



CSIS California School Information Services

Klamath-Trinity Joint Unified School District

Fiscal Health Risk Analysis

June 3, 2019

Michael H. Fine
Chief Executive Officer



Contents

About FCMAT 3

Introduction 4

 Study Guidelines 4

 Study Team..... 4

District Overview 5

Fiscal Health Risk Analysis 7

 Annual Independent Audit Report 7

 Budget Development and Adoption 8

 Budget Monitoring and Updates..... 9

 Cash Management 10

 Charter Schools..... 10

 Collective Bargaining Agreements 11

 Contributions and Transfers 11

 Deficit Spending..... 12

 Employee Benefits..... 12

 Enrollment and Attendance 13

 Facilities 13

 Fund Balance and Reserve for Economic Uncertainty 15

 General Fund - Current Year 15

 Information Systems and Data Management 16

 Internal Controls and Fraud Prevention 16

 Leadership and Stability 17

 Multiyear Projections 18

Non-Voter-Approved Debt and Risk Management18

Position Control19

Special Education..... 20

Total Risk Score, All Areas20

Key to Risk Score..... 20

Summary21

About FCMAT

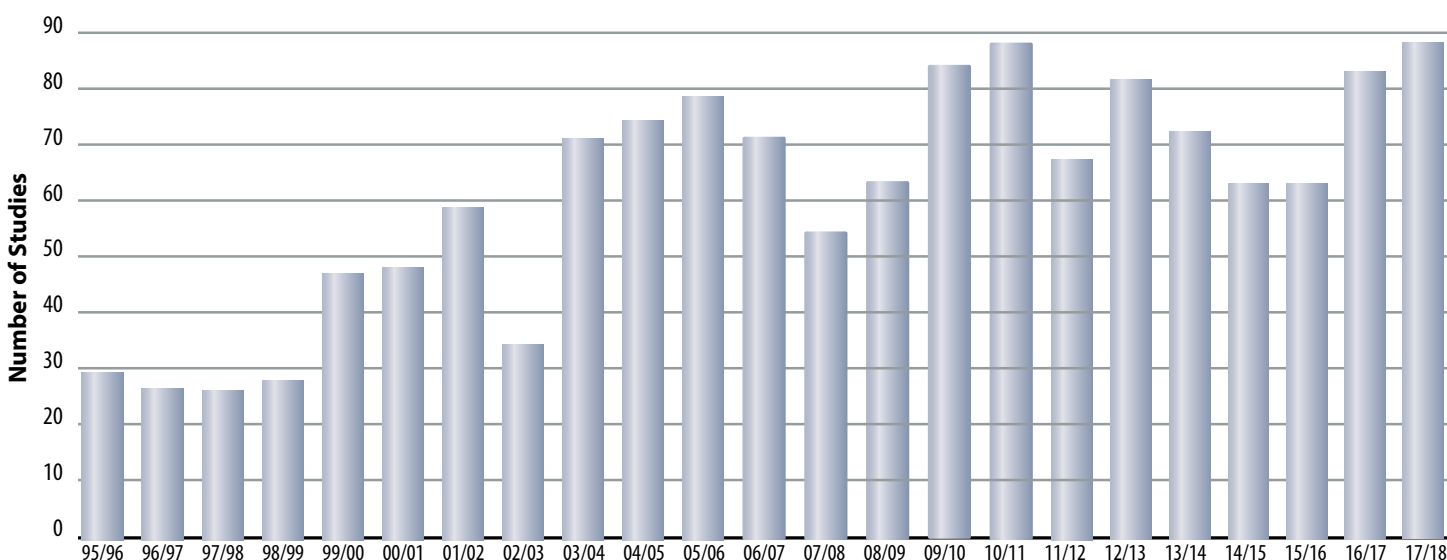
FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related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

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

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

Introduction

Historically, FCMAT has not engaged directly with school districts showing distress until it has been invited to do so by the district or the county superintendent. The state's 2018-19 Budget Act provides for FCMAT to offer more proactive and preventive services to fiscally distressed school districts by automatically engaging with a district under the following conditions:

- Disapproved budget
- Negative interim report certification
- Three consecutive qualified interim report certifications
- Downgrade of an interim certification by the county superintendent
- “Lack of going concern” designation

Under these conditions, FCMAT will perform a fiscal health risk analysis to determine the level of risk for insolvency. FCMAT has updated its Fiscal Health Risk Analysis (FHRA) tool that weights each question based on high, medium and low risk. The analysis will not be performed more than once in a 12-month period per district, and the engagement will be coordinated with the county superintendent and build on their oversight process and activities already in place per AB 1200. There is no cost to the county superintendent or to the district for the analysis.

Study Guidelines

FCMAT entered into the study agreement with the Klamath-Trinity Joint Unified School District on February 12 2019 and visited the district on March 14-15, 2019 to conduct interviews, collect data and review documents. This report is the result of those activities.

FCMAT's reports focus on systems and processes that may need improvement. Those that may be functioning well are generally not commented on in FCMAT's reports. In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

Study Team

The team was composed of the following members:

John F. Von Flue FCMAT Chief Analyst	Tami Ethier, CFE FCMAT Intervention Specialist
Leonel Martínez FCMAT Technical Writer	Scott Sexsmith FCMAT Intervention Specialist

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

District Overview

The Klamath-Trinity Joint Unified School District has an enrollment of approximately 1,000 in five elementary schools, one comprehensive high school and a continuation high school. The remotely located district encompasses almost 950 square miles in the north-eastern portion of Humboldt County and north-western portion of Trinity County California.

The district serves students from the Native American reservations of the Hoopa Tribe, Yurok Tribe, and Karuk Tribe. Reservation land comprises 55% of the district area and is untaxable.

As of the second interim reporting period, the district's 2018-19 general fund budget totaled \$24,334,330 in expenditures and maintains the required reserve of 4%. Beginning in 2014, the district engaged in a three-phase facilities improvement project that has experienced cost overruns. As the district progressed through the phases, the district's general fund budget and cash have been affected by the overages which, without resolution, are projected to negatively impact the district's fiscal solvency.

Under the 2018-19 State Budget Act, because the school district had three consecutive qualified interim report certifications in 2017-18 and 2018-19, FCMAT performed a fiscal health risk analysis to determine the level of risk for insolvency. This report is a result of that analysis.

Fiscal Health Risk Analysis

For K-12 Local Educational Agencies



CSIS California School Information Services

The Fiscal Crisis and Management Assistance Team (FCMAT) has developed the Fiscal Health Risk Analysis (FHRA) as a tool to help evaluate a school district’s fiscal health and risk of insolvency in the current and two subsequent fiscal years.

The FHRA includes 20 sections, each containing specific questions. Each section and specific question is included based on FCMAT’s work since the inception of AB 1200; they are the common indicators of risk or potential insolvency for districts that have neared insolvency and needed assistance from outside agencies. Each section of this analysis is critical to an organization, and lack of attention to these critical areas will eventually lead to financial insolvency and loss of local control. The analysis focuses on essential functions and processes to determine the level of risk at the time of fieldwork; however, it is not a detailed review of all systems and finances, nor does it consider subsequent events.

The greater the number of “no” answers to the questions in the analysis, the higher the score, which points to a greater potential risk of insolvency or fiscal issues for the district. Not all sections in the analysis and not all questions within each section carry equal weight; some areas carry higher risk and thus count more heavily toward or against a district’s fiscal stability percentage. For this tool, 100% is the highest total risk that can be scored. A “yes” or “n/a” answer is assigned a score of 0, so the risk percentage increases only with a “no” answer.

To help the district, narratives are included for responses that are marked as “no” so the district can better understand the reason for the response and actions that may be needed to obtain a “yes” answer.

Identifying issues early is the key 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 and overall solvency. A district should consider completing the FHRA annually to assess its own fiscal health risk and progress over time.

District or LEA Name: Klamath-Trinity JUSD

Dates of Fieldwork: March 14-15, 2019

1. Annual Independent Audit Report

	Yes	No	N/A
1.1 Can the district correct prior year audit findings without affecting its fiscal health (e.g., material apportionment or internal control findings)?	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.2 Has the independent audit report for the most recent fiscal year been completed and presented to the board within the statutory timeline? (Extensions of the timeline granted by the State Controller’s Office should be explained.)	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.3 Was the district’s most recent independent audit report free of material findings?	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.4 Has the district corrected all reported audit findings from the current and past two audits?	<input type="checkbox"/>	✓	<input type="checkbox"/>
<p><i>The district had repeat findings in student body recordkeeping specifically in the areas of financial statements and accounting records. Findings in this area have been in the audits for fiscal years ending 2016, 2017 and 2018.</i></p> <p><i>In the past two audits, there have also been findings related to instructional minute calculations, unduplicated pupil counts entered incorrectly into CALPADS and after-school program staff using nonstandardized forms and operating procedures.</i></p>			
1.5 Has the district had the same audit firm for at least three years?	✓	<input type="checkbox"/>	<input type="checkbox"/>

2. Budget Development and Adoption	Yes	No	N/A
2.1 Does the district develop and use written budget assumptions and multiyear projections that are reasonable, are aligned with the county office of education instructions, and have been clearly articulated?	✓	<input type="checkbox"/>	<input type="checkbox"/>
2.2 Does the district use a budget development method other than a prior-year rollover budget, and if so, does that method include tasks such as review of prior year estimated actuals by major object code and removal of one-time revenues and expenses?	✓	<input type="checkbox"/>	<input type="checkbox"/>
2.3 Does the district use position control data for budget development?	✓	<input type="checkbox"/>	<input type="checkbox"/>
2.4 Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly?	✓	<input type="checkbox"/>	<input type="checkbox"/>
2.5 Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years?	<input type="checkbox"/>	✓	<input type="checkbox"/>
<p><i>The Humboldt County Office of Education conditionally approved the 2018-19 budget, with a dozen additional items (related to facilities financing and costs) to be provided to satisfy the county office that the district budget was sound. The county office unconditionally approved the budget in the two prior fiscal years.</i></p>			
2.6 Does the budget development process include input from staff, administrators, the governing board, the community, and the budget advisory committee (if there is one)?	✓	<input type="checkbox"/>	<input type="checkbox"/>
2.7 Does the district budget and expend restricted funds before unrestricted funds?	✓	<input type="checkbox"/>	<input type="checkbox"/>
2.8 Have the LCAP and the budget been adopted within statutory timelines established by Education Code Sections 42103 and 52062 and filed with the county superintendent of schools no later than five days after adoption or by July 1, whichever occurs first, for the current and past two fiscal years?.	✓	<input type="checkbox"/>	<input type="checkbox"/>
2.9 Has the district refrained from including carryover funds in its adopted budget?	✓	<input type="checkbox"/>	<input type="checkbox"/>
2.10 Other than objects in the 5700s and 7300s and appropriate abatements in accordance with the California School Accounting Manual, does the district avoid using negative or contra expenditure accounts?	✓	<input type="checkbox"/>	<input type="checkbox"/>
2.11 Does the district have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district's unrestricted fund?	✓	<input type="checkbox"/>	<input type="checkbox"/>
2.12 Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff member/department responsible for completing them?	✓	<input type="checkbox"/>	<input type="checkbox"/>

3. Budget Monitoring and Updates	Yes	No	N/A
3.1 Are actual revenues and expenses consistent with the most current budget?	✓	<input type="checkbox"/>	<input type="checkbox"/>
3.2 Are budget revisions posted in the financial system at each interim report, at a minimum?	✓	<input type="checkbox"/>	<input type="checkbox"/>
3.3 Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum?	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>Budget assumptions are not included as a part of the financial packet prepared for the board for budget or interims.</i>			
3.4 Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs before the next financial reporting period?	✓	<input type="checkbox"/>	<input type="checkbox"/>
3.5 Does the district provide a complete response to the variances identified in the criteria and standards?	✓	<input type="checkbox"/>	<input type="checkbox"/>
3.6 Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the current and prior two fiscal years?	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>The county office has included detail in the oversight letters to the district discussing the concerns about cash, the sources of funding for facilities projects, issues with the Office of Public School Construction (OPSC) and cost overruns being paid from the general fund for the facilities projects at the district. The district is still facing issues related to facilities costs and has large contingent liabilities unsettled at the time of this analysis. The deficiencies identified by the county office of education persist.</i>			
3.7 Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure?	✓	<input type="checkbox"/>	<input type="checkbox"/>
3.8 Does the district encumber and adjust encumbrances for salaries and benefits?	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>The district does not encumber salary and benefit costs; however, the county office has offered to assist the district in implementing this practice.</i>			
3.9 Are all balance sheet accounts in the general ledger reconciled at each interim report, at a minimum?	✓	<input type="checkbox"/>	<input type="checkbox"/>
3.10 Have the interim reports and the unaudited actuals been adopted and filed with the county superintendent of schools within statutory timelines established by Education Code?	✓	<input type="checkbox"/>	<input type="checkbox"/>

4. Cash Management		Yes	No	N/A
4.1	Are accounts held by the county treasurer reconciled with the district’s and county office of education’s reports monthly?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>Accounts held by the county treasurer are reconciled quarterly; the county office performs reconciliations.</i>			
4.2	Does the district reconcile all bank (cash and investment) accounts with bank statements monthly?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.3	Does the district forecast its cash receipts and disbursements at least 18 months out, updating the actuals and reconciling the remaining months to the budget monthly to ensure cash flow needs are known?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The county office prepares cash flow estimates for a 12-month period only. The district does not prepare cash flow estimates.</i>			
4.4	Does the district have a reasonable plan to address cash flow needs during the current fiscal year?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.5	Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.6	If interfund borrowing is occurring, does the district comply with Education Code Section 42603?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.7	If the district is managing cash in any funds through external borrowing, has the district set aside funds for repayment attributable to the same year the funds were borrowed?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. Charter Schools		Yes	No	N/A
5.1	Are all charters authorized by the district going concerns?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
5.2	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including the issuance of formal communication to the charter, such as Notices of Violation?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
5.3	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
5.4	Does the district have a board policy or other written document(s) regarding charter oversight?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
5.5	Has the district identified specific employees in its various departments (e.g., human resources, business, instructional, and others) to be responsible for oversight of all approved charter schools?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

6. Collective Bargaining Agreements		Yes	No	N/A
6.1	Has the district settled with all its bargaining units for the prior two fiscal year(s)?	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.2	Has the district settled with all its bargaining units for the current year?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>Negotiations for certificated, classified, and management bargaining groups were not settled as of second interim reporting.</i>			
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections?	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.4	Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increase), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement?	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.5	In the current and prior two fiscal years, has the district settled the total cost of the bargaining agreements at or under the funded cost of living adjustment (COLA)?	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.6	If settlements have not been reached in the past two years, has the district identified resources to cover the estimated costs of settlements?	<input type="checkbox"/>	<input type="checkbox"/>	✓
6.7	Did the district comply with public disclosure requirements under Government Code Sections 3540.2 and 3547.5 and Education Code Section 42142?	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.8	Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval?	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.9	Is the governing board's action consistent with the superintendent's and CBO's certification?	✓	<input type="checkbox"/>	<input type="checkbox"/>

7. Contributions and Transfers		Yes	No	N/A
7.1	Does the district have a board-approved plan to eliminate, reduce, or control any contributions/transfers from the unrestricted general fund to other restricted programs and funds?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district does not have a board-approved plan to eliminate, reduce or control any contributions/transfers from the unrestricted general fund to other restricted programs and funds. Significant contributions are identified for LCAP identified supplemental and concentration actions targeting the unduplicated student population and special education services.</i>			
7.2	If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance?	✓	<input type="checkbox"/>	<input type="checkbox"/>
7.3	If any contributions/transfers were required for restricted programs and/or other funds in either of the prior two fiscal years, and there is a need in the current year, did the district budget for them at reasonable levels?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>In the current year, the district's original budget included \$279,317 in transfers out. At second interim, the estimated budget for transfers out is \$2,835,646. This increase is due to facilities projects.</i>			

8. Deficit Spending		Yes	No	N/A
8.1	Is the district avoiding deficit spending in the current fiscal year?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>According to the 2018-19 second interim unrestricted general fund budget, the district projects to deficit spend \$1,596,559.</i>			
8.2	Is the district projected to avoid deficit spending in both of the two subsequent fiscal years?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>According to the multiyear projection prepared for the 2018-19 second interim, the district unrestricted general fund is expected to deficit spend in the 2020-21 fiscal year. No deficit spending is planned for 2019-20.</i>			
8.3	If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The board has not approved and implemented a plan to reduce and/or eliminate deficit spending.</i>			
8.4	Has the district decreased deficit spending over the past two fiscal years?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district did not have deficit spending in the unaudited actuals reports for either 2016-17 or 2017-18. The district is anticipated to deficit spend in the unrestricted general fund for 2018-19 as of the second Interim in the amount of \$1,596,559. Included in the 2018-19 budget is a \$2,500,000 transfer from the general fund to fund 35 for facility project completion. While the board approved this transaction as a temporary loan, it is accounted for as an expense to the general fund without expectation of reimbursement.</i>			

9. Employee Benefits		Yes	No	N/A
9.1	Has the district completed an actuarial valuation in accordance with Governmental Accounting Standards Board (GASB) requirements to determine its unfunded liability for other post-employment benefits (OPEB)?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>Effective fiscal year 2017-18, GASB 75 requires that a valuation be made every two years. GASB 75 replaced GASB 45, which required a valuation every three years. Plans with less than 100 members are not required to use an actuary to determine the valuation of their OPEB obligations; however, the valuation must be conducted biennially.</i>			
	<i>The most recent OPEB valuation conducted by the district was an actuarial report dated June 2014.</i>			
	<i>The district's 2017-18 annual audit report states that the amounts involved in the district OPEB are not material and were not subjected to GASB 75.</i>			
9.2	Does the district have a plan to fund its liabilities for retiree health and welfare benefits?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.3	Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.4	Within the last five years, has the district conducted a verification and determination of eligibility for benefits for all active and retired employees and dependents?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.5	Does the district track, reconcile and report employees' compensated leave balances?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

10. Enrollment and Attendance		Yes	No	N/A
10.1	Has the district’s enrollment been increasing or remained stable for the current and two prior years?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.2	Does the district monitor and analyze enrollment and average daily attendance (ADA) data at least monthly through the second attendance reporting period (P2)?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.3	Does the district track historical enrollment and ADA data to predict future trends?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.4	Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.5	Has the district certified its California Longitudinal Pupil Achievement Data System (CALPADS) data by the required deadlines (Fall 1, Fall 2, EOY) for the current and two prior years?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.6	Are the district’s enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.7	Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The 2016-17 and 2017-18 audits found that the district did not enter correct data into CALPADS, causing claim for more funding than it was entitled to receive. Eligibility for free/reduced meal counts was overreported.</i>			
10.8	Has the district planned for enrollment losses to charter schools?	<input type="checkbox"/>	<input type="checkbox"/>	✓
10.9	Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students meeting the required qualifications are approved?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.10	Does the district meet the average class enrollment for each school site of no more than 24-to-1 class size ratio in TK-3 classes or does it have an alternative collectively bargained agreement?	✓	<input type="checkbox"/>	<input type="checkbox"/>
11. Facilities		Yes	No	N/A
11.1	If the district participates in the state’s School Facilities Program, has it met the 3% Routine Restricted Maintenance Account requirement?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district failed to meet the RRMA requirement during the 2016-17 fiscal year and, in 2017-18, was required to make up the difference of \$6,780 along with the current year requirement.</i>			
	<i>The district has budgeted to meet the 3% RRMA requirement for 2018-19.</i>			
11.2	Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district plans to contribute \$2.5 million to facility project overruns in 2018-19. No resources are available to assign or commit for future project cost, project cost overruns, or the contingent liability that may remain unsettled with the OPSC.</i>			
	<i>Cost overruns were unanticipated when facility planning and budgeting occurred, yet have continued and are projected to continue as bids for projects exceed expectations. District inquiries as to why the bids have exceeded expectations have resulted in responses</i>			

stating construction is more expensive due Klamath-Trinity's remote location, higher cost of labor and construction materials, and limited competition.

- 11.3 Does the district properly track and account for facility-related projects? ✓

The 2016-17 audit identified facility project expenditures stated in an inappropriate financial reporting period. No correcting entries were required, and the 2017-18 audit found the procedures corrected.

- 11.4 Does the district use its facilities fully in accordance with the Office of Public School Construction's loading standards? ✓

Using classrooms identified in the 2015 facilities master plan and loading classrooms based on March 2019 enrollment then comparing to OPSC loading standards, it appears the district has sufficient and, in most cases excess, facilities capacity at every site.

KTJUSD Facilities Loading						
Site	March 2019			Student Enrollment		
	K-6	7-8	9-12	Classrooms available*	Classrooms needed**	Excess classrooms
Hoopla Elementary	329	95		27	17	10
Jack Norton Elementary	27	4		3	1	2
Orleans Elementary	61	22		5	4	1
Trinity Valley Elementary	142	42		17	8	9
Weitchpec Elementary	14			2	1	1
Captain John Continuation			49	2	2	0
Hoopla Valley High			229	24	9	15

* 2015 facilities master plan **OPSC loading standard

OPSC Loading Standards	
Grade	Students per classroom
K-6	25
7-12	27
Special education nonsevere	13
Special education severe	9

- 11.5 Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget? ✓

- 11.6 Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues? ✓

- 11.7 If the district passed a Proposition 39 general obligation bond, has it met the requirements for audit, reporting, and a citizens' bond oversight committee? ✓

Measure D, a Proposition 39 general obligation bond, was authorized for the district on June 7, 2016, in an amount not to exceed \$6.5 million.

Proposition 39 bonds require annual audits, reporting and the establishment of a citizens' bond oversight committee; however, the district does not have a fully established and active bond oversight committee. Further, Measure D performance audits were conducted for the 2016-17 and 2017-18 fiscal years. The audits found the oversight committee was not established and in compliance for those years. District staff stated that the committee is not active for the 2018-19 fiscal year.

The Measure D financial audits were completed for the 2016-17 and 2017-18 fiscal years and reported no findings or recommendations.

11.8 Does the district have an up-to-date long-range facilities master plan? ✓

12. Fund Balance and Reserve for Economic Uncertainty **Yes No N/A**

12.1 Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including funds 01 and 17) as defined by criteria and standards? ✓

12.2 Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years? ✓

12.3 If the district is not able to maintain the minimum reserve for economic uncertainty, does the district’s multiyear financial projection include a board-approved plan to restore the reserve? ✓

12.4 Is the district’s projected unrestricted fund balance stable or increasing in the two subsequent fiscal years? ✓

12.5 If the district has unfunded or contingent liabilities or one-time costs, does the unrestricted fund balance include any assigned or committed reserves above the recommended reserve level? ✓

Much uncertainty surrounds the level of funding to be ultimately determined by the OPSC and the allowable expenses associated with district facilities projects. The district already plans to contribute \$2.5 million to facility project overruns in the 2018-19 year. This leaves no resources to assign or commit for future project cost overruns or the contingent liability that remains unsettled.

13. General Fund - Current Year **Yes No N/A**

13.1 Does the district ensure that one-time revenues do not pay for ongoing expenditures? . . . ✓

13.2 Is the percentage of the district’s general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the current year? ✓

13.3 Is the percentage of the district’s general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the two prior years? ✓

13.4 If the district has received any uniform complaints or legal challenges regarding local use of supplemental and concentration grant funding in the current or two prior years, is the district addressing the complaint(s)? ✓

13.5 Does the district either ensure that restricted dollars are sufficient to pay for staff assigned to restricted programs or have a plan to fund these positions with unrestricted funds? ✓

13.6 Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time? ✓

13.7 Does the district consistently account for all program costs, including the maximum allowable indirect costs, for each restricted resource? ✓

14. Information Systems and Data Management		Yes	No	N/A
14.1	Does the district use an integrated financial and human resources system?	✓	<input type="checkbox"/>	<input type="checkbox"/>
14.2	Can the system(s) provide key financial and related data, including personnel information, to help the district make informed decisions?	✓	<input type="checkbox"/>	<input type="checkbox"/>
14.3	Has the district accurately identified students who are eligible for free or reduced-price meals, English learners, and foster youth, in accordance with the LCFF and its LCAP?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The 2016-17 and 2017-18 audits found that the district did not enter correct data into CALPADS, causing claim for more funding than it was entitled to receive. Eligibility for free/reduced meal counts was overreported.</i>			
	<i>The district switched student information systems in the last year, and staff state they have improved access to data.</i>			
14.4	Is the district using the same financial system as its county office of education?	✓	<input type="checkbox"/>	<input type="checkbox"/>
14.5	If the district is using a separate financial system from its county office of education and is not fiscally independent, is there an automated interface with the financial system used by the county office of education?	<input type="checkbox"/>	<input type="checkbox"/>	✓
14.6	If the district is using a separate financial system from its county office of education, has the district provided the county office with direct access so the county office can provide oversight, review and assistance?	<input type="checkbox"/>	<input type="checkbox"/>	✓

15. Internal Controls and Fraud Prevention		Yes	No	N/A
15.1	Does the district have controls that limit access to its financial system and include multiple levels of authorizations?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.2	Are the district's financial system's access and authorization controls reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.3	Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?			
	• Accounts payable (AP)	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Accounts receivable (AR).	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Purchasing and contracts	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Payroll.	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Human resources	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Associated student body (ASB).	<input type="checkbox"/>	✓	<input type="checkbox"/>

Student body procedures were found to be unenforced in the 2016-17 and 2017-18 annual audits. District business office staff did not provide training or assistance, nor did they review the activities and financial statements to ensure proper and timely recording and reconciliation.

The district maintains a procedures manual that identifies the ASB responsibilities of the site administration and bookkeeper. The manual provides timelines for recordkeeping, reconciliations, and activity approvals. The manual also provides form templates for recording these activities. In addition, the district adopted the FCMAT ASB manual in fall 2018 as guidance for their ASB oversight.

- Warehouse and receiving. ✓
- 15.4 Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year? ✓
- 15.5 Does the district review and clear prior year accruals by first interim?. ✓
- 15.6 Does the district reconcile all suspense accounts, including salaries and benefits, at least at each interim reporting period and at the close of the fiscal year? ✓
- 15.7 Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education? ✓
- 15.8 Does the district have processes and procedures to discourage and detect fraud? ✓
- 15.9 Does the district maintain an independent fraud reporting hotline or other reporting service(s)? ✓

The district does not maintain a fraud reporting hotline or service.

- 15.10 Does the district have a process for collecting and following up on reports of possible fraud? ✓

No formal processes for collecting or following up on reports of possible fraud were found. However, staff interviewed stated that fraud was not tolerated, and any suspicious activity would be brought to the attention of their immediate supervisor and, if warranted, district leadership. The district adopted the FCMAT ASB manual to support internal controls and fraud deterrence.

- 15.11 Does the district have an internal audit process? ✓

The district has no formal internal audit process. However, the assistant superintendent stated that staff regularly perform random cross-checks to help ensure accuracy and completion of work.

16. Leadership and Stability

Yes No N/A

- 16.1 Does the district have a chief business official who has been with the district more than two years? ✓
- 16.2 Does the district have a superintendent who has been with the district more than two years?. ✓
- 16.3 Does the superintendent meet on a scheduled and regular basis with all members of the administrative cabinet? ✓
- 16.4 Is training on financial management and budget provided to site and department administrators who are responsible for budget management? ✓
- 16.5 Does the governing board adopt and revise policies and administrative regulations annually? ✓

- 16.6 Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff?
- 16.7 Is training on the budget and governance provided to board members at least every two years?
- Communication regarding a Master's in Governance training was provided to the board in January 2019; however, there was no record provided to confirm the board participated in budget or governance training within the last two years.*
- 16.8 Is the superintendent's evaluation performed according to the terms of the contract?
- The superintendent's contract dated June 27, 2017, provides for that position's evaluation to be performed "at least annually, no later than May 31 of each year." No evidence was found of an evaluation nor was there a board agenda showing an evaluation from July 2017 through January 2019.*

17. Multiyear Projections		Yes	No	N/A
17.1	Has the district developed multiyear projections that include detailed assumptions aligned with industry standards?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17.2	To help calculate its multiyear projections, did the district prepare an LCFF calculation with multiyear considerations?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17.3	Does the district use its most current multiyear projection in making financial decisions?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17.4	If the district utilizes a broad adjustment category in its multiyear projection such as line B10, Other Adjustments, in the SACS form MYP/MYPI, is there a detailed list of what is included in the adjustment amount?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

18. Non-Voter-Approved Debt and Risk Management		Yes	No	N/A
18.1	Are the sources of repayment for non-voter-approved debt {such as certificates of participation (COPs), bridge financing, bond anticipation notes (BANS), revenue anticipation notes (RANS) and others} stable, predictable, and other than unrestricted general fund?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district relies on the general fund to repay the remaining COPs issued in 2015 and 2016.</i>			
	<i>Because the district is receiving state financial hardship funding, it must exhaust all of its available capital funding resource before it can use the state funds.</i>			
	<i>The Office of Public School Construction's position is that the district issued the COPs as bridge financing in anticipation of the state facilities funding and that the COP debt would be retired when the state funding was received. The district maintains that the state funding is inadequate to satisfy its facility needs and is repaying the debt service with resources from the unrestricted general fund. This unresolved matter may further burden the district's finances as the OPSC has positioned to establish the COPs that remain outstanding subsequent to state funding as district available contribution to the projects which, as a result, would reduce state funding and further increase the district's contribution from its general fund.</i>			
18.2	If the district has issued non-voter-approved debt, has its credit rating remained stable or improved in the current or prior two fiscal years?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 18.3 If the district is self-insured, does the district have a recent (every 2 years) actuarial study and a plan to pay for any unfunded liabilities?
- 18.4 If the district has non-voter-approved debt (such as COPs, bridge financing, BANS, RANS and others), is the total of annual debt service payments no greater than 2% of the district's unrestricted general fund revenues?

The district has issued two COPs, \$4.5 million in 2015 and \$11.285 million in 2016. In February 2017, the district refunded and defeased \$2.83 million of the 2015 issuance thus reducing the overall debt service payments. However, the remaining debt service payments on the combined COPs, as illustrated on the following chart, exceeds 2% of the district's unrestricted general fund revenues in the current and two subsequent fiscal years.

The district reported in the 2018-19 second interim submission a debt service amounting to 3.45% of unrestricted revenues in 2018-19, 3.39% in 2019-20, and 3.48% in 2020-21. The district's financial advisor issued a schedule that differed slightly, but is still in excess of the 2%, at 2.99% for 2018-19, 3.39% for 2019-20 and 3.58% for 2020-21. In dollars, the burden of the debt service payments in excess of 2% general fund unrestricted revenue ranges from \$184,096 to \$268,924 per year.

Non-voter approved debt burden			
	2018-19	2019-20	2020-21
Unrestricted general fund revenues (2018-19 Second Interim)	\$18,523,714	\$16,667,606	\$16,266,946
COP debt service (District reported 2018-19 Second Interim)	\$ 639,398	\$565,825	\$565,825
% of UGF revenues	3.45%	3.39%	3.48%
2% standard	\$370,474	\$333,352	\$325,339
\$ over standard	\$268,924	\$232,473	\$240,486
COP debt service (Financial advisor)	\$554,570	\$565,825	\$581,862
% of UGF revenues	2.99%	3.39%	3.58%
2% standard	\$370,474	\$333,352	\$325,339
\$ over standard	\$184,096	\$232,473	\$256,523

19. Position Control

Yes No N/A

- 19.1 Does the district account for all positions and costs?
- 19.2 Does the district analyze and adjust staffing based on staffing ratios and enrollment?
- 19.3 Does the district reconcile budget, payroll and position control regularly, meaning at least at budget adoption and interim reporting periods?
- 19.4 Does the district identify a budget source for each new position before the position is authorized by the governing board?.
- 19.5 Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted?
- 19.6 Has the district adopted staffing ratios for certificated, classified and administrative positions in the past three years, and is the district following those ratios?
- 19.7 Do managers and staff responsible for the district's human resources, payroll and budget functions meet regularly to discuss issues and improve processes?.

20. Special Education		Yes	No	N/A
20.1	Does the district monitor, analyze and adjust staffing ratios, class sizes and caseload sizes to align with statutory requirements and industry standards?	✓	<input type="checkbox"/>	<input type="checkbox"/>
20.2	Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)?	<input type="checkbox"/>	<input type="checkbox"/>	✓
20.3	Does the district use appropriate tools to help it make informed decisions about whether to add services (e.g., special circumstance instructional assistance process and form, transportation decision tree)?	✓	<input type="checkbox"/>	<input type="checkbox"/>
20.4	Does the district budget and account correctly for all costs related to special education (e.g., transportation, due process hearings, indirect costs, nonpublic schools and/or nonpublic agencies)?	✓	<input type="checkbox"/>	<input type="checkbox"/>
20.5	Is the district’s contribution rate to special education at or below the statewide average contribution rate?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district’s contribution rate to special education for the 2018-19 second interim general fund budget is 76.78%. The statewide average as of 2016-17 was 64.5% (the most recent data available for this metric). This calculation shows that the district spends more of its unrestricted general fund on special education costs than the average district statewide.</i>			
20.6	Is the district’s rate of identification of students as eligible for special education comparable with countywide and statewide average rates?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district’s identification rate for special education students exceeds the county average by 4.77% and the statewide average by 8.19%. The district’s identification rate is 19.92%, the county average is 15.15% and the statewide average is 11.73%.</i>			
20.7	Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period?	✓	<input type="checkbox"/>	<input type="checkbox"/>

Total Risk Score, All Areas **20.4%**

Key to Risk Score

- High Risk: 40% or more*
- Moderate Risk: 25-39%*
- Low Risk: 24% and lower*

Summary

The Klamath-Trinity Joint Unified School District has been consistently identified as a fiscal concern for the last two years by the Humboldt County Office of Education. In 2017-18 and again in 2018-19, the district reported a certification status of qualified for both the first and second interim reports. Conditions continue to worsen, and the risk of insolvency continues to increase.

This report scores the district at Low Risk as it identifies just a few signs that indicate fiscal weakness and leave the district at risk of insolvency. However, this score does not accurately reflect the magnitude of the district's issues; although the weakness indicators are few, they are severe.

Of most significant concern to Klamath-Trinity Joint Unified is the magnitude of facility project cost commitments. The district has leveraged both state and local capital fund sources to support its facility project needs and has secured state funding and two voter-approved general obligation bonds. In anticipation of receiving state funds, the district borrowed significant funds on two non-voter approved certificates of participation (COPs) with intent to repay the debt with state funds, when received. Because of construction cost overruns, the district used a portion of the funds borrowed on the COPs to pay for overruns on the facility projects. The Office of Public School Construction has made the determination that unless repaid, the borrowed funds would be considered district funds available for projects, and the state contribution would be reduced. The impact of this determination would be for the district to lose a portion of state funding, be required to pay back the loans with unrestricted general funds, and be short of the funds necessary to complete construction. The loan repayment and costs to complete facilities projects would severely strain the district's general fund and place at risk its fiscal solvency. Planning for these costs in the district's multiyear projections shows a significant and growing deficit spending trend and potentially unsurmountable debt.

Other fiscal risk indicators of importance, but lesser impact, include district audit issues such as reoccurring ASB records findings, improper instructional minute calculations, CALPADS reporting and fiscal accounting errors, a lack of fraud reporting and internal audit processes, and special education identification and fiscal contribution rates above the statewide average.

The district should immediately cease its involvement in further facilities projects, evaluate current fiscal commitments, determine options available to address fiscal obligations, and take immediate action to maintain fiscal solvency.

The governing board is ultimately responsible for the district budget. Management has the responsibility of presenting sound financial information based on current and accurate data so the board can make informed decisions.