

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

Each of the 20 key indicators below contains several questions. The response given to each key indicator (Yes, No, or N/A) should be approximately the same as that given to a simple majority of its constituent questions.

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

Is the district’s fiscal health acceptable in the following areas?	Yes	No	N/A
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<b>1. Deficit Spending</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- |   |                          |                          |                          |
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| • Is the district avoiding deficit spending in the current year? . . . . .                            | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Is the district avoiding deficit spending in the two subsequent fiscal years? . . . . .             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Has the district decreased or eliminated deficit spending over the past two fiscal years? . . . . . | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Is deficit spending covered by fund balance, ongoing revenues, or expenditure reductions? . . . . . | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Has the board approved a plan to eliminate deficit spending?  |                          |                          |                          |

<b>2. Fund Balance</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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|---|--------------------------|--------------------------|--------------------------|
| • Is the district’s fund balance at or consistently above the recommended reserve for economic uncertainty? . . . . .                             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions? . . . . .                                       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does the fund balance include any designated reserves for unfunded liabilities or one-time costs above the recommended reserve level? . . . . . | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

<b>3. Reserve for Economic Uncertainty</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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| • 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? . . . . . | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does the district have additional reserves in Fund 17, Special Reserve for Other Than Capital Projects? . . . . .  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • If not, does the district’s multiyear financial projection include a plan to restore the reserve for economic uncertainty? . . . . .                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
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<b>4. Enrollment and Attendance</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Has the district's enrollment been increasing or stable for multiple years? . . . . .
- Is the district's enrollment projection updated at least semiannually? . . . . .
- Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends? . . . . .
- Does the district analyze enrollment and average daily attendance (ADA) data? . . . . .
- Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes? . . . . .
- Has the district implemented any attendance programs to increase ADA? . . . . .
- Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly? . . . . .
- Have approved charter schools had little or no impact on the district's student enrollment? . . . . .
- 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? . . . . .
- Did the district certify its CALPADS Fall 1 submission by the required deadline? . . . . .

<b>5. Debt</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Does the district have a recent actuarial study and a plan to set funds aside for unfunded liabilities? . . . . .
- Does the district maintain low levels of non-voter-approved debt (such as COPs, bridge financing, BANS, RANS and others)? . . . . .
- Is the district conforming to GASB 68 requirements by recognizing and reporting its proportionate share of net liability for pension programs? . . . . .

<b>6. Cash Monitoring</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Can the district manage its cash in all funds without interfund borrowing? . . . . .
- If interfund borrowing is occurring, does the district repay the funds within the statutory period in accordance with Education Code Section 42603? . . . . .
- 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?. . . . .
- Does the district have a plan to address short-term cash flow needs?. . . . .
- Are cash balances reconciled to bank statements monthly? . . . . .

<b>7. Bargaining Agreements</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years? . . . . .
- 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?. . . . .

Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
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- Did the district correctly identify the related costs above the COLA, (i.e. statutory benefits, step and column)? . . . . .
- Did the district address budget reductions necessary to sustain the total compensation increase, including a board-adopted plan? . . . . .
- Did the superintendent and CBO certify the agreement prior to ratification?. . . . .
- Is the governing board's action consistent with the superintendent's/CBO's certification? . . . . .
- Did the district meet the public disclosure requirements, including disclosure of the costs associated with a tentative collective bargaining agreement, before it becomes binding on the district?. . . . .

<b>8. General Fund</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average? . . . . .
- Is the district making sure that only ongoing restricted dollars pay for permanent staff? . . . . .
- 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? . . . . .
- Does the district ensure that parcel tax is not paying for ongoing expenditures? . . . . .
- Is the district ensuring that litigation and/or settlements are minimized? . . . . .

<b>9. Encroachment</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Is the district aware of the contributions to restricted programs in the current year? (Identify cost, programs and funds) . . . . .
- Does the district have a reasonable plan to address increased encroachment trends? . . . . .
- Does the district manage encroachment in all funds including the cafeteria fund?. . . . .

<b>10. Management Information Systems</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Is the district's financial data accurate and timely? . . . . .
- Are the mandated county and state reports filed in a timely manner? . . . . .
- Are key fiscal reports – including those on personnel, payroll and budget – accessible, timely, and understandable? . . . . .
- Is the district on the same financial system as the county? . . . . .
- If the district is on a separate financial system, is there an automated interface with the financial system maintained by the county? . . . . .
- 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? . . . . .
- Is the district able to collect, assess, and report student data in the California Pupil Achievement Data System (CALPADS)?. . . . .

Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
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<b>11. Position Control and Human Resources</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Does the district maintain and use an effective and reliable position control system that tracks personnel allocations and expenditures? . . . . .
- Is position control integrated with payroll and the financial system? . . . . .
- Does the district control unauthorized hiring? . . . . .
- Is the district able to control overstaffing? . . . . .
- Are the appropriate levels of internal controls (i.e., checks and balances) in place between the business and personnel departments to prevent fraudulent activity?. . . . .
- Is position control reconciled against the budget during the fiscal year? . . . . .
- Does the district offer or ensure that staff attend professional development regarding financial management and budget? . . . . .

<b>12. Budget Development and Adoption</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Is a budget calendar used that contains statutory due dates and the major budget development milestones? . . . . .
- Are there clear processes and policies in place to analyze resources and allocations to ensure that they align with strategic planning objectives and that the budget reflects the LEA's priorities and LCAP? . . . . .
- Is the LCFF correctly calculated and understood? . . . . .
- Are projections for ADA, enrollment, revenue and unduplicated pupil count accurate and reasonable? . . . . .
- Is the district decreasing deficit spending and maintaining adequate reserves and fund balance when compared with the prior year? . . . . .
- Has the district ensured that the LCAP is incorporated in the budget? . . . . .
- Is the budget developed using a zero-based method rather than being a rollover budget? . . . . .
- Does the district use position control data for budget development? . . . . .
- Does the budget development process include input from staff, administrators, board and community, as well as the budget advisory committee (if there is one)? . . . . .
- 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? . . . . .

<b>13. Multiyear Projections</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Has the district developed multiyear projections that have reasonable assumptions? . . . . .
- Are projected fund balance reserves disclosed and based on the most reasonable and accurate information available? . . . . .
- At a minimum, are the multiyear projections compiled at budget adoption and at the time of interim reports? . . . . .

Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
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- 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? . . . . .
- 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? . . . . .

14. Budget Monitoring and Updates	Yes	No	N/A
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- Are budget assumptions updated throughout the year as updated information becomes available? . . . . .
- Are actual revenue and expenses in line with the most current budget? . . . . .
- Are budget revisions completed in a timely manner? . . . . .
- Does the district openly discuss the impact of budget revisions at the board level? . . . . .
- Does the district abide by Education Code 42127(i)(4) 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? . . . . .
- Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified? . . . . .
- Has the district's long-term debt decreased from the prior fiscal year? . . . . .
- Are contributions to restricted programs controlled and monitored? . . . . .
- Has the district identified the repayment sources for long-term debt or non-voter-approved debt (e.g. certificates of participation, capital leases)? . . . . .
- Does the district's financial system have a hard-coded warning regarding insufficient funds for requisitions and purchase orders? . . . . .
- Does the district encumber salaries and benefits? . . . . .
- Are the balance sheet accounts in the general ledger reconciled regularly? . . . . .
- Does the district complete and file its interim budget reports within the statutory deadlines established by Education Code Section 42310 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? . . . . .

15. Retiree Health Benefits	Yes	No	N/A
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- Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements? . . . . .
- Does the district have a plan for addressing the retiree benefits liabilities? . . . . .
- Has the district conducted a re-enrollment process to identify eligible retirees? . . . . .

Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
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<b>16. Leadership/Stability</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Does the district have a superintendent and/or chief business official who has been with the district more than two years? . . . . .
- Does the governing board adopt and revise understandable and timely policies and support the administration to ensure implementation? . . . . .
- 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? . . . . .
- Does the governing board refrain from micromanaging district administration and staff? . . . . .

<b>17. Charter Schools</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- 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? . . . . .

<b>18. Internal Controls and Annual Independent Audit Report</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Does the district implement appropriate measures to discourage and detect fraud? . . . . .
- Did the district receive an independent audit report without material findings? . . . . .
- Can the audit findings be addressed without affecting the district's fiscal health? . . . . .
- Has the independent audit report been completed and presented within the statutory timeline? . . . . .
- Are audit findings and recommendations reviewed with the board? . . . . .
- Did the audit report meet both GAAP and GASB standards? . . . . .

<b>19. Facilities</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Has the district passed a general obligation bond? . . . . .
- Has the district met the audit and reporting requirements of Proposition 39? . . . . .
- Is the district participating in the state's School Facilities Program? . . . . .
- Does the district have sufficient personnel to properly track and account for facility-related projects? . . . . .
- Has the district met the reporting requirements of the Williams Act? . . . . .

Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
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- Is the district properly accounting for the 3% Routine Repair and Maintenance Account requirement at the time of budget adoption? \* . . . . .
- Does the district prioritize facility issues when adopting a budget? . . . . .
- If needed, does the district have surplus property that may be sold or used for lease revenues? . . . . .
- 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?
  - 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.
- Does the district have a long-range facilities master plan that was completed or updated in the last two years? . . . . .

\* 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 provides a temporary exemption to this requirement and allows districts to deposit 1% (the exemption expires on June 30, 2015).

20. General Ledger	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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- Does the district record all financial activity for all programs accurately and in a timely manner, ensuring that work is properly supervised and reviewed? . . . . .
- Has the district closed the general ledger (books) within the time prescribed by the county office of education? . . . . .
- Does the district follow a year-end closing schedule? . . . . .
- Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year? . . . . .
- 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? . . . . .
- Does the district reconcile all suspense accounts, including payroll, at the close of the fiscal year? . . . . .

<b>RISK ANALYSIS</b>			
1. Total the number of component areas in which the district's fiscal health is not acceptable ("No" responses).			
2. Use the key below to determine the level of risk to the district's fiscal health.			
<b>0 – 5</b>	<b>6 – 10</b>	<b>11 – 16</b>	<b>17 – 20</b>
<b>Low</b>	<b>Moderate</b>	<b>High</b>	<b>Extremely High</b>

<b>Total "No" Responses</b>