

TEHAMA COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2010

INTRODUCTION

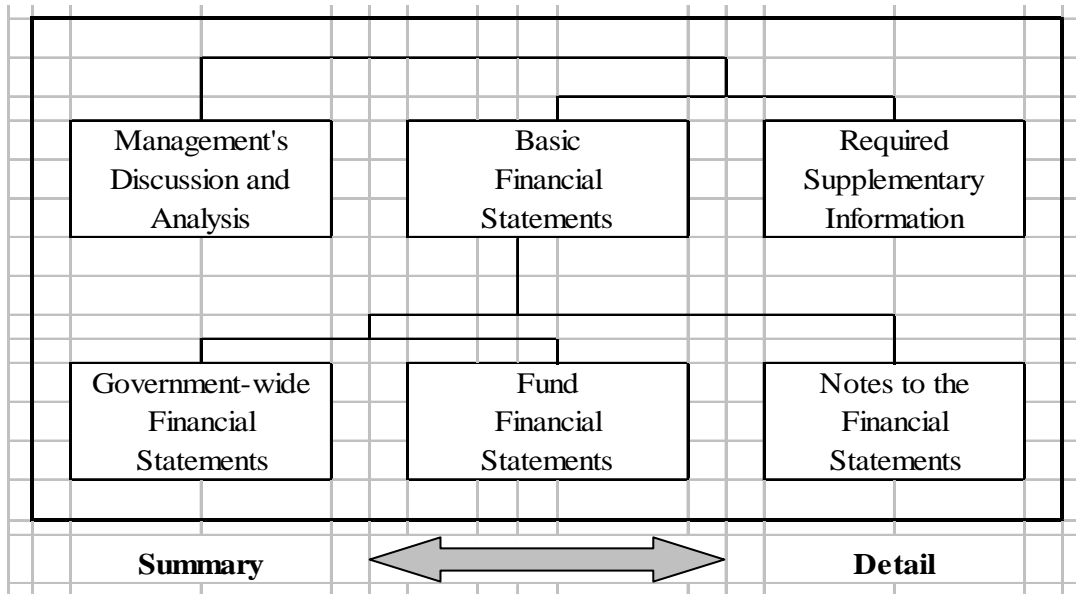
Our discussion and analysis of the financial performance of Tehama County Department of Education (the County Department) provides an overview of the County Department's financial activities for the fiscal year ended June 30, 2010. It should be read in conjunction with the County Department's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ❑ Total net assets were \$10,543,071 at June 30, 2010. This was an increase of \$728,696 from the prior year.
- ❑ Overall revenues of \$25,168,978 exceeded expenses of \$24,440,282.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



TEHAMA COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2010

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the County Department. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ❑ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- ❑ **Fund financial statements** focus on reporting the individual parts of the County Department operations in more detail. The fund financial statements comprise the remaining statements.
 - **Governmental funds** statements tell how general government services were financed in the short term as well as what remains for future spending.
 - **Fiduciary fund** statements provide information about the financial relationships in which the County Department acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Government-Wide Statements

The government-wide statements report information about the County Department as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the County Department's net assets and how they have changed. Net assets – the difference between the assets and liabilities – is one way to measure the County Department's financial health or position.

- ❑ Over time, increases or decreases in the County Department's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- ❑ To assess the overall health of the County Department, one needs to consider additional nonfinancial factors such as changes in enrollment, changes in the property tax base, changes in program funding by the Federal and State governments, and condition of facilities.

The government-wide financial statements of the County Department include government activities. Most of the County Department's basic services are included here, such as instruction, curriculum, special needs transportation, nursing services, psychological services, SERRF, plant maintenance and general administration. State and federal categorical grants and revenue limit funding finance most of these activities.

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FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Assets

The County Department's combined net assets were \$10,543,071 at June 30, 2010. See Table 1.

**Table 1:
Net Asset**

| | Governmental Activities | | Total Percentage Change |
|---|-------------------------|---------------------|-------------------------------|
| | 2010 | 2009 | 2009/10 |
| Assets | | | |
| Cash | \$ 6,456,056 | \$ 6,449,046 | 0.11% |
| Other Current Assets | 5,511,099 | 5,736,214 | -3.92% |
| Capital Assets, Net of Accumulated Depreciation | 2,523,879 | 2,204,468 | 14.49% |
| Total Assets | 14,491,034 | 14,389,728 | 0.70% |
| Liabilities | | | |
| Current Liabilities | 2,978,414 | 3,337,191 | -10.75% |
| Long-Term Liabilities | 969,549 | 1,238,162 | -21.69% |
| Total Liabilities | 3,947,963 | 4,575,353 | -13.71% |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 1,633,691 | 1,057,038 | 54.55% |
| Restricted | 3,823,591 | 4,158,805 | -8.06% |
| Unrestricted | 5,085,789 | 4,598,532 | 10.60% |
| Total Net Assets | \$ 10,543,071 | \$ 9,814,375 | 7.42% |

Changes in Net Assets

The County Department's total revenues were \$25,168,978. A majority of the revenue, 66%, comes from program revenues. Taxes accounted for 12% of revenues. Federal and State aid not restricted to specific purposes accounted for 18%. All other revenues and miscellaneous sources accounted for the remaining 4%.

The total cost of all programs and services was \$24,440,282. The County Department's expenses are predominately related to instruction and instruction-related services 49%. Pupil services accounted for 6% of expenses. Administrative activities accounted for 7% of total costs. Plant services, which represent the facilities maintenance and operations costs, account for 3% of all costs. The remaining 35% of expenses were for ancillary services, community services, other outgo, and interest on long-term debt.

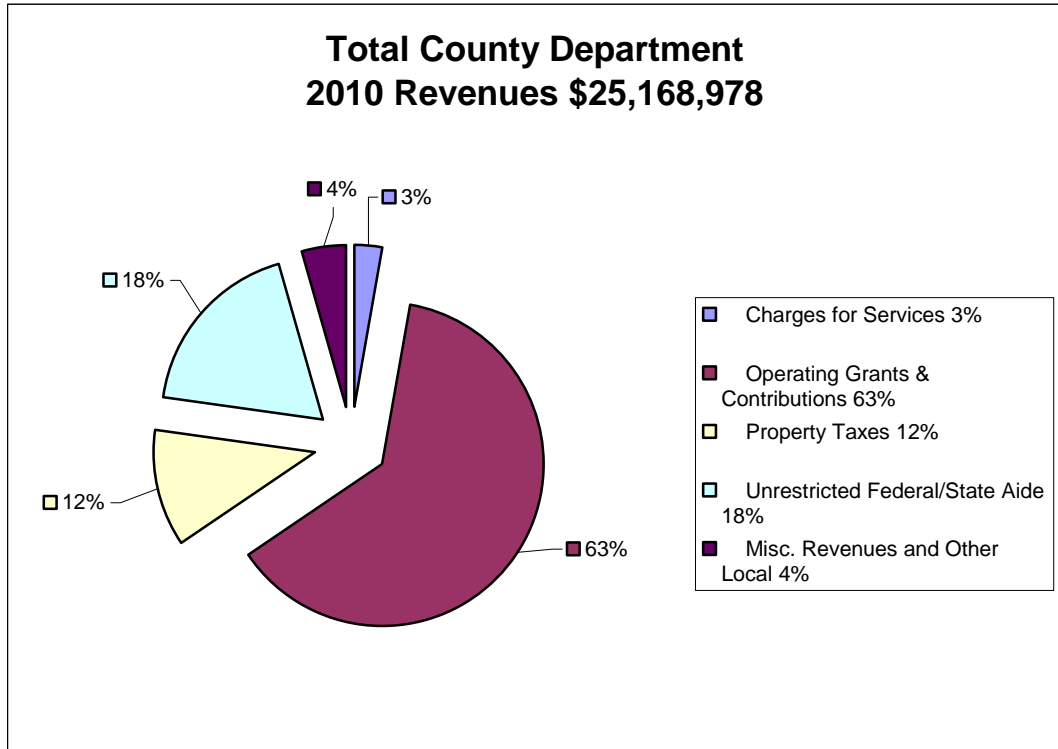
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**Table 2:
Changes in Net Assets**

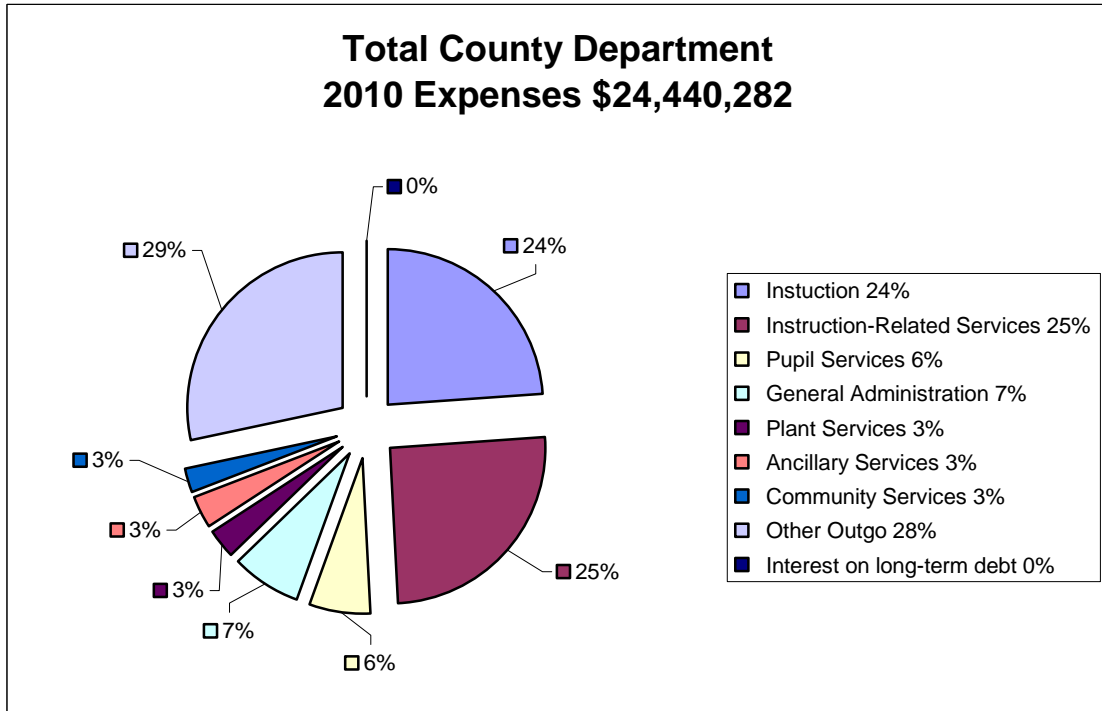
| | Governmental Activities | | Total Percentage Change |
|----------------------------------|-------------------------|---------------------|-------------------------------|
| | 2010 | 2009 | 2009/10 |
| Revenues | | | |
| Program Revenues: | | | |
| Charges for Services | \$ 694,572 | \$ 1,507,709 | -53.93% |
| Operating Grants & Contributions | 15,837,107 | 19,813,170 | -20.07% |
| General Revenues | | | |
| Property Taxes | 2,929,475 | 3,126,902 | -6.31% |
| Unrestricted Federal/State Aide | 4,597,235 | 1,654,146 | 177.92% |
| Misc. Revenues and Other Local | 1,110,589 | 964,127 | 15.19% |
| Total Revenues | <u>25,168,978</u> | <u>27,066,054</u> | <u>-7.01%</u> |
| Program Expenses | | | |
| Instruction | 5,805,948 | 6,297,040 | -7.80% |
| Instruction-Related Services | 6,197,598 | 6,987,158 | -11.30% |
| Pupil Services | 1,554,136 | 1,492,236 | 4.15% |
| General Administration | 1,785,155 | 2,040,871 | -12.53% |
| Plant Services | 701,613 | 842,095 | -16.68% |
| Ancillary Services | 822,879 | 1,046,264 | -21.35% |
| Community Services | 662,171 | 731,684 | -9.50% |
| Other Outgo | 6,898,509 | 6,921,479 | -0.33% |
| Interest on long-term debt | 12,273 | 16,058 | -23.57% |
| Total Expenses | <u>24,440,282</u> | <u>26,374,885</u> | <u>-7.34%</u> |
| Net Increase in Net Assets | <u>728,696</u> | <u>691,169</u> | <u>5.43%</u> |
| Beginning Net Assets | <u>9,814,375</u> | <u>9,123,206</u> | <u>7.58%</u> |
| Ending Net Assets | <u>\$ 10,543,071</u> | <u>\$ 9,814,375</u> | <u>7.42%</u> |

TEHAMA COUNTY DEPARTMENT OF EDUCATION
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2009/10 Summary of Revenues for Governmental Functions



2009/10 Summary of Expenses for Governmental Functions



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Governmental Activities

The net cost of all governmental activities this year was \$7,908,603.

Net cost is total cost less fees, charges for services, operating grants, capital grants, and other program contributions generated by the related activity.

**Table 3:
Net Cost of Governmental Activities**

| | Governmental Activities | | Total Percentage Change |
|------------------------------|-------------------------|---------------------|-------------------------------|
| | 2010 | 2009 | 2009/10 |
| Net Cost of Services | | | |
| Instruction | \$ 1,223,225 | \$ 1,309,226 | -6.57% |
| Instruction-Related Services | 1,924,390 | 1,012,733 | 90.02% |
| Pupil Services | 567,890 | 400,275 | 41.87% |
| General Administration | 908,111 | 857,146 | 5.95% |
| Plant Services | 559,095 | 605,507 | -7.66% |
| Ancillary Services | 15,816 | 42,871 | -63.11% |
| Community Services | 4,281 | 4,345 | -1.47% |
| Other Outgo | 2,693,622 | 805,845 | 234.26% |
| Interest on Long-Term Debt | 12,273 | 16,058 | -23.57% |
| Total Net Cost of Services | <u>\$ 7,908,603</u> | <u>\$ 5,054,006</u> | <u>56.48%</u> |

FINANCIAL ANALYSIS OF THE COUNTY DEPARTMENT'S FUNDS

Fund Financial Statements

The fund financial statements provide more detailed information about the County Department's most significant funds – not the County Department as a whole. Funds are accounting devices that the County Department uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Board of Education establishes other funds to control and manage money for particular purposes or to show that the County Department is meeting legal responsibilities for using certain revenues. The County Department has two kinds of funds:

- Governmental funds - Most of the County Department's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County Department's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the government funds statements that explain the relationship (or differences) between them.

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- Fiduciary funds – the County Department is the trustee, or fiduciary, for assets that belong to others; for the County Department, the student body activities fund is an agency fund. The County Department is responsible for ensuring that assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County Department’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the County Department-wide financial statements because the County Department cannot use the assets to finance its operations.

The financial performance of the County Department as a whole is reflected in its governmental funds as well. As the County Department completed the year, its governmental funds reported a combined fund balance of \$8,988,743, an increase of \$140,672 from last year’s ending fund balance of \$8,848,071.

**Table 4:
Fund Comparison**

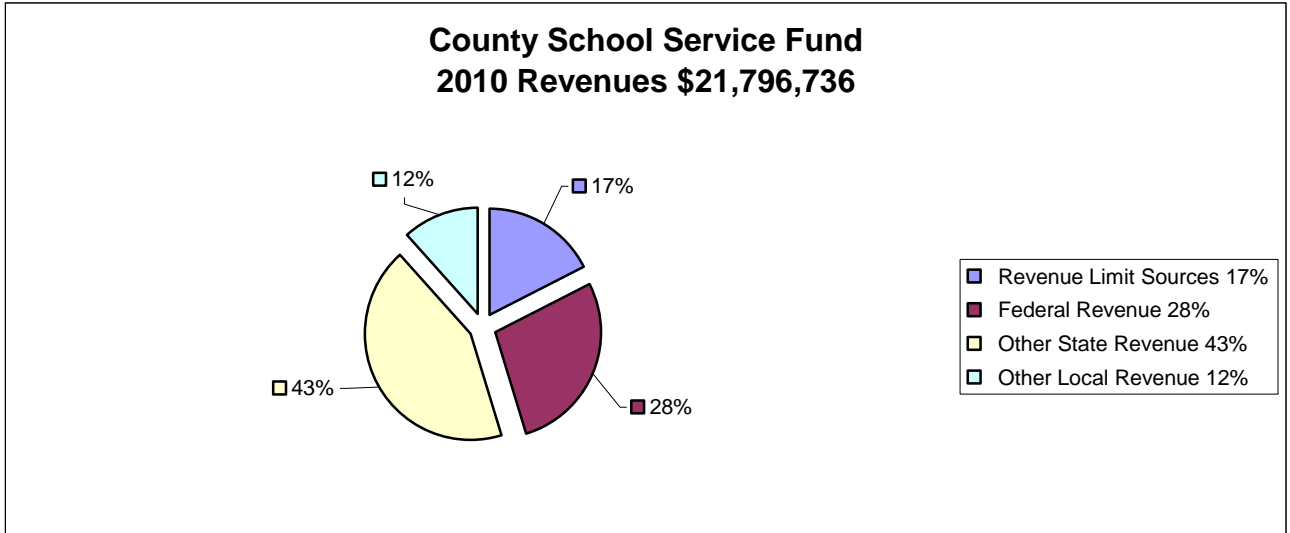
| | Governmental Activities | | Total Percentage Change |
|---|-------------------------|---------------------|-------------------------------|
| | 2010 | 2009 | 2009/10 |
| Funds | | | |
| Governmental: | | | |
| County School Service | \$ 7,434,916 | \$ 7,082,776 | 4.97% |
| Child Development | 204,780 | 247,045 | -17.11% |
| Deferred Maintenance | 497,587 | 672,082 | -25.96% |
| Forest Reserve | 40,063 | 40,868 | -1.97% |
| Special Reserve for Other Than Capital Outlay | 578,627 | 570,297 | 1.46% |
| Special Reserve for Capital Outlay | 232,770 | 235,003 | -0.95% |
| Total Governmental Funds | <u>\$ 8,988,743</u> | <u>\$ 8,848,071</u> | <u>1.59%</u> |

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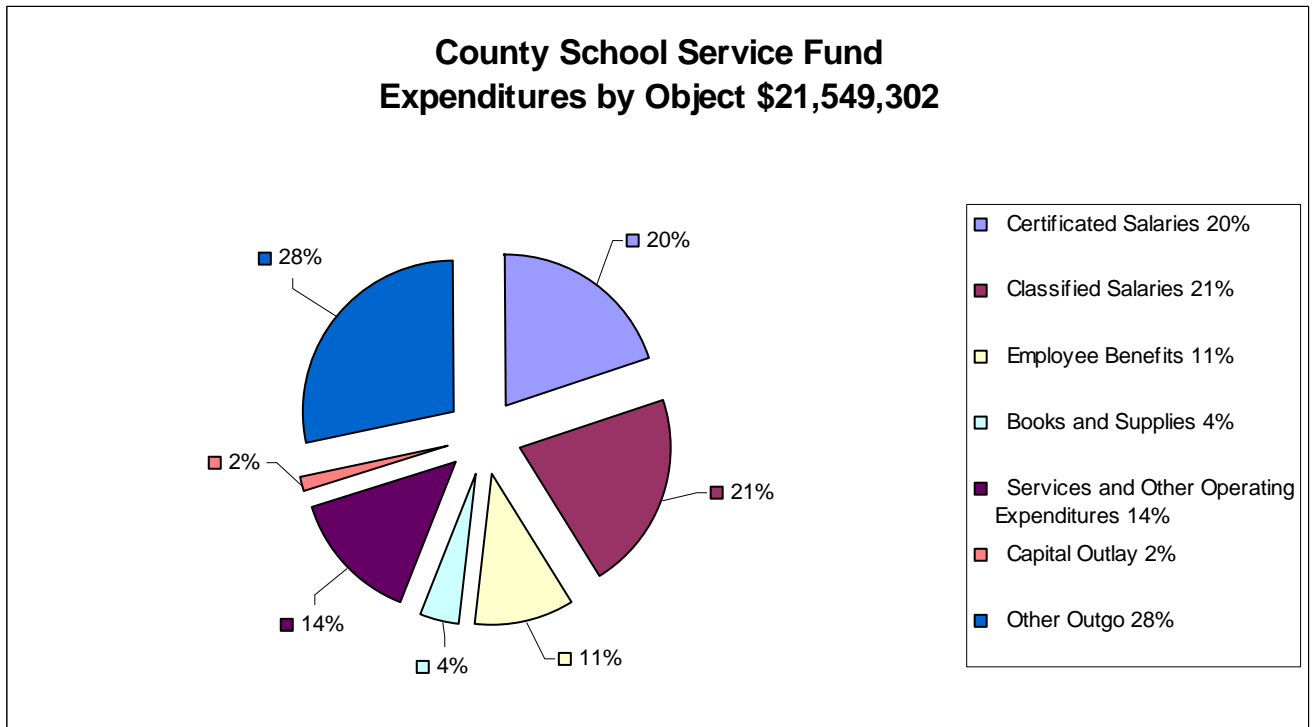
County School Service Fund

The following charts graphically depict revenues and expenditures, both by major object as well as by function.

2009/10 County School Service Fund Revenues

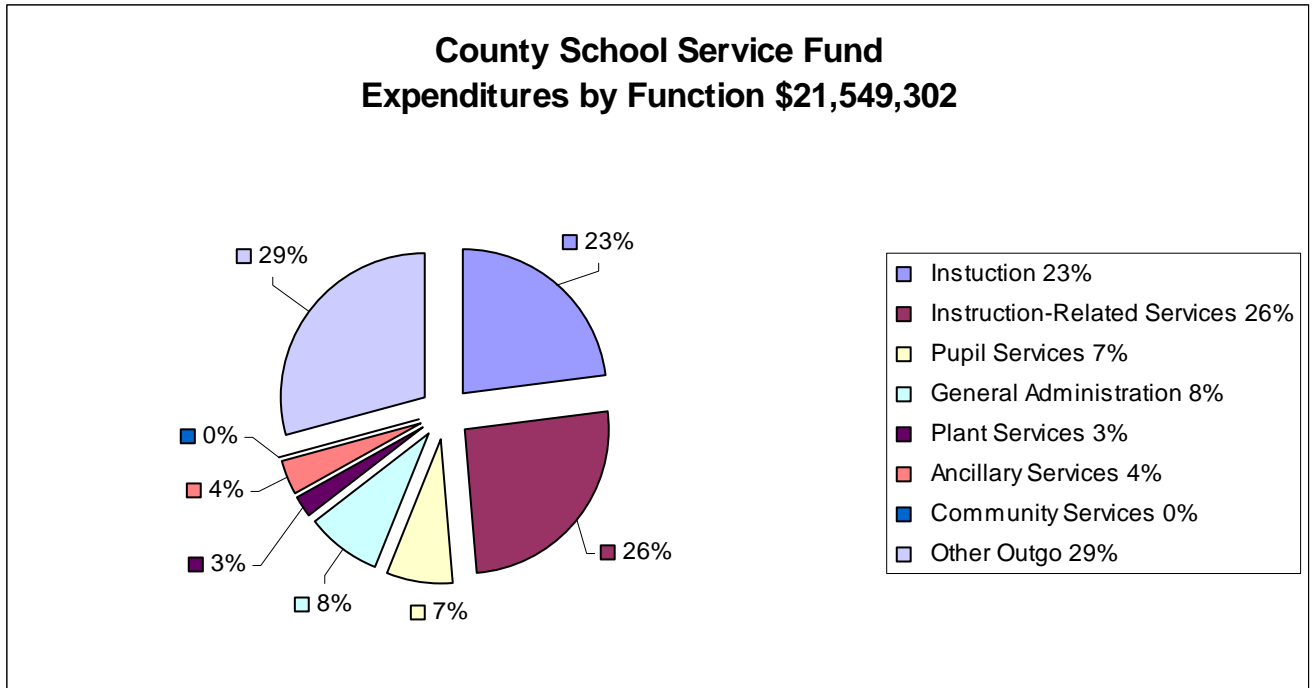


2009/10 County School Service Fund Expenditures by Object



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2009/10 County School Service Fund Expenditures by Function



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the County Department had invested \$2,523,879 in a broad range of capital assets, including land, buildings and improvements, equipment and vehicles. See Table 5. More detailed information about the County Department's capital assets is presented in the notes to the financial statements.

**Table 5
Capital Assets**

| | Governmental Activities | | Total Percentage Change |
|--------------------------------|-------------------------|---------------------|-------------------------------|
| | 2010 | 2009 | 2009/10 |
| Land | \$ 1,000 | \$ 1,000 | 0.00% |
| Construction in Progress | 6,091 | - | 100.00% |
| Land Improvements | 623,917 | 537,709 | 16.03% |
| Buildings | 2,377,120 | 2,182,235 | 8.93% |
| Machinery and Equipment | 1,606,551 | 1,321,304 | 21.59% |
| Total Accumulated Depreciation | (2,090,800) | (1,837,779) | 13.77% |
| Net Capital Assets | <u>\$ 2,523,879</u> | <u>\$ 2,204,469</u> | <u>14.49%</u> |

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Long-Term Debt

At year end, the County Department had \$969,549 in long term debt. Table 6 displays the County Department's long-term debt for the fiscal years 2008/09 and 2009/10.

**Table 6
Long-Term Debt**

| | Governmental Activities | | Total Percentage Change |
|------------------------------|-------------------------|--------------------|-------------------------------|
| | 2010 | 2009 | 2009/10 |
| Capital Lease Payable | \$229,659 | \$352,431 | -37.11% |
| Other General Long-Term Debt | 668,528 | 795,000 | -15.91% |
| Compensated Absences | 79,362 | 90,731 | -12.53% |
| Total Long-Term Debt | \$969,549 | \$1,238,162 | -21.69% |

COUNTY SCHOOL SERVICE FUND BUDGETARY HIGHLIGHTS

The County Department's budget is prepared based on accounting for certain transactions on a basis of each of receipts, disbursements, and encumbrances. The most significant budgeted fund is the County School Service Fund.

During the fiscal year 2009/10, the County Department revised its budget several times. In the County School Service Fund, the actual revenue was \$21,796,736, an increase of \$1,601,482, from the original budget of \$20,195,254.

Total actual expenditures were \$21,549,302, a decrease of \$17,789 from the original budget of \$21,567,091.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time these financial statements were prepared and audited, the County Department was aware of several circumstances that could affect its future financial health:

- The 2010-11 budget originally assumed a 3.85% cut to the undeficitated revenue limit, a negative 0.39% COLA, and a deficit factor in excess of 18%. Since the passage of the State Budget, the negative COLA has been eliminated with a reduction in the deficit factor, and the 3.85% cut has been eliminated. Less than two months after the enactment of the 2010-11 State Budget it is estimated to be almost \$7 billion out of balance. We therefore anticipate mid-year cuts to the 2010-11 year although the magnitude thereof cannot yet be determined.

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- The non-partisan Legislative Analyst's Office estimates the State Budget for 2011-12 is at least \$20 billion out of balance. This structural imbalance is not due to a projected continuing decline of revenues; the imbalance reflects the fact that past budget solutions have relied upon one-time funds, revenue accelerations, and budgetary deferrals. The outlook for education funding therefore remains extremely uncertain for a number of years into the future.
- The State's budgetary deferrals have caused an extreme slow-down in the transfer of cash from the State to the County Department. The State cash crisis prompted the passage of a rolling \$2.5 billion cash flow loan to the State by delaying the payment to educational agencies. All indications are that receivables due the County Department at June 30, 2011 will be approximately one-third of all unrestricted revenues in the county school service (general) fund. The extreme change in cash flows to LEAs since the enactment of the first revenue limit deferral in 2003-04 demands a commensurate increase in reserves to ensure sufficient cash to meet obligations as they come due. This places an extreme pressure on already vastly reduced revenue streams.
- There is extreme uncertainty relative to continued funding for a number of program grants that expire in the 2010-11 fiscal year and the County Department is, therefore, actively seeking alternate funding and investigating alternative delivery models to maximize all resources. The status of child-care and development funding has been particularly uncertain and there are concerns that the cuts to this program area originally proposed for 2011-12 will resurface in some form of budget solution.
- Although most economists agree that the economy is in recovery, there is also general agreement that full recovery will take approximately five years. California public school financing has been dependent on the State general fund since the passage of Proposition 13 and will therefore rise and fall with the state of the State. The State's reliance upon personal income taxes translates into an inverse relationship between public school financing and the unemployment rate in California. As long as unemployment persists at the current record high levels, school financing will continue to suffer.

CONTACTING THE COUNTY DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the County Department's finances and to demonstrate the County Department's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Kate Lane at (530) 527-7307, 1135 Lincoln Street, Red Bluff, CA 96080.