

# FCMAT

FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

## Fiscal Health Risk Analysis

June 4, 2020



## East Side Union High School District

Michael H. Fine  
Chief Executive Officer

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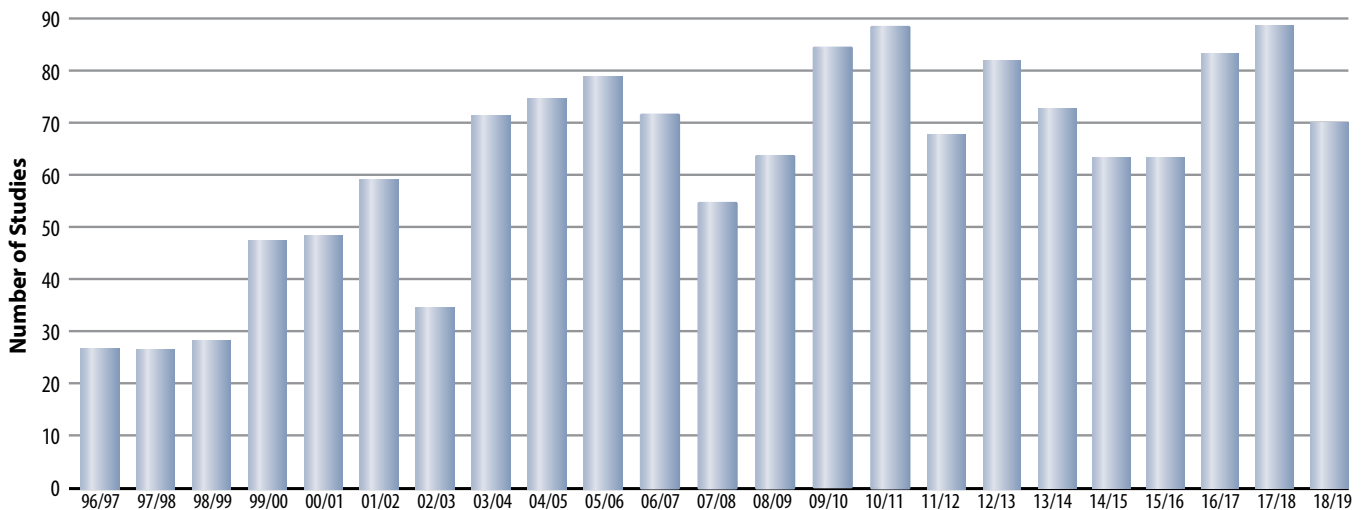
# About FCMAT

FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT’s fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT’s data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the LEA to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

### Studies by Fiscal Year



FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms. FCMAT also develops and provides numerous publications, software tools, workshops and professional learning opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website ([www.ed-data.org](http://www.ed-data.org)) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS’ mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, Senate Bill 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

On September 17, 2018 AB 1840 was signed into law. This legislation changed the how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

# Introduction

## Background

Historically, FCMAT has not engaged directly with school districts showing distress until it has been invited to do so by the district or the county superintendent. The state's 2018-19 Budget Act provides for FCMAT to offer more proactive and preventive services to fiscally distressed school districts by automatically engaging with a district under the following conditions:

- Disapproved budget
- Negative interim report certification
- Three consecutive qualified interim report certifications
- Downgrade of an interim certification by the county superintendent
- "Lack of going concern" designation

Under these conditions, FCMAT will perform a fiscal health risk analysis to determine the level of risk for insolvency. FCMAT has updated its Fiscal Health Risk Analysis (FHRA) tool that weights each question based on high, medium and low risk. The analysis will not be performed more than once in a 12-month period per district, and the engagement will be coordinated with the county superintendent and build on their oversight process and activities already in place per Assembly Bill (AB) 1200. There is no cost to the county superintendent or to the district for the analysis.

This fiscal health risk analysis is being conducted because the East Side Union High School District had the following condition, under which an analysis is required by the 2018-19 State Budget Act.

- Downgrade of an interim certification by the county superintendent

The East Side Union High School District is located in Santa Clara County and provides educational services to students in grades 9-12 as well as adults. The district has the fourth largest high school student enrollment in the state and the largest in northern California.

The district projects a general fund budget of \$297 million and capital project fund budgets totaling \$76 million per the second interim report for the 2019-20 fiscal year. The district serves more than 26,000 students and operates 28 schools, including 11 comprehensive high schools, five alternative education schools and 12 charter schools. Fifty-two percent of the district's students are identified as targeted pupils: those classified as English learners (EL), meet income requirements to receive a free or reduced-price meal (FRPM), foster youth, or any combination of these factors (unduplicated count).

The district's governing board is composed of five trustees, two of whom have terms that expire this year and three who have terms that expire in 2022.

The district has been deficit spending for two of the past three years, and deficit spending is projected for the current year. The reserves projected for the 2021-22 fiscal year (as of the 2019-20 second interim report) are within 0.07% of the minimum reserve, at 3.07%. This reserve percentage was projected factoring in spending reductions of \$14 million, which were subsequently rescinded by the governing board. The district's ability to maintain statutory minimum reserves for the 2020-21 fiscal year remains uncertain.

FCMAT performed a fiscal health risk analysis to determine the district's level of risk for insolvency.

## Fiscal Health Risk Analysis Guidelines

FCMAT entered into a study agreement with the East Side Union High School District on April 9, 2020, and a study team worked with district employees online from April 27 through May 6, 2020 to conduct interviews, collect data and review documents. Following fieldwork, the study team continued to review and analyze documents. This report is the result of those activities.

FCMAT's reports focus on systems and processes that may need improvement. Those that may be functioning well are generally not commented on in FCMAT's reports. In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

## Study Team

The team was composed of the following members:

Tami Ethier

FCMAT Intervention Specialist

Andrea Dodson

FCMAT Intervention Specialist

Robbie Montalbano

FCMAT Intervention Specialist

Debbie Riedmiller

FCMAT Intervention Specialist

John Lotze

FCMAT Technical Writer

Each team member reviewed the draft report to confirm its accuracy and to achieve consensus on the analysis.

# Fiscal Health Risk Analysis For K-12 School Districts



FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

Dates of fieldwork: April 27 – May 6, 2020

District: East Side Union High School District

## Summary

The East Side Union High School District’s governing board and administration have been discussing budget reductions for the past three years. In the current fiscal year, the district’s administration followed the same practice as most other districts in the state that have a structural deficit by preparing reductions in expenditures to balance the budget, using appropriate and accurate assumptions. The board of trustees approved a resolution in February 2020 that included the needed cuts to the budget for 2020-21. On March 5, 2020, the resolution was amended but ultimately approved. These reductions were included in the district’s second interim financial report, which projected that the district would narrowly meet the minimum statutory reserve in the third year of the multiyear projection. The board rescinded the reductions on March 11, 2020, eliminating the plans prepared by the administration and leaving the district in a precarious fiscal situation. These actions and calculations took place before the COVID-19 pandemic and related economic impacts, which now threaten the fiscal solvency of districts across the state.

As part of this review, FCMAT has identified the main areas of concern to be governance, position control, deficit spending, declining enrollment, and general fund reserves. The board’s decision to rescind the reductions on March 11, 2020 is a detriment to the district’s fiscal health and solvency. The governing board is ultimately responsible for the district’s budget. The district’s administration has the responsibility of presenting sound financial information based on current and accurate assumptions so the board can make informed decisions. Development of trust and cooperation will be critical in the upcoming months and years for the district to sustain quality educational services and remain fiscally solvent.

## District Fiscal Solvency Risk Level: High

## About the Analysis

The Fiscal Crisis and Management Assistance Team (FCMAT) has developed the Fiscal Health Risk Analysis (FHRA) as a tool to help evaluate a school district’s fiscal health and risk of insolvency in the current and two subsequent fiscal years.

The FHRA includes 20 sections, each of which contains specific questions. Each section and specific question is included based on FCMAT’s work since the inception of AB 1200; they are the common indicators of risk or potential insolvency for districts that have neared insolvency and needed assistance from outside agencies. Each section of this analysis is critical, and lack of attention to these critical areas will eventually lead to a district’s failure. The analysis focuses on essential functions and processes to determine the level of risk at the time of assessment.

The greater the number of “no” answers to the questions in the analysis, the greater the potential risk of insolvency or fiscal issues for the district. Not all sections in the analysis and not all questions within each section carry equal weight; some areas carry higher risk and thus count more heavily in calculating a district’s fiscal stability. To help the district, narratives are included for responses that are marked as a “no” so the district can better understand the reason for the response and actions that may be needed to obtain a “yes” answer.

Identifying issues early is the key to maintaining fiscal health. Diligent planning will enable a district to better understand its financial objectives and strategies to sustain a high level of fiscal efficiency and overall solvency. A district should consider completing the FHRA annually to assess its own fiscal health risk and progress over time.

## Areas of High Risk

The sections on the next two pages duplicate certain questions and answers given in the Fiscal Health Risk Analysis Questions section later in this document and identify conditions that create significant risk of fiscal insolvency. The existence of an identified budget or fiscal status or a material weakness indicated by a “no” answer to any of these items supersedes all other scoring and will elevate the district’s overall risk level.



<b>Budget and Fiscal Status: Is the district currently <i>without</i> the following?:</b>	<b>Yes</b>	<b>No</b>
Disapproved budget . . . . .	✓	<input type="checkbox"/>
Negative interim report certification . . . . .	✓	<input type="checkbox"/>
Three consecutive qualified interim report certifications . . . . .	✓	<input type="checkbox"/>
Downgrade of an interim certification by the county superintendent . . . . .	<input type="checkbox"/>	✓
“Lack of going concern” designation . . . . .	✓	<input type="checkbox"/>

<b>Material Weakness Questions</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
2.5 Has the district’s budget been approved unconditionally by its county office of education in the current and two prior fiscal years? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
3.4 Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs in accordance with Education Code Section 42142? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
3.6 Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the most recent and two prior fiscal years? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>See the narrative in Section 3.</i>			
4.3 Does the district forecast its general fund cash flow for the current and subsequent year and update it as needed to ensure cash flow needs are known? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>See the narrative in Section 4.</i>			
4.4 If the district’s cash flow forecast shows insufficient cash in its general fund to support its current and projected obligations, does the district have a reasonable plan to address its cash flow needs for the current and subsequent year? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓
5.2 If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including formal communication to the charter, such as notices of violation? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓
5.3 Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.3 Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.4 Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increase), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
7.2 If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
8.3 If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending to ensure fiscal solvency? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>See the narrative in Section 8.</i>			
10.6 Are the district’s enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>

- 11.2 Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects? . . . . . ✓
- 12.1 Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including Fund 01 and Fund 17) as defined by criteria and standards? . . . . . ✓
- 12.2 Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years?. . . . .  ✓   
*See the narrative in Section 12.*
- 12.3 If the district is not able to maintain the minimum reserve for economic uncertainty, does the district’s multiyear financial projection include a board-approved plan to restore the reserve? . . . . .  ✓   
*See the narrative in Section 12.*
- 19.1 Does the district account for all positions and costs? . . . . . ✓

## Score Breakdown by Section

Because the score is not calculated by category, category values provided are subject to minor rounding error and are provided for information only.

1.	Annual Independent Audit Report	0.0%
2.	Budget Development and Adoption	1.8%
3.	Budget Monitoring and Updates	1.0%
4.	Cash Management	2.2%
5.	Charter Schools	0.0%
6.	Collective Bargaining Agreements	1.0%
7.	Contributions and Transfers	2.0%
8.	Deficit Spending (Unrestricted General Fund)	3.5%
9.	Employee Benefits	0.6%
10.	Enrollment and Attendance	3.1%
11.	Facilities	0.1%
12.	Fund Balance and Reserve for Economic Uncertainty	2.9%
13.	General Fund - Current Year	3.1%
14.	Information Systems and Data Management	1.2%
15.	Internal Controls and Fraud Prevention	1.0%
16.	Leadership and Stability	2.0%
17.	Multiyear Projections	1.0%
18.	Non-Voter-Approved Debt and Risk Management	1.6%
19.	Position Control	3.5%
20.	Special Education	0.4%
<b>Score</b>		<b>31.8%</b>

# Fiscal Health Risk Analysis Questions

<b>Budget and Fiscal Status: Is the district currently <i>without</i> the following?:</b>	<b>Yes</b>	<b>No</b>
Disapproved budget . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Negative interim report certification . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Three consecutive qualified interim report certifications . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Downgrade of an interim certification by the county superintendent . . . . .	<input type="checkbox"/>	<input checked="" type="checkbox"/>
“Lack of going concern” designation . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>

<b>1. Annual Independent Audit Report</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
1.1 Has the district corrected the most recent and prior two years’ audit findings without affecting its fiscal health? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.2 Has the audit report for the most recent fiscal year been completed and presented to the board within the statutory timeline? (Extensions of the timeline granted by the State Controller’s Office should be explained.) . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.3 Were the district’s most recent and prior two audit reports free of findings of material weaknesses? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.4 Has the district corrected all reported audit findings from the most recent and prior two audits? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<b>2. Budget Development and Adoption</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
2.1 Does the district develop and use written budget assumptions and multiyear projections that are reasonable, are aligned with the county office of education instructions, and have been clearly articulated? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.2 Does the district use a budget development method other than a prior-year rollover budget, and, if so, does that method include tasks such as review of prior year estimated actuals by major object code and removal of one-time revenues and expenses? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.3 Does the district use position control data for budget development? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.4 Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.5 Has the district’s budget been approved unconditionally by its county office of education in the current and two prior fiscal years? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.6 Does the budget development process include input from staff, administrators, the governing board, the community, and the budget advisory committee (if there is one)? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.7 Does the district budget and expend restricted funds before unrestricted funds? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.8 Have the Local Control and Accountability Plan (LCAP) and the budget been adopted within statutory timelines established by Education Code Sections 42103 and 52062 and filed with the county superintendent of schools no later than five days after adoption or by July 1, whichever occurs first, for the current and one prior fiscal year? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 2.9 Has the district refrained from including carryover funds in its adopted budget? . . . . .     
*The district budgets carryover funds in its adopted budget. In years past, the carryover amounts have been larger than in recent years. The district's administration is focusing on eliminating carryover where possible by spending the funds in the year in which they were received.*
  
- 2.10 Other than objects in the 5700s and 7300s and appropriate abatements in accordance with the California School Accounting Manual, does the district avoid using negative or contra expenditure accounts? . . . . .     
*The district uses negative account lines to make quick adjustments to budgets for reduced grant awards; it does this for both revenues and expenditures, for changes in the Public Employees' Retirement System (PERS) or State Teachers' Retirement System (STRS) rates, and to reduce expenditures associated with positions that are open but remain unfilled (after encumbrances for salaries are released monthly).*
  
- 2.11 Does the district have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district's unrestricted general fund? . . . . .     
*The district has a procedure, but it is not documented. Staff indicate that this is an area in need of improvement.*
  
- 2.12 Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff members/departments responsible for completing them? . . . . .

**3. Budget Monitoring and Updates**

**Yes No N/A**

- 3.1 Are actual revenues and expenses consistent with the most current budget? . . . . .
- 3.2 Are budget revisions posted in the financial system at each interim report, at a minimum? . . .
- 3.3 Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum? . . . . .
- 3.4 Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs in accordance with Education Code Section 42142? . . . . .
- 3.5 Do the district's responses fully explain the variances identified in the criteria and standards? .
- 3.6 Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the most recent and two prior fiscal years? . . . . .     
*County office oversight letters from the past several years included concerns about deficit spending, the district's need to budget for declining enrollment, and the status of collective bargaining.*  
*The district's unaudited actuals reports for the last several years show fluctuation in ending fund balance, with two of the past three years showing deficit spending. The district's second interim report, which included \$22 million in reductions to the 2020-21 fiscal year, projected deficit spending for all three years of the multiyear projection. The district's governing board's rescission of the reductions in staffing are in direct conflict with the county office's concerns regarding the district's deficit spending.*
- 3.7 Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure? . . . . .
- 3.8 Does the district encumber and adjust encumbrances for salaries and benefits? . . . . .

- 3.9 Are all balance sheet accounts in the general ledger reconciled at least at each interim report and at year end close? . . . . .
- 3.10 Have the interim reports and the unaudited actuals been adopted and filed with the county superintendent of schools within the timelines established in Education Code? . . . . .

**4. Cash Management** **Yes** **No** **N/A**

- 4.1 Are accounts held by the county treasurer reconciled with the district's and county office of education's reports monthly? . . . . .
- 4.2 Does the district reconcile all bank (cash and investment) accounts with bank statements monthly? . . . . .
- 4.3 Does the district forecast its general fund cash flow for the current and subsequent year and update it as needed to ensure cash flow needs are known? . . . . .

*Based on a review of the adopted budget, first interim and second interim financial reporting period documents, the district updates and monitors current year cash flow at the financial reporting periods but does not project the subsequent year's cash flow.*

- 4.4 If the district's cash flow forecast shows insufficient cash in its general fund to support its current and projected obligations, does the district have a reasonable plan to address its cash flow needs for the current and subsequent year? . . . . .
- 4.5 Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds? . . . . .

*The district depends on interfund borrowing and interfund transfers to support its cafeteria enterprise fund. Other than a brief respite in 2015-16, the transfer to the cafeteria enterprise fund has grown annually. The district projects transferring \$1,241,422 as of second interim and loaning \$2,478,408.61 in cash to the fund as of April 14, 2020. Other funds have smaller cash loans outstanding from the general fund.*

- 4.6 If interfund borrowing is occurring, does the district comply with Education Code Section 42603? . . . . .

*During the 2018-19 fiscal year, the adult education fund borrowed \$2.8 million from the general fund by mid-January 2019, well before the final 120 calendar days of the fiscal year. Of the \$2.8 million, \$2.25 million was repaid in compliance with Education Code Section 42603. The remaining \$550,000 was not repaid until November 4, 2019. Similarly, a transfer of \$716,792.68 to the child development fund made before the 2018-19 fiscal year was only partially repaid in the 2019-20 fiscal year.*

*The district has recorded borrowing of \$23,986.03 from the general fund to the deferred maintenance fund. With \$10 of income projected for the deferred maintenance fund, there is insufficient income to repay the loan from the general fund. \$20,000 of this loan was recorded prior to the 2019-20 fiscal year, and an additional \$3,986.03 was loaned in the 2019-20 year after payment for a prior year payable was processed.*

- 4.7 If the district is managing cash in any fund(s) through external borrowing, does the district's cash flow projection include repayment based on the terms of the loan agreement? . . . . .

<b>5. Charter Schools</b>		<b>Yes</b>	<b>No</b>	<b>N/A</b>
5.1	Are all charters authorized by the district going concerns? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
5.2	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including formal communication to the charter, such as notices of violation? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓
5.3	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
5.4	Does the district have a board policy or other written document(s) regarding charter oversight? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
5.5	Has the district identified specific employees in its various departments (e.g., human resources, business, instructional, and others) to be responsible for oversight of all approved charter schools? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>

<b>6. Collective Bargaining Agreements</b>		<b>Yes</b>	<b>No</b>	<b>N/A</b>
6.1	Has the district settled with all its bargaining units for the past two fiscal years? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.2	Has the district settled with all its bargaining units for the current year? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.4	Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increase), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.5	In the current and prior two fiscal years, has the district settled the total cost of the bargaining agreements at or under the funded cost of living adjustment (COLA)? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>

*District settlements have been at or above the funded COLA for the four years shown in the table below.*

	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
Statutory COLA	1.56%	2.71%	3.26%	2.31%*
District Settlement	2.00%	3.25%	3.25%	3.00%

*\* Although a statutory COLA has been computed for 2020-21, the 2020-21 May Revision estimates a -10% proration factor that will eliminate any COLA received and yield a -7.92% net decrease in funding.*

6.6	If settlements have not been reached in the past two years, has the district identified resources to cover the costs of the district’s proposal(s)? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓
6.7	Did the district comply with public disclosure requirements under Government Code Sections 3540.2 and 3547.5, and Education Code Section 42142? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.8	Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.9	Is the governing board’s action consistent with the superintendent’s and CBO’s certification? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>

**7. Contributions and Transfers**

**Yes No N/A**

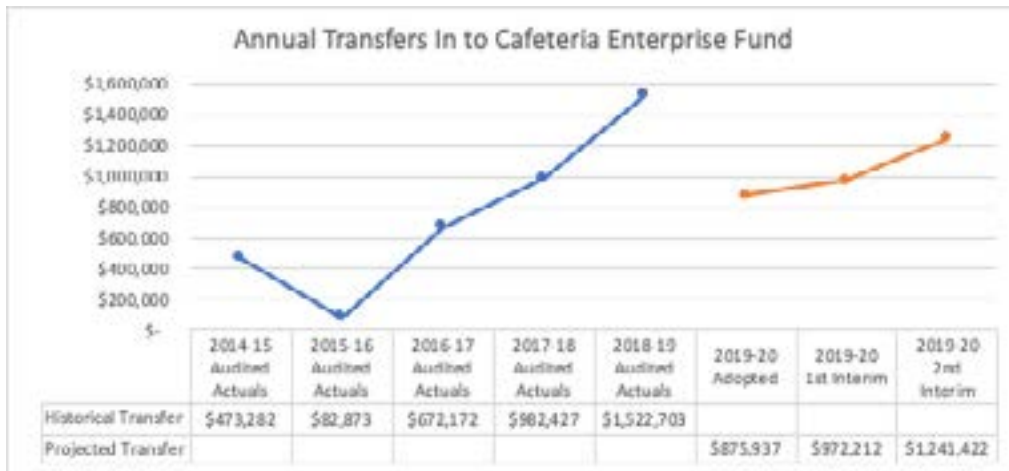
- 7.1 Does the district have a board-approved plan to eliminate, reduce or control any contributions/transfers from the unrestricted general fund to other restricted programs and funds? . . . . .

*As of the 2019-20 second interim report, the district is projected to contribute \$47,460,664 to its special education program and \$1,241,422 to its cafeteria enterprise fund. The district has no board-approved plans to eliminate, reduce or control contributions to special education or the cafeteria fund..*

- 7.2 If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance? . . . . .

- 7.3 If any contributions/transfers were required for restricted programs and/or other funds in either of the two prior fiscal years, and there is a need in the current year, did the district budget for them at reasonable levels? . . . . .

*During budget development for 2019-20, the budget for the cafeteria enterprise fund was reduced by \$646,766 compared to 2018-19 unaudited actuals. An increased need of 11% over the reduced value of the adopted budget for the cafeteria enterprise fund was recognized at first interim. However, most of the need, an additional 31%, was not recognized until second interim. In total, the projected transfer to the cafeteria enterprise fund has increased by \$365,485, or 42%, over the original adopted budget. Per interviews with district employees, the transfer to the fund is expected to be greater than estimated at second interim, approximately \$1.5 million, similar to the amount transferred in 2018-19.*



**8. Deficit Spending (Unrestricted General Fund)**

**Yes No N/A**

- 8.1 Is the district avoiding deficit spending in the current fiscal year? . . . . .     
*According to the second interim multiyear projection, the district is projected to deficit spend \$8,168,484 in the 2019-20 fiscal year.*

- 8.2 Is the district projected to avoid deficit spending in both of the two subsequent fiscal years? . .     
*According to the second interim multiyear projection, the district is projected to deficit spend \$7,516,478 in 2020-21 and \$9,990,052 in 2021-22.*



8.3 If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending to ensure fiscal solvency? . . . . .

*Although the 2019-20 second interim report included a board-approved plan to reduce deficit spending by \$22.2 million in 2020-21, the board subsequently rescinded a significant component of the plan, the resolutions reducing certificated and classified staffing. This will cause a significant increase in deficit spending if another plan is not approved and implemented.*

8.4 Has the district decreased deficit spending over the past two fiscal years? . . . . .

*Although the district did not deficit spend in 2018-19, the district projects deficit spending of \$8,168,484 in 2019-20. Without the deficit reduction plan that was rescinded by the board on March 11, 2020, the deficit is projected to increase in 2020-21.*

**9. Employee Benefits** **Yes** **No** **N/A**

9.1 Has the district completed an actuarial valuation in accordance with Governmental Accounting Standards Board (GASB) requirements to determine its unfunded liability for other post-employment benefits (OPEB)? . . . . .

9.2 Does the district have a plan to fund its liabilities for retiree health and welfare benefits with the total of annual required service payments no greater than 2% of the district's unrestricted general fund revenues? . . . . .

9.3 Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances? . . . . .

*According to interviews with district staff and a review of the collective bargaining agreement with classified employees, classified employees may earn up to 23 days of vacation per year depending on years of employment and may carryover a maximum of five days per year. As of April 2020, 172 employees carried vacation balances greater than 23 days. Fifty-three employees carried vacation balances greater than 50 days, and 12 employees carried vacation balances greater than 100 days. The liability for compensated absences reported in the district's 2018-19 audit report was \$2,551,079, which is an increase compared to the prior year balance of \$2,257,975.*

9.4 Within the last five years, has the district conducted a verification and determination of eligibility for benefits for all active and retired employees and dependents? . . . . .

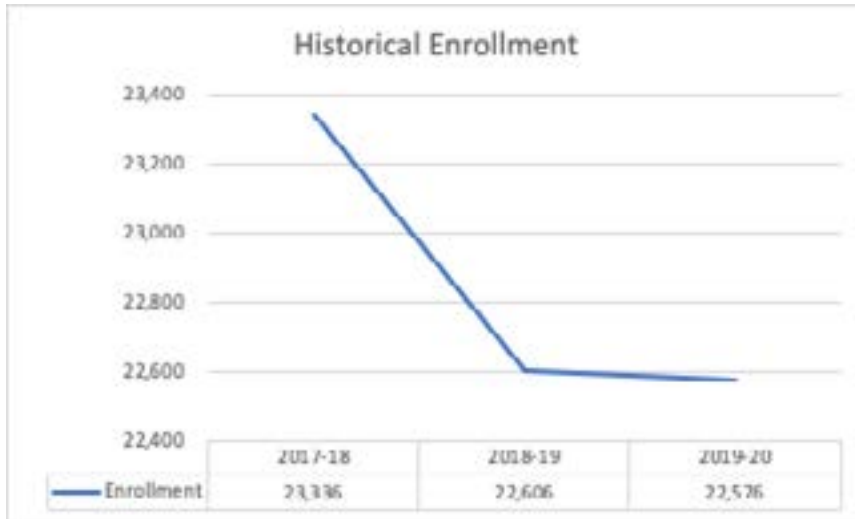
9.5 Does the district track, reconcile and report employees' compensated leave balances? . . . . .

**10. Enrollment and Attendance**

Yes No N/A

- 10.1 Has the district’s enrollment been increasing or remained stable for the current and two prior years? . . . . .

*Over the past two years, the district’s enrollment has declined 3.26%, from 23,336 in 2017-18 to 22,576 in 2019-20. The majority of the decline, 3.13%, occurred between 2017-18 and 2018-19.*



- 10.2 Does the district monitor and analyze enrollment and average daily attendance (ADA) data at least monthly through the second attendance reporting period (P2)? . . . . .

*Although staff provide the superintendent and other management with weekly enrollment reports and submit a monthly attendance accounting report to the county office of education, the district does not analyze the fiscal impact of enrollment and ADA except when updating the budget at the required financial reporting periods.*

- 10.3 Does the district track historical enrollment and ADA data to establish future trends? . . . . .

- 10.4 Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels? . . . . .

- 10.5 Has the district certified its California Longitudinal Pupil Achievement Data System (CALPADS) data by the required deadlines (Fall 1, Fall 2, EOY) for the current and two prior years? . . . . .

- 10.6 Are the district’s enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations? . . . . .

- 10.7 Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines? . . . . .

*Although district staff provided a statement that Fall 1 data is reviewed and approved by the departments involved, documents the district provided confirm that only one of the three eligibility criteria, the English learner count, is reviewed and approved by staff who have direct knowledge of the students’ eligibility. In addition, interviews with district employees indicated that the count of students who meet income requirements to receive a free or reduced-price meal (FRPM) are not reviewed and approved by staff who have direct knowledge of the students’ eligibility.*

- 10.8 Has the district planned for enrollment losses to charter schools? . . . . .

10.9 Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students who meet the required qualifications are approved? . . . . .

*The district's administrative regulation 5117 permits authorizing a student's attendance outside his/her district of residence for the following reasons:*

- Sibling
- Change in residence
- Parent/guardian employment
- Specialized program
- Health and safety
- School attendance review board (SARB)

*The district has 76 formal interdistrict transfer requests authorized and four other transfers authorized. The documentation provided to FCMAT does not include the reasons the transfers were granted.*

10.10 Does the district meet the student-to-teacher ratio requirement of no more than 24-to-1 for each school in grades TK-3 classes, or, if not, does it have and adhere to an alternative collectively bargained agreement? . . . . .

**11. Facilities** **Yes** **No** **N/A**

11.1 If the district participates in the state's School Facilities Program, has it met the required contribution for the Routine Restricted Maintenance Account? . . . . .

11.2 Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects? . . . . .

11.3 Does the district properly track and account for facility-related projects? . . . . .

11.4 Does the district use its facilities fully in accordance with the Office of Public School Construction's loading standards? . . . . .

*Based on a school fee justification study dated June 11, 2019, the district's facilities capacity is 25,664 students. Student enrollment, based on October 2019 certified CALPADS reports, was 22,576, or approximately 88% of capacity. The district's trend of declining enrollment is projected to continue; this will result in excess facilities capacity in the future.*

11.5 Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget? . . . . .

11.6 Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues? . . . . .

11.7 If the district passed a Proposition 39 general obligation bond, has it met the requirements for audit, reporting, and a citizens' bond oversight committee? . . . . .

11.8 Does the district have a long-range facilities master plan that reflects its current and projected facility needs? . . . . .

**12. Fund Balance and Reserve for Economic Uncertainty** **Yes** **No** **N/A**

12.1 Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including Fund 01 and Fund 17) as defined by criteria and standards? . . . . .

12.2 Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years? . . . . .

*Although the district’s 2019-20 second interim report indicates a reserve for economic uncertainty of 6.26% in 2020-21 and 3.07% in 2021-22, the report was prepared and filed with a positive certification contingent on budget reductions, including a total of \$22.2 million in 2020-21. On February 13, 2020, the board adopted resolutions to reduce certificated staffing by 74.6 full-time equivalent positions (FTE) and classified staffing by 51 FTE. On March 11, 2020, subsequent to the approval of the second interim report, the board rescinded the resolutions that would have reduced certificated and classified staffing. As a result of the board’s rescission of these resolutions, the county office downgraded the district’s second interim certification from positive to qualified, noting that without the budget reductions the district will not be able to maintain the minimum reserve for economic uncertainty of 3% in the two subsequent years. Without the reduction in staffing, the district projects a reserve of 2.75% in 2020-21 and -4.64% in 2021-22.*

12.3 If the district is not able to maintain the minimum reserve for economic uncertainty, does the district’s multiyear financial projection include a board-approved plan to restore the reserve? . . . . .

*On June 11, 2019 the district’s governing board passed a resolution to confirm the district’s commitment to fiscal solvency, resolving to ensure that the district remain fiscally solvent and committing to reducing expenditures in all budget areas, including certificated, classified, and management and confidential staffing. In February 2020, the board approved a reduction of 74.6 certificated FTE and 51 classified FTE for the 2020-21 fiscal year. On March 11, 2020, the board rescinded the certificated and classified staffing reductions. As of the dates of FCMAT’s fieldwork, the board had not taken action to reduce expenditures to restore the reserve.*

12.4 Is the district’s projected unrestricted fund balance stable or increasing in the two subsequent fiscal years? . . . . .

*The district’s 2019-20 second interim report’s multiyear financial projection indicates that the unrestricted ending fund balance will decline by \$25.7 million, from \$36.1 million at the beginning of the 2019-20 fiscal year to \$10.4 million at the end of the 2021-22 fiscal year. As stated above, the multiyear financial projection assumes reductions of \$22.2 million in 2020-21, which were later rescinded by the board. Without expenditure reductions or revenue increases, the district projects a negative fund balance in 2020-21 and 2021-22.*

12.5 If the district has unfunded or contingent liabilities or one-time costs other than post-employment benefits, does the unrestricted general fund balance include sufficient assigned or committed reserves above the recommended reserve level? . . . . .

**13. General Fund – Current Year** **Yes** **No** **N/A**

13.1 Does the district ensure that one-time revenues do not pay for ongoing expenditures? . . . . .

*The district has balanced the budget in years when it had deficit spending by using one-time fund balances within the general fund. Specifically, \$2,000,000 in one-time resources was used to fund ongoing counselor and student advisor positions. The \$2,000,000 consisted of a one-time balance transfer from the reserve of the district’s self-funded health insurance account. This practice poses a significant risk to future fiscal solvency.*

13.2 Is the percentage of the district’s general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the current year? . . .

*Data for 2019-20 are not yet available. According to the district’s 2019-20 second interim report 87% of the general fund unrestricted expenditure budget is allocated to salaries and benefits, which is slightly higher than the 2018-19 average for high school districts.*

	2014-15	2015-16	2016-17	2017-18	2018-19
Average All Districts	87%	86%	86%	87%	87%
Average High School Districts	86%	85%	85%	86%	86%
East Side Union High School District	89%	90%	89%	88%	88%

<https://www.ed-data.org/district/Santa-Clara/East-Side-Union-High>

13.3 Is the percentage of the district’s general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the two prior years? . . .

*The percentage of the district’s general fund unrestricted expenditure budget that is allocated to salaries and benefits was 2% higher than the statewide average in both 2017-18 and 2018-19.*

13.4 If the district has received any uniform complaints or legal challenges regarding local use of supplemental and concentration grant funding in the current or two prior years, is the district addressing the complaint(s)? . . . . .

13.5 Does the district either ensure that restricted dollars are sufficient to pay for staff assigned to restricted programs or have a plan to fund these positions with unrestricted funds? . . . .

*Staff indicated that if there were insufficient funds in restricted programs (excluding special education) and reductions could not be made, expenditures were moved to the unrestricted general fund budget.*

13.6 Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time? . . . . .

*The district indicated that in past years the special education mental health fund balance was not fully spent.*

13.7 Does the district account for program costs, including the maximum allowable indirect costs, for each restricted resource and other funds? . . . . .

**14. Information Systems and Data Management**

**Yes No N/A**

14.1 Does the district use an integrated financial and human resources system? . . . . .

14.2 Does the district use the system(s) to provide key financial and related data, including personnel information, to help the district make informed decisions? . . . . .

14.3 Has the district accurately identified students who are eligible for free or reduced-price meals, English learners, and foster youth, in accordance with the LCFF and its LCAP? . . . .

14.4 Is the district using the same financial system as its county office of education? . . . . .

*The county office and district are both currently using Harris School Solutions HSS-OASIS software, but they operate on separate licenses and servers. The district is currently transitioning to Tyler Technologies’ Munis, with a planned go live date of July 1, 2020.*

14.5 If the district is using a separate financial system from its county office of education and is not fiscally independent, is there an automated interface with the financial system used by the county office of education? . . . . .

14.6 If the district is using a separate financial system from its county office of education, has the district provided the county office with direct access so the county office can provide oversight, review and assistance? . . . . .

*Currently, the county office does not have access to the district's financial system. With the new Munis system, the district had not previously planned to provide the county office of education with access. However, the district indicated it would contact the county office to discuss providing access once the system is functional (in 2020-21).*

**15. Internal Controls and Fraud Prevention**

**Yes No N/A**

15.1 Does the district have controls that limit access to its financial system and include multiple levels of authorization? . . . . .

15.2 Are the district's financial system's access and authorization controls reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually? . . . . .

*The district does not currently review access and authorizations annually, but it recognizes this is an area that needs improvement.*

15.3 Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?:

- Accounts payable (AP) . . . . .
- Accounts receivable (AR) . . . . .
- Purchasing and contracts. . . . .
- Payroll . . . . .
- Human resources (i.e., duties relative to position control and payroll processes) . . . . .

15.4 Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year? . . . . .

15.5 Does the district review and work to clear prior year accruals throughout the year? . . . . .

15.6 Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education? . . . . .

15.7 Does the district have processes and procedures to discourage and detect fraud? . . . . .

15.8 Does the district have a process for collecting reports of possible fraud (such as an anonymous fraud reporting hotline) and for following up on such reports? . . . . .

15.9 Does the district have an internal audit process? . . . . .

**16. Leadership and Stability**

**Yes No N/A**

16.1 Does the district have a chief business official who has been with the district as chief business official for more than two years?. . . . .

*The chief business official was hired on July 1, 2018.*

16.2 Does the district have a superintendent who has been with the district as superintendent for more than two years? . . . . .

16.3	Does the superintendent meet on a scheduled and regular basis with all members of their administrative cabinet? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
16.4	Is training on financial management and budget provided to site and department administrators who are responsible for budget management? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>Business staff indicated that training was provided and available upon request. Documentation of budget training provided by the district was specific to accounting processes in the financial system software and was held during the 2017-18 fiscal year. Site and department administrators interviewed indicated that budget training had not been provided.</i>			
16.5	Does the governing board adopt and revise policies and administrative regulations annually? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
16.6	Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
16.7	Do all board members attend training on the budget and governance at least every two years? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
16.8	Is the superintendent's evaluation performed according to the terms of the contract? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>

**17. Multiyear Projections** **Yes** **No** **N/A**

17.1	Has the district developed multiyear projections that include detailed assumptions aligned with industry standards? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
17.2	To help calculate its multiyear projections, did the district prepare an accurate LCFF calculation with multiyear considerations? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
17.3	Does the district use its most current multiyear projection in making financial decisions? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>In interviews, employees indicated that the district uses the multiyear projection to make major financial decisions, such as whether it can afford a proposed collective bargaining agreement. However, on March 11, 2020, subsequent to the approval of the second interim report, the district's governing board rescinded resolutions to reduce certificated and classified staffing as adopted on February 13, 2020. As a result, the county office downgraded the district's second interim certification from positive to qualified status, noting that without the budget reductions the district will not be able to meet the required minimum reserve in the two subsequent years.</i>			
17.4	If the district uses a broad adjustment category in its multiyear projection (such as line B10, B1d, B2d Other Adjustments, in the SACS Form MYP/MYPI), is there a detailed list of what is included in the adjustment amount and are the adjustments reasonable? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓

**18. Non-Voter-Approved Debt and Risk Management** **Yes** **No** **N/A**

18.1	Are the sources of repayment for non-voter-approved debt (such as certificates of participation (COPs), bridge financing, bond anticipation notes (BANS), revenue anticipation notes (RANS) and others) stable, predictable, and other than unrestricted general fund? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district issued other post-employment benefit (OPEB) bonds to refinance its obligation to pay certain healthcare and retirement benefits for some retired district employees and to pay the cost of issuance of the bonds. Payments on the bonds are made from the unrestricted general fund. The principal balance as of June 30, 2019 was \$28,205,000, and the annual payment in 2019-20 is \$1,498,343. The district has</i>			

also entered into agreements to lease various equipment. The principal balance of capital leases as of June 30, 2019 was \$333,423; annual payment of interest and principal is \$165,714 in 2019-20.

- 18.2 If the district has issued non-voter-approved debt, has its credit rating remained stable or improved during the current and two prior fiscal years? . . . . .     
*On April 1, 2019, Moody's Investors Service lowered the long-term and underlying rating on the district's outstanding general obligation bonds and OPEB bonds from Aa2 to Aa3.*
- 18.3 If the district is self-insured, has the district completed an actuarial valuation as required and have a plan to pay for any unfunded liabilities? . . . . .
- 18.4 If the district has non-voter-approved debt (such as COPs, bridge financing, BANS, RANS and others), is the total of annual debt service payments no greater than 2% of the district's unrestricted general fund revenues? . . . . .

**19. Position Control** **Yes** **No** **N/A**

- 19.1 Does the district account for all positions and costs? . . . . .
- 19.2 Does the district analyze and adjust staffing based on staffing ratios and enrollment? . . . . .     
*Staff indicated that they engage in a process to analyze staffing levels based on projected enrollment. However, the process is not completed in time to notify certificated employees by March 15 in order to adjust staffing for declining enrollment.*
- 19.3 Does the district reconcile budget, payroll and position control regularly, at least at budget adoption and interim reporting periods? . . . . .
- 19.4 Does the district identify a budget source for each new position before the position is authorized by the governing board? . . . . .     
*The district does not have a written procedure for authorizing new positions, but staff indicated in interviews that new positions are authorized through an electronic approval process. The form that is routed for approval electronically includes the budget source. However, the samples provided by the district were completed after the start date of the position.*
- 19.5 Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted? . . . . .     
*The district did not provide evidence that the board approved all new positions and extra assignments before the positions were posted.*
- 19.6 Do managers and staff responsible for the district's human resources, payroll and budget functions meet regularly to discuss issues and improve processes? . . . . .     
*Staff indicated that managers and staff in human resources, payroll and budget used to meet regularly; however, regular meetings are no longer held.*

**20. Special Education** **Yes** **No** **N/A**

- 20.1 Does the district monitor, analyze and adjust staffing ratios, class sizes and caseload sizes to align with statutory requirements and industry standards? . . . . .
- 20.2 Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)? . . . . .



- 20.3 Does the district use appropriate tools to help it make informed decisions about whether to add services (e.g., special circumstance instructional assistance process and form, transportation decision tree)? . . . . . ✓
- 20.4 Does the district budget and account correctly for all costs related to special education (e.g., transportation, due process hearings, indirect costs, nonpublic schools and/or nonpublic agencies)? . . . . . ✓
- 20.5 Is the district’s contribution rate to special education at or below the statewide average contribution rate? . . . . .  ✓   
*The district’s contribution rate to special education for 2018-19 was 82.61% of the special education budget. The statewide average contribution rate was 65.88%. It is possible the district’s rate is much higher because the statewide average is based on unified school districts rather than high school districts..*
- 20.6 Is the district’s rate of identification of students as eligible for special education at or below the countywide and statewide average rates? . . . . . ✓
- 20.7 Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period? . . . . . ✓

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**Risk Score, 20 numbered sections only: 31.8%**

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**Key to Risk Score from 20 numbered sections only:**

- High Risk: 40% or more*
- Moderate Risk: 25-39.9%*
- Low Risk: 24.9% and lower*

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**District Fiscal Solvency Risk Level, all FHRA factors: High**

*(The existence of any condition from the Budget and Fiscal Status section, and/or a material weakness, will supersede the score above because it elevates the district’s risk level.)*

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