March 14, 2017

Keith Snow-Flamer, Ph.D., President/Superintendent
Redwoods Community College District
7351 Tompkins Hill Road
Eureka, CA 95501

Dear Dr. Snow-Flamer,

The purpose of this management letter is to present the Fiscal Health Risk Analysis prepared by the Fiscal Crisis and Management Assistance Team (FCMAT) resulting from the request of, and review of, Redwoods Community College District (RCCD), more commonly known as College of the Redwoods (the district). As indicated in the study agreement dated December 21, 2016, FCMAT was to perform the following scope of work:

1. Review RCCD's 2016-17 general fund budget and multiyear financial projection (MYFP) for the current and two subsequent fiscal years to validate the district's financial status based on current economic forecasts to sustain recommended reserve levels and to maintain financial solvency and stability. Based on the review, make recommendations for expenditure reductions and/or revenue enhancements to maintain financial solvency if needed.

2. Using FCMAT's Fiscal Health Risk Analysis for Community Colleges, complete a fiscal health analysis of the district and its risk of insolvency in the current and two subsequent fiscal years based on key fiscal indicators.

FCMAT, in conjunction with Cambridge West Partnership, LLC, spent three days in the district meeting with staff in-person and online, toured the main campus, researched district documents and attended a board meeting.

FCMAT reviewed and provided guidance to the district on its 2016-17 general fund budget and MYFP for the current and two subsequent fiscal years. FCMAT also completed a Fiscal Health Risk Analysis to provide an overview of its fiscal condition and a blueprint to help determine the next steps in developing an overall financial plan. FCMAT did not complete a comprehensive audit or review of the district's financial reports.

The district, established in 1964, is located on northern California's Redwood Coast and serves a diverse population of communities in Del Norte and Humboldt counties as well as the northwest section of Mendocino and western edge of Trinity counties. The main campus is located south of Eureka in Humboldt County, education centers are in Fort Bragg and Crescent City, instructional sites are located in Hoopa and Garberville, and the district's community education office is located in downtown Eureka.

The district should work with community and Native American advocates to seek enhanced educational funding for the reservations. Although there are 10 tribes in the district's geography, they are small. A multi-constituency effort will be required.

The combination of a large sparsely populated district with one of the smallest number of Full Time Equivalent Students (FTES) in the state qualifies the district to be included in a group of 11 districts that are classified in statute as small rural districts in terms of receiving state funding. Because of current state funding models and the unique difficulties faced in small rural districts, the district should consider focusing the district's new advocacy representative on increasing funding that is authorized in California Code of Regulations, Title 5, Section 58771(i)(12). The district has already taken steps in that direction with the January 2017 action of approving an advocacy contract.

Based on FCMAT's Fiscal Health Risk Analysis for Community Colleges, the district's risk level is moderate with a score of 37% (7 no/19 total). The district has experienced a steep decline in FTES, resulting in an equally steep decline in revenue. The district has faced the difficulty of identifying expenditure reductions to balance the budget, while still maintaining essential educational services to offer to its communities.

The district has faced major challenges from over a 30% decrease in enrollment as compared to 2008-09, when the district's FTES peaked at 5,483. The district is projecting to teach approximately 3,950 apportionment generating FTES in 2016-17. The district must pursue every possible option to regain FTES as in 2016-17 the district is projected to lose over $3.1 million available apportionment funding if FTES is not restored to its funded cap of 4,564. Cap is the total FTES that would be funded if the district teaches the FTES. That earning potential would be permanently lost from the district's base funding since the district will no longer qualify for stabilization funding through the statutes and codes that implemented the Senate Bill (SB) 361 funding formula.

There is no demographic evidence for significant FTES increases before the funding formula permanently reduces the base funding level of FTES, and there is also no evidence from the district of a comprehensive plan to address the decline in FTES and FTES-generated revenue. Although an enrollment committee is tasked with enrollment management and outreach, the district should consider creating a separate task force to identify and create cost-effective strategies to regain enrollment. This task force should include creative stakeholders, both in and outside the district. Curriculum and student outreach experts also should be included. To increase enrollment, and thus revenue, innovative K-12/community college programs in California and the rest of the country should be reviewed. Two examples in California include the Long Beach College Promise (www.longbeachcollegepromise.org) [1] and Santa Barbara Promise (www.sbccpromise.org)[2]. Another possible way to increase revenue is a voter-approved

1 The Long Beach College Promise (The Promise) extends the promise of a college education to every student in the Long Beach Unified School District to create a more "vibrant community." The Promise is a partnership between Long Beach Unified School District, Long Beach City College, California State University, Long Beach and the city of Long Beach to place higher education within reach for all. The Promise creates a culture of college expectation, increases college readiness and improves graduation rates among Long Beach students.

2 The SBCC Promise will provide any local student who completes their secondary education within the Santa Barbara Community College District with the opportunity to attend SBCC full-time for two years free of charge. The Promise, a project of the SBCC Foundation, uses privately raised funds to cover all enrollment and required fees, required books, and required supplies in an effort to remove economic barriers, making the community college fully accessible to all local students.

parcel tax. Previously, voters have approved two Proposition 39 bonds that provided additional financial assistance to the district for capital improvement projects. Although the proceeds of the Proposition 39 bonds may not be used for any operational expense, the proceeds of a parcel tax measure can be used for operations.

Given the district's drastically reduced funding, resources should be focused on the highest priority programs as identified by the program review process to meet the needs of the community. The district has approved Administrative Procedure (AP) 4020, Program and Curriculum Development. AP 4020 is comprehensive and would allow the district to identify programs to meet the community's needs within limited resources; however, FCMAT could find no evidence that AP 4020 has been uniformly or comprehensively implemented. Similarly, AP 4021, Program Revitalization and Discontinuation Process, should be followed. This process is excellent on paper, but there is no evidence that it has been consistently and effectively implemented.

The lack of a coordinated plan to address the FTES decline, in addition to the probability of a downturn in the economy, is worrisome. In the past, economic downturns have had major impact on California community college districts. At the same time that state revenues decrease, enrollments and the unemployment rate increase. The net result has been less overall funding combined with a greater demand for services. Historically, the situation has also led to higher but unfunded district FTES, and an inadequate level of unrestricted reserves necessary to absorb a multiyear recessionary decline in funding. With the high fixed-cost component of expenditures related to serving a geographically large but low-population district with areas of extremely low-income citizens, there is concern over the future demand for services as well as the potential drain on fund balance. With over 85% of its budget committed to total employee compensation, the district will continue to face the challenge of reducing those costs enough to compensate for the declining revenue while offering basic community college services to its communities.

The district has many senior faculty and classified staff, yet there is also a high turnover of top-level administrators. It has been challenging to recruit qualified faculty for some disciplines, and to recruit and retain qualified business division staff. Some of the most challenging disciplines to recruit for have been Agriculture, Automotive Technology, Construction Technology, Digital Media, Drafting Technology, Manufacturing Technology, Welding, Technology and Nursing. FCMAT has concerns about the inability of the district to recruit, hire, train and retain adequately qualified business division staff so that annual audits and required California Community Colleges Chancellor's Office (CCCCO) reports are submitted within required timelines. Training programs for business division staff at all levels are needed. Additionally, a business processes/workflow study should be considered in the Administrative Services Division, as outlined in Appendix B. Given the small number of staff in the Business Services Division (accounting, fiscal and budget departments) and the recent history of missed deadlines, it is critical that the processes and procedures are as efficient as possible. For staff outside of the business division FCMAT suggests offering an in-house business processes training program at least for those who generate purchasing and budgeting documents, especially in the categorical and specially funded programs.

Many staff throughout the district lack confidence in the district's fiscal reporting and projections. This appears to be largely due to a lack of clarity and documentation concerning assumptions and processes, insufficient participation in staff development, and inadequate communications. The district could help in this area by initiating ongoing communication and presentation skill and technique training for the Administrative Services Division leadership, and perhaps ongoing mentoring.

The district should consider adopting and following a board policy committed to establishing a minimum level of unrestricted general fund ending balances, including any dedicated reserves in the ending balance, to retain fiscal solvency as expenditures continue to increase. There is a non-board-approved goal of increasing the ending balance by .5% per year, but the 2015-16 Final Budget notes that, "Balancing the District's 2016-17 and 2017-18 budgets without major spending cuts or increased FTES revenue will require additional State base budget increases or some other relief."[3]

The Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, California Community Colleges Chancellor's Office and FCMAT recommend a California community college maintain a minimum fund balance (which is generally interpreted to mean the same as reserve for economic uncertainty) of 5%, since a 5% reserve covers only a portion of any district's monthly payroll costs. Other areas to consider including in unrestricted general fund reserve board policy are funds equivalent to any deferrals of the college's state apportionment, amounts for facility and infrastructure maintenance, and set asides for equipment. Currently, no amounts are set aside for liabilities or one-time costs above the recommended reserve level.

Recommendations

The district should:

1. Pursue every possible option to regain FTES before the funding is permanently lost.
2. Create a task force to identify and create cost-effective strategies to regain enrollment.
3. Consider focusing the newly contracted advocacy representative on increasing funding for small rural districts.
4. Work with community and Native American advocates to seek enhanced educational funding for the reservations.
5. Investigate innovative K-12/community college initiatives in California and the rest of the country.
6. More vigorously and uniformly implement AP 4020, Program and Curriculum Development.
7. Fully implement AP 4021, Program Revitalization and Discontinuation Process.
8. Investigate the feasibility of a voter-approved parcel tax.
9. Commission a business processes/workflow study to help ensure that processes and procedures are as efficient as possible.
10. Offer training programs for business division staff.
11. Offer an in-house business processes training program for all staff who generate purchasing and budgeting documents.
12. Initiate ongoing communication and presentation skill and technique training for the Administrative Services Division leadership.

3 2015-16 Final Budget approved on 9/8/15, page 4.

13. Consider a mentoring resource for the business division leadership.
14. Consider developing a new board policy to specifically document the desired level of unrestricted reserves.

FCMAT would like to thank the college and administration for their cooperation and assistance during the fieldwork. If you have any questions or require additional information, please contact me at (415) 987-3104.

Sincerely,

Michelle Giacomini

Michelle Giacomini
FCMAT Chief Management Analyst

FCMAT Fiscal Health Risk Analysis

Key Fiscal Indicators for Community Colleges

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

The presence of any single criteria is not necessarily an indication of a district in fiscal crisis. However, districts that answer "No" to seven or more of the 19 key indicators may have cause for concern and could require some level of fiscal intervention. The more indicators identified, the greater the potential 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.

Each of the 19 key indicators below contains several questions. The response given to each key indicator (Yes, No, or N/A) should be approximately the same as that given to a simple majority of its constituent questions.

FCMAT will continue to update this document as additional changes occur in education finance.

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 2016-17 Final Budget adopted by the board on September 6, 2016 is reasonably conservative and projects a modest increase to the ending fund balance. The Monthly Financial Status Report approved by the board on January 10, 2017 gives no indication that a deficit situation is developing in the current year.	✔		
	• Is the district avoiding deficit spending in the two subsequent fiscal years? The 2016-17 Final Budget includes projections for the two subsequent fiscal years. Large assumed "intrafund transfers in" are used to reflect a balanced budget on paper in both years, and to show an annual .5% increase to the ending balance. FCMAT could find no evidence of funding sources to support the magnitude of those projected transfers in. In fact, it appears that the two transfer amounts were calculated to achieve a .5% increase in the ending balance each year after the construction of reasonably conservative income and expense budgets.		✔	
	• Has the district decreased or eliminated deficit spending over the past two fiscal years? The district's CCFS-311 Financial Status Reports for 2012-13, 2013-14, and 2015-16 do not report deficit spending. The 2014-15 CCFS-311 does report deficit spending. The district's audited financial statements for 2012-13 and 2013-14 do not include deficit spending. The audited 2014-15 financial statements indicate deficit spending. The 2015-16 column included on page 15 of the 2016-17 Final Budget does not include deficit spending.			✔
	• Is deficit spending covered by fund balance, ongoing revenues, or expenditure reductions?			✔
	• Has the board approved a plan to eliminate deficit spending?			✔

Is the district's fiscal health acceptable in the following areas?		Yes	No	N/A
2.	**Fund Balance**		✔	
	• Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty? The Accrediting Commission for Community and Junior Colleges (ACCJC), Western Association of Schools and Colleges, California Community Colleges Chancellor's Office (CCCCO) and FCMAT recommend a California community college minimum fund balance (which is generally interpreted to mean the same as reserve for economic uncertainty) of 5%. As documented in the 2016-17 Final Budget, the CCFS-311 reports for 2012-13, 2013-14, and 2014-15, the 2015-16 Final Budget and in the historical information in the board-approved *Monthly Status Report* (agenda Item No. 3.1, January 10, 2017), the district's fund balance has exceeded 5% of expenditures and is projected to exceed 5% in 2016-17.	✔		
	• Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions? Recently the fund balance has been increasing, but after the 2016-17 fiscal year it will decrease unless a source of funds for the intrafund transfers in is realized. As documented in the 2012-13 CCFS-311 report, the unrestricted fund balance was 5%. As documented in the 2015-16 CCFS-311Q report, dated 6/30/16, the unrestricted fund balance was 6.2%. The projected actual 2015-16 unrestricted fund balance in the 2016-17 Final Budget is 6.4%. The 2016-17 Final Budget projects fund balances of 6.9%, 7.4% and 7.9% for 2016-17, 2017-18, and 2018-19. However, the .5% increase in 2017-18 and 2018-19 fund balances is achieved by assuming unidentified intrafund transfers in. No funding source is identified for those intrafund transfers in. In terms of expenditure reductions, the California Community Colleges Board of Governors (BOG) approved a transfer of territory of the district's remote Mendocino service area to Mendocino College on July 18, 2016. That transfer will take effect on July 1, 2017. This is a significant cost-saving strategy that does not negatively impact current and potential students. Because the Mendocino Center was so far away (more than a three-hour drive) from the rest of the district, operations support staff could not be shared among the district's locations. That resulted in very high operational costs associated with this small center. Even though the district has reduced salary schedules (current faculty salaries are still close to 2009 levels), laid off permanent classified staff in 2013, and discontinued academic programs, the fund balance still is not stable or increasing.		✔	
	• Does the fund balance include any designated reserves for unfunded liabilities or one-time costs above the recommended reserve level? There is no mention in Board Policy or Administrative Procedures (BP/APs 6200, 6250 or 6300) of designations within the fund balance. No designated reserves for unfunded liabilities are set up in the general fund budget. The district does hold set-asides in other funds; for example, an OPEB (Other Post-Employment Benefits) fund. There is no indication of designations in the 2016-17 Final Budget.		✔	

Is the district's fiscal health acceptable in the following areas?		Yes	No	N/A
3.	**Reserve for Economic Uncertainty**		✔	
	• 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? As documented in the 2016-17 Adopted Budget (Page 15, Exhibit B) unidentified intrafund transfers in are required to maintain an adequate ending fund balance.		✔	
	• Does the district have additional reserves in other funds? In 2015-16 the district transferred $700,000 to the capital fund to establish a state bond matching set-aside for an Initial Project Proposal (IPP) and to fund the demolition of buildings that had been replaced by state funds. The state funding built and equipped the new buildings but did not provide funding to remove the buildings that could no longer be occupied due to earthquake issues. The district transferred $300,000 to a revocable PERS/STRS fund on June 30, 2016. The district's OPEB fund is not irrevocable. Previously, the board authorized the president to transfer OPEB funds to the general fund if necessary for fiscal stability; this is not an annual transfer nor does the 2016-17 budget include such a transfer. There are monies in the capital fund, OPEB fund, and PERS/STRS fund that could be transferred back into the unrestricted general fund.	✔		
	• If not, does the district's multiyear financial projection include a plan to restore the reserve for economic uncertainty? As stated above, even though the 2016-17 Final Budget projects fund balances of 6.9%, 7.4% and 7.9% for 2016-17, 2017-18, and 2018-19, the amount of intrafund transfers in is backed into to produce an ending fund balance that increases by .5% per year in 2017-18 and 2018-19. No funding source is identified for those intrafund transfers in. The 2015-16 Final Budget notes that, "Balancing the District's 2016-17 and 2017-18 budgets without major spending cuts or increased FTES revenue will require additional State base budget increases or some other relief." [4]		✔	
4.	**Enrollment and FTES**		✔	
	• Has the district's enrollment been increasing or stable for multiple years? Resident and non-resident FTES for the most recent years are: 2015-16 3,890 2014-15 4,181 2013-14 3,948 2012-13 4,566 2011-12 4,733 2010-11 5,455 The district has faced major challenges from a more than 30% decrease in enrollment as compared to 2008-09, when its FTES peaked at 5,483. The district is projecting to teach approximately 3,950 apportionment-generating FTES in 2016-17. The district must pursue every possible option to regain FTES because in 2016-17 it is projected to lose over $3.1 million available apportionment funding if FTES is not restored to its funded cap of 4,564. Cap is the total FTES that would be funded if the district teaches the FTES. That earning potential would be permanently lost from the district's base funding since the district will no longer qualify for stabilization funding through the statutes and codes that implemented the Senate Bill (SB) 361 funding formula.		✔	

Is the district's fiscal health acceptable in the following areas?		Yes	No	N/A
	• Is the district's enrollment projection updated at least semiannually? The district updates the enrollment projections at least twice per year.	✔		
	• Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends? Since the beginning of the downward trend in enrollments in 2010-11, FTES have declined by over 30%. Although the district has laid off classified employees, frozen many academic and classified open positions, and reduced the use of hourly academic and non-academic employees, the district has not been able to reduce its personnel costs by the same magnitude as the reduction in FTES and related funding. The district is currently above its Faculty Obligation Number.		✔	
	• Does the district analyze enrollment and FTES data? The district administration closely monitors enrollment and FTES data. Daily enrollment reports by class and section are produced and electronically distributed. There is also robust and easy to access enrollment information in the district's program review software. A FCMAT review of the Enrollment Management Committee (EMC) minutes for multiple years indicates that the EMC is conscious of the enrollment and FTES and takes the revenue generation impacts of enrollment decisions into account when decisions such as the timing of summer courses are made. The *2015-2018 General Goals* include achieving base and cap (cap is the total FTES that would be funded if the FTES are taught by the district) and earning FTES above cap. All constituent representatives interviewed by FCMAT were acutely aware of the enrollment trends and impact on the financial condition of the district.	✔		
	• Does the district track historical enrollment and FTES data to establish future trends for projection purposes? The district maintains historical enrollment and FTES data. FCMAT reviewed a sample of that data, which is easily accessed online. EMC minutes indicate that the EMC tracks historical enrollment and FTES data. Although the data is available, the historical information appears to have little value in attempting to forecast future trends due to the close correlation between the unemployment rate and economic cycles and community college enrollments.	✔		
	• Has the district implemented any programs to increase FTES? The district has begun offering classes at Pelican Bay State Prison, expanded its non-credit offerings, increased online courses, opened up access to the curriculum by offering courses in Native American tribal communities (Smith River, Klamath, Wiyot tribes), and offering classes in county jails. The district is working with Humboldt State University to develop an Associate Degree in Nursing to Bachelor of Science in Nursing pathway to start fall 2018. However, a review of EMC minutes and the enrollment management and marketing and outreach plans do not indicate an active, ongoing and vibrant big picture effort to analyze innovative enrollment growth options and develop institutional plans to pursue those options.	✔		

Is the district's fiscal health acceptable in the following areas?		Yes	No	N/A
	• Does the district maintain an accurate record of enrollment and FTES that is reconciled on a regular basis? California community colleges (CCCs) generally do not reconcile enrollment and FTES information monthly. It is much more common to reconcile quarterly when the CCFS 320 reports are prepared and during the annual audit cycle, which is the practice in the district. To officially report FTES and enrollment information, CCCs file three CCFS-320 reports for each fiscal year: First, Second, and Recalculation. The district has routinely filed required attendance reports.	✔		
5.	**Debt**	✔		
	• Does the district have a recent actuarial study and a plan to set funds aside for unfunded liabilities? The district's single unfunded liability is for OPEB. The district funds the ongoing cost of those benefits on a pay-as-you-go basis. As documented in the audited June 30, 2015 financial statements, the OPEB annual liability on June 30, 2015 was approximately $549,000.	✔		
	• Does the district maintain low levels of nonvoter-approved debt (such as COPs, bridge financing, BANS, RANS and others)? The total of the nonvoter-approved debt payments for 2016-17 is estimated to be less than $100,000. Page 28 of the 2014-15 audited financial statements (http://www.redwoods.edu/Portals/34/Documents/Redwoods%20CCD%20FS%2015.pdf?ver=2016-03-28-083444-227) provides a chart of the district's debt service payments and balances. The district has two nonvoter-approved debts: a Certificate of Participation (COP), which will be paid off this year; and a 2012 retirement incentive that is being paid down over eight annual payments, using the salary savings from the incentive plan savings. The SERP (Supplemental Early Retirement Plan) savings result primarily from the retirement and replacement of more senior and more highly compensated employees with new employees who receive lower compensation. Part of the savings is also due to the time it takes to fill vacant positions, as classes are taught by less expensive hourly instructors. The district has voter-approved debt for Proposition 39 construction bonds, which are repaid directly by the county from property tax proceeds.	✔		
	• Is the district conforming to GASB 68 requirements by recognizing and reporting its proportionate share of net liability for pension programs? The district's compliance with GASB 68 is documented on page 2 of the June 30, 2015 audit report, which states: As discussed in note 1 to the basic financial statements, the district implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, for the fiscal year ended June 30, 2015. Our opinion is not modified with respect to this matter. The 2015-16 audited financial statements are not yet finalized as of late February 2017, but there is no indication that the district will not continue to comply with all GASB requirements, including GASB 68.	✔		

Is the district's fiscal health acceptable in the following areas?		Yes	No	N/A
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 Sections 85220 to 85223?			✔
	• 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? The chief business official (CBO) and the senior accounting manager formally monitor cash needs monthly. Both the CBO and the senior accounting manager stated they are constantly aware of the cash status but do not monitor cash as intensively as they had to do when the state was deferring payments to the district.	✔		
	• Does the district have a plan to address short-term cash flow needs? The district does not have a formal plan to address short-term cash needs, but it appears that both the CBO and senior accounting manager constantly monitor the cash position and they do not expect to have to issue a TRANS (short-term bridge financing often used by California K-12 and community college districts during the course of a fiscal year).		✔	
	• Are cash balances reconciled to bank statements monthly? There have been issues with timely reconciliations, partly due to issues with the county and its bank. For example, the October 2016 statement was not provided to the district by the county until January 5, 2017. That time lag has been typical over the period reviewed by FCMAT. The county changed its depository bank at the end of 2016 and district staff is hopeful that the timeliness of bank statements will improve.		✔	
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 has provided step increases since 2013-14. No cost-of-living adjustment (COLA) has been provided. In 2012-13, the district provided a step increase and a 1.5% COLA to faculty and non-represented staff. Classified staff received a step increase but no COLA that year.	✔		
	• 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? The district performed pre-settlement analysis and those analyses were shared with the employee collective bargaining representatives during interest-based negotiations. The CEO and CBO shared the fiscal analyses and projections with the board in closed session as allowed by the Brown Act before action was taken in open session. Those closed session documents are collected after the discussions and are not available to the public. However, both the CEO and CBO stated that the contents are congruent with the information shared in the collective bargaining negotiations sessions (which are interest-based, and in true interest-based negotiations all information is openly shared).	✔		
	• Did the district correctly identify the related costs above the COLA (i.e., statutory benefits, step and column)?	✔		

Is the district's fiscal health acceptable in the following areas?		Yes	No	N/A
	• Did the district address budget reductions necessary to sustain the total compensation increases, including a board-adopted plan? Budget reductions were not necessary and the impacts of the settlements were reflected in the multiyear board reports.			✔
	• Did the superintendent/president and CBO verify the affordability of the agreement prior to ratification? Although FCMAT did not discover any verification documentation, the CBO and the acting CEO assured FCMAT that they verified the affordability of all compensation increases before taking the recommendations to the board, and the outcomes from the agreements were within reasonable revenue expectations.	✔		
	• Is the governing board's action consistent with the superintendent/president's recommendation after verification of affordability? Board agendas and signed collective bargaining agreements are congruent with the superintendent/president's recommendations.	✔		
	• Did the district disclose the costs associated with a tentative collective bargaining agreement before it became binding on the district? Although not shared with the public, the administration shared the information in board closed sessions as allowed by the Brown Act as part of the collective bargaining process. District staff (including members of collective bargaining teams) who were interviewed indicated that the district's cost projections were shared and actively discussed during the collective bargaining process. Although cost analyses are not commonly shared in a public forum before the board approves a final agreement in the California community college system, FCMAT recommends this be considered as a best practice.	✔	✔	
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? As detailed in Appendix A, *Small Rural College Fiscal Comparisons 2014 – 2015,* district and statewide total compensation is 85%. However, when compared to the other 10 small rural districts (as defined in Title 5) as a percent of total expenditures, the district's academic salaries were second from the highest; classified fifth; employee benefits third; and total compensation was second from the highest.	✔		
	• Is the district making sure that only ongoing dollars pay for permanent staff? The district's 2016-17 Final Budget does not include a direct correlation of ongoing and one-time funds to specific expenditures. Page 5 of the final budget discusses one-time and ongoing funding and explains why $333,000 of one-time potential funding is in the budget. Neither the contents of the governor's January 2017 budget message nor the materials presented at the January Association of California Community College Administrators (ACCCA)/Association of Chief Business Officials (ACBO)/ California Community Colleges Chancellor's Office (CCCCO) state budget workshop conflict with the one-time revenue assumptions in the final budget.	✔		

	Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
	• Does the budget identify future 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 does not maintain a parcel tax.			✔
	• Does the district ensure that parcel tax is not paying for ongoing expenditures?			✔
	• Is the district ensuring that litigation and/or settlements are minimized? FCMAT reviewed the district's expenditure accounts, as well as the audited financial statements' disclosures, which do not indicate excessive litigation or settlement costs.	✔		
9.	**Encroachment**	✔		
	• Is the district aware of the contributions to restricted programs in the current year? (Identify cost, programs and funds) On the February 2017 board agenda, there is a docket item that would authorize transfer to two restricted programs if needed: Child Development Center: up to $90,000 Shively Farm: up to $88,000	✔		
	• Does the district have a reasonable plan to address increased encroachment trends? This is not an increased trend.			✔
	• Does the district manage encroachment in all funds? The senior accounting manager closely monitors the categorical and restricted programs throughout the year. It is extremely rare that a program is out of balance by the time the books are closed. The senior accounting manager reports that if an out of balance situation is discovered during closing, the amounts are usually no more than a few thousand dollars and the situation is corrected by adjusting the allocation percentages among different funding sources when that strategy is legal and congruent with program restrictions. If a mid-year budget transfer were necessary, the interfund or intrafund transfer would appear on the monthly fiscal status report on the action part of the board agenda.	✔		
10.	**Management Information Systems**		✔	
	• Is the district's financial data accurate and timely? Recent audited financial statements have been unmodified and unqualified, indicating that the accounting records are accurate and properly recorded according to relevant accounting rules. However, due to a lack of staffing, they are consistently late due to the district's inability to give the necessary financial information to the auditors on a timely basis. The June 30, 2014 audit was presented to the board's audit subcommittee on January 15, 2016; the June 30, 2015 audit was presented to the subcommittee on April 4, 2016; as of late February 2017 the June 30, 2016 audit report has not been presented to the subcommittee; the CCCCO deadline is December 31.		✔	
	• Are the mandated reports filed in a timely manner? The CCFS-311, CCFS-320, and audited financial statements have not been filed timely.		✔	

	Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
	• Are key fiscal reports — including those on personnel, payroll and budget — accessible, timely, and understandable? Although key fiscal reports are accessible, they are not timely. Key fiscal reports are understandable to some but not all, based on interviews. It depends on the report and the target constituency. Ten staff members were interviewed and each was specifically questioned about the subject of accessible, timely and understandable fiscal reports. Without exception, the responses were positive in terms of accessibility for people who had received basic training. The program review system, TableauPublic, was specifically mentioned. The program review online system provides very easy to retrieve and understand historical program data. The financial reporting system is a 100% open system, so if a staff member has been trained on the basics of the system, they can see any district accounts on a read-only basis. The fiscal reports are real-time and provide the ability to view the records that make up account line items in the budget status reports. Although the internal fiscal system is accessible and easy to use, the general ledger and resulting external reports are consistently late and fail to meet deadlines set by the auditors and the CCCCO. For example, the June 30, 2015 audit did not go to the board audit committee until April 2016, which is over four months after the CCCCO deadline. As of late February of 2017 the district's books are closed, but the district is still providing materials to the auditors and the audit is not expected to go to the board until April for the second year in a row. At the highest level, it appears as if the administration could do a better job of understanding the needs of the constituents involved in the budgeting process. Experienced staff, comfortable with the fiscal systems of their own departments, shared that high level information is not clearly presented, such as projections and reconciliations of actual results to budgets shared at the district budget committee, bargaining and board levels. Lack of clarity can result in a lack of confidence in the projections, reports and reconciliations. Several interviewees indicated that fiscal reports and presentations are not prepared and presented with an understanding that the audiences are not as involved or knowledgeable about the fiscal data, and more information is needed to ensure that it is understood by all stakeholders.	✔	✔	
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 position control system relies on multiple levels of approval up to and including the CEO, to approve positions. Human resources (HR) does not commence a new or replacement regular position search and recruitment process until completion of the approved hiring documents. The hiring documents require various signatures that include a review of the budget. After a recruitment and hiring process is approved, the budget technician identifies the existing vacant position in the position inventory database or creates a new position. HR and payroll department approvals are needed before the hiring process may begin. Given the very small size of the district, the position control software in use is adequate.	✔		

	Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
	• Is position control integrated with payroll and the financial system? Position control is in a separate database from the fiscal system, but position control system data is manually integrated into the budget preparation and control processes. Given the very small size of the district, the current process and controls are adequate to ensure the data is accurate.	✔		
	• Does the district control unauthorized hiring? An approved and budgeted position must exist for a position to be filled. All requests to fill open positions go to president's cabinet for review, with multiple levels of approval required. Hourly instructional assignments are manually monitored to ensure that an individual's load does not exceed 67%, which has successfully prevented unintentional and unauthorized tenure track eligibility.	✔		
	• Is the district able to control overstaffing? Controls are in place to ensure that unauthorized hiring does not occur; all permanent staff hiring requires multiple levels of approval, including the CEO and board levels. Overstaffing in the context of this question does not include the issue of permanent staff reductions in the face of declining FTES and FTES related revenue to the district.	✔		
	• Are the appropriate levels of internal controls (i.e., checks and balances) in place between the business and personnel departments to prevent fraudulent activity? Appropriate checks and balances and separation of duties exist, but they are not always fully documented.	✔		
	• Is position control reconciled against the budget during the fiscal year? The budget technician updates the position inventory database manually during the year. Reports are provided to division heads and to departments at least once a year for validation. The CBO and the CEO also review a position inventory report at least annually. The CBO reports that the additional budget technician position added over a year ago has helped improve the position control updates and controls.	✔		
	• Does the district offer or ensure that staff members attend professional development regarding financial management and budget? The district offers and encourages outside professional development opportunities to the business division staff, but the trainings are not tracked or required. There is no evidence that financial and budget management training is offered to staff outside of the business division. There is no routine scheduled budget management training for staff inside or outside the business division.	✔	✔	
12.	**Budget Development and Adoption**	✔		
	• Is a budget calendar used that contains statutory due dates and the major budget development milestones? FCMAT reviewed and confirmed the existence of a comprehensive budget development calendar. BP/AP 6200, Budget Preparation, requires a comprehensive budget calendar.	✔		

Is the district's fiscal health acceptable in the following areas?		Yes	No	N/A
	• Are there clear processes and policies in place to analyze resources and allocations to ensure that they align with strategic planning objectives and that the budget reflects the district's priorities? FCMAT confirmed that the 2016-17 Resource Requests spreadsheet maintained by the budget committee contains a field for Relationship to Plans, which references specific strategic plan goals and, when applicable, program review information from the online program review system, TableauPublic. BP/AP 6200, Budget Preparation, includes the requirement that "The annual budget shall support the district's approved operations and institutional plans."	✔		
	• Is the 50% Law correctly calculated and understood? The 50% Law calculation is audited as part of the annual audit of the district's financial statements. The district has been found compliant in the audit reports that FCMAT reviewed. FCMAT reviewed the 50% Law calculations in the most recent three CCFS-311 reports and found the calculations accurate. As of late February the district is still providing 50% Law calculation materials to the auditors for the 2015-16 audit.	✔		

Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
• Are projections for FTES, enrollment, and revenue accurate and reasonable? FTES and enrollment projections appear reasonable based on the assumptions that were used. Although the data is available, the historical information appears to have little value in attempting to forecast future trends due to the close correlation between the unemployment rate and economic cycles and community college enrollments. The district has faced major challenges from a more than 30% decrease in enrollment as compared to 2008-09, when its FTES peaked at 5,483. The district is projecting to teach approximately 3,950 apportionment-generating FTES in 2016-17. The district must pursue every possible option to regain FTES because in 2016-17 it is projected to lose over $3.1 million available apportionment funding if FTES is not restored to its funded cap of 4,564. Cap is the total FTES that would be funded if the district teaches the FTES. That earning potential would be permanently lost from the district's base funding since the district will no longer qualify for stabilization funding through the statutes and codes that implemented the SB 361 funding formula. The relationship between budgeted and actual revenue, expenses and ending balance numbers is not as easily assessed or transparent because of the nature of the final budget format. In the final budget, the prior year actual column is not actually the post-closing and post-audit amount of prior year actual expenditures. Rather, it is the amount that was calculated for inclusion in the June tentative budget. While nothing is technically wrong with that practice and there are strong arguments to carry the same prior year number that is used in the tentative budget on through the future budgeting documents, it means there will be a discrepancy if the post-closing audited amount is compared with the prior year amount in the post-closing and audited general ledger statements. The only variance numbers that anybody outside the business division sees are based on the final budget compared to the estimated actual numbers from May that are in the tentative budget. FCMAT is not aware of any documents that compare the actual results after closing to the final budget. The board does not approve the assumptions upon which the budget projects are based, nor is a documented and board-approved set of assumptions and parameters used in making budget projections. The result of any financial projection will depend on the assumptions upon which the projection is based, so it is desirable to have a clear understanding among all constituencies concerning the assumptions that will be used in financial projections, and those assumptions should be documented and easily accessed.	✔	✔	
• Is the district decreasing deficit spending and maintaining adequate reserves and fund balance when compared with the prior year? The district is not deficit spending in 2016-17.			✔
• Is the budget developed using a zero-based method rather than being a rollover budget? The district uses a rollover class schedule and a rollover budget.		✔	
• Does the district use position control data for budget development? The position control inventory is used to develop costs for the annual budget and budget forecast, and to manage the budget.	✔		

	Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
	• Does the budget development process include input from staff, administrators, board and community, as well as the budget advisory committee (if there is one)? BP 6200 requires broad participation. FCMAT interviews confirmed that the process is perceived to be inclusionary and participatory. There is a district budget committee with a membership representing the district's internal constituencies. Although the community has the opportunity to participate at the mandated board budget workshops, participation does not occur.	✔		
	• Is the tentative budget adopted by the governing board no later than June 30? There is no record of a late adoption of the tentative budget. BP 6200 requires adoption of the tentative budget before June 30.	✔		
13.	**Multiyear Projections**	✔		
	• Is the final budget adopted by the governing board no later than September 15, and is it based on standards and criteria for fiscal stability? The 2016-17 budget was adopted on September 6, 2016. Board minutes and fiscal office records indicate that adoption has historically occurred before September 15. The district's fund balance increase has come in on target for the last three years. Budgets have been conservatively prepared to ensure that expenses were overestimated and revenues underestimated to ensure the unrestricted general fund balance would grow. Although this may be considered a sound budgeting practice, qualitatively it is a problem. This is because the perception of excessively conservative budgeting causes constituents to lose trust in the validity of the budgets and to ignore them because of a reliance on additional ending balances being available after the fiscal books are closed.	✔		
	• Has the district developed multiyear projections that have reasonable assumptions? The final budget adopted on September 6, 2016 includes multiyear projections with reasonable assumptions. However, as noted earlier, balancing the budgets and increasing the ending balance by .5% a year is only possible because of intrafund transfers of $927,000 and $1,677,000 respectively in the 2017-18 and 2018-19 projections. No sources are identified for those transfers.		✔	
	• Are projected fund balance reserves disclosed and based on the most reasonable and accurate information available? The projected fund balances are contained in the tentative and adoption budget documents.	✔		
	• At a minimum, are the multiyear projections compiled at budget adoption and at the time of quarterly fiscal status reports? Multiyear projections are compiled and presented at least annually, including at adopted and tentative budgets. Multiyear projections are included and approved by the board as part of the monthly fiscal status reports.	✔		

Is the district’s fiscal health acceptable in the following areas?		Yes	No	N/A
14.	**Budget Monitoring and Updates**	✔		
	• Are budget assumptions updated throughout the year as updated information becomes available? Budget assumptions are updated throughout the year and the resulting statements are approved by the board monthly when the monthly fiscal status report is approved; however, the assumptions underlying the initial projections are neither transparent nor approved by the board.	✔		
	• Are actual revenue and expenses in line with the most current budget? Historically the district has budgeted conservatively compared to actual results.		✔	
	• Are budget revisions completed in a timely manner? Internally, budget revisions are done continuously. Budget changes are taken to the board monthly for approval in the Monthly Financial Status Report, which is an action item on which the board votes. For example, Agenda Item No. 3.1 on the January 10, 2017 agenda is “Approve Monthly Financial Status Report.” FCMAT’s opinion is that the Monthly Financial Status Report that is included as an action/discussion item on the board agenda meets the statutory, regulatory, and CCCCO requirements; accepted and normal CCC practice; and the Brown Act’s direction for openness and transparency. FCMAT found that budget revision documents have been consistent with statutory authority, meet the generally accepted definition of a resolution as typified by a recent legal opinion for another district, meet the standards established by the Government Finance Officers Association (GFOA),[5] and meet the core intent of California’s Brown Act, which is openness and transparency.	✔		
	• Does the district openly discuss the impact of budget revisions at the board level? Staff told FCMAT that board members actively discuss individual budget changes, but FCMAT was not able to confirm this based on board meeting minutes. Although the budget change appears in the agendas and in the minutes, that information does not indicate the level of board member discussion that took place. The published minutes do indicate that the board members actively participate in tentative and final budget discussion.	✔		
	• Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified? There is no record of budget revisions being made or confirmed by the board at the time the collective bargaining agreement is ratified. District fiscal staff also verbally confirm that this is not done at the board level. The reasoning is that the changes have not been between major object codes and, therefore, board approval is not required.		✔	
	• Has the district’s long-term debt decreased from the prior fiscal year? The district has two nonvoter-approved debts: a COP that will be paid off this year and a 2012 SERP that will be paid by 2020 over eight annual payments using the salary savings from the incentive plan.	✔		

	Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
	• Are contributions to restricted programs controlled and monitored? On the February 2017 board agenda, there is a docket item that would authorize transfer to two restricted programs if needed: Child Development Center: up to $90,000 Shively Farm: up to $88,000 Historically, if the board has not approved a transfer to a categorical or a restricted program and if that program overspends in a fiscal year it must repay the unrestricted general fund the next year.	✔		
	• Has the district identified the repayment sources for long-term debt or nonvoter-approved debt (e.g., certificates of participation, capital leases)? Repayment sources are included in the board-approved final budget.	✔		
	• Does the district's financial system have a hard-coded warning regarding insufficient funds for requisitions and purchase orders? The district has hard-coded blocks that require adequate budget to enter purchasing requisitions and purchase orders. The only way that budgets can be overridden is through an administrative review and approval process.	✔		
	• Does the district encumber salaries and benefits? FCMAT verified that the district encumbers regular salaries and benefits annually. The encumbrances are reduced by the actual expenses each month.	✔		
	• Are the balance sheet accounts in the general ledger reconciled regularly? FCMAT verified that balance sheet accounts are reconciled annually as part of the preparation of the audited financial statements.	✔		
	• Does the district complete and file its quarterly fiscal status reports within the statutory deadlines and ensure that they are based on standards and criteria for fiscal stability? CCFS-311 reports have not always been filed timely. The reports reviewed by FCMAT appear to be in compliance with the standards and criteria for fiscal reporting. FCMAT's scope of work did not include an audit of the fiscal status reports to ensure compliance.	✔	✔	
15.	**Retiree Health Benefits**		✔	
	• Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements? The GASB 45 actuarial valuation is documented in the 2014-15 audited financial statements.	✔		
	• Does the district have a plan for addressing the retiree benefits liabilities? The district pays the actual annual cost of the benefits on a pay-as-you-go basis. In addition to the pay-as-you-go amount, the district has set aside small contributions in an account that is revocable, so it can't be considered as actually reducing the actuarial accrued liability. The accrued liability as of June 30, 2015, was approximately $6.5 million.		✔	

	Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
	• Has the district conducted a re-enrollment process to identify eligible retirees? Due to the small number of retirees and the cost of a re-enrollment process, the district staff has not deemed it necessary to expend the resources necessary to perform this process.		✔	
16.	**Leadership/Stability**	✔		
	• Does the district have a superintendent/president and/or chief business official who has been with the district more than two years? The president/superintendent has been with the district for 10 years, but not as the CEO. His position was originally the chief instructional and student services official. He became the permanent president/superintendent of the district on March 3, after serving as the acting president/superintendent since July 2015. The vice president, business services, is the CBO and has been with the district five years. The senior accounting manager has been in the position for five years; he has been with the district for eight years. The chief human resources official has been with the district for less than one year, and does not have previous higher education human resources or collective bargaining experience. The acting chief instructional and student services official has been in the position for less than one year, and she is still also doing her regular position, which is as institutional researcher.	✔		
	• Does the governing board adopt and revise understandable and timely policies and support the administration to ensure implementation? The board policy adoption and revision dates are current. All board policies that were reviewed by FCMAT have been reviewed and revised after 2012. The policies are clearly written, concise, and follow the templates and guidance from the Community College League of California (CCLC).	✔		

Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
• Does the superintendent/president adopt and revise understandable and timely administrative regulations and ensure that adopted board policies and approved administrative regulations are communicated to staff and followed? Although the board policies and administrative procedures are current (reviewed and revised since 2012), clearly written, concise and conform to the CCLC templates and guidance, FCMAT recommends revision of several of the 6000 series and the business services series of the administrative procedures to clarify terminology and processes concerning budget modifications. Update BP 6100 and AP 6100, Delegation of Authority, to include information on how "ratification" is defined. The AP should also be updated to include additional information on what happens when the CEO or his/her designee approves a budget modification, contract, etc. congruently with the BP/AP, and whether or not that transaction is considered final at that time. If the board delegates authority to the CEO to approve items on the board's behalf, board ratification under such delegated authority is simply a formality. Update BP and AP 6200, Budget Preparation, to define the term "general reserves for economic uncertainty." A clarification is also needed on whether the unrestricted general fund balance is defined as the difference between budgeted beginning balances plus revenues less budgeted expenditures; or, if the general reserve is the total fund balance, after certain dedicated set-aside reserves. It is common for CCC districts to define a minimum ending balance for economic uncertainty as a percent of budgeted expenditures, and then any amount above that minimum is dedicated to options such as strategic planning initiatives, technology infrastructure, employee compensation enhancements, and board initiatives. The AP should also be more specific on the budget preparation process, especially the board's role. For example, the AP could include the board's approval of initial enrollment and revenue projections that will be used in the preparation of the tentative budget as early as January. In addition, the inclusion of milestones for the board's approval of budget assumptions could help mitigate existing faculty concerns about budget modifications. Update BP 6250 and AP 6250, Budget Management, to clearly define and/or document: That a docket item on the board agenda satisfies the definition of a written resolution unless a certain specific format is required by an outside entity for a specific purpose. What level of detail and narrative are required in the monthly budget status documents. When a two-thirds vote is required rather than a simple majority. What types of budget modifications can be approved by the CEO or his/her designee by ratification; generally those modifications would include any changes within a major expenditure classification (major object code) and between major object codes up to a certain dollar amount. That a major expenditure classification is defined the same as in the most current version of the California Community Colleges Budget and Accounting Manual.	✔		

	Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
	Further clarify what types of budget revisions require prior board approval versus ratification within the board-approved delegated authority to the CEO and his/her subordinates. Terminology differs within the California community college system, so specificity is important. One definition to consider for "budget transfer" is moving budget from one major expenditure classification to another; another for "budget revision" is changing the total amount previously authorized by the board for a major expenditure classification (and thus does not require board action); "budget adjustment" is moving budget within subobject and activity accounts within a major expenditure classification.			
	• Does the governing board refrain from micromanaging district administration and staff? Based on review of board meeting minutes, attendance at a board meeting, and interviews, it appears that the board refrains from micromanagement.	✔		
17.	**Internal Controls and Annual Independent Audit Report**	✔		
	• Does the district implement appropriate measures to discourage and detect fraud? Given the small size of the district, the delegation and separation of duties in the fiscal, accounting, purchasing, contracting and payroll departments is appropriate. The district has appropriate signature requirements (wet and electronic) for disbursing funds and assignment/payment of staff. The district has had difficulty hiring and retaining business division staff and less than optimum workflow management, causing the district to consistently miss the state deadlines for submitting the annual audit and other CCCCO required reports. Both the CBO and the senior accounting manager expressed a desire to have the workflow processes and procedures reviewed by an outside entity to ensure they are as efficient as possible.	✔		
	• Did the district receive an independent audit report without material findings? The audits for 2012, 2013, 2014 and 2015 were unmodified/unqualified and without material fiscal findings.	✔		
	• Can the audit findings be addressed without affecting the district's fiscal health? There were no audit findings that would negatively affect the district's fiscal health.			✔
	• Has the independent audit report been completed and presented within the statutory timeline? The 2015-16 closing and audit preparations are still in progress, well after the deadlines. Presentation to the board is not expected until April. The district has consistently missed the state deadlines for submitting the annual audit and other CCCCO required reports.		✔	
	• Are audit findings and recommendations reviewed with the board? An auditor from the CPA firm that performed the audit presents the information to the board's fiscal committee. The audit is also presented to the full board in open session.	✔		
	• Did the audit report meet both GAAP and GASB standards? FCMAT's scope of work did not include a full CPA peer audit of the audited financial statements, but a general review of the audit documents allows FCMAT to conclude that the audits comply with GAAP and GASB standards.	✔		

Is the district's fiscal health acceptable in the following areas?		Yes	No	N/A
18.	**Facilities**	✔		
	• Has the district passed a general obligation bond? On November 2, 2004 district voters approved Measures Q and B for a total of $40 million. Measure Q was presented to and approved by the voters of Humboldt, northwest Mendocino and western Trinity counties. Measure B was presented to and approved by the voters in Del Norte County.	✔		
	• Has the district met the audit and reporting requirements of Proposition 39? A review of the reports posted on the district's Citizens' Bond Oversight Committee webpage indicates that the content of the required reports and audits reporting requirements have been met. Although the reporting requirements for content have been met, the required audits have not been prepared, submitted or made available to the public on a timely basis. As of late February 2017, the 2015 annual report required by Proposition 39 still had not been issued.	✔	✔	
	• Has the district met IRS spending timeline compliance requirements for bond monies issued to the district? Although FCMAT did not perform an audit of all expenditures in the Measure Q and B program, interviews indicated that the district was aware of the IRS requirements. A general review of the bond issuance and expenditure timelines, the Measure Q and B audits, and the Citizens' Bond Oversight Committee website indicate there is no basis for suspecting that the IRS requirements are not being met.	✔		
	• Does the district have sufficient personnel to properly track and account for facility-related projects? The district's staffing and organization appear to be adequate to properly track and account for facility-related projects. This is true partially due to rental income received from PG&E for the use of vacant district facilities. The income from PG&E is not dedicated only to the facilities division, but most of the proceeds are used to maintain the physical plant, including the staffing required for that maintenance.	✔		
	• Does the district prioritize facility issues when adopting a budget? Facility funding requests are submitted through the same process as all other requests for funds. In 2015-16, $700,000 was transferred to the capital fund to provide a matching fund for state-funded projects. Annually Administrative Services includes a resource request that combines life safety and ADA (Americans with Disabilities Act and related accessibility compliance requirements). Other resource requests may include specific ADA or life safety issues as well. The highest priority category in the Budget Planning Committee (BPC) prioritization rubric is immediate life safety and ADA accessibility. The BPC rubric to do so is shown in the table immediately following this Fiscal Health Risk Analysis.	✔		

	Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
	• If needed, does the district have surplus property that may be sold or used for lease revenues? The district is leasing unused space at the Eureka campus to PG&E, and has a lease with the Small Business Development Center and a teen health clinic at the Del Norte Center. The district indicated there are other potential opportunities that can be investigated, but pending more constituent involvement and board-level discussions it would be premature to discuss them with FCMAT.	✔		
	• If needed, are there other potential statutory options the district can use rather than declaring the property as surplus; such as entering into agreements with some entities for joint use or joint occupancy, per the Education Code? The district indicated there are other potential opportunities that can be investigated, but pending more constituent involvement and board-level discussions it would be premature to discuss them with FCMAT.	✔		
19.	**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? The 2012, 2013, 2014 and 2015 annual audits were all "unqualified" or "unmodified" with no material fiscally related findings. Annual audits and other reports have consistently been prepared and submitted after the CCCCO deadlines, caused by the challenges relating to the recruitment, training and retention of capable staff for key business office positions. There was an issue with the major district bank account being reconciled; however, that issue appears to have related to the prior fiscal institution and has been since remedied. FCMAT validated a sampling of college procedures and practices and found no major issues except for required CCCCO reports and audits consistently submitted late.		✔	
	• Has the district closed the general ledger (books) within the time prescribed by the chancellor or superintendent/president's office? Deadlines are consistently missed by months. There have been audit comments or exceptions in the auditors' management letters about the general ledger being closed late. Those comments have not yet risen to the level of generating a modified or qualified audit.		✔	
	• Does the district follow a year-end closing schedule? The district has a detailed closing schedule from 2009; however, it has not been followed. Staffing and workload issues were the reasons given for not following a year-end closing schedule. There have also been difficulties recruiting and retaining qualified staff, and of being able to train the categorical program staff to perform the basic accounting for their programs. In terms of categorical program accounting and reporting, it is usually necessary for staff members to experience at least one full annual cycle to be comfortable and able to perform the necessary job functions, but the high turnover has resulted in staff members simply not gaining that full-cycle experience. Also, the realities of staffing in a very small college includes a lack of backup when employees are absent.		✔	

Is the district's fiscal health acceptable in the following areas?		Yes	No	N/A
	• Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year in the district's financial statements? The prior year audited financial statements do not contain any indication that the beginning balances have not been recorded correctly in the general ledger or audited financial statements. However, there have been timing issues resulting in the final budget general fund beginning balances not balancing with the audited financial statements. This occurs because the September deadline for the final budget adoption dictates that the ending and beginning balances are calculated before the books are closed as well as prior to the audited financial statements. This is especially true because of the district's inability to follow its closing schedule and meet the state's deadline for completing the audit.	✔		
	• Does the district adjust prior year accruals if the amounts received (A/R) or paid (A/P) are greater or less than the amounts accrued? FCMAT verified that the district adjusts prior year accruals that are greater to or less than the accrued amounts by reviewing the audited financial statements and reviewing the procedures with the senior accountant.	✔		
	• Does the district reconcile all suspense accounts, including payroll, at the close of the fiscal year? FCMAT verified that all suspense accounts are reconciled annually by reviewing the audited financial statements and reviewing the procedures with the senior accountant. There are outstanding issues with bad debts, including the level and timing of write-offs, collection, and the level of debt. For example, in the most recently completed fiscal audit for the year ended 6/30/15, the allowance for doubtful accounts was 67% of net tuition and fees.	✔		

[4] 2015-16 Final Budget approved on 9/8/15, page 4.

[5] http://www.gfoa.org/accurately-displaying-total-expenditures-budget-presentation

Committee Rubric for Determining Resource Request Rankings to the Budget Planning Committee, College of the Redwoods

Priority	Score
Required by law, mandate or to support accreditation? (includes life safety and ADA) (1, 0)	1 = required. 1's are sorted by first and get priority over all 0's.
Impact on student success? (supported by assessment or achievement data) (1, 2, 3)	1 = no impact, 2 = indirect impact, 3 = direct impact
Support strategic planning initiatives? (e.g., annual plan, Ed master, strategic) (1, 2, 3)	1 = no support, 2 = indirect support, 3 = direct support
Appropriate support and facilities to implement and maintain requested technology? (1, 0)	1 = yes, 0 = no
Number of students and faculty impacted? (1, 2, 3)	1 = fewer than 100 students and staff, 2 = 100 to 500 students and staff, 3 = greater than 500.

Appendices

Appendix A - Small Rural College Fiscal Comparisons

Appendix B - Business Process Guidelines Outline

Appendix C - Study Agreement

Appendix A

Small Rural College Fiscal Comparisons, 2014-15

Eleven Small Rural Districts*

Barstow

Copper Mountain

Feather River

Gavilan

Lake Tahoe

Lassen

Mendocino Lake

Palo Verde

Redwoods

Siskiyou

West Kern

Percentage of Total Expenditures**

	Redwoods	Statewide	Rank from Highest of 11
Academic Salaries	41%	41%	2
Classified Salaries	23%	23%	5
Employee Benefits	22%	21%	3
Total Compensation	85%	85%	2

Dollars per FTES***
Redwoods' Rank from the Highest of 11 Districts

Revenues per FTES	8
Expense per FTES	6

Footnotes/Sources:

*California Code of Regulations, Title 5, 58771(i)(12)

** Excel Workbook: 2015FiscalDataAbstract-Redwoods-B.XLS; Sheet: Small Rural Group B

*** Excel Workbook: 2015FiscalDataAbstract-Redwoods-B.XLS; Sheet: Small Rural Basics

2014-15 is the most current fiscal year's Fiscal Data Abstract available from CCCCO.edu.

Appendix B
Business Process Guidelines
Outline

"Are we working smart? Are we performing the essential tasks of the job in the most efficient way possible?"

Outline of Report

I. Title/Organization of Business Activity

- Includes organization chart of employees in the business activity.

II. Core Business of Business Activity

- These are the collection of work processes performed.
- Key function – How the business activity contributes to the organization.

III. Data Management

- Information/data used by business activity.
- Sources of information/data.
- Person(s) responsible for accuracy of data.
- Adequacy of data to ensure business activity efficiency.

IV. Process Controls

- Procedures available that delineate employee responsibilities (including separation of duties). This also shows required skills and how each job assignment contributes to the output of the business activity.
- Employee assignments are thoroughly discussed and understood.
- Sufficient documentation and protection of information.

V. Evaluation of Product and Employee Responsibilities

- Evaluate business activity output.
- Comparison with prior period output and if possible, industry average.
- Adequacy of employee assignments.
- Results discussed by business activity management with their staff.
- Method of identifying areas for improvement including additional equipment of workspace, as necessary (administrative review).

VI. Reporting

- Timely reporting of results to management.
- Recommendation for improvement of business activity and justification.

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

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
December 21, 2016

The Fiscal Crisis Management and Assistance Team (FCMAT), hereinafter referred to as FCMAT or the Team, and Redwood Community College District, hereinafter referred to as RCCD, mutually agree as follows:

1. **BASIS OF AGREEMENT**

The Team provides a variety of services to local educational agencies (LEAs). The RCCD has requested that the Team provide for the assignment of professionals to study specific aspects of its operations, based on the provisions of Education Code (EC) section 84041. These professionals may include staff of the Team, County Offices of Education, the California State Department of Education, school districts, charter schools, community colleges, or private contractors. All work shall be performed in accordance with the terms and conditions of this Agreement.

2. **SCOPE OF THE WORK**

A. Scope and Objectives of the Study

1. Review RCCD's 2016-17 general fund budget and multiyear financial projection (MYFP) for the current and two subsequent fiscal years to validate the district's financial status based on current economic forecasts to sustain recommended reserve levels and to maintain financial solvency and stability. Based on the review, make recommendations for expenditure reductions and/or revenue enhancements to maintain financial solvency if needed.

2. Using the Team's Fiscal Health Risk Analysis for Community Colleges, complete a fiscal health analysis of the district and its risk of insolvency in the current and two subsequent fiscal years based on key fiscal indicators.

B. Services and Products to be Provided

1) Orientation Meeting - The Team will conduct an orientation session at RCCD to brief RCCD management and supervisory personnel on the procedures of the Team and on the purpose and schedule of the study.

2) On-site Review - The Team will conduct an on-site review at the RCCD office and at RCCD sites if necessary.

3) Exit Meeting - The Team will hold an exit meeting at the conclusion of the on-site review to inform RCCD of significant findings and recommendations to that point.

4) Exit Letter - The Team will issue an exit letter approximately 10 days after the exit meeting memorializing the topics discussed in the exit meeting.

5) Draft Report - Electronic copies of a preliminary draft report will be delivered to RCCD administration for review and comment.

6) Final Report - Electronic copies of the final report will be delivered to RCCD following completion of the review. The final report will be published on the FCMAT website.

3. PROJECT PERSONNEL

The FCMAT study team may also include:

A.	Michelle Giacomini	FCMAT Chief Management Analyst
B.	To Be Determined	FCMAT Community College Consultant

4. PROJECT COSTS

The cost for studies requested pursuant to EC 42127.8(d)(1) shall be:

A. $950.00 per day for each FCMAT staff member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent consultants will be billed at the actual daily rate for all work performed based on the provisions of EC 84041.

B. All out-of-pocket expenses, including travel, meals, lodging, etc. RCCD will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by RCCD.

Based on the elements noted in section 2A, the total not-to-exceed cost of the study will be $35,000.

C. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT's services are payable to Kern County Superintendent of Schools - Administrative Agent, located at 1300 17th Street, City Centre, Bakersfield, CA 93301.

5. RESPONSIBILITIES OF RCCD

A. RCCD will provide office and conference room space while on-site reviews are in progress.

B. RCCD will provide the following (if requested):

1) Policies, regulations and prior reports that address items in this study's scope.
2) Current or proposed organizational charts
3) Current and two (2) prior years' audit reports
4) Any documents requested on a supplemental listing
5) Any documents requested on the supplemental listing should be provided to FCMAT in electronic format; if only hard copies are available, they should be scanned by RCCD and sent to FCMAT in an electronic format.
6) All documents should be provided in advance of fieldwork; any delay in the receipt of the requested documentation may affect the start date and/or completion date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's SharePoint document repository, to which RCCD shall upload all requested documents.

C. RCCD administration will review a preliminary draft copy of the report resulting from the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the Team prior to completion of the final report. The final report will be published on the FCMAT website.

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for key study milestones and will be established upon the receipt of a signed study agreement:

Orientation:	***To be determined***
Staff Interviews:	***To be determined***
Exit Meeting:	***To be determined***
Draft Report Submitted:	***To be determined***
Final Report Submitted:	***To be determined***
Board Presentation:	***To be determined***

7. COMMENCEMENT, TERMINATION AND COMPLETION OF WORK

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The Team will work expeditiously to complete its work and deliver its report, subject to the cooperation of RCCD and any other parties from which, in the Team's judgment, it must obtain information. Once the Team has completed its fieldwork, it will proceed to prepare a preliminary draft report and a final report. Prior to completion of fieldwork, RCCD may terminate its request for service and will be responsible for all costs incurred by FCMAT to the date of termination under Section 4 (Project Costs). If RCCD does not provide written notice of termination prior to completion of fieldwork, the Team will complete its work and deliver its report and RCCD will be responsible for the full costs. RCCD understands and agrees that FCMAT is a state agency and all FCMAT reports are published on the FCMAT website and made available to interested parties in state government. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a report once fieldwork has been completed, and RCCD shall not request that it do so.

8. INDEPENDENT CONTRACTOR

FCMAT is an independent contractor and is not an employee or engaged in any manner with RCCD. The manner in which FCMAT's services are rendered shall be within its sole control and discretion. FCMAT representatives are not authorized to speak for, represent, or obligate RCCD in any manner without prior express written authorization from an officer of RCCD.

9. INSURANCE

During the term of this agreement, FCMAT shall maintain liability insurance of not less than $1 million unless otherwise agreed upon in writing by RCCD, automobile liability insurance in the amount required under California state law, and workers compensation as required under California state law. FCMAT shall provide certificates of insurance, with Redwood Community College District named as additional insured, indicating applicable insurance coverages if requested prior to fieldwork.

10. HOLD HARMLESS

FCMAT shall hold RCCD, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, RCCD shall hold FCMAT, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement.

11. CONTACT PERSON

Name: Lee Lindsey, Vice President, Administrative Services
Telephone: (707) 476-4172
E-mail: Lee-Lindsey@redwoods.edu

12/22/16

Keith Snow-Flamer, President — Date
Redwood Community College District

December 21, 2016

Michael H. Fine — Date
Chief Administrative Officer
Fiscal Crisis and Management Assistance Team