



**CSIS** California School Information Services

# South Bay Union School District

**Fiscal Review**  
August 19, 2011



**Joel D. Montero**  
Chief Executive Officer







**CSIS California School Information Services**

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August 19, 2011

Carol Parish, Ed.D., Superintendent  
South Bay Union School District  
601 Elm Avenue  
Imperial Beach, CA 91932

Dear Superintendent Parish:

In February 2011, the South Bay Union School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to provide a review of the district's budget assumptions and multiyear financial projection and to provide recommendations for expenditure reductions or revenue enhancements. Specifically, the agreement states that FCMAT will perform the following:

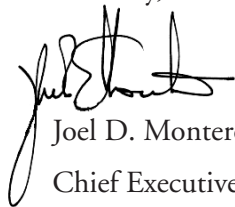
Review the district's 2010-11 general fund budget, validate the district's budget assumptions and provide a multiyear financial projection for the current and two subsequent fiscal years utilizing the district's 2nd interim financial report as the baseline for the projection. The MYFP will be developed using FCMAT's Budget Explorer and include a cash flow component for the same time period to project the district's cash balances at the end of each fiscal year. The MYFP and cash flow analysis will also include the impact of other funds including alternative strategies for cash management from both internal and external sources.

1. The FCMAT team will provide recommendations for expenditure reductions or revenue enhancements to assist the district in maintaining their financial solvency under AB 1200.
2. The FCMAT team will review staffing ratios by department and make recommendations to ensure continuity of service.

This report contains the study team's findings and recommendations. We trust that this information will be beneficial to all concerned.

FCMAT appreciates the opportunity to serve you and extends its thanks to all the staff of the South Bay Union School District for their cooperation and assistance during fieldwork.

Sincerely,



Joel D. Montero  
Chief Executive Officer

**FCMAT**

Joel D. Montero, Chief Executive Officer

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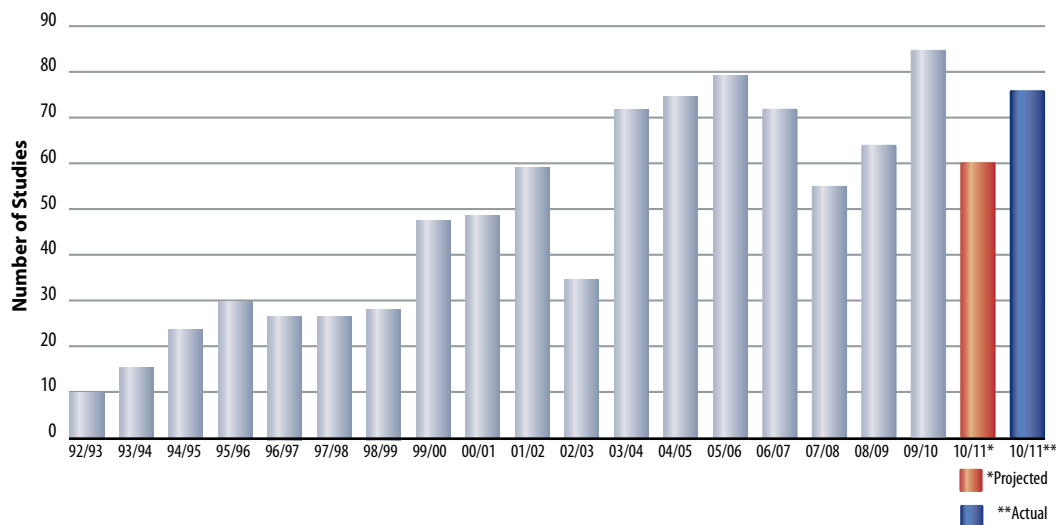
# About FCMAT

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

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

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

**Studies by Fiscal Year**



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

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

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

Since 1992, FCMAT has been engaged to perform nearly 850 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

# Introduction

## Background

The South Bay Union School District is located in the southwestern portion of San Diego County, bordered by the Pacific coast and the border of Mexico. Composed of 11 K-6 elementary schools and one K-8 charter school, the district is governed by a five-member board of trustees and serves 8,352 students in the communities of Imperial Beach, San Ysidro and South San Diego.

According to 2009-10 data, 49.4% of the district's students are English learners, 74.3% qualify for free or reduced-price meals, and 58.8% are identified as low-achieving students from low-income families. California's Student Testing and Reporting (STAR) results for 2010 identified 47% of students as proficient or advanced in English Language Arts and 59% as proficient or advanced in Mathematics. The district did not meet adequate yearly progress (AYP) requirements in 2009-10 and was placed in year 3 of Program Improvement.

All Title I funded schools and local educational agencies (LEAs) that do not make adequate yearly progress (AYP) are identified for Program Improvement under the Elementary and Secondary Education Act (ESEA).

The ESEA requires all states to implement statewide accountability systems based on state standards in reading and mathematics, annual testing for all students in grades three through eight, and annual statewide progress objectives ensuring that all groups of students reach proficiency within 12 years. Assessment results are disaggregated by socioeconomic status, race, ethnicity, disability, and limited English proficiency. LEAs and schools that fail to make AYP toward statewide proficiency goals are subject to improvement and corrective action measures. In California, Program Improvement is the formal designation for Title I-funded schools and LEAs that fail to make AYP for two consecutive years.

In 2008, voters in the district passed Proposition X, a \$59.4 million general obligation bond to completely modernize seven of the district's 12 elementary schools that are eligible for state matching funds. Also included in the ballot language for the bond were improvements for windows, replace sewers and remodel bathrooms at the remaining five school sites. A general obligation bond is a municipal bond and is secured by legally available resources, including property tax revenues, to repay bond holders

In addition, in 2010 the district attempted to pass a parcel tax, which would have generated approximately \$1.7 million per year for four years. Parcel tax is the common term in California for a qualified special tax imposed by a school district. Special taxes are permitted by the state constitution, requiring approval at an election of at least two-thirds of those voting on the measure. Parcel taxes can be used for any type of spending, construction costs, employee salaries, and other projects or spending needs. However, this tax received 59.7% of the vote, short of the 66.7% required for passage.

The district has faced the same fiscal challenges as other districts because of the decline and uncertainty of state education funding. In addition, the district has experienced a consistent decline in student enrollment since 2000.

In February 2011, the district and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to provide a review of the district's budget assumptions and multiyear financial projection and to provide recommendations for expenditure reductions or revenue enhancements. Specifically, the agreement states that FCMAT will perform the following:

1. Review the district's 2010-11 general fund budget, validate the district's budget assumptions and provide a multiyear financial projection for the current and two subsequent fiscal years utilizing the district's 2nd interim financial report as the baseline for the projection. The MYFP will be developed using FCMAT's Budget Explorer and include a cash flow component for the same time period to project the district's cash balances at the end of each fiscal year. The MYFP and cash flow analysis will also include the impact of other funds including alternative strategies for cash management from both internal and external sources.
2. The FCMAT team will provide recommendations for expenditure reductions or revenue enhancements to assist the district in maintaining their financial solvency under AB 1200.
3. The FCMAT team will review staffing ratios by department and make recommendations to ensure continuity of service.

## Study Guidelines

FCMAT visited the district on March 30 and 31, 2011 to conduct interviews, collect data and review documents. This report is the result of those activities and is divided into the following sections:

- I. Executive Summary
- II. Multiyear Financial Projections
- III. Staffing
- IV. Revenue Augmentation
- V. Expenditure Reductions
- IV. Appendix

## Study Team

The study team was composed of the following members:

John F. Von Flue  
FCMAT Fiscal Intervention Specialist  
Bakersfield, CA

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FCMAT Fiscal Intervention Specialist  
Bakersfield, CA

John Lotze  
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# Executive Summary

Assembly Bill (AB) 1200 and AB 2756 require multiyear financial projections (MYFPs) to ensure fiscal accountability and authorize fiscal oversight by county office of education to prevent districts from experiencing fiscal insolvency. MYFPs are part of the financial reporting process and require districts to identify whether they are able to maintain fiscal solvency for the current and two subsequent fiscal years. The governor recently signed AB 114, which changed the oversight requirement so that in the 2011-12 fiscal year, districts need only demonstrate that they can meet the financial obligations for the current fiscal year. Although it is no longer a requirement, FCMAT recommends that districts continue projecting the impact of current decisions and fiscal conditions on subsequent fiscal years.

FCMAT used its Web-based Budget Explorer software to create the MYFP and cash flow analysis for the district. After reviewing district information and interviewing staff, FCMAT adjusted the district's 2010-11 second interim financial report to project the year-end revenues and expenses. The adjustments in current year salaries, benefits, supplies, and operating expenses were significant. The district's past practice is to designate budget amounts to sites and programs that exceed the actual expenditure requirements.

During FCMAT's review, there were multiple revisions to state budget information and factors. These changes in budget factors require revisions to the district's projections and result in significant differences in the district's budget and cash reserves.

Although the MYFP identifies a growing trend of deficit spending, FCMAT projects that the district *will* be able to meet its recommended reserve for economic uncertainties for the current and two subsequent fiscal years. However, if the district continues under the current budget assumptions, deficit spending may lead to financial insolvency soon after the projection years.

## Multiyear Financial Projection Summary

### General Fund

#### Unrestricted Resources Only

Description	Base year 2010-11	Year 1 2011-12	Year 2 2012-13
<b>Total Revenues</b>	\$40,806,294	\$39,240,830	\$39,917,359
<b>Total Expenditures</b>	\$37,176,221	\$36,977,866	\$37,612,068
<b>Total Other Financing sources/Uses</b>	\$(1,688,009)	\$(3,931,746)	\$(5,368,548)
<b>Net Increase (Decrease) in Fund Balance</b>	\$1,942,064	\$(1,668,782)	\$(3,063,257)
<b>Fund Balance:</b>			
<b>Beginning Balance</b>	\$10,255,861	\$12,197,925	\$10,529,143
<b>Audit Adjustments</b>	\$ -	\$ -	\$ -
<b>Other Restatements</b>	\$ -	\$ -	\$ -
<b>Total Ending Balance</b>	\$12,197,925	\$10,529,143	\$ 7,465,886
<b>Components of Ending Fund Balance:</b>			
<b>Revolving Cash</b>	\$20,000	\$20,000	\$20,000
<b>Stores</b>	\$130,523	\$130,523	\$130,523
<b>Other Designations</b>	\$ -	\$ -	\$ -
<b>3% Reserve Requirement</b>	\$1,858,671	\$1,778,149	\$1,814,011
<b>Other Reservations</b>	\$5,208,272	\$ -	\$ -
<b>Undesignated/Unappropriated</b>	\$4,980,459	\$8,600,471	\$ 5,501,352
<b>Negative shortfall</b>	\$ -	\$ -	\$ -

The state budget also included an additional \$2.1 billion in apportionment deferrals. According to FCMAT's cash flow projection, the district will be able to maintain a positive cash balance; however, the totality of the deferrals combined with the district's deficit spending is projected to reduce the district's \$14 million cash balance to \$110, 920 by June 2013.

FCMAT's student enrollment analysis indicated that the district's kindergarten enrollment will begin to increase; however, grades K through 3 currently have a low enrollment, and this will continue to affect the district's overall enrollment. The district's charter school has added grades 7 and 8, which should increase total enrollment.

In response to declining enrollment and continued budget cuts, the district has continued to reduce staff positions and hours. Class sizes have increased, and classroom and office support, grounds, maintenance, and cleaning staff positions have been reduced or eliminated. The district is attempting to maintain a high level of service to the students with fewer and possibly inadequate resources.

The district has a number of potential options for augmenting revenues and reducing expenditures further. Revenues may be increased through transportation and facilities fees, deferred maintenance program transfer, seeking an attendance waiver, a parcel tax measure and other options. Expenditure reductions may be found through improved stores inventory and indirect cost calculation procedures, energy efficiency, and other measures.

# Findings and Recommendations

## Multiyear Financial Projections

Assembly Bill (AB) 1200 (1991) defines a system of fiscal accountability for school districts and county offices of education to prevent financial insolvency. AB 2756 (2004) further strengthened the financial accountability and oversight used to monitor the fiscal position of school districts and county offices. These laws required multiyear financial projections (MYFPs) to be a part of districts' budget reporting process and required districts to identify whether they are able to maintain financial solvency for the current and two subsequent fiscal years.

Recently, Governor Brown signed AB 114, which changed this requirement for fiscal year 2011-12. The bill states: "For the 2011-12 fiscal year, the school district shall not be required to demonstrate that it is able to meet its financial obligations for the two subsequent fiscal years." However, in letter to the California Assembly, the governor supported prudent decision making at the local level and stated, "AB 114 does not interfere with these local school board decisions. School boards should take all reasonable steps to balance their budgets and maintain positive cash balances."

MYFPs are necessary for decision making and to project the district's future fiscal status. A district's management should use MYFPs regularly to evaluate the effects of current decisions and local factors on the district, with the objective of achieving the district's goals while maintaining a balanced budget and a sustainable fiscal plan. It is also best practice to use MYFPs to help the district identify trends, analyze the effects of past decisions, and help align the district's funds with its goals.

MYFPs are based on assumptions that are likely to fluctuate. Included in the assumptions are factors that affect the district's revenues and expenditures, including enrollment and attendance rates, cost-of-living adjustments, negotiated bargaining unit agreements, and economic conditions at the local, state, and federal levels. As a result, the MYFP should be viewed as an indication of a trend and not a prediction of exact figures. The greater the change in the MYFP assumptions, the greater the variance in outcomes will be and the more frequently a district will need to monitor and update its MYFP.

To help protect local educational agencies against economic uncertainties, the state requires all school districts with an average daily attendance (ADA) of between 1,001 and 30,000 to set aside reserves of not less than 3% of their unrestricted general fund. This reserve, although helpful, is not sufficient to prevent fiscal insolvency in the current economy. Districts that have set their reserve target at this minimum have struggled greatly to maintain solvency during recent and current economic decline.

When developing a budget and MYFP, both FCMAT and the district used the most current economic factors and state budget information available at the time. FCMAT also reviewed revenue and expenditure trends during recent years, assessed district assumptions, and used industry-standard variables to forecast the district's finances.

During FCMAT's review, there were multiple revisions to this information. The district's second interim report used the governor's January 2011 budget proposal; the district's 2011-12 budget was based on the governor's May revision to the state budget; and FCMAT's budget was based

on the adopted 2011-12 state budget. These changes in budget factors require revisions to the district's projections and result in significant differences in the district's budget and cash reserves. The MYFP indicates that the district *will* be able to maintain its required reserve of 3% through fiscal year 2012-13. However, the district has and continues to deficit spend. Absent the curtailment of deficit spending, the district risks financial insolvency in the years following 2012-13.

## Multiyear Financial Projection Tool

FCMAT used its Budget Explorer Web-based MYFP software to create the district's MYFP. The software was designed for California school districts and is available free to local educational agencies (LEAs).

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

## State Budget 2011-12

The 2011-12 California state budget was approved by Governor Brown on June 30, 2011, becoming only the sixth on-time budget in the last 20 years. The timeliness of the budget was made possible by Proposition 25, passed in November 2010, which allows the budget to be adopted by the Legislature with a simple majority vote.

The budget includes the following assumptions, triggers and actions:

- Assumes an increase of \$4 billion in general fund revenues from the May revise.
- Triggers a cut to public education should revenues fall more than \$2 billion below the revenue forecast.
- Authorizes a shorter school year (subject to collective bargaining) should the cuts above be triggered.
- Reinstates \$2.1 billion in deferrals as proposed in the January budget proposal.
- Requires districts to budget and project the same level of revenue per ADA as received in the 2010-11 fiscal year.
- States that districts will not be required to demonstrate fiscal solvency past the current budget year.
- Extends SBX3 4 categorical flexibility for two additional years and provides a one-year extension of the continuous appropriation for class size reduction (CSR).
- Suspends the August 15 layoff window for 2011-12.

Flexibility provisions are to continue, including the following:

- Categorical Flexibility  
SBX3 4 authorizes complete flexibility of several categorical programs for any educational purpose through 2014-15.

- **K-3 CSR**  
SBX3 4 established a new schedule of reduced funding penalties. This schedule has been extended through 2013-14.
- **Routine Restricted Maintenance Account Contribution**  
The contribution to the routine restricted maintenance account (RRMA), required for LEAs participating in the state school facility program, has been eliminated through 2014-15.
- **Deferred Maintenance Program (DM)**  
DM funding is unrestricted and available for district purposing. The local matching contribution normally required as a condition of eligibility for the deferred maintenance basic grant funding is eliminated for 2008-09 through 2014-15.

## Multiyear Financial Projection Assumptions

FCMAT prepared the MYFP using the adjusted base year budget, budget assumptions from the district’s 2011-12 budget, and School Services of California’s (SSC’s) Financial Dartboard assumptions updated in July 2011. FCMAT’s MYFP excludes any future staffing changes and salary adjustments not in effect or confirmed at the time of the review.

When building the multiyear projection, FCMAT did the following:

- Compared certificated, classified and management salary and benefit information budgeted at second interim to position control records and actual year-to-date salary expense activity. FCMAT adjusted the future year budgets based on variances found in the base year budget.
- Reviewed internal and third party support documentation to verify the district’s current year revenue and project future years. FCMAT adjusted revenues as necessary to align with the documentation and projected future years based on the SSC dartboard.
- Reviewed the district’s actual revenue and expenditure detail for each resource and major object code to identify encroachment and carryover. FCMAT adjusted in the general fund as necessary to reflect their impact.

The following table shows the financial assumption factors included in the projection years.

### Projection Rules

Rule description	Base Year		
	2010-11	2011-12	2012-13
<b>Statutory Cola</b>	-0.39%	2.24%	3.10%
<b>Revenue Limit Deficit</b>	17.963%	19.754%	19.754%
<b>Net Revenue Limit Change</b>	5.17%	0%	3.10%
<b>Special Ed COLA (state and local only)</b>	0%	0%	3.10%
<b>State Categorical funding</b>	0%	0%	3.10%
<b>Federal funding</b>	0%	0%	0%
<b>CA Consumer Price Index</b>	1.80%	3.20%	2.80%
<b>CA Lottery - base</b>	\$111.75	\$111.75	\$111.75
<b>CA Lottery - Prop 20</b>	\$17.00	\$17.00	\$17.00
<b>Interest Rate</b>	3.10%	3.50%	4.00%
<b>Certificated step/column</b>	2.00%	2.00%	2.00%
<b>Classified step</b>	2.00%	2.00%	2.00%
<b>Health and Welfare</b>	n/a	0.00%	0.00%

- FCMAT adjusted budget lines proportionate to ADA, staffing, and other influencing factors.
- FCMAT further assumed that the district's ongoing costs such as utilities, contributions to special education and transportation, and routine repair will continue.

## Base Year Budget Adjustments

FCMAT reviewed the district's 2010-11 second interim budget and compared it against position control, budget reports, and the year-to-date general ledger to ensure the accuracy of the current year budget.

FCMAT also examined district documents to develop a baseline and future assumptions for the MYFP, including the following:

- Letters from the county office regarding conditional approval of the district's adopted budget and concurrence with the district in its positive certifications for the 2010-11 first and second interim financial reports.
- Financial system budget comparative reports.
- Financial summary reports showing general ledger balance sheet accounts.
- Revenue limit worksheets, including all supporting schedules for 2010-11.
- Historical enrollment information, including CBEDS data, for the current and prior fiscal years, and projections for the subsequent two years.
- Period one (P-1), period two (P-2), and annual attendance reports for 2005-06 through 2010-11.
- Identification of any one-time revenues (including American Recovery and Reinvestment Act (ARRA) federal funds) and expenditures included in the 2010-11 second interim budget.
- Long-term debt schedules.
- Current collective bargaining agreements for all employee groups.
- AB 1200 disclosure documents for the most recent salary settlement for all employee groups.
- Information on the health and welfare cap adjustments as stated in the collective bargaining agreements.
- Independent audit reports for fiscal years 2008-09 and 2009-10.

FCMAT then adjusted the budget for the end-of-year revenues and expenses based on this evaluation to create the base year budget for the MYFP. The following table highlights the differences between the district's second interim budget and FCMAT's has calculation of the base year budget.

## FCMAT and District Second Interim Budget Compared

Fiscal year 2010-11	District 2nd Interim	FCMAT estimated	Difference
<b>Beginning Fund Balance</b>	\$16,553,339	\$16,553,339	(\$0)
<b>Revenue</b>			
<b>Revenue Limit Sources</b>	\$ 34,277,514	\$ 34,305,851	\$ 28,337
<b>Federal Revenue</b>	9,751,468	10,021,611	270,143.00
<b>State Revenue</b>	10,905,521	11,268,270	362,749.00
<b>Local Revenue</b>	7,603,889	7,478,130	(125,759.00)
<b>Total Revenue</b>	\$ 62,538,392	\$ 63,073,862	\$ 535,470
<b>Expenses</b>			
<b>Certificated Salaries</b>	\$30,755,981	\$29,586,348	\$(1,169,633)
<b>Classified Salaries</b>	9,704,381	8,959,182	(745,199)
<b>Employee Benefits</b>	13,372,082	12,313,832	(1,058,250)
<b>Books and Supplies</b>	9,410,311	2,371,558	(7,038,753)
<b>Service, Operating Expenses</b>	6,847,574	5,719,484	(1,128,090)
<b>Capital Outlay</b>	1,966,754	2,468,600	501,846
<b>Other Outgo</b>	215,000	287,846	72,846
<b>Direct Support/Indirect Costs</b>	(321,239)	(321,239)	-
<b>Total Expenses</b>	\$71,950,844	\$ 61,385,611	\$ (10,565,233)
<b>Revenue minus Expenses</b>	\$ (9,412,452)	\$ 1,688,251	\$ 11,100,703
<b>Other Financing Sources and Uses</b>			
<b>Transfers In and Other Sources</b>	\$2,284,080	\$2,791,043	\$ 506,963
<b>Transfers Out and Other Uses</b>	(390,583)	(390,583)	-
<b>Contributions</b>	-	-	-
<b>Total Other Financing Sources and Uses</b>	\$ 1,893,497	\$2,400,460	\$ 506,963
<b>Net Decrease in Fund Balance</b>	\$ (7,518,955)	\$4,088,711	\$ 11,607,666
<b>2010-2011 Projected Ending Fund Balance</b>	\$9,034,384	\$20,642,050	\$ 11,607,667

## Revenue Limit Sources

The district's revenue limit for 2010-11 was calculated using prior year P-2 ADA and the current year budget factors. FCMAT made minor adjustments to the district's revenue limit calculation to adjust the \$21.14 add on per ADA, update the unemployment expense, and amend the charter school enrollment factor.

## Federal and State Revenue

FCMAT reviewed the district's current consolidated application (Con App), grant award letters and other source documents to verify revenues. FCMAT also reviewed funds received through June 14, 2011, the unspent and remaining one-time funds, and the prior year deferred revenue and carryover. As a result of this review, FCMAT made significant adjustments to increase the budgeted revenue while maintaining a conservative estimate of funding.

## Local Revenue

FCMAT reviewed local revenues including rentals, interest and other local revenues. Local revenues were decreased to reflect current year receipts and a reasonable expectation for the collection of additional revenues.

## Salaries and Benefits

Salary and benefits expenses account for approximately 83% of the district's total expenses for 2010-11. FCMAT reviewed and used position control, monthly payroll records, and the district's general ledger data through June 14, 2011 to help project the total cost of salary and benefits for fiscal year 2010-11.

## Supplies, Operating Costs, Capital Outlay, and Other Outgo.

FCMAT reviewed expenditures and encumbrances for supplies, operating costs, services, capital outlay and other outgo through June 14, 2011. Because the district's purchasing deadline had passed, expenditures and encumbrances recorded as of that time should closely represent the annual expenditures for those objects.

## Budget Adjustments

As identified in the comparison, FCMAT made significant budget adjustments to reduce salaries and benefits, books and supplies, and operating expenses. These adjustments totaled \$11,139,925, or approximately 15% of the budgeted expenditures. Consistent with this adjustment, the 2009-10 annual audit identified a budget variance of \$11,990,726.

These variances are largely due to the way the district designates funds to individual sites and programs. The funds are budgeted to each site in the categories mentioned above. The site may or may not use the funds during the fiscal year, and any funds remaining at the end of the year are collected and redistributed the following year. Unused funds are carried over from year to year and have accumulated to a significant amount. The intent of this practice is to allow the site or program long-term control of their funds and to allow them to save funds toward a larger goal. Although most of these funds are recognized by outside authorities as unrestricted, the district places a local restriction on these funds because of its commitment to this practice and to honor the allocated budgets.

FCMAT's adjustments to the base year budget remove these designations and attempt to project the actual revenues and expenditures.

## Enrollment and Average Daily Attendance

Enrollment and average daily attendance projections play a fundamental role in a school district's budget planning. The number of students enrolled provides a basis for identifying staffing and facility needs and provides a target for ADA, which determines most of the district's revenue sources and fiscal health indicators, including required reserves. Accurate tracking and analysis of enrollment and ADA allows the district to more accurately project future revenues, control staffing and expenditures, and plan accordingly to maintain fiscal solvency.

Any enrollment forecast has inherent limitations because it is based on certain criteria and assumptions rather than exact calculations. Limitations include issues such as the unpredictable timing of housing trends, unanticipated changes in enrollment, and changing local, state and federal economic conditions. Therefore, the cohort forecasting model should be viewed as a trend rather than as a prediction of exact numbers. To maintain the most accurate and meaningful data, enrollment projections need to be updated at least at each interim financial reporting period.

When enrollment and ADA are unchanged or declining, as is the case with the district over the past decade, the district must exercise extreme caution regarding collective bargaining, staffing, deficit spending and other issues that affect the budget so that it can maintain fiscal solvency.

Diligent planning will enable the district to gain a better understanding of its financial objectives and develop strategies to achieve them. .

When developing the MYFP, FCMAT reviewed the district’s enrollment and ADA trends for all grades from 2005-06 through 2010-11.

### Kindergarten Enrollment

Birthrate statistics are commonly used to project future kindergarten enrollment. A strong correlation can be made between birthrates in the zip codes within a district’s boundaries and kindergarten enrollment five years later. Birthrate data by zip code is readily available from the California Department of Public Health’s website at [www.cdph.ca.gov](http://www.cdph.ca.gov)

FCMAT projected kindergarten enrollment using birthrate data from the zip codes within the district’s boundaries: 92154, 91932, and 92173. The California Department of Public Health data source provided total births by zip code for each year from 1998 through 2009.

#### Birthrates by Zip Code for Kindergarten Enrollment Projection

Birth Rates																	
Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Zip Code																	
92154	1080	1182	1258	1275	1345	1486	1526	1549	1589	1533	1593	1484					
91932	620	575	565	539	512	490	481	475	455	508	532	500					
92173	816	903	908	902	871	865	939	844	912	877	935	815					
<b>Total</b>	<b>2516</b>	<b>2660</b>	<b>2731</b>	<b>2716</b>	<b>2728</b>	<b>2841</b>	<b>2946</b>	<b>2868</b>	<b>2956</b>	<b>2918</b>	3060	2799					
<b>Kindergarten Enrollment</b>						<b>actual</b>						<b>projected</b>					
						1165	1136	1143	1070	1025	1000	1023	975	1069	1059	1050	1095
<b>% = No. of births in birth year to No. of enrollment (birth year + 5 years)</b>												<b>Weighted Average</b>					
						46.3037%	42.7068%	41.8528%	39.3962%	37.5733%	35.1989%	34.7251%	33.9958%	36.1523%	36.2897%	35.9762%	35.7714%

The birthrate data shows a recent increase in births within the district’s boundaries. Based on the correlation, that analysis and the previous table show between birthrates and kindergarten enrollment, the same trend found in birthrates can be projected for kindergarten enrollment.

### Grades 1-6 Enrollment

The cohort survival method is one of the most reliable and frequently used methods of forecasting school enrollment. This method compares enrollment in each grade with enrollment the next higher grade one year later and establishes a relationship between enrollments in the two grades. The relationship that is developed for each grade becomes a reliable indicator of enrollments in future years. This method is one of the most reliable because it more accurately accounts for the various individual variables that influence the size of the grade cohort as it progresses through each grade.

The relationships used to project future enrollment outcomes are based on historical experience. They must be indicative of present and future trends and other enrollment influencing factors. It is critical that projections be updated at least annually, and more frequently if assumptions and factors change.

The following table was developed using Budget Explorer and shows the district’s historical enrollment trends and FCMAT’s projections for enrollment and ADA.

## Historical and Project Enrollment and ADA

Enrollment, P2ADA & Enrollment Factors									
Enrollment	Historical 5 2005 - 06	Historical 4 2006 - 07	Historical 3 2007 - 08	Historical 2 2008 - 09	Historical 1 2009 - 10	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13	
K	1143	1070	1025	1000	1023	975	1069	1059	
1	1151	1204	1120	1090	1023	924	929	967	
2	1201	1150	1183	1140	1066	933	897	901	
3	1223	1186	1128	1192	1117	970	904	868	
4	1301	1210	1219	1152	1176	1056	966	899	
5	1268	1261	1213	1209	1126	1074	1018	929	
Subtotal (K - 5)	7287	7081	6888	6783	6531	5932	5783	5623	
6	1295	1271	1259	1223	1221	1053	1063	1007	
Subtotal (6 - 8)	1295	1271	1259	1223	1221	1053	1063	1007	
Ungraded Elementary	0	0	0	0	0	0	0	0	
Ungraded Secondary	0	0	0	0	0	0	0	0	
Subtotal Excluding Charter Schools	8582	8352	8147	8006	7752	6985	6846	6630	
Charter Schools (to calculate in-lieu property taxes)	0	0	0	0	0	773	870	870	
Total	8582	8352	8147	8006	7752	7758	7716	7500	

P2ADA	Historical 5 2005 - 06	Historical 4 2006 - 07	Historical 3 2007 - 08	Historical 2 2008 - 09	Historical 1 2009 - 10	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13	
Excluding Charter Schools	8129.73	7906.84	7718.47	7615.31	7317.11	6560.94	6466.05	6259.38	
Charter Schools (to calculate in-lieu property taxes)	0.00	0.00	0.00	0.00	0.00	744.77	838.25	838.25	
COE CommSchs/SpEd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total	8129.73	7906.84	7718.47	7615.31	7317.11	7305.71	7304.30	7097.63	

Enrollment Factors	Historical 5 2005 - 06	Historical 4 2006 - 07	Historical 3 2007 - 08	Historical 2 2008 - 09	Historical 1 2009 - 10	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13	
Excluding Charter Schools	0.9473	0.9467	0.9474	0.9512	0.9439	0.9393	0.9445	0.9441	
Charter Schools (to calculate in-lieu property taxes)	0.0000	0.0000	0.0000	0.0000	0.0000	0.9635	0.9635	0.9635	

As indicated in the above table, the increases in kindergarten enrollment do not compensate for the decreases in enrollment in the remaining grades, and total enrollment continues to fall. In the base year, grades K- 3 have the lowest enrollment and grades 4- 6 have a greater enrollment. As grades K-3 progress through the district and grades 4-6 exit the district, enrollment decreases. Projected increases in kindergarten enrollment may eventually offset the district's total enrollment reduction and potentially reverse this trend in the future.

## Interdistrict Transfers

District records for 2009-10 indicate that there were 447 interdistrict transfers in to the district and 477 interdistrict transfers out from the district. For 2010-11, incoming transfers totaled 451 and outgoing transfers totaled 442. FCMAT's enrollment projections assume no change to the current trend in interdistrict transfers. The district hopes the opening of Nestor Language Academy Charter, which includes including grades 7 and 8, will increase enrollment and attract and retain more students from neighboring districts. The district is also considering opening additional similar charter schools in an effort to increase total enrollment.

## Demographic Study

During this study, FCMAT was informed that the district had commissioned a demographic study to project future enrollment. That extensive evaluation should assist the district by identifying current and future housing developments, vacancy rates, employment prospects, population changes, and other factors that influence enrollment. The district will need to evaluate results of that study when they become available and incorporate them into the its plans for facilities, staffing and finances.

## Multiyear Financial Projection Analysis

The MYFP's primary purpose is to project the district's budget over several fiscal years to allow the district to identify and achieve a balanced budget and meet the required minimum reserve for economic uncertainties. Evaluation of the multiyear projection focuses on the district's ability to meet its reserve requirement in each fiscal year and demonstrate a positive, unappropriated fund balance. FCMAT analyzed all funding sources and expenditure categories by resource.

The MYFP developed by FCMAT for the district indicates that the district will be able to maintain its minimum reserve for economic uncertainties through 2012-13. However, the MYFP also indicates that the district's general fund expenditures will exceed its revenues by \$3,648,362 in fiscal year 2011-12 and by more than \$4 million in fiscal year 2012-13.

The district is budgeting to transfer a total of \$1,699,778 into the general fund from funds 9, 17, and 40 for fiscal years 2011-12 and 2012-13. In addition, the district is budgeting a transfer of \$390,583 per year to fund 14, the deferred maintenance fund.

As a result of the deficit spending and interfund transfers, the fund balance for the general fund is anticipated to be reduced by \$2,339,167 and \$2,715,116 in 2011-12 and 2012-13, respectively.

General Fund/County School Service Fund  
Unrestricted Resources Only  
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
<b>Revenues</b>				
Revenue Limit Sources	8010 - 8099	\$32,990,023.48	\$32,019,477.15	\$32,519,719.61
Federal Revenues	8100 - 8299	\$43,742.00	\$43,742.00	\$43,742.00
Other State Revenues	8300 - 8599	\$7,224,319.00	\$6,609,943.56	\$6,761,746.67
Other Local Revenues	8600 - 8799	\$548,210.00	\$567,667.50	\$592,151.12
<b>Total Revenues</b>		\$40,806,294.48	\$39,240,830.21	\$39,917,359.40
<b>Expenditures</b>				
Certificated Salaries	1000 - 1999	\$19,721,686.00	\$20,411,593.76	\$20,828,652.14
Classified Salaries	2000 - 2999	\$4,667,325.00	\$4,768,203.60	\$4,871,099.77
Employee Benefits	3000 - 3999	\$8,274,912.00	\$8,161,657.65	\$8,257,054.74
Books and Supplies	4000 - 4999	\$1,072,568.00	\$1,090,840.27	\$1,085,499.51
Services and Other Operating	5000 - 5999	\$3,074,774.00	\$3,132,130.55	\$3,156,321.79
Capital Outlay	6000 - 6900	\$1,250,556.00	\$68,948.00	\$68,948.00
Other Outgo	7000 - 7299	\$91,871.33	\$91,871.33	\$91,871.33
Direct Support/Indirect Cost	7300 - 7399	(\$977,471.00)	(\$747,379.00)	(\$747,379.00)
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00
<b>Total Expenditures</b>		\$37,176,221.33	\$36,977,866.16	\$37,612,068.28
<b>Excess (Deficiency) of Revenues Over Expenditures</b>		\$3,630,073.15	\$2,262,964.05	\$2,305,291.12
<b>Other Financing Sources/Uses</b>				
Interfund Transfers In	8900 - 8929	\$2,791,043.00	\$1,699,778.00	\$1,699,778.00
Interfund Transfers Out	7600 - 7629	\$111,298.00	\$111,298.00	\$111,298.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00
Contributions	8980 - 8999	(\$4,367,754.00)	(\$5,520,226.12)	(\$6,957,028.30)
<b>Total Other Financing Sources/Uses</b>		(\$1,688,009.00)	(\$3,931,746.12)	(\$5,368,548.30)
<b>Net Increase (Decrease) in Fund Balance</b>		\$1,942,064.15	(\$1,668,782.07)	(\$3,063,257.18)
<b>Fund Balance</b>				
Beginning Fund Balance	9791	\$10,255,860.86	\$12,197,925.01	\$10,529,142.94
Audit Adjustments	9793	\$0.00	\$0.00	\$0.00
Other Restatements	9795	\$0.00	\$0.00	\$0.00
<b>Adjusted Beginning Fund Balance</b>		\$10,255,860.86	\$12,197,925.01	\$10,529,142.94
Ending Fund Balance		\$12,197,925.01	\$10,529,142.94	\$7,465,885.76
<b>Components of Ending Fund Balance</b>				
Reserved Balances	9700	\$0.00	\$0.00	\$0.00
Revolving Cash	9711	\$20,000.00	\$20,000.00	\$20,000.00
Stores	9712	\$130,523.00	\$130,523.00	\$130,523.00
Prepaid Expenditures	9713	\$0.00	\$0.00	\$0.00
Other Prepay	9719	\$0.00	\$0.00	\$0.00
General Reserve	9730	\$0.00	\$0.00	\$0.00
Legally Restricted Balance	9740 - 9759	\$0.00	\$0.00	\$0.00
Economic Uncertainties Percentage		3.00%	3.00%	3.00%
Designated for Economic Uncertainties	9770	\$1,858,671.25	\$1,778,149.18	\$1,814,011.14
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	\$0.00	\$0.00	\$0.00
Other Designated	9780	\$5,208,272.00	\$0.00	\$0.00
Undesignated/Unappropriated	9790	\$4,980,458.76	\$8,600,470.76	\$5,501,351.62
Negative Shortfall	9790	\$0.00	\$0.00	\$0.00

## Unrestricted General Fund

The effect of the deficit spending is more pronounced when looking at the MYFP for unrestricted funds only, in part because the reserve for economic uncertainty must consist entirely of unrestricted and unobligated funds. The unrestricted fund balance is projected to decrease by more \$4.7 million in the next two years, which will leave the district with an undesignated reserve of \$5.5 million.

Moreover, the unrestricted funding deficit increases from \$1.6 million in fiscal year 2011-12 to more than \$3 million in 2012-13: an increase of more than 80%.

If this deficit spending is allowed to continue uncurtailed, the district will encounter fiscal insolvency soon after fiscal year 2012-13.

**General Fund/County School Service Fund**  
Restricted Resources Only  
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
<b>Revenues</b>				
Revenue Limit Sources	8010 - 8099	\$1,315,828.00	\$1,315,828.00	\$1,350,495.00
Federal Revenues	8100 - 8299	\$9,976,444.00	\$4,561,364.00	\$4,561,364.00
Other State Revenues	8300 - 8599	\$4,043,902.00	\$3,758,519.73	\$3,866,773.03
Other Local Revenues	8600 - 8799	\$6,922,065.00	\$6,356,152.00	\$6,356,152.00
<b>Total Revenues</b>		\$22,258,239.00	\$15,991,863.73	\$16,134,784.03
<b>Expenditures</b>				
Certificated Salaries	1000 - 1999	\$9,864,662.00	\$8,657,922.36	\$8,868,256.92
Classified Salaries	2000 - 2999	\$4,291,857.00	\$4,385,066.02	\$4,480,139.21
Employee Benefits	3000 - 3999	\$4,038,920.00	\$3,737,750.10	\$3,788,239.34
Books and Supplies	4000 - 4999	\$1,298,990.00	\$780,472.68	\$772,954.37
Services and Other Operating	5000 - 5999	\$2,644,710.00	\$2,434,558.82	\$2,637,652.44
Capital Outlay	6000 - 6900	\$1,218,044.00	\$1,077,870.00	\$1,077,870.00
Other Outgo	7000 - 7299	\$195,975.00	\$215,000.00	\$215,000.00
Direct Support/Indirect Cost	7300 - 7399	\$835,746.00	\$614,550.12	\$624,274.28
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00
<b>Total Expenditures</b>		\$24,388,904.00	\$21,903,190.10	\$22,464,386.56
<b>Excess (Deficiency) of Revenues Over Expenditures</b>		<b>(\$2,130,665.00)</b>	<b>(\$5,911,326.37)</b>	<b>(\$6,329,602.53)</b>
<b>Other Financing Sources/Uses</b>				
Interfund Transfers In	8900 - 8929	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$279,285.00	\$279,285.00	\$279,285.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00
Contributions	8980 - 8999	\$4,367,754.00	\$5,520,226.12	\$6,957,028.30
<b>Total Other Financing Sources/Uses</b>		\$4,088,469.00	\$5,240,941.12	\$6,677,743.30
<b>Net Increase (Decrease) in Fund Balance</b>		<b>\$1,957,804.00</b>	<b>(\$670,385.25)</b>	<b>\$348,140.77</b>
<b>Fund Balance</b>				
Beginning Fund Balance	9791	\$6,297,477.73	\$8,255,281.73	\$7,584,896.48
Audit Adjustments	9793	\$0.00	\$0.00	\$0.00
Other Restatements	9795	\$0.00	\$0.00	\$0.00
Adjusted Beginning Fund Balance		\$6,297,477.73	\$8,255,281.73	\$7,584,896.48
Ending Fund Balance		\$8,255,281.73	\$7,584,896.48	\$7,933,037.25
<b>Components of Ending Fund Balance</b>				
Reserved Balances	9700	\$0.00	\$0.00	\$0.00
Revolving Cash	9711	\$0.00	\$0.00	\$0.00
Stores	9712	\$0.00	\$0.00	\$0.00
Prepaid Expenditures	9713	\$0.00	\$0.00	\$0.00
Other Prepay	9719	\$0.00	\$0.00	\$0.00
General Reserve	9730	\$0.00	\$0.00	\$0.00
Legally Restricted Balance	9740 - 9759	\$8,255,281.73	\$7,584,896.48	\$7,933,037.25
Designated for Economic Uncertainties	9770	\$0.00	\$0.00	\$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	\$0.00	\$0.00	\$0.00
Other Designated	9780	\$0.00	\$0.00	\$0.00
Undesignated/Unappropriated	9790	\$0.00	\$0.00	\$0.00
Negative Shortfall	9790	\$0.00	\$0.00	\$0.00

## Restricted General Fund

The district receives funds for 47 restricted federal, state and local programs. Total annual revenue for all of these programs is projected to be approximately \$16 million. However, these programs are also projected to be underfunded and in need of approximately \$6 million per year in contributions from the unrestricted funds, and the amount of the contribution increases in the projection years.

This growth in unrestricted general fund contributions is partly due to the MYFP's assumption that no action will be taken and that positions paid from a given resource will continue even as funding is reduced or eliminated. As funding changes, the district will need to respond accordingly.

A review of all contributions to restricted programs is a best practice that can help districts maintain control and ensure that restricted programs are self-sustaining to the greatest extent possible. The only exceptions should be the routine restricted maintenance, special education, home-to-school transportation, and special education transportation programs. Special education and transportation programs typically have insufficient state and federal funding support, and state and federal funding is not specifically provided for routine restricted maintenance.

**General Fund/County School Service Fund  
Unrestricted and Restricted Resources  
Revenues, Expenditures, and Changes in the Fund Balance**

Name	Object Code	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
<b>Revenues</b>				
Revenue Limit Sources	8010 - 8099	\$34,305,851.48	\$33,335,305.15	\$33,870,214.61
Federal Revenues	8100 - 8299	\$10,020,186.00	\$4,605,106.00	\$4,605,106.00
Other State Revenues	8300 - 8599	\$11,268,221.00	\$10,368,463.29	\$10,628,519.70
Other Local Revenues	8600 - 8799	\$7,470,275.00	\$6,923,819.50	\$6,948,303.12
<b>Total Revenues</b>		<b>\$63,064,533.48</b>	<b>\$55,232,693.94</b>	<b>\$56,052,143.43</b>
<b>Expenditures</b>				
Certificated Salaries	1000 - 1999	\$29,586,348.00	\$29,069,516.12	\$29,696,909.06
Classified Salaries	2000 - 2999	\$8,959,182.00	\$9,153,269.62	\$9,351,238.98
Employee Benefits	3000 - 3999	\$12,313,832.00	\$11,899,407.75	\$12,045,294.08
Books and Supplies	4000 - 4999	\$2,371,558.00	\$1,871,312.95	\$1,858,453.88
Services and Other Operating	5000 - 5999	\$5,719,484.00	\$5,566,689.37	\$5,793,974.23
Capital Outlay	6000 - 6900	\$2,468,600.00	\$1,146,818.00	\$1,146,818.00
Other Outgo	7000 - 7299	\$287,846.33	\$306,871.33	\$306,871.33
Direct Support/Indirect Cost	7300 - 7399	(\$141,725.00)	(\$132,828.88)	(\$123,104.72)
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00
<b>Total Expenditures</b>		<b>\$61,565,125.33</b>	<b>\$58,881,056.26</b>	<b>\$60,076,454.84</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>		<b>\$1,499,408.15</b>	<b>(\$3,648,362.32)</b>	<b>(\$4,024,311.41)</b>
<b>Other Financing Sources/Uses</b>				
Interfund Transfers In	8900 - 8929	\$2,791,043.00	\$1,699,778.00	\$1,699,778.00
Interfund Transfers Out	7600 - 7629	\$390,583.00	\$390,583.00	\$390,583.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00
Contributions	8980 - 8999	\$0.00	\$0.00	\$0.00
<b>Total Other Financing Sources/Uses</b>		<b>\$2,400,460.00</b>	<b>\$1,309,195.00</b>	<b>\$1,309,195.00</b>
<b>Net Increase (Decrease) in Fund Balance</b>		<b>\$3,899,868.15</b>	<b>(\$2,339,167.32)</b>	<b>(\$2,715,116.41)</b>
<b>Fund Balance</b>				
Beginning Fund Balance	9791	\$16,553,338.59	\$20,453,206.74	\$18,114,039.42
Audit Adjustments	9793	\$0.00	\$0.00	\$0.00
Other Restatements	9795	\$0.00	\$0.00	\$0.00
Adjusted Beginning Fund Balance		\$16,553,338.59	\$20,453,206.74	\$18,114,039.42
Ending Fund Balance		\$20,453,206.74	\$18,114,039.42	\$15,398,923.01
<b>Components of Ending Fund Balance</b>				
Reserved Balances	9700	\$0.00	\$0.00	\$0.00
Revolving Cash	9711	\$20,000.00	\$20,000.00	\$20,000.00
Stores	9712	\$130,523.00	\$130,523.00	\$130,523.00
Prepaid Expenditures	9713	\$0.00	\$0.00	\$0.00
Other Prepay	9719	\$0.00	\$0.00	\$0.00
General Reserve	9730	\$0.00	\$0.00	\$0.00
Legally Restricted Balance	9740 - 9759	\$8,255,281.73	\$7,584,896.48	\$7,933,037.25
Economic Uncertainties Percentage		3.00%	3.00%	3.00%
Designated for Economic Uncertainties	9770	\$1,858,671.25	\$1,778,149.18	\$1,814,011.14
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	\$0.00	\$0.00	\$0.00
Other Designated	9780	\$5,208,272.00	\$0.00	\$0.00
Undesignated/Unappropriated	9790	\$4,980,458.76	\$8,600,470.76	\$5,501,351.62
Negative Shortfall	9790	\$0.00	\$0.00	\$0.00

## Other District Funds

The district maintains funds in addition to the general fund. These funds are designated for specific purpose and are separated from the general fund for fiscal accountability. The district is responsible to maintain fiscal solvency in all funds; an overdrawn fund may affect the district's general fund and thus its overall fiscal health.

Although FCMAT did not perform a thorough analysis of the district's other funds, FCMAT reviewed all the district's funds for indications of fiscal instability or insolvency and, based on the current status and budget plans, found no fund to be of immediate concern.

The table below shows current and projected balances, revenues and expenditures for the district's other funds

### Other Funds

Governmental Funds	July 2011 beginning balance	Revenues & transfers in	Expenses & transfers out	June 2012 ending balance
12 Child Development	\$ -	\$2,853,918	\$2,853,918	\$ -
13 Cafeteria	\$1,862,416	\$3,739,142	\$3,747,708	\$1,853,850
14 Deferred Maintenance	\$60,478	\$318,669	\$379,147	\$ -
17 Special Reserve Other than capital outlay	\$4,348,799	\$37,000	\$105,362	\$4,280,437
20 Special Reserve OPEB	\$1,160,381	\$6,500	\$ -	\$1,166,881
21 Building	\$3,467,520	\$7,000	\$3,324,670	\$149,850
25 Capital Facilities	\$78,056	\$18,500	\$18,500	\$78,056
35 County School Facilities	\$448,953	\$3,500	\$452,452	\$1
40 Special Reserve Capital outlay	\$495,319	\$432,940	\$264,000	\$664,259

### Cash Flow

The state of California, in an effort to manage its own cash flow issues, has imposed numerous intra-year and inter-year deferrals of principal apportionment funding. Because the state apportionment accounts for more than 50% of the district's funding, this delay in funding has a significant effect on the district's cash flow and makes it critical for the district to diligently monitor and plan for its cash needs. The state's 2011-12 budget defers an additional \$2.1 billion in apportionments to schools. The following table shows the schedule on which districts should receive their principal apportionment funding for fiscal year 2011-12.

### State Apportionment Deferrals Schedule

	2010-11	2011-12
2011	Percentage of Apportionment	
July	9.10%	0.00%
August	12.10%	0.00%
September	7.10%	11.70%
October 2011		0.00%
November		9.00%
December		9.00%
2012		
January		25.30%
February		0.50%
March		0.00%
April		4.60%
May		1.50%
June		0.00%
July		22.60%
August		15.80%
	28.30%	100.00%

It is crucial that the district manage its cash in order to pay its obligations and maintain fiscal solvency. Close and frequent analysis of its schedule of income and disbursements will help the district maintain a positive cash position and identify potential shortfalls. Should the district anticipate a cash position that is inadequate to meet its obligations, the district would need to seek other sources of cash, including internal and external borrowing.

The next two tables provide the district's projected cash flow for fiscal years 2011-12 and 2012-13, respectively, indicating that the district's general fund will be able to maintain a positive cash position through June 30, 2013.

Cash Flow Projection, Fiscal Year 2011-12

South Bay Union School District - Cash Flow - 2011-12																		
Name	Object Code	Budget	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD Actuals Plus Projected Cash	Accruals	Totals	Variance
Beginning Cash Balance			Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected				
<b>Receipts</b>																		
Revenue Limit Sources	8100 - 8099	\$33,335,305.15	\$0.00	\$0.00	\$3,900,230.70	\$0.00	\$3,000,177.46	\$3,000,177.46	\$8,433,832.20	\$1,666,676.53	\$0.00	\$1,533,024.04	\$500,029.58	\$0.00	\$20,534,547.97	\$12,800,757.18	\$33,335,305.15	\$0.00
Federal Revenues	8100 - 8799	\$4,605,106.00	\$0.00	\$0.00	\$7,884.90	\$0.00	\$838,773.20	\$838,773.20	\$690,112.40	\$1,624,439.84	\$838,773.20	\$647,756.20	\$315,170.25	\$104,715.83	\$3,814,827.47	\$790,278.53	\$4,605,106.00	\$0.00
Other State Revenues	8300 - 8599	\$10,348,463.29	\$294,563.90	\$294,563.90	\$620,493.42	\$584,672.03	\$620,493.42	\$620,493.42	\$899,830.38	\$1,219,109.03	\$341,156.46	\$2,441,301.53	\$617,135.79	\$407,760.88	\$9,161,574.16	\$1,206,889.13	\$10,368,463.29	\$0.00
Other Local Revenues	8600 - 8799	\$6,923,819.50	\$0.00	\$0.00	\$1,663,587.75	\$28,022.63	\$0.00	\$0.00	\$28,022.63	\$1,663,587.75	\$0.00	\$0.00	\$1,691,610.38	\$156,806.87	\$5,231,638.01	\$1,692,181.49	\$6,923,819.50	\$0.00
Interfund Transfers In	8900 - 8999	\$1,699,778.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,699,778.00	\$0.00	\$1,699,778.00	\$0.00	
All Other Financial Sources	8600 - 8999	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Receipts		\$56,932,471.94	\$294,563.90	\$294,563.90	\$6,393,513.52	\$620,579.56	\$3,620,670.88	\$4,459,444.08	\$10,051,797.61	\$3,211,813.15	\$1,179,929.66	\$4,622,481.77	\$3,123,946.00	\$2,569,061.58	\$40,442,365.61	\$16,490,106.33	\$56,932,471.94	\$0.00
<b>Disbursements</b>																		
Certificated Salaries	1000 - 1999	\$29,069,516.12	\$877,085.48	\$1,162,780.64	\$2,616,256.45	\$2,616,256.45	\$2,616,256.45	\$2,616,256.45	\$2,616,256.45	\$2,616,256.45	\$2,616,256.45	\$2,616,256.45	\$2,616,256.45	\$2,616,256.45	\$28,488,125.80	\$81,390.32	\$29,069,516.12	\$0.00
Classified Salaries	2000 - 2999	\$9,153,269.62	\$274,598.09	\$366,130.78	\$823,794.27	\$823,794.27	\$823,794.27	\$823,794.27	\$823,794.27	\$823,794.27	\$823,794.27	\$823,794.27	\$823,794.27	\$823,794.27	\$8,970,204.26	\$183,065.36	\$9,153,269.62	\$0.00
Employee Benefits	3000 - 3999	\$11,899,407.75	\$356,982.23	\$475,976.31	\$1,070,946.70	\$1,070,946.70	\$1,070,946.70	\$1,070,946.70	\$1,070,946.70	\$1,070,946.70	\$1,070,946.70	\$1,070,946.70	\$1,070,946.70	\$1,070,946.70	\$11,461,419.62	\$237,988.13	\$11,899,407.75	\$0.00
Books and Supplies	4000 - 4999	\$1,871,312.95	\$294,639.51	\$294,639.51	\$394,639.51	\$394,639.51	\$394,639.51	\$394,639.51	\$394,639.51	\$394,639.51	\$394,639.51	\$394,639.51	\$394,639.51	\$394,639.51	\$1,740,321.04	\$130,991.91	\$1,871,312.95	\$0.00
Services and Contract Operating	5000 - 5999	\$5,566,689.37	\$447,018.01	\$447,018.01	\$447,018.01	\$447,018.01	\$447,018.01	\$447,018.01	\$447,018.01	\$447,018.01	\$447,018.01	\$447,018.01	\$447,018.01	\$447,018.01	\$5,136,940.95	\$429,748.42	\$5,566,689.37	\$0.00
Capital Outlay	6000 - 6999	\$1,146,818.00	\$172,022.70	\$172,022.70	\$172,022.70	\$172,022.70	\$172,022.70	\$172,022.70	\$172,022.70	\$172,022.70	\$172,022.70	\$172,022.70	\$172,022.70	\$172,022.70	\$1,066,540.74	\$80,277.26	\$1,146,818.00	\$0.00
Other Outgo	7000 - 7999	\$306,871.33	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$306,871.33	\$0.00	\$306,871.33	\$0.00
Direct Support/Indirect Cost	7300 - 7399	\$132,828.88	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$132,828.88	\$0.00	\$132,828.88	\$0.00
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7699	\$390,583.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$390,583.00	\$0.00	\$390,583.00	\$0.00
All Other Financial Uses	7630 - 7699	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Disbursements		\$59,271,639.26	\$2,417,346.02	\$2,918,567.95	\$5,424,677.64	\$5,175,791.13	\$5,175,791.13	\$5,175,791.13	\$5,175,791.13	\$5,175,791.13	\$5,175,791.13	\$5,175,791.13	\$5,175,791.13	\$5,175,791.13	\$57,628,177.86	\$1,643,461.40	\$59,271,639.26	\$0.00
<b>Assets</b>																		
Revolving Cash Account	9130	\$20,000.00	\$20,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$20,000.00	\$0.00	\$20,000.00	\$0.00
Cash with a Fiscal Agent/Trustee	9135	\$50,000.00	\$50,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$50,000.00	\$0.00	\$50,000.00	\$0.00
Accounts Receivable	9200	\$7,803,017.57	\$2,598,670.15	\$3,335,790.01	\$1,958,557.41	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$7,803,017.57	\$0.00	\$7,803,017.57	\$0.00
Due from Other Funds	9310	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Assets		\$7,823,017.57	\$2,598,670.15	\$3,335,790.01	\$1,958,557.41	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$7,823,017.57	\$0.00	\$7,823,017.57	\$0.00
<b>Liabilities</b>																		
Accounts Payable (Current Liabilities)	9500	\$1,746,581.30	\$1,746,581.30	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,746,581.30	\$0.00	\$1,746,581.30	\$0.00
Due to Grantor/Contracts	9590	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Due to Other Funds	9610	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Deferred Revenue	9650	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Liabilities		\$1,746,581.30	\$1,746,581.30	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,746,581.30	\$0.00	\$1,746,581.30	\$0.00
Ending Cash Balance			\$16,621,788.73	\$17,333,574.69	\$20,160,967.98	\$15,705,756.41	\$14,150,636.16	\$13,424,289.11	\$16,310,955.59	\$16,284,943.34	\$12,227,707.60	\$11,730,278.72	\$9,835,135.02	\$6,853,106.02	\$11,442,365.61	\$0.00	\$11,442,365.61	\$0.00

Cash Flow Projection, Fiscal Year 2012-13

South Bay Union School District - Cash Flow - 2011-12

Name	Object Code	Budget	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD Actuals Plus Projected Cash	Accruals	Totals	Variance
			Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected				
Beginning Cash Balance		\$6,853,106.02	\$12,826,736.02	\$16,960,634.99	\$17,926,628.55	\$17,926,628.55	\$13,284,548.89	\$11,706,033.45	\$10,966,033.45	\$10,966,033.45	\$13,848,188.66	\$9,710,756.43	\$9,209,012.32	\$7,258,561.63				
<b>Receivables</b>																		
Revenue Limit Sources	8010 - 8099	\$33,870,214.61	\$0.00	\$0.00	\$3,962,815.11	\$0.00	\$3,048,319.31	\$3,048,319.31	\$8,569,164.30	\$169,351.07	\$0.00	\$1,558,029.87	\$508,053.23	\$0.00	\$20,864,052.20	\$13,066,162.41	\$33,335,305.15	\$0.00
Federal Revenues	8100 - 8299	\$4,605,106.00	\$0.00	\$0.00	\$209,201.65	\$7,884.90	\$0.00	\$838,773.20	\$690,112.40	\$162,439.84	\$838,773.20	\$6,477,562.00	\$3,151,702.25	\$1,047,715.83	\$3,814,827.47	\$790,276.53	\$4,605,106.00	\$0.00
Other State Revenues	8300 - 8599	\$10,628,519.70	\$299,849.03	\$299,849.03	\$639,936.44	\$387,663.10	\$639,936.44	\$639,936.44	\$927,932.84	\$1,360,082.37	\$351,940.03	\$3,504,155.93	\$639,936.44	\$837,741.74	\$9,428,559.83	\$1,999,959.87	\$10,368,463.29	\$0.00
Other Local Revenues	8600 - 8799	\$6,948,303.12	\$0.00	\$0.00	\$1,668,587.75	\$291,143.53	\$0.00	\$0.00	\$29,143.53	\$1,668,587.75	\$0.00	\$0.00	\$1,697,731.28	\$156,249.17	\$5,249,443.01	\$1,698,860.11	\$6,937,819.50	\$0.00
Interfund Transfers In	8900 - 8929	\$1,699,778.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,699,778.00	\$0.00	\$1,699,778.00	\$0.00	
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Receipts		\$57,751,921.43	\$299,849.03	\$299,849.03	\$6,246,911.53	\$6,246,911.53	\$3,688,255.75	\$4,527,028.95	\$10,216,353.07	\$3,260,461.03	\$1,190,713.23	\$4,709,942.00	\$3,160,891.20	\$2,598,084.74	\$41,056,660.51	\$16,695,260.92	\$56,932,471.94	\$0.00
<b>Disbursements</b>																		
Certificated Salaries	1000 - 1999	\$29,696,909.06	\$890,907.27	\$1,187,876.36	\$2,672,721.82	\$2,672,721.82	\$2,672,721.82	\$2,672,721.82	\$2,672,721.82	\$2,672,721.82	\$2,672,721.82	\$2,672,721.82	\$2,672,721.82	\$2,369,690.87	\$29,102,970.88	\$99,938.18	\$29,069,516.12	\$0.00
Classified Salaries	2000 - 2999	\$9,351,238.98	\$280,337.17	\$374,049.56	\$841,611.51	\$841,611.51	\$841,611.51	\$841,611.51	\$841,611.51	\$841,611.51	\$841,611.51	\$841,611.51	\$841,611.51	\$935,123.90	\$9,164,214.22	\$187,024.76	\$9,153,269.62	\$0.00
Employee Benefits	3000 - 3999	\$12,045,294.08	\$31,358.82	\$481,811.76	\$1,084,076.47	\$1,084,076.47	\$1,084,076.47	\$1,084,076.47	\$1,084,076.47	\$1,084,076.47	\$1,084,076.47	\$1,084,076.47	\$1,084,076.47	\$1,204,529.41	\$11,804,386.22	\$240,905.86	\$11,899,407.75	\$0.00
Books and Supplies	4000 - 4999	\$1,856,453.88	\$292,556.37	\$292,556.37	\$292,556.37	\$136,526.31	\$136,526.31	\$136,526.31	\$136,526.31	\$136,526.31	\$136,526.31	\$136,526.31	\$136,526.31	\$0.00	\$1,728,362.11	\$130,091.77	\$1,871,312.95	\$0.00
Services and Other Operating	5000 - 5999	\$5,793,974.23	\$451,557.82	\$451,557.82	\$451,557.82	\$451,557.82	\$451,557.82	\$451,557.82	\$451,557.82	\$451,557.82	\$451,557.82	\$451,557.82	\$451,557.82	\$379,543.40	\$5,346,679.42	\$447,294.81	\$5,566,689.37	\$0.00
Capital Outlay	6000 - 6900	\$1,146,818.00	\$172,022.70	\$172,022.70	\$172,022.70	\$80,277.26	\$80,277.26	\$80,277.26	\$80,277.26	\$80,277.26	\$80,277.26	\$80,277.26	\$80,277.26	\$0.00	\$1,066,540.74	\$80,277.26	\$1,146,818.00	\$0.00
Other Outgo	7000 - 7299	\$306,871.33	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$61,374.27	\$306,871.33	\$0.00	\$306,871.33	\$0.00
Direct Support/Indirect Cost	7300 - 7399	\$123,104.72	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$123,104.72	(\$123,104.72)	\$0.00	(\$123,828.88)	\$0.00
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$390,583.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$390,583.00	\$390,583.00	\$0.00	\$390,583.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Disbursements		\$60,467,037.84	\$2,448,940.15	\$2,939,874.57	\$5,514,546.89	\$5,266,771.19	\$5,266,771.19	\$5,266,771.19	\$5,266,771.19	\$5,266,771.19	\$5,266,771.19	\$5,266,771.19	\$5,266,771.19	\$5,817,740.11	\$58,787,505.20	\$1,679,532.64	\$59,271,639.26	\$0.00
<b>Assets</b>																		
Revolving Cash Account	9130	\$20,000.00	\$20,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$20,000.00	\$0.00	\$20,000.00	\$0.00
Cash with a Fiscal Agent/Trustee	9135	\$50,000.00	\$50,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$50,000.00	\$0.00	\$50,000.00	\$0.00
Accounts Receivable	9200	\$16,490,106.33	\$9,696,182.52	\$6,793,923.81	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$16,490,106.33	\$0.00	\$7,803,017.57	\$0.00
Due from Other Funds	9310	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Assets		\$16,560,106.33	\$7,666,182.52	\$6,793,923.81	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$16,560,106.33	\$0.00	\$7,873,017.57	\$0.00
<b>Liabilities</b>																		
Accounts Payable (Current Liabilities)	9500	\$1,643,461.40	\$1,643,461.40	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,643,461.40	\$0.00	\$1,746,581.30	\$0.00
Due to Grantor Governments	9590	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Due to Other Funds	9610	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Deferred Revenue	9650	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Liabilities		\$1,643,461.40	\$1,643,461.40	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,643,461.40	\$0.00	\$1,746,581.30	\$0.00
Ending Cash Balance		\$12,826,736.02	\$16,960,634.29	\$17,926,628.55	\$13,284,548.89	\$11,706,033.45	\$10,966,033.45	\$10,966,033.45	\$10,966,033.45	\$10,966,033.45	\$13,848,188.66	\$9,710,756.43	\$9,209,012.32	\$7,258,561.63	\$4,038,906.26			

Although the district's cash balance as of July 2011 is approximately \$18 million, the projected cash balance on June 30, 2013 will be approximately \$4 million. This cash flow is predicated on multiple assumptions including budgeted revenue and expenditures and scheduled income and disbursements. Even a small change that negatively affects the district's cash may require the district to seek cash from other sources.

### **Interfund borrowing**

Education Code 42603 permits a district to temporarily borrow cash from one or more of its own funds to meet its cash flow needs. If the district needs to temporarily borrow cash and has cash available in another fund, the governing board may pass a resolution to authorize an inter-fund loan.

## **Recommendations**

*The district should:*

1. Continue to evaluate its ability to maintain fiscal solvency for the current and subsequent two years. Take all reasonable steps to balance its budgets and maintain a positive cash balance.
2. Regularly evaluate external and internal factors affecting the districts fiscal health and use an MYFP to project their effect on the district.
3. Regularly review enrollment and attendance records to identify and respond to trends. Continue to seek opportunities to increase enrollment and attendance.
4. Evaluate resources to identify potential contributions to restricted program funds from the unrestricted general fund and work to ensure that restricted programs are self-sustaining to the greatest extent possible.
5. Consider reviewing site and program carryover policies for program funds. Require site plans to identify uses that align with the district's priorities and to return unused funds annually. Ensure that all current funding is used for current students and that any carryover is available to the district as a whole.
6. Continue and expand the use of categorical flexibility as allowed for and extended by the current state budget.
7. Closely monitor cash flow and apply for Tax and Revenue Anticipation Notes (TRANS) annually as a safeguard against additional apportionment funding deferrals or other unanticipated cash needs. Participate in a TRANS pool if one is available.
8. Monitor other district funds to ensure their fiscal solvency.
9. Pass an interfund borrowing resolution annually to ensure approval is available should the district have immediate need to transfer funds.

## Staffing

As is the case with almost all LEAs, staffing costs account for the majority of the district's budgeted expenditures. It is impossible to make significant budget or expenditure reductions without affected staffing. The district has an extensive budget process that includes various stakeholders with the board of trustees as the final decision makers. The process is transparent and the district's priorities are to minimize the effects on direct student services. Nonetheless, staffing in all areas has been reduced during recent years of declining enrollment and state funding reductions.

### Certificated Staff

For 2010-11, the district employed approximately 365 full time equivalent (FTE) teachers for the regular education program. In addition, the district employs 52 impact teachers using categorical funding.

According to Ed Data ([www.ed-data.k12.ca.us](http://www.ed-data.k12.ca.us)), the district maintained a pupil-to-teacher ratio of less than 21:1 from 2000 through 2010. In an effort to curtail expenses without laying off staff, the district offered a retirement incentive and the certificated bargaining unit agreed to reduce the work year by seven days. Twenty-one teachers accepted the retirement incentive prior to fiscal year 2009-10, and an additional 16 teachers accepted it through July 2010. For the 2011-12 school year, in further response to budget cuts and preparation for possible additional reductions, the district reduced its teaching staff with the objective of having 25 students per teacher in kindergarten, 27 in grades 1- 3 and 33 students per teacher in grades 4-6.

Educators throughout the state agree that it is important to manage student-to-teacher ratios because smaller class sizes allow students to have more personalized attention and teachers to have better working conditions. Because teacher compensation is the majority of any district's budget, districts have found it necessary to seek budget reductions in this area. While the increase in class size for the district appears dramatic, many districts in the state have increased their class sizes to more than 30 students for grades K-3 and to the maximum allowable for higher grades.

### Classified Staff

The district also sought savings through an extensive reduction in classified positions. The district offered retirement incentives for classified personnel and received nine responses through June 2010. To further mitigate decreases in revenue, the district and the classified bargaining unit have agreed to furlough days through 2013. However, these actions have not prevented the district from reducing hours, laying off positions and leaving vacant positions unfilled.

The district's custodial and maintenance services are very efficient. The district determines its custodial staffing needs using the California Association of School Business Officials' (CASBO's) industry-standard guidelines, and cleaning practices are standardized districtwide. The cleaning staff has been reduced by 25% and current staffing allows for vacuuming of classrooms only every other day. Staff indicated that cleaning levels are understandable given the current budget conditions and are not an issue. FCMAT found no complaints from staff or public regarding cleanliness of facilities or restrooms. The annual school facility conditions evaluation conducted in August of 2010 listed overall cleanliness as good but cited a few instances of dirty floors and exhaust vents in the student restrooms. FCMAT neither found nor heard any issues regarding the overall maintenance of facilities. The annual facility evaluations rated all school sites reviewed in

“good” condition. Only one site received a “poor” rating in one category mostly because several classrooms had lights that did not function.

## District Office

Staffing at the district office has been highly scrutinized and targeted in the budget reduction process. The district office cut its receptionist and two administrative assistant positions, including the superintendent’s assistant. The district’s fiscal services and human resources offices have also seen extensive reductions in staff and have led the way through the budget reductions by reducing staff before and to a greater degree than was requested of sites, and by taking compensation reductions.

The fiscal services department has experienced a 50% reduction in staff, from 12 staff positions to six. The human resources department has been reduced from 6.75 FTE positions to 4.5 and took over the additional work of handling employee benefits. In an effort to create greater efficiencies, the district purchased and is in process of implementing Infinite Visions, a new fiscal and personnel management software. Staff indicated difficulties with the transition to the new software including the need to maintain the old system to access historical data because the two systems did not interact and staff have been unable to generate some reports using the new software.

The staffing of the district’s human resources and fiscal services departments is low compared to that of school districts of similar size and in FCMAT’s opinion is at best minimally adequate. Each position is essential to meet the district’s daily needs, and each position requires a highly knowledgeable and efficient person to fulfill daily work requirements. Because of the level of knowledge and skill needed, it is unlikely that a substitute can adequately fulfill the requirements of a position when an employee is absent or goes on vacation. As a result, processes and information vital to the district may be overlooked. In addition, these positions are important to the district’s fiscal evaluation and planning processes. Little opportunity is available for proactive fiscal review because the daily routines require the vast majority of staff members’ time and attention. FCMAT found it difficult to obtain information because staff availability was limited and staff members were engaged in necessary daily tasks.

The fiscal services and human resources staff are highly knowledgeable and skilled in their areas of expertise, but are in need of more support as well as ongoing training to engage in proactive planning and evaluation while meeting all of the district’s routine needs.

To mitigate the need for further staffing cuts, agreements have been reached to implement furlough days for fiscal year 2010-11 through 2012-13. All units, including certificated, classified, confidential, and management, agree to implement furlough days to cut expenses rather than making all reductions through layoffs. The certificated unit has agreed to seven furlough days in 2010-11, six furlough days in 2011-12 and seven furlough days in 2012-13. The classified unit has agreed to five or six furlough days for 2010-11, five or six furlough days in 2011-12, and six to 10 furlough days for 2012-13. The confidential and management staff have agreed to take eight or nine furlough days for 2010-11, seven or eight days in 2011-12, and eight or nine days in 2012-13.

# Recommendations

*The district should:*

1. Continue the budget review process to evaluate the best use of district funds to serve students.
2. Continue to evaluate and adapt staffing to changes in student enrollment and funding flexibility.
3. Maintain custodial and maintenance services to provide a clean and safe learning environment and to increase the longevity of school facilities.
4. Review district fiscal services and human resources staffing to ensure adequate training and support.
5. Invest in additional training and support for the Infinite Visions software, including training additional staff to maintain and extract information from the system so that the software can be used fully and maintained at all times.
6. Further explore the potential for the Infinite Visions software to efficiently produce staffing reports and projections, detailed expenditure reports, comparative budget reports and other reports to help the district's leadership make informed and effective decisions.



# Revenue Augmentation

## Transportation Fees

California Education Code section 39807.5 states that when a district offers home-to-school transportation for its students, it may require the parents of students transported to pay a portion of the cost of the transportation in an amount determined by the governing board but not greater than the statewide average non-subsidized cost of providing the transportation to a student on a publicly owned or operated transit system.

The State Superintendent of Public Instruction's February 11, 2011 letter regarding fees for pupil transportation states that the maximum allowable rate for fiscal year 2011-12 is \$8.50 per student, per day for a round trip. Therefore, if the district had a 180-day instructional calendar, the maximum that could be charged to parents would be \$1,530 ( $\$8.50 \times 180$ ).

Although the education code allows school districts to levy these pupil transportation fees, it is a common best practice for districts to first analyze their current ridership to determine if charging fees would generate sufficient revenue to implement such a program. For example, if the vast majority of current riders receive free meals at school, the district would not be able to charge those students' parents for transportation. Parents of student riders who are eligible for reduced price meals could be charged only a reduced fee for transportation. Only the parents of students who do not qualify for free or reduced price meals could be charged the full transportation fee. After determining the number of riders who could be charged the full fee, a district would need to estimate the number of students who would no longer attend the district's schools because of the fees. The total estimated revenue could then be compared to the revenue limit funding lost to determine whether it would be feasible to implement transportation fees.

## Facility Fees

As permitted by Education Code section 38134, the district has developed a fee schedule for individuals and groups that use the district's facilities; however, staff indicated that the fee schedule has not been revised in more than four years. The above-mentioned education code section also regulates the amounts the district can charge and includes such items as supplies, utilities, janitorial services and salaries of district employees necessitated by the organization's use of the facility. Many, if not all, of these costs have risen since the district last revised its fee schedule.

## Deferred Maintenance Program Transfer

Each year, the State Allocations Board (SAB) apportions funding for the deferred maintenance program (DMP) payment to school districts. The district's allocation for the fiscal year 2009-10 (paid in the subsequent fiscal year) was \$279,131. Before fiscal year 2008-09, these funds were deposited directly into the deferred maintenance fund and the district was required to match those funds. Beginning in fiscal year 2008-09 and continuing through fiscal year 2014-15, the DMP payment is deposited into the general fund, may be used for "any educational purpose," and no matching component is required.

FCMAT's reviewed of the district's unaudited actuals report revealed that although the district receives the DMP payment into the general fund, this payment and additional funding was transferred to the deferred maintenance fund to be used for major repair or replacement projects. After reducing the beginning fund balance and revenues by the expenditures for the year, the deferred maintenance fund ended fiscal year 2009-10 with an ending balance of \$692,890,

which is equal to two and a half times the current annual SAB contribution. The district is permitted to keep the annual DMP payment in the general fund to be used for educational programs and allow the deferred maintenance fund to use its fund balance for major repair or replacement projects. If it later finds that the deferred maintenance fund balance is not sufficient to support its projects, any transfer to the deferred maintenance fund could be restricted to the funding required for the specific project.

## Categorical Carryover

The district's revenue and fund balances in the 2009-10 Form CAT from the unaudited actuals indicated that although there was a reduction in the carryover/fund balances in most programs, some program balances had increased since 2008-09 (see Form CAT analysis below).

For example, the district reports a \$244,753.28 increase in the carryover balance in Title II, Part A. This program is in the list of federal programs that allow funding to be transferred in or out to better align resources to the district's needs. If the district's technology needs are not being met, the district might consider taking advantage of the federal flexibility rules and transfer funds from Title II, Part A to Title II, Part D.

Districts that are not in Program Improvement have greater federal flexibility options than Program Improvement districts. In addition to the transferability of the funds to a select group of federal programs, the excess funding in Title II, Part A can be used to reduce general fund contributions to the K-3 Class Size Reduction program.

## Analysis of Form CAT

Resources with Increasing Deferred Revenue/Carryover Balances Excluding American Recovery and Reinvestment Act and State Fiscal Stabilization Funds				
		Beginning	Ending	
		Carryover	Carryover	Carryover
Resource	Program Name	Balance	Balance	Increase
3180	Improvement Grant, QEIA	\$ -	\$659,150.89	\$659,150.89
4035	Title II, Part A	\$127,410.58	\$372,163.96	\$244,753.38
7386	Fiscal Solvency - GASB 45 OPEB	\$ -	\$7,832.00	\$7,832.00
9010	Resource Centers - Donations	\$18,870.58	\$33,884.04	\$15,013.46
9010	Sweetwater UHSD - LEA Medi-Cal	\$54,846.89	\$94,785.36	\$39,938.47
TOTAL				\$966,688.20
Resources with Increasing Fund Balances				
		Beginning	Ending	
		Fund	Fund	Fund Balance
Resource	Program Name	Balance	Balance	Increase
5640	LEA Medi-Cal	\$99,110.38	\$161,688.26	\$62,577.88
7090	Economic Impact Aid	\$1,158,115.02	\$1,386,827.60	\$228,712.58
7091	Economic Impact Aid - LEP/ELL	\$932,223.52	\$1,308,827.04	\$376,603.52
7400	Quality Education Investment Act	\$783,600.84	\$1,003,959.06	\$220,358.22
9010	Microsoft Settlement	\$39,622.97	\$437,100.73	\$397,477.76
TOTAL				\$1,285,729.96

## Ending Fund Balance

FCMAT's review of the district's 2009-10 unaudited actuals report and 2010-11 second interim report revealed that a portion of the fund balance was designated for such items as an additional 2% for economic uncertainties and various carryovers for sites, departments and purchase orders.

For the 2009-10 unaudited actuals this amounted totaled \$7,741,286, and for the 2010-11 second interim report the amount ranged from \$5,208,272 in fiscal year 2010-11 to \$1,585,013 in 2012-13 year. Although it is commendable that the district is seeking to follow the board's goal of a 5% reserve and allow sites and departments to keep carryover funding from year to year, given the state's economic crisis and the effect of that crisis on school funding, the district would benefit from suspending designations of this type to help eliminate its deficit spending.

## Special Reserve

The district also maintains special revenue funds which are available for transfer to the general fund in the case of shortfalls in the general fund. The first of these is the Special Revenue Fund for Other Than Capital Outlay Projects (Fund 17) which, pursuant to the California School Accounting Manual (CSAM), Procedure 305, "...is used primarily to provide for the accumulation of general fund moneys for general operating purposes other than for capital outlay (Education Code Section 42840)."

The district's other special revenue fund from which it can provide funding to the general fund is the Special Reserve Fund for Postemployment Benefits (Fund 20), which is a fund that is used as follows, according to CSAM Procedure 305:

...pursuant to Education Code Section 42840 to account for amounts the LEA has earmarked for the future cost of postemployment benefits but has not contributed irrevocably to a separate trust for the postemployment benefit plan. Amounts accumulated in this fund must be transferred back to the general fund for expenditure (Education Code Section 42842).

As of June 30, 2010, the district reported balances of \$4,417,161.22 for Fund 17 and \$1,153,380.54 for Fund 20. The district reports that it plans to transfer a total of \$2,527,043 from funds 9, 17 and 40 to the general fund during fiscal year 2010-11, and it would benefit from continuing to draw upon these funds as needed to maintain its 3% reserve requirement.

## Attendance Waiver

More than 50% of the district's revenues are generated from state apportionment, which is determined based on student attendance or ADA. During the 2009-10 school year, many districts suffered a decline in attendance due to the H1N1 flu outbreak. Under such circumstances and pursuant to Education Code section 46392, a district may file a Request for Allowance of Attendance Because of Emergency Conditions in order to recapture the ADA lost. Normally, an epidemic must be declared in order to recapture ADA based on illness; however, this requirement was waived by the California Department of Education (CDE) for the 2009-10 H1N1 flu outbreak. However, district staff were not aware of this CDE's waiver of the epidemic requirement. If the district is still permitted to file the Request for Allowance is still open, it could recapture this lost ADA.

## Medi-Cal Administrative Activities

The Medi-Cal Administrative Activities (MAA) program allows government entities such as school districts to submit claims and receive reimbursements for activities that are defined as administration of the federal Medicaid program. School personnel submit claims for administrative costs associated with school-based health and outreach activities that are not claimable under the Medi-Cal billing option or another Medi-Cal program. In most cases these costs are associated with referring students or families for Medi-Cal eligibility determinations, providing health care information and referral, coordinating and monitoring health services, and coordinating between agencies. MAA claims are submitted based on time surveys completed by district personnel such as site administrators, nurses, counselors and psychologists and are based on the normal day-to-day activities that these employees provide to students.

The district has recently implemented the reimbursement process under the MAA program and received approximately \$5,000 for time studies submitted for the first quarter of fiscal year 2010-11 and approximately \$20,000 for the second quarter. This revenue is entirely dependent on employees completing the paperwork required for the district to receive reimbursement for job duties that employees normally provide to students. Annual reimbursement can total hundreds of thousands of dollars for a district the size of the South Bay Union School District.

## Parcel Taxes

As state resources for school districts have continued to decline, many districts have sought increased operating funds from local voters by implementing a parcel tax. Parcel taxes are normally levied at a flat rate per parcel and must be uniformly applied to all real property owners except for senior citizens and federal supplemental security income disability benefit recipients, for whom exemptions are permitted. Parcel taxes can be extremely difficult to pass because they require a two-thirds vote of the electorate; however, the parcel tax the district placed on the ballot in 2010 fell short by only 8 percentage points.

## Enrollment and Attendance

Because a majority of the district's revenue is generated by student enrollment and attendance, the district needs to be attentive to ways to increase enrollment and encourage attendance. Incentives of various kinds are widely used by districts to encourage students to attend school and encourage staff to assist in getting the students to school. Aligning the school calendar with those of other districts and with families' needs can help increase enrollment and attendance. The newly formed Nestor charter academy has encouraged students looking for a language academy and has allowed the district to serve students in grades 7 and 8. The district music program promotes the district and encourages students to enroll in and attend the district's schools.

## Recommendations

*The district should:*

1. Analyze the student population using home-to-school transportation to determine if charging fees would generate sufficient revenue to justify implementation. Consider implementing fees if the analysis indicates that it is feasible.
2. Update its fee schedule for the use of its facilities to fully recoup the actual costs of the facilities use.

3. Consider suspending or reducing the transfer of the annual deferred maintenance program payment from the State Allocation Board to the deferred maintenance fund.
4. Fully use categorical funding to better align resources with the district's needs and goals. Consider transferring funding from Title II, Part A to Title II, Part D for use in technology, or using Title II, Part A funding to support additional teaching positions and reduce general fund contributions to the K-3 CSR program.
5. To reduce deficit spending, consider suspending the practice of designating fund balances for such items as additional reserves for economic uncertainties and carry-over for sites, departments and purchase orders.
6. Continue to draw on its special revenue funds as needed to maintain its 3% reserve requirement.
7. Immediately determine if it can still file the Request for Allowance of Attendance Because of Emergency Conditions for the ADA lost in the 2009-10 H1N1 flu virus outbreak, and if so, file the request as soon as possible.
8. Ensure that all employees who are providing MAA services complete the necessary paperwork so that the district can receive the maximum reimbursement.
9. Seek the advice of experienced financial advisors and legal counsel to help determine the feasibility of placing another parcel tax measure on the ballot.
10. Continue looking for and implanting ways to increase enrollment and attendance, including the following:
  - a. Implement attendance incentives.
  - b. Thoroughly examine the school calendar and compare it to those of neighboring district and daily attendance rates.
  - c. Consider opening additional charter schools to expand grades served and promote specialized learning opportunities.
  - d. Use the music program to promote the school district. Evaluate and expand the program if this would benefit the district.



# Expenditure Reductions

## Stores Inventory

At the end of each fiscal year the district conducts a year-end (June 30) inventory to determine the amount and value of items being held in the cafeteria stores. This amount is recorded in the district's financial accounts and reported as an asset on the balance sheet. However, using these stores instead of purchasing via the purchase order (PO) process would reduce expenditures in the year in which stores are used.

Stores inventories for both the district's general fund and cafeteria fund have been increasing. For the general fund, stores have increased from \$182,622 on June 30, 2009 to \$229,867 on June 30, 2010. Stores in the cafeteria fund have increased from \$190,276 on June 30, 2009 to \$262,533 on June 30, 2010.

## Nurses

The district has five nurses and one health clerk to help address students' medical issues that require administration of medications for allergies, asthma, diabetes and other conditions. To provide necessary services while keeping costs in check, many districts use one nurse to lead the program and LVNs and health clerks to perform various duties.

## Indirect Costs

A school district's costs can be categorized as direct or indirect. The activity associated with the cost determines if it is a direct or indirect cost. Direct costs can be identified with a particular instructional program or support service necessary to maintain the program.

Indirect costs are more global in nature. They are the costs of general management that are districtwide and consist of expenditures for administrative activities needed for the general operation of the district (e.g., accounting, budgeting, payroll preparation, personnel management, purchasing, and centralized data processing). Each district establishes an annual indirect cost rate based on its individual expenditures as applied to the California Department of Education's (CDE) federally approved indirect cost plan. This indirect cost rate is then multiplied by each program's actual allowable expenditures to determine how much the program is to be charged for its share of the cost of general administrative activities.

As a rule, individual programs are charged the district's CD- approved indirect cost rate unless the program specifically requires a different rate or none at all. For example, the Federal Education Jobs Funding allows no indirect costs while Economic Impact Aid (EIA) allows a 3% indirect cost rate. In addition, Education Code sections 38101(c) and 52616.4(a)(3) limit school district indirect costs to amounts derived from the lesser of a school district's indirect rate (as approved by the CDE) or the statewide average indirect cost rate for food service programs. For fiscal year 2010-11, the district's CDE-approved indirect cost rate was 5.37%. For food services, the district was limited to the lesser of either this rate or the food services rate of 4.44% for fiscal year 2010-11. FCMAT reviewed the district's comparative budget report for fiscal year 2010-11 and found the following:

- Some programs to which the district is allowed to charge indirect costs were not charged for their share of the district's general administrative costs through the application of the district's CDE-approved indirect cost rate. These included such programs as Title I, part B; special education – IDEA preschool part B; special education – IDEA preschool local

entitlement; Title IV, EIA – limited English proficient special education apportionment; home-to-school transportation; special education transportation; and the fiscal solvency program. The special education apportionment, home-to-school transportation, and special education transportation programs all require contributions from the unrestricted general fund and thus charging them indirect costs would increase the general fund contribution; however, it is important that the full cost of the program be reported.

- Some programs were charged more than the district's CDE- approved indirect cost rate. For example, the following programs were charged the indirect cost rates listed below rather than the district's allowed 5.37% indirect cost rate.
  - ARRA Title I/Part A: 5.49%
  - Title I – School Improvement Grant – QEIA: 7.02%
  - ARRA Title I – School Improvement Grant – QEIA: 9.79%
  - Special education – IDEA/part B basic: 7.92%
  - Title II/part A: 5.59%
- Some programs were charged less than the district's CDE-approved indirect cost rate of 5.37%, including the following:
  - Title I/Part A: 5.29%
  - ARRA: 1.93%
  - Special Ed – IDEA Preschool Local Entitlement: 1.8%
  - Title III, Medi-Cal Billing: 1.95%
  - Quality Education Investment Act (QEIA) program: 2.86%
- In addition, the Food Service program is being charged 4.39% instead of the 4.44% allowed, and the Education Investment Act (EIA) program is being charged 1.9% rather than the 3% rate allowed.

In addition to charging indirect costs to programs, Government Code section 65005.6 allows the district to use up to 3% of the developer fees collected in a fiscal year for reimbursement of the administrative costs incurred in collecting these fees. The district's 2010-11 comparative budget report does not budget any indirect costs .

The result of the misapplication of the district's CDE-approved indirect cost rate to its programs is that the unrestricted general fund is bearing an unequal burden of the administrative costs even though restricted and other programs are using those services. Unfortunately, the district cannot recover the costs that were not charged correctly in prior years; however, the district can review its processes for applying indirect costs and revise its closing procedures for the unaudited actual reporting to ensure that it is charging indirect costs at the correct rate to each program for which this is allowed.

## Food Services

At the end of fiscal year 2009-10 the district's food service program had revenues that exceeded its expenditures, resulting in a fund balance of \$1,899,664. Although the cafeteria fund cannot permanently transfer funds to the general fund, the district can ensure that the food service program is paying for all of the costs associated with its operations. For example, the district has

already reviewed positions that provide services to multiple programs (such as the warehouse and custodial services) to ensure that the fair share of those services are being charged to food services.

The food service program operates four kitchens; however, FCMAT's review of the utilities costs for that program found that \$3,984.59 was charged in fiscal year 2009-10 and the budget for fiscal year 2010-11 was \$4,200. These figures seem slightly low for utility costs for four kitchens; the district may benefit from confirming the calculation of these costs.

## Energy conservation

The district has an approved energy conservation policy. In accordance with the policy, the district has installed energy management systems on every campus and is working on an energy retrofit for all portables. District staff indicated that although the district is diligent in seeking energy and cost savings, staff are allowed to have personal appliances such as microwaves, refrigerators and coffee makers in their work areas. These personal appliances are not efficient and can be costly to the district.

## Recommendations

*The district should:*

1. Consider monitoring and reducing stores inventory in the general fund and the cafeteria fund.
2. Consider reconfiguring its nursing program to incorporate the use of LVNs as nursing staff retire or leave the district.
3. Review its processes for applying indirect costs and revise its closing procedures for the unaudited actual reporting to ensure that each program that it is allowed to charge an indirect cost rate is charged the correct rate.
4. Confirm the calculation of the utility costs for the food service program to ensure that the program is fully paying all of its costs.
5. Seek additional utility cost savings by reviewing, communicating and enforcing its energy conservation policy, including monitoring or eliminating the use of personal appliances.



# Appendix

## A. Study Agreement





**CSIS** California School Information Services

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**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM  
STUDY AGREEMENT  
February 16, 2011**

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the South Bay Union School District, hereinafter referred to as the District, mutually agree as follows:

**1. BASIS OF AGREEMENT**

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

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

**2. SCOPE OF THE WORK**

**A. Scope and Objectives of the Study**

The scope and objectives of this study are to:

The South Bay Union School District has been in declining enrollment for the past ten years. This coupled with the ongoing state fiscal crisis has resulted in a significantly diminished reserve, planned deficit spending, and staff reductions in most departments. All one time funding will be expended by the end of fiscal year 2012- 2013. The purpose of this review is to validate the district's budget assumptions and multiyear financial projection and to provide recommendations for expenditure reductions or revenue enhancements.

1. Review the District's 2010-11 general fund budget, validate the district's budget assumptions and provide a multiyear financial projection for the current and two subsequent fiscal years utilizing the district's 2nd Interim Financial Report as the baseline for the projection. The MYFP will be developed using FCMAT's Budget Explorer and include a cash flow component for the same time period to project the district's cash balances at the end of each fiscal year. The MYFP and cash flow analysis will also include the impact of other funds including alternative strategies for cash management from both internal and external sources.
2. The FCMAT Team will provide recommendations for expenditure reductions or revenue enhancements to assist the district in maintaining their financial solvency under AB 1200.
3. The FCMAT team will review staffing ratios by department and make recommendations to ensure continuity of service.

B. Services and Products to be Provided

1. Orientation Meeting - The Team will conduct an orientation session at the School District to brief District management and supervisory personnel on the procedures of the Team and on the purpose and schedule of the study.
2. On-site Review - The Team will conduct an on-site review at the District office and at school sites if necessary.
3. Exit Report - The Team will hold an exit meeting at the conclusion of the on-site review to inform the District of significant findings and recommendations to that point.
4. Exit Letter - The Team will issue an exit letter approximately 10 days after the exit meeting detailing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.
5. Draft Reports - Sufficient copies of a preliminary draft report will be delivered to the District administration for review and comment.
6. Final Report - Sufficient copies of the final study report will be delivered to the District administration following completion of the review.
7. Follow-Up Support – Six months after the completion of the study, FCMAT will return to the District, if requested, to confirm the District's progress in implementing the recommendations included in the report, at no cost. Status of the recommendations will be documented to the District in a FCMAT Management Letter.

### 3. PROJECT PERSONNEL

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

- |                            |   |
|----------------------------|---|
| <i>A. John F. Von Flue</i> | <i>FCMAT Fiscal Intervention Specialist</i> |
| <i>B. Julie Auvil</i>      | <i>FCMAT Consultant</i>                     |

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

### 4. PROJECT COSTS

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

- A. \$500.00 per day for each Team Member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc. The District will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the District.

**Based on the elements noted in section 2 A, the total cost of the study is estimated at \$7,600.**

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

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

### 5. RESPONSIBILITIES OF THE DISTRICT

- A. The District will provide office and conference room space while on-site reviews are in progress.
- B. The District will provide the following (if requested):
  - 1. A map of the local area
  - 2. Existing policies, regulations and prior reports addressing the study request
  - 3. Current or proposed organizational charts
  - 4. Current and two (2) prior years' audit reports

5. Any documents requested on a supplemental listing
6. Any documents requested on the supplemental listing should be provided to FCMAT in electronic format when possible.
7. Documents that are only available in hard copy should be scanned by the district and sent to FCMAT in an electronic format.
8. All documents should be provided in advance of field work and any delay in the receipt of the requested documentation may affect the start date of the project.

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

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

## **6. INDEMNIFICATION**

Each party agrees to defend, hold harmless, and indemnify the other party (and the other party's officers, employees, trustees, agents, successors, and assigns) against all claims, suits, expenses (including reasonable attorney's fees), losses, penalties, fines, costs, and liability whether in contract, tort, or strict liability (including but not limited to personal injury, death at any time, and property damage) arising out of or made necessary by (A) the indemnifying party's breach of the terms of this Agreement, (B) the act or omission of the indemnifying party, its employees, officers, agents, and assigns in connection with performance of this Agreement, and (C) the presence of the indemnifying party, its officers, employees, agents, assigns, or invitees on the other party's premises.

In the event that any action or proceeding is brought against a party by reason of any claim or demand discussed in this section, upon notice from the other party, the indemnifying party shall defend the action or proceeding at the other party's expense through counsel reasonably satisfactory to the other party. The obligations to indemnify set forth in this section shall include reasonable attorney's fees and investigation costs and all other reasonable costs, expenses, and liabilities from the first notice that any claim or demand is to be made.

The indemnifying party's obligations under this section shall apply regardless of whether the other party (or any of its officers, employees, trustees, or agents) are actively or passively negligent, but shall not apply to any loss, liability, fine, penalty, forfeiture, cost, or damage determined by an arbitrator or court of competent jurisdiction to be caused solely by the active negligence or willful misconduct of the other party, its officers, employees, trustees, or agents.

## 7. INSURANCE REQUIREMENTS

Each party shall obtain, pay for and maintain in effect during the life of this Agreement the following policies of insurance issued by an insurance company rated not less than "A-;V" in Best Insurance Rating Guide and admitted to transact insurance business in California: (1) commercial general liability insurance (including contractual, products and completed operations coverages, bodily injury and property damage liability insurance) with single combined limits of not less than \$1,000,000 per occurrence; (2) commercial automobile liability insurance for "any auto" with combined single limits of liability of not less than \$1,000,000 per occurrence; and (3) workers' compensation insurance as required under state law.

Each party's policy(ies) shall contain an endorsement naming the other party as an additional insured insofar as this Agreement is concerned, and provide that written notice shall be given to the other party at least 30 days prior to cancellation or material change in the form of the policy or reduction in coverage. Each party shall furnish the other party with a certificate of insurance containing the endorsements required under this section, and each party shall have the right to inspect the other party's original insurance policies upon request. Upon notification of receipt of a notice of cancellation, change or reduction in a party's coverage, that party shall immediately file with the other party a certified copy of the required new or renewal policy and certificates for such policy.

Nothing in this section concerning minimum insurance requirements shall reduce a party's liabilities or obligations under the indemnification provisions of this Agreement.

The parties acknowledge that The Team is permissibly self-insured under California law.

## 8. PROJECT SCHEDULE

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

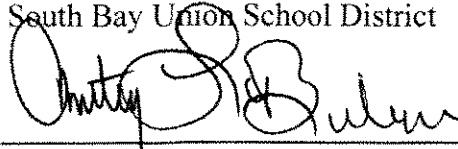
<b><i>Orientation:</i></b>	<b><i>to be determined</i></b>
<b><i>Staff Interviews:</i></b>	<b><i>to be determined</i></b>
<b><i>Exit Interviews:</i></b>	<b><i>to be determined</i></b>
<b><i>Preliminary Report Submitted:</i></b>	<b><i>to be determined</i></b>
<b><i>Final Report Submitted:</i></b>	<b><i>to be determined</i></b>
<b><i>Board Presentation:</i></b>	<b><i>to be determined</i></b>
<b><i>Follow-Up Support:</i></b>	<b><i>If requested</i></b>

**9. CONTACT PERSON**Name of contact person: Scott Buxbaum, Assistant Superintendent, BusinessTelephone: (619) 628-1679 FAX: (619) 628-1678E-Mail: sbuxbaum@sduisd.k12.ca.us3/3/2011

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Carol Parish, Ed. D., Superintendent.  
South Bay Union School District

Date

February 16, 2011

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Anthony L. Bridges, CFE

Date

Deputy Executive Officer

Fiscal Crisis and Management Assistance Team