FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Multiyear Financial Projection

October 16, 2020

Rim of The World Unified School District

Michael H. Fine
Chief Executive Officer

FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

October 16, 2020

Michelle Murphy, Superintendent
Rim of the World Unified School District
27315 North Bay Road
Blue Jay, CA 92317

Dear Superintendent Murphy:

In April 2020, the Rim of the World Unified School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to provide management assistance. Specifically, the agreement stated that FCMAT would perform the following:

1. Review the district's 2019-20 second interim general fund budget and multiyear financial projection (MYFP) for the current and two subsequent fiscal years to validate the district's financial status using FCMAT's Projection-Pro software. Make recommendations for expenditure reductions and/or revenue enhancements, taking into consideration the budget committee recommendations, to help the district eliminate its structural budget deficit and maintain financial solvency. The budget review will be a snapshot in time of the district's financial status

Subsequently, the district and FCMAT agreed to use the district's 2020-21 adopted budget as the base for developing the projections, rather than the 2019-20 second interim.

This final report contains the study team's findings and recommendations.

FCMAT appreciates the opportunity to serve the Rim of the World Unified School District and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

Michael H. Fine
Chief Executive Officer

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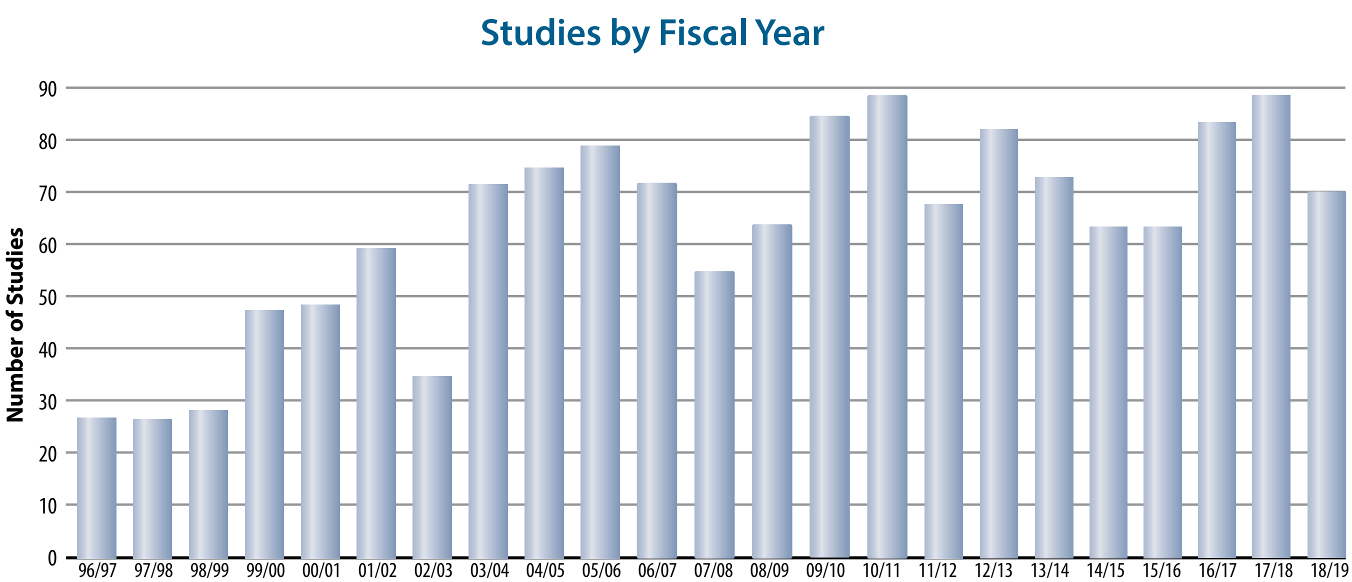
About FCMAT

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.



FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms. FCMAT also develops and provides numerous publications, software tools, workshops and professional learning opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, Senate Bill 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

On September 17, 2018 AB 1840 was signed into law. This legislation changed how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

The Rim of the World Unified School District is located in the San Bernardino mountains in an unincorporated area of San Bernardino County. It encompasses 121.4 square miles in the communities of Crestline, Lake Arrowhead, Running Springs, Blue Jay, Twin Peaks, Cedar Glen, and Cedarpines Park. The district has a five-member elected governing board and serves students in transitional kindergarten through grade 12 in six schools. The district operates three elementary schools, one middle school, one comprehensive high school, and one continuation high school.

Student enrollment has been declining since fiscal year 2004-05 based on the October census day enrollment counts for the California Longitudinal Pupil Achievement Data System (CALPADS). CALPADS records indicate that the 2019-20 student enrollment was 3,116, with 59% of enrolled students comprising English learners, foster youth, or children eligible for free or reduced-price meals (this is commonly called the unduplicated pupil percentage, or UPP).

Study and Report Guidelines

In April 2020, the Rim of the World Unified School District and FCMAT entered into an agreement for FCMAT to provide management assistance by reviewing the district's 2019-20 second interim budget, developing an MYFP, and making recommendations for expenditure reductions and/or revenue increases. The district and FCMAT subsequently agreed that FCMAT would review and use as the baseline the district's 2020-21 adopted budget and MYFP rather than its 2019-20 second interim budget.

FCMAT conducted interviews with staff via video conference on June 25, July 15-16 and July 27, 2020 and collected data and documents for review. The FCMAT study team performed additional document review and analysis during the weeks that followed. 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 study team was composed of the following members:

Debbie Riedmiller, CFE
FCMAT Intervention Specialist

Maria Arias
FCMAT Consultant

John Lotze
FCMAT Technical Writer

Those members of this study team who are otherwise employed by a local educational agency (LEA) were not representing their respective employers but were working solely as independent contractors for FCMAT.

Each team member reviewed the draft report to confirm accuracy and achieve consensus on the final recommendations.

Executive Summary

One of FCMAT's main objectives in this study was to review and validate the district's financial status and make recommendations to help the district eliminate its structural budget deficit and maintain financial solvency. The team reviewed numerous documents and financial reports, including the district's annual independent audits, unaudited actuals, financial system reports, attendance reports and other historical financial information pertinent to the study. The independent multiyear financial projection (MYFP) was developed based on the district's 2020-21 adopted budget as well as additional information from the district's financial system and interviews with staff.

Historical data indicates that the district has experienced fifteen years of declining enrollment. The enrollment decline is projected to continue in the two subsequent years of the projection; this, and the associated decline in average daily attendance (ADA), results in a year-over-year loss of revenue and contributes to the district's deficit spending and fiscal distress.

The district has made some progress in recent years reducing costs. Until recently, the contract with the certificated employee bargaining unit contained a provision for 100% district-paid health and welfare coverage up to age 75 for retirees with 30 or more years of service in the district. Approximately 37 former employees are receiving this benefit at an annual cost to the district of more than $559,000. Under the current contract, benefits are paid by the district to age 65 for retirees with 15 or more years of service to the district.

In addition, the bargaining agreements with certificated and classified employee groups included a provision that required the district to offer the California State Teachers' Retirement System (STRS) or California Public Employees' Retirement System (PERS) Golden Handshake retirement incentive each year. When a retirement incentive is guaranteed to be offered each year, it no longer works as an incentive. The annual payment for this benefit in 2020-21 is estimated at $468,602. Another provision of the certificated and classified bargaining agreements was a retirement bonus payment to retirees of 25% of the retiree's salary paid in three annual installments. The cost of this provision to the district for 2020-21 is $234,930. These contract provisions have now expired, so the costs for them will decline over the next several years.

The district recently formed a budget committee and is exploring options for reducing expenditures. In addition, the district reestablished a surplus property (7-11) advisory committee to advise the board about the use or disposition of school buildings and vacant properties not needed for school purposes.

The district's 2020-21 adopted budget and MYFP projects deficit spending each fiscal year from 2019-20 through 2022-23. According to the district's reports, the unrestricted ending fund balance is projected to decline from $6.08 million at the beginning of 2020-21 to $2.4 million at the end of 2022-23. In June 2020, the district's governing board adopted a resolution to implement budget reductions of at least $1.6 million in 2021-22 and an additional $1.5 million in 2022-23 to maintain fiscal stability. The district's projections include these unspecified reductions as other expenditure adjustments on its MYFP. Including these reductions, the district projects it will maintain its required reserve for economic uncertainties in all three years of the projection.

If these proposed reductions are not achieved, the district may not meet its financial obligations in future years. It is imperative that the district develop a detailed plan that includes a timeline for implementation, carry out the planned reductions, and continue to search for ongoing solutions to eliminate deficit spending.

The COVID-19 pandemic has had a devastating impact on the state, national, and global economies. The duration and severity of the pandemic-induced recession is and will continue to be significant but is not possible to predict exactly. Forecasting revenues and expenditures in this uncertain environment is challenging because it is not yet clear how the ongoing pandemic will affect school district revenue and expenditure budgets. School districts should prepare multiple scenarios and develop contingency plans in case of further reductions to state revenues.

Financial projections are based on certain assumptions and criteria, such as enrollment and ADA, cost-of-living increases, economic conditions, and other factors. When these factors change, a projection's results also typically change.

The district's 2020-21 adopted budget and MYFP were based on the governor's May Revise budget and other assumptions available when it was created. The final adopted state budget changed significantly from the May Revision, and FCMAT's MYFP takes these changes into account. In addition, FCMAT used slightly different methods for calculating some items, such as projected enrollment and ADA, and excluded the district's reductions passed by board resolution but not yet specified or detailed.

FCMAT's MYFP shows that, based on current assumptions, the district is projected to deficit spend in all three years of the projection, and will not meet its required level of reserve for economic uncertainties in 2022-23 unless it carries out the significant reductions shown on its board resolution.

The following is a summary of FCMAT's projection of the district's unrestricted general fund for the current and two subsequent fiscal years.

Multiyear Financial Projection Summary, General Fund, Unrestricted Resources Only

	Base Year 2020-21	Year 2 2021-22	Year 3 2022-23
Total Revenues	30,879,747	30,883,856	29,340,176
Total Expenditures	27,031,839	27,055,302	27,416,632
Total Other Financing Sources/Uses	(5,071,373)	(5,705,602)	(6,065,293)
Net Increase (Decrease) in Fund Balance	(1,223,465)	(1,877,048)	(4,141,749)
Adjusted Beginning Balance	8,201,010	6,977,545	5,100,498
Ending Balance, June 30	6,977,545	5,100,498	958,749
Components of Ending Fund Balance			
Nonspendable	106,279	106,279	106,279
Assigned	1,158,299	1,158,299	1,158,299
Reserve for Economic Uncertainties	1,279,361	1,190,335	1,187,379
Unassigned/Unappropriated Amount	4,433,606	2,645,585	(1,493,208)

Rounding used in calculations.

The number shown as a negative in the undesignated/unappropriated fund balance is the amount by which budgeted expenditures must be reduced or revenues increased to meet the reserve requirements in accordance with Assembly Bill (AB) 1200.

Findings and Recommendations

Multiyear Financial Projections

Financial planning is crucial for every local educational agency (LEA), regardless of its size or structure. Multiyear financial projections (MYFPs) allow a governing board and district to make budget decisions that strategically allocate current and future resources in alignment with its goals, programs and the Local Control and Accountability Plan (LCAP). In addition, recognizing financial trends is essential to maintaining a district's fiscal health. Monitoring and analyzing year-to-year trends in key budget areas helps a district evaluate its budget direction and identify possible areas of concern so that solutions can be implemented in a timely manner.

Multiyear financial projections allow a district to forecast the future fiscal effect of current decisions. Projections should be updated at least at each interim financial reporting period, when known economic forecasts change, and before any significant decisions are made that affect the budget, such as salary increases or other major financial commitments. When developing an MYFP, a district's main objectives are to achieve and sustain a balanced budget, improve academic achievement, and maintain local governance.

Assembly Bill (AB) 1200 and AB 2756 require multiyear financial projections, and they are a part of the adoption budget and interim reporting process. AB 2756 was signed into law in June 2004 and made substantive changes to the financial accountability and oversight processes used to monitor the fiscal status of school districts and county offices of education. Among other things, AB 2756 strengthened the roles of the superintendent of public instruction (SPI) and county offices of education and their ability to intervene during fiscal crises, including requesting assistance from FCMAT.

If the district cannot meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the governing board and the SPI. The SPI must follow Education Code 42127.6 when assisting a school district in fiscal distress. If a district does not maintain its required reserve for economic uncertainties, the MYFP is the primary tool used to help the county office and the district develop a plan to regain fiscal solvency and restore the required reserve.

Any forecast of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including enrollment trends, cost-of-living adjustments, estimates of costs for utilities, supplies and equipment, and changing economic conditions at the state, federal, and local levels. Therefore, any projection should be viewed as a trend based on certain criteria and assumptions rather than a prediction of exact numbers.

Multiyear projections can become somewhat less reliable in a time of fiscal instability, especially in projecting the subsequent fiscal years, because projected revenue information from the state may change frequently. However, the MYFP still provides guidance for decisions that cover several fiscal years, and the district must continue to update and reassess the effects of state-imposed budget adjustments.

Each district faces its own set of financial risk factors based on reserve levels, enrollment trends, employee compensation, degree of revenue volatility, and various other local and statewide factors. Districts must plan accordingly to meet ongoing academic and program objectives while maintaining fiscal solvency.

In such an uncertain environment, all LEAs should strive to maintain fiscal solvency and protect the integrity of educational programs by doing the following:

- Analyzing enrollment trends and regularly updating MYFPs.

- Maintaining adequate reserves to allow for unanticipated circumstances (with the adequate level based on each LEA's unique situational assessment).
- Maintaining fiscal flexibility by limiting commitments to future increased expenditures based on projections of future revenue growth, and/or establishing contingencies that allow expenditure plans to be changed as needed.
- Routinely preparing alternative MYFPs that can show the fiscal impact of different budget assumptions through each year of the fiscal model.
- Developing an expenditure reduction plan that can be implemented in a timely manner if necessary.

California LEAs use many different methods and software products to prepare MYFPs. The projections for the district's general fund used in this report were prepared using FCMAT's Projection-Pro multiyear and cash flow projection software, a web-based forecasting tool that is available at no cost to all California school districts, charter schools, and county offices of education. FCMAT reviewed the district's revenue and expenditure trends during recent years, used industry-standard variables provided by the School Services of California (SSC) Financial Dartboard, and based its projection on the district's 2020-21 adopted budget for the current and two subsequent fiscal years.

Adjustment Analysis

The first step in FCMAT's process was to establish the current year revenue and expenditures. Accurately estimating these values is essential because they are used to determine the subsequent years' projections.

The following table shows the differences between the district's 2020-21 adopted budget report and FCMAT's analysis. The district used estimated 2019-20 revenues and expenditures to determine the adjusted beginning fund balance, nonspendable amounts, and restricted ending balance. FCMAT used the district's 2019-20 unaudited actuals report, which was completed in September 2020, to determine those amounts. Differences in projected revenues and expenditures are explained in the Revenue and Expenditure Projection Assumptions section.

Multiyear Financial Projection Comparison Summary, General Fund Unrestricted and Restricted Resources

	Object Code	District 2020-21 Adopted Budget*	FCMAT 2020-21 Analysis	Difference
Revenues				
LCFF Sources	8010-8099	27,522,778	29,829,360	2,306,582
Federal Revenue	8100-8299	4,517,926	5,883,415	1,365,489
Other State Revenues	8300-8599	2,733,539	2,971,222	237,683
Other Local Revenues	8600-8799	2,242,733	2,242,733	0
Total, Revenue		**37,016,976**	**40,926,730**	**3,909,754**
Expenditures				
Certificated Salaries	1000-1999	13,679,272	13,679,272	0
Classified Salaries	2000-2999	6,143,938	6,119,738	(24,200)
Employee Benefits	3000-3999	12,012,546	11,901,844	(110,702)
Books and Supplies	4000-4999	2,990,418	3,496,116	505,698

Services and Other Operating Expenditures	5000-5999	5,328,209	7,090,255	1,762,046
Capital Outlay/Depreciation	6000-6999	27,495	27,495	0
Other Outgo (excluding Transfers of Indirect Costs)	7100-7299 7400-7499	179,274	179,274	0
Other Outgo - Transfers of Indirect Costs	7300-7399	0	0	0
Total, Expenditures		**40,361,152**	**42,493,994**	**2,132,842**
Other Financing Sources/Uses				
Interfund Transfers In	8900-8929	0	0	0
Interfund Transfers Out	7600-7629	151,386	151,386	0
All Other Financing Sources	8930-8979	0	0	0
All Other Financing Uses	7630-7699	0	0	0
Contributions	8980-8999	0	0	0
Total, Other Financing Sources/Uses		(151,386)	(151,386)	0
Net Increase (Decrease) in Fund Balance		(3,495,562)	(1,718,650)	1,776,912
Fund Balance, Reserves				
Adjusted Beginning Balance		8,245,691	10,460,750	2,215,059
Ending Balance		4,750,129	8,742,101	3,991,972
Components of Ending Fund Balance				
Nonspendable	9710-9719	104,152	109,828	5,676
Restricted	9740	194,455	1,761,006	1,566,551
Assigned	9780	1,921,451	1,158,299	(763,152)
Reserve for Economic Uncertainties	9789	1,215,376	1,279,361	63,985
Unassigned/Unappropriated Amount	9790	1,314,695	4,433,606	3,118,911

* Source: District's 2020-21 Adopted Budget

Rounding used in calculations.

Enrollment, Unduplicated Pupil Count, and Average Daily Attendance

Accurate enrollment and average daily attendance (ADA) projections are essential elements of any multiyear financial projection. Most of a district's revenue is based on the Local Control Funding Formula (LCFF). Student enrollment, unduplicated pupil count (UPC) (that is, the number and percentage of students who are English learners, and/or foster youth, and/or qualify for free or reduced-price meals), and ADA by grade level are all core components of the LCFF calculation. Enrollment projections are vital in identifying changes that may significantly affect an LEA's estimated revenue in the current and subsequent years of a projection. Failure to identify potential reductions in revenue (based on declines in ADA) and plan for necessary staffing and other reductions in a timely manner can be a significant detriment to a district's financial position.

Accurate projections provide information essential for determining instructional priorities, staffing ratios, grade level configurations, and/or potential boundary changes. Enrollment projections should be prepared frequently and with enough detail to monitor and project class sizes in subsequent years. To maintain the most accurate and meaningful data, districts need to prepare and update enrollment projections regularly and compare them to actual enrollment. Historical enrollment and attendance patterns help identify potential changes in future enrollment. Projections prepared in a timely manner enable a district to identify a potential enrollment decline and adjust staffing levels and expenditure budgets accordingly. Regularly monitoring attendance data allows districts to forecast whether layoff notices may be necessary; this helps ensure that management has adequate time to prepare them.

Enrollment and ADA projections have inherent limitations because they are based on certain criteria and assumptions rather than exact calculations. Limitations include issues such as the unpredictable timing of housing trends, unanticipated changes in enrollment, changes in local and regional demographics, and changing local, state and federal economic conditions. Therefore, the forecasting model should be viewed as a trend rather than a prediction of exact numbers.

Enrollment variables include the following:

- Birth rates and trends
- Historical ratio of enrollment progression between grade levels
- Changes in educational programs
- Incoming and outgoing interdistrict transfers
- Migration in and out of schools, including movement in and out of charter schools
- Changes in local and regional demographics
- Industry changes such as new industry moving into, or existing industry moving out of, an area
- Residential housing starts and the correlation of housing starts with local, state or national economics

The district projects enrollment by school and grade level. Each cohort is progressed to the next grade and then a 3% decline is applied. Kindergarten enrollment is projected to decline 3% from the prior year enrollment. Staff indicated that enrollment projections are reviewed by members of the superintendent's cabinet in January and February of each fiscal year, allowing time for layoff notifications.

In developing the MYFP, FCMAT reviewed the district's enrollment, ADA, and UPC trends from 2015-16 through 2019-20 for all grades. FCMAT used its Projection-Pro software to prepare enrollment, ADA and UPC projections for the current and two subsequent years, and used these projections to complete an independent LCFF calculation. FCMAT's method resulted in slightly different enrollment, ADA, and UPC projections.

Since a peak enrollment of 6,227 in 1997-98, the district's enrollment has declined each year except one, to 3,116 in 2019-20. The decline in enrollment over the last five years averages 3.35% per year, with a decline of 3.71% in 2019-20. FCMAT's projections indicate that the district's enrollment and ADA will continue to decline in the next two years. Because the district's enrollment and related ADA are and have been declining for many years, the district needs to exercise extreme caution regarding strategic decisions that will affect the budget, such as negotiations with collective bargaining units, staffing ratios, and deficit spending, so that it can maintain fiscal solvency. Diligent planning will enable the district to gain a better understanding of its financial objectives and develop strategies to achieve them.

Enrollment

FCMAT used the cohort survival method to project the district's enrollment for grades 1 through 12. This technique groups students by grade level on entry and tracks them through each year they stay in school. The method evaluates the longitudinal relationship of the number of students who pass from one grade to the next in the subsequent year. In doing so, the method more closely accounts for retention and new and departing students by grade. Although other enrollment forecasting methods are available, the cohort survival method is usually considered the best choice for school districts because of its sensitivity to incremental changes in several key variables.

Percentages are calculated from historical enrollment data certified on the Fall 1 census date for the California Longitudinal Pupil Achievement Data System (CALPADS), which is always the first Wednesday in October. This data is used to determine a percentage of increase or decrease in enrollment between any two grades. For example, if 100 students were certified as enrolled in first grade in 2018-19 and that number increased to 104 in second grade in 2019-20, the survival would be 104%, or a ratio of 1.04. Such ratios are calculated between each pair of grades over several recent years. These ratios are key factors that contribute to the reliability of the projections given the validity of the data at the starting point. Each ratio encompasses collectively the variables that could account for an increase or decrease in the size of a grade cohort as it progresses over time.

The process of projecting kindergarten enrollment differs from other grades because little data is available on the presence of four- and five-year-old children who may enroll in the district the following year. The industry standard for projecting kindergarten enrollment is to identify the number of children who enroll in kindergarten and express this as a percentage of countywide live births five years earlier. Alternatively, a five-year historical average of the number of kindergarten students is usually a simpler approach. Because there are 33 school districts in San Bernardino county, countywide birth rates may not be an accurate indicator of kindergarten enrollment in the Rim of the World school district. Therefore, FCMAT used a five-year historical average to project kindergarten enrollment for the district. Because the five-year average also includes eligible transitional kindergarten, the projected funding is susceptible to reduction if the enrollment and relative ADA do not materialize.

Unduplicated Pupil Percentage

The district's unduplicated pupil percentage (UPP) is used to determine a portion of its LCFF funding (specifically, supplemental and concentration grant funding). This is the percentage of the district's students who are eligible for free or reduced priced meals and/or identified as English learners and/or foster youth; each eligible student is counted only once, even if they meet more than one of these criteria. The UPP is determined based on a three-year rolling average of the ratio of unduplicated students enrolled to total enrollment. Based on a five-year historical ratio of unduplicated students enrolled to total enrollment, FCMAT determined a weighted average ratio and used it to calculate the UPP for the projection years.

Average Daily Attendance

The total number of student attendance days in a school year is divided by the number of days of instruction to calculate the district's average daily attendance (ADA). School district LCFF apportionments are based on the greater of current year or prior year period 2 (P-2) ADA report. Period 2 ADA is calculated using student attendance from the first day of school through the last school month ending on or before April 15. For 2019-20, as a result of Senate Bill 117, for districts that comply with Executive Order N-26-20, the second attendance and annual reporting periods were modified to include full school months from July 1, 2019 through the last month ending on or before February 29, 2020, inclusive.

FCMAT reviewed the district's enrollment and ADA trends for 2015-16 through 2019-20. The review compared the October CALPADS student enrollment counts to the P-2 ADA to determine the average ADA-to-enrollment ratios by grade span. Based on these historical ratios, a weighted average ratio was determined and used to calculate ADA for the projection years.

The table below shows FCMAT's enrollment, unduplicated pupil count (UPC), and ADA projections.

Actual and Projected Enrollment, UPC, and ADA

Enrollment	Historical 5 2015-16	Historical 4 2016-17	Historical 3 2017-18	Historical 2 2018-19	Historical 1 2019-20	Base Year 2020-21	Year 2 2021-22	Year 3 2022-23
TK-K	226	262	270	254	269	272	275	278
1	250	213	234	252	213	239	242	244
2	267	257	219	233	243	211	237	240
3	283	259	259	226	212	236	205	230
Subtotal (TK-3)	1,026	991	982	965	937	958	959	992
4	287	293	259	255	223	211	234	204
5	288	278	284	263	239	216	205	227
6	282	277	271	273	235	224	202	192
Subtotal (4-6)	857	848	814	791	697	651	641	623
7	256	262	261	242	249	215	205	185
8	285	247	253	264	225	240	207	198
Subtotal (7-8)	541	509	514	506	474	455	412	383
9	272	293	244	255	270	228	243	209
10	297	270	261	241	257	264	223	237
11	342	281	255	238	226	240	246	208
12	273	329	274	239	251	225	239	245
Subtotal (9-12)	1,184	1,173	1,034	973	1,004	957	951	899
Total Enrollment	3,608	3,521	3,344	3,235	3,112	3,021	2,963	2,897
Enrollment increase (decrease)	(87)	(87)	(177)	(109)	(123)	(91)	(58)	(66)
Unduplicated Pupil Count (UPC)	**Historical 5 2015-16**	**Historical 4 2016-17**	**Historical 3 2017-18**	**Historical 2 2018-19**	**Historical 1 2019-20**	**Base Year 2020-21**	**Year 2 2021-22**	**Year 3 2022-23**
UPC	1,935	1,886	1,889	1,824	1,844	1,716	1,683	1,645
Ratio	53.63%	53.56%	56.49%	56.37%	59.25%	56.80%	56.80%	56.80%
Average Daily Attendance (ADA)	Historical 5 2015-16	Historical 4 2016-17	Historical 3 2017-18	Historical 2 2018-19	Historical 1 2019-20	Base Year 2020-21	Year 2 2021-22	Year 3 2022-23
Grades TK-3								
ADA	965.95	922.61	921.62	905.26	884.16	899.84	900.78	931.78
Ratio	94.15%	93.10%	93.85%	93.81%	94.36%	93.93%	93.93%	93.93%
Grades 4-6								
ADA	811.00	807.14	769.79	749.40	667.23	619.02	609.51	592.39
Ratio	94.63%	95.18%	94.57%	94.74%	95.73%	95.09%	95.09%	95.09%
Grades 7-8								
ADA	514.29	477.40	479.16	475.58	442.83	426.30	386.01	358.84

Ratio	95.06%	93.79%	93.22%	93.99%	93.42%	93.69%	93.69%	93.69%
Grades 9-12								
ADA	1,095.59	1,062.97	948.38	901.44	922.31	879.69	874.18	826.38
Ratio	92.53%	90.62%	91.72%	92.65%	91.86%	91.92%	91.92%	91.92%
Grades TK-12								
ADA	3,386.83	3,270.12	3,118.95	3,031.68	2,916.53	2,824.85	2,770.48	2,709.39
Ratio	93.87%	92.87%	93.27%	93.72%	93.72%	93.51%	93.50%	93.52%

Sources: Ed Data, CALPADS 1.17 report, CDE Apportionment Exhibits

Notes on above table:

- For grades 1-12, the enrollment projections are based on the cohort survival average by grade level for the previous five years.
- For kindergarten, the enrollment projections are based on a five-year average rate of change in kindergarten enrollment.
- The unduplicated pupil percentage is based on a five-year weighted average ratio of unduplicated pupils to total enrollment.
- The P-2 attendance percentage is based on a five-year weighted average ratio of P-2 attendance to enrollment.

FCMAT's projections indicate the district should anticipate continued enrollment decline in 2020-21 through 2022-23 but at a lesser rate than it has experienced over the last three years. The decreased rate of decline can be attributed to the exiting graduating classes being smaller than the expected incoming kindergarten and transitional kindergarten classes.

Projection Assumptions

The key planning factors and budget assumptions FCMAT used to project the district's 2020-21 budget and MYFP are shown in the table below and are based on the latest information available.

Planning Factor	2012-21	2021-22	2022-23
Enrollment projection	3,021	2,963	2,897
Average Daily Attendance (ADA) projection	2,824.85	2,770.48	2,709.39
Funded ADA	2,917.38	2,917.39	2,771.34
Unduplicated Pupil Percentage (UPP)	56.80%	56.80%	56.80%
Statutory COLA (Department of Finance)	2.31%	2.48%	3.26%
LCFF COLA	0.00%	0.00%	0.00%
State Categorical COLA	0.00%	0.00%	0.00%
Recommended Planning COLA	0.00%	0.00%	0.00%
California Consumer Price Index (CPI)	0.98%	1.59%	1.87%
Interest Rate for Ten-Year Treasuries	0.89%	1.24%	1.70%
California Lottery, Unrestricted per ADA	$150.00	$150.00	$150.00
California Lottery, Restricted per ADA (Prop 20)	$49.00	$49.00	$49.00
Mandate Block Grant, District (K-8), per ADA	$32.18	$32.18	$32.18
Mandate Block Grant, District (9-12), per ADA	$61.94	$61.94	$61.94
CalPERS Employer Rate (projected)	20.70%	22.84%	25.50%
CalSTRS Employer Rate (statutory)	16.15%	16.00%	18.10%
Step and Column, Certificated		1.40%	1.40%

Step and Column, Classified		2.50%	2.50%
Health and Welfare Rate Increase		5.00%	5.00%
Indirect Cost Rate	4.87%	6.25%	6.25%

Sources: School Services of California (SSC) 2020-21 Adopted State Budget Dartboard, California County Superintendents Educational Services Association Business Administration Steering Committee's (BASC's) 2020-21 45-Day Revision Common Message, California Department of Education (CDE), and district records

Revenue and Expenditure Projection Assumptions

FCMAT included in its MYFP the impact of the state's 2020-21 enacted budget. The team reviewed the district's records, interviewed staff members, and examined a variety of financial documents to gather the information needed for the MYFP. Assumptions include conservative economic factors and estimates described by major object code.

Revenue Assumptions (Object 8XXX):

Projected revenue was based on validation of funding from the California Department of Education (CDE), SSC Dartboard, grant letters, and analysis of district estimates for any sources that could not be independently verified. Adjustments were made for any one-time funds or carryover from previous years.

Local Control Funding Formula (LCFF) Sources (8010-8099)

The LCFF is the model for school districts' and charter schools' operational funding. It was implemented beginning with the 2013-14 fiscal year and replaced the former revenue limit calculation and charter school block grant state apportionment distribution methods. The LCFF provides the following:

- A base per-pupil grant that varies by grade level.
- Supplemental funding that provides an additional 20% of the base grant multiplied by the district's percentage of disadvantaged pupils (the unduplicated count of low-income students, English learners, and foster youth).
- A concentration grant that provides an additional 50% of the base grant multiplied by the district's percentage of disadvantaged pupils that exceeds 55% of total enrollment.

The LCFF funding model eliminated many former state categorical programs and redirected their funding to support the implementation of the LCFF. Full implementation of the LCFF was expected to take eight years, with LEAs receiving a transitional level of funding during implementation. However, full implementation occurred two years earlier than anticipated, in 2018-19, with all LEAs receiving their target allocations of LCFF funding. After full implementation, 2019-20 funding was increased by the COLA only, calculated with other variable factors, such as changes in attendance and in unduplicated pupil counts. For most districts, including Rim of the World Unified School District, the LCFF entitlement is funded through a combination of local property taxes and state aid. An LEA's property tax will first be applied toward the total LCFF entitlement, and the balance is funded through state aid. Proposition 30, passed in 2012, temporarily added a quarter-cent sales tax and increased state income tax rates on high income taxpayers. The sales tax increase expired in 2016; the income tax increase was initially set to expire in 2018, but Proposition 55 extended it through 2030. These revenues are deposited into the state's Education Protection Account and are part of the state aid for the LCFF entitlement.

The COVID-19 pandemic has resulted in a recession, including significant negative effects on state revenues. The 2020-21 state budget suspended the statutory COLA for 2020-21, resulting in a funded COLA of 0%. A COLA of 0% is also assumed for the subsequent years of the projection.

FCMAT prepared an independent LCFF calculation for the district using the most current version of the FCMAT LCFF Calculator at the time of preparation. The calculator contains the latest information from the 2020-21 adopted state budget released in August 2020, The district used for its calculation the governor's May Revise version of the LCFF calculator released in May 2020. The May Revise proposal recognized the 2.31% statutory COLA and then applied an ongoing reduction of 10% to the LCFF, which created a net reduction of 7.92% to the 2020-21 base grant amounts. The 7.92% reduction was restored in the 2020-21 adopted state budget, but the 2.31% COLA remains unfunded. This, coupled with FCMAT's enrollment and ADA analysis discussed above, resulted in projected ADA and UPP values and LCFF revenues that differ from those in the district's MYFP.

The adopted state budget included a hold harmless provision for 2020-21 ADA, which uses the 2019-20 P-2 ADA instead of reporting attendance for apportionment purposes in 2020-21. Because school districts' LCFF apportionments are based on the greater of current or prior year P-2 ADA, this resulted in higher projected LCFF revenues for 2021-22 than in the district's projection.

If the district's enrollment and ADA continue to decline, LCFF revenues will decline significantly in 2022-23, because without the ADA hold harmless provision LCFF funding will be based on a two-year decline in enrollment and ADA rather than a one-year decline. In addition, if the state's economy continues to decline, further cuts to revenues could occur in the subsequent years.

Districts should use the most recently updated LCFF calculator and current enrollment, ADA and UPC projections to update their budgets and MYFPs.

Federal Revenue (8100-8299)

Funding from federal grants and entitlements is restricted in accordance with their provisions. The district operates multiple restricted federally funded programs including, but not limited to Title I, Title II, Title III, Title IV, Medi-Cal Administrative Activities, and various special education programs.

During the development of the 2020-21 adopted budget, allocation amounts and resource codes were not yet available for the COVID-19 relief funds, and the district budgeted an estimated $2.2 million in federal unrestricted revenue. FCMAT eliminated this revenue in the unrestricted resource and has allocated the funds to the appropriate restricted federal resource in accordance with guidance from the CDE.

FCMAT confirmed the district's 2020-21 preliminary federal award amounts and included these same amounts in the two subsequent fiscal years for restricted federal revenues. Prior year unearned revenues were added to the base year budget and eliminated in the subsequent years. The district needs to update its budget periodically and ensure this amount agrees with CDE funding allocation schedules. FCMAT's projection includes the following changes in federal revenues.

- Increased Title I, Part A funding from the district's projection of $1,109,479 at adopted budget to FCMAT's projection of $1,605,067, an increase of $495,588. The adjustment was made to align 2020-21 revenues with the CDE's preliminary allocation schedule and to add prior year carryover revenues.
- Increased Every Student Succeeds Act (ESSA) Comprehensive Support and Improvement (CSI) funding for 2020-21 from the district's projection of $195,265 at adopted budget to

FCMAT's projection of $554,634, per the CDE preliminary allocation for 2020-21. The increase includes prior year carryover revenues of $384,511.

- One-time revenues of $763,152 for Elementary and Secondary School Emergency Relief (ESSER) funds were added in 2020-21 and eliminated in 2021-22. The district must complete an application to receive these revenues, and the CDE website indicates that the district submitted the required assurances on July 7, 2020. The funds are to be used to address the impact of COVID-19 on the district and may be used for any allowable expenditure incurred on or after March 13, 2020 through September 30, 2022.
- One-time Learning Loss Mitigation revenues of $1.97 million were added in 2020-21 and eliminated in 2021-22. The funds must be spent on activities that directly support pupil academic achievement and mitigate learning loss related to COVID-19 school closures. The majority of the funds must be used on expenditures incurred from March 1, 2020 through December 30, 2020. Approximately $188,145 may be used on expenditures incurred from March 13, 2020 through September 30, 2021.
- Decreased Carl D. Perkins Career and Technical Education, from the district's projection of $40,205 at adopted budget to FCMAT's projection of $39,391, a decrease of $814, per the CDE's preliminary allocation for 2020-21.
- Increased Title II, Part A funding from the district's projection of $159,262 at adopted budget to FCMAT's projection of $163,548, an increase of $4,286, per the CDE's preliminary allocation for 2020-21.
- Increased Title III, English Language Acquisition, from the district's projection of $107,438 at adopted budget to FCMAT's projection of $114,009, for an increase of $6,571. The projected revenues include the CDE's 2020-21 preliminary allocation plus prior year unearned revenues of $45,711.
- The district's adopted budget included $35,000 for Medi-Cal Billing Option/Medi-Cal Administrative Activities (MAA) revenue in 2020-21. FCMAT eliminated this funding in the current and subsequent years of the projection because of the uncertainty of this funding source. The Medi-Cal Billing Option program provides the federal share of reimbursement for health assessment and treatment for eligible children and family members in the school environment. The School-Based Medi-Cal Administrative Activities program reimburses school districts for the federal share of certain costs for administering the Medi-Cal program. Because of the uncertainty of this funding source, especially with schools closed for an indeterminate amount of time, it is prudent to recognize revenue for these programs when payment is received instead of projecting the total anticipated revenue.

The district used a conservative funding approach for federal revenue projections. Most of the changes made by FCMAT were because the funding information was not available at the time the district developed its budget. The district should ensure that the budget is updated periodically and that budgeted revenues agree with the CDE funding allocation schedules. Carryover or unearned revenues from prior years should not be included in the current year budget until the unaudited actuals are completed, and it should be eliminated from the two subsequent years of the MYFP. The district has large carryover balances in several restricted programs. The district will need to develop and implement program expenditure plans to fully expend grant monies within the fiscal year earned.

Other State Revenue (8300-8599)

FCMAT confirmed other state grant award amounts for 2020-21 and projected the same level of revenues in 2021-22 and 2022-23 with no COLA. Reductions totaling approximately $8,207 were made to the 2020-21 revenues to match budget amounts to award notifications. One-time Learning Loss Mitigation Funds of $262,029 were added to the projection in 2020-21 and eliminated in 2021-22. Strong Workforce Program revenues were reduced in 2021-22 and 2022-23 in accordance with the funding award letter.

FCMAT's projection decreased the ongoing Mandate Block Grant by $2,698 from the district's adopted budget. Funding is calculated based on per ADA amounts from the SSC Dartboard, with no COLA applied in the subsequent years. Receipt of Mandate Block Grant funds is contingent on the district filing a funding application each year with the CDE.

FCMAT projected lottery revenues for 2020-21 based on projected annual ADA, multiplied by $150 for unrestricted and $49 for restricted lottery instructional materials, per the SSC Dartboard. Lottery revenues were decreased by $11,741 in the current budget year. Revenues in the subsequent years were based on projected annual ADA. These are the most current assumptions available for projecting lottery revenues, but districts may experience reduced revenues because of the ongoing pandemic and economic decline. Lottery funding is initially allocated using the prior year's annual ADA and is adjusted in the subsequent fiscal year based on current year annual ADA.

Other Local Revenue (8600-8799)

The district receives local revenues from interest earnings, leases and rentals, fees and contracts, donations, and other miscellaneous sources. Because these revenues cannot be guaranteed year to year, budgets and MYFPs for these items should be conservative, consider historical trend data and identify revenue streams that are one-time. These budget items need to be monitored and updated throughout the year based on amounts received to date.

FCMAT reviewed the district's budgeted amounts for reasonableness using the prior two years' actual revenues and 2019-20 year-to-date actual receipts. Amounts attributed to leases and rentals, fees and contracts, and interest were found to be reasonable and were considered to be ongoing in the subsequent years of the projection.

Although FCMAT's projections assume a static level of funding in the current and subsequent years for leases and rentals and fees and contracts (including bus transportation fees), the ongoing closure of school facilities may negatively affect these revenue sources. In addition, FCMAT's projection for interest earnings does not change; however, because of state apportionment deferrals, cash balances and therefore interest revenues may decrease.

Contributions (8980-8990)

When revenues in restricted programs are insufficient to support program expenditures, a contribution from the unrestricted general fund is required. Restricted programs should be self-supporting, with the exception of special education, ongoing major maintenance, and any restricted program the district has made a deliberate decision to support with unrestricted general funds. State and federal special education funding is typically insufficient, and the district is required to make a 3% contribution to the ongoing major maintenance account (resource 8150).

FCMAT projects a contribution of $3,438,543 to special education programs in the current year. This is projected to increase to $3,618,506 in 2021-22 and to $3,824,117 in 2022-23 because of increasing costs.

The district projects a contribution of $1,406,852 to resource 8150, ongoing major maintenance, in the current budget year. FCMAT reduced projected expenditures in 2020-21 to align with 2019-20 actual expenditures, added expenditures for indirect costs, and increased the projected contribution to $1,435,366 in 2020-21. The contribution is projected to increase to $1,496,013 in 2021-22 and to $1,545,644 in 2022-23.

In other restricted resources, when expenditure budgets exceed projected revenue in the subsequent years of the MYFP, FCMAT has reduced expenditures in the 4000 (books and supplies), 5000 (service and other operating), and 6000 (capital outlay) object codes where possible to remain within the projected revenue estimates. No reductions were made in salary and benefit budgets. A contribution was made from the unrestricted general fund to balance any restricted resource where expenditures still exceeded revenue after these adjustments. Because of increasing costs year over year, the district may need to reduce expenditures in several of its restricted resources in 2021-22 and 2022-23 to remain within the projected revenue estimates. All programs that require a contribution from the unrestricted general fund should be reviewed to determine whether they can be made self-sustaining.

The table below shows contributions from the district's unrestricted general fund to its restricted resources as projected in FCMAT's MYFP.

Contributions

	Resource Code	Base Year 2020-21	Year 1 2021-22	Year 2 2022-23
Unrestricted Resources				
Unrestricted Resource		(4,919,986.51)	(5,554,216.00)	(5,913,907.25)
Total Unrestricted		(4,919,986.51)	(5,554,216.00)	(5,913,907.25)
Restricted Resources				
Special Ed: IDEA Basic Local Assistance	3310	27,724.00	60,691.92	92,375.90
Special Ed: IDEA Preschool Grants, Part B	3315	176,173.00	182,404.81	188,523.60
Special Ed: IDEA Mental Health Allocation Plan, Part B	3327	-	564.61	1,239.21
Special Ed: IDEA Preschool Staff Development, Part B	3345	3.00	4.76	5.97
Carl D. Perkins Career and Technical Education	3550	1,433.00	-	-
ESSA: Title II, Part A	4035	3,470.00	5,548.40	13,946.85
ESSA: Title IV, Part A	4127	-	46,840.08	52,331.93
Medi-Cal Billing Option	5640	-	81,105.00	154,888.84
Lottery: Instructional Materials	6300	-	54,672.19	61,863.45
Special Education	6500	3,224,831.00	3,360,200.23	3,523,317.73
Special Ed: Project Workability	6520	9,811.75	14,639.28	18,654.55
Classified School Employee Summer Assistance Program	7415	-	568.78	1,151.77
Low-Performing Students Block Grant	7510	41,175.07	250,962.68	259,963.66
Ongoing & Major Maintenance Account	8150	1,435,365.69	1,496,013.26	1,545,643.79
Total Restricted		4,919,986.51	5,554,216.00	5,913,907.25
Balance		-	-	-

Expenditure Assumptions (Object 1XXX-7999)

FCMAT's MYFP assumes that the district's current ongoing costs in its 2020-21 adopted budget will continue unless adjusted as noted below.

Salary and Benefits (1XXX-3XXX)

The district uses the San Bernardino County Office of Education's position control system, which is integrated with the county office financial system, to maintain salary and benefit data for regular, permanent positions. The position control system has not been fully implemented at the district and does not have complete salary and benefit information. For budget development, the chief business official transfers the position control information to the budget model and makes manual entries to adjust for costs such as longevity, stipends, substitutes, extra duty, and overtime. Salary and benefit costs for overtime, substitutes, and stipend positions are budgeted based on prior year actual expenses.

A fully implemented position control system can help a district maintain accurate salary and benefit information for more accurate budget projections. Maintaining a position control system that has all elements of salary and benefit data will reduce manual adjustments and improve efficiency and accuracy. The need to manually adjust position control data for budgeting purposes is laborious, inefficient, and creates the potential for errors in budgeting. It is vital to maintain an effective position control system to manage the cost of salaries and benefits and to properly reflect those expenditures in the district's budget.

FCMAT evaluated the reasonableness of the district's budgeted 2020-21 salary and benefit information at budget adoption by comparing the position control report to January and February 2020 payroll reports, and reviewing actual expenditures for 2017-18, 2018-19 and 2019-20. Accounting for step and column movement and salary schedule increases approved by the board in June 2020, FCMAT determined that the district's 2020-21 budget was reasonable with the exception of items noted below.

Certificated Salaries (1XXX)

No adjustments were made to certificated salaries in the 2020-21 budget. Certificated salaries were increased by 1.4% in each subsequent year of the projection for the estimated cost of salary schedule step movement. A reduction of $268,941 for three full-time equivalent (FTE) teaching positions was made in 2021-22 and in 2022-23 for projected retirements from positions that are not projected to be filled because of declining enrollment.

Classified Salaries (2XXX)

FCMAT made a reduction of $24,200 to classified salaries in 2020-21 based on the analysis described above. Classified salaries were increased by 2.5% in each subsequent year of the projection for the estimated cost of salary step movement.

Employee Benefits (3XXX)

No changes were made in the base year of the projection for statutory employer-paid benefits. Statutory benefits were increased or decreased in the subsequent years in proportion to increases or decreases in certificated and classified salaries. Employer contributions for California State Teachers' Retirement System (STRS) and California Public Employees' Retirement System (PERS) were adjusted in the subsequent years of the projection based on projected change to the rates.

Certificated health and welfare benefits were decreased in 2021-22 and 2022-23 for the anticipated reduction in certificated FTE due to declining enrollment. An increase of 5% for active and retiree health and welfare benefits was projected for each of the subsequent years based on the average increase in rates over the past three years. Retiree health and welfare benefits were reduced in 2021-22 and 2022-23 because of the net decrease as retirees aging out of the plan and an increase as new retirees are added.

FCMAT reduced by $110,702 the expenditures for other employee benefit accounts in the base year budget based on a review of the schedules for STRS and PERS golden handshake payments, retirement bonus payments, and in-lieu of benefits payments. Amounts allocated for STRS and PERS golden handshake payments and retirement bonus payments were reduced in the subsequent years of the projection according to the payment schedule. The provisions for the golden handshake and the retirement bonus incentives have expired in the collective bargaining agreements, but the district will continue to make payments and will not see budget relief for several years. The district will need to review benefit payment schedules and adjust its budget and MYFP accordingly.

Books and Supplies (4XXX)

FCMAT reviewed the books and supplies budget for reasonableness and compared it to the two prior years' actual expenditures. After adjustments were made as described below, expenditures in the subsequent years were increased based on the consumer price index (CPI) inflation factor.

Adjustments were made to the 2020-21 budget for projected expenditures tied to the pandemic funding that the district will receive. The allocation amounts were unknown at the time of budget development. Expenditures of approximately $550,000 were projected in 2020-21 to expend certain funds prior to expiration on December 30, 2020, and then eliminated in the subsequent years of the projection.

Expenditures were reduced in other restricted programs in the second and third year of the projection whenever restricted resource expenditure budgets exceeded projected revenue.

Services and Other Operating Expenditures (5XXX)

FCMAT reviewed the services and other operating expenditures budgets for reasonableness compared to the prior two years' actual expenditures. After adjustments were made as described below, expenditures in the subsequent years were increased based on the CPI inflation factor.

Adjustments were made to the base year budget for projected expenditures tied to the pandemic funding the district will receive. Expenditures of $1.76 million were projected in 2020-21, $627,700 in 2021-22, and eliminated in 2022-23.

Expenditures related to the Low Performing Students Block Grant, which expires in 2020-21, were eliminated in the subsequent years of the projection. One-time expenditures tied to carryover revenues were eliminated in the subsequent years of the projection. Expenditures were reduced in other restricted programs in the second and third years of the projection whenever restricted resource expenditure budgets exceeded projected revenue.

Capital Outlay (6XXX)

FCMAT reviewed capital outlay budgets for reasonableness using the prior two years' actual expenditures. The budget was found to be reasonable, and some expenditures were reduced in the second and third years of the projection whenever restricted resource expenditure budgets exceeded projected revenue.

Other Outgo (7XXX)

Indirect Costs

FCMAT applied indirect costs charges at the maximum allowable rate to each restricted program in the base year and subsequent years to ensure proper program cost accounting, even when this resulted in a contribution to a program's resource from the unrestricted general fund. Indirect costs were based on the CDE's approved rate for the district. The district's 2020-21 approved indirect cost rate is 4.87%, and based on the 2019-20 unaudited actuals Form ICR, is projected to increase to 6.25% in 2021-22. Indirect costs were increased $435,052 in the current budget year.

Debt Service

Debt service in the current and subsequent years was based on the district's long-term debt schedules for capital leases.

Interfund Transfers (8919 & 7619)

Other Authorized Interfund Transfers In (8919)

The district's adopted budget report does not include any transfers to the general fund from other funds. FCMAT's projection does not include any transfers to the general fund from other funds for the 2020-21 or subsequent years.

Other Authorized Interfund Transfers Out (7619)

The district projects a transfer of $151,386 in 2020-21 from the general fund to the cafeteria fund to cover a deficit in the cafeteria fund. FCMAT included a transfer in the same amount in its projection and assumed it to be ongoing.

Other Funds

FCMAT performed a basic review of other district funds to assess their financial impact on the district's unrestricted general fund. Therefore, some observations and recommendations are provided in conjunction with the review of the district's general fund.

Cafeteria Fund (Fund 13)

The cafeteria fund is a restricted fund used to account for the food service program. The cafeteria fund is not self-sustaining and has planned deficit spending of $151,386 in 2020-21. The district should analyze and identify areas of cost reductions and/or revenue increases to reduce or eliminate deficit spending in the cafeteria fund.

Building Fund (Fund 21)

The building fund is used to account separately for proceeds from the sale of bonds and may not be used for any purposes other than those for which the bonds were issued. The district's 2020-21 adopted budget indicates that the district projects to fully expend the balance of available funds in 2019-20.

Capital Facilities (Fund 25)

The district uses the capital facilities fund to account for fees levied on development projects. Expenditures are restricted to the construction or reconstruction of school facilities. The district is projecting a deficit of $122,786 in 2020-21. The fund balance is projected to decline from $179,064 to $56,278 in 2020-21.

County School Facilities (Fund 35)

This fund receives apportionments provided by the State Allocation Board from the State School Facilities Fund used primarily to account for new facility construction, modernization projects, and facility hardship grants. Funding provided by the state for the reconstruction of facilities after disasters may also be deposited to Fund 35. The district's county school facilities fund is projected to have an ending fund balance of $22,992 at the end of June 30, 2021.

Special Reserves Fund for Capital Outlay Projects (Fund 40)

The district is projecting a deficit of $425,321 in its special reserve fund for capital outlay projects for 2020-21 and is projecting an ending fund balance of $5,354. The district needs to ensure that it monitors revenues and expenditures closely and avoids deficit spending in the special reserve fund for capital outlay projects.

The district has depleted much of its resources in its facilities funds. It will need to analyze its facilities projects carefully to ensure that the remaining resources available in its facilities funds are sufficient to cover the cost of projects to avoid a negative impact on the general fund.

FCMAT Multiyear Financial Projection

The primary purpose of an MYFP is to evaluate a district's long-term financial sustainability. The MYFP uses current budget assumptions and projects revenues and expenditures over several fiscal years to determine whether the district is able to achieve and sustain a balanced budget and maintain its state-required reserve for economic uncertainties for the current and two subsequent fiscal years.

FCMAT's MYFP as of the 2020-21 adopted budget indicates that the district may not meet its reserve requirement in the second subsequent year. The district's board adopted a resolution acknowledging the need to implement $1.6 million in ongoing reductions in 2021-22 and an additional $1.5 million in reductions in 2022-23 to remain fiscally solvent. FCMAT did not include these reductions because they were not specific and the district provided no timeline for their implementation.

The district needs to create a detailed plan in fiscal year 2020-21 that includes specific reductions and a timeline for implementing them; this needs to be done before the start of the 2021-22 fiscal year.

The following table summarizes FCMAT's projections for the district's unrestricted resources.

Multiyear Financial Projection Summary, General Fund Unrestricted Resources Only

Name	Object Code	Base Year 2020 - 21	Year 1 2021 - 22	Year 2 2022 - 23
Revenues				
LCFF/State Aid	8010 - 8099	$29,829,360	$29,857,619	$28,331,143
Federal Revenues	8100 - 8299	$0	$0	$0
Other State Revenues	8300 - 8599	$586,702	$562,552	$545,348
Other Local Revenues	8600 - 8799	$463,685	$463,685	$463,685
Revenues		$30,879,747	$30,883,856	$29,340,176

Expenditures				
Certificated Salaries	1000 - 1999	$10,689,152	$10,566,094	$10,441,313
Classified Salaries	2000 - 2999	$4,318,661	$4,426,628	$4,537,293
Employee Benefits	3000 - 3999	$8,593,098	$8,649,607	$8,950,403
Books and Supplies	4000 - 4999	$641,603	$651,804	$663,993
Services and Other Operating	5000 - 5999	$3,085,675	$3,134,822	$3,193,543
Capital Outlay	6000 - 6900	$0	$0	$0
Other Outgo	7000 - 7299, 7400 - 7499	$179,274	$179,274	$179,274
Direct Support/Indirect Cost	7300 - 7399	($475,624)	($552,927)	($549,188)
Expenditures		$27,031,839	$27,055,302	$27,416,632
Excess (Deficiency) of Revenues Over Expenditures		$3,847,908	$3,828,554	$1,923,544
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0	$0	$0
Interfund Transfers Out	7600 - 7629	$151,386	$151,386	$151,386
All Other Financing Sources	8930 - 8979	$0	$0	$0
All Other Financing Uses	7630 - 7699	$0	$0	$0
Contributions	8980 - 8999	($4,919,987)	($5,554,216)	($5,913,907)
Other Financing Sources/Uses		($5,071,373)	($5,705,602)	($6,065,293)
Net Increase (Decrease) in Fund Balance		($1,223,465)	($1,877,048)	($4,141,749)
Fund Balance				
Adjusted Beginning Fund Balance	9797	$8,201,010	$6,977,545	$5,100,498
Ending Fund Balance	9799	$6,977,545	$5,100,498	$958,749
Components of Ending Fund Balance				
Nonspendable	9710 - 9719	$106,279	$106,279	$106,279
Assigned	9780	$1,158,299	$1,158,299	$1,158,299
3% Reserve for Economic Uncertainties	9789	$1,279,361	$1,190,335	$1,187,379
Undesignated/Unappropriated	9790	$4,433,606	$2,645,585	($1,493,208)

Rounding used in calculations.

The following table summarizes FCMAT's projections for the district's restricted resources.

Multiyear Financial Projection Summary, General Fund Restricted Resources Only

Name	Object Code	Base Year 2020 - 21	Year 1 2021 - 22	Year 2 2022 - 23
Revenues				
LCFF/State Aid	8010 - 8099	$0	$0	$0
Federal Revenues	8100 - 8299	$5,883,415	$2,182,301	$2,182,301
Other State Revenues	8300 - 8599	$2,384,520	$2,048,102	$1,975,224
Other Local Revenues	8600 - 8799	$1,779,048	$1,779,048	$1,779,048
Revenues		$10,046,983	$6,009,451	$5,936,573
Expenditures				
Certificated Salaries	1000 - 1999	$2,990,120	$3,031,982	$3,074,429
Classified Salaries	2000 - 2999	$1,801,077	$1,846,104	$1,892,257
Employee Benefits	3000 - 3999	$3,308,746	$3,405,486	$3,578,476
Books and Supplies	4000 - 4999	$2,854,513	$822,037	$769,709
Services and Other Operating	5000 - 5999	$4,004,580	$2,786,693	$2,121,539
Capital Outlay	6000 - 6900	$27,495	$25,916	$25,675

Other Outgo	7000 - 7299	$0	$0	$0
Direct Support/Indirect Cost	7300 - 7399	$475,624	$552,927	$549,188
Expenditures		$15,462,154	$12,471,145	$12,011,273
Excess (Deficiency) of Revenues Over Expenditures		($5,415,171)	($6,461,694)	($6,074,700)
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0	$0	$0
Interfund Transfers Out	7600 - 7629	$0	$0	$0
All Other Financing Sources	8930 - 8979	$0	$0	$0
All Other Financing Uses	7630 - 7699	$0	$0	$0
Contributions	8980 - 8999	$4,919,987	$5,554,216	$5,913,907
Other Financing Sources/Uses		$4,919,987	$5,554,216	$5,913,907
Net Increase (Decrease) in Fund Balance		($495,185)	($907,478)	($160,793)
Fund Balance				
Adjusted Beginning Fund Balance	9797	$2,259,740	$1,764,555	$857,078
Ending Fund Balance	9799	$1,764,555	$857,078	$696,285
Components of Ending Fund Balance				
Nonspendable	9712	$3,549	$0	$0
Restricted Balance	9740	$1,761,006	$857,078	$696,285
Reserve for Economic Uncertainties	9789	$0	$0	$0
Undesignated/Unappropriated	9790	$0	$0	$0

Rounding used in calculations.

The following table summarizes FCMAT's projections for the district's combined resources.

Multiyear Financial Projection Summary, General Fund Unrestricted and Restricted Resources

	Object Code	Base Year 2020 - 21	Year 1 2021 - 22	Year 2 2022 - 23
Revenues				
LCFF/State Aid	8010 - 8099	$29,829,360	$29,857,619	$28,331,143
Federal Revenues	8100 - 8299	$5,883,415	$2,182,301	$2,182,301
Other State Revenues	8300 - 8599	$2,971,222	$2,610,654	$2,520,572
Other Local Revenues	8600 - 8799	$2,242,733	$2,242,733	$2,242,733
Revenues		$40,926,730	$36,893,307	$35,276,749
Expenditures				
Certificated Salaries	1000 - 1999	$13,679,272	$13,598,076	$13,515,743
Classified Salaries	2000 - 2999	$6,119,738	$6,272,732	$6,429,550
Employee Benefits	3000 - 3999	$11,901,844	$12,055,092	$12,528,878
Books and Supplies	4000 - 4999	$3,496,116	$1,473,842	$1,433,702
Services and Other Operating	5000 - 5999	$7,090,255	$5,921,515	$5,315,082
Capital Outlay	6000 - 6900	$27,495	$25,916	$25,675
Other Outgo	7000 - 7299, 7400 - 7499	$179,274	$179,274	$179,274
Direct Support/Indirect Cost	7300 - 7399	$0	$0	$0
Expenditures		$42,493,994	$39,526,446	$39,427,904
Excess (Deficiency) of Revenues Over Expenditures		($1,567,264)	($2,633,139)	($4,151,155)
Other Financing Sources/Uses				

Interfund Transfers In	8900 - 8929	$0	$0	$0
Interfund Transfers Out	7600 - 7629	$151,386	$151,386	$151,386
All Other Financing Sources	8930 - 8979	$0	$0	$0
All Other Financing Uses	7630 - 7699	$0	$0	$0
Contributions	8980 - 8999	$0	$0	$0
Other Financing Sources/Uses		($151,386)	($151,386)	($151,386)
Net Increase (Decrease) in Fund Balance		($1,718,650)	($2,784,525)	($4,302,541)
Fund Balance				
Adjusted Beginning Fund Balance	9797	$10,460,750	$8,742,101	$5,957,575
Ending Fund Balance	9799	$8,742,101	$5,957,575	$1,655,034
Components of Ending Fund Balance				
Nonspendable	9712	$109,828	$106,279	$106,279
Restricted Balance	9740	$1,761,006	$857,078	$696,285
Assigned	9780	$1,158,299	$1,158,299	$1,158,299
3% Reserve for Economic Uncertainties	9789	$1,279,361	$1,190,335	$1,187,379
Undesignated/Unappropriated	9790	$4,433,606	$2,645,585	($1,493,208)

Rounding used in calculations.

The district is projected to deficit spend in its unrestricted general fund by $1.22 million in 2020-21, $1.88 million in 2021-22, and $4.14 million in 2022-23. Its unrestricted ending fund balance is projected to decline from $8.2 million at the beginning of fiscal year 2020-21 to $958,749 at the end of fiscal year 2022-23. The district is projected to meet the required reserve for economic uncertainties in 2020-21 and 2021-22, but not in 2022-23. To avoid insolvency and maintain local governance, the district needs to ensure that it follows through with its proposed expenditure reductions for 2021-22 and 2022-23.

When a school district expends more revenue than it receives in a fiscal year, it is deficit spending. When this happens year over year, it is known as a structural or operating deficit. Left uncorrected, a structural deficit will deplete a district's reserves and result in a negative fund balance. In a worst-case scenario, a district will run out of cash and become fiscally insolvent, resulting in state intervention and loss of local control.

The 2020-21 adopted state budget replaced planned LCFF revenue cuts with state apportionment cash deferrals. Because of the cash deferrals, it will be even more important for districts to maintain healthy reserve levels. The district should prepare cash flow projections for at least the current year plus one subsequent year, and monitor cash flow at least monthly.

Recommendations

The district should:

1. Develop a complete and detailed fiscal recovery plan as soon as possible, including a timeline for implementation, to eliminate the structural deficit in its general fund.
2. Adopt a budget and MYFP that eliminate deficit spending and meet reserve requirements in the budget and projection years to prevent fiscal insolvency.
3. Maintain a reserve level sufficient to ensure cash is available to meet payroll and other expenditure obligations.

4. Monitor current year and subsequent year cash flow at least monthly, and prepare cash flow projections that extend at least 18 months into the future.
5. Continue to monitor and project enrollment and ADA at each financial reporting period to ensure the most recent data is included in its budget assumptions.
6. Analyze enrollment and ADA projections regularly, compare them to actual enrollment, and adjust budget and staffing as appropriate.
7. Continue to use the most current LCFF calculator, enrollment, ADA and UPC estimates when preparing and revising revenue projections.
8. Monitor and project revenue and expenditures using the most current information and assumptions available. Update revenue budgets throughout the year as award amounts become known, ensuring budgets match information provided by the CDE and award letters.
9. Recognize carryover (unearned revenues) in the current year budget upon completion of the unaudited actuals, and ensure that unearned revenue is not included in the subsequent two years of the MYFP.
10. Develop and implement plans to fully expend grant monies within the fiscal year earned.
11. Continue to budget local revenues conservatively, updating the budget throughout the year as needed to account for year-to-date receipts.
12. Use the MYFP to identify programs that may require a contribution from the unrestricted general fund in subsequent years, and take actions needed to ensure programs are self-sustaining.
13. Ensure the position control system includes items such as longevity, stipends, substitutes, extra duty, overtime, and vacation payouts.
14. Reconcile and adjust budget and position control using actual payroll data regularly, meaning at least at budget adoption and interim reporting periods, though more frequently is preferable.
15. Review payment schedules for retiree incentive payments and adjust budgets and MYFPs as appropriate.
16. Charge each restricted resource and fund the full allowable indirect cost rate.
17. To make the cafeteria program self-sustaining, explore how to improve production efficiencies, participation rates, meal pricing, and commodity purchasing discounts.
18. Monitor and project revenues and expenditures for all other funds throughout the year. Ensure that the financial impact on the unrestricted general fund in the current and subsequent two years is included in all MYFPs.
19. Analyze facility projects carefully to ensure funds are sufficient for all current and future projects without reliance on the general fund.

Revenue Increases and Expenditure Reductions

Revenue Increases

Enrollment, Average Daily Attendance, and Unduplicated Pupil Percentage

Much of a school district's revenue is based on enrollment, average daily attendance (ADA), and unduplicated pupil percentage (UPP). Therefore, increasing enrollment, attendance and the percentage of students properly identified as unduplicated pupils can increase a district's revenues.

Factors that may contribute to declining enrollment include decreased birth rates, aging neighborhood populations, families moving away, and alternate educational options. Data provided on the CDE's DataQuest website (https://dq.cde.ca.gov/dataquest/) shows that although school district enrollments are declining, charter school enrollments are increasing. It could benefit the district to consider ways to attract and retain students, such as increasing awareness of the opportunities available at its schools through community forums or marketing materials, or developing the types of programs offered at competing charter or private schools.

The district needs to analyze cohort survival rates between grade levels and focus on retaining students at grade levels in which the decline is greatest. The table below shows retention rates over the past five years between each grade. This data can help the district focus its retention efforts where most needed.

Historical Five-Year Retention Average

	Historical 5 2015-16	Historical 4 2016-17	Historical 5 2017-18	Historical 6 2018-19	Historical 1 2019-20	Average
K-1st	96.15%	94.25%	89.31%	93.33%	83.86%	91.38%
1st-2nd	107.23%	102.80%	102.82%	99.57%	96.43%	101.77%
2nd-3rd	99.65%	97.00%	100.78%	103.20%	90.99%	98.32%
3rd-4th	111.67%	103.53%	100.00%	98.46%	98.67%	102.47%
4th-5th	101.41%	96.86%	96.93%	101.54%	93.73%	98.09%
5th-6th	106.82%	96.18%	97.48%	96.13%	89.35%	97.19%
6th-7th	94.81%	92.91%	94.22%	89.30%	91.21%	92.49%
7th-8th	99.30%	96.48%	96.56%	101.15%	92.98%	97.30%
8th-9th	107.94%	102.81%	98.79%	100.79%	102.27%	102.52%
9th-10th	94.89%	99.26%	89.08%	98.77%	100.78%	96.56%
10th-11th	100.00%	94.61%	94.44%	91.19%	93.78%	94.80%
11th-12th	93.81%	96.20%	97.51%	93.73%	105.46%	97.34%

A focus on optimizing the district's ratio of ADA to enrollment will ensure ADA-driven funding is maximized. This will lead to increased funding from the state LCFF, which accounts for more than 70% of the district's general fund revenue.

Various methods can be used to increase student attendance, including incentives, parent education, and automated parental notification systems for student truancy. Timely parent notification is critical to increasing daily attendance and preserving its correlated funding.

When developing its annual school calendar, the district needs to consider the effects of mid-week holidays, religious and cultural holidays, staff development days and other days students commonly miss school. Analysis of historical attendance trends can shed light on times during the school year when attendance is below average. For students going on a planned leave of more than five days, the district should consider offering short-term independent study. Saturday school can help recover time lost as a result of truancy.

In 2018-19, the statewide average rate of attendance for unified school districts was 94.34%. The district's five-year average rate of 93.49% is below the statewide average. When considering ways to increase attendance, the district should consider ADA percentage by grade level group. In 2019-20, the total district ADA rate was 93.72%, while its grade level groups varied from a low of 91.86% for grades 9-12 to a high of 95.09% for grades 4-6. Identifying grade level groups with lower ADA percentages will allow the district to target efforts to increase attendance. The district may set an attendance goal at each grade span or at each school that is higher than the statewide average attendance rate or higher than each school's current ratio. The district can display attendance graphs in prominent locations to show current attendance goals and comparisons between past and present school year attendance.

The CDE provides a list of strategies and activities to help encourage students to attend school regularly. The guidance can be found at https://www.cde.ca.gov/ls/ai/cw/attendstrategy.asp.

The district's 2018-19 audit report identified 182 students whom the district incorrectly reported as eligible for free or reduced-price meals in its California Longitudinal Pupil Achievement Data System (CALPADS) reporting. The district needs to ensure that it has a process to verify the students identified as eligible for free or reduced-price meals and that all applicable sites and departments review, verify their respective CALPADS data, and correct it as needed before the data is certified.

The district's unduplicated pupil percentage has varied from 53.56% in 2016-17 to 59.25% in 2019-20. The district will need to ensure it maximizes the number of students identified as eligible for free and reduced-price meals. The direct certification process can help with this, particularly when direct certification matches are performed at least monthly. For students who are not directly certified, the district can offer meal applications online, help parents who need assistance completing the application, and offer incentives to parents or students to submit applications. The district needs to retain documents to support any eligibility determinations and establish practices to audit samples of documents received.

Some families may not choose to complete the application for free and reduced-price meals because they do not plan to participate in the school meal program or for other reasons. It is best practice to encourage these families to complete an alternate household income data collection form. The alternative form is simpler to complete, and the CDE has developed several sample forms to collect income eligibility information. The district will need to communicate with parents about how the collection of this data may increase revenue to the district and how the district may use the increased funding to provide improved or increased services to high needs pupils.

Fees and Other Charges

California law provides for a free public school system but includes some exceptions and authorizes certain fees. The CDE's Fiscal Management Advisory 20-01 (https://www.cde.ca.gov/re/lr/fm/) provides details on allowable fees. Any fees levied should remain in compliance with the district's Board Policy and Administrative Regulation 3260, Fees and Charges.

A district may charge a fee for field trips so long as no pupil is prevented from participating because of a lack of sufficient funds. The district could consider eliminating or reducing the number of field trips and athletic trips, particularly those out of state or those that require an overnight stay. The district may also consider soliciting donations to pay for field trips and athletic transportation.

Facilities Use Fees

The Education Code gives school districts guidelines for charging facility use fees to cover the cost of maintenance and operation of facilities used by community groups. The district's Board Policy 1330, Use of School Facilities, authorizes the use of school facilities and grounds by organizations, groups, or associations. It would benefit the district to ensure that the fee covers no less than the direct costs of the facility use. Groups that charge admission or solicit contributions should be charged fair rental value in accordance with board policy when they use school facilities or grounds. Staff reported that the facility use fee schedule was last updated two to three years ago. An annual review of the fee structure can help ensure that charges are appropriate and that revenues gained fully cover the expenses of the associated facility use. The district will need to ensure that it charges all groups and individuals the same rate for facility use unless an exemption for such fees applies

Sale or Lease of Surplus Property

The Education Code authorizes school districts to sell or lease, for a term not to exceed 99 years, any real property, including personal property located on it, which is not or will not be needed by the district for school classroom buildings at the time of possession. The district has entered into lease agreements with various lessees for terms that exceed one year. The lease agreements need to be evaluated each year to make sure the district is charging the fair market value of the property being leased.

The district owns two closed school sites, one administrative building, and vacant land. The district incurs costs for maintenance, security and insurance coverage for vacant buildings and property. The district has convened a committee to study the feasibility of selling or leasing the schools, administrative building and vacant land.

The enacted 2020-21 state budget authorizes LEAs to use the proceeds from the sale or lease of surplus property for one-time general fund purposes rather than restricting their use for facilities only. If the purchase of the property was made using the proceeds of a local general obligation bond or revenue derived from developer fees, the district must compute the amount that is eligible for deposit into the general fund. The district must adhere to the requirements of the education code.

Sales of Surplus Equipment

The district can sell unused or obsolete property, ranging from supplies and equipment, including computers and servers, to district vehicles. Best business practices include conducting an ongoing evaluation of surplus equipment to determine if items stored in empty classrooms or warehouses can be used at other schools or if they can be disposed of as surplus. Regularly reviewing and taking inventory of all fixed assets can help guide the district in its evaluation of existing surplus supplies and equipment. For larger items such as vehicles, or for items held in bulk, the district can contract with private auction companies to make the surplus sale easier.

Developer Fees

School districts are authorized to levy a fee against real property development within their boundaries to fund the construction or reconstruction of school facilities necessitated by the development. (Ed. Code, §17620(a)(1).) School impact fees, commonly known as "Level 1" developer fees, are adjusted for inflation every two years.

In January 2020, the State Allocation Board (SAB) authorized an increase in the maximum Level 1 fee per square foot as follows:

Residential Construction: School districts may charge up to **$4.08** per square foot of assessable space of new residential construction.

Commercial/Industrial Construction: School districts may charge up to **66 cents** per square foot of chargeable covered and enclosed commercial/industrial space.

The district levies $2.14 per square foot for residential and 34 cents per square foot for commercial construction. These rates are significantly lower than the allowed rate, and interviews with staff indicated that the rates have not been adjusted since June 2005. To increase the Level I fee, districts are required to prepare a developer fee justification study that demonstrates a reasonable relationship between new development, the fee, and the facilities to be funded.

In addition, the education code allows the district to charge an amount not to exceed, in any fiscal year, three percent of the fees collected in that fiscal year for reimbursement of the administrative costs incurred in collecting the fees and to transfer those fees to the general fund. The district does not charge an administrative fee on developer fees collected.

Parcel Tax

Many districts have sought approval from local voters for a parcel tax to increase funding. Parcel taxes are normally levied at a flat rate per parcel and must be applied uniformly to all real property owners. The only permitted exemptions are for senior citizens and federal supplemental security income disability benefit recipients. Parcel taxes can be extremely difficult to pass because they require a two-thirds vote. The advice of experienced financial advisors and legal counsel should be obtained before determining whether to place a local parcel tax measure on the ballot.

Expenditure Reductions

Staffing Ratios

The district's most recent collective bargaining agreement with certificated employees identifies maximum class sizes of 26 students for grades TK-3, 29.9 students for grades 4-8, and 31 students for grades 9-12. There are some exceptions for music, band, and physical education classes. Class size averages reported on the district's 2019-20 P-2 were 24.8 in kindergarten, 25.6 in grades 1-3, and 27.9 in grades 4-8. Class size averages for core subject classes at the high school as reported on the school's 2018-19 School Accountability Report Card (SARC) varied from 20 to 23. The district needs to review staffing and enrollment at its high school and adjust staffing levels based on approved ratios and enrollment. As enrollment continues to decline, the district may consider the feasibility of sharing administrators between smaller school sites.

In interviews, district staff indicated that the district has not adopted staffing ratios for administrative or classified positions. It would benefit the district to develop staffing ratios for administrators and classified staff and align staffing with enrollment. As enrollment declines, the district will need to reduce staffing as appropriate in alignment with its developed staffing ratios.

Hiring Freeze

The district has not implemented a hiring freeze for nonessential positions. It would benefit the district to consider implementing such a hiring freeze and maintaining it for as long as enrollment is declining. Any position vacated by retirement, resignation or other means should be evaluated thoroughly before being filled. This evaluation should assess the potential for eliminating or restructuring the position, or transferring personnel from sites that exceed district-adopted staffing levels. In addition, the district needs to consider a freeze on all overtime and extra duty hours. Any additional work that is deemed necessary should require justification and advance approval by the CBO or CBO's designee. It would also benefit the district to hire substitutes only for essential positions, and to review any temporary assignments, teacher on special assignment positions, and coaching assignments.

Spending Controls

The district usually rolls site and department budgets from one year to the next, with adjustments for one-time expenditures. Allocations of discretionary dollars to sites and departments should be based on student enrollment; it would benefit the district to consider reducing those allocations by a defined percent. The district needs to examine all expenditures in the professional services category and reduce or eliminate them if practical. Contracts should be authorized only by a member of cabinet. The district should also consider eliminating nonessential travel, conference and professional development expenditures unless paid for from restricted funds.

Staff indicated that most purchases are made using a purchase order. The district has controls in place to prevent the processing of requisitions and purchase orders if there are not sufficient funds in the budget; however, the hard stop that it has in place can be overridden by staff. It would benefit the district to require a purchase order for all expenditures, prohibit the processing of a purchase order when the budget is insufficient to support the expenditure, and disallow any overrides of the hard stop that it has in place except in emergency situations. Purchase order cutoff dates can help reduce spending and make it easier to estimate the ending fund balances and reserves. The purchase order cutoff date should include all expenditures from all funding sources and should be early enough in the year (normally in March and April) that a thorough review of each resource can be made to ensure all restricted resource expenditure deadlines are met.

Restricted Funds

The district has large carryover balances in its restricted programs, including restricted lottery, Title I, Title III Part A, Title IV Part A, and Comprehensive Support and Improvement grant. The district needs to ensure that all restricted funds are allocated properly to all qualifying expenditures before it expends unrestricted dollars. Restricted funds should always be spent in accordance with their respective program or funding guidelines. Ensuring that all qualifying expenditures are coded to the correct restricted programs can make available any unrestricted dollars that might otherwise have been transferred to a restricted resource. This helps ensure maximum flexibility and availability of unrestricted funding, which can typically be used for any educational purpose.

In some cases, the district charges monthly salary and benefit costs to the unrestricted general fund and then transfers these costs to restricted programs at year end. It would benefit the district to charge salary and benefit costs directly to restricted programs monthly throughout the year. Districts have a requirement to remit interest earned on federal cash balances, so minimizing the daily cash balance in federal resources would result in a lower interest obligation.

Indirect Costs

FCMAT's review of reports from the district's financial system indicated that the district does not charge the maximum allowable indirect cost rate to all programs. All programs have general management costs, commonly known as indirect costs; these typically include administrative activities such as accounting, budgeting, payroll preparation, personnel services, purchasing, and central data processing. An indirect cost rate gives LEAs an efficient and standardized way to recover some general management costs from individual programs. The rates charged to each program are established by the CDE for all LEAs in California. An LEA may claim up to its approved indirect cost rate unless there is specific authority (e.g., legislation or regulation) that limits the rate. Charging each program and fund the maximum allowable rate allows an LEA to provide equitable indirect cost charges across the organization, ensures that all general management costs are adequately supported by the various programs, and allows the district to understand the true cost of each program. The district needs to calculate and charge the full indirect cost rate to all allowable restricted programs and funds even when it results in a contribution from the unrestricted general fund.

Ongoing and Major Maintenance Account

Districts that participate in the state's school facility program are required to contribute 3% of their total general fund expenditures and other financing uses (less certain resources) to the ongoing and major maintenance account (resource 8150). The district's 2020-21 adopted budget includes a contribution of $1,406,852 to resource 8150 and shows a required minimum contribution of $1,171,615. Further, the district's contribution to resource 8150 is projected to be greater than the minimum required amount in both of the subsequent years of the projection. In 2021-22, the projected contribution is $1,496,013 and the required amount is $1,134,726. In 2022-23 the projected contribution is $1,545,643 and the required contribution is $1,148,888.

Retiree Benefits

Governmental Accounting Standards Board (GASB) Statement 45, released in June 2004, established standards for employers to measure and report their costs and obligations related to other post-employment benefits (OPEB), which include the costs for any post-employment medical, dental, vision, or prescription benefits. The district funds its OPEB expenditures on a pay-as-you-go basis and may, per Procedure 785 of the California School Accounting Manual (CSAM), "allocate to all activities in proportion to total salaries or full-time equivalent positions (FTEs) in all activities" the current year benefit costs for retirees. The district currently charges its entire OPEB expense to the unrestricted general fund, even though it could charge a portion to the restricted resources and to the other funds in proportion to the salaries paid from those resources in the fiscal year. Additional accounting standards are in the CDE's letter of February 26, 2007, available at: www.cde.ca.gov/fg/ac/co.

Special Education Costs

In fiscal year 2019-20, approximately 12.1% of the district's K-12 students were identified as requiring special education services, which is higher than the statewide average of 11.7%. Identification of special needs students is influenced by how a district implements general education supports such as student study teams (SSTs), Response to Instruction and Intervention (RtI²), and a multi-tiered system of supports (MTSS). The district will need to ensure that it implements structured interventions to support students in the general education environment and improves the accuracy of its identification of students as requiring special education services. It would benefit the district to review assessment requests and determine if general education interventions are appropriate before it assesses a student for special education.

Other Considerations

The following observations are offered for consideration but will require negotiation with the district's collective bargaining groups.

The district provides generous health and welfare benefits to administrators, board members, certificated employees, and classified employees. The district currently offers a fully paid "gold level" medical plan plus dental, vision and life insurance coverage for eligible employees and family members. Classified employees hired after November 29, 2017 receive the HMO "silver level" medical plan. The cost of the gold level plan, including dental, vision and life insurance, is $22,672 per full-time employee per year. The cost of the silver plan, including dental, vision and life insurance, is $21,025 per full-time employee per year. Classified employees who work less than full time but at least 20 hours per week and four hours per day are eligible to participate in and pay a proportionate share of the cost of benefits. The district has a soft cap on its share of health and welfare benefits costs, meaning that the district's cost is capped at the cost of the gold level plan but that the cap will increase each year as the cost of the plan increases. A soft cap is essentially a guaranteed compensation increase for employees each year. It would benefit the district to negotiate a lower contribution to health and welfare benefits and a hard cap on the district's share of the cost of benefits.

Education Code 44978 entitles certificated employees who are employed five days per week to a minimum of ten days of sick leave annually. The district's agreement with its certificated bargaining unit grants unit members 12 days of sick leave each year. The district incurs additional expenses each year for the cost of substitute teachers for the additional two days offered over the minimum.

The district's governing board has approved a clause in the district's contract with classified employees that grants classified employees, upon their resignation, one half of their current hourly rate for any sick leave not used for absences or to extend PERS service credit. This type of contract language should be avoided. The Education Code allows classified employees to transfer the balance of their unearned sick leave to another school district or county office of education within one year of their leaving their current employment. PERS members can convert unused sick leave to additional service credit.

Several positions that are based on student attendance days, such as bus drivers, child nutrition cook, and child nutrition driver, have more than 180 work days per year. It would benefit the district to review all classified positions to determine if their days per year or hours per day may be reduced.

Recommendations

The district should:

1. Communicate its educational strengths and course offerings to parents, students and the community, and continue to explore other options to increase student enrollment.
2. Implement strategies to maximize attendance.
3. Ensure accurate identification and reporting of its UPP. Ensure that school sites and departments verify their respective CALPADS data and correct it as needed before the report submission deadlines.
4. Consider implementing a fee for field trips, and/or soliciting donations to pay for field trip and athletic transportation costs.
5. Annually evaluate and update facility use fees to ensure full costs associated with facility use are recovered. Consistently charge a facility use fee that covers no less than the direct costs of the facility use.
6. Continue to evaluate the sale or lease of surplus real property. Annually review lease agreements to ensure full fair market value is charged.
7. Review inventories of supplies, equipment, and vehicles to determine if obsolete or surplus items exist. Consider selling items no longer needed or useful to the district.
8. Prepare a developer fee justification study to determine if an increase in developer fees can be justified, and, if so, increase developer fees to the maximum allowable rate.

9. Charge and collect a 3% administrative fee on developer fees, and transfer those revenues to the general fund.
10. Evaluate the feasibility of putting a parcel tax measure before the voters.
11. Continually review and monitor certificated employee assignments and class sizes to ensure staffing levels are appropriate and cost effective.
12. Consider adopting staffing ratios for administrative and classified positions, and reducing staffing as appropriate in alignment with its developed staffing ratios.
13. Evaluate and identify the need to fill each vacancy and extra time and overtime request. Implement a hiring freeze for all nonessential positions, and eliminate or reduce overtime.
14. Consider reducing discretionary budget allocations for school sites and departments.
15. Require purchase orders for all expenditures, and prohibit the processing of requisitions and purchase orders when the budget is insufficient.
16. Review all expenditures in the services and other operating expenditures category (i.e., travel and conferences, professional development, contract services) for all possible savings.
17. Implement a purchase order cutoff date each year.
18. Ensure that restricted funds are allocated correctly to all qualifying expenditures before expending unrestricted dollars.
19. Charge all resources and funds the maximum allowable indirect cost rate even if this results in a contribution from the unrestricted general fund.
20. Review the CSAM and allocate the allowable cost of OPEB obligations to restricted resources and other applicable funds.
21. Reduce its RRMA expenditures and contribution to the minimum amount required.
22. Implement structured interventions for students in the general education environment, and improve the accuracy of its identification of students as requiring special education services.
23. Consider working with employee bargaining groups to eliminate costly language from contracts, including a lower share of health and welfare costs, a hard cap on the district contribution to health and welfare benefits, elimination of two days of sick leave above the minimum required for certificated members, payout of sick leave for classified members, and possible reduction in work days or hours for certain classified staff.

Appendix

Study Agreement

FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
March 9, 2020

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Rim of the World Unified School District, hereinafter referred to as the district, mutually agree as follows:

1. BASIS OF AGREEMENT

The team provides a variety of services to local education agencies (LEAs). The district has requested that the team assign professionals to study specific aspects of the district's operations. These professionals may include staff of the team, county offices of education, the California Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this agreement.

In keeping with the provisions of Assembly Bill 1200, the county superintendent will be notified of this agreement between the district and FCMAT and will receive a copy of the final report. The final report will also be published on the FCMAT website.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

Review the district's 2019-20 second interim general fund budget and multiyear financial projection (MYFP) for the current and two subsequent fiscal years to validate the district's financial status using FCMAT's Projection-Pro software. Make recommendations for expenditure reductions and/or revenue enhancements, taking into consideration the budget committee recommendations, to help the district eliminate its structural budget deficit and maintain financial solvency. The budget review will be a snapshot in time of the district's financial status.

B. Services and Products to be Provided

1. Orientation Meeting – The team will conduct an orientation session at the district to brief district management and supervisory personnel on the team's procedures and the purpose and schedule of the study.
2. On-site Review – The team will conduct an on-site review at the district office and at school sites if necessary.
3. Exit Meeting – The team will hold an exit meeting at the conclusion of the on-site review to inform the district of significant findings and recommendations to that point.

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4. Exit Letter – Approximately 10 days after the exit meeting, the team will issue an exit letter briefly memorializing the topics discussed in the exit meeting.
5. Draft Report – Electronic copies of a preliminary draft report will be delivered to the district's administration for review and comment.
6. Final Report – Electronic copies of the final report will be delivered to the district's administration and to the county superintendent following completion of the review. Printed copies are available from FCMAT upon request.
7. Follow-Up Support – If requested by the district within six to 12 months after completion of the study, FCMAT will return to the district at no cost to assess the district's progress in implementing the recommendations included in the report. Progress in implementing the recommendations will be documented to the district in a FCMAT management letter. FCMAT will work with the district on a mutually convenient time to return for follow-up support that is no sooner than eight months and no later than 18 months after completion of the study.

3. **PROJECT PERSONNEL**

The FCMAT study team may include:

A.	***To be determined***	***FCMAT Staff***
B.	***To be determined***	***FCMAT Consultant***

4. **PROJECT COSTS**

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

A. $800 per day for each staff member while on site, conducting fieldwork at other locations, preparing or presenting reports or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate for all work performed.

B. All out-of-pocket expenses, including travel, meals and lodging.

C. The district 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 the district's acceptance of the final report.

Based on the elements noted in section 2A, the total not-to-exceed cost of the study will be $14,000.

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D. 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 on 1300 17th Street, City Centre, Bakersfield, CA 93301.

5. RESPONSIBILITIES OF THE DISTRICT

A. The district will provide office and conference room space during on-site reviews.

B. The district will provide the following if requested:

1. Policies, regulations and prior reports that address the study scope.
2. Current or proposed organizational charts.
3. Current and two prior years' audit reports.
4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in electronic format.
5. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents 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 online SharePoint document repository, where the district will upload all requested documents.

C. The district's administration will review a 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.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The district shall take appropriate steps to comply with EC 45125.1(c).

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for different phases of the study 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, if requested
Follow-Up Support:	if requested

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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 the district 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 draft report and a final report. Prior to completion of fieldwork, the district 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 the district does not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its report and the district will be responsible for the full costs. The district 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 the district 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 the district. 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 the district in any manner without prior express written authorization from an officer of the district.

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 the district, 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 Rim of the World Unified School District named as additional insured, indicating applicable insurance coverages upon request prior to the commencement of on-site work.

10. HOLD HARMLESS

FCMAT shall hold the district, 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, the district 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.

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11. CONTACT PERSON

Name: Jenny Haberlin
Telephone: (909) 336-4100
E-mail: jenny_haberlin@rimsd.k12.ca.us

4-16-2020

Michelle Murphy, Superintendent — Date
Rim of the World Unified School District

March 9, 2020

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

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