

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chair Melvin Neufeld at 9:00 a.m. on March 25, 2003, in Room 514-S of the Capitol.

All members were present.

Committee staff present: Melissa Calderwood, Legislative Research
Amy Deckard, Legislative Research
Becky Krahl, Legislative Research
Carolyn Rampey, Legislative Research
Mike Corrigan, Revisor of Statutes
Nikki Feuerborn, Administrative Analyst
Shirley Jepson, Committee Secretary

Conferees appearing before the committee: Derl Treff, Pooled Money Investment Board
Mark Dick, Task Force on School District Budget Uniformity

Others attending: See attached

- Attachment 1 Presentation on the Pooled Money Investment Board by Derl Treff
- Attachment 2 Presentation on School District Budget Uniformity by Mark Dick
- Attachment 3 Amendment to **HB 2456**
- Attachment 4 Amendment to **SB 223**

The Chair recognized Derl Treff, Pooled Money Investment Board, who presented written testimony on the state's investments and cash flow (Attachment 1). Mr. Treff responded to questions from the Committee.

The Chair recognized Mark Dick, member of the School District Budget Task Force, which was created by the Legislative Educational Planning Committee. Mr. Dick presented a report from the Task Force outlining the Task Force's charges, as approved by the Legislative Coordinating Council, and the Task Force's responses and recommendations (Attachment 2). Mr. Dick indicated that most of their recommendations are contained in **SB 83**; or if it did not require legislation, the Department of Education is working to implement these recommendations. The Chair thanked Mr. Dick for his remarks.

HB 2456--Authorizing attorney general to transfer items of appropriation from SGF concerning state water rights.

Carolyn Rampey, Legislative Research Department, explained that because of the uncertainties of how much money the water litigation will cost, the bill will give the attorney general the authorization to move money from the main operating fund into the water litigation fund as needed. At the present time, this transfer must be approved by the Governor.

There were no conferees on **HB 2456**.

Representative Pottorff, Member of the Committee, moved to amend **HB 2456** by adding "The provisions of this section shall not apply to any item of appropriation for the Attorney General for the Kansas Bureau of Investigation" (Attachment 3). The motion was seconded by Representative Shriver. Motion carried.

Representative Pottorff, Member of the Committee, moved to pass out **HB 2456** as amended. The motion was seconded by Representative Ballard. Motion carried

Discussion and action on SB 223--State purchasing procedures; providing review of contracts under the non-competitive bid exceptions; reverse auctioning

Representative Landwehr, moved to amend **SB 223** by inserting on Page 8, Line 28: "Subject to the provisions of K.S.A. 75-3317 through 75-3322..."(Attachment 4). The motion was seconded by Representative Henry. Motion carried

Representative Landwehr, moved to pass out **SB 223** favorably as amended. The motion was seconded by Representative Henry. Motion carried

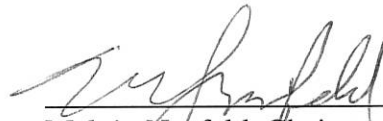
CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS at 9:00 a.m. on March 25, 2003, in
Room 514-S of the Capitol

The Committee requested an interim study on the State Use Law.

The Chair referred **HB 2445** to Agriculture & Nat'l Resources Budget Committee.

The meeting was adjourned at 10:20 a.m. The next meeting will be March 26, 2003, on first recess of the House.



Melvin Neufeld, Chair



KANSAS

POOLED MONEY INVESTMENT BOARD
DERL S. TREFF, DIRECTOR OF INVESTMENTS

KATHLEEN SEBELIUS, GOVERNOR

TESTIMONY REGARDING THE POOLED MONEY INVESTMENT BOARD

Derl S. Treff
Director of Investments
Pooled Money Investment Board
March 25, 2003

The Honorable Melvin Neufeld
House Committee on Appropriations
Statehouse, Room 517-S
Topeka, Kansas 66612

Representative Neufeld and Members of the Committee:

WHAT IS THE PMIB?

The Pooled Money Investment Board (PMIB) is the state entity responsible (authorized by State Moneys Law, K.S.A. 75-4201 *et seq.*) for managing the large pool of cash in the State General Fund and hundreds of other state funds. State Idle Funds invested at fiscal year 2002 year-end totaled \$1.021 billion. The PMIB also had \$442 million of Municipal Investment Pool deposits invested. The board's responsibilities include the active management and administration of this pool. The PMIB is also portfolio manager for the Health Care Stabilization Fund (\$204 million) and provides investment advice to the Kansas Department of Transportation on their portfolio (\$808 million at fiscal year 2002 year-end). The board also has the responsibility of approving financial depositories for state and special monies maintained and managed in demand deposit and interest-bearing accounts by many state agencies, such as Regents' institutions.

The goal of this board is to earn a market rate of return on investments, while keeping safety and liquidity as foremost objectives.

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HOUSE APPROPRIATIONS

DATE 3-25-2003
ATTACHMENT 1

HIGHLIGHTS FOR FY 2002

- Earned \$35 million of investment income on State Idle Funds.
- High-grade commercial paper, which the legislature approved as an investment alternative in June 1996, has added over \$7.1 million to investment earnings through FY 02.
- Continues to offer funds to Kansas Banks at various maturities thereby keeping funds invested locally. Currently \$101 million.
- Agency actual revenues exceeded operating expenditures by \$.5 million.
- Portfolio loss of \$21.6 million incurred in FY 95 has been reduced to \$6.7 million at June 30, 2002. (Currently down to \$5.5 million)

HISTORICAL PERSPECTIVE

(\$ in millions)

	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03 thru Feb.</u>
Average Idle Funds Invested	\$ 1.320	\$ 1.107	\$ 0.937	\$ 0.770
State General Fund (Balance at year-end)	\$ 378.0	\$ 365.1	\$ 12.1	\$ 136.2 *
Earnings Rate (Annual)	5.71%	5.96%	2.75%	1.76%

*State General Fund Balance	136.2
Certificate of Indebtedness	(450.0)
Other Agency Funds	<u>1185.6</u>
Total State Cash	<u>871.8</u>

PORTFOLIO BREAKDOWN ON 2/28/03

Repurchase Agreements	50.2%
Commercial Paper (High-grade)	23.5%
Government Agency Securities	19.1%
Kansas Bank Certificates of Deposit	<u>7.2%</u>
	100.0%

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February 17, 2003

To: Legislative Educational Planning Committee
From: School District Budget Task Force
Re: Final Report

The School District Budget Task Force was created by the Legislative Educational Planning Committee (LEPC), subject to the approval of the Legislative Coordinating Council (LCC), and directed to report its recommendations and findings to the LEPC by March 15, 2003. Among its charges was monitoring the implementation of an audit by the Legislative Division of Post Audit of school districts budgets that was completed in March of 2002.

The Task Force consists of representatives of small, medium, and large school districts, the Legislative Division of Post Audit, and the State Department of Education. Small, medium, and large school districts each are represented by two school district employees and one certified public accountant. School district representatives were appointed by the Chair of the LEPC, Representative Jo Ann Pottorff, who designated Dale Dennis, Deputy Commissioner of the State Department of Education, as Chair. Members of the Task Force are listed below:

School Districts Under 2,000 Enrollment

Jerry Cullen, Superintendent, USD 220 (Ashland)
John Severin, Superintendent, USD 415 (Hiawatha)
G. L. VonFeldt, Certified Public Accountant (Larned)

School Districts Between 2,000 and 10,000 Enrollment

Mike Soetaert, Director of Business and Facilities, USD 305 (Salina)
Dr. Sharon Zoellner, Deputy Superintendent, USD 232 (De Soto)
Scot Loyd, Certified Public Accountant (McPherson)

School Districts Over 10,000 Enrollment

Linda Jones, Financial Officer, USD 259 (Wichita)
Gary Diener, Director of Business and Finance, USD 233 (Olathe)
Mark Dick, Certified Public Accountant (Wichita)

HOUSE APPROPRIATIONS

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ATTACHMENT 2

Representative of the Legislative Division of Post Audit

Barb Hinton, Legislative Post Auditor

Representative of the State Department of Education

Dale Dennis, Deputy Commissioner

The Task Force held all-day meetings in Topeka on December 5 and January 3. The Task Force was staffed by the State Department of Education, the Legislative Research Department, and the Office of Revisor of Statutes. Senator-Designate Bill Bunten appeared as a conferee at the meeting on January 3.

The material that follows lists each of the Task Force's charges, as approved by the LCC, and the Task Force's responses and recommendations.

A. LCC Charge to the Task Force. *Monitor implementation of the Legislative Post Audit Committee recommendations contained in the March 2002 audit entitled "School District Budgets: Determining Ways to Structure the Budget Document to Make it Understandable and Allow for Meaningful Comparisons."*

1. Legislative Post Audit Recommendation. In order to ensure that Kansas data submitted to the National Center for Education Statistics are inclusive and are comparable to data submitted by other states, the State Department of Education should collect and report federal entitlement grants, other grants, miscellaneous income, and other moneys not currently reported on the school district budget that is submitted to the state.

● **Task Force Response.** The following recommendations pertain to how funds are reported:

a. Effective with the 2002-03 school year, the State Department of Education began requiring school districts to report actual and budgeted expenditures and revenues for all federal funds, private grants, district activity funds, and gifts (excluding scholarships). The Task Force recommends that actual and budgeted revenues and expenditures be reported again in 2003-04, and at the end of that time a decision should be made as to whether reports of budgeted revenues and expenditures should be continued, based on the quality and usefulness of the information.

b. Support the introduction of legislation to allow school districts to budget carry-forward funds in all funds, except the general and supplemental general state aid funds. Currently, districts have to show all money as a planned expenditure, even if they know that they will not spend all of it. Allowing districts to budget money that is expected to be carried

forward would give a more realistic picture of how the district actually plans to operate.

- c. Support the introduction of legislation to create a separate fund for the purpose of budgeting revenues received from Social and Rehabilitation institutions as payment for educational services provided students in the custody of the Department of Social and Rehabilitation Services. The recommendation would affect only a few school districts (perhaps just four), but it would make the budgets for those districts easier to understand.
 - d. Support the introduction of legislation to combine the following funds:
 - Make the transportation fund part of the school district general fund. Leave the bilingual and vocational education funds separate, as they currently are, in order to make it possible to easily track expenditures. (The technology education fund can be eliminated because it was created for an aid program that no longer is funded.)
 - Combine the judgements and special liability expense funds into one special judgements and special liabilities fund.
 - Combine the disability income benefits reserve, the health care services reserve, the group life insurance reserve, the risk management reserve, and workers' compensation reserve funds into one special reserve fund. (Only school districts that self-insure have these funds.)
 - Combine the student materials revolving and textbook rental funds into one special textbook/student materials revolving fund.
2. Legislative Post Audit Recommendation. To ensure that school district budget documents include complete and comparable information, the State Department should develop uniform definitions and guidelines for counting student populations that currently are not being reported in budget documents, such as pre-kindergarten, adults, and postsecondary area vocational-technical students.
- **Task Force Response.** Currently, for purposes of federal reporting, pre-kindergarten and kindergarten children are counted on the basis of headcount. Federal reporting for adults or postsecondary students is done by the State Board of Regents. Reporting for elementary-secondary students on the basis of full-time equivalency is done in accordance with statutory definitions for purposes of state aid. The concern addressed by the post auditors is that the K-12 enrollment figures in school district budgets don't include all students who may be enrolled in district programs, including pre-kindergarten, adult education, and postsecondary vocational education students. However, the costs for these students are

included in districts' actual and budgeted expenditures. As a result, per-pupil costs within a district can be overstated, and per-pupil cost comparisons between districts are not uniform or meaningful.

The Task Force recommends that the district profile (discussed later in this report) should contain information on expenditures per pupil that includes previously-unreported pre-kindergarten students and counts all-day kindergarten students as 1.0 FTE pupil. In addition, the Task Force recommends that the separate per-pupil expenditure information shown in the district profile would be based only on the costs and enrollment counts associated with students in pre-kindergarten through grade 12. (In other words, the per-pupil cost computation would exclude expenditures and enrollment counts for area vocational technical schools, *special education cooperatives*, and adult basic and adult supplemental education.) Under this approach, the per-pupil expenditure information in the district profile will be more meaningful and accurate within the district, and more comparable across districts.

3. Legislative Post Audit Recommendation. The State Department should develop uniform definitions and guidelines for compiling and reporting the number and type of positions funded within each of the major functional categories, such as instruction, student support, district administration.
- **Task Force Response.** In response to the post audit, the State Department requires that, effective with the 2002-03 budget, for each line item in the budget that contains information about salaries and wages, a corresponding number of positions be reported. Task Force members discussed difficulties associated with this requirement, such as how to account for substitute teachers and how to prorate positions among various functional categories, such as the administrator who also teaches a class. The present requirement is further complicated because of the number of funds involved and the difficulty in prorating positions among various funding sources. It was noted that the main problem is not whether districts report the information, but the fact that they all do it differently and there is no comparability among budgets.

The recommendation of the Task Force is that the districts provide a separate table breaking out salary and wage expenditures for all district personnel into four categories: administrator (certified and non-certified, such as business managers and directors of transportation); teachers and other certified employees (such as librarians and counselors); classified employees (such as clerical staff, food service workers, custodians, and bus drivers); and substitutes and other temporary help. For the first three categories, districts will report total expenditures, FTE positions, and average salaries (FTE positions divided by reported expenditures). For the last category, districts will report total expenditures only.

4. Legislative Post Audit Recommendation. The State Department should work with school districts to identify areas that need clarification in the Accounting Handbook and train school district officials about any changes.
 - **Task Force Response.** The State Department revised its Accounting Handbook in the spring of 2002 and presented the revised guidelines at school district budget workshops in June of 2002. The Task Force considers that this recommendation has been implemented.

 5. Legislative Post Audit Recommendation. The State Department should consider expanding its audit program for school districts to include some testing to ensure that expenditures are being appropriately classified according to the Accounting Handbook.
 - **Task Force Response.** The Task Force agrees with this recommendation on its merits, but feels the addition of more State Department staff to implement the recommendation when state agency operating budgets are being cut is not feasible at this time. The Task Force notes that part of the job of CPAs who audit school districts is to test samples of expenditures for compliance with proper reporting guidelines.

 6. Legislative Post Audit Recommendation. The State Department should contact the two school districts cited in the audit as having carryforward balances in their federal Food Service Funds that are in excess of federal guidelines to ensure that the balances are brought to acceptable levels.
 - **Task Force Response.** The Task Force considers that this recommendation has been implemented by virtue of the fact that the State Department sent a letter to all districts asking them to comply with federal regulations and developed a more detailed reporting form to assist in meeting this requirement. Those school districts cited in the audit have submitted documentation that they have complied.
- B. LCC Charge to the Task Force. *Ensure that all material funds under the control of a school district be included within its budget document.*
- **Task Force Response.** This charge has been addressed in the response to the post audit recommendations discussed above.
- C. LCC Charge to the Task Force. *Evaluate the new school district profile information generated through software recently provided to school districts by the State Department of Education to determine if improvements in the profile information are needed.*

- **Task Force Response.** Because the profile is automatically generated when school district budgets are printed, changes made in the school district budget would affect the profile. Recommendations that specifically pertain to the profile format are as follows:
 - a. Make all graphs “0 based” so that proportions of changes from year to year are not distorted. Task Force members observe that if a graph is not scaled correctly, a slight change from one year to the next could appear much larger when visually displayed.
 - b. Each page of the profile should contain an optional “comment” box for use by the district to explain any anomaly in the data or to add further explanation. Use of the comment section would be optional and the box would not print out unless there was a comment in it.
 - c. To further illuminate school district expenditures and put them in a context that is relatively easy to understand, a graph should be added to the profile that shows the three or four major areas of expenditure as a percentage of total expenditures.
 - d. Expenditures for disability income benefits, health care services, group life insurance, school workers’ compensation, and risk management reserve funds should be shown as an expenditure at the time money is transferred from the general or supplemental general funds, not at the time it is spent from the respective self-insurance fund. The reason for this recommendation is to make it easier for school district officials to keep track of the purpose of the transfer.
 - e. Listed under the total expenditures graph is a category of “other-costs.” Currently, this includes capital outlay and bond and interest costs. The Task Force recommends that capital outlay expenses and bond and interest costs be placed in separate lines.
 - f. The Task Force suggests other technical and clarifying changes to make the profile more useful.

- D. LCC Charge to the Task Force. *Examine the alternative methodologies (federal and state) used in computing student enrollment to determine if they create confusion in presenting and understanding school district information, and if so, how this issue might be resolved.*
 - **Task Force Response.** This charge has been addressed in the response to the post audit recommendations discussed above.

- E. LCC Charge to the Task Force. Determine the extent to which school districts are implementing uniformly the State Department of Education's “Accounting Handbook.”

- **Task Force Response.** The State Department should continue to promote use of the handbook at its budget workshops. In addition, the handbook and the importance of uniform reporting will be discussed by certified public accountants at their spring meetings and by school business officials at their annual meetings.

F. LCC Charge to the Task Force. Determine whether building level budget data can be incorporated into the school district budget profile information, either completely or partially, in a way that is meaningful but which is not unduly burdensome.

- **Task Force Response.** The Task Force considered carefully the matter of building-based budgeting and received testimony from Senator-Designate Bill Bunten on the topic. The Task Force finds that building-based budgeting has limited merit and that the costs of implementing such a reporting system would outweigh its benefits. In the Task Force's view, site-based budgeting is fraught with technical problems and is of little value even if the technical difficulties could be overcome. Examples include:
 - Much information, such as salaries, which constitute more than 80 percent of school district budgets, is set at the district level, and is meaningless as a building comparison;
 - Many programs, such as food service and transportation, are managed at the district, not the building, level;
 - Some costs, such as maintenance, are allocated on the basis of cost-per-unit and would be the same for each building; and
 - Many variations in costs among schools may be the result of things the schools cannot control, such as the age of buildings or the number of special education students.

Other technical problems involve how to allocate special education costs when expenditures in a given building may involve students and teachers from other schools in the district and even from other districts. The situation is further complicated by the fact that so many special education services are provided by cooperative arrangements.

However, the primary reason the Task Force does not recommend building-based budgeting is that the Task Force questions the inherent value of providing school building information in school budgets. Task Force members agreed that school building information could be useful for local management purposes. Of far greater value for district budgets, in the Task Force's opinion, is programmatic information about how well students are doing and what services need to be provided. In this context, other kinds of building-based information can be meaningful and can help local boards of education identify problem areas in their districts, provide

a basis upon which to allocate resources, and generally enhance the decision-making process. The Task Force considers information such as the number of disadvantaged students, student performance on state assessments, qualifications of teachers (based on the number who have emergency or provisional status), and attendance, graduation, and dropout rates much more meaningful information than, say, the fact that a given building has higher teacher salaries because the teachers have longer teaching experience.

Building-based information the Task Force considers relevant already is being collected in several reports prepared by the State Department of Education. From these reports, information can be obtained about student attendance and enrollment, staff information and salaries of school personnel, graduation and dropout rates, student performance on state assessments, and reports of crime and violence on a building, district, and state total basis. Because people may not know about the information or how to access it, the Task Force recommends that website information about these sources be listed in the district profile so that board members and patrons will know where to look to find pertinent information about each school in the district. (Copies of these documents are attachments to this report.)

Finally, the Task Force observes that local boards of education spend considerable time reviewing information about school district expenditures, often in great detail. The Task Force considers such a review the prerogative of local boards of education, whose charge to manage the school district is derived from the *Kansas Constitution*.

G. LCC Charge to the Task Force. Estimate the costs of implementing the new budget format information.

- **Task Force Response.** The Task Force estimates that building-based budgeting would cost approximately \$5.0 million to implement, with costs likely being less in many districts after the first year. This figure is based on estimates made by individual Task Force members for computer and staffing expenses in their districts. Once the average per-pupil cost for school districts represented by members of the Task Force was determined, that figure was applied state-wide to get the total. Costs for the districts represented by members of the Task Force ranged from \$1,000 for USD 220 (Ashland), which has approximately 150 students, to \$400,000 for USD 259 (Wichita), which has approximately 49,000 students.

Summary of Distinguished Budget Presentation Awards Program Government Finance Officers Association

Awards Criteria

** Note: Mandatory Criteria must be satisfied for applicant to receive award **

A. POLICY DOCUMENT

Mandatory:

The document shall include a budget message that articulates priorities and issues for the budget for the new year. The message should describe significant changes in priorities from the current year and explain the factors that led to those changes. The message may take one of several forms (e.g., transmittal letter, budget summary section).

B. FINANCIAL PLAN

Mandatory:

- 1) The document shall present a summary of major revenues and expenditures, as well as other financing sources and uses, to provide an overview of the total resources budgeted by the organization.
- 2) The document shall include summaries of revenues, and other resources, and of expenditures for prior year actual, current year budget and/or estimated current year actual, and proposed budget year.
- 3) The document shall describe major revenue sources, explain the underlying assumptions for the revenue estimates and discuss significant revenue trends.
- 4) The document shall include projected changes in fund balances, as defined by the entity in the document, for governmental funds included in the budget presentation, including all balances potentially available for appropriation.
- 5) The document shall include financial data on current debt obligations, describe the relationship between current debt levels and legal debt limits, and explain the effects of existing debt levels on current and future operations.
- 6) The document shall explain the basis of budgeting for all funds, whether GAAP, cash, modified accrual, or some other statutory basis.

C. OPERATIONS GUIDE

Mandatory:

- 1) The document shall describe activities, services or functions carried out by organizational units.
- 2) The document shall include an organization chart(s) for the entire organization.
- 3) A schedule(s) or summary table(s) of personnel or position counts for prior, current and budgeted years shall be provided, including descriptions of significant changes in levels of staffing or reorganizations planned for the budget year.

D. COMMUNICATION DEVICE

Mandatory:

- 1) The document shall describe the process for preparing, reviewing and adopting the budget for the coming fiscal year. It should also describe the procedures for amending the budget after adoption. If a separate capital budget process is used, a description of the process and its relationship to the operating budget should be provided.
- 2) Charts and graphs shall be used, where appropriate, to highlight financial and statistical information. Narrative interpretation should be provided when the messages conveyed by the graphs are not self-evident.
- 3) The document shall include a table of contents to make it easy to locate information in the document.

Kansas Legislative Research Department

March 25, 2003

To: Representative Pottorff

From: Carolyn Rampey

Re: HB 2456

Jim Wilson believes the following amendment to HB 2456 would make it clear that flexibility among State General Fund accounts for purposes of funding water litigation applies to accounts within the Attorney General's Office budget and does not include the budget of the Kansas Bureau of Investigation, which is under the jurisdiction of the Attorney General:

"The provisions of this section shall not apply to any item of appropriation for the Attorney General for the Kansas Bureau of Investigation."

HOUSE APPROPRIATIONS

DATE 3-25-2003
ATTACHMENT 3

Coalition for Opportunity

Testimony of Alan Cobb On behalf of the Coalition for Opportunity Regarding SB 223

March 21, 2002

Mr. Chairman, and members of the Committee,

I am Alan Cobb, representing the Coalition for Opportunity, a group of Kansas manufacturers employing more than 400 people who are blind and disabled.

It has long been the state policy to have state government agencies, state universities and school districts purchase the products manufactured by the disabled citizens of Kansas. The State Use Law can be found at K.S.A. 75-3317 through 75-3322.

The products manufactured are available for review in a catalog printed annually, listing all product details and prices.

We do not object to the provisions of SB 223.

We do believe that it is appropriate to review the State Use law. It has been some time since there has been a full review of the policy, law and the method of applying the State Use statutes. However, in the mean time, in order to simply clarify, we suggest that following language be added to this bill at the appropriate place that gives assurances the Kansas Use Law will be applied.

“Subject to the provisions of K.S.A. 75-3317 through 75—3322 . . .”

It is our concern that while nothing in this bill exempts any actions from the State Use law, the bill will make it easier for state agencies, state universities and school districts to overlook the current requirements of the State Use Law.

I appreciate this opportunity to address you and I am happy to stand for questions.

Envision
KETCH
Cartridge King of Kansas
McPherson Industries
Flint Hills Services
Center Industries Corporation
TECH
OCCK
Community Cartridges

HOUSE APPROPRIATIONS

DATE 3-25-2003
ATTACHMENT 4