



Draft

Your Local Union School District Financial Report Card

October 2006



El Dorado
County Office
of Education

Staying out of Financial Trouble

County Offices of Education are empowered with fiscal oversight in order to help school districts avoid insolvency. Spotting trouble early can be the difference between early recovery and insolvency. The lessons we have learned from districts in “financial trouble” show that there are some common financial mistakes made. By monitoring key areas closely and watching trends over time, we can spot potential problems early before they lead to fiscal disaster.

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Trends/areas to watch closely include:

- Declining Enrollment
- Deficit Spending
- Reserve Levels
- General Fund Contributions



Spotting trouble early can be the difference between early recovery and insolvency.

Highlights:

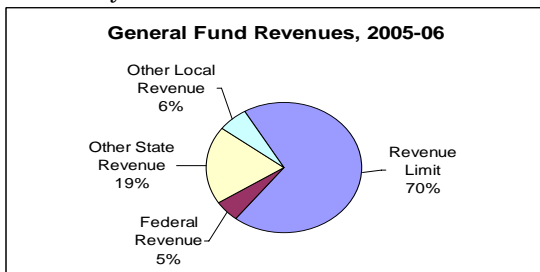
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Strong working relationships make fiscal oversight successful. In El Dorado County, we have developed and maintain a culture of ongoing communication and proactive review. Working collaboratively with districts, we monitor trends in key areas and communicate the results in many ways, including this report card.

District's Revenues and Expenditures

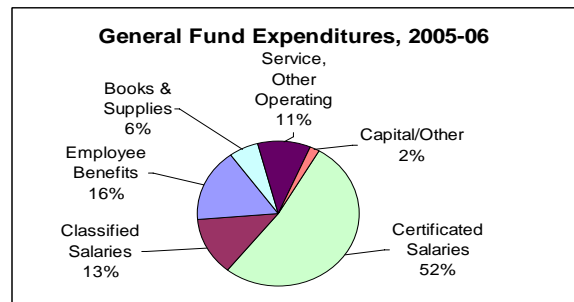
Revenues:

70% of the district's General Fund revenue is generated from the district's Revenue Limit which yields funds based on a state-determined dollar amount multiplied by the average number of students who are in attendance throughout the school year.

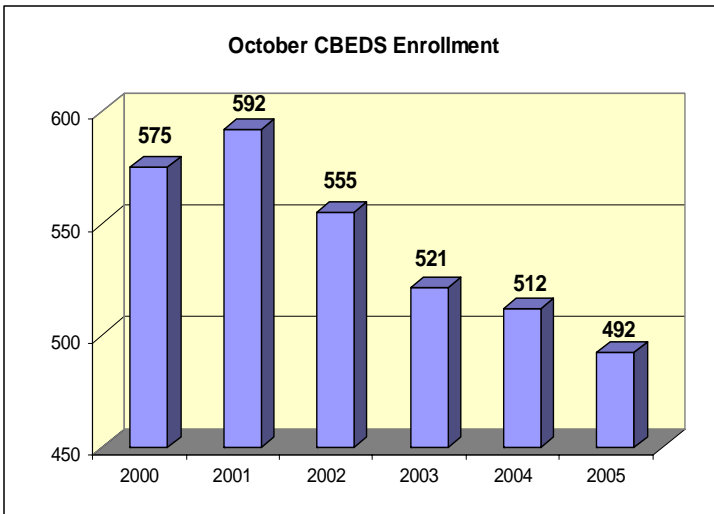


Expenditures:

81% of the expenditures of the district are committed to the salaries and benefits for employees of the district.



Enrollment Trend - Declining Enrollment



The district's enrollment has declined by 17% since 2001.

When districts decline in enrollment, they lose revenue faster than their ability to easily reduce costs. Competent financial management during a period of decline in enrollment is essential.

The district has experienced consistent declining enrollment since 2001. The enrollment dropped 100 students in a 5-year period from 592 students in 2001 to 492 students in 2005, a 17% decrease.

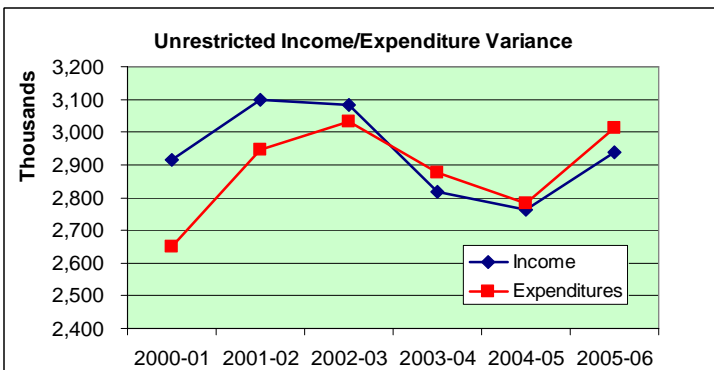
When enrollment drops from one year to the next there is not an immediate financial impact since declining enrollment districts may use the higher of current or prior year average daily attendance (ADA) for funding purposes. This provides the district with one year to make adjustments for the reduced level of funding. When enrollment continues to decline in subsequent years, additional adjustments are necessary, often before the district has fully adjusted to the previous drop in enrollment.

Trend in Spending - Deficit Spending in Last Three Years

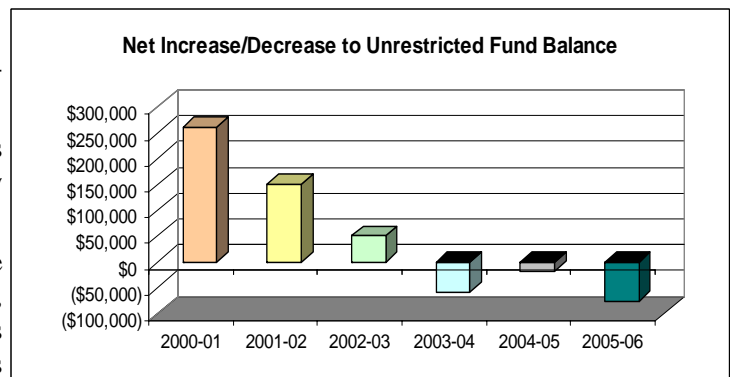
When looking at spending trends, analysis focuses on the general fund's unrestricted revenues and expenditures.

Examining the difference between revenues and expenditures may show whether a district is operating with a deficit in any given year.

Some deficit spending may be planned when balances have been built up to allow a large one-time expenditure. However, most deficit spending is unplanned and uncontrolled. Reserves must be used for the shortfall and if deficit spending continues eventually the reserves will be depleted.



Spending more than is received in revenues results in a deficit and reserves must be used for the shortfall.



The causes of deficit spending need to be addressed early so cuts can be made while they are painful but not life-threatening for the district.

In 2000-01 the district operated with a surplus of \$260,000 in unrestricted revenues over expenditures. By 2003-04 the district was engaged in deficit spending and continued a deficit spending pattern in the next two years. In 2005-06 the district spent \$76,000 more than it received.

When there is a surplus, there is a net increase to the unrestricted fund balance. On the other hand, deficit spending results in a net decrease to the unrestricted fund balance.

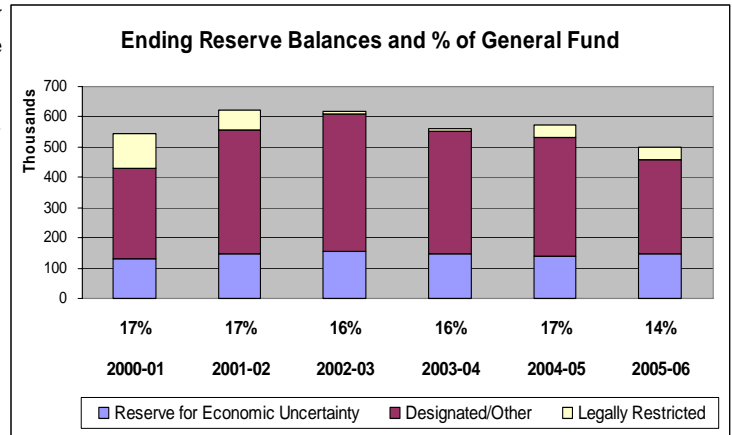
Reserve Levels - Dropping but Healthy

The state requires districts to maintain a Reserve for Economic Uncertainty of between 2% and 5% depending on the size of the district. Smaller districts (less than 300 students) must keep a 5% reserve for economic uncertainty and the largest districts (more than 30,000 students) are required to keep 2%.

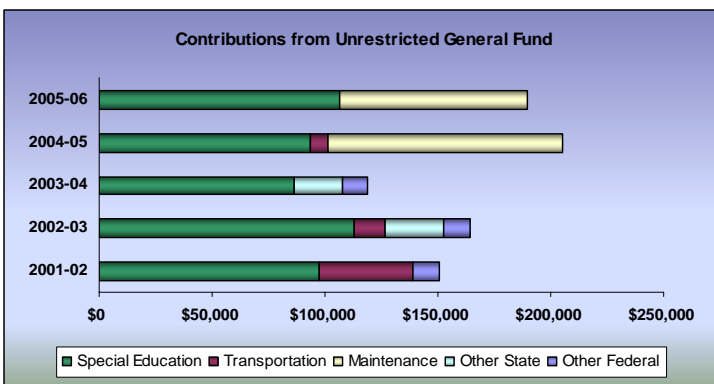
Most districts need reserves beyond the state minimum. Circumstances that call for higher reserves include:

- Declining enrollment
- Rapid enrollment growth
- Opening or closing schools
- Basic Aid districts
- Volatile economic times

The district has maintained healthy reserves of 14-17% which has provided a buffer as the district adjusts for reduced funding due to declining enrollment.

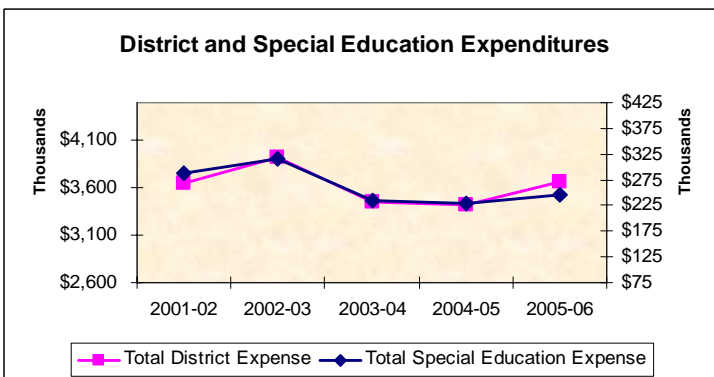


General Fund Contributions - Increasing to Special Education



Some programs receive contribution from unrestricted general fund

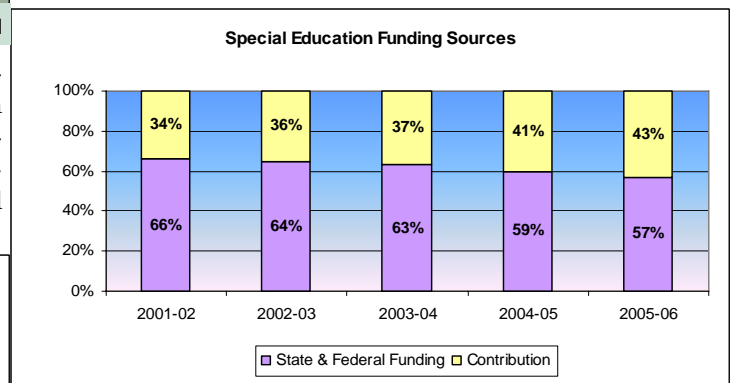
Districts often require restricted programs to be self-supporting. However, some programs receive a contribution from the unrestricted general fund for support. Also, districts that have received certain facilities funding must establish an account, with an unrestricted contribution, and track maintenance costs in this restricted account.



Special Ed expenditures consistent with total district expenses.

Programs commonly receiving contributions from a district's general purpose funds include Special Education and Home-to-School Transportation. Trends of increasing contributions should be monitored closely as escalation in this area is a warning sign that could indicate fiscal distress.

The district's Special Education program receives a significant contribution. Although the district's special education costs have been consistent with total district expenses over time, the unrestricted general fund contribution has picked up an increasing share of those costs.



Special Education costs increasingly funded by contribution.

In 2005-06 the district's Special Education received about 58% of its funding from State and Federal sources. The remaining 42%, over \$100,000, was contributed from general purpose funds. This is an 8% increase over the 2001-02 contribution level of 34%.



El Dorado County Office of Education

6767 Green Valley Road
Placerville, CA 95667
Phone: 530-622-7130
Fax: 530-621-2543

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As an intermediate agency functioning on behalf of the federal, state, and county governments, the External Business Services Department of the El Dorado County Office of Education provides mandated or directed services; monitors and reviews accounting, budgeting, financial reporting and payroll functions for the school districts within El Dorado County.

El Dorado County contains 15 school districts grades K-12; with 12 elementary districts, two unified districts and one high school district. Other local educational agencies include a regional occupational center/program (ROC/P) operated under a joint powers agreement (JPA), one community college district and the El Dorado County Office of Education.

The K-12 school districts vary in size from less than 20 students to over 7,000 students.

Warning Signs That Can Indicate Fiscal Distress - FCMAT predictors

The Fiscal Crisis & Management Assistance Team (FCMAT) has compiled a list of predictors of school agencies needing intervention that it has found to be the most common school agency problems. Contained in this list are the 15 conditions that have been found most frequently to indicate fiscal distress and are those referenced in AB2756 and Education Codes Sections 42127 and 42127.6:

1. Governance Crisis
2. Absence of communication to educational community
3. Lack of interagency cooperation
4. Failure to recognize year-to-year trends
5. Flawed Average Daily Attendance (ADA) projections
6. Failure to maintain reserves
7. Insufficient consideration of long-term bargaining agreement effects
8. Flawed multiyear projections
9. Inaccurate revenue and expenditure estimates
10. Poor cash flow analysis and reconciliation
11. Bargaining agreements beyond cost-of-living adjustment (COLA)
12. No integration of position control with payroll
13. Limited access to timely personnel, payroll, and budget control data and reports
14. Escalating general fund encroachment
15. Lack of regular monitoring of categorical programs



The complete list of predictors is available at www.fcmat.org.