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

Tuolumne County Superintendent of Schools

Budget Review and Fiscal Health Risk Analysis of the Sonora Union High School District

November 4, 2016

Joel D. Montero
Chief Executive Officer

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FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM
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Marguerite D. Bulkin, Superintendent
Tuolumne County Superintendent of Schools
175 Fairview Lane
Sonora, CA 95370

Dear Superintendent Bulkin:

In July 2016, the Tuolumne County Superintendent of Schools (county office) and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to provide a review of the Sonora Union High School District's 2016-17 adopted budget and multiyear financial projection (MYFP) for the two subsequent fiscal years. Specifically, the agreement states that FCMAT will perform the following:

1. Review Sonora Union High School District's 2016-17 adopted budget and multiyear financial projection (MYFP) for the two subsequent fiscal years. The team will assess the district's budget and MYFP assumptions and provide recommendations for expenditure reductions and/or revenue increases to help the district eliminate its structural deficit and maintain fiscal solvency.

2. Prepare a fiscal health analysis using the 20 factors in FCMAT's Fiscal Health Risk Analysis tool, and identify the district's risk rating.

FCMAT conducted fieldwork at the district office on August 8-10, 2016, with additional off-site work during the weeks that followed. FCMAT reviewed numerous documents and financial reports, including the district's annual independent audits, unaudited actuals, financial system reports, J-18/19 attendance reports, and other historical financial information pertinent to the study. Because the mechanics of calculations in multiyear financial projections can be complex, the team prepared independent projections to verify the results against the district-prepared MYFP.

The independent Fiscal Health Risk Analysis was developed based on this information and on reports from the district's financial system through August 2016. The attached final report contains the study team's findings and recommendations.

FCMAT
Joel D. Montero, Chief Executive Officer
1300 17th Street - City Centre, Bakersfield, CA 93301-4533 • Telephone 661-636-4611 • Fax 661-636-4647
755 Baywood Drive, 2nd Floor, Petaluma, CA 94954 • Telephone: 707-775-2850 • Fax: 707-636-4647 • www.fcmat.org
Administrative Agent: Christine L. Frazier - Office of Kern County Superintendent of Schools

We appreciate the opportunity to serve you and we extend our thanks to all the staff of the Tuolumne County Superintendent of Schools and the Sonora Union High School District for their cooperation and assistance during fieldwork.

Sincerely,

Joel D. Montero
Chief Executive Officer

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About FCMAT

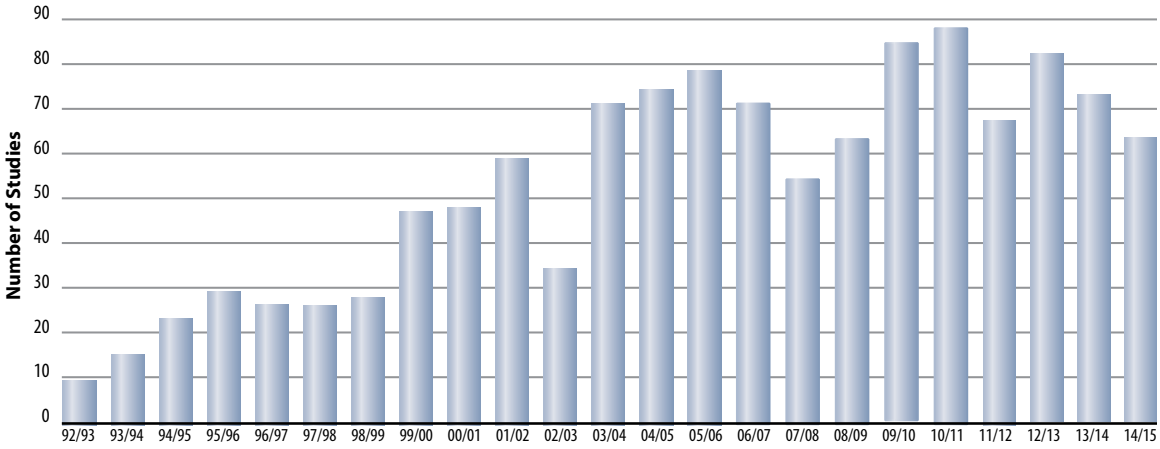
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related 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.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development 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.

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 Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

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

With foreseeable fiscal recovery beginning in 2013-14, the state developed and immediately instituted the Local Control Funding Formula (LCFF), a new funding distribution model. The intent of the LCFF was to give local educational agencies (LEAs) greater flexibility in managing and directing resources toward their educational priorities.

LEAs now receive funding based in part on the demographic profile of the students they serve, and have greater flexibility to use these funds to improve student achievement. The LCFF created funding targets based on certain student demographics, and it combined the funding from numerous formerly state-funded categorical programs into one allocation formula with three elements: a base grant for all students; a supplemental grant based on the percentage of students who are English learners, foster youth, or eligible for free or reduced price meals (this percentage is determined by an unduplicated pupil count, meaning that a student who falls in more than one of these groups is counted only once); and a concentration grant that provides additional targeted funds for these same students when their unduplicated percentage exceeds 55%. Supplemental and concentration grant funding is intended to help the above student populations and can do so through increased or improved programs. In addition, three categorical funding sources (transportation, targeted instructional improvement grant, and small school bus replacement grant) were retained and were added to the base funding calculation at 2012-13 funding levels to determine the districts target funding calculation.

Although increased funding was and continues to be highly desirable and necessary, the LCFF combined with the new requirements to meet student performance objectives established by the Local Control Accountability Plan (LCAP) have presented fiscal challenges for public schools beyond insufficient funding. The goal of the LCFF was to significantly simplify how state funding is provided to LEAs. However many LEA's struggle to define the programs and redistribute the funding under the new model; rather, they try to continue existing programs and fit them into the new funding model.

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

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

The Sonora Union High School District has more than 145 employees and serves approximately 939 students in grades 9-12 in the foothills of the Sierras in Tuolumne County, approximately 90 miles southeast of Sacramento. The district operates one comprehensive high school, (Sonora High School), and several alternative education programs including a continuation high school (Dario Cassina High School), a long-term independent study program (Theodore Bird High School), an adult school, and a career and technical education program for students over 16.

The city of Sonora is a small community that covers approximately three square miles and has a population of approximately 5,000. It has no major industry but has numerous small local businesses. The district has a positive relationship with the community and offers technical programs that help meet the need for skilled labor, including programs in cosmetology, culinary arts, construction, photography, wildland fire and first responder.

The district's enrollment has steadily declined over the past decade, including an almost 20% decline over the past four years, from 1,292 students in 2010-11 to 1,036 in 2015-16. The unduplicated count of pupils who are English learners, foster youth, or eligible for free or reduced-price meals totals approximately 42% of the district's enrollment.

Study Guidelines

FCMAT visited the district on August 8-10, 2016 to conduct interviews, collect data and review documents. This report is the result of those activities and is divided into the following sections:

I. Executive Summary
II. Budget and Multiyear Financial Projection Review
III. Significant Factors in the MYFP
IV. Indicators of Risk or Potential Insolvency
V. Fiscal Health Risk Analysis.
VI. Appendix

Study Team

The study team was composed of the following members:

Marisa A. Ploog, CPA, CFE, CICA, CGMA
FCMAT Intervention Specialist
Bakersfield, CA

Linda Grundhoffer
FCMAT Consultant
Danville, CA

John Lotze
FCMAT Technical Writer
Bakersfield, CA

Executive Summary

As part of the state's fiscal oversight system for K-12 school districts, county offices of education are responsible for evaluating the fiscal status of each local educational agency (LEA) within their county. According to the California Legislative Analyst's Office, "The goal of this oversight system is to ensure that school districts can meet their fiscal obligations and continue educating students" (*LAO School District Fiscal Oversight and Intervention*, April 30, 2012).

Prolonged deficit spending is a key indicator of fiscal distress, especially when it occurs during good economic times. Structural deficits occur when expenditures exceed revenues on an ongoing basis, and are often a result of unsustainable collective bargaining agreements and declining enrollment. Because salary and benefit costs are the largest part of a school district's budget, structural deficits often occur when the costs of collective bargaining commitments outpace increases in ongoing revenue. For the Sonora Union High School District, the collective bargaining agreement (CBA) with certificated employees has provisions that directly affect the district's fiscal condition, including an agreed-upon commitment to extremely low class sizes and increases in salaries and benefits. The district also offers numerous career and technical education programs, and has steadily declining enrollment but has not reduced staffing and supplemental programs proportionately. These factors have created an unsustainable fiscal burden on the district's unrestricted general fund.

Assembly Bill (AB) 1200 and AB 2756 require districts to include a multiyear financial projection (MYFP) with their general fund budget. To analyze the district's 2016-17 adopted budget and accompanying MYFP, FCMAT reviewed the financial reports and underlying assumptions adopted by the governing board, and reviewed funding sources and budgeted expenditures for all resources in the district's budgets individually. FCMAT focused on the district's ability to meet its reserve requirement in each fiscal year, achieve a positive, unappropriated fund balance, and avoid deficit spending. The MYFP should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. Initial review of the district's MYFP accompanying its 2016-17 adopted budget indicated that the district's fiscal condition is deteriorating rapidly and that this can be expected to continue if there are no changes in expenditures in the current and two subsequent fiscal years.

MYFPs normally contain complex calculations and detailed assumptions to ensure the greatest accuracy. Because there is no mandated tool for developing MYFPs, districts often develop their own financial projection tools, usually using Microsoft Excel; these vary in complexity and completeness. The district's MYFP showed ongoing deficit spending in 2017-18 and 2018-19, and negative unrestricted ending fund balances each year. Although the scope of FCMAT's study specified only a review of the district's budget and MYFP, it quickly became apparent that an independent MYFP was needed to confirm the severity of the district's financial position.

FCMAT used its Budget Explorer MYFP software to evaluate the accuracy of the assumptions and calculated results in the district's MYFP. This software allows users to isolate individual program budgets, evaluate each independently over a multiyear period, and identify any dependency on the general fund unrestricted resources. FCMAT's MYFP indicates that the district has fiscal shortfalls in the unrestricted resources that are greater than presented in the 2016-17 adopted budget and accompanying MYFP, with a structural deficit in all three fiscal years in the unrestricted resource. This should be of great concern to the governing board, and the district should immediately develop a detailed recovery plan focused on specific ongoing reductions sufficient to mitigate the projected shortfalls in each fiscal year.

Over the last several years the district has made numerous and significant improvements to its facilities. The district also has deferred maintenance projects in progress or planned for the near future, including roofing and HVAC replacements. Of particular concern is that the district does not have a formal facilities master plan and/or deferred maintenance plan that describes each project, its projected costs and source of funding. Although a modernization project and construction of an aquatics center were covered in part by the district's Measure J bond proceeds, both have had significant cost overruns and have included additional infrastructure improvements to remaining facilities that were not in the original project. The district's chief business official (CBO) has worked diligently to direct facilities funding and set-asides for capital project funds toward each project, but these and other resources have been exhausted, leaving no reserves for unexpected facility maintenance or future deferred maintenance projects, or for contingencies and cost overruns.

The district's CBO has been with the district for approximately eight years but will retire on December 31, 2016. The superintendent has worked in the district for more than 20 years, in administrative positions since 2007, and as superintendent since July 2015. Without a strong, experienced CBO and with a superintendent who has less than two years of experience in that role and no administrative experience outside of the district, developing a corrective action plan that coordinates with the district's existing commitments will be challenging.

Findings and Recommendations

Budget and Multiyear Financial Projection Review

To assess the district's financial position and level of risk, FCMAT reviewed the district's 2016-17 adopted budget, the accompanying multiyear financial projection (MYFP), related assumptions and calculations, financial reports from 2013-14 to the present, and commitments and obligations in other funds. The MYFP is required by Assembly Bill (AB) 1200 and AB 2756, and its primary purpose is to project the district's budget over several fiscal years using current budget assumptions to determine whether the district is able to achieve and sustain a balanced budget and maintain its required reserve for economic uncertainties. The MYFP should be viewed as a trend based on certain criteria and assumptions rather than a prediction of exact numbers.

To evaluate the district's financial solvency, much attention is focused on whether the district is deficit spending and whether it is able to meet minimum reserve requirements in the current and two subsequent fiscal years with unrestricted fund balances and achieve a positive unappropriated fund balance total. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines.

FCMAT reviewed the district's 2016-17 adopted budget, MYFP and accompanying assumptions and compared these with its independently prepared MYFP. This review confirmed that the district's adopted budget and MYFP are accurate in all material respects, based on the information available at the time of its preparation. Many of the differences between the district's and FCMAT's results are due to timing, because each projection is a snapshot in time based on known conditions and information. The district prepared and adopted its budget in June 2016 before the end of the 2015-16 fiscal year; beginning balances for the budget year were appropriately estimated. At the time of FCMAT's fieldwork, the 2015-16 fiscal year financials had been finalized and exact numbers were known.

Enrollment and Average Daily Attendance

FCMAT also prepared an independent enrollment and average daily attendance (ADA) projection and a Local Control Funding Formula (LCFF) calculation. FCMAT used a four-year average of the district's ninth-grade enrollment for the incoming class, and a three-year average cohort survival by grade level for projected enrollment. Average daily attendance rates were projected based on a five-year average of actual ADA to enrollment. The results of these calculations were used in FCMAT's LCFF calculation and MYFP for 2016-17, 2017-18 and 2018-19 and are presented in the table below.

Projected Enrollment and ADA

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 Projected	2017-18 Projected	2018-19 Projected	4-Year Average
Grade 9			253	287	267	281	272	272	272	272
Grade 10			323	250	278	257	273	265	265	
Grade 11			301	314	249	266	251	267	258	
Grade 12			309	276	307	232	251	236	251	
Total Enrollment	1292	1256	1186	1127	1101	1036	1047	1040	1046	
		-36	-70	-59	-26	-65	11	-7	-6	
Total Unduplicated Pupil Count (UPP) Free/Reduced-Price Meals, English Learners & Foster Youth	N/A	N/A	N/A	493	461	411	435	432	427	
UPP %				43.74%	41.87%	39.67%	41.56%	41.56%	40.82%	
ADA	1168.00	1131.00	1075.00	1036.19	1003.56	939.03	950.72	944.12	950.09	
Increase/Decrease in ADA		-37.00	-56.00	-38.81	-32.63	-64.53	11.69	-6.59	5.96	
ADA to Enrollment	90.40%	90.05%	90.64%	91.94%	91.15%	90.64%				
ADA-to-Enrollment Five-Year Average			90.84%							

Retention with grade level advancement*			
2013-14	2014-15	2015-16	3yr. avg
98.81%	96.86%	96.25%	97.31%
97.21%	99.60%	95.68%	97.50%
91.69%	97.77%	93.17%	94.21%

Enrollment by grade level advancement 3 year retention average used for projections in grades 10-12

Grade 9 enrollment projection based on 4 year average

Enrollment and UPP exclude enrollment and ADA for students who attend county office-operated programs, which are incorporated into the LCFF projection at a flat level based on 2015-16.

In addition, multiple calculations are linked in the above table, which results in rounding differences than if they were individually calculated. Projected UPP was simply an estimate because a significant demographic shift is deemed to be unlikely.

*FCMAT calculated the enrollment with grade level advance using a modified cohort progression calculation that used retention over three historical years as students advanced to develop an average percentage of retention and advancement that was then applied in the projection years.

Absent any significant changes in demographics, including the authorization of any new charter schools, FCMAT's enrollment and ADA projections indicate an enrollment increase of approximately 11 students in 2016-17, followed by a decrease of seven students and recovery of six students in the two subsequent school years, respectively.

The district's ADA is 90.84% of its enrollment, which is lower than the statewide averages of 95.22% in 2014-15 and 94.89% in 2015-16 for high school districts, and lower than the statewide averages of 93.82% and 93.95% in the same years, respectively, for grades 9-12 (SSC Fiscal Report titled Ask SSC . . . What are the Latest Statewide Average Attendance Rates, September 9, 2016, at http://www.sscal.com/fiscal_reports.cfm?action=display&contentID=21195 — accessible only with a client login).

Local Control Funding Formula

The results of FCMAT's LCFF calculation indicate that LCFF funding will continue to increase over the next few years, although enrollment will remain relatively unchanged. Although the district's LCFF calculation was based on a 5% increase in property tax collections, FCMAT's projection assumes a 3.74% increase in property tax collections in 2017-18 based on projected assessed value for the 2016-17 fiscal year, but assumes no increases in subsequent years.

The district is one of just a few in the state that qualifies as a basic aid district in some years but not in others. Basic aid school districts are those in which the district's revenues from local property taxes are more than what the district would receive according to the LCFF calculation (which, like revenue limit funding in the past, is composed of a combination of local property tax revenues and state apportionment sufficient to make up any difference between property tax revenues and what the district is entitled to). Typically, basic aid districts are in areas with high property values.

The calculation to determine whether a district is basic aid can be complex, and the district's calculation is further complicated by the fact that students living within its boundaries attend two charters schools in neighboring counties: Mountain View Charter School, a countywide charter school operated by the Calaveras County Office of Education; and the Stanislaus Alternative Charter School, a county-operated charter school in Stanislaus County. Each year, the district is required to transfer a portion of its property tax collections to these charter schools based on the certified annual ADA of its students who attend them. However, the district is required to transfer in-lieu property taxes only to the county-operated charter school, not the countywide charter school, if the district was identified as state-funded (that is, not basic aid) in the preceding fiscal year. These circumstances are not known until the end of the year, when total annual tax receipts are known and charter ADA is certified.

This is a complex calculation, and the factors that determine whether the district's status is basic aid or state-funded must be carefully monitored on an ongoing basis because it is possible that the district may transfer taxes to the charter school throughout the year that must be recovered once a final determination is made.

The summary of FCMAT's calculation is provided in the following table.

Summary of Funding Calculation

LCFF Calculator Universal Assumptions Sonora Union High (72389) - FCMAT 2015-16 Final						
Summary of Funding						
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Target	$10,581,139	$10,067,914	$10,174,686	$10,407,074	$10,251,717	$620,300
Floor	9,083,926	9,463,597	9,791,020	10,065,813	9,864,673	1,827,824
Applied Formula: Target or Floor	FLOOR	FLOOR	FLOOR	FLOOR	FLOOR	TARGET
Remaining Need after Gap (informational only)		*710,314*	*276,898*	*103,628*	*203,528*	*100,709*
Current Year Gap Funding	786,899	327,419	280,038	137,733	286,335	-
Economic Recovery Target	-	-	-	-	-	-
Additional State Aid	-	-	-	-	-	1,207,524
Total Phase-In Entitlement	**$9,870,825**	**$9,791,016**	**$10,071,058**	**$10,203,546**	**$10,151,008**	**$1,827,824**
	TRUE	TRUE				
Components of LCFF By Object Code						
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
8011 - State Aid	$1,850,075	$1,850,075	$1,850,075	$1,850,075	$10,173,259	$1,850,075
8011 - Fair Share	(22,251)	(22,251)	(22,251)	(22,251)	(22,251)	(22,251)
8311 & 8590 - Categoricals	-	-	-	-	-	-
EPA (for LCFF Calculation purposes)	208,724	198,156	198,156	198,030	-	-
Local Revenue Sources:						
8021 to 8089 - Property Taxes	8,150,171	8,454,987	8,454,987	8,454,987	-	-
8096 - In-Lieu of Property Taxes	(77)	(245,130)	(238,989)	-	-	-
Property Taxes net of in-lieu	*8,150,094*	*8,209,857*	*8,215,998*	*8,454,987*	-	-
TOTAL FUNDING	**$10,186,642**	**$10,235,837**	**$10,241,978**	**$10,480,841**	**$10,151,008**	**$1,827,824**
Less: Excess Taxes	*$ 107,093*	*$ 246,665*	*$ -*	*$ 79,265*	*$ -*	*$ -*
Less: EPA in Excess to LCFF Funding	*$ 208,724*	*$ 198,156*	*$ 170,921*	*$ 198,030*	*$ -*	*$ -*
Total Phase-In Entitlement	**$ 9,870,825**	**$ 9,791,016**	**$ 10,071,057**	**$ 10,203,546**	**$ 10,151,008**	**$ 1,827,824**
8012 - EPA Receipts (for budget & cash flow)	*$ 208,674*	*$ 198,156*	*$ 198,156*	*$ 198,030*	*$ -*	*$ -*

All other Revenue and Expenditures

All other revenue sources were independently verified based on the most current information available.

FCMAT reviewed and evaluated salary and benefit cost estimates projected in the district's position control database for the 2016-17 fiscal year, calculations for other post-employment benefits (OPEB) obligations for the current and two subsequent fiscal years, and salary schedule step and column cost projections for the current and two subsequent fiscal years. Differences in calculations for salaries and benefits were negligible, so no additional adjustments were made to the FCMAT projections in 2016-17. Calculations for OPEB obligations and salary schedule step and column were reasonable, and the same annual changes were shown in FCMAT's projection. FCMAT's projections also include the increased costs of employer contributions to the State Teachers' Retirement System (STRS) and Public Employees' Retirement System (PERS) each year.

All other district expenditures were increased in the subsequent years by the consumer price index. When restricted program balances were insufficient to cover expenditures, FCMAT reduced expenditures in the 4XXX-5XXX series. If program funds remained insufficient to pay salary and benefit costs, FCMAT made a contribution into the resource.

The differences between the district's combined MYFP and FCMAT's are presented in the table and narrative below.

FCMAT MYFP

COMBINED			
	2016-17	2017-18	2018-19
Beginning Balance	$ 1,464,122	$ 609,540	$ (273,952)
Revenues & Other Transfers In	14,253,403	13,743,177	13,991,187
Expenditure & Other Transfers Out	(15,107,985)	(14,626,669)	(14,974,949)
Inc/(Dec)	$ (854,582)	$ (883,492)	$ (983,762)
Ending Balance	**$ 609,540**	**$ (273,952)**	**$ (1,257,713)**

Sonora Union High School 2016-17 Adopted MYFP COMBINED			
	2016-17	2017-18	2018-19
Beginning Balance	$ 1,029,524	$ 385,957	$ (419,214)
Revenues & Other Transfers In	12,765,677	12,363,839	12,842,839
Expenditure & Other Transfers Out	(13,409,244)	(13,169,010)	(13,564,792)
Inc/(Dec)	$ (643,567)	$ (805,171)	$ (721,953)
Ending Balance	**$ 385,957**	**$ (419,214)**	**$ (1,141,167)**
Difference	**$ (223,583)**	**$ (145,262)**	**$ (116,546)**

The differences between the district's 2016-17 adopted budget and FCMAT's 2016-17 adopted budget are as follows:

Beginning Fund Balance

- Increased by $424,772 in unrestricted resources and $9,826 in restricted resources, mostly as a result of expenditure timing, shifting from 2015-16 into 2016-17.

Revenue

- LCFF Sources increased by $28,908 based on final LCFF calculation
- Federal Revenue decreased by $40,725 for adjustments to Title 1 and Title II Teacher Quality based on the California Department of Education's (CDE's) posted award estimates.
- Other State Revenue decreased by $184,710, and FCMAT eliminated one-time discretionary state funding until actually awarded and finalized. This funding will likely be provided; however, funding amounts have historically been lower than estimates.

If received in full, this amount will increase the unrestricted ending fund balance in 2016-17 proportionally.

- Other Local Revenue increased by $89,389 because recognition of bus grant award moved into 2016-17. After FCMAT completed its MYFP, the district approved a second bus grant for a maximum of $90,000. If received in full, this amount will increase the unrestricted ending fund balance in 2016-17 proportionally.

Expenditures

- Employee Benefit increased by $54,011 to account for approximately $28,500 in board member benefits and $25,510 in retiree benefits based on OPEB projections omitted in the district's 2016-17 adopted budget.
- Books and Supplies decreased by $94,290 as a result of chromebook purchases in 2015-16 rather than 2016-17.
- Capital Outlay increased by $152,805; this included $127,805 for a special needs bus purchase shifted from 2015-16 to 2016-17, and an additional $25,000 for one additional bus purchase based on the actual cost quote.

These comparisons only identify the differences between the district-prepared MYFP and FCMAT's. The district-prepared MYFP does not isolate restricted and unrestricted resource details, and as a result the degree of fiscal shortfall in the unrestricted resources is obscured in part by positive balances in restricted resources. The district's required reserve for economic uncertainties must be from unrestricted sources.

The table below shows the results of FCMAT's MYFP for the unrestricted general fund and balances in the district's Special Reserve Fund for Other than Capital Outlay (Fund 17) designated for the district's required minimum reserve.

FCMAT MYFP—Unrestricted General Fund and Required Reserve Balance

	2016-17	2017-18	2018-19
Beginning Fund Balance	$ 1,011,801	$ 291,776	$ (682,162)
Revenue	$ 11,091,362	$ 11,002,944	$ 11,237,916
Expenses	(10,429,324)	(10,350,182)	(10,627,543)
Excess / (Deficiency) before Other Sources & Uses	$ 662,037	$ 652,762	$ 610,374
Interfund Transfers In	$ 620,176	$ 148,505	$ 107,275
Interfund Transfers Out	(461,301)	(166,989)	(166,989)
Contributions	(1,540,937)	(1,608,216)	(1,662,517)
Total Other Financing Sources, Uses & Contributions	$ (1,382,062)	$ (1,626,700)	$ (1,722,231)
Net Increase/(Decrease) in Fund Balance	$ (720,025)	$ (973,939)	$ (1,111,857)
Ending Fund Balance	$ 291,776	$ (682,162)	$ (1,794,019)
	2.34%	-5.37%	-13.76%
Projected Balances Reserved in Fund 17	$ 939,898	$ 939,898	$ 939,898
Projected Balances Reserved in Fund 17 - Assigned to Technology/IM			
Ending Fund Balance-Inclusive of fund 17 balances	$ 1,231,674	$ 257,736	$ (854,122)
Unrestricted Reserve %	9.08%	1.98%	-6.42%
4% Minimum Reserve Requirement	$ 542,682	$ 520,738	$ 532,497
Excess/(Shortfall) in Unrestricted Resources after Designations	$ 688,992	$ (263,002)	$ (1,386,619)

The adopted budget as adjusted by FCMAT for fiscal year 2016-17 shows that the district's unrestricted general fund will deficit spend, meaning expenditures will exceed revenues after transfers in and out and contributions to restricted programs. This deficit is structural (that is, it is part of the district's ongoing financial situation rather than caused by external or one-time factors) and will continue into fiscal years 2017-18 and 2018-19, based on current spending commitments and projections, unless the governing board acts to reduce spending or additional ongoing revenue is received. The projected net increases/(decreases) in fund balance are as follows:

2016-17	2017-18	2018-19
$ (720,025)	$ (973,939)	$ (1,111,857)

If not corrected, this structural deficit will eliminate the district's unrestricted ending balance by 2017-18. In addition, the unrestricted ending fund balance and the balance in Fund 17 designated for the minimum reserve requirement will be insufficient to meet the required minimum reserve in the two subsequent years of the financial projection.

The governing board needs to focus on the structural deficit identified in the unrestricted general fund as a guide to the extent of budget reductions needed. Making budget reductions as early as

possible has the greatest benefit because every dollar in ongoing reductions in the current fiscal year increases the ending fund balance by three dollars in the third year of an MYFP.

Significant Factors in the MYFP

Several factors could have a significant effect on the district's financial position. FCMAT has considered the effect of each factor independently in the MYFP.

Fund 17 Designations for Technology and Instructional Materials

The district currently designates $498,116 in fund 17, Special Reserve for Other than Capital Outlay, for expenditures related to instructional materials and technology. These funds originally came from the 2015-16 discretionary block grant, and although the governor suggested in the enacted budget that districts could use these funds for technology and instructional materials, they are unrestricted in nature and could be used to meet the district's minimum reserve. The effect of doing so is shown in the table below.

FCMAT MYFP Including Use of Fund 17 Amounts for Instructional Materials and Technology to Meet the Minimum Reserve

Unrestricted — FCMAT		2016-17		2017-18		2018-19
Beginning Fund Balance	$	1,011,801	$	291,776	$	(682,162)
Revenue	$	11,091,362	$	11,002,944	$	11,237,916
Expenses		(10,429,324)		(10,350,182)		(10,627,543)
Excess / (Deficiency) before Other Sources & Uses	$	662,037	$	652,762	$	610,374
Interfund Transfers In	$	620,176	$	148,505	$	107,275
Interfund Transfers Out		(461,301)		(166,989)		(166,989)
Contributions		(1,540,937)		(1,608,216)		(1,662,517)
Total Other Financing Sources, Uses & Contributions	$	(1,382,062)	$	(1,626,700)	$	(1,722,231)
Net Increase/(Decrease) in Fund Balance	$	(720,025)	$	(973,939)	$	(1,111,857)
Ending Fund Balance	$	291,776	$	(682,162)	$	(1,794,019)
		2.34%		-5.37%		-13.76%
Projected Balances Reserved in Fund 17	$	939,898	$	939,898	$	939,898
Projected Balances Reserved in Fund 17 - Assigned to Technology/IM		498,116		498,116		498,116
Ending Fund Balance-Inclusive of fund 17 balances	$	717,989	$	755,852	$	(356,006)
Unrestricted Reserve %		5.29%		5.81%		-2.67%
4% Minimum Reserve Requirement	$	542,682	$	520,738	$	532,497
Excess/(Shortfall) in Unrestricted Resources after Designations	$	175,307	$	235,113	$	(888,503)

It is important to recognize that this source of funds is one-time and does not eliminate the district's ongoing structural deficit.

Uncertain One-Time Funds

FCMAT omitted the $184,710 budgeted for the one-time discretionary block grant because it is subject to reduction, and did not recognize proceeds for the recently approved bus grant because the award amount has yet to be determined. The adjustments of $184,710 to Other State Revenue for the one-time discretionary block grant and of $90,000 to Other Local Revenue for the additional bus grant would improve the unrestricted MYFP if the amounts are received. The effect of these two one-time revenue sources on the unrestricted ending fund balances is shown in the table below.

FCMAT MYFP with Uncertain One-Time Funds Included

Unrestricted — FCMAT	2016-17	2017-18	2018-19
Beginning Fund Balance	**$ 1,011,801**	**$ 566,486**	**$ (407,452)**
Revenue	$ 11,366,072	$ 11,002,944	$ 11,237,916
Expenses	(10,429,324)	(10,350,182)	(10,627,543)
Excess / (Deficiency) before Other Sources & Uses	**$ 936,747**	**$ 652,762**	**$ 610,374**
Interfund Transfers In	$ 620,176	$ 148,505	$ 107,275
Interfund Transfers Out	(461,301)	(166,989)	(166,989)
Contributions	(1,540,937)	(1,608,216)	(1,662,517)
Total Other Financing Sources, Uses & Contributions	**$ (1,382,062)**	**$ (1,626,700)**	**$ (1,722,231)**
Net Increase/(Decrease) in Fund Balance	**$ (445,315)**	**$ (973,939)**	**$ (1,111,857)**
Ending Fund Balance	**$ 566,486**	**$ (407,452)**	**$ (1,519,309)**
	4.54%	-3.21%	-11.65%
Projected Balances Reserved in Fund 17	$ 939,898	$ 939,898	$ 939,898
Projected Balances Reserved in Fund 17 - Assigned to Technology/IM		-	-
Ending Fund Balance-Inclusive of fund 17 balances	**$ 1,506,384**	**$ 532,446**	**$ (579,412)**
Unrestricted Reserve %	**11.10%**	**4.09%**	**-4.35%**
4% Minimum Reserve Requirement	$ 542,682	$ 520,738	$ 532,497
Excess/(Shortfall) in Unrestricted Resources after Designations	**$ 963,702**	**$ 11,708**	**$ (1,111,909)**

The deficit shown in 2016-17 reduces to $(445,315) if the district receives $184,710 in Other State Revenue for the one-time discretionary block grant and $90,000 in Other Local Revenue for the additional bus grant; however, the structural deficit and thus the deficits in subsequent years remain unchanged, as does the district's inability to meet the minimum reserve requirements in 2018-19.

Educational Programs

The district has a sizable career and alternative education (CAE) (formerly regional occupational program) in place for which there is no ongoing funding source. The district received its final allocation of regional occupational program (ROP) funding in fiscal year 2015-16, $198,385 of which was unexpended and carried over into the 2016-17 fiscal year. These funds will pay the salaries and benefits of ROP and career technical education (CTE) staff in 2016-17 and will be fully depleted during the 2016-17 fiscal year.

The district received $174,140 in CTE incentive grant funding for the 2015-16 fiscal year, which was carried forward to the 2016-17 fiscal year. This is a three-year grant program, but funding for

2016-17 and 2017-18 has not yet been awarded and therefore could not be verified. FCMAT's projection includes unchanged funding.

The district did not direct the first round of CTE funding to support the ongoing salary and benefit costs of the CAE program; rather, these funds were budgeted for capital outlay and equipment purchases for the culinary arts program. FCMAT left allocations in this resource budgeted to object codes 4XXX-6XXX in the 2016-17 budget, then cleared the $147,028 budgeted under object code 6XXX from the subsequent years' projections, allowing the funds to fall to fund balance. Reallocating these proceeds toward the program's salary and benefit costs would reduce the deficit in the general fund unrestricted resources by $146,431 in 2017-18 and $145,800 in 2018-19.

The table below shows the effect of this change on the unrestricted MYFP.

FCMAT MYFP Including use of CTE Grant Funding for Salaries and Benefits

Unrestricted - FCMAT		2016-17		2017-18		2018-19
Beginning Fund Balance	$	**1,011,801**	$	**291,776**	$	**(535,731)**
Revenue	$	11,091,362	$	11,002,944	$	11,237,916
Expenses		(10,429,324)		(10,203,751)		(10,481,743)
Excess / (Deficiency) before Other Sources & Uses	$	**662,037**	$	**799,193**	$	**756,174**
Interfund Transfers In	$	620,176	$	148,505	$	107,275
Interfund Transfers Out		(461,301)		(166,989)		(166,989)
Contributions		(1,540,937)		(1,608,216)		(1,662,517)
Total Other Financing Sources, Uses & Contributions	$	**(1,382,062)**	$	**(1,626,700)**	$	**(1,722,231)**
Net Increase/(Decrease) in Fund Balance	$	(720,025)	$	(827,508)	$	(966,057)
Ending Fund Balance	$	**291,776**	$	**(535,731)**	$	**(1,501,788)**
		2.34%		**-4.22%**		**-11.52%**
Projected Balances Reserved in Fund 17	$	939,898	$	939,898	$	939,898
Projected Balances Reserved in Fund 17 - Assigned to Technology/IM						
Ending Fund Balance-Inclusive of fund 17 balances	$	**1,231,674**	$	**404,167**	$	**(561,891)**
Unrestricted Reserve %		**9.08%**		**3.10%**		**-4.22%**
4% Minimum Reserve Requirement	$	542,682	$	520,738	$	532,497
Excess/(Shortfall) in Unrestricted Resources after Designations	$	**688,992**	$	**(116,571)**	$	**(1,094,388)**

The CTE program requires matching funds in the following ratios, respectively, in each fiscal year of the projection: 1-to-1, 1.5-to-1 and 2-to-1. If the district is awarded $174,140 each year, it would have to spend at total of at least $348,280, $435,350 and $522,420 on the program, respectively, each year. The district has budgeted $1,075,265 in 2016-17 for ROP, CTE and agricultural ranch programs; this significantly exceeds program funding and required matching amounts. This problem is compounded by the fact that the funding sources do not continue after the third year. The district must carefully monitor these programs' expenditures to ensure it accounts for all expenditures and complies with funding conditions, and at the same time carefully avoid overspending that will increase dependency on the unrestricted general fund. In addition, the district will be required to identify a new funding source for the program or reduce and/or eliminate programs once the grant funding expires.

The district's agricultural ranch program is fully funded using unrestricted funds. For the 2016-17 fiscal year, this program requires approximately $88,070 from the general fund. Expenditures for the ROP/CTE and agricultural ranch programs are a significant factor in the district's rapidly eroding fiscal condition. It would benefit the district to review these programs in depth and consider them for reductions.

Class Size and Section Offerings

The district's class sizes also contribute to its fiscal challenge. FCMAT reviewed the enrollment and master schedules as of August 2016 and noted that average class sizes, based on enrollment and the number of sections offered, are often low. This is compounded by the fact that Article XI of the collective bargaining agreement with the Sonora Union High School District Federation of Teachers, effective 2015-16 through 2017-18, includes class size average goals for each subject.

Class Size Analysis

Subject	# of Sections	Total Enrollment	Average Class Size	Contract Goal	Difference Per Class
Agriculture	5	79	15.80	22	6.20
Business	30	557	18.57	28	9.43
English	36	1028	28.56	30	1.44
Fine Arts					
Music/Band	7	167	23.86	Open	
Arts/Crafts	13	316	24.31	30	5.69
Drama	1	34	34.00	30	-4.00
Foreign Language	13	386	29.69	30	0.31
Industrial Arts	8	142	17.75	22	4.25
Math	33	814	24.67	32	7.33
Physical Education	13	539	41.46	35	-6.46
Science	21	563	26.81	28	1.19
Social Science	27	979	36.26	32	-4.26
Cassina HS	14	222	15.86	20	4.14

It is essential that school districts have the correct staffing for the courses offered, based on established goals, and that they monitor, identify and adjust staffing based on student population. Master schedules need to be established long before the start of the school year, based on known student populations and projected class sizes. This is even more important when a district is in declining enrollment. At the time of FCMAT's fieldwork, the district had not yet finalized its master schedule for the 2016-17 school year. FCMAT understands the challenges of recruiting and retaining highly qualified teachers, especially in an environment of uncertainty. At the same time, it is essential that the district staff conservatively based on the most accurate projections it can achieve, and that it be prepared to make what may be difficult staffing decisions, preferably well in advance of the start of the school year, to avert financial insolvency.

FCMAT's enrollment projections indicate that the district's enrollment may remain relatively unchanged over the next few years (barring any significant demographic changes); however, the district needs to plan now for potential staffing reductions for 2017-18 and 2018-19 to correct current overstaffing, and establish seniority lists in preparation for this.

Indicators of Risk or Potential Insolvency, and Fiscal Health Risk Analysis

FCMAT has identified the 10 most common predictors of a school district needing intervention, as follows:

Indicators of Risk or Potential Insolvency

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

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

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

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

5. **Limited Budget Monitoring**
   a. Inattention to county office of education (COE) information, analysis and oversight of the budget, including a lack of understanding of AB 1200
   b. Lack of control and monitoring of total compensation as a percentage of total expenses
   c. Actual expenditures not in line with the most current budget

d. Failure to reconcile the general ledger balance sheet accounts regularly, particularly receivables and payables

e. Lack of internal controls

f. Lack of control and monitoring of contributions to restricted programs

g. Consistently failing to update budget assumptions

6. Lack of Data Accuracy, Collection, and Reporting

a. Inability to adequately collect, assess and report student data via the California Pupil Achievement Data System (CALPADS)

b. Consistently poor data quality

c. Data not used to inform decision making and the LCAP

d. Ignoring audit exceptions related to data collection and reporting

e. Limited access to timely personnel, payroll, budget control data and reports

f. Failure to accurately identify students eligible for free and reduced-price meals, English learners, and foster youth, in accord with LCFF and LCAP requirements

7. Human Resources Issues

a. Poor or limited use of position control, and **lack of integration with payroll and financial system**

b. Unauthorized hiring

c. Overstaffing

d. Large numbers of staff working out of assignment

e. Administrators who consistently crisis manage

f. Lack of professional development for all staff

8. Inattention to and/or High Levels of Debt

a. High levels of non-voter-approved debt (COPs, bridge financing, etc.)

b. Inattention to unfunded liabilities

c. Not conforming to GASB 68 requirements to recognize and report the district's proportionate share of net liability for pension programs

d. Debt service and/or pay as you go as a percentage of general fund expenditures is out of control

e. Parcel taxes allocated and used for ongoing expenditures

9. Cash Monitoring and Accounting Deficiencies

a. Lack of monitoring of cash

b. Lack of a plan for short-term cash flow needs

c. Inability to balance cash

d. Not informing the board of cash position regularly, and not understanding and communicating to the board and superintendent that cash and fund balance are not the same thing

10. Related Issues of Concern

a. Not understanding the connection between budget and program staff as it relates to the LCAP

b. Misunderstanding the effect of the cost of living adjustment (COLA) in the LCFF era

c. Inattention to, lack of cooperation with, and inadequate monitoring of charter schools for which the district or county office is the authorizer

d. Consistently low-performing schools and an inability to close the achievement gap

e. Chronically overestimating revenues and underestimating staffing costs

f. Inability to adequately explain the concept and impact of the GAP percentage factor to the board, bargaining members, and other constituents

The Sonora Union High School District is experiencing the indicators listed in bold above. The specifics of these conditions are noted in the Fiscal Health Risk Analysis that follows.

Fiscal Health Risk Analysis

Key Fiscal Indicators for K-12 Districts

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

The Fiscal Health Risk Analysis should be viewed as a snapshot in time; it uses the district's 2016-17 adopted budget as its baseline. Any evaluation of financial data or other organizational issues have inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment; cost-of-living adjustments; forecasts for utilities, supplies and equipment; changing economic conditions at the state, federal and local levels; and changes in organization or key leadership positions.

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

Each of the 20 key indicators below contains several questions. The response given to each key indicator (Yes, No, or N/A) is often, but not always, the same as that given to a simple majority of its constituent questions.

Items to which FCMAT responds with a "No" include an explanation, unless the issue is addressed earlier in this report. FCMAT has also provided additional information for some items even though they were answered with a "Yes" or "N/A."

Although this assessment may not indicate fully that the district may be in fiscal crisis, it is not the only measure of fiscal risk. A district can meet many of the criteria but still find itself in fiscal crisis if spending is not controlled.

Is the district's fiscal health acceptable in the following areas?

1. Deficit Spending	**No**
Is the district avoiding deficit spending in the current year?	**No**
Is the district avoiding deficit spending in the two subsequent fiscal years?	**No**
Has the district decreased or eliminated deficit spending over the past two fiscal years?	**No**
Is deficit spending covered by fund balance, ongoing revenues, or expenditure reductions?	**Yes — Fund Balance**
Has the board approved a plan to eliminate deficit spending?	**No**
2. Fund Balance	**No**
Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty?	**No**
Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions?	**No**

Does the fund balance include any designated reserves for unfunded liabilities or one-time costs above the recommended reserve level? **No**

The district has not reduced expenditures, and it has a history of reallocating to other new expenditure priorities its savings that were initially identified to help offset shortfalls.

3. Reserve for Economic Uncertainty **No**

Is the district able to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends? **No**

Projections indicate that the district is depending on reserves outside of the unrestricted general fund to meet minimum reserve requirements.

Does the district have additional reserves in Fund 17, Special Reserve for Other Than Capital Projects? **Yes-but**

The district has funds set aside in Fund 17, Special Reserve for Other than Capital Outlay Fund. However, the funds designated to help meet its minimum reserve requirements are insufficient to bring it into compliance. If, balances currently designated for instructional materials and technology are redesignated to reserves, they will be entirely used up by 2018-19 as a result of deficit spending.

Without spending reductions in the unrestricted general fund, the district will need to redesignate the balances in fund 17 to meeting its required minimum reserve.

If not, does the district's multiyear financial projection include a plan to restore the reserve for economic uncertainty? **No**

4. Enrollment and Attendance **No**

Has the district's enrollment been increasing or stable for multiple years? **No**

Is the district's enrollment projection updated at least semiannually? **Yes**

Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends? **No**

Does the district analyze enrollment and average daily attendance (ADA) data? **Yes**

Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes? **Yes**

Has the district implemented any attendance programs to increase ADA? **No**

Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly? **Unverified**

Have approved charter schools had little or no impact on the district's student enrollment? **No**

Approximately 30 students who reside in the district attend county-operated charter schools. There is also discussion of a possible new charter petition. The district is not prepared to authorize and implement oversight of a new charter school.

Does the district have a board policy that attempts to reduce the effect that transfers out of the district have on the district's enrollment? **Yes**

Did the district certify its CALPADS Fall 1 submission by the required deadline? **Yes**

A steady decline over the past five years has resulted in a total enrollment decrease of 20%; however, the district has not made sufficient corresponding reductions in staffing.

The district prepares basic enrollment and ADA projections for its LCFF calculation and annual budget. The independent enrollment and ADA projection prepared by FCMAT (provided earlier in this report) indicates that the district's enrollment will likely remain relatively unchanged, absent any significant demographic changes.

5. Debt **Yes**

Does the district have a recent actuarial study and a plan to set funds aside for unfunded liabilities? **Yes**

An actuarial report for the district's unfunded OPEB liability was prepared in July 2013. The estimated actuarial accrued liability and unfunded actuarial accrued liability for these benefits as of July 1, 2013 was $1,007,349, with an annual required contribution (ARC) cost of $92,890. Net OPEB assets as of June 30, 2014 were $344,649. The district makes an annual transfer into fund 20 from the general fund unrestricted resources and transfers back amounts sufficient for the current year pay-as-you-go costs.

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

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

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

Is the district conforming to GASB 68 requirements by recognizing and reporting its proportionate share of net liability for pension programs? **Yes**

The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information state and local governmental employers provide about their own and other entities' financial support for pensions. GASB 68 became effective for fiscal years beginning after June 15, 2014.

GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, it identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their present actuarial value, and attribute that present value to periods of employee service. The district accounts for its proportionate share of the net liability for pension programs in its general fund annually.

6. Cash Monitoring **No**

Can the district manage its cash in all funds without interfund borrowing? **No**

If interfund borrowing is occurring, does the district repay the funds within the statutory period in accordance with Education Code Section 42603? **Yes**

Does the district forecast its cash receipts and disbursements and verify them at least monthly to ensure that cash flow needs are known with plenty of notice? **No**

The district projects cash flow, including cash receipts, at interim reporting periods rather than monthly.

Does the district have a plan to address short-term cash flow needs? **Yes**

Are cash balances reconciled to bank statements monthly? **Yes**

The district relies on interfund borrowing in multiple funds. The district has additional funds available in fund 17 (Special Reserve for Non-Capital Outlay), Fund 20 (Special Reserve for Post-Employment Benefits), Fund 21 (Building) and Fund 40 (Special Reserve for Capital Outlay) for interfund borrowing if needed.

The district does not issue tax and revenue anticipation notes (TRANS) for temporary borrowing through the county TRANS pool because it has high cash balances in other funds. The district will need to carefully monitor cash balances in all funds because these will decline and likely be exhausted in the near future based on projected spending. The district has discussed issuing TRANS; however, this may not be an option for it given its current fiscal condition.

Balances included in the district's 2016-17 adopted budget are presented in the following table.

Interfund Borrowing		
Fund-Resource	9310 Due From Other Funds	9610 Due To Other Funds
01-0000 Unrestricted	75,985.72	(8,856.33)
01-0017 Unrestricted-Tech/IM	19,870.96	-
01-0029 Unrestricted-OPEB	7,510.74	-
11-0000 Adult Education		(10,557.73)
11-6391 AE Block Grant		(3,988.92)
13 Cafeteria	10,000.00	(22,614.76)
17-0000 SR-Reserve	10,000.00	
17-0017 SR-Tech/IM		(19,870.96)
20 OPEB		(7,510.74)
40-0092 RDA		(49,967.98)
	123,367.42	(123,367.42)

7. Bargaining Agreements — Yes

Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years? — **No**

Did the district conduct a pre-settlement analysis, including multiyear projections, identifying ongoing revenue sources or expenditure reductions to support the agreement, as well as the long-term effects on the district? — **Yes**

Did the district correctly identify the related costs above the COLA, (i.e. statutory benefits, step and column)? — **Yes**

Did the district address budget reductions necessary to sustain the total compensation increase, including a board-adopted plan? — **Yes**

Did the superintendent and CBO certify the agreement prior to ratification? — **Yes**

Is the governing board's action consistent with the superintendent's/CBO's certification? — **Yes**

Did the district meet the public disclosure requirements, including disclosure of the costs associated with a tentative collective bargaining agreement, before it became binding on the district? — **Yes**

The district agreed to the following salary increases in the years indicated below:

2015-16

Certificated employees' salary increase: 3% on schedule, plus two additional work days per year for an additional increase of approximately 1%.

Classified employees' salary increase: 3% on schedule.

The source of proceeds indicated in the disclosure of collective bargaining agreement includes increased LCFF revenue resulting from more incoming freshman students and fewer outgoing senior students, combined with reduction of total salaries and benefits as a result of

retirements and attrition. The district's projection included savings as a result of not being required to transfer in-lieu taxes to Mountain Oaks Charter School on an ongoing basis; however, FCMAT's projections indicate that the district is not consistently in or out of basic aid status and will have to transfer in-lieu taxes in 2016-17 and subsequent years. These excess proceeds were one-time funds based on a lower level property tax collections in 2014-15.

2014-15

Certificated employees' salary increase: 2% on schedule, plus a $451.40 one-time increase in the district-paid medical benefit cap for the year.

Classified employees' salary increase: 2% on schedule, plus differential pay for split positions

2013-14

Certificated employees' salary increase: 3.25% on schedule, plus $15,000 middle college coordinator stipend

Classified employees' salary increase: 3.25% on schedule

The district projected that salary and benefit increases would be supported by attrition savings and unassigned fund balance; however, because these are not ongoing sources of revenue, this contributes to the deterioration of the district's fiscal position.

8. General Fund — No

Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average? — **Yes**

The district's unrestricted salary and benefit costs were 78.46% of the total unrestricted budget.

Does the district ensure that only ongoing restricted dollars pay for permanent staff? — **No**

Does the budget include reductions in expenditures proportionate to one-time revenue sources, such as parcel taxes, that will terminate in the current or two subsequent fiscal years? — **No**

Does the district ensure that the parcel tax does not pay for ongoing expenditures? — **N/A**

Does the district ensure that litigation and/or settlements are minimized? — **Yes**

Although the percentage of its general fund unrestricted budget allocated to salaries and benefits is lower than the statewide average, the district has not reduced programs and/or staffing as program funding, such as ROP, has diminished or been eliminated. This increases the demand on general fund unrestricted resources.

9. Encroachment

No

Is the district aware of the contributions to restricted programs in the current year? (Identify cost, programs and funds) **Yes**

Does the district have a reasonable plan to address increased encroachment trends? **No**

Does the district manage encroachment in all funds including the cafeteria fund? **No**

The district's projections include contributions from unrestricted resources to restricted resources as follows:

Contributions from Unrestricted Revenues

		2016 - 17	2017 - 18	2018 - 19
0000	Unrestricted	($1,348,245.82)	($1,621,678.26)	($1,684,177.08)
0909	ROP	($198,385.24)	$0.00	$0.00
1400	EPA	$5,694.00	$13,461.97	$21,660.26
3010	Title I	$39,957.06	$67,258.74	$77,512.76
4035	Title II	$768.00	$1,663.39	$2,579.61
6500	Special Ed.	$858,565.00	$880,499.74	$903,303.04
8150	Routine Rep. & Maint.	$641,647.00	$658,794.42	$679,121.41

Contributions to the district's Title I program continue to increase with increases in salaries and benefits. FCMAT did not reduce amounts related to expenditures in object 4XXX-6XXX in the two subsequent years because most are budgeted in services and direct support charges, which often are tied to salaries and benefits of the unrestricted resources and service contract commitments. To relieve the general fund of this encroachment, the district will need to review carefully the expenditures of this resource and make appropriate expenditure reductions, including potential reductions in staffing for particular services.

Contributions to the district's special education program continue to increase with increases in salaries and benefits. Under LCFF, transfers of entitlement for special education ADA account for the base special education program, so it is natural to recognize a contribution into resource 6500. The district will need to conduct an in-depth assessment of its special education services to ensure that it is providing appropriate levels of service in the most cost-effective manner.

Contributions to the district's routine repair and major maintenance resource exceed the required amount. Routine repair and major maintenance contributions are 5.15%, 5.4%, 5.45% of total expenditures and transfers out in each respective year

of the MYFP. Although this is not uncommon, the district should review program expenditures and staffing levels to ensure they are consistent with industry standards.

Fiscal Year 2016-17 Expected Contributions:

- Contributions to adult education: $35,000
- Contributions to cafeteria fund: $66,989
- Contributions to deferred maintenance fund: $100,000
- Contributions to pupil transportation: $25,000
- Contributions to special reserve for OPEB: $100,000

10. Management Information Systems — Yes

Is the district's financial data accurate and timely?	**Yes**
Are the mandated county and state reports filed in a timely manner?	**Yes**
Are key fiscal reports — including those on personnel, payroll and budget — accessible, timely, and understandable?	**Yes**
Is the district on the same financial system as the county?	**Yes**
If the district is on a separate financial system, is there an automated interface with the financial system maintained by the county?	**N/A**
Is the district able to accurately identify students who are eligible for free and reduced-price meals, English learners, and foster youth, in accord with Local Control Funding Formula (LCFF) and Local Control Accountability Plan (LCAP) requirements?	**Yes**
Is the district able to collect, assess, and report student data in the California Longitudinal Pupil Achievement Data System (CALPADS)?	**Yes**

11. Position Control and Human Resources — Yes

Does the district maintain and use an effective and reliable position control system that tracks personnel allocations and expenditures?	**Yes**
Is position control integrated with payroll and the financial system?	**No**
Does the district control unauthorized hiring?	**Yes**
Is the district able to control overstaffing?	**No**
Are the appropriate levels of internal controls (i.e., checks and balances) in place between the business and personnel departments to prevent fraudulent activity?	**Yes**
Is position control reconciled against the budget during the fiscal year?	**Yes**
Does the district offer or ensure that staff attend professional development regarding financial management and budget?	**Yes**

Like most small districts, the Sonora Union High School District does not use the integrated position control system available in the county office of education's Quintessential School Systems (QSS) and/or QCC financial system. It uses Microsoft Excel and Filemaker Pro databases to track positions, calculate and

budget salary and benefit costs, and calculate salary schedule step and column costs. FCMAT reviewed the content of these reports and found them to be exceptionally accurate. However, they are complex and may be challenging for other or new staff members to manage. The district can gain greater efficiencies by changing to the position control system offered in the county office's financial system.

12. Budget Development and Adoption — Yes

Is a budget calendar used that contains statutory due dates and the major budget development milestones?	**Yes**
Are clear processes and policies in place to analyze resources and allocations to ensure they align with strategic planning objectives and that the budget reflects the LEA's priorities and LCAP?	**Yes**
Is the LCFF correctly calculated and understood?	**No**
Are projections for ADA, enrollment, revenue and unduplicated pupil count accurate and reasonable?	**Yes**
Is the district decreasing deficit spending and maintaining adequate reserves and fund balance when compared with the prior year?	**No**
Has the district ensured that the LCAP is incorporated in the budget?	**Yes**
Is the budget developed using a zero-based method rather than a rollover budget?	**No**
Does the district use position control data for budget development?	**Yes**
Does the budget development process include input from staff, administrators, board and community, as well as the budget advisory committee (if there is one)?	**Yes**
Are the LCAP and the budget adopted within statutory timelines established by Education Code Section 42103, and are the documents filed with the county superintendent of schools no later than five days after adoption, or by July 1, whichever occurs first?	**Yes**

The district's 2014-15 audit report contains findings regarding the accuracy of unduplicated pupil counts of students who are eligible for free and reduced-price meals. In addition, students who were direct certified as eligible for free and reduced-price meals were reported incorrectly as paying students in the California Longitudinal Pupil Achievement Data System (CALPADS).

13. Multiyear Projections — Yes

Has the district developed multiyear projections that have reasonable assumptions?	**Yes**
Are projected fund balance reserves disclosed and based on the most reasonable and accurate information available?	**Yes**
At a minimum, are the multiyear projections compiled at budget adoption and at the time of interim reports?	**Yes**

For the purpose of calculating multiyear projections, is the district using the latest LCFF gap closure percentages that show the amount of funding necessary to maintain purchasing power for the LCFF statewide?	Yes
Is the LCFF target for each year recalculated based on the grade span ADA, and then compared to the adjusted prior year funding, so that the funding gap would then be reduced by the funding gap percentage for the given year?	Yes

14. Budget Monitoring and Updates — Yes

Are budget assumptions updated throughout the year as updated information becomes available?	Yes
Are actual revenue and expenses in line with the most current budget?	Yes
Are budget revisions completed in a timely manner?	Yes
Does the district openly discuss the impact of budget revisions at the board level?	Yes
Does the district abide by Education Code 42127(h) by informing the board of education and the public, within 45 days of enactment of the state budget, of any changes in the state budget that would affect the adopted budget?	Yes
Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified?	Yes
Has the district's long-term debt decreased from the prior fiscal year?	Yes
Are contributions to restricted programs controlled and monitored?	Questionable
Has the district identified the repayment sources for long-term debt or non-voter-approved debt (e.g. certificates of participation, capital leases)?	N/A
Does the district's financial system have a hard-coded warning regarding insufficient funds for requisitions and purchase orders?	Yes
Does the district encumber salaries and benefits?	Yes
Are the balance sheet accounts in the general ledger reconciled regularly?	Yes
Does the district complete and file its interim budget reports within the statutory deadlines established by Education Code Section 42130 and following, in a format or on forms prescribed by the Superintendent of Public Instruction (SPI), and ensure that they are based on standards and criteria for fiscal stability?	Yes

15. Retiree Health Benefits — Yes

Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements?	Yes
Does the district have a plan for addressing the retiree benefits liabilities?	Pay as you Go
Has the district conducted a re-enrollment process to identify eligible retirees?	Yes

16. Leadership/Stability — Yes

Does the district have a superintendent and/or chief business official who has been with the district more than two years?	**Yes**
Does the governing board adopt and revise understandable and timely policies and support the administration to ensure implementation?	**Yes**
Does the superintendent adopt and revise understandable and timely administrative regulations and ensure that adopted board policies and approved administrative regulations are communicated to staff and followed?	**Yes**
Does the governing board refrain from micromanaging district administration and staff?	**Yes**

Although historically there has been stability in both the superintendent and CBO positions, the current superintendent has been in the position less than two years and the current CBO has announced plans to retire on December 31, 2016.

17. Charter Schools — N/A

Has the district identified a specific employee to be responsible for ensuring that adequate oversight occurs for all approved charter schools?

Has the charter school submitted the mandated financial reports on time?

Has the charter school commissioned an independent audit?

Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency?

Is the district monitoring and reporting the current status to the board to ensure that an informed decision can be made regarding the reauthorization of the charter?

The district has not authorized a charter school, but there have been discussions regarding the possibility of a charter petition being submitted to the district by an interested party. It would benefit the district to prepare in advance for a possible future petition by gaining a thorough understanding of the Charter School Act and developing a standard memorandum of understanding that specifies key elements the district would request of a charter school operator to ensure reasonable and adequate oversight of its operations, programs and financial positions.

18. Internal Controls and Annual Independent Audit Report — Yes

Does the district implement appropriate measures to discourage and detect fraud?	**Yes**
Did the district receive an independent audit report without material findings?	**Yes**
Can the audit findings be addressed without affecting the district's fiscal health?	**Yes**
Has the independent audit report been completed and presented within the statutory timeline?	**Yes**
Are audit findings and recommendations reviewed with the board?	**Yes**

Did the audit report meet both GAAP and GASB standards?	**Yes**

19. Facilities — Yes

Has the district passed a general obligation bond?	**Yes**
Has the district met the audit and reporting requirements of Proposition 39?	**Yes**
Is the district participating in the state's School Facilities Program?	**Yes**
Does the district have sufficient personnel to properly track and account for facility-related projects?	**Yes**
Has the district met the reporting requirements of the Williams Act?	**Yes**
Is the district properly accounting for the 3% Routine Repair and Maintenance Account requirement at the time of budget adoption? *	**Yes**
Does the district prioritize facility issues when adopting a budget?	**Yes**
If needed, does the district have surplus property that may be sold or used for lease revenues?	**Yes**
If needed, are there other potential statutory options?	
• **Joint Use: Can the district enter into a joint use agreement with some entities without declaring the property surplus and without bidding?**	**Undetermined**
• **Joint Occupancy: The Education Code provides for a joint venture that can authorize private development of district property that will result in some educational use.**	**Undetermined**
Does the district have a long-range facilities master plan that was completed or updated in the last two years?	**No**

The district has a number of facility projects under way, funded by a combination of proceeds from the sale of a bond, state funding, and district set-asides. Projects include modernization of facilities, track and field upgrades, security camera installations, telephone system upgrades, alarm system integration, and construction of a large aquatic center.

Significant and unexpected cost overruns have required additional contributions or redesignation of district funds previously set aside for other projects or purposes. FCMAT reviewed the balances and the schedule of designated uses for the balances of all funds. Several funds will likely be completely depleted before completion of anticipated projects. The district is relying on other unconfirmed sources including proposition 39 funding for energy efficiency projects to pay for specific expenditures related to energy efficiency that contribute to cost overruns.

The district does not have a comprehensive facilities master plan and/or a long-range deferred maintenance plan; rather, repair and maintenance projects are prioritized and managed informally based on what is desired. Facility improvement needs and projected costs exceed remaining balances designated in other funds. For example, the fire alarm system upgrade for facilities that were not updated as part of recent facilities modernization have cost projections that significantly exceed original estimates.

The district is scheduled to receive funding for the Proposition 39, California Clean Energy Jobs Act, attributed to the 2014-15 and 2015-16 fiscal years ($105,756 and 105,788, respectively); however these funds have not yet been received and are not included in the district's budget. The district anticipates attributing specific qualified expenditures made during the 2014-15 and 2015-16 fiscal years from bond proceeds in Fund 21, building fund, and reallocating them to resource 6230 California Clean Energy Jobs Act if and when the proceeds are received. The district should consult with the CDE to verify the appropriate accounting procedure to reallocate these expenditures.

If the district receives the proceeds noted above, construction costs in excess of remaining bond funds accounted for in Fund 40 may be reallocated to Fund 21, and the district may be able to redirect approximately $211,544 in funds currently reserved for construction in Fund 40 back to Fund 17, from which they were originally sourced.

The district has approximately $320,000 set aside in Fund 40 for future facilities improvements for its agricultural farm program. The district should delay any unnecessary new projects until existing projects have been completed and closed out to ensure that no further encroachment on the general fund becomes necessary.

*Although the requirement for a district to set aside monies for deferred maintenance has been eliminated as part of LCFF, the requirement to set aside funds for routine repair and maintenance has not. Education Code 17070.75 requires a school district to deposit 3% of its total general fund expenditures into its routine restricted maintenance account (RRMA), for the sole purpose of maintaining school facilities in good repair. Education Code 17070.766 provided a temporary exemption to this requirement and allows districts to deposit 1% (the exemption expired on June 30, 2015). The requirement applied only to LEAs that participate in the State's School Facility Program.

20. General Ledger — Yes

Does the district record all financial activity for all programs accurately and in a timely manner, ensuring that work is properly supervised and reviewed?	**Yes**
Has the district closed the general ledger (books) within the time prescribed by the county office of education?	**Yes**
Does the district follow a year-end closing schedule?	**Yes**
Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year?	**Yes**
Does the district adjust prior year accruals if the amounts actually received (A/R) or paid (A/P) are greater or less than the amounts accrued?	**Yes**
Does the district reconcile all suspense accounts, including payroll, at the close of the fiscal year?	**Yes**

Recommendations

The district should:

1. Prepare an MYFP that isolates restricted and unrestricted resource details so that it can monitor the fiscal shortfall in the unrestricted resources and adjust expenditures accordingly.
2. Develop a detailed fiscal recovery plan that identifies specific ongoing expenditure reductions and projected unrestricted cost savings sufficient to ensure fiscal solvency in the current and two subsequent fiscal years.
3. Conduct a detailed review of its CTE program for the current and two subsequent fiscal years, and correctly allocate all expenditures attributable to this program to the restricted resource attributable to program funding, while ensuring that expenditures do not exceed program revenues. In fiscal year 2016-17, the district should ensure that unrestricted revenue from a carryover of ROP funding is applied to the CTE resource as part of the local match. The district should control expenditures for these programs to ensure they do not exceed program revenue and required local contributions.
4. Conduct a detailed review of its agricultural ranch program for the current and two subsequent fiscal years, and evaluate all costs associated with operating the program.
5. Develop master schedules for each school year during the preceding fiscal year, based on projected enrollment; update the schedules as estimates change.
6. Closely monitor class offerings and class sizes, and staff conservatively to prevent overstaffing.
7. Begin preparations now for the 2017-18 school year schedule, class offerings and staffing levels.
8. Establish and maintain seniority lists and prepare for staffing reductions in 2017-18.
9. Identify expenditure reductions sufficient to fully mitigate the structural deficit in unrestricted resources. Limit deficit spending in restricted resources to the extent of funding carryover and deferred revenues from prior fiscal years where possible. Carefully monitor programs that require contributions from the general fund unrestricted resource to ensure that each program incurs only actual and necessary expenditures.
10. Reassign all balances in Fund 17 toward its minimum reserve requirements for the current and two subsequent fiscal years until expenditure controls are implemented and ensured.
11. Monitor and adjust staffing levels in a timely manner to coincide with projected reductions in enrollment.

12. Assess its ADA and identify strategies for improving it.
13. Monitor cash receipts and cash flow monthly to ensure sufficient funds are available. If necessary, investigate the potential for borrowing cash using a TRAN.
14. Review programs that use restricted resources, including Title I and Title II, and create a plan to align expenditures with funding.
15. Conduct an in-depth review of its special education and transportation programs to determine if efficiencies and expenditure reductions are achievable.
16. Conduct an in-depth review of its routine and major maintenance and repair program and staffing to ensure they are consistent with industry standards.
17. Conduct an in-depth review of its adult education program and determine if transfers of funding are appropriate since this program's funding sources was eliminated with the transition to LCFF.
18. Conduct an in-depth review of its child nutrition program and identify areas of greater efficiency to eliminate cost overruns and reduce or eliminate dependence on the general fund.
19. Closely monitor its ongoing OPEB obligations to ensure that it sets aside sufficient funds each year.
20. Consider changing from manually-prepared position control databases and workbooks to the module available in QSS/QCC.
21. Carefully monitor its LCFF projections and its obligation to transfer in-lieu taxes to charter schools. Make use of FCMAT's free online help desk (www.fcmat.org/helpdesklandingpage/) if needed for support and answers to questions about LCFF calculations.
22. Develop a long-range facilities master plan and a short-range deferred maintenance plan that identifies all facilities projects, cost estimates, and potential funding sources and designations.
23. Refrain from starting any new unnecessary facilities projects until existing projects have been completed and closed out to ensure that no further encroachment on the general fund become necessary.
24. Consult with the California Department of Education to verify the appropriate accounting procedure to reallocate these expenditures.
25. If allowable, reallocate excess funds reserved in Fund 40 back to Fund 17.

Appendix

Study Agreement

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

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
July 11, 2016

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Tuolumne County Superintendent of Schools, hereinafter referred to as the COE, mutually agree as follows:

1. **BASIS OF AGREEMENT**

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

2. **SCOPE OF THE WORK**

A. Scope and Objectives of the Study

1. Review Sonora Union High School District's 2016-17 adopted budget and multiyear financial projection (MYFP) for the two subsequent fiscal years. The team will assess the district's budget and MYFP assumptions and provide recommendations for expenditure reductions and/or revenue increases to help the district eliminate its structural budget deficit and maintain financial solvency.

2. Prepare a fiscal health analysis using the 20 factors in FCMAT's Fiscal Health Risk Analysis tool, and identify the district's risk rating.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the COE to brief COE 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 COE 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 COE of significant findings and recommendations to that point.

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 COE's administration for review and comment.

6. Final Report - Electronic copies of the final report will be delivered to the COE's administration following completion of the review. The final report will be published on the FCMAT website. Printed copies are available from FCMAT upon request.

7. Follow-Up Support – If requested by the COE within six to 12 months after completion of the study, FCMAT will return to the COE at no cost to assess the COE's progress in implementing the recommendations included in the report. Progress in implementing the recommendations will be documented to the COE in a FCMAT management letter. FCMAT will work with the COE 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 the completion of the study.

3. PROJECT PERSONNEL

The study team will be supervised by Michael H. Fine, Chief Administrative Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also 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:

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A. $500.00 per day for each staff team member while on site, conducting fieldwork at other locations, 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 COE 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 COE's acceptance of the final report.

Based on the elements identified in section 2A, the total not-to-exceed cost of the study will be $12,000.

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

Payments for FCMAT services are payable to Kern County Superintendent of Schools - Administrative Agent.

5. RESPONSIBILITIES OF THE COE

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

B. The COE 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 COE 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 COE shall upload all requested documents.

C. The COE's administration will review a preliminary draft copy of the report resulting from the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The COE 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***
Preliminary Report Submitted:	***to be determined***
Final Report Submitted:	***to be determined***
Board Presentation:	***to be determined at a mutually agreed upon time***
Follow-Up Support:	***if requested***

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 COE and any other parties from which, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a preliminary draft report and a final report. Prior to completion of fieldwork, the COE 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 COE does not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its report and the COE will be responsible for the full costs. The COE 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 COE 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 COE. 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 COE in any manner without prior express written authorization from an officer of the COE.

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 COE, 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 Tuolumne County Superintendent of Schools named as additional insured, indicating applicable insurance coverages upon request.

10. HOLD HARMLESS

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

11. CONTACT PERSON

Contact person: Darlene Hodge
Telephone: (209) 536-2000
E-mail: dhodge@tcsos.us

Margie Bulkin 7/12/16

Margie Bulkin, Superintendent — Date
Tuolumne County Superintendent of Schools

Michael H. Fine — July 11, 2016

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

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