FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Fiscal Health Risk Analysis

JULY 17, 2020

Gold Trail Union School District

Michael H. Fine
Chief Executive Officer

Contents

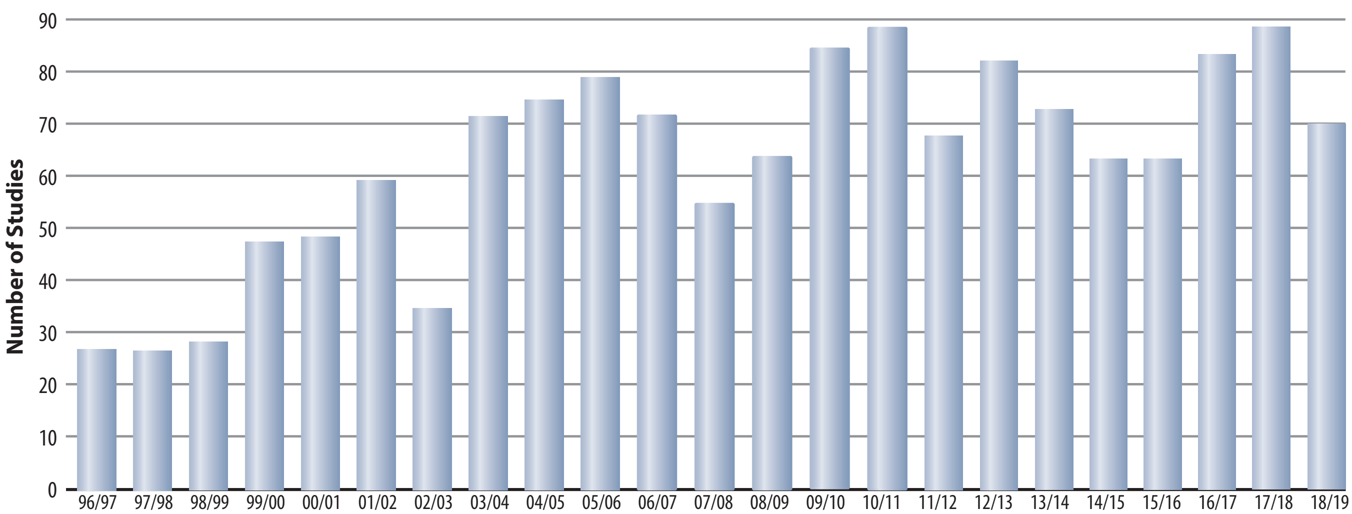
About FCMAT

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) 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 (FHRA) to determine the level of risk for insolvency. FCMAT has updated its FHRA, which weighs 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 his or her 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 FHRA is being conducted because the Gold Trail Union School District's had the following condition(s) that required an analysis according to the 2018-19 State Budget Act.

- Three consecutive qualified interim report certifications

The district is located northeast of Sacramento, about 10 miles west of downtown Placerville, and its enrollment for 2019-20 is 652 students. The population of the greater Placerville area is 10,681, with a median household income of $51,250, and a poverty rate just below 20%. The district's unduplicated pupil percentage, which includes students who qualify for free and reduced-price meals, was approximately 27% in 2018-19.

The district is governed by a combined superintendent/principal and a board of five trustees. It maintains two school sites: Sutter's Mill Elementary (grades TK-3) and Gold Trail School (grades 4-8). The two schools are located approximately four miles apart.

The district projects deficit spending in 2019-20, although actual revenues have exceeded expenditures for the prior three fiscal years. The district has a required reserve for economic uncertainties of 4% and projects it will meet this reserve in 2019-20. However, the multiyear projection included in the district's 2019-20 second interim report projects the minimum reserve may not be met in the subsequent two years without the implementation of expenditure reductions. This projection further deteriorated in the district's latest fiscal update through April 30, 2020.

Beginning in 2017-18, the district has certified its last six interim reports as "qualified," meaning it may not meet its financial obligations in the current or two subsequent fiscal years. This was caused primarily by the anticipated deficit spending and projected decline in the ending fund balance. The El Dorado County Office of Education agreed with all qualified certifications.

FCMAT performed an FHRA to determine the district's level of risk for insolvency. The county office assisted in compiling the necessary documentation for FCMAT's study. The district is on the same financial accounting system as the county office.

Fiscal Health Risk Analysis Guidelines

FCMAT entered into a study agreement with the district on April 30, 2020, and a study team collected data and interviewed district staff and leadership via video conference during the week of May 26-29, 2020. Documents were compiled by the district and county office for the study team to review and analyze following the interviews. 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:

Jeffrey B. Potter
FCMAT Intervention Specialist

Marcus Wirowek
FCMAT Intervention Specialist

Leonel Martínez
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

FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Date(s) of fieldwork: May 26-29, 2020 (via video conference)

District: Gold Trail USD

Summary

The Gold Trail Union School District has experienced declining enrollment since 2017-18, when the number of students enrolled at the district peaked at 709. The district's current year enrollment is down approximately 8% from 2017-18, with reported enrollment of 652 students. This decline has adversely affected the district's budget and caused the need for spending reductions to align with the subsequent revenue reduction.

Beginning in 2017-18, the district began certifying its interim reports as qualified, meaning the district may not meet its financial obligations in the current or two subsequent fiscal years. The qualified certifications continued for the following six interim reports, most recently with the district's 2019-20 second interim report. The district identified necessary expenditure reductions on its 2019-20 second interim multiyear projection that have yet to be formally adopted and enacted by the governing board, including approximately $203,000 in 2020-21 and an additional $85,000 in 2021. Both are necessary to maintain the district's required reserve for economic uncertainties of 4%. Even with the incorporation of the tentative reductions, the district's ending fund balance is projected to decline, from $478,000 in 2019-20 to $274,000 in 2021-22. Overall deficit spending is projected in all three years of the multiyear projection, and this projection worsened in the most recent fiscal update through April 30, 2020.

FCMAT engaged and performed an FHRA to determine the district's level of risk for insolvency, and the resulting report determined Gold Trail Union to be at "high" risk of insolvency with an overall risk score of 20.6%. While the score itself reflects a lower level of risk, the existence of any condition from the Budget and Fiscal Status section (shown below), and/or a material weakness, will supersede the score because it elevates the district's risk. Accordingly, because the district has deficit spending in the current and/or two subsequent fiscal years and lacks a board-approved and implemented plan to reduce and/or eliminate the projected deficit spending, the district's fiscal solvency risk level is designated as "high."

The report also identifies the various signs of fiscal weakness and risks of insolvency. The primary risk factors causing fiscal distress include the following:

- Declining enrollment that began in 2017-18. Enrollment, and the resulting student attendance, are the most significant drivers of district revenues.
- Six consecutive qualified certifications on interim financial reports.
- Projected deficit spending in the general fund on the multiyear projection, including a declining ending fund balance and a projected inability to meet the minimum required reserve for economic uncertainties without expenditure reductions.
- The lack of a board-approved and implemented plan to reduce and/or eliminate deficit spending to ensure fiscal solvency.

With the decrease in Local Control Funding Formula (LCFF) revenue resulting from declining enrollment, the district has an excess of expenditures over revenue in both the current and subsequent fiscal years although proposed expenditure reductions are included on the multiyear projection to reduce the deficit spending. Should the anticipated spending reductions not materialize, the district's ending fund balance will continue to decline. If this occurs, the district will be unable to meet the minimum required reserve for economic uncertainty. It is therefore critical that the district develop and adopt a comprehensive budget balancing plan, with additional expenditure reductions and/or revenue enhancements, to restore its minimum reserve and avoid any further erosion of the ending fund balance.

As shown in previous adopted budgets, the district projected deficit spending in both 2017-18 and 2018-19. However, in both years, revenues ultimately exceeded expenditures at the close of the fiscal year. The district should improve its efforts to adjust the budget as each fiscal year progresses to more accurately reflect anticipated expenditures since this will reduce any variances between budgeted projections and the unaudited actuals.

This report also indicates that the district could improve internal controls in some areas. Weaknesses were identified in purchasing and contracts and human resources, although these are partly a function of the district's smaller size. While limited staffing can cause difficulties in maintaining adequate separation of duties and oversight of critical functions, the district should ensure that it has sufficient processes and procedures and a sufficient segregation of functions to safeguard its assets at all times.

FCMAT's study was performed during the COVID-19 global pandemic and the severe economic downturn that resulted. While the full impact to state and federal funding for K-12 districts remains uncertain at the time of this report, school districts throughout California are reasonably assuming a sharp decline in funding. The projected reduction in revenue was reflected in the district's latest financial projections through April 30, 2020 (commonly referred to as "third interim"). Assuming these funding reductions occur as anticipated, the district will need to identify significant expenditure reductions beyond those included in the 2019-20 second and third interim reports to maintain its fiscal solvency.

District Fiscal Solvency Risk Level: High

About the Analysis

FCMAT has developed the FHRA 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 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 higher 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 therefore 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 following sections on this page and the next duplicate certain questions and answers given in the Fiscal Health Risk Analysis Questions 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.

Budget and Fiscal Status: Is the district currently *without* the following?:	**Yes**	**No**
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	✓	☐

	Material Weakness Questions	**Yes**	**No**	**N/A**
2.5	Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years?	✓	☐	☐

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?	✓	☐	☐
3.6	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?	☐	✓	☐
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?	✓	☐	☐
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?	☐	☐	✓
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?	☐	☐	✓
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?	☐	☐	✓
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections?	✓	☐	☐
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?	✓	☐	☐
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?	✓	☐	☐
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?	☐	✓	☐
10.6	Are the district's enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?	✓	☐	☐
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?.	☐	✓	☐
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?	☐	✓	☐
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 errors and are provided for information only.

1.	Annual Independent Audit Report	0.0%
2.	Budget Development and Adoption	0.2%
3.	Budget Monitoring and Updates	2.9%
4.	Cash Management	0.6%
5.	Charter Schools	0.0%
6.	Collective Bargaining Agreements	0.0%
7.	Contributions and Transfers	1.0%
8.	Deficit Spending (Unrestricted General Fund)	2.9%
9.	Employee Benefits	0.0%
10.	Enrollment and Attendance	2.2%
11.	Facilities	0.0%
12.	Fund Balance and Reserve for Economic Uncertainty	2.9%
13.	General Fund - Current Year	0.2%
14.	Information Systems and Data Management	0.0%
15.	Internal Controls and Fraud Prevention	3.9%
16.	Leadership and Stability	1.8%
17.	Multiyear Projections	1.0%
18.	Non-Voter-Approved Debt and Risk Management	0.0%
19.	Position Control	0.0%
20.	Special Education	1.1%
Score		**20.6%**

Fiscal Health Risk Analysis Questions

	1. Annual Independent Audit Report	Yes	No	N/A
1.1	Has the district corrected the most recent and prior two years' audit findings without affecting its fiscal health?	✓	☐	☐
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.)	✓	☐	☐
1.3	Were the district's most recent and prior two audit reports free of findings of material weaknesses?	✓	☐	☐
1.4	Has the district corrected all reported audit findings from the most recent and prior two audits?	✓	☐	☐

	2. Budget Development and Adoption	Yes	No	N/A
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?	✓	☐	☐
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?	✓	☐	☐
2.3	Does the district use position control data for budget development?	✓	☐	☐
2.4	Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly?	✓	☐	☐
2.5	Has the district's budget been approved unconditionally by its county office of education ≠≠ in the current and two prior fiscal years?	✓	☐	☐
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)?	✓	☐	☐
2.7	Does the district budget and expend restricted funds before unrestricted funds?	✓	☐	☐
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?	✓	☐	☐
2.9	Has the district refrained from including carryover funds in its adopted budget?	✓	☐	☐
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?	✓	☐	☐
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?	✓	☐	☐
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?	☐	✓	☐

Staff interviews and documentation indicated that the district does not use or adhere to a formal or distributed calendar for budget development.

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? *The county office of education identified unrestricted deficit spending as a deficiency needing correction in the district's 2017-18, 2018-19 and 2019-20 adopted budget oversight letters. This concern is also included in the most recent 2019-20 second interim communication. The district has yet to address these concerns and continues to deficit spend.*	☐	✓	☐
3.7	Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure? *Staff interviews determined that the district does not use a safeguard within the financial system to prevent the processing of requisitions or purchase orders when the budget is insufficient to support the expenditure. This condition occurs periodically, and adjustments are made manually if an expenditure is determined to be appropriate.*	☐	✓	☐
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? *Documentation indicated that some balance sheet accounts, including accounts receivable, are reconciled at the end of the fiscal year, rather than at each interim reporting period.*	☐	✓	☐
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?	✓	☐	☐
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?	☐	☐	✓

		Yes	No	N/A
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's cafeteria fund projects the need for a contribution of $45,000 from the general fund in 2019-20. This was also the amount required in 2018-19. With a minimal fund balance, the cafeteria fund lacks sufficient cash resources to support current and projected obligations without assistance from the general fund. A contribution of $40,000 is projected in both 2020-21 and 2021-22.			
4.6	If interfund borrowing is occurring, does the district comply with Education Code Section 42603?.	☐	☐	✓
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?.	☐	☐	✓

5. Charter Schools

		Yes	No	N/A
5.1	Are all charters authorized by the district going concerns?	☐	☐	✓
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?	☐	☐	✓
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?	☐	☐	✓
5.4	Does the district have a board policy or other written document(s) regarding charter oversight?.	☐	☐	✓
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?	☐	☐	✓

6. Collective Bargaining Agreements

		Yes	No	N/A
6.1	Has the district settled with all its bargaining units for the past two fiscal years?	✓	☐	☐
6.2	Has the district settled with all its bargaining units for the current year?	✓	☐	☐
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections?	✓	☐	☐
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?	✓	☐	☐
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)?	✓	☐	☐
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)?	☐	☐	✓
6.7	Did the district comply with public disclosure requirements under Government Code Sections 3540.2 and 3547.5, and Education Code Section 42142?	✓	☐	☐
6.8	Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval?.	✓	☐	☐
6.9	Is the governing board's action consistent with the superintendent's and CBO's certification?	✓	☐	☐

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?	☐	✓	☐
	The district lacks a board-approved plan to eliminate, reduce or control any contributions/transfers from the unrestricted general fund to other restricted programs and funds, including the cafeteria fund and special education, which require the largest contributions/transfers.			
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?	✓	☐	☐

8. Deficit Spending (Unrestricted General Fund)

		Yes	No	N/A
8.1	Is the district avoiding deficit spending in the current fiscal year?	☐	✓	☐
	As shown in the district's 2019-20 second interim report, the district projects to deficit spend approximately $532,000 in the current year. Projected deficit spending was reduced by $218,000 in the district's third interim report, resulting in a revised deficit projection of $314,000 for 2019-20.			
8.2	Is the district projected to avoid deficit spending in both of the two subsequent fiscal years?	☐	✓	☐
	As shown in the district's 2019-20 second interim report, deficit spending was projected to be approximately $27,000 in 2020-21 and $177,000 in 2021-22. Deficit spending was projected to increase further in the district's third interim report, totaling approximately $207,000 in 2020-21 and $226,000 in 2021-22. This followed the incorporation of anticipated revenue reductions resulting from the COVID-19 pandemic.			
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?	☐	✓	☐
	The district's 2019-20 second interim multiyear projection included certificated reductions of approximately $150,000 and classified reductions of $54,000 for 2020-21, as well as an unidentified reduction of $85,000 in 2021-22. The third interim report increased the unidentified reduction in 2021-22 to $250,000. However, these reductions will not fully eliminate the projected deficit spending. The board had not taken formal action to approve and enact the reductions at the time of FCMAT's fieldwork.			
8.4	Has the district decreased deficit spending over the past two fiscal years?	☐	☐	✓

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)?	☐	☐	✓

		Yes	No	N/A
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?	✓	☐	☐
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?.	☐	✓	☐

District enrollment has declined each year since 2017-18. Enrollment was 709 students in 2017-18 and declined to 661 in 2018-19. In 2019-20, enrollment was reported as 652.

		Yes	No	N/A
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)?	✓	☐	☐
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?	☐	✓	☐

As presented at the January 9, 2020 board meeting, the district received an audit finding for attendance reporting in 2018-19, asserting that "controls over attendance reporting are not in place to assure that the amounts reported on the second-period report and Annual Report are accurate". The district responded to the finding, stating that corrective action has been implemented to avoid any future discrepancies.

		Yes	No	N/A
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?	✓	☐	☐
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?.	☐	✓	☐

While the district has an administrative regulation outlining the process for the approval and denial of interdistrict transfer requests (AR 5117), district interviews suggested there is little adherence to the board policy. The district had outgoing interdistrict transfers totaling 60 students for 2019-20 and incoming transfers of 187 for the same time period.

		Yes	No	N/A
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?	✓	☐	☐
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?.	☐	✓	☐

The district does not have a long-range facilities master plan. However, the district appears to work with maintenance to proactively address any facilities issues that arise during the fiscal year.

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?	☐	✓	☐

As shown in the district's 2019-20 second interim report multiyear projection, the district anticipates reserves of 6.40% and 4.04% in 2020-21 and 2021-22, respectively. However, the reserve level is calculated following the incorporation of both certificated and classified expenditure reductions in 2020-21, an additional unspecified reduction of $85,000 in 2021-22, and without the incorporation of any funds outside the general fund. The unspecified reduction in 2021-22 was increased to $250,000 in the district's third interim report. These reductions had not been finalized, approved or enacted by the governing board as of the district's second or third interim reports.

		Yes	No	N/A
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?	☐	✓	☐

The minimum reserve for economic uncertainty is met in 2019-20, but expenditure reductions will be required to reach this goal in the two subsequent years. The district included proposed reductions in salary expenditures on the multiyear financial projection, as well as additional, unspecified reductions on both the second and third interim reports; however, these reductions had not been finalized, approved or enacted by the governing board at the time of our study. District leadership and the governing board indicated potential reductions are in the planning stages.

		Yes	No	N/A
12.4	Is the district's projected unrestricted fund balance stable or increasing in the two subsequent fiscal years?	☐	✓	☐

The district's unrestricted fund balance is projected to decrease during the 2020-21 and 2021-22 fiscal years. The district incorporated proposed expenditure reductions in each fiscal year; however, even with these potential reductions, the fund balance will continue to decline.

		Yes	No	N/A
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?	✓	☐	☐
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?	✓	☐	☐
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?	✓	☐	☐
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?	✓	☐	☐
13.6	Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time?	✓	☐	☐
13.7	Does the district account for program costs, including the maximum allowable indirect costs, for each restricted resource and other funds?	☐	✓	☐

The district does not charge indirect costs to many restricted programs, including special education. According to the 2018-19 unaudited actuals, only three programs were charged an indirect cost.

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?	✓	☐	☐
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?	☐	☐	✓

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?	✓	☐	☐
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.	☐	✓	☐
	The site and district levels have manual purchasing approvals; however, a single position monitors for sufficient budgetary funds when a purchase is made, resulting in insufficient oversight. The district does not use a safeguard within the financial system to prevent the processing of requisitions or purchase orders when the budget is insufficient to support the expenditure.			
	• Payroll	✓	☐	☐
	• Human resources (i.e., duties relative to position control and payroll processes)	☐	✓	☐
	Controls could be strengthened in this area since interviews indicated that a single position can add a new employee, assign the employee to the salary schedule, and subsequently process the employee through payroll. While this is partly a function of the district's smaller size, and payroll is monitored, additional separation of duties and functions would improve internal controls in this area.			
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?	☐	✓	☐
	Documentation indicates that some prior year accruals are cleared primarily at the end of the fiscal year. This includes accruals in accounts receivable, which are only partially reconciled and cleared 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?	☐	✓	☐
	While Board Policy (BP) 3400 requires that "The Superintendent or designee shall develop internal controls which aid in the prevention and detection of fraud...," site interviews and documentation received by FCMAT did not provide evidence that the district has comprehensive fraud detection controls.			
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?	☐	✓	☐
	While Board Policy (BP) 3400 requires that "...the Superintendent or designee shall establish a method for employees and outside persons to anonymously report any suspected instances of fraud..." and "The Superintendent or designee shall have primary responsibility for any necessary investigations of suspected fraud...," site			

interviews and documentation received by FCMAT did not provide evidence that a formal fraud collection and investigation process has been developed. The district lacks an anonymous fraud reporting hotline.

		Yes	No	N/A
15.9	Does the district have an internal audit process?	☐	✓	☐

The district does not have a formal internal audit department or 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?.	✓	☐	☐
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?	✓	☐	☐
16.4	Is training on financial management and budget provided to site and department administrators who are responsible for budget management?	☐	✓	☐

Site interviews and documentation provided to FCMAT indicated there is no formal, ongoing training on financial management and budget. Budget processes and fiscal inquiries are handled as questions arise, rather than within a scheduled training structure.

		Yes	No	N/A
16.5	Does the governing board adopt and revise policies and administrative regulations annually?	✓	☐	☐
16.6	Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff?	✓	☐	☐
16.7	Do all board members attend training on the budget and governance at least every two years?	☐	✓	☐

Site interviews indicated that, while training would be provided if requested, no formal schedule or process exists to ensure all board members regularly receive training on budget and governance.

		Yes	No	N/A
16.8	Is the superintendent's evaluation performed according to the terms of the contract?	☐	✓	☐

The superintendent's contract stipulates he or she will be evaluated by June 30 each year. Site interviews suggested the superintendent's evaluation was performed in accordance with this agreement; however closed session board meeting minutes do not indicate whether this was accomplished. Board meeting minutes indicate that no completed evaluation was reported following closed sessions in 2019. The last closed session report regarding the superintendent's contract occurred on June 14, 2018.

17. Multiyear Projections

		Yes	No	N/A
17.1	Has the district developed multiyear projections that include detailed assumptions aligned with industry standards?	✓	☐	☐
17.2	To help calculate its multiyear projections, did the district prepare an accurate LCFF calculation with multiyear considerations?	✓	☐	☐
17.3	Does the district use its most current multiyear projection in making financial decisions?	✓	☐	☐

		Yes	No	N/A
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?	☐	✓	☐

The district's 2019-20 second interim multiyear projection included certificated reductions of approximately $150,000 and classified reductions of $54,000 for 2020-21, as well as an unidentified reduction of $85,000 in 2021-22. The third interim report increased the necessary reduction in 2021-22 to $250,000. The board had not taken formal action to approve and enact the reductions at the time of FCMAT's study, although district leadership and the governing board indicated that planning for these reductions was ongoing.

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?	☐	☐	✓
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?	☐	☐	✓
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?	✓	☐	☐
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?	✓	☐	☐
19.5	Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are 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?.	✓	☐	☐

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)? . . . . ☐ ✓ ☐

District interviews and the 2018-19 unaudited actuals indicate the district has not charged indirect costs to all special education programs.

20.5 Is the district's contribution rate to special education at or below the statewide average contribution rate? . . . . ☐ ✓ ☐

While the district's contribution rate to special education is slightly below the statewide average, the district did not charge indirect costs to all special education programs. The addition of indirect costs to in this area would result in a contribution rate approximately 4% above the statewide average of nearly 66%.

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? . . . . ☐ ✓ ☐

The district's identification rate of students eligible for special education services was 14.7% in 2018-19. This exceeds the countywide average of 12.4% and the statewide average of 11.7% for the same time period.

20.7 Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period? . . . . ✓ ☐ ☐

Risk Score, 20 numbered sections only: 20.6%

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

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.)