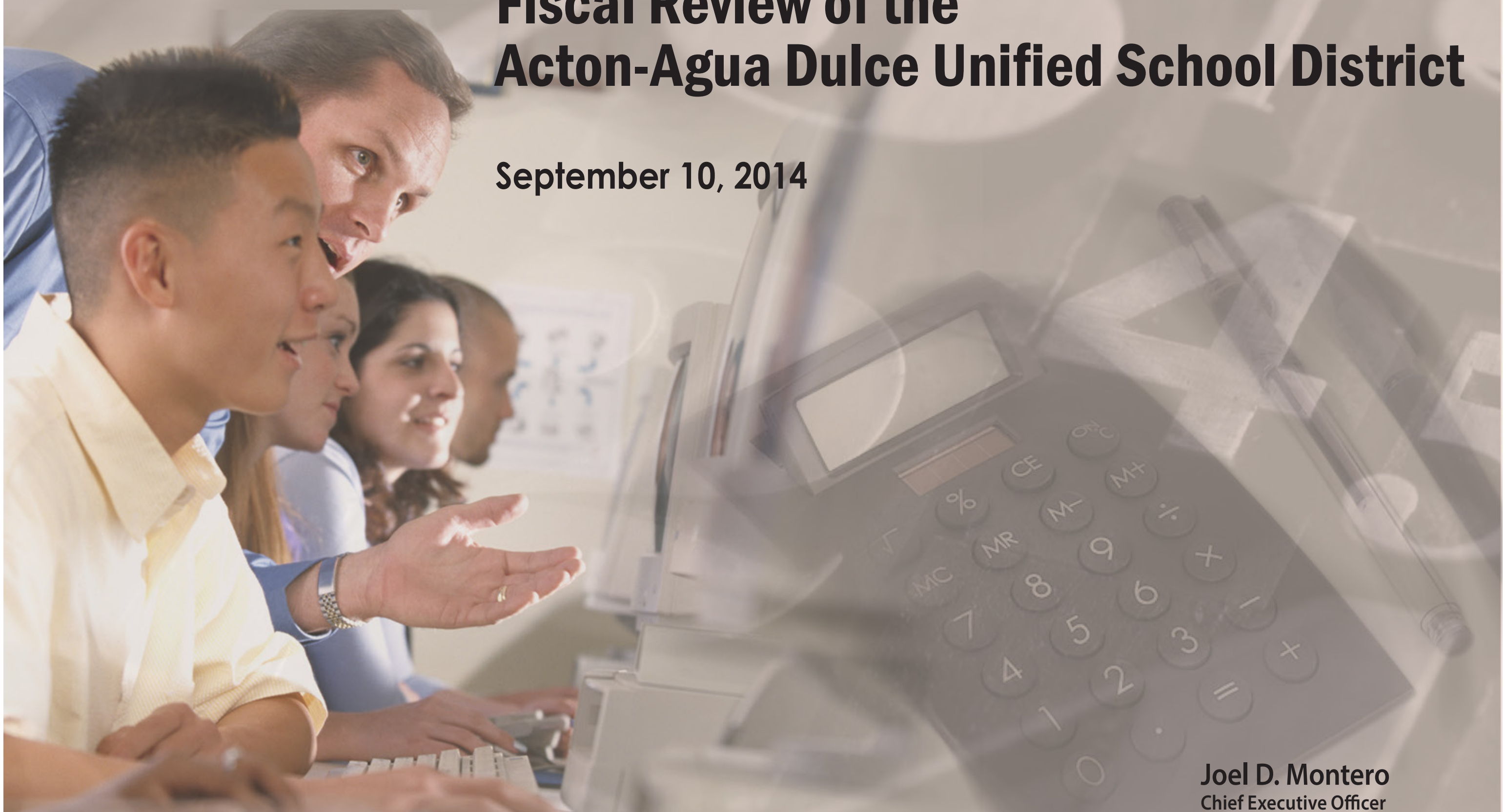
FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

Los Angeles County Office of Education

Fiscal Review of the Acton-Agua Dulce Unified School District

September 10, 2014



Joel D. Montero
Chief Executive Officer



September 10, 2014

Arturo Delgado, Ed.D., Superintendent
Los Angeles County Office of Education
9300 Imperial Highway
Downey, CA 90242

Dear Superintendent Delgado:

In May 2014, the Los Angeles County Office of Education (LACOE) and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for a study that would perform the following for the Acton-Agua Dulce Unified School District:

1. Work with LACOE and the district to develop an MYFP for the current (2013-14) and two subsequent fiscal years without any demonstrated adjustments based on today's economic forecast to determine the level of commitment needed to sustain the district's financial solvency. The MYFP will be a snapshot in time regarding the current financial status and will use the district's second interim financial report as the baseline for developing the MYFP. Any forecast of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment trends, cost-of-living adjustments, forecasts for utilities, supplies and equipment, and changing economic conditions at the state, federal and local levels. The MYFP model should be evaluated as a trend based on certain criteria and assumptions instead of a prediction of exact numbers.

2. The district has experienced a significant decline in enrollment because of the number of charter schools authorized by the board. The MYFP will include enrollment projections in the financial modeling, including using FCMAT's LCFF calculator to determine the level of funds required to sustain the district's financial solvency.

FCMAT focused on creating a multiyear projection using its Budget Explorer software to assess the district's fiscal solvency, and prepared a detailed projection using the 2014-15 adopted budget as the base year.

FCMAT conducted on-site fieldwork in June 2014 and off-site fieldwork in July and August 2014. To assess the district's financial condition, the team reviewed numerous original documents including enrollment reports, audited financial statements, budget assumptions, adopted and interim budget files, financial system reports, unaudited actuals, payroll files, long-term debt obligations, charter school petitions, charter school estimates of average daily attendance, staffing ratios for other county offices and large school districts that oversee several charter schools, other financial records, and third-party documents.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the Los Angeles County Office of Education and the Acton-Agua Dulce Unified School District, and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

Joel D. Montero
Chief Executive Officer

Table of Contents

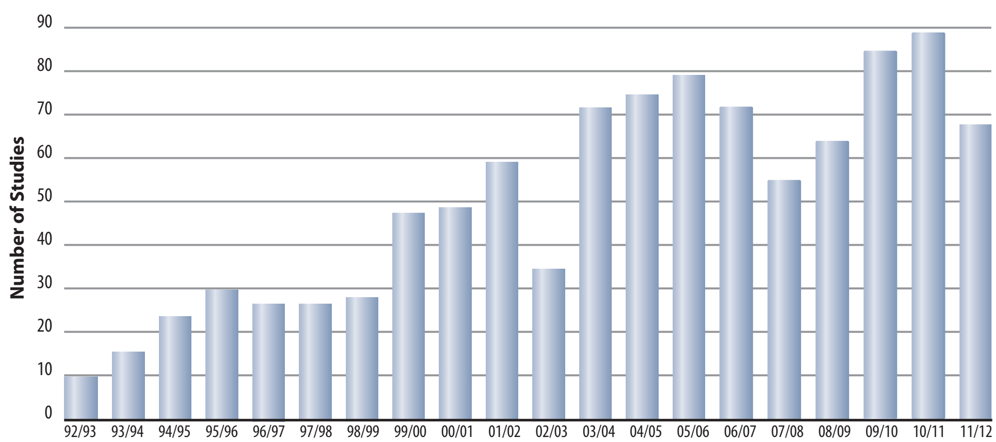
About FCMAT

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 offices 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 more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

Located 44 miles north of Los Angeles and 25 miles southwest of Palmdale, the Acton-Agua Dulce Unified School District (district) has two elementary schools, one middle school and one high school. Beginning with the 2014-15 school year, the district is closing one elementary school because of declining enrollment, at which time a charter school will occupy the closing school's site. The district's enrollment has been declining since 2003-04 when it had 1,994 students. In 2013-14 it had 1,301 students; thus enrollment declined by 693 students in 10 years.

After four unsuccessful attempts, in November 2008 voters in the district narrowly passed Measure CF, which authorized it to issue $13,000,000 in general obligation (GO) bonds to "acquire, construct and improve high school facilities." The bond language authorizes the use of funds to replace portable classrooms with permanent classrooms and build science laboratories at the high school. The building fund showed an estimated $11.6 million available as of June 30, 2014.

The district is experiencing fiscal distress primarily because of declining enrollment and the loss of students to charter schools. Even with the new Local Control Funding Formula (LCFF), the district is unable to sustain fiscal solvency without increasing revenues or making additional budget adjustments. In an attempt to increase revenues, the district has approved several charter schools from which it collects oversight fees and which it charges for extra services, including in some cases special education services provided to the charter school as a "school of the district" (Education Code sections 47640-47647).

There are many issues related to the approval of charters, including the use of exceptions in the Education Code regarding where a charter school can seek facilities. At least three lawsuits have been filed challenging the way the district has interpreted these exceptions; this will place additional stress on the district's financial situation.

Study and Report Guidelines

FCMAT visited the district in June and conducted off-site work in July and August 2014 to conduct interviews and collect data. Following the adoption of the district's general fund budget in June 2014, FCMAT's projection uses the second interim budget for 2013-14 as the historical base and the adopted budget for 2014-15 as a baseline for the multiyear financial projection.

In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

Study Team

The study team was composed of the following members:

Deborah Deal, CICA, CFE
FCMAT Fiscal Intervention Specialist
Los Angeles, CA

Julie Auvil, CPA, CGMA
FCMAT Fiscal Intervention Specialist
Bakersfield, CA

William Pickering II
FCMAT Consultant
San Diego, CA

Margaret Rosales
FCMAT Consultant
Kingsburg, CA

John Lotze
FCMAT Technical Writer
Bakersfield, CA

Executive Summary

Assembly Bill (AB) 1200 and AB 2756 provide the structure for fiscal accountability and for oversight of a school district's financial condition. They include specific responsibilities for the county superintendent of schools, the superintendent of public instruction and FCMAT to assist a district in fiscal distress.

AB 1200 and AB 2756 require multiyear financial projections (MYFPs) as part of budget and interim financial reporting. These projections allow the district and the county office of education to assess revenues and expenditures in the current and subsequent two fiscal years to determine whether the district can meet its fiscal obligations. A district with an MYFP indicating that it will be unable to meet its fiscal obligations in the current or subsequent two fiscal years receives either a qualified or negative budget certification. A qualified budget certification indicates that the district is deficit spending and may not meet its fiscal obligations; a negative certification indicates that the district will not meet its fiscal obligations.

The Los Angeles County Office of Education (county office) requested that FCMAT prepare a MFYP for the district after the county office changed the district's certification from qualified to negative for the first interim budget report and the district's negative self-certification of the second interim budget report for the 2013-14 fiscal year. The district fails to meet its required level of reserve for economic uncertainties in the current and subsequent two fiscal years and has experienced declining enrollment for the last decade.

Uncertainty about enrollment for nine newly operational charter schools; pending and potential new litigation regarding the authorization process and its use of Education Code exemptions for charter schools; continued declining enrollment; loss of students to charter schools; long-term debt obligations; and a reserve level lower than state recommended requirements indicate that the district will require state intervention during the 2014-15 school year unless it increases revenues, including those from projected charter school enrollment and related oversight fees, or implements additional expenditure reductions. The district has a tax revenue anticipation note (TRAN) to support its present financial obligations for cash flow purposes; however, because of the district's negative budget certification, the county office must approve any non-voter-approved debt issuance to ensure that the district has the ability to repay the notes in accordance with Education Code (EC) 42133 (a).

FCMAT used its Budget Explorer v.5.0 software to create an MYFP and cash flow analysis based on the district's 2014-15 adopted budget. FCMAT analyzed and compared salary and benefit projections to actual position control and payroll records; prepared projections for enrollment and average daily attendance based on historical trends; and analyzed estimated enrollment and average daily attendance (ADA) characteristics for newly operational district-authorized charter schools that are physically located in school districts other than Acton-Agua Dulce USD.

The governor signed the 2014-15 state budget on June 20, 2014. The MYFP projections for this report include the most current state assumptions for the Local Control Funding Formula (LCFF), revised gap funding, and economic protection account percentages. This is the second year of economic growth as school districts recover from the state recession that officially started in December 2007. The MYFP is built on these and many other assumptions that are included in the multiyear financial projections section of this report.

The state continues to increase the district's revenue under the new LCFF. In the first year (2013-14) the state provided 12.0017% in gap funding toward the LCFF target in an effort to reach full funding in eight years. In the second year (2014-15) the district will receive 29.56% of the estimated remaining gap balance.

According to the most recent audit report for 2012-13, the district's general fund balance decreased by $1,575,933 while long-term debt increased by $1,651,893 over the two preceding fiscal years. Current year average daily attendance (ADA) was 1,580.29 in 2010-11 but has decreased by 371.96 from 2010-11 through 2013-14 and continues to decline. (Due to minor prior year corrections to ADA subsequent to the audit report by the district, ADA decreased by 370.73). The following table shows the significant decline in enrollment compared with current year ADA.

Acton Agua-Dulce USD Enrollment and ADA Decline, 2009-10 through 2013-14

Fiscal Year	Prior Year ADA	Current Year ADA	Enrollment	Decline in ADA	Percentage of Decline
2009-10	1686.20	1657.43	1795	28.77	1.71%
2010-11	1657.43	1580.29	1696	77.14	4.65%
2011-12	1580.29	1408.67	1506	171.62	10.86%
2012-13	1408.67	1286.70	1377	121.97	8.66%
2013-14	1286.70	1216.31	1301	70.39	5.47%

As of June 30, 2014, the district's general fund estimated actuals shows that it continues to deficit spend by $121,830 and the fund balance has dropped to $383,594. The district authorized two charter schools during the 2013-14 school year; it has approved nine new charter schools to start during the 2014-15 school year; and seven additional charter schools are pending approval by the district.

The following report describes in detail the total analysis of revenues and expenditures along with the adjustments made by the FCMAT team; however, a summary of FCMAT's projection for combined unrestricted and restricted resources in the table below shows how rapidly the fund balance diminishes over the three-year period.

Summary of MYFP for Combined Unrestricted and Restricted General Fund

Fiscal Year	2014-15	2015-16	2016-17
Revenues	$10,206,554	$10,417,378	$10,242,571
Expenditures and Sources/Uses	$10,905,853	$10,736,496	$10,745,618
Excess (Deficiency) of Revenues Over Expenditures	($699,299)	($319,118)	($503,047)
Beginning Fund Balance	$383,594	($315,705)	($634,823)
Ending Fund Balance	($315,705)	($634,823)	($1,137,870)

The district's fund balance is negative in all three years of the projection, and the district cannot maintain its required reserve levels. The district is projecting revenues totaling $1,287,112 in the 2014-15 fiscal year based on ADA estimates and contracts with the charter schools for oversight fees, which include fiscal and special education oversight as well as fees for facility rental, specialized assistance for curriculum, and program assistance. Because the district lacks supporting documentation for specific fees for identified services, FCMAT reduced local revenues by $723,063 to $564,049 to adjust for limits on oversight fees in accordance with EC sections 47604 through 47614.

Declining enrollment and corresponding reductions in state funding, large state funding deficits, and a substantial debt burden have placed the district in a difficult financial position. Employee bargaining units have made concessions including furlough days, resulting in five fewer school days. In addition, no cost of living adjustments have been provided for several years, and several positions were eliminated. The latest reduction in force for 2014-15 includes the following:

- 15.2 full-time equivalent (FTE) teacher positions and two teachers who were non-re-elected for the upcoming school year
- 1.0 FTE English learner teacher
- 1.0 FTE custodian/maintenance position
- Part-time nurse positions
- 1.0 FTE secretary
- 2.0 FTE instructional aides
- 1.0 FTE Principal

The district's administration and governing board have explored many options to attract and retain students over time, including targeting incoming high school students from outside district boundaries and offering them their school of choice in a rural setting in an attempt to increase enrollment and programs for stay-at-home students. As enrollment continued to decline, the district authorized two charter schools to increase revenue in the 2013-14 school year and has recently authorized nine more charter schools for the 2014-15 school year in hopes that the oversight fees and other services offered will be sufficient to stabilize the district's financial situation. It is extremely unusual for a school district to use this type of strategy to increase revenue, particularly to the extent the district has during the 2013-14 fiscal year. Education code 47605(a) established regulations for the approval of charter schools within the school district's geographical boundaries. This same education code section provides for exceptions for unique and unusual circumstances, not to be confused with the ordinary approval process.

The county office changed the district's 2013-14 first interim budget report from a qualified to a negative certification, indicating that the district is unable to meet its financial obligations in the current or subsequent fiscal year (Education Code 42131). Pursuant to EC 42127.6 (e), the county superintendent appointed a fiscal advisor in January 2014 to ensure that the district meets its financial obligations. The fiscal advisor is authorized by the county superintendent to perform any or all of the duties required of the county superintendent, including staying or rescinding any action that is inconsistent with the district's ability to meet its financial obligations in the current and subsequent fiscal year.

FCMAT was created by legislation in 1992 and has conducted hundreds of studies. Based on this experience, FCMAT has developed a list of 11 predictors that indicate when a school district is in fiscal distress. These are referenced in AB 2756 and EC 42127 and 42127.6. The district exhibits several of these conditions, including the following:

- Leadership Breakdown
    - Litigation against the district
- Ineffective Communication
    - Lack of interagency cooperation
- Collapse of Infrastructure

    - Deferred maintenance neglected
    - No long-range plan for facility maintenance
    - Low budget priority
- Inadequate Budget Development
    - Failure to maintain reserves
    - Declining enrollment
    - Deficit spending
- Limited Budget Monitoring
    - Poor cash flow analysis and reconciliation
    - Lawsuit settlements
- Related Issues of Concern
    - Student exodus from the school district (declining enrollment/charter school growth)
    - Public support for public schools decreasing
    - Inadequate community participation and communication

FCMAT also found that the district has not recognized all of the fiscal impacts of its approval of multiple charter schools, including the immediate loss of ADA when its students transfer to district-authorized charter schools, and cost sharing for special education local plan area (SELPA) funding. Other considerations include the cost of supervision associated with fiscal and academic oversight and the cost of providing direct special education services for some of the charter schools without well-defined agreements. The district is also the defendant in three lawsuits brought by other school districts challenging its method of approving charter schools that locate outside the district's geographical boundaries, and pending legislation could affect the status of charter schools approved by the district.

The following factors indicating the district's fiscal distress have been identified by the county office and confirmed by FCMAT:

- Failure to implement the board-approved stabilization plan in 2012-13
- Reliance on increased revenues from authorizing several newly operational charter schools that have yet to find facilities and enroll students
- Auditor concerns regarding low reserve levels, potential cash flow shortages, and teacher negotiations, specifically concessions
- Ongoing and increasing deficit spending
- Reserve levels lower than state requirements
- Declining enrollment and reduced state funding, and the loss of enrollment to charter schools
- Unsettled labor negotiations
- Potential inability to repay the outstanding TRANs in July 2014

Of particular concern is the impact on the district's unrestricted general fund from considerable long-term debt, declining enrollment, and continued deficit spending. The district has been unable to sustain finances or enrollment in the short term and must develop a stabilization plan to avoid fiscal insolvency in the long-term.

Declining enrollment, increasing charter school enrollment, and continued deficit spending have prompted concern from the county office regarding the district's ability to continue as a going concern. There is a strong possibility of state invention during the 2014-15 fiscal year if immediate corrective action is not taken.

Findings and Recommendations

Multiyear Financial Projections — Background

Assembly Bill (AB) 1200 (Statutes of 1991, Chapter 1213) and AB 2756 (Statutes of 2004) are part of the adoption budget and interim reporting process for school districts. AB 1200 was signed into law in 1991, and AB 2756 was signed into law in June 2004 and made substantive changes to the financial oversight and accountability of school districts and county offices of education. Among other things, AB 2756 strengthened the roles of the superintendent of public instruction (SPI) and county offices of education and their ability to intervene during fiscal crises, including requesting assistance from FCMAT.

Education Code (EC) section 42127 and EC 42130 establish the requirements for the governing board of each district and for the county superintendent regarding the budget adoption and interim reporting periods. An integral component of EC 42127 is the governing board's ability to demonstrate that the budget allows a district to meet its financial obligations in the current and two subsequent fiscal years.

Forecasting financial data is based on certain economic assumptions and criteria at a point in time. Therefore, a financial projection should be evaluated as a forecast of anticipated revenues and expenditures based on assumptions for a particular time period, using prescribed standards and criteria. The budget should do the following:

- Communicate the educational goals of the school district.
- Identify resources to meet those goals.
- Limit or control spending.

A multiyear financial projection (MYFP) should provide the governing board and management with guidance by evaluating the long-term effects of financial decisions and should be able to be adjusted for variables that the district cannot control, such as increasing or decreasing enrollment.

California school districts are in the second year of recovery following the Great Recession. During the recession, school districts throughout California struggled to balance budgets, maintain reserves, and manage cash flows. Education has borne an inequitable share of the state's budget cuts, and large deficits have forced districts to update multiyear assumptions and projections several times during the fiscal year as assumptions frequently changed at the state level. FCMAT's MYFP is based on the most current information available and is subject to change if the projected enrollment and/or average daily attendance (ADA) for the district or from the newly approved charter schools increases or decreases.

Assumptions upon which MYFPs are based can fluctuate, especially in the subsequent fiscal years, as projected revenue information from the state changes. The gap percentage rate (described more fully later in this report) in particular is the pivotal factor driving the Local Control Funding Formula (LCFF); other key factors include the district's unduplicated student counts, enrollment, and ADA.

MYFPs are a valuable tool for decision-making, especially regarding multiyear commitments. The district will need to continue to regularly update its MYFPs and reassess any factors that can have a substantial effect on the budget, including effects that are not within the district's control such as legal challenges, increases in the number of its students enrolling in charter schools, and ADA that increase or decrease charter revenues and therefore projected oversight fees.

To help protect local educational agencies from economic uncertainties, the state recommends that any school district with an ADA of 1001 to 30,000 maintain reserves equal to not less than 3% of its general fund expenditures. The district's current reserve requirement is 3% for fiscal years 2014-15 and 2015-16; however, the requirement will increase to 4% when ADA drop below 1,000, which is projected to occur in 2016-17.

AB 1200 Oversight

If at any time during the fiscal year a district is unable to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district's governing board and the state superintendent of public instruction (SPI).

The county office of education is required to follow EC section 42127.6 while assisting a school district in this situation. Assistance may include assigning a fiscal expert or fiscal advisor, conducting a study of the district's financial and budgetary conditions, updating cash flow projections, and requiring the district to disclose all contracts and multiyear commitments. The MYFP is intended to help the county office and the district create a stabilization and fiscal recovery plan to regain fiscal solvency and restore the required general fund reserve.

The district's governing board has received a negative certification of the district's 2013-14 second interim financial report. According to EC 42131(e), a district with a qualified or negative certification for the second interim budget report under EC 42130 is required to provide financial statements that project its fund and cash balances through June 30 for the period ending April 30 to the county superintendent of schools, the state controller and the SPI. In addition, EC section 42127.6 requires the district to comply with requests from and conditions set by the county office, including the assignment of a fiscal advisor. The Los Angeles County Office of Education has assigned a fiscal advisor to the district.

As the district works with the county office, its business office will need to ensure that multiyear financial and cash flow projections are kept up to date and that the information they contain is accurate and based on the most current economic assumptions.

This is particularly important because the district has authorized several new charter schools for the 2014-15 school year, with estimates of revenues based on attendance that cannot be verified. Many of these charter schools are located outside of the district's boundaries, with LCFF concentration grant funding based on their physical location, yet the district's revenue estimates for the 2014-15 adopted budget include projections of local revenue. Without the questionable oversight fees from these charter schools, the district will not be able to maintain its recommended reserve for economic uncertainties, will become a lack of going concern, and may be subject to state intervention. The district needs to be prepared to make midyear budget adjustments if the charter school projections do not materialize.

FCMAT has updated the multiyear projections with the most current budget assumptions included in the state's adopted budget for 2014-15. The MYFP developed for this report indicates that the district will not be able to maintain its reserve requirement in the 2014-15 fiscal year and the two subsequent fiscal years, and that it continues to deficit spend. The district also has substantial long-term debt and its enrollment is declining. These issues must be addressed immediately to avoid fiscal insolvency. It is crucial that the district develop a strategic long-term financial plan based on reasonable assumptions for charter school oversight revenue and related expenditures.

The district faces substantial fiscal challenges that will require the governing board to make and implement difficult decisions immediately to maintain local governance and avoid state intervention and receivership.

The assumptions and projection rules included in FCMAT's MYFP are listed in the table below.

FCMAT MYFP Assumptions and Projection Rules

Assumptions/Projection Rules	2014-15	2015-16	2016-17
Statutory Cost of Living	0.85%	2.19%	2.14%
LCFF Gap Funding Percentage	29.56%	20.68%	25.48%
Education Protection Account (EPA) Percentage	21.9621%	21.9621%	21.9621%
Special Education Cost of Living	0.85%	2.19%	2.14%
Federal Funding	0%	0%	0%
Consumer Price Index	2.40%	2.60%	2.70%
Lottery - Unrestricted	$128	$128	$128
Lottery - Restricted	$34	$34	$34
Interest Rate	2.80%	3.20%	3.30%
Certificated Step & Column	Included in base	1.1%	0.8%
Classified Step	Included in base	2.9%	2.8%
Health & Welfare - Capped	$9,437	$9,437	$9,437
CalPERS	11.771%	12.60%	15.00%
CalSTRS	8.88%	10.73%	12.58%

Updated from Business Administration Steering Committee (BASC) Common Message for adopted budget 2014-15; LCFF Assumptions updated from Department of Finance; School Services of California (SSC) Dartboard 2014-15.

Charter Schools

Education Code sections 47600 through 47664 contain general provisions for charter schools including their establishment, operations, funding determinations, reporting requirements, facilities, notice/evaluation of effectiveness, special education, and computations that affect the authorizing local education agency through enrollment exclusions and in-lieu property taxes.

The Charter Schools Act of 1992 states that it provides "opportunities for teachers, parents, pupils, and community members to establish and maintain schools that operate independently from the existing school district structure…" The legislative intent is that charter schools provide innovative alternative learning opportunities for all pupils. Charter schools are by design different than the traditional schools serving students in transitional kindergarten (TK) through grade 12. Expanded offerings that engage pupils in performance-based learning create new professional opportunities for teachers and options for parents and pupils.

Charter schools have grown tremendously over the last decade. According to the California Charter Schools Association, as of the fall of 2013, there were more than 1,130 charter schools in the state, serving more than half a million pupils. For example, the Los Angeles Unified School District (LAUSD) reported 248 charter schools (52 district-affiliated and 196 independent) serving approximately 136,800 students in grades TK-12; this is more than four times the number of charter schools than any other large district in the state.

The Acton-Agua Dulce Unified School District considers charter schools valuable partners that offer pupils a wide range of educational choices to meet the diverse educational needs and priorities of all students and their families. The district's governing board has established that charter schools are an integral part of its vision and mission for the Acton community.

Charter schools cannot be formed by converting a private school to a charter, and they must be non-sectarian. The charter school must adhere to state and federal laws and regulations including the following:

- The provisions of the Individuals with Disabilities Education Act (IDEA); 20 U.S. C. Sec. 1400 and following
- Section 504 of the Federal Rehabilitation Act
- The Americans with Disabilities Act
- California laws and regulations, including special education laws to ensure that all students with disabilities are provided a free, appropriate public education (FAPE)
- The Office of Civil Rights' mandates

Charter Schools and Special Education

Education Code sections 47640 through 47647 state that a charter school may elect to either participate in a special education local plan area (SELPA) approved by the State Board of Education, or be deemed a public school of the local educational agency that granted the charter.

In the case of a charter school that participates as a public school of its authorizing local education agency, the authorizing agency is required to ensure that all pupils with disabilities receive special education and designated instructional services "in a manner that is consistent with their individualized education program" (IEP) and that the IEP is "in compliance with the Federal Individuals with Disabilities Education Act . . . including Section 300.209 of the Code of Federal Regulations" (EC 47646).

Although the charter school must contribute an equitable share of its general fund apportionment to districtwide special education services and instruction, the local agency is ultimately responsible to ensure that all pupils with disabilities are served in accordance with state and federal regulations.

Types of Charter Schools

There are three types of charter schools: Classroom-based, non-classroom-based, and a combination of both. The district has authorized all three types of charter schools.

Classroom-Based Charter Schools

EC 47612.5 (e) (1) states that in classroom-based instruction students must be engaged in educational activities under the immediate supervision and control of a charter school employee who is authorized to provide instruction in accordance with EC 47605 (l). At least 80% of the instructional time must be offered at the school site, the school site must be used principally as a classroom, and the pupils must attend for at least 80% of the minimum instructional time (EC 47612.5 (e) (1)).

Non-Classroom-Based Charter Schools

A non-classroom-based virtual or online charter school is one in which 80% or more of the student interaction occurs over the Internet (5 CCR sections11963.1-11963.7). Online instruction must include standards-based lessons, periodic testing, and measurement of student progress. Students can attend learning centers, but not for more than 90% of the instructional time each week.

By definition, non-classroom-based charter schools are independent study, but the traditional definition of independent study as it relates to funding is different. Senate Bill (SB) 858 was signed into law June 20, 2014; some sections are effective immediately, with the exception of section 38, which will become effective on July 1, 2015. SB 858 eliminated the requirement for the independent study teacher to sign and date each student assignment when accessing the pupil's time value of the work product; allowed the inclusion of entire courses to be offered through independent study; aligned grade-level funding to be consistent with the Local Control Funding Formula; and approved guardian/student agreements to be stored electronically. Many existing requirements are still in place. Teachers still maintain signed and dated samples of student work turned in at the end of the learning period, but funding is not lost if the student fails to complete the entire assignment. As long as the student logs into the system daily (or some other digital calendar), the charter school will receive funding for the days the student logs in; however, there should be enough work to validate attendance.

Combination Classroom- and Non-Classroom Based Charter Schools

This type of charter school serves some students through classroom-based instruction and others using non-classroom-based instruction. The number of students receiving each type of instruction is normally established as a percentage of the total number of students enrolled. For non-classroom-based instruction, a funding determination is made in accordance with 5 CCR Section 11963.4.

Newly Operational Charter Schools

Cash flow for new charter schools can be challenging, especially during the first year of operation. Start-up charters (and grade level expansion charters) may receive advanced apportionment equivalent to 37% of estimated ADA for the first year of operation for July through November as reported by the charter school and approved by its granting agency and the county office of education. This first apportionment occurs between mid-September and mid-October.

A second funding cycle for December and January occurs in late December and is revised based on attendance during the first 20 school days as reported by the charter school and approved by its granting agency and the county office of education.

The first apportionment is calculated using projected period two (P2) ADA, and the second apportionment uses actual ADA for the first 20 days of operation (EC 47652), which must be reported to California Department of Education (CDE) no later than five days following the 20th school day and adjusts the remaining months' payments based on the 20-day attendance. Estimates and actual reporting are submitted to the CDE using the Pupil Estimates for New or Significantly Expanding Charters (PENSEC) report located on the CDE's website. To receive advanced funding in the first apportionment cycle, a charter school needs to file the PENSEC report immediately following the start of the new fiscal year on July 1, 2014.

Charter schools authorized by the district could face cash shortages if they fail to request advanced funding and file the PENSEC report in time. This could affect the district's cash flow as well because oversight payments may not be on time as projected. Because of this, the district arranged to provide the charter schools with training in August 2014 and encouraged the newly operational charter schools to visit the CDE website and complete the PENSEC report by the August 15 deadline.

In-Lieu Property Taxes

An authoring agency must pass through to charter schools certain funding for in-lieu property taxes in accordance with EC 47635. The special apportionment for newly operational charter schools includes funding to replace the amount transferred, equivalent to 28% of the projected total in-lieu property taxes for the fiscal year.

Except for the first year of operation, the authorizing agency shall transfer lieu-taxes as follows:

- Six percent in August
- Twelve percent in September
- Eight percent each month in October through February
- Two-sixths in March, and one-sixth of the difference in April, May and June. Any adjustments are made in the subsequent fiscal year.

This is another area that could affect cash flow for both the new charter schools and the district. The district is encouraged to monitor each charter school to ensure that PENSEC reports have been filed on time.

Oversight Fees and Responsibilities

Oversight includes responsibilities for both academic and fiscal functions. Both are essential to ensure the fiscal health of a charter school and its authorizer's ability to intervene when necessary. Ineffective oversight can make a school district liable for a charter school's debts unless the authorizer "has complied with all the oversight responsibilities required by law, including, but not limited to, those required by Section 47604.32 and subdivisions (m) of Section 47605." (EC 47604). A report by the California Research Bureau (CRB) released in January 2012 indicated that 68% of charter school closures between 1992 and 2009 were a direct result of financial failure or mismanagement.

California charter school authorizers are permitted to charge up to 3% of the charter school's general purpose entitlement for supervisorial oversight when the authorizer provides substantially rent-free facilities. When substantially rent-free facilities are not provided, the Education Code limits the oversight fee to 1%. In addition, charter school authorizers can enter into separate fee-for-service arrangement for services not mandated by the Education Code. Examples of these types of services include food services, special education, fiscal services, assistance with policy development, legal services, human resources, technology, student testing, and other functions needed to support operations and meet state mandates not specifically identified in EC 47613.

The district has established a fee schedule that includes 3.5% for "oversight, facilities and curriculum" for all charter schools. In addition, the district charges 3% for district-supported special education services. For one charter school, the district also charges an additional $50,000 to support a director of charter schools, who provides oversight for all of the charter schools, and 10% of the gross state apportionment for occupying a district-owned former elementary school site; these charges are in addition to the 2% facility charges included in the 3.5% oversight fees. According to the district superintendent, the fee structure contains a bundle of services, oversight and facilities as follows:

- 1.0 % for oversight
- 2.5 % for access to district resources, professional development, facilities and curriculum
- 3.0% for special education services for charter schools that elect to have the charter considered a school of the district in accordance with EC 47640 through 47647.

The district charges all charter schools a minimum of 3.5% and, like many California charter school authorizers, is unable to itemize the costs associated with these fees.

Many studies conducted by the CRB, the Legislative Analyst's Office and the California State Auditor have concluded that charter school authorizers vary greatly in both oversight service levels and the types of activities classified as oversight. The California Legislature has not established a consistent system to account for oversight costs, or guidance on how to account for oversight activities. The CRB's findings indicate that charter school authorizers usually do not track oversight expenses but charge the maximum allowable fee.

The Education Code provides specific financial reporting requirements (EC 47604.32) but does not specify minimum financial performance standards for charter schools as it does for school districts. Duties that the charter school authorizer must perform include the following:

- Identify one staff member as a contact person for the charter school
- Conduct annual site visits at each charter school
- Ensure that charter schools comply with mandatory reporting requirements
- Monitor the fiscal condition of charter schools
- Notify the CDE in a timely manner when a charter renewal is granted, denied, or revoked, and when a charter school ceases operation for any reason

The district has stated that these activities will be conducted, and it has formally documented its responsibilities and those of its charter schools in documents titled, *Guidance for Completing* *a Charter Submission Package, Charter Schools Protocols Checklist,* and *Pre-Petition Interview*. The district has also created a well-defined internal matrix for evaluating charter schools.

The district has approved 11 charter schools for the 2014-15 school year and has seven new charter school petitions pending. At the time of this review, it was unclear whether the remaining seven charters would be approved to begin instruction for the 2014-15 school year. The county office issued a stay order in response to the district's acceleration of charter school approvals, basing its opinion on the district's inability to perform adequate oversight with limited staff; the fact that many of the charter schools are spread over a large area of Southern California; and the existence of pending lawsuits against the district for authorizing charter schools outside of its geographic boundaries.

Charter Oversight Staffing

Oversight is essential to a charter school's long-term development and success. Effective fiscal and academic oversight is designed to improve and strengthen performance goals, compliance with regulations and laws, and adequate academic progress. Document review, school site visits, fiscal review, findings, and follow-up provide the structure and support for charter school operations and allow the district to evaluate a charter school's fiscal strength and performance against the standards and criteria set forth in EC section 47605 and California Code of Regulations (CCR) Title 5, Division 1, Chapter 11, Subchapter 19.

FCMAT researched charter school divisions in other school districts and county offices of education to compare oversight staffing, duties and responsibilities. FCMAT gathered information on staffing configurations from the San Diego Unified School District via the San Diego Office of Education; one small San Diego county district with four charter schools; the Oakland Unified Charter Schools Office; and Los Angeles Unified School District's Charter School Division. This information is provided in the table below.

Comparison of Charter School Oversight Staffing

Entity	Number of Independent Charter Schools	Fiscal Support Full-Time Equivalent (FTE) Per Charter School	Administrative & Curriculum Support Full-Time Equivalent Per Charter School
Oakland USD	9	.33 FTE	.28 FTE
San Diego USD	48	.06 FTE	.04 FTE
Los Angeles USD	196	.19 FTE	.13 FTE
One small (1,500 ADA) district in San Diego county that provides direct oversight	4	.25 FTE	.25 FTE
Acton-Agua-Dulce USD	11	.05 FTE*	.09 FTE

*Assumes 50% for the Chief Business Official

There is no single formula for the oversight function; services and oversight responsibilities vary greatly. All three large districts in the table above are experienced with oversight and have developed effective systems. The chief business official for Acton-Agua Dulce Unified School District has the full responsibility of fiscal oversight in addition to full-time responsibilities to the district, and the district has one dedicated full time director to provide academic and curriculum support for 11 charter schools. This is a lower level of oversight staffing than most of the other districts in the table above. It may benefit the district to evaluate and adjust its oversight staffing as needed.

Charter School Facilities

In accordance with EC section 47614(b) (1), the district may charge a pro-rata share of facility costs that it pays for using unrestricted general fund revenues. To calculate the pro-rata share, the school district establishes a ratio of space allocated to the charter school divided by the district's total square feet of space. According to the CDE, "charter schools shall not be otherwise charged for use of the facilities." EC 47614 provides guidance for reporting the space allocated to charter schools as follows:

- Each charter school that received facilities under EC Section 47614 shall report the per-square-foot charge paid in the current fiscal year to the California Department of Education (CDE).
- The CDE shall post the per-square-foot charge on its publicly accessible website.
- The CDE shall provide school districts the opportunity to provide additional information regarding the per-square-foot charge calculation.

Einstein Agua Dulce Elementary School is a new K-8 charter school that will be physically located at a district school site that closed June 30, 2014. The table below shows the fees indicated in the agreement between the charter school and the district, as well as FCMAT's calculation of appropriate fees for this charter school.

Einstein Agua Dulce Elementary School Oversight, Facility and Other Fees for the 2014-15 Fiscal Year

Type of Fee	District Calculations	FCMAT Calculations
Oversight 1.0%	$22,278	$20,814
Facilities 2.0%	44,556	41,629
Curriculum 0.05%	11,139	10,407
Special Education 3.0%	77,973	62,443
Facilities 10%	222,780	0
Total Fees	$378,726	$135,293

FCMAT verified that the 10% facility fee does not include district-supplied support staffing, maintenance personnel, or utilities. The district's expectation is that all those costs will be borne by the charter school in addition to the facility fees shown above. FCMAT's calculations exclude the additional 10% facility fee based on EC section 47614.

The district is charging approved charter schools for facilities even if they do not use district facilities and despite the fact that many of the charter schools are located outside of the district's boundaries and that the district has few facilities available for charter schools. FCMAT's calculations, discussed later in this report, have reduced the district's revenue for charter schools that will not use district facilities, in accordance with EC 47614.

Recommendations

The district should:

1. Monitor each charter school to ensure that PENSEC reports have been filed on time.

2. Based on the information available, evaluate its charter school oversight staffing and adjust staffing as needed.

3. Charge only the allowable fees for facilities and/or other identified services in accordance with education code.

Revenue Sources

The district has four categories of revenue that are classified as either unrestricted or restricted: Local Control Funding Formula (LCFF) state aid, federal revenues, other state revenues, and local revenues.

Unrestricted Revenues

LCFF

The district receives most of its revenue from state principal apportionment funding. In the 1973-74 school year, each school district's general purpose funding was benchmarked on a per-ADA apportionment system following the landmark Serrano court case designed to provide equity in school finance.

Over time, attempts to equalize school district funding through policies and legislative action became increasingly complex. Chapter 47, Statutes of 2013, enacted as part of the 2013-14 state budget package, replaced this finance system with the LCFF effective July 1, 2013. The LCFF applies to both school districts and charter schools. Like revenue limit funding, the LCFF is based on ADA; however, the methods of calculation have changed significantly and are unique to each school district and charter school. The LCFF replaced both revenue limit funding and 32 types of categorical funding.

In its simplest form, the LCFF has four main components.

1. LCFF sets four uniform *grade span rates*: K-3, 4-6, 7-8 and 9-12. These constitute the majority of general purpose funding.

2. *Base rate adjustments* for grades K-3 and 9-12 are calculated based on a percentage of the grade span rates: 10.4% for grades K-3 for class size reduction, and 2.6% for grades 9-12 to compensate for funding previously received for career technical education.

3. *Supplemental grant* funding totaling 20% of the adjusted base rate is provided for certain student subgroups including English learners, foster youth, and students who qualify for free and/or reduced-price meals.

4. *Concentration grant* funding equal to 50% of the adjusted base rate is provided when student subgroups exceed 55% of total enrollment.

Following this calculation there are add-ons for Targeted Instructional Improvement Grant and home-to-school transportation funding. The add-ons do not receive cost of living adjustments over the eight-year target implementation period.

During the transition from fiscal year 2012-13 to 2013-14, a base funding level and a target, representing full funding at the end of eight years, was determined for each school district and charter school. The difference between the base and the target is referred to as the gap. Beginning in 2013-14, districts and charter schools receive a percentage of the remaining gap amount each year until full funding is achieved. Base rates are adjusted each year for cost of living increases and for grade span adjustments if applicable. In addition, districts and charter schools receive supplemental grant funding and concentration grant funding based on a district's unique percentage of unduplicated student counts.

The state obligation for LCFF funding is offset by local property taxes and the economic protection account (EPA); therefore, the total revenue each school district and charter school receives is a combination of state apportionments (LCFF), local property taxes, and EPA. The EPA, also known as Proposition 30, was approved in the November 2012 election in an attempt to stabilize K-14 funding following massive budget cuts to education over the three previous fiscal years. The EPA generated revenues through a temporary state sales tax rate increase of 0.25% beginning January 1, 2013 and continuing through December 31, 2016 and through an increase to the California state personal income tax rates for upper-income taxpayers for seven years beginning January 1, 2012. These payments are separate from the principal apportionment and are paid quarterly.

During the transition year, approximately 130 school districts received an Economic Recovery Target (ERT) add-on. The calculation for this add-on occurred only in the 2013-14 fiscal year for those districts that qualified. The ERT was designed to adjust the new funding system for districts that would have received more funding under the old system had the revenue limit deficits been eliminated and previous categorical funding cuts of 19.84% restored.

Relatively few districts qualified for ERT based on a calculation of 1.94% annual cost of living adjustments to 2020-21 (equivalent to 1.14396%) and statewide average equal to the 90th percentile, which is the funding rate per ADA for school districts statewide as determined by the SPI.

According to calculations provided by the Los Angeles County Office of Education, the district qualified for ERT funding over an eight-year period, providing one-eighth of the total due annually, compounding in each of eight years. Relying on these calculations, the district made reductions in force totaling 17.2 full-time equivalent teaching positions by the March 15 deadline in accordance with the Education Code to balance its general fund budget for 2014-15.

On June 4, 2014, the district's chief business official (CBO) discovered that, contrary to what had been indicated and prepared by county office staff on June 2, 2014, the district was not entitled to $577,751 in ERT funding for 2013-14. The CBO notified the district's governing board and the county office of his findings. Because it was months after the March 15, 2014 deadline to make any further reductions in force for certificated staff, the district was unable to make enough budget cuts to maintain a balanced budget for its adopted budget for 2014-15.

Other State Revenue

Unrestricted lottery funding is estimated at $128 per ADA. According to the California Lottery Commission, contributions from lottery winnings constitute about 1% of annual school budgets. This funding is in addition to, not a supplement of, state apportionments. Most districts use these dollars for expenditures that can easily be redirected to other funding sources. The district is projected to receive $142,601 in lottery funding, or 1.3% of its annual budget for fiscal year 2014-15.

Federal Revenues

School-based Medi-Cal Administrative Activities (SMAA) is a reimbursement program managed by the California Department of Health Care Services that allows school districts and county offices of education to be reimbursed for Medi-Cal-related administrative services provided to eligible children and their families. The district is already providing these services. It would benefit the district to apply for this funding because it can be a substantial source of unrestricted funding. Employees are required to record time worked on SMAA activities for one week each quarter. Once the district applies to be a Medi-Cal provider, claims for reimbursement can be processed. The provider applications are available online at http://www.dhcs.ca.gov/provgovpart/Pages/LEAProviderEnrollment.aspx.

Local Revenue

The district rents one school site for a classroom-based charter school program, and two classrooms to an independent study charter school program. It also collects interest and charges oversight fees for charter schools that it authorizes; these include fees for fiscal and special education oversight. The district also charges fees for facility rents, specialized assistance for curriculum, and program assistance. The district projects revenues totaling $1,287,112 based on ADA estimates and contracts with the charter schools.

FCMAT reduced the district's estimated local revenues by $723,063 to adjust for limits on oversight fees in accordance with EC 47604 through 47614 as shown in the following table.

Adjustments to Oversight and Facility Fees

	District	FCMAT	Difference
General Oversight, Facilities & Curriculum	$648,332	$333,223	$315,109
Additional Oversight Per Board	144,000	0	144,000
Additional Facilities	258,780	0	258,780
Special Education – Direct Services	0	230,826	230,826
Additional Facilities	236,000	0	236,000
Total	$1,287,112	$564,049	$723,063

Districts with declining enrollment are funded based on either the current or prior year's ADA, whichever is higher, giving them one year to make budget adjustments, except in cases where a district student is transferring to a charter school. In this case, the district will not be held harmless for losses of ADA to a district-authorized charter school. The loss is offset by the number of new students enrolling in the district who are coming from charter schools. The district is closing one elementary school site in 2014-15 and estimates that approximately 140 district students will attend the new charter school that is to be located at that school site. The loss of 140 ADA will result in the loss of approximately $1,070,000 in LCFF entitlement funding ($7,645 X 140).

Restricted Revenues

State Sources

The district receives state revenues the use of which is restricted. These include lottery funding for instructional materials estimated at $37,889; AB 602 funding for special education; and funding for mental health services.

One-Time Sources

The district received but did not spend one-time prior year entitlements for Common Core State Standards and California Clean Energy. The estimated total carryover balance is $284,275, to be spent in the 2014-15 fiscal year. These dollars are recorded as expenditures in the current fiscal year and removed from the projections for the two subsequent years.

AB 602 Special Education Funding – SELPA Allocations

The district is one of ten districts participating in the Antelope Valley Special Education Local Plan Area (SELPA), through which it receives an allocation of state funding to offset the cost of special education services and out-of-home care.

According to the original calculations provided by the SELPA's administrative agent for the 2014-15 fiscal year, the district was entitled to $866,404, of which $290,857 was projected to be transferred to one participating charter school, leaving $575,547 in district funding. From the time the district adopted its budget to the current period, three additional charter schools have chosen to participate in the Antelope Valley SELPA, while the remaining seven charter schools have chosen to join other SELPAs.

The SELPA funding is split between the participating districts in the SELPA, then each district's allocation is split between the district and its authorized charter schools. A revised calculation for district funding for 2014-15 indicates that basic SELPA funding is projected to decrease by $96,407. The district is expected to receive $8,840 for out-of-home care from a separate SELPA funding source.

Federal Sources

Funding from federal grants and entitlements is restricted in accordance with the provisions of the grant and/or entitlement. The district receives funding for Title I, No Child Left Behind (NCLB); NCLB Title II – Teacher Quality; NCLB Title III – Limited English; Special Education Basic Grant; and Special Education Preschool. The district is projected to receive a total of $575,355 in federal funding in 2014-15. Projections for 2015-16 and 2016-17 have been adjusted for declining enrollment and include no increase over current per-student funding.

Revenue Adjustments

The following table shows the reduction in projected revenues in FCMAT's calculations compared with those in the district's adopted budget for 2014-15.

Reductions in Projected Revenue

Adopted Budget 2014-15 Unrestricted & Restricted Revenues	District Adopted Budget	FCMAT Estimates	Difference Increase/ (Decrease)
LCFF – Principal Apportionment	$7,973,186	$8,159,799	$186,613
Federal Sources	576,355	576,355	-0-
Other State Revenues	222,093	237,198	15,105
Other Local Revenues	2,052,672	1,233,202	819,470
Total Unrestricted and Restricted Revenues	$10,824,306	$10,206,554	$617,752

After adjusting revenue sources in the base year, FCMAT made adjustments to the two subsequent years, taking into account one-time revenue, enrollment projections and projected changes to revenue. The following table shows FCMAT's calculation of the district's combined unrestricted and restricted revenues for the base year and two subsequent years.

FCMAT's Calculation of District Revenues

Combined Revenues	Base Year 2014-15	Year 1 2015-16	Year 2 2016-17
Revenues			
LCFF – Principal Apportionment	$8,159,799	$8,499,267	$8,407,722
Federal Revenues	576,355	542,696	509,049
Other State Revenues	237,198	174,798	166,145
Other Local Revenues	1,233,202	1,196,694	1,157,705
Total Revenues	**$10,206,554**	**$10,413,455**	**$10,240,621**

The increase in LCFF funding is due to increased gap funding and cost of living adjustments, offset by a decline in enrollment of 67 ADA in each of the subsequent fiscal years. The adopted budget shows income of $47,868 based on mandated cost reimbursements. Because the district's governing board chooses each year whether to participate in the per-ADA allocation, FCMAT's calculations do not project these revenues in the subsequent two fiscal years until the governing board authorizes the district's administrators to proceed. The reason for the decrease in federal revenues is a reduction in federal funding because of declining enrollment. Local revenues have also been reduced as a result of aligning oversight fees with Education Code requirements and a reduction in SELPA funding because of declining enrollment and the transfer of funding to district-authorized charter schools.

Expenditure Categories

The general fund is used for the district's day-to-day operations. Salaries and benefits are the largest expenditure category and normally take 85-92% of a district's unrestricted operating budget. The district's unrestricted salary and benefits costs equal 72.47% of its total unrestricted expenditures based on the FCMAT adjustments, which is not within the state's established standard variance range. The state Standards and Criteria use the district's historical average, plus or minus either 3% or the percentage of the district's reserve for economic uncertainties, whichever is greater. The district's historical average is 83.7% based on the Standards and Criteria, and its economic reserve percentage is 3%; therefore, the district's salary and benefits standard should be between 80.7% and 86.7%. The standards and criteria review for the district's adopted budget indicates that the district's multiyear unrestricted salary and benefits costs are between 75.4% and 77.6%, which is far less than the state's established percentage.

Debt obligations and unusually large expenditures from the unrestricted general fund for legal services and other operating expenses can cause the percentage of the budget spent in other categories to be less than indicated in the state's guidelines.

Other major expenditures categories include books, supplies, insurance, contracted services, utilities, travel, conferences, and capital outlay.

Salaries and Benefits

The district's negotiated agreement with the certificated employee bargaining unit was in effect through June 30, 2014. As a cost-saving measure, the district negotiated five furlough days to be taken at the end of the 2013-14 school year. Collective bargaining compromises included the following:

- Management staff concessions through 2013-14 include five furlough days, and a health-and-welfare cap of $9,437 remains unchanged and is included in salary.
- Certificated staff concessions through 2013-14 include five furlough days, and a health-and-welfare cap of $9,437 remains unchanged and is included in salary.
- Classified staff concessions through 2013-14 include five furlough days, and a health-and-welfare cap of $9,437 remains unchanged and is not included in salary.

According to FCMAT's calculations, the district's annual cost to eliminate furlough days for all bargaining units in 2014-15 and beyond is approximately $186,000 for certificated employees, $40,000 for classified employees, and $50,000 for management employees.

It is critical to use position control to manage salary and benefit costs, particularly in a time of fiscal uncertainty. Effective position control systems interface with and populate the budget development system at major reporting intervals throughout the fiscal year, and are periodically compared with actual payroll records. Because the district has not initiated the LACOE position control module, FCMAT used district-provided spreadsheets and actual payroll data to test the accuracy of the salary and benefit amounts budgeted in the general fund; FCMAT compared the district's prior year actual expenditures with its current year budget, the district's position control spreadsheet, and actual salaries and benefits to date.

FCMAT identified the following adjustments based on the review of unrestricted salaries and benefits:

- Certificated Adjustments:

    - One teacher retired as of June 30, 2014 and was replaced at a lower level on the salary scale, creating savings of $32,610.
    - Corrected coding for one instructional aide position that was coded as a manager, and moved salary to the appropriate object code.
    - Because of a projected decline in enrollment and resulting loss of 67 ADA in each subsequent year, FCMAT reduced teacher staffing by 2.0 FTE in 2015-16 and another 2.0 FTE in 2016-17.
- Classified Adjustments:
    - Reclassified one instructional aide position to the correct object code.
    - Moved one special education instructional aide position from unrestricted to restricted.
    - Adjusted salaries to agree with district's position control spreadsheet.
- Benefit Adjustments:
    - Adjusted Public Employees Retirement System (PERS) and State Teachers Retirement System (STRS) retirement rates in all three years to agree with the state's 2014-15 budget.
    - Added Public Agency Retirement Services (PARS) for one new retiree.
    - Adjusted retiree health and welfare for new retiree.
    - Based on the district's audit report, FCMAT corrected overstatement of PARS multiyear agreement by $101,391 in the base year, $153,404 in 2015-16 and $200,172 in 2016-17.

FCMAT identified the following adjustments based on a review of restricted salaries and benefits:

- Certificated and Classified Adjustments:
    - Eligible employees were advanced on the salary schedule's steps and/or columns in all projection years.
- Benefit Adjustments:
    - Retirement rates for PERS and STRS were adjusted in all projection years.
    - Statutory benefits were adjusted using current employer rates.

As previously described, the percentage of the district's unrestricted general fund expenditures spent on salaries and benefits is less than the state's established percentage, based on the district's historical costs.

Books and Supplies

No adjustments were made to this category.

Services and Other Operating Expenditures

An unusually large portion of the district's unrestricted general fund operating budget, approximately 20%, is dedicated to support services and other operating expenditures. Included in this category are travel, conferences, dues and memberships, insurance, utilities, rentals, leases and repairs; contracted services, legal services, and interagency fees.

The district reduced utility accounts by $60,000 because of the closure of one elementary school. In addition, the district included approximately $300,000 for additional legal and fiscal support because of the addition of several charter schools and pending litigation. The district also included an additional and ongoing $250,000 for legal services in 2015-16.

The one-time expenditure of $75,000 posted in the district's adopted budget for 2014-15 was removed in the two subsequent years. FCMAT included a separate one-time settlement for $23,000 in the 2014-15 budget.

The expenditures in this category are unusually high, especially in the area of legal services. It would benefit the district to review these expenditure categories for possible savings.

Capital Outlay

This expenditure category includes large capital expenditures. The district does not invest in capital outlay.

Debt Service

The district has entered into long-term debt agreements for a retrofit lease and for certificates of participation (COPs), and has entered into early retiree benefit agreements. The following table shows the district's total outstanding debt as of June 30, 2014

District Debt

Debt Category	Outstanding Principal as of June 30, 2014	Principal and Interest Payments Due 2014-15
Certificates of Participation	$ 2,945,000	$196,306
Capital Leases-Retrofit	$ 1,322,744	$146,890
Early Retirement Benefits and STRS Prior Year Amounts Due	$ 441,504	$ 190,294
Total	$ 4,709,248	$ 533,490

The long-term debt payments are made from the general fund and have been adjusted in accordance with amounts listed in the district's audited financial statements. Debt service is discussed at length in a separate section of this report.

Encroachments

Encroachment occurs when restricted programs require money from the unrestricted general fund. Community day school, special education, restricted routine maintenance and transportation programs are typically not fully funded by either state or federal sources and thus encroach on the unrestricted general fund. Other programs that encroach can be reduced or in some cases eliminated altogether.

The following table shows all projected encroachments for the district's restricted programs.

Projected Encroachment

Name	Resource Code	Historical Year 2013-14	Base Year 2014-15	Year 1 2015-16	Year 2 2016-17
Unrestricted Resources					
Unrestricted	0000	($1,739,862.00)	($1,250,537.00)	($1,383,964.88)	($1,521,307.71)
EIA Unrestricted	0709	$0.00	$88,610.00	$88,610.00	$88,610.00
Lottery: Unrestricted	1100	$0.00	$77,054.33	$114,982.90	$123,307.84
Total Unrestricted		**($1,739,862.00)**	**($1,084,872.67)**	**($1,180,371.98)**	**($1,309,389.87)**
Restricted Resources					
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	3310	$28,146.00	($8,336.00)	$7,565.50	$45,479.31
Special Ed: IDEA Preschool Grants, Part B, Sec 619	3315	($51.00)	$4,958.00	$4,958.00	$4,958.00
Special Ed: IDEA Preschool Local Entitlement, Part B, Sec 611	3320	($5,389.00)	$15,845.00	$15,845.00	$16,062.95
NCLB: Title II, Part A, Teacher Quality	4035	$11,295.00	$0.00	$1,268.10	$5,056.14
NCLB: Title III, Limited English Proficient (LEP)	4203	$0.00	$32,981.00	$33,639.37	$35,054.49
Special Education	6500	$888,927.00	$805,864.67	$875,476.42	$947,544.44
Transportation: Home to School (12-13)	7230	$332,300.00	$0.00	$0.00	$0.00
Transportation: Special Education (Severely Disabled/Orthopedically Impaired	7240	$176,029.00	$0.00	$0.00	$0.00
Ongoing & Major Maintenance Account (RMA: Education Code Section 17070.75)	8150	$411,789.00	$338,009.00	$346,068.59	$359,683.54
Other Restricted Local	9010	($103,184.00)	($104,449.00)	($104,449.00)	($104,449.00)
Total Restricted		**$1,739,862.00**	**$1,084,872.67**	**$1,180,371.98**	**$1,309,389.87**
Balance		**$0.00**	**$0.00**	**$0.00**	**$0.00**

Multiyear Financial Projections

FCMAT projected the district's revenue and expenditures based on source documents including the California Department of Education website for revenue entitlements, enrollment reports, audited financial statements, budget assumptions, budget files, financial system reports, unaudited actuals, detailed payroll transactions, position control records, special education SELPA AB 602 funding documents, nonpublic school placements, and many other financial records and third-party documents. FCMAT used all pertinent records and documents to complete its multiyear analysis based on the district's 2014-15 adopted budget. Salary and benefit projections are based on actual payroll transactions through May 2014, compared with the district's budget and position control spreadsheet; other expenditures were compared with year-to-date records and trends; and long-term debt was verified against third-party documents.

The tables below show FCMAT's multiyear projections for the district's combined, restricted, and unrestricted general fund.

Combined Restricted and Unrestricted Funds MYFP

MYFP - Combined Unrestricted and Restricted	Object Code	Historical Year 2013 - 14	Base Year 2014 - 15	Year 1 2015 - 16	Year 2 2016 - 17
Revenues					
LCFF/State Aid	8010 - 8099	$8,476,776.00	$8,159,799.00	$8,499,267.00	$8,407,722.00
Federal Revenues	8100 - 8299	$620,037.00	$576,355.00	$542,695.87	$509,048.72
Other State Revenues	8300 - 8599	$822,534.00	$237,198.00	$178,720.58	$168,095.59
Other Local Revenues	8600 - 8799	$1,643,282.13	$1,233,202.00	$1,196,694.16	$1,157,704.64
Total Revenues		**$11,562,629.13**	**$10,206,554.00**	**$10,417,377.61**	**$10,242,570.95**
Expenditures					
Certificated Salaries	1000 - 1999	$5,618,664.00	$4,637,417.00	$4,572,101.00	$4,496,764.00
Classified Salaries	2000 - 2999	$1,899,989.00	$1,686,904.00	$1,737,972.00	$1,787,339.00
Employee Benefits	3000 - 3999	$1,744,249.00	$1,580,838.00	$1,556,586.00	$1,538,743.00
Books and Supplies	4000 - 4999	$486,478.00	$664,828.00	$342,596.19	$334,094.39
Services and Other Operating	5000 - 5999	$1,401,805.00	$1,821,420.00	$2,014,794.45	$2,068,331.18
Capital Outlay	6000 - 6900	$155,000.00	$0.00	$0.00	$0.00
Other Outgo	7000 - 7299	$254,968.00	$158,140.00	$158,140.00	$158,140.00
Direct Support/Indirect Cost	7300 - 7399	$0.00	$0.00	$0.00	$0.00
Debt Service	7400 - 7499	$123,306.00	$196,306.00	$194,306.00	$202,206.00
Total Expenditures		**$11,684,459.00**	**$10,745,853.00**	**$10,576,495.64**	**$10,585,617.57**
Excess (Deficiency) of Revenues Over Expenditures		**($121,829.87)**	**($539,299.00)**	**($159,118.03)**	**($343,046.62)**
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$0.00	$160,000.00	$160,000.00	$160,000.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00	$0.00
Total Other Financing Sources\Uses		**$0.00**	**($160,000.00)**	**($160,000.00)**	**($160,000.00)**
Net Increase (Decrease) in Fund Balance		**($121,829.87)**	**($699,299.00)**	**($319,118.03)**	**($503,046.62)**

Fund Balance						
	Beginning Fund Balance	9791	$505,423.65	$383,593.78	($315,705.22)	($634,823.25)
	Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00
	Other Restatements	9795	$0.00	$0.00	$0.00	$0.00
	Adjusted Beginning Fund Balance		$505,423.65	$383,593.78	($315,705.22)	($634,823.25)
	Ending Fund Balance		$383,593.78	($315,705.22)	($634,823.25)	($1,137,869.87)
Components of Ending Fund Balance						
	Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00
	Revolving Cash	9711	$1,000.00	$1,000.00	$1,000.00	$1,000.00
	Stores	9712	$0.00	$0.00	$0.00	$0.00
	Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00
	Other Prepay	9719	$0.00	$0.00	$0.00	$0.00
	General Reserve	9730	$0.00	$0.00	$0.00	$0.00
	Legally Restricted Balance	9740 - 9759	$298,788.57	$17,593.24	$16,609.00	$12,795.01
	Economic Uncertainties Percentage		3%	3%	3%	4%
	Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
	Other Designated	9780	$0.00	$0.00	$0.00	$0.00
	Reserve for Economic Uncertainties	9789	$350,533.77	$327,175.59	$322,094.87	$429,824.70
	Undesignated/ Unappropriated	9790	$0.00	$0.00	$0.00	$0.00
	Negative Shortfall	9790	($266,728.56)	($661,474.05)	($974,527.12)	($1,581,489.58)

The following table includes all unrestricted general fund revenues and expenditures.

Unrestricted General Fund MYFP

MYFP Unrestricted	Object Code	Historical Year 2013 - 14	Base Year 2014 - 15	Year 1 2015 - 16	Year 2 2016 - 17
Revenues					
LCFF/State Aid	8010 - 8099	$8,476,776.00	$8,159,799.00	$8,499,267.00	$8,407,722.00
Federal Revenues	8100 - 8299	$0.00	$0.00	$0.00	$0.00
Other State Revenues	8300 - 8599	$226,626.00	$190,469.00	$134,529.10	$126,444.30
Other Local Revenues	8600 - 8799	$832,066.80	$619,049.00	$620,169.00	$621,360.96
Total Revenues		**$9,535,468.80**	**$8,969,317.00**	**$9,253,965.10**	**$9,155,527.26**
Expenditures					
Certificated Salaries	1000 - 1999	$4,388,685.00	$3,595,735.00	$3,518,747.00	$3,433,745.00
Classified Salaries	2000 - 2999	$951,018.00	$1,150,291.00	$1,184,819.00	$1,217,088.00
Employee Benefits	3000 - 3999	$1,279,407.00	$1,271,324.00	$1,217,679.00	$1,160,990.00
Books and Supplies	4000 - 4999	$134,143.00	$241,236.00	$235,482.13	$240,173.07
Services and Other Operating	5000 - 5999	$1,211,803.00	$1,687,656.00	$1,880,693.78	$1,931,167.95
Capital Outlay	6000 - 6900	$0.00	$0.00	$0.00	$0.00
Other Outgo	7000 - 7299	$0.00	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($6,918.00)	$0.00	$0.00	$0.00
Debt Service	7400 - 7499	$123,306.00	$196,306.00	$194,306.00	$202,206.00
Total Expenditures		**$8,081,444.00**	**$8,142,548.00**	**$8,231,726.91**	**$8,185,370.02**
Excess (Deficiency) of Revenues Over Expenditures		**$1,454,024.80**	**$826,769.00**	**$1,022,238.19**	**$970,157.24**
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$0.00	$160,000.00	$160,000.00	$160,000.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($1,739,862.00)	($1,084,872.67)	($1,180,371.98)	($1,309,389.87)
Total Other Financing Sources\Uses		**($1,739,862.00)**	**($1,244,872.67)**	**($1,340,371.98)**	**($1,469,389.87)**
Net Increase (Decrease) in Fund Balance		**($285,837.20)**	**($418,103.67)**	**($318,133.79)**	**($499,232.63)**
Fund Balance					
Beginning Fund Balance	9791	$370,642.41	$84,805.21	($333,298.46)	($651,432.25)
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$370,642.41	$84,805.21	($333,298.46)	($651,432.25)
Ending Fund Balance		$84,805.21	($333,298.46)	($651,432.25)	($1,150,664.88)
Components of Ending Fund Balance					
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$1,000.00	$1,000.00	$1,000.00	$1,000.00
Stores	9712	$0.00	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00

Legally Restricted Balance	9740 - 9759	$0.00	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		3%	3%	3%	4%
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00	$0.00
Reserve for Economic Uncertainties	9789	$350,533.77	$327,175.59	$322,094.87	$429,824.70
Undesignated/Unappropriated	9790	$0.00	$0.00	$0.00	$0.00
Negative Shortfall	9790	($266,728.56)	($661,474.05)	($974,527.12)	($1,581,489.58)

Note: The percentage used for calculation of minimum reserved balances is below the recommended reserve level.

The following table includes all restricted general fund revenues and expenditures.

Restricted General Fund MYFP

MYFP Restricted	Object Code	Historical Year 2013 - 14	Base Year 2014 - 15	Year 1 2015 - 16	Year 2 2016 - 17
Revenues					
LCFF/State Aid	8010 - 8099	$0.00	$0.00	$0.00	$0.00
Federal Revenues	8100 - 8299	$620,037.00	$576,355.00	$542,695.87	$509,048.72
Other State Revenues	8300 - 8599	$595,908.00	$46,729.00	$44,191.48	$41,651.29
Other Local Revenues	8600 - 8799	$811,215.33	$614,153.00	$576,525.16	$536,343.68
Total Revenues		**$2,027,160.33**	**$1,237,237.00**	**$1,163,412.51**	**$1,087,043.69**
Expenditures					
Certificated Salaries	1000 - 1999	$1,229,979.00	$1,041,682.00	$1,053,354.00	$1,063,019.00
Classified Salaries	2000 - 2999	$948,971.00	$536,613.00	$553,153.00	$570,251.00
Employee Benefits	3000 - 3999	$464,842.00	$309,514.00	$338,907.00	$377,753.00
Books and Supplies	4000 - 4999	$352,335.00	$423,592.00	$107,114.06	$93,921.32
Services and Other Operating	5000 - 5999	$190,002.00	$133,764.00	$134,100.67	$137,163.23
Capital Outlay	6000 - 6900	$155,000.00	$0.00	$0.00	$0.00
Other Outgo	7000 - 7299	$254,968.00	$158,140.00	$158,140.00	$158,140.00
Direct Support/Indirect Cost	7300 - 7399	$6,918.00	$0.00	$0.00	$0.00
Debt Service	7400 - 7499	$0.00	$0.00	$0.00	$0.00
Total Expenditures		**$3,603,015.00**	**$2,603,305.00**	**$2,344,768.73**	**$2,400,247.55**
Excess (Deficiency) of Revenues Over Expenditures		**($1,575,854.67)**	**($1,366,068.00)**	**($1,181,356.22)**	**($1,313,203.86)**
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$0.00	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$1,739,862.00	$1,084,872.67	$1,180,371.98	$1,309,389.87
Total Other Financing Sources\Uses		**$1,739,862.00**	**$1,084,872.67**	**$1,180,371.98**	**$1,309,389.87**
Net Increase (Decrease) in Fund Balance		**$164,007.33**	**($281,195.33)**	**($984.24)**	**($3,813.99)**
Fund Balance					
Beginning Fund Balance	9791	$134,781.24	$298,788.57	$17,593.24	$16,609.00
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$134,781.24	$298,788.57	$17,593.24	$16,609.00
Ending Fund Balance		$298,788.57	$17,593.24	$16,609.00	$12,795.01
Components of Ending Fund Balance					
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$0.00	$0.00	$0.00	$0.00
Stores	9712	$0.00	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$298,788.57	$17,593.24	$16,609.00	$12,795.01

Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00	$0.00
Reserve for Economic Uncertainties	9789	$0.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$0.00	$0.00	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00	$0.00

Note: The percentage used for calculation of minimum reserved balances is less than the recommended reserve level.

The summary of the projection for combined unrestricted and restricted resources in the table below shows how rapidly the fund balance diminishes over the three-year period. Without any further interventions or changes in the current negotiated collective bargaining agreements, the district will have a negative ending fund balance of $1,137,870 by the end of the 2016-17 fiscal year.

The district's fund balance is negative in all three years of the projection, and the district cannot maintain its required reserve levels.

Summary of MYFP for Combined Unrestricted and Restricted General Fund

Fiscal Year	2014-15	2015-16	2016-17
Revenues	$10,206,554	$10,417,378	$10,242,571
Expenditures and Sources/Uses	$10,905,853	$10,736,496	$10,745,618
Excess (Deficiency) of Revenues Over Expenditures	($699,299)	($319,118)	($503,047)
Beginning Fund Balance	$383,594	($315,705)	($634,823)
Ending Fund Balance	($315,705)	($634,823)	($1,137,870)

Excess (Deficiency) of Revenues Over Expenditures

Deficit spending occurs when current year expenditures are greater than current year revenues. The combined effect of revenue and expenditure adjustments described above illustrates that without additional revenues or more expenditure reductions, the district will continue to deficit spend in fiscal years 2014-15 and beyond.

Ending Fund Balance

FCMAT's MYFP shows that the district is projected to have a negative fund balance in all three years and that it fails to meet the required reserve levels.

FCMAT's analysis indicates if it does not balance its general fund budget and control deficit spending by realizing revenue increases and/or expenditure reductions, the district will require state intervention during the 2014-15 fiscal year if the district does not have cash reserves to pay current obligations. If no changes are made, the district's ending fund balance is projected to be depleted by June 30, 2015.

FCMAT lacks sufficient information to prepare a cash flow statement as part of this report. However, after this report is issued, FCMAT will prepare an updated cash flow projection that will enable the district to determine when it will need to consider cash borrowing options.

Recommendations

The district should:

1. Make the budget adjustments needed for proper recording of oversight and facility fees.

2. Explore the possibility of participating in the SMAA program as a way to increase unrestricted federal revenues.

3. Negotiate with the employee bargaining units for an extension of the current negotiated agreements beyond June 30, 2014 to produce savings to offset budget shortfalls. The district may consider using flexibility provided to school districts until June 30, 2015 to reduce the school year by up to five days.

4. Ensure that information in position control is correctly posted in the budget and compared with actual payroll records.

5. Review all expenditures in the services and other operating expenditures category for possible savings.

6. Take actions needed to maintain a reserve level sufficient to ensure that cash is available to meet payroll and other expenditure obligations and to avoid any adverse effects related to fiscal insolvency and state intervention.

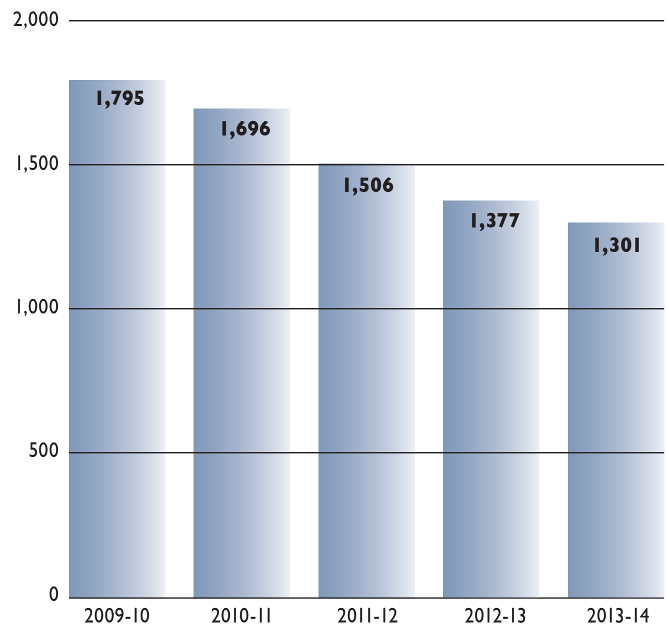
7. Monitor cash flow to ensure that sufficient funds are available to pay current obligations and to avoid fiscal insolvency. This may include executing cash borrowing options.

Enrollment

The district is projecting a total enrollment of 1,147 students for the 2014-15 school year. The district's total enrollment has declined by 494 students, or 27.5%, since the 2009-10 school year. Enrollment has declined an average of 7% over the last two school years, though the decline during the last school year was not as large.

The chart below shows the district's total student enrollment from 2009-10 through 2013-14.

Acton Agua Dulce Actual Enrollment, 2009-10 through 2013-14



The district's loss of 494 students from 2009-10 to 2013-14 represents a cumulative net loss of $6,480,008 in principal apportionment funding, as detailed in the table below.

Principal Apportionment Funding, 2009-10 through 2013-14

Fiscal Year	Cumulative Totals	2009-10	2010-11	2011-12	2012-13	2013-14
Enrollment		1795	1696	1506	1377	1301
Student Decline	494	0	99	190	129	76
Deficited Revenue Limit		$5,191.40	$5,294.45	$5,239.82	$5,297.48	NA
LCFF						$6,826
Historically ADA to Enrollment Factor		0.93	0.93	0.93	0.93	.093
Net Funding		$4,828.00	$4,923.84	$4,873.03	$4,926.66	$6,348.18
On-going loss of funding 2009-10			$487,460			
On-going loss of funding 2010-11			$487,460	$925,876		
On-going loss of funding 2011-12			$487,460	$925,876	$635,539	
On-going loss of funding 2012-13			$487,460	$925,876	$635,539	$482,462
Cumulative Annual Losses			**$1,949,840**	**$2,776,628**	**$1,271,078**	**$482,462**
Cumulative Loss in Funding 2009-10 through 2013-14	**$6,480,008**					

While the district's enrollment has declined, district-authorized charter schools have grown substantially, and FCMAT projects that the district's enrollment will continue to decrease. Although the district anticipates a decline of 150 students for 2014-15, FCMAT projects a 67 ADA annual decline based on the historical average during the 2013-14 fiscal year.

The district will need to determine why families are choosing to enroll their students in neighboring school districts rather than in the district. It would benefit the district to also consider options for increasing enrollment, including an in-district charter school or a magnet school.

Recommendations

The district should:

1. Determine the reasons families are enrolling their students in neighboring school districts and charter schools rather than in the district's schools.

2. Consider various options to increase enrollment, including an in-district charter school or a magnet school.

Potential Revenue Increases

FCMAT has identified the following areas as having the potential to help the district increase revenue:

Enrollment and Attendance

Most funding the district receives is generated from ADA. There are various methods to increase student attendance, including incentives and a system to notify parents immediately when students are absent. Timely parent notification can increase daily attendance and funding because the district can be funded for students who arrive late.

Providing alternative specialized learning opportunities can also help retain and attract students. Examples include an in-district magnet school or in-district charter school with an emphasis on areas such as vocational programs or visual and performing arts. The district's administration will need to work to develop programs to retain and attract local students who attend other school districts and charter schools. The district loses funding when students transfer from a district-operated school to a district-sponsored charter school, and in these cases the district is not subject to hold harmless provisions for normal declining enrollment.

Medi-Cal Administrative Activities

The district's school employees routinely provide services related to school-based health and outreach activities, including referrals to other agencies. As mentioned earlier in this report, becoming part of the SMAA program would allow the district to submit claims and receive reimbursements for activities that support administration of the federal Medicaid programs, including the following:

- Referrals for Medi-Cal eligibility determinations
- Providing health care information and referrals to other agencies
- Coordination of health services between agencies
- Monitoring health services

To claim reimbursement, school personnel submit time studies that record reimbursable activities performed during the normal course of their duties. These time studies generate average staff time spent on various functions and cost data that is used as a basis for reimbursing the district. FCMAT encourages the district to seek county office assistance and recommendations for providers that offer SMAA reimbursement claim services and training.

Recommendations

The district should:

1. Develop a plan to increase enrollment and attendance using incentives and/or timely parental notification.

2. Develop programs to attract local students who attend charter schools by offering an in-district magnet school or in-district charter school.

3. Seek county office assistance and recommendations for providers that offer SMAA reimbursement claim services and training.

Expenditure Reductions

FCMAT did not conduct an organizational staffing analysis; however, based on observation of the number of certificated management positions and the total number of students and teachers, it would benefit the district to evaluate certificated management staffing ratios based on industry standards and a comparison with school agencies of similar size and structure.

The district has three full-time principals, one assistant principal and one superintendent for a projected enrollment of 1,147 students, and its enrollment continues to decline.

Recommendations

The district should:

1. Evaluate its certificated management staffing levels based on industry standards and a comparison with school agencies of similar size and structure.

Debt Management

Issuing long-term debt allows school districts to obtain funds to acquire or construct buildings and equipment and to spread the repayment over a period of years. It also allows districts to obtain buildings or equipment that might be impossible to purchase with existing resources. Complications can develop if a school district issues too much debt without a dedicated revenue source such as tax levies to service that debt. In such cases, annual debt service payments must be made from the district's unrestricted general fund at the expense of current operations.

Any long-term debt that the district must repay from the unrestricted general fund is considered unfunded because it requires the use of resources typically dedicated to the current costs of education, such as employees' salaries, administration and operating supplies. Although most districts are able to fund some long-term debt from their general fund, districts should exercise caution in dedicating general fund revenues for debt service payments because this depletes funds available for current obligations.

Debt service payments cannot easily be eliminated from the general fund budget and therefore place an additional burden on the unrestricted general fund during times of fiscal austerity.

Debt Management Policy

It is standard practice in many state and local government agencies for the governing board to adopt a comprehensive debt management policy that creates guidelines for issuing and managing debt. The Government Finance Officers Association also recommends that all forms of government adopt a comprehensive debt management policy. This helps ensure that underwriters and financial advisors provide the district with adequate information to analyze future debt, enabling the district to make sound business decisions.

The district does not have a debt management policy; such a policy would provide guidelines for all forms of indebtedness including voter-approved and non-voter-approved debt. Although issuing debt is an appropriate method for financing capital projects and improvements, careful evaluation is required to preserve a district's credit strength and financial flexibility. One item on FCMAT's list of conditions most commonly experienced by districts needing intervention is "Substantial Long-Term Debt Commitments – Certificates of Participation." Appendix A of this report contains a sample debt management policy.

Debt Burden and Debt Affordability

As indicated previously, there is no officially established maximum level for non-voter-approved debt for a school district. It is best practice to ensure that a district's debt management policy includes guidelines for debt burdens and factors as well as debt affordability criteria. FCMAT's experience indicates that a debt burden equal to 1% to 2% of the district's unrestricted general fund revenues is usually reasonable. The district's debt service payments are equivalent to 4.87% of its current unrestricted general fund revenues, an amount that cannot be feasibly sustained by the district's unrestricted general fund without increased revenues, decreased expenditures, or both.

Issuing COPs or other long-term obligations supported from the district's general fund requires a balance between the debt issued against unrestricted resources and the ability to support the debt over a long period of time. Whenever a district issues debt supported by the general fund, it runs a risk of encountering unknown variables that can affect its ability to support the debt obligation(s) and maintain budget flexibility, especially during times of fiscal uncertainty.

According to the district's 2012-13 audit report, the district's fund balance decreased by $1,575,933, and over the previous two years long-term obligations increased by $1,651,893 while ADA decreased by 294.

The district has a modest increase in long-term debt attributable to a new early retirement incentive taken by one teacher in the 2013-14 fiscal year. In addition to its trend of ongoing declining enrollment, it is anticipated that the district will lose 140 students to the new charter school located on the former Agua Dulce Elementary School campus in 2014-15. This will significantly affect the district's ability to meet current obligations.

FCMAT analyzed the district's total long-term indebtedness to determine how much debt is serviced using the unrestricted general fund and how much has a dedicated funding source other than the unrestricted general fund. A debt burden ratio indicates the district's ability to support annual debt payments, including principal and interest, from current unrestricted revenue sources. This ratio is calculated as follows:

Total annual government revenue of fund(s) servicing debt

to

Total annual governmental debt obligations

Based on the district's audited financial statements for the fiscal year ending June 30, 2013, the district had a total of $5,112,911 in long-term unfunded debt, as shown in the following table. This constitutes an increase of $678,243, primarily because of the aforementioned early retirement incentive.

Debt Funded from the Unrestricted General Fund (Unfunded) For the Audit Year Ended June 30, 2013

Type of Debt	Debt Amount
Compensated Absences	$97,252
Capital Lease Obligations	1,418,657
COPs	3,045,000
Early Retirement Incentive	552,002
Total Unrestricted General Fund Debt	$5,112,911

Compensated absences are the accumulated unpaid vacation earned by employees as of June 30, 2013 and are included as long-term debt in the district's audited financial statements. This amount is not included in the calculation of debt service payments from the unrestricted general fund because debt accrued for vacation usually does not require a cash payment.

To determine whether a school district has too much unfunded long-term debt, the total of its annual long-term unfunded debt payments is compared to its total annual unrestricted general fund revenues. The table below shows the district's unfunded long-term debt payments budgeted for fiscal year 2013-14 compared with the unrestricted general fund revenues included in the 2013-14 estimated actuals as of June 30, 2014.

Estimated Actual Unrestricted Revenues Compared to Budget Debt Obligation for the Unrestricted General Fund (Unfunded), As of June 30, 2014

Unrestricted General Fund Revenue Sources		
LCFF Sources		$8,476,776
Other State Revenue		226,626
Other Local Revenue		832,067
Total		$9,535,469
Type of Debt		
COPs		$199,134
Early Retirement Benefits		125,166
Capital Lease Obligations		140,890
Total		$465,190
Debt Burden Percentage	4.87%	

The district's 2013-14 unrestricted general fund estimated actual revenues are projected to be $9,535,469. Therefore, the total debt payments above are equal to 4.87% of unrestricted general fund revenues, well above the 1% to 2% that FCMAT believes is sustainable.

Recommendation

The district should:

1. Adopt a debt management policy substantially similar to the policy attached as Appendix A to this report.

District Lapsation

Lapsation is dissolving the district and annexing its territory to one or more adjacent school districts. California Education Code (EC) section 35780 (a) requires each county committee on school district organization (county committee) to lapse a school district if its ADA decreases to less than six. EC section 35782 further requires the county committee to take action to lapse a district within 30 days of the close of the school year.

The district does not meet the conditions for mandatory lapsation in EC section 35780 because it has an ADA greater than six. Therefore, the State Board of Education (SBE) would have to waive portions of EC sections 35780 and 35782 to allow lapsation, presumably instead of the district receiving a state loan. The SBE approved similar waiver requests from the Los Alamos Elementary School District in Santa Barbara County on March 11, 2011 and the West Fresno Elementary School District in Fresno County on May 11, 2011. In addition, at its May 2009 meeting, the SBE approved other requests from the Chinese Camp Elementary School District in Tuolumne County, the Delta View Joint Union Elementary School District in Kings County, and the Montebello Elementary School District in Santa Clara County. If the district chooses to seek such a waiver, it would be the first unified school district to do so.

Because the request would be for a general waiver, the SBE would have to cite one of the following seven reasons in EC 33051(a) before a denial. EC 33051(a) states the following:

> The state board shall approve any and all requests for waivers except in those cases where the board specifically finds any of the following: (1) The educational needs of the pupils are not adequately addressed. (2) The waiver affects a program that requires the existence of a school site council and the school site council did not approve the request. (3) The appropriate councils or advisory committees, including bilingual advisory committees, did not have an adequate opportunity to review the request and the request did not include a written summary of any objections to the request by the councils or advisory committees. (4) Pupil or school personnel protections are jeopardized. (5) Guarantees of parental involvement are jeopardized. (6) The request would substantially increase state costs. (7) The exclusive representative of employees, if any, as provided in Chapter 10.7 (commencing with Section 3540) of Division 4 of Title 1 of the Government Code, was not a participant in the development of the waiver.

Lapsation could theoretically be accomplished by merging with one of the district's adjacent unified school districts. However, because Acton-Agua Dulce Unified School District's assets and liabilities, including non-voter-approved debt, would become those of the recipient district, it is unlikely that any neighboring districts would participate in a merger.

Subsequent Events

The FCMAT report is based on the Adopted Budget for 2014-15 as approved by the governing board in June 2014. As of August 20, 2014, the district has officially closed its books and projects an increase in the ending fund balance from $392,041 to $579,353, a gain of $187,312. The following table identifies the differences by major object category:

Differences Between Adopted Budget and Unaudited Actuals

	Adopted Budget	Unaudited Actuals	Difference
Revenues			
LCFF	$8,476,776	$8,186,802	$289,974
Federal	$620,037	$619,222	$815
Other State	$822,534	$810,012	$12,522
Total Revenues	$11,562,629	$11,426,497	$136,132
Expenditures:			
Certificated Salaries	$5,618,664	$5,615,871	$2,793
Classified Salaries	$1,899,989	$1,850,114	$49,875
Benefits	$1,744,249	$1,725,905	$18,344
Books/Supplies	$486,478	$449,876	$936,354
Services/Other Operating	$1,401,805	$1,335,041	$66,764
Capital Outlay	$155,000	$155,000	$0
Other Outgo	$378,274	$229,208	$149,066
Total Expenditures	$11,684,459	$11,361,015	$323,444

Based on the information above, district's revenues increased by $136,132 and expenditures decreased by $323,444. The district's chief business official explained that the increase is mainly because of a lower than expected excess cost bill for SELPA-provided services and the one-time transfer from other funds to make the COPs annual payment.

The district is using object code 8091 to transfer to fund 14 LCFF funds previously classified as deferred maintenance. The significant drop of $289,974 in LCFF revenues in the table above reflects this transfer, yet the payment for the capital lease is only $146,890 for 2014-15.

The California School Accounting Manual (CSAM) provides for this transfer to the extent that the district has identified ongoing revenue. The CDE provided the following guidance in a letter dated May 6, 2014:

> Generally accepted accounting principles (GAAP) specify that use of a special revenue fund is appropriate only if a substantial portion of the fund's inflows are restricted or committed revenue sources and, further, only if those revenue sources are expected to continue. GAAP also specifies that the restricted or committed revenue source that justifies the use of the special revenue fund must be recognized as revenue in the special revenue fund, not as an interfund transfer.

The complete letter can be found at http://cde.ca.gov.fg/ac/ac/sacsminutes050614a.asp

Therefore the district should only use this method if it intends to transfer revenues on a reoccurring basis. According to the chief business official, the district plans to transfer back to the general fund later in the fiscal year the monies deposited into the deferred maintenance fund 14. In this case, using this method is not appropriate.

FCMAT recommends that the district readjust this transfer based on GAAP.

Appendices

Appendix A

Sample Debt Management Policy

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION
P.O. Box 8105, San Luis Obispo, CA 93403-8105

(P) #3266 SAMPLE DEBT MANAGEMENT POLICY

Purpose

The County Office of Education recognizes that the foundation of a well-managed debt program is a comprehensive debt policy.

This debt policy sets forth a set of comprehensive guidelines for the financing of capital expenditures. It is the objective of this policy that: 1) the County Office of Education obtain financing only when necessary, 2) the County Office of Education will use a process for identifying the timing and amount of debt or other financing that is efficient, and 3) the County Office of Education will obtain the most favorable interest and other costs in issuing the debt.

This policy will be reviewed by the County Board of Education at least annually and updated as necessary.

Responsibilities

County Superintendent & Deputy Superintendent

Under the general direction of the Superintendent, the Deputy Superintendent will have the primary responsibility for developing financing recommendations and ensuring the implementation of the debt policy. In developing the recommendations, the Deputy Superintendent will be assisted by the Director of Internal Fiscal Services and the County Superintendent. These individuals will comprise the Debt Management Committee. The responsibilities of the committee will be to:

- Meet at least quarterly to review the County Office's capital improvement program and consider the need for financing to maintain the progress on the capital improvement program.
- Develop a Request for Proposal (RFP) that will be used in the selection of bond counsel, financial advisor and/or underwriter beginning in the Spring of 2002 if necessary.
- Select the financing participants for each debt issue, ensure the debt issue is integrated with the County Office's overall financing program, approve the structure of each debt issue, and review and approve all documentation for each issue.
- Oversee the preparation of the information for the official statement for debt issues.

- Meet as necessary in preparation for a financing or to review changes in state or federal laws or regulations.
- Prepare all information for the bond rating agencies and make presentations as necessary.
- Meet annually to review the County Office of Education's compliance with the existing debt agreements.
- A Meet annually to review the services provided by the financial advisor, bond counsel, paying agents and other service providers to evaluate the extent and the effectiveness of the services provided.
- Administer the investment and expenditure of the debt proceeds and ensure that the debt payments are made on time.
- Ensure that the arbitrage requirements are monitored and that the appropriate reports are filed with the federal government.

Bond Counsel

The bond counsel will issue an opinion as to the legality and tax exempt status of any obligations. The County Office will also seek the advice of the bond counsel on questions involving the state or federal law or arbitrage. The bond counsel is also responsible for the preparation of the bond documents (including the authorizing resolutions that the County Board of Education will adopt) and most of the closing documents. The bond counsel will ensure that all legal requirements for the debt issue are met. The bond counsel will perform other services as defined by the contract approved by the County Superintendent of Schools.

Financial Advisor/Underwriter

The County Office staff will seek the advice of the financial advisor and/or underwriter when necessary. The financial advisor will advise on the structuring of the debt obligations that will be issued, inform the County Office of the options available for each issue, advise the County Office of Education as to how choices will impact the marketability of the County Office of Education's obligations, and will provide other services as defined by the contract approved by the County Superintendent of Schools.

County Office Auditors

The County Office of Education will include a review of any official statements issued in connection with a debt issue in its contract for services with the County Office of Education's independent auditors.

<u>Short-Term Operating Debt Policy</u>

The expenditures associated with the day-to-day operations of the County Office of Education will be covered by current revenues. However, because the County Office of Education does not receive its revenues in equal installments each month and the largest expenditures occur in equal amounts, the County Office of Education may experience temporary cash shortfalls. To finance these temporary cash shortfalls, the County Office of Education may incur short-term operating debt, typically, tax and revenue anticipation notes (TRANS). The County Office of Education will base the amount of the short-term operating debt on cash flow projections for the fiscal year and will comply with applicable federal and state regulations. The County Office of Education will pledge operating revenues to repay the debt, which will be repaid in one year or less. The County Office of Education will minimize the cost of the short-term borrowings to the greatest extent possible and may participate in pooled TRANS to meet this goal.

Long-term Capital Debt Policy

The following will apply to the issuance of long-term debt:

- The County Office of Education will not use long-term obligations for operating purposes.
- The life of the long-term obligations will not exceed the useful life of the projects financed.
- The County Office of Education will strive to maintain level debt service payments.
- The County Office of Education will not issue unfunded long-term debt in excess of 3% of annual general fund revenues, unless there is a dedicated tax levy, surplus property sale, fixed lease payments from another public agency or redevelopment revenue stream committed to service the debt.

Bonds

The County Office of Education, upon approval of the County Board of Education, may issue general obligation bonds to finance significant capital improvements for the purposes set forth by the voters in the bond election. The County Office of Education may also issue revenue bonds to finance significant capital improvements without voter authorization, through Certificates of Participation (COP's) or through Qualified Zone Academy Bonds (QZAB's).

The County Office of Education staff will prepare a resolution authorizing the issuance of Certificates of Participation, Qualified Zone Academy Bonds, and General Obligation Bonds for presentation to the County Board of Education at least 45 days prior to the issuance.

Negotiated Versus Competitive Sale Versus Private Placement

When feasible and economical, the County Office may issue bonds either by competitive or negotiated sale. The County Office of Education will issue by negotiated sale when the issue is predominantly a refunding issue or in other non-routine situations that require more flexibility than a competitive sale allows. Whenever the option exists to offer an issue either for competition or negotiation, the Debt Management Committee will undertake an analysis of the options to aid in the decision making process.

Refunding

The County Office of Education will consider refunding debt whenever an analysis indicates the potential for present value savings of approximately 5% of the principal being refunded or at least $200,000. The financial advisor will compute the economic gain or loss on the refunding and the members of the Debt Management Committee will verify the computation. The County Office of Education will not refund less than 5% of its outstanding debt at one time except in unusual circumstances such as when it intends to change bond covenants.

Capital Leases

Capital leasing is an option for the acquisition of equipment or other assets with a cost of less than $500,000.

The County Office of Education will not consider leasing when there are available funds on hand for the acquisition unless the interest expense associated with the lease is less than the interest that can be earned by investing the funds on hand or when other factors such as budget constraints override the economic consideration.

When a lease is arranged with a private sector entity, the County Office of Education will seek a tax-exempt rate. When a lease is arranged with a government or other tax-exempt entity, the County Office of Education will try to obtain an explicitly defined taxable rate so that the lease will not be counted in the County Office of Education's total annual borrowings subject to arbitrage rebate.

The lease agreement will permit the County Office of Education to refinance the lease at no more than reasonable cost. A lease that can be called at will is preferable to one that can merely be accelerated.

The County Office of Education staff may obtain at least three competitive proposals for any major lease financing. In evaluating the proposals, the net present value of the competitive bids will be compared, taking into account how and when the payments are made. If required by statute, the purchase price of equipment will be competitively bid.

Bond Rating

The County Office of Education's goal is to maintain or improve its bond ratings. The County Office of Education's staff will make a full disclosure to the bond rating agencies when necessary.

Arbitrage Liability Management

The County Office of Education will make every effort to minimize the cost of the arbitrage rebate and yield restriction while strictly complying with the law. The federal arbitrage law is intended to discourage entities from issuing tax exempt obligations unnecessarily. In complying with the spirit of the law, the County Office of Education will not issue obligations except for identifiable projects with very good prospects of timely initiation. Obligations will be issued as closely in time as feasible to the time contracts are awarded so as to minimize the time the debt proceeds are unspent.

The County Office of Education's bond counsel and financial advisor will review, in advance, all arbitrage rebate payments and forms sent to the IRS.

Internal Interim Financing

In order to defer the issuance of debt obligations, when sufficient non-restricted funds are on hand, consideration will be given to appropriating them to provide interim financing for large construction projects. When the debt obligation is subsequently issued, the non-restricted funds will be repaid.

REVIEWED BY SCHOOLS LEGAL SERVICE __DC 7/19/01_______

APPROVED BY COUNTY BOARD OF EDUCATION _10/4/01_______

Appendix B

Study Agreement

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

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
May 5, 2014

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Los Angeles County Office of Education, hereinafter referred to as the COE, mutually agree as follows:

1. BASIS OF AGREEMENT

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

2. SCOPE OF THE WORK

On behalf of the Los Angeles County Office of Education, the team will provide a fiscal analysis and recommendations that will help the Acton-Agua Dulce Unified School District develop a multiyear financial projection (MYFP).

This may include recommendations to increase revenues and/or reduce expenditures that will assist the district in sustaining the recommended reserve levels.

A. Scope and Objectives of the Study

The scope and objectives of this study are:

1. Work with LACOE and the district to develop an MYFP for the current (2013-14) and two subsequent fiscal years without any demonstrated adjustments based on today's economic forecast to determine the level of commitment needed to sustain the district's financial solvency. The MYFP will be a snapshot in time regarding the current financial status and will use the district's second interim financial report as the baseline for developing the MYFP. Any forecast of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment trends, cost-of-living adjustments, forecasts for utilities, supplies and equipment, and changing

1

economic conditions at the state, federal and local levels. The MYFP model should be evaluated as a trend based on certain criteria and assumptions instead of a prediction of exact numbers.

The district has experienced a significant decline in enrollment because of the number of charter schools authorized by the board. The MYFP will include enrollment projections in the financial modeling, including using FCMAT's LCFF calculator to determine the level of funds required to sustain the district's financial solvency.

2. Review the district's long-term debt for all funds and any fiscal impact any unfunded liabilities will have on the MYFP.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the COE or district to brief management and supervisory personnel on the team's procedures and the purpose and schedule of the study.

2. On-Site Review - The team will conduct an on-site review at the COE or district office and at school sites if necessary.

3. Progress Reports - The team will hold an exit meeting at the conclusion of the on-site review to inform the COE and/or district of significant findings and recommendations to that point.

4. Exit Letter – Approximately 10 days after the exit meeting, the team will issue an exit letter briefly summarizing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.

5. Draft Reports - Electronic copies of a preliminary draft report will be delivered to the COE or district's administration for review and comment.

6. Final Report - Electronic copies of the final report will be delivered to the COE and/or district's administration following completion of the review. The final report will be published on the FCMAT website. Printed copies are available from FCMAT upon request.

7. Follow-Up Support – If requested, FCMAT will return to the COE or district at no cost six months after completion of the study to assess the progress in implementing the recommendations included in the report. Progress in implementing the recommendations will be documented to the COE in a FCMAT management letter.

3. **PROJECT PERSONNEL**

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

A.	Deborah Deal, CFE	FCMAT Fiscal Intervention Specialist, Project Lead
B.	Michael Ammermon, CPA	FCMAT Consultant

Other equally qualified staff or consultants will be substituted in the event one of the above 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 as follows:

A. $500 per day for each staff team member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate.

B. All out-of-pocket expenses, including travel, meals, and lodging.

C. The COE will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon COE's acceptance of the final report.

Based on the elements identified in section 2 A, the total estimated cost of the study will be $12,500.

D. 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 COE AND/OR DISTRICT

A. The COE or district will provide office and conference room space during on-site reviews.

B. The district will provide the following if requested:

1. Policies, regulations and prior reports that address the study scope.
2. Current or proposed organizational charts.
3. Current and two prior years' audit reports.
4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in electronic format.
5. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository, where the district shall upload all requested documents.

C. The COE and/or district's administration will review a preliminary draft copy of the report resulting from 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 COE and district shall take appropriate steps to comply with EC 45125.1(c).

6. PROJECT SCHEDULE

The following tentative schedule outlines the planned completion dates for different phases of the study:

Orientation:	May, 2014
Staff Interviews:	to be determined
Exit Interviews:	to be determined
Preliminary Report Submitted:	to be determined
Final Report Submitted:	to be determined
Board Presentation:	to be determined, if requested
Follow-Up Support:	if requested

7. CONTACT PERSON

Contact person: Marlene Dunn
Telephone: (562) 922-6131
FAX: (562) 803-4787
E-mail: dunn_marlene@lacoe.edu

Arturo Delgado 5-6-14

Arturo Delgado, Superintendent — Date
Los Angeles County Office of Education

May 5, 2014

Anthony Bridges, CICA, CFE — Date
Deputy Executive Officer
Fiscal Crisis and Management Assistance Team