

# CONTROLLER JOHN CHIANG

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PR08:037

FOR IMMEDIATE RELEASE:  
JULY 8, 2008

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## Controller Chiang Releases Annual Schools Financial Report

*Charter Schools Continue to Struggle with Financial Reporting Requirements*

**SACRAMENTO** – State Controller John Chiang today released his *Annual Financial Report of California K-12 Schools*. While most of California’s 977 school districts and 58 county offices of education improved their financial health during the 2006-07 fiscal year, key indicators from the 2007-08 fiscal year point toward future financial difficulties for local education agencies.

“Our schools must make the most of limited financial resources in order to educate our students and operate within their budgets,” Chiang said. “I am pleased to report most schools built reserves by spending less money than they received, but I am concerned many schools and county offices of education will have to take corrective action to meet all of their future financial obligations.”

The Controller’s report findings are based on reviewing local education agency audit reports, financial and statistical data, and tracking financially troubled school districts.

The report contains key findings, including the number of school districts engaged in multi-year deficit spending has decreased from 102 districts in the prior fiscal year to 23 districts in the 2006-07 fiscal year. Although some districts may legitimately need to engage in multi-year deficit spending, this practice often indicates that districts face financial hardships.

School districts must file bi-annual interim reports certifying their financial condition is either positive, qualified (that the district or county office of education may not meet its financial obligations for the current fiscal year or subsequent two fiscal years), or negative (that the district or county office of education will not meet its financial obligations for the current fiscal year or subsequent fiscal year). Districts filing qualified or negative interim reports work with county school superintendents to take corrective action.

Chiang’s report found the number of districts and county offices of education filing negative or qualified certifications increased 400 percent, from 26 in the 2006-2007 fiscal year to 130 in the 2007-2008 fiscal year. Continuing financial difficulties stemming from deficit spending, inadequate reserves, mid-year budget adjustments, declining enrollment and payroll issues may have an impact on educational programs.

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The Controller's Office also certifies independent audit reports submitted by local education agencies for compliance with audit guidelines and notifies the agencies, independent auditors and the Superintendent of Public Instruction when reports are accepted or rejected. Reports are rejected when they lack components and supplemental information required for transparency and accountability in fiscal reporting. In the 2006-07 fiscal year, the number of audit reports rejected jumped from 358 in the prior year to 444. Of the 444 rejected reports, 253 were submitted by charter schools. In addition to submitting the majority of rejected reports, charter schools also comprised all 52 of the local education agencies with low or deficient fund balances at the end of 2006-07.

This report reflects the second year that charter schools were required to comply with some of the same audit guidelines as other local education agencies. The Controller's Office will continue to strive to improve the quality of charter school audit reports by monitoring the reports and educating independent auditors and charter school administrators to ensure the reports accurately portray the financial status of charter schools.

The report also shows lottery revenues to schools decreased from \$1.034 billion in 2005-06 to \$960 million in 2006-07. The allocation of lottery revenues is based on a percentage of lottery sales and distributed to school districts based on average daily attendance. Lottery revenue for 2007-08 is expected to decrease to \$949 million, or approximately \$143 per average daily attendance.

The State Controller conducts annual audits of selected California's K-12 public schools, and has broad authority to oversee state and federal funding in order to promote greater fiscal accountability. The *Annual Financial Report of California K-12 Schools* covers the period of July 1, 2006, through June 30, 2007. The report also includes information from the 2007-2008 Interim Report.

To view the entire [Annual Financial Report of California K-12 Schools](#), please visit the State Controller's Web site at [www.sco.ca.gov](http://www.sco.ca.gov).

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