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

Huntington Beach City Elementary School District

Multiyear Financial Projection and Processes Review

June 7, 2019

Michael H. Fine
Chief Executive Officer

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

June 7, 2019

Gregg Haulk, Superintendent
Huntington Beach City Elementary School District
8750 Dorsett Drive
Huntington Beach, CA 92646

Dear Superintendent Haulk:

In December 2018, the Huntington Beach City Elementary School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to provide management assistance. Specifically, the agreement states that FCMAT will perform the following:

1. Review the district's 2018-19 first interim general fund budget and use it as a baseline to develop a multiyear financial projection (MYFP) for the current and two subsequent fiscal years. The MYFP will be a snapshot in time of the district's current financial status.

2. Review operational processes and procedures for the fiscal services department and provide recommendations for improved efficiency, if any, in the following areas:

   - Budget Development
   - Budget Monitoring
   - Accounts Payable
   - Accounts Receivable
   - Payroll

During FCMAT's fieldwork, the district and FCMAT agreed that the district's 2018-19 second interim budget, rather than the 2018-19 first interim budget, would be used as the baseline for developing the MYFP.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the Huntington Beach City Elementary School District, and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

Michael H. Fine
Chief Executive Officer

FCMAT
Michael H. Fine , Chief Executive Officer
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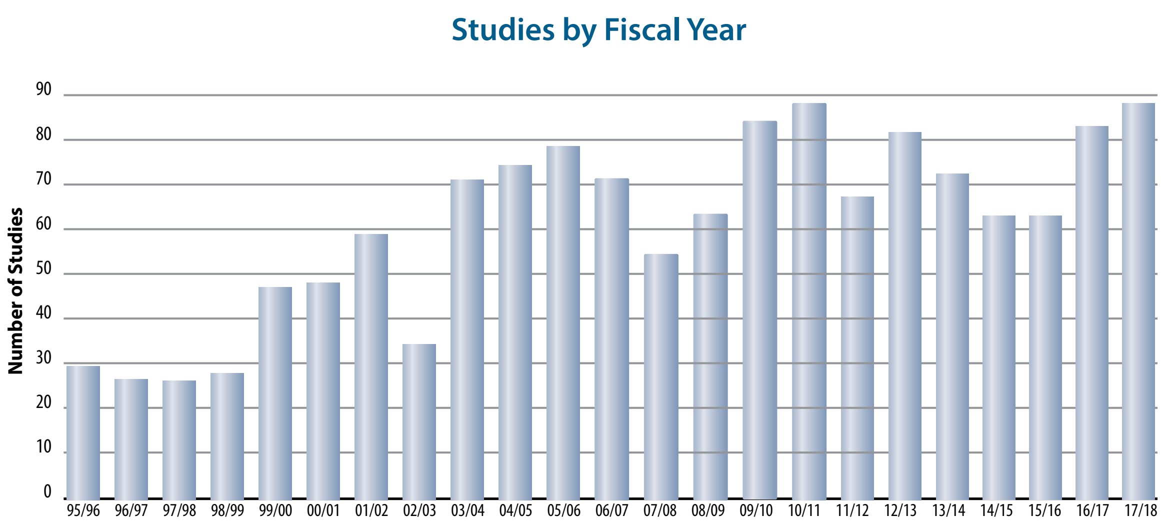
About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the LEA to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms.



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS' mission.

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

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

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

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

Introduction

Background

Located in Orange County, the Huntington Beach City Elementary School District has a five-member governing board. The district serves approximately 6,650 K-8 students at two middle schools, seven elementary schools and has authorized one charter school. The district also offers a preschool academy program with approximately 143 students enrolled. The district's student enrollment has been declining since fiscal year 2016-17 based on the October 2019 enrollment count. The percentage of the district's students who qualify for free and reduced-price meals, are English learners, or are foster youth, is 21.31%. On November 8, 2016, voters in the district approved Measure Q, a bond measure to help meet the district's facilities needs.

In December 2018, the Huntington Beach City Elementary School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for management assistance to develop a multiyear financial projection (MYFP) for the district's 2018-19 general fund budget and the two subsequent fiscal years to validate the district's financial status. During FCMAT's fieldwork, the district and FCMAT agreed that the 2018-19 second interim budget, rather than the 2018-19 first interim budget, would be used as a baseline for developing the MYFP.

Study and Report Guidelines

FCMAT visited the district on March 5-7, 2019 to conduct interviews, collect data and begin reviewing documents. District staff continued to provide, and FCMAT reviewed, requested documents through April 2019. This report is the result of those activities and is divided into the following sections:

- Executive Summary
- Multiyear Financial Projections
- Operational Processes and Procedures
- Appendices

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 study team was composed of the following members:

Jennifer Noga, CFE
FCMAT Intervention Specialist

Brenda Yardeen
FCMAT Consultant

John Lotze
FCMAT Technical Writer

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

Executive Summary

One of FCMAT's main objectives in this study was to review and validate the district's general fund budget using the district's 2018-19 second interim financial report as the baseline for developing an independent multiyear financial projection for the current and two subsequent fiscal years.

Multiyear financial projections provide the board and the district's administration with a fiscal planning framework that will enable them to make informed decisions that strategically address current and future budget challenges. In developing and implementing the multiyear financial projection, the district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. Projections are a part of annual budget development and should be evaluated and updated during each interim financial reporting period and before any significant budget adjustments, such as salary increases.

Enrollment and average daily attendance (ADA) projections are essential components of any MYFP. The district's enrollment has been declining since 2016-17, and the enrollment and ADA projections continue that pattern of decline for 2018-19 and the two subsequent fiscal years.

FCMAT's multiyear financial projection indicates that the district may not be able to maintain a 3% reserve for economic uncertainties in 2020-21 if it does not take steps to increase revenue and/or decrease expenditures. Following is a summary of FCMAT's projections for the district's unrestricted resources.

General Fund
Unrestricted Resources Only

Description	Base Year 2018-19	Year 1 2019-20	Year 2 2020-21
Total Revenues	$58,436,983	$57,824,898	$58,578,971
Total Expenditures	$50,619,941	$52,150,293	$52,768,764
Total Other Financing Sources/Uses	($8,894,289)	($9,399,321)	($9,690,275)
Net Increase (Decrease) in Fund Balance	($1,077,247)	($3,724,716)	($3,880,068)
Fund Balance:			
Beginning Balance	$8,245,539	$7,168,292	$3,443,576
Audit Adjustments	$0	$0	$0
Other Restatements	$0	$0	$0
Total Ending Balance	$7,168,292	$3,443,576	($436,492)
Components of Ending Fund Balance			
Revolving Cash	$15,000	$15,000	$15,000
Stores	$20,000	$20,000	$20,000
Other Assignments	$4,445,816	$319,000	$310,000
3% Reserve for Economic Uncertainties	$2,061,102	$2,132,507	$2,151,070
Undesignated/Unappropriated	$626,374	$957,069	($2,932,562)

Rounding used in calculations.

When a district's unappropriated fund balance is negative, as shown above, it is the amount by which budgeted expenditures must be reduced or revenues increased to meet the reserve requirements in accordance with Assembly Bill (AB) 1200. Multiyear financial planning is a critical exercise that enables a district to make budget changes to avoid a negative balance and provide an optimal way to restore fiscal health.

Based on these projections, the governing board and district administration may need to make and implement difficult budget decisions. Unless revenue is increased or current average daily attendance (ADA) declines are stabilized, the district will need to implement expenditure reductions to balance its general fund budget and remain fiscally solvent.

Findings and Recommendations

Multiyear Financial Projections

Multiyear financial projections (MYFPs) are required by Assembly Bill (AB) 1200 and AB 2756 and are a part of the adopted budget and interim reporting process. AB 1200 was signed into law in 1991, and AB 2756 was signed into law in June 2004 and made substantive changes to the financial accountability and oversight used to monitor the fiscal position of school districts and county offices of education. Among other things, AB 2756 strengthened the roles of the state superintendent of public instruction (SPI) and county offices of education and their ability to intervene during fiscal crises, including requesting assistance from FCMAT.

Education Code (EC) sections 42127 and 42130 establish requirements for districts' governing boards and county superintendents regarding budget adoption and interim financial reporting. An integral component of EC 42127 is that it requires a district's governing board to demonstrate that the budget will allow the district to meet its financial obligations in the current and two subsequent fiscal years.

Any projection of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria including changes in enrollment, cost-of-living adjustments, estimates for utilities, supplies and equipment, and changing economic conditions at the state, federal and local levels. Therefore, a budget projection should be evaluated as a trend based on certain criteria and assumptions instead of a prediction of exact numbers.

Multiyear projections can become somewhat less reliable in a time of fiscal instability, especially in the subsequent fiscal years, because projected revenue information from the state may change frequently. However, an MYFP still provides guidance for decisions that affect multiple fiscal years, and a district must continue to update and reassess the ramifications of state-imposed budget adjustments.

Multiyear financial projections help provide the district's board and administration with a framework for fiscal planning that can enable them to make more informed decisions and project the future effect of current decisions. Projections are a required part of annual budget development and must be evaluated and updated during each interim financial reporting period. They should also be updated before any significant decisions are made that affect the budget, such as salary increases. When developing and implementing its MYFP, a district's main objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The MYFP helps identify specific planning milestones that can help the district make decisions.

Financial planning is crucial for every local educational agency (LEA), regardless of its size or structure. Long-term financial planning helps a district strategically align its budget with its instructional goals and programs. In addition, recognizing financial trends is essential to maintaining a district's fiscal health. Monitoring and analyzing year-to-year trends in key budget areas helps a district evaluate its budget direction and highlight possible areas of concern.

Assembly Bill (AB) 1200 Oversight

If at any time during the fiscal year a district is unable to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district's governing board and the SPI.

The county superintendent of schools is required to follow Education Code (EC) Section 42127.6 when assisting a school district in this situation. Assistance may include assigning a fiscal expert or fiscal advisor, conducting a study of the district's financial and budgetary conditions, requiring a district to update its projected fund and cash balances, and/or requiring the district to disclose all contracts and multiyear commitments. The MYFP is intended to help the county office of education and the district create a stabilization and fiscal recovery plan to regain fiscal solvency and restore the required general fund reserve.

In accordance with EC sections 42131(b) and 42131(e), upon filing a qualified or negative second interim report, the school district:

> . . . shall provide to the county superintendent of schools, the Controller, and the Superintendent no later than June 1, financial statement projections of the school district's fund and cash balances through June 30 for the period ending April 30. [EC 42131(e)]

In the above circumstances, EC 42130 through 42131(e) require a district to project its fund and cash balances through June 30 for the period ending April 30, in what is sometimes known as a third interim report.

AB 2756 mandates a high level of county office scrutiny and oversight. The county office may require a budget review committee to provide a fiscal recovery plan per EC Section 42127(f)(1). In addition, EC Section 42127.6 requires a district to comply with requests from and conditions set by the county office, including the assignment of a fiscal advisor.

As the district works with the county office, its business office will need to ensure that its multiyear financial and cash flow projections are kept up to date and that the information they contain is accurate and based on the most current economic assumptions.

Multiyear Financial Projection Method

LEAs use many different software products to prepare MYFPs. To create an MYFP for the district, FCMAT used its Budget Explorer web-based software, which is designed for California school districts and is available free of charge.

Budget Explorer allows school districts to create and update financial projections by interfacing with the state's standardized account code structure (SACS) software or importing data directly from a district's financial system. Its comprehensive modeling capabilities allow MYFPs to be produced efficiently, accurately and more rapidly than with conventional spreadsheets. Budget Explorer can be used to make more informed budget decisions and to include educational goals and objectives in several financial scenarios. The MYFP provided in this document is also available to the district online.

Enrollment, Unduplicated Pupil Count, and Average Daily Attendance

Enrollment and average daily attendance (ADA) projections are essential components of any MYFP. The district's enrollment has been declining since 2016-17, and the enrollment and ADA projections continue that pattern of decline for the 2018-19 and the two subsequent fiscal years. Enrollment projections help identify changes that may significantly affect a district's estimated revenue in subsequent years. When prepared in a timely manner, they also provide key information for determining instructional priorities, grade level configurations, and/or potential boundary changes.

Historical enrollment and attendance patterns help identify potential changes in grade level enrollment in future years. The majority of a school district's funding is based on the Local Control Funding Formula (LCFF), which contains numerous calculations, many of which are based on student enrollment and ADA by grade level.

Any enrollment and ADA projection has inherent limitations because it is based on certain criteria and assumptions rather than exact calculations. Limitations include issues such as the unpredictable timing of housing trends, unanticipated changes in enrollment, and changing local, state and federal economic conditions. Therefore, the projection should be viewed as a trend rather than as a prediction of exact numbers. To maintain the most accurate and meaningful data, enrollment projections need to be updated at least at each interim financial reporting period.

When enrollment and ADA are unchanged or declining, as is the case with the district over the past three years, the district must exercise extreme caution regarding collective bargaining, staffing, deficit spending and other issues that affect the budget so that it can maintain fiscal solvency. Diligent planning will enable the district to gain a better understanding of its financial objectives and develop strategies to achieve them.

In developing the MYFP, FCMAT reviewed the district's enrollment and ADA trends from 2013-14 through 2018-19 for all grades.

Enrollment

For its enrollment projections for grades 1 through 12, FCMAT used the cohort survival method, which groups students by grade level on entry and tracks them through each year they stay in school. This method evaluates the longitudinal data on the number of students who pass from one grade to the next in the subsequent year. In doing so, it closely accounts for retention, dropouts, and new and departing students grade by grade. Although other projecting techniques are available, the cohort survival method usually is the best choice for school districts because of its sensitivity to incremental changes in several key variables. The enrollment projections take into account multiple variables that could account for an increase or decrease in the size of a grade's cohort as it progresses over time.

The method for projecting kindergarten enrollment differs from other grades because little data is available on the presence of four and five-year-old children who may enroll in the district the following year. The industry standard method for projecting kindergarten enrollment is to identify the number of children who enroll in kindergarten and express this as a percentage of the countywide births five years earlier.

However, for small districts, evaluating and applying historical averages of the number of kindergarten students is usually a simpler approach. FCMAT used a five-year historical average to project kindergarten enrollment for the district.

The district currently uses DecisionInsite to generate enrollment forecasts. DecisionInsite provides the option for, and the district uses, a moderate forecast for facilities planning and a conservative forecast for fiscal and staff planning. DecisionInsite's conservative estimate is slightly higher than FCMAT's enrollment projections. However, the enrollment projections used by the district in the Local Control Funding Formula (LCFF) calculator do not match either of the enrollment projections from DecisionInsite. In addition, the district projected unchanging enrollment for the two subsequent years of its projection, which is not consistent with the district's historical declining enrollment trends.

Unduplicated Pupil Count

Some LCFF funding (specifically, supplemental and concentration grant funding) is determined based on the unduplicated pupil percentage (UPP), which is the percentage of the district's students who are eligible for free or reduced-priced meals, or who are English learners, or who are foster youth (unduplicated means that each student is counted only once, even if they meet more than one of the three criteria). The UPP is based on a three-year rolling average of the ratio of unduplicated students enrolled to total enrollment. FCMAT used a two-year historical average for this factor.

Average Daily Attendance

The second period principal apportionment (P-2) ADA is calculated based on student attendance from the first day of school through the last school month ending on or before April 15. Average daily attendance is used to calculate the district's LCFF apportionment and many other federal and state revenue sources. District LCFF apportionments are based on the greater of current or prior year P-2 ADA.

FCMAT reviewed the district's enrollment and ADA trends for 2013-14 through 2017-18, and its October 2018 enrollment data. The review compared California Longitudinal Pupil Achievement Data System (CALPADS) student enrollment counts to the P-2 ADA to determine the average ADA-to-enrollment ratios. Historical data indicates that the district has experienced declining enrollment in four of the five fiscal years reviewed. FCMAT's projections indicate that enrollment will continue to decline in the next two years. However, the district will need to carefully monitor and project enrollment and ADA at each reporting period to ensure the most recent data is included in its budget assumptions.

The district's business office staff prepared basic ADA projections for budgeting in the two subsequent years of the multiyear financial projection. However, these projections did not assess the changes in enrollment as each grade level cohort progresses into subsequent grade levels in future years, nor did they project ADA based on historical ADA-to-enrollment ratios. This may not be a significant issue during periods of unchanging enrollment and ADA; however, if enrollment and ADA are increasing or decreasing, revenue and expenditures projected in using the method the district employs become less accurate.

FCMAT's enrollment and ADA projections are more conservative than what the district used for its second interim budget; FCMAT projects that enrollment will decline by 99 students in 2019-20 and by 120 students in 2020-21, and that ADA will decline by 88.88 in 2019-20 compared to the prior year and by 119.45 in 2020-21 compared to the prior year.

The following table was developed using the cohort survival method for enrollment projections, which is part of FCMAT's Budget Explorer online projection software. The table shows the district's historical enrollment trends and FCMAT's projections for enrollment and ADA.

Historical and Projected Enrollment and ADA

Enrollment	Historical 5 2013-14	Historical 4 2014-15	Historical 3 2015-16	Historical 2 2016-17	Historical 1 2017-18	Base Year 2018-19	Year 1 2019-20	Year 2 2020-21
K	773	707	780	732	752	731	727	719
1	692	687	659	705	639	691	660	656
2	751	683	751	654	720	666	712	679
3	780	759	728	756	646	737	675	720
Subtotal (K-3)	2,996	2,836	2,918	2,847	2,757	2,825	2,774	2,774
4	793	781	820	731	758	676	758	693
5	777	796	810	825	748	756	683	765
6	751	817	836	826	818	743	759	683
Subtotal (4-6)	2,321	2,394	2,466	2,382	2,324	2,175	2,200	2,141
7	859	775	826	854	827	825	750	766
8	826	859	798	834	865	833	835	758
Subtotal (7-8)	1,685	1,634	1,624	1,688	1,692	1,658	1,585	1,524
Subtotal excluding Charter Schools	7,002	6,864	7,008	6,917	6,773	6,658	6,559	6,439
Charter Schools	0	0	0	238	300	294	294	294
Total	7,002	6,864	7,008	7,155	7,073	6,952	6,853	6,733

P-2 ADA	Historical 5 2013-14	Historical 4 2014-15	Historical 3 2015-16	Historical 2 2016-17	Historical 1 2017-18	Base Year 2018-19	Year 1 2019-20	Year 2 2020-21
K-3	2,933.48	2,802.92	2,833.24	2,757.91	2,682.90	2,744.50	2,698.51	2,696.57
4-6	2,266.55	2,348.14	2,385.11	2,304.20	2,245.56	2,103.07	2,129.16	2,070.56
7-8	1,653.60	1,578.70	1,556.64	1,618.63	1,628.71	1,591.69	1,522.71	1,463.80
Total excluding Charter Schools	6,853.63	6,729.76	6,774.99	6,680.74	6,557.17	6,439.26	6,350.38	6,230.93
COE Comm Schs / Spec Ed	21.98	24.11	18.28	21.60	17.28	17.28	8.47	8.47
Charter schools	0.00	0.00	0.00	223.30	280.53	280.19	280.19	280.19
Total	6,875.61	6,753.87	6,793.27	6,925.64	6,854.98	6,735.10	6,646.22	6,526.77

Enrollment Factors	Historical 5 2013-14	Historical 4 2014-15	Historical 3 2015-16	Historical 2 2016-17	Historical 1 2017-18	Base Year 2018-19	Year 1 2019-20	Year 2 2020-21
K-3	0.9791	0.9883	0.9710	0.9687	0.9731	0.9709	0.9722	0.9715
4-6	0.9765	0.9808	0.9672	0.9673	0.9662	0.9669	0.9678	0.9671
7-8	0.9814	0.9662	0.9585	0.9589	0.9626	0.9600	0.9607	0.9605
Charter Schools	0.0000	0.0000	0.0000	0.9378	0.9351	0.9365	0.9365	0.9365

As indicated in the above table, the district has a negative grade level progression from kindergarten to first grade. This means that it loses students as a student cohort progresses from one grade level to another. In addition, the projection shows a negative grade level progression for grades four and five from fiscal year 2017-18 to 2018-19.

Revenue and Expenditure Assumptions

The MYFP developed by FCMAT, which can be found in its entirety in Appendix B, uses the district's 2018-19 second interim financial report and the corresponding SACS data file as the baseline.

FCMAT used budget assumptions based on the 2018-19 State Budget Act, the governor's proposal for the 2019-20 budget, School Services of California's (SSC's) Financial Projection Dartboard (Appendix A), and California Department of Finance estimates for LCFF funding factors.

To verify the base year (2018-19) for the multiyear projection, FCMAT did the following:

- Reviewed internal and third-party support documentation to verify the district's current year revenue.
- Reviewed the district's actual year-to-date and prior year's revenue and expenditure detail to identify potential adjustments in each resource and major object code of the general fund.
- Compared certificated and classified employee salary and benefit information budgeted at second interim to actual year-to-date expenditures, and projected costs for the remainder of the fiscal year.

FCMAT conducted interviews with staff and used a number of district documents to develop a baseline and future assumptions for the MYFP. Documents used included the following:

- District chart of accounts
- 2017-18 unaudited actuals
- 2018-19 adopted budget report
- 2018-19 first interim report
- 2018-19 second interim report
- Monthly actuals financial data report for 2017-18 and for 2018-19 through February 2019
- Position control report

- Collective bargaining disclosures
- Long-term debt schedules
- District LCFF calculator spreadsheet
- Enrollment information, including California Basic Educational Data System (CBEDS) and CALPADS data for the current and five prior fiscal years
- Attendance reports for 2013-14 through 2018-19
- Annual independent audit reports for 2015-16, 2016-17 and 2017-18

Projection Rules

Description		Base Year 2018-19	Year 1 2019-20	Year 2 2020-21
Enrollment Projection (not including COE)		6,658	6,559	6,439
Average Daily Attendance (ADA) Projection (not including charter ADA_		6,456.54	6,358.85	6,239.40
Funded ADA (not including charter ADA)		6,575.78	6,447.73	6,358.85
Statutory cost of living adjustment (COLA)		2.71%	3.46%	2.86%
Certificated step/column		Included	2.00%	2.00%
Classified step		Included	1.40%	1.40%
California CPI (SSC)		Included	3.18%	3.05%
California Lottery	Unrestricted per ADA	$151	$151	$151
	Restricted per ADA	$53	$53	$53
Mandated Block Grant (Grades K-8)		$31.16	$32.24	$33.16
One-Time Discretionary Funds per ADA		$184	-	-
Interest Rate Trend for 10 year Treasuries		2.87%	3.19%	3.19%
LCFF COLA (SSC)		3.70%[1]	3.46%	2.86%
STRS Employer Rates (projected)[2]		16.28%	17.10%	18.10%
PERS Employer Rates (projected)		18.062%	20.70%	23.40%
Health and Welfare Benefits		Cap	Cap	Cap

1. 2018-19 rate includes statutory COLA of 2.71% plus an augmentation of 0.99% represented by an additional $670 million for school districts and charter schools.

2. Rates for 2019-20 and beyond are subsidized in Governor Newsom's budget proposal.

Multiyear Financial Projection Analysis

The primary purpose of an MYFP is to project the district's budget over several fiscal years using current budget assumptions to determine if the district is able to achieve and sustain a balanced budget and maintain the state-prescribed reserve for economic uncertainties. To evaluate the multiyear projection, attention is focused on the district's ability to meet its reserve requirement in each fiscal year and demonstrate a positive, unappropriated fund balance. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines.

FCMAT has analyzed all funding sources and expenditure categories by resource. The unrestricted general fund summary below indicates that, without expenditure reductions or revenue increases, the district may not be able to maintain its required 3% reserve for economic uncertainties in 2020-21.

To protect the district's financial solvency and eliminate the projected $2,932,563 shortfall in 2020-21, the district will need to make difficult decisions about which expenditures and programs will continue to be funded and which will be scaled back, reconfigured or eliminated, unless an increase in funding is obtained.

Unrestricted General Fund

The district's general fund budget is a combination of unrestricted general purpose dollars and restricted grants and categorical funding. However, when analyzing the district's budget, much attention is focused on the unrestricted budget, in particular the unappropriated ending fund balance. The district's unrestricted budget is projected to have a shortfall in 2020-21, as shown in the table below.

MYFP — Unrestricted General Fund Summary

Name	Object Code	Base Year 2018 - 19	Year 1 2019 - 20	Year 2 2020 - 21
Revenues				
LCFF/State Aid	8010 - 8099	$54,947,098.00	$55,904,402.00	$56,675,240.00
Federal Revenues	8100 - 8299	$68,053.00	$0.00	$0.00
Other State Revenues	8300 - 8599	$2,445,566.00	$1,225,296.38	$1,208,530.67
Other Local Revenues	8600 - 8799	$976,266.00	$695,200.00	$695,200.00
Revenues		$58,436,983.00	$57,824,898.38	$58,578,970.67
Expenditures				
Certificated Salaries	1000 - 1999	$26,833,681.00	$27,103,205.58	$27,055,936.55
Classified Salaries	2000 - 2999	$6,481,171.00	$6,571,353.28	$6,662,874.04
Employee Benefits	3000 - 3999	$11,624,683.00	$12,705,334.43	$13,143,192.04
Books and Supplies	4000 - 4999	$762,405.00	$786,649.48	$810,642.29
Services and Other Operating	5000 - 5999	$2,819,911.00	$2,890,390.35	$2,957,274.38
Capital Outlay	6000 - 6900	$0.00	$0.00	$0.00
Other Outgo	7000 - 7299	$148,265.00	$148,265.00	$148,265.00
Direct Support/Indirect Cost	7300 - 7399	($147,381.00)	($162,658.00)	($146,293.00)
Debt Service	7400 - 7499	$2,097,206.00	$2,107,753.00	$2,136,873.00
Expenditures		$50,619,941.00	$52,150,293.12	$52,768,764.30
Excess (Deficiency) of Revenues Over Expenditures		$7,817,042.00	$5,674,605.26	$5,810,206.37
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$204,321.00	$204,321.00	$204,321.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($8,689,968.00)	($9,195,000.29)	($9,485,953.82)
Other Financing Sources/Uses		($8,894,289.00)	($9,399,321.29)	($9,690,274.82)
Net Increase (Decrease) in Fund Balance		($1,077,247.00)	($3,724,716.03)	($3,880,068.45)
Fund Balance				

Beginning Fund Balance	9791	$8,245,539.00	$7,168,292.00	$3,443,575.97
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$8,245,539.00	$7,168,292.00	$3,443,575.97
Ending Fund Balance	9799	$7,168,292.00	$3,443,575.97	($436,492.48)
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	$15,000.00	$15,000.00	$15,000.00
Nonspendable Stores	9712	$20,000.00	$20,000.00	$20,000.00
Nonspendable Prepaid Items	9713	$0.00	$0.00	$0.00
All Other Nonspendable Assets	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Restricted Balance	9740	$0.00	$0.00	$0.00
Committed				
Stabilization Arrangements	9750	$0.00	$0.00	$0.00
Other Commitments	9760	$0.00	$0.00	$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Assignments	9780	$4,445,816.00	$319,000.00	$310,000.00
Economic Uncertainties Percentage		$0.03	$0.03	$0.03
Reserve for Economic Uncertainties	9789	$2,061,102.36	$2,132,506.92	$2,151,070.20
Undesignated/Unappropriated	9790	$626,373.64	$957,069.05	($2,932,562.68)

Districts can often deficit spend in the budget year because of unique circumstances such as carryover and/or the receipt of one-time revenue and the timing of expending those funds. Deficit spending occurs when a district's spending exceeds its revenue in any given year, and deficit spending in a single year is not uncommon. However, a deficit in each year of a multiyear financial projection indicates the presence of a structural deficit, and this is cause for great concern. Because a structural deficit can quickly erode a district's fund balance, deficit spending must be carefully controlled. FCMAT's analysis indicates that the district has a structural deficit, as shown in the table above in the row titled Net Increase (Decrease) in Fund Balance. In addition, as shown in the row titled Ending Fund Balance, this deficit will reduce the district's projected unrestricted general fund balance from $7.1 million to just $639,255.

Restricted General Fund

The district has approximately 18 restricted federal and state programs. Excluding the restricted maintenance account, 10 of these programs require a contribution from the district's unrestricted general fund in the current and/or two subsequent years of the MYFP. The table below shows the programs that are projected to require a contribution.

Contributions

Name	Resource Code	Base Year 2018 - 19	Year 1 2019 - 20	Year 2 2020 - 21
Unrestricted Resources				
Unrestricted	0000	($8,689,968.00)	($9,195,000.29)	($9,485,953.82)
Total Unrestricted		($8,689,968.00)	($9,195,000.29)	($9,485,953.82)
Restricted Resources				
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611 (formerly P	3310	$768,074.00	$827,032.59	$891,596.09
Special Ed: IDEA Local Assistance, Part B, Sec 611, Private School ISPs	3311	$22,593.00	$22,818.93	$23,047.12
Special Ed: IDEA Preschool Grants, Part B, Sec 619	3315	$388,824.00	$400,586.72	$408,032.78
Special Ed: IDEA Preschool Local Entitlement, Part B, Sec 611	3320	$117,029.00	$124,771.88	$131,734.75
Special Ed: IDEA Preschool Staff Development, Part B, Sec 619	3345	$0.00	$10.79	$18.66
NCLB: Title II, Part A, Teacher Quality	4035	$0.00	$39,666.08	$40,795.22
Special Education	6500	$5,386,024.00	$5,650,929.25	$5,838,800.95
Special Ed: Mental Health Services	6512	$6,580.00	$12,498.71	$17,458.95
Special Ed: Infant Discretionary Funds	6515	$0.00	$7.34	$11.30
Ongoing & Major Maintenance Account (RMA: Education Code Section 17070.75)	8150	$1,994,844.00	$2,110,678.00	$2,128,458.00
Other Restricted Local	9010	$6,000.00	$6,000.00	$6,000.00
Total Restricted		$8,689,968.00	$9,195,000.29	$9,485,953.82
Balance		$0.00	$0.00	$0.00

The district will need to continue to review all contributions from its unrestricted general fund and ensure that restricted programs are self-sustaining. The only exceptions should be the restricted maintenance account and special education. Special education typically has insufficient state and federal funding support, and state and federal funding is not specifically provided for restricted maintenance. The following table shows the projected restricted general fund budget.

MYFP — Restricted General Fund Summary

Name	Object Code	Base Year 2018 - 19	Year 1 2019 - 20	Year 2 2020 - 21
Revenues				
LCFF/State Aid	8010 - 8099	$0.00	$0.00	$0.00
Federal Revenues	8100 - 8299	$1,990,013.00	$1,877,877.00	$1,877,877.00
Other State Revenues	8300 - 8599	$3,214,615.00	$2,777,686.26	$2,771,076.55
Other Local Revenues	8600 - 8799	$4,809,073.00	$4,784,073.00	$4,784,073.00
Revenues		$10,013,701.00	$9,439,636.26	$9,433,026.55
Expenditures				
Certificated Salaries	1000 - 1999	$5,465,761.00	$5,795,935.38	$5,658,355.74
Classified Salaries	2000 - 2999	$3,873,210.00	$3,913,314.99	$3,968,101.43
Employee Benefits	3000 - 3999	$5,131,533.00	$5,461,257.53	$5,607,794.96
Books and Supplies	4000 - 4999	$1,469,926.00	$1,523,093.16	$1,466,041.00
Services and Other Operating	5000 - 5999	$1,482,343.00	$1,563,694.74	$1,573,672.49

Name	Object Code	Base Year 2018 - 19	Year 1 2019 - 20	Year 2 2020 - 21
Capital Outlay	6000 - 6900	$108,243.00	$108,243.00	$108,243.00
Other Outgo	7000 - 7299	$270,787.00	$270,787.00	$270,787.00
Direct Support/Indirect Cost	7300 - 7399	$77,347.00	$92,624.00	$76,259.00
Debt Service	7400 - 7499	$0.00	$0.00	$0.00
Expenditures		$17,879,150.00	$18,728,949.80	$18,729,254.62
Excess (Deficiency) of Revenues Over Expenditures		($7,865,449.00)	($9,289,313.54)	($9,296,228.07)
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$8,689,968.00	$9,195,000.29	$9,485,953.82
Other Financing Sources/Uses		$8,689,968.00	$9,195,000.29	$9,485,953.82
Net Increase (Decrease) in Fund Balance		$824,519.00	($94,313.25)	$189,725.75
Fund Balance				
Beginning Fund Balance	9791	$2,175,857.00	$3,000,376.00	$2,906,062.75
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$2,175,857.00	$3,000,376.00	$2,906,062.75
Ending Fund Balance	9799	$3,000,376.00	$2,906,062.75	$3,095,788.50
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	$0.00	$0.00	$0.00
Nonspendable Stores	9712	$0.00	$0.00	$0.00
Nonspendable Prepaid Items	9713	$0.00	$0.00	$0.00
All Other Nonspendable Assets	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Restricted Balance	9740	$3,000,376.00	$2,906,062.75	$3,095,788.50
Committed				
Stabilization Arrangements	9750	$0.00	$0.00	$0.00
Other Commitments	9760	$0.00	$0.00	$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Assignments	9780	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		3%	3%	3%
Reserve for Economic Uncertainties	9789	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$0.00	$0.00	$0.00

Providing funding for services to special education students is an ongoing challenge for school districts statewide. Districts are faced with increasing differences between federal and state government funding and the mandated costs for these essential student services. Neither state nor federal funding is designed to fully support special education; they supplement the general education program. Therefore, the combined state and federal financial resources are insufficient to cover even the most efficient special education programs. Local districts must make transfers from their unrestricted general fund, dollars generated by all students, to pay for that portion of special education costs that exceeds program revenues.

Although the district has a structural deficit in its unrestricted general fund, the district carried over a little more than $2 million in its restricted general fund last year. Restricted funds, also known as categorical funds, are intended to provide resources for specific services to students, so this large carryover amount indicates that the district may not have maximized the use of these dollars. Careful analysis and planning regarding the use of restricted dollars is essential to help offset budget reductions. If the district lacks in-house expertise in this area, it would be beneficial to seek help from the Orange County Department of Education or other independent sources.

Unrestricted and Restricted General Fund

The combined unrestricted and restricted general fund shows a negative $2,932,563 undesignated/unappropriated balance in fiscal year 2020-21. The projected decline in enrollment in each fiscal year contributes to this shortfall.

MYFP Combined Unrestricted and Restricted General Fund Summary

Name	Object Code	Base Year 2018 - 19	Year 1 2019 - 20	Year 2 2020 - 21
Revenues				
LCFF/State Aid	8010 - 8099	$54,947,098.00	$55,904,402.00	$56,675,240.00
Federal Revenues	8100 - 8299	$2,058,066.00	$1,877,877.00	$1,877,877.00
Other State Revenues	8300 - 8599	$5,660,181.00	$4,002,982.64	$3,979,607.22
Other Local Revenues	8600 - 8799	$5,785,339.00	$5,479,273.00	$5,479,273.00
Revenues		$68,450,684.00	$67,264,534.64	$68,011,997.22
Expenditures				
Certificated Salaries	1000 - 1999	$32,299,442.00	$32,899,140.96	$32,714,292.29
Classified Salaries	2000 - 2999	$10,354,381.00	$10,484,668.27	$10,630,975.47
Employee Benefits	3000 - 3999	$16,756,216.00	$18,166,591.96	$18,750,987.00
Books and Supplies	4000 - 4999	$2,232,331.00	$2,309,742.64	$2,276,683.29
Services and Other Operating	5000 - 5999	$4,302,254.00	$4,454,085.09	$4,530,946.87
Capital Outlay	6000 - 6900	$108,243.00	$108,243.00	$108,243.00
Other Outgo	7000 - 7299	$419,052.00	$419,052.00	$419,052.00
Direct Support/Indirect Cost	7300 - 7399	($70,034.00)	($70,034.00)	($70,034.00)
Debt Service	7400 - 7499	$2,097,206.00	$2,107,753.00	$2,136,873.00
Expenditures		$68,499,091.00	$70,879,242.92	$71,498,018.92
Excess (Deficiency) of Revenues Over Expenditures		($48,407.00)	($3,614,708.28)	($3,486,021.70)
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$204,321.00	$204,321.00	$204,321.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00
Other Financing Sources/Uses		($204,321.00)	($204,321.00)	($204,321.00)
Net Increase (Decrease) in Fund Balance		($252,728.00)	($3,819,029.28)	($3,690,342.70)
Fund Balance				
Beginning Fund Balance	9791	$10,421,396.00	$10,168,668.00	$6,349,638.72

Name	Object Code	Base Year 2018 - 19	Year 1 2019 - 20	Year 2 2020 - 21
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$10,421,396.00	$10,168,668.00	$6,349,638.72
Ending Fund Balance	9799	$10,168,668.00	$6,349,638.72	$2,659,296.02
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	$15,000.00	$15,000.00	$15,000.00
Nonspendable Stores	9712	$20,000.00	$20,000.00	$20,000.00
Nonspendable Prepaid Items	9713	$0.00	$0.00	$0.00
All Other Nonspendable Assets	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Restricted Balance	9740	$3,000,376.00	$2,906,062.75	$3,095,788.50
Committed				
Stabilization Arrangements	9750	$0.00	$0.00	$0.00
Other Commitments	9760	$0.00	$0.00	$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Assignments	9780	$4,445,816.00	$319,000.00	$310,000.00
Economic Uncertainties Percentage		3%	3%	3%
Reserve for Economic Uncertainties	9789	$2,061,102.36	$2,132,506.92	$2,151,070.20
Undesignated/Unappropriated	9790	$626,373.64	$957,069.05	**($2,932,562.68)**

Adjustment Analysis

The following table and narrative show the differences between the district's 2018-19 second interim report and FCMAT's analysis. The narrative also includes additional details regarding the assumptions FCMAT used for the projection years in the MYFP.

Combined General Fund Comparison Summary

Name	Object Code	District's Second Interim 2018-19	FCMAT's Analysis 2018 - 19	Variance
Revenues				
LCFF/State Aid	8010 - 8099	$54,862,871.00	$54,947,098.00	$84,227.00
Federal Revenues	8100 - 8299	$2,130,310.00	$2,058,066.00	($72,244.00)
Other State Revenues	8300 - 8599	$5,438,665.00	$5,660,181.00	$221,516.00
Other Local Revenues	8600 - 8799	$5,622,761.00	$5,785,339.00	$162,578.00
Revenues		$68,054,607.00	$68,450,684.00	$396,077.00
Expenditures				
Certificated Salaries	1000 - 1999	$32,002,261.00	$32,299,442.00	$297,181.00
Classified Salaries	2000 - 2999	$10,416,297.00	$10,354,381.00	($61,916.00)
Employee Benefits	3000 - 3999	$16,879,089.00	$16,756,216.00	($122,873.00)
Books and Supplies	4000 - 4999	$2,355,150.00	$2,232,331.00	($122,819.00)
Services and Other Operating	5000 - 5999	$4,778,665.00	$4,302,254.00	($476,411.00)
Capital Outlay	6000 - 6900	$176,243.00	$108,243.00	($68,000.00)

Name	Object Code	District's Second Interim 2018-19	FCMAT's Analysis 2018 - 19	Variance
Other Outgo	7000 - 7299	$419,052.00	$419,052.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($70,034.00)	($70,034.00)	$0.00
Debt Service	7400 - 7499	$2,097,206.00	$2,097,206.00	$0.00
Expenditures		$69,053,929.00	$68,499,091.00	($554,838.00)
Excess (Deficiency) of Revenues Over Expenditures		($999,322.00)	($48,407.00)	$950,915.00
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$204,321.00	$204,321.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00
Other Financing Sources/Uses		($204,321.00)	($204,321.00)	$0.00
Net Increase (Decrease) in Fund Balance		($1,203,643.00)	($252,728.00)	$950,915.00
Fund Balance				
Beginning Fund Balance	9791	$10,421,396.00	$10,421,396.00	$0.00
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$10,421,396.00	$10,421,396.00	$0.00
Ending Fund Balance	9799	$9,217,753.00	$10,168,668.00	$950,915.00

Revenues

Local Control Funding Formula/State Aid

The LCFF was implemented by the California Department of Education (CDE) beginning with the 2013-14 fiscal year; it replaced the former revenue limit calculation and charter school block grant. The LCFF provides the following:

- A base per-pupil grant that varies by grade level.
- Supplemental funding that provides an additional 20% of the per-pupil base grant multiplied by the unduplicated percentage of targeted disadvantaged pupils. Targeted pupils are those classified as English learners, those who qualify for free or reduced-price meals, and those who are foster youth.
- Concentration funding that provides an additional 50% of the base grant multiplied by the percentage of targeted disadvantaged pupils in excess of 55% of total enrollment.

Many state categorical programs were eliminated when the LCFF was implemented, and the funding for these was redirected to support LCFF. Full implementation of the LCFF was expected to take eight years, with districts receiving a transitional level of funding during implementation. However, full implementation of the LCFF was achieved two years earlier than planned, with full funding of the target amounts first occurring in fiscal year 2018-19.

For most districts, the LCFF entitlement is funded through a combination of local property taxes and state aid. A district's property tax will first be applied toward the total LCFF entitlement, and the balance is funded through state aid. Proposition 30, passed in 2012, temporarily added a quarter-cent sales tax and increased state income tax rates on high income taxpayers. These state revenues are part of the LCFF entitlement and are deposited into a state account called the Education Protection Account (EPA) and are then distributed to school districts, charter schools and community colleges. The sales tax increase expired in 2016; the income tax was initially set to expire in 2018, but Proposition 55 extended it through 2030.

As the sponsoring district for the Kinetic Academy Charter School, the district is required to transfer funding from its general fund for payments in-lieu of property taxes to the charter school for all students who attend the charter school, regardless of whether they reside within the district's boundaries. This does not affect the district's LCFF funding because the state compensates the district for the property tax transfer.

FCMAT prepared independent LCFF calculations for the district using the most current version of the FCMAT LCFF Calculator at the time of preparation. The calculator contains the latest information from the governor's proposal for the 2019-20 state budget. As indicated earlier, FCMAT's enrollment projections are more conservative than what the district used for its second interim report; however, since the district is funded based on prior-year ADA, revenues projected for the current year were slightly different from the district estimate. FCMAT projects 88.88 fewer ADA in 2019-20 and 119.45 fewer ADA in 2020-21.

Based on these assumptions, LCFF revenues are projected to increase slightly in each of the two subsequent fiscal years of the projection because of the cost-of-living adjustment (COLA), per-ADA entitlement factors for supplemental and concentration grants, and other factors.

FCMAT provided the district with electronic copies of FCMAT's LCFF calculations.

Federal Revenues

Funding from federal grants and entitlements is restricted in accordance with their provisions. The district operates 11 restricted federal programs including Title I, Title II, Title III, Medi-Cal administrative activities (MAA), and various special education programs.

Federal revenues were balanced to the current year awards, including deferred revenues and/or carryover balances. Medi-Cal administrative activities and Medi-Cal billing option funding was adjusted in the current year to match actuals to date. These two items account for the majority of the difference between FCMAT's and the district's calculations of federal revenues for the current fiscal year.

For the projection years, FCMAT eliminated deferred revenues and/or carryover, and reduced MediCal billing option and MAA funding. These revenues are updated in interim reports to reflect actuals received to date. Other federal funding was left at current year amounts.

State Revenues

State revenues were balanced with grant and entitlement letters, as well as with information provided by the California Department of Education. The major difference in FCMAT's analysis is the receipt of the second allocation from the Low Performing Students block grant; per the CDE, districts will receive these dollars in June 2019.

Calculations for the projection years include the statutory COLAs of 3.46% in 2019-20 and 2.86% in 2020-21 for all applicable resources.

Lottery funds are estimated at $151 per ADA for non-Proposition 20 funds and $53 per ADA for Proposition 20 funds.

Funding for one-time discretionary funds was eliminated in the projection years, as were any deferred revenues and/or carryover, classified professional development and Low Performing Students block grants.

AB 602 Special Education Funding

The state's special education funding structure was established by Assembly Bill (AB) 602, which was introduced and signed into law in 1997 and took effect starting with the 1998-99 fiscal year. Under AB 602, special education funding is based on the average daily attendance (ADA) of all district students, regardless of the number of students served in special education programs or the cost to serve them. California distributes special education funds to special education local plan areas (SELPAs).

The district is one of five members of the West Orange County SELPA. California provides funds to each SELPA to provide special education and related services within their region's boundaries. Each SELPA is then responsible to allocate these funds in accordance with its funding allocation model, which is approved by its member districts. Funds are paid using the principal apportionment schedule. The CDE website explains principal apportionments as follows:

> Principal appointment is a series of apportionment calculations that adjust the flow of state funds throughout the fiscal year as information becomes known.
>
> - The Advance Principal Apportionment, certified by July 20, is based primarily on prior fiscal year funding and establishes each LEA's monthly state aid payment amount for July through January.
> - The First Principal Apportionment (P-1), certified by February 20, is based on the first period data that LEAs report to CDE in November through January. P-1 supersedes the Advance Apportionment calculations and establishes each LEA's monthly state aid payment for February through May.
> - The Second Principal Apportionment (P-2), certified by June 25, is based on the second period data that LEAs report to CDE in April and May. P-2 supersedes the P-1 Apportionment calculations and is the final state aid payment for the fiscal year ending in June.
> - The Annual Apportionment, certified by February 20 in the following year, is based on annual data that LEAs report to CDE. After the Annual Apportionment certification, which supersedes the P-2 calculations, Annual [apportionment] is recertified three times, known as Annual R1, R2, and R3, with LEAs reporting corrected data at specific times. Any data corrections are reflected with the subsequent years' certifications.

Source: https://www.cde.ca.gov/fg/aa/pa/

Principal apportionment payments are calculated for each LEA pursuant to one of the three schedules outlined in Education Code Section 14041. All five member districts of the West Orange County SELPA fall under the Type 1 payment schedule. The table below shows the percentage of dollars each member district should be receiving each month based on the monthly advance appointment allocation.

Principal Apportionment Payment Calculation

Month	Amount Monthly Payment is Calculated on	EC Section 14041(a)(2) Type 1
July	Advance Apportionment Total	5%
August	Advance Apportionment Total	5%
September	Advance Apportionment Total	9%
October	Advance Apportionment Total	9%
November	Advance Apportionment Total	9%
December	Advance Apportionment Total	9%
January	Advance Apportionment Total	9%
February	Balance due - difference between P-1 and payments through January	20% or 1/5 of balance due
March	Balance due - difference between P-1 and payments through January	20% or 1/5 of balance due
April	Balance due - difference between P-1 and payments through January	20% or 1/5 of balance due
May	Balance due - difference between P-1 and payments through January	20% or 1/5 of balance due
June	Balance due - difference between P-2 and payments through May	Balance Due

Each SELPA must have an administrative unit, which serves as the legal entity that receives funds. Huntington Beach Union High School District is the administrative unit for the West Orange County SELPA. Each month, the CDE allocates money to Huntington Beach Union High School District based on the payment schedule above. Although the majority of the allocation is intended for the high school district, a small amount is allocated directly to the West Orange County SELPA. Once these dollars have been received, the SELPA is required to allocate portions approved by the allocation plan to each of its member districts, following the monthly percentages in the table above.

FCMAT's review of the district's AB 602 funding shows that the district is not receiving these dollars monthly as it should be. Cash is needed for operations; the SELPA's delay in making the required monthly payments to the district places an undue burden on the district's unrestricted general fund's cash resources.

Local Revenues

FCMAT adjusted various local revenue amounts based on the amounts received to date, and projected collections through the remainder of the fiscal year. Some accounts did not have a budget and were updated to reflect amounts received to date. Transportation fees were decreased slightly in subsequent years because of the projected decline in enrollment.

The district collects local revenues for items such as transportation, interagency agreements, preschool and donations. Because these revenues cannot be guaranteed on a year-to-year basis, budgets and MYFPs for these items need to be conservative and take into account historical trends. The budgets should also be monitored and updated throughout the year based on amounts received to date.

Rebate revenue received from the solar project was eliminated because no supporting documentation was provided to indicate a guarantee of an annual amount.

Parent-Teacher Organizations and Associations

Booster clubs, foundations, auxiliary organizations and other parent-teacher organizations or associations are composed of parents, community members and staff members who join together to support specific school activities for the benefit of students. Such groups are commonly referred to as school-connected organizations. They serve an important function by connecting parents and other community members with the students' curricular and extracurricular activities, and most districts welcome and encourage parental interest and participation.

Parent-teacher organizations are established and operated with many purposes in mind. One of the largest formal and most well-known booster auxiliary organizations is the National Parent Teacher Association (PTA). The California State PTA publishes governance, fundraising and financial guidance for members on its website, www.capta.org. Parent-teacher associations are separate from a school district, and their primary role should be to enrich students' participation in curricular and extracurricular activities. In general, parent-teacher associations provide financial support and/or direct assistance in some form to help achieve goals shared with school programs.

The relationship between student organizations and parent-teacher associations is often confusing. Student organizations are legally considered a part of the school district. For this reason, they are included in the district's annual audit and have the benefit of the district's tax-exempt status under the internal revenue code. All activities and fundraising events in which students are the primary participants should be conducted through the associated student body (ASB). Parent-teacher associations should supplement school programs and should conduct activities and fundraising events in which parents and other adult community members are the primary participants. Funds raised by these organizations are to be used to support programs.

A parent-teacher organization's funds must never be commingled with district funds, including ASB funds. Parent-teacher associations and the school entity should remain separate, including in the following ways:

1. The parent-teacher association's name, address and other correspondence should never imply any form of responsibility on the part of the ASB or district.

2. The district's tax-exempt status and identification number are not for use by any non-school organizations or groups.

3. Parent-teacher associations are responsible for their own tax status, accounting, internal controls, financial and governmental reporting, retention of records, and all other operations, separate from those of the district and ASB.

If a parent-teacher association wishes to pay for additional and/or extracurricular services, the person who provides the services must be hired through the school district. The parent-teacher association should provide the funds for deposit into a district account for the proposed expenses.

When a parent-teacher association wishes to give an ASB or a specific school site money for supplies, the district should purchase the supplies in accordance with the law and district purchasing guidelines, and the parent-teacher association should reimburse the district. The purchase should be made using the district's purchasing system by a district-designated individual who is authorized to spend the funds, with the principal's or other school administrator's approval. The purchase should be charged to a school account code, and the purchase requisition should contain the following information in bold:

- Paid by:
- Parent-teacher association name

- Person responsible for booster club
- Billing address

The purchase should be charged to the school account code on the requisition at the time of payment, and the district office should bill the parent-teacher association for the cost of the item(s) purchased.

The district is accounting for various parent-teacher association funds using a restricted resource, and tracking all revenues and expenditures by each school site. Although this could be a legitimate way of tracking expenditures and reimbursements, at the end of the previous fiscal year these accounts had dollars remaining that were not linked to specific expenditures. If the district was properly accounting for reimbursements from parent-teacher associations for expenditures that the organizations had approved, the revenues and expenditures would net to zero at the close of the school year.

Chapter 21 of the 2015 FCMAT ASB Manual discusses what is allowable and unallowable pertaining to parent-teacher associations. The manual is available free to download at http://fcmat.org/2015-asb-accounting-manual-fraud-prevention-guide-and-desk-reference/.

Expenditures

FCMAT based its analysis of the district's salary and benefit costs on the following assumptions:

- Contracted and noncontracted employee salaries (not including substitutes, extra duty and overtime): February 28, 2019 year-to-date financial activity plus salaries projected to be paid through June 30, 2019. The projection is based on the February 2019 payroll, adjusted for the retroactive payment posted in that month.
- Substitutes, extra duty and overtime: February 28, 2019 year-to-date financial activity, plus the average of the November 2018 and February 2019 payrolls multiplied by the four remaining months to be paid in the current fiscal year.

Certificated Salaries

Salary accounts were adjusted based on the above assumptions and analysis of actual year-to-date activity.

The FCMAT MYFP includes ongoing step and/or column cost increases of 2% annually. The district's collective bargaining agreement provided a 0.5% salary increase retroactive to July 2017. Future years' salary projections eliminate the impact of the retroactive payment. Declining enrollment is projected for the two subsequent years of the MYFP; therefore, certificated salaries for 2019-20 were reduced by $255,000 to account for the reduction of 3.0 full-time equivalent (FTE) teaching positions. In addition, certificated salaries for 2020-21 were reduced by $340,000 to account for the reduction of 4.0 FTE teaching positions.

Classified Salaries

Salary accounts were adjusted based on the above assumptions and analysis of actual year-to-date activity.

The FCMAT MYFP includes ongoing step cost increases of 1.4% annually. The district's collective bargaining agreement provided a 0.5% salary increase retroactive to July 2017. Future years' salary projections eliminate the impact of the retroactive payment.

Employee Benefits

Benefit accounts were adjusted based on actual year-to-date activity and projected costs through June 30, 2019. Adjustments for statutory benefits costs were posted to the current and projected fiscal years to reflect changes as a result of the salary budget review.

The governor's proposal for the 2019-20 budget includes a total of $3 billion as one-time non-Proposition 98 funds to buy down the California State Teachers' Retirement System (CalSTRS) employer contributions rates in 2019-20 and beyond. This proposal decreases the CalSTRS employer contribution in 2019-20 from 18.13% to 17.10% and in 2020-21 from 19.1% to 18.1%. Based on this proposal, FCMAT's projections used the lower contribution amounts as shown in the table below. However, if this proposal is not included in the June governor's 201920 enacted state budget, the district will need to adjust these percentages accordingly.

STRS and PERS Employer Contribution Rates

Fiscal Year	STRS	PERS
2018/19	16.28%	18.062%
2019/20	17.10%	20.700%
2020/21	18.10%	23.400%

Rates for 2019-20 and beyond are subsidized in Governor Newsom's budget proposal.

Books and Supplies

The books and supplies budgets were reviewed for reasonableness using the prior year's actuals and the current year's spending pattern.

The FCMAT MYFP for subsequent years includes adjustments based on the consumer price index (CPI) inflation factor.

Services and Other Operating Expenditures

The services and operating expenditure budgets were reviewed for reasonableness using the prior year's actuals and the current year's spending pattern.

The FCMAT MYFP for subsequent years includes adjustments based on the CPI inflation factor.

Capital Outlay

The capital outlay budgets were reviewed for reasonableness using the prior year's actuals and the current year's spending pattern.

The FCMAT MYFP for subsequent years continues to include the district-prepared 2018-19 second interim budget amounts.

Other Outgo

The other outgo budget was reviewed for reasonableness using the prior year's actuals and the current year's spending pattern.

The FCMAT MYFP for subsequent years includes the district-prepared 2018-19 second interim budget amounts.

Direct Support/Indirect Cost

To ensure proper program cost accounting, indirect cost charges were applied to all programs for which this is allowable. The allowable indirect costs were adjusted based on the CDE's approved indirect rate of 4.21%, unless a program had a maximum amount allowable, in which case the lesser of the two percentages was applied.

Debt Service

Debt service was adjusted in the two subsequent fiscal years based on the district's long-term debt schedule for capital leases and in accordance with amounts listed in the district's audited financial statements.

FCMAT's projection reduced supplies and/or services in the restricted resources where possible to maintain spending within the projected revenue estimates. However, this action may also affect programs by reducing expenditures for these items.

Interfund Transfers

Other Authorized Interfund Transfers In

The district's second interim multiyear financial projection shows a transfer of $570,000 from fund 40 into the general fund in 2019-20 and again in 2020-21. District staff stated that this transfer was money owed to the general fund because the general fund was used to pay for expenditures at the Lebard school site, which has now been closed and sold. However, because fund 40 does not have the ending fund balance to support these transfers in, FCMAT has eliminated them in its multiyear financial projection.

Other Authorized Interfund Transfers Out

The district's second interim report includes a transfer out of the general fund into fund 20, Special Reserve Fund for Postemployment Benefits, in the amount of $204,321. FCMAT's projection retains this transfer out in the current and two subsequent fiscal years.

Components of Ending Fund Balance

Assigned Fund Balance

The assigned fund balance is an amount that the district intends to use for various purposes. FCMAT's review of the district's MYFP found that the district is using the assigned classification to allocate any dollars that remain after deducting the required three percent reserve for economic uncertainties. Because the district did not identify the specific purposes for this assignment, FCMAT removed the assigned dollars in the two subsequent fiscal years.

FCMAT's MYFP used percentages for CalSTRS and CalPERS based on the governor's 2019-20 budget proposal rather than what is currently in statute. The governor's proposal is to decrease the statutory CalSTRS employer contributions in 2019-20 from 18.13% to 17.1% and 2020-21 from 19.1% to 18.1%. FCMAT has set the difference in these amounts in an assigned fund balance just in case this proposal is not included in the governor's final budget. For fiscal year 2019-20 the amount is $319,000 and 2020-21 is $310,000.

Other Funds

In addition to analyzing the general fund, FCMAT completed a basic review of the district's other funds to determine their possible financial impact on the unrestricted general fund.

Cafeteria Fund (13)

The cafeteria fund is self-sustaining in the current fiscal year; it will require no contribution from the unrestricted general fund. However, the cafeteria fund is deficit spending this year, and if this pattern continues the general fund could be affected. Therefore, the district will need to analyze and identify areas of cost reductions and/or revenue increases to ensure the cafeteria fund remains self-sufficient.

Special Reserve Fund for Postemployment Benefits (20)

The district has set aside funds for the costs of ongoing retiree benefits in this fund. The district's projected June 30, 2019 balance for this fund is $2,402,071.

Recommendations

The district should:

1. Adopt a budget and MYFPs that eliminate the structural deficit to prevent future insolvency.
2. Regularly evaluate external and internal factors that affect its fiscal health, and use an MYFP to project their effect on the district.
3. Monitor and project enrollment and ADA based on the trends at each financial reporting period, and ensure the most recent data is included in its budget assumptions.
4. Review contributions from the general fund to restricted programs, and ensure that, with the exception of restricted maintenance and special education, all programs are self-sustaining.
5. Be conservative when budgeting amounts for local revenue, and update the budget throughout the year as needed to account for year-to-date receipts.
6. Make a plan to use restricted dollars in the year they are received. If in-house staff are unsure how to spend the dollars, seek help from the Orange County Department of Education or other independent sources.
7. Ensure that the West Orange County SELPA is allocating the district's AB 602 funding monthly according to the required principal apportionment payment schedule.
8. Properly account for all PTA-approved expenditures and bill accordingly. Do not commingle PTA funds with the district funds.
9. Carefully monitor the activity of other funds to ensure the financial impact on the unrestricted general fund in the current and two subsequent fiscal years is included in all MYFPs.

Operational Processes and Procedures

Budget Development and Monitoring

The district's assistant superintendent of human resources and its executive director of fiscal services lead the budget development process. According to the district's budget calendar, the budget process begins in mid-February with preliminary enrollment projections and staffing configurations at school sites. In April the site principals and department managers meet with the human resources and fiscal services departments to discuss the district's staffing and budgets. The district's budget calendar does not include steps taken to develop and create the district's required Local Control Accountability Plan (LCAP).

In addition, staff reported that the budget development process includes a spreadsheet of the two prior years' activity as well as the current year's budget. The business office then populates the salaries and benefits in a spreadsheet, calculates the various site allocation amounts, and the principals and site managers designate the account codes to which they are assigned. The executive director of fiscal services is then responsible for building the MYFP using the base year estimates and latest assumptions. Once the budget year and MYFP projections are complete, the district's cabinet members review the final budget before it is presented to the board of trustees.

The district has a budget calendar, but it does not include detail about who is responsible for various tasks, and communication during budget development is mostly from the business office to other departments and school sites rather than two-way or multilateral. The district needs a detailed annual calendar to improve budget development. Specifically, a detailed calendar would notify all parties of state and local deadlines that must be adhered to for fiscal services to collect the necessary data. An annual calendar can also improve the flow of communication, but only if it is widely distributed. This would alert principals and department managers so they can be properly prepared to discuss their staffing needs and budget priorities.

It is best practice to monitor budgets regularly during the fiscal year to ensure appropriations are not overspent and revenues received or expenditures made are not materially different than budgeted. The district makes many budget revisions during the fiscal year but does so reactively as information develops, typically because of increases in either income or expenditures, budgeting of unearned revenues or carryover balances, or expenditure increases that exceed budgeted amounts.

Monitoring budgets during the year includes assisting school sites and departments to ensure budgets are not overspent and activity is properly coded. The district's fiscal services department has two accounting technicians that meet monthly with principals and office managers to ensure that budgets are adjusted accordingly and that activity is properly coded. This type of assistance is an important part of ongoing budget monitoring. The district uses the Orange County Department of Education's BusinessPlus financial system to encumber all payments; this system includes controls to prevent a vendor requisition from being submitted if funds are insufficient.

Position Control

The district uses the BusinessPlus financial system, but this system does not have an integrated position control module. Position control is necessary to accurately identify the cost of step and column salary increases, monitor salary savings from open positions and/or attrition, and model adjustments to salary schedules. Position control is also needed to transfer the costs of salaries and benefits (adjusted for step and column and other increases, if applicable) from one fiscal year to the next for budget development.

The total number of authorized positions for the district should be determined annually based on enrollment, class size requirements in negotiated agreements and class offerings. Once the number is established, Business and Human Resources should collaborate on certificated staff. The number of employees holding the correct credentials for the determined positions could differ. This process needs to begin each January, giving the district time to manage possible layoffs within the required timelines.

One of the most critical elements in budgeting for expenditures is accurately projecting the costs of employee salaries and benefits. These costs are the largest part of any school district's budget; at Huntington Beach City Elementary School District, they make up approximately 87% of the unrestricted general fund budget. Therefore, it is critical to maintain an effective position control system to manage the cost of salaries and benefits and to properly reflect those expenditures in the district's budget. To reduce the impact of overstaffing and/or collective bargaining on the budget, the district needs to devote significant time and effort to keeping position control data up to date so that it can be used as an effective and accurate budget monitoring tool. Budgets should be compared against summary payroll data periodically to ensure that budgeted amounts are sufficient and align with position control records.

The district has a position control module that is maintained by Human Resources in its HR2.0 software. The module is referred to as Budget Pro; it is not integrated with the district's BusinessPlus financial system. Therefore, the district has developed an automatic report process using Microsoft Excel that will compare the information between the two systems and will generate any budget revisions based on the latest information entered into the position control system. However, only a few employees fully understand this Excel process and how to use it. Because of the inherent risk of errors, the district should compare the output information in the spreadsheet with the data in both the Human Resources position control module and the financial system. While this automation of manual entry tasks can save time, it can make the continuity of work difficult if those who understand it are absent or leave the district.

Special Education Maintenance of Effort

Maintenance of effort refers to the requirement that a district spend no less on special education in one year than in the previous year except under certain circumstances.

In addition to state special education funding under AB 602, the district receives a small amount of federal funding for services to special education students. Even with both state and federal funding, the district needs to make a significant contribution to special education from its unrestricted general fund to maintain its services to special education students. This is not unusual, and districts statewide make such contributions for the same reason.

The district originally coded all of its psychologists to special education, but upon closing the books all salaries and benefits associated with the psychologists had been transferred to the unrestricted general fund. In interviews, employees stated that the district wants its maintenance of effort requirement to increase only marginally year over year. Therefore, various positions are coded to special education throughout the year, but the expenditures may be reduced if the district sees its maintenance of effort (MOE) increase substantially. Although these expenses have been included in the overall general fund and consequently would not result in a net change to the district's ending fund balance, miscoding the transactions causes an understatement of the district's MOE calculations, which can have serious implications for federal and state reporting.

Typically, school psychologists are funded with both unrestricted and special education dollars because they do not work solely with the special education students. Therefore, the district needs to establish a formula based on psychologists' caseloads and functions and consider funding a portion of the psychologists' salaries and benefits costs to the unrestricted general fund and a portion to the special education program.

A district must follow the MOE requirements (20 U.S.C.1413 (a)(2)(B)) and spend at least the same amount of state and local funds on special education services in each succeeding year. However, the CDE lists the following circumstances under which a district is allowed to reduce the amount of state and local funds spent on special education:

1. Voluntary departure, by retirement or otherwise, or departure for just cause, of special education or related services personnel.
2. A decrease in the enrollment of children with disabilities.
3. The termination of the obligation of the agency to provide a program of special education to a particular child with a disability that is an exceptionally costly program, as determined by the state educational agency, because the child:
    a. Has left the jurisdiction of the agency;
    b. Has reached the age at which the obligation of the agency to provide free and appropriate public education (FAPE) to the child has terminated; or
    c. No longer needs the program of special education.
4. The termination of costly expenditures for long-term purchases, such as the acquisition of equipment or the construction of school facilities.

Recommendations

The district should:

1. Develop and document a process that provides for all components of the district's strategic plan to be included in budget development and integrated with the district's LCAP.
2. Develop the budget calendar to include all dates for statutory deadlines and other budget development tasks so that administrators and staff are aware of due dates.
3. Ensure that the budget calendar is disseminated to all who are responsible for deadlines.
4. Train additional staff on the district's position control spreadsheet to ensure organizational continuity in case an employee is absent or leaves the district. Compare the data from the spreadsheet with the data in both the Human Resources position control module and the financial system.
5. Investigate the availability of an integrated position control module with its financial reporting system.

6. Establish accounting formulas for the psychologist position's time spent serving different programs, and charge salaries and benefits for these positions to the appropriate program or programs.

7. Code special education expenditures correctly so there is no need to change the MOE calculation at year end.

8. Consider implementing controls in the purchasing system so that a purchase cannot proceed without sufficient funds.

Accounts Payable

Accounts payable is managed by one accounts payable technician, who is responsible for verifying that the appropriate documentation has been received before vendor payments are processed. School sites and departments are responsible for creating vendor requisitions; the purchasing department prints and sends purchase orders to the vendors.

Once items have been received, the department or school site is required to notify the accounts payable technician. For vendor contracts, the school site or department will receive the vendor invoice, verify completion of work, and forward the invoice to accounts payable. Before the payment is processed, the accounts payable technician compares supporting documentation (invoice, packing slip) with the purchase order. If all paperwork matches, a vendor payment is created. If any inconsistencies exist, the accounts payable technician contacts the vendor to reconcile vendor information with district information.

Conference and travel payments and reimbursements are handled by the accounting technicians. Reimbursement is processed if all required receipts and an approval signature are provided.

The district uses one credit card company, US Bank. Only the assistant superintendent of business services and the executive director of fiscal services have district credit cards, and these same individuals are the only two employees who have the authority to approve payment for credit card expenses. This is a significant internal control weakness, and the district lacks sufficient board policy and administrative regulations to correct it; such policies and regulations would create effective guidelines for district staff and administrators.

The specifics of the district's current procedures for credit card purchases, reimbursements and other payments are as follows:

The accounts payable technician receives the credit card statement and provides a copy to the assistant superintendent of business services and the executive director of fiscal services. The credit card user is responsible for providing all backup documents and receipts for each purchase. If a credit card purchase does not have a receipt, the executive director of fiscal services can authorize payment.

The district does not reimburse employees for expenses except in extraordinary circumstances. In such cases, the reimbursement requires approval of the assistant superintendent of business services or the executive director of fiscal services.

All payment information for vendors and employee conference and travel reimbursements are entered into the BusinessPlus financial system. When processed, the checks are returned to the district's accounts payable technician. The checks are verified against the county report, then given to the district receptionist, who prepares the checks for mailing and compiles check information for filing. All check information is stored electronically in Webiplex DocuPeak.

The district's accounts payable process gives the accounts payable technician custody of the warrants once the county office issues them. The district has no internal controls in place to detect whether the accounts payable technician distributes the warrants appropriately. The accounts payable technician also has the ability to create new vendors and make changes to vendor information in BusinessPlus. Thus, one employee has sufficient access to both create a vendor and generate payments to a vendor. As a result, there is the potential for one employee to create a vendor, submit an invoice for payment, generate the payment, and remove it from the batch of warrants without the district's knowledge. These are significant internal control deficiencies.

Effective internal controls include segregating duties such that no one employee handles a transaction from initiation to reconciliation and no one employee has custody of an asset (such as cash or warrants) and maintains the records of related transactions. This prevents the same person from initiating, processing and mailing warrants, and posting those transactions in the accounting records.

Recommendations

The district should:

1. Allow only the purchasing department to create new vendors or change vendor information in BusinessPlus. Give the accounts payable technician read-only access to vendor information.

2. Ensure that the accounts payable technician does not have access to and is not responsible for distributing warrants when they are returned to the district office.

3. Require that vendors submit all invoices directly to the district office rather than the school sites.

4. Create and implement a formal process for authorizing credit card payments without a receipt.

5. Establish a procedure to ensure that an employee other than the credit card users approves the credit card payments.

6. Establish governing board policy and administrative regulations regarding credit cards and their use. Ensure that the policy prohibits a cardholder from also being the authorizer for card payments.

Accounts Receivable

The part-time accounts receivable technician performs some tasks unrelated to accounts receivable duties. Two accounting technicians each perform some accounts receivable duties: one is responsible for depositing funds received into the cash clearing checking account, and the other is responsible for preparing and sending the deposit to the county office. The accounting technicians also create invoices to bill the ASB for various fundraising activities and for billing outside entities. The accounting technicians also collect and deposit bus pass payments. The executive assistant to the assistant superintendent of business manages and prepares use of facility leases including the space fee and costs for custodial work and utilities. All payments received are deposited into the local cash clearing account, and one check is then written to the county office for deposit into the financial system through BusinessPlus. In addition, the accounts payable employee is responsible for reconciling the bank statements.

All collections are held in the business office vault until they are deposited into the local bank. One of the accounting technicians prepares the bank deposit. Deposits are made by the district driver as often as daily. Transfers from the local bank to the county office are also prepared as often as daily.

One of the accounting technicians is responsible for writing checks from the revolving account when a check is requested. Typically the requests come directly from the payroll department and include backup documentation; however, because this employee is also responsible for the revolving account deposits, this employee should not be writing the checks from the same account.

Best practices for accounts receivable collections include the following:

- Maintain a control list that records all checks and cash when received.
- Endorse all checks "for deposit only" upon receipt. This helps prevent unauthorized endorsement of checks before deposit.
- Maintain an inventory of the receipt books, review this inventory periodically to ensure none are missing, and keep the books in a secure location.
- Use prenumbered three-part NCR (no carbon required) receipt books to record payments received, including the amount paid, source of payment (check or cash), its purpose, and the signature of the person accepting the payment. The original of the receipt (top sheet of three-part NCR) is provided to the person making the payment, one copy is included in the packet with the cash and/or check, and the last copy remains in the book as the historical record.
- Ensure that voided pages are not removed from the receipt books.
- Use two people to count cash, with each person dating and signing a cash count form. This protects the cash, and it protects the employees from wrongful accusations if cash is missing.

Recommendation

The district should:

1. Establish and follow proper segregation of duties for accounts receivable functions, and ensure that the employee who handles the revolving account deposits does not also write checks from that account.

Payroll

The fiscal services payroll function is responsible for ensuring all employees are paid accurately and on time. Staffing in payroll is comprised of one lead payroll and benefits technician and two payroll and benefits technicians. The lead technician oversees all payroll processes.

Payroll processing responsibilities are split based on whether the payroll is for certificated or classified staff. The payroll technicians audit each other's payrolls. Splitting the payroll by work site or alphabetically by employee last name would allow each payroll and benefits technician to handle both classified and certificated personnel and give them the ability to perform each other's duties if one of them is absent. This would also make for a more consistent workload and pace for both employees during busy times.

All certificated staff and four classified job classifications use Aesop to record their absences. All other classified staff, and certificated staff performing extra duty, use paper time sheets to record that work. The district has software (Aesop, and Time and Attendance) that would allow them to covert the payroll process to electronic. This would decrease input errors, increase productivity of the payroll staff, and increase payroll staff's ability to review and audit payroll records.

The county office of education runs a net pay computation review report that lists all employee paychecks that exceed district-established thresholds. This report needs to be analyzed before the final payroll run to discover errors and determine if any adjustments need to be made. It is best practice to have the payroll technician who reviews the report sign the report signifying their completion of review.

The district processes certificated bargaining unit and certificated management employees as well as certificated substitutes at the month-end payroll. Classified and classified unrepresented employees are paid on the 10th of the month following the month in which work was performed.

Employees can choose to receive a salary advance equal to one third of their monthly salary; the advance is paid on the 25th of the current month. Stipend time sheets are required to be submitted by the 15th of the month with the supervisor's signature indicating approval. Stipends are paid at the end of the month. The district uses the supplemental payday on the 10th of the following month to ensure employees are paid for extra duty work such as overtime and coaching stipends.

All new employees are entered into the Time and Attendance system by human resources department staff. The payroll department receives employee paperwork for taxes, withholding and retirement.

Sick leave and vacation are maintained in Time and Attendance. Employees have access to view their information. Information for certificated staff and for four classified job classifications is obtained from Aesop (the system used to report employee leave) and manually entered. For all other employees, all information is updated manually from employee paper timesheets. The district is working to establish electronic communication between Aesop and Time and Attendance, but until that is achieved employee leave records are reconciled against substitute information in Aesop. At present, payroll employees confirm that the substitute employee information matches the permanent employee's leave time that is recorded.

The district has implemented sick leave for all employees. Substitutes must accrue sick leave to be paid for the sick leave time.

During payroll processing, all health and welfare benefits are posted using a separate process called "benefits bridge." The county office of education prepares an initial report for the district to reconcile. Once this is reconciled against payroll information, the county posts the information in the BusinessPlus financial system to records the district's liability.

To stay informed of the county office processes, payroll employees attend both the payroll user group meetings and the human resources user group meetings at the county office. Internally, payroll and human resources staff meet regularly to resolve issues that arise.

Recommendations

The district should:

1. Realign duties to cross train payroll staff in processing both certificated and classified employee payroll.
2. Consider one or more of these options to improve accuracy and streamline workflow in payroll:
    a. Implement electronic time sheets for all employees
    b. Require all employees to report absences in Aesop
    c. Convert all employees to electronic timekeeping in Time and Attendance
3. Ensure that the net pay error report is signed by the employee who confirms payroll information is correct.

Appendices

Appendix A - SSC Dartboard

Appendix B - FCMAT MYFP

Appendix C - Study Agreement

Appendix A

SSC School District and Charter School Financial Projection Dartboard
2019-20 Governor's Proposed State Budget

This version of SSC's Financial Projection Dartboard is based on the 2019-20 Governor's State Budget proposal. We have updated the cost-of-living adjustment (COLA), Consumer Price Index (CPI), and ten-year T-bill planning factors per the latest economic forecasts. We have also updated the Local Control Funding Formula (LCFF) factors. We rely on various state agencies and outside sources in developing these factors, but we assume responsibility for them with the understanding that they are general guidelines.

LCFF ENTITLEMENT FACTORS				
Entitlement Factors per ADA	**K-3**	**4-6**	**7-8**	**9-12**
2018-19 Base Grants	$7,459	$7,571	$7,796	$9,034
COLA at 3.46%	$258	$262	$270	$313
2019-20 Base Grants	$7,717	$7,833	$8,066	$9,347
Grade Span Adjustment Factors	10.4%	–	–	2.6%
Grade Span Adjustment Amounts	$803	–	–	$243
2019-20 Adjusted Base Grants	$8,520	$7,833	$8,066	$9,590
Supplemental Grants (% Adj. Base)	20%	20%	20%	20%
Concentration Grants	50%	50%	50%	50%
Concentration Grant Threshold	55%	55%	55%	55%

LCFF DARTBOARD FACTORS					
Factors	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Department of Finance Gap Funding Percentage	100.00%	–	–	–	–
COLA[1,2]	3.70%	3.46%	2.86%	2.92%	2.90%

PLANNING FACTORS						
Factors		**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Statutory COLA[3]		2.71%	3.46%	2.86%	2.92%	2.90%
California CPI		3.58%	3.18%	3.05%	2.92%	3.15%
California Lottery	Unrestricted per ADA	$151	$151	$151	$151	$151
	Restricted per ADA	$53	$53	$53	$53	$53
Mandate Block Grant (District)	Grades K-8 per ADA	$31.16	$32.24	$33.16	$34.13	$35.12
	Grades 9-12 per ADA	$59.83	$61.90	$63.67	$65.53	$67.43
Mandate Block Grant (Charter)	Grades K-8 per ADA	$16.33	$16.90	$17.38	$17.89	$18.41
	Grades 9-12 per ADA	$45.23	$46.79	$48.13	$49.54	$50.98
One-Time Discretionary Funds per ADA		$184	–	–	–	–
Interest Rate for Ten-Year Treasuries		2.87%	3.19%	3.19%	3.20%	3.30%
CalPERS Employer Rate[4]		18.062%	20.70%	23.40%	24.50%	25.00%
CalSTRS Employer Rate[5]		16.28%	17.10%	18.10%	18.10%	17.60%

STATE MINIMUM RESERVE REQUIREMENTS	
Reserve Requirement	**District ADA Range**
The greater of 5% or $67,000	0 to 300
The greater of 4% or $67,000	301 to 1,000
3%	1,001 to 30,000
2%	30,001 to 400,000
1%	400,001 and higher

[1]Target for LCFF was achieved in the 2018-19 fiscal year, therefore, any growth in LCFF revenues in future years will be attributable to the application of the COLA to the base grant.
[2]2018-19 rate includes statutory COLA of 2.71% plus an augmentation of 0.99% represented by an additional $670 million for school districts and charter schools. County offices of education receive only the statutory COLA.
[3]Applies to Special Education, Child Nutrition, Preschool, Foster Youth, American Indian Education Centers/American Indian Early Childhood Education and Mandate Block Grant.
[4]Rate is final for 2018-19 fiscal year.
[5]Rates for 2019-20 and beyond are subsidized in Governor Newsom's Budget Proposal.

Appendix B

Name	Object Code	Base Year 2018 - 19	Year 1 2019 - 20	Year 2 2020 - 21
Revenues				
LCFF/State Aid	8010 - 8099	$54,947,098.00	$55,904,402.00	$56,675,240.00
Federal Revenues	8100 - 8299	$68,053.00	$0.00	$0.00
Other State Revenues	8300 - 8599	$2,445,566.00	$1,225,296.38	$1,208,530.67
Other Local Revenues	8600 - 8799	$976,266.00	$695,200.00	$695,200.00
Revenues		**$58,436,983.00**	**$57,824,898.38**	**$58,578,970.67**
Expenditures				
Certificated Salaries	1000 - 1999	$26,833,681.00	$27,103,205.58	$27,055,936.55
Classified Salaries	2000 - 2999	$6,481,171.00	$6,571,353.28	$6,662,874.04
Employee Benefits	3000 - 3999	$11,624,683.00	$12,705,334.43	$13,143,192.04
Books and Supplies	4000 - 4999	$762,405.00	$786,649.48	$810,642.29
Services and Other Operating	5000 - 5999	$2,819,911.00	$2,890,390.35	$2,957,274.38
Capital Outlay	6000 - 6900	$0.00	$0.00	$0.00
Other Outgo	7000 - 7299	$148,265.00	$148,265.00	$148,265.00
Direct Support/Indirect Cost	7300 - 7399	($147,381.00)	($162,658.00)	($146,293.00)
Debt Service	7400 - 7499	$2,097,206.00	$2,107,753.00	$2,136,873.00
Expenditures		**$50,619,941.00**	**$52,150,293.12**	**$52,768,764.30**
Excess (Deficiency) of Revenues Over Expenditures		$7,817,042.00	$5,674,605.26	$5,810,206.37
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$204,321.00	$204,321.00	$204,321.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($8,689,968.00)	($9,195,000.29)	($9,485,953.82)
Other Financing Sources/Uses		**($8,894,289.00)**	**($9,399,321.29)**	**($9,690,274.82)**
Net Increase (Decrease) in Fund Balance		($1,077,247.00)	($3,724,716.03)	($3,880,068.45)
Fund Balance				
Beginning Fund Balance	9791	$8,245,539.00	$7,168,292.00	$3,443,575.97
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$8,245,539.00	$7,168,292.00	$3,443,575.97
Ending Fund Balance	9799	$7,168,292.00	$3,443,575.97	($436,492.48)
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	$15,000.00	$15,000.00	$15,000.00
Nonspendable Stores	9712	$20,000.00	$20,000.00	$20,000.00
Nonspendable Prepaid Items	9713	$0.00	$0.00	$0.00
All Other Nonspendable Assets	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Restricted Balance	9740	$0.00	$0.00	$0.00
Committed				
Stabilization Arrangements	9750	$0.00	$0.00	$0.00
Other Commitments	9760	$0.00	$0.00	$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Assignments	9780	$4,445,816.00	$319,000.00	$310,000.00
Economic Uncertainties Percentage		**3%**	**3%**	**3%**
Reserve for Economic Uncertainties	9789	$2,061,102.36	$2,132,506.92	$2,151,070.20
Undesignated/Unappropriated	9790	$626,373.64	$957,069.05	**($2,932,562.68)**

Name	Object Code	Base Year 2018 - 19	Year 1 2019 - 20	Year 2 2020 - 21
Revenues				
LCFF/State Aid	8010 - 8099	$0.00	$0.00	$0.00
Federal Revenues	8100 - 8299	$1,990,013.00	$1,877,877.00	$1,877,877.00
Other State Revenues	8300 - 8599	$3,214,615.00	$2,777,686.26	$2,771,076.55
Other Local Revenues	8600 - 8799	$4,809,073.00	$4,784,073.00	$4,784,073.00
Revenues		**$10,013,701.00**	**$9,439,636.26**	**$9,433,026.55**
Expenditures				
Certificated Salaries	1000 - 1999	$5,465,761.00	$5,795,935.38	$5,658,355.74
Classified Salaries	2000 - 2999	$3,873,210.00	$3,913,314.99	$3,968,101.43
Employee Benefits	3000 - 3999	$5,131,533.00	$5,461,257.53	$5,607,794.96
Books and Supplies	4000 - 4999	$1,469,926.00	$1,523,093.16	$1,466,041.00
Services and Other Operating	5000 - 5999	$1,482,343.00	$1,563,694.74	$1,573,672.49
Capital Outlay	6000 - 6900	$108,243.00	$108,243.00	$108,243.00
Other Outgo	7000 - 7299	$270,787.00	$270,787.00	$270,787.00
Direct Support/Indirect Cost	7300 - 7399	$77,347.00	$92,624.00	$76,259.00
Debt Service	7400 - 7499	$0.00	$0.00	$0.00
Expenditures		**$17,879,150.00**	**$18,728,949.80**	**$18,729,254.62**
Excess (Deficiency) of Revenues Over Expenditures		($7,865,449.00)	($9,289,313.54)	($9,296,228.07)
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$8,689,968.00	$9,195,000.29	$9,485,953.82
Other Financing Sources/Uses		**$8,689,968.00**	**$9,195,000.29**	**$9,485,953.82**
Net Increase (Decrease) in Fund Balance		$824,519.00	($94,313.25)	$189,725.75
Fund Balance				
Beginning Fund Balance	9791	$2,175,857.00	$3,000,376.00	$2,906,062.75
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$2,175,857.00	$3,000,376.00	$2,906,062.75
Ending Fund Balance	9799	$3,000,376.00	$2,906,062.75	$3,095,788.50
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	$0.00	$0.00	$0.00
Nonspendable Stores	9712	$0.00	$0.00	$0.00
Nonspendable Prepaid Items	9713	$0.00	$0.00	$0.00
All Other Nonspendable Assets	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Restricted Balance	9740	$3,000,376.00	$2,906,062.75	$3,095,788.50
Committed				
Stabilization Arrangements	9750	$0.00	$0.00	$0.00
Other Commitments	9760	$0.00	$0.00	$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Assignments	9780	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		**3%**	**3%**	**3%**
Reserve for Economic Uncertainties	9789	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$0.00	$0.00	$0.00

Name	Object Code	Base Year 2018 - 19	Year 1 2019 - 20	Year 2 2020 - 21
Revenues				
LCFF/State Aid	8010 - 8099	$54,947,098.00	$55,904,402.00	$56,675,240.00
Federal Revenues	8100 - 8299	$2,058,066.00	$1,877,877.00	$1,877,877.00
Other State Revenues	8300 - 8599	$5,660,181.00	$4,002,982.64	$3,979,607.22
Other Local Revenues	8600 - 8799	$5,785,339.00	$5,479,273.00	$5,479,273.00
Revenues		**$68,450,684.00**	**$67,264,534.64**	**$68,011,997.22**
Expenditures				
Certificated Salaries	1000 - 1999	$32,299,442.00	$32,899,140.96	$32,714,292.29
Classified Salaries	2000 - 2999	$10,354,381.00	$10,484,668.27	$10,630,975.47
Employee Benefits	3000 - 3999	$16,756,216.00	$18,166,591.96	$18,750,987.00
Books and Supplies	4000 - 4999	$2,232,331.00	$2,309,742.64	$2,276,683.29
Services and Other Operating	5000 - 5999	$4,302,254.00	$4,454,085.09	$4,530,946.87
Capital Outlay	6000 - 6900	$108,243.00	$108,243.00	$108,243.00
Other Outgo	7000 - 7299	$419,052.00	$419,052.00	$419,052.00
Direct Support/Indirect Cost	7300 - 7399	($70,034.00)	($70,034.00)	($70,034.00)
Debt Service	7400 - 7499	$2,097,206.00	$2,107,753.00	$2,136,873.00
Expenditures		**$68,499,091.00**	**$70,879,242.92**	**$71,498,018.92**
Excess (Deficiency) of Revenues Over Expenditures		($48,407.00)	($3,614,708.28)	($3,486,021.70)
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$204,321.00	$204,321.00	$204,321.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00
Other Financing Sources/Uses		**($204,321.00)**	**($204,321.00)**	**($204,321.00)**
Net Increase (Decrease) in Fund Balance		($252,728.00)	($3,819,029.28)	($3,690,342.70)
Fund Balance				
Beginning Fund Balance	9791	$10,421,396.00	$10,168,668.00	$6,349,638.72
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$10,421,396.00	$10,168,668.00	$6,349,638.72
Ending Fund Balance	9799	$10,168,668.00	$6,349,638.72	$2,659,296.02
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	$15,000.00	$15,000.00	$15,000.00
Nonspendable Stores	9712	$20,000.00	$20,000.00	$20,000.00
Nonspendable Prepaid Items	9713	$0.00	$0.00	$0.00
All Other Nonspendable Assets	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Restricted Balance	9740	$3,000,376.00	$2,906,062.75	$3,095,788.50
Committed				
Stabilization Arrangements	9750	$0.00	$0.00	$0.00
Other Commitments	9760	$0.00	$0.00	$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Assignments	9780	$4,445,816.00	$319,000.00	$310,000.00
Economic Uncertainties Percentage		**3%**	**3%**	**3%**
Reserve for Economic Uncertainties	9789	$2,061,102.36	$2,132,506.92	$2,151,070.20
Undesignated/Unappropriated	9790	$626,373.64	$957,069.05	**($2,932,562.68)**

Appendix C

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
November 30, 2018

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Huntington Beach City Elementary School District, hereinafter referred to as the district, mutually agree as follows:

1. **BASIS OF AGREEMENT**

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

In keeping with the provisions of Assembly Bill 1200, the county superintendent will be notified of this agreement between the district and FCMAT and will receive a copy of the final report. The final report will also be published on the FCMAT website.

2. **SCOPE OF THE WORK**

A. Scope and Objectives of the Study

1. Review the district's 2018-19 first interim general fund budget and use it as a baseline to develop a multiyear financial projection (MYFP) for the current and two subsequent fiscal years. The MYFP will be a snapshot in time of the district's current financial status.

2. Review operational processes and procedures for the fiscal services department and provide recommendations for improved efficiency, if any, in the following areas:

- Budget development
- Budget monitoring
- Accounts payable

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- Accounts receivable
- Payroll

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the district to brief district management and supervisory personnel on the team's procedures and the purpose and schedule of the study.
2. On-site Review - The team will conduct an on-site review at the district office and at school sites if necessary.
3. Exit Meeting - The team will hold an exit meeting at the conclusion of the on-site review to inform the district of significant findings and recommendations to that point.
4. Exit Letter - Approximately 10 days after the exit meeting, the team will issue an exit letter briefly memorializing the topics discussed in the exit meeting.
5. Draft Report - Electronic copies of a preliminary draft report will be delivered to the district's administration for review and comment.
6. Final Report - Electronic copies of the final report will be delivered to the district's administration and to the county superintendent following completion of the review. Printed copies are available from FCMAT upon request.
7. Follow-Up Support – If requested by the district within six to 12 months after completion of the study, FCMAT will return to the district at no cost to assess the district's progress in implementing the recommendations included in the report. Progress in implementing the recommendations will be documented to the district in a FCMAT management letter. FCMAT will work with the district on a mutually convenient time to return for follow-up support that is no sooner than eight months and no later than 18 months after completion of the study.

3. PROJECT PERSONNEL

The FCMAT study team may also include:

A. To be determined	*FCMAT Staff*
B. To be determined	*FCMAT Consultant*
C. To be determined	*FCMAT Consultant*

4. PROJECT COSTS

The cost for studies requested pursuant to Education Code (EC) 42127.8(d)(1) shall be as follows:

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A. $800 per day for each staff member while on site, conducting fieldwork at other locations, presenting reports or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate for all work performed.

B. All out-of-pocket expenses, including travel, meals and lodging

C. The district will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon the district's acceptance of the final report.

Based on the elements noted in section 2A, the total not-to-exceed cost of the study will be $21,900.

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

Payments for FCMAT's services are payable to Kern County Superintendent of Schools - Administrative Agent, located at 1300 17th Street, City Centre, Bakersfield, CA 93301.

5. **RESPONSIBILITIES OF THE DISTRICT**

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

B. The district will provide the following if requested:

1. Policies, regulations and prior reports that address the study scope
2. Current or proposed organizational charts.
3. Current and two prior years' audit reports
4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in electronic format.
5. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date and/or completion date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository, where the district will upload all requested documents.

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

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

6. **PROJECT SCHEDULE**

The following schedule outlines the planned completion dates for different phases of the study and will be established upon the receipt of a signed study agreement.

Orientation:	to be determined
Staff Interviews:	to be determined
Exit Meeting:	to be determined
Draft Report Submitted:	to be determined
Final Report Submitted:	to be determined
Board Presentation:	to be determined, if requested
Follow-Up Support:	if requested

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

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The team will work expeditiously to complete its work and deliver its report, subject to the cooperation of the district and any other parties from which, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a preliminary draft report and a final report. Prior to completion of fieldwork, the district may terminate its request for service and will be responsible for all costs incurred by FCMAT to the date of termination under Section 4 (Project Costs). If the district does not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its report and the district will be responsible for the full costs. The district understands and agrees that FCMAT is a state agency and all FCMAT reports are published on the FCMAT website and made available to interested parties in state government. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a report once fieldwork has been completed, and the district shall not request that it do so.

8. **INDEPENDENT CONTRACTOR**

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

9. INSURANCE

During the term of this agreement, FCMAT shall maintain liability insurance of not less than $1 million unless otherwise agreed upon in writing by the district, automobile liability insurance in the amount required under California state law, and workers compensation as required under California state law. FCMAT shall provide certificates of insurance, with Huntington Beach City Elementary School District named as additional insured, indicating applicable insurance coverages upon request prior to the commencement of on-site work.

10. HOLD HARMLESS

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

11. CONTACT PERSON

Name: Patricia Hagar, Assistant Superintendent, HR
Telephone: (714) 378-2020
E-mail: phager@hbcsd.us

Gregg Haulk, Superintendent — Date: 12/12/2018
Huntington Beach City Elementary School District

Michael H. Fine, — Date: November 30, 2018
Chief Executive Officer
Fiscal Crisis and Management Assistance Team