

Fiscal  
& Crisis  
Management  
Assistance  
Team

# AB 1200

& Related Responsibilities



*A Guide for Educational Agencies*  
*February 2000*

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# Foreword

**AB1200** has been successful in focusing the attention of school districts and county offices of education on their fiscal responsibilities. Each year, fewer and fewer districts have slipped into fiscal crisis since AB1200 was enacted in 1991. In recent years, there have been no state emergency loans provided to school districts due to fiscal insolvency. That is not to say local educational agencies (LEAs) no longer are experiencing financial difficulties, it is that these agencies have become assertive in taking steps to remedy fiscal difficulties before they become fiscal crises. County offices of education have played an important role relative to the fiscal health of local school districts—their fiscal oversight services deliver early intervention and assistance.

In addition to the added authority and responsibilities given to county offices, AB1200 created the Fiscal Crisis and Management Assistance Team (FCMAT) to be a service to LEAs by providing fiscal crisis intervention and management assistance. As part of that responsibility, FCMAT offers various products and teleconferences related to fiscal practices. In March 1993, FCMAT partnered with the California Department of Education, county offices of education and LEAs to develop a document entitled *AB1200 Budget Review Process*. This document now has been updated to reflect current legislation as it relates to roles and responsibilities of the LEA.

*AB1200 & Related Responsibilities* was made possible with the assistance of staff from the California Department of Education, several county offices of education, the Business and Administration Steering Committee (BASC), the School Financial Services Subcommittee (SFSS), and the FCMAT staff. We thank everyone who contributed to this document. *AB1200 & Related Responsibilities* does not replace the *AB1200 Handbook* (December 1995) provided through School Services of California, or any document or advisory from the California Department of Education. Rather, it is intended to provide current information relative to the roles and responsibilities of county offices of education under AB1200 and related legislation.

FCMAT has found this document to be in a constant state of evolution. As such, and as new legislation is enacted, it requires revision on a regular basis. As you use *AB1200 & Related Responsibilities*, we request that you provide FCMAT with suggestions for improvement or change.



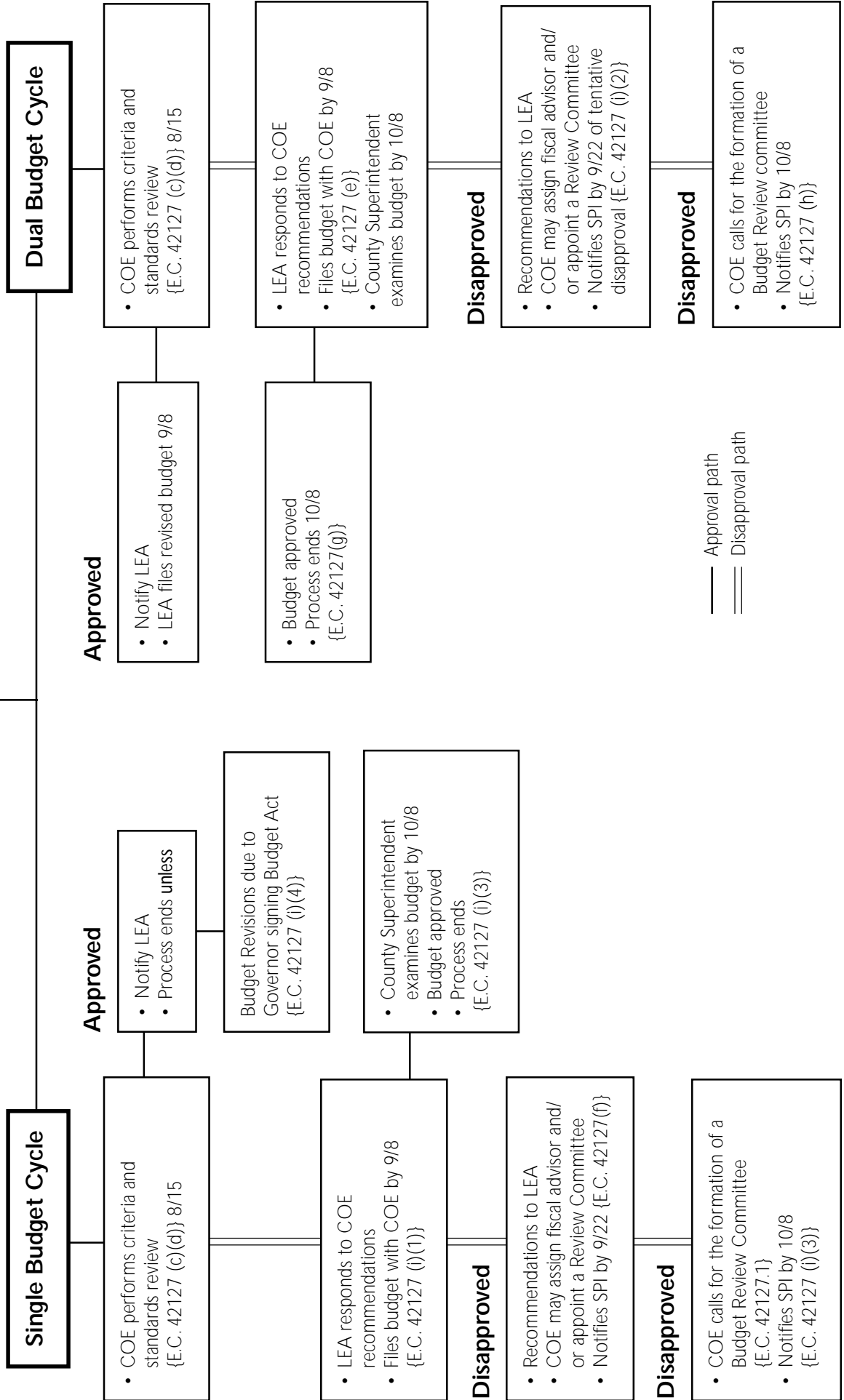
# Budget Adoption Process

- I. Board shall hold a hearing on or before July 1 of each year and shall post the agenda for the hearing at least 72 hours before meeting and shall include the location where the budget is available for public inspection {E.C. 42127 (a) (1), E.C. 42103}. Notice of the date and location shall be posted no earlier than 45 days and no later than 10 days prior to the hearing {E.C. 42103}.
- II. School districts shall adopt a budget on or before July 1 of each year {E.C. 42127 (a) (2)}.
  - A. The governing board shall file the budget with the county superintendent within five days of adoption or by July 1, whichever occurs first {E.C. 42127 (a) (2)}.
  - B. The governing board elects and notifies the county superintendent in writing of decision to use the single budget option. This election shall be made by October 31 of the preceding year {E.C. 42127 (i)}. If the board does not elect to use the single budget option, a dual budget option is required {E.C. 42127 (e) (g)}.
    1. The dual budget option requires a revised and readopted budget by September 8 that is subject to the standards and criteria review. The revised budget must reflect changes in projected income and expense subsequent to July 1. The district needs to advertise the date, time and location of the public hearing {E.C. 42127 (e), E.C. 42103}.
    2. The single budget is readopted only if it is disapproved pursuant to E.C. 42127 (d) or as needed; and no later than 45 days after the state budget is signed by the Governor, the district must make available for public review any revisions made necessary by the Budget Act {E.C. 42127 (i) (4)}.
- III. For both dual and single budgets submitted on July 1, the County Superintendent shall:
  - A. Examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance {E.C. 42127 (c) (1)}.
  - B. Determine if the budget allows the district to meet its financial obligations {E.C. 42127 (c) (2)}.
  - C. Determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments {E.C. 42127 (c) (2)}.
- IV. On or before August 15, the County Superintendent shall approve or disapprove the adopted budget for each school district {E.C. 42127 (d)}.
  - A. Budgets shall be disapproved pursuant to E.C. 42127 (d) if they fail to meet the standards outlined above {E.C. 42127 (c) (1), 42127 (c) (2)}.

1. District board must be notified in writing by August 15 of the County Superintendent's recommendations for revisions and reasons for the recommendations {E.C. 42127 (d)}.
  2. County Superintendent may assign a fiscal advisor to assist the district with budget development in compliance with those revisions, or appoint a committee to examine and comment on the county superintendent's review and recommendations. If appointed, the committee must report its findings no later than August 20 {E.C. 42127 (d)}.
  3. Any recommendations made by the County Superintendent pursuant to subdivision (d) of section 42127 shall be made available by the district for public inspection in a facility of the district or some other place conveniently accessible to residents of the district {E.C. 42103, E.C. 42127 (e)}.
- B. No later than September 22, the County Superintendent shall provide a list to the Superintendent of Public Instruction identifying all school districts for which budgets may be disapproved {E.C. 42127 (f), EC 42127 (i) (2)}.
- V. For all dual budget-option districts and for single and dual option districts whose budgets have been disapproved, the following occurs:
- A. By September 8, hold a public hearing, revise and readopt its budget, and submit budget to County Superintendent. Budget should reflect changes in projected income and expense since July 1, and include any responses to the County Superintendent's recommendations {E.C. 42127 (e), EC 42103, EC 42127 (i) (1)}.
  - B. The County Superintendent must determine if the budget conforms with the standards and criteria applicable to final district budgets and, no later than October 8, shall (1) approve or disapprove the revised dual budgets {E.C. 42127 (g)} , and (2) approve or disapprove initially disapproved single budgets {E.C. 42127 (i) (3)}. Not later than October 8, the County Superintendent of schools shall submit a report to the Superintendent of Public Instruction identifying all school districts for which budgets have been disapproved {E.C. 42127 (h)}.
    1. If the budget is disapproved, the County Superintendent shall call for the formation of a budget review committee pursuant to E.C. 42127 (g) -dual, E.C. 42127 (i) (3) -single.
  - C. Until the district's budget is approved, the district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted or revised for the prior fiscal year {E.C. 42127.4}.
  - D. If the governing board of any school district neglects or refuses to make a budget, the County Superintendent of Schools shall not make any apportionment of state or county school money to the district or approve any warrant issued by the school district {E.C. 42128}.

# BUDGET ADOPTION PROCESS

District Governing Board Adopts Budget with Criteria & Standards and Submits to COE not later than 5 days after that adoption or July 1, whichever occurs first {E.C. 42127 (a)(2)}



— Approval path  
 === Disapproval path



# Budget Review Committee Process

- I. Upon the disapproval of a district budget by the County Superintendent of Schools, the County Superintendent shall call for the formation of a budget review committee {E.C. 42127.1 (a)}.
  - A. The budget review committee shall consist of three persons selected by the district's board from a list of qualified individuals provided by the Superintendent of Public Instruction {E.C. 42127.1 (b)}.
    1. The district's board has five working days after receiving a list of candidates to select a three-member budget review committee {E.C. 42127.2 (a)}.
    2. The Superintendent of Public Instruction shall convene the committee no later than five working days following the selection of the committee by the district's board {E.C. 42127.2 (a)}.
    3. If the district's board fails to select a committee, the Superintendent of Public Instruction has 10 working days from the date the board received the candidate list to convene a budget review committee {E.C. 42127.2 (a)}.
  - B. The budget review committee also may be a regional review committee convened by the County Superintendent with the approval of the district's board and the Superintendent of Public Instruction {42127.1 (c)}.
    1. The members of the committee shall be reimbursed for their services and associated expenses by the State Department of Education at rates established by the State Board of Education {E.C. 42127.1 (d)}.
  - C. The County Superintendent may request that the Controller's office conduct an audit or review of the fiscal conditions of the district in order to assist a budget review committee or regional review committee {E.C. 42127.2 (e)}.
- II. No later than October 31, the committee shall complete its review of the proposed budget and the underlying fiscal policies of the district and report to the County Superintendent, the State Superintendent of Public Instruction, and the district's board {E.C. 42127.2 (b)}.
  - A. The Superintendent of Public Instruction may extend the deadline noted above for no more than 15 working days {E.C. 42127.2 (c)}.
  - B. If the budget is approved by the committee, the County Office of Education shall accept the recommendations and approve the budget {E.C. 42127.3 (a)}.
  - C. If the budget is disapproved by the committee, the district board has five working days to respond to the disapproval to the State Superintendent of Public Instruction. The response should include any revisions to the budget and other proposed actions to be taken as a result of the committee's recommendations {E.C. 42127.3 (b)}.



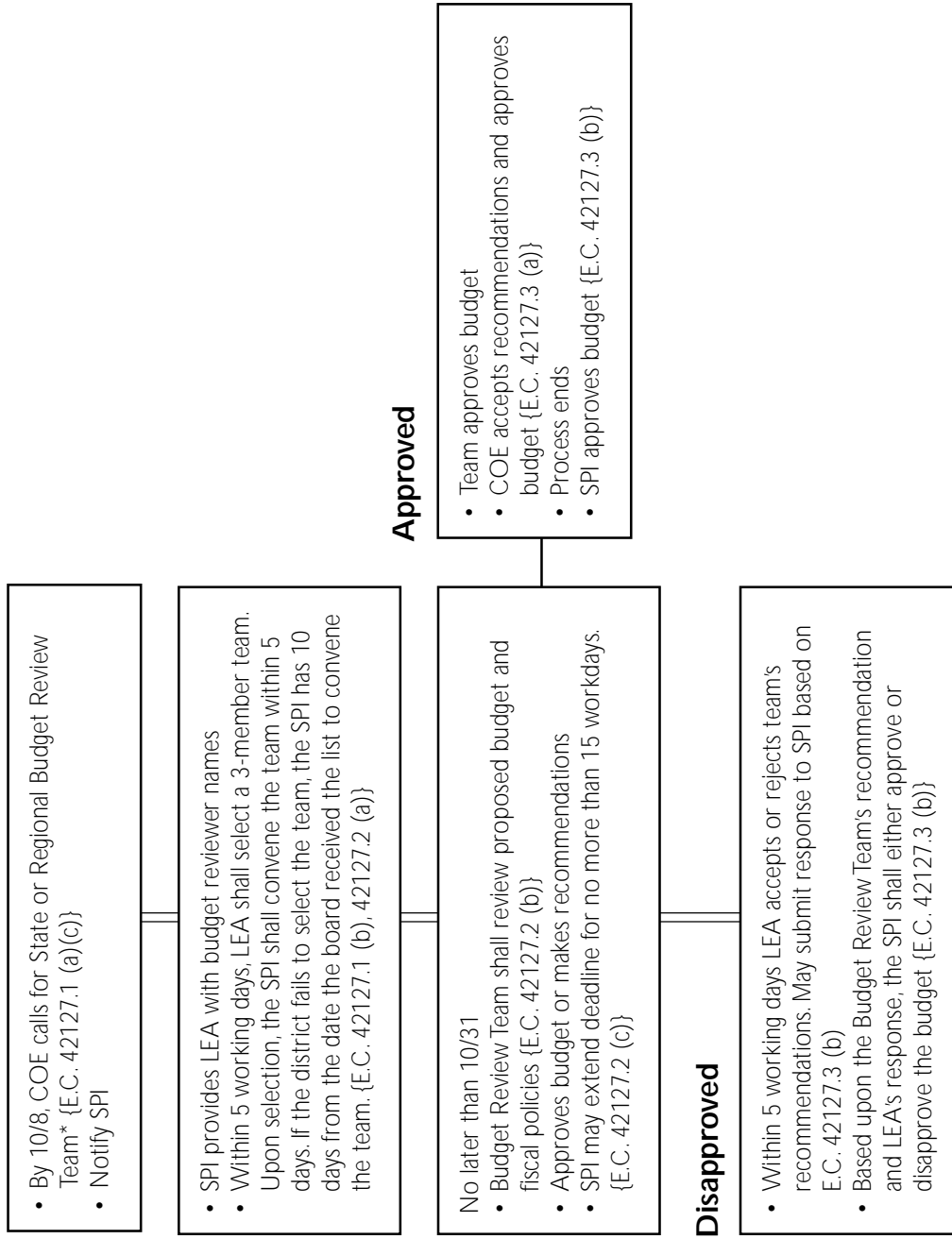
# Disapproved District Budget

- I. If the Superintendent of Public Instruction disapproves the budget under 42127.3 (b), the Superintendent of Public Instruction will notify the district governing board in writing of the reasons for the disapproval and for the remainder of the current fiscal year, the County Superintendent of Schools shall do the following as necessary.
- II. No later than November 30, the County Superintendent shall develop and adopt, in consultation with the Superintendent of Public Instruction and governing board of the school district, a fiscal plan and budget that will allow the district to meet its financial obligations, both in the current fiscal year and with regard to the district's multi-year financial commitments. The Superintendent of Public Instruction may extend the date noted above {E.C. 42127.3 (b) (1)}.
- III. Cancel purchase orders, prohibit the issuance of nonsalary warrants, and otherwise stop or rescind any action that is inconsistent with the budget adopted under E.C. 42127.3 (b) (1). The County Superintendent shall inform the district school board in writing of the justification for this authority {E.C. 42127.3 (b) (2)}.
- IV. Monitor and review the operation of the school district {E.C. 42127.3 (b) (3)}.
- V. Determine the need for additional staff and may employ, subject to approval by the Superintendent of Public Instruction, short-term analytical assistance or expertise to validate financial information if the district staff does not have the expertise or staff {E.C. 42127.3 (b) (4)}.
- VI. Require the school district to encumber all contracts and other obligations, to prepare appropriate cash-flow analyses and monthly or quarterly budget revisions, and to appropriately record all receivables and payables {E.C. 42127.3 (b) (5)}.
- VII. Determine whether there are any financial problem areas and may employ, subject to approval by the Superintendent of Public Instruction, a certified public accounting firm to investigate financial problem areas {E.C. 42127.3 (b) (6)}.
- VIII. Withhold compensation of the members of the governing board and the district superintendent for failure to provide requested financial information {E.C. 42127.3 (b) (7)}.
- IX. If an agreement is reached between the governing board of the school district and the County Superintendent of Schools, and the school district revises its budget to comply with this agreement, the County Superintendent of Schools shall approve the district budget and the budget review committee selection, or its review of the budget shall be canceled {E.C. 42127.3 (c)}.



# DISAPPROVED DISTRICT BUDGET

(Single and Dual Budget Cycle)  
Budget Review Committee Process



\* Regional Team must have approval of SPI and LEA

— Approval path  
= Disapproval path



# SPEI DISAPPROVED DISTRICT BUDGET

## 42127.3(b)

### SPEI Disapproved

SPEI notifies LEA Board in writing reasons for disapproval. COE\* shall do the following as necessary:

- Assume expanded authority
- Consult with SPEI\*, LEA\* Board to develop and adopt a fiscal plan and budget allowing district to meet its financial obligations.
- Consider current fiscal year and multi-year financial commitments
- Cancel POs, prohibit nonsalary warrants, stay or rescind any LEA action that is inconsistent with the newly adopted budget.
- Monitor and review the operation of the district
- May employ short term analytical assistance
- Require all contracts and other obligations be encumbered
- LEA Board shall govern the district in accordance with the newly adopted budget

### Approved Imposed Budget

Every school district will have an adopted and approved or imposed budget by November 30.

Pending budget approval, E.C. 42127.4 requires the LEA to continue to operate on the lowest spending authority of either:

- Last budget adopted or revised by the governing board for prior fiscal year. (or)
- The unapproved budget for the current fiscal year, as adopted and revised by the governing board of the school district.

\* COE cannot abrogate any prior collective bargaining provisions {E.C. 42127.3 (e)}

\* LEA shall pay 75 percent and the COE 25 percent {E.C. 42127.3 (d)}

— Approval path

== Disapproval path



# Lack of Going Concern

The AB1200 section of the education code does not use the term “Going Concern.” However, Education Code Section 42127.6 has often been referred to as the Going Concern section. The term “Going Concern” does appear in the State Controller’s K-12 Audit Guide under “other issues.” The guide’s statement on auditing standards (SAS) No. 59, states, “The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern,” addresses the auditor’s responsibilities and considerations when questions arise concerning an organization’s ability to meet its obligations as they become due without substantial disposal of assets, restructuring of debt, externally forced revision of its operation, or similar actions. The ability to meet payment obligations as they become due is the key concept that causes SAS No. 59 to be directly applicable to government entities, including LEAs.

- I. If at any time during the fiscal year the County Superintendent of Schools determines that a school district may be unable to meet its financial obligations for the current or two subsequent fiscal years, or if the district has a qualified certification, the County Superintendent shall notify the governing board and the SPI of the determination. The County Superintendent shall adhere to Education Code 42127.6 in assisting the school district. This assistance includes the paraphrased narrative of the code section. Please refer to E.C. 42127.6 for a complete listing.
  1. Assign a fiscal expert, paid for by the County Superintendent, to advise the district on its financial problem.
  2. Conduct a study of the financial and budgetary conditions of the district. If expertise is needed for the study, the County Office of Education may hire staff with the approval of the SPI. The school district shall pay 75 percent and the County Office of Education shall pay 25 percent of those staff costs.
  3. Direct the school district to submit a financial projection of all fund and cash balances of the district.
  4. Require the district to encumber all contracts and other obligations, to prepare appropriate cash flow analyses and budget revisions, to record all receivables and payables.
  5. Direct the district to submit a proposal for addressing the fiscal condition.
  6. Withhold compensation of the members of the governing board and district superintendent for failure to provide requested financial information.
- II. If, after taking any or all of the actions cited in E.C. 42127.6 (One through six), the County Superintendent determines that a district will be unable to meet its financial obligations for the current or subsequent fiscal year, the County Superintendent shall notify the governing board and SPI in writing. Within five days of the determination, an appeal may be made to SPI by the district and within 10 days of the appeal, the SPI shall sustain

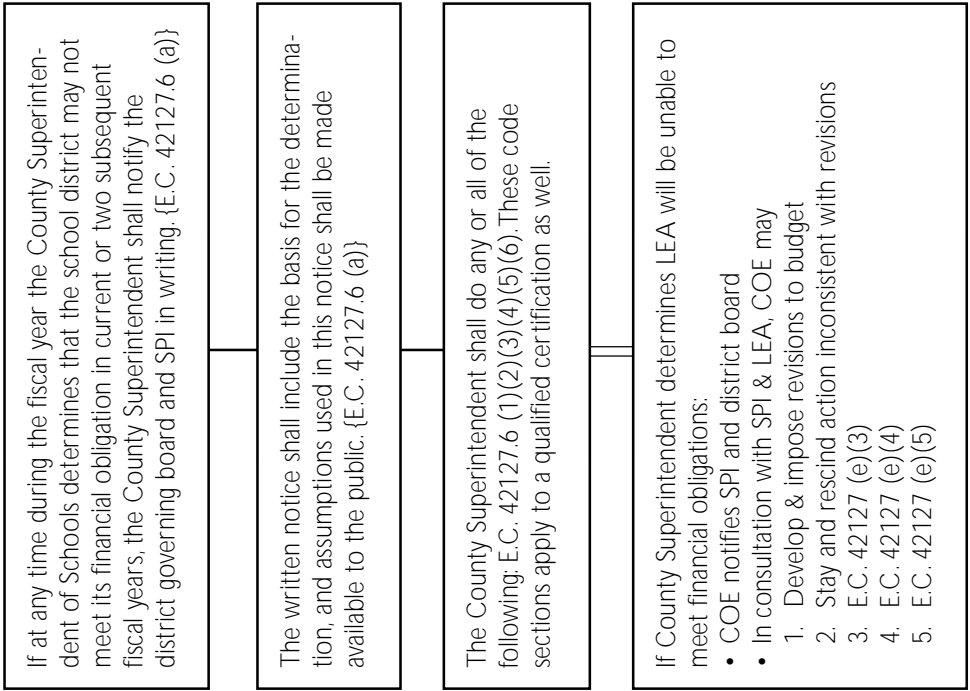
or deny any or all parts of the appeal. During the appeal process, the County Superintendent may stay any action of the governing board that is inconsistent with the district's ability to meet its financial obligations {E.C. 42127.6 (c) (d)}.

III. If the appeal is denied or not filed, or if the district has a negative certification, the County Superintendent, in consultation with the SPI, shall, as necessary to enable the district to meet its financial obligation, do any or all of the actions listed in Education Code 42127.6 (e) (1, 2, 3, 4 & 5). These actions include the following paraphrased code section. Please refer to E.C. 42127.6 (e) for a complete listing.

1. Develop and impose, in consultation with the SPI and the governing board, a budget revision.
2. Stay or rescind any action that is determined to be inconsistent with the school district's ability to meet its obligations for the current or subsequent fiscal year.
3. Assist in developing, in consultation with the governing board of the school district, a financial plan that will enable the district to meet its future obligations.
4. Assist in developing, in consultation with the governing board of the school district, a budget for the subsequent fiscal year.
5. As necessary, appoint a fiscal advisor to perform any or all of the duties required of the County Superintendent under this section.

IV. This section does not authorize the County Superintendent to abrogate any provisions of a collective bargaining agreement that was entered into by a school district prior to the date upon which the County Superintendent of Schools assumed authority {E.C. 42127.6 (g)}.

# LACK OF GOING CONCERN



— Approval path  
 = Disapproval path



# Interim Reports

Districts shall submit two reports to the governing board during each fiscal year. The first report (first interim), shall cover the financial and budgetary status of the district for the period ending October 31. The second report (second interim) shall cover the period ending January 31. Both reports shall be approved by the district board no later than 45 days after the close of the report period (December 15 and March 16 or 17, depending on “leap year”) {E.C. 42130}.

If the board of any district neglects to file an interim report, the County Superintendent of Schools shall not make any apportionment of state or county school money to the school district or approve any warrant issued by the school district {E.C. 42128}.

- I. School districts shall certify in writing (within 45 days after the close of the period being reported) whether or not the district is able to meet its financial obligations for the remainder of the fiscal year and, based on current forecasts, for the subsequent fiscal year. A **qualified** certification will be assigned to any district that **may** not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A **negative** certification **will** be assigned to any district that will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year {E.C. 42131}.
- II. If a county office of education receives a positive certification when it determines a negative or qualified certification should have been filed, the County Superintendent shall change the certification to negative or qualified, as appropriate {E.C. 42131 (a) (2)}.
  - A. No later than five days after receipt of the notice of a change to negative or qualified, the governing board of the school district may submit an appeal to the Superintendent of Public Instruction {E.C. 42131 (a) (2)}.
  - B. The Superintendent of Public Instruction shall determine the certification to be assigned to the district no later than 10 days after receiving the appeal and notify the school board and county office of education {E.C. 42131 (a) (2)}.
- III. Within 75 days of the close of a reporting period, all certifications classified as qualified or negative, shall be transmitted by the County Superintendent to the SPI and State Controller along with the County Superintendent’s comments and report of actions proposed or taken {E.C. 42131 (a) (2)}.
  - A. Within 75 days after the close of each reporting period, each County Superintendent shall report to the state controller and the state SPI as to whether each school district under the county’s jurisdiction has submitted the certification required {E.C. 42131 (c)}.
    1. The Controller’s office may conduct an audit or review of the fiscal condition of any district having a negative or qualified certification {E.C. 42131 (d)}.

B. Whenever a district has a qualified or negative certification, the County Office of Education may do one or more of the following:

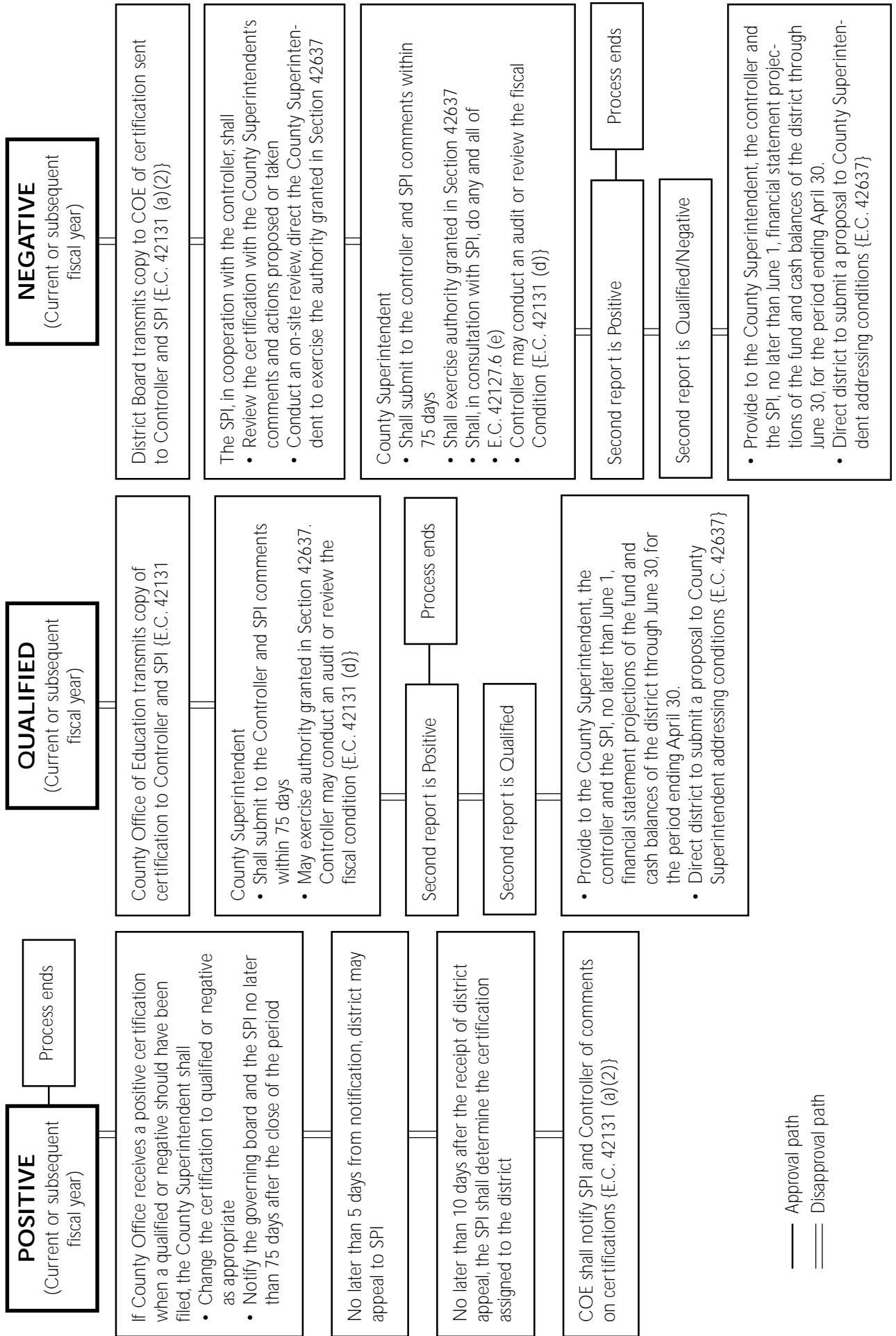
1. Exercise authority granted in Education Code 42127.6 and 42131 (b).

IV. If the second interim report transmitted by a school district each fiscal year is qualified or negative, the governing board of that school district shall provide the County Superintendent, the SPI and the Controller with a financial statement no later than June 1 that projects the district's fund and cash balances through June 30 for the period ending April 30 {E.C. 42131 (e)}.

V. A school district that has a qualified or negative certification in any fiscal year may not issue in that year or in the next succeeding fiscal year certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, unless the County Superintendent of Schools determines that the districts repayment of that indebtedness is probable {E.C. 42133}.

# INTERIM REPORTS

## Education Code 42131



— Approval path  
 == Disapproval path



# Appeal Procedures

- I. No later than five days after the district receives notice of change(s) in the district's budget to be imposed pursuant to E.C. 42127.3 (b), 42127.6 and 42131, the LEA board may appeal. Each of the above referenced Code Sections allows the LEA five days to appeal:
  - A. Submit an appeal to State Superintendent of Public Instruction {E.C. 42127.9 (a)}, based on the contention that the change(s) would:
    1. Exceed the financial and program changes that are necessary.
    2. Require reductions that are unnecessary.
    3. Force changes that are inconsistent with state or federal law.
- II. No later than five days after receiving the LEA appeal, the State Superintendent of Public Instruction shall deny or uphold the appeal {E.C. 42127.9 (b)}.
  - A. If the appeal is upheld, the State Superintendent may revise changes adopted by the county office or offer guidelines to the LEA and COE on changing the budget.
    1. If denied, the LEA shall implement changes adopted by the County Office of Education {E.C. 42127.9 (b)}.



# APPEAL PROCEDURES

LEA Appeal {E.C. 42127.9}

- No later than five days after the LEA receives notice of changes to budget pursuant to E.C. 42127.3 (b), 42127.6 (a) and 42131 (a)(a), LEA Board may submit appeal to SPI, based on the premise that changes would:
  1. Exceed changes necessary
  2. Require reductions that are unnecessary
  3. Be inconsistent with State and Federal law
- No later than five working days after receiving LEA appeal, SPI shall deny or uphold the appeal

## Denied

- LEA shall implement the changes adopted by the COE

## Appeal Upheld

SPI may revise the changes adopted by the COE or offer guidelines to the LEA and COE on changing the budget

— Approval path  
= Disapproval path



# Public Disclosure Responsibilities

## Collective Bargaining

Statute requires that the public is aware of the costs associated with a tentative collective bargaining agreement before it becomes binding on the district or county office of education. Government Code Section 3547.5 states:

“Before a public school employer enters into a written agreement with an exclusive representative covering matters within the scope of representation, the major provisions of the agreement, including, but not limited to, the costs that would be incurred by the public school employer under the agreement for the current and subsequent fiscal year, shall be disclosed at a public meeting of the public school employer in a format established for this purpose by the Superintendent of Public Instruction.”

In 1992, the SPI issued Management Advisory 92-01, which provides procedures for LEAs to use in meeting the Government Code Section 3547.5. AB 3141 (1994) provided additional clarification and procedures related to the collective bargaining disclosures. The SPI issued Management Advisory 95-03 to LEAs to further clarify these procedures.

Education Code Section 42142 states:

“Within 45 days of adopting a collective bargaining agreement, school district superintendents must send the county superintendent any revisions to the district’s current year budget that are necessary to fulfill the terms of that agreement. Any additional costs to the school district that may result from the terms of the agreement also shall be reflected in any interim fiscal reports or multi-year fiscal projections.”

Essentially, any budget revisions reflecting the impact of the collective bargaining agreements must be forwarded to the County Superintendent within 45 days of board adoption of the contract settlement.

Government Code Section 3540.2 provides an added oversight related to the collective bargaining process. Any school district with a qualified or negative certification under Education Code Section 42131 shall allow the county office of education **at least** six working days to review and comment on any proposed collective bargaining agreement before it is ratified. The school district shall provide the county office all information relevant to yield an understanding of the financial impact of that agreement. The County Superintendent shall notify the school district publicly within those six days if the agreement would endanger the fiscal well-being of the school district.

## **Nonvoter Approved Debt**

Education Code 17150 requires, in part, the following:

- Upon the approval by a school district board to proceed with the issuance of certificates of participation (COP) revenue bonds, the school district shall notify the County Superintendent and the County Auditor.
- The district superintendent shall provide the repayment schedules for that debt obligation, and evidence of the ability of the school district to repay that obligation to the County Auditor, the County Superintendent, the governing board, and the public.
- Within 15 days of the receipt of the information, the County Superintendent of Schools and the County Auditor may comment publicly to the governing board of the school district regarding the capability of the school district to repay that debt obligation {E.C. 17150 (a)}.
- Within 15 days of the receipt of the information, the SPI may comment publicly to the County Board of Education regarding the capability of the County Office of Education or school district (County Board serves as Governing Board) to repay that debt obligation {E.C. 17150 (b)}.

## **Health and Welfare Benefits for Retired Employees over Age 65**

Education Code Section 42140 requires, in part, the following:

- District and County Superintendents annually shall provide information to the governing board(s) as appropriate, regarding the estimated accrued but unfunded cost of those benefits at a public meeting.
- The estimated cost shall be based upon an actuarial report completed at least every three years.
- The actuarial report shall be performed by an actuary who is a member of the American Academy of Actuaries.
- The governing board(s) shall disclose, as a separate agenda item, whether or not it will reserve a sufficient amount of money in its budget to fund the present value.
- The governing board shall annually certify to the County Superintendent of Schools the amount of money, if any, that it has decided to reserve in its budget for the costs of those benefits and shall submit any budget revisions that may be necessary.
- The county board shall annually certify to the SPI the amount of money, if any, that has been reserved in the County Office of Education's budget for cost of these benefits.

## Requirements for Annual Audit and Audit Resolution Follow-up

Education Code Sections 41020 and 41020.3 require, in part, the following:

- By May 1 of each fiscal year, the governing board of each school district shall either provide for an audit of the school district or make arrangements with the County Superintendent of Schools for that auditing.
- If the district governing board has not provided for an audit by April 1, the County Superintendent of Schools shall provide for the audit.
- Not later than December 15, a report of each audit for the preceding fiscal year shall be filed with the County Superintendent, the California Department of Education and the Controller.
- By January 31, the Governing Board at each school district shall review at a public meeting the annual audit, any audit exceptions, recommendations or findings issued by the auditor, and any description or plans of correction of exception or management letter issue {E.C. 41020.3}.
- Each County Superintendent of Schools shall be responsible for reviewing the audit exceptions (attendance, inventory, internal control, and any miscellaneous items) contained in an audit of a school district and determine whether the exceptions have been either corrected or an acceptable plan of correction has been developed.
- If a description of the correction or plan of correction has not been provided by the district, the County Superintendent shall notify the school district and request the governing board of the school district to provide a description of the corrections or plan by March 15.
- The County Superintendent shall review the corrections or plan and determine its adequacy. The County Superintendent shall require the district to resubmit if the plan is inadequate.
- The County Superintendent must certify to SPI by May 15 that all audits have been reviewed and all exceptions have been corrected or an acceptable plan of correction has been submitted to the County Superintendent.

## Workers' Compensation Claims

Education Code Section 42141 requires, in part, the following:

- If a district or county office of education is self-insured for Workers' Compensation claims, the superintendent(s) shall annually provide information to the governing board(s) as appropriate, regarding the estimated accrued but unfunded cost of those claims.
- The estimated costs shall be based on an actuarial report completed at least every three years.
- The actuarial report shall be performed by an actuary who is a member of the American Academy of Actuaries.

- The cost information and a copy of the actuarial report shall be presented at a public meeting of the board.
- At that meeting, the governing board shall disclose, as a separate agenda item, whether or not it will reserve a sufficient amount of money in its budget to fund the present value of the accrued but unpaid claims or decrease the amount of its workers' compensation reserve fund.
- The governing board annually shall certify to the County Superintendent of Schools the amount of money, if any, that it has decided to reserve in its budget for the cost of those claims and shall submit any budget revisions that may be necessary.
- The County Board of Education annually shall certify to the SPI the amount of money, if any, that has been reserved in the COE budget for cost of these benefits.

# California Department of Education Notice of Interim Certifications from the \_\_\_\_\_ County Office of Education

Check one:  First Interim Report (October 31 closing period)  
Please fax or mail this document to the CDE and SCO by January 15

Second Interim Report (January 31 closing period)  
Please fax or mail this document to the CDE and SCO by April 16

All of our school districts filed positive interim reports which were confirmed by the county superintendent. Exceptions to the above are as follows:\*

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\*Pursuant to Education Code Section 42131(a)(2), the county superintendent of schools shall submit a copy of the interim report, county superintendent's comments, and a report on any action proposed or taken by the county superintendent to the SPI and the SCO for each district with a qualified or negative certification:

\_\_\_\_\_  
Signature of County Superintendent or Designee

\_\_\_\_\_  
Date

\_\_\_\_\_  
Contact Name

\_\_\_\_\_  
Telephone

**California Department of Education**  
School Business Services Division  
Attention: Stephen Luhrs  
560 J Street, Suite 170  
Sacramento, CA 95814  
Telephone Number (916) 322-2150  
FAX Number (916) 322-1465

**State Controllers Office**  
Audits Division  
Attention: Jeffrey Brownfield  
300 Capitol Mall, 5th Floor  
Sacramento, CA 95814  
Telephone Number (916) 324-1696  
FAX Number (916) 327-3878



# Criteria and Standards for Reviewing School District Budgets

| <u>CRITERIA</u>                 | <u>STANDARDS</u>  |
|---------------------------------|---|
| <b>First Tier Review</b>        | Any deviation triggers a Second Tier Review—the Second Tier is in addition to all items in the First Tier.  |
| <i>Average Daily Attendance</i> | <p>ADA has not been overestimated in the first prior year or in two or more of the previous years by more than the following variance levels:</p> <p style="padding-left: 40px;">1.030 for districts with 0 – 300 ADA<br/>           1.025 for districts with 301 – 1,000 ADA<br/>           1.020 for districts with 1,001 – 30,000 ADA<br/>           1.015 for districts with 30,001 – 400,000 ADA<br/>           1.010 for districts with 400,001 and over ADA</p>  |
| <i>Deficit Spending</i>         | <p>Deficit spending (revenues plus other financing sources less expenditures less other financing uses) has not exceeded the following variance levels in either the first and second prior years or the first and third prior years:</p> <p style="padding-left: 40px;">.0165 for districts with 0 – 300 ADA<br/>           .0132 for districts with 301 – 1,000 ADA<br/>           .0099 for districts with 1,001 – 30,000 ADA<br/>           .0066 for districts with 30,001 – 400,000 ADA<br/>           .0033 for districts with 400,001 and over ADA</p>  |
| <i>Reserves</i>                 | <p>Available reserves are not less than the following percentages as applied to total expenditures, transfers out and uses, except as provided for in Education Code Section 33128:</p> <p style="padding-left: 40px;">the greater of 5% or \$50,000 for districts with 0 – 300 ADA<br/>           the greater of 4% or \$50,000 for districts with 301 – 1,000 ADA<br/>           3% for districts with 1,001 – 30,000 ADA<br/>           2% for districts with 30,001 – 400,000 ADA<br/>           1% for districts with 400,001 – and over ADA</p>   |
| <i>Supplemental Information</i> | <p>Provide supplemental information as follows:</p> <ul style="list-style-type: none"> <li>• Compare the change in fund balance for the budget and three prior years. Provide an explanation if the fund balance has declined for the last three fiscal years.</li> <li>• Fund balance is not less than the sum of its components.</li> <li>• If more than 1% of ongoing General Fund operating expenditures are funded with onetime resources in the budget year, explain how the onetime resources will be replaced to continue funding the ongoing expenditures in the following years.</li> </ul> |

## CRITERIA

### **First Tier Review** *(Continued)*

#### *Supplemental Information*

## STANDARDS

Any deviation triggers a Second Tier Review—the Second Tier is in addition to all items in the First Tier.

Provide supplemental information as follows:

- Analyze the change in Special Education funding. Provide an explanation if revenues have changed by more than 5% from the prior year.
- Identify all significant multi-year commitments for the next three years and identify the resources used to service those commitments.
- Analyze contributions to restricted programs. Provide an explanation if contributions have increased by more than 10% from the prior year.
- Identify the liability for health and welfare benefits for retired employees based on the required actuarial study, and how the costs are accounted for.
- Identify all temporary borrowings between funds. (Refer to Education Code Section 42603.)
- Identify the status of all capital projects that may impact the General Fund operational budget.
- Analyze the status of employee salary and benefit negotiations.

If salary and benefit negotiations are not finalized, upon settlement with certificated or classified staff:

- The school district must determine the cost of the settlement, including salaries, benefits, and any other agreements that change costs, and provide the county office of education with an analysis of the cost of the settlement and its impact on the operating budget. The governing board must certify as to the validity of the analysis.
- The county superintendent shall review the analysis relative to the criteria and standards, and provide written comments to the president of the district governing board, and the district superintendent.

**CRITERIA**

**STANDARDS**

**Second Tier Review**

Deviations must be explained in writing.\*

NOTE: In addition to the items in the First Tier, the Second Tier includes:

*Revenue Limit*

Budgeted revenue limit has not increased or decreased by more than the change in base revenue limit per ADA, plus the change in revenue limit ADA from the prior year.

*Other Revenues*

Federal revenues, other state revenues, and local revenues have not increased or decreased by more than 10% from the prior year revenues.

*Salaries and Benefits*

Salaries and benefits have not increased by more than the district's change in base revenue limit per ADA, plus the change in revenue limit ADA from the prior year.

*Other Operating Expenses*

Expenditures for books and supplies, and services and other operating expenditures have not increased or decreased by more than 10% or the change in base revenue limit per ADA plus the change in revenue limit ADA (whichever is higher) from the prior year.

Capital outlay and other outgo have not increased or decreased by more than 40% from the prior year.

*Other Sources and Uses*

Other Sources and Uses have not increased or decreased by more than 40% from the prior year.

*Supplemental Information*

analyze the General Fund for changes in the budget and three prior fiscal Years in ADA; operating revenue and expenditures; surplus/deficit; ending fund balance; and reserve.

\* Explanations should be concise and to the point. Districts and county offices should discuss the specificity and length of these explanations to ensure that they are as useful and unobtrusive as possible.



# Criteria and Standards for Reviewing School District Interim Reports

| <u>CRITERIA</u>                 | <u>STANDARDS</u>  |
|---------------------------------|---|
| <b>First Tier Review</b>        | Any deviation triggers a Second Tier Review—the Second Tier is in addition to all items in the First Tier.  |
| <i>Fund and Cash Balances</i>   | A multi-year projection indicates that the fund balance and cash balance at the end of the fiscal year and two subsequent fiscal years will be positive.  |
| <i>Supplemental Information</i> | <p>Provide supplemental information as follows:</p> <ul style="list-style-type: none"> <li>• Fund balance is not less than the sum of its components.</li> <li>• Available reserves are not less than the following percentages as applied to total expenditures, transfers out and uses, except as provided for in Education Code Section 33128: <ul style="list-style-type: none"> <li>the greater of 5% or \$50,000 for districts with 0 – 300 ADA</li> <li>the greater of 4% or \$50,000 for districts with 301 – 1,000 ADA</li> <li>3% for districts with 1,001 – 30,000 ADA</li> <li>2% for districts with 30,001 – 400,000 ADA</li> <li>1% for districts with 400,001 and over ADA</li> </ul> </li> <li>• Identify all significant multi-year commitments that have occurred since budget adoption and identify the resources used to service those commitments.</li> <li>• Analyze the status of other funds that may have negative fund balances at the end of the fiscal year. If any other fund has a projected negative fund balance, prepare a complete financial statement for that fund.</li> <li>• Identify the status of employee salary and benefit negotiations.</li> </ul> <p>If salary and benefit negotiations are not finalized, upon settlement with the certificated or classified staff:</p> <ul style="list-style-type: none"> <li>• The school district must determine the cost of the settlement, including salaries, benefits, and any other agreements that change costs, and provide the county office of education with an analysis of the cost of the settlement and its impact on the operating budget. The governing board must certify as to the validity of the analysis.</li> <li>• The county superintendent shall review the analysis relative to the criteria and standards, and provide written comments to the president of the district governing board, and the district superintendent.</li> <li>• Identify projected contributions to restricted programs if there has been an increase or decrease of more than 5% from the budgeted contributions.</li> </ul> |

**CRITERIA**

**STANDARDS**

**Second Tier Review**

Deviations must be explained in writing.\*

NOTE: In addition to the items in the First Tier, the Second Tier includes:

*Average Daily Attendance*

Projected ADA has not increased or decreased by more than 2% from the budgeted ADA.

*Revenue Limit*

Projected revenue limit has not increased or decreased by more than 2% from the budgeted revenue limit.

*Other Revenues* Projected federal revenues have not increased or decreased by more than 5% from the budgeted revenues.

Projected other state revenues have not increased or decreased by more than 5% from the budgeted revenues.

Projected local revenues have not increased or decreased by more than 5% from the budgeted revenues.

*Salaries and Benefits*

Projected salaries and benefits have not increased by more than 2% from the budgeted salaries and benefits.

*Other Operating Expenses*

Projected expenditures for books and supplies, and services and other operating expenditures have not increased or decreased by more than 5% from the budgeted expenditures.

Projected capital outlay and other outgo have not increased or decreased by more than 10% from the budgeted capital outlay and other outgo.

*Other Sources and Uses*

Projected other sources have not increased or decreased by more than 10% from the budgeted other sources.

Projected other uses have not increased or decreased by more than 10% from the budgeted other uses.

\* Explanations should be concise and to the point. Districts and county offices should discuss the specificity and length of these explanations to ensure that they are as useful and unobtrusive as possible.

# Sample Letters

## Disapproved Budget Letter

Date

\_\_\_\_\_, Board President

Dear \_\_\_\_\_:

Our office has received and reviewed \_\_\_\_\_'s revised and readopted 1999-2000 budget. Pursuant to Education Code 42127(i)(3), I am disapproving the budget based on the following:

1. The district will be unable to meet its multi-year financial commitments.
2. The district has declining enrollment with a minimal possibility for growth within the next five years.
3. The district's current revised budget reflects a continued pattern of deficit spending.

Pursuant to Education Code 42127.1(c), I am recommending, subject to the approval of the Superintendent of Public Instruction and the \_\_\_\_\_ Governing Board, that this office select and convene a regional review committee consisting of \_\_\_\_\_, a former school district Superintendent, and \_\_\_\_\_, a former school district Superintendent. This recommendation is made based upon the work already completed by \_\_\_\_\_ in regard to the \_\_\_\_\_ District and because all three meet the requirements set forth in Education Code 42127.1(b).

If approved by the Governing Board and the Superintendent of Public Instruction, the regional review committee, no later than October 31, 1999, shall review the proposed budget and the underlying fiscal policies of the district and transmit to the Superintendent of Public Instruction, County Superintendent of Schools, and the Governing Board of the school district either of the following:

1. The recommendation that the school district budget be approved.
2. A report disapproving the school district budget and setting forth recommendations for revisions to the school district budget that would enable the district to meet its financial obligations both in the current fiscal year and with regard to the district's multi-year financial commitments.

Attached is text of Education Codes 42127 through 42127.4, which apply to this decision. Please notify me by September 30, 1999, regarding the board's approval of the recommendation for a regional review committee. Questions may be addressed to \_\_\_\_\_ Deputy Superintendent, at \_\_\_\_\_.

Sincerely,

Superintendent of Schools

cc: \_\_\_\_\_, State Superintendent of Public Instruction  
\_\_\_\_\_, Deputy Superintendent, California Department of Education  
\_\_\_\_\_, Director, School Business Services Division, CDE  
\_\_\_\_\_, Deputy Superintendent, County Office of Education  
\_\_\_\_\_, Director, District Business Services, County Office of Education  
\_\_\_\_\_, Interim Superintendent, \_\_\_\_\_ School District  
\_\_\_\_\_, FCMAT Fiscal Advisor, \_\_\_\_\_ School District

## Disapproved Budget Letter

Date

Board President  
\_\_\_\_\_ School District

Dear \_\_\_\_\_:

In compliance with AB1200 legislation and the provisions of Education Code Section 42127, a review of \_\_\_\_\_ District's final budget for 1999-2000 has been completed by the \_\_\_\_\_ County Superintendent of Schools office.

It is our opinion that this budget currently does not:

- Comply with the State Criteria and Standards established pursuant to Education Code 33127;
- Allow the District to operate consistently with a financial plan that will enable the District to satisfy its multi-year financial commitments.

Therefore, in agreement with the Board's action, we are disapproving the District's 1999-2000 budget.

### **Recommendations for the 1999-2000 Final Budget**

1. Deficit Spending: The district has been deficit spending since 1995-1996. This must be corrected in the 1999-2000, subsequent years, budget years in order to restore the district's three percent reserve.
2. Salary settlements: have not been made for the 1998-1999 and 1999-2000 fiscal years. Prior to any salary settlement, the district must demonstrate to the \_\_\_\_\_ COE the district's ability to remain solvent for the current and two subsequent years.

### **Technical Corrections of a Nonsubstantive Nature**

1. The district was unable to meet the three percent reserve.
2. No multi-year projections were submitted with the budget packet.
3. Some budget assumptions for expenditures were unrealistic, e.g., there was no increase for utilities and the reduction in Capital Outlay expenditures was 87 percent.

As the District is currently under a "Lack of Going Concern" and a study has been completed which validates the District's situation, the Fiscal Crises and Management Assistance Team has assigned \_\_\_\_\_ as the Fiscal Advisor for the \_\_\_\_\_ District. \_\_\_\_\_ will provide further analysis and additional recommendations for the 1999-2000 budget. Under \_\_\_\_\_ guidance the District is expected to proceed as follows:

- Revise and readopt its budget by September 8, 1999, reflecting changes in projected revenues and expenditures since July 1, 1999, including any recommendations made by the County Superintendent of Schools office.
- On or before September 22, 1999, the County Superintendent's office will approve or disapprove the budget. If this budget is disapproved, the County Superintendent's office shall call for the formation of a budget review committee pursuant to Education Code 42127.1.
- Until a district's budget is approved, the district will operate on the lesser of its proposed budget for the current year or the last budget adopted and revised for the prior fiscal year (Education Code 42127.4).

The County's District Business Services department will assist the district's fiscal personnel and \_\_\_\_\_ in the coming weeks to facilitate the budget process. If you have any questions please contact \_\_\_\_\_, Director of District Business Services, at \_\_\_\_\_.

Sincerely,

Superintendent of Schools

cc: \_\_\_\_\_, State Superintendent of Public Instruction  
\_\_\_\_\_, Deputy Superintendent, California Department of Education  
\_\_\_\_\_, Director, School Business Services Division  
\_\_\_\_\_, Deputy Superintendent, County Office of Education  
\_\_\_\_\_, Director, District Business Services  
\_\_\_\_\_, Superintendent, \_\_\_\_\_ School District

# First Interim Negative Certification Letter

Date

\_\_\_\_\_, Board President  
\_\_\_\_\_ School District

Dear \_\_\_\_\_:

In accordance with the provisions of Education Code Section 42131 and Assembly Bill 1200, a review of the \_\_\_\_\_ School District's First Interim Report for fiscal year 1999-2000 has been completed. Based on the multi-year projections and assumptions provided by the district Fiscal Advisor as of October 31, 1999, we concur with the district's negative certification. This certification is based on the projection that the district will not be able to meet its financial obligations for the current or subsequent fiscal year.

Below, I am reiterating several points made when the \_\_\_\_\_ School District's budget was not approved for the 1999-2000 fiscal year.

## **Deficit Spending**

As was noted in our letter of July 29, 1999, the district has been deficit spending since 1995-1996. Although the First Interim Report indicates a reduction in the deficit spending for 1999-2000, it is not eliminated. The multi-year projections also indicate continued deficit spending. Our estimates indicate the district will be in a negative cash position in 2002-2003.

## **Salary Settlements**

Our office has met with the Fiscal Advisor and the Superintendent regarding the issue of a salary settlement. No settlement can be discussed before the Governing Board adopts a recovery plan, which will positively demonstrate that such a long-term commitment can be successfully financed in the current and subsequent years.

## **Budget Review Committee Recommendations**

It is imperative that the Governing Board implement the recommendations made by the Budget Review Committee. Of particular urgency are Findings No. 1, 3, 5, 6 and 7. I believe this office will be unable to approve a budget or interim report until the district has adopted a recovery plan that incorporates these recommendations.

## **Other Funds**

Both State School Building Fund and the Cafeteria Fund had negative cash balances as of October 31, 1999. An analysis of both funds needs to be made and forwarded to the County Office for review with the Second Interim Report.

**Actions Required by District**

As a result of the review of the First Interim Report, the district is to submit the following information to the County Office:

- No later than January 31, 2000, a board-adopted recovery plan for the current and two subsequent years.
- AB1200 collective bargaining public disclosures, if necessary.
- A detailed listing of the district’s position control.
- A completed Revenue Limit worksheet based on the P-2 ADA from 1998-1999 or the projected P-2 ADA for 1999-2000, whichever is greater.

**Stay and Rescind**

This letter serves as a reminder that in accordance with Education Code 42127.3(b)(2), the county superintendent of schools shall:

“Cancel purchase orders, prohibit the issuance of nonsalary warrants, and otherwise stay or rescind any action that is inconsistent with the budget adopted pursuant to paragraph (1). The county superintendent of schools shall inform the governing board of the school district in writing of his or her justification for any exercise of authority under this paragraph.”

The District Business Services department will continue to assist and meet with the Fiscal Advisor and district personnel to insure that all of the above requirements are met in a timely manner. If you have any questions, please contact \_\_\_\_\_, Director of District Business Services, at \_\_\_\_\_.

Sincerely,

Superintendent of Schools

- cc: \_\_\_\_\_, Superintendent  
 \_\_\_\_\_, Fiscal Advisor  
 \_\_\_\_\_, Business Manager  
 \_\_\_\_\_, State Superintendent of Public Instruction  
 \_\_\_\_\_, Deputy Superintendent, California Department of Education  
 \_\_\_\_\_, Director, School Business Services Division, CDE  
 \_\_\_\_\_, Deputy Superintendent, COE  
 \_\_\_\_\_, Director, District Business Services, COE

## Lack of Going Concern Letter

Date

\_\_\_\_\_ School District

Dear \_\_\_\_\_:

In a letter from this office dated January 15, 1997, the \_\_\_\_\_ School District was notified that \_\_\_\_\_ COE agreed with the District's First Interim Report positive certification for 1996-1997. This concurrence was based on our assessment that the District appeared to be able to meet its financial obligations for the current and two subsequent fiscal years. However, we noted that this review was based upon the assumptions that had been set forth by the District in the interim report and that any significant changes to these assumptions could have serious consequences for the District's fiscal solvency.

Since that time, significant changes have occurred to these assumptions. They are:

- The settlement of salary negotiations with teachers for a seven and one half percent increase;
- The settlement of salary negotiations with management and confidential employees for a six percent increase, and
- A review of the District's 1995-1996 Audit Report, which reveals that the District's auditor has issued no opinion on the District's General Fund revenues and has questioned the accuracy of all underlying average daily attendance (ADA).

### **Determination**

Under the provisions of Education Code (EC) Section 42127.6, "If at any time during the fiscal year the County Superintendent determines that a district may be unable to meet its financial obligations for the current or two subsequent fiscal years, ... he or she shall notify the governing board of the school district and the Superintendent of Public Instruction in writing of that determination and the basis..."

Because of the changes to the assumptions listed above, the County Superintendent is invoking the provisions of E.C. Section 42127.6 and making the determination that the District may not be able to meet its financial obligations for the current or two subsequent fiscal years. This letter constitutes the required notification of the District and the Superintendent of Public Instruction (SPI). This determination is equivalent to a "qualified" interim report certification. By law, the County Superintendent shall now do any or all of the following, as necessary, to ensure that the District meets its financial obligations:

- Assign a fiscal expert.
- Conduct a study of the financial and budgetary conditions of the District.

- Direct the District to submit a financial projection of all fund and cash balances of the District as of June 30 of the current year and subsequent fiscal years.
- Require the District to encumber all contracts and other obligations, to prepare cash-flow analyses and monthly or quarterly budget revisions, and to appropriately record all receivables and payables.
- Direct the District to submit a proposal for addressing the fiscal conditions that resulted in the determination that the District may not be able to meet its financial obligations.
- Withhold compensation of the members of the District governing board and the District superintendent for failure to provide requested financial information.

Within five days of the County Superintendent making this type of determination, a school district may appeal to the SPI the basis of the determination and any proposed actions that the County Superintendent has indicated that he will take to further examine the financial condition of the district.

### **Basis of Determination**

#### *Salary Settlements*

After the January 15, 1997, letter was sent (see attached), a series of discussions and meetings were held between County Superintendent staff and District administration and staff regarding a proposed seven and one half salary settlement with the teachers' union and a six percent salary increase for management and classified employees. Staff from the County Superintendent's office repeatedly asked for additional information, including further detail and clarifications of multi-year projections for both the Unrestricted and Restricted General Funds. All such information was requested in order to help obtain accurate and proper disclosure regarding the impact of the proposed settlements upon the District's financial solvency under the provisions of AB1200. However, adequate and accurate disclosure did not occur prior to the District governing board acting on these settlements on January 28, 1997.

This is a very serious concern. While staff members from both agencies have and will continue to meet in order to reach a consensus on the multi-year projections, the District governing board approved actions that will have significant long-term effects upon the District's fiscal solvency without accurate financial disclosure presented to them on which to base their decisions.

#### *Audit Report Findings*

On February 12, 1977, staff of the County Superintendent reviewed the District's 1995-1996 Audit Report. This report contains no expressed opinion as to the accuracy of the District's General Fund revenues. It contains findings, recommendations, and notes regarding material weaknesses and it states that:

“...the overall current attendance practices used by \_\_\_\_\_ and \_\_\_\_\_ are inadequate and do not provide assurance that the reported ADA is accurate. Therefore, we were unable to satisfy ourselves regarding revenue as reported by the general fund. An audit by the State of California

could disallow a portion of the reported high school attendance. If the reported attendance were disallowed, this would have a significant impact on the general fund balance; however, we are unable to determine the amount based upon the current information available.”

In other words, the auditors have said that the District could have significant amounts of its ADA disallowed by the State of California (see attached excerpts from District’s Audit Report).

It is the County Superintendent’s position that, before any further decisions on the District’s ability to meet its financial obligations can be made, the following actions need to occur.

#### *Actions of the County Superintendent*

Representatives of the County Superintendent met with the District’s auditor and the District’s Administration to review all materials related to the audit and the findings that led the auditor to not being able to express an opinion as to the General Fund revenue of the District. The results of this meeting, which was held on February 20, 1997, will be part of a larger study of the District’s current financial and budgetary conditions conducted by the County Superintendent.

If, in the course of this review the County Superintendent determines that his office requires analytical assistance or expertise that is not available through the District, he may employ on a short-term basis with the approval of the SPI, staff, including certified public accountants, to provide the assistance and expertise. The District shall pay 75 percent and the \_\_\_\_\_ COE shall pay 25 percent of these staff costs pursuant to E.C. Section 42127.6(a)(2).

#### *Required Actions of the District*

The District is required to do the following:

- By March 17, 1997, submit a proposal for addressing the fiscal conditions that have resulted in the determination that the District may not be able to meet its financial obligations. This document should include a description of the methods the District intends to use to review its attendance accounting system and procedures and determine what its potential liability might be.
- By March 17, 1997, submit financial assumptions and information used to estimate the potential liability to the County Superintendent and the District’s auditor for review.
- By March 17, 1997, submit a financial projection of all fund and cash balances of the District as of June 30 for the current year and two subsequent years. These projections should be in the J-200 and J-250 formats and level of detail. These reports must be updated by the 15th of each month for the remainder of the fiscal year.
- By March 17, 1997, submit signed statements responding to how the District intends to resolve each area of concern addressed in the audit as requested by the County Superintendent in a letter dated February 6, 1997, to the District.

- The District is to prepare appropriate cash-flow analyses and appropriate accompanying budget revisions and appropriately record all receivables and payables. The cash flows shall be done on an electronic format to be provided to the District by the County Superintendent and shall be submitted by March 17, 1997, and also updated monthly.

*Other*

It is our understanding that the District is in the process of hiring staff in various positions. However, the District has not filled permanent positions, which are of major importance to the operations of the District. The District's continued inability to hire permanent and competent key business staff continues to threaten the controls and operations of the business office as well as the financial solvency of the District. Once again, we are stressing to the District the importance of hiring a permanent competent Business Administrator and support staff, in order to maintain controls in the key areas of accounting, budgeting and payroll.

Also, the County Superintendent is requiring that a copy of the District's board agendas be sent to our office prior to any routine or special board meetings. This has been requested before, in writing. However, due to the current circumstances, it is now required.

**Conclusion**

The District now finds itself in a very serious and currently unquantifiable financial position. The County Superintendent will expect the board's, administration's, and staff's full cooperation and assistance as we determine together the ability of the District to meet its financial obligations.

We acknowledge the prompt actions being taken by the District to ensure the integrity of the process in moving forward as related to the conditions identified as part of the annual audit. We look forward to working with the District's administration to assess and resolve past discrepancies and account for financial planning adjustments, which may result.

Should you have any questions regarding this letter, please contact \_\_\_\_\_ at \_\_\_\_\_.

Sincerely,

Superintendent

cc: \_\_\_\_\_, Department of Education

## Lack of Going Concern Letter

Date

\_\_\_\_\_ School District

Dear \_\_\_\_\_:

In a letter from this office dated April 15, 1999, the \_\_\_\_\_ School District (District) was notified that the \_\_\_\_\_ County Office of Education agreed with the District's Second Interim Report positive certification for 1998-1999. This concurrence was based on our assessment that the District was able to meet its financial obligations for the current and two subsequent fiscal years. However, we noted that this review was based upon the assumptions that had been set forth by the District in the interim report and that any changes to these assumptions could have serious consequences for the District's fiscal solvency.

Since that time, significant changes have occurred to these assumptions. They are:

- The General Fund projected 1998-1999 ending fund balance was a positive \$172,243 for Second Interim. The current June 30, 1999, estimated cash is a negative \$60,650.87, and the estimated ending fund balance is in excess of a negative \$100,000.
- NPS/A costs are higher.
- Salary and benefit costs are higher.
- Revenue receipts are lower.

### **Determination**

Under the provisions of Education Code Section 42127.6, "If at any time during the fiscal year the County Superintendent determines that a district may be unable to meet its financial obligations for the current or two subsequent fiscal years, ... he or she shall notify the governing board of the school district and the Superintendent of Public Instruction in writing of that determination and the basis..."

Because of the changes to the assumptions listed above, the County Superintendent is invoking the provisions of E.C. Section 42127.6 and making the determination that the District may not be able to meet its financial obligations for the current or two subsequent fiscal years. This letter constitutes the required notification of the District and the Superintendent of Public Instruction (SPI). This determination is equivalent to a "qualified" interim report certification. By law, the County Superintendent shall now do any or all of the following, as necessary, to ensure that the District meets its financial obligations:

- Assign a fiscal expert.
- Conduct a study of the financial and budgetary conditions of the District.

- Direct the District to submit a financial projection of all fund and cash balances of the District as of June 30 of the current year and subsequent fiscal years.
- Require the District to encumber all contracts and other obligations, to prepare cash-flow analyses and monthly or quarterly budget revisions, and to appropriately record all receivables and payables.
- Direct the District to submit a proposal for addressing the fiscal conditions that resulted in the determination that the District may not be able to meet its financial obligations.
- Withhold compensation of the members of the District governing board and the District Superintendent for failure to provide requested financial information.

Within five days of the County Superintendent making this type of determination, a school district may appeal to the SPI the basis of the determination and any proposed actions that the County Superintendent has indicated that she will take to further examine the financial condition of the District.

### **Basis of Determination**

#### *Projected June 30, 1999, Cash Balance*

The AB1200 fiscal expert assigned to your district has completed the cash reconciliations for FY 1998-1999. Numerous adjustments were identified as a result of this reconciliation. Additional cost adjustments for June have been identified. The General Fund General Ledger cash balance as of June 21, 1999, was negative \$212,236.2. By adding in unposted Apportionment Bulletins plus adjustments for the reconciliation for November through May and estimating the June 30, 1999, payroll to be \$162,000, the estimated June 30, 1999 cash amount is negative \$60,650.87.

This is a very serious issue. The district currently has insufficient cash in the general fund to meet the cash needs of the June payroll.

In addition, the Cafeteria Fund is reflecting a negative cash balance of \$18,719.14 and will be unable to meet the June payroll for that program.

#### *Revenue*

Interest income was budgeted at \$20,000. The year-to-date actuals are negative \$1,383.

Other local income is budgeted at \$20,000. The actuals are currently \$8,383.

Accounts receivables for 1997-1998 totaling \$20,170 have not been realized and may need to be reversed, thereby reducing the ending fund balance for 1998-1999.

## *Expenditures*

Actual NPS/A contract amounts exceed encumbered amounts.

June salary and benefits for the new Business Manager have not been included in the 1998-1999 budget.

## **Actions of the County Superintendent**

On June 23, 1999, the County Superintendent, Assistant Superintendent for Business and the AB1200 Consultant met with the District Superintendent to review all concerns related to meeting the June payroll.

The AB1200 Consultant will continue to review all aspects of the budget to determine if any revenue is forthcoming or if additional expenditures may be required. If, in the course of this review the County Superintendent determines that her office requires analytical assistance or expertise that is not available through the District, she may employ on a short-term basis with the approval of the SPI, staff, including certified public accountants, to provide the assistance and expertise. The District shall pay 75 percent and the \_\_\_\_\_ County Office of Education shall pay 25 percent of these staff costs pursuant to E.C. Section 42127.6(a)(2).

## **Required Actions of the District**

The District is required to do the following:

- By June 30, 1999, submit a proposal for addressing the fiscal conditions that have resulted in the determination that the District may not be able to meet its financial obligations. The district must immediately address the payroll shortfall with a contingency plan in the event a negative fund balance continues. The 1999-2000 budget must reflect the necessary reduction and supporting information in order for the County Superintendent to approve the budget.
- By June 30, 1999, submit a financial projection of all fund and cash balances of the District as of June 30 for the current year and two subsequent years. These reports must be updated by the 15th of each month for the 1999-2000 fiscal year, and submitted to District Business Services for review. This information should be included at a Board Meeting each month.
- The District is to prepare appropriate cash-flow analyses and appropriate accompanying budget revisions and appropriately record all receivables and payables.

## **Conclusion**

The District now finds itself in a very serious and currently unquantifiable financial position. The County Superintendent will expect the board's, administration's and staff's full cooperation and assistance as we determine together the ability of the District to meet its financial obligations.

We look forward to working with the District's administration to assess and resolve the concerns of the district.

Should you have any questions, please call me at \_\_\_\_\_.

Sincerely,

County Superintendent of Schools

cc: \_\_\_\_\_, State Superintendent of Public Instruction  
\_\_\_\_\_, Deputy Superintendent for Finance, Technology, and Information Services  
\_\_\_\_\_, Director, School Business Services Division  
\_\_\_\_\_, Superintendent, School District  
\_\_\_\_\_, Business Manager

## Agree with District — Qualified Certification

Date

Board President  
\_\_\_\_\_ School District

Dear \_\_\_\_\_:

In accordance with the provisions of Education Code Section 42131, a review of the \_\_\_\_\_ School District's First Interim Report for fiscal year 1996-1997 has been completed by the \_\_\_\_\_ County Superintendent of Schools. Based on the multi-year projections and assumptions provided by the district as of October 31, 1999, we concur with the district's qualified certification indicating that the district may not be able to meet its financial obligations for the current or two subsequent fiscal years.

Since the adoption of the 1996-1997 budget, district and \_\_\_\_\_ County Office of Education (County Office) staff have worked cooperatively, meeting at regular intervals, to track the cash balances and overall financial condition of the district. As a result of those meetings, we believe a framework has been established which will be instrumental in fostering the flow of reliable fiscal information and will assist the district in its efforts to restore fiscal stability. Nevertheless, we are obliged to bring to your attention the following concerns relative to the financial condition of the district.

### General Fund Balance and Reserves

The unaudited actual General Fund ending balance for June 30, 1996, was a negative \$545,441. The district's First Interim Report projection for June 30, 1997, is positive, but only \$1,796. A typical district's ending balance should be sufficient to minimally cover the components of the ending fund balance. A summary of your district's projected ending fund balance and the components of the ending fund balance, per the data submitted in the First Interim Report J-251, is illustrated below:

|  |                  |
|--|------------------|
| Projected Ending Balance, June 30, 1997  | \$1,796          |
| Components of Ending Fund Balance:   |                  |
| Revolving cash   | \$5,000          |
| Stores inventory   | <u>\$101,383</u> |
| Total Components of Ending Fund Balance  | \$106,383        |
| Difference between Projected Ending Balance and amount needed to cover Components of Ending Fund Balance | (\$104,587)      |

Also normally included in the components of the ending fund balance is an amount designated to cover the basic three percent reserve for economic uncertainties. Assuming district expenditure projections are correct, the reserve would compute to approximately \$660,000. However, the

district's First Interim Report projections indicate that all unrestricted reserves, including approximately \$255,000 in Special Reserves, will be exhausted at June 30, 1997. Consequently, the components of the ending fund balance include zero reserves. The magnitude of the problem becomes much worse when combining the \$660,000 minimum required reserve with the \$104,587 deficiency noted above, as the General Fund negative balance could be nearly \$765,000 at June 30, 1997.

The County Office continues to conduct its own analyses of the district's fund and cash balances and is in the process of seeking concurrence on related assumptions with district staff. Presently, our analysis does not support the district's assertions that it will have a negative balance of only \$104,587 at June 30, 1997. Our assumptions indicate a greater concern, which currently translates to a negative fund balance of approximately \$1.5 million if the three percent reserve for economic uncertainties is included. Unless we are able to reach an agreement with the district about the assumptions and projection methodologies used prior to the Second Intend Report, we must rely on our own information to evaluate the district's financial condition.

### **Cash Balances**

Concern for the district's cash flow reached the critical stage during 1995-1996 when cash balances were frequently negative. While the district finished the 1995-1996 fiscal year with positive cash both in the General Fund and districtwide, the level of concern remains high. Since unification, the district has experienced continual cash flow problems evidenced by its need to annually rely on routine interfund borrowing, borrowing from the \_\_\_\_\_ County Treasurer, and culminating in 1996-1997 with the issuance of Tax and Revenue Anticipation Notes (TRANS) for \$2 million.

District staff has agreed with County Office staff that the cash flow projections submitted with the First Interim Report, on the state format, are not as comprehensive or reliable as the County Office cash projection format. Evidence exists that these cash projections are not in agreement with the actual cash data on record in the County Office for the months of July through December 1996. District staff continues to meet with the County Office to reconcile the differences, but this is a problem that has persisted for the past three fiscal years. Presently, County Office cash flow projections, supported by internally produced detailed assumptions, indicate a positive General Fund cash balance at June 30, 1997, of approximately \$195,000. The district's projections, however, indicate a cash balance of approximately \$615,000, or nearly \$420,000 greater than the County Office projections, and are not supported by assumptions. The district is reminded of a request made in the budget approval letter of August 14, 1996, to submit to the County Office monthly cash flow projections and related assumptions for all funds in the district. These projections are to be completed using the County Office cash projection software. District staff has pledged to honor this request for the ongoing monitoring of cash and the County Office's review of the Second Interim Report.

It is crucial to reiterate that in the absence of agreed-to assumptions and methodologies between a school district and the County Office, the County Office must rely on its own information to evaluate a district's financial condition.

### **Technical Correction**

The interim report indicates that a General Reserve of \$238,316 is included in the General Fund board approved operating budget. This amount was not part of the 1996-1997 adopted budget. The General Reserve is governed by E.C. Section 42124, which limits all such reserves for future uses of a district. A General Reserve cannot be created midyear from the assets of a district, nor can any existing General Reserve be used midyear for operational purposes. The use of General Reserves may be considered only during the budget adoption process and can only be increased or decreased at that time with the approval of the Governing Board. The district has acknowledged this error and has indicated that it will be corrected by the Second Interim Report.

### **General Fund Encroachment**

The General Fund's projected contributions in support of the district's restricted programs have grown from \$201,227, included in the adopted budget, to \$564,441 in the First Interim Report. The projected contributions are more than 2.8 percent of the district's total projected expenditures for 1996-1997 and the change represents an increase in General Fund encroachment of 180 percent since the budget was adopted. We request that the district submit an explanation for this increase and details on the programs and amounts of support being provided.

### **Class Size Reduction**

District assumptions indicate that the 1996-1997 revised budget and projections include revenues of \$570,450 and expenditures of \$446,665 for the Class Size Reduction program. While these amounts appear to indicate that the district will receive adequate funding to operate the program in 1996-1997, it is believed that the current level of state funding will not cover the total actual costs of participation in the K-3 Class Size Reduction program for most school districts. Informational Bulletin No. \_\_\_\_\_, dated November 13, 1996, regarding the 1996-1997 Interim Reports, requested specific information from school districts about their plans to cover the excess costs of the Class Size Reduction program, over and above the amounts funded by the state through anticipated operations and facilities funding.

The district's First Interim Report did not fully contain this information regarding the fiscal impact of the Class Size Reduction program. Therefore, it is vitally important that the Second Interim Report include an analysis of the district's cost of participation in the program for 1996-1997 and the subsequent two fiscal years with revenue and expenditure assumptions specific to this program. The level of any support required by the General Fund over and above the state funding of the program must be addressed in this analysis. Suggested items for consideration and inclusion in the analysis, which you did not address in the interim report, are listed below:

### *Operational Issues*

- Other operational costs, including additional utilities, custodial service and supplies.
- State operational funding versus cost of operating the program.
- The district's plan to fund the difference, if any.

### *Facilities Issues*

- State facilities funding versus cost of facilities.
- The district's plan to fund the difference, if any.

The County Office, in determining whether or not it concurs with a district's Second Interim Report Certification, will be closely evaluating this data. The lack of such information may negatively impact our ability to concur with the district's certification.

### **Salary Negotiations**

According to the information provided in your First Interim Report, salary negotiations for 1996-1997 were still not settled and no increases have been calculated and incorporated into budgeted salary expenditures. Salary requirements make up a large portion of the district's budget. We are concerned that the district cannot negotiate any increases in compensation without significant expenditure reductions or revenue increases since the required minimum three percent reserve for economic uncertainties is projected to be totally depleted.

Nevertheless, this letter is a reminder that before the district's Board of Education takes any action on a proposed collective bargaining agreement, whether in the form of an increase or decrease to compensation, the district must meet the public disclosure requirements of Government Code Section 3547.5 and Assembly Bill 1200.

Also, as provided by the State Criteria and Standards, when salary and benefit negotiations with the teachers' bargaining unit are settled after the adoption of the district's budget, the school district must analyze the budget to determine the effect of the settlement, and the governing board must certify as to the validity of the analysis within 45 days of the final settlement. If the total settlement is greater than the district's increase in base revenue limit per average daily attendance (ADA), the \_\_\_\_\_ County Superintendent of Schools must transmit his/her written comments, along with the analysis provided by the district, to the California Department of Education.

Within this 45 day period, the district superintendent must also send the \_\_\_\_\_ County Superintendent of Schools any revisions to the district's current budget necessary to fulfill the terms of the agreement.

The document used for this analysis was included in Informational Bulletin No. \_\_\_\_\_, dated June 17, 1996, and is titled "Assembly Bill (AB) 1200: Public Disclosure of Proposed Collective Bargaining Agreements." Please call your district's consultant if you need an additional copy.

## **Actions Required by District**

As a result of our review of the First Interim Report, the district is to submit to the County Office the following information:

- monthly cash flow projections and assumptions for all funds—beginning with January 1997 actual data;
- no later than the Second Interim Report, evidence that the General Reserve in the General Fund has been eliminated;
- an explanation and detail of the increased General Fund encroachment;
- additional Class Size Reduction information as indicated; and
- AB1200 collective bargaining public disclosures, if necessary.

## **Implications of Qualified Certification**

Because your district filed a Qualified First Interim Report, this letter also is a reminder of the statutory requirements for debt issuance for school districts with a qualified interim report certification.

These requirements are specifically addressed by EC Section 42133(a), which reads:

“A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United States Code, unless the county superintendent of schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the district’s repayment of that indebtedness is probable. A school district is deemed to have a qualified or negative certification for purposes of this subdivision if, pursuant to this article, it files that certification or the county superintendent of schools classifies the certification of that fiscal year to be qualified or negative.”

## **Conclusion**

Thank you for your submission of the documentation to support the district’s multi-year certification. The data, with accompanying narrative, were extremely helpful in our analysis of the interim report and in verifying the district’s fiscal condition.

Notwithstanding the differences between the district’s and County Office’s projections, we wish to commend district staff on its renewed efforts to work cooperatively with the County Office and its commitment to realistically assess the district’s financial condition since the Board’s adoption of the 1996-1997 budget. We are also committed to continue working closely with

district administration and staff and to support district efforts in restoring the financial condition of the \_\_\_\_\_ School District.

We are aware that the information provided reflects the district's financial position and assumptions as of October 31, 1996, and that further adjustments will be made during the year as additional data becomes available. We hope that these comments will be helpful to the district administration and board as you plan for the remainder of 1996-1997 and begin building your 1997-1998 budget. We wish to express appreciation to the district staff for its cooperation during the preparation and review of the First Interim Report for 1996-1997. If our office can be of further assistance, please call \_\_\_\_\_ at \_\_\_\_\_.

Sincerely,

County Superintendent

cc: \_\_\_\_\_, Superintendent  
\_\_\_\_\_, Assistant Superintendent, Business Services  
\_\_\_\_\_, Director, Accounting Services  
\_\_\_\_\_, California Department of Education  
\_\_\_\_\_, State Controller's Office

## First Interim Positive to Qualified Letter

Date \_\_\_\_\_

Board President  
\_\_\_\_\_ School District

Dear \_\_\_\_\_:

In accordance with the provisions of Education Code Section 42131, a review of the \_\_\_\_\_ School District's First Interim Report for fiscal year 1996-1997 has been completed by the \_\_\_\_\_ County Superintendent of Schools. Based on the multi-year projections and assumptions provided by the district as of October 31, 1996, the \_\_\_\_\_ County Office of Education (County Office) is changing the district's First Interim Report certification from positive to qualified. A qualified certification means that the district may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. It is also the opinion of the district's auditor as cited in the district's June 30, 1996, Annual Financial Report that, "The District has incurred significant liabilities and related deficit fund balances and retained deficits that raise substantial doubt as to its ability to operate as a going concern."

### Background

The County Office approved the district's 1996-1997 budget on October 9, 1996, based on information submitted by the district. That information specified that the district would eliminate deficiencies in the State School Building Lease-Purchase Fund, the Cafeteria Fund, the Child Development Fund, and the Adult Education Fund in 1996-1997. As of October 31, 1996, the district had adequately addressed each of our concerns except for the State School Building Lease-Purchase Fund.

### State School Building Lease-Purchase Fund

This fund had a significant negative ending balance of \$2,567,360 on June 30, 1996. The district submitted a plan to eliminate this deficit during fiscal year 1996-1997. However, based on new estimates by the district, it will take an additional three years of transfers from the General Fund to bring the State School Building Lease-Purchase Fund back to a positive fund balance. The following is the district's projected schedule of transfers:

|           |             |
|-----------|-------------|
| 1997-1998 | \$800,000   |
| 1998-1999 | \$800,000   |
| 1999-2000 | \$700,000   |
| Total     | \$2,300,000 |

The district's General Fund ending balance must be large enough in each of the next three years to accommodate these transfers. The assumptions submitted by the district in support of its multi-year projections appear reasonable. However, the assumption for negotiated salary increases indicates, "1997-1998 zero percent, 1998-1999 one percent, and 1999-2000 one percent." If the district's governing board should negotiate a future contract increase above these

limits, there may not be sufficient funds to achieve the aforementioned transfers and still maintain the three percent reserve for economic uncertainties as required by State Criteria and Standards. Therefore, we are requesting that these assumptions and multi-year projections be included with the district's Second Interim Report for acceptance by the board.

In addition to the demands of the State School Building Lease-Purchase Fund, the General Fund may be adversely affected by any one of the following:

### **Deficit Spending**

We have noted that the district is projecting an operating deficit of \$838,281. This deficit is a significant increase from the adopted budget deficit of \$45,293. If the district were to operate in fiscal year 1997-1998 at the current year's projected deficit spending level, the district's estimated unrestricted ending balance next fiscal year would be substantially below the level needed to maintain the required reserve for economic uncertainties.

### **Class Size Reduction**

The current level of state funding does not cover the actual cost of participation in the K-3 Class Size Reduction program for most school districts. Informational Bulletin No. \_\_\_\_\_, dated November 13, 1996, regarding the 1996-1997 Interim Reports, requested specific information from school districts about their plans to cover the costs of the Class Size Reduction program, over and above the amounts funded by the state through anticipated operations and facilities funding.

The district's First Interim Report contained clear and concise information regarding the fiscal impact of the Class Size Reduction program. However, we are requiring that the Second Interim Report include additional analysis of the district's cost of participation in the program for 1996-1997 and the subsequent two fiscal years with revenue and expenditure assumptions specific to this program. It is vital that the district determine the level of support required by the General Fund over and above the state funding of the program. Requested items that were not included in your First Interim Report are listed below:

#### *Operational Issues*

- Other operational costs, including additional utilities, custodial service and supplies.
- State operational funding versus cost of operating the program.
- The district's plan to fund the difference, if any.

#### *Facilities Issues*

- Number of new classrooms opened and their cost, whether from buying or renting portables, reconfiguring existing sites, or reopening unused sites.
- State facilities funding versus cost of facilities.
- The district's plan to fund the difference, if any.

The County Office, in determining whether or not it concurs with the district's First Interim Report certification, will be closely evaluating this data. In addition, such an analysis will be extremely useful in aiding our lobbying efforts to increase the level of state funding per participating district.

### **Salary Negotiations**

According to the information provided in your Interim Report, salary negotiations for 1996-1997 were not settled prior to the adoption of the final budget. Although a potential six percent teachers' salary increase was calculated and incorporated into budgeted salary expenditures, potential classified salary increases were not. Because salary requirements make up such a large portion of the district's budget, we are concerned that the district may have difficulty in maintaining the required minimum three percent reserve for economic uncertainties once settlement is reached.

Before the district's Board of Education takes any action on a proposed collective bargaining agreement, the district must meet the public disclosure requirements of Government Code Section 3547.5 and Assembly Bill 1200.

Also, as provided by the State Criteria and Standards, when salary and benefit negotiations with the teachers' bargaining unit are settled after the adoption of the district's budget, the school district must analyze the budget to determine the effect of the settlement, and the governing board must certify to the validity of the analysis within 45 days of the final settlement. If the total settlement is greater than the district's increase in base revenue limit per average daily attendance (ADA), the \_\_\_\_\_ County Superintendent of Schools must transmit his/her written comments, along with the analysis provided by the district, to the California Department of Education.

Within this 45 day period, the district superintendent must also send the \_\_\_\_\_ County Superintendent of Schools any revisions to the district's current budget necessary to fulfill the terms of the agreement.

The document used for both of these analyses was included in Informational Bulletin No. \_\_\_\_\_, dated June 17, 1996, and is entitled "Assembly Bill (AB) 1200: Public Disclosure of Proposed Collective Bargaining Agreements." Please call your Business Advisory Consultant if you need an additional copy.

### **Debt Issuance**

This letter is also a reminder of the statutory requirements for debt issuance for school districts with qualified interim report certifications,

These requirements are specifically addressed by E.C. Section 42133(a), which reads:

"A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt

instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United States Code, unless the county superintendent of schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the district's repayment of that indebtedness is probable. A school district is deemed to have a qualified or negative certification for purposes of this subdivision if, pursuant to this article, it files that certification or the county superintendent of schools classifies the certification of that fiscal year to be qualified or negative."

## **Conclusion**

Thank you for your submission of the documentation to support the district's multi-year certification. The data, with accompanying narrative, were extremely helpful in our analysis of the interim report and in verifying the district's fiscal condition.

We are aware that the information provided reflects the district's financial position and assumptions as of October 31, 1996, and that further adjustments will be made during the year as additional data becomes available. We hope that these comments will be helpful to the district administration and board as you plan for the remainder of 1996-1997 and begin building your 1997-1998 budget. We wish to express appreciation to the district staff for its cooperation during the preparation and review of the First Interim Report for 1996-1997. If our office can be of further assistance, please call me at \_\_\_\_\_.

Sincerely,

County Superintendent

cc: \_\_\_\_\_, Deputy Superintendent  
\_\_\_\_\_, Deputy Superintendent, Administration  
\_\_\_\_\_, California Department of Education  
\_\_\_\_\_, State Controller's Office

# Qualified First Interim Letter

\_\_\_\_\_ School District

## Overview

The \_\_\_\_\_ County Office of Education has changed the certification of the \_\_\_\_\_ School District from positive to qualified for first interim reporting period. The provisions in Education Code Sections 42127 and 42131 mandate that \_\_\_\_\_ requires the district to be able to meet its obligations for the current year and the two subsequent years and to have a two percent reserve. \_\_\_\_\_ staff, in part using some information provided by \_\_\_\_\_, has prepared a multi-year financial projection that indicates that \_\_\_\_\_ School District may not be able to meet its obligations for the next two years, and the required two percent reserve for the current and the next two years. In addition, the staff of \_\_\_\_\_ has provided data and analysis of the comparisons of \_\_\_\_\_ School District to the other districts in \_\_\_\_\_ County.

The County reviewed the district's past financial history. In the past four years, the district has had a dramatic increase in expenditures and income. The district's interim reports and actual expenditures are higher than the budget. This is not unusual, for the district adopts its budget before the close of the district's books and a large part of the increase is in carryovers from categorical programs. In the 1998 fiscal year the pattern changed, with \_\_\_\_\_ School District spending significantly more than was originally budgeted. At this time, the only reports due to \_\_\_\_\_ COE are the district's budget and the First Interim Report, and those have been provided. The change has been in that the first interim expenditures are projected to be lower than the budget.

Enrollment patterns need to be monitored frequently. \_\_\_\_\_ projects that the growth in \_\_\_\_\_ will continue through the 2002-03 fiscal year, then it will experience a slight decline. \_\_\_\_\_ projections indicate that the growth is slowing in the elementary level, and within five years it will also peak at the middle school level. High school enrollment should continue to grow to the year 2005. See page \_\_\_\_\_ for projected grade enrollments.

## Five-year Financial Projections

In preparing the \_\_\_\_\_ multi-year plan, \_\_\_\_\_ staff used the following assumptions in completing the multi-year financial plan:

|            |         |         |         |         |         |         |
|------------|---------|---------|---------|---------|---------|---------|
| Enrollment | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|            | 54,634  | 55,037  | 55,090  | 55,175  | 55,057  | 54,963  |

- Cost of Living increases of 1.41 percent for 1999-2000 and 2.6 percent for the other years.
- Salary increases for all employees equal to the cost of living increases.
- The ADA is based on October CBEDS 1998-1999 to P-2 actuals 1998-1999, or 94.045 percent.

- Class size is:

|            |            |            |             |
|------------|------------|------------|-------------|
| Grades K-3 | Grades 4-5 | Grades 6-8 | Grades 9-12 |
| 19.9:1     | 31.43:1    | 22.55:1    | 24.04:1     |

There is a \$2.4 million reduction in beginning balance for 1999-2000 (per Controller's report on mandated costs) and an additional \$500,000 reduction in other state income for adjustment for current year. It is noted that the district is appealing the amount by providing additional information to the State, and adjustments, if any, will be made at second interim.

The following chart displays the \_\_\_\_\_ projections for the district's current year and the next two fiscal years. (In addition, see pages \_\_\_\_\_ for projection details of unrestricted and restricted program.)

**General Fund Revenues, Expenditures, and Changes in Fund Balance**  
(Unrestricted and Restricted)

| Description  | Base Yr.<br>1999/00 | Proj. 1<br>2000/01 | Proj. 2<br>2001/02 | Proj. 3<br>2002/03 | Proj. 4<br>2003/04 | Proj. 5<br>2004/05 |
|--|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| A. Total Revenues  | 338,611,443         | 345,650,900        | 351,593,217        | 357,971,812        | 363,951,905        | 369,696,876        |
| B. Total Expenditures  | 334,715,046         | 344,181,899        | 345,504,948        | 365,541,161        | 376,186,445        | 387,280,140        |
| C. Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources and Uses | 3,896,397           | 1,469,001          | (2,911,731)        | (7,569,349)        | (12,234,540)       | (17,583,264)       |
| D. Total Other Sources/Uses  | (8,933,270)         | (7,882,794)        | (7,949,129)        | (8,019,338)        | (8,083,280)        | (8,150,601)        |
| E. Net Increase or Decrease in Fund Balance  | (5,036,873)         | (6,413,793)        | (10,860,860)       | (15,588,687)       | (20,317,820)       | (25,733,865)       |
| F. Beginning Balance   | 6,184,998           | 1,148,125          | (5,265,668)        | (16,126,528)       | (31,715,215)       | (52,033,035)       |
| F-2 Total Ending Balance   | 1,148,125           | (5,265,668)        | (16,126,528)       | (31,715,215)       | (52,033,035)       | (77,766,900)       |
| F-2-d Shortfall from Required Reserve  | (6,098,987)         | (12,765,101)       | (23,834,328)       | (39,645,761)       | (60,178,380)       | (86,070,045)       |

The section beginning on page \_\_\_\_\_ includes the detail of the multi-year financial projection over a five-year period. The controller's report of an overpayment of \$2.4 million has been included as an adjustment to beginning fund balance. It is noted that the district is appealing the amount by providing additional information to the State, and adjustments, if any, will be made at second interim. In addition, \_\_\_\_\_ included a \$500,000 additional adjustment for the current fiscal year in Other State Income.

\_\_\_\_\_ staff prepared the multi-year projection independent of the district.  
\_\_\_\_\_ acknowledges that the district has a more detailed knowledge of the  
\_\_\_\_\_ budget and could provide a more detailed analysis. It is the opinion of  
\_\_\_\_\_ staff that the changes in numbers would not be material.

The \_\_\_\_\_ multi-year projection Line E, which is the Budget Surplus (Deficit), projects a budget deficit for the current fiscal year of approximately \$5,000,000, which, along with the controllers recommended adjustment, leaves the district \$6.1 million short of the needed two percent reserve level for the current fiscal year ending June 30, 2000. The multi-year financial plan further indicates that if the district continues its current expenditure pattern, the deficit will increase each year and the district could not meet its obligations for the next fiscal year 2000-2001.

### **Other Concerns**

The \_\_\_\_\_ is also concerned with the following:

The percentage of actual student attendance (ADA) to CBEDS enrollment may be high.

### **Additional Requirements**

- The district will set up monthly meeting with \_\_\_\_\_ to review the district financial plans.
- \_\_\_\_\_ will require \_\_\_\_\_ to file a third interim as of May 30, 2000.
- \_\_\_\_\_ will inform \_\_\_\_\_ of any major changes to either income or expense.
- \_\_\_\_\_ will provide a calendar for submission of the Second Interim Report.
- \_\_\_\_\_ will provide \_\_\_\_\_ a budget calendar for the 2000-2001 fiscal year by February 1, 2000.
- \_\_\_\_\_ will keep \_\_\_\_\_ informed of the progress on the 2000-2001 budget development.

### **Summary**

The \_\_\_\_\_ County Office of Education is changing the district's certification from positive to qualified. The County Office will again review the second interim report due on March 15, 2000. If there is no significant progress towards correcting the financial problems of the district, the \_\_\_\_\_ may need to change the certification at second interim to negative, and appoint a team of advisors for the district.

## Supplemental Information

\_\_\_\_\_ has included the following supplemental data: Salary Comparisons (pages \_\_\_\_\_), Six-year Financial Trends (pages \_\_\_\_\_), excerpts from the \_\_\_\_\_ Statistical Report (pages \_\_\_\_\_), and details of the Multi-Year Projections (pages \_\_\_\_\_).

The data displayed in the financial trends expenditure summary is a six-year comparison of expenditures per student (ADA) of the 17 unified school districts within \_\_\_\_\_ County. The most recent year is to the far right of the page. Expenditures are compared by ADA, and the districts are listed in rank order based on the 1997-1998 fiscal year. \_\_\_\_\_ ranks third (per ADA) in overall income and expenditures in the county. The following is a summary of the more significant rankings. Each ranking is compared to the other 17 districts.

### Summary of Comparison Rankings

| Page # | Object Descriptor                        | Ranking per ADA |
|--------|--|-----------------|
|        | Total Certificated Salaries              | 12              |
|        | Total Employee Benefits                  | 2               |
|        | Total Salary & Benefits                  | 4               |
|        | Total Books & Supplies                   | 7               |
|        | 1100-Teacher Salaries                    | 12              |
|        | 1200-School Administrators               | 13              |
|        | 1300-Supervisor Salaries                 | 2               |
|        | 1600- Physical & Health                  | 1               |
|        | 1700-Superintendent Salaries             | 17              |
|        | 2900-Other Classified                    | 3               |
|        | 3120- STRS Non-Instructional             | 2               |
|        | 3410- Health & Welfare Instr.            | 3               |
|        | 3610- Workers Compensation- Instr.       | 1               |
|        | 362S Workers Comp. -Non Instr.           | 1               |
|        | 4300-Instructional Materials or Supplies | 16              |
|        | 5100-Personnel Services-Consultants      | 1               |
|        | 5500-Utilities                           | 13              |

## Salaries

The salaries section (pages \_\_\_\_\_) displays a sample of district salaries compared to other districts in \_\_\_\_\_ County. A concern of \_\_\_\_\_ is that the district generally ranks in the lower half of the comparisons for teachers and classified positions. It should be noted that principals are especially low. In order to have an outstanding educational program, the district will need to be competitive to attract the most qualified candidates. \_\_\_\_\_ can provide additional comparisons to the district upon request.

# Glossary

## **Aid to Families with Dependent Children (AFDC)**

Support for low-income families. The count of AFDC children is one factor used to distribute a number of state and federal categorical aid programs. The federal Welfare Reform Act of 1996 replaced AFDC with Temporary Assistance to Needy Families (TANF). California's "Welfare to Work" program is called California Work Opportunity and Responsibility to Kids (CalWORKS).

## **Average Daily Attendance (ADA)**

The student days of actual attendance divided by the number of days school was in session. ADA is usually lower than enrollment. A school district's revenue limit income is based on its ADA. Because ADA was redefined in 1998-1999 to exclude excused absences, base revenue limits were adjusted upwards.

## **Base Revenue Limit per ADA**

The basic amount of revenue a school district may receive per pupil (ADA) to be used as the district determines.

## **CalWORKS (California Work Opportunity and Responsibility to Kids)**

California's replacement for AFDC after the federal Welfare Reform Act of 1996.

## **Capital Outlay**

Expenditure for major renovation or reconstruction, new buildings, or certain new equipment.

## **Categorical Programs**

Funds from the state or federal government granted to qualifying school districts for children with special needs, such as disabilities; for special programs, such as the School Improvement Program; or for special purposes categorical aid is restricted to its particular purpose. The funds are granted to districts in addition to their revenue limits.

## **CBEDS (California Basic Educational Data System)**

A collection of data taken each October for enrollment, graduates, dropouts, vocational education, alternative education, adult education, course enrollment, classified and certificated staff, and teacher shortage and demand. More data is collected in March about students with limited and fluent proficiency in English. Excerpts from CBEDS are available at the California Department of Education web site.

## **Certificated Personnel**

Employees who are required by the state to hold teaching, administrator, or pupil services credentials, including full-time, part-time, substitute, or temporary teachers and most administrators.

## **Class Size Reduction**

A state-funded program for K-3 classes of no more than twenty students with one teacher. Additional funding is available for two ninth grade core classes with an average of 20 students per teacher.

**Classified Personnel**

Employees who are not required to hold credentials, such as secretaries, custodians, bus drivers, instructional aides, and some management personnel.

**Common Administration Districts**

An elementary and high school district with the same administration, school board, and teachers' organization. This common district files a joint financial report but separate demographic and enrollment reports.

**Cost-of-Living Adjustment (COLA)**

An increase in funding for revenue limits or categorical programs based on various indices of inflation.

**Deferred Maintenance**

Needed repairs of buildings and equipment. Some matching state funds are available to districts that establish a deferred maintenance program to proceed with these repairs.

**Developer Fees**

A charge per square foot on residential and commercial construction. Developer fees are levied by school districts, with the maximum amount set by law and adjusted for inflation every two years. Proceeds are used for building or renovating schools and for portable classrooms. Proposition 1A sets limits on developer fees.

**Economic Impact Aid (EIA)**

State categorical funds for districts to support compensatory services for educationally disadvantaged students (measured by AFDC) and students who need to learn English (Limited English Proficient).

**Education Code**

The body of law that regulates education in California. Additional regulations affecting education are contained in the California Administrative Code, Titles 5 and 8, the Government Code, and general statutes.

**Enrollment**

A count of students appearing on the class lists of every California school and district on a given day each October. Enrollment is usually larger than the ADA.

**Free and Reduced Price Meals**

State and federal funding to provide free or low-cost meals for students from low-income families.

**GATE (Gifted and Talented Education)**

State funds to participating districts for educational services to children who are identified as exceptionally able or talented.

**General Fund**

Accounting term used by the state and school districts to differentiate general revenues and expenditures from those placed in separate budget funds for specific uses.

**General Obligation Bond**

Bonds for capital outlay, financed through taxes. Bond elections in a school district must be approved by a two-thirds vote, state measures by a majority vote.

**Instructional Materials (K-8 and 9-12)**

State funds for classroom materials, such as textbooks.

**J-200, J-380**

Financial and program cost accounting reports submitted by districts and county offices to the California Department of Education. The information is used to monitor the fiscal condition and program costs of school districts.

**LEP (Limited English Proficient)**

Students who do not have the clearly developed English language skills (i.e., comprehension, speaking, reading, and writing) necessary to succeed in the school's regular instructional programs. "LEP" includes non-English and limited-English proficient students. Instructional strategies for these students must comply with Proposition 227, passed in June 1998.

**PERS (Public Employees' Retirement System)**

A retirement fund to which classified employees, their district, and the state must contribute according to California law.

**Proposition 13**

A June 1978 initiative amendment to the California Constitution. Tax rates on secured property are restricted to no more than one percent of "full cash value." Proposition 13 also defined assessed value and required a two-thirds vote to change existing or levy new taxes.

**Propositions 98 and 111**

Amendments to the California Constitution in 1988 and 1990 that guarantee a minimum amount of funding for K-14 education each year. The propositions included formulas for calculating the guarantee under different economic conditions. Proposition 98 also mandated School Accountability Report Cards.

**Proposition 227**

A June 1998 initiative that limits non-English language instruction for students who are learning English. Proposition 227 permits parents to petition a school to provide instruction in students' native language as well as in English.

**Pupil-Teacher Ratio and Average Class Size**

The total student enrollment divided by the full-time equivalent teachers. The average class size is the number of students in classes divided by the number of classes. Since some teachers have special assignments outside regular classrooms or work part-time, the average class size is always larger than the pupil-teacher ratio.

**Regional Occupational Centers/Regional Occupational Programs (ROC/P)**

State funding for training in entry-level jobs, job-related counseling, and upgrading skills for students age 16 to 18.

**Regular v. Funded ADA**

Using the greater of current or prior year ADA in revenue limit calculations to take into account the impact of declining enrollments. State aid is allocated for the funded ADA number, which may differ from the regular ADA.

**Revenue Limit**

The amount of general-purpose revenue a school district may receive per pupil (ADA). The base revenue limit, with allowances and adjustments based on complex formulas, may be used as the district determines. The annual per pupil inflation adjustment (COLA) depends on whether the district is elementary, high school, or unified. To fund the total revenue limit allowance, state taxes are added to each district's share of local property taxes.

**School Improvement Program (SIP)**

State funds to qualifying schools (K-6 and 7-12) to carry out a plan developed by a school site council for improving school environment and organization, instruction, and services.

**Small Districts**

Elementary districts with fewer than 101 students, high school 301 students, and unified 1,501 students as counted by ADA.

**Special Education**

Programs to identify and meet the educational requirements of individuals with exceptional needs. Federal law requires that all these children be provided a free and appropriate education from infancy through age 21.

**STRS (State Teachers' Retirement System)**

A retirement fund to which all certificated employees, school districts, and the state must contribute according to California law.

**Supplemental Grants Program**

State funding originally established to equalize districts' total revenue limit and categorical income. Districts subsequently "rolled" these funds into unrestricted revenue limit funding or as part of restricted categorical funding.

**Temporary Assistance to Needy Families (TANF)**

Federal replacement for Aid to Families with Dependent Children under the Welfare Reform Act of 1996. California's program is called CalWORKS.

**Title I, Migrant Education**

Funds for districts with students who are children of migrant workers.

**Title I, Title VI**

Federal funds from the Elementary and Secondary Education Act as amended by Improving America's Students Act. Title I is for educationally disadvantaged children; Title VI is for innovative education program strategies. These programs were formerly called Chapter 1 and Chapter 2.

**Types of Districts**

An elementary district is generally kindergarten through 8th grade, high school is generally grades 9 through 12, and unified is generally kindergarten through 12th grade.

*Glossary Prepared by the California Department of Education and EdSource.*





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