FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Lassen County Office of Education

regarding the

Westwood Unified School District

Fiscal Review

April 24, 2009

Joel D. Montero
Chief Executive Officer

April 24, 2009

Jud B. Jensen, Superintendent of Schools
Lassen County Office of Education
472-013 Johnstonville Road, North
Susanville, California 96130-8752

Dear Superintendent Jensen:

In October 2008, the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for a fiscal review with the Lassen County Office of Education regarding the Westwood Unified School District. The study agreement specified that FCMAT would:

1. Assist the district with the year-end closing of the 2007-08 financial transactions, for all funds.
2. Conduct a review of the district's 2008-09 adoption budget and prepare a multiyear financial projection of the general fund for 2009-10 and 2010-11 using FCMAT's Budget Explorer software.
3. Prepare a multiyear cash flow projection for the current and first subsequent year to verify future cash shortfall amounts.

The attached final report contains the study team's findings with regard to the above areas of review. We appreciate the opportunity to serve you, and we extend our thanks to the staffs of the Lassen County Office of Education and the Westwood Unified School District.

Sincerely,

Joel D. Montero
Chief Executive Officer

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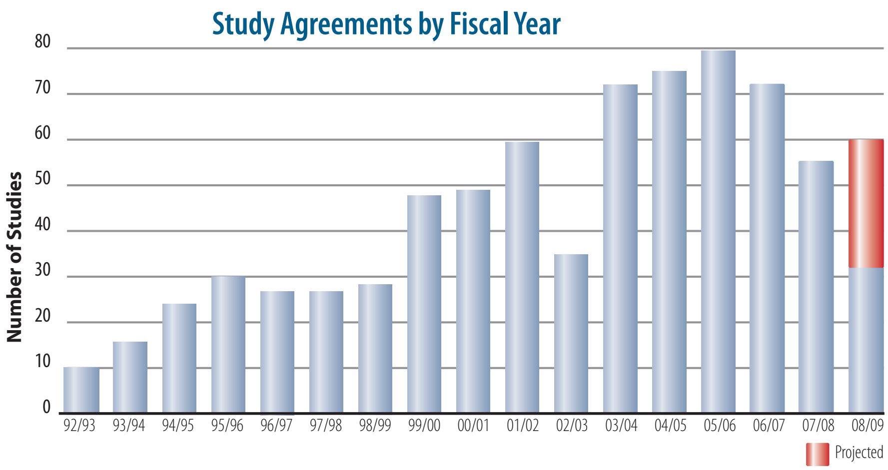
Foreword - FCMAT Background

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

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

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



Total Number of Studies.................... 743

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

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

Note: Some districts had multiple studies.

- Districts (7) that have received emergency loans from the state.

(Rev. 1/22/09)

Introduction

Background

The Westwood Unified School District is a rural school district nestled between the Cascade Mountain Range and the Sierra Nevada Mountain Range in Lassen County. The town of Westwood has one K-12 school district with an enrollment of approximately 292 students, and one independent charter school. The district is governed by a five-member board.

The district consists of one elementary/middle school and one high school. It also operates a continuation high school and offers ROP and Opportunity classes funded primarily from the Lassen County Office of Education. The Lassen COE supports the cost of the ROP and Opportunity programs. The district supports facility, utility and supply costs.

On October 22, 2008, the Lassen COE contracted with FCMAT to conduct a review of specific financial issues concerning the district following a disapproved adopted budget report. The study agreement states that FCMAT will do the following:

1. Assist the district with the year-end closing of the 2007-08 financial transactions for all funds.
2. Conduct a review of the district's 2008-09 adoption budget and prepare a multiyear financial projection of the general fund for 2009-10 and 2010-11 using FCMAT's Budget Explorer software.
3. Prepare a multiyear cash flow projection for the current and first subsequent year to verify future cash shortfall amounts.

Study Guidelines

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

After the initial fieldwork, the team determined that the key data sets for payroll, health care benefits and retiree costs that were uploaded to the MYFP were incorrect. As a result of this and delays in receiving correct information from the district, the MYFP was updated several times to incorporate these changes. The team also calculated the effects of the amended state budget signed on February 20, 2009, and updated the MYFP accordingly.

To complete this study, FCMAT obtained the district's financial data and information at periodic intervals. In addition, the team reviewed the data processing system, which is QSS. The expertise of the business office staff members and their ability to utilize existing technology in their work assignments also was reviewed.

Study Team

The FCMAT study team was composed of the following members:

Deborah Deal
Fiscal Intervention Specialist
Fiscal Crisis and Management Assistance Team
Los Angeles, California

Lynn Kamph
FCMAT Consultant
Chico, California

Laura Haywood
Public Information Specialist
Fiscal Crisis and Management Assistance Team
Bakersfield, California

Executive Summary

On September 10, 2008, the Lassen County Office of Education disapproved the Westwood Unified School District's adopted budget for 2008-09. This action was taken in accordance with Education Code sections 42127, 42127 (c)(1) and 42127 (c)(2), because the district had not closed the books for the previous fiscal year, had unreasonable and/or unrealizable budget assumptions, and was unable to demonstrate its ability to meet financial obligations for the 2008-09 and subsequent two fiscal years.

The Lassen COE requested the district to revise its 2008-09 budget and multiyear projection and develop a recovery plan that would ensure that the district could meet its financial obligations for the current and two subsequent years. The Lassen COE also asked the district to expedite the closing of its 2007-08 books to more accurately reflect the 2007-08 ending fund balance, and to submit this information no later than October 15, 2008.

On October 15, 2008, the district's Board of Trustees approved and submitted a revised 2008-09 budget and multiyear projection, which was disapproved by the Lassen COE on October 22, 2008.

By mutual agreement, the district and Lassen COE agreed to have School Services of California conduct an independent review of the district's budget and make recommendations. School Services' assessment concluded that the district's financial situation was very serious. In accordance with Education Code section 42127.1, Lassen COE, the district, and the Superintendent of Public Instruction agreed to waive the formation of a budget review committee and request assistance from the Fiscal Crisis and Management Assistance Team (FCMAT) under Education Code section 42127.3. FCMAT's scope of work included closing the 2007-08 books, revising the 2008-09 fiscal year budget and preparing a multiyear projection, assessing the district's fiscal and budgetary condition, and developing a fiscal recovery plan.

The district's current financial status and multiyear budget assumptions indicate that the district will have a negative fund balance for the current and two subsequent fiscal years and will not meet the 5% required reserve level without a detailed plan to reduce expenditures and cease deficit spending. The board, administration and community should identify potential areas of reduction to eliminate deficit spending and sustain fiscal solvency. It is possible that immediate and decisive action may allow the district to avoid having to obtain outside financial assistance. Failure to make the proper budget reductions places the district at risk, with the potential loss of local governance and decision-making authority through state intervention.

FCMAT has identified multiple issues that have contributed to the district's financial condition and include the following:

- multiyear history of deficit spending
- declining enrollment
- lower than average enrollment to average daily attendance ratio
- small class loads
- 100% district-paid employee health and welfare package with minimal deductibles
- a lucrative retiree benefits plan
- higher than average percentage of administrative cost for the size of the district
- lack of fiscal expertise in the business office

While school districts need to maintain competitive salaries and benefits to retain staff members, those experiencing declining enrollment should exercise extreme caution in negotiations. The single largest expense for a school district is salaries and benefits. The scattergram showing the salary placement of teachers at the district depicts an uneven distribution throughout the salary schedule. In fact, most of the teachers are on the highest range or step and column on the schedule. This can be common in rural areas, where employees may remain with the same employer for their entire career.

To prepare for potential certificated layoffs, the district provided legal notification by March 15, 2009 to two certificated employees. The district has not settled negotiations with the certificated or classified bargaining units for the 2008-09 fiscal year. Retaining qualified staff members while balancing the budget will be a difficult challenge. AB 1200 and AB 2756 require districts to clearly delineate their ability to support the effects of any collective bargaining agreement and require a full disclosure to the Lassen COE of the fiscal effects of any tentative settlement agreement.

Health and welfare benefits are contractually required for active employees and retirees. The district's benefit package offers employee and family health, dental and vision insurance. At retirement, the coverage is extended to employees who have worked in the district for the last ten years and have attained age 55. As an alternative, the district pays annual in lieu cash payments equivalent to the cost of the health and welfare package. Consistent with the district's collective bargaining agreements, FCMAT did not adjust employer/employee contributions in the multiyear financial projection.

As enrollment continues to decline, the district should review class loads to maximize student-teacher ratios. Westwood is a small district, which makes it more challenging to manage class loads, especially when there is one class for each grade level in the primary grades. However, the district has some opportunities to create combination classes.

Districts are funded on average daily attendance (ADA) calculated using the number of days students attend school for a defined number of days in a fiscal year. The district's ratio of enrollment to ADA has averaged 89.87% over the last three years, well below the average of 94%-95% for most unified school districts. Increasing the ADA percentage would increase the district's revenue limit funding with minimal or no increases in staffing. It is imperative for the district to monitor enrollment and ADA monthly and develop projections to measure progress to aid in revenue projections and maximize funding. Offering low-cost incentives to individual classrooms, grade levels, or school sites could help improve student attendance percentages.

More than half the state's school districts are experiencing declining enrollment. Westwood's enrollment over the last decade has declined more than 40%. The district experienced a 10.7% drop in enrollment from the 2007-08 to the 2008-09 fiscal year, or a net loss of 35 students.

The effects of this decline on the district's general fund are exacerbated by the state's current fiscal crisis. The district faces substantial fiscal challenges that will require it to make difficult decisions as it navigates through this fiscal instability.

Factors at the state level that will ultimately affect the district include a significant loss in tax revenues and a decline in consumer spending. Home sales and values continue to decline, which may lower property tax collections in many counties and are backfilled by the state for school districts. All of these potential losses of revenue at the state level may equate to less revenue available for schools.

The district has 2.5 full time equivalent administrators for approximately 292 students. Comparable districts have one superintendent/principal and a part-time assistant principal. These comparisons will be fully characterized in this report.

The district is experiencing extreme financial distress that will require a high level of fiscal expertise and a working knowledge of California finance to assist district administrators with potential budget solutions and accompanying cost estimates. The business manager admittedly lacks the experience and expertise in school finance to be effective in this vital role. The Lassen COE recognizes that a fiscal advisor is needed immediately to assist in this process and has assumed this role.

The district must manage the shortfall in revenues against expenditures that continue to rise for health care, utilities, equipment and other operating expenses. Operating budgets have been reduced for the last several years as the enrollment declined, but not at the same level as the drop in revenues.

Without intervention, the district's declining enrollment, shortfall in revenues, increasing expenditures in operational costs, generous health care benefits, higher than normal administrative costs and lack of fiscal expertise in the business office will continue to cause its budget to exceed the available funding.

The district's prior deficit spending has completely exhausted the recommended reserves for economic uncertainties in the general fund.

Districts that exceed their reserve requirements can deficit spend for a period of time. However, districts that fail to address deficit spending trends and/or continued declining enrollment inevitably experience a depletion of cash resources and normally require some level of county or state intervention.

Based on its cash flow projections, Westwood USD has requested a loan of $350,000 to assist the district in meeting its financial obligations through June 30, 2009.

State intervention occurs when a district is unable to support payroll and other financial obligations with its existing cash resources. The district's financial situation is extremely serious and will require both short- and long-term solutions. The district will have to strategically manage its cash reserves while making budget reductions or it could require an emergency appropriation and fall under state receivership. If that occurs, the Superintendent of Public Instruction or State Administrator could exercise several options under Education Code 41325-41326. Based on the projected budget and levels of deficit spending, the district will need to make substantial budget reductions immediately or require state intervention in the 2009-10 fiscal year. FCMAT's Fiscal Health Risk Analysis, which measures a district's risk of fiscal insolvency, places the Westwood USD in the **extremely high risk** category. The complete Fiscal Health Risk Analysis is included later in this report.

To maximize unrestricted general fund resources, the district should take advantage of the reduced matching requirements for Restricted Routine Maintenance and Deferred Maintenance along with categorical flexibility options approved in the emergency legislation SBX3 4, signed into law on February 20, 2009.

FCMAT prepared a comprehensive multiyear financial projection (MYFP) based on information known at the time of fieldwork. Subsequent to the fieldwork, the team determined that the key data sets for payroll, health care benefits and retiree costs were incorrect. The MYFP was updated to include these changes. The team calculated and incorporated the effects of the amended state budget signed on February 20, 2009.

Table 1 - MYFP, Combined Ending Fund Balance General Fund Summary				
Name	**Historical Year 2007-08**	**Base Year 2008-09**	**Year 1 2009-10**	**Year 2 2010-11**
Revenues	3,963,779	3,319,365	3,022,784	2,878,746
Expenditures	4,197,589	3,609,068	3,675,441	3,904,192
Excess (Deficiency) of Revenues Over Expenditures	-233,810	-289,703	-652,657	-1,025,446
Other Financing Sources/Uses	111,604	-50,000	-50,000	-50,000
Net Increase (Decrease) in Fund Balance	-122,206	-339,703	-702,657	-1,075,446
Beginning Fund Balance	262,553	154,223	-185,480	-888,137
Audit Adjustments	13,875	0	0	0
Ending Fund Balance	154,223	-185,480	-888,137	-1,963,583
Components of Ending Fund Balance				
Revolving Cash	2,500	0	0	0
Legally Restricted Balance	215,455	167,901	149,602	138,388
Designated for Economic Uncertainties	213,299	182,953	186,272	197,710
Undesignated/Unappropriated	0	0	0	0
Shortfall	-277,031	-536,334	-1,224,011	-2,299,680

Findings and Recommendations

Multiyear Financial Projection

California school districts and county offices use many different software products to prepare multiyear financial projections. FCMAT's Web-based fiscal forecasting software, Budget Explorer, was designed exclusively for California school districts and county offices of education. Utilizing the Budget Explorer software, districts can create and update financial projections instantly by interfacing with the State Account Code Software (SACS) or may be imported from the district's financial system.

The primary purpose of a multiyear financial projection (MYFP) is to project the district's budget over a period of multiple years based on specific economic factors and budget assumptions, allowing the district to achieve and sustain a balanced budget. District management can use Budget Explorer software to make more informed budget decisions and incorporate educational goals and objectives into a financial scenario.

To resolve an estimated $536,334 unrestricted general fund budget shortfall in the 2008-09 fiscal year, the Westwood Unified School District should immediately begin to prepare for a period of fiscal instability. In attempting to balance the budget, the district will need to make difficult choices about which expenditures and programs will continue to be funded and those that may need to be scaled back, reconfigured or eliminated. In the short term, the district should take immediate actions to address the shortfall for the current and subsequent two fiscal years.

FCMAT's MYFP indicates that the district will not meet its reserve requirement in the current and two subsequent fiscal years without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending. The general fund projection uses the 2007-08 unaudited actuals as a base year for salary and benefits and the 2008-09 state budget revisions per the special emergency legislative session that ended on February 20, 2009 and the revised School Services of California (SSC) Financial Dartboard for the subsequent two fiscal years. The projection excludes annual increases for cost of living adjustments for employee salaries in the current and two subsequent fiscal years because this item is subject to collective bargaining.

To evaluate the multiyear projection, attention is focused on the district's ability to meet its reserve requirement of 5% and demonstrate a positive, unappropriated fund balance. The team has analyzed all funding sources and expenditure categories. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines. The unrestricted general fund summary below indicates a negative balance in all years.

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Because employee salaries and benefits average between 85% and 92% of the unrestricted general fund balance for unified districts throughout the state, the district should develop staffing formulas for all positions and ensure that ratios are within employee contract guidelines, meet students' needs and agree with approved goals and objectives, including the goal of regaining fiscal solvency.

Determining the district's average salary and benefit cost is not so straightforward because the budget has been overspent by $536,334. Normally, average salary and benefits are calculated as a percentage of the expenditures plus transfers out of the general fund. If the district's budget were in balance and expenditures were reduced accordingly, then the district's average salary and benefit would be 88.5%, which is within statewide averages for unified districts. Westwood is a small rural school district and has a higher than average ratio of fixed operating costs to discretionary spending; therefore, the percentage distorts the district's ability to support non-employee compensation expenditures outside of its control such as utilities, fuel and insurance costs. The district's challenge is to reduce expenditures to regain fiscal solvency while still incurring increased expenditures beyond its control.

The district's overall expenditure budget decreased in response to declining enrollment, yet increases in overall expenditures have outpaced annual increases in funding. Increased costs for employee health benefits and lucrative retiree benefits have contributed significantly to this trend.

Contributions from unrestricted to restricted programs continue to increase each fiscal year. Several restricted programs require unrestricted general fund support. District management should carefully review these contributions and insist that restricted programs are self-sustaining except for the special education and home-to-school transportation programs, as these programs traditionally encroach on the unrestricted general fund because of insufficient state and federal funding.

Some of the district's greatest obstacles will be addressing options for health care benefits for current and retired employees, reducing administrative staffing levels, increasing enrollment-to-ADA percentages and developing a plan to attract students to the district. This process will also help raise general awareness of the district's financial status and may prompt collaborative efforts to find solutions.

Multiyear projections are required by AB 1200 and AB 2756 and are a part of the adoption budget and interim reporting process. In June 2004, AB 2756 (Daucher) was passed and signed into law on an urgency basis. This legislation made substantive changes to the financial accountability and oversight used to monitor the fiscal position of school districts and county offices. Among other things, AB 2756 strengthened the roles of the Superintendent of Public Instruction (SPI) and county offices of education and their ability to intervene during fiscal crises, including requesting assistance from FCMAT.

The following 15 conditions represent the most common indicators of fiscal distress and are referenced in AB 2756 (Daucher) and included in Education Code sections 42127 and 42127.6:

1. Governance crisis
2. Absence of communication to education community
3. Lack of interagency cooperation
4. Failure to recognize year-to-year trends
5. Flawed ADA projections
6. Failure to maintain reserves
7. Insufficient consideration of the effects of long-term bargaining agreements
8. Flawed multiyear projections

9. Inaccurate revenue and expenditure projections
10. Poor cash flow analysis and reconciliation
11. Bargaining agreements beyond state COLAs
12. Lack of integration of position control with payroll
13. Limited access to timely personnel, payroll, and budget control data and reports
14. Escalating general fund encroachment from restricted programs
15. Lack of regular budget monitoring

Conditions at the district meet several of the criteria, and the district will require assistance from either the Lassen COE or the state to meet its financial obligations.

If at any time during the fiscal year a district is unable to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district governing board and the SPI. The county office is required to follow Education Code section 42127.6 in assisting a school district in this situation. Lassen COE has assigned a fiscal advisor to assist the district on financial issues. The fiscal advisor will help the district to formulate a recovery plan to regain fiscal solvency and restore the required ending fund balance reserve levels.

School districts receive funding from a variety of local, state and federal resources. Some funds are designated for specific purposes that include grant and entitlement categorical funding. Most funding sources support the district's general operating expenses. The state's complex revenue limit funding calculation provides for funding per ADA using a combination of local property taxes and state aid. The district receives revenue limit funding for grades kindergarten to 7th grade and a necessary small school allowance for grades 8 to 12.

For high schools, the necessary small school allowances are allocations instead of per-pupil amounts that are based on a combination of the ADA for the school and the FTE of certificated employees at the school. Districts are eligible for necessary small school allowance in lieu of revenue limit funding if the following criteria are met:

- The district has less than 2,501 ADA
- The district has an elementary school with fewer than 96 ADA and/or a high school with fewer than 286 ADA, and
- The district meets the standard for a necessary small school per Education Code 42280, et seq.

Regular and frequent budget monitoring becomes critical in times of fiscal uncertainty. The district will need to ensure that multiyear forecasts are kept up to date and that the information they contain is accurate and based on the most current assumptions. Economic indicators will change rapidly as California continues to struggle to balance its budget, so staying connected to current financial information and support such as that provided by professional education business organizations will help keep the district informed.

FCMAT has updated the multiyear projections to include the latest adjustments signed into law from the special legislative session that ended February 20, 2009. The MYFP developed for this report indicates that the district *will not* be able to maintain its required reserve of 5% in all three fiscal years. The district faces substantial fiscal challenges that require difficult decisions to be made and implemented immediately.

Multiyear Forecast Assumptions

Financial projections for the district's general fund were prepared using FCMAT's multiyear Budget Explorer projection software. Multiyear financial projections help provide for more informed decision making and the ability to forecast the fiscal effect of current decisions, but should be evaluated and updated at least during each interim financial reporting period and in preparation for negotiations. Any forecast of financial data has inherent limitations because calculations are based on certain assumptions and criteria that include enrollment trends, cost-of-living adjustments, and forecasts for utilities, fuel, supplies and equipment. Financial projections must account for the changing economic conditions at the state, federal and local levels.

Multiyear expenditure decisions for salary and benefits require the district to analyze the compounding effects over multiple years. According to AB 1200 guidelines, school districts are required to estimate the cost effects in a tentative agreement for salary and benefits in the current and two subsequent fiscal years. Using a multiyear software program allows district staff to clearly determine the effect of these proposals on the unappropriated fund balance from year to year to ensure that reserve levels are maintained.

FCMAT's projection includes the impact of the approved SBX3 4 emergency legislation that amended the state budget act for the 2008-09 and 2009-10 fiscal years. This includes significant midyear funding reductions in the current fiscal year as well as additional reductions in the 2009-10 fiscal year.

The first phase of this review required FCMAT to prepare adjusting entries and close the 2007-08 books. Closing out the financial records involved verification of all revenue sources; recalculation of the revenue limit; posting interfund obligations; calculating indirect costs for restricted programs; and preparing a listing of accounts receivable and payables.

The multiyear projection uses the district's 2007-08 unaudited actuals financial report as the MYFP baseline. The team used budget assumptions based on the 2008-09 Governor's Budget Act as amended February 20, 2009 following the special legislation session and the School Services of California (SSC) Financial Dartboard assumptions. FCMAT's

MYFP does not include any increases for salary in the current or projection years, beyond the current negotiated agreement. Included in the projection years are the following:

- The average cost of step-and-column movement for all contracted salaries and the associated cost of employer-paid statutory benefits of 2% for certificated staff and 1.75% for classified employees.
- A 10% increase in health and welfare costs in 2009-10 and 2010-11.
- Increases in general operating expenditures based on the California Consumer Price Index and the most recent economic indicators.

To build the base year of the multiyear projection, FCMAT prepared spreadsheets for certificated, classified and management salary and benefit costs; the actual year-to-date activity of paid stipends and other extra duty salary expenses; internal and external documents along with the CDE Web site to verify the district's current year revenues, and a review of the actual revenue and expenditure detail to identify adjustments in each resource and major object code sections of the general fund.

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

- Approval letters from the county office regarding the adopted budget reports
- Review, analysis and recommendations relative to the district's financial condition from SSC
- Financial system budget comparative reports that correspond to amounts in the 2007-08 Unaudited Actuals financial report and 2008-09 actuals to date
- The financial summary report reflecting all general ledger balance sheet accounts by fund for 2007-08 and 2008-09
- Revenue limit worksheets, including all supporting schedules for 2007-08 and 2008-09
- Historical enrollment information for the current and prior three fiscal years and projections for the subsequent five years
- P-1, P-2 and annual attendance reports including CBEDS data for the district and the charter school, 2005-06 through 2008-09
- Information on supplemental revenue sources such as forest reserves.
- Identification of any one-time revenues and expenditures included in the 2007-08 budget
- Salary schedules and salary placement information for all employee groups
- District and departmental organization charts
- Long-term debt schedules from the 2007-08 audited financial statements and related contracts
- The district's calculations of multiyear projections done outside the SACS multiyear format for 2007-08

- Collective bargaining agreements for all employee groups
- AB 1200 disclosure documents for the most recent salary settlement for all employee groups
- Historical information on the health and welfare rates for the prior three fiscal years
- Independent audit reports, 2004-05 through 2006-07
- Copies of Office of Public School Construction agreements or any other financing mechanism for facility financing
- Charter school agreements, Memorandum of Understanding, enrollment records and property tax distribution
- Related party transactions as disclosed in the audit reports

General Fund

2008-09 General Fund

The team focused attention on the general fund portion of the district's budget although all funds were reviewed independently.

The latest state budget information does not include the impact of Lassen COE-operated special education. As state reduction/cuts affect district programs, they will also affect the county office. This could prompt unanticipated excess cost billings to the district.

The following table illustrates the projection variables that were utilized to project the district's multiyear general fund for 2008-09, 2009-10 and 2010-11 fiscal years. The table includes adjustments enacted through the emergency session for revenue limit funding, deficits and categorical reductions in Tier II and Tier III programs (a complete list of these programs is found later in this report).

Table 2: Multiyear Projection Rules				
CertCOLA	Certificated COLA %	0.00%	0.00%	0.00%
ClassCOLA	Classified COLA %	0.00%	0.00%	0.00%
CertColumn%	Certificated Staff Column Increase %	0.0000%	0.2500%	0.2500%
CertStep%	Certificated Staff Step Increase %	0.0000%	1.7500%	1.7500%
ClasStep%	Classified Staff Step Increase %	0.00%	1.50%	1.50%
CPI	California CPI (SSC)	1.90%	0.80%	1.90%
LOT-Res	California Lottery Restricted (SSC)	$11.50	$11.50	$11.50
LOT-Unr	California Lottery Unrestricted (SSC)	$109.50	$109.50	$109.50
INT	Interest Rate Trend for 10 Year Treasuries (SSC)	2.90%	3.00%	3.40%
NetCOLA	Net Funded Revenue Limit COLA (SSC)	-2.63%	-0.10%	0.70%
RLDef	Revenue Limit Deficit: K-12 (SSC)	7.8400%	13.0900%	13.0900%
SpEdDef	Special Education Base Deficit (SSC)	0.00%	0.00%	0.00%

Table 2: Multiyear Projection Rules				
CatCOLA	State Categorical COLA (SSC)	0.00%	0.00%	0.50%
StCOLA	Statutory COLA (SSC)	5.6600%	5.0200%	0.7000%
HW%	Health & Welfare Benefit Increase	0.00%	10.00%	10.00%
CustAmt	Custom Amount	$0.00	$0.00	$0.00
Cust%	Custom Percent	0.00%	0.00%	0.00%
Cust1Amt	Custom One Time Amount	$0.00	$0.00	$0.00
Cust1%	Custom One Time Percent	0.00%	0.00%	0.00%
ManInput	Manual Input	$0.00	$0.00	$0.00
PRO	Proportional	0.00%	0.00%	0.00%
Zap	Zero Out	$0.00	$0.00	$0.00
Enr	Year-to-Year Change in Enrollment	-9.72%	-11.28%	-5.20%
RL-ADA	Year-to-Year Change in RL ADA	0.00%	-12.19%	-5.20%
TchrStfg	Year-to-Year Change in Teacher Staffing	0.00%	0.00%	0.00%
SalFrcstr	Salary Forecaster	$0.00	$0.00	$0.00
P2ADA	P2-ADA/ PRIOR YEAR ANNUAL ESTIMATE	0.00	176.94	155.37
BasicGrant	Title I Part A (Resource 3010)	3.20%	0.00%	0.00%
SpecEduc	Special Education (Resource 3310)	1.40%	0.00%	0.00%
TeachQual	Title II Part A (Resource 4035)	0.70%	0.00%	0.00%
RLDefCOE	County Office Revenue Limit Deficit	0.00%	5.36%	5.36%
EnEducTech	Title II Part D (Resource 4045)	-6.90%	0.00%	0.00%
LangAcqu	Title III Language (Resource 4203)	4.70%	0.00%	0.00%
SafeDrugFree	Title V Safe and Drug (Resource 3710)	-15.40%	0.00%	0.00%
InnProg	Title V Part A (Resource 4110)	-100.00%	0.00%	0.00%
21CLC (IV)	Title V now IV Part B (Resource 4124)	3.40%	0.00%	0.00%
ReadFirst	Title I Part B (Resource 3030)	-64.30%	0.00%	0.00%
EvenStart	Title I Part B, Even Start (Resource 3105)	-24.10%	0.00%	0.00%
CTechEdGrant	Career and Technical Ed Grants	-2.60%	0.00%	0.00%
SSC CSR	SSC-CSR/ SSC CSR	$0.00	$0.00	$0.00
K3 CSR	K3-CSR/ K3 CSR	$0.00	$0.00	$0.00
AutoBal	Autobalance Rule	$0.00	$0.00	$0.00
FedCOLA	Federal COLA	0.00%	0.00%	0.00%
IndirectRate	Indirect Rate	0.00%	0.00%	0.00%
Tier III	State Cuts with flexibility	-15.40%	-4.40%	0.00%
Tier II	State Cuts with No Flexibility	-15.40%	-4.40%	0.00%

(SSC) – based on School Services of California Financial Dartboard February 2009

MYFP Adjustments

The district submitted an Adopted Budget 2008-09 dated June 28, 2008 (approved by the governing board on August 20, 2008) to the Lassen COE. That budget was disapproved on September 10, 2008.

An amended budget prepared by district staff was also disapproved on October 22, 2008. The Lassen COE requested FCMAT to prepare a 2008-09 general fund operating budget the district's behalf.

The following tables summarize the adjustments FCMAT made from the district's adoption budget for 2008-09 dated June 28, 2008, and the final calculations made by FCMAT in the 2008-09 base year.

Table 3: Combined Summary of Changes

All Resources Combined	Object Code	Westwood USD budget dated 06/28/08	FCMAT budget 2008 - 09	Difference
Revenues				
Revenue Limit Sources	8010 - 8099	2,236,864	2,212,254	-24,610
Federal Revenues	8100 - 8299	192,678	392,272	199,594
Other State Revenues	8300 - 8599	747,017	469,198	-277,819
Other Local Revenues	8600 - 8799	348,759	245,641	-103,118
Total Revenues		3,525,318	3,319,365	-205,953
Expenditures				
Certificated Salaries	1000 - 1999	1,388,136	1,231,561	-156,575
Classified Salaries	2000 - 2999	511,361	500,517	-10,844
Employee Benefits	3000 - 3999	1,022,630	1,030,857	8,227
Books and Supplies	4000 - 4999	183,941	227,353	43,412
Services and Other Operating Expenditures	5000 - 5999	570,462	600,051	29,589
Capital Outlay	6000 - 6900	82,882	0	-82,882
Other Outgo	7000 - 7299	0	0	0
Direct Support/Indirect Cost	7300 - 7399		0	0
Debt Service	7430 - 7439	10,786	18,729	7,943
Total Expenditures		3,770,198	3,609,068	-161,130
Excess (Deficiency) of Revenues Over Expenditures		-244,880	-289,703	-44,823
Other Financing Sources/Uses				

Table 3: Combined Summary of Changes

	Interfund Transfers In	8900 - 8929	0	0	0
	Interfund Transfers Out	7600 - 7629	64,000	50,000	-14,000
	All Other Financing Sources	8930 - 8979	0	0	0
	All Other Financing Uses	7630 - 7699	0	0	0
	Contributions	8980 - 8999	0	0	0
Total Other Financing Sources/Uses			-64,000	-50,000	14,000
Net Increase (Decrease) in Fund Balance			-308,880	-339,703	-30,823
Fund Balance					
	Beginning Fund Balance	9791	272,519	154,223	-118,296
	Audit Adjustments	9793	0	0	0
	Other Restatements	9795	0	0	0
	Adjusted Beginning Fund Balance		272,519	154,223	-118,296
	Ending Fund Balance		-36,361	-185,480	-149,119
Components of Ending Fund Balance					
	Legally Restricted Balance	9740 - 9759	0	167,901	167,901
	Economic Uncertainties Percentage		0	0	0
	Designated for Economic Uncertainties	9770	0	182,953	182,953
	Other Designated	9780	0	0	0
	Undesignated /Unappropriated	9790	0	0	0
	Shortfall	9790	-36,361	-536,334	-499,973

Table 4: Unrestricted Summary of Changes					
Unrestricted Resources		Object Code	Westwood USD budget dated 06/28/08	FCMAT Budget 2008 - 09	Difference Incr/(decr)
Revenues					
	Revenue Limit Sources	8010 - 8099	2,158,995	2,136,760	-22,235
	Federal Revenues	8100 - 8299	0	209,335	209,335
	Other State Revenues	8300 - 8599	143,916	120,333	-23,583
	Other Local Revenues	8600 - 8799	287,115	205,500	-81,615
Total Revenues			2,590,026	2,671,928	81,902
Expenditures					
	Certificated Salaries	1000 - 1999	1,056,933	1,080,997	24,064
	Classified Salaries	2000 - 2999	255,689	254,022	-1,667
	Employee Benefits	3000 - 3999	777,325	810,562	33,237
	Books and Supplies	4000 - 4999	65,700	55,100	-10,600
	Services and Other Operating Expenditures	5000 - 5999	501,103	560,825	59,722
	Capital Outlay	6000 - 6900	0	0	0
	Other Outgo	7000 - 7299	0	0	0
	Direct Support/Indirect Cost	7300 - 7399	-41,400	-35,432	5,968
	Debt Service	7430 - 7439	0	7,943	7,943
Total Expenditures			2,615,350	2,734,017	118,667
Excess (Deficiency) of Revenues Over Expenditures			-25,324	-62,089	-36,765
Other Financing Sources/Uses					
	Interfund Transfers In	8900 - 8929	0	0	0
	Interfund Transfers Out	7600 - 7629	64,000	50,000	-14,000
	All Other Financing Sources	8930 - 8979	0	0	0
	All Other Financing Uses	7630 - 7699	0	0	0
	Contributions	8980 - 8999	-219,606	-180,059	39,547
Total Other Financing Sources/Uses			-283,606	-230,059	53,547
Net Increase (Decrease) in Fund Balance			-308,930	-292,148	16,782
Fund Balance					
	Beginning Fund Balance	9791	230,268	-61,232	-291,500
	Audit Adjustments	9793	0	0	0
	Other Restatements	9795	0	0	0

Table 4: Unrestricted Summary of Changes

	Adjusted Beginning Fund Balance		230,268	-61,232	-291,500
	Ending Fund Balance		-78,662	-353,380	-274,718
Components of Ending Fund Balance					
	Legally Restricted Balance	9740 - 9759	0	0	0
	Economic Uncertainties Percentage		0	0	0
	Designated for Economic Uncertainties	9770	0	182,953	182,953
	Other Designated	9780	0	0	0
	Undesignated/Unappropriated	9790	0	0	0
	Shortfall	9790	-78,662	-536,333	-457,671

Table 5: Restricted Summary of Changes

Restricted Resources		Object Code	Westwood USD budget dated 06/28/08	FCMAT Budget 2008 - 09	Difference
Revenues					
	Revenue Limit Sources	8010 - 8099	77,869	75,494	-2,375
	Federal Revenues	8100 - 8299	192,678	182,937	-9,741
	Other State Revenues	8300 - 8599	603,101	348,865	-254,236
	Other Local Revenues	8600 - 8799	61,644	40,141	-21,503
Total Revenues			935,292	647,437	-287,855
Expenditures					
	Certificated Salaries	1000 - 1999	331,203	150,564	-180,639
	Classified Salaries	2000 - 2999	255,672	246,495	-9,177
	Employee Benefits	3000 - 3999	245,305	220,295	-25,010
	Books and Supplies	4000 - 4999	118,241	172,253	54,012
	Services and Other Operating Expenditures	5000 - 5999	69,359	39,226	-30,133
	Capital Outlay	6000 - 6900	82,882	0	-82,882
	Other Outgo	7000 - 7299	0	0	0
	Direct Support/Indirect Cost	7300 - 7399	41,400	35,432	-5,968

Table 5: Restricted Summary of Changes					
	Debt Service	7430 - 7439	10,786	10,786	0
Total Expenditures			1,154,848	875,051	-279,797
Excess (Deficiency) of Revenues Over Expenditures			-219,556	-227,614	-8,058
Other Financing Sources/Uses					
	Interfund Transfers In	8900 - 8929	0	0	0
	Interfund Transfers Out	7600 - 7629	0	0	0
	All Other Financing Sources	8930 - 8979	0	0	0
	All Other Financing Uses	7630 - 7699	0	0	0
	Contributions	8980 - 8999	219,606	180,059	-39,547
Total Other Financing Sources/Uses			219,606	180,059	-39,547
Net Increase (Decrease) in Fund Balance			50	-47,555	-47,605
Fund Balance					
	Beginning Fund Balance	9791	42,251	215,455	173,204
	Audit Adjustments	9793	0	0	0
	Other Restatements	9795	0	0	0
	Adjusted Beginning Fund Balance		42,251	215,455	173,204
	Ending Fund Balance		42,301	167,900	125,599
Components of Ending Fund Balance					
	Reserved Balances	9700	0	0	0
	Legally Restricted Balance	9740 - 9759	0	167,900	167,900
	Designated for Economic Uncertainties	9770	0	0	0
	Other Designated	9780	0	0	0
	Undesignated/Unappropriated	9790	106,241	0	-106,241
	Shortfall	9790	0	0	0

The information in the tables above is a compilation of the following detail by individual resource category that reconciles the total adjustments prepared by FCMAT. The team prepared supporting schedules for certificated, classified and management salary and benefit information to properly balance total compensation across all resource categories.

Analysis by Resource

Unrestricted Resources:

Revenues

The revenue limit objects were adjusted to $2,136,760, a decrease of $22,235. Other federal revenues were increased by $209,335 to include forest reserve funding of $162,354, and $46,981 for the Medi-Cal Administrative Activities (MAA) reimbursement amount received as on March 10, 2009.

Certificated Salaries

Certificated salaries were increased by $24,064, representing 20% of the superintendent's salary, which was originally budgeted in resources 2200 and 2430 and has been transferred to unrestricted this year.

Classified Salaries

Classified salaries were decreased by $1,667 to agree with the updated spreadsheet.

Employee Benefits

Employee benefits were increased by $33,237, of which $14,613 was adjusted to pay for Golden Handshake payments.

Other Services

Other services increased by $59,722. The budget for general property and liability insurance was increased by $12,381 on the unrestricted budget and eliminated in restricted resources 2200 and 2430. The budget for utilities was increased by $16,297 to reflect an increase of 2.5% over the prior year and to realign all utilities in the unrestricted resource. The direct cost transfer to resource 2730 increased by $12,000 to $77,815.

Debt service

Debt service was increased by $7,943 to account for loan payment for the 2007-08 purchase of a school bus.

Transfers Out

After discussions with the district, the deferred maintenance match transfer of $24,000 was deleted because the new state budget agreement does not require a match in the current year. The transfer out to the cafeteria fund was increased by $10,000 to a total of $50,000.

Indirect Cost

Indirect costs were reduced by $5,968. These costs were calculated utilizing the state-approved indirect cost rate for the district.

Resource 1100 – State Lottery
Revenue was reduced by $10,600 per the current funding formula. Expenses were reduced accordingly to balance the resource.

Resource 1300 - Class Size Reduction, K-3
Revenue was reduced by $6,426 based on the current funding formula of students currently enrolled in grades K-3. Certificated salaries and benefits were increased by $7,067 to agree with the amounts paid to the CSR teachers. An unrestricted contribution of $235,295 was added to balance the resource.

Restricted Resources:

Resource 2200 – Continuation Education
Certificated supervisor salaries of $15,000 were moved to the unrestricted general fund. Classified salaries were increased by $2,896 to agree with the analysis of salaries. Employee benefits were increased by $19,836 to cover the retiree insurance premiums that had not been previously budgeted. The $5,608 budget for noncapitalized equipment was eliminated. The $8,158 budget for insurance and utilities was moved to the unrestricted resource. The direct cost transfer totaling $105,376 for services was replaced by a block grant transfer from resource 7390, Pupil Retention Block Grant, of $60,626.

Resource 2430 – Community Day Schools
All revenue and expenses were eliminated from this budget because there are no students in this program this fiscal year. Actual year-to-date expenditures should be moved. The district has received an advance apportionment of $117,247 that will need to be returned to the state.

Resource 3010 – Title I, Basic Grant
Federal revenues were decreased by $5,194 to agree with the Consolidated Application. Budgeted certificated salaries were eliminated because there are no teachers paid out of this resource this year. Employee benefits were increased by $3,168 to cover retiree health care benefits that had not been budgeted. The supply budget was increased by $4,965 to balance the resource.

Resource 3710 – Title IV, Drug Free Schools
Federal revenues were decreased by $1,383 to agree with the Consolidated Application. The other services budget was reduced to balance the resource.

Resource 4110 – Title V, Innovative Education Strategies
All revenue and expenses were eliminated from this budget because there is no funding this year.

Resource 5810 – Other Federal, REAP
Revenue was reduced by $2,390 per the Grant Award Notification dated August 29, 2008. Supplies and other services budgets were adjusted to balance the resource.

Resource 6020 – CSIS Best Practice Cohort
This resource was not in the original budget. One-time funding of $13,511 was added to the budget along with the related expense to balance the resource.

Resource 6300 – Lottery Instructional Materials
Revenue and expenses were adjusted to $3,609 per the current funding formula.

Resource 6310 – School/Law Enforcement Mini Grant
All revenue and expenses budget amounts were eliminated from this resource because there is no funding this year.

Resource 6350 – ROC/P Apportionment
The revenue in this resource is transferred in from Lassen COE. Revenues were originally decreased by $15,122 to $41,438, which is the amount budgeted for the covered expenses. It was later reduced to $35,057 because it is a Tier III categorical program subject to state budget reductions. Certificated salaries were reduced by $14,042 to agree with projected salaries. Employee benefits were reduced by a corresponding $4,683. The unrestricted contribution of $6,381 was required to balance the resource.

Resource 6405 – School Safety and Violence Prevention, Grades 8-12
Revenues were originally adjusted to $16,004, which is the funding level posted on the CDE Web site, but were later reduced by 15.4% to $13,539 because this is a Tier III categorical program. Salaries and benefits were decreased by $3,044 to agree with current staffing projections. Books and supplies budgets were increased to balance the resource.

Resource 6660 – Tobacco-Use Prevention Education, Grades 4-8
Revenue was adjusted to $409, the funding level posted on the CDE Web site. Books and supplies budgets were reduced to balance the resource.

Resource 6760 – Arts and Music Block Grant
Revenues were originally decreased by $5,563 to $13,812, which is the funding level posted on the CDE Web site. They were subsequently reduced to $11,685 because this is a Tier III categorical program subject to a 15.4% reduction in the current fiscal year. Supplies and non-capitalized equipment budgets were decreased to balance the resource.

Resource 7055 – CAHSEE Intensive Instruction and Services
All revenue and expense budgets were eliminated from this budget because there is no funding this year for Westwood High.

Resource 7090 – Economic Impact Act
This resource was not in the original budget. However, ongoing salary and benefit expenses have been posted to this resource in the current year. Revenue of $32,456 was added to agree with the apportionment posted on the CDE Web site. Classified salaries and benefits were budgeted to cover the aides that are being paid from this resource and a block grant transfer from resource 7394 for $5,009 was posted to support the current level of expenditures.

Resource 7140 – Gifted and Talented Education (GATE)
Revenues were increased by $829 to $16,132, which is the funding level posted on the CDE Web site, but were subsequently reduced to $13,648 because this is a Tier III categorical program.

Resource 7156 – K-8 Instructional Materials Realignment Program
Revenues were decreased by $1,179 to $23,322, the funding level posted on the CDE web site. They were later further decreased to $19,730 because this is a Tier III categorical program. Books and supplies budgets were reduced to balance the resource.

Resource 7230 – Transportation, Home to School
The entitlement for transportation funding was adjusted to $13,751 per the CDE Web site, an increase of $2,249. A block grant transfer of $10,000 from resource 7394 was added because this funding can be transferred to support home-to-school transportation services. The supplies budget was increased from $8,059 to $25,000 to cover actual expenses and encumbrances to date. The insurance budget of $7,300 was moved to the unrestricted general fund. An unrestricted contribution of $13,967 was required to balance the resource.

Resource 7235 – Transportation, Bus Replacement
All revenue and expense budgets were eliminated from this resource because there is no funding this year. This was a one-time grant for last year that was incorrectly budgeted this year.

Resource 7390 – Pupil Retention Block Grant
Revenues were originally increased by $8,317 to reflect the $139,956 amount posted on the CDE Web site, but were later reduced to $118,403 because this is a Tier III categorical program. Certificated salaries were increased to $7,519 and employee benefits were adjusted to the current year-to-date activity. The $105,376 direct costs transfer of services was eliminated and replaced by a contribution to resource 2200 – Continuation Education of $60,626.

Resource 7394 – Targeted Instructional Improvement Block Grant
Revenues were increased by $6,452 to the current funding level of $46,396 per the CDE Web site, but were later reduced to $39,251 because this is a Tier III categorical program. Classified salaries and benefits were decreased by $7,712 to adjust to the projected amount of instructional aide salaries. Two block grant flexibility transfers were budgeted: 1) $10,000 to resource 7230, and 2) $5,009 to resource 7090 to help relieve the encroachment to the unrestricted general fund.

Resource 7395 – School and Library Improvement Block Grant
State revenues were increased by $1,307 to agree with the funding level on the CDE Web site, but were later reduced to $32,826 because this is a Tier III categorical program. Classified salaries and benefits were reduced by $27,400 to adjust to this year's projected staffing level for instructional aides. A $1,532 budget for books and supplies was added to cover the library supplies being moved out of resource 1100 – Lottery. The $12,000 direct cost transfer was eliminated. A budget of $12,260 for other services was added to cover the audiovisual contract with Lassen COE. The unrestricted general fund contribution of $24,286 was eliminated because it was not needed.

Resource 8150 – Routine Restricted Maintenance Account (RRMA)
Classified salaries and benefits were increased by $11,285 to cover increased substitute salaries and statutory benefit costs. A supplies budget of $25,000 was added for maintenance supplies that had been previously paid out of the unrestricted general fund or lottery money. The contribution from unrestricted revenues was increased accordingly by $36,285 to $155,455.

Contributions to Restricted Programs

Most restricted programs operated by the district do not exceed available funding. However, some programs require a contribution from the district's unrestricted general fund to support shortfalls in federal and state funding. The team has analyzed the effect of unrestricted general fund contributions to restricted programs and notes that several restricted programs encroach as illustrated in the table below:

Table 6: MYFP - Projected Contributions to Restricted Programs					
Name	**Resource Code**	**Historical Year 2007-08**	**Base Year 2008-09**	**Year 1 2009-10**	**Year 2 2010-11**
Unrestricted Resources					
Unrestricted	**0000**	-361,145	-415,354	-467,563	-515,350
Class Size Reduction Operations, Grades K-3	**1300**	0	235,295	-254,139	272,981
Total Unrestricted		**-361,145**	**-180,059**	**213,424**	**-242,369**
Restricted Resources					
Continuation Education (Education Code sections 42244 and 48438)	**2200**	207,905	60,626	53,746	45,413
NCLB-Title I, Part A, Basic Grants Low Income and Neglected	**3010**	9,662	0	0	0
NCLB: Title II, Part D, Enhancing Education Through Technology, Formula Grants	**4045**	182	0	0	0
NCLB: Title V, Part A: Innovative Education Strategies	**4110**	156	0	0	0
ROC/P Apportionment	**6350**	1,037	6,381	7,779	9,388
Special Education	**6500**	1,470	2,000	19,972	35,306
Tobacco-Use Prevention Education: Elementary Grades 4-8	**6660**	1,181	0	0	0
Economic Impact Aid (EIA)	**7090**	35,016	5,009	4,901	6,227
Transportation: Home to School	**7230**	90,081	23,967	27,449	31,409
Staff Development: Administrator Training	**7325**	1,000	0	0	0
Pupil Retention Block Grant	**7390**	-105,376	-60,626	-53,746	-45,143
Targeted Instructional Improvement Block Grant	**7394**	0	-12,753	-6,575	-5,240
Discretionary Block Grant School Site	**7396**	1,022	0	0	0
Ongoing & Major Maintenance Account (RMA: Education Code Section 17070.75)	**8150**	117,808	155,455	159,898	165,009
Total Restricted		**361,145**	**180,059**	**213,424**	**242,369**

Although encroachments are common in special education, home-to-school transportation and ongoing and major maintenance programs, the district is providing contributions to other restricted programs that should be self-sustaining. These encroachments continue in future years as illustrated in the table above. The district should review these encroachments and manage the contributions accordingly.

Enrollment

Proper enrollment tracking and analysis of ADA are essential to providing a solid foundation for budget planning. Since the primary funding is based on total number of student days in the attendance cycle, monitoring and projecting student enrollment and attendance is a crucial function. When enrollment and related ADA decline, the district must consider the budgetary impacts of the decline on teacher-to-student ratios and plan accordingly.

FCMAT reviewed the district's enrollment and ADA trends for 2004-05 through 2007-08. The review compared the October California Basic Educational Data System (CBEDS) student enrollment counts to the second period Principal Apportionment (P-2) to determine the average enrollment-to-ADA ratios.

Historical data indicates the district has experienced declining enrollment for several years, including the current year. In fact, the district has lost over 40% of its enrollment over the last decade. FCMAT projects this trend will continue into future years.

The district should explore options to attract and retain students. One option would be to create an in-district charter school operated by district staff and teachers. The district has one independent charter school, Westwood Charter School (WCS), that is non-classroom based and attracts students from several outlying areas in five contiguous counties. Because WCS is independent, it is only required to contribute up to 3% of its revenues to the district for administrative oversight. WCS also pays an additional 3% for the use of district facilities including administrative space and computer labs. The revenues beyond the oversight fees are retained by the nonprofit corporation.

The method utilized to project future enrollment utilizes the traditional cohort survival technique, which groups students by grade level upon enrollment in the district and tracks them annually thereafter. This method focuses on the number of students passing from one grade to the next in the subsequent year. It closely accounts, grade-by-grade, for retention and for students who enroll in or exit the district. Although other enrollment forecasting 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 (see enrollment variables below.)

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 forecast period. Ratios are calculated between grade levels from year to year generally using data from the last three to five years. Enrollment variables include the following:

- Birth rates and trends
- The historical ratio of enrollment progression between grade levels
- Changes in educational programs
- Inter- and intradistrict transfers
- Migration patterns
- Changes in local and regional demographics
- Industry changes such as a new industry coming to the area or an existing one leaving
- Residential housing starts and the generation factor per household
- The approval of charter schools, pending applications, and the recruitment efforts of approved charter schools within the district boundaries

FCMAT used a weighted average of the last three years using CBEDS historical enrollment information and applying the cohort-survival technique to project enrollment for grades 1 through 7 (grades 8 through 12 utilize a different funding methodology) in the Budget Explorer program. The following two tables reflect the district's historical and projected enrollment:

Table 7: Historical Enrollment Data

Enrollment	Historical 4 2004-05	Historical 3 2005-06	Historical 2 2006-07	Historical 1 2007-08	Base Year 2008-09
K	29	29	21	19	17
1	23	29	27	20	18
2	32	17	25	28	18
3	17	33	23	23	30
4	30	19	27	15	19
5	27	32	18	27	15
6	34	31	28	17	26
7	36	36	26	29	17
Total Grades K - 7	228	226	195	178	160

Table 8: Projected Enrollment Data			
Enrollment	**Base Year 2008-09**	**Year 1 2009-10**	**Year 2 2010-11**
K	17	15	13
1	18	16	14
2	18	17	15
3	30	19	18
4	19	24	15
5	15	19	24
6	26	14	18
7	17	26	14
Total Grades K - 7	160	150	131

Average Daily Attendance

To calculate the district's revenue limit, state aid is calculated using the greater of current or prior year P2 reports for average daily attendance (ADA). Because the district is in declining enrollment, the multiyear projection used the prior-year ADA to calculate the 2008-09 state apportionment.

As previously mentioned, the district's average ADA ratio of 89.87% is below the normal average of 95% for most unified school districts. The district should investigate options to increase this percentage. Increasing the percentage of ADA would increase the district's revenue limit funding with minimal or no increases in staffing.

Since ADA is the primary source of funding for the general fund operating budget, the district should take the time necessary to manage and monitor these projections. ADA projections will change over time and should be adjusted frequently, at a minimum during the adoption of the district budget and during the interim budget report filing periods. The district must monitor enrollment and ADA and develop projections to measure progress monthly to aid in revenue projections and maximize funding. Monthly adjustments that calculate the difference between the projected ADA and the actual ADA reported will provide management with the most up-to-date information to respond immediately to changes in trends.

MYFP, Combined General Fund Summary

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

Name		Object Code	Historical Year 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Revenues						
	Revenue Limit Sources	8010 - 8099	2,485,327	2,212,254	2,062,305	1,940,709
	Federal Revenues	8100 - 8299	347,593	392,272	312,192	299,427
	Other State Revenues	8300 - 8599	818,860	469,198	429,689	425,012
	Other Local Revenues	8600 - 8799	311,999	245,641	218,598	213,598
Total Revenues			3,963,779	3,319,365	3,022,784	2,878,746
Expenditures						
	Certificated Salaries	1000 - 1999	1,386,720	1,231,561	1,252,270	1,270,844
	Classified Salaries	2000 - 2999	577,929	500,517	508,025	515,645
	Employee Benefits	3000 - 3999	1,278,464	1,030,857	1,081,584	1,265,381
	Books and Supplies	4000 - 4999	194,217	227,353	188,102	185,991
	Services and Other Operating Expenditures	5000 - 5999	624,236	600,051	608,794	614,385
	Capital Outlay	6000 - 6900	107,791	0	0	0
	Other Outgo	7000 - 7299	0	0	17,938	33,217
	Direct Support/Indirect Cost	7300 - 7399	0	0	0	0
	Debt Service	7430 - 7439	28,232	18,729	18,729	18,729
Total Expenditures			4,197,589	3,609,068	3,675,441	3,904,192
Excess (Deficiency) of Revenues Over Expenditures			**-233,810**	**-289,703**	**-652,657**	**-1,025,445**
Other Financing Sources/Uses						
	Interfund Transfers In	8900 - 8929	180,000	0	0	0
	Interfund Transfers Out	7600 - 7629	68,396	50,000	50,000	50,000
	All Other Financing Sources	8930 - 8979	0	0	0	0
	All Other Financing Uses	7630 - 7699	0	0	0	0
	Contributions	8980 - 8999	0	0	0	0
Total Other Financing Sources/Uses			111,604	-50,000	-50,000	-50,000
Net Increase (Decrease) in Fund Balance			-122,205	-339,703	-702,657	-1,075,445
Fund Balance						
	Beginning Fund Balance	9791	262,553	154,223	-185,480	-888,137
	Audit Adjustments	9793	13,875	0	0	0
	Other Restatements	9795	0	0	0	0
	Adjusted Beginning Fund Balance		276,428	154,223	-185,480	-888,137
	Ending Fund Balance		**154,223**	**-185,480**	**-888,137**	**-1,963,582**

Name		Object Code	Historical Year 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Components of Ending Fund Balance						
	Revolving Cash	9711	2,500	0	0	0
	Legally Restricted Balance	9740 - 9759	215,455	167,901	149,602	138,388
	Economic Uncertainties Percentage		0	0	0	0
	Designated for Economic Uncertainties	9770	213,299	182,953	186,272	197,710
	Undesignated/Unappropriated	9790	0	0	0	0
	Shortfall	9790	**-277,032**	**-536,334**	**1,224,011**	**-2,299,679**

Fund Balance and Reserve for Economic Uncertainties

Fund Balance: The shortfall in the 2007-08 actual revenues compared with the 2008-09 budgeted revenues, including transfers in, is $824,414 whereas the reductions in expenditures, including transfers out, total $606,916 for a difference of $217,498. This demonstrates that although the district made adjustments to bring expenditures down as revenues declined, the adjustment in expenditures fell short of the amount necessary to keep pace with declining revenues.

The district was already deficit spending and had a shortfall from 2007-08; therefore, the total amount necessary to adjust 2008-09 should have been a total of $536,334 to bring the reserve levels up to the required amount.

Reserve For Economic Uncertainties - The FCMAT projection indicates that the district will not be able to meet the required reserve level in fiscal years 2008-09, 2009-10 or 2010-11.

MYFP, Unrestricted General Fund

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

Name		Object Code	Historical Year 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Revenues						
	Revenue Limit Sources	**8010 - 8099**	2,485,327	2,212,254	2,062,305	1,940,709
	Federal Revenues	**8100 - 8299**	347,593	392,272	312,192	299,427
	Other State Revenues	**8300 - 8599**	818,860	469,198	429,689	425,012
	Other Local Revenues	**8600 - 8799**	311,999	245,641	218,598	213,598
Total Revenues			3,963,779	3,319,365	3,022,784	2,878,746
Expenditures						
	Certificated Salaries	**1000 - 1999**	1,386,720	1,231,561	1,252,270	1,270,844
	Classified Salaries	**2000 - 2999**	577,929	500,517	508,025	515,645
	Employee Benefits	**3000 - 3999**	1,278,464	1,030,857	1,081,584	1,265,381
	Books and Supplies	**4000 - 4999**	194,217	227,353	188,102	185,991
	Services and Other Operating Expenditures	**5000 - 5999**	624,236	600,051	608,794	614,385
	Capital Outlay	**6000 - 6900**	107,791	0	0	0
	Other Outgo	**7000 - 7299**	0	0	17,938	33,217
	Direct Support/Indirect Cost	**7300 - 7399**	0	0	0	0
	Debt Service	**7430 - 7439**	28,232	18,729	18,729	18,729
Total Expenditures			4,197,589	3,609,068	3,675,441	3,904,192
Excess (Deficiency) of Revenues Over Expenditures			-233,810	-289,703	-652,657	-1,025,445
Other Financing Sources/Uses						
	Interfund Transfers In	**8900 - 8929**	180,000	0	0	0
	Interfund Transfers Out	**7600 - 7629**	68,396	50,000	50,000	50,000

Name		Object Code	Historical Year 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
	All Other Financing Sources	8930 - 8979	0	0	0	0
	All Other Financing Uses	7630 - 7699	0	0	0	0
	Contributions	8980 - 8999	0	0	0	0
Total Other Financing Sources/ Uses			111,604	-50,000	-50,000	-50,000
Net Increase (Decrease) in Fund Balance			-122,205	-339,703	-702,657	-1,075,445
Fund Balance						
	Beginning Fund Balance	9791	262,553	154,223	-185,480	-888,137
	Audit Adjustments	9793	13,875	0	0	0
	Other Restatements	9795	0	0	0	0
	Adjusted Beginning Fund Balance		276,428	154,223	-185,480	-888,137
	Ending Fund Balance		154,223	-185,480	-888,137	-1,963,582
Components of Ending Fund Balance						
	Revolving Cash	9711	2,500	0	0	0
	Legally Restricted Balance	9740 - 9759	215,455	167,901	149,602	138,388
	Designated for Economic Uncertainties	9770	213,299	182,953	186,272	197,710
	Shortfall	9790	-277,032	-536,334	-1,224,011	-2,299,679

MYFP, Restricted General Fund

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

Name		Object Code	Historical Year 2007 - 08	Base Year 2008 - 09	Year 1 2009 - 10	Year 2 2010 - 11
Revenues						
	Revenue Limit Sources	8010 - 8099	16,913	75,494	85,376	96,552
	Federal Revenues	8100 - 8299	184,877	182,937	182,937	182,937
	Other State Revenues	8300 - 8599	694,242	348,865	322,380	322,459
	Other Local Revenues	8600 - 8799	107,204	40,141	38,598	38,598
Total Revenues			1,003,236	647,437	629,292	640,546
Expenditures						
	Certificated Salaries	1000 - 1999	277,203	150,564	153,273	156,036
	Classified Salaries	2000 - 2999	293,484	246,495	250,192	253,945
	Employee Benefits	3000 - 3999	321,737	220,295	227,133	243,986
	Books and Supplies	4000 - 4999	103,558	172,253	139,573	139,656
	Services and Other Operating Expenditures	5000 - 5999	111,774	39,226	40,144	33,975
	Capital Outlay	6000 - 6900	82,882	0	0	0
	Other Outgo	7000 - 7299	0	0	17,938	33,217
	Direct Support/Indirect Cost	7300 - 7399	41,016	35,432	21,974	22,528
	Debt Service	7430 - 7439	12,072	10,786	10,786	10,786
Total Expenditures			1,243,727	875,051	861,014	894,129
Excess (Deficiency) of Revenues Over Expenditures			-240,491	-227,614	-231,723	-253,583
Other Financing Sources/Uses						
	Interfund Transfers In	8900 - 8929	0	0	0	0
	Interfund Transfers Out	7600 - 7629	0	0	0	0
	All Other Financing Sources	8930 - 8979	0	0	0	0
	All Other Financing Uses	7630 - 7699	0	0	0	0
	Contributions	8980 - 8999	361,145	180,059	213,424	242,369
Total Other Financing Sources/Uses			361,145	180,059	213,424	242,369
Net Increase (Decrease) in Fund Balance			120,654	-47,555	-18,299	-11,214
Fund Balance						
	Beginning Fund Balance	9791	80,926	215,455	167,901	149,602
	Audit Adjustments	9793	13,875	0	0	0
	Adjusted Beginning Fund Balance		94,801	215,455	167,901	149,602
	Ending Fund Balance		215,455	167,901	149,602	138,388
Components of Ending Fund Balance						
	Legally Restricted Balance	9740 - 9759	215,455	167,901	149,602	138,388

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

There is no definitive list of budget reductions or cost containment strategies that the district should follow when identifying budget solutions, but the recommendations listed below will provide a framework for the district to use.

Employee Health Care and Retiree Post-Retirement Benefits

As double digit health insurance premiums plague public and private entities, the district has not been exempt from these increases over the last several years. This is especially problematic for the district because the full cost of the health care premiums is paid 100% by the district, with no contribution from employees or retirees. Furthermore, coverage is extended to spouses and other family members at no additional cost.

The fact that retirees can opt out for cash in lieu of health care benefits creates adverse selection because the healthier retirees are the ones opting out. Adverse selection occurs when employees that are generally healthier or have other insurance options have the ability to opt out of the policy, leaving potentially high-risk employees in the rating pool. Generally this leads to an increase in price, resulting in higher than normal pricing than for a fully insured group.

The health care package is very generous, consisting of medical, dental and vision coverage for employees, spouses and other family members with a $100 annual deductible. The same coverage levels are extended to age 65 for employees who retire having attained age 55 and served 10 years in the district.

Like many other districts, Westwood USD supports the ongoing cost of retiree health care premiums on a pay-as-you-go basis rather than pre-funding them. The pay-as-you-go method fails to recognize or measure the cost of other postemployment benefits (OPEB) during the period(s) that employees render services. Because the liability for approved but unfunded benefits can result in an enormous cost, new regulations that changed governmental financial reporting were released in July 2004. The Governmental Accounting Standards Board (GASB) issued GASB No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, with a three-year phase-in period based on the size of district annual revenues. The district must be fully implemented by fiscal year 2009-10 and has yet to determine the effect of this pronouncement on the financial statements.

For many years, the district funded the retiree benefit obligation from forest reserve funds, federal E-Rate refunds and charter school administrative fees. These dollars were transferred into a special fund and were sufficient to fund the annual cost of retiree benefits. As the retiree population grew, so did the obligation until the premiums cost more than the targeted revenue streams to support them. The table below illustrates the total number of retired employees in the pool, the identified revenue and cost of the health care premiums:

Table 9: Correlation of Retiree Health Care Cost				
Fiscal Year	**Number of FTE Retirees**	**Revenue Stream**	**Insurance Expense**	**Average Cost per Retiree**
2006-07	23	$124,583	$417,693	$18,161
2007-08	16.5	$169,352	$432,303	$26,200
2008-09*	11.5	$180,000	$279,951	$24,344

* Projected information

The cost has significantly decreased as some retirees attained age 65 and several participants of the STRS Golden Handshake were fully paid. The district is in the last year of the PERS Golden Handshake, but continued obligations exist for the STRS Golden Handshake until 2014-15. The current year payment on these debts is $42,489.

Superintendent/Principal Comparisons

The following table displays the student enrollment and numbers of superintendent/principals in each of the unified schools in the comparison district groups. The survey results are expressed as the number of enrolled students per superintendent/principal or as designated superintendent/principal (superintendent.) The average number of students per superintendent in the surveyed districts was 130.6, while the median was 126.1.

Each district school has one principal, with additional support from the athletic director at the high school. The high school principal is assigned to support the continuation school in addition to the traditional responsibilities. The number of students per administrator at Westwood USD is 116.8, or 13.8 below the survey average.

Table 10: Administrative Staffing in Selected School Districts					
District				**Admin**	**Students per Administrator**
Westwood USD		K-12	292	2.5 FTE	116.8
Big Valley Joint Unified		K-12	237	1.75 FTE	135.4
Princeton Joint Unified		K-12	224	2.0 FTE	112.0
Surprise Valley Joint Unified		K-12	158	1.0 FTE	158.0

* As reflected in 2007-08 CBEDS. Source: Ed-Data Partnership

Fiscal Expertise

As previously mentioned, the district is experiencing financial distress that will require a high level of fiscal expertise and working knowledge of California finance to assist district administrators with potential budget solutions and accompanying cost estimates. The current business manager admits that she lacks the experience and expertise in school finance to be effective in this crucial role. Lassen COE recognizes that the district requires a fiscal advisor and has appointed a staff member from the county office fiscal services division to fill that role temporarily until a permanent selection can be made.

Recommendations

The district should:

Enrollment and ADA

1. Ensure that enrollment and ADA projections are up to date and based on current data. Compare the projection to the actual California Basic Educational Data System (CBEDS) P-1 and P-2 reporting periods, and make the necessary adjustments to align the district's projection to actual data.
2. Review the ratio of student attendance/enrollment percentages along with projections monthly, comparing data from the current attendance month to the same time period in the prior year.
3. Create a plan to attract students to the district. One option is to create an in-district charter school operated by the district.
4. Investigate options to increase the enrollment-to-ADA percentage. Increasing the ADA percentage would increase the district's revenue limit funding, with minimal or no increases in staffing.

Staffing Impacts

1. Project the enrollment decline. Adjust staffing loads in accordance with district guidelines, bargaining unit contracts, and class size reduction funding provisions as the enrollment declines.
2. Utilize the class size reduction flexibility options available under the new state budget act.
3. Prepare seniority lists for all bargaining unit members in case employee layoff notifications need to be issued.
4. Review all vacant positions to determine on a case-by-case basis which vacancies must be filled and which can remain open.
5. Minimize overtime, extra time and the use of substitutes when possible.
6. Minimize special assignment positions.

Health Benefits

1. Review the current health plan for cost-containment opportunities such as encouraging urgent care facility use instead of emergency room visits, second opinion requirements and mail-in prescription drug programs.
2. Review the method used to coordinate Medicare benefits with retiree health plan benefits.
3. Establish a policy of primary and secondary coverages for employees that are covered under other health insurance policies.
4. Consider negotiating:
    - A cap on health benefit plans that limits the district's annual obligation for employees and retirees.
    - Employee co-payments for the health care premiums.
    - Employee co-payments for spousal or family coverages.
    - Higher deductibles on the medical, prescription drug, vision and dental care benefit plans.
    - Elimination of coverages for benefit plans beyond the basic medical package.
5. Refrain from entering into early retirement incentive plans that obligate the district in future years.

Negotiations

1. Carefully estimate the effect of future collective bargaining agreements in accordance with AB 1200 and AB 2756 guidelines. Demonstrate the ability to support the increases in conjunction with the budget adjustments necessary to balance the general fund budget. The district has not settled with the bargaining units or management staff in the current year.

Restricted Program Dollars and Encroachments

1. Ensure that categorical restricted resources and other funds are self-supporting, thus limiting general fund contributions. This should include paying for indirect costs and post-retirement benefits percentage attributable to restricted programs.
2. Utilize federal and state flexibility options contained in the new state budget, including the following:
    - Reduce set-aside requirements for the routine restricted maintenance account from 3% to 2%.
    - Eliminate the deferred maintenance match requirements for 2008-09 only.

- Redirect restricted categorical carryover balances from 2007-08 to the unrestricted general fund. However, the district will need to identify categorically funded activities that will no longer be offered if these program dollars shift.
- Maximize mega-item flexibility in any AB 825 block grant program transfer out from 15% to 20%, and transfers in from 20% to 25%.
- Maximize federal flexibility options.

3. Expend restricted dollars first whenever possible. Complete an in-depth review of expenditures being charged to unrestricted funding. Identify what constitutes a core program as opposed to an auxiliary support service and redirect restricted resources to activities, programs and positions funded with unrestricted dollars.
4. Review existing encumbrances in all restricted programs and liquidate any balances that will not be expended.

Budget

1. Identify and obtain board approval for budget reductions and/or revenue enhancements that adjust the budget and multiyear projections in 2008-09, 2009-10 and 2010-11 to eliminate deficit spending and meet the reserve requirement in the current and two subsequent fiscal years.
2. Prepare multiyear projections that provide current data and a recovery plan for use in making decisions to achieve financial stability and solvency.
3. In the multiyear projection, identify all one-time sources of revenue and/or expenditures in the budget to present the most accurate financial position.
4. Delay making final decisions on any new ongoing costs, such as collective bargaining negotiations and capital leases, until the district is able to determine the financial impacts on the multiyear budget.
5. Ensure that the Governing Board approves all financial reports on or before the statutory deadlines.

Facilities

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

Fiscal Health Risk Analysis - Key Fiscal Indicators

FCMAT developed the Fiscal Health and Risk Analysis to evaluate key fiscal indicators that will help a school district measure its financial solvency for the current and two subsequent fiscal years as required by AB 1200. The presence of any single criteria is not necessarily an indication of a district in fiscal crisis. However, districts exceeding the risk threshold of six or more “No” responses may have cause for concern and require some level of fiscal intervention. Diligent planning will enable a district to better understand its financial objectives and strategies to sustain its financial solvency. A district must continually update its budget as new information becomes available from within the district or from other funding and regulatory agencies.

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

Key Fiscal Indicators:

1. **Deficit Spending**

   Is the district avoiding deficit spending in the current year?

   Is the district avoiding deficit spending in the two subsequent fiscal years?

   Has the district controlled deficit spending over the past two fiscal years?

   Is the issue of deficit spending addressed by fund balance, ongoing revenues, or expenditure reductions?

   Has the board approved a plan to eliminate deficit spending?

Rating: No

- *The district is projected to deficit spend in the current and subsequent two fiscal years. In the 2007-08 fiscal year, the district overspent the general fund by $277,032. This trend is expected to continue. The Governing Board is working on potential budget solutions. The district will be unable to meet AB 1200 requirements if expenditure trends continue at the current rate.*

2. **Fund Balance**

   Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty?

   Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions?

   Does the fund balance include any designated reserves for unfunded liabilities or one-time costs above the recommended reserve level?

Rating: No

- *The district's fund balance is not at or above the recommended reserve for economic uncertainty. Therefore, the district will be unable to meet its reserve requirement in the current and subsequent two years. The fund balance will experience a significant decline by 2010-11 fiscal years unless a viable fiscal recovery plan is implemented immediately.*

3. **Reserve for Economic Uncertainty**

   Is the district able to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends?

   Does the district have additional reserves in fund 17, special reserve for non-capital projects?

   If not, is there a plan to restore the reserve for economic uncertainties in the district's multiyear financial projection?

Rating: No

- *The district is unable to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure projections. The district does not have a special reserve fund and has no other sources of funding available.*

4. **Enrollment**

   Has the district's enrollment been increasing or stable for multiple years?

   Is the district's enrollment projection updated at least semiannually?

   Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends?

   Does the district analyze enrollment and ADA data?

   Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes?

Has the district implemented any attendance programs to increase ADA?

Have approved charter schools had little or no impact on the district's student enrollment?

Does the district have a board policy that attempts to reduce the effect that transfers out of the district have on the district's enrollment?

Rating: No

- *The district's enrollment has been in decline for the past several years. Enrollment projections are not updated periodically or monitored. Monitoring ADA trends in a district that is experiencing declining enrollment is a critical function. The district should make this a priority. The district is making staffing adjustments commensurate with declining enrollment.*
- *The district has one independent charter school. The charter school's enrollment has shown a steady increase. Since this charter is non-classroom based and most of the students reside outside of the district's boundaries, there is minimal impact.*

5. Interfund Borrowing

Can the district manage its cash flow in all funds without interfund borrowing?

Is the district repaying the funds within the statutory period in accordance with Education Code Section 42603?

Rating: No

- *The district is unable to sustain adequate cash in the general fund without borrowing from other funds. During the last two fiscal years, the district has required a loan from the Lassen COE. Current cash flow projections indicate that this trend will continue in 2008-09 and 2009-10. Therefore, the district will need to access its options to borrow sufficient cash or request an emergency state loan. It is anticipated that the district will run out of cash if it does not reduce expenditures by December 2009. This assumes that Lassen COE will provide a temporary loan in June 2009 and that the California Department of Education will approve a waiver request by the district not to defer the July and August apportionments to September.*

6. Bargaining Agreements

Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years?

Did the district conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement?

Did the district correctly identify the related costs above the COLA (i.e., statutory benefits, step and column)?

Did the district address budget reductions necessary to sustain the total compensation increase, including a board-adopted plan?

Did the superintendent and CBO certify the agreement prior to ratification?

Is the governing board's action consistent with the superintendent's/CBO's certification?

Did the district submit to the county office of education the AB 1200/2756 full disclosure as required?

Rating: No

- *The district has not settled negotiations for the 2008-09 fiscal year with the bargaining units. However, the district is supporting the total increase in costs for the health, vision and dental plans per the existing contract. The district should carefully review and estimate the cost for proposals that have compounding effects in future years.*

7. **General Fund**

Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average?

Is the district making sure that only ongoing restricted dollars pay for permanent staff?

Does the budget include reductions in expenditures proportionate to one-time revenue sources, such as parcel taxes, that will terminate in the current or two subsequent fiscal years?

If the district receives redevelopment revenue that is subject to AB 1290 and SB 617, has it made the required offset to the revenue limit?

Rating: No

- *Determining the district's average salary and benefit cost is not straightforward because the budget has been overspent by $536,334. Normally, average salary and benefits are calculated as a percentage of the expenditures plus transfers out of the general fund. If the district's budget were in balance and expenditures were reduced accordingly, then the district's average salary and benefit would be 88.5%, which is within statewide averages for unified districts. Westwood is a small, rural school district and has a higher than average ratio of fixed operating costs to discretionary spending. Therefore, the percentage distorts the district's ability to support non-employee compensation expenditures outside of its control such as utilities, fuel and insurance costs.*

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

8. Encroachment

Is the district aware of the contributions to restricted programs in the current year? (Identify cost, programs and funds)

Does the district have a reasonable plan to address increased encroachment trends?

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

Rating: No

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

9. Management Information Systems

Is the district's financial data accurate and timely?

Are the county and state reports filed in a timely manner?

Are key fiscal reports readily available and understandable?

Is the district on the same financial system as the county?

If the district is on a separate financial system, is there an automated interface with the financial system maintained by the county?

Rating: No

- *The district utilizes the same financial system as Lassen COE. Quintessential School Systems (QSS) is a reliable operating system and is used extensively throughout the state. Information is available in several reporting formats; however, the Business Manager has difficulty utilizing the system even after extensive training. Therefore, management is unable to obtain timely information.*

10. Position Control

Does the district maintain a reliable position control system?

Is position control integrated with payroll?

Does the district control unauthorized hiring?

Are the appropriate levels of internal controls in place between the business and personnel departments to prevent fraudulent activity?

Does the district use position control data for budget development?

Is position control reconciled against the budget during the fiscal year?

Rating: No

- *The district is very small and does not require the use of a position control system. The district uses spreadsheets to track employees and their salary placement. This information is not integrated with the payroll system or the budget system.*
- *The budget did not agree with the actual payroll records because the Business Manager had not updated the spreadsheets for the current year. Payroll is processed using the certificated employee contracts. The district lacks experienced personnel in the business office and as a result, individual contracts do not agree with budget placement.*

11. Budget Monitoring

Are budget revisions completed in a timely manner?

Does the district openly discuss the impact of budget revisions at the board level?

Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified?

Has the district's long-term debt decreased from the prior fiscal year?

Has the district identified the repayment sources for long-term debt or nonvoter-approved debt, i.e., certificates of participation, capital leases?

Does the district's financial system have a hard-coded warning regarding insufficient funds for requisitions and purchase orders?

Does the district encumber salaries and benefits?

Rating: No

- *The district has not implemented a periodic system to monitor the budget. Salaries and benefits are not encumbered in the financial system. As a result, it is difficult to determine whether the district is staying within budget at any* *point in time. Compounding this situation is that the district lacks the expertise in the business office to properly monitor the budget, or assist management with reasonable budget projections.*

- *The district should consider updating and reporting to the governing board monthly, especially as the district experiences fiscal distress and declining enrollment. It is essential to keep the board and management informed regarding the budget.*

12. Retiree Health Benefits

Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements?

Does the district have a plan for addressing the retiree benefits liabilities?

Has the district conducted a re-enrollment process to identify eligible retirees?

Rating: No

- *The district has not conducted re-enrollment to identify ineligible dependents or retirees past age 65. In July 2004, the Governmental Accounting Standards Board released GASB No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB). School districts generally use a pay-as-you-go method, which fails to recognize or measure the cost of OPEB during the period(s) that employees render services. GASB No. 45 has a phase-in period for implementation. The district will be required to implement provisions of this statement by fiscal year 2009-10 and has not determined the effect of this pronouncement on the financial statements.*
- *The district is in the last year of STRS Golden Handshake, but continued obligations exist until 2014-15. The current year payment on this debt is $12,646. The district is in the last year of a PERS Golden Handshake. The final obligation on this debt is $30,252.*

13. Leadership/Stability

Does the district have a superintendent and/or CBO that has been with the district more than two years?

Does the governing board adopt clear and timely policies and support the administration in their implementation?

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

Rating: No

- *The district has had the current superintendent for several fiscal years. The governing board has approved a one year leave of absence for the superintendent effective with the 2009-10 fiscal year.*
- *The Business Manager has been with the district for two years and lacks the technical skills necessary to oversee and manage the budgets.*

14. Charter Schools

Has the district identified a specific employee or department to be responsible for oversight of the charter?

Has the charter school submitted the required financial reports?

Has the charter school commissioned an independent audit?

Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency?

s the district monitoring and reporting the current status to the board to ensure that an informed decision can be made regarding the reauthorization of the charter?

Rating: No

- *The district has one in-district charter school, Westwood Charter School, pursuant to Education Code 47605. The charter school operates as a non-classroom based charter school operating in five contiguous counties. Most of the students reside outside of the district's boundaries.*
- *As noted in the Audited Financial Statements dated June 30, 2008 as a "related party transaction," the superintendent of Westwood USD is also the superintendent of the charter school to which he has oversight responsibility.*
- *Concurrent loyalties to both entities brings into question the ability of the superintendent to ensure that informed decisions presented to the district's board of trustees are without prejudice.*

15. Audit Report

Did the district receive an audit report without material findings?

Can the audit findings be addressed without impacting the district's fiscal health?

Has the audit report been completed and presented within the statutory time line?

Are audit findings and recommendations reviewed with the board?

Did the audit report meet both GAAP and GASB standards?

Rating: No

- *The district's last audit report for fiscal year 2006-07 showed the following findings representing either a material weakness and/or significant deficiency:*
    1. *Material Weakness – Internal control, lack of segregation of duties.*
    2. *Significant Deficiency – Internal control, student body fund bank deposits – untimely.*
    3. *Significant Deficiency – Internal control, incomplete documentation for expenditures – 22 of 38 for purchase orders, 21 of 38 for payment approvals and five of 38 for receipt of goods and services.*
- *According to the audit report, "There were no instances of noncompliance or other matters that are required to be reported under Governmental Auditing Standards."*

16. Facilities

Has the district passed a general obligation bond?

Has the district met the audit and reporting requirements of Proposition 39?

Is the district participating in the state's School Facilities Program?

Does the district have sufficient personnel to properly track and account for facility-related projects?

Has the district met the reporting requirements of the Williams Act?

Is the district properly accounting for the 3% routine repair and maintenance account requirement at the time of budget adoption?

If needed, does the district have surplus property that may be sold or used for lease revenues?

If needed, are there other potential statutory options?

Joint Use: Can the district enter into a joint use agreement with some entities without declaring the property surplus and without bidding?

Joint Occupancy: The Education Code provides for a joint venture that can authorize private development of district property that will result in some educational use.

Does the district have a facilities master plan that was completed or updated in the last two years?

Rating: Yes

- *The district has passed a general obligation bond (GO bond) that represents voter-approved debt. Education Code 15100 authorizes a school district to issues GO bonds for capital outlay. The bonds can include the land acquisition, new construction of building(s) or the modernization of existing buildings.*
- *The district does not participate in the state's School Facilities Program.*

17. General Ledger

Has the district closed the general ledger (books) within the time prescribed by the county office of education?

Does the district follow a year-end closing schedule?

Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year?

Does the district adjust prior year accruals if the amounts actually received (A/R) or paid (A/P) are greater or less than the amounts accrued?

Does the district reconcile all payroll suspense accounts at the close of the fiscal year?

Rating: No

- *The district has not met all time lines prescribed by the Lassen COE for annual closing activities. FCMAT closed the 2007-08 books, as previously noted in this report.*

Total "No" Responses: 16

Key

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

The district's number of "no" responses places it in the Extremely High Risk category.

Cash Management

As the previous section demonstrates, the district's financial situation is serious and will require both short- and long-terms solutions. In FCMAT's Fiscal Health and Risk Analysis, the district had "no" responses to 16 of the 17 key indicators that measure fiscal solvency. Deficit spending, declining enrollment, lack of stable leadership, lack of a position control system, lack of budget monitoring, and many other indicators have contributed to the district's fiscal distress. It is crucial for the district to strategically manage cash reserves while making budget reductions, or it will require a state emergency apportionment in the 2009-10 fiscal year. Eligibility for an emergency apportionment is determined when a district is without sufficient internal or external cash reserves to make payroll and fulfill other financial obligations.

Education Code Sections 41325-41328 define the conditions of an emergency apportionment, intervention by the Superintendent of Public Instruction (SPI) or State Administrator and several other options that the SPI could authorize for an insolvent district. Under state receivership, the SPI assumes control of the district to ensure it regains solvency. Based on the district's projected budget and levels of deficit spending, it will need to make substantial reductions in the MYFP or require state intervention in the 2009-10 fiscal year.

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

District Apportionment Schedule

The Education Code provides four apportionment schedules for school districts and county offices. The district is apportioned according to EC Section 14041(a)(7). This section provides for eligible school districts to be issued warrants of 15% in July, August, September and October; 0% in November and December, and 6% in January. For the months of February to May, inclusively, the amounts are equivalent to one-sixth of the difference between the amount certified by the State Superintendent of Public Instruction (SSPI) as the first apportionment and the amounts paid as certified by the advance apportionment. An additional one-sixth amount is included in the February apportionment.

The first principal apportionment (P-1) is the midyear ADA certified by the school district in December. After districts report the final ADA to the SSPI in April, commonly referred to as P-2, the state recalculates the remaining amount due for the month of June.
In accordance with EC Section 14041.5(a) and starting with the 2002-03 fiscal year, warrants for the apportionments for June are required to be drawn in July of the same

calendar year. This deferral of cash by the state is continued throughout FCMAT's cash flow statements.

Apportionment Deferrals

On February 20, 2009, the Governor signed special session bill SBX3 4 under the provisions of Proposition 58. For 2008-09 *only*, the bill shifts 99.1% of the July 2008 advance apportionment to September 2008 with some limited exceptions. The budget act also defers the February 2009 apportionment to July and defers 60% of the July and 55% of the August apportionments to September 2009. Absent subsequent trailer bill legislation or new legislation in the future, these deferrals will continue.

District experiencing financial hardship may apply to the CDE for a wavier of this provision no later than May 15, 2009. The district should exercise this waiver option immediately.

As the state continues to evaluate the scope of the current fiscal crisis and ways to manage it, cash is a significant factor. The state has deferred apportionment payments so it can meet its own cash obligations. Local educational agencies' (LEA) cash flow requirements are affected by this crisis. The district must begin monitoring and strategically planning for significant cash shortages over the next several months.

Internal Borrowing

Education Code Section 42603 allows local agencies to borrow between funds temporarily to address cash flow shortages. According to FCMAT's assessment of the district's cash flow, the district may need to borrow funds in January, March, May and June 2010 to meet its financial obligations. This situation will need to be assessed monthly and will depend on the district's spending pattern throughout the fiscal year. Borrowing between funds is a common method for school districts to cover cash shortages if there is cash available in other funds. It appears that the district can borrow from the building and capital facilities funds.

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

External Borrowing

External borrowing requires additional time because it requires an LEA to access funds from an outside agency. Options for external borrowing include the following:
Borrowing from the county office - This option, detailed in Education Code sections 42621 and 42622, depends on the county office's willingness and ability to provide funds. Based on the current economic outlook, this may not be an option because county offices

are monitoring their own cash for the future. The Lassen COE has indicated its willingness to explore this option further with the district.

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

Borrowing with TRANs - The most common external borrowing mechanism is using Tax and Revenue Anticipation Notes (TRANs). This form of short-term borrowing allows LEAs to sell notes against future tax receipts. Since tax receipts do not come monthly but are received in April and December, it is common for school districts to utilize this option. *Although Lassen COE has approved this type of borrowing in the past, the district is not eligible for this type of short-term borrowing unless specifically approved by Lassen COE because of the district's negative certification for the 2008-2009 fiscal year*.

Conclusion

The district is experiencing a serious fiscal crisis that requires immediate intervention. The district's governing board and administration have been proactive in their approach to reduce spending budgets in response to declining enrollment but are not able to keep pace with the sharp declines in revenues.

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

Budget projections are inherently subject to change, especially when federal, state and local economics conditions are uncertain and constantly change. The district will need to ensure that multiyear forecasts are up to date and that the information they contain is accurate and based on the most current assumptions. Because economic indicators will change rapidly as California struggles to assess and project tax revenues to balance the state budget, staying abreast of the most current financial information and support will help keep the governing board informed. District staff should run several budget scenarios to assess the effects of the apportionment deferrals, cost-of-living and deficit reductions approved in the amended state budget act on February 20, 2009.

Westwood Unified School District Update per February 2009 State Budget

March 24, 2009

FCMAT prepared the Westwood Unified School District's 2008-09 budget and multiyear projection on the basis of information available at the time fieldwork was conducted in early December 2008. During this time, the Governor declared a fiscal emergency to deal with a projected budget and cash shortfall, the magnitude of which the state of California has never experienced. As the economy continued to deteriorate rapidly, the state legislature struggled with options to close the budget gap through a series of funding solutions and expenditure reductions to address the crisis. The new revenue and borrowing proposals include tax increases in several categories, borrowing and the expansion of the state lottery through the issuance of bonds that require voter approval. Cash management strategies include several deferrals of apportionment payments to school districts that span the 2008-09 and 2009-10 fiscal years.

On February 20, 2009, the special legislative session to address the crisis came to a close. This legislation eliminated the previous cost of living adjustment and increased the deficit factor on the principal apportionment. To help school districts, the Legislature allowed them broad flexibility to backfill these major midyear revenue reductions through a series of flexibility and transfer options that include:

- Programmatic flexibility in targeted state categorical programs
- Reduction in the required contribution of routine restricted maintenance and deferred maintenance
- Categorical fund balance transfer, with some exceptions, to unrestricted general fund programs.

At the time of this writing, several trailer bills are in process. Specific details of these are not available; however, these bills should not have a significant effect on the district's financial situation.

New State Budget – Summary of Impacts

Table 11 provides the significant differences between the governor's January proposal and the final state budget approved in February 2009.

Table 11: Comparison of Governor's State Budget Proposals to Final State Budget Act for Public Education				
	Fiscal Year	Proposed Budget 2009-10	Final State Budget 2009-10	Difference
Revenue Limit - Deficit				
	2008-09	9.69%	7.844%	-1.846%
	2009-10	16.16%	13.094%	-3.066%
	2010-11	16.16%	13.094%	-3.066%
State Categorical Program Funding Reductions				
	2008-09	0.00%	15.40%	15.40%
	2009-10	0.00%	4.50%	4.50%
	2010-11	0.00%	0.00%	0.00%

The net effect of the above changes to FCMAT's Multiyear Financial Projection (MYFP) over the 2008-09 through 2010-11 fiscal years is a decrease to the general fund ending balance of $16,225. At the end of 2010-11, the district is projected to experience a shortfall of $2,299,679, absent additional budget reductions or revenue enhancements (see Table 16 of this addendum).

Table 12 provides a summary of the estimated total impact of the new state budget on Westwood USD relative to FCMAT's original projection.

Table 12: Impact of State Budget on Westwood USD's MYFP Revenue Limit and State Categorical Programs				
	2008-09	2009-10	2010-11	Total
Revenue Limit Funding	44,788	73,517	69,222	187,527
Categorical Programs	-58,283	-74,866	-70,603	-203,752
Total Impact	-13,495	-1,349	-1,381	-16,225

Categorical program reductions were implemented in the final state budget in three tiers, with no reductions for Tier I programs, and reductions as noted below for Tier II and III programs.

Complete categorical program flexibility was included with the governor's proposed budget. The final state budget includes flexibility for only the Tier III programs, which is extended through the 2012-13 year.

Tier I programs – No Reductions and No Flexibility
After School Education and Safety
Child Development
Child Nutrition
Economic Impact Aid (EIA)
Home to School and Special Education Transportation
K-3 Class Size Reduction
Quality Education Investment Act
Special Education

Tier II programs – Reductions and No Flexibility
Adults in Correctional Facilities
Apprenticeship Programs
Agricultural Vocational Education
Charter School Facility Grants
English Language Acquisition Program
Foster Youth Educational Services
K-12 High Speed Network
Partnership Academies
Pupil Testing
Year-Round Education

Tier III programs - Reductions and Flexibility
AB 825 Targeted Instructional Improvement Block Grant
AB 825 Teacher Credentialing Block Grant
AB 825 Professional Development Block Grant
AB 825 Pupil Retention Block Grant
AB 825 School Safety Consolidated
AB 825 School and Library Improvement
Admin Training Program (AB 430)
Adult Education
Alternative Credentialing
Arts and Music Block Grant
Bilingual Teacher Training
California High School Exit Exam (CAHSEE) Intervention
California School Age Families Education (CalSAFE)
Student Leadership

Tier III programs - Reductions and Flexibility
Center for Civic Education
Certificated Staff Mentoring Program
Charter Schools Categorical Block Grant
Child Oral Health Assessments
Community Based English Tutoring (CBET)
Community Day Schools
Counselors, Grades 7-12
Class-Size Reduction-9th Grade
Deferred Maintenance
Educational Technology
Gifted and Talented Education (GATE)
High Priority Schools and II/USP
Indian Education Centers
Instructional Materials Fund
International Baccalaureate
National Board Certification
Peer Assistance and Review
Physical Education Teacher
Recruitment Grants
Readers for the Blind
Regional Occupational Centers/Programs
SB 472 Professional Development
School Safety Competitive Grant
Specialized Secondary Programs
Supplemental Hourly Programs
Teacher Dismissal Apportionments
Williams Audits

Table 13 provides FCMAT's estimate of categorical program funding reductions for the district during the MYFP period.

Table 13: Estimated Categorical Program Funding Reductions				
Categorical Programs	**2008-09**	**2009-10**	**2010-11**	**Total**
Tier I	-0-	-0-	-0-	-0-
Tier II	-1,647	-2,045	-2,099	-5,791
Tier III	-56,636	-72,821	-68,504	-197,961
Total Effect	-58,283	-74,866	-70,603	-203,752

Attached to this report are Appendices A and B that provide SACS resource-level projection detail of how these reductions and the related flexibility options will affect the district for the 2008-09, 2009-10 and 2010-11 years.

FCMAT did not assume any flexibility in its original MYFP because the team could not know which proposals the district would ultimately choose to implement. FCMAT has not assumed any flexibility in this update to the district's projection.

FCMAT did not assume the district would take advantage of the reduced K-3 class size reduction program penalties because the team could not know what level of penalties the district would ultimately accept.

Table 14 provides a side-by-side comparison of the flexibility provisions in the governor's proposal and the final state budget.

Table 14: Comparison of Categorical Program and School Year Flexibility Options

Program	Fiscal Year	Proposed Budget 2009-10	Final State Budget 2009-10
Categorical Flexibility	2008-09	100%	Tier III Only
	2009-10	100%	Tier III Only
	2010-11	100%	Tier III Only
K-3 CSR Flexibility	2008-09	100%	Penalty Reduced
	2009-10	100%	Penalty Reduced
	2010-11	100%	Penalty Reduced

Update to FCMAT Report Tables

Tables 15, 16, and 17 provide updates to information contained in FCMAT's original report regarding the following:

Table 15 – Surplus/-Deficit Spending, General Fund
Table 16 – Components of Ending Fund Balance, General Fund
Table 17 – Shortfall, Ending Fund Balance, General Fund

In all of these tables, the impact of the final state budget is reflected. While the impact is less severe than originally projected, the district is still in need of substantial budget reductions or revenue enhancements to avoid a state loan and the assignment of a state administrator.

Table 15: Surplus/-Deficit Spending, General Fund					
	2006-07	2007-08	2008-09	2009-10	2010-11
Revenues	4,497,103	3,963,779	3,319,365	3,022,784	2,878,747
Expenditures	4,334,829	4,197,589	3,609,068	3,675,441	3,904,192
Subtotal	162,274	-233,810	-289,703	-652,657	-1,025,445
Transfer In/Out	-152,043	111,605	-50,000	-50,000	-50,000
Surplus/-Deficit	10,231	-122,205	-339,703	-702,657	-1,075,445
Fund Balance:					
Beginning	200,457	262,553	154,223	-185,480	-888,137
Audit Adjustment	51,865	13,875			
Ending	262,553	154,223	-185,480	-888,137	-1,963,582

Table 16: Components of Ending Fund Balance, General Fund			
	2008-09	2009-10	2010-11
Ending Fund Balance	-185,480	-888,137	-1,963,582
Revolving Cash			
Stores			
Prepaid Expenditures			
Designated for Economic Uncertainties	-182,953	-186,272	-197,710
Legally Restricted	-167,901	-149,602	-138,387
Shortfall	-536,334	-1,224,011	-2,299,679

Table 17: Shortfall Ending Fund Balance, General Fund			
	2008-09	2009-10	2010-11
Negative Ending Fund Balance			
FCMAT - Projected	-185,480	-888,137	-1,963,582
Westwood USD – disapproved budget dated 06/28/08	-78,662	584,279	590,898
Difference	-106,818	-1,472,416	-2,554,471

Federal Economic Stimulus Legislation

Another significant event since the completion of FCMAT's fieldwork is the passage of the federal American Recovery and Reinvestment Act in February 2009. This act contains significant new funding for public education. However, it is unclear how much of this funding will directly benefit local public school districts. Thus, the FCMAT team has not included new funding from the act in this addendum.

Cash Deferrals

The new state budget provides for a modified set of deferrals of both principal apportionment as well as class size reduction revenues. This, coupled with existing deferrals, creates increased stress on school district cash flow, making it more imperative for the district to regularly monitor its cash balances.

Table 18 provides the principal apportionment deferrals as approved in the new state budget. Note: Some trailer bill legislation may adjust these amounts and/or dates.

Table 18: Cash Deferrals - Principal Apportionment

	Amount and Timing of Deferrals
P-2 shift enacted in legislation 2002-03 – no exceptions	100% of June 2009 paid in July 2009
New state budget, February 2009*	50% of February 2009 paid in July 2009
New state budget, February 2009*	60% of July 2009 paid in September 2009
New state budget, February 2009*	55% of August 2009 paid in September 2009

* Waivers must be submitted no later than May 15, 2009 for financial hardship consideration.

Source: California Department of Education

Appendices

- **Appendix A** – Tier II Programs – Final State Budget – Reductions/Flexibility
- **Appendix B** – Tier III Programs – Final State Budget – Reductions
- **Appendix C** – Study Agreement

Appendix A
Tier II Programs - Final State Budget - Reductions/Flexibility

Tier II Programs 2008-09				
	FCMAT Projection	**15.4% Reduction**	**Adjusted**	**Flexibility**
Agricultural Vocational Education	10,696	9,049	-1,647	-0-
Total Reduction	10,696	9,049	-1,647	-0-

Appendix B
Tier III Programs - Final State Budget – Reductions

Tier III Programs 2008-09				
	FCMAT Projection	**15.4% Reduction**	**Adjusted**	**Flexibility**
AB 825 Targeted Instructional Improvement Block Grant	46,396	39,251	-7,145	4,445
AB 825 Professional Development Block Grant	28,228	23,881	-4,347	29,366
AB 825 Pupil Retention Block Grant	139,956	118,403	-21,553	24,695
AB 825 School and Lib Improvement	38,801	32,826	-5,975	15,619
Arts and Music Block Grant	13,812	11,685	-2,127	8,887
Gifted and Talented Education (GATE)	16,132	13,648	-2,484	5,893
Instructional Materials Fund	23,322	19,730	-3,592	27,917
Peer Assistance and Review	3,684	3,117	-567	3,960
Regional Occupational Centers/Programs	41,438	35,057	-6,381	0
School Safety & Violence Prevention	16,004	13,539	-2,465	4,482
Total	367,773	311,137	-56,636	125,264

***eliminated in 2009-10**
****complete flexibility to transfer to any other educational purpose, unrestricted or restricted, through 2012-13**
n/a = not applicable to the general fund

Appendix C
Study Agreement

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

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
October 22, 2008

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Lassen County Office of Education, hereinafter referred to as the COE, mutually agree as follows:

1. BASIS OF AGREEMENT

The Team provides a variety of services to school districts and county offices of education upon request. The COE has requested that the Team provide for the assignment of professionals to study specific aspects of the Westwood Unified School District, hereinafter referred to as the District. 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.

The District has not filed the Unaudited Actuals report for the 2007-08 fiscal year, received a $350,000 loan from the COE in order to pay its bills, continues to experience declining enrollment, and is impacted by its charter school. The COE estimates that based current cash balances, the district could deplete its cash by April 2009.

The COE is preparing to notify the Superintendent of Public Instruction that it has disapproved the District's budget. The COE, in accordance with its authority under Education Code 42127 is requesting the Team to review the fiscal condition of the district and complete specific tasks.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

1) Assist the district with the year end closing of the 2007-08 financial transactions, for all funds.
2) Conduct a review of the District's 2008-09 Adoption budget and prepare a Multi-Year Financial Projection of the General Fund for 2009-10 and 2010-11 using FCMAT's Budget Explorer software.
3) Prepare a Multi-Year Cash Flow Projection for the current and first subsequent year to verify future cash shortfall amounts.

B. Services and Products to be Provided

1) Orientation Meeting - The Team will conduct an orientation session at the COE to brief COE and 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) Progress Reports - The Team will hold an exit meeting at the conclusion of the on-site review to inform the COE and 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 - Sufficient copies of a preliminary draft report will be delivered to the COE administration for review and comment.
6) Final Report - Sufficient copies of the final study report will be delivered to the COE and District following completion of the review.
7) Follow-Up Support – Six months after the completion of the study, FCMAT will return to the District, if requested, to confirm the District's progress in implementing the recommendations included in the report, at no cost. Status of the recommendations will be documented to the COE and District in a FCMAT Management Letter.

3. PROJECT PERSONNEL

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

A. FCMAT Fiscal Intervention Specialist
B. FCMAT Fiscal Consultant

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

4. PROJECT COSTS

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

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

B. All out-of-pocket expenses, including travel, meals, lodging, etc. Based on the scope of work identified in section 2 A, estimated total cost is $15,000**.** The COE will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the COE.

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

D. At the completion of the study and upon payment to FCMAT by the COE, the COE is eligible to submit a claim for reimbursement of 25% of the total cost pursuant to the provisions of AB 1200 and Education Code 42127.

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

5. RESPONSIBILITIES OF THE COE

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

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

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

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

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with COE or District pupils. The COE and 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:	***to be determined***
Staff Interviews:	***to be determined***
Exit Interviews:	***to be determined***
Preliminary Report Submitted:	***to be determined***
Final Report Submitted:	***to be determined***
Board Presentation:	***to be determined***
Follow-Up Support:	***If requested***

7. CONTACT PERSON

Please print name of contact person: Jud Jensen, County Superintendent

Telephone 530 257-2196
FAX 530 257-2518

Internet Address jjensen@lassencoe.org

____
Jud Jensen, County Superintendent — Date
Lassen County Office of Education

Barbara Dean

____________________________ October 22, 2008
Barbara Dean, Deputy Administrative Officer — Date
Fiscal Crisis and Management Assistance Team