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

Pajaro Valley Unified School District

Fiscal Review

April 27, 2015

Joel D. Montero
Chief Executive Officer

April 27, 2015

Dorma Baker, Superintendent
Pajaro Valley Unified School District
294 Green Valley Road
Watsonville, CA 95076

Dear Superintendent Baker:

In October 2014, the Pajaro Valley Unified School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for a study to perform the following:

1. The team will provide a fiscal analysis for the district to develop a multiyear financial projection (MYFP). This will include recommendations to increase revenues and/or reduce expenditures that will assist the district in sustaining the recommended reserve levels. The district anticipates filing a negative certification for its first interim financial report for the period ending October 31, 2014.

2. The team will develop an MYFP for the current (2014-15) and two subsequent fiscal years without any budget adjustments, based on today's economic forecast, to determine the level of commitment needed to sustain the district's financial solvency. The MYFP will be a snapshot in time regarding the district's current financial status and will use the district's 2014-15 Adoption Budget as the baseline for developing the MYFP. Any forecast of the financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment trends, cost-of-living adjustments, forecasts for utilities, supplies and equipment, and changing economic conditions at the state, federal and local levels. The MYFP should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers.

3. Review the district's long-term debt for all funds and any fiscal impact that they may have on the MYFP.

4. Evaluate recommendations provided to the district in previous FCMAT reports in the areas of special education and transportation. These are areas where the district has significant encroachment on the unrestricted general fund, and the team will provide a status update and additional recommendations, if applicable.

FCMAT focused on creating a multiyear projection using its Budget Explorer software to assess the district's fiscal solvency, prepared a detailed projection using the 2014-15 adoption budget as the base year, and updated it to include changes from the first interim budget.

FCMAT conducted on-site fieldwork in November 2014 and off-site fieldwork in December 2014. To assess the district's financial condition, the team reviewed numerous original documents including enrollment reports, audited financial statements, budget assumptions, adopted and interim budget files, financial system reports, unaudited actuals, payroll files, long-term debt obligations, estimates of average daily attendance, staffing ratios, other financial records, and third-party documents.

This report contains the study team's findings and recommendations.

FCMAT appreciates the opportunity to serve the Parajo Valley Unified School District, and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

Joel D. Montero

Chief Executive Officer

Table of contents

Foreword iii

Introduction 1

Executive Summary 3

Findings and Recommendations 7

- Multiyear Financial Projections 7
- Enrollment 17
- Revenue Sources 19
- Revenue Adjustments 23
- Encroachments 29
- District Procedure and Other Observations 31
- Subsequent Events 35

Appendix 37

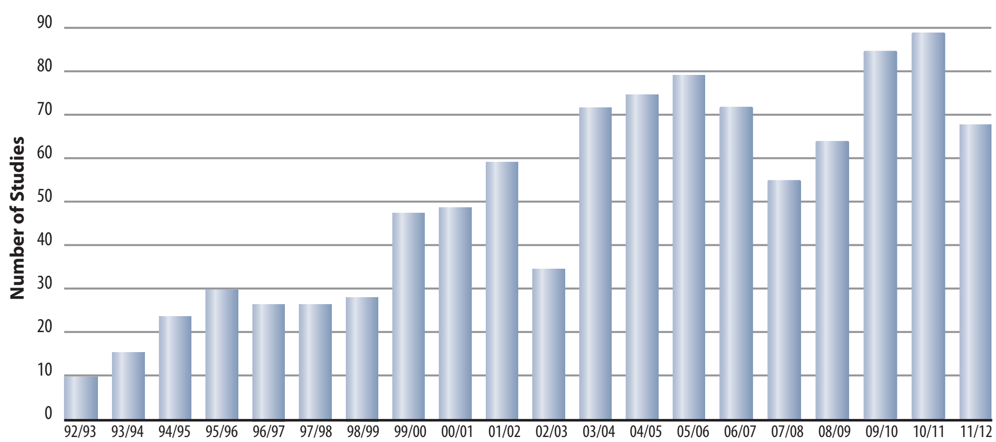
About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices and efficient operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and share information.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the local education agency to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help local educational agencies operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) arm of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS) and also maintains DataGate, the FCMAT/CSIS software LEAs use for CSIS services. FCMAT was created by Assembly Bill 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. Assembly Bill 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. Assembly Bill 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. Assembly Bill 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

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

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by 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.

Introduction

Background

The Pajaro Valley Unified School District is located in Santa Cruz County and is governed by seven trustees that represent separate areas. The district has 16 elementary schools, six middle schools, three comprehensive high schools, five dependent charter schools, one independent charter school, three alternative schools, one adult education school, and 12 children centers in addition to migrant education and Head Start centers.

District boundaries encompass more than 150 square miles and include students from Watsonville, Aptos, Freedom, La Selva Beach, Pajaro, Los Lomas/Royal Oaks and Corralitos. Pajaro Valley Unified is the largest school district in the county, reporting 20,362 students in the 2013-14 school year and has increased enrollment by 981 students over the last five fiscal years. The district is in the top 10% of the largest school districts in California.

The official fall enrollment for 2014-15 is 20,417 (including charter schools), with 16,026 students that qualify as foster youth, English learners, or recipients of free- or reduced-priced meals. These three groups generate additional funding under the new Local Control Funding Formula (LCFF.) Students who qualify in more than one category are counted only once, which is called the unduplicated count, or unduplicated pupil percentage. English learners and low-income students make up 78.49 percent of the district's student population.

General fund expenditures are projected to be $208.7 million for 2014-15, $211.6 million for 2015-16, and $219.9 million for 2016-17. The district operates several other restricted funds including child development, adult education, cafeteria, self-insurance and building funds.

In November 2012, the district overwhelmingly passed Measure L a general obligation bond. The measure authorized $150 million to modernize school facilities and established two separate endowment funds specifically for instructional and deferred maintenance funding over a 10-year period. The first issuance of $80 million occurred in April 2013. It is estimated that the remaining funds will be issued in 2016 or early 2017.

Study and Report Guidelines

FCMAT visited the district in November and conducted off-site work in December 2014 to conduct interviews and collect data. FCMAT's projection uses the adoption budget for 2014-15 as the historical baseline for the multiyear financial projection, and it was updated to include district adjustments at first interim.

In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

Study Team

The study team was composed of the following members:

Deborah Deal, CICA, CFE FCMAT Fiscal Intervention Specialist Los Angeles, CA	Ernany Montijo FCMAT Consultant Los Angeles, CA
Marisa Ploog, CPA, CFE, CICA, CGMA FCMAT Fiscal Intervention Specialist Bakersfield, CA	Leonel Martínez FCMAT Technical Writer Bakersfield, CA

Executive Summary

Assembly Bill (AB) 1200 and AB 2756 provide the structure for fiscal accountability in overseeing a school district's financial condition. They include specific responsibilities for the county superintendent of schools, the superintendent of public instruction and FCMAT in assisting a district in fiscal distress.

AB 1200 and AB 2756 require multiyear financial projections (MYFPs) as part of budget and interim financial reporting. These projections allow the district and the county office of education to assess revenues and expenditures in the current and subsequent two fiscal years to determine whether the district can meet its fiscal obligations. A district with an MYFP indicating that it will be unable to meet its fiscal obligations in the current or subsequent two fiscal years receives either a qualified or negative budget certification. A qualified budget certification indicates that the district is deficit spending and may not meet its fiscal obligations; a negative certification indicates that the district will not meet its fiscal obligations.

Pajaro Valley Unified requested that FCMAT prepare a MFYP upon realizing that it was in the process of filing a negative certification for the first interim budget report for the 2014-15 fiscal year. Based on FCMAT's projection, the district fails to meet its required level of reserves for economic uncertainties in the current and subsequent two fiscal years.

FCMAT used its Budget Explorer v.5.0 software to create an MYFP based on the district's 2014-15 adopted budget and revised the projection to include revisions as of the first interim report on October 31, 2014. FCMAT analyzed and compared salary and benefit projections to actual position control and payroll records; prepared projections for enrollment and average daily attendance based on historical trends; analyzed estimated enrollment and average daily attendance (ADA) estimates; increased several unrestricted expenditure categories based on prior year trends and current year actual expenditures to date; adjusted grant projections in accordance with grant awards and recalculated the principal apportionment based on the latest information provided by the Department of Education and FCMAT's version 16.1 LCFF calculator.

The governor signed the 2014-15 state budget on June 20, 2014. The MYFP projections for this report utilize the most current state assumptions for the LCFF, revised gap funding, and economic protection account percentages proposed in the governor's 2015-16 budget proposal released on January 9, 2015. This is the second year of strong economic growth as school districts recover from the state recession that officially started in December 2007. The governor's proposal demonstrates a commitment to fully implement the new funding model. The MYFP is built on these and many other assumptions that are included in the multiyear financial projections section of this report.

Each local education agency transitioned to the new funding model, which was implemented in 2013-14. The model created a floor and target because the state estimated it would take eight years to fully fund. The difference between the floor and the target is called the gap, and each year the state applies funding to close it. The first year, 2013-14, the state provided 12.0017% in gap funding toward the target. The second year, 2014-15, the district is projected to receive 29.15% of the estimated remaining gap balance. Gap funding is estimated to be 32.19% for 2015-16. The combination of gap funding in the first two years plus the amount anticipated for 2015-16 equates to 58% of the total state obligation.

According to the most recent audit report for 2013-14, the district's general fund balance decreased by $7,939,818 following an aggressive reinvestment plan implemented in 2013-14 restoring $13,249,180 in salaries, furlough days, additional staffing and a classification study. The district's fund balance is projected to decline by $20,731,594 by June 30, 2015. At this level, the district will not have sufficient funds to maintain the required reserve level.

The following table shows the significant decline in fund balance:

Fund Balance and Reserve Levels 2013-14 through 2016-17

Combined Resources Summary	2014-15	2015-16	2016-17
Fund Balance			
Beginning Fund Balance	$38,576,401.70	$15,977,294.37	($1,711,406.82)
Audit Adjustments	($1,867,513.00)	$0.00	$0.00
Other Restatements	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	$36,708,888.70	$15,977,294.37	($1,711,406.82)
Ending Fund Balance	$15,977,294.37	($1,711,406.82)	($18,749,518.92)

As of June 30, 2015, the district's general fund estimated actuals shows that it continues to deficit spend and the fund balance is negative in the projected two subsequent fiscal years.

Combined Resources Summary	2014-15	2015-16	2016-17
Components of Ending Fund Balance			
Reserved Balances	$0.00	$0.00	$0.00
Non-spendable Revolving Cash	$55,000.00	$55,000.00	$55,000.00
Nonspendable Stores	$157,468.00	$157,468.00	$157,468.00
Nonspendable Prepaid Items	$0.00	$0.00	$0.00
All Other Non-spendable Assets	$65,000.00	$65,000.00	$65,000.00
General Reserve	$0.00	$0.00	$0.00
Restricted Balance	$5,975,025.54	$6,000,262.50	$7,485,069.06
Designated for the Unrealized Gains of Investments and Cash in County Treasury	$0.00	$0.00	$0.00
Other Assignments	$3,608,507.00	$0.00	$0.00
Economic Uncertainties Percentage	3%	3%	3%
Reserve for Economic Uncertainties	$6,416,761.45	$6,348,078.47	$6,597,205.83
Undesignated/Unappropriated	($300,467.62)	($14,337,215.79)	($33,109,261.81)

The following report describes in detail the total analysis of revenues and expenditures along with the adjustments made by FCMAT; however, a summary of FCMAT's projection for combined unrestricted and restricted resources in the table below shows how rapidly the fund balance diminishes over the 3-year period.

The following summarizes several areas that have had a significant impact on the district's ability to maintain fiscal solvency.

From 2008 through 2010, the district implemented a series of program and service level cuts to maintain fiscal solvency, and in 2011-12, it restored five furlough days to employees. During 2013-14, the district received more than $8 million in additional funding through the new Local Control Funding Formula. Effective with the 2013-14 fiscal year, the board approved a reinvestment plan totaling $13.2 million, including a seven percent raise for all employees and more than $6 million in other restorations, effectively spending more than all the new money received. By 2014-15 most of the district's reserves will have been expended.

- Ongoing salary and benefit increases coupled with restorations beyond new money have created a structural deficit and caused the district to file a negative first interim certification to the general fund operating budget.
- Pajaro Valley Unified is a single-district special education local plan area (SELPA). Special education students make up 13% of the total population, and the unrestricted general fund contribution to special education has increased substantially during the last two fiscal years.
- Door-to-door special education transportation is provided for 96% of special education students that receive this service.
- The district has no cap on health insurance benefits for board members, classified employees and their families and for its 155 retired classified employees and spouses.
- The district has no cap on health insurance benefits for employee-only coverage for all eligible certificated and management employees; however, employees may opt to pay for family coverages.
- Accrued vacation is estimated at $2.3 million, which includes full-time, year-round employees. Although the district contract includes a maximum carryover of 24 days, this limit has not been enforced. As a result, at least three employees have more than $50,000 in accrued vacation leave.
- Classified employees and their dependents are eligible for health and welfare benefits if they work four hours or more per day with no out-of-pocket costs. Certificated employees are eligible if they are more than 50 percent FTE for single coverage on a prorated basis.

The district filed its 2014-15 first interim budget report as a negative certification, indicating that it is unable to meet its financial obligations in the current or subsequent fiscal year (Education Code 42131). Although authorized to do so by EC 42127.6 (e), the county superintendent has not appointed a fiscal advisor as of March 2015. When the county superintendent appoints a fiscal advisor, the advisor is authorized to perform any or all of the duties required of the county superintendent, including staying or rescinding any action that is inconsistent with the district's ability to meet its financial obligations in the current and subsequent fiscal year. The county office should invoke its authority.

FCMAT was created by legislation in 1992 and has conducted hundreds of studies. Based on this experience, FCMAT has developed a list of 10 predictors that indicate when a school district is in fiscal distress. These are referenced in AB 2756 and EC 42127 and 42127.6. The district exhibits several of these conditions, including the following:

Leadership Breakdown

- Inability to consider the long-term impacts of collective bargaining agreements

Ineffective Communication

- Lack of communication to staff
- Lack of interagency cooperation

Collapse of Infrastructure

- Breakdown of internal management information systems/data management

Inadequate Budget Development

- Deficit spending and failure to maintain reserves and fund balance
- Manipulation of multiyear projections and ignorance of trend analysis
- Inability to accurately estimate the ending fund balance

Limited Budget Monitoring

- Inattention to county office of education information, analysis and oversight of the budget, including a lack of understanding of AB 1200
- Lack of control and monitoring of total compensation as a percentage of total expenses
- Actual expenditures not in line with the most current budget
- Failure to reconcile the general ledger balance sheet accounts regularly, particularly receivables and payables
- Lack of internal controls
- Lack of control and monitoring of contributions to restricted programs
- Consistently failing to update budget assumptions
- Lack of data accuracy, collection, and reporting
- Consistently poor data quality
- Data not used to inform decision making
- Human resources issues
- Overstaffing

Related Issues of Concern

- Chronically overestimating revenues and underestimating staffing costs

Of particular concern is the impact of significant and continued deficit spending on the district's unrestricted general fund. The district has been unable to sustain finances in the short term and must develop a stabilization plan to avoid fiscal insolvency in the long term.

The structural deficit and negative certification for the first interim report for 2014-15 and a qualified second interim report have prompted concern from the county office regarding the district's ability to continue as a going concern. If immediate corrective action is not taken, there is a strong possibility of state intervention during the 2015-16 fiscal year.

Findings and Recommendations

Multiyear Financial Projections

Assembly Bill (AB) 1200 (Statutes of 1991, Chapter 1213) and AB 2756 (Statutes of 2004) are part of the adoption budget and interim reporting process for school districts. AB 1200 was signed into law in 1991, and AB 2756 was signed into law in June 2004 and made substantive changes to the financial oversight and accountability of school districts and county offices of education. Among other things, AB 2756 strengthened the roles of the superintendent of public instruction (SPI) and county offices of education and their ability to intervene during fiscal crises, including requesting assistance from FCMAT.

Education Code (EC) Section 42127 and EC 42130 establish the requirements for district governing boards and county superintendents on budget adoption and interim reporting periods. An integral component of EC 42127 is the governing board's ability to demonstrate that the budget allows a district to meet its financial obligations in the current and two subsequent fiscal years.

Forecasting financial data is based on certain economic assumptions and criteria at a point in time. Therefore, a financial projection should be evaluated as a forecast of anticipated revenues and expenditures based on assumptions for a particular time period, using prescribed standards and criteria. The budget should accomplish the following:

Communicate the district's educational goals.

Identify resources to meet those goals.

Limit or control spending.

A multiyear financial projection (MYFP) should provide the governing board and management with guidance by evaluating the long-term effects of financial decisions and should be able to be adjusted for variables that the district cannot control, such as increasing or decreasing enrollment, the influx of new charter schools or unusual special education obligations.

California school districts are in the second year of recovery following the Great Recession. During this time, school districts throughout California struggled to balance budgets, maintain reserves, and manage cash flows. Education has borne an inequitable share of the state's budget cuts, and large deficits have forced districts to update multiyear assumptions and projections several times during the fiscal year as assumptions frequently changed at the state level. FCMAT's MYFP is based on the most current information available and is subject to change if the projected enrollment and/or average daily attendance (ADA) for the district or from the newly approved charter schools increases or decreases.

MYFPs are based on assumptions that can fluctuate, especially in the subsequent fiscal years, as projected revenue information from the state changes. The gap percentage rate (described more fully later in this report) in particular is the pivotal factor driving the LCFF during the implementation period; other key factors include the district's unduplicated student counts, enrollment, and ADA.

MYFPs are helpful in making decisions, especially regarding multiyear commitments. The district will need to continue to regularly update its MYFPs and reassess any factors that can have a substantial effect on the budget, including effects that are not within the district's control such as legal challenges and increases in the number of students enrolling in charter schools.

To help protect local educational agencies from economic uncertainties, the state recommends that any school district with an ADA of 1,001 to 30,000 maintain reserves equal to not less than 3% of its general fund expenditures. The district's current reserve requirement is 3% for fiscal years 2014-15 and 2015-16.

Local educational agencies use many different software products to prepare MYFPs. FCMAT used its Budget Explorer Web-based MYFP software, which was designed for California school districts and is available to districts and charter schools free of charge.

Budget Explorer allows districts to create and update financial projections by interfacing with the state's standardized account code structure (SACS) software or importing data directly from a district's financial system. Its comprehensive modeling capabilities allow multiyear financial projections to be produced efficiently, accurately and more rapidly than with conventional spreadsheets. Budget Explorer can be used to make more informed budget decisions and incorporate educational goals and objectives into several financial scenarios. The MYFP provided in this document is also available online to the district.

AB 1200 Oversight

If at any time during the fiscal year a district is unable to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district's governing board and the state superintendent of public instruction (SPI).

The county office is required to follow EC Section 42127.6 while assisting a school district in this situation. Assistance may include assigning a fiscal expert or fiscal advisor, conducting a study of the district's financial and budgetary conditions, updating cash flow projections, and requiring the district to disclose all contracts and multiyear commitments. The MYFP is intended to help the county office and the district create a stabilization and fiscal recovery plan to regain fiscal solvency and restore the required general fund reserve.

The governing board has filed a negative certification of the district's 2014-15 first interim financial report for 2014-15, and qualified certification for the second interim report. In accordance with Education Code Sections 42131(b) and 42131(e), upon filing a qualified or negative second interim report, the "school district shall provide to the County Superintendent, the controller and the SPI, not later than June 1, financial statement projections of the fund and cash balances of the district through June 30, for the period ending April 30." The district will also be required to project its fund and cash balances in accordance with EC 42130 through 42131(e.) This particular Education Code section is sometimes referred to as a "third interim report."

AB 2756 mandates a high level of county office scrutiny and oversight. The county office may require a budget advisory committee to provide a fiscal recovery plan. In addition, EC Section 42127.6 requires the district to comply with requests from and conditions set by the county office, including the assignment of a fiscal advisor. The Santa Cruz County Office of Education has not assigned a fiscal advisor to the district as of the date on this report.

As the district works with the county office, its business office will need to ensure that multiyear financial and cash flow projections are kept up to date and that the information they contain is accurate and based on the most current economic assumptions.

The MYFP developed for this report indicates that the district will not be able to maintain its reserve requirement in the 2014-15 fiscal year and the two subsequent fiscal years, and that it continues to experience a structural deficit. The district has not been effective in controlling costs for special education, health and welfare and worker's compensation. Collective bargaining agreements exceed the district's ability to support these obligations without substantial reductions in other areas of the operating budget. These issues must be addressed immediately to avoid fiscal insolvency. It is crucial that the district develop a strategic short- and long-term financial plan based on reasonable assumptions.

The district faces substantial fiscal challenges that will require the governing board to make and implement difficult decisions immediately to maintain local governance and avoid state intervention and receivership.

The assumptions and projection rules included in FCMAT's MYFP are listed in the table below.

FCMAT MYFP Assumptions and Projection Rules

Assumptions/Projection Rules	2014-15	2015-16	2016-17
Statutory Cost of Living	0.85%	1.58%	2.17%
LCFF Gap Funding Percentage	29.15%	32.19%	23.71%
Education Protection Account (EPA) Percentage	22.2354%	23.0000%	22.0000%
Special Education Cost of Living	0.85%	1.58%	2.17%
Federal Funding	0%	0%	0%
Consumer Price Index	1.80%	2.10%	2.50%
Lottery - Unrestricted	$128	$128	$128
Lottery - Restricted	$34	$34	$34
Interest Rate	2.20%	2.50%	2.80%
Certificated Step & Column	Included in base	1.68%	1.56%
Classified Step	Included in base	1.41%	1.29%
Health & Welfare – No Caps – Open Positions	$19,000 Prorated	$19,000	$19,000
Health & Welfare – Annual Increase		8%	8%
CalPERS (Employer and Employee Contribution Rate)	18.771%	26.60%	29.00%
CalSTRS	8.88%	10.73%	12.58%
OPEB – Certificated	3.8%	3.8%	3.8%
OPEB - Classified	2.8%	2.8%	2.8%

Updated from Business Administration Steering Committee (BASC) Common Message for Second Interim 2014-15; LCFF Assumptions updated from Department of Finance; School Services of California (SSC) Dartboard 2015-16.

Projections

FCMAT projected the district's revenue and expenditures based on internal and external source documents for principal apportionments, grants and entitlements; enrollment reports; audited financial statements; budget assumptions and files; financial system reports, year-end reports; payroll transactions and position control records; special education SELPA AB 602 funding allocations and nonpublic school placements; and many other financial records and third-party documents.

FCMAT used all pertinent records and documents to complete its multiyear analysis based initially on the district's 2014-15 adopted budget and updated to include first interim adjustments. Salary and benefit projections are based on actual payroll transactions through October 2014, compared with the district's budget and position control spreadsheet; other expenditures were compared with year-to-date records and trends; and long-term debt was verified against third-party documents and the independent audit report.

The tables below show FCMAT's multiyear projections for the district's combined, restricted, and unrestricted general fund.

Combined Restricted and Unrestricted Funds MYFP

The following table includes all restricted and unrestricted general fund revenues and expenditures.

Combined Resources Summary	Object Code	Base Year 2014-15	Year 1 2015-16	Year 2 2016-17
Revenues				
LCFF/State Aid	8010 - 8099	$138,551,037.00	$152,157,491.00	$160,740,795.00
Federal Revenues	8100 - 8299	$27,916,197.38	$19,414,981.00	$19,414,981.00
Other State Revenues	8300 - 8599	$23,427,325.00	$21,007,286.43	$21,376,291.46
Other Local Revenues	8600 - 8799	$3,215,894.51	$1,284,156.00	$1,286,681.60
Revenues		$193,110,453.89	$193,863,914.43	$202,818,749.06
Expenditures				
Certificated Salaries	1000 - 1999	$80,197,007.62	$81,824,581.26	$83,101,044.71
Classified Salaries	2000 - 2999	$29,350,492.82	$30,041,388.84	$30,428,922.72
Employee Benefits	3000 - 3999	$62,116,413.91	$68,234,143.28	$74,462,317.15
Books and Supplies	4000 - 4999	$14,181,062.65	$9,022,217.84	$8,904,301.81
Services and Other Operating	5000 - 5999	$22,418,479.22	$22,301,025.40	$22,825,300.22
Capital Outlay	6000 - 6900	$22,000.00	$22,462.00	$23,023.55
Other Outgo	7000 - 7299	$388,782.00	$388,782.00	$388,782.00
Direct Support/Indirect Cost	7300 - 7399	($700,338.00)	($818,149.00)	($818,149.00)
Debt Service	7400 - 7499	$705,684.00	$586,164.00	$591,318.00
Expenditures		$208,679,584.22	$211,602,615.62	$219,906,861.16
Excess (Deficiency) of Revenues Over Expenditures		($15,569,130.33)	($17,738,701.19)	($17,088,112.10)
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$50,000.00	$50,000.00	$50,000.00
Interfund Transfers Out	7600 - 7629	$5,212,464.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00

All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00
Other Financing Sources/Uses		($5,162,464.00)	$50,000.00	$50,000.00
Net Increase (Decrease) in Fund Balance		($20,731,594.33)	($17,688,701.19)	($17,038,112.10)
Fund Balance				
Beginning Fund Balance	9791	$38,576,401.70	$15,977,294.37	($1,711,406.82)
Audit Adjustments	9793	($1,867,513.00)	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$36,708,888.70	$15,977,294.37	($1,711,406.82)
Ending Fund Balance	9799	$15,977,294.37	($1,711,406.82)	($18,749,518.92)
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Nonspendable Revolving Cash	9711	$55,000.00	$55,000.00	$55,000.00
Nonspendable Stores	9712	$157,468.00	$157,468.00	$157,468.00
Nonspendable Prepaid Items	9713	$0.00	$0.00	$0.00
All Other Nonspendable Assets	9719	$65,000.00	$65,000.00	$65,000.00
General Reserve	9730	$0.00	$0.00	$0.00
Restricted Balance	9740	$5,975,025.54	$6,000,262.50	$7,485,069.06
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Assignments	9780	$3,608,507.00	$0.00	$0.00
Economic Uncertainties Percentage		$0.03	$0.03	$0.03
Reserve for Economic Uncertainties	9789	$6,416,761.45	$6,348,078.47	$6,597,205.83
Undesignated/Unappropriated	9790	($300,467.62)	($14,337,215.79)	($33,109,261.81)

Unrestricted General Fund MYFP

The following table includes all unrestricted general fund revenues and expenditures.

Unrestricted Resources Summary	Object Code	Base Year 2014-15	Year 1 2015-16	Year 2 2016-17
Revenues				
LCFF/State Aid	8010 - 8099	$138,551,037.00	$152,157,491.00	$160,740,795.00
Federal Revenues	8100 - 8299	$7,000.00	$7,000.00	$7,000.00
Other State Revenues	8300 - 8599	$3,167,600.00	$2,420,988.00	$2,422,837.66
Other Local Revenues	8600 - 8799	$575,249.00	$577,124.00	$579,276.50
Revenues		$142,300,886.00	$155,162,603.00	$163,749,909.16
Expenditures				
Certificated Salaries	1000 - 1999	$59,236,884.12	$60,734,728.04	$61,682,189.79
Classified Salaries	2000 - 2999	$15,980,763.06	$16,328,265.08	$16,538,899.69
Employee Benefits	3000 - 3999	$41,068,362.08	$45,217,688.87	$49,398,350.89
Books and Supplies	4000 - 4999	$4,347,782.00	$4,439,085.42	$4,550,062.56
Services and Other Operating	5000 - 5999	$13,332,188.00	$13,682,254.88	$14,107,752.81
Capital Outlay	6000 - 6900	$22,000.00	$22,462.00	$23,023.55
Other Outgo	7000 - 7299	$388,782.00	$388,782.00	$388,782.00
Direct Support/Indirect Cost	7300 - 7399	($2,545,405.00)	($2,545,405.00)	($2,545,405.00)
Debt Service	7400 - 7499	$705,684.00	$586,164.00	$591,318.00

Expenditures		$132,537,040.26	$138,854,025.29	$144,734,974.29
Excess (Deficiency) of Revenues Over Expenditures		$9,763,845.74	$16,308,577.71	$19,014,934.87
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$50,000.00	$50,000.00	$50,000.00
Interfund Transfers Out	7600 - 7629	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($27,438,094.78)	($34,072,515.86)	($37,587,853.53)
Other Financing Sources/Uses		($27,388,094.78)	($34,022,515.86)	($37,537,853.53)
Net Increase (Decrease) in Fund Balance		($17,624,249.04)	($17,713,938.15)	($18,522,918.66)
Fund Balance				
Beginning Fund Balance	9791	$29,494,030.87	$10,002,268.83	($7,711,669.32)
Audit Adjustments	9793	($1,867,513.00)	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$27,626,517.87	$10,002,268.83	($7,711,669.32)
Ending Fund Balance	9799	$10,002,268.83	($7,711,669.32)	($26,234,587.98)
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Nonspendable Revolving Cash	9711	$55,000.00	$55,000.00	$55,000.00
Nonspendable Stores	9712	$157,468.00	$157,468.00	$157,468.00
Nonspendable Prepaid Items	9713	$0.00	$0.00	$0.00
All Other Nonspendable Assets	9719	$65,000.00	$65,000.00	$65,000.00
General Reserve	9730	$0.00	$0.00	$0.00
Restricted Balance	9740	$0.00	$0.00	$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Assignments	9780	$3,608,507.00	$0.00	$0.00
Economic Uncertainties Percentage		3%	3%	3%
Reserve for Economic Uncertainties	9789	$6,416,761.45	$6,348,078.47	$6,597,205.83
Undesignated/Unappropriated	9790	($300,467.62)	($14,337,215.79)	($33,109,261.81)

Restricted General Fund MYFP

The following table includes all restricted general fund revenues and expenditures.

Restricted Resources Summary	Object Code	Base Year 2014-15	Year 1 2015-16	Year 2 2016-17
Revenues				
LCFF/State Aid	8010 - 8099	$0.00	$0.00	$0.00
Federal Revenues	8100 - 8299	$27,909,197.38	$19,407,981.00	$19,407,981.00
Other State Revenues	8300 - 8599	$20,259,725.00	$18,586,298.43	$18,953,453.80
Other Local Revenues	8600 - 8799	$2,640,645.51	$707,032.00	$707,405.10
Revenues		$50,809,567.89	$38,701,311.43	$39,068,839.90
Expenditures				
Certificated Salaries	1000 - 1999	$20,960,123.50	$21,089,853.22	$21,418,854.92
Classified Salaries	2000 - 2999	$13,369,729.76	$13,713,123.76	$13,890,023.03
Employee Benefits	3000 - 3999	$21,048,051.83	$23,016,454.41	$25,063,966.26
Books and Supplies	4000 - 4999	$9,833,280.65	$4,583,132.42	$4,354,239.25
Services and Other Operating	5000 - 5999	$9,086,291.22	$8,618,770.52	$8,717,547.41
Capital Outlay	6000 - 6900	$0.00	$0.00	$0.00
Other Outgo	7000 - 7299	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	$1,845,067.00	$1,727,256.00	$1,727,256.00
Debt Service	7400 - 7499	$0.00	$0.00	$0.00
Expenditures		$76,142,543.96	$72,748,590.33	$75,171,886.87
Excess (Deficiency) of Revenues Over Expenditures		($25,332,976.07)	($34,047,278.90)	($36,103,046.97)
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$5,212,464.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$27,438,094.78	$34,072,515.86	$37,587,853.53
Other Financing Sources/Uses		$22,225,630.78	$34,072,515.86	$37,587,853.53
Net Increase (Decrease) in Fund Balance		($3,107,345.29)	$25,236.96	$1,484,806.56
Fund Balance				
Beginning Fund Balance	9791	$9,082,370.83	$5,975,025.54	$6,000,262.50
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$9,082,370.83	$5,975,025.54	$6,000,262.50
Ending Fund Balance	9799	$5,975,025.54	$6,000,262.50	$7,485,069.06
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Nonspendable Revolving Cash	9711	$0.00	$0.00	$0.00
Nonspendable Stores	9712	$0.00	$0.00	$0.00
Nonspendable Prepaid Items	9713	$0.00	$0.00	$0.00
All Other Nonspendable Assets	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Restricted Balance	9740	$5,975,025.54	$6,000,262.50	$7,485,069.06

Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Assignments	9780	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		3%	3%	3%
Reserve for Economic Uncertainties	9789	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	($0.00)	($0.00)	($0.00)

The summary of the projection for combined unrestricted and restricted resources in the table below shows how rapidly the fund balance declined from the beginning fund balance in 2013-14 of $48,588,413 to a projected ($18,749,519) at the end of 2016-17.

Without revenue enhancements or changes in the current expenditures patterns, the district will have a negative ending fund balance by the end of the 2015-16 fiscal year

Fund Balance and Reserve Levels 2013-14 through 2016-17

Combined Resources Summary	2014-15	2015-16	2016-17
Fund Balance			
Beginning Fund Balance	$38,576,401.70	$15,977,294.37	($1,711,406.82)
Audit Adjustments	($1,867,513.00)	$0.00	$0.00
Other Restatements	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	$36,708,888.70	$15,977,294.37	($1,711,406.82)
Ending Fund Balance	$15,977,294.37	($1,711,406.82)	($18,749,518.92)

Excess (Deficiency) of Revenues Over Expenditures

The combined effect of revenue and expenditure adjustments described in this report illustrates that without additional revenues or expenditure reductions, the district will continue to deficit spend in fiscal years 2014-15 and beyond.

Deficit spending occurs when current year expenditures are greater than current year revenues. A budget deficit can be temporary or long-term, and can also include a planned spend down of district reserves. A structural deficit is a permanent imbalance in revenues and expenditures indicating a lack of financial management oversight and can be addressed only by increasing revenue or reducing spending. Ongoing deficit spending without a fiscal solvency plan will increase the current structural deficit.

Ending Fund Balance

FCMAT's MYFP shows that the district is projected to have a negative fund balance in 2015-16 and 2016-17 fiscal years and that it fails to meet the required 3% reserve level in all three years.

FCMAT's analysis indicates if the district does not correct the structural deficit and control deficit spending by realizing revenue increases and/or expenditure reductions, it will require state intervention during the 2015-16 fiscal year. State intervention occurs when the district does not have cash reserves to pay current obligations. If no changes are made, the general fund cash balance is projected to be depleted by November 30, 2015 according to district estimates on cash flow.

The district should continue to update and monitor cash flow projections to determine when it will need to consider cash borrowing options. In addition, it should contact the county office regarding any restrictions on internal borrowing options.

Analysis of Fund Balance

And Components of Fund Balance

Fund balance is a combination of cash and noncash items such as inventory (stores), receivables, and restricted balances from grants or entitlements. The district's fund balance is negative and it cannot maintain its required reserve levels in 2015-16 and 2016-17.

Components of Ending Fund Balance	Object Code	Base Year 2014-15	Year 1 2015-16	Year 2 2016-17
Fund Balance				
Beginning Fund Balance	9791	$38,576,401.70	$15,977,294.37	($1,711,406.82)
Audit Adjustments	9793	($1,867,513.00)	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$36,708,888.70	$15,977,294.37	($1,711,406.82)
Ending Fund Balance	9799	$15,977,294.37	($1,711,406.82)	($18,749,518.92)

Components of Ending Fund Balance	Object Code	Base Year 2014-15	Year 1 2015-16	Year 2 2016-17
Reserved Balances	9700	$0.00	$0.00	$0.00
Nonspendable Revolving Cash	9711	$55,000.00	$55,000.00	$55,000.00
Nonspendable Stores	9712	$157,468.00	$157,468.00	$157,468.00
Nonspendable Prepaid Items	9713	$0.00	$0.00	$0.00
All Other Nonspendable Assets	9719	$65,000.00	$65,000.00	$65,000.00
General Reserve	9730	$0.00	$0.00	$0.00
Restricted Balance	9740	$5,975,025.54	$6,000,262.50	$7,485,069.06
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Assignments	9780	$3,608,507.00	$0.00	$0.00
Economic Uncertainties Percentage		$0.03	$0.03	$0.03
Reserve for Economic Uncertainties	9789	$6,416,761.45	$6,348,078.47	$6,597,205.83
Undesignated/Unappropriated	9790	($16,277,761.99)	($12,625,808.97)	($14,359,742.89)

Enrollment

Enrollment and Average Daily Attendance (ADA)

Accurate enrollment tracking and analysis of average daily attendance (ADA) are essential to providing a solid foundation for budget planning. Because the district's primary funding is based on the total number of student attendance days, monitoring and projecting student enrollment and attendance is a crucial function. When enrollment and related ADA increase or decline, the district must consider the budgetary effects on teacher-to-student ratios and plan accordingly. The district must also exercise extreme caution regarding issues such as negotiations, staffing and deficit spending to ensure fiscal solvency. Accurately tracking and analyzing enrollment and ADA can help the district better project future revenues and control staffing expenditures to help maintain fiscal solvency.

Enrollment Projection

FCMAT used enrollment information provided by the California Department of Education (CDE) on its DataQuest website and analyzed enrollment trends over the last several years.

FCMAT used the cohort survival method, which groups students by grade level upon entry and tracks them through each year that they stay in school. This method evaluates the longitudinal relationship of the number of students who pass from one grade to the next in a subsequent year. It closely accounts for retention, dropouts and students transferring to and from the district grade by grade. Although other projecting techniques are available, the cohort survival method usually is the best choice for school districts because of its sensitivity to incremental changes in several key variables.

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

- The historical ratio of enrollment progression between grade levels
- Changes in educational programs
- Interdistrict and intra-district transfers
- Migration patterns
- Changes in local and regional demographics
- Industry changes such as a new industry coming to the area or leaving
- Residential housing starts and the generation factor per household
- The influx of new or expanding charter schools
- Birthrates

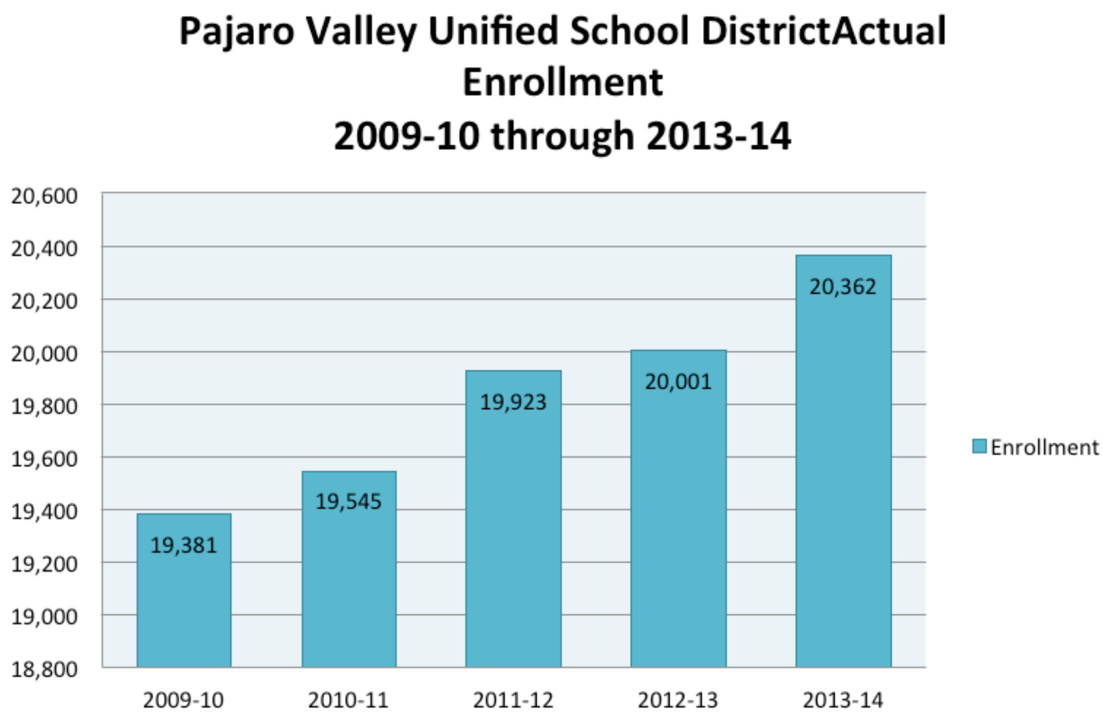
Average Daily Attendance

Average daily attendance is used to calculate the district's LCFF and many other federal and state revenue sources. District LCFF apportionments are based on the greater of current or prior year ADA reported on the second period principal apportionment (P-2).

FCMAT reviewed the district's enrollment and ADA trends for 2009-10 through 2013-14 as well as the district's official October 2014 enrollment data. The review compared October

California Basic Educational Data System (CBEDS)/California Longitudinal Pupil Achievement Data System (CalPADS) student enrollment counts to the P-2 ADA to determine the average ADA-to-enrollment ratios. Historical data indicates that the district has experienced enrollment growth of 664 students from 2009-10 to 2014-15 and 372 students in charter school enrollment. FCMAT's projections indicate that enrollment will continue to increase in the next two years, but not as rapidly as the preceding five fiscal years. However, the district needs to carefully monitor and project enrollment and ADA at each reporting period to ensure the most recent data is included in its budget assumptions as actual enrollment can rapidly change from year to year.

The chart below shows the total student enrollment from 2009-10 through 2013-14 including charter schools.



Revenue Sources

The district has four categories of revenue that are classified as either unrestricted or restricted: Local Control Funding Formula (LCFF) state aid, federal revenues, other state revenues, and local revenues.

Unrestricted Revenues

LCFF

The district receives most of its revenue from state principal apportionment funding. In the 1973-74 school year, each school district's general purpose funding was benchmarked on a per-ADA apportionment system following the landmark Serrano court case designed to provide equity in school finance.

Over time, attempts to equalize school district funding through policies and legislative action became increasingly complex. Chapter 47, Statutes of 2013, enacted as part of the 2013-14 state budget package, replaced this finance system with the LCFF effective July 1, 2013. The LCFF applies to both school districts and charter schools. Like revenue limit funding, the LCFF is based on ADA; however, the methods of calculation have changed significantly and are unique to each school district and charter school. The LCFF replaced both revenue limit funding and 32 types of categorical funding.

In its simplest form, the LCFF has four main components.

1. LCFF sets four uniform grade span rates: K-3, 4-6, 7-8 and 9-12. These constitute the majority of general purpose funding.
2. Grade span adjustments for grades K-3 and 9-12 are calculated based on a percentage of the grade span rates: 10.4% for grades K-3 for class size reduction, and 2.6% for grades 9-12 to compensate for funding previously received for career technical education.
3. Supplemental grant funding totaling 20% of the adjusted base rate is provided for certain student subgroups including English learners, foster youth, and students who qualify for free and/or reduced-price meals.
4. Concentration grant funding equal to 50% of the adjusted base rate is provided when student subgroups exceed 55% of total enrollment.

Following this calculation, there are add-ons for targeted instructional improvement grant and home-to-school transportation funding. The add-ons do not receive cost-of-living adjustments over the 8-year target implementation period.

During the transition from fiscal year 2012-13 to 2013-14, a floor funding level based on 2012-13 funding per ADA and a target funding level representing full funding if the state had sufficient resources are calculated. A unique calculation exists for each school district and charter school. The difference between the floor and the target is referred to as the gap. Beginning in 2013-14, districts and charter schools receive a percentage of the remaining gap amount each year until full funding is achieved. The floor and target are adjusted each year for cost-of-living increases and for changes in average daily attendance. In addition, districts and charter schools receive supplemental grant funding and concentration grant funding based on a district's unique percentage of unduplicated student counts generated as of the first Wednesday in October of each school year, which is also adjusted in the target calculation each year.

The state obligation for LCFF funding is offset by local property taxes and the economic protection account (EPA); therefore, the total revenue each school district and charter school receives is a combination of state apportionments (LCFF), local property taxes, and EPA. The economic protection account, also known as Proposition 30, was approved in the November 2012 election in an attempt to stabilize K-14 funding following massive budget cuts to education over the three previous fiscal years. The account generated revenues through a temporary state sales tax rate increase of 0.25% beginning January 1, 2013 through December 31, 2016 and through an increase to the California state personal income tax rates for upper-income taxpayers for seven years beginning January 1, 2012. These payments are separate from the principal apportionment and are paid quarterly.

The following table summarizes the LCFF funding from 2013-14 and projected revenue through 2016-17:

Summary of Findings

	2013-14	2014-15	2015-16	2016-17
Target	$177,270,826	$178,568,677	$182,053,375	$187,327,661
Floor	118,409,231	125,473,572	141,504,597	155,623,495
Applied Formula: Target or Floor	FLOOR	FLOOR	FLOOR	FLOOR
Remaining Need after Gap (informational only)	51,797,205	37,617,882	27,496,126	24,187,108
Current Year Gap Funding	7,064,390	15,477,223	13,052,652	7,517,058
Economic Recovery Target	-	-	-	-
Additional State Aid	-	-	-	-
Total Phase-In Entitlement	$125,473,621	$140,950,795	$154,557,249	$163,140,553

Other State Revenue

According to the California Lottery Commission, contributions from lottery winnings constitute about 1% of annual school budgets. The portion directed for school funding provides both unrestricted and restricted funding in addition to, not as a supplement of, state apportionments. Most districts use these dollars for expenditures that can easily be redirected to other funding sources. Unrestricted lottery funding is estimated at $128 per ADA. The district is projected to receive $2,446,794 in total lottery funding, or 1.3% of its annual budget for fiscal year 2014-15.

Government Code Section 8880.5(a) (2) extended lottery funding based on the 2007-08 regional occupational center/program and adult education ADA through 2014-15. Under current law, adult education and ROC/P ADA will no longer be part of the lottery calculation beginning in 2015-16. Therefore, the district's total ADA for lottery funding will be reduced by approximately 1,106.90 ADA, representing a loss of approximately $185,000 in both 2015-16 and 2016-17. FCMAT included this reduction in the MYFP.

Local Revenue

The district collects local revenues for interest earnings, rents and leases of buildings and other miscellaneous charges. Because these revenues cannot be guaranteed on a year-to-year basis, budgets and MYFPs for these items should be conservative and take into account historical trend data and identify revenue streams that are one-time. The budgets should also be monitored and updated throughout the year based on amounts received to date.

Beginning in 2013-14, funding for regional occupational centers and programs was folded into the LCFF as unrestricted funding. Even though the funding as redirected is unrestricted, school districts are required to maintain 2012-13 expenditure levels in 2013-14 and 2014-15. County offices that passed through funds to joint powers agencies in 2012-13 are also required to continue this practice through 2014-15. The Santa Cruz County Office of Education implemented a transition plan that reduces the district's regional occupational centers and programs allocations significantly in 2015-16 and 2016-17. To continue the program at the current level absent legislation to provide funding for these programs, the district estimated that the contribution will increase from approximately $500,000 in 2015-16 to $1 million in 2016-17. These amounts are included in the district's second interim report for 2014-15; however, because they are unconfirmed, FCMAT did not include these in the MYFP.

On May 8, 2013, the district entered into an agreement with Ceiba Preparatory Academy charter school for a renovation loan for facilities. The charter school claimed that the district did not satisfy its Proposition 39 facilities requirement for use of district facilities, and the district disagreed. To settle all claims, the district agreed to advance funding for renovation costs to the charter school for a commercial building location in Watsonville, CA with mutually agreed upon offsets in-lieu for nonuse of district facilities.

The district loaned $2,024,952 in the 2013-14 fiscal year, and Ceiba established a renovation fund for the sole purpose of building renovation and modernization. Quarterly payments of $52,722.14 were scheduled to start December 2014, which are offset by $37,500 in exchange for nonuse of district facilities. Based on district records, the first scheduled payment has been received.

Ceiba reportedly uses district maintenance and operations as well as SELPA services that are not included in the offset amount; however, district management confirmed that CEIBA is no longer using district services including the SELPA.

Restricted Revenues

Federal Revenues

Funding from federal grants and entitlements is restricted in accordance with their provisions. The district operates approximately 30 separate grant programs including several grants under Title I, No Child Left Behind (NCLB), NCLB Title II – teacher quality and NCLB Title III – limited English; Title IV 21st Century; special education basic grant; special education preschool; Medi-Cal billing option; Title I Improvement Grant and after school grants. The district is projected to receive a total of $27,916,197in federal funding in 2014-15.

Funding for the school improvement grant and Quality Education Investment Act ends in 2014-15; therefore, it was eliminated in the MYFP beginning in 2015-16. Projections for 2015-16 and 2016-17 do not include any new revenue adjustments.

Medi-Cal administrative activities (MAA) is a reimbursement program managed by the California Department of Health Care Services that allows school districts and county offices to be reimbursed for Medi-Cal-related administrative services provided to eligible children and their families. The district participates in this program and is projected to receive $748,634 in 2014-15.

Based on the size of the district's special education program and other services it provides to children, it would benefit from increasing the level of participation since this can be a substantial source of unrestricted funding. Employees are required to record time worked on MAA activities for one week each quarter. The district can submit claims for referrals for determining Medi-Cal eligibility, providing health care information and referrals to other agencies, coordinating health services between agencies, and monitoring health services.

In October 2014, the Department of Health Care Services and the Centers for Medicare and Medicaid settled a dispute regarding the reasonableness of prior claims and procedures. Following the settlement, prior year claims of less than $25,000 have been processed and claims larger than that are anticipated to be paid on a percentage basis. Beginning with the 2014-15 fiscal year, the department must submit random moment time sampling.

Program procedures for timekeeping periodically change. Several resources are available through the Department of Health Care Services. The district should periodically review the claims reimbursement process and review programs and services through the Medi-Cal Benefits Division online at:

http://www.dhcs.ca.gov/services/medi-cal/Pages/MediBen_Svcs.aspx

State Sources

The district receives state revenues with a restricted use. These include lottery funding for instructional materials estimated at $34 per ADA, or $658,987, representing approximately 3% of the district's total revenues as well as clean energy; Quality Education Investment Act and governor's Career Technical Education (CTE) Initiative.

AB 602 Special Education Funding – SELPA Allocations

Pajaro Valley Unified is a single-district special education local plan area (SELPA) and receives an allocation of state funding through this entity to offset the cost of special education services, low-incidence disabilities and out-of-home care. The district should ensure that budgeted amounts agree with CDE funding exhibits.

One-Time Sources

Funding for the Quality Education Investment Act and Title I Improvement Grant ends in 2014-15; therefore, this source was eliminated in the MYFP beginning in 2015-16.

The district received but did not spend one-time prior year entitlements for Common Core State Standards. The carryover balance is expected to be spent in the 2014-15 fiscal year. These dollars are recorded as expenditures in the current fiscal year and removed from the projections for the two subsequent years.

Revenue Adjustments

FCMAT made several revenue adjustments to grant and entitlement awards following the district's first interim report. The district should ensure that all grants, entitlements and carry-overs are properly updated by the first interim report.

Adjustments in the base year are based on award and entitlement letters, CDE exhibits, ADA calculations and include carryovers from the prior fiscal year. FCMAT used the latest LCFF calculator (version 16.1) updated in January 2015 utilizing Department of Finance estimates following the governor's proposed budget for 2015-16. The latest LCFF calculator had minimal adjustments in the current year but included increased GAP percentage adjustments in the 2015-16 fiscal year. Projections include enrollment increases of 122 in 2015-16, and 154 in 2016-17.

Following the base year adjustments, FCMAT adjusted grants and entitlements to reduce carry-over amounts, apply factors for cost-of-living and increased district enrollment. School Improvement Grant, Quality Education Investment Act and Common Core State Standards funding was eliminated.

The following table shows FCMAT's calculation of combined unrestricted and restricted revenues for the base year and two subsequent years.

FCMAT's Calculation of District Revenues

Combined Unrestricted and Restricted Revenues	Object Code	Base Year 2014 - 15	2015 – 16	2016 - 17
Revenues				
LCFF/State Aid	8010 - 8099	$138,551,037.00	$152,157,491.00	$160,740,795.00
Federal Revenues	8100 - 8299	$27,916,197.38	$19,414,981.00	$19,414,981.00
Other State Revenues	8300 - 8599	$23,427,325.00	$21,007,286.43	$21,376,291.46
Other Local Revenues	8600 - 8799	$3,215,894.51	$1,284,156.00	$1,286,681.60
Revenues		$193,110,453.89	$193,863,914.43	$202,818,749.06

Expenditure Categories

The general fund is used for the district's day-to-day operations. Salaries and benefits are the largest expenditure category and normally take 85%-92% of a district's unrestricted operating budget. The state standards and criteria use the district's historical average, plus or minus either 3% or the percentage of the district's reserve for economic uncertainties, whichever is greater.

As of the 2014-15 budget adoption, the district's historical average was 88.8% based on the standards and criteria, which is between the recommended 85.8% and 91.8% and therefore meets the standard. At first interim 2014-15, the district continued to meet the standard with 87.7% unrestricted salary and benefits.

In response to significant improvement in the 2013-14 fiscal year following the passage of the new funding formula, the governing board implemented a reinvestment plan designed to restore programs and services. The board approved $13.2 million in ongoing expenditures even though the district received only $8 million in new LCFF funding, creating an immediate structural deficit.

The reinvestment plan included salary increases of seven percent for all employees, class size reduction for first grade, K-3 intervention teachers, middle school counselors, additional staffing and a classified compensation study.

Other major expenditures categories include books, supplies, insurance, contracted services, utilities, travel, conferences, and capital outlay.

Salaries and Benefits

Salaries and benefits were extrapolated from November 2014 through June 2015 utilizing the October 2014 payroll and expenditures to date. FCMAT identified salaries for board-approved positions that remain open and unfilled as of the date of fieldwork. These positions were prorated from July 2014 through October 2014 to reflect salary savings to date. However, the four months of prorated salaries for these positions were added back to FCMAT's projections in the 2015-16 year to recognize a full year of salaries for each vacant position.

The following summarizes the sequence the team implemented to calculate the payroll and benefit projections in excess of $171 million:

- Reviewed district position control report as of November 6, 2014.
- Identified 2014-15 open position salaries and benefits at budget adoption and first interim.
- Identified salary and benefits not maintained in the district's position control system and compared budgeted amounts to historical trends.
- Reviewed October payroll, added open position salaries and benefits and extrapolated all through June 30, 2015.
- Compared extrapolated payroll by individual object code to the district adoption and first interim budgets. When combined in the aggregate at June 30, 2015, the district's overall projections were comparable to the FCMAT calculations.

Step percentage for certificated and classified wages were developed using district financial system generated step advancement of contracted positions for 2015-16 and 2016-17. Amounts are reasonable and consistent with industry standards.

The team compared projected amounts to district adopted and first interim budget and analyzed areas that were significantly different. Extrapolation of salaries as compared to historical actuals and district projections at first interim demonstrate aggregate differences below:

Combined Resources

Classification	FCMAT Projection	District Adopted	Difference	District First Interim	Difference
Certificated	$80,197,008	$77,652,692	$2,544,316	$79,708,818	$488,190
Classified	29,350,493	29,566,755	(216,282)	30,034,174	(683,681)
Benefits	62,116,414	61,442,617	673,797	62,418,198	(374,439)
Total	$171,663,915	$168,662,064	$3,001,831	$172,161,190	$(569,930)

Unrestricted Resources

Classification	FCMAT Projection	District Adopted	Difference	District First Interim	Difference
Certificated	$59,236,884	$58,104,375	$679,371	$58,557,513	$1,132,509
Classified	15,980,763	16,904,211	(923,448)	16,904,211	(1,304,107)
Benefits	41,068,362	41,323,895	(255,533)	41,145,113	(76,751)
Total	$116,286,009	$116,332,481	$(499,610)	$116,606,837	$(248,349)

Health & Welfare Benefits

Active Employee Benefits

The audited financial report for the period ending June 30, 2014 identified 1,672 active employees eligible for health and welfare benefits. The following summarizes the sequence FCMAT implemented to calculate health and welfare benefit projections:

- Reviewed historical trends from 2013-14 and 2014-15 through October 31, 2014 for object codes 3401-3402 (health and welfare) and 3711-3712 other post-employment benefits (OPEB benefits.)
- Reviewed October payroll object codes 3401-3402 and 3711-3712, extrapolated health and welfare for the remaining eight months based on October payroll and combined with general ledger amounts posted as of October 31, 2014.
- Added prorated amount for open positions as of November 6, 2014 based on $19,000 per FTE for eight remaining months should the district fill these vacant positions following the FCMAT report.

FCMAT reviewed district plan selection by employee and applied plan rates accordingly. Plan selection information provided by the district is for all eligible employees across all funds but lacked the detail necessary to identify only those funded in the general fund and endowment fund. The team utilized the 2013-14 percentages to allocate charges to the general fund. Using this method, health and welfare projections were lower by $3,267,993 excluding the benefits associated with open vacant positions; therefore, the team used the original payroll extrapolation to be conservative.

Eligibility

Two years ago, the district changed from self-insurance to Self-Insured Schools of California (SISC) for vision, health and welfare benefits. The district maintains self-insurance for dental coverages, but all medical claims are administered through SISC. The district and a joint benefits committee meet bimonthly to review plan offerings and annual rates. Under SISC, the district offers a PPO, HMO and HMO-plus plan to eligible employees.

Certificated employees that are contracted 50% or more are prorated based on FTE. Single coverage requires no out-of-pocket premium cost, one dependent costs $56 per month, and family coverage is $90 monthly. Board members and classified employees do not pay for family coverage, but employees have full coverage if they work four hours per day with no out-of-pocket cost for premiums. According to several employees interviewed, this was in-lieu of salary increases covering a 15-year period of time; however, FCMAT confirmed the following salary increases during that time:

Year	Increase
2000-01	5%
2002-03	2%
2003-04	5%
2005-06	3.25%
2006-07	3.66%
2013-14	7%

Eligibility qualifications are extremely liberal. District management should work with the joint benefits committee on options to contain costs and provide a cost-sharing arrangement with all employee groups.

Retiree Benefits

The audited financial report for the period ending June 30, 2014 identified 275 retirees and beneficiaries eligible for health and welfare benefits. FCMAT performed the following:

- Reviewed historical trends from 2013-14 and 2014-15 through October 31, 2014 for object codes 3401-3402 and 3711-3712.
- Reviewed October payroll object codes 3401-3402 and 3711-3712, extrapolated health and welfare for the remaining eight months based on October 2014 payroll and combined with general ledger amounts posted as of October 31, 2014.

FCMAT reviewed the district plan selection workbook for retirees for the 2014-15 fiscal year including plan selections, benefit rates, and end date for qualified benefits. The district's workbook extrapolates costs through fiscal year 2023-24 based on current rates. The district developed and applied two separate allocation factors for allocating the annual pay-as-you-go other post-employment benefit (OPEB) costs: One based on certificated wages and retired former certificated employee health benefit costs, and one based on classified wages and former classified employee health benefit costs.

The California Standard Accounting Manual (CSAM) Procedure 785-10 provides that OPEB expenditures relating to retirees, whether for current year benefits or for amortization of the unfunded liability, may be allocated only to programs in proportion to either total salaries, or total FTEs in all activities. In the CDE's negotiations with the United States Department of Education on how OPEB contributions may be charged to federal programs, the federal department determined that in order for federal programs to be charged a share of these costs, the *costs must be allocated to all activities* with as broad an allocation base as possible; this means total salaries across all funds. The United States Department of Education specifically denied any narrower allocation base. It is not appropriate to create two separate allocation factors to charge allocated OPEB costs. The district should reallocate OPEB costs based on the correct method provided in CSAM.

Local education agencies should use total salaries to establish one percentage rate, or allocation factor, and should use that rate to charge allocated OPEB contributions in all activities in proportion to certificated and classified salaries to all activities. While object codes 3XX1 and 3XX2 generally exist to distinguish benefits for certificated employees from benefits for classified employees, retirees are neither certificated nor classified because they are no longer employees. Even where it might be feasible to distinguish between certificated and classified cost, doing so is not necessary.

Once an allocation factor has been developed, districts may choose to exclude any particular resource or fund from cost allocation; however, the remaining resources will have to be absorbed within the unrestricted resources of the general fund. The district should apply a single-cost allocation factor to all resources and funds.

During fieldwork, FCMAT found that year-round employees who work between 184 and 261 days can choose their work days and calendars. At least 20 separate work calendars and more than 700 individual work calendars are in use because employees can choose their individual workdays. The district should limit the number of available work calendars that include defined workdays.

Books and Supplies

Books and supplies budgets were reviewed for reasonableness using the current year actual expenditures through October 31, 2014 and extrapolated to June 30, 2015. Large variances were discussed with district staff before posting adjustments. FCMAT added $300,000 for books and supplies.

The FCMAT MYFP for subsequent years includes adjustments based on the consumer price index (CPI) inflation factor from the School Services of California (SSC) Inc. financial dartboard and projected ADA.

Services and Other Operating Expenditures

The services and operating expenditure budgets were reviewed for reasonableness using the current year actual expenditures through October 31, 2014 and extrapolated to June 30, 2015. Large variances were discussed with district staff prior to posting adjustments. FCMAT added $3,460,000 for services and other operating expenditures.

The FCMAT MYFP for subsequent years includes adjustments based on the consumer price index inflation factor from the SSC financial dartboard and projected ADA.

Capital Outlay

The capital outlay budgets were reviewed for reasonableness using the current year actual expenditures through October 31, 2014 and extrapolated to June 30, 2015. Large variances were discussed with district staff prior to posting adjustments. FCMAT added $22,000 for capital outlay.

The FCMAT MYFP for subsequent years includes adjustments based on the consumer price index inflation factor from the SSC financial dartboard and projected ADA.

Other Outgo

The capital outlay budgets were reviewed for reasonableness using the prior two years' actual expenditures, current year-to-date expenditures and encumbrances.

Debt Service

Debt service was adjusted in the current and subsequent years based on the district's long-term debt schedule for capital lease agreements and adjusted in accordance with amounts listed in the district's audited financial statements.

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

Encroachments

Encroachment occurs when restricted programs require money from the unrestricted general fund to support program expenditures. Programs that require a general fund contribution can be reduced or in some cases eliminated altogether.

The district should evaluate restricted programs that encroach on unrestricted funds listed in the table below with the exception of special education and restricted maintenance, which are typically not fully funded by either state of federal sources. These programs should be reduced or eliminated if they cannot be sustained. The following table shows projected encroachments for the district's restricted programs.

Projected Encroachment

Unrestricted Resources				
Unrestricted	$0	($27,438,095)	($34,072,516)	($37,587,854)
Total Unrestricted		($27,438,095)	($34,072,516)	($37,587,854)
Restricted Resources				
NCLB: Title I, Part C, Even Start Migrant Education (MEES)	$3,110	$131,644	$197,566	$207,913
NCLB: Title I, School Improvement Grant	$3,180	$0	$2,486,797	$2,581,364
NCLB: ARRA Title I, School Improvement Grant	$3,181	$0	$0	$0
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611 (formerly P	$3,310	($17,807)	($17,807)	$185,318
Special Ed: IDEA Local Assistance, Part B, Sec 611, Private School ISPs	$3,311	$17,807	$17,807	$17,807
Special Ed: IDEA Preschool Grants, Part B, Sec 619	$3,315	$1,770	$9,381	$18,677
Special Ed: IDEA Preschool Local Entitlement, Part B, Sec 611	$3,320	$0	$0	$18,321
Special Ed: IDEA Early Intervention Grants	$3,385	$2,939	$17,817	$29,128
Department of Rehab: Workability II, Transition Partnership	$3,410	$13,522	$13,522	$13,522
NCLB: Title II, Part A, Teacher Quality	$4,035	$0	$0	$0
NCLB: Title II, Part B, CA Mathematics and Science Partnerships*	$4,050	$4,659	$4,855	$5,056
Other Restricted Federal	$5,810	$271,707	$282,240	$312,832
After School Education and Safety (ASES)	$6,010	$901,211	$1,041,670	$1,131,758
Special Education	$6,500	$21,031,246	$22,570,364	$23,737,275
Special Ed: Project Workability I LEA	$6,520	$0	$1,386	$6,339
Quality Education Investment Act	$7,400	$0	$1,065,368	$1,633,724
Ongoing & Major Maintenance Account (RMA: Education Code Section 17070.75)	$8,150	$5,079,397	$6,381,548	$6,628,312
Other Restricted Local	$9,010	$0	$0	$1,060,510
Total Restricted		$27,438,095	$34,072,516	$37,587,854
Balance		$0	$0	$0

**Programs have been discontinued. District needs to move expenditures to unrestricted budget or eliminate expenditures or both.*

District Procedures and Other Observations

Special Education and Transportation

A FCMAT report dated January 21, 2009 was reviewed at the district's request to evaluate recommendations and provide a status update. Pajaro Valley Unified is a single-district SELPA with approximately 13% of the student population identified as eligible for special education services.

Districts statewide have experienced increased encroachments in special education and special education transportation because of rising costs and the inability of the state and federal government to fully fund district needs. The new funding formula holds transportation entitlements flat for the entire 8-year period from 2013-14 through 2016-17.

The superintendent oversees special education. The district's SELPA director is aware of large year-over-year cost increases and overstaffing. Several employees are concerned that special education costs are not monitored, and staffing for teachers and aides is not reduced when students leave the district or graduate. Because the superintendent oversees special education, many employees are reluctant to question requests for increases in special education staffing.

A review of the prior report from 2009 indicates that many recommendations for cost containment, monitoring and oversight have not been implemented.

Even though the 2009 report recommended that IEP meetings include the director of transportation in the IEP meetings, this still has not occurred. As a result, 96% of all special education students who receive transportation as part of their IEPs receive door-to-door transportation. The district should include the director of transportation or his/her authorized representative in all IEP meeting so that they provide input into the process for transportation services.

The SELPA director indicated the district has experienced an influx of special education students, with 54 new students enrolled at the elementary level, and a high incidence of autistic students. The district has increased the resources, including social emotional counselors and services at the school site level. The district should request an extensive special education and transportation study to evaluate potential savings and/or restructure delivery service models. It would be appropriate for the SELPA director to approve all staffing requests and submit them to the superintendent's cabinet for final approval.

Fund 06 – Bond Fund – Endowment Funds

Voters approved the Measure L general obligation bond was in November 2012 by 67.8%. Voters in the district authorized $150 million to modernize facilities, upgrade computers and instructional technology in the classrooms, and establish funding for deferred maintenance facility needs.

The district accounts for a portion of bond fund proceeds in two endowments: Instructional technology and deferred maintenance. The endowments are established in fund 06, which rolls into Fund 01 of the general fund. The district's rationale is that this allows it to match salaries and benefits for a teacher on special assignment position attributable to technology training costs because staffing costs are not allowable in the building fund.

The deferred maintenance endowment totals $7.5 million over a 10-year period. Annual expenditures cannot exceed $750,000 per year, and the instructional technology endowment totals $5 million over a 10-year period and cannot exceed $500,000 per year. According to district records, $6.25 million was transferred into fund 06 during the 2013-14 fiscal year. The district spent $1,061,269 and earned interest totaling $20,714 leaving an ending balance of $5,212,464.

The district reported that collections of the endowment funds are deposited in fund 06 as opposed to the building fund 21. Accounting to the CSAM, the district should account for these funds consistent with Procedure 705 – General Obligation Bonds. The district should consult with its independent auditors to provide guidance on transferring funds for salaries and benefits related to direct services for technology training and deferred maintenance support.

The FCMAT MYFP does not include the $5,212,464 fund balance or the $1,262,839 budgeted expenditures in the 2014-15 base year.

Utilization of Multiple Operating Systems

As detailed below, the district uses multiple operating systems, which creates duplication of work and requires reconciliation of transactions from one system to another. Whenever multiple operating systems are utilized and not integrated, the integrity of data is questionable. District management is aware of the problem and plans to transition to Digital Schools within the next fiscal year. District staffs operate the following systems: CECC, Decision Insight, Cliff and E-School Plus.

Digital Schools will replace Cliff and CECC, but district staff indicate they will still need Analytic for budgeting.

Account Code Structure

District staffs utilize an inordinate number of account codes for resources that are no longer used and expenditures. Account codes should be used to track expenditures for a specific purpose, but interviewees could not identify the reasons for all the codes. District staff report that the most common error in the bookkeeping is coding and account errors. The district should eliminate duplicative account codes to reduce coding errors.

Credit Cards

The district has approximately 96 credit cards tracked by the Purchasing Department. District policy is reviewed with each employee, and violations result in denial of credit card use. Sixteen credit cards are on hold for various violations of policy.

Most purchases are for meetings and conferences, and one full-time employee is required to manage credit-card accounts. The district should review the number of credit cards issued and reduce the amount of time required to manage all the cards.

Vacation Accrual

FCMAT tested reported vacation accrual totaling $2,546,374 as of June 30, 2014, an increase of $264,970 from the prior fiscal year. As of November 2014, the balance was slightly more than $2 million. Of the 244 employees, 142 had more than five weeks of accrued vacation recorded, and three have accrual amounts in excess of $50,000. All the employees involved are year-round certificated and classified positions.

The typical work year allows 25 days of vacation. The employee contract states that employees can carry over one year of accrued vacation. The following table shows the number of employees and the total dollar amount of the accrual as of the FCMAT fieldwork in November:

Dollar Amount Range	Number of Employees	Total Cost of Vacation Accrual
$50,000 - $69,999	3	$175,622
$30,000 - $49,999	7	$232,764
$20,000 - $29,999	19	$502,986
$10,000 - $19,999	43	$631,644
Under $9999	70	$467,013

Management is responsible for ensuring all employees are monitored and take vacation in accordance with district policy. The district should comply with this practice.

Recommendations

The district should:

1. Carefully monitor and project enrollment and ADA at each reporting period to ensure the most recent data is included in its budget assumptions since actual enrollment can rapidly change from year to year.
2. Monitor and update the budgets throughout the year based on amounts received to date.
3. Increase the level of participation in MAA activities.
4. Ensure that all grants, entitlements and carryovers are properly updated by the first interim report and agree with CDE funding exhibits.
5. Ensure district management works with the joint benefits committee on options to contain costs and provide plan sharing with all employee groups.
6. Ensure that information in position control is correctly posted in the budget and compared with actual payroll records.
7. Reallocate OPEB costs based on the correct method provided in CSAM. The district should also apply a single cost allocation factor to all resources and funds.
8. Limit the number of available work calendars that include defined work days.
9. Review all expenditures in the services and other operating expenditures category for possible savings, and evaluate areas that are overexpended.
10. Request an extensive special education and transportation study to evaluate potential savings, and/or restructuring delivery service models. It would be appropriate for the SELPA director to approve all staffing requests and submit them to the superintendent's cabinet for final approval.

11. Eliminate duplicative account codes to reduce coding errors.
12. Review the number of credit cards issued and reduce the amount of time to manage all the credit cards.
13. Account for the technology and deferred maintenance endowments authorized from the bond funds to be consistent with Procedure 705 – General Obligation Bonds.
14. Consult with its independent auditors to provide guidance on transferring funds for salaries and benefits related to direct services for technology training and deferred maintenance support.
15. Ensure management monitors all employees to make certain they take vacation in accordance with district policy.
16. Take immediate action to implement strategies and actions necessary to maintain a reserve level sufficient to ensure that cash is available to meet payroll and other expenditure obligations and to avoid any adverse effects related to fiscal insolvency and state intervention. This may include executing cash borrowing options.
17. Monitor cash flow to ensure sufficient funds are available to pay current obligations.

Subsequent Events

Following the draft review of the FCMAT report, the governing board initiated several reductions in response to the district's structural deficit. Items that could be estimated are presented in this section. FCMAT could not project the costs associated with other board-approved initiatives such as a hiring and spending freeze, adjustments to reduce the Local Control Accountability Plan in 2015-16 and impacts associated with the recommendations from two upcoming studies for the special education program, and the transportation program.

A fiscal stabilization plan approved on April 15, 2015 projects that 45 teaching positions will be replaced lower on the salary schedule based on retirements and non-re-elections. An additional 17 positions from the Title I School Improvement Grant (SIG) and Quality Education Investment Act (QEIA) will expire and staffing will be reassigned. Eleven teaching positions will be added to the budget for class size reduction in grades K-3, and finally, the district has been informed that the anticipated health insurance rate increase will be 1.5% instead of 8%.

In addition to these expenditure reductions, the district moved $4.5 million from the self-insurance fund and anticipates moving another $500K effective with the 2015-16 fiscal year.

District management has implemented a vacation accrual plan to reduce the liability and reduced the total number of issued credit cards to 12 districtwide.

The following table shows the projected impact of these reductions on the Unrestricted General Fund:

Unrestricted General Fund	Base Year 2014-15	Year 1 2015-16	Year 2 2016-17
Revenue	$142,300,886	$155,162,603	$163,749,909
Expenditures	$132,537,040	$138,854,025	$144,734,974
Excess (Deficiency) of Revenues Over Expenditures			
Other Financing Sources/Uses	($27,388,095)	($34,022,516)	($37,537,854)
Net Increase (Decrease) in Fund Balance	($17,624,249)	($17,713,938)	($18,522,919)
Beginning Fund Balance	$29,494,031	$10,002,269	($7,711,669)
Audit Adjustments	($1,867,513)	$0	$0
Adjusted Beginning Fund Balance	$27,626,518	$10,002,269	($7,711,669)
Ending Fund Balance	$10,002,269	($7,711,669)	($26,234,588)
Adjusted Beginning Fund Balance Following Stabilization Plan	$0	($3,211,669)	($15,090,596)
Board Approved Adjustments Following FCMAT Fieldwork			
Transfer of funds from Fund 67	$4,500,000		
Transfer of health benefits reserve July 1	$0	$500,000	
Anticipated Retirement and Non re-elects Savings 2014-15 (45 positions)	$0	$4,138,200	$4,138,200
Replacement positions from SIG & QEIA (45 positions)	$0	($4,051,220)	($4,215,087)
Reduction in Contributions SIG	$0	$2,486,797	$2,581,364
Reduction in Contributions QEIA (17 positions)		$1,564,423	$1,633,724
K-3 Positions 2015-16 (+11 positions)	$0	($821,040)	($821,040)
K-3 Positions 2016-17 (+11 positions)	$0	$0	($821,040)
Decrease in 2015-16 H&W SISC Increase		$2,826,832	$3,052,979
Total Adjustments	$4,500,000	$6,643,992	$5,549,099
Adjusted Ending Fund Balance	$14,502,269	$3,432,323	($9,541,497)

The superintendent, chief business official and governing board have taken aggressive action based on the FCMAT findings. Although these are substantial reductions, they will not correct the structural deficit in the long-term. Transfers from the self-insurance fund are one-time and other reductions are stop-gap measures that still leave the district with a negative ending fund balance in the 2016-17 fiscal year.

The structural deficit will require that the district continue its efforts to negotiate benefit reductions and implement cost controls on both special education and transportation services.

The superintendent and governing board should periodically monitor the reductions to ensure implementation especially during the transition of a new chief business official.

Appendix

A. Study Agreement

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

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
September 17, 2014

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Pajaro Valley 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 assign professionals to study specific aspects of the district's 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.

In keeping with the provisions of Assembly Bill 1200, the county superintendent will be notified of this agreement between the district and FCMAT and will receive a copy of the final report. The final report will also be published on the FCMAT website.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

1. The team will provide a fiscal analysis for the district to develop a multiyear financial projection (MYFP).This will include recommendations to increase revenues and/or reduce expenditures that will assist the district in sustaining the recommended reserve levels. The district anticipates filing a negative certification for its first interim financial report for the period ending October 31, 2014.

2. The team will develop an MYFP for the current (2014-15) and two subsequent fiscal years without any budget adjustments, based on today's economic forecast, to determine the level of commitment needed to sustain the district's financial solvency. The MYFP will be a snapshot in time regarding the district's current financial status and will use the district's 2014-15 Adoption Budget as the baseline for developing the

MYFP. Any forecast of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment trends, cost-of-living adjustments, forecasts for utilities, supplies and equipment, and changing economic conditions at the state, federal and local levels. The MYFP should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers.

3. Review the district's long-term debt for all funds and any fiscal impact that they may have on the MYFP.

4. Evaluate recommendations provided to the district in previous FCMAT reports in the areas of special education and transportation. These are areas where the district has significant encroachment on the unrestricted general fund, and the team will provide a status update and additional recommendations, if applicable.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the district to brief district management and supervisory personnel on the team's procedures and the purpose and schedule of the study.
2. On-site Review - The team will conduct an on-site review at the district office and at school sites if necessary.
3. Exit Report - The team will hold an exit meeting at the conclusion of the on-site review to inform the district of significant findings and recommendations to that point.
4. Exit Letter – Approximately 10 days after the exit meeting, the team will issue an exit letter briefly summarizing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.
5. Draft Reports – Electronic copies of a preliminary draft report will be delivered to the district's administration for review and comment.
6. Final Report – Electronic copies of the final report will be delivered to the district's administration and to the county superintendent following completion of the review. Printed copies are available from FCMAT upon request.
7. Follow-Up Support – If requested, FCMAT will return to the district at no cost six months after completion of the study to assess the district's progress in implementing the recommendations included in the report. Progress in implementing 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, CFE, CICA, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

A. Deborah Deal, CICA, CFE	*FCMAT Fiscal Intervention Specialist*
B. Marisa Ploog, CPA, CFE, CICA, CGMA	*FCMAT Fiscal Intervention Specialist*
C. To be determined	*FCMAT Consultant*
D. To be determined	*FCMAT Consultant*

Other equally qualified staff or consultants will be substituted in the event one of the above 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 as follows:

A. $500 per day for each staff member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate.

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

C. 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 the district's acceptance of the final report.

Based on the elements noted in section 2 A, the total estimated cost of the study will be $18,000.

D. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT's 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 during on-site reviews.

B. The district will provide the following if requested:

1. Policies, regulations and prior reports that address the study scope.
2. Current or proposed organizational charts.
3. Current and two prior years' audit reports.
4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in electronic format.
5. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository, where the district will upload all requested documents.

C. The district's administration will review a preliminary draft copy of the report resulting from 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 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 different phases of the study:

Orientation:	October 2014
Staff Interviews:	to be determined
Exit Meeting:	to be determined
Preliminary Report Submitted:	to be determined
Final Report Submitted:	to be determined
Board Presentation:	to be determined, if requested
Follow-Up Support:	if requested

7. **COMMENCEMENT, TERMINATION AND COMPLETION OF WORK**:

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The team will work expeditiously to complete its work and deliver its report, subject to the cooperation of the district and any other parties from whom, in the team's judgment, it must obtain information. Once the team has completed its field work, it will proceed to prepare a preliminary draft report and a final report. Prior to completion of field work, the district may terminate its request for service and will be responsible for all costs incurred by FCMAT to the date of termination under Section 4 (Project Costs). If the district does not provide written notice of termination prior to completion of field work, the team will complete its work and deliver its report and the district will be responsible for the full costs. The district understands and agrees that FCMAT is a state agency and all FCMAT reports are published on the FCMAT website and made available to interested parties in state government. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a report once field work has been completed, and the district shall not request that it do so.

8. **INDEPENDENT CONTRACTOR:**

FCMAT is an independent contractor and is not an employee or engaged in any manner with the district. The manner in which FCMAT's services are rendered shall be within its sole control and discretion. FCMAT representatives are not authorized to speak for, represent, or obligate the district in any manner without prior express written authorization from an officer of the district.

9. **INSURANCE:**

During the term of this agreement, FCMAT shall maintain liability insurance in an amount not less than $1 million unless otherwise agreed upon in writing by the district, automobile liability insurance in the amount required under California state law, and workers compensation as required under California state law. FCMAT shall provide certificates of insurance, with additional insured endorsements, indicating applicable insurance coverages prior to the commencement of work.

10. **HOLD HARMLESS:**

FCMAT shall hold the district, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, the district shall hold FCMAT, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement.

11. CONTACT PERSON

Name: Brett McFadden
Telephone: (831) 786-2103
E-mail: brett_mcfadden@pvusd.net

Dorma Baker 10-8-14

Dorma Baker, Superintendent Date
Pajaro Valley Unified School District

Anthony L. Bridges October 14, 2014

Anthony L. Bridges, CFE, CICA Date
Deputy Executive Officer
Fiscal Crisis and Management Assistance Team