



September 23, 2010

Mr. Jaime Ayala, Assistant Superintendent, Business Services
Colton Jt. Unified School District
1212 Valencia Drive
Colton, CA 92324-1798

Dear Mr. Ayala:

Thank you for the submission of the district's 2010-11 Revised Budget and Multiyear Projections. We recognize the district's efforts in this revision of the budget and financial plan that provides for the ongoing financial stability of the district in these tough economic times.

The 2010-11 Revised Budget of the Colton Joint Unified School District has been reviewed and approved pursuant to the provisions of Education Code Section 42127 (c)(d) based on Resolution No. 11-03 recognizing the board's commitment to implement ongoing budget reductions of \$18.8Million in fiscal year 2011-12 and \$11.9Million in fiscal year 2012-13. A fiscal action plan including the details of these reductions for each year must be board approved and negotiable items for 2011-12 approved by the district board and bargaining units prior to the First Interim Financial report submission, otherwise the board should file a qualified certification. A qualified certification means that the district may not meet the minimum state reserve levels in all fiscal years, if the fiscal action plan is not fully implemented. The First Interim Financial report is due to our office, no later than December 15, 2010.

Our office approved the district's 2010-11 Revised Adopted Budget and the district submitted a fiscal action plan and board resolution identifying the amounts and intent to implement this level of budget reductions in the two subsequent fiscal years enabling the district to continue to meet its fiscal obligations. However, since the scope of these reductions is more than the district's level of reserve for economic uncertainties of 3% and the majority of these reductions may require further collective bargaining negotiations or board actions to implement, our office is taking action under Education Code Section 42127.6 to identify the district as a "Lack of Going Concern" district. With regards to the code stated above, our determination makes the district "qualified", meaning that unless the follow-up actions are taken by the district and board to implement the amounts indicated in the board resolutions and fiscal action plans prior to 2011-12, the district **may not** be able to meet its ongoing fiscal obligations. (Details of Education Code 42127.6 are included in Attachment A.) This action allows our office to continue to provide support to the district by:

- Continuing to provide the support of a Fiscal Expert through the First Interim Financial Reporting period (through December 15, 2010)
 - Michele McClowery has been contracted by our office to work with the Business office to review the fiscal action plan being developed in conjunction with the Governing Board. While she is not involved directly in the negotiations process, she can provide support to the staff in determination of the appropriate calculations necessary to implement salary and/or benefit adjustments.
- Providing the ongoing assistance of the staff in Business Advisory services to assist with all technical adjustments necessary in the district's financial system.

If by the First Interim Financial Report submission deadline of December 15, 2010, the district has been able to take board actions to approve the necessary reductions needed to continue to meet fiscal obligations in all fiscal years 2010-11 through 2012-13 based on the most current state budget and/or proposals, this qualified status could be removed.

Under the Qualified status, the district must continue to provide information to our office regarding the status of all salary and benefit agreements and actions and any non-voter approved debt issuances, including any bond anticipation notes, certificates of participation, or tax revenue anticipation notes, prior to final board actions. A summary of the detailed education code sections are included in Attachment B.

The approval of the Revised Budget is based on an assessment and analysis of the following major components of the district's budget:

- Unrestricted Ending Fund Balances and State Minimum Reserves
- Revenue and Expenditure Projections & Deficit spending trends
- Implementation of Conditional Approval Observations
- 2009-10 Unaudited Fund Balance Impact on 2010-11

The budget is a dynamic document that reflects the Governing Board's plan for receipt of revenues and utilization of expenditures to meet the goals and financial obligations of the school district in the coming year based on the information known to the district and board at that time.

- **UNRESTRICTED ENDING FUND BALANCES AND STATE MINIMUM RESERVES** - For fiscal years 2010-11, 2011-12, and 2012-13, the district meets the required minimum state reserve due to the inclusion of the reductions authorized by Board Resolution # 11-03. This resolution authorizes \$18.8Million in 2011-12 and \$11.9Million in 2012-13 of on-going budget reductions which still require board and bargaining unit agreement for implementation.
- **REVENUE AND EXPENDITURE PROJECTIONS (DEFICIT SPENDING)** – The district is projecting expenditures to exceed revenues by \$16,700,745 in the current fiscal year primarily due to continued reductions in state aid and ongoing operating costs. The district is continuing to deficit spend in fiscal year 2011-12 and in 2012-13 even with the inclusion of the board resolution reductions identified above and should make further reductions to eliminate all deficit spending. Should the expenditure reductions authorized by the board resolution not be implemented in a timely manner, the district will be fiscally insolvent by July 1, 2011. Anticipated deficit spending should be for one time, non-recurring expenditures to avoid depletion of the district's on-going unrestricted reserves.
- **IMPLEMENTATION OF CONDITIONAL APPROVAL OBSERVATIONS** - The district implemented the items addressed in the Adopted Budget Conditional Approval letter dated August 12, 2010. However, it was noted that although the district was cautioned not to include ADA increases until actually realized for new programs, the district did not lower the ADA projections. It was also noted that the district's current enrollment projections are lower than the projections submitted with the revised budget by approximately 133 students. The district will need to update ADA and Enrollment projections with the First Interim Financial Report.
- **2009-10 UNAUDITED FUND BALANCE IMPACT ON 2010-11** - The revised multi-year projections submitted include the final unaudited actuals fund balances from the 2009-10 fiscal year. The final 2009-10 ending fund balance is \$915,934 higher than original projections realizing a higher beginning balance for the 2010-11 fiscal year which is assisting the district in meeting its fiscal obligations in the current fiscal year.

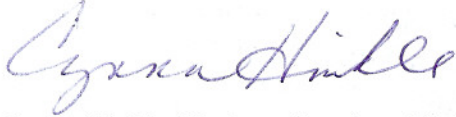
The 2010-11 State Budget has not been finalized as of this date. Our review has been based on the latest information available to this office including the Governor's May Revise Budget Projections. Please remember that Education Code Section 42127(i)(4) requires that:

"Not later than 45 days after the Governor signs the annual Budget Act, the school district shall make available for public review any revisions in revenues and expenditures that it has made to its budget to reflect the funding made available by that Budget Act".

The district should closely monitor any legislative changes and the state's monthly revenue streams and also closely monitor its cash balances in order to continue to maintain fiscal stability. Our office will continue to keep the district updated on any funding changes that become known to our office.

Any questions concerning the review of the district's 2010-11 Revised Budget may be addressed to me at (909) 777-0745.

Sincerely,



Cynna Hinkle, Business Services Advisor
Business Advisory Services

Attachments: Attachment A Education Code Section 42127.6 Lack of Going Concern
Attachment B Qualified Status Implications

C: Teri Kelly, Director, Business Advisory Services, SBCSS
Ted Alejandre, Assistant Superintendent, Business Division, SBCSS

J:Financial Reporting/Revised Adopted Budgets/Revised Budget Letters/Colton Conditionally Approved Budget Letter-CBO

Attachment A:

Education Code Section 42127.6 Lack of Going Concern

42127.6. (a) (1) . . . If at any time during the fiscal year the county superintendent of schools determines that a school district may be unable to meet its financial obligations for the current or two subsequent fiscal years or if a school district has a qualified or negative certification pursuant to Section 42131, he or she shall notify the governing board of the school district and the Superintendent of Public Instruction in writing of that determination and the basis for the determination. The notification shall include the assumptions used in making the determination and shall be available to the public. The county superintendent of schools shall report to the Superintendent of Public Instruction on the financial condition of the school district and his or her proposed remedial actions and shall do at least one of the following and all actions that are necessary to ensure that the district meets its financial obligations:

(A) Assign a fiscal expert, paid for by the county superintendent, to advise the district on its financial problems.

(B) Conduct a study of the financial and budgetary conditions of the district that includes, but is not limited to, a review of internal controls. If, in the course of this review, the county superintendent determines that his or her office requires analytical assistance or expertise that is not available through the district, he or she may employ, on a short-term basis, with the approval of the Superintendent of Public Instruction, staff, including certified public accountants, to provide the assistance and expertise. The school district shall pay 75 percent and the county office of **education** shall pay 25 percent of these staff costs.

(C) Direct the school district to submit a financial projection of all fund and cash balances of the district as of June 30 of the current year and subsequent fiscal years as he or she requires.

(D) Require the district to encumber all contracts and other obligations, to prepare appropriate cashflow analyses and monthly or quarterly budget revisions, and to appropriately record all receivables and payables.

(E) Direct the district to submit a proposal for addressing the fiscal conditions that resulted in the determination that the district may not be able to meet its financial obligations.

(F) Withhold compensation of the members of the governing board and the district superintendent for failure to provide requested financial information. This action may be appealed to the Superintendent of Public Instruction pursuant to subdivision (b).

(G) Assign the Fiscal Crisis and Management Assistance Team to review teacher hiring practices, teacher retention rate, percentage of provision of highly qualified teachers, and the

extent of teacher misassignment in the school district and provide the district with recommendations to streamline and improve the teacher hiring process, teacher retention rate, extent of teacher misassignment, and provision of highly qualified teachers. If a review team is assigned to a school district, the district shall follow the recommendations of the team, unless the district shows good cause for failure to do so. The Fiscal Crisis and Management Assistance Team may not recommend an action that would abrogate a contract that governs employment.

(b) Within five days of the county superintendent making the determination specified in subdivision (a), a school district may appeal the basis of the determination and any of the proposed actions that the county superintendent has indicated that he or she will take to further examine the financial condition of the district. The Superintendent of Public Instruction shall sustain or deny any or all parts of the appeal within 10 days.

(c) If, after taking the actions identified in subdivision (a), the county superintendent determines that a district will be unable to meet its financial obligations for the current or subsequent fiscal year, he or she shall notify the school district governing board and the Superintendent of Public Instruction in writing of that determination and the basis for that determination. The notification shall include the assumptions used in making the determination and shall be provided to the superintendent of the school district and parent and teacher organization of the district.

(d) Within five days of the county superintendent making the determination specified in subdivision (c), a school district may appeal that determination to the Superintendent of Public Instruction. The Superintendent shall sustain or deny the appeal within 10 days. If the governing board of the school district appeals the determination, the county superintendent of schools may stay any action of the governing board that he or she determines is inconsistent with the ability of the district to meet its financial obligations for the current or subsequent fiscal year until resolution of the appeal by the Superintendent of Public Instruction.

(e) If the appeal described in subdivision (d) is denied or not filed, or if the district has a negative certification pursuant to Section 42131, the county superintendent, in consultation with the Superintendent of Public Instruction, shall take at least one of the actions described in paragraphs (1) to (5), inclusive, and all actions that are necessary to ensure that the district meets its financial obligations and shall make a report to the Superintendent about the financial condition of the district and remedial actions proposed by the county superintendent.

Attachment B: Qualified Status Implications

Collective Bargaining:

GC 3540.2(a) A district with a qualified or negative certification must give the County Superintendent of Schools at least ten working days to review and comment on any proposed collective bargaining agreement. (c.) The County Superintendent of Schools must notify the district superintendent, governing board, county board of education and any parent and teacher organization with the district within those ten days if the agreement would endanger the fiscal well-being of the district.

Debt Issuances:

EC 42133(a) If a district has a qualified or negative certification in any year, the district may not issue nonvoter approved debt instruments in that year or the next, unless the County Superintendent of Schools, using SPI criteria, determines repayment is probable. **EC 17150(a)** Once the board has approved the district to proceed with the issuance of revenue bonds, or to enter into any agreement for financing school construction, the district must notify the County Superintendent of Schools and the county auditor. The district superintendent shall provide the repayment schedules for the debt obligation and evidence of the ability of the district to repay the obligation to the county auditor, the county superintendent, the board and the public. Within 15 days of receipt of the information, the county superintendent and county auditor may comment publicly to the board on the district's capacity to repay the debt.

EC 17150.1 A district must notify the county superintendent of schools and the county auditor before the district's board approves the issuance of certificates of participation and other non-voter approved debt instruments. Notification must be made no later than 30 days prior to issuance. (Our office has defined BANs/BAPs as non-voter approved debt instruments since they may need to be paid from district funds, IF the bond series is not able to be issued due to lack of bonding capacity or to high of payment assessments which is unknown at the time of issuance). The district superintendent must provide information necessary to assess the effect of the issuance (ie. repayment schedules, evidence of ability to repay, issuance costs) to county auditor, county superintendent, board and public.