

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Fiscal Health Risk Analysis

September 4, 2020



Newark Unified School District

Michael H. Fine
Chief Executive Officer

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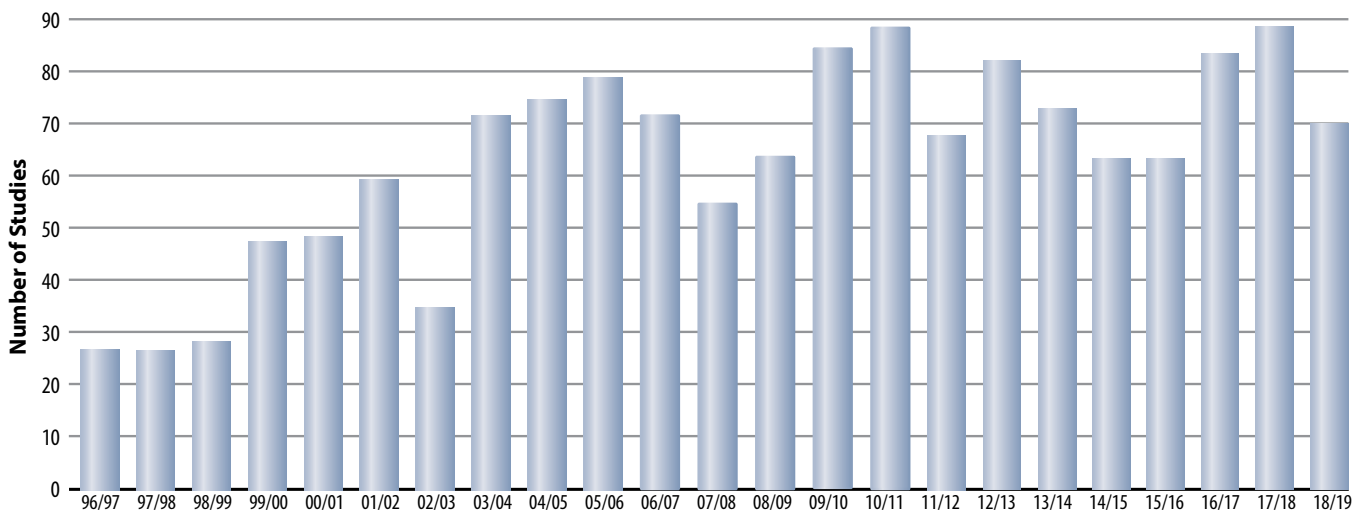
About FCMAT

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 the how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent

for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

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

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

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

This fiscal health risk analysis is being conducted because the district had three consecutive qualified interim report certifications, under which an analysis is required by the 2018-19 State Budget Act.

The Newark Unified School District serves the city of Newark which is located in northwest Alameda County on the southeast edge of the San Francisco Bay. Under the governance of a five-member board, the district serves approximately 5,669 students in kindergarten through grade 12 at eight elementary schools, one junior high school, one comprehensive high school, one continuation school and one independent study school. As of the 2019-20 school year, 46.1% of the district's students were economically disadvantaged and 19.9% were English learners; these percentages contribute to a total unduplicated pupil percentage of 52.53%.

Historical enrollment data shows that the district has had declining enrollment since 2009-10, when its reported enrollment was 6,920, indicating a loss of approximately 18% in enrollment over the last decade. The majority of school district funding is tied to enrollment. In the district's case, this decline led to a budget imbalance and consistent deficit spending. This has caused the district to certify its budget as "qualified" for the 2018-19 and 2019-20 interim reporting periods, indicating that concerns about its fiscal solvency are projected through 2021-22 and possibly beyond.

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

Fiscal Health Risk Analysis Guidelines

FCMAT entered into a study agreement with the district on April 29, 2020, and a FCMAT study team worked with district employees online from May 26 through May 28, 2020 to conduct interviews, collect data and review documents. Following fieldwork, the study team continued to review and analyze documents. This report is the result of those activities.

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

Study Team

The team was composed of the following members:

John Von Flue
Chief Analyst

Jennifer Noga
FCMAT Intervention Specialist

John Lotze
FCMAT Technical Writer

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

Fiscal Health Risk Analysis

For K-12 School Districts



FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Date(s) of fieldwork: May 26 – 28, 2020

District: Newark Unified School District

Summary

The district has been identified as a fiscal concern since the 2018-19 fiscal year, with concurrence from the Alameda County Office of Education. For fiscal year 2018-19, the district was certified as qualified for both first and second interim reporting periods, meaning that the district may not be able to meet its financial obligations for the current or two subsequent fiscal years. The district's 2019-20 budget was approved conditionally, pending completion of its 2018-19 unaudited actuals, revisions to its 2019-20 budget, and adoption of a plan that includes budget balancing. Even with the adoption of budget balancing, the district continued to have fiscal weaknesses and submitted qualified budget certifications for both the first and second interim reporting periods in fiscal year 2019-20.

This report shows that the district is at high risk of insolvency and identifies the areas in which it has fiscal weaknesses.

The district's fiscal concerns stem largely from significant changes over the past few years that led to a pattern of deficit spending. The community the district serves produces fewer students, resulting in a constant decline in enrollment and thus in its major source of revenue.

In addition, the district has experienced a turnover in key leadership positions including board members, superintendent, chief business official (CBO), and several other department administrators. Four of the five governing board members have been with the district for less than two years, the superintendent is new to the district as of July 2020, and the CBO started in September 2019. Changes in these positions affected the district's continuity of decision making and have hampered implementation of budget balancing actions in response to the district's declining enrollment and associated fiscal challenges. Because the governing board is ultimately responsible for the district's budget, and management has the responsibility of presenting sound financial information based on current and accurate data so the board can make informed decisions, instability in these roles is significant.

As requested by the Alameda County Office of Education as a condition of the district's 2019-20 budget approval, the district's governing board passed Resolution 2158 in October 2019, committing to reduce spending by \$1.85 million in 2020-21 and \$668,000 in 2021-22. In March 2020, the board approved Resolution 2061, which committed to making additional reductions of \$3.5 million over the next two years. According to the district's second interim fiscal report and interviews, board members indicated there was uncertainty about and a lack of implementation of the approved reductions needed to ensure fiscal solvency. In addition, the district had changes in both the superintendent and the CBO positions, which have contributed to the stalled implementation of reductions.

An additional issue that has likely contributed to the district's insufficient fiscal decision making and instability is a lack of critical controls for processes and procedures in the business office. Audits identified misclassification of students for both the 2017-18 and 2018-19 fiscal years; insufficient budgeting and monitoring of funds, including the Local Control Funding Formula calculations; the use of restricted funds; insufficient cash flow projections; and failure to analyze and disclose the effects of negotiations prior to settlement. Accurate and timely information on which to base decisions is essential to maintaining fiscal solvency.

As previously stated, the governing board is ultimately responsible for the district's budget. Management has the responsibility to present sound financial information based on current and accurate data so the board can make informed decisions. The failure of the district to act decisively on accurate information may result in fiscal insolvency and loss of local control.

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 checked="" type="checkbox"/>	<input type="checkbox"/>
Negative interim report certification	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Three consecutive qualified interim report certifications	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Downgrade of an interim certification by the county superintendent	<input checked="" type="checkbox"/>	<input type="checkbox"/>
“Lack of going concern” designation	<input checked="" type="checkbox"/>	<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 checked="" 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 checked="" type="checkbox"/>	<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 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"/>
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 checked="" type="checkbox"/>	<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? ✓
- 7.2 If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance? ✓
- 8.3 If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending to ensure fiscal solvency? ✓
- 10.6 Are the district’s enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations? ✓
- 11.2 Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects? ✓
- 12.1 Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including Fund 01 and Fund 17) as defined by criteria and standards? ✓
- 12.2 Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years? ✓
- 12.3 If the district is not able to maintain the minimum reserve for economic uncertainty, does the district’s multiyear financial projection include a board-approved plan to restore the reserve? ✓
- 19.1 Does the district account for all positions and costs? ✓

Score Breakdown by Section

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

1.	Annual Independent Audit Report	0.2%
2.	Budget Development and Adoption	3.3%
3.	Budget Monitoring and Updates	1.0%
4.	Cash Management	2.0%
5.	Charter Schools	0.0%
6.	Collective Bargaining Agreements	2.2%
7.	Contributions and Transfers	2.0%
8.	Deficit Spending (Unrestricted General Fund)	2.9%
9.	Employee Benefits	1.2%
10.	Enrollment and Attendance	2.9%
11.	Facilities	0.3%
12.	Fund Balance and Reserve for Economic Uncertainty	1.6%
13.	General Fund - Current Year	1.2%
14.	Information Systems and Data Management	1.0%
15.	Internal Controls and Fraud Prevention	3.3%
16.	Leadership and Stability	2.0%
17.	Multiyear Projections	0.0%
18.	Non-Voter-Approved Debt and Risk Management	0.0%
19.	Position Control	2.0%
20.	Special Education	0.4%
Score		29.3%

Fiscal Health Risk Analysis Questions

Budget and Fiscal Status: Is the 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"/>

1. Annual Independent Audit Report	Yes	No	N/A
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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"/>
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The district had recurring audit findings related to misclassified students in its unduplicated pupil count, resulting in the following decreases:

2018-19 audit – 20 students – decrease of approximately \$10,490

2017-18 audit – 12 students – decrease of approximately \$ 6,432

More importantly, the district’s auditors noted that the district’s compensated absences balances appeared to be unusually high. Their review of the district’s accumulated vacation balances indicated that balances significantly exceeded the industry-standard allowable rollover balance of 30 days and noted that the district does not currently have a cap on accumulated vacation days for its classified management and confidential employees. The district’s liability for all compensated absences is currently \$864,645, which is an increase of \$84,365 from the prior year’s June 30th ending balance. To mitigate the potential impact on the district’s financial position, the auditors recommend that the district create and enforce a cap on accumulated vacation days for classified management and confidential employees.

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 type="checkbox"/>	<input type="checkbox"/>
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1.3	Were the district’s most recent and prior two audit reports free of findings of material weaknesses?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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1.4	Has the district corrected all reported audit findings from the most recent and prior two audits?	<input type="checkbox"/>	✓	<input type="checkbox"/>
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The district had no audit findings in its June 30, 2017 audit report. However, the district’s 2018-19 and 2017-18 audit reports both had findings regarding the district’s School Accountability Report Cards (SARCs), specifically that the information reported under the School Facility Conditions and Planned Improvements was not supported by a recently completed Facilities Inspection Tool (FIT) evaluation form. In addition, as stated in item 1.1 above, the district misclassified students in its unduplicated pupil counts.

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 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 type="checkbox"/>	<input type="checkbox"/>
2.3	Does the district use position control data for budget development?	✓	<input type="checkbox"/>	<input type="checkbox"/>
2.4	Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>FCMAT’s review of the district’s use of the LCFF calculator showed that the district did not include an amount for estimated property tax for the current or two subsequent fiscal years. Without this information, the calculator cannot accurately project the district’s Educational Protection Account (EPA) allocation and its summary page will not be able to break down the components of the LCFF by object code. This breakdown is useful in helping districts accurately and correctly budget each allocation.</i>			
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"/>
	<i>The district’s 2019-20 adopted budget was approved conditionally by the county office of education. The conditions were that the district finalize its 2018-19 unaudited actuals, submit a revised budget including all recent amendments, and submit a board approved and adopted plan that includes additional budget balancing. The district’s governing board approved a resolution on October 17, 2019 that committed it to implement expenditure reductions of up to \$1.85 million and \$0.66 million in 2020-21 and 2021-22, respectively, and to implement additional budget balancing solutions as needed. The county office of education reviewed the three required revisions including the district’s board-approved stabilization plan, and subsequently approved its 2019-20 adopted budget. The district’s 2018-19 adopted budget was approved unconditionally; however, its 2017-18 adopted budget received a conditional approval that required the district to identify \$2.8 million in budget reductions, take formal board action to adopt a resolution outlining the reductions, and submit that reduction plan to the county office.</i>			
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 type="checkbox"/>
	<i>The district does not have a budget advisory committee. In interviews, employees indicated that the business office is mainly responsible for developing the budget. The position control technician is responsible for updating all positions and salary placement, the CBO handles the revenue projections, and the director of fiscal services works with the CBO on expenditure projections. The district has a formula for school site allocations, and all principals work with their respective school site council organizations and communicate information back to the director of fiscal services, who aligns their budget accordingly. The district currently has an interim superintendent and a relatively new CBO.</i>			

- 2.7 Does the district budget and expend restricted funds before unrestricted funds?
- The district's restricted fund carryover amounts, and ending fund balances have increased each year from 2016-17 through 2018-19, indicating that the district is not spending restricted funds strategically before unrestricted funds. Although the 2019-20 second interim report showed a decrease in the restricted ending fund balance, review of the district's actuals-to-date expenditures do not support those projections.*
- The district's Consolidated Application report completed in February 2020 identified 2017-18 Title II, Part A unspent funds in the amount of \$29,838, for which the California Department of Education (CDE) will invoice the district because the funds were not expended within 27 months of apportionment.*
- Form CAT of the district's 2018-19 unaudited actuals identified several restricted resources with significant prior year carryover and/or current year ending balances, some of which were equal to or greater than the amount awarded for the year. This indicates that the funds are not fully used within the fiscal year awarded and should be monitored to ensure they are expended within the time designated by the granter.*
- 2.8 Have the Local Control and Accountability Plan (LCAP) and the budget been adopted within statutory timelines established by Education Code Sections 42103 and 52062 and filed with the county superintendent of schools no later than five days after adoption or by July 1, whichever occurs first, for the current and one prior fiscal year?
- 2.9 Has the district refrained from including carryover funds in its adopted budget?
- 2.10 Other than objects in the 5700s and 7300s and appropriate abatements in accordance with the California School Accounting Manual, does the district avoid using negative or contra expenditure accounts?
- 2.11 Does the district have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district's unrestricted general fund?
- 2.12 Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff members/departments responsible for completing them?
- The district does not use a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff members or department responsible for completing them.*

3. Budget Monitoring and Updates

Yes No N/A

- 3.1 Are actual revenues and expenses consistent with the most current budget?
- 3.2 Are budget revisions posted in the financial system at each interim report, at a minimum? . . .
- 3.3 Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum?
- Although detailed assumptions and presentations are provided to the board with each interim report submitted, a detailed comparison and explanation of the budget revisions is not discussed in either.*
- 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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
3.7	Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure?	✓	<input type="checkbox"/>	<input type="checkbox"/>
3.8	Does the district encumber and adjust encumbrances for salaries and benefits?	✓	<input type="checkbox"/>	<input type="checkbox"/>
3.9	Are all balance sheet accounts in the general ledger reconciled at least at each interim report and at year end close?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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?	✓	<input type="checkbox"/>	<input type="checkbox"/>

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 type="checkbox"/>	<input type="checkbox"/>
4.2	Does the district reconcile all bank (cash and investment) accounts with bank statements monthly?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>FCMAT's review of documents provided found that bank statements are being reconciled, but not monthly.</i>			
4.3	Does the district forecast its general fund cash flow for the current and subsequent year and update it as needed to ensure cash flow needs are known?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district's adopted budget's cash flow projections indicated that the district had eight months with a negative cash balance. The cash flow projection did not include a transfer in from other funds that would have been able to offset the projected negative balance. A review of the first interim and second interim financial reporting period documents showed that the district has updated and continues to monitor current year cash flow at the financial reporting periods but does not project the subsequent years' cash flow.</i>			
4.4	If the district's cash flow forecast shows insufficient cash in its general fund to support its current and projected obligations, does the district have a reasonable plan to address its cash flow needs for the current and subsequent year?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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 type="checkbox"/>
4.6	If interfund borrowing is occurring, does the district comply with Education Code Section 42603?.	✓	<input type="checkbox"/>	<input 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"/>	✓

5. Charter Schools **Yes No N/A**

5.1	Are all charters authorized by the district going concerns?	<input type="checkbox"/>	<input type="checkbox"/>	✓
5.2	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including formal communication to the charter, such as notices of violation?	<input type="checkbox"/>	<input type="checkbox"/>	✓
5.3	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?	<input type="checkbox"/>	<input type="checkbox"/>	✓

5.4	Does the district have a board policy or other written document(s) regarding charter oversight?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" 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 checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district had a tentative agreement with the Newark Classified School Employees Association for fiscal years 2019-20, 2020-21 and 2021-22 at the time of FCMAT's fieldwork, but the AB 1200 disclosure for that settlement had not been generated.</i>			
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"/>
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 checked="" type="checkbox"/>	<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"/>	<input checked="" 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 checked="" type="checkbox"/>	<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 checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>Of the four AB 1200 disclosures for fiscal years 2017-18, 2018-19 and 2019-20, only one included the signatures of the CBO and interim superintendent.</i>			
6.9	Is the governing board's action consistent with the superintendent's and CBO's certification?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The governing board approved the bargaining agreements as submitted; however, as stated above, the certifications were not consistently signed by both the superintendent and the CBO.</i>			

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 checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district does not have a board-approved plan to eliminate, reduce or control contributions/transfers from the unrestricted general fund to other restricted programs. Contributions are made from the unrestricted general fund to the special education programs and to the routine restricted maintenance account.</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 checked="" type="checkbox"/>	<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?

Contributions have increased by an annualized average of 9.58% from 2016-17 through 2018-19, and the district's adopted budget shows an increase of just over 5.35% at second interim 2019-20. The district's projections indicate an increase of only 4.97% for 2020-21 and -0.45% decrease for fiscal year 2021-22. These projections are inconsistent with the district's historical trend, and no explanation was provided for this in the district's assumptions.

8. Deficit Spending (Unrestricted General Fund) **Yes No N/A**

8.1 Is the district avoiding deficit spending in the current fiscal year?
This district projected that it will deficit spend in 2019-20, decreasing its unrestricted ending fund balance by \$833,050 to \$3,638,751.

8.2 Is the district projected to avoid deficit spending in both of the two subsequent fiscal years? . .
The district's second interim multiyear financial projection unrestricted (Form MYPI unrestricted C) projects deficit spending of \$107,246.39 for the 2020-21 fiscal year. For fiscal year 2021-22, the district projects a net increase in fund balance of \$292,838. These projections assume the implementation of previous board-approved reductions.

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?
On October 17, 2019, the board approved Resolution 2158, which committed the district to spending reductions of \$1.85 million in 2020-21 and \$668,000 in 2021-22. In addition, in March 2020, the board approved Resolution 2061, which added further reductions of \$2.5 million in 2020-21 and the potential for \$1 million in additional reductions in 2021-22. The district needs to implement these reductions to maintain positive fiscal certification.
However, the board indicated its uncertainty about implementing these reductions by approving the second interim certification as qualified and expressing during interviews a desire to explore all options before implementing reductions approved in the resolutions.

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

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

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

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

- 9.3 Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?
- According to the collective bargaining agreement, classified employees may accumulate a maximum of thirty (30) vacation days as of July 1. The administration shall notify each employee of accumulated vacation annually by February 1, and by April 1 shall direct any employee whose vacation balance will exceed the July 1 maximum to use the excess amount. However, as stated in item 1.1 the auditor’s review noted that employees’ accumulated balances significantly exceeded the allowable rollover balance of 30 days. In addition, the district does not have a cap on accumulated vacation days for its classified management and confidential employees. The district’s liability for all compensated absences is currently \$864,645, which is an \$84,365 increase from the prior year’s June 30th ending balance. To mitigate the potential impact on the district’s financial positions, the auditors recommended that the district create and enforce a cap on accumulated vacation days for employees in the classified management and confidential positions.*
- 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?
- The district provided no evidence of a verification of benefit eligibility within the last five years.*
- 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?
- At second interim, enrollment for 2019-20 was reported as 5,631, down from 5,713 in 2018-19 (2019-20 second interim, Form01CSI, Item 3A) and 5,913 in 2017-18.*
- Based on cohort survival analysis and a demographic study received in October 2019, the district’s enrollment is expected to decline by 31 students for 2020-21 and an additional 26 for 2021-22.*
- 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)?
- In interviews, staff indicated that enrollment and ADA is reviewed only at each reporting period. School administrators indicated that they check attendance for reasonableness regularly but do not review it in detail.*
- 10.3 Does the district track historical enrollment and ADA data to establish future trends?
- 10.4 Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels?
- 10.5 Has the district certified its California Longitudinal Pupil Achievement Data System (CALPADS) data by the required deadlines (Fall 1, Fall 2, EOY) for the current and two prior years?
- 10.6 Are the district’s enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?

- 10.7 Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines?
The district has repeated audit findings for 2018-19 and 2017-18 for reporting students as eligible for free or reduced-price meals but lacking documentation to justify the designation. The district's corrective action plan states the district will work with appropriate staff to review the current process and ensure proper reporting before the close of the CALPADS reporting window. The auditors estimated the questioned revenue to be \$10,490 for 2018-19 and \$2,764 for 2017-18.
- 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?
For each reporting period in fiscal year 2019-20, the district's criteria and standards have shown that the district has not met the required 3.00% reserve requirement 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?

The district has excess capacity in its facilities because of declining enrollment. The table below shows that each school site has excess capacity when all portable classrooms at each school are included.

Site	TK-6 ¹	7-12 ¹	Special Day Classes	Class-rooms Available ²	Class-rooms Needed ³	Excess Classrooms	Capacity
August Schilling Elementary	363		12	37	16	21	43.2%
Birch Grove Intermediate	451		12	37	20	17	54.1%
Birch Grove Primary	415			25	17	8	68.0%
E.L. Musick Elementary & Preschool	231		43	34	14	20	41.2%
H.A. Snow Elementary	282		25	25	14	11	56.0%
James A. Graham Elementary	345		18	39	16	23	41.0%
John F. Kennedy Elementary	402			29	17	12	58.6%
Lincoln Elementary	366		22	24	17	7	70.8%
Newark Junior High		836	57	56	36	20	64.3%
Newark Memorial High		1578	90	86	66	20	76.7%

1. California Basic Educational Data System (CBEDS) enrollment less alternative education, continuation and non-school placement students.
 2. Facilities 5-Year Plan
 3. OPSC Loading Standards

OPSC Loading Standards

Grade	Students per Classroom
K-6	25
7-12	27
Special education nonsevere	13
Special education severe	9

- 11.5 Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget? ✓
- 11.6 Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues? ✓
- 11.7 If the district passed a Proposition 39 general obligation bond, has it met the requirements for audit, reporting, and a citizens’ bond oversight committee? ✓
- 11.8 Does the district have a long-range facilities master plan that reflects its current and projected facility needs? ✓

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

- 12.1 Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including Fund 01 and Fund 17) as defined by criteria and standards? ✓
- 12.2 Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years? ✓
- 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? ✓
- 12.4 Is the district’s projected unrestricted fund balance stable or increasing in the two subsequent fiscal years? ✓

The second interim multiyear projection unrestricted (Form MYPI unrestricted C) projects deficit spending of \$107,246.39 for the 2020-21 fiscal year and an increasing fund balance for 2021-22. The projection assumes the implementation of board-approved reductions.

- 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? ✓

In interviews, employees indicated that there are unresolved concerns about potential discrepancies in employee service credits. The amount of this liability, if any, is not known.

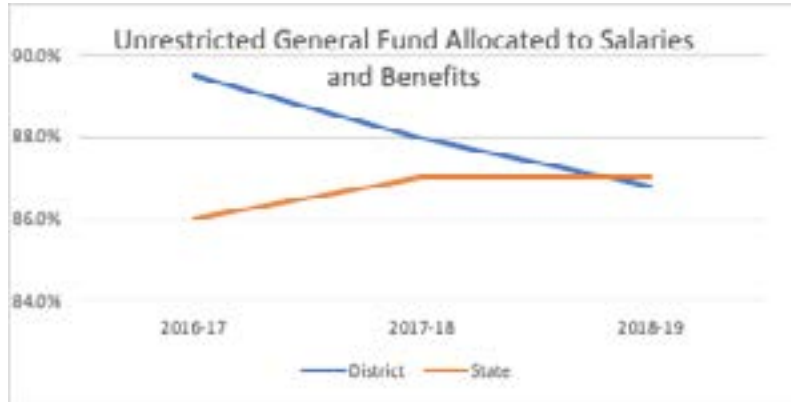
13. General Fund – Current Year **Yes No N/A**

- 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? . . .

The district spent more than the state average percentage of its unrestricted expenditure budget for salaries and benefits in fiscal years 2016-17 and 2017-18, and slightly less than the state average in fiscal year 2018-19, as shown in the table and chart below.

	2016-17	2017-18	2018-19
District	89.5%	88.9%	86.8%
State	86.1%	86.8%	87.0%



- 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? . . .

The district’s Consolidated Application report completed in February 2020 identified 2017-18 Title II, Part A unspent funds in the amount of \$29,838, for which the California Department of Education (CDE) will invoice the district because the funds were not expended within 27 months of apportionment.

Form CAT of the 2018-19 unaudited actuals identified several restricted resources with significant prior year carryover and/or current year ending balances, some of which were equal to or greater than the amount awarded for the year. This indicates that the funds are not fully used in the fiscal year awarded and should be monitored to ensure they are expended within the time designated by the granter.

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

14. Information Systems and Data Management **Yes** **No** **N/A**

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

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

- 14.3 Has the district accurately identified students who are eligible for free or reduced-price meals, English learners, and foster youth, in accordance with the LCFF and its LCAP?
- The district has had repeated audit findings for incorrectly classifying students as eligible for free or reduced-price meals through the income verification process.*
- For 2018-19, records for one of 60 students classified as eligible did not have documentation supporting their designation. In total, 20 students were found to be incorrectly classified.*
- For 2017-18, one of 60 students' records tested did not have proper supporting documentation to justify their designation. In total, 12 students were found to be incorrectly classified.*
- 14.4 Is the district using the same financial system as its county office of education?
- 14.5 If the district is using a separate financial system from its county office of education and is not fiscally independent, is there an automated interface with the financial system used by the county office of education?
- 14.6 If the district is using a separate financial system from its county office of education, has the district provided the county office with direct access so the county office can provide oversight, review and assistance?

15. Internal Controls and Fraud Prevention **Yes** **No** **N/A**

- 15.1 Does the district have controls that limit access to its financial system and include multiple levels of authorization?
- 15.2 Are the district's financial system's access and authorization controls reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually?
- 15.3 Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?:
- Accounts payable (AP)
 - Accounts receivable (AR)
 - Purchasing and contracts. . . .
 - Payroll
- In interviews, employees indicated that step movement for some classifications are not made in a way that is consistent with the expectation of one advancement per year. No policy or procedure was identified that allows additional advancements such as those sometimes made.*
- Human resources (i.e., duties relative to position control and payroll processes)
- In interviews, employees indicated that, step movement for classifications are not made consistently. Some classifications were found to receive advancements twice a year. No policy or procedure was identified to support this practice.*
- In addition, concerns exist in the district regarding the accuracy of service credit reporting.*
- 15.4 Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year?
- 15.5 Does the district review and work to clear prior year accruals throughout the year?

- 15.6 Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?
- 15.7 Does the district have processes and procedures to discourage and detect fraud?
FCMAT found no developed and implemented processes or procedures to deter fraud. Interviewees and a review of district documented procedures did not indicate the existence of fraud deterrence activities.
- 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?
The district has not established a fraud reporting process.
A recent concern regarding an ASB account was reported to a principal. FCMAT was also able to trace reporting of the incident to the fiscal director, CBO and independent auditor. In response, training and more extensive audits are being conducted.
- 15.9 Does the district have an internal audit process?
The district does not have an internal audit process.

16. Leadership and Stability

Yes No N/A

- 16.1 Does the district have a chief business official who has been with the district as chief business official for more than two years?
The current CBO started with the district in September of 2019. The CBO has approximately 15 years of prior experience as CBO in two districts.
- 16.2 Does the district have a superintendent who has been with the district as superintendent for more than two years?
An interim superintendent was appointed as of December 2019. At the time of FCMAT's interviews, the district was interviewing for a new superintendent and has now hired one.
- 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?
- 16.5 Does the governing board adopt and revise policies and administrative regulations annually? .
- 16.6 Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff?
- 16.7 Do all board members attend training on the budget and governance at least every two years?
- 16.8 Is the superintendent's evaluation 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?
- 17.3 Does the district use its most current multiyear projection in making financial decisions? . . .

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? ✓

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

18.1 Are the sources of repayment for non-voter-approved debt (such as certificates of participation (COPs), bridge financing, bond anticipation notes (BANS), revenue anticipation notes (RANS) and others) stable, predictable, and other than unrestricted general fund? ✓

18.2 If the district has issued non-voter-approved debt, has its credit rating remained stable or improved during the current and two prior fiscal years? ✓

18.3 If the district is self-insured, has the district completed an actuarial valuation as required and have a plan to pay for any unfunded liabilities? ✓

18.4 If the district has non-voter-approved debt (such as COPs, bridge financing, BANS, RANS and others), is the total of annual debt service payments no greater than 2% of the district's unrestricted general fund revenues? ✓

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

19.1 Does the district account for all positions and costs? ✓

19.2 Does the district analyze and adjust staffing based on staffing ratios and enrollment? ✓

19.3 Does the district reconcile budget, payroll and position control regularly, at least at budget adoption and interim reporting periods? ✓

19.4 Does the district identify a budget source for each new position before the position is authorized by the governing board? ✓

The process for authorizing new positions begins with the board approving the job description and classification. District administrators may then assign funding, post the position, and fill the position. After filling the position, a personnel action list is taken to the board for ratification.

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

Positions and assignments are reviewed and approved by the CBO, human resources and the superintendent prior to posting. The vacancy is then posted, recruiting is conducted, and a candidate is selected. After selection is complete and an individual is hired, the employment is taken to the board for ratification.

19.6 Do managers and staff responsible for the district's human resources, payroll and budget functions meet regularly to discuss issues and improve processes? ✓

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

20.1 Does the district monitor, analyze and adjust staffing ratios, class sizes and caseload sizes to align with statutory requirements and industry standards? ✓

20.2 Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)? ✓

- 20.3 Does the district use appropriate tools to help it make informed decisions about whether to add services (e.g., special circumstance instructional assistance process and form, transportation decision tree)? ✓
 - 20.4 Does the district budget and account correctly for all costs related to special education (e.g., transportation, due process hearings, indirect costs, nonpublic schools and/or nonpublic agencies)? ✓
 - 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? ✓
- According to Dataquest, the 2018-19 and 2019-20 statewide identification rate for special education was approximately 11.7%. In those same years, Alameda County’s countywide identification rate was 10.9% and 11.1%, respectively.*
- The district had a higher identification rate than both the state and the county averages for both years. In 2018-19, the district identified 684 students for special education from a total enrollment of 5,758, for a rate of 11.9%. In 2019-20, the district identified 682 students from a total of 5,669, resulting in a rate of 12%.*
- 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: 29.3%

Key to Risk Score from 20 numbered sections only:

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

District Fiscal Solvency Risk Level, all FHRA factors: High

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