in a negative ending fund balance for the current fiscal year.

By the end of the 2010-11 fiscal year, the general fund deficit would increase to negative $11.7 million, the general fund ending balance would decrease to negative $24.2 million, and the shortfall would increase to negative $26.3 million. This is assuming that the district does not implement additional budget reductions or identify new sources of revenue.

Table 11 summarizes the potential impact that a settlement of the grievance in favor of the NTA would have on the district's general fund deficit, ending fund balance, reserve for economic uncertainty and shortfall.

Table 11 - Potential impact of the grievance's COLA on the general fund budget

	2008-09	2009-10	2010-11
Deficit Before COLA - Projection I	($4,669,268)	($8,473,291)	($11,701,622)
COLA	$2,574,683	$2,412,802	$0
Adjusted Deficit	($7,243,951)	($10,886,093)	($11,701,622)
Beginning Fund Balance	$5,543,566	($1,700,385)	($12,586,478)
Ending Fund Balance	($1,700,385)	($12,586,478)	($24,288,100)
Reserve for Economic Uncertainty	$2,024,426	$2,018,860	$2,038,123
Shortfall	($3,724,812)	($14,605,338)	($26,326,223)

*Source - 2009 School Services of California Financial Projection Dartboard, Governors budget proposal.

**Source - Newark USD 2008-09 first interim budget report.

Cash flow and Proposed Cash Deferrals

The early release of the governor's 2009-10 budget proposal underscores the severity of the state's budget and cash crisis. This is the most challenging budget in the state's history, and the governor's numerous proposed solutions include apportionment deferrals, which have the effect of transferring the state's cash flow crisis to all local school districts.

The district will be unable to sustain adequate cash in the general fund without issuing tax revenue anticipation notes (TRANs) for the 2008-09 year, or borrowing from other funds. The district has not issued a TRAN in the current or prior fiscal years.

According to Government Code section 53854, a school district may issue a tax and revenue anticipation note (TRAN) payable up to 15 months after the date of issuance. Such a note is payable only from revenue received or accrued during the fiscal year in which it was issued. Because the governor's January budget proposal includes deferral language, the district needs to update its current cash flow projections and review the need to issue midyear or interim TRANs to meet any cash flow deficiencies for the balance of the fiscal year.

Additional information on interim or midyear TRANs and other cash management strategies can be found in FCMAT's recent alert on this topic, which is contained in Appendix F and available at www.fcmat.org.

The district updates and prepares its cash flow at interim reporting periods, but needs to begin doing so at least monthly.

The district needs to immediately review and evaluate its cash flow requirements and update cash flow projections for all funds, taking into account the projected deferral schedule from FCMAT's alert, which is provided in the Table 12. This table is an estimate based on discussions with the California Department of Education (CDE) and analysis of the governor's budget proposals.

The district will be unable to sustain adequate cash in the general fund without issuing tax revenue anticipation notes (TRANs) for the 2008-09 year, or borrowing from other funds.

Table 12: Principal apportionment deferral schedule

Principal Apportionment	July 2008	Sept. 2008	Feb. 2009	April 2009	June 2009	July 2009	Aug. 2009	Sept. 2009
Enacted from emergency legislation ABX3 4			(100%)			100% of July 2008 paid in September 2008		
2008-09 Budget Act AB 1781			(50%)			50% of February 2009 paid in April 2009		
Governor's January budget proposal – no exceptions			(50%)			50% of Apr. 2009 paid in July		
P2 shift enacted in legislation 2002-03 – no exceptions			(100%)			100% of June 2009 paid in July 2009		
Proposed – no exceptions			(100%)			100% of July 2009 to Sept 2009		
Proposed – no exceptions			(100%)			100% of August 2009 paid in Sept 2009		

Recommendations

The district should:

1. Develop a plan to address deficit spending and ending balance negative shortfall using revenue enhancements and/or expenditure reductions.
2. Use the governor's 2009 proposed budget as the basis for budget planning, with the exception of categorical program flexibility. The district should also not assume that it will receive any funds from the federal economic stimulus package until that legislation is passed.
3. Assess the likelihood of the NTA prevailing in its grievance, and develop a financial plan to respond if necessary.
4. Seek an updated legal opinion regarding the past, present and future use of the tax override proceeds in Fund 53.
5. Consider obtaining a second legal opinion regarding the district's uses of Fund 53 tax override funds in light of the original ballot language. The district should also request legal counsel's opinion on the possible transfer of Fund 53 tax override funds to the general fund's routine restricted maintenance account to fund the transfer to the deferred maintenance fund, and do so if legal.
6. Identify which of the Fund 53 board designations are commitments that cannot be reversed, and determine what portion of the fund balance is available for transfer to the general fund.
7. Revise cash flow projections as soon as possible to include the proposed state apportionment deferrals, and take appropriate action to ensure that the district has sufficient cash to meet its financial obligations.
8. Update and analyze cash flow at least monthly
9. Determine if the general fund's temporary borrowing from Fund 17 is intended to be an internal borrowing for cash flow. If it is, plan to repay the borrowing consistent with the requirements of Education Code section 42603. If it is not, the district's governing board should consider designating the transfers from Fund 17 to the general fund as permanent transfers rather than borrowing, in accordance with the CSAM and Education Code sections 42840 and 42842. If it is not and the board desires to maintain the character of the transaction as a loan authorized by administrative regulation 3050, establish terms of repayment as required by this regulation.
10. Update the actuarial study of OPEB and begin accounting for such benefits in accordance with GASB 45 in the 2008-09 fiscal year.
11. Review general fund contributions to categorical programs and take steps to decrease them.
12. Consider using FCMAT's free Web-based Budget Explorer software program to develop multiyear financial projections.

FCMAT's Fiscal Health Risk Analysis

FCMAT's Fiscal Health Risk Analysis evaluates key fiscal indicators that help a school district measure its financial solvency for the current and two subsequent fiscal years as recommended by AB 1200.

Failure to meet any single criterion is not necessarily an indication of a district in fiscal crisis. However, districts that exceed the risk threshold of six or more "No" responses may have cause for concern and may require some level of fiscal intervention. Diligent planning will enable a district to better understand its financial objectives and strategies to sustain financial solvency. A district must continually update its budget as new information becomes available.

The Fiscal Health Risk Analysis includes 17 key fiscal indicators to measure a district's potential risk. Following are the results of FCMAT's analysis of the district.

Fiscal Health Risk Analysis

Is the district's fiscal health acceptable in the following areas?

1. Deficit Spending No

- Is the district avoiding deficit spending in the current year? .... No
- Is the district avoiding deficit spending in the two subsequent fiscal years? .... No
- Has the district controlled deficit spending over the past two fiscal years? .... No
- Is the issue of deficit spending addressed by fund balance, ongoing revenues, or expenditure reductions? .... No
  - Has the board approved a plan to eliminate deficit spending? .... No

The district had a surplus of $2.1 million in 2006-07, but a deficit of $1.9 million in 2007-08.

As of the 2008-2009 first interim budget report, the district's fund balance is projected to decrease by $3.1 million. This figure is the net of interfund transfers of $2.7 million, which means that the ongoing deficit is -$5.8 million. The fund balance will further decrease by $3.1 million in the 2010 fiscal year and by $2.5 million in the 2010-11 fiscal year.

Because of the state budget crisis, deficits on the revenue limit and the lack increase in funding for categorical programs, the district will need to make additional budget reductions and/or identify revenue increases.

2. Fund Balance No

- Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty? ....No
- Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions? .... No
- Does the fund balance include any designated reserves for unfunded liabilities or one time costs above the recommended reserve level? .... Yes

The district's fund balance is at or above the required 3% reserve for economic uncertainty for the 2008-09 fiscal year, but is projected to fall below the 3% required reserve level in the 2009-10 and 2010-11 fiscal years.

The ending balance is projected to be -$790,000 in 2009-10 and -$3.3 million in 2010-11. The negative shortfall is projected to be -3.2 million for 2009-10 and -$5.8 million in 2010-11.

The district will need to make budget adjustments or identify revenue increases to maintain the required reserve in the two subsequent years.

3. Reserve for Economic Uncertainty No

- Is the district able to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends? .... No
- Does the district have additional reserves in Fund 17, Special Reserve for Non Capital Projects? .... Yes
- If not, is there a plan to restore the reserve for economic uncertainties in the district's multiyear financial projection? .... No

The district will be unable to maintain its reserve for economic uncertainty in the subsequent two fiscal years unless the governing board approves ongoing budget adjustments as described above.

The district has additional reserves in a special reserve fund for non-capital projects and in a tax override fund. However, the district plans to deplete these two funds during the current and two subsequent fiscal years.

4. Enrollment Yes

- Has the district's enrollment been increasing or stable for multiple years? .... No
- Is the district's enrollment projection updated at least semiannually? ....Yes
- Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends? ....Yes
- Does the district analyze enrollment and average daily attendance (ADA) data? ..Yes
- Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes? ....Yes
- Has the district implemented any attendance programs to increase ADA? ....No
- Have approved charter schools had little or no impact on the district's student enrollment? .... N/A
- Does the district have a board policy that attempts to reduce the effect that transfers out of the district have on the district's enrollment? ....Yes

The district's enrollment has declined by 3.3% since the 2003-04 fiscal year, a net loss of 243 students. District projections indicate a continuing decline, with a decrease of another 130 students through 2010-11.

The district updates enrollment projections at first and second interim reporting periods. Monitoring ADA trends in a district with declining enrollment is a critical function. The district monitors enrollment and ADA trends monthly.

The statewide average ratio of ADA to enrollment for unified school districts is 94%. The district's ratio has consistently been at or above 95%.

The district lacks a process for sharing enrollment and ADA information with school administrators. The district needs to share enrollment and ADA information with site administrators, compare current and prior year data monthly, and investigate any variances.

The district has taken a proactive approach to declining enrollment by limiting transfers out of the district to neighboring districts.

Staffing adjustments are commensurate with enrollment calculations.

The district does not have any charter schools.

5. Interfund Borrowing — No

- Can the district manage its cash flow in all funds without interfund borrowing? ....No
- Is the district repaying the funds within the statutory period in accordance with Education Code section 42603? ....No

The district will be unable to sustain adequate cash in the general fund without issuing tax revenue anticipation notes (TRANs) for the 2008-09 year, or borrowing from other funds. The district has not issued a TRAN in the current or prior fiscal years. The district's first interim budget report for 2008-2009 indicates that the general fund will borrow $1.4 million from fund 17, Special Reserve for Other than Capital Outlay; however, the district's plan does not include repayment of the loan within the statutory period in accordance with Education Code 42603.

6. Bargaining Agreements — Yes

- Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years? ....No
- Did the district conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement? ....Yes
- Did the district correctly identify the related costs above the COLA, (i.e. statutory benefits, step and column)? .... Yes
- Did the district address budget reductions necessary to sustain the total compensation increase including a board-adopted plan? ....Yes
- Did the superintendent and CBO certify the agreement prior to ratification? ....Yes
- Is the governing board's action consistent with the superintendent's/CBO's certification? ....Yes
- Did the district submit to the county office of education the AB 1200\2756 full disclosure as required? ....Yes

The district settled negotiations with both bargaining units for the 2008-09 fiscal year. The district implemented the escape clause of its agreement with the Newark Teachers Association (NTA) in January 2009 to avoid application of the statutory COLA to the NTA salary schedule for the 2008-09 year. However, a grievance filed by the NTA regarding this article remains unresolved at the time of this report.

Prior tentative agreements certified by the superintendent and the chief business official have been submitted to the county office in accordance with AB1200 and AB2756. Disclosures included the cost of statutory benefits and step and column movement.

During the last several years, the district has settled collective bargaining at a cost in excess of the COLA received from the state. To sustain these total compensation increases greater than COLA, district administrators have identified ongoing budget adjustments.

7. General Fund Yes

- Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average? ....No
- Is the district making sure that only ongoing restricted dollars pay for permanent staff? ....Yes
- Does the budget include reductions in expenditures proportionate to one-time revenue sources, such as parcel taxes, that will terminate in the current or two subsequent fiscal years? .... N/A
- If the district receives redevelopment revenue that is subject to AB 1290 and SB 617, has it made the required offset to the revenue limit? .... N/A

The district's costs for salaries and benefits as a percentage of all unrestricted expenditures was lower than the statewide average for unified districts for the 2005-06 fiscal year, but higher than the statewide average for the 2006-07 year. Statewide averages for 2007-2008 have not yet been certified by the state.

Table 13: Salaries and benefits as a percentage of total unrestricted expenditures

	2005-06	2006-07
Newark USD	90.70%	92.40%
Statewide Average	91.38%	90.29%

Source: Ed Data Web site.

The district needs to ensure that only ongoing funds from restricted funding sources are used to pay for permanent staff members. All material one-time revenues and expenditures have been noted in the budget and are scheduled to cease in the proper fiscal year.

8. Encroachment Yes

- Is the district aware of the Contributions to Restricted Programs in the current year? (Identify cost, programs and funds) ....Yes
- Does the district have a reasonable plan to address increased encroachment trends? ....No
- Does the district manage encroachment from other funds such as Adult, Cafeteria, Child Development, etc.? ....Yes

District administrators require that spending not exceed revenue allocations for all restricted programs except community day school, continuation school, special education and home-to-school transportation. According to the district's 2008-09 first interim budget report's MYFP, general fund contributions are expected to increase slightly in the two subsequent years The district needs to be cautious in allowing restricted programs to require general fund contributions, especially during difficult fiscal times.

Other programs, such as adult education, child development and cafeteria, do not require a contribution from the general fund.

9. Management Information Systems Yes

- Is the district's financial data accurate and timely? ....Yes
- Are the county and state reports filed in a timely manner? ....Yes
- Are key fiscal reports readily available and understandable? ....No
- Is the district on the same financial system as the county? ....Yes
- If the district is on a separate financial system, is there an automated interface with the financial system maintained by the county? .... N/A

The Escape financial system is a fully integrated system that includes position control, budget development, purchasing and general ledger modules. The county office processes commercial and payroll warrants on behalf of the district.

District staff reported difficulties using the software's position control transfer process after budget adoption, as well as the payroll encumbering and reporting capabilities. Additional training from Escape could help address these concerns.

The district uses Excel spreadsheets to develop multiyear financial projections. Transitioning from Excel spreadsheets to use of FCMAT's Web-based Budget Explorer multiyear financial projection tool would be beneficial.

10. Position Control — Yes

- Does the district maintain a reliable position control system? .... Yes
- Is position control integrated with payroll? .... No
- Does the district control unauthorized hiring? .... Yes
- Are the appropriate levels of internal controls in place between the business and personnel departments to prevent fraudulent activity? .... Yes
- Does the district use position control data for budget development? .... Yes
- Is position control reconciled against the budget during the fiscal year? .... Yes

The district uses the Escape software system's position control module to track authorized positions during budget development, but not thereafter. Budget modifications from position control are prepared by hand because staff members report that they have little confidence in the Escape system's ability to perform this process efficiently. Position control is not integrated with the payroll system, but adequate internal controls are in place to ensure that the payroll system pays only for authorized positions. The personnel department prepares a position control form and sends it to the budget department for verification that the position is vacant and available in the position control system. Once fully approved, the form is sent to payroll for input.

The business office periodically performs audits to ensure that the budgeted positions match what is authorized in position control. The district has established adequate internal controls between the business and personnel departments to prevent or detect fraudulent activity.

11. Budget Monitoring — Yes

- Are budget revisions completed in a timely manner? .... Yes
- Does the district openly discuss the impact of budget revisions at the board level? Yes
- Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified? .... Yes
- Has the district's long term debt decreased from the prior fiscal year? .... No
- Has the district identified the repayment sources for long term debt or non voter-approved debt, i.e. certificates of participation, capital leases? .... Yes
- Does the district's financial system have a hard coded warning regarding insufficient funds for requisitions and purchase orders? .... Yes
- Does the district encumber salaries and benefits? .... Yes

The district uses the Escape financial system for budget monitoring, and the business office monitors the budget periodically. Salaries and benefits are encumbered in the financial system, but only for a brief time. The district's financial system has a hard code warning that prevents purchase orders from being approved if insufficient funds are budgeted.

The district needs to update and report budget revisions to the governing board monthly, especially as the district experiences fiscal distress and declining enrollment. It is essential to keep the board and senior management informed regarding the district's financial condition.

12. Retiree Health Benefits — No

- Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements? ....Yes
- Does the district have a plan for addressing the retiree benefits liabilities? ....No
- Has the district conducted a re-enrollment process to identify eligible retirees? ...No

In July 2004, the Governmental Accounting Standards Board (GASB) released Statement No. 45, Accounting and Financial Reporting by Employers for Other Postemployment Benefits (OPEB). Many school districts use a pay-as-you-go method, which fails to recognize or measure the cost of OPEB during the working careers of current employees. The district complied with GASB Statements No. 43 & 45 by having an actuarial study to estimate the district's liability and financial disclosure requirements for OPEB, including post-employment health benefits, life insurance, disability and long term care benefits. This study needs to be updated.

The district has not conducted re-enrollment to ensure that only eligible employees, dependents and retirees are enrolled in the health and other benefit plans. The district needs to conduct such a re-enrollment immediately.

13. Leadership/Stability — No

- Does the district have a superintendent and/or chief business official that has been with the district more than two years? ....No
- Does the governing board adopt clear and timely policies and support the administration in their implementation? ....No

The district's previous superintendent retired and the current superintendent was hired in July 2008. The current superintendent previously served as the district's assistant superintendent of curriculum and instruction for several years. The district's chief business official (CBO) began employment with the district in October 2008.

Many board policies have not been updated since the 1990s. The district needs to update board policies and continue doing so regularly.

14. Charter Schools N/A

- Has the district identified a specific employee or department to be responsible for oversight of the charter? .... N/A
- Has the charter school submitted the required financial reports? .... N/A
- Has the charter school commissioned an independent audit? .... N/A
- Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency? .... N/A
- Is the district monitoring and reporting the current status to the board to ensure that an informed decision can be made regarding the reauthorization of the charter? .... N/A

The district has no charter schools.

15. Audit Report Yes

- Did the district receive an audit report without material findings? .... No
- Can the audit findings be addressed without impacting the district's fiscal health? .... Yes
- Has the audit report been completed and presented within the statutory time line? .... Yes
- Are audit findings and recommendations reviewed with the board? .... Yes
- Did the audit report meet both GAAP and GASB standards? .... Yes

The district's audit report for fiscal year 2007-2008 included six new findings of material weaknesses in internal controls, mainly over ASB operations. The audit report also included nine unresolved findings repeated from previous years. No fiscal penalties were identified with these findings.

16. Facilities Yes

- Has the district passed a general obligation bond? .... Yes
- Has the district met the audit and reporting requirements of Proposition 39? .... N/A
- Is the district participating in the state's School Facilities Program? .... No
- Does the district have sufficient personnel to properly track and account for facility-related projects? .... Yes
- Has the district met the reporting requirements of the Williams Act? .... Yes
- Is the district properly accounting for the 3% Routine Repair and Maintenance Account requirement at the time of budget adoption? .... Yes
- If needed, does the district have surplus property that may be sold or used for lease revenues? .... Yes

- If needed, are there other potential statutory options? ....No
  - Joint Use: Can the district enter into a joint use agreement with some entities without declaring the property surplus and without bidding?
  - Joint Occupancy: The Education Code provides for a joint venture that can authorize private development of district property that will result in some educational use.
- Does the district have a facilities master plan that was completed or updated in the last two years? ....No

  In 2000, the district issued general obligation bonds that were not subject to Proposition 39. The district has participated in the state's school facilities program but has no active state facility grants because significant needs have been met for the foreseeable future. Participation in the state program requires that the district maintain a 3% routine repair and maintenance account in the general fund at the time of budget adoption; the district exceeded the required amount by more than $120,000.

  The district has one surplus property that is leased to a variety of public agencies and private entities.

  The district has not updated its facilities master plan since completing its construction program several years ago.

17. General Ledger Yes

- Has the district closed the general ledger (books) within the time prescribed by the county office of education?? ....Yes
- Does the district follow a year-end closing schedule? ....Yes
- Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year? ....Yes
- Does the district adjust prior year accruals if the amounts actually received (A/R) or paid (A/P) are greater or less than the amounts accrued? ....Yes
- Does the district reconcile all payroll suspense accounts at the close of the fiscal year? ....Yes

  The district's administration follows an extensive schedule for closing the books that corresponds with the county office time lines.

  Accounts receivable and payable are adjusted to reflect the actual receipts and payments. Amounts greater or less than the amounts accrued are properly recorded to offset accounts.

Total "No" Responses: **6**

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

Conclusion

The number of "No" responses places the district at the lower end of the moderate risk category. As noted earlier, a rating with six or more no responses indicates a district that may be in need of fiscal intervention. This analysis was prepared based on the district's 2008-09 first interim budget report. If the district effectively addresses issues such as general fund cash flow, budget deficits, projected reserves for economic uncertainties and negative fund balances, the district could avoid outside fiscal intervention.

Recommendations

The district should

1. Make additional budget reductions and/or identify revenue increases to eliminate deficit spending and to maintain the recommended 3% reserve for economic uncertainties.
2. Share enrollment and ADA information with site administrators, compare current and prior year data monthly, and investigate any variances.
3. Ensure that only ongoing funds from restricted funding sources are used to pay for permanent staff members.
4. Exercise caution in allowing restricted programs to require general fund contributions, especially during difficult fiscal times.
5. Transition from using Excel spreadsheets to using the Budget Explorer program to develop multiyear financial projections.
6. Update and report budget revisions to the governing board monthly.
7. Immediately conduct a re-enrollment to ensure that only eligible employees, dependents and retirees are enrolled in the health and other benefit plans.
8. Begin updating board policies and continue to do so regularly.

Budget Development and Monitoring

Budget Development

A school district's budget is a blueprint that communicates how the district plans to achieve its educational goals and objectives. The budget document is also the primary means by which the school board and administration demonstrate to the community their stewardship of public resources. The process used to develop the budget, and the format of the related documents, are key to ensuring that the desired goals and outcomes are achieved.

The district's budget development process for the 2008-09 fiscal year was sufficient and met industry standards on a technical level. However, the depiction of the district's financial position was inaccurate because it was based on a faulty assumption regarding interfund transfers from other funds. It was also not sufficiently useful to the governing board and made no mention of student achievement trends.

The district's budget development process for the 2008-09 fiscal year was sufficient and met industry standards on a technical level. However, the depiction of the district's financial position was inaccurate because it was based on a faulty assumption regarding interfund transfers from other funds.

During interviews, concerns were expressed regarding the transparency of the budget development process in recent years. In particular, sudden revelations of the availability of one-time funds on several occasions deflected the need for deeper analysis of budget deficits, which contributed significantly to a lack of confidence in the district's budget development process.

To date, the district has not analyzed its budget in depth to determine if resources are being allocated effectively and to measure how well the district is meeting its goals and objectives.

Budget Development, 2008-09 Fiscal Year

Calendar and Workshops

The district developed a budget calendar that was approved by the governing board in December 2007. The calendar described 18 action items, the parties responsible for each item, and the date each item was to occur or be completed. Staff adhered to the approved calendar.

The district conducted several staff presentations and board budget study workshops during the budget development process as it strove to identify spending reductions in light of state funding reductions. The district used a budget review committee (BRC) to communicate budget information to interested parties. The BRC held meetings throughout the spring of 2008. Meeting agendas and sign-in sheets were kept, but no minutes were presented for the committee's review and approval.

The district also sought community input on budget reduction options by conducting two community budget forums in April and May of 2007. FCMAT was not provided with notes or minutes from these meetings.

Attendance and Staffing

District staff developed enrollment and average daily attendance (ADA) projections using the cohort survival method. Revenue and expenditure assumptions were based on industry recognized variables, and staffing was based on board-approved formulas.

The district used the Escape financial system to develop position control, rolling over prior year positions, then modifying them to match staffing allocations. This position control data was then uploaded to the Escape program's budget development module.

Worksheets and Site Input

School and department allocations were developed using board-approved allocation factors. Budget development worksheets were circulated to principals and program managers in February, and meetings were held with staff from each school and department to review the allocations and answer questions

The budget development worksheets provided detailed information regarding allocations for regular education, administrative and categorically funded programs, sorted by resource. Line item detail of current year budget and actual expenditures was provided to help users determine the distribution of allocations for the following year's budget.

The district provided each school with a site categorical personnel roster, a spreadsheet tool and other information to help them calculate the cost of positions funded from their budget allocations, including statutory and contracted benefits.

The estimated carryover of unspent funds from the current year was not considered during the budget development process; carryover was allocated after the district closed its books for the 2007-08 fiscal year.

Deficit and Transfers of One-Time Funding

A proposed budget for all district funds was presented to the governing board on June 17, 2008. The general fund budget contained $1.1 million in expenditure reductions in response to state funding reductions; however, the general fund still had a deficit of $832,000. The general fund ending fund balance was $1.9 million, including a 3% ($1.8 million) reserve for economic uncertainties.

As discussed earlier, the 2008-09 general fund budget included a transfer of approximately $1.7 million from the Fund 17, special reserve for other than capital outlay projects fund, which would reduce the Fund 17 balance to zero. The district's budget narrative described this transfer as a loan to the general fund, to be repaid in the future, but no repayment date is specified.

The general fund budget also included a $635,000 transfer from Fund 53, tax override fund, to cover the deferred maintenance transfer and balance the general fund budget, according to the budget narrative. Fund 53, tax override, has a budgeted balance of more than $3.3 million after this transfer, only $725,000 of which is undesignated and available.

These two transfers must be considered one-time funding because there is no ongoing funding to replenish them. After adjusting for both transfers, the district's ongoing general fund deficit is more than $3.1 million. Table 14 provides the details of the ongoing deficit, and Table 15 summarizes the budgets of funds 17 and 53 as approved in the 2008-09 adopted budget.

Table 14: General fund ongoing deficit, 2008-09 adopted budget

General Fund deficit, as adopted	-$832,282
Adjust for one-time funding sources:	
Transfer from fund 17	-$1,693,590
Transfer from fund 53	-$635,282
General Fund deficit, on-going	-$3,161,154

Table 15: Fund 17 and Fund 53 summary, 2008-09 adopted budget

			Fund 17	Fund 53
Beginning Fund Balance			$1,639,290	$3,898,470
Revenues			$54,300	$111,800
Expenditures			$0	$0
Transfers In			$0	$0
Transfers Out			-$1,693,590	-$635,282
Ending Fund Balance			$0	$3,374,988
Detail of Ending Fund Balance:				
	Designated		$0	$2,649,952
	Undesignated and Available		$0	$725,036

Multiyear financial projections (MYFPs)

The district's MYFPs indicated that the district would resolve its general fund deficit beginning in the 2009-10 fiscal year. This was accomplished in large part through assumptions that the cost of living adjustments (COLAs) would be provided by the state for the 2009-10 and 2010-11 fiscal years. The district also projected that enrollment would continue to decline and that approximately $1 million in certificated staffing reductions would be implemented to offset the resulting loss of revenue.

The district also included two transfers of $1.3 million each, one in 2009-10 and one 2010-11, from fund 53 to the general fund. These transfers mask the ongoing general fund deficit and, according to FCMAT's estimate, would reduce the Fund 53 balance to $951,000 by the end of the 2010-11 fiscal year (district staff did not present a MYFP for this fund). Because only $725,000 of fund 53 remained undesignated at the end of the 2008-09 year, most of these anticipated transfers will not be possible.

Table 16 provides a summary of the district's ongoing general fund deficits, and Table 17 shows the balances that FCMAT's MYFP projects for Fund 53.

Table 16: General fund ongoing deficit, 2008-09 adopted budget MYFP

	2009-10	2010-11
General Fund surplus, as adopted	$9,162	$16,126
Remove:		
Transfer from fund 53	-$1,265,478	-$1,265,478
General Fund deficit, on-going	-$1,256,316	-$1,249,352

Table 17: Fund 53 MYFP summary

	2009-10	2010-11
Beginning Fund Balance	$3,374,988	$2,179,510
Revenues	$70,000	$37,500
Expenditures	$0	$0
Transfers In	$0	$0
Transfers Out	-$1,265,478	-$1,265,478
Ending Fund Balance	$2,179,510	$951,532
Detail of Ending Fund Balance:		
Designated	$2,649,952	$2,649,952
Undesignated and Available	-$470,442	-$1,698,420

The above data indicates that the district's 2008-09 adopted budget MYFP assumptions were flawed, and as a result the district's financial condition was overstated.

The district reconsidered these assumptions in its 2008-09 first interim report and deleted the transfers from fund 53 for 2009-10 and 2010-11, creating general fund ending balances of negative $790,117 and negative $3,316,516 for the 2009-10 and 2010-11 fiscal years, respectively.

District staff prepared MYFPs using Microsoft Excel and rolled over the following line items from the 2008-09 general fund budget, indicating that no changes would occur:

- Unrestricted: Other Local Revenues; Books and Supplies; and Other Outgo
- Restricted: Federal Revenues; Services and Other Operating Expenses; and Other Financing Uses

This practice indicates that the district's MYFP was prepared with less scrutiny and vigor than is standard in the industry. The use of Microsoft Excel to prepare such projections also increases the risk of calculation errors by those who develop the spreadsheet and oversight errors by those who review it.

The district has experienced significant turnover in the chief business official (CBO) position in recent years, which has added to the challenges and contributed to a lack of consistent guidance for the district's fiscal services staff. As a result, staff used the most expedient means, but not always the most reliable means, to prepare MYFPs.

The staff narrative accompanying the MYFP contained details of assumptions and reconciliations of changes to previous draft budgets. However, no information was presented linking budget reductions or allocations to the district's strategic plan or to the goals and objectives contained therein. Trend analysis was provided only for enrollment and ADA, not for student achievement.

County Office Concerns, State Budget Instability, and District Actions

The district adopted its 2008-09 annual budget within the time lines established by Education Code Section 42103 and submitted it to the county office. The county approved the budget on September 3, 2008, noting concerns regarding the status of negotiations, deficit spending, post-employment benefit liability, and the state's budget instability.

District staff provided FCMAT with documents indicating that the district's budget is being adjusted in response to proposed state funding reductions.

The state's 2008-09 budget has become unstable, resulting in the possibility of midyear funding reductions for public schools. District staff provided FCMAT with documents indicating that the district's budget is being adjusted in response to proposed state funding reductions. Actions taken include creation of a detailed budget development calendar that includes budget development workshops and committee meetings. A spending freeze was also implemented in January 2009, and a process has been implemented to comply with statutory deadlines for certificated staffing reductions. In addition, the superintendent established a fiscal review team that includes all cabinet members, principals and key business office staff. The team will work with members of the community and other staff to develop budget reduction recommendations, which will be presented to the superintendent's council and then to the governing board.

Future Budget Development

In interviews conducted by FCMAT, staff indicated an interest in developing a new budget report format that focuses on the goals and objectives in the district's strategic plan and how the district's resources support students' educational needs.

The district's Board Policy and Administrative Regulation 3100 addresses the district's budget and states, "The Board of Education accepts responsibility for adopting a sound budget that is compatible with the district's vision and goals."

A thorough review of the district's budget allocations is in order. One way to accomplish this is through zero-based budgeting, in which no items are rolled over and every line item in the budget is thoroughly reviewed.

Budget development needs to include policy direction from the board to help the district create an expenditure plan that meets the district's goals and objectives. The district's budget document contains a board-approved mission statement, a vision statement and a list of the district's goals, but does not connect the allocation of resources to each goal. When providing direction on the budget, the board of trustees needs to focus not on specific line items but on allocating resources to meet the district's goals. The board can then direct staff to design an expenditure plan that meets the students' and the district's needs.

A thorough review of the district's budget allocations is in order. One way to accomplish this is through zero-based budgeting, in which no items are rolled over and every line item in the budget is thoroughly reviewed. This provides an opportunity to review all available funding, determine the most efficient allocation of resources, and decide whether existing and proposed expenditures meet the district's goals. Because this process includes re-evaluating each department's and program's expenditures, it can be time-consuming and can cause significant turmoil within an organization. As a result, it should only be conducted once every three to five years.

Although there is not sufficient time to do so for the 2009-10 budget, outside professional experts could work with district staff to implement zero-based budgeting when developing the 2010-11 budget. Because the process is time-consuming, outside support would be needed to implement it in a timely manner.

Another consideration would be to provide training for existing staff so that knowledge of zero-based budgeting is not lost once the outside experts have completed their work. Assigning or hiring additional staff for this process is also a possible alternative to hiring outside experts.

The district's previous practice of transferring one-time funds from various sources to temporarily eliminate budget deficits has delayed a thorough analysis of the district's fiscal health. Using a zero-based budgeting model would eliminate this problem by showing all of the district's resources and revealing how they are being used and how long they can be relied upon. This should restore confidence in the district's budget planning process.

Because the district receives a significant amount of categorical funding, budget development in this area needs to be strengthened. Accurate budgeting and appropriate expenditure of these funds must be a priority. As is the case with other resources, the connection between educational goals and available resources needs to be emphasized during budget development. Restricted dollars should be used first. The district will need to identify specific goals that can be met with restricted funds and ensure that one-time funds are not used for ongoing expenditures.

The district's business office lacks formal, written budget development processes and procedures, as well as desk manuals. These resources can improve staff efficiency, the accuracy of budget data, and the ability to maintain organizational and procedural continuity in case of staff turnover.

The district needs to continue improving communication regarding the budget so that all interested parties can gain a better understanding of the budget document. It is important for the budget document to contain a narrative so that lay readers can understand what the data represents and the effectiveness of any budget allocations.

Recommendations

The district should:

1. Ensure that each budget report to the district's governing board contains information that connects the budget to each of the district's goals and objectives, and to trends in student achievement.
2. Present to the governing board a complete analysis of district financial trends and other information with each budget report, including changes in operating costs; active and retiree benefit trends; salary and benefits as a percentage of all expenditures; contributions to restricted programs; ongoing and one-time resources; general fund deficits and projected reserve fund balances; and cash flow analysis for all funds.
3. Eliminate unadjusted rollovers of prior year budget amounts when preparing multiyear financial projections.
4. Develop a budget for the 2010-11 fiscal year using zero-based budgeting, with assistance from outside professional experts.
5. Update board policies and administrative regulations to indicate the district's budget development philosophy and improve the transparency of the budget process and reporting.
6. Keep minutes of all budget review committee meetings and community budget forums.
7. Create a formal manual of budget development procedures, and develop desk manuals for each position in the business office that participates in budget development. The manuals should specify how various tasks are carried out.

Budget Monitoring

Budgets need to be monitored to ensure that appropriations are not overspent and that revenues received or expenditures made are not materially different than budgeted. Revisions to major expenditure classifications are subject to board approval (Education Code Section 42600).

Many budget revisions are made during the fiscal year as additional information becomes available and is validated. Budget revisions normally fall into three main categories:

- Increases to estimated income and expenditure appropriations as a result of the receipt of new grant awards or donations
- Budgeting of balances carried over from previous years
- Increases in spending appropriations to prevent budget overruns

Some districts submit budget revisions to the governing board with interim reports, and some present revisions more frequently, such as monthly. This is especially important for adjustments that significantly affect the ending fund balance or other key aspects of the budget. The district's staff submit budget revisions with the interim reports. School district governing boards typically set a policy regarding how often revisions are to be submitted and approved; however, the district's Board Policy 3100 is silent on this issue.

Submitting budget revisions to the governing board at the following times would help inform the board and other affected parties of the budget's status:

- Forty-five days after the governor signs the state budget.
- When carryover and deferred revenue are added, no later than October 15.
- With the first interim report (December).
- With the second interim report (March).
- In May, in preparation for closing the books.
- In June, to assess what the projected ending balance will be.
- Whenever the ending fund balance is affected.
- Whenever transfers between funds occur.
- Whenever negotiations conclude.

The governing board polices will need to indicate whether budget revisions will be ratified as part of the consent calendar or through formal board action.

Appendix A contains a model format and outline for budget revisions submitted to the governing board.

The staff narrative accompanying budget revisions contained details of assumptions and reconciliations of changes to previous budgets. However, no information was presented linking budget reductions or allocations to the district's strategic plan or to the goals and objectives contained therein. During months when budget revisions are not submitted for approval, providing the board with budget transfer reports, including explanations of changes between major object codes, can help keep the board informed.

The district's use of the Escape financial system for budget monitoring after adoption is sufficient, except in the areas of position control and payroll encumbering.

Position control data is maintained in the Escape system after budget adoption, but is not transferred to the budget models used to develop budget updates at the interim reporting periods. Instead, manual adjustments are posted to budget models for changes to salary and benefit budgets. The source data for these manual adjustments comes from the Escape position control system. Staff members reported a lack of confidence in the Escape position control system's ability to update a budget model after budget adoption and indicated that manual adjustments took less time to perform and verify.

Payroll encumbering is the process of calculating the total cost of payroll incurred year to date and obligations for the remainder of the fiscal year, then comparing that to budgeted amounts. Because more than 90% of the district's unrestricted funds are allocated to payroll, this function is vital to effective budget monitoring. In the district's case, manual monthly summation of data from multiple reports is required to produce encumbrance information that is posted to the system and resides there only for the balance of the month. No payroll encumbrance amounts are shown in the Escape financial system.

District staff also reported frustration with the Escape program's reporting capabilities, which are limited, inflexible and not conducive to customization. This sometimes forces staff to find alternate ways to generate the information needed to complete their tasks.

Individual budget managers have access to the Escape financial system so that they can generate real-time information about the status of their allocated funds. A hard stop feature is used, which prevents managers from issuing electronic purchase requisitions when funds are not available in the budget. When this occurs, budget transfer requests must be submitted electronically before the requisition process can continue. Purchase and budget transfer requisitions are circulated to a variety of staff for review and approval, consistent with their area of authority and responsibility. Most salary and benefit budget and actual amounts, including substitute and extra duty costs, are managed at the district office. District office staff train new site and department managers to use the Escape system as needed.

The district's substitute teacher costs have increased significantly in recent years. Staff indicated that controls have become somewhat lax and that some substitutes are paid several times what others are paid for similar work. For example, one clerical position substitute's time card indicated a pay rate of $43.50 per hour for both office manager and administrative assistant substitute work at the district office, but a clerical services substitute was paid $11.05 per hour at a school site.

Recommendations

The district should:

1. Revise board policy to specify the format and frequency of budget revisions submitted to the board for approval. Board policy should also specify which items can be submitted as consent items.

2. Ensure that budget revisions include a narrative that indicates how the revisions meet the district's goals and objectives.

3. Work with staff who use the Escape financial system to determine how position control information can be efficiently transferred to budget models when preparing budget revisions, how to make payroll encumbering more effective, and how to generate reports that help staff accomplish tasks in a timely manner.

4. Review substitute pay practices and consider implementing a pay schedule that compensates all substitutes at hourly rates equal to that of the first step and column on the salary scale for that position.

6. Seek additional training for staff on the Escape financial software system to address difficulties using the position control transfer process and the payroll encumbering and reporting capabilities.

Associated Student Body and School-Related Organizations

Associated student body (ASB) and school-related organizations are similar in their activities but have different legal relationships with the school district.

ASB organizations are governed by California laws and by rules developed by the California Department of Education and codified in Title 5 of the California Code of Regulations. ASBs are legally part of the school district, so their financial activities are part of a school district's annual audit.

> The same standards of sound financial management that apply to the district and the ASB should also apply to school-related organizations.

School-related organizations include booster clubs, foundations, scholarship funds and parent-teacher associations. A school district's governing board does not exert direct control over these organizations but does retain the authority to determine which of them will be allowed to operate at the schools. These are separate legal entities from the school district, established to support and supplement the educational program, often through fund-raising. These organizations are operated by adults (usually parents), not students, and may have a board of directors and elected officers to handle day-to-day operations. They have their own bylaws, policies and administrative regulations, and many are 501(c)(3) nonprofit corporations.

Although school-related organizations operate autonomously, they are an integral part of a well-rounded program of extracurricular opportunities for students. Thus, thoughtful coordination of their efforts in conjunction with the ASB is crucial to the successful operation of a public school. The same standards of sound financial management that apply to the district and the ASB should also apply to school-related organizations.

Internal Controls and Audit Findings

The district's internal controls over ASB financial operations have historically been insufficient, as evidenced by numerous unresolved findings from the past three annual independent audits.

There are three classifications of audit findings: material weaknesses, reportable conditions, and areas for management improvement. Material weaknesses should be addressed first, then reportable conditions, then areas for management improvement.

Material weaknesses are the most serious type of findings; they are internal control deficiencies so serious that errors or fraud may occur and may not be detected in a timely manner by employees during the normal course of business. A material weakness may also be a violation of current laws or regulations.

A reportable condition is a significant deficiency in the design or operation of the district's internal control processes that could adversely affect the district's ability to record, process, summarize and report financial data.

An area for management improvement is not a material weakness or reportable condition, but provides suggestions for improving the district's operations.

All of the district's audit findings related to student body accounts are classified as a material weakness, and a number of recurring audit findings have not been addressed.

The audit findings for the 2005-06, 2006-07 and 2007-08 fiscal years are summarized in Table 18.

Table 18: Audit Findings, ASB

Audit Finding 2005-2006 through 2007-2008	6-30-2006	6-30-2007	6-30-2008
2006-1 - Internal Control *Student body accounts: Bunker Elementary School.* Checks with only one signature, outstanding checks over one year remain on the bank reconciliation. Insufficient use of pre-numbered deposit receipts to account for funds collected.	X		
2006-1 - Internal Control *Student body accounts: Newark Junior High School.* Revenue potential forms were not prepared for significant fundraisers to document budgets and compare actual receipts and disbursements to the budgeted amounts. Poor ticket control over sales at ticketed events Pre-numbered deposit receipts were used for some collections but not all. A lack of proper approvals for disbursement documents. Cash collections from vending machines were not submitted in a timely manner. No sales reports were prepared for vending machines. No inventory report was prepared for the student store.	X	X	
2006-1 - Internal Control *Student body accounts: Newark Memorial High School.* Poor ticket control over sales of several athletic events. Insufficient tracking of ticket inventory. Cash received by the career center and athletics department was not in the custody of two individuals at all times. Deposit receipts do not indicate which deposit they were part of, therefore comparing receipts to actual amounts deposited to the bank is difficult	X	X	
2007-2 - Internal Control *Student body accounts at sites: Various school sites operating ASB.* Cash collections and budgeting. Revenue potential forms are not consistently prepared for significant fundraisers, or not reconciled to the general ledger. No reconciliation of dance tickets sold to the bank deposit. No explanation of overages. A lack of use of pre-numbered receipts. Cash received by the athletics department was in the custody of one individual.		X	X
2007-2 - Internal Control *Student body accounts at sites: Various school sites operating ASB.* Vending machine controls. Cash collections not collected/deposited in a timely manner. Auditors were unable to reconcile sales report to amount deposited. No sales reports or inventory reconciliation forms were used for some vending machines.		X	X

Audit Finding 2005-2006 through 2007-2008 (cont.)	6-30-2006	6-30-2007	6-30-2008
2007-2 - Internal Control *Student body accounts at sites: Various school sites operating ASB.* Sales of goods. The student store did not retain sales records or perform periodic inventory counts. The physical education (PE) department did not retain records for the PE clothes sales. Cash collections were deposited as a lump sum at the end of each week; however, no sales log or alternative record was maintained to document the source of money.		X	X
2007-2 - Internal Control *Student body accounts at sites: Various school sites operating ASB.* Financial information verification. Bank reconciliations were performed incorrectly, were not reconciled to the book balance, or did not use the proper time period cutoff.		X	X
2007-2 - Internal Control *Student body accounts at sites: Various school sites operating ASB.* Other controls. Disbursements were issued before they were approved by the student council. Some clubs were operating with negative fund balances. Site cash collected on behalf of the district, such as lost book and class fees, was commingled with ASB money, with checks prepared later to transfer those funds to the district office.		X	X
2007-3 – Internal Control Cash Handling. Monies turned in to the district office were not supported by receipts. Teachers do not consistently use the established forms for lost book fees collected. Some forms lack date of collection or the date of submittal to the district office.		X	X
2008-1 - Internal Control *Student body accounts at sites: Various school sites operating ASB.* Cash collections and budgeting. Revenue potential forms were not consistently prepared for significant fundraisers, or not prepared correctly. Ticket sale forms were prepared incorrectly. There was no documented explanation of the sporting event ticket sale overage/shortage.			X
2008-1 - Internal Control *Student body accounts at sites: Various school sites operating ASB.* Vending machine controls. Cash was not collected and/or deposited in a timely manner. Auditors were unable to reconcile the sales report with the amount deposited. No sales reports or inventory reconciliation forms were used for some vending machines.			X
2008-1 - Internal Control *Student body accounts at sites: Various school sites operating ASB.* Student Store. Student store overage/shortage existed. There was a lack of documentation regarding the student store daily reconciliation.			X

Audit Finding 2005-2006 through 2007-2008 (cont.)	**6-30-2006**	**6-30-2007**	**6-30-2008**
2008-1 - Internal Control *Student body accounts at sites: Various school sites operating ASB.* Disbursements. Disbursements were not always supported by invoice and/or receiving reports. There was a lack of prior approval by student council for purchase, and instances when goods were received and the purchased order prepared at the same time.			X
2008-1 - Internal Control *Student body accounts at sites: Various school sites operating ASB.* Other controls. Some clubs were operating with negative fund balances. Site cash collected on behalf of the district, such as lost book and class fee, was commingled with ASB money, with checks prepared later to transfer those funds to the district office.			X
2008-2 – Internal Control Site Cash Monies turned in to the district office were not supported by receipts. Teachers do not consistently use the established forms for lost book fees collected. Some forms lack the date of collection or the date of submittal to the district office. Some pre-numbered receipts did not contain the date of the collection or the date that the funds were submitted to the office.			X

Internal Control Practices and Procedures at Newark Junior High School and Newark Memorial High School

The FCMAT study team interviewed personnel from Newark Junior High School and Newark Memorial High School including the principals, athletic director, bookkeepers and clerical staff.

Newark Junior High School

The junior high school principal is in her first year at the school and with the district. She conducts monthly meetings that include the ASB bookkeeper and the certificated ASB advisor. The principal and her staff attended the California Association of State Business Officials' (CASBO) ASB training at the beginning of the school year to acquire a basic understanding of ASB accounting and internal controls. Under the principal's guidance, internal controls have been strengthened including procedures for cash handling, purchase authorization, bank reconciliation and segregation of duties. Six of the seven findings listed in the audit report for the junior high school have been addressed to date.

The principal indicated that the junior high school does not currently have formal booster clubs, foundations or scholarship funds. However, efforts are under way to establish a parent-teacher association, and staff expect it to be functioning before the end of the school year.

Newark Memorial High School

The high school principal is in her first year at the school and has begun to implement changes to address internal control issues involving the high school's ASB. Interviews with staff indicate that some practices and procedures still lack internal controls, including the following

- Gate receipts are taken home after games and delivered to the ASB office at a later date.
- Receipts are not consistently counted in the presence of the ASB bookkeeper.
- The athletic director, who also serves as the treasurer and a board member of the booster club, made several purchases and subsequently presented these to the ASB for reimbursement.
- Double custody (custody by more than one person) is not always maintained when cash is handled.
- Cash logs for sporting events are incomplete.
- Ticket logs are missing or incomplete.
- Cash receipts for the first home football game of the season, estimated at $3,400, are missing, as is the ticket log.

As noted above, the high school athletic director is also the treasurer and a board member of the athletic booster club. Although this may not be a conflict of interest as defined in Government Code section 1090, there is a perception among staff that a conflict of interest exists because of the numerous financial transactions that transpire between the two organizations. The principal mechanism for deterring fraud or illegal practices in any organization is a strong system of internal controls, including the following major components:

- A system of checks and balances.
- Segregation of duties.
- Cross-training of staff.
- Use of pre-numbered tickets and the maintenance of a control log.
- Defined procedures to protect assets, most notably cash, equipment, supplies and purchase cards.
- Timely reconciliations of bank statements and account balances.
- Maintenance of adequate inventory records and periodic physical inventory.
- Annual audit of accounts and follow-up procedures for corrective measures.

Essential to a district's ability to maintain a well operated ASB organization are district-level personnel who can offer training, expertise and support regarding the management of finances and the application of generally accepted accounting principles, procedural requirements in purchasing and contract law, and appropriate separation of duties.

The district's office personnel do not provide sufficient training in the proper handling of cash collections and reconciliations, the authorization and disbursement of funds, and the separation of duties. There is also a lack of periodic internal auditing of day-to-day ASB procedures and practices.

Lab and class fees are sometimes deposited into the ASB bank account and then moved to the district office. Using ASB accounts for student fees is not consistent with industry-standard practices and should be avoided.

FCMAT's interviews revealed that scholarship bank accounts are managed at the school site without the benefit of an organized scholarship program or fund. Scholarship monies are received and deposited into a separate bank account, and disbursements of scholarships are prepared and authorized by school site staff. This is atypical and inconsistent with industry standards. The appropriate vehicle for handling scholarship monies is a separate nonprofit scholarship fund with a board of directors and officers who are not school site or district employees. Such a fund would be responsible for maintaining its own bank accounts and for implementing sound internal controls over cash receipts, disbursements and management.

Recommendations

The district should:

1. Ensure that the district is in compliance with existing laws, regulations and district policies governing ASB accounting and related practices.
2. Assign individual business office staff members to address each audit exception, and hold them accountable for the proper and timely resolution of each exception. Include a time line for completion before the end of each fiscal year.
3. Ensure that the business office periodically reviews the status of the audit findings to ensure compliance, and provide additional training as needed.
4. Ensure that the district's administration requires all staff members to use existing forms and procedures for the following:
    - Separation of ASB and other site cash receipts for lost books.
    - Use of revenue potential forms.
    - Issuance of receipts for all cash received in the ASB office.
    - Timely and accurate bank reconciliations.
    - Sufficient separation of duties.
    - Rotation of staff for gate receipt handling.
    - Ensuring that all staff follow purchasing procedures.
5. Secure gate receipts in a locked safe immediately following sporting events. Cash receipts should never be removed from the campus except to be deposited into the ASB bank account.
6. Ensure that cash receipts are counted in the presence of the ASB bookkeeper or administrator.
7. Ensure that all purchases are approved in advance by the student council, including authorizations for reimbursements prior to the purchase.
8. Ensure that, without exception, the school principal authorizes all proposed ASB purchases before they are presented to the student council.
9. Ensure that double custody is maintained when cash is handled.
10. Ensure that cash logs are completed for all sporting events.
11. Ensure that ticket logs are fully accounted for and reconciled to the actual cash receipts for each ASB event.
12. Investigate the estimated $3,400 in missing cash receipts and the missing ticket log from the first home football game.

13. Direct the high school athletic director to resign as treasurer and board member of the booster club. Encourage the booster club to recruit and install a new treasurer and board member who is not a district employee.

14. Ensure that the major components of a strong internal control system indicated above are in place.

15. Provide staff with ASB training in the following areas:

    - Proper cash handling procedures
    - Bank reconciliation
    - Authorization procedures for purchasing and reimbursements

16. Perform a periodic internal audit of the day-to-day practices and procedures at the various ASB offices.

17. Address and correct all audit findings and establish procedures to ensure that findings do not recur.

18. Establish a separate nonprofit scholarship fund at the high school, with a board of directors and officers who are not school site or district employees.

Board Policies Regarding ASB

The governing board of a school district is ultimately responsible for the activities of student body. The school board establishes policies and procedures that specify how the student body will be managed and operated. These policies establish the structure for comprehensive financial practices and sound internal control systems. Best practices include updating board policies to reflect changes in laws and regulations, and reviewing policies periodically to ensure that they support the administration in fulfilling the duties designated by the governing board.

The district has not updated its board policies governing school-related organizations since 1995. Existing board policy and administrative regulation 1230 provides a brief overview regarding ASBs, but lacks detailed regulations and guidance in many areas, including the following:

Existing board policy and administrative regulation 1230 provides a brief overview regarding ASBs, but lacks detailed regulations and guidance in many areas.

- Applicable laws and education codes that affect ASB organizations.
- How fund-raising activities are to be conducted during and after school hours.
- Controls regarding soliciting students and making solicitations on behalf of the school.
- Definitions regarding lotteries or games of chance in violation of the penal code.
- How donations from outside organizations are to be received and reported to the school board.
- A provision of clear authority to the superintendent to administer ASB organizations.
- Prohibitions against conflicts of interest between district staff and ASB or other school-related organizations.

Recommendations

The district should:

1. Update its board policies regarding ASBs to ensure compliance with current laws and regulations, including those listed in this section.
2. Adopt policies and administrative regulations that provide the superintendent with the authority required to effectively administer ASB organizations.
3. Adopt policies and administrative regulations that prohibit district employees from serving as officers of school-related organizations when such a relationship would create an apparent and/or actual conflict of interest.

Internal Controls for Direct Cost Transfers

Direct cost transfers record transfer of the costs of services (other than indirect costs) between resources, goals, functions, and/or funds. Transfers of direct costs between functions typically include services provided or products developed by the school district, such as maintenance and repair of duplicating, audiovisual, or other equipment; photocopying expenses; field trips; district vehicle use; and information technology expenses.

These types of costs may be accumulated in a particular function for ease of accounting, then transferred to the appropriate function or functions (known as the benefiting function) based on supporting documentation. Typical transfers of direct costs between goals include the distribution of support costs to the appropriate goals.

This account is also used to record transfers of administrative costs on any basis other than the indirect cost rate, such as administrative costs that the general fund incurs for the calculation and collection of developer fees.

The district's schools and departments have experienced considerable difficulty managing charges related to graphic arts department work orders.

Most of the district's direct cost transfers (such as food service catering, maintenance work orders and transportation field trips) were completed with few difficulties. However, there have been difficulties with the timely collection of transportation invoices to outside parties; an inconsistent application of labor charges for elementary and secondary school field trips; and inconsistent charges for the labor costs of maintenance work orders. Staff members indicated, however, that these issues have either been resolved or are being reviewed.

Graphic Arts Charges

The district's schools and departments have experienced considerable difficulty managing charges related to graphic arts department work orders. The main concerns among schools and departments are the difficulty of matching charges to original work orders and the timeliness of posting charges to school and department accounts.

A paper work order is used to request a print job. The work order form specifies the type of printing services requested and the estimated delivery date, but does not provide a cost estimate. When the job is completed, the finished product is delivered to the initiator of the work order. An invoice is also generated, but not always provided with the printed materials.

The invoice is charged to the user via a direct cost transfer posted to the school's or department's account in the district's general ledger (if the customer was not a district school or department, an invoice is delivered). In past years, these transfers were often posted weeks or even months after the services were provided and invoices delivered. This created significant challenges for budget managers because they would experience a sudden and sometimes significant change to their account, which could cause actual expenditures to exceed budgeted amounts. Some transfers were so large that they completely exhausted all available budgeted funds for the school or department. In addition, direct cost transfers were often for multiple print jobs, with no clear indication of which charges related to which work orders.

Work orders were also sometimes submitted with a stamped administrator's signature as authorization; these were returned to the originator with a request to submit an original signature. At times, the paper order forms were lost or misplaced, creating additional service and billing issues. Administrators indicated that the district is developing an electronic work order process for use in the Escape financial system, which should significantly reduce these issues.

The district recently adjusted its procedures to address some of the issues identified above. Invoices are now prepared, and direct cost charges are posted, at least weekly. This should substantially reduce the time between the ordering of the job and the receipt of the product, invoicing and payment. These improvements will in turn reduce the possibility that a school or department budget will be overdrawn.

Challenges for graphic arts department staff have included significant increases in the volume of copies ordered, and an attendant increase in the time needed to complete the work. This situation contributed to delays in job completion, delivery, invoicing, and posting direct cost transfers.

Copy volume increased in large part because the district purchased copyrights and began copying instructional materials and textbooks to reduce costs. Schools made copies as directed, but an unintended consequence was that the cost of these materials was transferred from the instructional materials budget to the school site budgets. However, site budgets were not increased to cover the added costs, so school principals struggled to accommodate these costs in their budgets. This situation was further aggravated by the delays in direct cost transfers.

The district could consider using categorical funds, in particular its Instructional Materials Fund Realignment Program (IMFRP) resource 7156 dollars, to fund the copies, which would free school site budgets to fund other instructional program needs. However, FCMAT did not analyze the district's allocation plan for these funds.

The state budget crisis may result in districts being granted flexibility in all categorically funded state programs, which may make other demands against IMFRP funds. Information from the California Department of Education (CDE) Web site regarding IMFRP requirements is included in Appendix C and available at http://www.cde.ca.gov.

Restricted Proposition 20 lottery funds, resource 6300, could also be used to pay for the district's copying, though FCMAT did not analyzed the district's allocation plans for these funds. Information on the appropriate use of restricted lottery funds is contained in Appendix C.

District office accounting staff indicated that it was difficult to use the Escape financial system to distribute graphic arts department charges in a manner that could be readily understood by budget managers. There appeared to be no effective way to include the details by work order and by invoice, and the staff time needed to manually include this information was prohibitive.

Staff members indicated that some system improvements were implemented during the 2008-09 school year, including more frequent invoicing and strategies to lower graphic arts department volume, but there is still room for improvement.

A flowchart prepared by district staff depicting the proposed graphic arts procurement process is included in Appendix D. The flow chart does not indicate what happens when a request form is returned for lack of funds or lack of appropriate signature. In addition, there is no step indicating a cost estimate's development and acknowledgement by the customer. There is also no indication of how the invoicing process is integrated into the direct charge entry process in such a way that the user can determine which invoices and work orders are being charged.

Recommendations

The district should:

1. Include a cost estimate section on the work order form, and require that it be completed as part of the work order submission.
2. Ensure that sites, departments and other customers receive a copy of the completed work order, including the cost estimate.
3. Include work order numbers on invoices.
4. Submit invoices to customers in a timely manner.
5. Include work order and invoice numbers on direct cost transfers. Work with Escape system staff to determine the most efficient way to accomplish this using the Escape system.
6. Consider using restricted categorical funds to pay for copies of instructional materials and textbooks.
7. Implement the Escape online work order system as soon as possible for all district departments that serve schools and other departments.

Appendices

Appendix A

List of financial documents used to develop the multiyear financial projection.

and

Model format and outline for budget revisions submitted to the governing board.

Appendix B

FCMAT Multiyear Financial Projection Rules

Appendix C

Instructional Materials Fund Realignment Program - CDE Guidelines

and

Restricted Proposition 20 Lottery Funds – excerpt from CDE letter dated May 20, 2000 regarding appropriate use of funds

Appendix D

Draft Graphic Arts Flowchart

Appendix E

FCMAT Enrollment Projection for Newark Unified School District

Appendix F

FCMAT Fiscal Alert: Interim or Midyear TRANs

Appendix G

FCMAT Multiyear Financial Projection Summary for Projection I

Appendix H

Study Agreement

Appendix A

List of financial documents used to develop the multiyear financial projection.

and

Model format and outline for budget revisions submitted to the governing board.

List of financial documents used to develop the multiyear financial projection.

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

- Approval letters from the county office regarding the adopted budget and/or interim reports.
- Outside review, analysis or recommendations regarding to the district's financial condition
- 2008-09 SACS electronic data. file for the First Interim budget report.
- Financial system budget and actual reports.
- 2004-05 through 2007-08 unaudited actuals reports for all funds, and supporting schedules.
- Revenue limit worksheets, including all supporting schedules for 2007-08 and 2008-09.
- Historical enrollment information for the current year and five previous fiscal years, as well as projections for the subsequent two years.
- Data regarding interfund transfers for 2007-08 and 2008-09
- Period 1 (P-1), Period 2 (P-2) and Period 3 (P-3) attendance reports and California Basic Educational Data System (CBEDS) data for 2005-06 through 2008-09.
- Information on supplemental revenue sources such as redevelopment funds, general obligation bonds, etc.
- Identification of any one-time revenues or expenditures included in the 2008-09 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 2008-09
- Long-term debt schedules, 2007-08 and 2008-09
- District calculated multiyear projections done outside of the SACS multiyear format for 2008-09
- 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 retiree benefits as required by GASB 45

- Historical information on the health and welfare rates for the prior four years
- Independent audit reports, 2004-05 through 2007-08
- Ballot language for the Tax Override Bonds
- Copies of COPs agreements or any other financing mechanism for facility financing
- Board minutes for the 2007-08 and 2008-09 fiscal years

Model format and outline for budget revisions submitted to the governing board.

Fund Description and Budget Update

This includes a narrative describing each fund's legal use, with additional information specific to the district relating to that fund. Information is also included on when the budget was last revised and on any increases or decreases to the fund that have occurred since the last board-approved budget revision.

Budget Status

For each fund, the following is provided:

- The summary by major object code of the adopted budget
- The revised operating budget, including all changes since the budget was adopted
- Financial information to date, including all revenues received, bills paid, or transfers made through the current reporting period
- The encumbered transactions, which are purchase commitments based on approved purchase requisitions, purchase orders or contracts
- The balance of the revised operating budget, with the available balance after deducting the actual and encumbered transactions from the operating budget
- The percentage of the operating budget used through the current reporting period

Budget Revisions

Information regarding revisions should be provided by resource, identifying any material changes to the budget since the last budget revision. The narratives should also describe how the revision impacts the district's goals and objectives.

Appendix B

FCMAT Multiyear Financial Projection Rules

LEA: Newark Unified
Projection: Newark - 1-22-09 1st Interim Projection

Projection Rules

Rule	Description	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
CertCOLA	Certificated COLA %	0.00%	0.00%	0.00%
ClassCOLA	Classified COLA %	0.00%	0.00%	0.00%
CertColumn%	Certificated Staff Column Increase %	0.00%	0.00%	0.00%
CertStep%	Certificated Staff Step Increase %	0.00%	0.00%	0.00%
ClasStep%	Classified Staff Step Increase %	0.00%	0.00%	0.00%
CPI	California CPI (SSC)	2.90%	1.70%	2.70%
LOT-Res	California Lottery Restricted (SSC)	$11.50	$11.50	$11.50
LOT-Unr	California Lottery Unrestricted (SSC)	$109.50	$109.50	$109.50
INT	Interest Rate Trend for 10 Year Treasuries (SSC)	3.33%	3.55%	4.44%
NetCOLA	Net Funded Revenue Limit COLA (SSC)	-4.57%	-2.52%	0.50%
RLDef	Revenue Limit Deficit: K-12 (SSC)	9.69%	16.16%	16.16%
SpEdDef	Special Education Base Deficit (SSC)	0.00%	0.00%	0.00%
CatCOLA	State Categorical COLA (SSC)	0.00%	0.00%	0.50%
StCOLA	Statutory COLA (SSC)	5.66%	5.02%	0.50%
HW%	Health & Welfare Benefit Increase	0.00%	0.00%	0.00%
CustAmt	Custom Amount	$0.00	$0.00	$0.00
Cust%	Custom Percent	0.00%	0.00%	0.00%
Cust1Amt	Custom One Time Amount	$0.00	$0.00	$0.00
Cust1%	Custom One Time Percent	0.00%	0.00%	0.00%
ManInput	Manual Input	$0.00	$0.00	$0.00
PRO	Proportional	0.00%	0.00%	0.00%
Zap	Zero Out	$0.00	$0.00	$0.00
Enr	Year-to-Year Change in Enrollment	0.50%	-0.04%	0.92%
RL-ADA	Year-to-Year Change in RL ADA	0.00%	-0.04%	0.92%
TchrStfg	Year-to-Year Change in Teacher Staffing	0.00%	0.00%	0.00%
SalFrcstr	Salary Forecaster	$0.00	$0.00	$0.00
P2ADA	P2-ADA/ PRIOR YEAR ANNUAL ESTIMATE	0.00	6,842.90	6,839.93
BasicGrant	Title I Part A (Resource 3010)	3.20%	0.00%	0.00%
SpecEduc	Special Education (Resource 3310)	1.40%	0.00%	0.00%
TeachQual	Title II Part A (Resource 4035)	0.70%	0.00%	0.00%
RLDefCOE	County Office Revenue Limit Deficit	0.00%	5.36%	5.36%
EnEducTech	Title II Part D (Resource 4045)	-6.90%	0.00%	0.00%
LangAcqu	Title III Language (Resource 4203)	4.70%	0.00%	0.00%
SafeDrugFree	Title V Safe and Drug (Resource 3710)	-15.40%	0.00%	0.00%
InnProg	Title V Part A (Resource 4110)	-100.00%	0.00%	0.00%
21CLC (IV)	Title V now IV Part B (Resource 4124)	3.40%	0.00%	0.00%
ReadFirst	Title I Part B (Resource 3030)	-64.30%	0.00%	0.00%
EvenStart	Title I Part B, Even Start (Resource 3105)	-24.10%	0.00%	0.00%
CTechEdGrant	Career and Technical Ed Grants	-2.60%	0.00%	0.00%
SSC CSR	SSC-CSR/ SSC CSR	$0.00	$0.00	$0.00
K3 CSR	K3-CSR/ K3 CSR	$0.00	$0.00	$0.00
AutoBal	Autobalance Rule	$0.00	$0.00	$0.00
FedCOLA	Federal COLA	0.00%	0.00%	0.00%
IndirectRate	Indirect Rate	0.00%	0.00%	0.00%

Appendix C

Instructional Materials Fund Realignment Program - CDE Guidelines

and

Restricted Proposition 20 Lottery Funds – excerpt from CDE letter dated May 20, 2000 regarding appropriate use of funds

Instructional Materials Fund Realignment Program - CDE Guidelines

IMFRP Quick Summary

This is a simplified summary of the requirements of the IMFRP. See the more detailed explanation below for further details.

1. Use IMFRP funds to provide each pupil, kindergarten through grade twelve, with adopted standards-aligned textbooks or basic instructional materials in reading/language arts, mathematics, science and history-social science. This must be done within 24 months of any new state adoptions in these subject areas for kindergarten through grade eight.
2. When all pupils have standards-aligned instructional materials in the four subjects listed above, the governing board certifies that this has been accomplished. See sample IMFRP Certification-Suggested Language (DOC; 25KB; 2pp.).
3. Districts may now use IMFRP funds to purchase other state adopted materials, for kindergarten though grade eight, such as foreign language, health, and visual and performing arts or other locally adopted materials for grades nine through twelve.
4. The district governing board holds its annual hearing and adopts a Suggested Resolution on Sufficiency of Instructional Materials (DOC; 27KB; 3pp.).

If all the above has been accomplished, then the district may use any remaining IMFRP funds for other approved purposes (see question # 12)

Question 1:
What are "instructional materials?"

Answer:

The definition of instructional materials is in *Education Code* Section 60010 (h). It states "instructional materials means all materials that are designed for use by pupils and their teachers as a SCHOOL DISTRICT training resource and help pupils acquire facts, skills, or opinions or develop cognitive processes. Instructional materials may be printed or nonprinted, and may include textbooks, technology-based materials, other educational materials, and tests". This includes Web-based and electronic textbooks.

Question 12:
What are the "Other Approved Purposes" for IMFRP?

Answer:

Once a district or county office of education has 1) provided all students with standards-aligned textbooks or basic instructional materials in the four core academic areas and 2) met the requirements of Section 60119 then any remaining funds in the annual IMFRP allocation may be used for other stated purposes as listed in Section 60242 (a). These include the following:

- Purchase "at the district's discretion, instructional materials, including, but not limited to, supplementary instructional materials and technology-based materials, from any source." These instructional materials must be reviewed and approved for compliance with the legal and social requirements of *Education Code* sections 60040-60045 and 60048 and the State Board of Education guidelines in Standards for Evaluating Instructional Materials for Social Content (PDF, 626KB; 20pp.) 2000 edition. The legal and social compliance review may be done locally or at the state level. Materials that have passed the state level review are listed in Legal and Social Compliance Approved Out-of-Cycle Instructional Materials.

- Purchase tests.
- Purchase classroom library materials for Kindergarten through grade four.
- Bind basic textbooks that are otherwise usable and are on the most recent list of basic instructional materials adopted by the State Board of Education.
- Fund in-service training related to instructional materials. (Note that the California Code of Regulations (CCR), Title 5, Section 9505 states: No cash allotment authorized by *Education Code* Section 60242(b) for purchase of in-service training shall be expended for salaries or for travel or per diem expenses of district employees during or attendant to participation in such in-service training.)

Question 14:
What does it mean in the IMFRP that "each pupil is provided with" instructional materials?

Answer:

There is no specific definition of the phrase "provided with." The local governing board will determine how it will provide these textbooks or basic instructional materials to students. However, *Education Code* Section 60119 now defines sufficient textbooks or instructional materials to mean that, "each pupil, including English learners, has a textbook, or instructional materials, or both, to use in class and to take home."

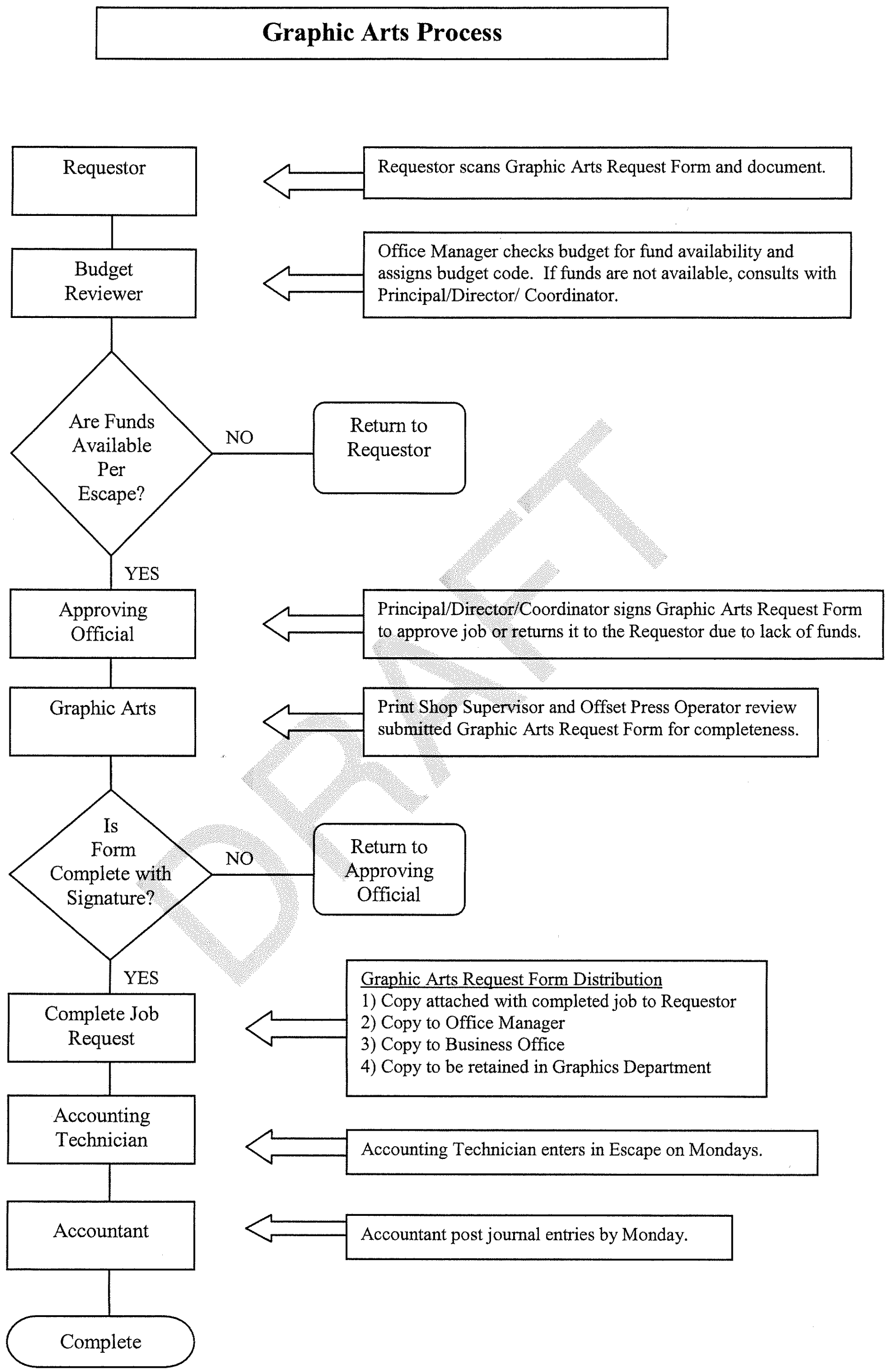
Restricted Proposition 20 Lottery Funds – excerpt from CDE letter dated May 20, 2000 regarding appropriate use of funds

- Proposition 20 states that the funds are "for the purchase of instructional materials" and does not define instructional materials any further. *Education Code* Section 60010(h) states that "Instructional materials" means "all materials that are designed for use by pupils and their teachers as a learning resource and help pupils to acquire facts, skills, or opinions or to develop cognitive processes. Instructional materials may be printed or non-printed, and may include textbooks, technology-based materials, other educational materials, and tests."

- *Education Code* Section 60119 requires that governing boards of school districts that receive funds for instructional materials from any state source must hold a public hearing or hearings. Since Proposition 20 funds are from a state source, they fall under the requirements of this section. However, if a district has already held their public hearing for the fiscal year, a second hearing need not be held just to address these funds since the main purpose of the public hearing is to make a determination as to whether there are sufficient textbooks and instructional materials, and this would have been accomplished in the first hearing.

Appendix D

Draft Graphic Arts Flowchart



Appendix E

FCMAT Enrollment Projection for Newark Unified School District

LEA: Newark Unified
Projection: Newark - 1-22-09 1st Interim Projection

Enrollment, P2ADA & Enrollment Factors

Enrollment	Historical 5 2003 - 04	Historical 4 2004 - 05	Historical 3 2005 - 06	Historical 2 2006 - 07	Historical 1 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
K	557	509	539	493	541	574	514	514
1	567	571	495	550	510	540	577	523
2	529	576	577	498	563	522	552	587
3	588	538	552	570	484	531	503	534
4	538	591	515	548	577	508	541	511
5	587	541	564	497	548	575	505	534
Subtotal (K - 5)	3366	3326	3242	3156	3223	3250	3192	3203
6	563	594	526	551	513	544	575	505
7	592	578	583	511	541	519	544	569
8	581	614	549	576	525	547	525	549
Subtotal (6 - 8)	1736	1786	1658	1638	1579	1610	1644	1623
9	557	595	633	577	594	553	574	549
10	574	558	579	624	591	595	553	576
11	593	585	549	555	618	576	581	539
12	595	584	580	552	537	594	564	568
Subtotal (9 - 12)	2319	2322	2341	2308	2340	2318	2272	2232
Ungraded Elementary	0	0	0	0	0	0	0	0
Ungraded Secondary	0	0	0	0	0	0	0	0
Subtotal Excluding Charter Schools	7421	7434	7241	7102	7142	7178	7108	7058
Charter Schools (to calculate in-lieu property taxes)	0	0	0	0	0	0	0	0
Total	7421	7434	7241	7102	7142	7178	7108	7058

P2ADA	Historical 5 2003 - 04	Historical 4 2004 - 05	Historical 3 2005 - 06	Historical 2 2006 - 07	Historical 1 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Excluding Charter Schools	0.00	7085.60	6907.30	6765.20	6810.90	6842.90	6776.06	6728.39
Charter Schools (to calculate in-lieu property taxes)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
COE CommSchs/SpEd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	0.00	7085.60	6907.30	6765.20	6810.90	6842.90	6776.06	6728.39

Enrollment Factors	Historical 5 2003 - 04	Historical 4 2004 - 05	Historical 3 2005 - 06	Historical 2 2006 - 07	Historical 1 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Excluding Charter Schools	0.0000	0.9531	0.9539	0.9526	0.9536	0.9533	0.9533	0.9533
Charter Schools (to calculate in-lieu property taxes)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Appendix F

FCMAT Fiscal Alert: Interim or Midyear TRANs

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

Alert
January 2009

Interim or Midyear Tax and Revenue Anticipation Notes (TRANs)

Resources and strategies for managing cash flow in times of state apportionment deferrals

Background

The recent early release of Governor Schwarzenegger's 2009-10 budget proposal underscores the severity of the state's budget and cash crisis, and establishes the governor's plan for closing what is now projected to be a $41.6 billion shortfall for the remainder of the 2008-09 and the 2009-10 fiscal years. This is the most challenging budget in the state's history, and the governor's proposal uses a multitude of funding solutions and major spending reductions to address this crisis, including but not limited to revenue increases, categorical flexibility, borrowing, and cash management strategies such as deferrals. Because of the number of apportionment deferrals currently included in the budget language, the state's cash flow crisis has been transferred to all local educational agencies (LEAs).

According to Government Code Section 53854, an LEA may issue a tax and revenue anticipation note (TRAN) payable up to 15 months after the date of issuance. Such a note is payable only from revenue received or accrued during the fiscal year in which it was issued.

On Thursday, January 15, 2009, the Governor's Office acknowledged that they are proposing an additional apportionment deferral of $2.7 billion from July and August 2009 to September 2009. This proposed deferral would be in addition to legislation previously enacted that would delay from February 2009 to April 2009 the payment of $2.6 billion in revenue limit and class-size reduction (CSR) funding. The January proposal would also be in addition to the governor's 2008-09 midyear proposal, which was introduced with the 2009-10 budget proposal and includes a deferral from April to July 2009. Although the latest proposed deferral has not been part of any of the budget documents released to date, the proposal was confirmed by the Department of Finance and the Legislative Analyst's Office.

Compounding this crisis for many LEAs is the recent notification from the State Allocation Board that the funding of construction apportionments for school districts and county offices of education, many of which were anticipat-

FCMAT

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Office of Kern County
Superintendent of Schools

ing funding through the Office of Public School Construction (OPSC), has been suspended.

According to Government Code Section 53854, an LEA may issue a tax and revenue anticipation note (TRAN) payable up to 15 months after the date of issuance. Such a note is payable only from revenue received or accrued during the fiscal year in which it was issued. Because the governor's January budget proposal includes deferral language, FCMAT recommends that LEAs update their current cash flow projections and review the need to issue midyear or interim TRANs to meet any cash flow deficiencies for the balance of the fiscal year.

The purpose of a cash flow statement is to project the timing of receipts and expenditures so that an LEA can understand and meet its cash requirements on an ongoing basis, whether that is monthly or daily. The cash flow statement should indicate the LEA's liquidity and its ability to meet payroll and other current financial obligations. Because it excludes transactions that do not directly affect cash receipts and payments, the cash flow analysis is an analytical tool that should not be confused with the LEA's budget and fund balance.

State cash flow deferrals

As the state struggles with its own cash flow crisis, school district apportionments will be directly affected in the 2008-09 and 2009-10 fiscal years. Two deferrals have already been enacted into legislation, one through the 2008-09 Budget Act, AB 1781, and the other through emergency legislation ABX3 4. Further, the current budget proposal includes one additional deferral of the principle apportionment and CSR allocations as noted above, and a subsequent proposal to defer the 2009-10 July and August apportionments

LEAs should immediately review and evaluate their cash flow requirements and update cash flow projections for all funds in light of the deferral schedule provided in the table below. The table is an estimate based on discussions with the California Department of Education (CDE) and analysis of the governor's budget proposals.

Principal Apportionment Deferral Schedule:

Principal Apportionment	July 2008	September 2008	February 2009	April 2009	June 2009	July 2009	August 2009	September 2009
Enacted from emergency legislation ABX3 4	(100%)	100% of July 2008 paid in September 2008						
2008-09 Budget Act AB 1781			(50%)	50% of February 2009 paid in April 2009				
Governor's January budget proposal – no exceptions				(50%)		50% of Apr. 2009 paid in July		
P2 shift enacted in legislation 2002-03 – no exceptions					(100%)	100% of June 2009 paid in July 2009		
Proposed – no exceptions						(100%)		100% of July 2009 to Sept 2009
Proposed – no exceptions							(100%)	100% of August 2009 paid in Sept 2009

Class-Size Reduction Deferral	Nov 2008	Feb 2009	Apr 2009	July 2009	Totals in Millions
Allocations before the July deferral (including the February to April cash flow shift enacted in the 2008-09 Budget Act.)	25%	31%	44%	100%	1815.5
Proposed *	25%	31%	13%	31%	1815.5

*The final payment of 31% in July is a shift much like the P2 shift.
*Information provided by the California Department of Education (CDE).

Legal requirements regarding tax and revenue anticipation notes (TRANs)

Government Code Section 53852 states the following:

> On or after the first day of any fiscal year a local agency may borrow money pursuant to this article, the indebtedness to be represented by a note or notes issued to the lender pursuant to this article. The money borrowed may be used and expended by the local agency for any purpose for which the local agency is authorized to use and expend moneys, including but not limited to current expenses, capital expenditures, investment and reinvestment, and the discharge of any obligation or indebtedness of the local agency.

Recommended Actions

Following are actions LEAs should evaluate and consider taking now to meet current payroll and other financial obligations.

Fiscal year 2008-09 midyear and 2009-10 full year tax and revenue anticipation notes (TRANs)

TRANs consist of short-term borrowing, up to 15 months for maturity, and may be issued under tax-exempt status. A TRAN can be issued for a single LEA, or pooled with other LEAs to reduce costs. The notes can be sold competitively or negotiated, depending on market conditions and credit issues.

For the purpose of this discussion, an interim or midyear 2008-09 TRAN should not be confused with a separate TRAN that may be needed to alleviate a 2009-10 cash flow deficit. Any 2009-10 TRAN would be a completely separate legal obligation and would be calculated separately from any 2008-09 interim TRAN. Each TRAN is calculated and based on the financial status and cash flow needs of a particular fiscal year.

Because of the timing and the potential that many LEAs will need cash flow solutions before the end of the 2008-09 fiscal year, FCMAT held discussions with fiscal advisors from Bank of America and reviewed alternative pooled TRAN structures that include multiple local educational agencies.

Information from the review indicates that a county office of education could stand in as an issuer for a pool of district notes. In this case, a county office of education would issue a single note via a public TRAN sale (offering) and use the proceeds to purchase the individual district notes. The county office of education would also pledge to intercept the districts' 2008-09 revenues to repay each district's TRAN and thus meet the combined total obligation. This pooled offering would be less costly and provide a more efficient legal structure than individual TRANs for each district.

This option is only recommended for cash flow deficiencies related to the general fund; it should not be used in lieu of state matching funds for capital, construction or facility costs. Currently, TRANs in the market carry very low interest rates and it is estimated that the total transaction costs, including issuance costs, would not be more than 2%.

Other cash management strategies and time lines

Internal borrowing can provide a simple cash management solution, but only if cash is available in the LEA's other funds. External borrowing may require additional time because an LEA must go outside its own agency for funds. Options for cash management include the following:

- **Internal borrowing between district funds** is authorized by Education Code Section 42603, which allows LEAs to borrow temporarily between funds to address cash flow shortages. This situation will need to be assessed at least monthly and will depend on the LEA's spending patterns during the last four months of the fiscal year. This is the most common method used by LEAs; however, it works only if there is cash available in other funds.

  This type of borrowing has several limitations. No more than 75% of the money held in any fund during the current fiscal year may be transferred. In addition, if the transfer is completed prior to the last 120 days of the fiscal year, the funds must be repaid by June 30 of the same 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 fiscal year.

- **LEAs may borrow from the county office of education in accordance with Education Code sections 42621 and 42622.** However, this option depends on the county office being willing and able to provide funds. Based on the current economic outlook, this may not be an option because county offices of education are monitoring their own cash balances and are often unable to accommodate these types of requests.

- **Education Code Section 42620 also allows LEAs to borrow from the county treasurer.** Under Article XVI, Section 6 of the California Constitution, the county treasurer <u>must</u> provide funds to an LEA if the LEA is not able to meet its obligations. <u>However, the county treasurer cannot loan districts money after the last Monday in April of the current fiscal year.</u> In addition, this type of borrowing requires the approval of the governing board by formal resolution. The loan cannot exceed 85% of the amount of money which will accrue to the school district or county school service fund during the fiscal year, and repayment must be made from the first monies received by the LEA before any other obligation is paid. The advantage of having the county treasurer provide the funds is that the treasurer is able to take repayment directly from receipts prior to any distribution to the LEA.

Additional assistance

For additional assistance, LEAs should contact their respective oversight agencies or visit FCMAT's website at www.fcmat.org and submit an online request for assistance.

Disclosure

In an effort to assist LEAs, FCMAT contacted Bank of America to review alternative pooled structures for issuing interim or midyear TRANs. While FCMAT does not recommend or promote individual vendors, interested parties can contact Mr. Scott Gorzeman at (213) 345-4494 or via email at scott.gorzeman@bankofamerica.com.

Appendix G

FCMAT Multiyear Financial Projection Summary for Projection I

LEA: Newark Unified
Projection: Newark - 1-22-09 1st Interim Projection

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

Name	Object Code	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Revenues				
Revenue Limit Sources	8010 - 8099	$38,336,324.52	$37,386,931.60	$37,208,221.22
Federal Revenues	8100 - 8299	$2,907,251.00	$2,731,791.00	$2,731,791.00
Other State Revenues	8300 - 8599	$11,591,608.00	$11,557,522.94	$11,584,635.41
Other Local Revenues	8600 - 8799	$4,666,647.00	$4,672,966.00	$4,681,149.76
Total Revenues		$57,501,830.52	$56,349,211.54	$56,205,797.39
Expenditures				
Certificated Salaries	1000 - 1999	$33,272,680.00	$33,714,190.54	$34,172,842.20
Classified Salaries	2000 - 2999	$9,248,311.00	$9,374,780.91	$9,506,610.02
Employee Benefits	3000 - 3999	$8,339,671.00	$8,421,636.12	$8,507,535.95
Books and Supplies	4000 - 4999	$5,229,242.56	$2,882,116.38	$2,843,691.85
Services and Other Operating Expenditures	5000 - 5999	$6,081,326.00	$6,102,280.09	$6,235,732.50
Capital Outlay	6000 - 6900	$892,149.00	$0.00	$0.00
Other Outgo	7000 - 7299	$1,334,231.00	$1,334,231.00	$1,339,358.96
Direct Support/Indirect Cost	7300 - 7399	($91,124.00)	($111,075.00)	($111,075.00)
Debt Service	7430 - 7439	$275,233.00	$275,232.00	$137,616.00
Total Expenditures		$64,581,719.56	$61,993,392.04	$62,632,312.48
Excess (Deficiency) of Revenues Over Expenditures		($7,079,889.04)	($5,644,180.50)	($6,426,515.09)
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	$2,734,829.00	$60,000.00	$30,000.00
Interfund Transfers Out	7600 - 7629	$324,468.00	$314,428.00	$317,622.00
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		$2,410,361.00	($254,428.00)	($287,622.00)
Net Increase (Decrease) in Fund Balance		($4,669,528.04)	($5,898,608.50)	($6,714,137.09)
Fund Balance				
Beginning Fund Balance	9791	$5,543,565.75	$874,037.71	($5,024,570.79)
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$5,543,565.75	$874,037.71	($5,024,570.79)
Ending Fund Balance		$874,037.71	($5,024,570.79)	($11,738,707.88)
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Revolving Cash	9711	$25,000.00	$25,000.00	$25,000.00
Stores	9712	$60,339.61	$60,339.61	$60,339.61
Prepaid Expenditures	9713	$32,169.70	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		3.00%	3.00%	3.00%
Designated for Economic Uncertainties	9770	$1,947,185.63	$1,869,234.60	$1,888,498.03
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Designated	9780	$315,000.88	$415,001.00	$515,001.00
Undesignated/Unappropriated	9790	$0.00	$0.00	$0.00
Negative Shortfall	9790	($1,505,658.11)	($7,394,146.00)	($14,227,546.52)

Appendix H

Study Agreement

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
September 29, 2008

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

1. BASIS OF AGREEMENT

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

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The scope and objectives of this study are to:

1) Prepare a multiyear financial projection using FCMAT's Budget Explorer software to identify the financial condition of the district's general fund in 2009-10 and 2010-11 using identified industry variables. The projection will be based on a review of the district's 2008-09 adoption budget and 2007-08 unaudited actuals report, as well as revenue and expenditure trends of recent years.

2) Prepare a fiscal health analysis using the 17 factors included in the FCMAT Fiscal Health Risk Analysis model, and identify the district's risk rating.

3) Conduct a review of the district's budget development, monitoring, and updating processes and procedures and provide recommendations that, if implemented, will help insure that all budgets reflect current revenue and expenditure expectations.

B. Services and Products to be Provided

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

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

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

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

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

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

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

3. PROJECT PERSONNEL

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

A. Jim Cerreta, FCMAT Fiscal Intervention Specialist
B. Two FCMAT Fiscal Consultants

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

4. PROJECT COSTS

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

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

B. All out-of-pocket expenses, including travel, meals, lodging, etc. Based on the elements noted in section 2 A, the total cost of the study is estimated at $14,000. The District will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the District.

C. Any change to the scope, and/or any delay caused by the District because of an inability to provide information included on FCMAT's document request list in a timely manner will affect the estimate of total cost.

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

5. RESPONSIBILITIES OF THE DISTRICT

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

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

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

C. The District Administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the Team prior to completion of the final report.

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

6. PROJECT SCHEDULE

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

Orientation:	(Estimated timeline late November or early December)
Staff Interviews:	(Estimated timeline late November or early

	December)
Exit Interviews:	to be determined
Preliminary Report Submitted:	(six weeks following completion of on-site work)
Final Report Submitted:	to be determined
Board Presentation:	to be determined
Follow-Up Support:	If requested

7. CONTACT PERSON

Please print name of contact person: Steven Shields, Chief Business Official

Telephone 510 818-4114, ext. 4114 FAX 510 818-4130

Internet Address

Kevin E. Harrigan 10/7/08

Kevin Harrigan, Superintendent Date
Newark Unified School District

Barbara Dean

September 29, 2008

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

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