

Fiscal Health Risk Analysis

May 3, 2021



Lost Hills Union Elementary School District

Michael H. Fine
Chief Executive Officer

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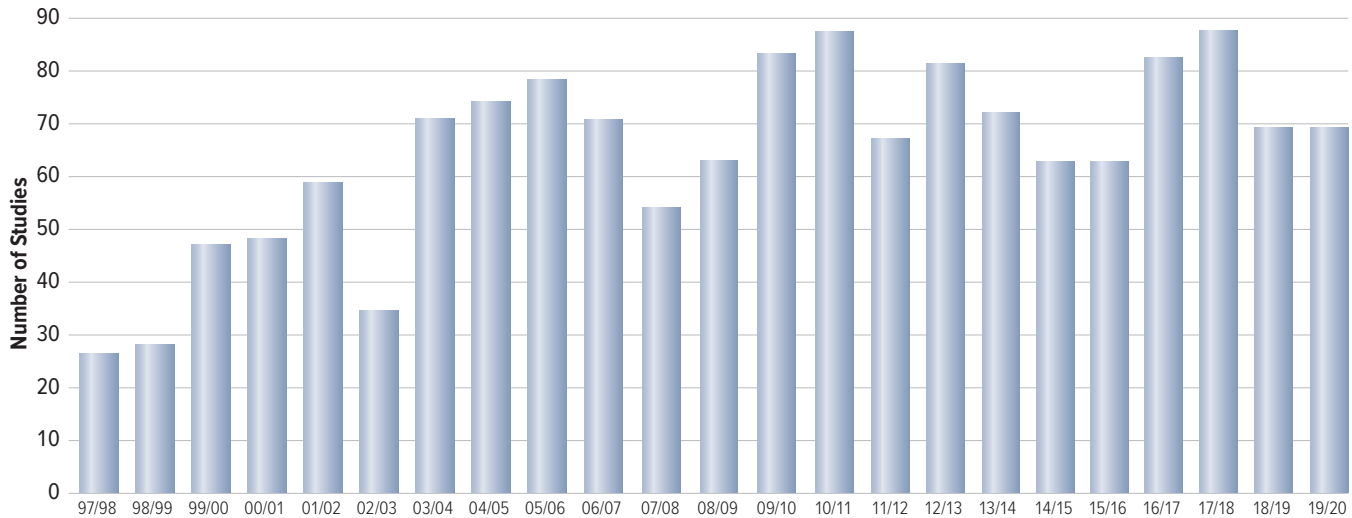
About FCMAT

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) 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 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 district had the following condition(s), under which an analysis is required by the 2018-19 State Budget Act.

- Three consecutive qualified interim report certifications

Fiscal Health Risk Analysis Guidelines

FCMAT entered into a study agreement with Lost Hills Union School District on February 9, 2021, and a study team collected data and interviewed district staff and leadership via video conference during the week of March 29. 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:

Carolynne Beno
FCMAT Intervention Specialist

Jeff Potter
FCMAT Intervention Specialist

Marcus Wirowek
FCMAT Intervention Specialist

Laura Haywood
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: March 29-31, 2021 (via video conference)

District: Lost Hills Union School District

Summary

The Lost Hills Union School District has experienced declining enrollment since the 2017-18 fiscal year, when the number of students enrolled at the district peaked at 567. The district's current year enrollment is down approximately 50% from 2017-18, with reported enrollment of 288 students. This decline has adversely affected the district's budget and caused the need for spending reductions to align with the subsequent revenue reduction. The significant decrease in enrollment is due to the opening of a local charter school during the 2017-18 fiscal year in the Lost Hills community. Kern County Superintendent of Schools is the charter school's authorizer.

Beginning in 2018-19 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 have continued until second interim 2020-21, when the district certified as positive. However, based on the 2020-21 second interim multiyear projection, the district is projected to deficit spend in all three years of the multiyear projection.

FCMAT engaged and performed an FHRA to determine the district's level of risk for insolvency, and the resulting report determined Lost Hills Union to be at "high" risk of insolvency with an overall risk score of 26.9%. 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 is projected to deficit spend 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 decline in student attendance, are the most significant drivers of district revenues.
- A history of qualified certifications on interim financial reports.
- Projected deficit spending in the general fund on the multiyear projection, including a declining ending fund balance.
- 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. Without any board approved plan to reduce and or eliminate deficit spending, the district's ending fund balance will continue to decline. If this occurs, the district may 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, and avoid any further erosion of the ending fund balance.

As shown in the district's multiyear projections, the district projected to deficit spend in the current year plus the two subsequent years. The district should improve its efforts to adjust the budget as each fiscal year progresses to reflect anticipated expenditures more accurately 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 cash management, purchasing and contracts, deficit spending, contributions and transfers and enrollment and attendance, 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 economic downturn that resulted. The full impact to state and federal funding for K-12 districts still remains uncertain at the time of this report. Due to the significant decline in enrollment, the district will need to continue to proactively identify significant expenditure reductions beyond those included in the 2020-21 second interim reports to maintain its fiscal solvency.

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 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 district currently <i>without</i> the following?:	Yes	No
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"/>

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?	✓	<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"/>
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"/>
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"/>	<input checked="" 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"/>	<input checked="" 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 checked="" type="checkbox"/>	<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 checked="" type="checkbox"/>	<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 checked="" type="checkbox"/>	<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 checked="" type="checkbox"/>	<input type="checkbox"/>
10.6	Are the district's enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?	<input checked="" type="checkbox"/>	<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?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12.2	Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
19.1	Does the district account for all positions and costs?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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	0.8%
3.	Budget Monitoring and Updates	3.9%
4.	Cash Management	6.1%
5.	Charter Schools	0.0%
6.	Collective Bargaining Agreements	0.0%
7.	Contributions and Transfers	1.0%
8.	Deficit Spending (Unrestricted General Fund)	3.5%
9.	Employee Benefits	0.0%
10.	Enrollment and Attendance	2.9%
11.	Facilities	0.0%
12.	Fund Balance and Reserve for Economic Uncertainty	2.0%
13.	General Fund - Current Year	0.8%
14.	Information Systems and Data Management	0.0%
15.	Internal Controls and Fraud Prevention	2.9%
16.	Leadership and Stability	2.3%
17.	Multiyear Projections	0.0%
18.	Non-Voter-Approved Debt and Risk Management	0.0%
19.	Position Control	0.0%
20.	Special Education	0.7%
Score		26.9%

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?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" 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 type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

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?	<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 type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p><i>The budget development process is handled almost exclusively by the chief administrative officer/superintendent. While limited input from other staff members and administrators may occur, no formal meetings are scheduled and no documented processes were provided. FCMAT was unable to determine whether the governing board and community have an active role in the budget development process.</i></p>			
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?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 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 currently 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?

While the district prepares a detailed list of budget assumptions, FCMAT could not determine if those assumptions are fully communicated to the board. Information provided to the board at each interim reporting period is unclear from available documentation, including the district’s interim report board presentations and website.

- 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 deficit spending as a deficiency in the district’s 2018-19, 2019-20 and 2020-21 oversight letters. Deficit spending continued to be anticipated in the 2020-21 first interim multiyear projection, which showed an excess of expenditures over revenues of \$1,185,311 in 2020-21, \$1,061,185 in 2021-22 and \$1,220,725 in 2022-23. As a result, the district projected to end 2022-23 with a negative ending fund balance of \$351,419.

Deficit spending was subsequently projected to decline in the 2020-21 second interim multiyear projection, resulting in a positive ending fund balance in 2022-23 of \$1,011,391.

- 3.7 Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure?

The district uses an offline purchasing process that lacks any formal interface with the budget and does not encumber funds upon creation of a purchase order. Rather, a purchase order is created using a spreadsheet and is reflected in the district’s financial system only after being paid. Accordingly, purchase orders and requisitions cannot be prohibited from processing if insufficient budgetary funds are available to support the expenditure.

- 3.8 Does the district encumber and adjust encumbrances for salaries and benefits?
- The financial system in use by both the district and county lacks the ability to encumber salaries and benefits. The county office has addressed this weakness with the software vendor; however, no resolution has been identified.*

- 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?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.2	Does the district reconcile all bank (cash and investment) accounts with bank statements monthly?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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 checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>Documentation provided to FCMAT indicated that the district does not forecast its cash flow beyond the current fiscal year.</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 checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>While the district's cash flow for the current fiscal year does not indicate insufficient cash in any month of the projection, the cash flow does not extend into the subsequent fiscal year. FCMAT could not determine if any cash shortfall may exist in 2021-22 for which a mitigation plan would be necessary.</i>			
4.5	Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>In the district's 2020-21 first interim report, the district projects a contribution from the general fund to the cafeteria fund of \$50,000 in the current fiscal year. Without the contribution, the district lacks the necessary resources in the cafeteria fund to cover its obligations. In the district's 2020-21 second interim report, the same contribution of \$50,000 is also included in the two subsequent years of the multiyear projection.</i>			
4.6	If interfund borrowing is occurring, does the district comply with Education Code Section 42603?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
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?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
5. Charter Schools		Yes	No	N/A
5.1	Are all charters authorized by the district going concerns?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" 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"/>	<input checked="" 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"/>	<input checked="" type="checkbox"/>
5.4	Does the district have a board policy or other written document(s) regarding charter oversight?	<input checked="" type="checkbox"/>	<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"/>	<input checked="" type="checkbox"/>
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?	<input checked="" type="checkbox"/>	<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"/>
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?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>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.</i>			
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"/>
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?	✓	<input type="checkbox"/>	<input type="checkbox"/>

8. Deficit Spending (Unrestricted General Fund)

Yes No N/A

8.1	Is the district avoiding deficit spending in the current fiscal year?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>As shown in the district's 2020-21 first interim report, the district is projected to deficit spend by \$1,185,311. However, the 2020-21 second interim report indicates that the district reduced the amount of deficit spending to approximately \$705,743 in the current year.</i>			
8.2	Is the district projected to avoid deficit spending in both of the two subsequent fiscal years?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>As shown in its 2020-21 first interim multiyear projection, the district is projected to deficit spend by \$1,061,184 in 2021-22 and \$1,220,725 in 2022-23. However, as presented in the district's 2020-21 second interim multiyear projection, deficit spending was reduced and projected to be approximately \$688,621 in 2021-22 and \$710,046 in 2022-23.</i>			

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?

At the time of FCMAT's interviews, this district did not have a board approved plan to reduce and/or eliminate deficit spending.

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

As shown in the district's 2020-21 first interim report, deficit spending has accelerated since 2018-19. While the district's 2020-21 second interim report shows a projected reduction in deficit spending from first interim, the ending fund balance has continued to decline at an increasing rate during 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)?

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?

According to the California Department of Education's DataQuest reporting system, district enrollment has declined since 2018-19. Enrollment was 418 students in 2018-19 and declined to 287 in 2019-20. In 2020-21, enrollment was reported as 288.

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)?

During FCMAT's interviews, the district did not provide evidence that it analyzes its enrollment and average daily attendance at least monthly through the second reporting period.

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?

During FCMAT's interviews, the district did not provide evidence of its maintenance of accurate daily enrollment and attendance that is reconciled monthly at the site and district levels, such as site-level weekly attendance reports that balance with the monthly reports from those same sites.

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?.	✓	☐	☐
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, it does appear that the district works 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?	✓	☐	☐

- 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 2020-21 first interim multiyear projection indicates the district will be unable to meet its reserve for economic uncertainties in 2022-23 and at the time of interviews, the district did not provide a plan to restore the reserve. FCMAT recognizes the 2020-21 second interim multiyear projection indicates the district will meet its reserve requirements in 2022-23.*
- 12.4 Is the district’s projected unrestricted fund balance stable or increasing in the two subsequent fiscal years?
- The 2020-21 first interim multiyear projection projected an unrestricted ending fund balance of \$1,375,596 in 2020-21, \$429,135 in 2021-22 and negative \$654,304 in 2022-23.*
- 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?
- Staff interviews indicated that the district received an invoice from the California Department of Education in the prior fiscal year for expired, unspent federal funds (Title III) of approximately \$1,500.*
- 13.7 Does the district account for program costs, including the maximum allowable indirect costs, for each restricted resource and other funds?
- As indicated by the 2019-20 unaudited actuals, the district charges the maximum indirect cost rate to many restricted resources but excludes those programs that are not self-supporting, such as special education and the cafeteria fund. As a result, the full cost of these programs is not reflected in the district’s financial reports.*

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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
14.4	Is the district using the same financial system as its county office of education?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input type="checkbox"/>	<input type="checkbox"/>	✓
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?	<input type="checkbox"/>	<input type="checkbox"/>	✓

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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input type="checkbox"/>	✓	<input type="checkbox"/>

Interviews and available documentation did not confirm that the district’s financial system’s access and authorization controls are reviewed 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)	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Accounts receivable (AR)	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Purchasing and contracts.	<input type="checkbox"/>	✓	<input type="checkbox"/>

The district uses an offline purchasing process that lacks any formal interface with the budget and does not encumber funds upon creation of a purchase order. Rather, a purchase order is created using a spreadsheet and is reflected in the district’s financial system only after being paid. While the process is monitored and approved by district management, it lacks the internal controls, user security and transaction history associated with the integrated purchasing module in the district’s financial system.

	• Payroll	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Human resources (i.e., duties relative to position control and payroll processes)	✓	<input type="checkbox"/>	<input type="checkbox"/>

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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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15.5	Does the district review and work to clear prior year accruals throughout the year?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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15.6	Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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15.7	Does the district have processes and procedures to discourage and detect fraud?	<input type="checkbox"/>	✓	<input type="checkbox"/>
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While Board Policy (BP) 3400 requires that “The Superintendent or designee shall develop internal controls which aid in the prevention and detection of fraud ...,” staff 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 ...," staff 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.
- 15.9 Does the district have an internal audit process?
The district does not have a formal internal audit department or documented auditing processes.

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?
Interviews with staff indicated site or department administrators do not receive training on financial management or the budget. The chief administrative officer/superintendent develops the budget and performs all budget and financial management.
- 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?
Interviews indicated that the district lacks a process to effectively communicate newly adopted or revised policies and administrative regulations to ensure all employees always receive this information.
- 16.7 Do all board members attend training on the budget and governance at least every two years?
Interviews indicated that some budget training is provided at board meetings; however, board members do not regularly attend training on governance at least every two years.
- 16.8 Is the superintendent’s evaluation performed according to the terms of the contract?
FCMAT was unable to locate board meeting minutes and was not provided other evidence supporting that a superintendent’s evaluation was performed according to the terms of the contract.

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?	✓	<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"/>
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"/>	✓
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?	<input type="checkbox"/>	<input type="checkbox"/>	✓
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?	<input type="checkbox"/>	<input type="checkbox"/>	✓
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?	<input type="checkbox"/>	<input type="checkbox"/>	✓

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

19.1	Does the district account for all positions and costs?	✓	<input type="checkbox"/>	<input type="checkbox"/>
19.2	Does the district analyze and adjust staffing based on staffing ratios and enrollment?	✓	<input type="checkbox"/>	<input type="checkbox"/>
19.3	Does the district reconcile budget, payroll and position control regularly, at least at budget adoption and interim reporting periods?	✓	<input type="checkbox"/>	<input type="checkbox"/>
19.4	Does the district identify a budget source for each new position before the position is authorized by the governing board?	✓	<input type="checkbox"/>	<input type="checkbox"/>
19.5	Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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?	✓	<input type="checkbox"/>	<input type="checkbox"/>

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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
20.2	Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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)?	<input type="checkbox"/>	✓	<input type="checkbox"/>

While tools may be available through the SELPA, the district did not provide evidence that it utilizes these resources or has developed any on its own to determine added services.

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)?	□	✓	□
	<i>The district does not charge indirect costs to special education, so the total costs of special education are not reflected.</i>			
20.5	Is the district's contribution rate to special education at or below the statewide average contribution rate?		✓	□
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?		✓	□

Risk Score, 20 numbered sections only:	26.9%
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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*

District Fiscal Solvency Risk Level, all FHRA factors:	High
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(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.)