FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Wilsona Elementary School District

Fiscal Review

February 24, 2009

Joel D. Montero
Chief Executive Officer

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

February 24, 2009

David Andreason, Superintendent
Wilsona Elementary School District
18050 East Avenue O
Palmdale, CA 93591

Dear Superintendent Andreason:

In October 2008, the Wilsona Elementary School District entered into an agreement with the Fiscal Crisis and Management Assistance Team (FCMAT) for a study that would perform the following:

1,. Validate the revenue and expenditure allocations in the district's 2008-09 general fund budget and identify areas where revisions are required based on current statewide and district assumptions. Confirm the amount of budgetary shortfall, as applicable.

2. Provide recommendations for improvements in current procedures for budget development, monitoring, and processing budget revisions.

FCMAT conducted fieldwork at the district to interview employees, review documents and collect information. This report is the result of those activities.

Thank you for allowing us to serve you, and please give our regards to all the employees of the Wilsona Elementary School District.

Sincerely,

Joel D. Montero
Chief Executive Officer

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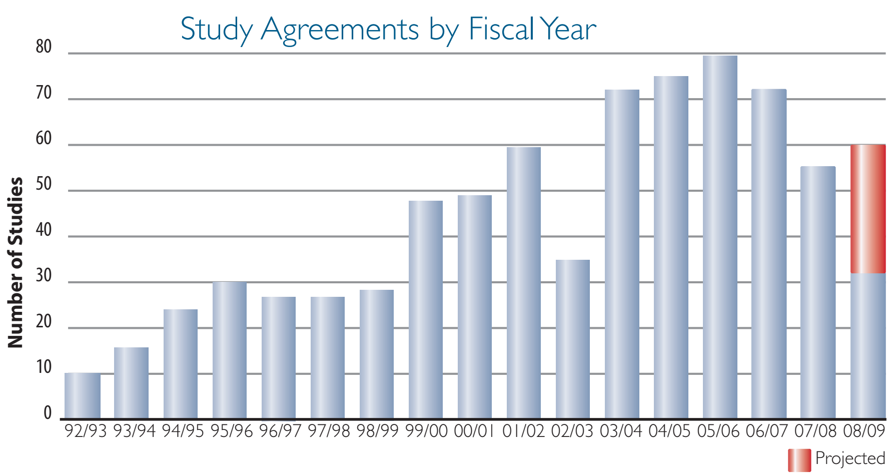
Foreword - FCMAT Background

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

The Wilsona School District is located in Los Angeles County, in the rural eastern area of Palmdale known as Lake Los Angeles. The district serves approximately 1,800 K-8 students in three schools.

At the end of the 2007-08 fiscal year, the administration and Governing Board were informed that the district would not meet the state-recommended three percent reserve for economic uncertainties for the general fund. This issue was unanticipated because the district had appropriately relied on the second interim report as an indicator of its financial position until the closing of the 2007-08 financial records. This report indicated that district's ending balance would meet the reserve requirement and that the district's financial position was acceptable based on the reporting criteria. The financial problem became evident during year-end closing, when several large prior-year accounts receivable accruals were deemed uncollectible and written off by the district chief business official (CBO) under the guidance of the Los Angeles County Office of Education.

In October 2008, the Wilsona Superintendent contacted the Fiscal Crisis and Management Assistance Team (FCMAT) requesting a review of the prior and current year budgets. FCMAT's study agreement with the Wilsona School District stipulates that FCMAT will perform the following:

1. Validate the 2007-08 general fund unaudited actuals and provide insight into the factors that created a material reduction in the district's financial stability during the year-end closing.
2. Validate the revenue and expenditure allocations in the district's 2008-09 general fund budget and identify areas where revisions are required based on current statewide and district assumptions. Confirm the amount of budgetary shortfall as applicable.
3. Provide recommendations for improvements in current procedures for budget development, monitoring, and processing budget revisions.

Study Team

The study team was composed of the following members:

Barbara (Dean) Murphy
FCMAT Deputy Administrative Officer
Bakersfield, CA

Leonel Martínez
FCMAT Public Information Specialist
Bakersfield, CA

Michele McClowry, CPA
FCMAT Fiscal Consultant
La Verne, CA

Study Guidelines

FCMAT conducted fieldwork at the district on December 3 -5, 2008. Additional research was conducted after the 2008-09 first interim report was approved by the Governing Board in January 2009 (the December board meeting was delayed because of inclement weather) and the annual audit report was published.

FCMAT interviewed employees, reviewed numerous documents, compared financial analyses, and held discussions with staff of the Los Angeles County Office of Education and with the district's independent auditors, Moss, Levy, & Hartzheim, LLP.

This report is the result of that effort and contains the findings and recommendations of the FCMAT study team.

Executive Summary

The Wilsona School District faces a severe financial crisis based on FCMAT's findings. The Governing Board and administration must act quickly to communicate the severity of this fiscal crisis to the community, employee bargaining groups, and parents. It will take the full cooperation of all affected parties to make the necessary budget reductions and restore fiscal solvency.

The Fiscal Crisis and Management Assistance Team (FCMAT) and the district's independent auditors confirmed that the 2007-08 annual financial records were closed appropriately and contained no material errors. However, during year-end closing, staff members noted and corrected significant accounting errors. Subsequently, instead of meeting the state-recommended three percent reserve for economic uncertainties for the general fund. The district closed the 2007-08 fiscal year with a negative unrestricted general fund balance of more than $156,000. This financial crisis must be immediately addressed, but because of the state budget crisis, finding solutions will be more difficult and complicated.

The district administration and board members adopted a budget for 2008-09 unaware that the required ending balance would not be met once the 2007-08 financial records were closed. During closing, the CBO, who was hired a few months earlier, found that many prior-year accounts receivable accruals had been carried over for several years and were invalid. In addition, budgeted amounts for certificated salaries and contributions to restricted programs, primarily special education, were insufficient to cover payments made throughout the year. In cooperation with the Los Angeles County Office of Education staff, the CBO made the necessary accounting journal entries to clear the prior fiscal year balances.

The 2007-08 independent audit report also confirms the validity of the district's year-end accounting journal entries. The report contains a few additional minor audit adjustments made by the audit firm of Moss, Levy, & Hartzmann, LLP, but these additional adjustments do not materially change or contradict the unaudited actuals prepared by the district and submitted to the county office.

The amounts budgeted for expenditures in the 2008-09 first interim report are reasonable based on spending patterns in prior years and the position control information used to calculate the salary and benefit obligations for current employees.

According to the first interim report and the Fiscal Recovery Action Plan prepared by the Superintendent and provided to the Governing Board, the district identified savings of approximately $400,000 for the 2008-09 fiscal year. This plan is attached as Appendix A to this report. However, increased costs in other areas of the budget absorb these savings, leaving the unrestricted general fund with an operating surplus of only $1,456.

FCMAT's review of the first interim report found that although deficit spending in the unrestricted general fund is contained, the negative fund balance is still an issue. Between the 2008-09 adopted budget and the first interim reporting period, the change in the interim report line item titled "net increase (decrease) in fund balance" in the unrestricted general fund amounted to $59,318. As a result, the projected savings will be insufficient to eliminate the negative fund balance or restore the required three percent reserve.

The multiyear financial projection included with the first interim report identifies unspecified adjustments of $822,766 for certificated salaries and $122,626 for classified salaries in 2009-10. An additional unspecified adjustment of $211,578 for certificated salaries is identified in 2010-11. These adjustments enable the district to restore the ending balance and meet the required reserve. However these changes are subject to board actions to reduce staffing or reach concessions at the bargaining table and must be considered in the context of one scenario for restoring fiscal solvency.

Unrestricted General Fund

	2008-09 Adopted Budget	2008-09 First Interim Projected	2009-10 Projected	2010-11 Projected
Revenues	$11,008,451	$10,994,274	$10,546,906	$10,462,174
Expenditures	-9,910,685	-9,812,676	-9,668,069	-8,916,588
Proposed savings adjustments			945,392	211,578
Other financing sources and uses	-1,158,560	-1,180,121	-1,163,157	-1,163,157
Net Increase/Decrease	-60,794	1,476	661,073	594,007
Beginning Balance	*-156,632	*-156,632	-155,155	505,917
Ending Balance	$-217,426	$-155,155	$505,917	$1,099,924

The most recent state budget information suggests that potential revenue and cash shortfalls will negatively affect school districts this year and in future years. The district's first interim report does not fully address the implications of the impending state budget reductions. Therefore, the multiyear financial projections that were submitted to the county office will require further analysis by the administration during preparation for the second interim report. Although the second interim report is normally submitted to the board for approval by March 15, FCMAT recommends that an updated analysis of the general fund be presented to the board for discussion in February.

Findings and Recommendations

Background

As the Wilsona School District's 2007-08 financial records were being closed, the district's new CBO found that the accounts receivable accrual accounts had large unidentified beginning balances carried over from the prior year that needed to be reconciled. The CBO brought this matter to the attention of the Superintendent, Governing Board, and the Los Angeles County Office of Education staff as the details of the reconciliation process appeared to indicate that the accrual balances had not been cleared for many years.

The CBO worked closely with the county office to make the necessary accounting journal entries to clear the prior balances. Budgeted amounts for certificated salaries and contributions to restricted programs, mainly special education, were inadequate to cover the actual expenditures made throughout the fiscal year. The board was surprised by this unfortunate news, which meant that the district would end the year with a negative unrestricted general fund balance.

The district recently submitted its 2008-09 first interim report to the Los Angeles County Office of Education as a qualified certification, indicating that the district may not be able to meet its financial obligations in the current and two subsequent years without significant budget reductions. The projected first interim report indicated that the district continues deficit spending in the unrestricted general fund and that the fund balance is still projected to be negative by approximately $155,000.

Along with the first interim report, the board received a Fiscal Recovery Action Plan (Appendix A) prepared by the newly hired Superintendent, recommending many budget reductions including the possibility of closing a school in the 2009-10 fiscal year. Approximately 85% of the expenditures of any school district relate to employee salaries and benefits. The district will need to make reductions of more than $600,000 to eliminate the negative fund balance and restore the recommended three percent reserve, undoubtedly affecting instruction, operations, and personnel. Reductions to salaries and benefits must be negotiated with the respective collective bargaining units, and immediate board decisions regarding staff levels must comply with the statutory March 15 deadline if any certificated staffing reductions are warranted. The proposed Fiscal Recovery Action Plan includes several items that will require negotiated concessions in order for savings to be realized in 2009-10 and 2010-11.

The recommended three percent reserve must be met using unrestricted funds. While the unrestricted fund balance was negative at year-end and continues to be projected to be negative in the 2008-09 first interim report, the restricted general fund ending balance was more than $1 million. This indicates that the district is not maximizing the use of restricted funds, especially under the existing circumstances. An emphasis on using restricted carryover funds should be a major part of any recovery plan.

Wilsona has experienced declining enrollment in recent years as have many other school districts throughout the state. Enrollment declined from 2,091 students in 2002-03 to 1,871 students in 2007-08, according to the California Basic Educational Data System (CBEDS) data reported to the California Department of Education (CDE). It is imperative that all school districts budget correctly and carefully monitor the budget on a regular basis. Smaller districts must be proactive in budget planning and reduce spending when enrollment declines or economic conditions change. The board must take quick action to restore fiscal solvency.

Included in the Governor's 2009-10 budget proposal are mid-year reductions for the 2008-09 fiscal year. According to the latest proposal, in an effort to minimize impacts on essential classroom instruction, districts will have flexibility options to transfer any prior-year ending balances of categorical funding to the unrestricted general fund.

California Budget Crisis

The California budget crisis adds another complex layer of problems for the district's administration and board. The most recent forecast by Governor Schwarzenegger in January 2009 includes a deficited cost-of-living adjustment (COLA) to the revenue limit of 9.685 percent in 2008-09 and 16.161 percent in 2009-10 and beyond. The district's first interim report includes a deficit factor applied to the 2008-09 revenue limit funding, but does not include full recognition of the latest proposed state budget reductions in the current or future years.

It is critical to analyze proposed actions in Sacramento to identify the impact of a potential 16 percent revenue limit deficit on the budget. With an anticipated decline in enrollment and the increased deficit, the district could experience a revenue loss of $500,000 or more next year. This loss would be in addition to the approximately $600,000 shortfall needed to restore the recommended three percent reserve for economic uncertainties.

Recommendations

The district should:

1. Ensure that the CBO and Superintendent are fully informed about the state budget and conform to the recommendations of the Los Angeles County Office of Education for budget assumptions.

2. Relay all current budget information to the board, bargaining units and community.

3. Update the 2008-09 working budget and multiyear financial projections for the two subsequent years as state budget changes occur

2007-08 Year-End Closing

The business office has primary responsibility for developing, revising, and monitoring the district budget. At Wilsona, budget preparation, revisions, monitoring, and financial reporting are the responsibility of the CBO. Responsibility for budget and accounting transactions should be shared by the business office staff. For the district to remain fiscally viable, business office staff members should be well qualified and competent and accurately perform their work. Financial decisions and activities should support the overall district goal of providing a comprehensive instructional program for students.

When the CBO discovered problems with the district budget, the detail and supporting documentation for the accruals could not be located. As a result, it was difficult for the CBO to substantiate the origin and validity of the accruals. The errors appear to have occurred over several years during the tenure of the former CBO, and supporting documentation was not retained. With the help of the district's Business Advisory Consultant at the county office, prior year balances that needed to be reversed were identified and approved by the county office. Journal entries were prepared to make the necessary corrections. Some accounts receivable balances were several years old and related to prior-year adjustments to revenue limit funding.

When revenue limit apportionment recertifications were made in prior years, the change in funding apparently was recorded as a prior year adjustment to the current revenue limit funding using object code 8019 instead of being applied to the accruals established each year. Over the years, these unreconciled accruals accumulated, becoming a larger amount that was finally corrected during the 2007-08 year-end closing process.

Because the prior-year balances were material to the district's financial position, the CBO and county office consultant agreed to record the write-off of the prior year accounts receivable balances as a restatement to the beginning fund balance. Instead of meeting the required three percent reserve, the unrestricted restatement caused the district's unaudited actuals to show a negative unrestricted general fund balance.

The FCMAT study team reviewed numerous financial documents, focusing on the accounting journal entries recorded at year-end to reverse the invalid prior year accruals. The county office consultant that is assigned the district is highly experienced in school district accounting and is a Certified Public Accountant. This consultant worked closely with the Wilsona CBO to determine the entries that should be made to correct prior year mistakes. The dollar value of entries posted to reverse the incorrect accounts receivable balance in the general fund amounted to approximately $490,000. Of this amount, the unrestricted general fund entry was $432,000, and the restricted portion was approximately $58,000.

FCMAT met with district staff to gain an understanding of this situation and reviewed the journal entries and prior year audit reports to determine whether any adjusting entries were made to the fund balance in prior years. The prior year audit reports did not include any adjustments to the fund balance, but included a finding noting that the district had not reconciled the beginning balances in prior years.

FCMAT asked representatives of the audit firm why prior year accruals were not adjusted during the audit process. The auditors indicated that they informed the former district Superintendent and CBO several times about the problem and expected the district to make the corrections. When invalid accruals of this magnitude remain in a district's financial records year after year, audit firms have the discretion to include the necessary audit adjustments in their reports. Adjustments by the auditor would have been required under GAAP.

In an effort to validate year-end entries, FCMAT reviewed the available supporting documentation, and discussed the accounting entries and supporting documentation with the CBO and the county office consultant who approved the entries as the oversight agency. The team also discussed the opinion of the independent audit firm of Moss, Levy, & Hartzheim LLP, which was scheduled to be issued in the 2007-08 annual audit by December 15, 2008.

The accounting journal entries recorded by the district as part of the 2007-08 unaudited financial statements were necessary and accurate. The annual audit report prepared by the firm also supports the appropriateness of the year-end closing entries.

FCMAT found that all the required 2007-08 financial reports were properly filed with the county office except for the 2007-08 unaudited actuals, which were late because of difficulties in closing. Other than not meeting the state-recommended three percent reserve, the district complied with all the financial reporting requirements established by the Education Code 42100. The CBO is knowledgeable regarding school district budget development and financial requirements.

The 2008-09 first interim report was filed with the county office late because the district's December board meeting was cancelled due to inclement weather. The Governing Board approved this report on January 7, 2009.

During difficult financial times, when expenditure reductions are being considered, communication is essential to ensure that all affected parties are informed and receive the same message. The CBO and Superintendent should meet with all district and community stakeholders regularly to provide updates.

All accounts payables accruals were considered due and payable on June 30, 2008. Further adjustments will need to be made to clear any outdated accounts payable accruals if and when further analysis proves that payments are not due. The district is reviewing all accruals and searching for adequate supporting documentation for prior-year entries. Any accounts payable accrual adjustments should be brought to the attention of the board and processed during the closing of the 2008-09 financial records.

Recommendations

The district should:

1. Provide updates to the board at each board meeting.

2. Continue to discuss the budget issue publicly to ensure that all stakeholders understand the budgetary shortfall and the options being considered.

3. Review and reconcile all accounts receivable and accounts payable accruals.

4. Ensure that all supporting documentation for budget and accounting transactions is properly stored and retained.

5. Provide the business office staff with cross-training on performing budget and accounting transactions so the CBO doesn't have all the responsibility for completing these tasks.

6. Clearly define the role of each participant in budget development.

7. Assign responsibilities and hold staff accountable for meeting objectives and time lines.

8. Continue to meet all state requirements and filing time lines.

9. Immediately prepare the budget calendar, guidelines, and assumptions as a tool to address the budget reductions and meet time lines.

10. Develop accurate enrollment and staffing projections for 2009-10 as soon as possible.

11. Determine and approve budget reductions in advance of the March 15 certificated notification deadline.

12. Continue to verify the accuracy of the current budget, and immediately make current-year reductions.

13. Review the district's ability to utilize the flexibility options contained in the Governor's 2009-10 budget proposal.

Budget Concerns

The district's financial situation, which has been compounded by the severity of the state budget crisis, will be difficult to overcome. Wilsona's $1 million balance in restricted funds may provide some relief if the state gives districts flexibility regarding how these funds can be used.

To cease deficit spending, the district must immediately make significant changes in expenditures and operations. This will be difficult because Wilsona is small in size, with few opportunities to make major budget reductions, has a negative fund balance, and must restore its state-mandated three percent reserve for economic uncertainties. With an anticipated reduction in state revenues, it will also be difficult to sustain ongoing costs for employee compensation, placing the district in a more precarious financial position.

District reserves for the unrestricted general fund have decreased each year for at least three years. As is the case in many other districts throughout the state, approximately 88 percent of the unrestricted general fund budget is committed to ongoing employee compensation and benefits. The remaining 12 percent covers expenditures such as utilities, insurance, contributions to restricted programs such as special education, transportation, restricted routine maintenance (which is required if the district accepts state facility funding) and other nonemployee-related expenditures.

To meet the 2008-09 first interim report's three percent reserve requirement of $486,358, the district must reduce expenditures and/or increase revenues by more than $600,000 by June 30, 2009. The magnitude of the budget reductions necessary to recover from fiscal insolvency will require the complete cooperation of all affected parties. Significant contractual concessions will likely be necessary to increase staffing ratios and class sizes, and to contain the costs of salaries and employee benefits. If the district considers the closure of a school in the 2009-10 fiscal year to reduce costs, planning must begin immediately.

Updated information for discussion should be submitted at each board meeting and not be limited to just the interim report periods in December and March. In addition, the district must develop reliable methods of communicating budget information to the employees and community. Districtwide staff meetings and parent/community meetings should be scheduled regularly. Negotiation sessions should begin as soon as possible so employees can be informed about the crisis.

Because the statutory deadline for providing certificated employees with preliminary notice of potential layoffs is March 15, the board must immediately identify and approve staffing reductions. The board, administration, and bargaining units should also work cooperatively to develop a list of budget reductions.

Revenue and expenditure allocations may change several times during budget development and throughout the fiscal year as new information arises or new decisions are made by the board. The CBO should ensure that supporting documentation and explanation is provided for these proposed revisions.

Statutory budget revisions occur during the first and second interim reporting periods in December and March, respectively. Because of Wilsona's fiscal situation, discussions and presentations involving the board and public should occur monthly.

Although Wilsona had a negative unrestricted fund balance, the district carried over approximately $1 million in the restricted general fund last year. Categorical funds are intended to provide resources for additional support services to students, but this large amount indicates that the district may not have maximized the use of these funds. Careful analysis and planning regarding the use and flexibility of restricted dollars is essential to help offset budget reductions. If in-house expertise is lacking in this area, the district should seek help from the county office or other independent sources.

Recommendations

The district should:

1. Immediately cease deficit spending.

2. Take immediate action to implement budget reductions to prevent insolvency.

3. Identify budget reductions and develop a recovery plan to reflect attainable goals in the current and future years.

4. Work with the bargaining units to find mutually acceptable solutions to re-establish trust and resolve salary and benefit issues.

5. Plan strategies to reduce the budget in a timely manner.

6. Solicit budget reduction ideas from the staff and community members.

7. Publish budget information regularly to keep employees and the community informed.

8. Include regular budget discussions on the agendas of all board meetings or at least at one meeting per month.

9. Establish effective communication to keep all affected parties informed.

10. Schedule board study sessions to inform employees and the community of budget problems and solicit input.

11. Approve any certificated changes on time to meet the March 15 notification deadline for preliminary notice of potential layoffs, if necessary.

12. Review the status of the current year budget monthly.

13. Review the district's ability to utilize the flexibility options contained in the Governor's 2009-10 budget proposal.

Budgeting Process

The CBO is responsible for developing, monitoring, and revising the budget along with performing most of the accounting functions in the business office. This is an excessive amount of responsibility for one person and may explain why the district's accounting errors were undetected for several years.

Wilsona has only two district office administrators. The Superintendent was hired in July 2008. The current CBO was hired in September 2007, but did not assume responsibility for the financial records until after the former CBO retired. The former CBO had been with the district for more than 20 years. The district has a limited number of clerical staff members, but most are capable and have been with the district for several years. The district will need to work closely with the collective bargaining unit if changes in positions or job descriptions are considered.

Since the financial crisis became known to the Governing Board, staff, and community, the CBO and Superintendent have spent a considerable amount of time determining potential areas for budget reduction. The district recently organized a budget review committee to provide input and make suggestions. The committee includes bargaining unit members, principals, and community members. FCMAT interviewed two principals and several district office employees, who indicated that until recently, the budget was prepared and monitored by the CBO without meaningful input from the budget managers or principals.

The consensus among the staff members interviewed is that it will be difficult for the district to make the necessary budget cuts without implementing drastic reductions in programs. The staff expressed concern about the possibility of gaining cooperation from the bargaining units in a timely manner. Several employees believe that it will not be possible to close a school next year, but even if a closure occurs, the resulting cost savings will be insufficient.

All interested parties must make a concerted effort to work together and become more familiar with the district's complex budget and financial information. The district CBO and Superintendent should provide the bargaining units with clear financial information so they can gain a better understanding of the budget situation.

Most discretionary expenditures, employee salaries and benefits are paid from the unrestricted general fund. Because the general fund budget includes both unrestricted and restricted resources, the district should consider providing financial information on these areas separately to present a clearer picture of the district's financial position.

Recommendations

The district should:

1. Immediately begin developing a list of potential budget reductions.

2. Include the budget committee in the decision-making process.

3. Seek input from all stakeholders including parents and community members.

4. Work closely with bargaining units to ensure they fully understand the district's fiscal status and work together to restore fiscal solvency.

2008-09 Adopted and First Interim Budgets

FCMAT conducted a review of the district's current year adopted budget to determine whether the anticipated revenues and expenditures are properly budgeted. The district is required to budget for a three percent reserve designated for economic uncertainties calculated using combined general fund expenditures and transfers out. When the 2008-09 budget was adopted June 30, 2008, combined general fund expenditures and transfers out amounted to $15,224,866, which required a three percent reserve of $456,746.

	2008-09 Adopted Budget	2008-09 First Interim Projected	2009-10 Projected	2010-11 Projected
Revenues	$11,008,451	$10,994,274	$10,546,906	$10,462,174
Expenditures	-9,910,685	-9,812,676	-9,668,069	-8,916,588
Proposed savings adjustments			**945,392	**211,578
Other financing sources and uses	-1,158,560	-1,180,121	-1,163,157	-1,163,157
Net Increase/Decrease	-60,794	1,476	661,073	594,007
Beginning Balance	-156,632	*-156,632	-155,155	505,917
Ending Balance	-217,426	-155,155	$505,917	$1,099,924
Calculated 3% reserve	$456,746	$486,359	$457,104	$460,184

The Wilsona Governing Board recently approved the district's 2008-09 first interim report, indicating that combined general fund expenditures and transfers out are projected to increase to $16,211,959, requiring a three percent reserve of $486,359. The district must make immediate budget reductions of at least $641,514 to compensate for the prior year negative unrestricted general fund balance and achieve the required three percent reserve in the first interim reporting period.

The board approved the first interim report as qualified, recognizing that major budget savings must be identified as soon as possible to overcome the district's fragile financial position. The Superintendent submitted a fiscal recovery action plan to the Governing Board on January 7, 2009 as part of the district's first interim report. This plan includes budget savings of $399,000 this year, suggests that the district take responsibility for its community day class (CDC) students being served by the county office, and forecasts that an additional savings of $950,000 can be realized by closing a school next year along with other budget reductions. The list of the suggested reductions is attached as Appendix A to this report. Most of the proposed budget reductions, such as closing a school and/or requiring negotiated settlements, may be contentious among the employee bargaining units. As noted in a previous section of this report, the $399,000 in savings identified for 2008-09 was offset by an increase in expenditures and revenue reductions. The unrestricted general fund is projected to end the year with a surplus of only $1,476.

Recommendations

The district should:

1. Develop and prioritize a list of possible budget reductions.

2. Determine whether the proposed fiscal recovery action plan is viable and consider additional areas where expenditures can be reduced.

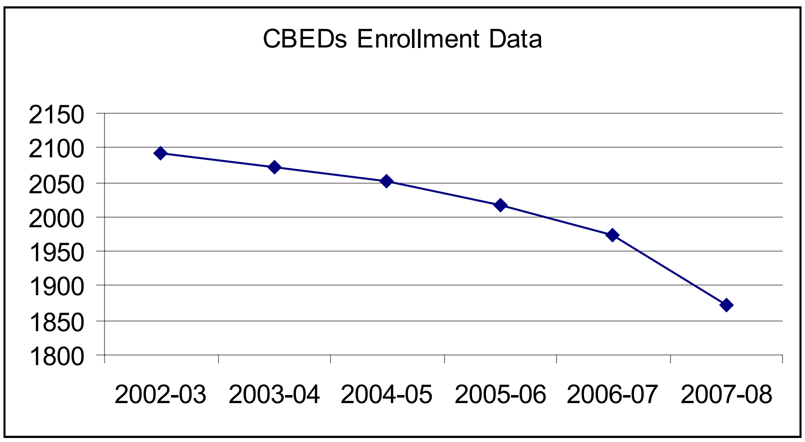
3. Immediately begin negotiations with bargaining units to identify areas of possible reduction.

4. Analyze the advantages and disadvantages of closing a school next year. If the district decides on closure, it should determine which school will be affected and immediately begin planning for this change.

5. Review the status of the current year budget monthly.

Declining Enrollment and Facilities

Since the 2002-03 fiscal year, the district has experienced significant declining enrollment and loss of average daily attendance (ADA) and projects a decrease of approximately 64 students in 2009-10. Because Wilsona is a small, rural, K-8 district, any loss of enrollment or other financial hardship could have a severe impact on the district's solvency. A few years ago, Wilsona was awarded California State facility hardship funding to build a new school. Although that school is near completion, the district does not plan to open the facility because of the decline in students and the fact that local funding is unavailable to complete construction. It is likely that one of the district's three operating schools will also have to be closed because of the budget shortfall. The district will still have to continue to expend resources to maintain the new school to protect against vandalism and deterioration.



2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
2,091	2,073	2,052	2,017	1,974	1,871

Recommendations

The district should:

1. Attempt to determine the reasons for the district's enrollment decline and develop strategies to retain students.

2. Contact the families of students who transferred from the district to confirm why they left.

3. Educate parents to help them understand the importance of sending students to school to improve student achievement and maximize district revenue.

4. Develop attendance incentives to retain students.

5. Solicit suggestions for uses of the new school.

6. Ensure that the budget includes sufficient funds to maintain and protect the new, unused campus from vandalism and deterioration.

Position Control

A reliable position control system is essential in budgeting and monitoring expenditures as well as identifying the salary and benefit costs of regular monthly employees. Hourly employees are not generally incorporated into the position control system because of fluctuating hours, however, salaries and benefits for part-time and/or hourly employees are a key component of proper budget monitoring, especially in a small district.

Since the cost of salaries and benefits makes up approximately 88% of the district's general fund budget, unanticipated or unmanaged differences in these categories can quickly affect a district's fiscal stability. An integrated position control system establishes authorized positions by site or department and ensures that staffing levels conform to district formulas and standards, preventing overstaffing.

Position control also links human resources and payroll functions to the system to prevent unauthorized hiring or overpayment. In larger school districts, a successful position control system is jointly managed by the human resources and business office to maintain salary and benefit information for all contract employees. The Fiscal Services Department is responsible for opening new positions or making changes to an existing one while the Human Department places or removes employees from positions. This separation of duties is important in maintaining proper internal control standards. Payroll checks are then generated using the data in the position control system. The integration of all three processes must be carefully maintained.

In Los Angeles County school districts, salary and benefit information is loaded into the People Soft financial system for budgeting purposes. Manual updates are used for hourly salaries, certain stipends, and positions with exceptional circumstances. Statutory benefits are generally calculated by fixed percentages of salary amounts. Once the data is loaded and reconciled, staffing reports should be distributed to site and program administrators to verify the employees assigned to these areas. Budget managers should use position control to develop and monitor their individual program or site budgets.

In a small district such as Wilsona that have few central office employees, it is often difficult to separate these duties effectively. However, the staff must still ensure that all positions are authorized by the board, properly accounted for in the budget, and that pay for each employee is correct. Wilsona has no formal position control system. The CBO prepares an Excel spreadsheet listing all employees by site and showing current salary placement as well as associated benefits. This method is adequate for a district with relatively few employees, but the information must be maintained regularly and used to monitor line items in the budget. The spreadsheet should include part-time and hourly employees if possible since the costs for these employees can easily affect the budget if not properly monitored.

Wilsona's recent budget problems were exacerbated in part because budgeted salaries were not accurately projected in the prior year second interim report approved in March 2008. These salaries were also not closely monitored or reviewed when the change in CBOs occurred in mid-year. Because budgeted salaries are not encumbered in the Los Angeles County People Soft financial system, the new CBO could not easily identify the resulting overages. Instead of encumbering, one method that could be used to monitor and project salaries for the year is to compare the monthly payroll distribution report with the CBO's Excel spreadsheet. Year-to-date expenditures should be combined with the projected monthly expense for the remainder of the year and compared to the budgeted line item allocation. This procedure should become a routine practice for the CBO.

Recommendations

The district should:

1. Develop and maintain an accurate Excel spreadsheet calculating the salaries and benefits for all employees, both monthly and hourly.

2. Make sure that all staffing and employee information is updated regularly to ensure that internal controls are in place.

3. Provide training for all employees involved with position control, human resources and payroll so they can understand the process and follow procedures at all times.

4. If encumbrance is not used, monitor budgeted salary and benefits accounts monthly using the method described above to ensure that the budget is accurate and that no accounts exceed budget amounts.

5. Update the budget monthly to determine whether salary and benefits budgets need to be revised.

6. Consider using the county office PC Budgeting module for position control and budget development in the future.

Status of Negotiations

The relationship between the district and the bargaining units could be described as contentious based on the current financial issues and the sudden loss of the district's recommended reserves. The teacher's bargaining unit questions the severity of the budget crisis, and as a result, negotiations may be difficult.

All district programs and operations should be considered and discussed when making decisions on proposed budget reductions. The Fiscal Recovery Action Plan includes many budget reductions in future years that clearly will require negotiated concessions by employee groups. Negotiation meetings should begin as soon as possible. Without negotiated concessions, it will be impossible to achieve the level of budget reductions that will be needed to avoid bankruptcy.

Recommendations

The district should:

1. Immediately schedule negotiation sessions.

2. Work closely with bargaining unit leaders to ensure all affected parties understand and accept the magnitude of the district's financial problems.

3. Provide bargaining units with accurate, reliable budget information.

Other Funds

Although this study focused on the district's general fund and budget development, FCMAT briefly reviewed the district's other funds to determine whether unforeseen obligations might affect the general fund.

Cafeteria Fund

The cafeteria special revenue fund is used for the Child Nutrition Program. Student eligibility and participation for free and reduced meals are high. The ending fund balance is positive, but deficit spending has reduced this balance over time. The district charges indirect costs, however, the accounting entry is treated as a transfer out instead of being posted to the indirect cost object code.

The Food Services Director is concerned about the long-term viability of the program if the district continues to maximize indirect costs without recognizing that the program's ability to increase revenue is limited.

Deferred Maintenance Fund

This fund is used for state and district funding utilized only to maintain facilities. The district is required to transfer one-half of one percent of general fund expenditures to the deferred maintenance fund to qualify for state matching funds. The use of these funds appears to be appropriate. The unaudited actuals indicated a very small ending balance of $2.46, but after an audit adjustment, the ending balance was negative $2,270 according to the independent audit report. The negative fund balance should be resolved by a transfer from the general fund.

The district should review the historical transfers to this fund to determine whether general fund transfers have exceeded the annual state match. If this is the case, it may be possible to request that the county office certify the excess amounts and postpone the transfer this year.

The Governor's proposed budget for 2009-10 allows school districts to forgo the one-half percent contribution to deferred maintenance.

Special Reserve Fund for Other Than Capital Outlay

This fund had a small ending balance, but was not used in the 2007-08 year and not budgeted for use in 2008-09.

Capital Facilities Fund

The capital facilities fund is used to collect and expend developer fees that provide facilities for enrollment growth. These funds have been used to pay for certain expenditures for the district school site under construction. As of June 30, 2008, the ending fund balance was approximately $12,000. A modest amount of revenue and expenditures are budgeted at approximately $15,000 each in 2008-09. The community does not appear to be growing, and there is not much housing or commercial construction. Therefore, the district should not anticipate receiving developer fee revenue at this time and should readjust planned expenditures accordingly.

State School Building Fund

This fund's ending balance was $1,618 as of June 30, 2008, with nothing budgeted in 2008-09.

The Office of Public School Construction (OPSC) Web site reports the status of the District's School Facility Program projects as follows:

Challenger Middle	100% complete on 1/8/2008
Saddleback Elementary #1	85% complete on 2/25/2008
Wilsona Elementary	100% complete on 3/13/2007

The OPSC Web site reports no active lease-purchase program projects for the district.

County Schools Facilities Fund

This fund has been used to build the district's new school. The fund balance was $1,679,530 at the end of June 2008. Approximately $1 million is budgeted for expenditures in 2008-09. The new school is near completion, but the resources available in this fund will not cover the estimated costs to complete the school.

The board and community should work together to determine the current and future status of this campus. With the district's declining enrollment and the administration's recommendation to close a school next year, there is little chance that this site will be completed, needed or opened. Other options should be evaluated such as leasing the facility. Any decisions about alternate uses for this site should be reviewed by legal counsel and the county office before being approved by the board.

Special Reserve Fund for Capital Outlay

This fund ended the 2007-08 with just $9 in reserves. Although a small amount of expenditures were included in the 2008-09 adopted budget, the fund balance will not support any expenditures this year.

Retiree Benefits Fund

This fund is used to pay for health and welfare retirement benefits, but ended the 2007-08 fiscal year with a zero balance. The district contributes to this fund using general fund dollars to pay for retiree benefits on a pay-as-you-go basis each year.

School districts are allowed to borrow cash between funds on a limited basis. Wilsona does not have large cash balances in other funds, but seeking a board resolution to temporarily borrow between funds could help the district if cash shortages occur because of state deferrals.

Recommendations

The district should:

1. Closely monitor the budgets in all other funds and adjust planned expenditures accordingly.

2. Process required transfers from the general fund to cover all negative ending balances.

3. Work with the Food Services Director to monitor the current year budget and prepare a balanced budget for 2009-10.

4. Evaluate the status and potential uses of the new school and make appropriate decisions on the continuation of construction and/or other future use of the site.

5. Determine whether any other funds have available cash that could be temporarily borrowed to cover general fund cash shortages if that becomes necessary.

6. Develop a board resolution authorizing interfund cash borrowing if it becomes necessary.

Outside Services

Small school districts throughout the state struggle to provide strong instructional programs for students and meet student needs with limited resources. One method is working with other local small districts to determine whether similar services can be combined. Common examples include operations such as food services management and food preparation, transportation, and special education oversight. Using this option, it is possible to utilize the expertise of employees of more than one district to provide services for neighboring districts.

Recommendations

The district should:

1. Meet with other local school districts to discuss the option of combining services.

2. Determine whether savings can be realized if local districts share services.

Fiscal Health Analysis

FCMAT has developed a reliable method to evaluate a school district's financial health called the Fiscal Health Risk Analysis. Although FCMAT did not conduct a full analysis of this kind, the team believes that the district should immediately address the following key areas included in the Fiscal Health Risk Analysis.

- Deficit spending
- The district's negative fund balance as of June 30, 2008
- The lack of the required three percent reserve for economic uncertainty
- Declining enrollment
- The district's collective bargaining agreements. Negotiations for the 2008-09 year are not settled.
- Encroachment
- Position control
- Budget monitoring
- Retiree health benefits
- New leadership/overall stability

The full Fiscal Risk Health Analysis is available at FCMAT's Web site at http://wwwstatic.kern.org/gems/fcmat/fiscalhealthriskanalysis.pdf

Recommendations

The district should:

1. Keep the above concerns in mind when discussing the budget and making decisions. The district should request of the various families a listing of justifications indicating the reasons upon which they based the collaborative decision-making process, culminating in the students exiting the district."

2. Include discussion of these concerns in written and oral communications with employee bargaining groups and other affected parties.

Appendices

A: Components of Superintendent's Proposed Fiscal Recovery Action Plan

B: Study Agreement

Appendix A -- Components of Superintendent's Proposed Fiscal Recovery Action Plan

Year 1 2008-2009

Per the Superintendent, the following reductions have been made during the current year

Certificated Salaries	$ 33,759
Classified Salaries	$ 61,706
Benefits	$114,554
Books/Supplies	$ 15,598
Capital Outlay	$ 25,500
Special Education Encroachment	$ 28,456
Transportation Encroachment	$104,925
Retiree Fund	$ 14,711
Total Reductions	$399,209
Anticipated Revenue	$20,000

Recapture revenue by bringing back CDC students from county office programs

Year 2 2009-2010

Anticipated Savings of $950,000 from the following categories – details unspecified

- Elimination of Class Size Reductions
- School Site Closure
- Elimination/Modification of WAA
- Staff Assignment/Workload
- Adjustments to Transportation
- Four Day School Week
- Negotiated Salary Reductions for All Groups
- Negotiated Benefits Reductions for All Groups
- Negotiated Class Size Adjustments
- Reduction in Contracted Services
- Reduction in Utility Usage
- Reduction in Materials and Supplies
- Maximizing Categorical Spending
- Classified Staff Reductions
- Certificated Staff Reductions
- Ideas for Revenue Generation

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 Wilsona Elementary School District, hereinafter referred to as the District, mutually agree as follows:

1. BASIS OF AGREEMENT

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

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The scope and objectives of this study are to:

1) Validate the 2007/2008 General Fund unaudited actuals and provide insight into the factors that created a material reduction in the District's financial stability during year end closing.

2) Validate the revenue and expenditure allocations in the District's 2008-09 General Fund budget and identify areas where revisions are required based on current statewide and district assumptions. Confirm the amount of budgetary shortfall, as applicable.

3) Provide recommendations for improvements in current procedures for budget development, monitoring, and processing budget revisions.

B. Services and Products to be Provided

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

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

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

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

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

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

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

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. Michele McClowry, 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 at other locations, preparing and presenting reports, or participating in meetings.

B. All out-of-pocket expenses, including travel, meals, lodging, etc. Based on the elements noted in section 2 A, the total District cost for this study is not to exceed $5,500. The District will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the District.

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

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

5. RESPONSIBILITIES OF THE DISTRICT

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

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

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

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

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

6. PROJECT SCHEDULE

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

At this time, FCMAT estimates that the on site portion of the review could be conducted over a 2-3 day period during the week of December 1, 2008. The schedule for this review is dependent on the timely approval of the District governing board:

Orientation:	to be determined
Staff Interviews:	to be determined
Exit Interviews:	to be determined
Preliminary Report Submitted:	Six weeks following the conclusion of on site work
Final Report Submitted:	to be determined
Board Presentation:	to be determined
Follow-Up Support:	If requested

7. CONTACT PERSON

Please print name of contact person: David Andreasen, Superintendent

Telephone 661 264-1111 FAX

Internet Address dandreasen@wilsona.k12.ca.us

11-20-08

David Andreasen, Superintendent Date
Wilsona Elementary School District

Barbara Dean

November 3, 2008

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

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