

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Fiscal Oversight

2025-26 Fiscal Year

Day 1

Agenda for Day 1

- Introduction
- Background and Historical Context
- Emergency Apportionments
- Budget Adoption Process
- Interim Reports and Certifications
- Going Concern Process
- Public Disclosure Responsibilities
- Annual Audit Requirements
- Fiscal Oversight Evaluations

Introduction

Introduction – Presenters Background

- **Erin Lillibridge, CFE**
 - Joined FCMAT in 2021.
 - Chief business official at a charter school and two school districts.
 - Administrator of fiscal oversight at a county office of education.
 - Worked at the California Department of Education and Department of Finance.
- **Roslynne Manansala-Smith, CFE**
 - Joined FCMAT in 2023.
 - Director, external business at a county office.
 - Chief business official at a unified school district.
 - Charter school oversight at a county office and a school district.
 - Various business roles in school district and a county office: accounts payable, accounting, budget and facilities.

Fiscal Oversight Guide

- The Fiscal Oversight Guide, last updated in May 2024, is available on FCMAT's [website](#).
- The Assembly Bill (AB) 1200 (Chapter 1213, Statutes of 1991) fiscal oversight process has evolved with statutory provisions enacted over the past 30+ years.
- **Recent changes were made through AB 121, the 2025-26 budget trailer bill.**



Background and Historical Context

Origins and Impact of AB 1200

- AB 1200, passed in 1991, improved fiscal oversight by school district boards and county superintendents.
- From 1993 through 2012, only nine school districts and one community college district required state emergency apportionments (state loans).
- From 2012 through 2024, no local educational agencies (LEAs) required state loans.
- In 2025, one school district (Plumas Unified School District) received authorization for a \$20.0 million state loan.
- See FCMAT's website for a historical summary of school district state loans.

Oversight Structure and FCMAT's Role

- Fiscal oversight begins with district governing boards and is supported by county superintendents and the state superintendent (SPI).
 - County superintendents review and approve budgets and LCAPs, assess three-year fiscal solvency, and evaluate disclosures related to collective bargaining and debt.
- AB 1200 established FCMAT to support LEAs with fiscal tools, training and crisis prevention.
- AB 2756 clarified oversight for districts with emergency loans and expanded FCMAT's responsibilities.
- AB 1840 expanded county superintendents' role in receivership and aligned oversight with local control principles.

Fiscal Health Risk Analysis (FHRA)

- The 2018-19 State Budget Act introduced an automatic engagement process as part of an early warning system for fiscal insolvency.
- FCMAT conducts an FHRA to assess an LEA's risk of insolvency in the current and following two years.
- An FHRA is triggered when an LEA meets one of the following criteria:
 - A disapproved budget.
 - A negative interim report certification.
 - Three consecutive qualified interim report certifications.
 - A downgrade of an interim certification by the county superintendent.
 - A lack of going concern designation by the county superintendent.

Emergency Apportionments

Emergency Apportionments

- When a school district becomes **cash insolvent**, it may request an emergency apportionment from the state.
 - This triggers a formal process involving the county superintendent, SPI, and the Legislature.
- If the loan exceeds 200% of the district's recommended reserve, an **administrator** is appointed to assume full control of the district, replacing both the superintendent and the governing board.
- **Local control is restored only after the administrator determines** the district is likely to comply with its recovery plan, and with concurrence from the SPI and state board of education (SBE) president.

Emergency Apportionments (cont.)

- A **trustee is then appointed to oversee the fiscal recovery** and ensure sound financial practices.
- The trustee has authority to **stay or rescind board actions** that could jeopardize fiscal stability.
- Even after the trustee is released (after a minimum of three years), the **county superintendent retains oversight authority until the loan is fully repaid.**
- If the district violates its recovery plan within **five years** of regaining control or repaying the loan, the county superintendent may reassume full authority.

Budget Adoption Process

Budget Adoption Process

- **Deadline:** Adopt budgets **before July 1** annually (EC 42127(a)).
- **Public hearing:** Hold at least **three working days after** budget is available for public inspection (EC 42103(a)).
- **Agenda posting:** Post at least **72 hours in advance**; include location for public inspection (EC 42127(a)(1)).
- **Public notice:** Publish **at least three days before** inspection and **45-10 days before** public hearing in local newspaper (EC 42103(d)(1)).
- **Website posting:** **Replace newspaper notice with homepage posting starting January 1, 2027 (AB 721).**
- **LCAP and budget adoption:** Schedule adoption after, but not on the same day as, their public hearings (EC 52062(b)(2)).

Budget Adoption Process (cont.)

- A budget cannot be adopted before the LCAP is adopted, if no current LCAP or update is in effect for that fiscal year (EC 42127(a)(2)(A)).
- The budget must include sufficient expenditures to implement the district's LCAP (EC 42127(d)(1)).
- If the adopted budget or audited financial statements show a negative unrestricted fund or cash balance, the board must include a statement explaining the cause and actions to resolve it within the fiscal year (EC 42127.5).
- **LEAs that fail to adopt their LCAP or annual update by July 1 may face a financial penalty starting at 20% of their second principal LCFF apportionment, increasing by 1% per business day (up to 80%), unless the delay is due to a qualifying emergency (EC 52065.1)**

New Accountability Measures under AB 121

- **AB 121 requires county superintendents to withhold state, local, or county funds from any LEA that fails to adopt or submit its LCAP, budget, or other required reports, until all requirements are met (EC 42128).**
 - The county superintendent must also block approval of district warrants during the period of noncompliance.
- **AB 121 requires school districts and charter schools to submit required plans and reports on time (EC 42129).**
 - Failure to do so (within 14 days of prescribed deadlines) will result in withheld salaries or stipends for superintendents, administrators, or governing board members until compliance is achieved.
 - Exemptions apply in cases of qualifying emergencies.

Budget Submission and Review Timeline

- By **July 1**, district submits adopted budget to the county superintendent.
 - The governing board must file the adopted budget with the county superintendent within five days of adoption or by July 1, whichever comes first (EC 42127(a)(2)).
 - Within 45 days of state budget enactment, district must make any related revisions available for public review (EC 42127(h)).
 - If the district fails to submit a budget, the county superintendent must develop one by September 15 at the district's expense; it becomes the adopted budget unless modified and approved (EC 42127(d)(1)).
 - If the board refuses to adopt a budget, the county superintendent must withhold state and county apportionments and notify the county to stop approving district warrants (EC 42128).

Budget Submission and Review Timeline (cont.)

- By **September 15**, county superintendent approves, conditionally approves, or disapproves the budget. If conditionally approved or disapproved, recommendations for revisions are provided (EC 42127(d)).
 - May assign a fiscal advisor or appoint a committee to review and comment on recommendations.
 - Cannot approve the budget until the district's LCAP or LCAP update for the same fiscal year is approved.
 - Must disapprove the budget if it lacks sufficient expenditures to implement the LCAP.

Budget Submission and Review Timeline (cont.)

- By **October 8**, district responds to county superintendent's recommendations in a regular board meeting, clarifies budget revisions, and takes action to address concerns.
- By **October 22**, county superintendent provides the SPI with a list of districts whose budgets may be disapproved.
- By **November 8**, county superintendent formally notifies the SPI of any budget disapprovals and indicates whether a Budget Review Committee (BRC) will be formed or waived.

County Superintendent Budget Review Responsibilities

- County superintendents should evaluate the following areas during the budget review process and conditionally approve or disapprove budgets that lack assurance the district can meet its financial obligations or resolve identified fiscal issues:
 - **Standards and criteria:** Examine the budget for compliance with State Standards and Criteria for Fiscal Solvency and identify necessary technical corrections.
 - **Multiyear financial projections:** Assess whether the budget enables the district to meet its financial obligations for the current and subsequent two fiscal years.
 - **Estimated actuals:** Verify that the budget reflects estimated unaudited revenues, cash balances, and expenditures from the prior year.

County Superintendent Budget Review Responsibilities (cont.)

- **Format and completeness:** Confirm that the budget includes a complete and itemized plan of estimated revenues and expenditures for the upcoming fiscal year, along with comparisons to the current year; cash flow report required starting in 2024-25.
- **Ending fund balance requirements:** Review whether the ending fund balance exceeds the minimum recommended reserve for economic uncertainties. If it does, verify that the district has publicly disclosed the excess amount and provided a justification for maintaining a higher fund balance.
- **Fiscal distress reports:** Consider any studies, reports, or audits that indicate fiscal distress or a moderate to high risk of insolvency.

Local Reserve Cap (EC 42127.01)

- Proposition 2 established a 3% threshold in the Proposition 98 rainy day fund; once met, it triggers a 10% cap on districts' combined assigned and unassigned reserves.
- The SPI notifies districts and county superintendents when the cap applies or no longer applies.
- Exemptions apply to basic aid districts and those with ADA under 2,501.
- County superintendents may grant two-year exemptions for extraordinary fiscal circumstances.
 - Districts requesting an exemption must justify the need, identify related budget amounts, and show no other fiscal resources are available.
- FCMAT has published a related [fiscal alert](#) on its website.

Group Activity #1

Budget Approval Discussion

1. From an oversight standpoint, what are the primary risks or challenges associated with the county superintendent's process for reviewing and approving school district budgets?

Interim Reports and Certifications

Interim Reports Process

- School districts must submit **two interim budget reports** annually.
 - The first report, due by **December 15**, reflects the district's financial status as of October 31. The second report, due by **March 15**, covers the period ending January 31.
- A district must certify whether it can meet its financial obligations for the current fiscal year and the two subsequent fiscal years (EC 42131(a)(1)).
- County superintendents may revise certifications if they disagree with the district's assessment and must notify the district and SPI **within 75 days** (EC 42131(a)(2)(A)).
 - Districts may appeal certification changes to the SPI, who must respond **within 10 days**.

Interim Reports Process (cont.)

- County superintendents must report all interim report certifications to the SPI and SCO **within 75 days** of each reporting period (EC 42131(c)).
- Qualified or negative certifications must include comments and proposed actions from the county superintendent (EC 42131(a)(2)(B)).
- If a school district fails to submit interim reports, the county superintendent may withhold state or county funds and suspend approval of district warrants (EC 42128).
- LEAs with **qualified or negative second interim reports** must submit an update for the period ending April 30 (“**third interim**”) **by June 1**, projecting cash and fund balances through June 30 (EC 42131(f)).

Fiscal Certifications

- A **positive** certification is assigned when a district is projected to meet its financial obligations for the current fiscal year and the two subsequent fiscal years.
- A **qualified** certification is assigned when a district may not meet its financial obligations for either the current fiscal year or the two subsequent years.
- A **negative** certification is issued when a district cannot meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.
- See FCMAT's website for historical qualified and negative certification data.

Fiscal Certifications (cont.)

- Qualified or negative certifications remain until the next report.
- County superintendent may exercise authority granted in EC 42127.6 (“**fiscal oversight toolkit**”).
- County superintendent must be allowed at least 10 working days to review and comment on labor agreements to assess fiscal impacts and notify district board of potential fiscal risks.
- District cannot issue non-voter approved debt without county superintendent approval.
- The SPI or county superintendent can revoke warrant-drawing authority (EC 42652).

Group Activity #2

Multiyear Financial Projection Review

1. Review the second interim multiyear financial projection. The district's board has approved a positive certification.
2. What questions would you ask the district to validate the assumptions and projections?
3. What potential concerns or red flags do you see in the MYP?
4. Based on your review, would you confirm the positive certification or recommend a change?

Going Concern Process

Going Concern Process (EC 42127.6)

- A “**going concern**” is a district that is fiscally sound and able to meet its financial obligations.
- A district is **not a going concern** if its fiscal health is at-risk or it may become insolvent.
- If the county superintendent determines that a district may be unable to meet its financial obligations for the current or next two fiscal years, or receives a qualified or negative certification, the county superintendent must provide written notice of determination (EC 42127.6(a)(1)).
- The district may appeal the determination or any imposed interventions to SPI **within five days** (EC 42127.6(b)).
- The SPI must respond within **10 days**, sustaining or denying the appeal.

Going Concern Process (EC 42127.6) (cont.)

- County superintendents must follow a progressive intervention process before using emergency fiscal powers:
 - **Review evidence** of fiscal distress, including studies, audits, and FCMAT reports.
 - **Investigate financial condition** and assess ability to meet obligations for the current and next two years.
 - **Determine interim certification** (qualified or negative).
 - **Notify the district board and SPI** in writing, including rationale and assumptions.
 - **Take necessary actions** to support fiscal recovery.
 - **Provide opportunity for appeal** and allow for further findings and appeals before escalating interventions.

Fiscal Interventions (EC 42127.6(a)(1))

- To help a district meet its financial obligations, the county superintendent must take one or more of the following actions:
 - **Assign a fiscal expert** (funded by the county office) to advise the district.
 - **Conduct a financial study** (district pays 75%, county office 25%).
 - **Require financial projections** for the current and next two fiscal years.
 - **Direct fiscal controls** (require contract encumbrances, cash flow analyses, budget revisions, recording of receivables and payables).
 - **Request a fiscal recovery proposal** from the district.
 - **Withhold compensation** from district leadership for failure to provide financial data (appealable to SPI).
 - **Assign FCMAT** to review teacher hiring, retention, and misassignments.

Emergency Powers (EC 42127.6(e))

- If fiscal distress continues, county superintendent must notify SBE, SPI, district board, superintendent, and employee and parent organizations in writing with rationale and assumptions (i.e., **lack of going concern determination**).
- District may again appeal to the SPI within five days; SPI again has 10 days to sustain or deny any or all parts of the appeal.
- **AB 121 expanded to include “if a school district experiences a significant fiscal event that is determined by the county superintendent to have an immediate severe fiscal impact that will cause a school district to be unable to meet its financial obligations for the current or subsequent fiscal year...”**

Emergency Powers (EC 42127.6(e)) (cont.)

- County superintendent, in consultation with SPI, must take one or more of the following actions:
 - Impose budget revisions (with SPI and district board consultation).
 - Stay or rescind board actions inconsistent with fiscal recovery.
 - Help develop a multiyear financial recovery plan.
 - Assist with next year's budget development.
 - Appoint fiscal advisor to carryout duties.
- These actions also apply to districts with **negative interim certifications**.

Best Practices for Issuing a Lack of Going Concern Determination

- **Address the letter** to the board members and mail to their home addresses.
- **Include required parties** (e.g., recognized bargaining units and parent organizations).
- **Clearly state the basis** for the determination; use specific indicators (e.g., FCMAT risk factors).
- **List applicable statutory options** under (EC 42127(a)(1) and 42127.6(e)); mark those being exercised.
- **Set specific, measurable outcomes** with short timelines and due dates for district compliance.

Best Practices for Issuing a Lack of Going Concern Determination (cont.)

- **Cite statutory appeal language** to inform the district of its rights.
- **Communicate with CDE** regarding the determination and planned interventions.
- **Request FCMAT review** the draft letter before finalizing.

Group Activity #3

Going Concern Scenario

1. Review the following scenario, assess whether the district meets the criteria for a going concern, and recommend the appropriate course of action for the county superintendent.

Group Activity #3:

- **Scenario: The district submits an interim financial report with a material error in the multiyear financial projection, significantly affecting projected solvency. The district's board has approved a positive certification for the report.**
- How would you engage with the district to address and correct the error?
- Would your approach change based on the CBO's experience level (e.g., seasoned vs. new)?
- What guidance would you provide to the county superintendent regarding next steps and resolution?
- How might your recommendations differ if the error occurred in the first interim versus the second interim report?

Public Disclosures Responsibilities

Collective Bargaining

- School districts must publicly disclose the terms and costs of tentative collective bargaining agreements for the current and future fiscal years **before approval** (GC 3547.5(a)).
- Disclosure requirement applies to agreements with exclusive representatives, that is recognized bargaining units.
- Information must be shared during a **public meeting** before the agreement becomes binding.
- **Superintendent and CBO must certify** the district can afford the agreement for its full term (GC 3547.5(b)).
 - Certification must itemize any budget revisions needed to meet the agreement's costs in each year.

Collective Bargaining (cont.)

- County superintendents must monitor salary and benefit changes for all employees, not only those in bargaining units.
- LEAs should **disclose all compensation changes**, including individuals and unrepresented employees.
 - FCMAT recommends following the “**1-2-3 Rule**” (i.e., disclose all changes impacting salary and benefit object codes).
- Disclosure templates are available on FCMAT’s website.
- LEAs must **submit budget revisions within 45 days** of adopting a collective bargaining agreement (EC 42142).
 - Failure to adopt necessary revisions shall result in a qualified or negative certification on the next interim report (GC 3547.5).

CDE Guidance: Public Disclosures (Appendix I)

- Include **full copy of proposed agreement**.
- Summarize **key compensation provisions**, including salary increases (% on-schedule, off-schedule, bonuses), health and welfare benefit changes (coverage, contributions), pay structure changes (step/column, longevity, overtime, differentials), staffing ratio adjustments (teachers/classified).
- Note **other cost-increasing provisions** (e.g., class size reduction, added staff development days).
- Show **percent increase in total compensation** for average employee; estimate cost of a 1% total compensation increase to the LEA.
- Identify **funding sources** and **assumptions** for current and future years.
- Highlight **non-cost provisions** (e.g., grievance procedures, arbitration).

Qualified or Negative LEA Requirements

- LEAs with qualified or negative certifications must give the county superintendent **at least 10 working days to review and comment** on proposed collective bargaining agreements before ratification (GC 3540.2(a)).
- County superintendent must notify the county board, district board, leadership, parent organizations, and teacher organizations within the 10-day period if fiscal concerns are identified (GC 3540.2(c)).
- Districts **must provide all financial information** needed to assess the agreement's impact (GC 3540.2(d)).
- Similar provisions apply to COEs and single-district COEs, which must allow the SPI at least 10 working days to review and comment on proposed agreements (GC 3540.2(e)).

Non-Voter Approved Debt

- School districts must notify county superintendent and county auditor **at least 30 days** before approving non-voter approved debt (EC 17150.1(a)).
 - This notification applies to certificates of participation (COPs) and debt instruments secured by real property, such as revenue bonds and bond anticipation notes (BANs).
 - Required disclosure information includes repayment schedules, issuance costs, and evidence of the district's ability to repay.
- **Within 15 days** of receiving the debt information, county superintendent and auditor may comment publicly on the district's ability to meet the debt obligation.
- Reporting requirements and a sample disclosure form is available on FCMAT's website.

Additional Debt Approval Requirements

- **School districts with qualified or negative interim report certifications must obtain county superintendent approval before issuing non-voter approved debt (EC 42133(a)).**
- FCMAT recommends that, whenever possible, the county office work with the county auditor to ensure that both entities are requesting the same information from school districts.
- Similar provisions apply to COEs and single-district COEs, which must secure SPI's review and/or approval before issuing non-voter approved debt (EC 42133(b)).

OPEB Fiscal Oversight

- Other Postemployment Benefits (OPEBs) include medical, dental, vision, prescriptions, and long-term care/disability.
- State Standards and Criteria for Fiscal Solvency require districts to estimate and disclose unfunded OPEBs and self-insured liabilities at budget adoption and during interim reporting.
- GASB 75 requires that OPEB liabilities appear on the balance sheet and be evaluated actuarially (or via approved alternative) at least every two years.
- Actuarial reports showing unfunded liabilities trigger fiscal distress reporting under EC 42127.6(a)(1).
- FCMAT identifies high or unmanaged debt as a key risk factor for potential insolvency.

Workers' Compensation Fiscal Oversight

- Districts that self-insure must annually disclose estimated accrued but unfunded workers' compensation costs to their governing boards.
- Estimates must be based on an actuarial report conducted at least every three years, performed by a qualified actuary.
- Actuarial data must be presented at a public board meeting with a decision to reserve funds or adjust the reserve.
- Board must certify annually to their county superintendent (or SPI for COEs) the amount reserved and submit any necessary budget revisions.

Annual Audit Requirements

Audit Process and Requirements

- By **April 1**, LEAs must contract for an annual audit (EC 41020(b)(3)).
 - Audit must be performed by a certified and licensed CPA listed in the SCO's directory, published annually by December 31 (EC 41020(f)(1)).
 - An accounting firm cannot audit an LEA if the same lead, coordinating or review audit partner has served in that role for the six previous fiscal years (EC 41020(f)(2)).
- By **May 1**, county superintendent must contract with an audit firm on behalf of any LEA without a contract (EC 41020(b)(1)).
 - County superintendent must notify CPA and California Board of Accountancy (CBA) if an LEA audit fails to follow the Audit Guide, including repeated nonconformity over two years (EC 41020.5(a)).

Audit Process and Requirements (cont.)

- By **December 15**, LEAs must file annual audit reports with county superintendent, CDE, and SCO (EC 41020(h)(1)).
- By **January 31**, LEA governing boards must publicly review the audit, including any exceptions, plans for correction, recommendations and findings (EC 41020.3(a)).
- By **March 15**, LEAs must provide a correction plan for any audit exceptions if not included in the audit (EC 41020(j)).
 - County superintendents are responsible for reviewing audit reports and exceptions in the following areas: attendance, equipment inventory, internal controls, instructional material program funds, school accountability report cards, teacher misassignments, and miscellaneous items (EC 41020(i)).

Audit Process and Requirements (cont.)

- By **May 15**, county superintendent must certify to SPI and SCO that all audit reports and exceptions have been reviewed and confirm that all exceptions are either corrected or have an acceptable correction plan (EC 41020(k)).
 - Certification must identify LEAs with attendance-related or state funding audit exceptions.
 - County superintendent is responsible for requiring LEAs to submit appropriate reports to SPI to resolve exceptions.
- CDE reviews audits and addresses federal and state compliance exceptions, and any exceptions not corrected by May 15.
- SCO may conduct audit or designate or approve an auditor for districts receiving state loans (EC 41320.1(e)).

Missed Audit Deadlines (EC 41020.2(a))

- If an LEA misses the December 15 deadline, the county superintendent may do one of the following actions:
- **Grant an extension** after consulting with the district board and auditors, and with consent from the SCO and SPI.
 - SCO has published filing extension guidelines.
 - **AB 121 requires extensions be reasonable, in increments of up to 45 days, and not to exceed 90 calendar days total.**
- **Contract with another audit firm** to complete the audit, after consulting with the SCO, district board and auditors.
- **Request the SCO** to investigate the delay and take appropriate action.

Fiscal Oversight Evaluations

FCMAT Fiscal Oversight Reviews (EC 41326(I))

- **Initial Review:** FCMAT must evaluate the county superintendent's fiscal oversight of any school district receiving an emergency apportionment.
 - Within three months of the county superintendent assuming control of a district, FCMAT must report its findings to the Legislature, DOF, SPI, and SBE president.
 - The report must address actions taken or not taken and may include legislative recommendations to improve fiscal oversight.
- **Ongoing Review:** FCMAT will conduct annual evaluations of the county superintendent's oversight effectiveness.
- **Evaluation Tool:** FCMAT has developed a tool to assess county office fiscal oversight practices.

Thank you!