FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

July 16, 2015

Michelle Henson, Chief Business Official
Millbrae Elementary School District
555 Richmond Drive
Millbrae, CA 94030

Dear Ms. Henson:

The purpose of this management letter is to confirm the findings of the Fiscal Crisis and Management Assistance Team (FCMAT) resulting from the recent independent review of the Millbrae School District's 2014-15 fiscal year budget and other organizational components. This letter provides FCMAT's analysis based on the enclosed Fiscal Health and Risk Analysis, which is a tool to evaluate key fiscal indicators that may help measure a school district's risk of insolvency in the current and two subsequent fiscal years.

FCMAT conducted fieldwork at the district office on May 21-22, 2015, with additional off-site work during the weeks that followed. As indicated in the final study agreement dated March 26, 2015, FCMAT reviewed numerous documents and financial reports, including the district's annual independent audits, unaudited actuals, financial system reports, J-18/19 attendance reports, and other historical financial information pertinent to the study. The independent Fiscal Health Risk Analysis was developed based on this information and from reports from the district's financial system through May 2015. Additional input from district and county office of education staff was also considered before finalizing the enclosed information.

Background

From 2008-09 through 2012-13, California public education experienced unprecedented economic challenges. Ongoing declines in state and federal funding; reliance on one-time revenue sources; increases in state apportionment deferrals; and the increasing costs of salary and health benefits, energy, fuel, and other routine operating costs, left many district budgets with structural deficits and exhausted or insufficient reserve balances. These conditions were sometimes exacerbated by insufficient or delayed spending reductions to offset the funding reductions, and often resulted in extreme financial strains that significantly affected districts' ability to meet students' instructional needs.

These economic factors, combined with the new requirements to meet student performance objectives established by the Local Control Accountability Plan (LCAP) and funding implemented by the Local Control Funding Formula (LCFF), pose additional fiscal challenges for public schools. The goal of the LCFF was to significantly simplify how state funding is provided to local educational agencies (LEAs). LEAs now receive funding based on the demographic profile of the students they serve and gain greater flexibility to use these funds to improve student achievement. The LCFF created funding targets based on these student characteristics. For school districts and charter schools, the LCFF targets consist of grade span-specific base grants plus supplemental and concentration grants based on certain student demographics.

Implementation of the LCFF began in the 2013-14 fiscal year, and the California Department of Finance estimates that achieving full funding levels under the LCFF will take eight years based on its current Proposition 98 growth projections. Under the LCFF, all LEAs are required to prepare an LCAP, which describes how they intend to meet annual goals for all pupils, with specific activities to address state and local priorities identified pursuant to *Education Code* Section 52060(d).

Districts must demonstrate leadership and the ability to meet the increasing expectations of parents, students and the community while working within the parameters of both the LCFF and LCAP requirements.

The Millbrae Elementary School District is a K-8 district in northern San Mateo County, adjacent to the San Francisco International Airport. The district has five schools: Green Hills Elementary, Lomita Park Elementary, Meadows Elementary, Spring Valley Elementary and Taylor Middle School. The city of Millbrae is a small suburban community that covers 3.2 square miles and has a population of 21,532. It has no major industry but has numerous small businesses. The district has a positive working relationship with the city of Millbrae, including joint school board/city council meetings held quarterly. This collaborative relationship extends to programs in conjunction with the sheriff's and fire departments, the Millbrae Library, and the Department of Parks and Recreation. The schools also receive active support from local service organizations including the Millbrae Rotary and Lions clubs, Peninsula Chinese Business Association, the Millbrae Community Foundation, parent-teacher associations at each school, and the Millbrae Education Foundation.

The community has undergone ethnic and socioeconomic changes in recent years, and these are reflected in the district. The city has numerous multifamily dwellings and apartments, but at the same time many Millbrae residents are retired and/or have lived in the city for many years. The district's enrollment has also grown over the past four years, from 2,159 students in 2010 to 2,445 in 2014. The student population is ethnically diverse, with more than 33 languages other than English as students' primary languages. The March 2014 Language Census Report indicates that the most common languages are Spanish (32%), Cantonese (22%), Mandarin (12%), Arabic (3.5%), Japanese (3.2%), Tagalog (3.2%) and Korean (2.2%). Twenty-three percent of the district's students are limited English proficient (LEP), 27% are fluent English proficient (FEP), and 50% are native English speakers. The district's English language development program (ELD) had 608 students identified for services in 2013-14, and 87 of these students were reclassified as FEP in spring 2014. In addition, 430 students (18% of the total student population) were eligible for free or reduced-price lunch, and 42 students were identified as foster care or homeless youth.

The study agreement states the following:

> Scope and Objectives of the Study:
>
> The Fiscal Crisis and Management Assistance Team (FCMAT) has developed the Fiscal Health Risk Analysis as a management tool to evaluate key fiscal indicators that may help measure a school district's risk of insolvency in the current and two subsequent fiscal years. The district is requesting that FCMAT conduct a Fiscal Health Risk Analysis and provide a report identifying findings and recommendations for each of the key fiscal indicators.

The FCMAT study team consisted of the following individuals:

Anthony L. Bridges, CFE, CICA
Deputy Executive Officer
FCMAT

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Fiscal Intervention Specialist
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Executive Summary

Fiscal Health Risk Analysis

The district's Fiscal Health Risk Analysis summary and total score of six "no" responses to individual items indicates that there is minimal risk of financial insolvency. The scoring rubric indicates that the district has low risk and minimal key areas of concern.

FCMAT reviewed the district's prior year audit reports, 2014-15 adopted budget, and interim reports to assess the risk for many components of the Fiscal Health Risk Analysis. The multiyear financial projection (MYFP) component is required by Assembly Bill (AB) 1200 and AB 2756. The primary purpose of an MYFP is to project the district's budget over several fiscal years using current budget assumptions to determine if the district is able to achieve and sustain a balanced budget and maintain the state-prescribed reserve for economic uncertainties.

To evaluate the MYFP, attention is focused on the district's ability to meet its reserve requirement in each fiscal year and demonstrate a positive, unappropriated fund balance. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines. To evaluate the district's financial solvency, much attention is focused on whether the district is deficit spending. The MYFP should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers.

One area of concern is that over the last several years the district has relied on one-time funding sources and the use of available funds in Fund 17, Special Reserve for Other Than Non-Capital Outlay, to fund other post-employment benefits (OPEB) requirements in the general fund. Without the use of these one-time funds, the district's unrestricted general fund would show a much larger change in the deficit spending reported.

The district should continue working to decrease the variance between budgeted and actual expenses at year-end closing. This will increase credibility with local employee associations, the community and the governing board. Messaging regarding budget adjustments and how they affect the district must be continual and public. Stakeholders often remember only the last thing they heard, so it is imperative that news about budget adjustments and how they affect fund balance, either negatively or positively, be repeated on a continuing basis.

The district is facing some critical challenges in organizational leadership and staffing. The superintendent left the district as of June 30, 2015, and the chief business official has been with the district less than a year. More than half of the business office staff have been with the district less than a year, and the district is understaffed in payroll, information technology, and clerical support to the assistant superintendent of educational services. In its effort to be frugal, the district has hampered the operational effectiveness of these areas.

Predictors of The Need for Fiscal Intervention

AB 1200 was enacted in 1991 and provided additional authority and responsibility to county offices. In June 2004, AB 2756 (Daucher) was passed and signed into law on an urgency basis. The legislation made substantive changes to the financial accountability and oversight processes used to monitor the fiscal condition of school districts and county offices of education. AB 2756 strengthened the role of the Superintendent of Public Instruction (SPI), county offices of education (COEs) and FCMAT, including their ability to intervene during fiscal crises.

The 10 most common predictors of a school district needing intervention, as referenced in AB 2756 and included in amended Education Code Sections 42127 and 42127.6, are as follows:

1. **Leadership Breakdown**
   a. Absence of a strong leadership team that includes at least the board and superintendent
   b. Micromanagement from board members
   c. Systems that are fully or partially controlled by highly influential special interest groups
   d. Ineffective or lack of adequate personnel supervision
   e. Spiraling litigation and/or settlements against the district
   f. Board policies and administrative regulations that are routinely ignored, not updated, and not communicated to staff
   g. Inability to consider long-term impacts of collective bargaining agreements

2. **Ineffective Communication**
   a. Staff unrest and/or low morale
   b. Lack of communication to staff
   c. Inadequate engagement of all educational constituencies, particularly parents
   d. Lack of interagency cooperation

3. **Collapse of Infrastructure**
   a. Breakdown of internal systems (management information systems, data management)
   b. Unhealthy, unsafe and unmonitored facilities
   c. Neglect of deferred maintenance and lack of an implementable deferred maintenance plan
   d. Low budget priority for facility issues
   e. Lack of a long-range facilities plan

4. **Inadequate Budget Development**
   a. Inability to transition adequately to the regulations that govern the Local Control Funding Formula (LCFF)
   b. Flawed average daily attendance (ADA), enrollment, revenue, and unduplicated pupil count projections
   c. Deficit spending and failure to maintain adequate reserves and fund balance
   d. Manipulation of multiyear projections and ignorance of trend analyses
   e. Disconnection between budget and the Local Control Accountability Plan (LCAP)
   f. Reliance on the rollover budget
   g. Inability to accurately estimate the ending fund balance

5. **Limited Budget Monitoring**
   a. Inattention to county office of education (COE) information, analysis and oversight of the budget, including a lack of understanding of AB 1200
   b. Lack of control and monitoring of total compensation as a percentage of total expenses
   c. Actual expenditures not in line with the most current budget
   d. Failure to reconcile the general ledger balance sheet accounts regularly, particularly receivables and payables

e. Lack of internal controls
f. Lack of control and monitoring of contributions to restricted programs
g. Consistently failing to update budget assumptions

6. Lack of Data Accuracy, Collection, and Reporting

a. Inability to adequately collect, assess and report student data via the California Pupil Achievement Data System (CALPADS)
b. Consistently poor data quality
c. Data not used to inform decision making and the LCAP
d. Ignoring audit exceptions related to data collection and reporting
e. Limited access to timely personnel, payroll, budget control data and reports
f. Failure to accurately identify students eligible for free and reduced-price meals, English learners, and foster youth, in accord with LCFF and LCAP requirements

7. Human Resources Issues

a. Poor or limited use of position control, and lack of integration with payroll and financial system
b. Unauthorized hiring
c. Overstaffing
d. Large numbers of staff working out of assignment
e. Administrators who consistently crisis manage
f. Lack of professional development for all staff

8. Inattention to and/or High Levels of Debt

a. High levels of non-voter-approved debt (COPs, bridge financing, etc.)
b. Inattention to unfunded liabilities
c. Not conforming to GASB 68 requirements to recognize and report the district's proportionate share of net liability for pension programs
d. Debt service and/or pay as you go as a percentage of general fund expenditures is out of control
e. Parcel taxes allocated and used for ongoing expenditures

9. Cash Monitoring and Accounting Deficiencies

a. Lack of monitoring of cash
b. Lack of a plan for short-term cash flow needs
c. Inability to balance cash
d. Not informing the board of cash position regularly, and not understanding and communicating to the board and superintendent that cash and fund balance are not the same thing

10. Related Issues of Concern

a. Not understanding the connection between budget and program staff as it relates to the LCAP
b. Misunderstanding the effect of the cost of living adjustment (COLA) in the LCFF era
c. Inattention to, lack of cooperation with, and inadequate monitoring of charter schools for which the district or county office is the authorizer
d. Consistently low-performing schools and an inability to close the achievement gap
e. Chronically overestimating revenues and underestimating staffing costs
f. Inability to adequately explain the concept and impact of the GAP percentage factor to the board, bargaining members, and other constituents

Conditions in the Millbrae District *do not* match a *majority* of the criteria for districts needing assistance or intervention from the San Mateo County Office of Education and/or the State of California.

Fiscal Health Risk Analysis

Key Fiscal Indicators for K-12 Districts

The Fiscal Crisis and Management Assistance Team (FCMAT) has developed the Fiscal Health Risk Analysis as a management tool to evaluate key fiscal indicators that may help measure a school district's risk of insolvency in the current and two subsequent fiscal years.

The presence of any single criterion is not necessarily an indication of a district in fiscal crisis. However, districts that answer "No" to seven or more of the 20 key indicators may have cause for concern and could require some level of fiscal intervention.

The Fiscal Health Risk Analysis should be viewed as a snapshot in time; it uses the district's 2015-16 adopted budget as the baseline for developing the analysis. Any evaluation of financial data or other organizational issues have inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment; cost-of-living adjustments; forecasts for utilities, supplies and equipment; changing economic conditions at the state, federal and local levels; and changes in organization or key leadership positions.

The presence of any single criterion is not necessarily an indication of a district in fiscal crisis. However, districts that answer "No" to seven or more of the 20 key indicators may have cause for concern and could require some level of fiscal intervention. The more indicators identified, the greater the risk of insolvency or fiscal issues. Identifying issues early is the key to success when it comes 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. A district must continually update its budget as new information becomes available both from within the district and from other funding and regulatory agencies. This is particularly true in the era of the LCFF.

Each of the 20 key indicators below contains several questions. The response given to each key indicator (Yes, No, or N/A) is approximately the same as that given to a simple majority of its constituent questions.

In all instances where FCMAT has entered a "No" response, a detailed explanation is provided, and in some instances FCMAT has provided additional information even though a "No" response was not entered. In other instances, FCMAT substantiated that the district has met the requirement so entered a "Yes" response without further explanation.

Is the district's fiscal health acceptable in the following areas?	*Yes*	*No*	*N/A*
1. Deficit Spending	✔	❑	❑
• **Is the district avoiding deficit spending in the current year?**	✔	❑	❑

The following information is provided regarding the district's financial projections at each budget cycle in the Standardized Account Code Structure (SACS) financial reporting format. The adopted budget for fiscal year 2014-15 shows that the district's **unrestricted general fund** was projected to deficit spend, meaning expenditures exceed revenues after transfers in\out and contributions to restricted programs. However, changes to the district's revenues and expenditures were projected to eliminate any deficit spending by the time of the first interim financial report. The second interim includes all known changes to the district's budget from July 1, 2014 through January 31, 2015.

2014-15 Reporting Period	Adopted Budget	First Interim	Second Interim
Total	($328,021)	$3,438	$352,229

	Yes	*No*	*N/A*
• **Is the district avoiding deficit spending in the two subsequent fiscal years?**	❑	✔	❑

The first and second interim financial reports for the 2014-15 fiscal year project deficit spending for both subsequent fiscal years of the multiyear financial projection for the **unrestricted general fund**. However, the district's 2014-15 second interim report's projection for the two subsequent fiscal years includes funding rates of 32.19% (2015-16) and 23.17% (2016-17). The governor's May revise increased the gap funding rates to 53.08% (2015-16) and 37.40% (2016-17), and this additional funding is projected to eliminate the projected deficit spending.

2014-15 Reporting Period	First Interim 2015-16	Second Interim 2015-16	First Interim 2016-17	Second Interim 2016-17
Total	($299,887)	($49,711)	($43,849)	($25,961)

The governor's May budget now estimates that state general fund revenues will be $6.7 billion higher over the three-year forecast period (2013-14 through 2015-16) than the January estimates used by the district to project its second interim report. The specific revenue estimate changes include:

$1.05 billion in increased general fund revenue in 2013-14

$3.265 billion in increased general fund revenue in the current year (2014-15)

$2.287 billion in increased general fund revenue in the budget year (2015-16)

	Yes	No	N/A
• **Has the district decreased or eliminated deficit spending over the past two fiscal years?**	❏	✔	❏

The following are the changes to the district's combined fund balance:

Reporting Period	2012-13 Fund Balance	2013-14 Fund Balance	2014-15 Fund Balance
Audited Financials	($407,711))	$524,658	
Projected Financials			($124,456)

	Yes	No	N/A
• **Is deficit spending covered by fund balance, ongoing revenues, or expenditure reductions?**	✔	❏	❏

The district's governing board and administration are fully aware that the district may deficit spend because of the surplus of funds in Fund 17 (Special Reserve for Other than Capital Outlay Projects) to offset other post-employment benefits (OPEB). The district may want to set up the OPEB requirement in a separate fund or consider a payroll surcharge that can offset the liability in lieu of using a one-time source of funds.

2. Fund Balance ✔ ❏ ❏

	Yes	No	N/A
• **Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty?**	✔	❏	❏

The district's ending fund balance for June 30, 2015 is projected at $1,897,704.57, per the second interim financial report. This includes the calculation for the reserve for economic uncertainties, which is projected to be $621,484, meeting the 3% requirement. The remaining balance of $1,243,720 at year end is designated as unassigned/unappropriated.

	Yes	No	N/A
• **Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions?**	✔	❏	❏

The district's general fund balance increased by $524,658 in 2013-14 but is projected to decrease by $124,456 at year end for the 2014-15 fiscal year. This is because of planned deficit spending of restricted funds.

	Yes	No	N/A
• **Does the fund balance include any designated reserves for unfunded liabilities or one-time costs above the recommended reserve level?**	✔	❏	❏

In addition to the 3% reserve requirement, the district is designating $30,000 for future curriculum materials for math and English language arts.

3. Reserve for Economic Uncertainty ✔ ❏ ❏

	Yes	No	N/A
• **Is the district able to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends?**	✔	❏	❏

The 2014-15 second interim financial report indicates that the district will maintain reserves for economic uncertainties above the minimum recommended level in the current and two subsequent fiscal years.

	Yes	No	N/A
• **Does the district have additional reserves in Fund 17, Special Reserve for Other Than Capital Projects?**	✔	❏	❏

The district's ending fund balance in Fund 17 is projected to be $2,330,828.27. However, $2,117,246.71 of this amount is board-designated to fund the district's unfunded OPEB liability, and the remaining $231,581.56 is board-designated for other purposes.

	Yes	No	N/A
• **If not, does the district's multiyear financial projection include a plan to restore the reserve for economic uncertainty?**	❏	❏	✔

The district is not in financial crisis, and minimal deficit spending is projected in the second subsequent fiscal year of the MYFP.

4. Enrollment and Attendance

	Yes	No	N/A
4. Enrollment and Attendance	✔	❏	❏
• **Has the district's enrollment been increasing or stable for multiple years?**	✔	❏	❏

A demographic study prepared by Enrollment Projection Consultants in April 2015 forecast enrollment to increase by 345 students over the next five years. The increase will most likely occur in grades K-6. Enrollment Projection Consultants attributes the projected increase in enrollment to the following factors:

1. Despite being a highly acclaimed district, enrollment has not grown by as much in the last six years as in many relatively comparable districts on the Peninsula. The current average number of students per detached residence is well below FCMAT's findings in other districts.
2. The latest birth rate figures to project incoming kindergarten for the Millbrae attendance area has jumped significantly. These much higher birth counts correlate to district kindergarten enrollments in the next three years.
3. Enrollment will also be bolstered from new students generated from the residential development expected as a result of the new Bay Area Rapid Transit (BART) station.

	Yes	No	N/A
• **Is the district's enrollment projection updated at least semiannually?**	✔	❏	❏

Historically, the district's enrollment has remained stable. However, a recent demographic study predicts that the district will gain 345 students, mostly in grades K-6, over the next five years. The district should begin to monitor actual enrollment against the projections semiannually and adjust the budget accordingly.

	Yes	No	N/A
• **Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends?**	✔	❏	❏

The offices of the district's superintendent, assistant superintendent of educational services, and chief business official work collaboratively to adjust staffing based on enrollment. Because enrollment has historically been stable, the adjustments have been minor. Going forward, the three departments will have to work together to adjust staffing to accommodate the district's projected enrollment increases.

	Yes	No	N/A
• **Does the district analyze enrollment and average daily attendance (ADA) data?**	✔	❏	❏

The district has a 97% attendance-to-enrollment rate and analyzes enrollment and ADA trends at P-1 and P-2 reporting periods.

	Yes	No	N/A
• **Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes?**	✔	❏	❏

The attendance trend between P-1 and P-2 has remained steady for several consecutive years. There is no reason to suspect that the trend will not continue in the future. However, the district should monitor the trend in light of changing demographics.

	Yes	No	N/A
• **Has the district implemented any attendance programs to increase ADA?**	✔	❏	❏

The district has a 97% attendance-to-enrollment rate. Nevertheless, the district should employ strategies to increase student attendance, such as aligning the school calendar with attendance patterns, educating students and parents about the importance of regular attendance, and optimizing the P-2 attendance cutoff date.

	Yes	No	N/A
• **Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly?**	✔	❏	❏

Schools use the EduPoint-Synergy attendance module to record enrollment and daily and monthly attendance.

	Yes	No	N/A
• **Have approved charter schools had little or no impact on the district's student enrollment?**	❏	❏	✔

There are no charter schools in the district nor any petitions to establish one during the 2014-15 fiscal year.

	Yes	No	N/A
• **Does the district have a board policy that attempts to reduce the effect that transfers out of the district have on the district's enrollment?**	✔	❏	❏

The board has approved Board Policy 5118, Open Enrollment Act Transfers, which states, in part, the following:

> The Governing Board desires to offer enrollment options in order to provide children with opportunities for academic achievement that meet their diverse needs. Such options shall also be provided to children who reside within another district's boundaries in accordance with law, Board policy, and administrative regulation.

	Yes	No	N/A

Whenever a student is attending a district school on the Open Enrollment List as identified by the Superintendent of Public Instruction, he/she may transfer to another school within or outside of the district, as long as the school to which he/she is transferring has a higher Academic Performance Index. (Education Code 48354, 48356).

- **Did the district certify its CALPADS Fall 1 submission by the required deadline?** . . . . ✔ ❑ ❑

  The district submits its CALPADS Fall 1 submission on time.

5. Debt ✔ ❑ ❑

- **Does the district have a recent actuarial study and a plan to set funds aside for unfunded liabilities?** . . . . ✔ ❑ ❑

  An actuarial report for the district's unfunded OPEB liability was prepared in May 2015. The actuarial report estimates the current liability for these benefits to be $6,008,177, with an annual required contribution (ARC) cost of $396,697. The district has funded $2,737,430 of this unfunded liability through the sale of surplus property. The district belongs to a joint powers authority for workers compensation and property and liability insurance.

- **Does the district maintain low levels of non-voter-approved debt (such as COPs, bridge financing, BANS, RANS and others)?** . . . . ✔ ❑ ❑

  Issuing long-term debt allows school districts to obtain funds to acquire or construct buildings and equipment and to spread the repayment over a period of years. It also allows school districts to obtain buildings or equipment that might not be possible using existing resources. Problems can develop if a school district issues too much debt without a dedicated revenue source, such as tax levies, to service that debt; in such cases annual debt service payments must be made from the district's unrestricted general fund, at the expense of current operations.

  Any long-term debt that the district must repay from the unrestricted general fund is considered unfunded because it requires the use of resources typically dedicated to the current costs of education, such as employees' salaries, administration and operating supplies. Although most districts can fund some long-term debt (e.g., accrued vacation) out of their general fund, districts should exercise caution in using general fund revenues for debt service payments because this depletes funds available for current operations. Moreover, debt service payments are one of the few line item expenditures that cannot easily be eliminated from a budget and thus place additional pressure on the unrestricted general fund during times of fiscal austerity.

	Yes	No	N/A

To determine whether a school district has too much unfunded long-term debt, the amount of the annual long-term unfunded debt payments is compared to the district's total unrestricted general fund revenues. The debt service payments from unrestricted general fund revenues for the Millbrae School District for fiscal year 2014-15 are projected to be $160,880. Thus the total debt payment amount above is less than 1% of unrestricted general fund revenues. Although there are no standards for the amount of unfunded debt that is considered prudent for California school districts, FCMAT believes that debt service payments of one to two percent of the unrestricted general fund revenues are reasonable. The district is not at risk in this area.

- **Is the district conforming to Governmental Accounting Standards Board (GASB) 68 requirements by recognizing and reporting its proportionate share of net liability for pension programs? . . . . ✔ ❑ ❑**

The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information state and local governmental employers provide about their own and other entities' financial support for pensions. GASB 68 is effective for fiscal years beginning after June 15, 2014 and therefore is not applicable during this review period. The district's 2014-15 independent audit will provide information regarding GASB 68 requirements.

GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, it identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their present actuarial value, and attribute that present value to periods of employee service. The district is working with its independent auditors to implement these changes this year.

6. Cash Monitoring ✔ ❑ ❑

- **Can the district manage its cash in all funds without interfund borrowing? . . . . . ✔ ❑ ❑**
- **If interfund borrowing is occurring, does the district repay the funds within the statutory period in accordance with Education Code Section 42603? . . . . . ✔ ❑ ❑**
- **Does the district forecast its cash receipts and disbursements and verify them at least monthly to ensure that cash flow needs are known with plenty of notice?. . . . ✔ ❑ ❑**
- **Does the district have a plan to address short-term cash flow needs?. . . . . . . ✔ ❑ ❑**
- **Are cash balances reconciled to bank statements monthly? . . . . ✔ ❑ ❑**

The district's cash balances are sufficient, and it has not needed to borrow funds internally in accordance with Education Code Section 42603. The general fund ending cash balance in July 2014 was stated at $4,482,672 and projected to end the year on June 30, 2015 at $2,662,491.

	Yes	No	N/A

The district has additional funds available in fund 17 (Special Reserve for Non-Capital Outlay), Fund 21 (Building) and Fund 40 (Special Reserve for Capital Outlay) for interfund borrowing if needed.

The district does not issue tax and revenue anticipation notes (TRANS) for temporary borrowing through the county TRANS pool because it has high cash balances in its general fund and other funds.

7. Bargaining Agreements

	Yes	No	N/A
7. Bargaining Agreements	✔	❑	❑
• Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years?	❑	✔	❑

The district is not a basic aid school district. However, it has historically given both of its employee bargaining units compensation increases that are greater than the state cost of living adjustment (COLA).

	Yes	No	N/A
• Did the district conduct a pre-settlement analysis, including multiyear projections, identifying ongoing revenue sources or expenditure reductions to support the agreement, as well as the long-term effects on the district?	✔	❑	❑
• Did the district correctly identify the related costs above the COLA, (i.e. statutory benefits, step and column)?	✔	❑	❑
• Did the district address budget reductions necessary to sustain the total compensation increase, including a board-adopted plan?	✔	❑	❑
• Did the superintendent and CBO certify the agreement prior to ratification?.	✔	❑	❑
• Is the governing board's action consistent with the superintendent's/CBO's certification?	✔	❑	❑
• Did the district meet the public disclosure requirements, including disclosure of the costs associated with a tentative collective bargaining agreement, before it became binding on the district?	✔	❑	❑

8. General Fund

	Yes	No	N/A
8. General Fund	✔	❑	❑
• Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average?	❑	✔	❑

The district's unrestricted salary and benefit costs were 92.28% of the unrestricted budget at 2014-15 budget adoption.

	Yes	No	N/A
• Does the district ensure that only ongoing restricted dollars pay for permanent staff?	✔	❑	❑

Some positions are supported by restricted dollars but all grants go to the board and are vetted. Periodically, salaries are moved to unrestricted if funds are not available.

	Yes	No	N/A
• **Does the budget include reductions in expenditures proportionate to one-time revenue sources, such as parcel taxes, that will terminate in the current or two subsequent fiscal years?**	✔	❑	❑

The district attempted to pass voter-approved parcel taxes three times but all three failed to pass. The current administration considered another attempt, but certificated staff wanted language that would increase or align salaries with those in comparable districts. The last parcel tax failed by 42 votes.

The governing board discusses one-time revenues and how programs will be sustained once a grant expires.

	Yes	No	N/A
• **Does the district ensure that the parcel tax does not pay for ongoing expenditures?**	✔	❑	❑

The district has no parcel taxes, although the board may consider another attempt at passing a parcel tax in the future. The district's Technology Department is in favor of another attempt due to the district's unfunded technology needs. There is a need to increase awareness of the district's needs and the reasons the community should support a parcel tax.

	Yes	No	N/A
• **Does the district ensure that litigation and/or settlements are minimized?**	✔	❑	❑

The district uses county counsel for general legal matters and a separate legal firm for negotiations. The district may also use specialized counsel for special education including, but not limited to, fair hearings. The district should evaluate whether this approach is the most cost effective.

9. Encroachment ✔ ❑ ❑

	Yes	No	N/A
• **Is the district aware of the contributions to restricted programs in the current year? (Identify cost, programs and funds)**	✔	❑	❑

The district's contribution to the cafeteria fund is $83,655 in the current year and is expected to grow to $110,000 in 2015-16. The district's contribution to the special education program in the current year is $2,297,296 and is expected to decrease slightly next year to $2,212,528 as a result of the district taking back some students programs currently operated by the county office of education. The district's contribution to special education transportation is $200,000 in the current year and is not expected to change in the future.

	Yes	No	N/A
• **Does the district have a reasonable plan to address increased encroachment trends?**	✔	❑	❑
• **Does the district manage encroachment in all funds including the cafeteria fund?.**	✔	❑	❑

The district has circulated a request for proposals for a new cafeteria consultant and hopes to reduce costs.

	Yes	No	N/A
10. Management Information Systems	✔	❑	❑
• Is the district's financial data accurate and timely?	✔	❑	❑
• Are the mandated county and state reports filed in a timely manner?	✔	❑	❑
• Are key fiscal reports — including those on personnel, payroll and budget — accessible, timely, and understandable?	✔	❑	❑
• Is the district on the same financial system as the county?	✔	❑	❑
• If the district is on a separate financial system, is there an automated interface with the financial system maintained by the county?	❑	❑	✔
• Is the district able to accurately identify students who are eligible for free and reduced-price meals, English learners, and foster youth, in accord with Local Control Funding Formula (LCFF) and Local Control Accountability Plan (LCAP) requirements?	✔	❑	❑
• Is the district able to collect, assess, and report student data in the California Longitudinal Pupil Achievement Data System (CALPADS)?	✔	❑	❑
11. Position Control and Human Resources	✔	❑	❑
• Does the district maintain and use an effective and reliable position control system that tracks personnel allocations and expenditures?	✔	❑	❑
The responsibility for position control is assigned to the business services supervisor, and position control issues are discussed in the superintendent's cabinet, including the decision to create a position, the cost to fund a position, and whether to leave a position vacant. The district uses the California Educational Computer Consortium (CECC) financial program for position control.			
• Is position control integrated with payroll and the financial system?	✔	❑	❑
Payroll is reconciled to position control.			
• Does the district control unauthorized hiring?	✔	❑	❑
The district uses position control to monitor and control staffing.			
• Is the district able to control overstaffing?	✔	❑	❑
• Are the appropriate levels of internal controls (i.e., checks and balances) in place between the business and personnel departments to prevent fraudulent activity?	✔	❑	❑
Position control is reconciled to the budget at every interim reporting period.			
• Is position control reconciled against the budget during the fiscal year?	✔	❑	❑
• Does the district offer or ensure that staff attend professional development regarding financial management and budget?	✔	❑	❑
Business office employees received professional development training through the San Mateo County Office of Education and at California Association of School Business Officials' (CASBO) regional workshops.			

	Yes	No	N/A
12. Budget Development and Adoption	✔	❑	❑
• Is a budget calendar used that contains statutory due dates and the major budget development milestones?	✔	❑	❑

The district uses a budge calendar that contains statutory due dates and major budget development milestones; however, it is rudimentary and could be improved by adding items such as review of enrollment projections to actual enrollment, the statutory deadlines for certificated and classified layoffs, and the 45 day revise.

	Yes	No	N/A
• Are clear processes and policies in place to analyze resources and allocations to ensure they align with strategic planning objectives and that the budget reflects the LEA's priorities and LCAP?	✔	❑	❑

The district's budget assumptions reflect economic factors and estimates as addressed in the governor's 2014-15 budget proposals and outlined by School Services of California in its January 2015 Financial Dartboard. The Local Control Accountability Plan (LCAP) is now the main component used in budget development, with dollars allocated to align with the LCFF.

	Yes	No	N/A
• Is the LCFF correctly calculated and understood?	✔	❑	❑
• Are projections for ADA, enrollment, revenue and unduplicated pupil count accurate and reasonable?	✔	❑	❑
• Is the district decreasing deficit spending and maintaining adequate reserves and fund balance when compared with the prior year?	✔	❑	❑
• Has the district ensured that the LCAP is incorporated in the budget?	✔	❑	❑
• Is the budget developed using a zero-based method rather than being a rollover budget?	✔	❑	❑
• Does the district use position control data for budget development?	✔	❑	❑
• Does the budget development process include input from staff, administrators, board and community, as well as the budget advisory committee (if there is one)?	✔	❑	❑
• Are the LCAP and the budget adopted within statutory timelines established by Education Code Section 42103, and are the documents filed with the county superintendent of schools no later than five days after adoption, or by July 1, whichever occurs first?	✔	❑	❑

The district used a budget committee in the past; now this function has been replaced by the LCAP sessions the district uses to gather input from various parties.

	Yes	No	N/A
13. Multiyear Projections	✔	❑	❑
• Has the district developed multiyear projections that have reasonable assumptions?	✔	❑	❑
• Are projected fund balance reserves disclosed and based on the most reasonable and accurate information available?	✔	❑	❑
• At a minimum, are the multiyear projections compiled at budget adoption and at the time of interim reports?	✔	❑	❑
• For the purpose of calculating multiyear projections, is the district using the latest LCFF gap closure percentages that show the amount of funding necessary to maintain purchasing power for the LCFF statewide?	✔	❑	❑
• Is the LCFF target for each year recalculated based on the grade span ADA, and then compared to the adjusted prior year funding, so that the funding gap would then be reduced by the funding gap percentage for the given year?	✔	❑	❑
14. Budget Monitoring and Updates	✔	❑	❑
• Are budget assumptions updated throughout the year as updated information becomes available?	✔	❑	❑
• Are actual revenue and expenses in line with the most current budget?	✔	❑	❑
• Are budget revisions completed in a timely manner?	✔	❑	❑
• Does the district openly discuss the impact of budget revisions at the board level?	✔	❑	❑
• Does the district abide by Education Code 42127(h) by informing the board of education and the public, within 45 days of enactment of the state budget, of any changes in the state budget that would affect the adopted budget?	✔	❑	❑
The district follows this process for changes that are material.			
• Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified?	✔	❑	❑
• Has the district's long-term debt decreased from the prior fiscal year?	❑	❑	✔
• Are contributions to restricted programs controlled and monitored?	✔	❑	❑
• Has the district identified the repayment sources for long-term debt or non-voter-approved debt (e.g. certificates of participation, capital leases)?	✔	❑	❑
• Does the district's financial system have a hard-coded warning regarding insufficient funds for requisitions and purchase orders?	✔	❑	❑
• Does the district encumber salaries and benefits?	✔	❑	❑
Payroll encumbrance is driven by CECC, the district's financial system.			

	Yes	No	N/A
• Are the balance sheet accounts in the general ledger reconciled regularly?	✔	❏	❏
• Does the district complete and file its interim budget reports within the statutory deadlines established by Education Code Section 42130 and following, in a format or on forms prescribed by the Superintendent of Public Instruction (SPI), and ensure that they are based on standards and criteria for fiscal stability?	✔	❏	❏

The district's practice of projecting deficit spending and then ending the fiscal year with a surplus fund balance is an area of concern. This practice diminishes credibility with the local employee associations, the community and the governing board. Messaging regarding budget adjustments and how they affect the district must be continual and public. Stakeholders usually only remember the last thing they hear, so it is imperative that news about budget adjustments and how they affect fund balance be repeated on a continuing basis.

15. Retiree Health Benefits ✔ ❏ ❏

	Yes	No	N/A
• Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements?	✔	❏	❏
• Does the district have a plan for addressing the retiree benefits liabilities?	✔	❏	❏
• Has the district conducted a re-enrollment process to identify eligible retirees?	✔	❏	❏

An actuarial report for the district's unfunded OPEB liability was prepared in May 2015. The actuarial report estimates the current liability for these benefits to be $6,008,177, with an annual required contribution (ARC) cost of $396,697. The district has funded $2,737,430 of this unfunded liability through the sale of surplus property.

Although the district has not conducted a re-enrollment, CalPERS and Delta Dental, the district's medical and dental providers, these providers have each conducted a re-enrollment that included district employees.

16. Leadership/Stability ❏ ✔ ❏

	Yes	No	N/A
• Does the district have a superintendent and/or chief business official who has been with the district more than two years?	❏	✔	❏

The district faces critical organizational leadership challenges. The superintendent left the district as of June 30, 2015, and the chief business official has been with the district less than a year. More than half of the business office personnel have been with the district less than a year. The district is understaffed in payroll, information technology, and clerical support to the assistant superintendent of educational services. The district's efforts to be frugal have hampered the operational effectiveness of these areas.

	Yes	No	N/A
• Does the governing board adopt and revise understandable and timely policies and support the administration to ensure implementation?	✔	❑	❑

All of the district's board policies and administrative regulations have been updated recently. The district uses Agenda Online, which enables community members to access board policies and administrative regulations through the district's website.

	Yes	No	N/A
• Does the superintendent adopt and revise understandable and timely administrative regulations and ensure that adopted board policies and approved administrative regulations are communicated to staff and followed?	✔	❑	❑
• Does the governing board refrain from micromanaging district administration and staff?	✔	❑	❑

17. Charter Schools ❑ ❑ ✔

	Yes	No	N/A
• Has the district identified a specific employee to be responsible for ensuring that adequate oversight occurs for all approved charter schools?	❑	❑	✔
• Has the charter school submitted the mandated financial reports on time?	❑	❑	✔
• Has the charter school commissioned an independent audit?	❑	❑	✔
• Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency?	❑	❑	✔
• Is the district monitoring and reporting the current status to the board to ensure that an informed decision can be made regarding the reauthorization of the charter?	❑	❑	✔

There are no charter schools in the district, and during the 2014-15 fiscal year no petitions were submitted to the governing board requesting the approval of a charter school. According to the San Mateo County Office of Education's website, the following charter schools are operating in the county within the school districts indicated:

Jefferson Elementary:

California Virtual Academy at San Mateo (K-12)

Jefferson Union High:

Summit Public Schools: Shasta (9-12)

Ravenswood City Elementary:

Aspire East Palo Alto Charter (K-6)

East Palo Alto Phoenix Academy (7-12)

Redwood City Elementary:

Connect Community Charter School (K-6)

	Yes	No	N/A

San Carlos Elementary:

- Arundel Elementary (K-4)
- Brittan Acres Elementary (K-4)
- Heather Elementary (K-4)
- San Carlos Charter Learning Center (K-8), Independent
- Tierra Linda Middle (5-8)
- White Oaks Elementary (K-4)

San Mateo Union High School District

- Design Tech High School (9-12)

Sequoia Union High:

- East Palo Alto Academy (9-12)
- Everest Public High School (9-12)
- Summit Public Schools (9-12)

	Yes	No	N/A
18. Internal Controls and Annual Independent Audit Report	✔	❏	❏
• Does the district implement appropriate measures to discourage and detect fraud?	✔	❏	❏
• Did the district receive an independent audit report without material findings?	✔	❏	❏
• Can the audit findings be addressed without affecting the district's fiscal health?	✔	❏	❏
• Has the independent audit report been completed and presented within the statutory timeline?	✔	❏	❏
• Are audit findings and recommendations reviewed with the board?	✔	❏	❏
• Did the audit report meet both GAAP and GASB standards?	✔	❏	❏

	Yes	No	N/A
19. Facilities	✔	❏	❏
• Has the district passed a general obligation bond?	✔	❏	❏
• Has the district met the audit and reporting requirements of Proposition 39?	✔	❏	❏

Measure X and Measure M, both $30 million bonds, were used for modernization, starting with Americans with Disabilities Act (ADA) compliance. The district had a facilities committee that made recommendations for use of the bond funds, and the district used project management.

	Yes	No	N/A
• **Is the district participating in the state's School Facilities Program?**	✔	❏	❏

The district received a fund release of $998,453 on July 25, 2000 for modernization of Meadows Elementary School. Therefore, the district is required to comply with all requirements of the program, including making the minimum contribution to the routine restricted maintenance account (RRMA) until July 25, 2020.

	Yes	No	N/A
• **Does the district have sufficient personnel to properly track and account for facility-related projects?**	✔	❏	❏
• **Has the district met the reporting requirements of the Williams Act?**	✔	❏	❏
• **Is the district properly accounting for the 3% Routine Repair and Maintenance Account requirement at the time of budget adoption?**	✔	❏	❏

The district properly accounts for the 3% RRMA requirement at the time of budget adoption. The district budgeted $646.989 in the RRMA at the second interim financial report.*

	Yes	No	N/A
• **Does the district prioritize facility issues when adopting a budget?**	✔	❏	❏
• **If needed, does the district have surplus property that may be sold or used for lease revenues?**	✔	❏	❏

The board sold real property located at one Alp Way for $20.1 million. The board deposited $12 million from these proceeds into its building fund (Fund 21), deposited $4,154,967.41 into its special reserve, and defeased $3,945,032.59 of its outstanding certificates of participation (COPS). The board subsequently asked the state Office of Public School Construction for approval to use $3,137,430 for one-time items in the general fund, including partially funding its OPEB liability in the amount $2,737,430 out of the $12,000,000 (This amount will be moved to Fund 20). The difference between these two amounts, and the amount of $4,454,967.41, were both subsequently deposited into Fund 40.

	Yes	No	N/A
• **If needed, are there other potential statutory options?**	✔	❏	❏

The district has a joint use partnership with the city of Millbrae.

	Yes	No	N/A
• **Does the district have a long-range facilities master plan that was completed or updated in the last two years?**	❏	✔	❏

The district has taken the first step by commissioning a demographic study. The next step will be to circulate a request for proposals for a facilities master plan.

* Although the requirement for a district to set aside monies for deferred maintenance has been eliminated as part of LCFF, the requirement to set aside funds for routine repair and maintenance has not. Education Code 17070.75 requires a school district to deposit 3% of its total general fund expenditures into its RRMA, for the sole purpose of maintaining school facilities in good repair. Education Code 17070.766 provided a temporary exemption to this requirement that allowed districts to deposit 1%; this exemption expired on June 30, 2015. The requirement applies only to local educational agencies that participate in the state School Facilities Program.

	Yes	No	N/A
20. General Ledger	✔	❏	❏
• Does the district record all financial activity for all programs accurately and in a timely manner, ensuring that work is properly supervised and reviewed?	✔	❏	❏
• Has the district closed the general ledger (books) within the time prescribed by the county office of education?	✔	❏	❏
• Does the district follow a year-end closing schedule?	✔	❏	❏

FCMAT reviewed and verified the 2013-14 closing procedures including the closing schedule, categorical programs, cash reconciliation, property tax information, vacation accrual, accounts receivable, accounts payable, prior year liability, other funds, deferred revenue, due to/due from (transfers), and other items.

	Yes	No	N/A
• Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year?	✔	❏	❏

The San Mateo County Office of Education reports these balances automatically each year in accordance with the annual audit.

	Yes	No	N/A
• Does the district adjust prior year accruals if the amounts actually received (A/R) or paid (A/P) are greater or less than the amounts accrued?	✔	❏	❏
• Does the district reconcile all suspense accounts, including payroll, at the close of the fiscal year?	✔	❏	❏

RISK ANALYSIS

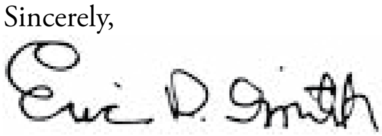
1. Total the number of component areas in which the district's fiscal health is not acceptable ("No" responses).
2. Use the key below to determine the level of risk to the district's fiscal health.

0 – 5	6 – 10	11 – 16	17 – 20
Low	Moderate	High	Extremely High

Total "No" responses to Component Areas: 0
Total "No" responses to Individual items within Component Areas: 6
The district's fiscal health risk is low.

Thank you for choosing FCMAT to be of service. We hope that the above analysis and information will benefit your district and the students we all serve,

Sincerely,



Eric D. Smith
Fiscal Intervention Specialist
FCMAT