



**Administrative Agent**  
**Larry E. Reider**  
**Kern County**  
**Superintendent of Schools**

Chief Executive Officer  
Joel D. Montero

# **Tehama County Office of Education**

**Regarding**

## **Sacramento River Discovery Charter School**

**Fiscal Review**

April 7, 2006



**Fiscal  
& Crisis  
Management  
Assistance  
Team**

April 7, 2006

Robert Douglas, Superintendent  
Tehama County Office of Education  
1135 Lincoln Street  
Red Bluff, CA 96080

Dear Superintendent Douglas:

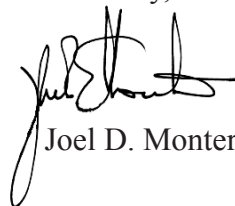
In February 2006, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from the Tehama County Office of Education for a review of the Sacramento River Discovery Charter School that would perform the following:

1. Analyze and validate the charter school revenue and expenditure budget allocations for the current and two subsequent years and provide recommendations for changes, if needed.
2. Analyze the charter school facility debt to determine if it can be re-structured to better meet program and cash flow needs and provide recommendations for changes, if needed.
3. Conduct a review of the charter school business systems, internal controls, and oversight and provide recommendations for changes, as necessary.

FCMAT conducted fieldwork at the Tehama County Department of Education and charter school February 28, 2006 - March 2, 2006. This report is the result of that effort.

We have appreciated the opportunity to serve you, and we extend our thanks to all the staff of the Tehama County Office of Education.

Sincerely,



Joel D. Montero, Chief Executive Officer

**Administrative Agent**  
**Larry E. Reider**  
**Office of Kern County**  
**Superintendent of Schools**

**Chief Executive Officer**  
**Joel D. Montero**

**FCMAT**  
1300 17th Street – CITY CENTRE  
Bakersfield, CA 93301-4533  
Telephone .....661-636-4611  
Fax .....661-636-4647  
Web site .....www.fcmat.org

**Northern California Office**  
422 Petaluma Blvd. North, Suite C  
Petaluma, CA 94952  
Telephone .....707-775-2850  
Fax .....707-775-2854



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# Foreword

## FCMAT Background

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

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

Since 1992, FCMAT has been engaged to perform more than 500 reviews for local educational agencies, including school districts and county offices of education. 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.

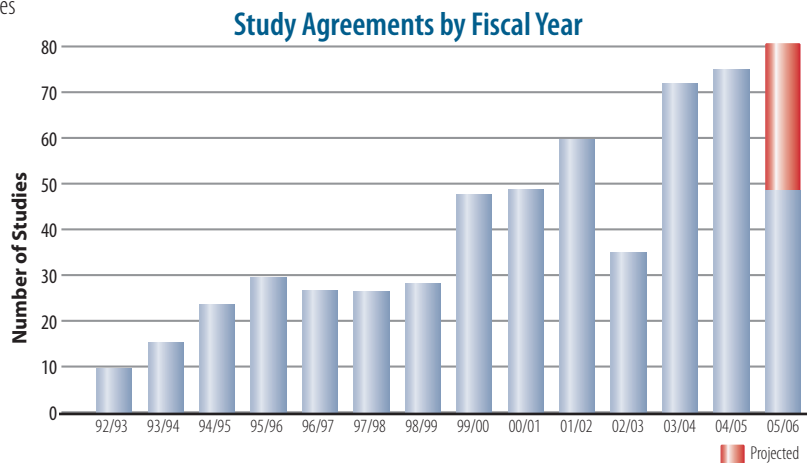
**Total Number of Studies ..... 550**

**Total Number of Districts in CA..... 982**

- Management Assistance..... 501 (91.09%)
- Fiscal Crisis/Emergency ..... 42 (7.63%)
- Emergency Loan.....7 (1.27%)

Note: Some districts had multiple studies

(Rev. 2/10/06)







# Introduction

## *Background*

The Sacramento River Discovery Charter School was established in the 2001-02 fiscal year, and the Articles of Incorporation of the Non-Profit Public Benefit Corporation were endorsed by the California Secretary of State on September 3, 2002. The mission of the school is “to develop a populace that better understands, appreciates, and manages natural resource systems. With this goal as an integrating context for learning, students will become competent, literate citizens with a variety of experiences supporting their development as complex thinkers and problem solvers capable of holistically managing natural resources for a healthier world.”

The school was chartered through the Red Bluff Union Elementary School District and contracted with the district for fiscal services, including the processing of accounts payable and vendor warrants, and associated reporting. Red Bluff Union Elementary also provided special education services to charter students. The charter converted to direct funding in 2005-06 and implemented direct online entry of accounts payable and payroll information to the county office financial system.

In December 2005, the charter school submitted its Renewal Charter Petition to the district for approval. The district convened a public hearing on January 17, 2006 in compliance with Education Code section 47605(b) to accept oral or written input regarding the school. On February 14, 2006, the district denied the renewal of the charter school. In resolution 05-06-06, the district cited findings of fact in 28 areas of both programmatic and financial operations as a basis of denial.

The Tehama County Department of Education and district contacted FCMAT on February 2, 2006 with a request for management assistance services in anticipation of a charter appeal of the petition. The scope of work agreed to between the parties called for FCMAT to perform the following:

1. Analyze and validate the charter school revenue and expenditure budget allocations for the current and two subsequent years and provide recommendations for changes, if needed.
2. Analyze the charter school facility debt to determine if it can be restructured to better meet program and cash flow needs and provide recommendations for changes, if needed.
3. Conduct a review of the charter school business systems, internal controls, and oversight and provide recommendations for changes, as necessary.

## *Study Team*

The study team was composed of the following members:

Barbara Dean  
FCMAT Deputy Administrative Officer  
Bakersfield, CA

Leonel Martínez  
FCMAT Public Information Specialist  
Bakersfield, CA

Michele McClowry, CPA  
FCMAT Management Analyst  
LaVerne, CA

## *Study Guidelines*

The FCMAT study team conducted field work at the Tehama County Department of Education and the charter school on February 28 and March 1-2, 2006 in order to conduct interviews and gather documents. This report is a result of those efforts and is divided into the following sections:

- I. Executive Summary
- II. Debt
- III. Revenues, Expenditures, and Multiyear Projection
- IV. Special Education
- V. Processes and Procedures
- VI. Time lines and Key Dates

# Executive Summary

Despite its fiscal difficulties, the Sacramento River Discovery Charter School has the potential to remain solvent if renewal is granted and if certain factors are realized and maintained over time. These factors are detailed in the findings and recommendations section of this report.

Shortly before completing this report, the charter school faxed FCMAT a letter from the Grossman Family Trust to the charter with information that will have a material impact on the issue of the charter debt.

If the district charter is renewed and the charter and the Grossman Family Trust implement one of the options proposed, the charter's financial position would become more flexible and allow normal ongoing costs such as salary increases and the purchase of additional materials and supplies to take place. This option would also allow the charter school to remain in a facility that is well suited to their current and future needs.

As a California public school, the Sacramento River Discovery Charter School is required to comply with all federal and state special education regulations and laws and is prohibited from discriminating against any student solely on the basis of disability. Special education services are currently provided to seven charter students with Individualized Education Programs (IEPs) requiring resource specialist services by the Red Bluff Union Elementary School District, the chartering agency. No students are enrolled in the charter at this time, requiring more advanced placements such as special day classes or nonpublic school services. The charter school should establish standards and guidelines on who will provide special education programs and how student services will be provided.

The Tehama County Special Education Local Plan Area (SELPA) funding model distributes AB 602 special education funding for the charter students to the Red Bluff Union Elementary School District. Between the AB 602 funds and the direct payment from the charter school, the amount going to Red Bluff Union Elementary is \$39,130. The charter school should work with the SELPA to amend the current AB 602 funding distribution formula to provide funding for the charter students to the agency that will be providing the services. The school also should develop a long-range financial plan to enable the charter to pay for any additional special education services that should be needed if a student enrolls in the school needing special day class or nonpublic school services.

The charter school does not currently have formal, board-approved policies, procedures, or guidelines addressing its business operations. The school should develop and approve board policies and procedures addressing all aspects of the charter's business operations.

Until recently, the charter administrator/principal had sole authority regarding purchase decisions. Purchases were made using credit cards without purchase requisitions. Many decisions regarding the acquisition and construction of the new school were not discussed with the board. With one exception, all contracts were approved by the board.

The charter school should establish maximum dollar amounts for purchases that employees are authorized to make without using a purchase requisition. The school also should seek board approval for all purchase requisitions prior to the purchase being made. Further, the charter school should adhere to bid, price quote, and contract standards for all major purchases and construction projects.

# Findings and Recommendations

## *Debt*

During the first several years of the Sacramento River Discovery Charter School's operations, classes were held in temporary locations. The conditions were less than adequate, prompting the charter principal to search for alternatives that would provide a more suitable learning environment for students. In 2003, the charter school obtained a Charter School Revolving Loan for \$200,000 from the state. In the 2003-04 fiscal year, the charter purchased property in Red Bluff to build a permanent school site. To complete the planned school facility, the charter sought funds from several sources. In September 2004, trustees of the Grossman Family Trust agreed to loan the charter school \$460,000 at six percent interest, to be paid in semiannual payments of \$55,544 through March of 2010.

The loan from the Grossman Family Trust was increased to \$600,000 due to cost overruns on the project. The repayment schedule of this loan was revised to include a delay in the start date of the payments, with only three payments due in 2005-06. Annual principal and interest payments of \$65,757 are to be made (12 monthly payments of \$5,479.75) through December 2015. A balloon payment of \$290,564 is due in January 2016.

However, additional funds were still needed to complete the charter school facility. The school Principal borrowed from her personal assets to loan the charter an additional \$124,000. The proceeds included \$25,000 from a personal tax sheltered annuity (TSA) account and \$99,999 from a personal home equity loan. The TSA loan is being repaid by quarterly principal and interest payments of approximately \$1,519 and will be paid in full in 2009. The home equity loan is being paid with interest-only payments on a variable interest rate. The current monthly payment amount is approximately \$641. The study team was unable to document an existing repayment plan for the principal on this loan.

The charter school Principal contacted four local lending institutions, but was unable to secure conventional financing that would allow a 30-year repayment schedule. Because the charter's property and buildings are classified as commercial property, they do not qualify for a 30-year term. The charter plans to refinance the debt prior to the balloon payment in order to extend the amount of time available for more reasonable annual payments until the loan is paid in full. FCMAT did not receive documentation showing that this option is acceptable to the Grossman Family Trust.

Without other funding options, the charter will be unable to service the long-term debt liabilities unless conditions noted in the multiyear projection section of this report are realized. The loan from the Grossman Family Trust and the property and school site of the charter are recorded in the name of the charter. If the charter is not renewed, it could be forced into bankruptcy, the assets liquidated, and the resulting proceeds distributed to the creditors based on the criteria of the notes.

## 6 | FINDINGS AND RECOMMENDATIONS

### Debt

The potential exists for a sponsoring agency to issue Certificates of Participation to pay off the outstanding loans. While this would provide an extension of the time needed to repay the loans, it would expose the sponsoring agency to additional risk. The charter chief business official (CBO) has listed in the second interim report other options that could be pursued if and when the charter petition is renewed.

Shortly before completing this report, the charter school faxed FCMAT a letter from the Grossman Family Trust to the charter with information that will have a material impact on the issue of the charter debt. The letter states:

“We would be willing to accept the School’s conveyance of the real property to the Trust free and clear of all liens and encumbrances other than those shown on the title insurance issued in connection with the loan in full and complete satisfaction and discharge of the School’s obligation to us under the promissory note. We would then lease the property to the School for a monthly rental of \$3,221.81 which equals simple interest at the rate of six percent per annum calculated on a monthly basis on the total amount due under the promissory note. The lease would be for a term of five years. The lease would provide the School with an option to purchase the property at any time during the term of the lease for a purchase price of \$644,362.95 provided it was not in default in performance of the lease.

Alternatively, we would be willing to consider further modification of the terms of the promissory note, including possibly extending the term over which installment payments are to be made and thus decreasing the amount of the installments.

Please discuss the foregoing with your board of directors and advise as to which alternative the School wishes to pursue.”

If the district charter is renewed and the charter and the Grossman Family Trust implements one of the options shown above, the charter’s financial position would become more flexible and allow normal ongoing costs such as salary increases and the purchase of additional materials and supplies to take place. This option would also allow the charter school to remain in a facility that is well suited to their current and future needs.

## *Revenues, Expenditures, and Multiyear Projection*

FCMAT verified and validated the Sacramento River Discovery Charter School's current year appropriations and used the charter's second interim report as the base year for a five-year multiyear projection. Multiyear projections generally do not extend beyond three years because of the uncertainty of local and statewide funding and enrollment and changes regarding average daily attendance (ADA). Paying the final payment of the State Charter School Revolving Loan in 2007-08 will help improve the charter's ability to meet other debt obligations in later years. The annual loan payments for 2005-06 through 2007-08 are \$41,864, \$41,216 and \$40,568, respectively. Because of the impact of additional available revenues after 2007-08, the ongoing revenue and expenditure allocations are shown in a five-year presentation of the charter's financial status. The appendix section of this report includes a more detailed presentation of the five-year projections in landscape format. The summary presentations included in this section of the report include only four years so that the summary tables can fit on a page.

The charter school audited ending balance for the 2004-05 fiscal year is \$4,667, significantly less than the estimated ending balance due to a negative audit adjustment of \$48,734 by the charter's independent auditor. The second interim report prepared by the charter's chief business official (CBO) was presented to the charter board on March 13, 2006 with a projected June 2006 ending balance of \$11,304. Accounting for the components of ending fund balance, including the \$50,000 reserve requirement and the revolving cash fund of \$200, the charter will have a financial shortfall of -\$38,796.

Multiyear projections for the charter school will always be uncertain because of the unknown costs of special education services to students if the current level of need increases. At the time of this report, no decision has been made as to who the service provider will be if the charter is renewed.

Using the second interim as the base year, FCMAT has calculated two scenarios to determine the charter's fiscal viability through 2010-11. The first scenario is based on no ADA growth, while the second scenario includes slight growth each year and a revised teacher-student ratio. The charter's multiyear scenario is included in this report for comparative purposes. The calculations completed by the charter CBO for the second interim were well done; the assumptions were relevant and well thought out. The combination of the scenarios will provide an opportunity to view the charter's financial viability from several perspectives that can be used to make decisions regarding renewal.

## 8 | FINDINGS AND RECOMMENDATIONS

Revenues, Expenditures and Multiyear Projection

### *Charter School Scenario from Second Interim Report*

	<b>Charter 2005-06 projected</b>	<b>2006-07 Projected</b>	<b>2007-08 Projected</b>
<b>Total Revenues</b>	577,845	621,102	652,818
<b>Total Expenditures</b>	571,208	582,432	637,916
<b>Net Increase/ Decrease</b>	6,637	38,670	14,901
<b>Beginning Balance</b>	4,667	11,304	49,974
<b>Ending Balance</b>	11,304	49,974	64,876
<b>Revolving Cash</b>	200	200	200
<b>Reserve</b>	50,000	50,000	50,000
<b>Excess/Shortfall</b>	-38,896	-226	14,676

All the charter assumptions are available in the second interim report packet presented at the March 13th board meeting. The primary difference between the 2005-06 base year projected balance of the charter and the FCMAT scenario is the ADA used: 102.6 by the charter and 109 used by FCMAT. The charter also included step increases for employees while FCMAT kept the salaries frozen. The charter packet includes the multiple assumptions used for the 2006-07 and 2007-08 years.



***FCMAT Scenario #1***

FCMAT’s first scenario reflects a steady ADA of 109 based on the current enrollment of 117 students and no growth in future years. Expenditure levels are constant with the exception of changes in the debt payments as a full year of Grossman loan payments will now be paid. This scenario includes no increases for salary and benefits, books and supplies, services and contracts, or capital outlay. FCMAT agrees with the charter multiyear projection presentation in terms of beginning to pay \$20,000 towards the principal portion of the Klinesteker \$100,000 loan each year for five years. The fund balance increases as added revenues from cost-of-living adjustments (COLA) are not fully expended. FCMAT increased the charter school rates by 5% annually through 2009-10 after applying the last known estimate from School Services of California for 2006-07.

***FCMAT Scenario # 1***

	<b>FCMAT 2005-06 projected</b>	<b>2006-07 Projected</b>	<b>2007-08 Projected</b>	<b>2008-09 Projected</b>	<b>2009-10 Projected</b>
<b>Total Revenues</b>	615,644	659,872	694,157	769,852	806,714
<b>Total Expenditures</b>	571,208	617,073	637,074	635,453	631,001
<b>Net Increase/ Decrease</b>	44,436	42,799	57,083	134,399	175,713
<b>Beginning Balance</b>	4,667	49,103	91,902	148,985	283,384
<b>Ending Balance</b>	49,103	91,902	148,985	283,384	459,097
<b>Revolving Cash</b>	200	200	200	200	200
<b>Reserve</b>	50,000	50,000	50,000	50,000	50,000
<b>Excess/Shortfall</b>	-1,097	41,702	98,785	233,184	408,897

Based on current provisions of the Grossman loan, a balloon payment of \$290,564 is due in January 2016. This scenario shows that if strict cost containment and a steady ADA level were maintained, the charter could build sufficient funds to set aside the balloon payment amount in 2009-10. To provide salary and benefit increases in this scenario, the charter would have to consider eliminating the two classified teaching positions or offset the increases with savings in other areas. Although donations may help the district financially on an annual basis, it is imprudent to use annual donations for ongoing costs. Debt payments for the Klinesteker loan are for interest only in the 2006-07 year.

***FCMAT Scenario #2***

FCMAT's second scenario reflects an annual increase in ADA, beginning with an ADA base of 109 in 2005-06. FCMAT added eight students in 2006-07 and in 2007-08 and 10 students in 2008-09, 2009-10, and 2010-11. Certificated staffing levels are based on a required ratio of 25:1. This will require a change in how the classes are currently staffed, possibly necessitating combination classes. Salary and benefit amounts change in relation to staffing and salary. This scenario includes no increases for books and supplies, services and contracts, or capital outlay. The annual principal payments, which begin in 2007-08, are included for the Klinesteker \$100,000 loan. The fund balance increases as added revenues from COLA and growth ADA are not fully expended. FCMAT increased the charter school rates by 5% annually through 2009-10 after applying the last known estimate from School Services of California for 2006-07.

***FCMAT Scenario #2***

	<b>FCMAT 2005-06 projected</b>	<b>2006-07 Projected</b>	<b>2007-08 Projected</b>	<b>2008-09 Projected</b>	<b>2009-10 Projected</b>
<b>Total Revenues</b>	615,644	695,866	784,988	924,184	1,040,903
<b>Total Expenditures</b>	571,208	599,585	635,074	656,708	670,616
<b>Net Increase/ Decrease</b>	44,436	96,281	149,914	272,476	370,287
<b>Beginning Balance</b>	4,667	49,103	145,384	295,298	567,774
<b>Ending Balance</b>	49,103	145,384	295,298	567,774	938,061
<b>Revolving Cash</b>	200	200	200	200	200
<b>Reserve</b>	50,000	50,000	50,000	50,000	50,000
<b>Excess/Shortfall</b>	-1,097	95,184	245,098	517,874	887,861

The current provisions of the Grossman loan require a balloon payment of \$290,564 in January 2016. This scenario shows that if strict cost containment is maintained and a growing ADA level is realized, the charter could build up sufficient funds to set aside the balloon payment amount in 2008-09. The charter could be able to provide salary and benefit increases in this scenario, as well as have the ability to provide more books and supplies and more student activities as soon as 2006-07. If growth materializes, the charter school should make it a priority to pay off the Klinesteker debt earlier than the projected 2012 time line, which is based on the five-year principal payment plan starting in 2007-08.

### *Multiyear Conclusion*

The charter school has the potential to remain solvent if renewal is granted and if certain factors are realized and maintained over time. Among these factors are stable or growing enrollment/ADA, a continuing trend of COLA revenue adjustments in the state budget for state funded revenue sources, including the general purpose block grant and categorical block grant funding, no increases to employee compensation or benefit levels (at least initially) and the careful management of capital improvements. The school also will have to explore other possibilities such as staffing at a ratio of 25 students per teacher and finding outside sources to help provide materials and supplies and help fund student activities. The denial of renewal by Red Bluff Union Elementary has a significant impact on the charter's ability to provide services to its students in the special education program. The issues related to special education will be described more fully in another section of this report.

The topic of long-term debt also is discussed in another section of this report. The 2005-06 second interim report is based on interest-only payments for one of the three outstanding loans. However, both the charter and FCMAT have included principal payments for the loan beginning in 2007-08 for a period of five years.

The charter Business Manager is working with the California Department of Education to determine whether the charter will receive In Lieu of Economic Impact Aid funds. The 2004-05 amount would have been \$7,533, and funding would be granted annually.

The charter principal/science teacher has significant experience in developing grants. The charter is currently scheduled to receive a grant from the California School Financing Authority (CSFA), which will provide \$80,233 annually for three years. The first year (2005-06) dollars will be funded once the CSFA is notified that the charter has been renewed. These dollars will be used to complete landscaping and finish remaining building project items. The second- and third-year grant amounts can potentially be used for other uses if the charter submits a letter annually stating the need to use the funds.

Following the completion of the FCMAT February 28- March 2 review, the team received a faxed copy of the March 3, 2006 letter to CSFA from the charter principal. In the letter, the principal asked for consideration to use the 2006-07 and 2007-08 grant funds for debt service for a total combined amount of \$160,466. In its March 2, 2006 letter to the charter school, CSFA noted that the charter must provide documentation showing that the charter has been renewed as of July 1, 2006 before the 2005-06 portion of the grant will be disbursed.



## Special Education

As a California public school, the Sacramento River Discovery Charter School is required to comply with all federal and state special education regulations and laws and is prohibited from discriminating against any student solely on the basis of disability. Special education services are currently provided to seven charter students with Individualized Education Programs (IEPs) requiring resource specialist services by the Red Bluff Union Elementary School District, the chartering agency. No students are enrolled in the charter at this time who require more advanced placements such as special day classes or nonpublic school services.

The Tehama County Special Education Local Plan Area (SELPA) funding model distributes AB 602 special education funding for the charter students to the Red Bluff Union Elementary School District. The AB 602 funding for 2005-06 is \$316.41 times 109.18 ADA, amounting to \$34,545. In addition, the memorandum of understanding between Red Bluff Union Elementary and the charter stipulates that the charter shall pay an additional \$42 per ADA ( $\$42 \times 109.18 = \$4,585.56$ ) to cover the charter's portion of the district's special education encroachment. Between the AB 602 funds and the direct payment from the charter school, the amount going to Red Bluff Union Elementary is \$39,130.

A Red Bluff teacher visits the charter school four mornings per week, two hours per day, for a total of eight hours each week. FCMAT did not ascertain the specific services being provided to charter students or evaluate the cost/benefit to provide special education services as these concerns were outside the specific scope of this study. However, in preparing the financial analysis and multiyear projections for the charter, consideration must be given to the future financial implications if the Tehama County Office of Education approves the charter's appeal.

The charter administration indicated that if the county office approves the charter petition renewal, the expectation is that the county office, as the new LEA, will provide special education services in a manner similar to the service now being provided by Red Bluff.

Under the current SELPA structure, the county office does not receive AB 602 funding. The county office serves only as a special education provider with no students of its own. All county office program costs are billed back to the school district where the student is enrolled.

With no funding mechanism in place to transfer the 109.18 charter ADA to the county office, the current AB 602 funding would not be available to the Tehama County Department of Education to offset the cost to the charter unless the SELPA agreement is amended to allocate funding to the county office. A second option would be for the Tehama County Department of Education to contract with a local district to provide services to the charter students.

The current level of funding appears to be adequate to cover the cost of providing special education services to the seven children currently enrolled in the Resource Specialist

Program (RSP). Should a new student enroll, requiring substantially more intense and/or costly services, a plan must be in place by both the charter school and chartering agency to meet those needs. The charter may also face increased costs for special education transportation.

With the charter school facing serious, long-term financial difficulties, additional special education obligations would be almost impossible to afford without significant programmatic reductions.

### ***Recommendations***

*The charter school should*

1. Establish standards and guidelines on who will provide special education programs and how student services will be provided.
2. Work with the SELPA to amend the current AB 602 funding distribution formula to provide funding for the charter students to the agency that will be providing the services.
3. Develop a long-range financial plan to enable the charter to pay for any additional special education services and transportation that would be needed if a student enrolls in the school needing special day class or nonpublic school services.

## *Processes and Procedures*

### *Formal Guidelines*

The charter school does not currently have board-approved formal policies, procedures, or guidelines addressing its business operations. FCMAT was told that the charter is in the process of developing policies to submit to the board, but as of the date of the fieldwork, this had not taken place.

The charter administrator was a member of the board of directors until she secured several personal loans to facilitate the construction of the new school. Once these loans were incurred, a conflict-of-interest situation transpired, causing the administrator to resign her board affiliation. A second administrator/budget manager, has been assigned to the board of directors, however, the principal/teacher appears to continue to have the authority to make spending decisions.

### *Internal Control*

Internal control is the process designed to provide reasonable assurance of the following: the operations of an organization are effective and efficient; the financial information produced is reliable; and the organization is operating in compliance with all applicable laws and regulations. The internal control structure includes the policies and procedures used by the staff, the accounting and computer information systems, the work environment, and the attitudes and abilities of those who work in the organization.

While everyone has some responsibility for the internal controls, the board of directors, administration, and the other top management are ultimately responsible. Organizations that seek excellence in their operations must establish and maintain a strong internal control system that is effectively communicated to all employees. A strong internal control consciousness must be established and implemented throughout the agency. An organization with a strong internal control consciousness will have staff members who support and understand the established internal controls, always follow the established policies and procedures, maintain integrity in their work, and seek new and efficient ways of doing business. All parties must be held accountable for adhering to the policies and continually practicing good business procedures.

In a small setting such as the Sacramento River Discovery Charter School, implementing and enforcing strong internal controls is difficult. The commitment of the charter to initially work with the district and now with the Tehama County Department of Education and utilize the department's financial system to process accounting and payroll transactions has added a very important layer of internal control that could not have been achieved otherwise.

### ***Payroll***

The payroll procedures practiced by the charter appear to be adequate. All the charter employees have a board-approved employment contract that specifies their pay rate and work hours. The charter receives a monthly printout from the Tehama County Department of Education listing the approved payroll information for each employee. Any changes, additions, or deductions are made by the charter administrator and returned to the county office for processing. A position control Excel spreadsheet is used to budget salaries and employee benefits.

### ***Attendance Accounting***

State funding is allocated to the charter school based upon student ADA and paid through the charter school general purpose block grant. It is important to implement and maintain proper attendance internal controls by using a reliable system and reporting attendance accurately.

The charter's independent audit report as of June 30, 2005 included a finding describing very minor ADA discrepancies. These errors appear to be the result of calculating ADA manually. The charter currently pays for student support services from the San Diego County Office of Education, a system that includes student attendance accounting. The charter is currently entering student attendance data into the San Diego County Office system, but does not use the computer printouts from the county office to prepare the required J18/19 student attendance reports. Instead, one of the charter administrators manually calculates the monthly attendance reported by teachers using signed monthly roll sheets and enters the information into an Excel spreadsheet. The data on the spreadsheet is then used as the basis for preparing the J18/19 attendance reports. FCMAT recommends that the charter discontinue the manual calculations and rely upon the San Diego County Office computer attendance system in the future.

### ***Accounts Payable***

The charter school lacks proper procedures to authorize the acquisition of goods and services. Each teacher is provided with a budget of approximately \$500 for classroom supplies. The teacher is then allowed to purchase goods as he/she deems necessary, submitting receipts for reimbursement. Purchase requisitions are not used for teacher purchases.

Until recently, the charter administrator/principal had sole authority regarding purchase decisions. Purchases were made using credit cards without purchase requisitions. Many decisions regarding the acquisition and construction of the new school located at 1660 Monroe Street in Red Bluff were not discussed with the board. With one exception, all contracts were approved by the board. A contractor (and parent) who was paid a significant amount of money was given approval to begin construction without a contract in place. The board did not know the cost or extent of the services that this contractor was allowed to perform until after the invoices were submitted for payment.



The cost overrun on school construction was a surprise to the board of directors, and this occurred largely because board members were often asked to ratify and/or approve large expenditures after commitments were made by the administrator/principal.

***Cash Management***

Most of the charter school’s revenue is received as a state apportionment and applied to the charter revenue accounts by the Tehama County Department of Education in a manner similar to all other school districts in the county.

On occasion, the charter collects cash from parents for student field trips. Parents should not be responsible for paying field trip costs. The cash collected for this purpose should be considered as a voluntary donation with the understanding that all students may attend the field trip whether their parents contribute or not.

Instead of using the County Treasury to account for this cash, it is deposited into a local bank account that is also used by the charter’s parent support group. Checks are prepared and signed by the administrative assistant, who also collects the field trip money, makes the bank deposits, and reconciles the bank account.

Although the amount of cash is small, sound internal control procedures dictate that different people should receive, deposit, and write checks. It is also recommended that the school use either the County Treasury or a bank account separate from the parent group’s bank account.

***Cash Flow***

The following table identifies the charter’s monthly ending cash balances from June 30, 2005 through February 28, 2006:

June 30, 2005	\$6,985.02
July 31, 2005	\$67,027.05
August 31, 2005	\$67,113.15
September 30, 2005	\$25,714.67
October 31, 2005	\$18,640.28
November 30, 2005	\$71,763.63
December 31, 2005	\$74,757.52
January 31, 2006	\$89,414.99
February 28, 2006	\$127,294.90

The charter's CBO conducted a cash flow analysis as part of the second interim report and quantified the average monthly expenditures as \$47,600. The analysis projected the June 30 cash balance at approximately \$10,000, based on the recertification of the advance apportionment, and at approximately \$7,322, when based on the first principal apportionment. Based on a comparison to the 2005 fiscal year ending balance of \$6,985.02, the projected balances are within reason.

The charter will likely experience cash shortfalls in the summer months if the P2 ADA number in April does not reflect a sustained enrollment level of the 118 students (approximately 109 ADA) enrolled in the school as of March 7, 2006.

If the district runs short of cash, temporary personal loans should not be considered as a stopgap measure. If the charter is approved for renewal the sponsoring agency will have to approve any source secured by the charter for an appropriate temporary loan for cash flow purposes.

## Recommendations

*The charter school should:*

1. Develop and approve board policies and procedures addressing all aspects of the charter's business operations.
2. Hold all employees accountable for adhering to standard procedures and good business practices.
3. Utilize the San Diego County Office of Education Student Services System to account for and report student ADA, and discontinue calculating attendance manually.
4. Continue to use the Tehama County Department of Education to process financial and payroll transactions.
5. Establish maximum dollar amounts for purchases that employees are authorized to make without using a purchase requisition. Most school districts limit such purchases to \$50 or less.
6. Seek board approval for all purchase requisitions prior to the purchase being made.
7. Adhere to bid, price quote, and contract standards for all major purchases and construction projects.
8. Ensure that cash collected for field trips is a voluntary parental donation and that all students may attend the field trip whether the parent makes a contribution or not.
9. Assign different staff to collect, deposit, and disburse cash and reconcile the bank statements.
10. Use either the County Treasury or a separate bank account from the parent group to account for field trip funds.

### *Time lines and Key Dates*

The Tehama County Department of Education received the appeal for charter renewal from the charter school on February 22. The county office had 30 days or until March 22 to conduct a public hearing. On April 19, the county board will vote on whether to approve the renewal of the charter petition.

# Appendices

*Appendix A: Multiyear Financial Forecast Data Tables*

*Appendix B: Study Agreement*



Sacramento River Discovery Charter School Multi Year Financial Forecast  
Using flat ADA of 109 and no Increase in Expenditures\*  
(\*except for beginning repayment of loan principal in 2007-08)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Revenues	ADA of 109	ADA of 109	ADA of 109	ADA of 109	ADA of 109	ADA of 109
General Purpose Block Grant	490,742	531,137	558,694	587,879	618,772	651,461
Revolving loan repayment	-41,864	-41,216	-40,568			
Federal revenue						
Categorical Block Grant	31,514	32,745	33,662	34,604	35,573	36,569
State Lottery funds	15,596	15,206	15,369	15,369	15,369	15,369
Other State revenue						
Interest	2,120	2,000	2,000	2,000	2,000	2,000
Charter in-lieu Taxes	117,536	120,000	125,000	130,000	135,000	140,000
Other Financing Sources						
Total Revenue	615,644	659,872	694,157	769,852	806,714	845,399
Expenditures						
Certificated Salaries	244,000	244,000	244,000	244,000	244,000	244,000
Classified Salaries	67,955	67,955	67,955	67,955	67,955	67,955
Employee Benefits	95,725	95,725	95,725	95,725	95,725	95,725
Books and Supplies	40,655	40,655	40,655	40,655	40,655	40,655
Services and Contracts	70,109	70,109	70,109	70,109	70,109	70,109
Capital Outlay	19,000	19,000	19,000	19,000	19,000	19,000
Other Outgo	33,764	79,629	99,630	98,009	93,557	93,557
Total Expenditures	571,208	617,073	637,074	635,453	631,001	631,001
Net Increase/Decrease	44,436	42,799	57,083	134,399	175,713	214,398
Beginning Balance	4,667	49,103	91,902	148,985	283,384	459,097
Ending Balance	49,103	91,902	148,985	283,384	459,097	673,495
Revolving Cash	200	200	200	200	200	200
Reserve	50,000	50,000	50,000	50,000	50,000	50,000
Unappropriated Balance	(1,097)	41,702	98,785	233,184	408,897	623,295

\*\*2005-06 based on estimated Second Interim report expenditure allocations with revenue based on ADA of 109

2006-07 based on applying COLA to block grant amounts, lottery, estimated in-lieu taxes and no changes to current expenditure levels

2007-08 based on applying COLA to block grant amounts, lottery, estimated in-lieu taxes and no changes to current expenditure levels, adding \$20,000 in principal payment to Klinesteker \$100,000 loan for five years

2008-09 based on applying COLA to block grant amounts, lottery, estimated in-lieu taxes and no revolving loan payment or changes to current expenditure levels, maintaining \$20,000 in principal payment to Klinesteker loan.

2009-10 based on applying COLA to block grant amounts, lottery, estimated in-lieu taxes and no revolving loan payment or changes to current expenditure levels, maintaining \$20,000 in principal payment to Klinesteker loan. The TSA loan payments ended in 2008-09.

2010-11 based on applying COLA to block grant amounts, lottery, estimated in-lieu taxes and no revolving loan payment or changes to current expenditure levels, maintaining \$20,000 in principal payment to Klinesteker loan. The TSA loan payments ended in 2008-09.

Sacramento River Discovery Charter School Multi Year Financial Forecast  
Using ADA growth and new staff at a ratio of 25:1

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Revenues	ADA of 109	ADA of 117	ADA of 125	ADA of 135	ADA of 145	ADA of 155
General Purpose Block Grant	490,742	563,129	643,023	736,063	836,988	958,982
Revolving loan repayment	-41,864	-41,216	-40,568			
Federal revenue						
Categorical Block Grant	31,514	34,515	37,908	42,086	46,470	51,065
State Lottery funds	15,596	17,438	17,625	19,035	20,445	21,855
Other State revenue						
Interest	2,120	2,000	2,000	2,000	2,000	2,000
Charter in-lieu Taxes	117,536	120,000	125,000	130,000	135,000	140,000
Other Financing Sources						
Total Revenue	615,644	695,866	784,988	929,184	1,040,903	1,173,902
Expenditures						
Certificated Salaries	244,000	226,512	242,000	261,360	280,720	300,080
Classified Salaries	67,955	67,955	67,955	67,955	67,955	67,955
Employee Benefits	95,725	95,725	95,725	99,620	98,620	104,620
Books and Supplies	40,655	40,655	40,655	40,655	40,655	40,655
Services and Contracts	70,109	70,109	70,109	70,109	70,109	70,109
Capital Outlay	19,000	19,000	19,000	19,000	19,000	19,000
Other Outgo	33,764	76,629	99,630	98,009	93,557	93,557
Total Expenditures	571,208	599,585	635,074	656,708	670,616	695,976
Net Increase/Decrease	44,436	96,281	149,914	272,476	370,287	477,926
Beginning Balance	4,667	49,103	145,384	295,298	567,774	938,061
Ending Balance	49,103	145,384	295,298	567,774	938,061	1,415,987
Revolving Cash	200	200	200	200	200	200
Reserve	50,000	50,000	50,000	50,000	50,000	50,000
Unappropriated Balance	-1,097	95,184	245,098	517,874	887,861	1,365,787

*\*\*2005-06 based on estimated Second Interim report expenditure allocations with revenue based on ADA of 109*

*2006-07 based on an increase of 8 ADA and applying COLA to block grant amounts, lottery, estimated in-lieu taxes and changes to current certificated salaries at the 25:1 ratio*

*2007-08 based on an increase of 8 ADA and applying COLA to block grant amounts, lottery, estimated in-lieu taxes and changes to certificated salaries at the 25:1 ratio, adding \$20,000 in principal payment to Klinesteker \$100,000 loan for five years*

*2008-09 based on an increase of 10 ADA and applying COLA to block grant amounts, lottery, estimated in-lieu taxes, no revolving loan payment and changes to certificated salaries at the 25:1 ratio, maintaining \$20,000 in principal payment to Klinesteker loan.*

*2009-10 based on an increase of 10 ADA and applying COLA to block grant amounts, lottery, estimated in-lieu taxes, no revolving loan payment and changes to certificated salaries at the 25:1 ratio, maintaining \$20,000 in principal payment to Klinesteker loan. The TSA loan payments ended in 2008-09.*

*2010-11 based on an increase of 10 ADA and applying COLA to block grant amounts, lottery, estimated in-lieu taxes and no revolving loan payment and changes to certificated salaries at the 25:1 ratio, maintaining \$20,000 in principal payment to Klinesteker loan. The TSA loan payments ended in 2008-09.*



MANAGEMENT ASSISTANCE TEAM

STUDY AGREEMENT

February 16, 2006

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Tehama County Department of Education and the Sacramento River Discovery Charter School, hereinafter jointly referred to as the COE, mutually agree as follows:

1. BASIS OF AGREEMENT

The Team provides a variety of services to school districts and county offices of education upon request. The COE has requested that the Team provide for the assignment of professionals to study specific aspects of the Sacramento River Discovery Charter School 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.

Senate Bill 430, Runner, permits a county superintendent of schools to request FCMAT to review the fiscal or administrative condition of a school district or charter school under his or her jurisdiction. The bill also permits a charter school to request specified assistance from FCMAT.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

- 1) Analyze and validate the charter school revenue and expenditure budget allocations for the current and two subsequent years and provide recommendations for changes, if needed.
- 2) Analyze the charter school facility debt to determine if it can be restructured to better meet program and cash flow needs and provide recommendations for changes, if needed.
- 3) Conduct a review of the charter school business systems, internal controls, and oversight and provide recommendations for changes, as necessary.

B. Services and Products to be Provided

- 1) Orientation Meeting - The Team will conduct an orientation session at the COE to brief the County Superintendent and charter administration 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 review at the COE and charter school office and at school sites if necessary.
- 3) Progress Reports - The Team will update the County Superintendent and charter administration regularly and the review progress and will hold a final exit meeting at the conclusion of the on-site review to inform the

County Superintendent and charter administration of significant findings and recommendations as of that date.

- 4) Exit Letter - The Team will issue an exit letter approximately 10 days after the final 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 county superintendent for review and comment.
- 6) Final Report - Sufficient copies of the final study report will be delivered to the county superintendent following completion of the review.
- 7) Follow-Up Support - Subsequent to the completion of the study, the Team will meet with the COE and charter administration as requested to discuss the findings and recommendations of the report

3. PROJECT PERSONNEL

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

- A. Barbara Dean, FCMAT Deputy Administrative Officer
- B. Michele McClowry, FCMAT Management Analyst
- C. FCMAT Fiscal Consultant

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

4. PROJECT COSTS

The cost for studies requested pursuant to E.C. 42127.6(e) shall be:

- A. \$400.00 per day for each Team Member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc. Based on the scope identified in section 2, estimated cost of the review is \$6,000. The COE will be billed based on actual costs.

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

5. RESPONSIBILITIES OF THE COE

- A. The COE/charter school will provide office and conference room space while on-

- site reviews are in progress.
- B. The COE/charter school will provide the following:

- Financial reports
- 2005-06 current budget
- 2005-06 First Interim report
- Multi year projections
- Identification of all revenue sources
- Identification of all expenditure uses
- Cash Flow report for 2004-05 and 2005-06
- Staffing FTEs and salary schedules
- Listing of all charter school staff
- Student enrollment and ADA
- Information on debt
- Independent Audit report for 2004-05
- Organizational chart
- Information on charter school operations
- Information on any outstanding or pending liabilities
- Identification of charter school assets
- Parent/Staff handbook
- Other information that may be included on a supplemental listing

- C. The county superintendent and charter administration will review a preliminary draft copy of the report. 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 COE and charter administration 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:	February 28, 2006
Staff Interviews:	February 28-March 2, 2006
Exit Interviews:	To be determined
Preliminary Report Submitted	To be determined
Final Report Submitted	To be determined
Board Presentation	To be determined

7. CONTACT PERSON

Please print name of contact person: Georgene Neher, Assistant  
Superintendent, Business Services – Tehama Co. Department of Education

Telephone (530) 528-7307      FAX (530) 529-4120

Internet Address gneher@tcde.tehama.k12.ca.us

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Robert Douglas, County Superintendent of Schools      Date  
Tehama County Department of Education

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