



CSIS California School Information Services

La Habra City School District

Fiscal Review

May 24, 2013



Joel D. Montero
Chief Executive Officer







CSIS California School Information Services

May 24, 2013

Susan Belenardo, Ed.D., Superintendent
La Habra City School District
500 North Walnut Street
La Habra, CA 90631

Dear Superintendent Belenardo:

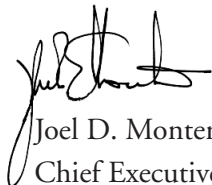
In January 2013, the La Habra City School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for management assistance. Specifically, the agreement states that FCMAT will perform the following:

1. Review the district's 2012-13 general fund budget and provide a multiyear financial projection (MYFP) for the current and two subsequent fiscal years using the first interim financial report as the baseline for the projection. The MYFP will include a cash flow component to project the district's cash balances for the 2012-13 fiscal year.
2. The MYFP and cash flow analysis will also include the fiscal impact of all other funds and provide strategies for cash management from internal and external sources, if any.
3. The FCMAT team will validate the district's budget assumptions and provide recommendations for expenditure reductions or revenue enhancements to assist in sustaining the district's financial solvency under AB 1200.

Following FCMAT's fieldwork, the district requested and FCMAT agreed to expand the scope of work to include a cash flow component to project the district's cash balances for the 2013-14 fiscal year.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the La Habra City School District and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,



Joel D. Montero
Chief Executive Officer

FCMAT

Joel D. Montero, Chief Executive Officer

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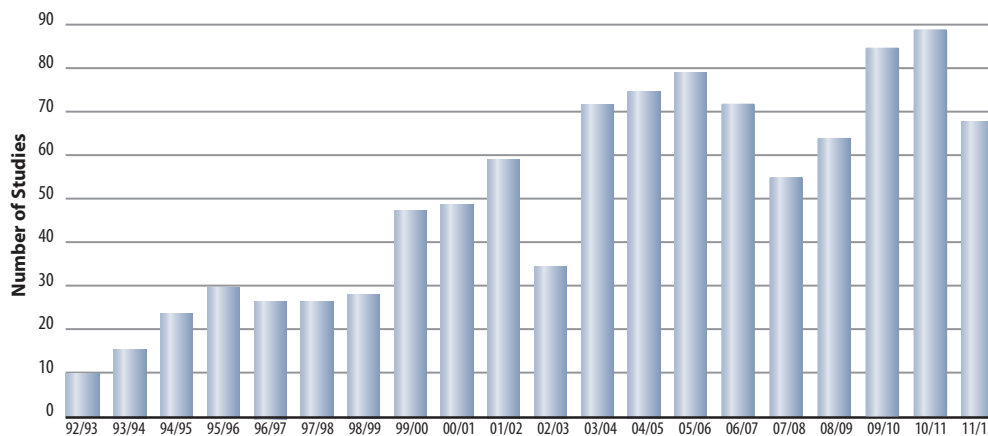
About FCMAT

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 office 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 nearly 850 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

Located in Orange County, the La Habra City School District has a five-member elected governing board and serves approximately 5,251 students in seven elementary schools and two middle schools. Student enrollment reached a peak of 6,534 students in 2003-04 but has declined each year since.

Approximately 39% of the district's students are English learners, and 74% are eligible for free or reduced-price meals. According to the 2012 Adequate Yearly Progress (AYP) Report, the district did not meet all of the criteria for AYP and was identified for year three program improvement (PI) status in 2012-13. Schools and local educational agencies that do not meet AYP criteria for two consecutive years are identified for PI under the federal Elementary and Secondary Education Act (ESEA). The ESEA requires all states to implement statewide accountability systems based on state standards in English-language arts and mathematics, annual testing for students, and annual statewide progress objectives with the goal that all students achieve proficiency by 2013-14. Schools and districts that fail to make AYP toward proficiency goals are subject to improvement and corrective action measures.

The community supported the district by passing a \$31 million general obligation bond measure in 2012 to help provide funding to modernize and improve school facilities, improve students' and teachers' access to classroom technology, and fund deferred maintenance projects.

Study Guidelines

In January 2013, the La Habra City School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for management assistance. Specifically, the agreement states that FCMAT will perform the following:

1. Review the district's 2012-13 general fund budget and provide a multiyear financial projection (MYFP) for the current and two subsequent fiscal years using the first interim financial report as the baseline for the projection. The MYFP will include a cash flow component to project the district's cash balances for the 2012-13 fiscal year.
2. The MYFP and cash flow analysis will also include the fiscal impact of all other funds and provide strategies for cash management from internal and external sources, if any.
3. The FCMAT team will validate the district's budget assumptions and provide recommendations for expenditure reductions or revenue enhancements to assist in sustaining the district's financial solvency under AB 1200.

Following FCMAT's fieldwork, the district requested and FCMAT agreed to expand the scope of work to include a cash flow component to project the district's cash balances for the 2013-14 fiscal year.

FCMAT visited the district on February 20 and 21, 2013 to conduct interviews and collect data. This report is the result of those activities and is divided into the following sections:

- I. Executive Summary
- II. Multiyear Financial Projections
- III. Cash Flow Projections
- IV. Revenue Increases and Expenditure Reductions
- V. District Procedures
- VI. Appendices

Study Team

The study team was composed of the following members:

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Executive Summary

Funding for education has been severely reduced and cash deferrals have increased since 2008-09 because of the state and federal budget crises. To address the state's ongoing budget deficit, state lawmakers have used numerous strategies to help balance the budget, including reducing expenditures, adding new taxes, borrowing money and using federal stimulus funds. Passage of Proposition 30 in November 2012 helped to stabilize education funding for the 2012-13 fiscal year by increasing state tax revenues, thereby avoiding mid-year budget reductions. However, because of the ongoing loss of state funding, districts throughout the state continue to struggle to eliminate deficit spending and maintain a balanced budget in the current and subsequent fiscal years.

Multiyear Financial Projections

Multiyear financial projections (MYFPs) help local educational agencies make more informed decisions and forecast the effects of current decisions. Projections are a part of annual budget development and should be evaluated and updated during each interim financial reporting period and before any significant budget adjustments, such as salary increases.

In developing and implementing the multiyear financial projection, the district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The financial crisis and protracted economic recovery at the state and national levels continue to make it an especially challenging time financially for educational agencies statewide.

The governor's 2013-14 state budget proposal includes the Local Control Funding Formula (LCFF), which would significantly change the way school districts are funded. As proposed, the LCFF would replace revenue limits and most state categorical program funding with base grade span pupil grants and supplemental and concentration grants. At the request of the Legislative Analyst's Office, on April 2, 2013 the California Department of Education (CDE) released a report detailing the percentages of students who are eligible for free and reduced-price meals and who are classified as English Learner (EL), by district. The report provides estimates of district revenues under current law and under the proposed LCFF. The estimated projections can be found at <http://www.cde.ca.gov/fg/fr/eb/documents/fundmldfndngformula.xls>. These calculations are provided only as illustrations of potential funding differences under the proposed LCFF and current law.

For the purposes of calculating and projecting the district's MYFP, FCMAT did not incorporate the proposed LCFF, because it is not yet law. However, the district will need to prepare for the possible effect of the LCFF beginning in 2013-14.

FCMAT's multiyear financial projection indicates that the district **will not** be able to maintain a 3% reserve for economic uncertainties and will have an unrestricted ending fund balance of approximately \$13,000 in 2014-15, if steps are not taken to increase revenue and/or decrease expenditures. Following is a summary of FCMAT's projections for the district's unrestricted resources.

Multiyear Financial Projection Summary, General Fund, Unrestricted Resources Only

Description	Base Year 2012-13	Year 1 2013-14	Year 2 2014-15
Total Revenues	\$29,352,794	\$29,331,532	\$29,285,335
Total Expenditures	27,047,044	26,778,107	26,572,258
Total Other Financing Sources/Uses	-4,034,141	-4,179,488	-4,218,614
Net Increase (Decrease) in Fund Balance	-1,728,391	-1,626,063	-1,505,537

Fund Balance:			
Beginning Balance	4,873,878	3,145,487	1,519,424
Audit Adjustments	0	0	0
Other Restatements	0	0	0
Total Ending Balance	3,145,487	1,519,424	13,887
Components of Ending Fund Balance:			
Revolving Cash	25,000	25,000	25,000
Stores	125,757	125,757	125,757
3% Reserve for Economic Uncertainties	1,237,657	1,214,211	1,202,767
Undesignated/Unappropriated	\$1,757,073	\$154,456	\$0
Negative Shortfall	\$0	\$0	(\$1,339,637)

Cash Flow Projections

The purpose of a cash flow statement is to project the timing of receipts and expenses so that an organization can understand its cash flow needs. The cash flow statement shows whether the district will be able to meet its payroll and other financial obligations to sustain its financial solvency and avoid state intervention.

The state's 2012-13 budget included funds to begin reducing the cash deferrals, and governor Brown has proposed a plan to eliminate the deferrals over time. However, based on the continued cash deferrals, including deferrals equaling more than 33% of the current year funding into 2013-14, it is imperative that the district monitor its current year and subsequent year cash flow at least monthly and carefully monitor its annual budget to ensure that expenditures do not exceed revenues.

Proposition 30, *The Schools and Local Public Safety Protection Act of 2012*, approved by the voters on November 6, 2012, temporarily increases the state's sales tax rate for all taxpayers and the personal income tax rates for upper-income taxpayers. The revenues generated from Proposition 30 are deposited into a new state account called the Education Protection Account (EPA). Local educational agencies (LEAs) will receive funds from the EPA based on their proportionate share of the statewide revenue limit amount. A corresponding reduction is made to an LEA's revenue limit state aid equal to the amount of its EPA entitlement. To allow time for the state to collect the increased tax revenues, EPA entitlements will not be calculated for fiscal year 2012-13 until June 2013; LEAs will receive their 2012-13 EPA entitlement in one lump sum payment at the end of June. LEAs will receive EPA payments quarterly beginning with fiscal year 2013-14. FCMAT's cash flow projections for the district include the estimated EPA payments.

The cash flow projections prepared by FCMAT for the remainder of 2012-13 and the 2013-14 fiscal years show a negative ending cash balance in June 2014. In addition to closely monitoring cash flow, the district should work with the county office of education to determine the borrowing options that are available if it needs funds for cash flow purposes.

Findings and Recommendations

Multiyear Financial Projections

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

MYFPs help local educational agencies (LEAs) make more informed decisions and project the future effect of current decisions. Projections are a required part of annual budget development and must be evaluated and updated during each interim financial reporting period. They should also be updated before any significant decisions are made that affect the budget, such as salary increases. When developing and implementing its multiyear financial projections, a district's main objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The MYFP helps identify specific planning milestones that will help the district make decisions.

Financial planning is crucial for every LEA, regardless of its size or structure. Long-term financial planning helps a district strategically align its budget with its instructional goals and programs. In addition, recognizing financial trends is essential to maintaining a district's fiscal health. Monitoring and analyzing year-to-year trends in key budget areas helps a district evaluate its budget direction and highlight possible areas of concern.

Any projection 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; estimates for utilities, supplies and equipment; and changing economic conditions at the state, federal and local levels. Therefore, the budget projection model should be evaluated as a trend based on certain criteria and assumptions instead of a prediction of exact numbers.

Local educational agencies statewide have had to update their multiyear assumptions and projections numerous times each fiscal year since 2008-09 as the state experienced severe revenue declines. Multiyear projections can become somewhat less reliable in a time of fiscal instability, especially in the subsequent fiscal years, because projected revenue information from the state may frequently change. However, the MYFP still provides guidance for decisions that cover several fiscal years, and the district must continue to update and reassess the ramifications of state-imposed budget adjustments and cash deferrals.

To help protect LEAs against economic uncertainties prior to the state's budget crisis, the state required school districts with average daily attendance (ADA) between 1,001 and 30,000 to maintain reserves for economic uncertainties of not less than 3% of general fund expenditures. However, because of severe reductions to education funding, the state reduced this requirement and allowed districts to maintain a minimum reserve of one-third of the statutory requirement through fiscal year 2011-12 while making progress to restore the full reserve by fiscal year 2013-14. However, FCMAT strongly recommends that the district continue 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 relative to the requirements of AB 1200.

AB 1200 Oversight

If at any time during the fiscal year a district is unable to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district's governing board and the state superintendent of public instruction (SPI). The county office is required to follow Education Code Section 42127.6 when assisting a school district in this situation, and take all actions necessary to ensure that the district meets its financial obligations. Assistance may include steps such as assigning a fiscal expert to advise the district on financial issues, conducting a study of the district's financial and budget conditions and requiring the district to submit a proposal for addressing its fiscal condition. In the case of a district that does not meet its required reserve levels, the intent of the MYFP is to help the county office and the district formulate a plan to regain fiscal solvency and restore the reserve.

The January 9, 2013 letter from the county office regarding the district's 2012-13 first interim report states that, as a result of the district's qualified budget certification, the county is "expecting the District to submit a detailed list of Board approved budget reductions for 2013-14 and an implementation timeline that addresses the fiscal conditions of the District." The letter also states that the county superintendent has assigned a fiscal expert to work with the district and to help develop a plan that addresses the district's fiscal conditions.

Regular and frequent budget monitoring becomes even more critical in times of fiscal uncertainty. The district will need to continue to ensure that multiyear financial projections and cash flow projections are kept up to date and that the information they contain is accurate and based on the most current assumptions.

FCMAT developed its multiyear projections using the latest budget information included in the governor's 2013-14 state budget proposal. The MYFP developed for this report indicates that the district **will not** be able to maintain a 3% reserve for economic uncertainties in the 2014-15 fiscal year if actions are not taken to increase revenues and/or reduce expenditures. The district has faced fiscal challenges, including annual decreases and ongoing deficits in state funding, declining student enrollment, and deficit spending in its unrestricted general fund, that will require the governing board and administration to continue to make and implement difficult decisions to ensure that the district remains fiscally solvent.

State Budget Overview

Fiscal year 2012-13 and the four previous fiscal years have been unprecedented budget years for California's LEAs. To address the state's ongoing budget deficit, lawmakers have used numerous strategies to help balance the budget, including reducing expenditures, adding new taxes, borrowing money, and using federal stimulus funds.

One of the budget cuts imposed on education funding is the revenue limit deficit. The deficit represents the percentage of the revenue limit that is not funded by the state in a particular fiscal year. The following table shows the projected deficit percentage and the resulting funding effect on the La Habra City School District for the current and two subsequent fiscal years.

Fiscal Year	Deficit Percentage	Funding Impact
2012-13	22.272%	(\$7,342,390)
2013-14	22.272%	(\$7,394,309)
2014-15	22.272%	(\$7,391,000)

The state has provided some flexibility options to LEAs that allow them to use previously restricted state categorical program dollars for any educational purpose, lower the contribution to the routine restricted maintenance account, eliminate local matching funding for deferred maintenance, and reduce the school year by up to five days. These flexibility provisions are effective through fiscal year 2014-15. In addition, the flexibility provisions reduce the penalties for the K-3 Class Size Reduction (CSR) program through fiscal year 2013-14.

The governor's 2013-14 state budget proposal includes the Local Control Funding Formula (LCFF), which would significantly change the way school districts are funded. As proposed, the LCFF would replace revenue limits and most state categorical program funding with base grade span pupil grants and supplemental and concentration grants determined by the number of students who are English learners, foster youth, and those eligible for free or reduced-price meals. Although it is clear that the LCFF is a high priority for the governor, it has not been used in FCMAT's MYFP because it is not yet law. However, the district will need to prepare for the possible effect of the LCFF beginning in 2013-14.

Multiyear Financial Projection Method

Local educational agencies use many different software products to prepare MYFPs. For La Habra's MYFP, FCMAT used its Budget Explorer web-based MYFP software, which was designed for California school districts and is available to LEAs free of charge. Staff indicated that they also use Budget Explorer to complete the district's MYFPs.

Budget Explorer allows school 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.

Enrollment and Average Daily Attendance

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 decline, the district must consider the budgetary effects of the decline 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. Accurate tracking and analysis of enrollment and ADA can help the district better project future revenues and control staffing expenditures to help maintain fiscal solvency.

Enrollment Projection

To project the district's future kindergarten enrollment, FCMAT used county birth rate statistics. Although other factors such as housing construction influence local population growth, in a stable and developed locale a strong correlation can be made between birth rates and kindergarten enrollment five years later. Birth rate data is available by county at the California Department of Public Health (CDPH) website: <http://www.cdph.ca.gov/data/statistics/Pages/default.aspx>.

The data from the CDPH shows a decrease in birth rates for Orange County for the past several years. By comparing actual kindergarten enrollment at La Habra City School District to birth rates five years prior, a relationship can be developed between birth rates and future kindergarten populations. For example, the data indicate that in 2006 there were 44,231 births in Orange County. Five years later the district's kindergarten enrollment was 585 students, or 1.32% of births. Performing this calculation for multiple years shows that the district's kindergarten enrollment varies between 1.32% and 1.55% of births.

To project the district's future first through eighth grade enrollment, FCMAT used the cohort survival method, which groups students by grade level upon entry and tracks them through each year that they stay in school. This method evaluates the longitudinal relationship of the number of students who pass from one grade to the next in a subsequent year. This method 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:

- Birth rates and trends.
- Historical ratio of enrollment progression between grade levels.
- Changes in educational programs.
- Interdistrict and intradistrict transfers.
- Migration patterns.
- Changes in local and regional demographics.
- Industry changes such as a new industry coming to the area or an industry leaving.
- Residential housing starts and the generation factor per household.

Average Daily Attendance

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

FCMAT reviewed the district's enrollment and ADA trends for 2007-08 through 2012-13. 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 declining enrollment in each year of the analysis. FCMAT's projections indicate that enrollment will continue to decline in the next two years, partly due to a decrease in births. 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.

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

Enrollment

Enrollment	Historical 5 2007 - 08	Historical 4 2008 - 09	Historical 3 2009 - 10	Historical 2 2010 - 11	Historical 1 2011 - 12	Base Year 2012 - 13	Year 1 2013 - 14	Year 2 2014 - 15
K	605	631	616	615	585	682	604	575
1	607	608	617	613	569	534	641	582
2	667	577	618	605	577	553	517	619
3	649	655	541	607	586	568	539	505
4	606	646	646	544	585	571	556	527
5	641	605	647	638	547	570	565	549
Subtotal (K - 5)	3,775	3,722	3,685	3,622	3,449	3,478	3,422	3,357
6	637	618	604	617	623	540	558	553
7	664	645	621	582	612	626	536	554
8	670	648	664	609	577	607	622	531
Subtotal (6 - 8)	1,971	1,911	1,889	1,808	1,812	1,773	1,716	1,638
Ungraded Elementary	0	0	0	0	0	0	0	0
Ungraded Secondary	0	0	0	0	0	0	0	0
Subtotal Excluding Charter Schools	5,746	5,633	5,574	5,430	5,261	5,251	5,138	4,995
Charter Schools (to calculate in-lieu property taxes)	0	0	0	0	0	0	0	0
Total	5,746	5,633	5,574	5,430	5,261	5,251	5,138	4,995

P-2 ADA	Historical 5 2007 - 08	Historical 4 2008 - 09	Historical 3 2009 - 10	Historical 2 2010 - 11	Historical 1 2011 - 12	Base Year 2012 - 13	Year 1 2013 - 14	Year 2 2014 - 15
Excluding Charter Schools	5,537.43	5,452.36	5,345.49	5,148.82	5,096.61	5,048.95	4,937.10	4,799.20
Charter Schools (to calculate in-lieu property taxes)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
COE CommSchs/SpEd	0.00	0.00	0.00	0.00	0.00	21.49	21.49	21.49
Total	5,537.43	5,452.36	5,345.49	5,148.82	5,096.61	5,070.44	4,958.59	4,820.69

Enrollment Factors	Historical 5 2007 - 08	Historical 4 2008 - 09	Historical 3 2009 - 10	Historical 2 2010 - 11	Historical 1 2011 - 12	Base Year 2012 - 13	Year 1 2013 - 14	Year 2 2014 - 15
Excluding Charter and COE	0.9637	0.9679	0.9590	0.9482	0.9688	0.9615	0.9609	0.9608
Charter Schools (to calculate in-lieu property taxes)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Multiyear Financial Projection Assumptions

The MYFP prepared by FCMAT uses the district’s 2012-13 first interim financial report and the corresponding SACS data file as the baseline. FCMAT also reviewed the district’s 2012-13 second interim budget adjustments and incorporated any necessary changes in the MYFP.

FCMAT used budget assumptions based on the 2012-13 State Budget Act, the governor’s 2013-14 budget proposal, and School Services of California’s (SSC’s) Financial Dartboard.

To verify the base year (2012-13) for the multiyear projection, FCMAT did the following:

- Reviewed internal and third party support documentation to verify the district's current year revenue.
- Reviewed the district's actual year-to-date and prior four years' revenue and two years' expenditure detail to identify potential adjustments in each resource and major object code of the general fund.
- Compared certificated, classified and management employee salary and benefit information budgeted at first interim to actual year-to-date expenditures and projected costs for the remainder of the fiscal year.

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

- Letters from the county office regarding the district's 2012-13 adopted budget and its 2012-13 first interim financial report.
- Comparative budget reports from the financial system that correspond to its 2012-13 first interim report and include 2010-11 and 2011-12 actuals and 2012-13 actuals-to-date and encumbrance information, dated February 14 and 20, 2013.
- Comparative budget report from the financial system for revenue that includes 2008-09 through 2011-12 actuals and 2012-13 actuals-to-date information, dated March 20, 2013.
- Summary reports from the financial system that show general ledger balance sheet accounts by fund for 2011-12 and 2012-13.
- Financial system fiscal activity report, dated March 7, 2013.
- January 2013 payroll report.
- Position control benefit projection report, dated February 20, 2013.
- Various district reports regarding health and welfare benefits reconciliation and the history of medical benefit costs.
- Scattergrams and salary placement information for certificated and classified employee groups.
- 2011-12 unaudited actuals report.
- 2012-13 adoption budget report.
- 2011-12 and 2012-13 Consolidated Application data.
- Enrollment information, including CBEDS/CALPADS data for the current and prior five fiscal years.
- Period one (P-1), period two (P-2), and annual attendance reports for 2007-08 through 2012-13.
- Collective bargaining agreements for certificated and classified employee groups.
- Annual independent audit reports for 2010-11 and 2011-12.

The following table includes the economic factors used by FCMAT in completing the district's MYFP.

Projection Rules

Description	Base Year 2012-13	Year 1 2013-14	Year 2 2014-15
Certificated COLA %	0.00%	0.00%	0.00%
Classified COLA %	0.00%	0.00%	0.00%
Certificated Staff Step and Column Increase %	Included	1.17%	1.17%
Classified Staff Step Increase %	Included	1.22%	1.22%
California CPI (SSC)	2.30%	2.20%	2.40%
California Lottery Restricted (SSC)	\$30.00	\$30.00	\$30.00
California Lottery Unrestricted (SSC)	\$124.25	\$124.00	\$123.75
Interest Rate Trend for 10 Year Treasuries (SSC)	1.85%	2.15%	2.40%
Net Funded Revenue Limit COLA (SSC)	1.08%	1.65%	2.20%
Revenue Limit Deficit K-12 (SSC)	-22.27%	-22.27%	-22.27%
Special Education COLA (SSC)	0.00%	1.65%	2.20%
State Categorical COLA (SSC)	0.00%	0.00%	0.00%
Statutory COLA (SSC)	3.24%	1.65%	2.20%
Health and Welfare Benefit Increase	0.00%	1.50%	0.00%
Tier I Programs	0.00%	0.00%	0.00%
Tier II Programs	0.00%	0.00%	0.00%
Tier III Programs	0.00%	0.00%	0.00%
Year-to-Year Change in Enrollment	-0.19%	-2.15%	-2.78%
Year-to-Year Change in RL ADA	0.00%	-2.22%	-2.79%

Multiyear Financial Projection Analysis

The primary purpose of a MYFP is to project the district's budget over several fiscal years using current budget assumptions to determine if the district is able to achieve and sustain a balanced budget and meet the required minimum reserve for economic uncertainties. To evaluate the multiyear projection, attention is focused on the district's ability to meet its reserve requirement in each fiscal year and demonstrate a positive, unappropriated fund balance. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines.

FCMAT has analyzed all funding sources and expenditure categories by resource. The unrestricted general fund summary below indicates that, without expenditure reductions and/or revenue increases, the district *will not* meet the 3% reserve for economic uncertainties in 2014-15.

To protect the district's financial solvency and eliminate the projected \$1.3 million shortfall in 2014-15, the district will need to make difficult choices about which expenditures and programs will continue to be funded and which will be scaled back, reconfigured or eliminated, unless a significant increase in annual state funding is provided.

Unrestricted General Fund

The district's general fund budget is a combination of unrestricted general purpose dollars and restricted grants and categorical funding. However, when analyzing the district's budget, much attention is focused on the unrestricted budget, in particular the unappropriated ending fund balance. The district's unrestricted budget is projected to have a shortfall in 2014-15 as shown in the following table.

MYFP Unrestricted General Fund Summary

Name	Object Code	Base Year 2012 - 13	Year 1 2013 - 14	Year 2 2014 - 15
Revenues				
Revenue Limit Sources	8010 - 8099	\$25,037,483.15	\$25,205,862.22	\$25,176,943.22
Federal Revenues	8100 - 8299	\$30,000.00	\$30,000.00	\$30,000.00
Other State Revenues	8300 - 8599	\$4,186,703.00	\$3,997,199.49	\$3,979,186.79
Other Local Revenues	8600 - 8799	\$98,608.00	\$98,470.00	\$99,205.48
Total Revenues		\$29,352,794.15	\$29,331,531.71	\$29,285,335.49
Expenditures				
Certificated Salaries	1000 - 1999	\$15,657,104.00	\$15,527,131.89	\$15,321,785.18
Classified Salaries	2000 - 2999	\$3,762,654.00	\$3,806,398.81	\$3,850,677.32
Employee Benefits	3000 - 3999	\$5,858,460.00	\$5,857,197.87	\$5,791,241.96
Books and Supplies	4000 - 4999	\$452,264.00	\$373,257.66	\$371,192.42
Services and Other Operating	5000 - 5999	\$1,929,903.00	\$1,871,145.14	\$1,894,780.32
Capital Outlay	6000 - 6900	\$93,140.00	\$34,956.00	\$34,956.00
Other Outgo	7000 - 7299	\$0.00	\$0.00	\$0.00
Direct Support/Indirect Cost	7300 - 7399	(\$706,481.00)	(\$691,980.00)	(\$692,375.00)
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00
Total Expenditures		\$27,047,044.00	\$26,778,107.37	\$26,572,258.20

Excess (Deficiency) of Revenues Over Expenditures		\$2,305,750.15	\$2,553,424.34	\$2,713,077.29
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$70,000.00	\$70,000.00	\$70,000.00
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	(\$3,964,141.00)	(\$4,109,487.76)	(\$4,148,614.07)
Total Other Financing Sources\Uses		(\$4,034,141.00)	(\$4,179,487.76)	(\$4,218,614.07)
Net Increase (Decrease) in Fund Balance		(\$1,728,390.85)	(\$1,626,063.42)	(\$1,505,536.78)
Fund Balance				
Beginning Fund Balance	9791	\$4,873,878.24	\$3,145,487.39	\$1,519,423.97
Audit Adjustments	9793	\$0.00	\$0.00	\$0.00
Other Restatements	9795	\$0.00	\$0.00	\$0.00
Adjusted Beginning Fund Balance		\$4,873,878.24	\$3,145,487.39	\$1,519,423.97
Ending Fund Balance		\$3,145,487.39	\$1,519,423.97	\$13,887.19
Components of Ending Fund Balance				
Reserved Balances	9700	\$0.00	\$0.00	\$0.00
Revolving Cash	9711	\$25,000.00	\$25,000.00	\$25,000.00
Stores	9712	\$125,756.72	\$125,756.72	\$125,756.72
Prepaid Expenditures	9713	\$0.00	\$0.00	\$0.00
Other Prepay	9719	\$0.00	\$0.00	\$0.00
General Reserve	9730	\$0.00	\$0.00	\$0.00
Legally Restricted Balance	9740 - 9759	\$0.00	\$0.00	\$0.00
Economic Uncertainties Percentage		3%	3%	3%
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	\$0.00	\$0.00	\$0.00
Other Designated	9780	\$0.00	\$0.00	\$0.00
Reserve for Economic Uncertainties	9789	\$1,237,657.20	\$1,214,210.53	\$1,202,766.53
Undesignated/Unappropriated	9790	\$1,757,073.47	\$154,456.72	\$0.00
Negative Shortfall	9790	\$0.00	\$0.00	(\$1,339,636.06)

Restricted General Fund

The district has 18 restricted federal and state programs. Not including the restricted maintenance account, nine programs require a contribution from the district's unrestricted general fund in both 2012-13 and 2013-14, and 10 programs will require a contribution in 2014-15. The table below shows the programs that are projected to require a contribution.

Contributions

Name	Resource Code	Base Year 2012 - 13	Year 1 2013 - 14	Year 2 2014 - 15
Unrestricted Resources				
Unrestricted	0000	(\$3,731,957.00)	(\$3,898,240.50)	(\$3,961,365.40)
Lottery: Unrestricted	1100	(\$232,184.00)	(\$211,247.26)	(\$187,248.67)
Education Protection Account (EPA)	1400	\$0.00	\$0.00	\$0.00
Unrestricted: Reporting / FCMAT Adjustments	1900	\$0.00	\$0.00	\$0.00
Total Unrestricted		(\$3,964,141.00)	(\$4,109,487.76)	(\$4,148,614.07)
Restricted Resources				
NCLB-Title I, Part A, Basic Grants Low Income and Neglected	3010	\$0.00	\$0.00	\$0.00
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611 (formerly P	3310	\$202,112.00	\$215,030.17	\$227,435.16
Special Ed: IDEA Preschool Grants, Part B, Sec 619	3315	\$86,398.00	\$87,903.64	\$89,427.58
Special Ed: IDEA Preschool Local Entitlement, Part B, Sec 611	3320	\$74,918.00	\$76,936.77	\$78,812.22
NCLB: Title II, Part A, Teacher Quality	4035	\$11,606.00	\$104,320.09	\$107,827.70
NCLB: Title III, Limited English Proficiency (LEP) Student Program	4203	\$0.00	\$0.00	\$0.00
Medi-Cal Billing Option	5640	\$0.00	\$0.00	\$0.00
After-School Learning & Safe Neighborhood Partnerships	6010	\$0.00	\$0.00	\$0.00
Lottery: Instructional Materials	6300	\$0.00	\$0.00	\$0.00
Special Education	6500	\$1,845,744.00	\$1,846,292.42	\$1,824,856.58
Special Ed: Mental Health Services	6512	\$0.00	\$0.00	\$0.00
Special Ed: Low Incidence Entitlement	6530	\$9,893.00	\$9,886.18	\$9,841.01
Special Ed: Personnel Staff Development	6535	\$0.00	\$0.00	\$0.00
Economic Impact Aid (EIA)	7090	\$0.00	\$0.00	\$19,092.84
Economic Impact Aid: Limited English Proficiency (LEP)	7091	\$133,853.00	\$138,940.79	\$143,897.05
Transportation: Home to School	7230	\$650,216.00	\$665,409.33	\$672,514.64
Transportation: Special Education (Severely Disabled/Orthopedically Impaired)	7240	\$44,251.00	\$45,357.94	\$46,477.60
Ongoing & Major Maintenance Account (RMA: Education Code Section 17070.75)	8150	\$905,150.00	\$919,410.43	\$928,431.69
Other Restricted Local	9010	\$0.00	\$0.00	\$0.00
Total Restricted		\$3,964,141.00	\$4,109,487.76	\$4,148,614.07
Balance		\$0.00	\$0.00	\$0.00

The district will need to carefully review all contributions from its unrestricted general fund and ensure that restricted programs are self-sustaining. The only exceptions should be the restricted maintenance account, special education, and home-to-school and special education transportation programs. The special education and transportation programs typically have insufficient state and federal funding support, and state and federal funding is not specifically provided for restricted maintenance. The following table shows the district's projected restricted general fund budget.

MYFP Restricted General Fund Summary

Name	Object Code	Base Year 2012 - 13	Year 1 2013 - 14	Year 2 2014 - 15
Revenues				
Revenue Limit Sources	8010 - 8099	\$776,703.00	\$789,518.60	\$806,888.01
Federal Revenues	8100 - 8299	\$3,593,893.00	\$2,905,204.00	\$2,905,204.00
Other State Revenues	8300 - 8599	\$2,585,143.00	\$2,582,185.41	\$2,582,868.67
Other Local Revenues	8600 - 8799	\$2,753,754.00	\$2,643,089.17	\$2,514,501.78
Total Revenues		\$9,709,493.00	\$8,919,997.18	\$8,809,462.46
Expenditures				
Certificated Salaries	1000 - 1999	\$3,653,877.00	\$3,696,522.05	\$3,739,666.06
Classified Salaries	2000 - 2999	\$2,844,900.00	\$2,879,790.77	\$2,915,107.25
Employee Benefits	3000 - 3999	\$1,657,377.69	\$1,679,454.20	\$1,691,344.31
Books and Supplies	4000 - 4999	\$1,589,320.31	\$1,236,888.38	\$997,241.31
Services and Other Operating	5000 - 5999	\$2,897,713.00	\$2,674,294.65	\$2,647,578.52
Capital Outlay	6000 - 6900	\$75,285.00	\$53,405.00	\$53,405.00
Other Outgo	7000 - 7299	\$819,512.00	\$819,512.00	\$819,512.00
Direct Support/Indirect Cost	7300 - 7399	\$600,211.00	\$585,710.00	\$586,105.00
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00
Total Expenditures		\$14,138,196.00	\$13,625,577.05	\$13,449,959.45
Excess (Deficiency) of Revenues Over Expenditures		(\$4,428,703.00)	(\$4,705,579.87)	(\$4,640,496.99)
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$0.00	\$0.00	\$0.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00
Contributions	8980 - 8999	\$3,964,141.00	\$4,109,487.76	\$4,148,614.07
Total Other Financing Sources\Uses		\$3,964,141.00	\$4,109,487.76	\$4,148,614.07
Net Increase (Decrease) in Fund Balance		(\$464,562.00)	(\$596,092.11)	(\$491,882.92)
Fund Balance				
Beginning Fund Balance	9791	\$1,931,556.27	\$1,466,994.27	\$870,902.16
Audit Adjustments	9793	\$0.00	\$0.00	\$0.00
Other Restatements	9795	\$0.00	\$0.00	\$0.00

Name	Object Code	Base Year 2012 - 13	Year 1 2013 - 14	Year 2 2014 - 15
Adjusted Beginning Fund Balance		\$1,931,556.27	\$1,466,994.27	\$870,902.16
Ending Fund Balance		\$1,466,994.27	\$870,902.16	\$379,019.24
Components of Ending Fund Balance				
Reserved Balances	9700	\$0.00	\$0.00	\$0.00
Revolving Cash	9711	\$0.00	\$0.00	\$0.00
Stores	9712	\$0.00	\$0.00	\$0.00
Prepaid Expenditures	9713	\$0.00	\$0.00	\$0.00
Other Prepay	9719	\$0.00	\$0.00	\$0.00
General Reserve	9730	\$0.00	\$0.00	\$0.00
Legally Restricted Balance	9740 - 9759	\$1,466,994.27	\$870,902.16	\$379,019.24
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	\$0.00	\$0.00	\$0.00
Other Designated	9780	\$0.00	\$0.00	\$0.00
Reserve for Economic Uncertainties	9789	\$0.00	\$0.00	\$0.00
Undesignated/Unappropriated	9790	\$0.00	\$0.00	\$0.00
Negative Shortfall	9790	\$0.00	\$0.00	\$0.00

Unrestricted and Restricted General Fund

The combined unrestricted and restricted general fund shows a fund balance shortfall in fiscal year 2014-15. Contributing to this shortfall is a deficit of 22.272% to the base revenue limit each fiscal year. The district has also experienced declining enrollment each year since 2003-04.

MYFP Combined Unrestricted and Restricted General Fund Summary

Name	Object Code	Base Year 2012 - 13	Year 1 2013 - 14	Year 2 2014 - 15
Revenues				
Revenue Limit Sources	8010 - 8099	\$25,814,186.15	\$25,995,380.82	\$25,983,831.23
Federal Revenues	8100 - 8299	\$3,623,893.00	\$2,935,204.00	\$2,935,204.00
Other State Revenues	8300 - 8599	\$6,771,846.00	\$6,579,384.90	\$6,562,055.46
Other Local Revenues	8600 - 8799	\$2,852,362.00	\$2,741,559.17	\$2,613,707.26
Total Revenues		\$39,062,287.15	\$38,251,528.89	\$38,094,797.95
Expenditures				
Certificated Salaries	1000 - 1999	\$19,310,981.00	\$19,223,653.94	\$19,061,451.24
Classified Salaries	2000 - 2999	\$6,607,554.00	\$6,686,189.58	\$6,765,784.57
Employee Benefits	3000 - 3999	\$7,515,837.69	\$7,536,652.07	\$7,482,586.27
Books and Supplies	4000 - 4999	\$2,041,584.31	\$1,610,146.04	\$1,368,433.73
Services and Other Operating	5000 - 5999	\$4,827,616.00	\$4,545,439.79	\$4,542,358.84

Name	Object Code	Base Year 2012 - 13	Year 1 2013 - 14	Year 2 2014 - 15
Capital Outlay	6000 - 6900	\$168,425.00	\$88,361.00	\$88,361.00
Other Outgo	7000 - 7299	\$819,512.00	\$819,512.00	\$819,512.00
Direct Support/Indirect Cost	7300 - 7399	(\$106,270.00)	(\$106,270.00)	(\$106,270.00)
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00
Total Expenditures		\$41,185,240.00	\$40,403,684.42	\$40,022,217.65
Excess (Deficiency) of Revenues Over Expenditures		(\$2,122,952.85)	(\$2,152,155.53)	(\$1,927,419.70)
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$70,000.00	\$70,000.00	\$70,000.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00
Contributions	8980 - 8999	\$0.00	\$0.00	\$0.00
Total Other Financing Sources\Uses		(\$70,000.00)	(\$70,000.00)	(\$70,000.00)
Net Increase (Decrease) in Fund Balance		(\$2,192,952.85)	(\$2,222,155.53)	(\$1,997,419.70)
Fund Balance				
Beginning Fund Balance	9791	\$6,805,434.51	\$4,612,481.66	\$2,390,326.13
Audit Adjustments	9793	\$0.00	\$0.00	\$0.00
Other Restatements	9795	\$0.00	\$0.00	\$0.00
Adjusted Beginning Fund Balance		\$6,805,434.51	\$4,612,481.66	\$2,390,326.13
Ending Fund Balance		\$4,612,481.66	\$2,390,326.13	\$392,906.43
Components of Ending Fund Balance				
Reserved Balances	9700	\$0.00	\$0.00	\$0.00
Revolving Cash	9711	\$25,000.00	\$25,000.00	\$25,000.00
Stores	9712	\$125,756.72	\$125,756.72	\$125,756.72
Prepaid Expenditures	9713	\$0.00	\$0.00	\$0.00
Other Prepay	9719	\$0.00	\$0.00	\$0.00
General Reserve	9730	\$0.00	\$0.00	\$0.00
Legally Restricted Balance	9740 - 9759	\$1,466,994.27	\$870,902.16	\$379,019.24
Economic Uncertainties Percentage		3%	3%	3%
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	\$0.00	\$0.00	\$0.00
Other Designated	9780	\$0.00	\$0.00	\$0.00
Reserve for Economic Uncertainties	9789	\$1,237,657.20	\$1,214,210.53	\$1,202,766.53
Undesignated/Unappropriated	9790	\$1,757,073.47	\$154,456.72	\$0.00
Negative Shortfall	9790	\$0.00	\$0.00	(\$1,339,636.06)

Adjustment Analysis

The following table and narrative show the differences between the district's 2012-13 first interim report and FCMAT's analysis. The narrative also includes additional details regarding the assumptions used in the projection years.

Combined General Fund Comparison Summary

Name	Object Code	District First Interim 2012-13	FCMAT Analysis 2012-13	Difference
Revenues				
Revenue Limit Sources	8010 - 8099	\$25,805,942.09	\$25,814,186.15	\$8,244.06
Federal Revenues	8100 - 8299	\$3,511,914.00	\$3,623,893.00	\$111,979.00
Other State Revenues	8300 - 8599	\$6,729,773.00	\$6,771,846.00	\$42,073.00
Other Local Revenues	8600 - 8799	\$2,732,366.00	\$2,852,362.00	\$119,996.00
Total Revenues		\$38,779,995.09	\$39,062,287.15	\$282,292.06
Expenditures				
Certificated Salaries	1000 - 1999	\$19,498,486.00	\$19,310,981.00	(\$187,505.00)
Classified Salaries	2000 - 2999	\$6,611,910.00	\$6,607,554.00	(\$4,356.00)
Employee Benefits	3000 - 3999	\$7,413,999.69	\$7,515,837.69	\$101,838.00
Books and Supplies	4000 - 4999	\$2,783,970.31	\$2,041,584.31	(\$742,386.00)
Services and Other Operating	5000 - 5999	\$4,706,616.00	\$4,827,616.00	\$121,000.00
Capital Outlay	6000 - 6900	\$168,425.00	\$168,425.00	\$0.00
Other Outgo	7000 - 7299	\$720,827.00	\$819,512.00	\$98,685.00
Direct Support/Indirect Cost	7300 - 7399	(\$106,270.00)	(\$106,270.00)	\$0.00
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00
Total Expenditures		\$41,797,964.00	\$41,185,240.00	(\$612,724.00)
Excess (Deficiency) of Revenues Over Expenditures		(\$3,017,968.91)	(\$2,122,952.85)	\$895,016.06
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$70,000.00	\$70,000.00	\$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
Total Other Financing Sources\Uses		(\$70,000.00)	(\$70,000.00)	\$0.00
Net Increase (Decrease) in Fund Balance		(\$3,087,968.91)	(\$2,192,952.85)	\$895,016.06
Fund Balance				
Beginning Fund Balance	9791	6,805,434.51	6,805,434.51	\$0.00
Audit Adjustments	9793	0.00	0.00	\$0.00
Other Restatements	9795	0.00	0.00	\$0.00
Adjusted Beginning Fund Balance		6,805,434.51	6,805,434.51	\$0.00
Ending Fund Balance		3,717,465.60	4,612,481.66	\$895,016.06

Revenues

Revenue Limit – FCMAT calculated and adjusted the district’s revenue limit for the current year using the governor’s 2013-14 state budget proposal, SSC’s Financial Dartboard, the California Department of Education’s (CDE’s) P-1 certification data, Orange County auditor-controller property tax estimates, and redevelopment agency (RDA) revenue estimates from the Orange County Department of Education. Calculation of the Education Protection Account (EPA) Entitlement was performed by using the second principal apportionment calculation provided by the CDE and verifying that calculation using SSC’s formula provided in its November 21, 2012 fiscal report.

FCMAT increased the revenue limit by the statutory COLAs of 1.65% in 2013-14 and 2.20% in 2014-15. The enrollment and ADA projection included earlier in this report was also used for the projection years.

Federal Revenues – Federal revenues were balanced to the current year awards including deferred revenues and/or carryover balances. Medi-Cal Administrative Activities (MAA) funding was adjusted based on a four-year average and a review of current year receipts.

In the projection years, carryover was eliminated and federal funding was left at current year amounts. There are still many unknowns regarding federal funding for the projection years because of the effects of the 2011 Budget Control Act, also referred to as “sequestration.” Therefore, FCMAT’s projection does not include reductions in federal program funding in the two subsequent years; however, the district should develop a contingency plan to prepare for the possibility of reductions as a result of sequestration.

State Revenues – State revenues were balanced to grant and entitlement letters and include deferred revenues and/or carryover balances. FCMAT included supplemental hourly program funding as estimated by the Orange County Department of Education and supported by the district’s prior four years’ receipts.

Mandated cost funding was adjusted based on year-to-date receipts. Lottery funding was based on the CDE’s 2012 annual ADA data and includes the current year apportionment, prior year adjustment, and revenue adjustment amounts. FCMAT also reduced the funding for K-3 class size reduction (CSR) based on the district’s 2012-13 K-3 CSR operations application submitted to the CDE and reflected in the advanced apportionments schedule. The district applied for and received class-size waivers from the State Board of Education for the two previous fiscal years; however, the district did not anticipate filing a waiver for the current year, which may result in a small penalty. Because this potential penalty could not yet be quantified, it was not included in the MYFP.

Funding for mandated costs was eliminated in the projection years. The MYFP also assumes that K-3 CSR flexibility is continued through fiscal year 2014-15.

Local Revenues – FCMAT reduced the interest earnings based on the amount received to date and projected collections through the remainder of the fiscal year.

FCMAT reduced funding in the projection years by the following amounts based on the grant and contract expiration dates:

	2013-14	2014-15
School Readiness Initiative		\$131,325
Nutrition Network	\$117,956	\$117,956
CEMSS Grant	\$7	\$7
School Readiness Nurse Expansion		\$ 50,000

Expenditures

Certificated Salaries – Salary accounts were adjusted based on year-to-date actual expenses and projections to year end.

The FCMAT MYFP includes the impact of ongoing step and/or column costs of 1.17%. No other adjustments for salary increases have been included because those are determined locally. Because of projected declining enrollment, unrestricted certificated salaries were reduced by four teachers in 2013-14 and five additional teachers in 2014-15 at an average salary of \$77,480. The projection does not include any restoration of furlough days or salary reductions.

Classified Salaries – Salary accounts were adjusted based on year-to-date actual expenses and projections to year end.

The FCMAT MYFP includes the impact of ongoing step costs of 1.22%. No other adjustments for salary increases have been included because those are determined locally. The projection does not include any restoration of furlough days or salary reductions.

Employee Benefits – Benefit accounts were adjusted based on year-to-date expenses and projections to year end. Adjustments for statutory benefits and health and welfare benefits were posted to the current fiscal year and projection years to reflect changes as a result of the salary budget review.

The FCMAT MYFP includes a 1.50% increase in health and welfare benefits in fiscal year 2013-14 to accommodate the increased cap in the Kaiser benefit plan from January 1, 2012 to January 1, 2013.

At its April 2013 meeting, the California Public Employees' Retirement System (PERS) board voted to approve a new asset smoothing method that will be used to improve the funded status of the plan over the next 30 years. The approved asset smoothing method will be effective beginning with fiscal year 2015-16, with an anticipated employer contribution rate of 13.30%, and rates are anticipated to continue to increase in the years following. In February 2013 the California State Teachers' Retirement System (STRS) provided a report to the state Legislature that included options to improve the funded status of the program, which include increasing member, employer and state contributions as early as fiscal year 2014-15. Because of the potential for increased PERS and STRS costs, the district needs to use caution when preparing future MYFPs.

Books and Supplies – The current fiscal year budget was adjusted based on year-to-date expenditures and encumbrances.

The FCMAT MYFP for subsequent years includes adjustments based on the consumer price index (CPI) inflation factor from the SSC Dartboard and projected ADA. An adjustment was posted in the projections years to reduce unrestricted expenditures by \$78,695 for the 21st Century Learning Project, one-time funding from the Microsoft settlement. The restricted

resource 9033, American Recovery and Reinvestment Act (ARRA) and Individuals with Disabilities Education Act (IDEA) savings, was reduced by \$636,547 in the current year, and ongoing reductions were made in the projection years to provide sufficient funding for salaries and benefits.

Services – The current fiscal year budget was adjusted based on year-to-date expenditures and encumbrances. The adjustments in the unrestricted general fund included an increase of \$135,000 for other insurance, utilities and software agreements because FCMAT’s review indicated that these items exceeded their respective budgets.

The projection for subsequent years includes adjustments based on the CPI inflation factor and projected ADA. Adjustments in the projection years also included a reduction of \$70,000 for the one-time expense of a board election, and a reduction of \$12,700 for the 21st Century Learning Project, one-time funding from the Microsoft settlement.

Capital Outlay – The 2012-13 fiscal year budget was adjusted based on year-to-date expenditures and encumbrances. Adjustments in the projection years included a reduction of \$58,184 for the 21st Century Learning Project, one-time funding from the Microsoft settlement.

Other Outgo – The restricted resource 6500, special education, was increased by \$98,685 for the current and projection years for tuition costs based on an agreement with Centralia School.

Direct Support/Indirect Cost – Indirect costs were adjusted based on the district’s state-approved indirect cost rate of 6.06%, and the maximum allowable indirect cost rate was applied to restricted programs where possible in the current and projection years.

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

Other Funds

FCMAT completed a basic review of the district’s 2011-12 unaudited actuals and its 2012-13 adoption budget for other funds and found that none of the other funds are expected to require contributions from the unrestricted general fund in the current or two subsequent fiscal years of the projection.

Recommendations

The district should:

1. Adopt a budget and MYFPs that eliminate deficit spending and meet reserve requirements in the budget and projection years.
2. 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 the requirements of AB 1200.
3. Prepare for the possible impact of the Local Control Funding Formula in 2013-14.
4. Monitor and project student enrollment and ADA at each reporting period to ensure that the most recent data is included in budget assumptions.

5. Review contributions to restricted programs and ensure that all restricted programs are self-sustaining, except the restricted maintenance account, special education, and home-to-school and special education transportation.
6. Develop a contingency plan to prepare for the possibility of federal funding reductions as a result of sequestration.
7. Be aware of the potential for increased costs for STRS and PERS employer contributions in future years when preparing multiyear projections.

Cash Flow Projections

The size and frequency of the state's apportionment deferrals make it challenging for school districts to maintain fiscal sustainability, and make it more critical than ever for districts to use effective methods to project and monitor cash flow. Cash is critical for operations and, although the balance sheet may include other assets, without sufficient cash the district is effectively bankrupt and may require intervention from the state.

The purpose of a cash flow statement is to project the timing of receipts and expenses so that an organization can understand its monthly or even daily cash needs. The cash flow statement shows the district's liquidity and ability to meet its current payroll and other financial obligations. The cash flow analysis should not be confused with the district's budget and fund balance; it is a different analytical tool. The cash flow statement excludes transactions that do not directly affect cash receipts and payments.

Any projection of financial data for cash flow purposes has inherent limitations as a result of issues such as unanticipated changes in enrollment trends and changing economic conditions at the state, federal and local levels. Therefore, the cash flow projection should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. Multiyear cash flow projections help a district make more informed decisions and enable it to better project the fiscal impact of current decisions. The cash flow projections should be updated at least monthly to accurately account for all revenues, expenditures and other changes related to cash.

With the budget crisis and protracted economic recovery at the state and national levels, cash management is one of the main concerns in every local educational agency. The state has a history of deferring payments to education agencies, starting with deferral of the 2002-03 June apportionment to the 2003-04 fiscal year and continuing each fiscal year. Since that time, several annual state budget acts have added numerous one-time and ongoing deferrals. The 2012-13 state budget included funding to begin reducing the cash deferrals; however, approximately 33% of state aid funding continues to be delayed to the following fiscal year. This makes it imperative for the district to place an emphasis on cash flow analysis.

Proposition 30, approved by the voters on November 6, 2012, temporarily increases the state's sales tax rate for all taxpayers and the personal income tax rates for upper-income taxpayers. The revenues generated from Proposition 30 are deposited into a new state account called the Education Protection Account (EPA). Local educational agencies will receive funds from the EPA based on their proportionate share of the statewide revenue limit amount. A corresponding reduction is made to an LEA's revenue limit state aid equal to the amount of its EPA entitlement. To allow time for the state to collect the increased tax revenues, EPA entitlements will not be calculated for fiscal year 2012-13 until June 2013; LEAs will receive their 2012-13 EPA entitlement in one lump sum payment at the end of June. LEAs will receive EPA payments quarterly beginning with fiscal year 2013-14. FCMAT's cash flow projections for the district include the estimated EPA payments.

The following table shows the revenue limit apportionment schedule and the most recent estimates of cash payments and deferrals for 2012-13 and 2013-14.

Revenue Limit Apportionment Schedule and Estimates of Cash Payments, 2012-13 and 2013-14

Month	EC Section 14041(a)(2) Apportionment Schedule	Cash Payments 2012-13	Cash Payments 2013-14
July	5.00%	0.00%	5.00%
August	5.00%	2.02%	5.00%
September	9.00%	12.73%	9.00% +25%*
October	9.00%	4.86%	9.00%
November	9.00%	9.00%	9.00%
December	9.00%	17.39%	9.00% +25%*
January	9.00%	9.00%	9.00%
February	9.00%	6.19%	6.59%
March	9.00%	3.56%	4.37% +25%*
April	9.00%	1.82%	2.89%
May	9.00%	0.00%	1.34%
June	9.00%	0.00%	0.00% +25%*
Subsequent Year			
July		23.95%	22.04%
August		9.48%	7.77%
Total	100.00%	100.00%	100.00%

*Education Protection Account (EPA) funds provided from Proposition 30.

FCMAT's cash flow projection includes all one-time and ongoing apportionment deferrals. To complete the cash flow projections for the remainder of the 2012-13 and the 2013-14 fiscal years, FCMAT reviewed the district's 2012-13 first interim cash flow projection, the April 10, 2013 cash flow projection, and the financial system reports showing all transactions that affect the general fund cash balance, including the following:

- Cash Flow Detailed Summary, 2011-12
- Cash Flow Detailed Summary, 2012-13 for month ending March 31, 2013

The 2012-13 cash flow detailed summary showed that approximately \$300,000 in prior year accounts receivable and \$450,000 in prior year accounts payable transactions had not been closed as of March 31, 2013. Best business practices include closing prior year accruals by the first interim reporting period, unless there is specific information that provides for carrying particular transactions for a longer time period. It is critical that these items be tracked and cleared as soon as possible.

The district's 2012-13 cash flow statement includes \$4 million of external borrowing from the county treasurer, which is authorized by Education Code Section 42620. Under Article XVI, Section 6 of the California Constitution, the county treasurer must provide funds to an LEA that cannot meet its obligations. However, the county treasurer cannot lend districts money after the last Monday in April of the current fiscal year, and some additional restrictions apply.

The following cash flow projections include the \$4 million loan from the county treasurer in April 2013 with a repayment date of August 2013. The projections show a negative ending cash balance of \$2.1 million in June 2014. It is imperative for the district to monitor its cash regularly and complete monthly cash flow statements for the current and subsequent fiscal year to ensure that it can meet its financial obligations.

Cash Flow Statement, 2012-13

Name	Object Code	Budget	Jul Actual	Aug Actual	Sep Actual	Oct Actual	Nov Actual	Dec Actual	Jan Actual	Feb Actual	Mar Actual	Apr Projected	May Projected	Jun Projected	YTD Actuals Plus Projected Cash	Totals	Variance
Beginning Cash Balance			\$5,091,798.49	\$7,636,031.19	\$4,895,462.74	\$3,659,720.83	\$1,315,104.68	\$1,537,967.53	\$6,807,241.80	\$4,167,364.81	\$2,237,349.20	\$930,551.02	\$6,944,109.56	\$2,734,759.80			
Receipts																	
Revenue Limit Sources	8010 - 8099	\$17,149,925.00	\$447,489.68	\$327,079.47	\$1,539,030.54	\$499,596.34	\$2,370,592.68	\$5,648,905.63	\$1,554,804.72	\$540,137.63	\$871,519.17	\$4,420,904.03	(\$596,138.45)	\$5,826,153.86	\$23,450,075.30	(\$6,300,150.30)	\$17,149,925.00
Revenue Limit State Aid-Current Year	8011 - 8011	\$8,664,261.15	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$8,664,261.15	\$0.00
Federal Revenues	8100 - 8299	\$3,623,893.00	\$72,462.91	\$252,846.71	\$88,484.30	\$13,126.81	\$39,993.09	\$91,351.33	\$67,714.62	\$378.73	\$1,079,176.30	\$72,477.93	\$289,911.70	\$108,716.89	\$2,780,641.32	\$843,251.68	\$3,623,893.00
Other State Revenues	8300 - 8599	\$6,771,846.00	\$0.00	\$192,129.69	\$613,065.13	\$960,379.02	\$600,604.80	\$214,344.77	\$375,957.00	\$698,053.88	\$615,206.18	\$880,338.74	\$203,155.09	\$203,155.09	\$5,556,389.39	\$1,211,545.61	\$6,771,846.00
Other Local Revenues	8600 - 8799	\$2,852,362.00	\$8,781.39	\$149,656.82	\$66,866.57	\$24,476.44	\$353,363.11	\$907,910.07	\$28,976.24	\$88,554.50	\$36,090.15	\$570,480.81	\$28,523.76	\$28,523.76	\$2,292,403.62	\$559,938.38	\$2,852,362.00
Interfund Transfers In	8900 - 8929	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Receipts		\$39,062,287.15	\$528,733.98	\$921,712.69	\$2,307,446.54	\$1,497,578.61	\$3,364,753.68	\$6,862,511.80	\$2,631,452.58	\$1,327,124.74	\$2,601,991.80	\$5,944,201.51	(\$74,547.90)	\$6,166,549.60	\$34,079,509.63	\$4,982,777.52	\$39,062,287.15
Disbursements																	
Certificated Salaries	1000 - 1999	\$19,310,981.00	\$135,688.57	\$42,172.18	\$1,839,131.05	\$1,904,338.30	\$1,914,034.00	\$11,591.23	\$3,758,688.83	\$1,915,680.59	\$1,902,191.90	\$1,892,473.05	\$1,892,473.05	\$2,102,518.25	\$19,310,981.00	\$0.00	\$19,310,981.00
Classified Salaries	2000 - 2999	\$6,607,554.00	\$0.00	\$341,770.90	\$362,474.75	\$703,956.82	\$712,699.36	\$682,477.36	\$494,136.14	\$619,066.50	\$714,463.69	\$640,931.91	\$640,931.91	\$640,931.91	\$6,553,841.25	\$53,712.75	\$6,607,554.00
Employee Benefits	3000 - 3999	\$7,515,837.69	\$622,660.37	\$406,750.11	\$639,947.63	\$669,819.50	\$574,088.95	\$607,915.43	\$741,728.94	\$346,091.72	\$811,310.75	\$683,942.38	\$683,942.38	\$683,942.38	\$7,472,140.54	\$43,697.15	\$7,515,837.69
Books and Supplies	4000 - 4999	\$2,041,584.31	\$572.82	\$29,006.34	\$267,729.95	\$340,627.89	\$80,618.01	\$101,441.96	\$8,549.44	\$68,404.99	\$84,298.04	\$204,158.89	\$408,317.78	\$204,158.89	\$1,885,905.00	\$155,679.31	\$2,041,584.31
Services and Other Operating	5000 - 5999	\$4,827,616.00	\$168,560.07	\$794,482.82	\$348,622.57	\$443,870.28	\$274,747.60	\$447,603.51	\$253,899.84	\$364,947.38	\$369,056.79	\$386,209.82	\$386,209.82	\$482,762.28	\$4,220,952.78	\$606,663.22	\$4,827,616.00
Capital Outlay	6000 - 6900	\$168,425.00	\$40,488.06	\$0.00	\$1,418.24	\$9,651.40	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$58,948.78	\$110,506.48	\$57,918.52	\$168,425.00
Other Outgo	7000 - 7299	\$819,512.00	(\$26,170)	(\$14,100.63)	\$47,609.25	\$7,234.50	\$24,865.97	(\$25,57)	\$62,733.01	\$32,358.82	\$21,973.50	\$122,926.92	\$122,926.92	\$204,878.19	\$63,549.18	\$186,962.82	\$819,512.00
Direct Support/Indirect Cost	7300 - 7399	(\$106,270.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$106,270.00)	(\$106,270.00)
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$70,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$70,000.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Disbursements		\$41,255,240.00	\$967,708.19	\$1,100,081.72	\$3,506,933.44	\$4,079,588.69	\$3,581,053.89	\$1,850,503.92	\$5,407,596.20	\$3,346,550.00	\$3,903,274.67	\$3,930,642.97	\$4,134,801.86	\$4,378,140.68	\$40,186,876.23	\$1,068,363.77	\$41,255,240.00
Assets																	
Revolving Cash Account	9130	\$25,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$25,000.00)
Cash with a Fiscal Agent/Trustee	9135	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Accounts Receivable	9200	\$8,954,519.17	\$5,123,846.95	\$2,481,669.31	\$64,777.67	\$183,482.43	\$401,694.57	\$303,410.50	\$0.00	\$0.00	\$86,351.88	\$0.00	\$0.00	\$309,285.86	\$8,954,519.17	\$0.00	\$8,954,519.17
Due from Other Funds	9310	\$140,071.51	\$0.00	\$0.00	\$140,071.51	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$140,071.51	\$0.00	\$140,071.51	\$0.00
Stores	9320	\$86,362.12	(\$23,885.38)	(\$33,875.31)	\$8,700.10	\$6,635.95	\$2,065.51	(\$13,595.10)	\$11,639.71	\$21,276.22	(\$18,356.30)	\$0.00	\$0.00	\$0.00	(\$39,394.60)	\$0.00	(\$125,756.72)
Prepaid Expenditures (Expenses)	9330	\$51,262.55	\$0.00	\$0.00	\$50,912.55	\$273.03	\$76.97	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$51,262.55	\$0.00	\$51,262.55
Other Current Assets	9340	\$0.00	(\$63,027.49)	(\$15,151.98)	(\$9,037.67)	(\$1,305.48)	(\$273.90)	\$1,262.02	(\$3,336.35)	(\$2,114.12)	\$2,255.14	\$0.00	\$0.00	\$172,729.83	\$0.00	\$0.00	\$0.00
Total Assets		\$9,257,215.35	\$5,036,934.08	\$2,432,942.02	\$173,424.16	\$189,085.93	\$403,563.15	\$291,077.42	\$8,303.36	\$19,162.10	\$70,250.72	\$0.00	\$0.00	\$482,015.69	\$9,106,458.63	\$150,756.72)	\$9,106,458.63

Name	Object Code	Budget	Jul Actual	Aug Actual	Sep Actual	Oct Actual	Nov Actual	Dec Actual	Jan Actual	Feb Actual	Mar Actual	Apr Projected	May Projected	Jun Projected	YTD		Totals	Variance	
															Actuals Plus Projected Cash	Accruals			
Liabilities																			
Accounts Payable (Current Liabilities)	9500	\$2,630,265.61	\$1,770,376.17	\$547,896.27	\$26,661.62	(\$48,308.00)	(\$35,599.91)	\$33,811.03	(\$128,531.89)	(\$69,698.93)	\$75,786.03	\$0.00	\$0.00	\$0.00	\$457,873.22	\$2,630,265.61	\$0.00	\$2,630,265.61	\$0.00
Due to Grantor Governments	9590	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Custom Liability	9599	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$586.62	(\$588.62)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Due to Other Funds	9610	\$183,017.55	\$0.00	\$0.00	\$183,017.55	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$183,017.55	\$0.00	\$183,017.55	\$0.00
Current Loans	9640	\$4,482,036.00	\$283,351.00	\$4,198,685.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$4,000,000.00)	\$0.00	\$0.00	\$0.00	\$482,036.00	\$0.00	\$482,036.00	\$4,000,000.00
Deferred Revenue	9650	\$248,260.17	\$0.00	\$248,260.17	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$248,260.17	\$0.00	\$248,260.17	\$0.00
Total Liabilities		\$7,543,579.33	\$2,053,727.17	\$4,994,041.44	\$209,679.17	(\$48,308.00)	(\$35,599.91)	\$33,811.03	(\$127,963.27)	(\$70,267.55)	\$75,786.03	(\$4,000,000.00)	\$0.00	\$0.00	\$457,873.22	\$3,543,579.33	\$0.00	\$3,543,579.33	\$4,000,000.00
Ending Cash Balance			\$7,636,031.19	\$4,895,462.74	\$3,659,720.83	\$1,315,104.68	\$1,537,967.53	\$6,807,241.80	\$4,167,364.81	\$2,237,369.20	\$930,351.02	\$6,944,109.56	\$2,734,759.80	\$4,547,311.19					

Cash Flow Statement, 2013-14

Name	Object Code	Budget	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD	
			Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Actuals Plus
Beginning Cash Balance			\$4,547,311.19	\$6,719,648.22	\$3,892,171.65	\$3,585,303.91	\$1,616,920.45	\$1,541,277.94	\$6,947,401.08	\$4,049,862.59	\$2,250,626.16	\$1,947,572.39	\$4,119,460.94	\$87,363.39		
Receipts																
Revenue Limit State Sources	8010 - 8099	\$16,248,473.00	\$937,535.00	\$612,204.00	\$2,225,550.00	\$892,066.00	\$2,354,482.00	\$5,877,679.00	\$1,538,661.00	\$748,294.00	\$2,060,696.00	\$4,575,443.00	(\$464,806.00)	\$1,720,925.00	\$23,073,779.00	\$16,248,473.00
Revenue Limit State Aids - Current Year	8011 - 8011	\$9,746,907.82	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$9,746,907.82
Federal Revenues	8100 - 8299	\$2,935,204.00	\$58,704.08	\$205,464.28	\$70,444.90	\$11,740.82	\$32,287.24	\$73,380.10	\$545,012.74	\$293.52	\$874,690.79	\$58,704.08	\$234,816.32	\$88,056.12	\$2,251,594.99	\$2,935,204.00
Other State Revenues	8300 - 8599	\$6,579,384.90	\$0.00	\$184,222.78	\$598,724.03	\$934,272.66	\$585,565.26	\$210,540.32	\$348,445.55	\$677,676.64	\$598,724.03	\$855,320.04	\$197,381.55	\$197,381.55	\$5,408,254.41	\$6,579,384.90
Other Local Revenues	8600 - 8799	\$2,741,559.17	\$8,224.66	\$142,561.08	\$63,055.86	\$26,593.12	\$339,953.34	\$871,815.82	\$27,415.59	\$84,988.33	\$35,640.27	\$548,311.83	\$27,415.59	\$27,415.59	\$2,203,391.10	\$2,741,559.17
Interfund Transfers In	8900 - 8929	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Receipts		\$38,251,528.89	\$1,004,463.76	\$1,144,452.14	\$2,957,774.79	\$1,864,672.60	\$3,312,287.84	\$7,028,415.24	\$2,477,534.88	\$1,511,252.49	\$3,569,751.09	\$6,037,778.95	(\$5,192.54)	\$2,033,778.26	\$32,936,969.50	\$38,251,528.89
Disbursements																
Certificated Salaries	1000 - 1999	\$19,223,653.94	\$134,565.58	\$38,447.31	\$1,826,247.12	\$1,903,411.74	\$1,903,411.74	\$192,233.65	\$3,748,612.52	\$1,903,411.74	\$1,903,411.74	\$1,883,918.09	\$1,883,918.09	\$2,076,154.63	\$19,223,653.95	(\$0.01)
Classified Salaries	2000 - 2999	\$6,686,189.58	\$0.00	\$347,681.86	\$367,740.43	\$715,422.29	\$722,108.47	\$688,677.53	\$501,464.22	\$628,501.82	\$722,108.47	\$648,560.39	\$648,560.39	\$648,560.39	\$6,639,386.26	\$6,686,189.58
Employee Benefits	3000 - 3999	\$7,536,652.07	\$625,542.12	\$406,979.21	\$640,615.43	\$670,762.03	\$572,785.56	\$610,468.82	\$746,128.55	\$346,686.00	\$813,938.42	\$685,835.34	\$685,835.34	\$685,835.34	\$7,491,432.16	\$7,536,652.07
Books and Supplies	4000 - 4999	\$1,610,146.04	\$16,101.46	\$22,542.04	\$210,929.13	\$268,894.39	\$62,795.70	\$80,507.30	\$75,676.86	\$54,744.97	\$66,015.99	\$161,014.60	\$322,029.21	\$161,014.60	\$1,502,266.25	\$1,610,146.04
Services and Other Operating	5000 - 5999	\$4,545,439.79	\$159,090.39	\$277,271.83	\$327,271.66	\$418,180.46	\$259,090.07	\$427,259.90	\$240,908.31	\$345,453.42	\$363,635.18	\$363,635.18	\$363,635.18	\$454,543.98	\$3,977,259.80	\$4,545,439.79
Capital Outlay	6000 - 6900	\$88,361.00	\$21,206.64	\$0.00	\$883.61	\$5,036.58	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$30,926.35	\$58,053.18	\$88,361.00
Other Outgo	7000 - 7299	\$819,512.00	\$0.00	\$0.00	\$47,531.70	\$8,195.12	\$24,985.36	\$0.00	\$62,282.91	\$31,960.97	\$22,126.82	\$122,926.80	\$122,926.80	\$204,878.00	\$647,414.48	\$819,512.00
Direct Support/Indirect Cost	7300 - 7399	(\$106,270.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$106,270.00)	\$0.00
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$70,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$70,000.00	\$70,000.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Disbursements		\$40,473,684.42	\$956,506.19	\$1,092,922.25	\$3,421,219.08	\$3,989,632.61	\$3,544,506.90	\$1,821,603.20	\$5,375,073.37	\$3,310,488.92	\$3,872,804.86	\$3,865,890.40	\$4,026,905.01	\$4,261,913.29	\$39,539,466.08	\$40,473,684.42
Assets																
Revolving Cash Account	9130	\$25,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$25,000.00)
Cash with a Fiscal Agent/Trustee	9135	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Accounts Receivable	9200	\$4,982,777.52	\$2,840,183.19	\$1,345,349.93	\$1,993,311.10	\$1,993,311.10	\$1,993,311.10	\$1,993,311.10	\$1,993,311.10	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$4,982,777.52	\$0.00
Due from Other Funds	9310	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Stores	9320	\$125,756.72	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$125,756.72)
Prepaid Expenditures (Expenses)	9330	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other Current Assets	9340	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Assets		\$5,133,534.24	\$2,840,183.19	\$1,345,349.93	\$1,993,311.10	\$1,993,311.10	\$1,993,311.10	\$1,993,311.10	\$1,993,311.10	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$4,982,777.52	(\$150,756.72)

Name	Object Code	Budget	Jul Projected	Aug Projected	Sep Projected	Oct Projected	Nov Projected	Dec Projected	Jan Projected	Feb Projected	Mar Projected	Apr Projected	May Projected	Jun Projected	YTD				
															Actuals Plus Cash	Projected	Variance		
Liabilities																			
Accounts Payable (Current Liabilities)	9500	\$1,068,363.77	\$715,803.73	\$224,356.39	\$42,734.55	\$42,734.55	\$42,734.55	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,068,363.77	\$0.00	\$0.00	
Due to Grantor Governments	9590	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Custom Liability	9599	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Due to Other Funds	9610	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Current Loans	9640	\$4,000,000.00	\$0.00	\$4,000,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$4,000,000.00	\$0.00	\$4,000,000.00	\$0.00
Deferred Revenue	9650	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Liabilities		\$5,068,363.77	\$715,803.73	\$4,224,356.39	\$42,734.55	\$42,734.55	\$42,734.55	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$5,068,363.77	\$0.00	\$5,068,363.77	\$0.00
Ending Cash Balance			\$6,719,648.22	\$3,892,171.65	\$3,585,303.91	\$1,616,920.45	\$1,541,277.94	\$6,947,401.08	\$4,049,862.59	\$2,250,626.16	\$1,947,572.39	\$4,119,460.94	\$87,363.39	(\$2,140,771.64)	\$0.00	\$5,068,363.77	\$0.00	\$5,068,363.77	\$0.00

The district should be aware that any additional delay of cash receipts could cause further cash flow shortfalls and result in a need to borrow more funds to pay ongoing expenditures. If additional borrowing becomes necessary, options include the following:

- Internal borrowing between district funds as authorized by Education Code Section 42603, which allows LEAs to borrow temporarily between funds to address cash flow shortages. This is the most common method used by school districts, but it only works if cash is available in other funds. Requirements for this type of borrowing include specific limitations regarding amounts and the timing of repayment.
- External borrowing from the county office of education as authorized by Education Code Sections 42621 and 42622. This option depends on the county office's willingness and ability to provide funds.
- External borrowing using tax and revenue anticipation notes (TRANs). This option consists of short-term borrowing, up to 15 months, and may be necessary on a mid-year or full-year basis. Because there may be arbitrage penalties, the LEA should determine its cash flow needs and size the TRANs appropriately. In addition, a mid-year TRANs may be classified as a taxable transaction, thereby creating a larger cost of issuance. Working with an outside financial consultant can help avoid potential problems.

Because local educational agencies face ongoing cash deferrals, it is more important than ever for the district to monitor monthly cash flow requirements. **The consequences of becoming cash insolvent are severe and should be avoided to maintain local governance and control of the district.** The district must closely track and update all fund balances and cash flow projections as economic data and other fiscal information continue to change.

Recommendations

The district should:

1. Investigate and clear prior year accounts receivable and accounts payable transactions as soon as possible.
2. Monitor its current year and subsequent year cash flow at least monthly.
3. Work with the county office of education to determine the borrowing options that are available if funds are needed for cash flow purposes.

Revenue Increases and Expenditure Reductions

Like most California school districts, the La Habra City School District's primary source of revenue is based on ADA. The MYFP for 2012-13 indicates that each 1% increase in ADA would provide approximately \$256,000 in additional revenue. The district will need to explore options for increasing ADA such as offering monthly and annual incentives to students for perfect attendance; awarding a trophy on a rotating basis monthly, or small incentive to the school with the highest monthly attendance ratio; and reviewing the school calendar structure to determine dates when student attendance is low, such as the day before or after holidays.

Education Code Section 38134 allows a school district to charge fees to individuals and groups that use the district's facilities. This code section also regulates the amount that may be charged for facility use. When implementing a facility use fee schedule or increasing fees for facility use, affected parties may not initially understand that while construction funds, such as general obligation bonds, may have been used to build district facilities, the ongoing operational costs, such as utilities and maintenance, are paid by the district's general fund. Thus, when fees are not charged to outside organizations for the use of a school district's facilities, the funds available to provide for students' educational needs are reduced. When implementing a fee schedule for use of facilities, the district needs to develop policies, procedures and standardized forms to ensure that the fees comply with the Education Code requirements, that a system is in place to process requests in a consistent manner, and that language regarding the liability the district assumes when allowing outside organizations to use its facilities has been reviewed and approved by the district's insurance carrier.

FCMAT's review of reports from the district's financial system indicated that the district is not charging the maximum allowable indirect cost rate to all programs, including those programs that require a contribution from the unrestricted general fund such as special education and home-to-school transportation. The district needs to calculate and charge the full indirect cost rate to all allowable restricted programs to show the true cost of each program and maximize unrestricted resources.

Best business practices include an ongoing evaluation of surplus equipment to determine if items stored in empty classrooms or a warehouse can be used at another school site or if they should be disposed of. Several private companies provide auction services for the sale of surplus goods, and many districts have found that they can generate revenue by using these services rather than paying to dispose of surplus items. This process may also help minimize the storage costs and the potential for theft.

Education Code Section 38101 allows the district's general fund to charge the cafeteria fund direct costs, including the cost of items such as telephone charges, water, electricity, gas and waste. The charges must be applied using the procedures defined in the California School Accounting Manual (CSAM), Procedures 905 and 910. Charging direct costs helps a district accurately show the total cafeteria program costs and capture allowable dollars in the unrestricted general fund. A review of the district's 2011-12 unaudited actuals report indicated that the cafeteria fund may not have been charged its share of all allowable direct costs.

Governmental Accounting Standards Board (GASB) Statement 45, released in June 2004, established standards for employers to measure and report their costs and obligations related to other post-employment benefits (OPEB). OPEB includes any post-employment medical, dental, vision

or prescription benefits. The district funds its OPEB expenditures on a pay-as-you-go basis and, as stated in Procedure 785 of the CSAM, it may “allocate to all activities in proportion to total salaries or total full-time-equivalent positions (FTEs) in all activities” the current year benefit costs for retirees. The district currently charges its entire OPEB expense to the unrestricted general fund, but it could charge a portion to the restricted resources and to the other funds in proportion to the salaries paid in the fiscal year. Additional information regarding OPEB accounting standards can be found in the CDE’s letter of February 26, 2007, which is available online at www.cde.ca.gov/fg/ac/co.

Beginning in 2008-09, the state provided LEAs with some flexibility options, including using previously restricted state deferred maintenance funding for any educational purpose and eliminating the requirement for a local matching amount for the deferred maintenance fund. This flexibility provision is available through fiscal year 2014-15. The district has not yet chosen to fully implement this flexibility option, and its 2012-13 first interim report includes a transfer of \$70,000 to the deferred maintenance fund.

The district receives funds from local redevelopment agencies (RDAs); a portion of the funds collected is applied toward local property taxes subject to the revenue limit deduction, and a portion is available for educational facility expenditures. The district is transferring the entire portion of the RDA funds received for educational facilities to fund 40, special revenue fund for capital outlay projects. If applicable educational facilities projects are currently paid from the general fund, the district needs to consider eliminating the transfer to fund 40 and using the funds to support those projects.

The district submits claims and receives reimbursement for two Medi-Cal programs: Medi-Cal Administrative Activities (MAA), resource 0821; and Local Educational Agency Medi-Cal Billing Option (LEA), resource 5640. The district’s financial system budget reports for the four prior fiscal years show a high of approximately \$197,000 and a low of approximately \$59,000 for LEA collections and a high of approximately \$214,000 and a low of approximately \$30,000 per year for MAA collections. The district needs to focus its efforts to ensure maximum reimbursement for these programs.

As state resources for school districts have continued to erode, many districts have sought approval from local voters for a parcel tax to increase funding. Parcel taxes are normally levied at a flat rate per parcel and must be uniformly applied to all real property owners. The only permitted exemptions are for senior citizens and federal supplemental security income disability benefit recipients. Parcel taxes can be extremely difficult to pass because they require a two-thirds vote. The advice of experienced financial advisors and legal counsel should be obtained before determining whether to place a local parcel tax measure on the ballot.

Recommendations

The district should:

1. Continue to explore options to increase student attendance.
2. Consider developing and implementing a facility use fee schedule.
3. Ensure that all programs are charged the maximum allowable indirect cost rate.
4. Evaluate stored surplus equipment to determine whether items can be used or sold through an auction process.
5. Consider charging the cafeteria fund its share of all allowable direct costs.
6. Review the CSAM and consult with its independent auditors and the county office of education to set up the proper procedures to charge a portion of its OPEB obligations to the restricted resources and other applicable funds.
7. Determine whether to reduce or eliminate the unrestricted general fund transfer to the deferred maintenance fund as provided in the state flexibility options.
8. Consider eliminating the transfer of RDA funds from the general fund to fund 40 and using them to support applicable educational facilities projects currently paid from the general fund.
9. Focus its efforts to ensure maximum reimbursement for the MAA and LEA programs.
10. Evaluate the feasibility of putting a parcel tax measure before the voters.

District Procedures

Budget Development and Monitoring

The district's chief business official has responsibility for budget development, including developing sites' and departments' budgets. Although having one staff member develop the budget may speed the process, best business practice is to include site and department managers. This would help create a sense of shared ownership and responsibility, a deeper understanding of budget issues, and may result in fewer budget transfers during the year.

The business office would need to prepare additional budget development materials and train site and department personnel in their use. The materials provided should include a budget allocation form that includes estimated revenue amounts to be allocated for each applicable funding source, shows ongoing expenditures such as staffing and indirect costs, and indicates the funds available for the site or department to budget. These forms should be distributed to and completed by the sites and departments each spring during budget development. In addition to the budget allocation forms, the site and department managers should be given a position control report that includes a list of all employees charged to their respective budgets. The report should include each employee's name, position, hours per day, and the funding source for the position. Site and department managers should review the report for accuracy and immediately report any inconsistencies to the business office. This process helps to verify the position control database that affects the budget reports and employee compensation.

The district uses the Quintessential School Systems (QSS) financial software system, which is separate from the county office's Bi-Tech system. The district uses QSS for processing its budget and accounts payable transactions and for posting funds collected locally; the county office's system is used for processing payroll and posting funds received by the county. Transactions are downloaded from one system to the other, and the two systems are reconciled periodically.

Although the QSS financial system provides a budget development tool, the district is using Excel spreadsheets to develop and update its budget at each reporting period. Using the QSS budget development tool would save staff time and reduce the chance of errors.

The district's financial system budget reports show that it is not using all of the available fields in the QSS account code string to track expenditures; rather, resource codes are used to track expenditures by school site, department, and state programs that were restricted before the funding flexibility described earlier in this report began. This creates additional work for staff because additional budget lines are developed for revenue in each resource, and journal entries are completed to move funds between the resource codes. Using the full account code string would allow the district to track expenditures, reduce the amount of staff time needed to balance each individual resource, and reduce the potential for errors.

Interviews indicated that the district uses a stand-alone financial software system to process transactions for its food service program. The district's budget reports also show that food service expenditures are initially posted to the general fund in resources 5310 and 5311. Staff complete journal entries at year end to move the expenses to fund 13, cafeteria special revenue fund. This creates additional work for staff. Consideration should be given to processing all financial transactions for the food service program through fund 13. This would provide for better internal controls, save staff time, and reduce the potential for errors.

A school district's budget should reflect its goals and objectives that are developed annually and approved by the governing board. The Education Code states that amounts budgeted in each

major object category shall be the maximum amount that can be expended under each classification. Budgets should be monitored during the fiscal year to ensure that appropriations are not overspent and that revenues received and expenditures made are the same as projected. If revisions need to be made, they are subject to board approval. The budget should be reviewed and updated monthly to reduce the chance of overspending. The review should be at the fund, resource and object levels to ensure that the district knows its projected fund balance at any given time. Budget transfers, adjustments and journal entries need to be completed monthly. A review of the district's financial system reports indicated that some account lines exceeded their budget.

School sites receive monthly budget reports from the business office but do not have and/or use online access to the financial system. To monitor their respective budgets in a timely manner, all budget managers need to be given read-only access to the financial system, and be trained in its use.

Position Control

One of the most critical elements in budgeting for expenditures is accurately projecting employee salary and benefit costs. These costs are the largest part of school district budgets, averaging approximately 91% of the unrestricted general fund budget in elementary districts throughout California. The La Habra City School District's 2012-13 first interim report shows that salaries and benefits account for 93.5% of the unrestricted general fund expenditure budget.

A reliable position control system establishes positions by site or department and helps prevent overstaffing by ensuring that staffing levels conform to district-approved formulas and standards. To be effective, the position control system must be integrated with other financial modules such as budget and payroll. Position control functions must also be separated to ensure proper internal controls. The controls must ensure that only board-authorized positions are entered into the system, that human resources hires only employees for authorized positions, and that the payroll department pays only employees hired for authorized positions. The proper separation of duties is a key factor in creating strong internal controls and a reliable position control system.

The rollover of position control data from the current fiscal year to the budget year provides a starting point for developing the district's budget and should be completed early in the cycle. Position control files for the budget year should then be updated to eliminate positions as necessary, add new approved positions, make changes in statutory and health and welfare benefit rates, and make any other adjustments that will affect salaries and benefits for the budget year. A fully functioning position control system helps districts maintain accurate budget projections, employee demographic data and salary and benefit information. The system should be fully integrated with payroll and budget modules and used to update the budget at each reporting period.

The district's position control system is not fully integrated with its payroll system, does not include health and welfare benefit information for each employee, and is not used for budget development. To save staff time and help ensure accurate budget reporting, the district needs to make full use of its position control system.

Interviews indicated that the district does not charge the employer's contribution to health and welfare benefits through its payroll system. Vendor invoices for health and welfare benefits are initially charged to one expenditure account, and staff later complete journal entries to charge the benefits to the appropriate accounts in each fund and resource. This is a time-consuming process, creates additional work for staff, and leaves the district vulnerable to errors. Discussions with staff at the county office of education revealed that they have developed an automated method to disburse health and welfare benefits for districts in the county that use a separate finance system.

Implementing some of the above procedures for budget development, budget monitoring and position control will require additional staff time initially. However, once implemented, efficiency will be increased.

California Longitudinal Pupil Achievement Data System (CALPADS)

As shown in the following table, the district's enrollment numbers do not match those shown by the CDE on its DataQuest website. Because numerous programs are funded based on student enrollment, the district needs to compare its enrollment numbers to those reported by the CDE annually to ensure that they agree.

Year	CDE	District
2007-08	5,737*	5,742
2008-09	5,633	5,635
2009-10	5,574	5,562
2010-11	5,430	5,431
2011-12	5,254*	5,253

*Total excludes non-public school students as they were not included in the district's total.

Recommendations

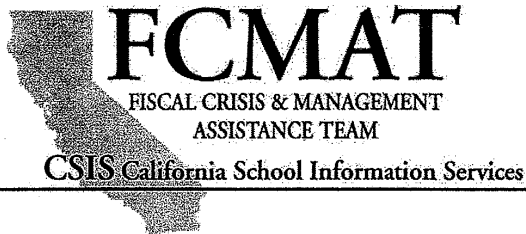
The district should:

1. Include site administrators and department managers in developing their budgets each spring for the upcoming fiscal year.
2. Design budget materials and offer a workshop to site and department staff to provide the tools and knowledge needed for budget development.
3. Provide site administrators and department managers with position control reports that include all employees charged to their budgets, and ensure that they are reviewed for accuracy during the budget development process, and more frequently if needed.
4. Use the QSS budget development tool at each reporting period.
5. Use the available fields in the QSS account code string to track expenditures.
6. Use fund 13 to process all financial transactions for the food service program.
7. Perform budget monitoring by fund, resource and object monthly, and take budget transfers and budget adjustments to the board for approval monthly.
8. Provide all site and department budget managers with online, read-only access to the financial system and ensure that they use it to monitor their budgets.
9. Keep the position control system current at all times, and use the system to upload salary and benefit information at each budget reporting period.

10. Work with the county office of education to implement an automated system to charge the employer's contribution toward health and welfare benefits to the proper accounts at each payroll cycle.
11. Compare the enrollment numbers reported by the CDE annually to ensure that they agree with the district's CALPADS totals.

Appendix A

Study Agreement



**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
December 27, 2012**

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the team, and the La Habra City School District, hereinafter referred to as the district, mutually agree as follows:

1. BASIS OF AGREEMENT

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

In keeping with the provisions of AB1200, the county superintendent will be notified of this agreement between the district and FCMAT and will receive a copy of the final report. The final report will be published on the FCMAT website.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The scope and objectives of this study are to:

1. Review the district's 2012-13 general fund budget and provide a multiyear financial projection (MYFP) for the current and two subsequent fiscal years using the first interim financial report as the baseline for the projection. The MYFP will include a cash flow component to project the district's cash balances for the 2012-13 fiscal year.
2. The MYFP and cash flow analysis will also include the fiscal impact of all other funds and provide strategies for cash management from internal and external sources, if any.

3. The FCMAT team will validate the district's budget assumptions and provide recommendations for expenditure reductions or revenue enhancements to assist in sustaining the district's financial solvency under AB 1200.

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 procedures of the team and on the purpose and schedule of the study.
2. On-site Review - The team will conduct an on-site review at the district office and at 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 - The team will issue an exit letter approximately 10 days after the exit meeting detailing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.
5. Draft Reports - Electronic copies of a preliminary draft report will be delivered to the district administration for review and comment.
6. Final Report - Electronic copies of the final study report will be delivered to the district administration following completion of the review. Printed copies are available by contacting the FCMAT office.
7. Follow-Up Support – Six months after completion of the study, FCMAT will return to the district, if requested, to confirm the district's progress in implementing the recommendations included in the report, at no cost. Status of the recommendations will be documented to the district in a FCMAT management letter.

3. PROJECT PERSONNEL

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

- | | |
|----------------------------|---|
| A. Diane Branham | FCMAT Chief Management Analyst, Project Lead |
| B. To be determined | FCMAT Consultant |
| C. To be determined | FCMAT Consultant |

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

4. **PROJECT COSTS**

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

- A. \$500.00 per day for each team member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings. The cost of independent consultants will be billed at the actual daily rate based on the provisions of Education Code section 84041.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc. The district will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the district.

Based on the elements noted in section 2 A, the total cost of the study is estimated at \$12,500.

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

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

5. **RESPONSIBILITIES OF THE DISTRICT**

- A. The district will provide office and conference room space while on-site reviews are in progress.
- B. The district will provide the following (if requested):
 - 1. A map of the local area
 - 2. Existing policies, regulations and prior reports addressing the study request
 - 3. Current or proposed organizational charts
 - 4. Current and two (2) prior years' audit reports
 - 5. Any documents requested on a supplemental list. Documents requested on the supplemental listing should be provided to FCMAT in electronic format.
 - 6. Documents that are only available in hard copy should be scanned by the district and sent to FCMAT in electronic format.

7. All documents should be provided in advance of field work; any delay in the receipt of the requested documentation may affect the start date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's SharePoint document repository and all requested documents shall be uploaded by the district.

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

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

6. PROJECT SCHEDULE

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

Orientation:	<i>January, 2013</i>
Staff Interviews:	<i>to be determined</i>
Exit Meeting:	<i>to be determined</i>
Preliminary Report Submitted:	<i>to be determined</i>
Final Report Submitted:	<i>to be determined</i>
Board Presentation:	<i>March or April, 2013</i>
Follow-Up Support:	<i>if requested</i>

7. CONTACT PERSON

Name of contact person: Karen Kinney

Telephone: (562) 690-2388 FAX: (562) 690-4154

E-Mail: kkinney@lhcsd.k12.ca.us



Susan Belenardo, Ed.D., Superintendent Date
La Habra City School District



December 27, 2012 Date
Anthony L. Bridges, CFE
Deputy Executive Officer
Fiscal Crisis and Management Assistance Team