



FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

# Fiscal Health Risk Analysis

May 6, 2024



## Live Oak Elementary School District

Michael H. Fine  
Chief Executive Officer

May 6, 2024

Daisy Morales, Ed. D., Superintendent  
Live Oak Elementary School District  
5151 Sherwood Way  
San Ramon, CA 94582-5961

Dear Superintendent Morales:

In February 2024, the Live Oak Elementary School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to conduct a Fiscal Health Risk Analysis of the district.

The agreement stated that FCMAT would perform the following:

1. Prepare an analysis using the 20 factors in FCMAT's Fiscal Health Risk Analysis (FHRA) and identify the Client's specific risk rating for fiscal insolvency.

This fiscal health risk analysis is required by California's 2018-19 Budget Act because the district's interim budget certification has been downgraded by the county superintendent of schools.

This final report contains the fiscal health risk analysis with the study team's findings and recommendations. FCMAT appreciates the opportunity to assist the Live Oak Elementary School District and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,



Michael H. Fine  
Chief Executive Officer

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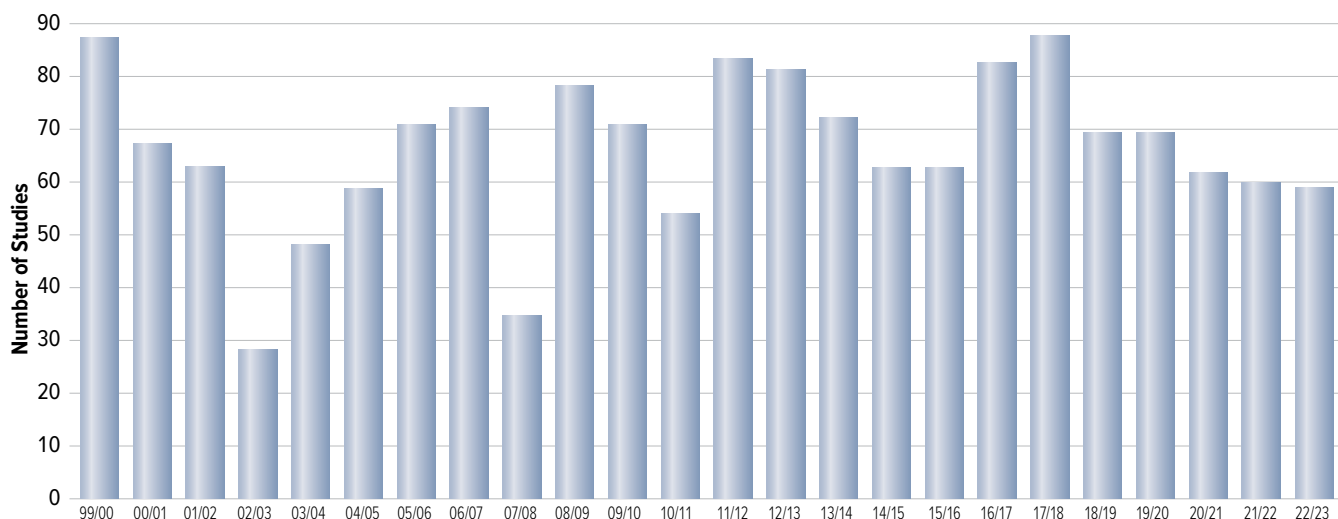
# About FCMAT

FCMAT's primary mission is to assist California's local TK-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.

**Studies by Fiscal Year**



FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of TK-14 LEAs and the implementation of major educational reforms. FCMAT also develops and provides numerous publications, software tools, workshops and professional learning opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website ([www.ed-data.org](http://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 1991 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS' mission.

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

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

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

Since 1992, FCMAT has been engaged to perform more than 1,400 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

# Introduction

## Background

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 of schools. 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, moderate 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 Assembly Bill (AB) 1200. There is no cost to the county superintendent or to the district for the analysis.

This fiscal health risk analysis is being conducted because the district had the following condition, under which an analysis is required by the 2018-19 State Budget Act.

- Downgrade of an interim certification by the county superintendent.

The Live Oak Elementary School District has an enrollment of 1,512 students and is located in Santa Cruz County, California. The district serves students in transitional kindergarten through grade eight at six schools and is the authorizer of one charter school. The percentage of unduplicated students (English learners, socio-economically disadvantaged, or foster youth) is 54.73%. The district's governing board is composed of five members.

The district submitted a first interim financial report for fiscal year 2023-24 that contained a significantly worse fiscal projection than what had been presented at the time of budget adoption or any prior interim reports. The first interim financial report included a \$3 million negative ending fund balance in the third year of the multiyear projection (2025-26). Because of the information included in the first interim report, the county superintendent changed the district's self-certification of qualified to negative. Traditionally, a negative certification is reserved for districts with a high and imminent risk of cash insolvency. The district is not showing signs of cash insolvency, but it has a new chief business official and significant deficit spending that has the potential to erode cash reserves.

FCMAT performed a fiscal health risk analysis to determine the district's level of risk for insolvency.

## Fiscal Health Risk Analysis Guidelines

FCMAT entered into a study agreement with the Live Oak Elementary School District on February 16, 2024, and a study team visited the district on March 27-28, 2024 to conduct interviews, collect data and review documents. Following fieldwork, the FCMAT study team continued to review and analyze 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:

Tamara Montero, CFE, SFO  
FCMAT Chief Analyst

Erin Lillibridge, CFE  
FCMAT Intervention Specialist

John Lotze  
FCMAT Technical Writer

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



# Fiscal Health Risk Analysis

## For TK-12 School Districts



FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

Dates of fieldwork: March 27 and 28, 2024

District: Live Oak Elementary School District

## Summary

The Live Oak Elementary School District has faced challenges in the current fiscal year because of turnover multiple times in its chief business official (CBO) position. At the time of FCMAT's fieldwork, the individual in the CBO position was the third person to hold the position this fiscal year. This type of instability in the position leads to numerous risks to the budget and fiscal solvency.

In addition, the majority of the individuals in the district's cabinet-level positions will no longer be in the district by the time the next fiscal year begins. These positions will potentially be vacant or have interims in place until replacements can be made. Without consistent leadership and a focus on common goals, school districts often struggle with both fiscal matters and academic plans.

In December 2023, the district prepared a first interim report that showed a \$3.3 million increase in current-year deficit spending compared to the original budget adopted just a few months before. The district self-certified as qualified, meaning that it believes it may or may not be able to meet financial obligations in the current and two subsequent years of its multiyear projection. Because of these budget changes, the district's multiyear projection at first interim showed that the district would not be able to maintain the minimum statutorily required reserve for economic uncertainties in the second and third years of the multiyear projection. Although the cash flow prepared with the first interim budget showed the need for interfund borrowing or other cash flow solutions during the first few months of 2024, it indicated that the district would be able to support its own cash needs in the current year.

The Santa Cruz County superintendent of schools changed the district's certification from qualified to negative. A negative certification means that a district will not meet its financial obligations in the current year and subsequent year and is usually reserved for use with districts facing cash solvency issues. As part of its fiscal oversight and support of the district, the county superintendent provided the district with a fiscal expert who helped develop a fiscal stabilization plan. The district has implemented this plan, as evidenced by the reductions, layoffs and other cost-saving measures included in its second interim report.

Although the second interim report was filed as positive, and the county superintendent concurred, the district will still need to remain vigilant in carrying out the fiscal stabilization plan. This could prove to be a challenge with the complete turnover of district administration in the beginning of the 2024-25 fiscal year.

The district's management is responsible for providing accurate financial information based on current, reliable data so the governing board can make sound decisions. The governing board is ultimately responsible for the district's budget and fiscal stability.

## District Fiscal Solvency Risk Level: High

## About the Analysis

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 of which contains 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, and lack of attention to these critical areas will eventually lead to a district's failure. The analysis focuses on essential functions and processes to determine the level of risk at the time of assessment.

The greater the number of “no” answers to the questions in the analysis, the greater the 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 in calculating a district’s fiscal stability. To help the district, narratives are included for responses that are marked as a “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.

## Areas of High Risk

The following sections on this page and the next duplicate certain questions and answers given in the Fiscal Health Risk Analysis Questions later in this document and identify conditions that create significant risk of fiscal insolvency. The existence of an identified budget or fiscal status or a material weakness indicated by a “no” answer to any of these items supersedes all other scoring and will elevate the district’s overall risk level.

### Budget and Fiscal Status: Is district currently *without* the following?

	Yes	No
Disapproved budget . . . . .	✓	<input type="checkbox"/>
Negative interim report certification . . . . .	✓	<input type="checkbox"/>
Three consecutive qualified interim report certifications. . . . .	✓	<input type="checkbox"/>
Downgrade of an interim certification by the county superintendent . . . . .	<input type="checkbox"/>	✓
Lack of going concern designation . . . . .	✓	<input type="checkbox"/>

### Material Weakness Questions

	Yes	No	N/A
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"/>
3.4 Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs in accordance with Education Code Section 42142? . . . . .	✓	<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 most recent and two prior fiscal years? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
4.3 Does the district forecast its general fund cash flow for the current and subsequent year and update it as needed to ensure cash flow needs are known? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
4.4 If the district’s cash flow forecast shows insufficient cash in its general fund to support its current and projected obligations, does the district have a reasonable plan to address its cash flow needs for the current and subsequent year? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
5.2 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"/>
5.3 Are all charters authorized by the district going concerns and not in fiscal distress? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
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"/>

- |             |  |                          |                          |                          |
|-------------|--|--------------------------|--------------------------|--------------------------|
| <b>6.4</b>  | 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"/> |
| <b>7.2</b>  | 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"/> | ✓                        |
| <b>8.3</b>  | 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 to ensure fiscal solvency? . . . . .   | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |
| <b>10.6</b> | 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"/> |
| <b>11.2</b> | 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"/> | ✓                        |
| <b>12.1</b> | Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including Fund 01 and Fund 17) as defined by criteria and standards? . . . . .  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>12.2</b> | Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years? . . . . .   | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |
| <b>12.3</b> | 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? . . . . .   | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |
| <b>19.1</b> | Does the district account for all positions and costs? . . . . .   | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |

## Score Breakdown by Section

Because the score is not calculated by category, the category values provided are subject to minor rounding error and are provided for information only.

1.	Annual Independent Audit Report	0.1%
2.	Budget Development and Adoption	3.9%
3.	Budget Monitoring and Updates	5.5%
4.	Cash Management	2.0%
5.	Charter Schools	0.2%
6.	Collective Bargaining Agreements	2.2%
7.	Contributions and Transfers	1.0%
8.	Deficit Spending (Unrestricted General Fund)	3.5%
9.	Employee Benefits	1.4%
10.	Enrollment and Attendance	2.5%
11.	Facilities	0.2%
12.	Fund Balance and Reserve for Economic Uncertainty	2.9%
13.	General Fund - Current Year	1.8%
14.	Information Systems and Data Management	0.0%
15.	Internal Controls and Fraud Prevention	6.1%
16.	Leadership and Stability	2.0%
17.	Multiyear Projections	2.0%
18.	Non-Voter-Approved Debt and Risk Management	1.6%
19.	Position Control	0.6%
20.	Special Education	1.1%
<b>Score</b>		<b>40.3%</b>

# Fiscal Health Risk Analysis Questions

## Budget and Fiscal Status: Is the district currently *without* the following?

	Yes	No
Disapproved budget . . . . .	✓	<input type="checkbox"/>
Negative interim report certification . . . . .	✓	<input type="checkbox"/>
Three consecutive qualified interim report certifications. . . . .	✓	<input type="checkbox"/>
Downgrade of an interim certification by the county superintendent . . . . .	<input type="checkbox"/>	✓
Lack of going concern designation . . . . .	✓	<input type="checkbox"/>

## 1. Annual Independent Audit Report

	Yes	No	N/A
1.1 Has the district corrected the most recent and prior two years' audit findings without affecting its fiscal health? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓
1.2 Has the 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"/>
The statutory deadline for audit completion is December 15 annually. The district's 2022-23 audit was on extension to March 31, 2024 at the time of fieldwork. The audit was delayed because the district did not provide documents to the auditor in a timely fashion. The 2021-22 audit was also delayed, from the due date of December 15, 2022 to August 20, 2023. The district's 2020-21 audit was also delayed, until February 2022, but was considered on time because of the state's extension of the deadline for all districts during the pandemic.			
1.3 Were the district's most recent and prior two audit reports free of findings of material weaknesses? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.4 Has the district corrected all reported audit findings from the most recent and prior two audits? . . . . .	<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"/>
FCMAT reviewed the district's budget packets and found that some contain narratives and presentations but others do not. The presentation, when included, had one slide that showed a minimal list of assumptions used to build the budget. However, this			

slide listed mostly statewide assumptions, with no detail regarding local assumptions for staffing, cost of benefits or benefit caps, or other local factors that can have a significant impact on the budget.

- 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?** . . . . . ☐ ✓ ☐

The district mostly uses a rollover method to prepare the subsequent year budget. Staff mentioned that it is a goal of the business department to use a zero-based budgeting method in the future.

- 2.3 Does the district use position control data for budget development?** . . . . . ✓ ☐ ☐

- 2.4 Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly?** . . ✓ ☐ ☐

- 2.5 Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years?** . . . . . ✓ ☐ ☐

- 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)?** . . ☐ ✓ ☐

Staff indicated that responsibility for budget development lies mostly with the chief business official and business office staff. The process could be more collaborative with staff, administrators, the board, and the community. Recent budget challenges have created increased interest in creating a budget advisory committee.

- 2.7 Does the district budget and expend restricted funds before unrestricted funds?** . . . . ☐ ✓ ☐

The district's unrestricted fund balance decreased from \$1,659,412 in 2021-22 to \$431,683 in 2022-23, while the restricted fund balance increased from \$1,816,878 in 2021-22 to \$4,175,308 in 2022-23. Although districts statewide have seen increases in restricted funds recently, this type of fund balance increase combined with the significant deficit spending in the unrestricted side of the budget indicates that the district may be prioritizing the spending of unrestricted funds before restricted funds.

- 2.8 Have the Local Control and Accountability Plan (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 one prior fiscal year?** . . . . . ✓ ☐ ☐

- 2.9 Has the district refrained from including carryover funds in its adopted budget?** . . . . ✓ ☐ ☐

- 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?** . . . . . ✓ ☐ ☐

- 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 general fund?** . . . . . ☐ ✓ ☐

The district does not have a documented policy or procedure for evaluating the proposed acceptance of grants. Staff described a procedure the district follows that appears to route grants to several departments in the district office; however, not all pertinent individuals are included in this process.

- 2.12 Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff members/departments responsible for completing them?** . . . . . ☐ ☒ ☐
- The district does not have a detailed budget calendar.

### 3. Budget Monitoring and Updates

- |   | Yes                                 | No                                  | N/A                      |
|---|-------------------------------------|-------------------------------------|--------------------------|
| <b>3.1 Are actual revenues and expenses consistent with the most current budget?</b> . . . . .  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| FCMAT reviewed the district's 2023-24 first interim budget and found that the following lines in the budget did not align with the same lines in the actuals: revenue from delinquent taxes, other local revenue, and other employee benefits expense and communications expense.   |                                     |                                     |                          |
| <b>3.2 Are budget revisions posted in the financial system at each interim report, at a minimum?</b> .  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| <b>3.3 Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum?</b> . . . . .   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| Budget assumptions, when provided, are not clearly articulated and are incomplete. The presentation slides focus mainly on statewide assumptions and lack local assumptions related to staffing, one time purchases, and other items.   |                                     |                                     |                          |
| <b>3.4 Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs in accordance with Education Code Section 42142?</b> . . . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| <b>3.5 Do the district's responses fully explain the variances identified in the criteria and standards?</b>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| <b>3.6 Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the most recent and two prior fiscal years?</b> . . . . .  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| The county office has identified concerns about deficit spending and minimum reserve requirements, and expressed increased concerns about these in the district's 2023-24 first interim budget.   |                                     |                                     |                          |
| <b>3.7 Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure?</b> . . . . .   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| Interviews with staff indicate that business office staff regularly override the system controls when a requisition or purchase order exceeds the budget. Individuals stated that this is more common when donations that the district tracks will be used to backfill the shortfall in the budget. This process could result in budget overages. |                                     |                                     |                          |
| <b>3.8 Does the district encumber and adjust encumbrances for salaries and benefits?</b> . . . . .  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| <b>3.9 Are all balance sheet accounts in the general ledger reconciled at least at each interim report and at year end close?</b> . . . . .   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| Balance sheet accounts are not reconciled at interim reporting periods or year-end close. Staff indicated that this is an area in which the district is aware it needs improvement.   |                                     |                                     |                          |

- 3.10 For the most recent and two prior fiscal years, have the interim reports and the unaudited actuals been adopted and filed with the county superintendent of schools within the timelines established in Education Code?** . . . . . ☐ ☒ ☐

The district's unaudited actuals were filed late for 2021-22 and 2022-23 but were on time for 2020-21. All interim financial reports have been completed in a timely fashion.

## 4. Cash Management

- |   | Yes                                 | No                                  | 3N/A                                |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| <b>4.1 Are accounts held by the county treasurer reconciled with the district's and county office of education's reports monthly?</b> . . . . .   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| The district has not consistently reconciled its accounts held by the county treasurer. Staff reported that the district has started implementing procedures to complete these reconciliations monthly.   |                                     |                                     |                                     |
| <b>4.2 Does the district reconcile all bank (cash and investment) accounts with bank statements monthly?</b> . . . . .  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| Staff stated that not all accounts are consistently reconciled every month. The cash reconciliation forms are not reviewed or signed by a supervisor, and they lack documentation to show that reconciled statement balances match the district's financial system account balances at month end. |                                     |                                     |                                     |
| <b>4.3 Does the district forecast its general fund cash flow for the current and subsequent year and update it as needed to ensure cash flow needs are known?</b> . . . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <b>4.4 If the district's cash flow forecast shows insufficient cash in its general fund to support its current and projected obligations, does the district have a reasonable plan to address its cash flow needs for the current and subsequent year?</b> . . . . .                              | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <b>4.5 Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds?</b> . . . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <b>4.6 If interfund borrowing is occurring, does the district comply with Education Code Section 42603?</b> . . . . .   | <input type="checkbox"/>            | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| <b>4.7 If the district is managing cash in any fund(s) through external borrowing, does the district's cash flow projection include repayment based on the terms of the loan agreement?</b> . . . . .   | <input type="checkbox"/>            | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |

## 5. Charter Schools

- |   | Yes                                 | No                                  | N/A                      |
|---|-------------------------------------|-------------------------------------|--------------------------|
| <b>5.1 Does the district have a board policy or other written document(s) regarding charter oversight?</b> . . . . .  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| <b>5.2 Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?</b> . . . . . | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| The district is overseeing the charter school's business functions but could not provide evidence of similar oversight of the charter school's educational functions.               |                                     |                                     |                          |
| <b>5.3 Are all charters authorized by the district going concerns and not in fiscal distress?</b> . . . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |



- 5.4** 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? . . . . . ☒ ☐ ☐

## 6. Collective Bargaining Agreements

- |  | Yes                                 | No                                  | N/A                                 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| <b>6.1</b> Has the district settled with all its bargaining units for the past two fiscal years? . . . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <b>6.2</b> Has the district settled with all its bargaining units for the current year? . . . . .  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| Interviews indicated that, as of the 2023-24 first interim financial report, the district had not settled negotiations with the classified bargaining unit for 2023-24.  |                                     |                                     |                                     |
| <b>6.3</b> Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections? . . . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <b>6.4</b> 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 checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <b>6.5</b> In the current and prior two fiscal years, has the district settled the total cost of the bargaining agreements including step and column increases at or under the funded cost of living adjustment (COLA)? . . . . .  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <b>6.6</b> If settlements have not been reached in the past two years, has the district identified resources to cover the costs of the district's proposal(s)? . . . . .   | <input type="checkbox"/>            | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| <b>6.7</b> 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 checked="" type="checkbox"/> | <input type="checkbox"/>            |
| Of the five public disclosures reviewed in the district's board agenda materials from June 2022 to December 2023, one settlement agreement had no disclosure attached as required under Government Code 3547.5.  |                                     |                                     |                                     |
| <b>6.8</b> Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval? . . . . .  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| Of the five public disclosures reviewed in the district's board agenda materials from June 2022 to December 2023, only two disclosures were certified by the superintendent and CBO before board approval. One disclosure lacked a signature page; one disclosure had no signatures on the certification page; and one agreement had no disclosure or certifications attached for the public's review. |                                     |                                     |                                     |

6.9 Is the governing board's action consistent with the superintendent's and CBO's certification? ✓ ☐ ☐

## 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"/>
<p>The district has no board-approved plan to eliminate, reduce or control any contributions or transfers from the unrestricted general fund to restricted programs.</p> <p>The district has contributions only for special education and routine restricted maintenance in its 2023-24 first interim budget.</p>			
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 two prior 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"/>	✓

## 8. Deficit Spending (Unrestricted General Fund)

	Yes	No	N/A
8.1 Is the district avoiding deficit spending in the current fiscal year? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
<p>The 2023-24 first interim financial report projects deficit spending of \$298,364 in the unrestricted general fund in the current year. This amount includes a total of \$815,416 in transfers into the unrestricted general fund from the special reserve fund for other than capital outlay projects (Fund 17) and the capital facilities fund (Fund 25).</p>			
8.2 Is the district projected to avoid deficit spending in both of the two subsequent fiscal years? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
<p>The 2023-24 first interim financial report projects unrestricted deficit spending of \$23,774 in 2024-25 and \$3.258 million in 2025-26; these amounts include a total of \$2.285 million and \$825,416 in transfers into the unrestricted general fund from Fund 17 and Fund 25 in 2024-25 and 2025-26, respectively.</p>			
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 to ensure fiscal solvency? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
<p>As of its 2023-24 first interim financial report, the district lacked a board-approved plan to reduce and/or eliminate deficit spending to ensure fiscal solvency.</p>			

- 8.4 Has the district decreased deficit spending over the past two fiscal years?** . . . . . ☐ ☒ ☐

The district's 2021-22 unaudited actuals report indicated an unrestricted general fund surplus of \$688,274; however, its 2022-23 unaudited actuals report indicated a deficit of \$1.228 million.

## 9. Employee Benefits

- |   | Yes                                 | No                                  | N/A                      |
|---|-------------------------------------|-------------------------------------|--------------------------|
| <b>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)?</b> . . . . .  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| <b>9.2 Does the district have a plan to fund its liabilities for retiree health and welfare benefits with the total of annual required service payments (legal, contractual or locally defined such as pay-as-you-go premiums, trust agreement obligations, or a board adopted commitment) no greater than 2% of the district's unrestricted general fund revenues?</b> . . | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| <b>9.3 Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?</b> . . . . .   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| The district has a collectively bargained cap on vacation balances, but it is not enforced. Employees are allowed to carry over large amounts of vacation from year to year. Staff indicated that costly vacation payouts have been made when employees leave the district.   |                                     |                                     |                          |
| <b>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?</b> . . . . .   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| The district performs an eligibility determination only when its insurance vendors request it and has not done so in the past five years.   |                                     |                                     |                          |
| <b>9.5 Does the district track, reconcile and report employees' compensated leave balances?</b> . .   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| The district tracks leave balances, but reporting of those leaves is not consistent across the district. Staff indicated that these balances are likely inaccurate, and they were aware that this is an area in which the district needs to improve.  |                                     |                                     |                          |

## 10. Enrollment and Attendance

- |   | Yes                      | No                                  | N/A                      |
|---|--------------------------|-------------------------------------|--------------------------|
| <b>10.1 Has the district's enrollment been increasing or remained stable for the current and two prior years?</b> . . . . .   | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| According to <a href="#">DataQuest</a> , the district's enrollment has declined by an average of approximately 2.0% annually since 2014-15, resulting in a total decline of 14.6%, from 1,807 in 2014-15 to 1,512 in 2023-24. |                          |                                     |                          |
| <b>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)?</b> . . . . .  | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| The district does not have a process for monitoring or analyzing enrollment and ADA at least monthly through P-2.   |                          |                                     |                          |

<b>10.3</b>	<b>Does the district track historical enrollment and ADA data to establish future trends?</b> . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
	The district does not have a process for tracking historical enrollment and ADA by grade level and by school for use in enrollment projections.			
<b>10.4</b>	<b>Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels?</b> . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
<b>10.5</b>	<b>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?</b> . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
<b>10.6</b>	<b>Are the district's enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?</b> . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
<b>10.7</b>	<b>Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines?</b> . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
<b>10.8</b>	<b>Has the district planned for enrollment losses to charter schools?</b> . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
<b>10.9</b>	<b>Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students who meet the required qualifications are approved?</b> . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
<b>10.10</b>	<b>Does the district meet the student-to-teacher ratio requirement of no more than 24-to-1 for each school in grades TK-3 classes, or, if not, does it have and adhere to an alternative collectively bargained agreement?</b> . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>

## 11. Facilities

		Yes	No	N/A
<b>11.1</b>	<b>If the district participates in the state's School Facilities Program, has it met the required contribution for the Routine Restricted Maintenance Account?</b> . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
<b>11.2</b>	<b>Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects?</b> . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓
<b>11.3</b>	<b>Does the district properly track and account for facility-related projects?</b> . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓
<b>11.4</b>	<b>Does the district use its facilities fully in accordance with the Office of Public School Construction's loading standards?</b> . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
	The district did not provide the documents needed to analyze this.			
<b>11.5</b>	<b>Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget?</b> . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
	Staff indicated that the district operates in a reactive way to facility needs. As issues arise, if the budget is insufficient, budget lines are increased to provide for additional funding. This indicates that facility needs are not considered or properly budgeted for during budget development.			
<b>11.6</b>	<b>Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues?</b> . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
<b>11.7</b>	<b>If the district passed a Proposition 39 general obligation bond, has it met the requirements for audit, reporting, and a citizens' bond oversight committee?</b> . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓

- 11.8 Does the district have a long-range facilities master plan that reflects its current and  
 . . . . . ✓ ☐ ☐

## 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 Fund 01 and Fund 17) as defined by criteria and standards? . . . . ✓  | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/> |
| 12.2 Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years? . . . . . <input type="checkbox"/>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| The 2023-24 first interim financial report projects available reserves of 0.38% in 2024-25 and negative 10.94% in 2025-26, rather than the 3% minimum required reserve.   |                                     |                                     |                          |
| 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? . . . . . <input type="checkbox"/>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| The 2023-24 first interim multiyear financial projection lacked a board-approved plan to restore the minimum reserve for economic uncertainties in 2024-25 and 2025-26.   |                                     |                                     |                          |
| 12.4 Is the district's projected unrestricted fund balance stable or increasing in the two subsequent fiscal years? . . . . . <input type="checkbox"/>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| The 2023-24 first interim financial report projects a decline in the district's unrestricted general fund balance, from \$133,319 in 2023-24 to \$109,545 in 2024-25, and further to negative \$3.148 million in 2025-26. These amounts include a total of \$2.285 million and \$825,416 in transfers into the unrestricted general fund from Fund 17 and Fund 25 in 2024-25 and 2025-26, respectively. |                                     |                                     |                          |
| 12.5 If the district has unfunded or contingent liabilities or one-time costs other than post-employment benefits, does the unrestricted general fund balance include sufficient assigned or committed reserves above the recommended reserve level? . . . . <input type="checkbox"/>   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

## 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? . . . ✓  | <input type="checkbox"/>            | <input type="checkbox"/> | <input type="checkbox"/> |
| 13.2 Is the percentage of the district's general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the current year? . <input type="checkbox"/>              | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| The percentage of the unrestricted general fund allocated to salaries and benefits for the 2023-24 first interim budget was 91.47%, which exceeds the <u>statewide average of 87% as of 2021-22</u> (the latest data available). |                                     |                          |                          |

- 13.3** Is the percentage of the district's general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the two prior years? ☐ ☒ ☐

In the 2021-22 and 2022-23 unaudited actual, the percentages of the unrestricted general fund allocated to salaries and benefits were 92.40% and 89.33%, respectively. These figures exceed the statewide average of 87% from 2021-22 (the latest data available).

- 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 account for program costs, including the maximum allowable indirect costs, for each restricted resource and other funds? . . . . . ☐ ☒ ☐

The district is not charging the maximum allowable indirect rate to the two main federal and state special education resource codes, 3310 and 6500, respectively.

## 14. Information Systems and Data Management

- |   | Yes                                 | No                       | N/A                                 |
|---|-------------------------------------|--------------------------|-------------------------------------|
| <b>14.1</b> Does the district use an integrated financial and human resources system? . . . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |
| <b>14.2</b> Does the district use the system(s) to provide key financial and related data, including personnel information, to help the district make informed decisions? . . . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |
| <b>14.3</b> 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 checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |
| <b>14.4</b> Is the district using the same financial system as its county office of education? . . . . .  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |
| <b>14.5</b> If the district is using a separate financial system from its county office of education, is there an automated interface that allows data to be sent and received by both the district and county financial systems? . . . . .       | <input type="checkbox"/>            | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| <b>14.6</b> 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"/> | <input checked="" type="checkbox"/> |

## 15. Internal Controls and Fraud Prevention

- |   | Yes                      | No                                  | N/A                      |
|---|--------------------------|-------------------------------------|--------------------------|
| <b>15.1</b> Does the district have controls that limit access to its financial system and include multiple levels of authorization? . . . . . | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

The district uses the ESCAPE system, which is hosted and supported by the Santa Cruz County Office of Education. Although the system provides the controls needed to limit access, including multiple levels of authorization, staff indicated that some

employees have authorizations that do not provide for proper internal control and separation of duties. For example, an employee may have access to both change vendor information and process vendor payments, or to both input employee demographic information and process payroll. See question 15.3 below for additional information.

**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?** . . . . . ☒ ☐ ☐

**15.3 Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?:**

• **Accounts payable (AP)** . . . . . ☐ ☒ ☐

Accounts payable warrants (i.e., checks) are printed at the county office and are collected and distributed by the staff member who processed them. To provide better segregation of duties, the individual responsible for generating warrants should not have access to them after they are printed.

• **Accounts receivable (AR)** . . . . . ☐ ☒ ☐

One staff member generates invoices, enters payment information in the financial system, and prepares deposits for the district's facility rentals. To segregate these duties, the individual responsible for generating invoices should not have access to the payments received for those invoices.

Samples of county treasury and bank account reconciliations indicated that reconciliations are not reviewed by anyone other than the preparer. Neither the district office nor schools have a safe in which to secure assets, and the district's business office does not adequately monitor cash collection at schools.

• **Purchasing and contracts.** . . . . . ☐ ☒ ☐

The employee responsible for adding and modifying vendor information in the financial system also has access to make payments to vendors. To segregate these duties, the employee assigned to add and modify vendor information should not have access to make vendor payments.

Although staff reported that the district has set up a purchase requisition approval process in ESCAPE, they also indicated that purchase orders are not used for all purchases (e.g., those made with a district-issued credit card) and thus bypass the approval process.

Education Code 17604 states that no contract is valid or constitutes an enforceable obligation without the governing board's approval or ratification. Staff indicated that the district lacks clear policies and procedures regarding contract approvals, including information about who is authorized to sign contracts on behalf of the district, whether limits exist for contract terms or amounts, and which contracts require governing board approval or ratification.

• **Payroll** . . . . . ☐ ☒ ☐

Payroll warrants are printed at the county office and are collected and distributed by the staff members who processed them. To create a better segregation of duties, the individuals responsible for generating payroll warrants should not have access to them after they are printed.

No one in the district office is cross-trained to perform the payroll analyst's duties. Although the payroll analyst audits their own work, the district needs to ensure that a

supervisory employee who is not involved in processing the transactions reviews the payroll prelist before payroll is submitted to the county office.

- Human resources (i.e., duties relative to position control and payroll processes). . . . . ✓ ☐ ☐

- 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?** . . . . . ☐ ✓ ☐

The district did not post 2021-22 audit adjustments to beginning balances in 2022-23; therefore, the unaudited actual ending balances reported for 2022-23 were most likely incorrect.

- 15.5 Does the district review and work to clear prior year accruals throughout the year?** . . . . ✓ ☐ ☐

- 15.6 Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?** . . . . . ✓ ☐ ☐

- 15.7 Does the district have processes and procedures to discourage and detect fraud?** . . . . ☐ ✓ ☐

The district lacks sufficient internal controls to prevent and detect fraud.

- 15.8 Does the district have a process for collecting reports of possible fraud (such as an anonymous fraud reporting hotline) and for following up on such reports?** . . . . . ☐ ✓ ☐

The district lacks a formal process for collecting and following up on reports of fraud. Staff also indicated that the district lacks procedures for reporting fraud.

- 15.9 Does the district have an internal audit process?** . . . . . ☐ ✓ ☐

The district does not have an internal audit process.

## 16. Leadership and Stability

	Yes	No	N/A
<b>16.1 Does the district have a chief business official who has been with the district as chief business official for more than two years?</b> . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
The district has an interim CBO. The previous employee left the position in March 2024.			
<b>16.2 Does the district have a superintendent who has been with the district as superintendent for more than two years?</b> . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
<b>16.3 Does the superintendent meet on a scheduled and regular basis with all members of their administrative cabinet?</b> . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
<b>16.4 Is training on financial management and budget provided to site and department administrators who are responsible for budget management?</b> . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
Staff indicated that financial management and budget training is not provided to school and department managers. School and department administrators have varying levels of knowledge about financial management and budgets, and most are self-taught.			
<b>16.5 Does the governing board adopt and revise policies and administrative regulations annually?</b> ✓		<input type="checkbox"/>	<input type="checkbox"/>
<b>16.6 Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff?</b> . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>



- 16.7** Do all board members attend training on the budget and governance at least every two years? . . . . . ☒ ☐ ☐
- 16.8** Is the superintendent's evaluation performed according to the terms of the contract? . . . ☒ ☐ ☐

## 17. Multiyear Projections

- |  | Yes                                 | No                                  | N/A                      |
|--|-------------------------------------|-------------------------------------|--------------------------|
| <b>17.1</b> Has the district developed multiyear projections that include detailed assumptions aligned with industry standards? . . . . .  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| <p>The 2023-24 first interim board presentation lacks detailed assumptions for local factors that affect the district's multiyear projection, such as workers' compensation rates, health and welfare costs, and staffing changes. In addition, it does not adequately explain significant adjustments in revenue sources, including for federal and other state categories, and for restricted program balances. The multiyear projection indicates that the district plans to spend its entire restricted general fund balance as of June 30, 2025, which is unlikely based on the program balances estimated for the close of 2023-24, including school donations and expired program funds no longer available for use (e.g., the California Clean Energy Jobs Act).</p> |                                     |                                     |                          |
| <b>17.2</b> To help calculate its multiyear projections, did the district prepare an accurate LCFF calculation with multiyear considerations? . . . . .  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| <b>17.3</b> Does the district use its most current multiyear projection in making financial decisions? . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| <b>17.4</b> If the district uses a broad adjustment category in its multiyear projection (such as line B10, B1d, B2d Other Adjustments, in the SACS Form MYP/MYPI), is there a detailed list of what is included in the adjustment amount and are the adjustments reasonable? . . . . .  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| <p>In the district's multiyear projection, its explanations for adjustments on lines B1d and B2d are not detailed or reasonable. The 2023-24 first interim unrestricted multiyear projection shows an adjustment of \$75,000 (in B1d) and negative \$53,284 (in B2d) in 2024-25; however, the explanation speaks only about reducing additional work pay and limiting extra hours worked. Similarly, the restricted multiyear projection shows adjustments of negative \$316,216 and negative \$108,816 in 2024-25, but the explanation indicates only "reduction in additional hourly pay" and "limiting extra hours worked to help maintain positions."</p>  |                                     |                                     |                          |

## 18. Non-Voter-Approved Debt and Risk Management

- |  | Yes                      | No                                  | N/A                      |
|--|--------------------------|-------------------------------------|--------------------------|
| <b>18.1</b> 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"/> |
| <p>The district uses community redevelopment funds (not subject to LCFF deduction) as the primary source of repayment for its COPs (issued in 2009 and 2016) and for a financing agreement to purchase solar panel equipment (entered into in 2012). The</p>                                 |                          |                                     |                          |

district expects to continue receiving these funds but could not confirm their stability or expected term. Without this source or an alternative plan, the unrestricted general fund will become the primary source of repayment.

- |             |  |                          |                          |                          |
|-------------|--|--------------------------|--------------------------|--------------------------|
| <b>18.2</b> | If the district has issued non-voter-approved debt, has its credit rating remained stable or improved during the current and two prior fiscal years? . . . . .   | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>18.3</b> | If the district is self-insured, has the district completed an actuarial valuation as required and have a plan to pay for any unfunded liabilities? . . . . .  | <input type="checkbox"/> | <input type="checkbox"/> | ✓                        |
| <b>18.4</b> | 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? . . . . . | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |

The district's total annual debt service payment (principal and interest) for non-voter-approved debt (COPs and solar equipment financing) in 2023-24 is \$1,109,669, which exceeds 2% of the district's first interim unrestricted general fund revenues (\$20.497 million).

## 19. Position Control

- |  | Yes                      | No                       | N/A                      |
|--|--------------------------|--------------------------|--------------------------|
| <b>19.1</b> Does the district account for all positions and costs? . . . . .   | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>19.2</b> Does the district analyze and adjust staffing based on staffing ratios and enrollment? . . .   | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>19.3</b> Does the district reconcile budget, payroll and position control regularly, at least at budget adoption and interim reporting periods? . . . . .                     | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>19.4</b> Does the district identify a budget source for each new position before the position is authorized by the governing board? . . . . .                                 | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>19.5</b> Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted? . . . . .                                     | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>19.6</b> Do managers and staff responsible for the district's human resources, payroll and budget functions meet regularly to discuss issues and improve processes? . . . . . | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |

Staff reported that the district's human resources, payroll, and budget staff do not have regularly scheduled meetings to discuss issues and improve processes.

## 20. Special Education

- |  | Yes                      | No                       | N/A                      |
|--|--------------------------|--------------------------|--------------------------|
| <b>20.1</b> 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"/> |
| <b>20.2</b> 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"/> | ✓                        |
| <b>20.3</b> 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)?** . . . . . ☐ ☒ ☐

The district is accounting for all costs appropriately, except for indirect costs, which are not being charged to the primary state and federal resource codes used for special education (3310 and 6500, respectively). Other special education resources were being charged indirect costs at the maximum allowable rate of 7.88% in 2022-23.

**20.5 Is the district's contribution rate to special education at or below the statewide average contribution rate?** . . . . . ☒ ☐ ☐

**20.6 Is the district's rate of identification of students as eligible for special education at or below the countywide and statewide average rates?** . . . . . ☐ ☒ ☐

According to [DataQuest](#), the district's overall identification rate was 13.77% in 2022-23 (the latest data available). The statewide average identification rate for 2022-23 was 13.07%, per [DataQuest](#). The countywide identification rate for Santa Cruz County in 2022-23 was 12.24%.

**20.7 Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period?** . . . . . ☐ ☒ ☐

The district does not report that status of its maintenance of effort at the interim reporting periods.

**Risk Score, 20 numbered sections only:**

**40.3%**

**Key to Risk Score from 20 numbered sections only:**

High Risk: 40% or more

Moderate Risk: 25-39.9%

Low Risk: 24.9% and lower

**District Fiscal Solvency Risk Level, all FHRA factors:**

**High**

(The existence of any condition from the Budget and Fiscal Status section, and/or a material weakness, will supersede the score above because it elevates the district's risk level.)

# Appendix

## Study Agreement



**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM  
STUDY AGREEMENT  
FOR TRIGGERED FISCAL HEALTH RISK ANALYSIS**

This study agreement, hereinafter referred to as Agreement, is made and entered into by and between the Fiscal Crisis and Management Assistance Team, hereinafter referred to as the Team or FCMAT, and the Live Oak School District, hereinafter referred to as the Client; collectively, FCMAT and Client are hereinafter referred to as the Parties. This Agreement shall become effective from the date of execution hereof by FCMAT.

**1. BASIS OF AGREEMENT**

FCMAT provides a variety of services to local education agencies (LEAs) as authorized by Education Code (EC) 42127.8(d) and 84041. In accordance with state budget act provisions, FCMAT will study the Client's fiscal health because the county superintendent of schools downgraded the Client's 2023-2024 first interim financial report from qualified to negative in accordance with EC 42131.

FCMAT will assign professionals to conduct the study. The professionals will include FCMAT staff and may include professionals from county offices of education, school districts, charter schools, community colleges, other public agencies or private contractors. All professionals assigned shall work under the direction of FCMAT. All work shall be performed in accordance with the terms and conditions of this Agreement.

FCMAT will notify the Client's county superintendent of schools of this Agreement.

**2. SCOPE OF THE WORK**

**A. Scope and Objectives of the Study**

Prepare an analysis using the 20 factors in FCMAT's [Fiscal Health Risk Analysis](#) (FHRA) and identify the Client's specific risk rating for fiscal insolvency.

**B. Services and Products to be Provided**

**1. Orientation Meeting**

The Team will conduct an orientation session at the Client's location to brief the Client's management and supervisory personnel on the Team's procedures and the purpose and schedule of the study. This orientation meeting is normally held at the beginning of fieldwork for the study.

**2. Fieldwork**

The Team will conduct fieldwork at the Client's office and/or school site(s), or other locations as needed. Limited fieldwork may also be conducted remotely via telephone or videoconferencing services, in addition to the Public Safety Considerations outlined in Section 13 below.

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3. Exit Meeting

The Team will hold an exit meeting at the conclusion of the fieldwork to inform the Client of the status of the study. The exit meeting will include a review of the scope of work; outstanding items, including documents, data and interviews not yet received or held; and the estimated timeline for a draft report. The meeting will not memorialize details regarding findings because the Team's conclusions may change after a complete analysis is finished. Exceptions to this will be findings of immediate health and safety concerns for students or staff, and other time-sensitive items that include the potential for risk or exposure to loss.

4. Exit Letter

Approximately five business days after the exit meeting, the Team will issue an exit letter briefly memorializing the topics discussed in the exit meeting.

5. Draft Report

An electronic copy of a preliminary draft report will be delivered to the Client's point of contact identified below for review and comment.

6. Final Report

An electronic copy of the final report will be delivered to the Client's point of contact and to the Client's county superintendent of schools following completion of the study. FCMAT's work products are public and all final reports are published on the FCMAT website.

7. Board Presentation

Presentations to the Client's board will be made depending on the Client's risk rating. If the risk rating is low, the board presentation is optional and will be considered at the request of the Client. If the risk rating is moderate or high, the Team will make a board presentation at the Client's first regularly scheduled board meeting following the issuance of the final report. If the Team is unable to present at the first regularly scheduled board meeting following the issuance of the final report, the Team will make a board presentation at a regularly scheduled board meeting that is mutually agreeable to the Parties.

**3. PROJECT PERSONNEL**

The personnel assigned to the study will be led by a FCMAT staff person (job lead) and will include at least one other professional. FCMAT will notify the Client of the assigned personnel when the fully executed copy of this Agreement is returned to the Client.

FCMAT will communicate to the Client any changes in assigned project personnel.

**4. PROJECT COSTS**

Pursuant to the state budget act, costs for the study will be covered by a specific state appropriation for this purpose. FCMAT will not charge the Client for any costs.



**5. RESPONSIBILITIES OF THE CLIENT**

- A. Return current organizational chart(s) that show the Client's management and staffing structure with the signed copy of this Agreement. Organizational charts should be relevant to the scope of this Agreement.
- B. Provide private office or conference room space for the Team's use during fieldwork.
- C. Provide for a Client employee to upload all requested documents and data to FCMAT's online SharePoint repository per FCMAT's instructions. Provide FCMAT with the name and email of the person who will be responsible for collecting and uploading documents requested by FCMAT with the signed copy of this Agreement.
- D. Provide documents and data requested on the Team's initial and supplementary document request list(s) by the date requested.

All documents and data provided shall be responsive to FCMAT's request, in quality condition, readable and in a usable form. With few exceptions, documents and data requested are public records and records maintained by LEAs in the routine course of doing business. Some data requested may require exporting LEA financial system reports to Microsoft Excel or another usable format agreed to by FCMAT.

All documents shall be provided to FCMAT in electronic format, labeled as instructed by FCMAT. Upon approval of this Agreement, access will be provided to FCMAT's online SharePoint repository, to which the Client will upload all requested documents and data.

- E. Ensure appropriate senior-level staff are available for the orientation and exit meetings.
- F. Facilitate access to requested board members, officers and staff for interviews.
- G. Facilitate access to requested information and facilities to include, but not be limited to, files, sites, classrooms and operational areas for observation.
- H. Review a draft of the report and return it to FCMAT by the date FCMAT requests with any comments regarding the accuracy of the report's data or the practicability of its recommendations. The Team will review this feedback in a timely manner and make any adjustments it deems necessary before issuing the final report.
- I. Return the requested evaluation survey to FCMAT as described below.

**6. PROJECT SCHEDULE**

Time is of the essence. The Parties acknowledge that the goal of the scope and objectives of the study under this Agreement is to produce a timely and thorough report that adds value for the Client. This goal is especially important given that the Client has experienced an event described under Basis of Agreement that may indicate fiscal distress. To accomplish this goal, the Parties agree to communicate and mutually agree to honor established time commitments. These commitments include the Client providing requested documents, setting and keeping interview appointments and returning comments on the draft report consistent with the established project schedule.

The following project schedule milestones will be established by FCMAT upon receipt of a signed Agreement from the Client:

ACTION	TIMELINE
FCMAT provides Client with a draft Agreement.	Draft Agreements are usually provided within 20 business days of the Client's triggered event.
Client returns partially executed Agreement to FCMAT along with the applicable organizational chart and the name and email of the person who will be responsible for collecting and uploading documents requested by FCMAT.	Draft Agreements are valid for 30 business days.
FCMAT returns a fully executed Agreement to the Client and identifies the project schedule and the lead and other personnel assigned to the job.	Within five business days of the Client's return of the signed Agreement.
Client uploads initial requested documents and data to FCMAT's online SharePoint repository.	Within five business days of the Client's receipt of the FCMAT document and data request list.
Fieldwork	Mutually agreed upon; usually, to commence within five business days of FCMAT's receipt of requested documents and data.
Orientation meeting	First day of fieldwork
Exit meeting	Last day of fieldwork
Follow up fieldwork, if needed (e.g., rescheduled interview, additional interviews).	Mutually agreed upon; usually, within five business days of FCMAT's request.
Client uploads supplemental documents and data to FCMAT's online SharePoint repository.	Within two business days of the Client's receipt of FCMAT's supplemental document and data request(s).
Draft report submitted to the Client.	To be determined, usually, within four weeks of the conclusion of fieldwork and receipt of all documents and data requested.
Client comments on draft report	Within five business days of FCMAT providing a draft report to the Client.

The Client acknowledges that project schedule deadlines build upon and are contingent on each previous deadline. Missed deadline dates will affect future deadline dates and ultimately the timing of the final report. For example, if the Client does not provide requested documents and data by the specified date, the fieldwork may not be able to proceed as originally planned.



FCMAT acknowledges that the Client has an educational program to administer, is balancing many priorities, and in some cases may have records management difficulties, staffing capacity issues, staff on various types of leave, or other circumstances, all of which will affect the project schedule.

The Parties commit to regular communication and updates about the study schedule and work progress. FCMAT may modify the usual timelines as needed.

## **7. COMMENCEMENT, TERMINATION AND COMPLETION OF WORK**

FCMAT will commence work as soon as it has assembled an available and appropriate study team, taking into consideration other jobs FCMAT has previously undertaken, assignments from the state, and higher priority assignments due to fiscal distress. The Team will work expeditiously to complete its work and deliver its report, subject to the cooperation of the Client and any other related 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 report. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a final report once fieldwork has been completed.

FCMAT may terminate this Agreement at any time if the Client fails to cooperate with the requested project schedule, provide requested documents and data and/or make staff available for interviews as requested by FCMAT. If FCMAT terminates the Agreement, FCMAT will issue a management letter in lieu of the final report explaining the reasons why FCMAT terminated the Agreement and reporting on any FHRA elements for which data was collected and a conclusion could be reached.

## **8. INDEPENDENT CONTRACTOR**

FCMAT is an independent contractor and is not an employee or engaged in any manner with the Client. 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 Client in any manner without prior express written authorization from an officer of the Client.

## **9. RECORDS**

The Client understands and agrees that FCMAT is a state agency and all FCMAT reports are public records and are published on the [FCMAT website](#). Supporting documents and data in FCMAT's possession may also be public records and will be made available in accordance with the provisions of the California Public Records Act.

FCMAT has a records retention policy and practice, and every effort will be made to maintain records related to this Agreement in accordance with this policy.

## **10. CONTACT WITH PUPILS**

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

**11. 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 Client, automobile liability insurance in the amount required by California state law, and workers' compensation as required by California state law. Upon the request of the Client and receipt of the signed Agreement, FCMAT shall provide certificates of insurance indicating applicable insurance coverages.

**12. HOLD HARMLESS**

FCMAT shall hold the Client, its board, officers, agents, and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of FCMAT's board, officers, agents and employees undertaken under this Agreement. Conversely, the Client shall hold FCMAT, its board, officers, agents, and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of the Client's board, officers, agents and employees undertaken under this Agreement.

**13. PUBLIC SAFETY CONSIDERATIONS**

Whether due to public health considerations, extreme weather conditions, road closures, other travel restrictions or interruptions, shelter-at-home orders, LEA closures or other related considerations, at FCMAT's sole discretion, the Scope of Work, Project Costs, Responsibilities of the Client, and Project Schedule (Sections 2, 4, 5 and 6 herein) and other provisions herein may be revised. Examples of such revisions may include, but not be limited to, the following:

- A. Orientation and exit meetings, interviews and other information-gathering activities may be conducted remotely via telephone, videoconferencing, or other means. References to fieldwork shall be interpreted appropriately given the circumstances.
- B. Activities performed remotely that are normally performed in the field shall be billed hourly as if performed in the field (excluding out-of-pocket costs that can otherwise be avoided).
- C. The Client may be relieved of its duty to provide conference and other work area facilities for the Team.

**14. FORCE MAJEURE**

Neither party will be liable for any failure or delay in the performance of this Agreement due to causes beyond the reasonable control of the party, except for payment obligations by the Client.

**15. EVALUATION**

In the interest of continuous improvement, FCMAT will provide the Client with an evaluation survey at the conclusion of the services. FCMAT appreciates the Client's honest assessment of the Team's services and process. The Client shall return the evaluation survey within 10 business days of receipt.

**16. CLIENT CONTACT PERSON**

The Client's contact person designated below shall be the primary contact person for FCMAT to use in communicating with the Client on matters related to this Agreement. At any time when this Agreement or FCMAT's process requires that FCMAT send information, document request lists, draft report or final report, or when FCMAT makes other requests for the Client to act upon, this is the person whom FCMAT will contact. The Client may change the contact person upon written notice to FCMAT's job lead assigned to the study.

Name: Hanwool Kim, Assistant Superintendent of Business Services

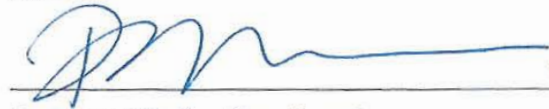
Telephone: (831) 475-6333

Email: [hkim@losd.ca](mailto:hkim@losd.ca)

**17. SIGNATURES**

Each individual executing this Agreement on behalf of a party hereto represents and warrants that he or she is duly authorized by all necessary and appropriate action to execute this Agreement on behalf of such party and does so with full legal authority.

For Client:



Dr. Daisy Morales, Superintendent  
Live Oak School District

2/12/24

Date

For FCMAT:

**Michael H. Fine**

Digitally signed by Michael H. Fine  
Date: 2024.02.16 12:39:13 -08'00'

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

Date