

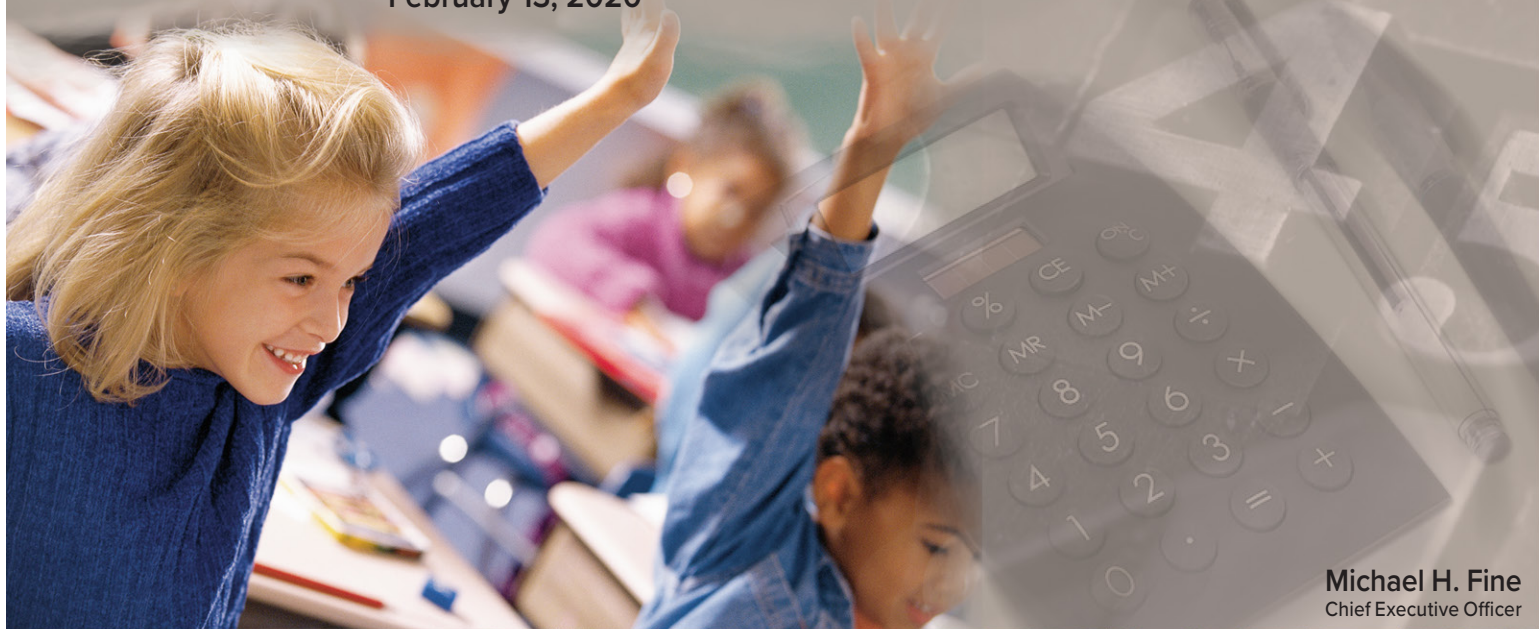
FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Westminster School District Multiyear Financial Projection and Fiscal Review

February 13, 2020

Michael H. Fine
Chief Executive Officer



FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

February 13, 2019

Dr. Cyndi Paik, Superintendent
Westminster School District
14121 Cedarwood Avenue
Westminster, CA 92683

Dear Superintendent Paik:

In August 2019, the Westminster School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for management assistance. Specifically, the agreement stated that FCMAT would perform the following:

1. Review the district's 2019-20 adopted budget general fund budget, considering the impact of other funds, and use it as a baseline to develop an independent multiyear financial projection (MYFP) for the current and two subsequent fiscal years. The MYFP will be a snapshot in time of the district's financial status. Make recommendations for expenditure reductions and/or revenue enhancements to help the district maintain financial solvency.
2. Review operational processes and procedures for the business services department and make recommendations for improved efficiency, if any, in the following areas:
 - Budget development
 - Budget monitoring
 - Position control
 - Purchasing (review to include a random sampling of transactions)
 - Accounts payable (review to include a random sampling of transactions)
 - Accounts receivable
 - Payroll

This final report contains the study team's findings and recommendations. FCMAT appreciates the opportunity to serve the Westminster School District and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,



Michael H. Fine
Chief Executive Officer

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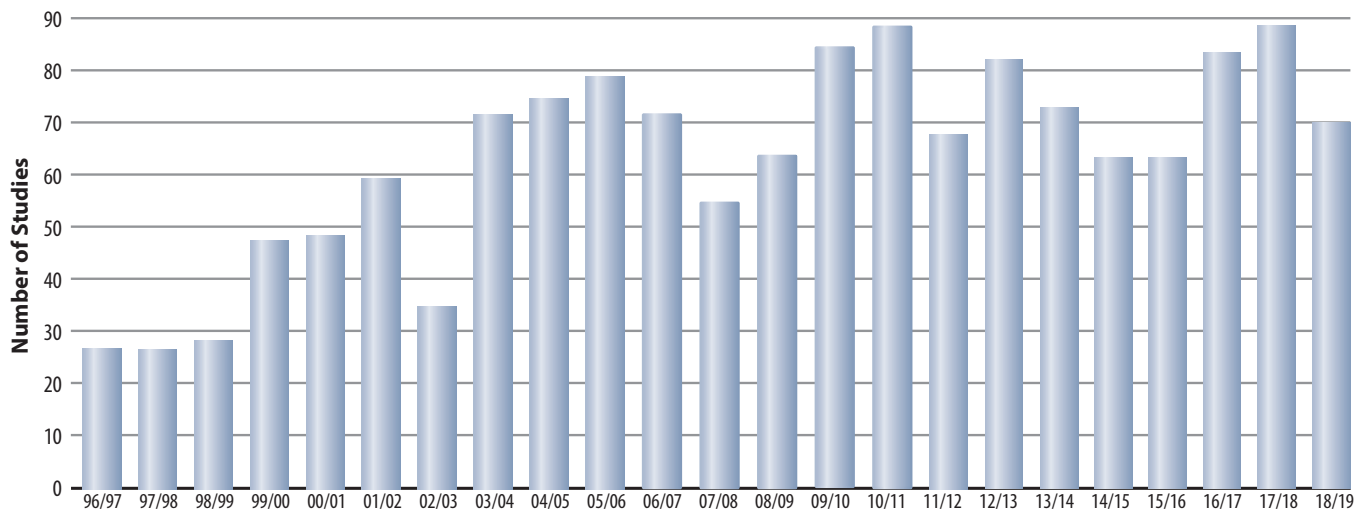
About FCMAT

FCMAT’s primary mission is to assist California’s local 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.

Studies by Fiscal Year



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 learning opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) 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 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 Westminster School District is headquartered in Westminster but also operates schools in Garden Grove, Huntington Beach and Midway City. The district has a five-member elected governing board and serves more than 9,000 students in preschool through eighth grade in 17 schools. The district operates 13 elementary schools, three middle schools, a preschool program, and an after-school care program.

The district student enrollment has been declining since fiscal year 2014-15 based on the October census day enrollment counts for the California Longitudinal Pupil Achievement Data System. The percentage of the district's students who qualify for free and reduced-price meals, are English learners, or are foster youth is 76.51% in fiscal year 2018-19.

Study and Report Guidelines

In August 2019, the Westminster School District and FCMAT entered into an agreement for FCMAT to conduct a review of the district's 2019-20 adopted general fund budget and develop an MYFP. The team also was requested to review operational processes and procedures for the business services department.

FCMAT visited the district on November 5-7, 2019 to conduct interviews with district and school site staff, collect data and review documents. Following fieldwork, FCMAT continued to review and analyze documents. This report is the result of those activities.

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

Study Team

The study team was composed of the following members:

Jennifer Noga, CFE
FCMAT Intervention Specialist

Colleen Patterson, CMA, MBA
FCMAT Consultant

Cathy Shepard
FCMAT Consultant

Laura Haywood
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 was to review and validate the district's financial status. The team reviewed numerous documents and financial reports, including the district's annual independent audits, unaudited actuals, financial system reports, attendance reports and other historical financial information pertinent to the study. The independent MYFP was developed based on the district's 2019-20 adopted budget as well as information from the district's financial system and interviews with staff. The district has a history of experiencing significant increases in the ending fund balance compared to budgeted amounts at the close of each fiscal year. These variances have caused multiple stakeholders, the governing board and the new superintendent to question the numbers, practices and procedures in the business services department.

The executive cabinet consists of four leadership positions: the superintendent, the assistant superintendent of human resources, the assistant superintendent of educational services and the assistant superintendent of business services. Currently, the assistant superintendent of business services position is vacant. The district does not have consistent processes and procedures in the business services department. Two of the main areas impacted were the enrollment and average daily attendance (ADA) projections and the ending fund balance designated assignments.

Enrollment and ADA projections were developed based on a third-party analysis. The former assistant superintendent of business services would determine the values to be used for revenue projections and tended to select a much more conservative number. Overly conservative projections that underestimate revenue projections may cause a lack of trust in the business services staff. Because the district is experiencing declining enrollment, it receives revenues based on prior year ADA. Therefore, the enrollment and ADA projections mainly impact the two subsequent fiscal years. In comparing FCMAT's enrollment projections with those of the district, the impact of the conservative enrollment projections resulted in \$2.4 million less being reflected in each of the two subsequent fiscal years. FCMAT used the cohort survival technique in its enrollment and ADA projections.

One component of ending fund balance is the assigned fund balance. According to the district's board policy, the superintendent has the authority to assign funds to the assigned fund balance and may do so at any time prior to the issuance of the financial statement. Interviews indicated that the former assistant superintendent of business services would identify the amounts for the business service staff to include in the financial statements. Any amounts that were stated on the financial statements should have been discussed with the superintendent or the acting interim superintendent at the time of the financial submission to the board. FCMAT's concern with the assigned fund balance designations is that the financial statements always reflected a zero balance in the unassigned/unappropriated amounts. It is highly unlikely that the balance would be exactly zero.

All affected parties should fully understand the revenues and expenditures represented in the district financial budget reports. Clear information should be provided on all funds and resources during budget development, budget adoption, interim and unaudited actuals reporting times. Any reports made to the board on financial updates and/or budget revisions should include a description of budget assumptions and illustrate the changes in revenues and expenditures and their effect on the fund balance. The district should consider reestablishing the budget advisory committee as outlined in its BP 3100 to assist staff with understanding their budgets and to rebuild the trust within the community.

The following is a summary of FCMAT's projection of the district's unrestricted general fund for the current and two subsequent fiscal years.

Multiyear Financial Projection Summary			
General Fund			
Unrestricted Resources Only			
Description	Base Year 2019-20	Year 1 2020-21	Year 2 2021-22
Total Revenues	\$77,180,332	\$78,513,045	\$79,731,806
Total Expenditures	\$72,639,280	\$74,735,078	\$76,159,131
Total Other Financing Sources/Uses	\$0	\$0	\$0
Net Increase (Decrease) in Fund Balance	\$4,541,052	\$3,777,967	\$3,572,675
Fund Balance:			
Beginning Balance	\$26,834,940	\$31,375,992	\$35,153,959
Audit Adjustments	\$0	\$0	\$0
Other Restatements	\$0	\$0	\$0
Total Ending Balance	\$31,375,992	\$35,153,959	\$38,726,634
Components of Ending Fund Balance			
Revolving Cash	\$100,000	\$100,000	\$100,000
Stores	\$20,000	\$20,000	\$20,000
Other Assignments	\$8,626,128	\$8,437,128	\$8,347,128
3% Reserve for Economic Uncertainties	\$7,509,102	\$7,720,906	\$7,746,653
Undesignated/Unappropriated	\$15,120,762	\$18,875,925	\$22,512,853

FCMAT's MYFP indicates that the district will be able to maintain a 3% reserve for economic uncertainties in the current and two subsequent fiscal years. To evaluate the multiyear projections, the district should focus on its ability to meet its reserve requirement of 3% 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.

Findings and Recommendations

Multiyear Financial Projections

Multiyear financial projections (MYFPs) provide the board and district with a fiscal planning framework that will enable them to make budget decisions that strategically address current and future challenges. Assembly Bill (AB) 1200 and AB 2756 require MYFPs to be included in the adoption budget and interim reporting process.

In June 2004, AB 2756 (Daucher) was passed and signed into law on an urgency basis. This legislation made substantive changes to the financial accountability and oversight processes used to monitor the fiscal position of school districts and county offices of education. Among other things, AB 2756 strengthened the roles of the superintendent of public instruction, county office of education and FCMAT and their ability to intervene during fiscal crisis.

California school districts and county offices use many different methods and software products to prepare MYFPs. The projection for the district's general fund used in this report was prepared using FCMAT's Projection-Pro multiyear and cash flow projection software, a web-based forecasting tool that is available at no cost to all California school districts. FCMAT reviewed revenue and expenditure trends during recent years, used industry-standard variables provided by the School Services of California (SSC) Financial Dartboard, and based its projection on the district's 2019-20 adopted budget for the current and two subsequent fiscal years.

Any forecast of financial data has inherent limitations because calculations are based on certain assumptions and criteria, including enrollment trends, cost-of-living increases, forecasts of costs for utilities, fuel and other consumables, and local, state and national economic conditions. Therefore, the projections should be viewed as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. MYFPs can serve as the basis for more informed decisions and provide the ability to forecast the fiscal effects of decisions, but they should be updated at least at each interim financial reporting period and in preparation for negotiations.

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. According to the financial reports submitted for the 2018-19 fiscal year, the district was projected to deficit spend and by second interim was projected to have a decrease of approximately \$4.744 million to its ending fund balance. However, once the books were closed, the district had a net increase of \$285,510.

California school districts must continue to plan for the slowing of funding growth. LCFF is fully funded therefore future increases from the state will depend on cost of living adjustments (COLA). The approval of the income tax extension (Proposition 55) by California voters will continue to support state revenues through 2030, but the revenue is expected to be volatile, and there is uncertainty about how much will be generated

Each district faces its own set of financial risk factors based on reserve levels, enrollment trends, employee compensation, degree of revenue volatility and various other local and statewide factors. Districts must plan accordingly to meet ongoing academic and program objectives while maintaining fiscal solvency.

Developing an MYFP provides a baseline result that can help a district frame its fiscal conversation for the current and two subsequent fiscal years and focus on priorities such as:

1. Maintaining adequate reserves to allow for unanticipated circumstances.
2. Maintaining fiscal flexibility by limiting commitments to future increased expenditures based on projections of future revenue growth, and/or establishing contingencies that allow for expenditure plans to be changed as needed.
3. Analyzing enrollment trends and regularly updating MYFPs.
4. Routinely preparing alternative MYFPs that can show the fiscal impact of different budget assumptions through each year of the fiscal model.
5. Developing an expenditure reduction plan that can be implemented in a timely manner should it be necessary.

Enrollment, Unduplicated Pupil Count, and ADA

Historical enrollment and attendance patterns help identify potential changes in future enrollment and are, therefore, core components of any MYFP. Enrollment projections are essential in identifying changes that may significantly impact an LEA's estimated revenue in subsequent years of a projection. When prepared timely, they also provide key information for determining instructional priorities, grade level configurations, and/or potential boundary changes. Enrollment projections by grade level should be prepared frequently and with enough detail to monitor and project class sizes in subsequent years.

Most of a school district's funding is based on the Local Control Funding Formula (LCFF). Student enrollment, unduplicated pupil count (UPC) and ADA by grade level are all important components of LCFF, which is explained in the Revenue and Expenditure Projection Assumptions portion of this report.

Enrollment and ADA projections have inherent limitations because they are based on certain criteria and assumptions instead of 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 forecasting model should be viewed as a trend based on certain criteria and assumptions instead of a prediction of exact numbers. To maintain the most accurate and meaningful data, the district should routinely prepare and update enrollment projections and compare them to actual enrollment. This process provides the district with greater ability to identify a more realistic enrollment change while still being able to adjust staffing levels and expenditure budgets as appropriate.

FCMAT used the cohort survival technique to project the district's enrollment for grades 1 through 8. This technique groups students by grade level on entry and tracks them through each year they stay in school. This method evaluates the longitudinal relationship of the number of students passing from one grade to the next in the subsequent year. In doing so, it more closely accounts for retention and new and departing students 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.

Percentages are calculated from historical enrollment data certified during the Fall 1 census date for the California Longitudinal Pupil Achievement Data System (CALPADS) to determine a percentage of enrollment retention between any two grades. For example, if 100 students were certified as enrolled in first grade in 2017-18 and that number increased to 104 in second grade in 2018-19, the survival would be 104%, or a ratio of 1.04. Such ratios are calculated between each pair of grades over several recent years. These ratios are key factors contributing to the reliability of the projections given the validity of the data at the starting point. Each ratio collectively encompasses the variables that could account for an increase or decrease in the size of a grade cohort as it progresses over time.

The process of projecting kindergarten enrollment differs from other grades because little data is available on the presence of 4- and 5-year-old children that may enroll in the district the following year. The industry standard 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 later. Alternatively, a five-year historical average of kindergarten enrollment is often used in smaller districts. FCMAT used countywide live birth rates to project kindergarten enrollment.

In part, LCFF funding (specifically, supplemental and concentration grant funding) is also determined based on the LEA's unduplicated pupil percentage (UPP), which is the percentage of the district's students who are eligible for free or reduced priced meals or identified as English learners and/or foster youth; eligibility of a student is only counted once, even if the student meets multiple criteria. The UPP is determined based on a three-year rolling average of the ratio of unduplicated students enrolled to total enrollment. FCMAT used a five-year historical average for this factor.

Enrollment projections for Westminster School District by grade level are presented in the tables below.

Westminster School District Enrollment and Average Daily Attendance

Enrollment	Historical 5 2014-15	Historical 4 2015-16	Historical 3 2016-17	Historical 2 2017-18	Historical 1 2018-19	Base Year 2019-20	Year 1 2020-21	Year 2 2021-22
TK-Kindergarten (*)	1,243	1,221	1,147	1,221	1,187	1,171	1,175	1,191
Grade 1 (#)	1,063	999	968	935	952	937	931	935
Grade 2	1,024	1,044	1,017	944	923	957	927	921
Grade 3	1,026	1,012	1,019	1,002	936	943	944	914
Subtotal (TK-3)	4,356	4,276	4,151	4,102	3,998	4,008	3,977	3,961
Grade 4	1,048	1,002	1,015	1,018	995	954	938	939
Grade 5	1,019	1,038	1,021	1,015	1,019	1,006	957	941
Grade 6	1,004	1,015	1,058	1,028	1,028	1,031	1,017	967
Subtotal (4-6)	3,071	3,055	3,094	3,061	3,042	2,991	2,912	2,847
Grade 7	1,048	1,018	1,052	1,055	1,001	1,031	1,028	1,014
Grade 8	1,028	1,052	1,041	1,046	1,079	1,007	1,044	1,041
Subtotal (7-8)	2,076	2,070	2,093	2,101	2,080	2,038	2,072	2,055
School Enrollment	9,503	9,401	9,338	9,264	9,120	9,037	8,961	8,863
COE Comm Schools / Special Ed	19	17	12	10	8	8	8	8
Total Enrollment	9,522	9,418	9,350	9,274	9,128	9,045	8,969	8,871
Increase / (Decrease) over prior year		(104)	(68)	(76)	(146)	(83)	(76)	(98)
Unduplicated Count	Historical 5 2014-15	Historical 4 2015-16	Historical 3 2016-17	Historical 2 2017-18	Historical 1 2018-19	Base Year 2019-20	Year 1 2020-21	Year 2 2021-22
TK-12 (\$)	7,241	7,247	7,131	7,073	6,978	6,829	6,827	6,752
UPC Ratio (Y)	0.7620	0.7709	0.7637	0.7635	0.7651	0.7557	0.7619	0.7618
COE Comm Schools / Spec Ed	8	7	2	6	4	4	4	4
COE UPC Ratio	0.4211	0.4118	0.1667	0.6000	0.5000	0.5000	0.5000	0.5000
P-2 ADA	Historical 5 2014-15	Historical 4 2015-16	Historical 3 2016-17	Historical 2 2017-18	Historical 1 2018-19	Base Year 2019-20	Year 1 2020-21	Year 2 2021-22
TK-3	4,257.66	4,162.13	4,041.01	3,980.89	3,872.80	3,893.10	3,862.99	3,847.45
4-6	3,012.79	3,001.46	3,032.11	2,985.52	2,976.96	2,927.28	2,849.96	2,786.35
7-8	2,029.86	2,025.90	2,041.92	2,046.10	2,024.98	1,987.07	2,020.22	2,003.65
Subtotal excluding COE	9,300.31	9,189.49	9,115.04	9,012.51	8,874.74	8,807.45	8,733.17	8,637.45

COE Comm Schools / Spec Ed	22.03	19.89	17.20	17.29	11.36	11.36	11.36	11.36
Total ADA (@)	9,322.34	9,209.38	9,132.24	9,029.80	8,886.10	8,818.81	8,744.53	8,648.81
Enrollment Factors	Historical 5 2014-15	Historical 4 2015-16	Historical 3 2016-17	Historical 2 2017-18	Historical 1 2018-19	Base Year 2019-20	Year 1 2020-21	Year 2 2021-22
TK-3	0.9774	0.9734	0.9735	0.9705	0.9687	0.9713	0.9713	0.9713
4-6	0.9810	0.9825	0.9800	0.9753	0.9786	0.9787	0.9787	0.9787
7-8	0.9778	0.9787	0.9756	0.9739	0.9735	0.9750	0.9750	0.9750

Enrollment is CalPads data; 2019-20 is Fall 1 census day uncertified

ADA is P2 CDE apportionment exhibits

(*) TK-Kindergarten projected years are based upon countywide live birth rates

(#) Enrollment projections by grade are based on cohort progression adjusted for a 5-year average historical retention

(\$) Source FCMAT LCFF Calculator

(Y) Projection year unduplicated pupil count 5-year historical average

(@) CDE apportionment web exhibits

Historical Five-Year Retention Average

	Historical 4 2015-16	Historical 3 2016-17	Historical 2 2017-18	Historical 1 2018-19	Base Year 2019-20	Retention Percentage
K-1st	80.4%	79.3%	81.5%	78.0%	78.9%	79.6%
1st-2nd	98.2%	101.8%	97.5%	98.7%	100.5%	99.4%
2nd-3rd	98.8%	97.6%	98.5%	99.2%	102.2%	99.3%
3rd-4th	97.7%	100.3%	99.9%	99.3%	101.9%	99.8%
4th-5th	99.0%	101.9%	100.0%	100.1%	101.1%	100.4%
5th-6th	99.6%	101.9%	100.7%	101.3%	101.2%	100.9%
6th-7th	101.4%	103.6%	99.7%	97.4%	100.3%	100.5%
7th-8th	100.4%	102.3%	99.4%	102.3%	100.6%	101.0%

The enrollment and ADA projections prepared by FCMAT indicate the district should anticipate continued enrollment decline in 2020-21 and 2021-22 but at a lesser rate than projected in the district’s 2019-20 adopted budget. FCMAT’s projections indicate a decline of 76 students in 2020-21 and an additional decline of 98 students in 2021-22.

Second attendance reporting period (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. School districts, and under certain circumstances charter schools, are bound by an annual deadline of March 15 to provide notice to certificated staff if employment may be terminated in the subsequent year. To ensure appropriate action is taken by this deadline, an LEA must have up-to-date projections based on the most current information and estimates to determine whether notices are necessary; if so, how many, and to have adequate time to prepare them. Once the deadline has passed, the opportunity to adjust school staffing levels is lost along with the funding necessary to offset those costs. Failure to identify potential reductions in revenue and plan for necessary staffing reductions in a timely manner can significantly impact the district’s financial position.

Because the district is experiencing declining enrollment, it receives revenues based on the greater of the prior year or current year P-2 ADA (nonpublic schools and COE ADA are paid on current year only). This provides the traditional school district with one year to make necessary staffing adjustments when student enrollment declines. Historical and projected ADA for Westminster School District are presented in the tables below.

	Historical 5 2014-15	Historical 4 2015-16	Historical 3 2016-17	Historical 2 2017-18	Historical 1 2018-19	Base Year 2019-20	Year 1 2020-21	Year 2 2021-22
P-2 ADA	9,322.34	9,209.38	9,132.24	9,029.80	8,886.10	8,818.81	8,744.53	8,648.81
Increase/ (Decrease)		(112.96)	(77.14)	(102.44)	(143.70)	(67.29)	(74.28)	(95.72)
Funded ADA	9,544.33	9,317.05	9,207.01	9,134.53	9,022.08	8,886.39	8,818.81	8,744.53
Increase/ (Decrease)		(227.28)	(110.04)	(72.48)	(112.45)	(135.69)	(67.58)	(74.28)

The district uses an outside contractor to assist with enrollment projections. The contractor presents a range of possible enrollment outcomes from liberal to conservative. The business services staff determine the value to be used for revenues in the current and subsequent two years of the MYFP and tend to select a conservative value. The projected enrollment and ADA are revised at the first interim report to reflect the actual enrollment count on the Fall 1 census day; however, the subsequent years' projections are not revised.

Except for 2013-14, the district has been in declining enrollment for the past 10 years; therefore, conservative enrollment projections are reasonable. However, consistently overprojecting student loss without supporting data or adjusting at interim financial reports may cause a lack of trust in the business services staff.

Revenue and Expenditure Projection Assumptions

FCMAT prepared its MYFP to include the impact of the state's 2019-20 enacted budget. The team reviewed the district's records, interviewed staff members and examined a variety of financial documents to gather the information needed for the MYFP. Assumptions include conservative economic factors and estimates described by major object code.

Revenue Assumptions (Object 8XXX):

Projected revenue was based on validation of funding from the California Department of Education (CDE), SSC's Financial Projections Dartboard (Appendix A), grant letters and analysis of district estimates for any sources that could not be independently verified.

Projection Rules

Description	Base Year 2019-20	Year 1 2020-21	Year 2 2021-22
Enrollment projection	9,045	8,969	8,871
Average Daily Attendance (ADA) projection	8,818.81	8,744.53	8,648.81
Funded ADA	8,886.10	8,818.81	8,744.53
Statutory cost of living adjustment (COLA)	3.26%	3.00%	2.80%
Certificated step/column	Included	2.00%	2.00%
Classified step	Included	2.00%	2.00%
California CPI (SSC)	3.33%	3.14%	3.02%
California Lottery	Unrestricted per ADA	\$153	\$153
	Restricted per ADA	\$54	\$54

Description	Base Year 2019-20	Year 1 2020-21	Year 2 2021-22
Mandated Block Grant (Grades K-8)	\$32.15	\$33.15	\$34.08
Interest rate trend for 10-year treasuries	2.35%	2.58%	2.60%
LCFF COLA (SSC)	3.26%	3.00%	2.80%
STRS employer rates	17.10%	18.40%	18.10%
PERS employer rates	19.72%	22.80%	24.90%

Local Control Funding Formula/State Aid

The LCFF was implemented by the 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 and 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.

LCFF eliminated many former state categorical programs for all LEAs, including school districts, charter schools, and county offices of education; these dollars were redirected to support LCFF. Full implementation of the LCFF for school districts and charter schools was expected to take eight years, with LEAs receiving a transitional level of funding during implementation. However, full implementation was achieved in 2018-19, two years earlier than anticipated, with all LEAs receiving their target allocations of LCFF funding. Although LCFF has reached its target funding sooner than anticipated, no additional funds are expected; therefore, FCMAT recommends projecting LCFF revenues conservatively in MYFPs. Additional LCFF increases are now limited to the cost-of-living adjustment (COLA) and adjustments made because of changes in attendance and unduplicated student counts. Although the economy has continued to improve over a number of years, the California Department of Finance continues to remind entities that changes in both state and national economics may adversely affect school funding.

Districts are encouraged to use the FCMAT LCFF Calculator to estimate LCFF funding. For most districts, the LCFF entitlement is funded through a combination of local property taxes and state aid. A district's property tax first will 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.

FCMAT prepared an independent LCFF calculation 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 2019-20 adopted state budget released in August 2019; the most recent calculator was not available when the district business services staff was building the budget. This resulted in a slight differ-

ence in funded ADA in FCMAT's projections as well as a decrease in LCFF revenues. FCMAT's projection of ADA and UPC also resulted in differences in projected LCFF revenues in the subsequent years.

Districts should use the most recently updated LCFF calculator available and current enrollment, ADA and UPC projections to update their budgets and MYFPs.

Federal Revenue (8100-8299)

Funding from federal grants and entitlements is restricted in accordance with their provisions. The district operates 12 restricted programs including Title I, Title II, Title III, Medi-Cal administrative activities and various special education programs.

Unrestricted federal revenues were increased based on the amounts received to date and the amount was carried forward to 2020-21 and 2021-22. FCMAT confirmed the district's federal award amounts for 2019-20 and projected the confirmed amounts forward to the two subsequent fiscal years. The district needs to ensure that budgeted amounts agree with CDE funding exhibits or budget projections provided by the SELPA. FCMAT's projection includes the following changes for federal revenues:

1. Changed Title I funding from the district's projection of \$2,568,874 at adopted budget to now include a carryover balance of \$522,215. This amount was unspent from the previous year's allocation.
2. Changed Title II, Part A funding from the district's projection of \$324,581 at adopted budget to FCMAT's projection of \$545,315, an increase of \$220,734, per the CDE preliminary allocation for 2019-20. A portion of the increase is from prior year unearned revenues and an additional \$125,015 of unspent funds from the previous year's allocation.
3. Increased Title III, Immigrant Student Program funding, per the CDE preliminary allocation for 2019-20 by \$53,440.
4. Changed Title III, English Language Acquisition, from the district projection of \$390,809 at adopted budget to FCMAT's projection of \$647,506 for an increase of \$256,697. A portion of the increase is from prior year unearned revenues, and most of it was unspent from the previous year's allocation.
5. Changed Title IV, Student Support and Academic Enrichment, from the district projection of \$167,668 at adopted budget to FCMAT's projection of \$310,775. \$4,609 of this increase was due to CDE's preliminary allocation for 2019-20, and the remainder came from prior unearned revenues and unspent revenues from the previous year's allocation.
6. FCMAT reduced the special education budget from \$1,862,772 to \$1,824,513 for a total reduction of \$38,259 based on budget projections provided by the SELPA.

Most of the increases were from significant year-over-year carryovers of the title program funding. The district has a pattern of not spending the current year allocations. Best practice is that the district obligates or expends each allocation within each fiscal year because the money should be spent on the students generating these dollars. Additionally, any funds not spent by the deadline will need to be returned to CDE. While Title I may allow for a 15% carryover limitation with a waiver, this only occurs once every three years.

Carryover or unearned revenues from prior years should not be included in current year budget until the unaudited actuals are completed and should be eliminated from the two subsequent years of the MYFP. FCMAT's review of the previous years' budgets does show that the allocations were updated to reflect all carryover and unearned revenue balances in the district's first interim reports, but expenditure plans as budgeted were not fully executed at year end.

Title programs do not typically have an ending fund balance because their revenues are not initially recognized until the time a qualifying expenditure is made. However, for this report the following programs show an ending fund balance because the district lacks a sufficient expenditure plan.

Ending Fund Balances by Program	Resource	Base Year 2019-20	Year I 2020-21	Year 2 2021-22
ESSA: Title II, Supporting Effective Instruction	4035	\$220,734	\$281,299	\$333,931
ESSA: Title IV, Student Support and Academic Enrichment Grant	4127	\$143,108	\$142,464	\$136,902
ESSA: Title III, Immigrant Student Program	4201	\$53,440	\$94,804	\$136,168
ESSA: Title III, English Learner Student Program	4203	\$256,697	\$242,655	\$220,978

FCMAT's MYFP did eliminate revenues in fiscal year 2021-22 that the district receives under the Title IX, McKinney-Vento Homeless Assistance Grant because the district will need to reapply for this program during the 2020-21 fiscal year to guarantee another three-year award.

Other State Revenue (8300-8599)

State revenues were balanced with grant and entitlement letters, as well as with information provided by the CDE. The major difference in FCMAT's analysis is the current year award amount for the After-School Education and Safety grant, which reflected an increase of \$119,300 from the amount estimated at adopted budget. Other state grant award amounts for 2019-20 were confirmed and are carried forward to 2020-21 and 2021-22.

Calculations for the projection years include the statutory COLAs of 3% in 2020-21 and 2.80% in 2021-22 for all applicable resources.

FCMAT projected lottery revenues for 2019-20 using actual prior year annual ADA, multiplied by \$153 for unrestricted and \$54 for restricted lottery revenues, per the SSC Dartboard. FCMAT increased projected unrestricted revenues by \$41,941 and increased projected restricted revenues by \$17,466 in the current year. Revenues in the subsequent years were based on projected annual ADA. Lottery funding is initially allocated using the prior year's annual ADA and is adjusted in the subsequent fiscal year based on current year annual ADA. Projections for the subsequent years show a slight decrease due to the impact of declining enrollment.

Other Local Revenue (8600-8799)

The district received local revenues from leases and rentals, interest earnings, donations and other miscellaneous sources. Because these revenues cannot be guaranteed year to year, budgets and MYFPs for these items need to be conservative, take into account historical trends, and identify revenue streams that are one-time. 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 had no budget and were updated to reflect amounts received to date. These budget items should also be monitored and updated throughout the year based on amounts received to date.

Contributions (8980-8990)

When revenues for restricted programs are insufficient to support program expenditures, a contribution from the unrestricted general fund is required. Usually, restricted programs should be self-supporting, with the exception of special education and routine restricted maintenance, neither of which are typically fully funded by either state or federal sources.

FCMAT projects a contribution of \$14,751,907.61 to special education programs in the current year. This is projected to increase to \$15,406,495.45 in 2020-21 and to \$15,915,220.12 in 2021-22 because of increasing costs.

For all LEAs that received funds under the Leroy F. Green School Facilities Act of 1998, Education Code (EC) 17070.75 requires ongoing deposits to a restricted account for ongoing and major maintenance. Per EC 17070.75(b)(2)(C), for fiscal years 2017-18 to 2019-20, the required contribution is the greater of the following: 2% of general fund expenditures, or the lesser of 3% of general fund expenditures or the amount contributed in 2014-15. Beginning in 2020-21, the required contribution returns to 3% of general fund expenditures. FCMAT’s review showed that the district did not take advantage of the flexibility provided to LEAs, and in 2018-19 the district’s contribution was just over 4%. Further review of this resource shows that expenditures do not keep pace with the 3% unrestricted contribution to the routine restricted maintenance account, resulting in a large ending balance. The district should consider using these funds to support its maintenance projects before using unrestricted funds.

The table below shows projected contributions from the district’s unrestricted general fund to its restricted resources.

Contributions

	Resource Code	Base Year 2019-20	Year 1 2020-21	Year 2 2021-22
Unrestricted Resources				
Unrestricted Resources	0000	\$(17,970,094.02)	\$(18,715,455.07)	\$(19,278,071.48)
Total Unrestricted		\$(17,970,094.02)	\$(18,715,455.07)	\$(19,278,071.48)
Restricted Resources				
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	3310	\$1,814,308.00	\$1,925,686.34	\$2,000,608.35
Special Ed: IDEA Preschool Grants, Part B, Sec 619	3315	\$292,828.00	\$304,468.93	\$312,427.33
Special Ed: IDEA Early Intervention Grants	3385	\$76,985.00	\$79,799.86	\$81,502.86
Special Education	6500	\$12,476,780.61	\$12,982,205.42	\$13,407,750.33
Special Ed: Early Ed Individuals with Exceptional Needs (Infant Program)	6510	\$90,578.00	\$114,334.90	\$112,931.25
Special Ed: Infant Discretionary Funds	6515	\$428.00	\$ -	\$ -
Ongoing & Major Maintenance Account (RRMA: Education Code Section 17070.75)	8150	\$3,218,186.41	\$3,308,959.62	\$3,362,851.36
Total Restricted		\$17,970,094.02	\$18,715,455.07	\$19,278,071.48
Balance		\$ -	\$ -	\$ -

Expenditure Assumptions (Object Codes 1XXX-7999)

FCMAT’s MYFP assumes that the district’s current ongoing costs will continue unless adjusted as noted below.

Salary and Benefits (1XXX-3XXX)

The district utilizes the county office position control system, which is integrated with the county office financial system, to manage salary and benefit data. FCMAT reviewed 2018-19 actual expenditures for salary and benefits and compared those to 2019-20 adopted budget values as well as October 2019 payroll records. Adjustments to 2019-20 salaries and benefits were made to reflect projected expenditures through June 30, 2020.

Certificated Salaries (1XXX)

Certificated salaries were adjusted in the MYFP based on an analysis of actual expenditures to date and projected costs for the remainder of the fiscal year. Certificated salaries were increased by 2% in each subsequent year of the projection for the estimated cost of salary step and column movement.

The 2019-20 budget value for unrestricted certificated salaries was reduced \$425,471; the adjusted value reflects October 2019 payroll calculation estimates.

- Certificated substitute salaries (\$348,136)
- Certificated supervisors and administrators salaries (\$92,335)
- Certificated other salaries \$15,000

The 2019-20 budget value for restricted certificated salaries was reduced \$20,390; the adjusted value reflects October 2019 payroll calculation estimates.

- Certificated pupil support salaries (\$81,693)
- Certificated supervisors and administrators salaries \$61,303

The 2020-21 budget value for unrestricted certificated salaries was reduced \$109,504; the adjusted value reflects the reduction of two teachers due to declining enrollment.

- Certificated instructional salaries (\$109,504)

The 2021-22 budget value for unrestricted certificated salaries was reduced \$164,256; the adjusted value reflects the reduction of three teachers due to declining enrollment.

- Certificated instructional salaries (\$164,256)

Classified Salaries (2XXX)

Classified salaries were adjusted in the MYFP based on an analysis of actual expenditures to date and projected costs for the remainder of the fiscal year. Classified salaries were increased by 2% in each subsequent year of the projection for the estimated cost of salary step movement.

The 2019-20 budget value for unrestricted classified salaries was reduced \$210,773; the adjusted value reflects October 2019 payroll calculation estimates.

- Classified support salaries (\$45,645)
- Classified supervisors and administrators salaries (\$67,863)
- Classified other salaries (\$97,265)

The 2019-20 budget value for restricted classified salaries was reduced \$571,929; the adjusted value reflects October 2019 payroll calculation estimates.

- Classified instructional salaries (\$448,579)
- Classified other salaries (\$123,350)

Benefits (3XXX)

Employee benefits accounts were adjusted in the current year based on actual year-to-date activity and encumbrances through October 2019, and payroll reports for September and October 2019. Statutory benefits were increased or decreased in the subsequent years in proportion to increases or decreases in certificated and classified salaries. Increased employer contributions for the California State Teachers’ Retirement System (STRS) and the California Public Employees’ Retirement System (PERS) were included in the subsequent years. No increases in health and welfare benefits were projected for the subsequent years because the district contribution is capped in the collective bargaining agreements.

Statutory payroll benefits were decreased proportionally to the change in salaries.

- 2019-20 unrestricted statutory payroll benefits (\$135,386)
- 2019-20 restricted statutory payroll benefits (\$164,648)
- 2020-21 unrestricted statutory payroll benefits (\$49,740)
- 2021-22 unrestricted statutory payroll benefits (\$76,991)
- CalSTRS rates reflect 22.80% for 2020-21 and 24.90% for 2021-22
- CalPERS rates reflect 18.40% for 2020-21 and 18.10% for 2021-22

Books, Supplies and Services (4XXX-5XXX)

Books and supplies and services budgets were reviewed for reasonableness using the two prior years’ actual expenditures and current year-to-date expenditures and encumbrances. After adjustments were made as described below, expenditures in the subsequent years were increased based on the Consumer Price Index (CPI inflation factor).

Expenditure budgets included in the adopted budget report are higher than the 2018-19 actual unrestricted expenditures. FCMAT assumed these values would increase by the 2019-20 CPI rate and made adjustments as appropriate.

- Books, supplies and service expenditures are projected to be \$468,698 higher than the 2018-19 actual expenditures. When adjusted for the CPI increase, the 2018-19 actual expenditure would increase \$71,958, resulting in a current year budget of \$2,232,844.
- Operations and housekeeping service expenditures are projected to be \$1,266,271 higher than the 2018-19 actual expenditures. When adjusted for the CPI increase, the 2018-19 actual expenditure would increase \$37,401, resulting in a current year budget of \$1,160,569.
- Professional/consulting services and operating expenditures are projected to be \$367,895 higher than the 2018-19 actual expenditures. When adjusted for the CPI increase, the 2018-19 actual expenditure would increase \$95,320, resulting in a current year budget of \$2,957,787.

Capital Outlay (6XXX)

- Equipment replacement expenditures are projected to be \$306,000 higher than the 2018-19 actual expenditures. When adjusted for the CPI increase, the 2018-19 actual expenditure would increase \$410, resulting in a current year budget of \$12,719.

Other Outgo (7XXX)**Indirect Costs**

Indirect cost charges were applied to all programs where allowable to ensure proper program cost accounting, even when this resulted in a contribution back to the resource from the unrestricted general fund. The allowable indirect cost rate of 4.93% was applied to the current and two subsequent years. This action increased restricted program expenditures \$1,218,601; an offset to credit this increased expense was applied to the unrestricted general fund.

Interfund Transfers (8919 & 7619)**Other Authorized Interfund Transfers In (8919)**

The district's 2019-20 adopted budget report does not include transfers into the general fund from other funds.

Other Authorized Interfund Transfers Out (7619)

The district's 2019-20 adopted budget report includes an interfund transfer of \$493,872 from the unrestricted general fund to special reserve fund 40. These monies are used to pay debt service on the district solar project. This is a continuing expense that is funded through the savings of actual electricity cost versus solar power energy earnings.

A comparison of FCMAT's projection for 2019-20 compared to the district's adopted budget report is as follows:

COMBINED	Object Code	District's Adopted Budget 2019-20	FCMAT's Analysis 2019-20	Variance
Revenues				
LCFF/State Aid	8010 - 8099	\$92,278,603.00	\$92,198,953.00	(\$79,650.00)
Federal Revenues	8100 - 8299	\$5,774,187.00	\$6,743,478.00	\$969,291.00
Other State Revenues	8300 - 8599	\$7,111,745.00	\$7,222,423.00	\$110,678.00
Other Local Revenues	8600 - 8799	\$6,223,722.00	\$6,845,934.00	\$622,212.00
Revenues		\$111,388,257.00	\$113,010,788.00	\$1,622,531.00
Expenditures				
Certificated Salaries	1000 - 1999	\$51,751,100.00	\$51,305,238.87	(\$445,861.13)
Classified Salaries	2000 - 2999	\$16,055,929.00	\$15,273,226.32	(\$782,702.68)
Employee Benefits	3000 - 3999	\$25,641,271.00	\$25,341,237.15	(\$300,033.85)
Books and Supplies	4000 - 4999	\$4,247,419.00	\$3,850,679.00	(\$396,740.00)
Services and Other Operating	5000 - 5999	\$11,937,977.00	\$10,326,729.00	(\$1,611,248.00)
Capital Outlay	6000 - 6900	\$638,000.00	\$344,719.00	(\$293,281.00)
Other Outgo	7000 - 7299	\$971,836.00	\$971,836.00	\$0.00
Direct Support/Indirect Cost	7300 - 7399	(\$634,657.00)	(\$634,657.00)	\$0.00
Debt Service	7400 - 7499	\$0.00	\$0.00	\$0.00
Expenditures		\$110,608,875.00	\$106,779,008.34	(\$3,829,866.66)
Excess (Deficiency) of Revenues Over Expenditures		\$779,382.00	\$6,231,779.66	\$5,452,397.66
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$493,872.00	\$493,872.00	\$0.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00

COMBINED	Object Code	District's Adopted Budget 2019-20	FCMAT's Analysis 2019-20	Variance
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		(\$493,872.00)	(\$493,872.00)	\$0.00
Net Increase (Decrease) in Fund Balance		\$285,510.00	\$5,737,907.66	\$5,452,397.66
Fund Balance				
Beginning Fund Balance	9791	\$30,139,339.74	\$35,546,643.37	\$5,407,303.63
Audit Adjustments	9793	\$0.00	\$0.00	\$0.00
Other Restatements	9795	\$0.00	\$0.00	\$0.00
Adjusted Beginning Fund Balance	9797	\$30,139,339.74	\$35,546,643.37	\$5,407,303.63
Ending Fund Balance	9799	\$30,424,849.74	\$41,284,551.03	\$10,859,701.29

Other Funds

FCMAT performed a basic review of other district funds to consider their financial impact on the district's unrestricted general fund. Therefore, some observations and recommendations are provided in conjunction with the review of the district's general fund.

Cafeteria Fund (13)

The district anticipates increased spending in Fund 13 to accommodate capital improvements in the cafeteria. The fund balance is sufficient to account for these expenditures without impact to the unrestricted general fund.

Special Reserve Fund – Capital Outlay (40)

Accounting for the district solar project is managed through fund 40. The district anticipates a transfer of \$493,872 from the unrestricted general fund to fund 40 in the current year and subsequent two years. The district budgets the anticipated electricity cost as well as the transfer offset. This transfer is funded through the savings between actual electricity cost and solar power energy earnings calculated at year end closing.

Multiyear Financial Projection

FCMAT's MYFP indicates that the district's fiscal condition is healthy. However, since LCFF is fully funded and declining enrollment is expected to continue, the district needs to ensure all ongoing expenditures are supported with ongoing revenue.

The following table summarizes the results of FCMAT's MYFP for the general fund unrestricted resources for the current and subsequent two fiscal years. The full MYFP can be found in Appendix B.

Unrestricted	Object Code	Base Year 2018-19	Year 1 2019-20	Year 2 2020-21
Revenues				
LCFF/State Aid	8010 - 8099	\$92,198,953.00	\$94,255,564.00	\$96,028,412.00
Federal Revenues	8100 - 8299	\$153,640.00	\$153,640.00	\$153,640.00
Other State Revenues	8300 - 8599	\$1,714,856.00	\$1,709,907.61	\$1,700,810.60
Other Local Revenues	8600 - 8799	\$1,092,821.00	\$1,109,849.00	\$1,127,451.73
Revenues		\$95,160,270.00	\$97,228,960.61	\$99,010,314.33
Expenditures				

Unrestricted	Object Code	Base Year 2018-19	Year 1 2019-20	Year 2 2020-21
Certificated Salaries	1000 - 1999	\$40,019,565.98	\$40,710,453.30	\$41,360,406.36
Classified Salaries	2000 - 2999	\$9,136,849.64	\$9,319,586.64	\$9,505,978.37
Employee Benefits	3000 - 3999	\$16,732,796.11	\$17,697,224.86	\$18,038,047.69
Books and Supplies	4000 - 4999	\$2,719,589.00	\$2,804,984.09	\$2,889,694.61
Services and Other Operating	5000 - 5999	\$5,646,290.00	\$5,825,490.80	\$6,003,255.04
Capital Outlay	6000 - 6900	\$259,719.00	\$259,719.00	\$259,719.00
Other Outgo	7000 - 7299	\$159,560.00	\$159,560.00	\$159,560.00
Direct Support/Indirect Cost	7300 - 7399	(\$2,035,090.00)	(\$2,041,940.63)	(\$2,057,530.41)
Debt Service	7400 - 7499	\$0.00	\$0.00	\$0.00
Expenditures		\$72,639,279.73	\$74,735,078.06	\$76,159,130.66
Excess (Deficiency) of Revenues Over Expenditures		\$22,520,990.27	\$22,493,882.55	\$22,851,183.67
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	(\$17,979,938.02)	(\$18,715,915.99)	(\$19,278,508.50)
Other Financing Sources/Uses		(\$17,979,938.02)	(\$18,715,915.99)	(\$19,278,508.50)
Net Increase (Decrease) in Fund Balance		\$4,541,052.25	\$3,777,966.56	\$3,572,675.17
Fund Balance				
Beginning Fund Balance	9791	\$26,834,940.22	\$31,375,992.47	\$35,153,959.03
Audit Adjustments	9793	\$0.00	\$0.00	\$0.00
Other Restatements	9795	\$0.00	\$0.00	\$0.00
Adjusted Beginning Fund Balance	9797	\$26,834,940.22	\$31,375,992.47	\$35,153,959.03
Ending Fund Balance	9799	\$31,375,992.47	\$35,153,959.03	\$38,726,634.20
Components of Ending Fund Balance				
Reserved Balances	9700	\$0.00	\$0.00	\$0.00
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	\$100,000.00	\$100,000.00	\$100,000.00
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	\$8,626,129.39	\$8,437,128.39	\$8,347,128.39
Economic Uncertainties Percentage		3%	3%	3%
Reserve for Economic Uncertainties	9789	\$7,509,101.62	\$7,720,905.78	\$7,846,653.16
Undesignated/Unappropriated	9790	\$15,120,762.46	\$18,875,924.86	\$22,412,852.65

The key to maintaining fiscal solvency is retaining sufficient reserves to allow the district to take corrective action should changes occur in revenue from any cause, including declining enrollment, and developing a detailed plan for expenditure reductions should the need arise.

If a district is unable to meet its financial obligations for the current or subsequent two fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district governing board and the superintendent of public instruction. The county office of education must follow Education Code Section 42127.6 in assisting a school district in this situation.

If a district does not maintain its required reserve for economic uncertainty, the MYFP is the primary tool used to help the county and district develop a plan to regain fiscal solvency and restore the required reserve. If a California school district's governing board determines that it has insufficient funds to meet its current obligations, it may request an emergency apportionment loan from the state. These loans are provided only through a legislative appropriation that involves various lengthy and complicated steps and preparation by the district and county office. The most effective way for the district to avoid such intervention is to implement a new financial plan that identifies revenue enhancements and/or expenditure reductions.

Recommendations

The district should:

1. Monitor and project enrollment and ADA at each financial reporting period to ensure the most recent data is included in its budget assumptions.
2. Monitor and update the budget throughout the year based on the amounts the district is projected to receive. Check apportionment and entitlement funding exhibits on the CDE's website regularly for this information.
3. Ensure that all grants, entitlements and carryovers (unearned revenues) are properly updated by the time of the first interim report, and that they agree with CDE funding exhibits.
4. Be conservative when budgeting amounts for local revenue and update the budget throughout the years as needed to account for year-to-date receipts.
5. Regularly evaluate and compare actual salaries to budget values and adjust the budget, as necessary. Offset budget values by actual expenditures throughout the year for budgeted vacant positions occupied by substitutes.
6. Regularly analyze enrollment and ADA changes and adjust budget and staffing as appropriate.
7. Analyze staffing by site and grade level based on the collective bargaining agreement to ensure the district is not overstaffed.
8. Regularly update a detailed MYFP that incorporates assumptions focused on enrollment and ADA changes and the effect on the unrestricted general fund reserves.
9. Develop a fiscal solvency plan or other cost reduction priority list to counteract the fiscal effects of potential funding reductions. Ensure that this plan is detailed and identifies, in order of priority, specific expenditure reductions and the calculated cost savings of each that the governing board can implement in a timely manner if needed.
10. Carefully monitor the activity of other funds to ensure the financial impact on the unrestricted general fund in the current and subsequent two years is considered in all MYFPs.

Operational Processes and Procedures

Board Policies and Administrative Regulations

The district’s governing board creates and adopts written board policies (BP) that communicate the guidelines and limits under which the superintendent and staff may act. Administrative regulations (AR) provide detailed instructions as to how staff will implement the policy. Board policies and administrative regulations are based on law contained in numerous codes including Education Code, Government Code, and Public Contract Code, as well as federal regulations, case law and individual district practices. Board policies and the accompanying administrative regulations assist the district in providing direction, complying with and implementing laws and regulations, creating stability and continuity, defining responsibilities and ensuring accountability, informing the community, parents, employees and students, and protecting the district in case of a legal challenge.

To be effective, policies must include all requirements imposed by law or regulation, should not contain any provision outside the district’s legal authority and should include language that the district is fully capable of implementing. As the district’s own BP 9310 states, “The Governing Board shall adopt written policies to convey its expectations for action that will be taken in the district, clarify roles and responsibilities of the Board and Superintendent, and communicate Board philosophy and positions to the students, staff, parents/guardians and the community. Board policies are binding on the district to the extent that they do not conflict with federal or state law and are consistent with the district’s collective bargaining agreements.”

Best practice is to revise policies and administrative regulations quarterly as the California School Board Association (CSBA) policy service issues updates.

The district does not subscribe to CSBA’s GAMUT Policy manual and online policy maintenance services, which would allow it to update its policy manual as laws affecting schools change. This also allows public access to the district’s policy manual. Based on what is reflected on the district website, the 3000 series board policies related to Business and Noninstructional Operations have not been updated as seen in the samples in the table below (a full list of the 3000 series can be found in Appendix C) and could be inconsistent with current law. Additionally, access to the administrative regulations is limited to employees only; however, interviews indicated that most employees did not know how or where to access them.

	BP or AR Number	Name of Board Policy/Administrative Regulation	Latest Revision Date
BP	3000	Concepts and Roles	December 1990
BP	3100	Budget	October 2016
BP	3110	Transfer of Funds	April 1997
AR	3110	Transfer of Funds	April 1997
BP	3220.2	Instructional Improvement & Accountability Funds	July 1990
BP	3260	Fees and Charges	February 2013
AR	3260	Fees and Charges	February 2013
BP	3300	Expenditures/Expending Authority	October 2016
BP	3310	Purchasing Procedures	June 2016
AR	3310	Purchasing Procedures	July 1990
BP	3311	Bids	June 2016
BP	3312	Contracts	June 2016
BP	3314.2	District Revolving Fund	December 1991
AR	3314.2	District Revolving Fund	April 1997

BP	3315	Relations with Vendors	December 1991
BP	3316	Ethical Standards for Contact Between Contractors, Vendors and Consultants and Board Members or Employees	August 2009
BP	3350	Travel Expenses	Does not exist
BP	3400	Management of District Assets/Accounts	September 2003
AR	3400	Management of District Assets/Accounts	April 1997
BP	3420	Debt Management	December 2016
BP	3453	Credit Cards	April 2007
AR	3453	Credit Cards	April 2007
BP	3460	Financial Reports and Accountability	September 2016
AR	3460	Financial Reports and Accountability	April 1997
BP	3542	Roles and Duties of Employees	July 1990
AR	3542	Roles and Duties of Employees	December 1990
AR	3543	Roles and Duties of Employees	September 1999
BP	3580	District Records	July 1990
AR	3580	District Records	July 1990

Recommendations

The district should:

1. Consider a contract with CSBA to update all board policies and administrative regulations.
2. Implement a plan to keep board policies and administrative regulations current.
3. Ensure online access for all district staff.
4. Ensure that the superintendent communicates updated board policies and/or administrative regulations to all staff.

Components of Ending Fund Balance

Fund balance is unique to governmental accounting. Simply put, it is the difference between assets and liabilities. Governmental Accounting Standards Board (GASB) 54 significantly changed the categories and terminology used to describe a district’s fund balance. The purpose of the change was to improve its usefulness, with classifications that will be easier for stakeholders to understand. Implementation of GASB 54 created a five-tier classification; below is a detailed explanation (source: California School Accounting Manual 2019).

- Nonspendable fund balance (objects 9710–9719) is the portion that is not available for expenditure because it is not in spendable form or is legally or contractually required to remain intact. For example, stores, prepaid expenditures and revolving cash are not available for spending, so the portion of fund balance represented by these items must be classified as nonspendable.
- Restricted fund balance (objects 9730–9749) is the portion that is subject to externally imposed or legally enforceable constraints by external resource providers or through constitutional provisions or enabling legislation.
- Committed fund balance (objects 9750–9769) is the portion in which the use is constrained by limitations imposed by the LEA through formal action of its highest level of

decision-making authority. It would include amounts set aside pursuant to an economic stabilization arrangement only if the arrangement were more formal than the reserve for economic uncertainties recommended by the Criteria and Standards for Fiscal Solvency.

- Assigned fund balance (objects 9770–9788) is the portion intended to be used for specific purposes but for which the constraints do not meet the criteria to be reported as restricted or committed.
- Unassigned fund balance (objects 9789–9790) is the portion not classified as nonspendable, restricted, committed, or assigned in the general fund. It includes the amount identified by the governing board as reserved for economic uncertainties, pursuant to the Criteria and Standards for Fiscal Solvency, which is recorded using object 9789.

One concern with the implementation of the new GASB 54 requirements was that a district's reserves for economic uncertainties (REU) as required by the Criteria and Standards for Fiscal Solvency would not meet the requirements under the restricted or committed classification. To mitigate concerns that users might not understand the importance of the REU, a unique object code was established to separately identify those funds. Additionally, the CDE recommended that districts not be limited to the REU recommended levels and should adopt a more formal policy to maintain reserves above the minimum reserve requirements. Should a district adopt such a policy for more reserves than its required REU, these additional funds, identified as stabilization arrangements, meet the criteria to be reported in the committed fund balance.

Interviews indicated that the district's governing board requests that the district set aside an additional 4% over and above the district's REU of 3%. FCMAT's review of the district's board policy did not find that this request has been formally adopted. If this is a formal request or action approved by the governing board, the district should update its board policy to reflect this and account for these funds under the correct committed classification. Additionally, CDE's sample suggests that districts set aside no less than two months of general fund operating expenditures, or 17% of general fund expenditures and other financing uses.

Assigned fund balance is money set aside by a district for specific purposes. This district has a number of identified priorities and accounts for them appropriately in the assigned classification. For example, a specific dollar amount is reserved in the current year for bus replacement to ensure that funds are set aside for future years. Each year the expenditure is accounted for in the subsequent years and deducts that amount in the reserves. The district also has made it a priority to adopt new textbooks, but the expenditure is not accounted for in the current or two subsequent fiscal years. Therefore, the balance will continue to carry forward until the district decides to include that expense.

The district has a history of experiencing significant increases in the ending fund balances compared to budgeted amounts at the close of the fiscal year. This may be partly because the district allows school site and/or department carryovers. Amounts unspent by sites and/or departments are shown as spent for budget purposes but ultimately increase the district's ending fund balance on June 30 because they were not spent. The district uses an assigned designation to help track these dollars easily. Since they are segregated as carryovers, the district should account for these dollars as expenditures in the following fiscal year and not continue to carry the balances forward year-over-year in the assigned designations. Today's dollars should be spent on today's students.

FCMAT's review of the district's use of the assigned classification appears to be in line with some of the district's priorities. However, in district budget reports, the budget continually reflected a zero balance in the unassigned/unappropriated amounts. Interviews indicated that the business services staff, under the direction of the prior assistant superintendent of business services, would populate the assigned classification amounts as directed, which would ultimately result in an unassigned/unappropriated amount of zero

each time. This practice leaves the district administration and governing board with the impression that no funds are available to improve educational programs, increase employee compensation or spend in other categories.

FCMAT's MYFP removed the designations referencing the STRS/PERS increases for the subsequent fiscal years. FCMAT's projections for both CalSTRS and CalPERS in the two subsequent fiscal years use recommended rates per the SSC's financial dashboard and thus should no longer be designated. While it is important to know the impact of the retirement increases year over year, the assigned designation should only be used if the district MYFP did not use the recommended rates in each of the two subsequent fiscal years.

The assigned fund balance classification should reflect amounts that the governing board intends to use for a specific purpose. The amounts can be established by the governing board or by a designee, which is typically the superintendent. Any changes to these amounts are not required to be imposed, modified or removed by formal action of the governing board. FCMAT's MYFP did not make any major revisions to the amounts set by the district except as stated above because it does not impact the district's fiscal position. These are dollars set aside based on district priorities as set by the governing board or designee and can be re-evaluated as necessary.

Recommendations

The district should:

1. Establish a stabilization arrangement more formal than the REU or a similar minimum fund balance policy that is reflected in the board policy.
2. Create a process during year end close to analyze all carryover dollars with the superintendent before assigning an amount on June 30.
3. Update the budget to include all prior year carryover balances after the books are closed, typically at first interim reporting.
4. Ensure that the assistant superintendent of business services works closely with the superintendent in assigning funds for a specific purpose.
5. Analyze all current designations to ensure that they align with governing board goals and the district's strategic plan.

Budget Development

The district adopts its annual budget within the statutory timelines established by EC Section 42127, which requires that on or before July 1, the governing board hold a public hearing on the budget to be adopted for the subsequent fiscal year. No later than five days after the adoption, or by July 1, whichever occurs first, the governing board is required to file that budget with the county office of education. A school district budget communicates how the district intends to achieve its educational goals and objectives. The document is also the primary means by which the school board and administration demonstrate to the community their stewardship of public resources. The process used to develop the budget and the format of the related documents are essential to ensuring these criteria are met. Effective budget development also includes the dissemination of a detailed budget calendar, allowing staff members to be aware of applicable deadlines.

Budget development is a complex and detailed process that begins in January, or earlier, of the preceding fiscal year. During budget development, personnel changes are reviewed and updated, revenues are esti-

mated, and a district prioritizes its goals and ensures that expenditures reflect these goals. The district uses Budget Pro software, available through the Orange County Department of Education (OCDE), to manage personnel costs. Budget Pro is a position control system that is integrated with the county payroll system, HR 2.0; therefore, the data is current.

As stated earlier in this report, the district uses an outside contractor to assist with enrollment projections. The business services staff, under the direction of the assistant superintendent of business services, would develop enrollment and ADA projections based on the third-party analysis. Revenue is adjusted based on change in enrollment and staff is adjusted accordingly. Due to the assistant superintendent of business services vacancy, both the enrollment and staffing projections are now reviewed with the assistant superintendent of human resources.

School site allocations are based on a dollar amount per pupil based on spring enrollment. Business services staff make adjustments to site personnel costs. A cost projection tool is provided to the site/departments if they desire to add labor costs. Those additional labor costs are reviewed and approved by human resources and business services. According to interviews, the business services department meets with individual site administrators or department directors to align their discretionary budgets to their department or school site priorities. In some cases, discretionary budgets are rolled over from prior years because not all site administrators or department directors elect to meet with the business services staff. This may be because staff do not have a good understanding of their budgets and would rather not have to manage them. However, interviews indicated that site administrators or department directors want to better understand their site budgets, and collaboration in this process would help create a sense of shared ownership and responsibility, a better understanding of budgetary issues and possibly fewer budget transfers during the year.

School sites and departments are allowed to carry over 10% of their discretionary funds and may exceed that percentage if a detailed plan has been approved. Estimated carryover of unspent funds from the current year is not included in the budget development. Upon completion of the unaudited actuals all verified carryover balances are allocated to the appropriate site/department with the first interim financial report.

With the institution of the Local Control Accountability Plan, school budgets are required to be aligned with the goals and objectives established by district staff and community members. Therefore, when providing direction on the budget, the board should not focus on specific line items but on resource allocations designed specifically to meet the district's goals. The board should then direct the staff to design an expenditure plan that meets the needs of students and the district.

Budget development is primarily performed by the assistant superintendent of business services and the executive director of business services. The district lacks a detailed budget calendar and does not use desk manuals for budget development. The primary sources of information are the OCDE business advisory bulletins, SSC dartboard, and FCMAT's LCFF Calculator. Additionally, district BP 3100 states that "the Governing Board may appoint a budget advisory committee ..." and interviews indicated that one has existed previously but is not currently functional. A budget advisory committee can assist in review and development of the district's budget. This allows the community and staff the opportunity to offer input and feedback on any funding reduction and other expenditure adjustments.

The district has a history of experiencing significant increases in the ending fund balances compared to budgeted amounts at the close of the fiscal year. These increases have lessened credibility among district financial report users and other interested parties. Thorough budget development utilizing a budget advisory committee could help avoid such issues.

Recommendations

The district should:

1. Create a budget development calendar that includes specific functions, the staff member responsible for each task, and the due date for each specific function.
2. Develop formal budget development guidelines to use along with the OCDE bulletins and ensure that these guidelines are reviewed with all staff involved in budget development.
3. Avoid rolling over budgets. Instead, analyze unspent budgets to determine whether to allow sites/departments to carry over unspent funds into the next year.
4. Make it mandatory for site administrators and department directors to participate in developing their budgets each spring for the upcoming fiscal year.
5. Design budget materials and offer a workshop to site and department staff to provide the tools and knowledge needed for budget development.
6. Ensure that site administrators and department directors have online, read-only access to all the accounts they oversee as well as the training needed to understand their budget reports.
7. Establish a budget advisory committee to improve fiscal openness and credibility.

Budget Monitoring

Budgets should be monitored regularly during the fiscal year to ensure appropriations are not overspent, revenues remain appropriately projected and actual expenditures are not materially different than those budgeted. Revisions to major expenditure classifications are subject to board approval in accordance with Education Code Section 42600.

Many budget revisions are made during the fiscal year as additional information develops and district priorities change. Budget revisions typically fall into the following three main categories:

- Material increases and decreases to estimated income and expenditure appropriations resulting from the receipt of new grant awards or donations.
- Budgeted carryover balances from prior years.
- Increases in expenditure appropriations to prevent budget overruns.

The board establishes policy on how often revisions are submitted and approved, and Board Policy 3100 states the following:

In addition, budget amendments shall be submitted for Board approval as necessary when collective bargaining agreements are accepted, district income declines, increased revenues or unanticipated savings are made available to the district, program proposals are significantly different from those approved during budget adoptions, interfund transfers are needed to meet actual program expenditures, and/or significant changes occur that impact budget projections. These amendments shall be embedded in the first and second interim reports to reflect the current financial situation of the district at that moment.

Monitoring budgets during the year includes helping school sites and departments ensure budgets are not overspent and activity is properly coded. Sites should have online access to the financial system and should be able to review applicable line items within the budget. If a budget transfer is needed, site and/or department personnel should notify the appropriate business service staff to request that transfer to be completed.

The business office does not prepare a monthly budget versus actual summary report for presentation to the governing board. Instituting this practice could help the board and community understand that the budget is fluid and counter the perception that budget changes only occur at interim reporting periods. At a minimum, budget revisions and related fiscal changes should be submitted to the governing board during the following times:

- Within 45 days after the state budget is signed by the governor.
- When carryover and unearned revenue are added, but no later than October 15.
- With first interim report (December).
- With second interim report (March).
- In May, in preparation for closing the fiscal year.
- In June, to assess what the projected ending fund balance will be.
- Whenever the ending fund balance is materially affected.
- Whenever transfers between funds occur.
- Whenever negotiations conclude.

The district should work to minimize variances between budget and actual expenses at year-end closing. This will increase credibility with employee associations, the community, and the governing board. Communication regarding budget adjustments and how they affect the district must be ongoing and transparent.

Some districts submit budget revisions to the board with interim reports, while others present revisions more frequently, such as monthly. This is especially important for adjustments that significantly affect the ending fund balance or other key aspects of the budget. At Westminster, budget revisions are folded into the interim reports. Changes in operating costs, active employee and retiree benefit trends, salaries and benefits as a percentage of all expenditures, contributions to restricted programs, ongoing versus one-time resources, general fund deficits, projected balances of reserve funds, and cash flow projections all should be reported monthly.

This district should also carefully review any AB 1200 communication from the county office, both following reporting periods and when any collective bargaining agreement disclosures have been submitted. These communications may alert the district to any budgetary issues that were overlooked in preparing financial documents.

The budget document should contain a narrative that can be easily understood by a layperson. An effective budget presentation includes a description of budget assumptions and their financial impact and illustrates the changes in revenues, expenditures and fund balance. In that the general fund is ultimately responsible for the financial health of other funds, all other funds should be included in all budget presentations to the board.

Recommendations

The district should:

1. Review all sections of the budget monthly to help prevent large variances between budget and actual expenses at year-end closing.
2. Prepare a monthly budget versus actual summary report for all funds, to be presented at a regular board meeting in open session.
3. Regularly report at board meetings the need for various budget adjustments, their cause, and how they affect the ending fund balance.
4. Conduct regular board budget study sessions to provide information regarding changes in enrollment and the effect on revenue, changes in operating costs (especially those that affect personnel costs), changes in contributions to restricted programs, cash flow for all funds and the potential impact to the unrestricted general fund balance.
5. Create board presentations of the financial reports to reflect the proposed changes and their impact on the unrestricted general fund. Include an illustration of the unrestricted, restricted and combined general funds at the major object levels. Include information for all other funds.
6. Continue to improve communication about the district's budget through easy to understand narratives, detailed budget presentations and budget study sessions with all staff responsible for managing a site/department budget.

Position Control

A strong position control system provides for the establishment of positions by site/department and is meant to prevent over or under budgeting of staff. An effective system also prevents omission of other annual expenses tied to district positions such as stipends, vacation pay, step-and-column changes and other salary and benefit related items that may be in the district's collective bargaining agreements. To be effective the position control system must be integrated with other financial modules such as budget and payroll.

The district utilizes Budget Pro, a position control software available through the OCDE. This software maintains employee data that resides in HR 2.0, the county payroll system. Budget Pro helps districts manage personnel costs by automatically adjusting step and column movement, tracking vacancies, and tracking leave balances. The statutory benefit rates are automatically applied to project salaries as well as full time equivalencies (FTEs). This software produces a data export that is uploaded into Business Plus, the county financial system.

A position control number for each assignment is required to process payroll. The district has developed a form, Personnel Action Notice form 31, to request a new position and/or to make changes to an existing position. This form is available to site/department budget managers who typically function as initiators for new positions. Instructions on how to complete and submit form 31 to the district office are written on the back of the document.

After completing form 31 the initiator submits the request to the executive director of business services, who verifies budget availability and signatory authorization and assigns a position control number. Form 31 is then forwarded to the appropriate personnel technician to process. If the request requires a new position control number, form 31 is routed to the position control clerk to establish the number and then to human

resources. The personnel technician processes the request, recruits for the position, and provides the initiator with a list of eligible candidates. The initiator informs human resources of their selection at which time the personnel technician completes form 31 with the employee’s specific information. A human resources report listing all personnel activity, including new hires, terminations, or additional assignments, is submitted monthly to the governing board for approval.

Adequate controls ensure that only board-authorized positions are entered in the system, that human resources hires only for authorized positions, and that payroll pays only employees hired for authorized positions.

The district uses separation of duties and proper internal controls as shown below:

ACTION	WHO
Authorize position	Governing board
Verify authorized position and estimated salary and benefits; move appropriately signed Personnel Action Notice form 31 to human resources for posting	Executive director business services and position control clerk
Input employee demographic and salary information; move appropriately signed personnel action form to payroll	Human resources personnel technician
Review and update salary schedules	Assistant superintendent and executive director of business services
Budget development for salary and benefit projections	Assistant superintendent and executive director of business services

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

Interdepartmental meetings between human resources, business services, and position control staff occur monthly; meetings between human resources and payroll occur quarterly. Additional meetings may occur if staff become aware of unusual situations. Affording staff time to communicate directly and talk about problems or ask questions can help avoid employee pay errors. Training on how each of these areas affects the other is paramount in budgeting appropriately and ensuring proper payment to employees.

Recommendations

The district should:

1. Continue to review and monitor certificated staff assignments and class sizes to ensure staffing levels are appropriate and cost-effective.
2. Set up regular interdepartmental meetings, no less than twice annually, to reconcile position control to site/department staff lists and to payroll.
3. Train all staff on how their work affects others in the district office.
4. Ensure that all staff members have the opportunity for professional development in their respective areas.

Purchasing

The purchasing department procures goods and services for all district schools and programs. The purchasing function at the district is not centralized. Sites have been given access to blanket purchase orders (POs) for office supplies, and interviews indicate that the same person who orders the supplies also receives them.

The business services department has a buyer who processes POs. The buyer is responsible for all district purchases, inventory control, and contracts for outside services. Generally, contractors are allowed to use their own contract, although a district lecturer/independent contractor agreement is available for use. Although much legislation has passed in the last 10 years regarding student safety (see Education Code sections 45125.1 and 45125.2), this form is silent regarding contractors' submission of employees' fingerprints to the Department of Justice and limiting access to students. In the last several years, with the computer conversion to Business Plus, the buyer reportedly updated the vendor files to ensure that companies' IRS form W-9s are on file, and an account clerk inputs the W-9 information in the system.

The buyer does not create POs except for those covering utilities. This position does not coordinate or receive contractor insurance endorsements, and FCMAT was unable to identify in interviews which district position is responsible for this function. While the buyer is responsible for overseeing day-to-day purchasing, individual departments are responsible for the competitive bid process when items exceed the established Public Contract Code Limits and must be competitively bid.

The buyer is not registered to have access to the FCMAT purchasing listserve to keep abreast of new legislation and regulations that may occur. The primary responsibility for overseeing the purchasing function belongs to the supervisor of business services. In a district of this size and structure, a management-level position such as a purchasing agent would typically be responsible for these duties.

FCMAT reviewed the district's board policies and administrative regulations on purchasing and found that many were not current and had not been updated to reflect the latest Public Contract Code (PCC) provisions. The purchasing process for local educational agencies under the PCC is very prescriptive. An alternative process is authorized in PCC 22000-22045, the California Uniform Public Construction Cost Accounting Act (CUPCCAA), which allows the following:

1. The employees of a public agency may perform public projects of \$60,000 or less by force account, negotiated contract, or purchase order (PCC 22032(a)).
2. Public projects of \$200,000 or less may be awarded by informal procedures as established in this legislation. If all bids received exceed \$200,000, the governing body of the public agency may, by adoption of a resolution by a four-fifths vote, award the contract at \$212,500 or less to the lowest responsible bidder, if it determines the cost estimate of the public agency was reasonable (PCC 22032(b) and 22034(d)). Public projects of more than \$200,000 shall, except as otherwise provided in this legislation, be allowed to contract by formal bidding procedures (PCC 22032(c)).
3. Agencies may use these increased purchase amounts to purchase materials as long as they are consumed on a public contract subject to and defined by the policies and procedures manual established by the California Uniform Public Construction Cost Accounting Commission.
4. FCMAT's review of purchasing practices since the board adoption of CUPCCAA, March 28, 2019 shows that it has been implemented despite the fact that board policies do not indicate that the district uses CUPCCAA and cite instead the competitive bid limits included under sections 20111 and 22003 of the PCC per current board policy and administrative regulation.

During the accounts payable testing it was noted that three vendors were issued multiple POs and subsequent warrants, which were not supported by evidence of a formal competitive bid process prior to board adoption of CUPCCAA on March 28, 2019. CUPCCAA is used to informally bid and expedite small facilities projects. Prior to adoption of CUPCCAA, formal bids were required on projects with labor in excess of \$15,000. The amounts charged for computer installation (not a facilities project) and construction services prior to the board adoption of CUPCCAA were \$74,323, \$34,984 and \$33,657, respectively. Fifty-eight percent of the services invoiced were performed from July through September 2018. Many invoices from several vendors had the same invoice date, with up to six invoices from the same vendor with the same date. These three vendors represented 12% of the FCMAT accounts payable sample. All warrants were coded in the general ledger as labor, and all appear to have been required to be competitively bid under PCC.

1. PCC Section 20111(b) states: “The governing board shall let any contract for a public project, as defined in subdivision (c) of Section 22002, involving an expenditure of fifteen thousand dollars (\$15,000) or more, to the lowest responsible bidder who shall give security as the board requires, or else reject all bids. All bids for construction work shall be presented under sealed cover and shall be accompanied by one of the following forms of bidder’s security.”
2. PCC Section 20116/20657 prohibits splitting a contract into smaller contracts to avoid competitive bidding. Section 20116/20657 states: “It shall be unlawful to split or separate into smaller work orders or projects any work, project, service or purchase for the purpose of evading the provisions of this article requiring contracting after competitive bidding.” Quotes and invoices that include labor and materials should be costed separately.

The maintenance, operations and transportation department is the primary responsible division for complying with reporting requirements related to the Department of Industrial Relations (DIR) contractor registration program, which began in March 2015. All projects having accumulated more than \$1,001 in expenses paid for by a school district, regardless of the funding source, are subject to prevailing wage registration and reporting requirements under SB 854. The quotes and invoices sampled during the accounts payable review evidenced deficiencies in meeting these requirements. This sample showed the following areas of concern:

1. Four of the quotes for construction repair services stated specifically on the quote, “Work was based on non-prevailing wages” and “All work is based on non-prevailing wages.”
2. For seven of the 45 items sampled (16%), vendors were not registered with the DIR, according to information available on the DIR website.
3. During interviews, FCMAT was unable to determine the individual responsible for verification of food service vendors through the DIR system.

The SB 854 requirements related to labor costs procured by the district, including those for the food services and maintenance, operations and transportation departments, appears disjointed. Interviews indicated that executive director of facilities, maintenance and operations and the executive director of business services were responsible for implementation of DIR registration requirements. FCMAT did not observe any evidence in the documents provided to ascertain if DIR certifications were verified. Rates quoted should reflect prevailing wage and DIR registration in all quotes, request for proposals, or contracts.

POs for labor in excess of \$15,000, not covered by CUPCCAA, should not be issued without going through the formal competitive bid process. Awards to contractors should only be made to those vendors on the district’s CUPCCAA pre-approved list.

Recommendations

The district should:

1. Provide the buyer with professional support through attendance at CASBO Eastern Section Purchasing Professional Council meetings and access to the statewide purchasing listserve. (purchasing@lists.fcmat.org)
2. Identify cumulative purchases that must be bid, and ensure that the purchasing department participates and advises departments as to PCC requirements regarding purchases that are not formally bid as part of new construction projects.
3. Ensure that the purchasing department has sufficient qualified staff that are trained in procurement practices and requirements.
4. To support a fair and open bid process, consider having the purchasing department participate in bid openings, by recording bids received, reviewing bid packages for completeness, reviewing insurance requirements, etc.
5. Ensure that it has completed all the required steps to implement CUPCAA and provide training regarding this procurement process to applicable staff members. Provide staff members involved in purchasing with access to district procedures as well as PCC training.
6. Coordinate DIR reporting of vendors for all departments and provide employees with appropriate training and cross training.

Accounts Payable

The accounts payable section of the business services department has two intermediate account clerks and an accounting specialist. The account clerks are responsible for organizing and date stamping all invoices. They circle the amount that needs to be paid and the payment date, and initial the invoice. Payment documentation is assembled, matching invoices to packing slips and POs, and data entry is performed by the accounting specialist. The intermediate account clerk's responsibilities include processing all payments made by the district. One clerk specifically processes Associated Student Body, Parent Teacher Association and transportation through the OCDE Business Plus system, except for posting to the general ledger. The supervisor of business services is responsible for supervising the accounts payable section. Supervisory duties include responsibility for managing a manual PO log, reviewing budget numbers, and handling rush POs, contract issues, conferences, and purchasing. The supervisor also has the ability to cancel POs and correct the dates on POs issued by other departments, so that they are approved prior to completion of work. Interviews and a review of administrative regulations indicate the district lacks specific purchasing authority levels. If a PO exceeds 10% of the board approved original, departments are requested to update the PO to a higher level and reprint. While POs that have been modified are returned to the board agenda for approval, POs that are reopened without modification are not placed on the agenda.

The county office processes and issues the district's warrants. After they are issued, the warrants are returned to the district for further processing, mailing and distribution. The accounting clerks match the warrants received to the batch list, mark the invoices "paid" and mail the warrants. A bar code is printed from the scanning system. The copy of the warrant is matched with the supporting documentation and scanned so the full package can be viewed in the Business Plus system. The district's current system allows the account clerks to have custody of the warrants once they have been issued by the county office. Segregation of duties to prevent the same person from initiating, processing and mailing the warrants would be an effective internal control.

The board agenda contains limited published information regarding contracts. A matrix is used for contract board ratification. While interviews indicate that cabinet reviews all contracts over \$15,000, no written board policy was identified that sets cabinet approval levels. Numerous contracts in the matrix did not have specific hourly rates or “not to exceed” levels. Contract renewals up to \$193,800 with limited (seven word) purpose statements were submitted to the board for ratification, along with new contracts from new vendors up to \$89,788.60.

FCMAT requested detail to support the district’s accounts payable warrant and PO information for testing for the fiscal years 2018-19 and 2019-20. Of the 45 items sampled, the following processing anomalies were noted:

- Nine of the POs were reprinted, primarily to modify amount paid. Individual warrants were not approved by the board. One reprinted PO, which was over five years old, was not board approved for payment after reprinting. When this issue was discussed with OCDE it was noted that at the time the countywide system originated, there was no request for board approval of all reprinted POs as a form of fiscal transparency. The county office indicated that if a district requested this service to increase transparency, the request could be accommodated.
- Three vendors were issued multiple POs that were not supported by evidence of a competitive bid process prior to board adoption of CUPCCAA on March 28, 2019.
- While all of the 45 items sampled had POs, seven of the items sampled (16%) had no bids or quotes attached, and two items had quotes dated up to four months after the date the service was performed.
- One CalCard statement had a personal charge of \$25, which appears to violate Board Policy (BP) 3453. The policy states that “Under no circumstances may personal or other unauthorized expenses be charged on District credit cards. Improper use of District credit cards shall be grounds for discipline and/or appropriate legal action.”
- Four instances on CalCard statements were observed wherein supporting details for business meals were not submitted in accordance with IRS policy requirements regarding explanation of expenses.

IRS publications indicate, “Meals may be provided to a current or potential business customer, client, consultant, or similar business contact.” “Documentary evidence ordinarily will be considered adequate if it shows the amount, date, place, and essential character of the expense. ... A restaurant receipt is enough to prove an expense for a business meal if it has all of the following information:

- The name and location of the restaurant.
- The number of people served.
- The date and amount of the expense.”

The IRS policy continues, “You must generally provide a written statement of the business purpose of an expense. However, the degree of proof varies according to the circumstances in each case. If the business purpose of an expense is clear from the surrounding circumstances, then you don’t need to give a written explanation.” Many district policies include listing the names of the people served so that the business purpose of the meeting is documented on the receipt. This is absent in BP 3453. Without adequate accounting records, the amount the employee does not properly account for (or return to the district) may be reportable to the IRS as individual compensation.

Recommendations

The district should:

1. Review and adjust warrant processing procedures to ensure that warrants do not return to the custody of the intermediate account clerk who generated them once they are issued.
2. Ensure that contracts and bid information are attached to warrants.
3. Ensure that POs and contracts are created and approved before the purchase of goods or services, and that all employees are held accountable for following this procedure.
4. Obtain quotes prior to issuing POs.
5. To identify full contract rates and commitments, ensure that service agreements have sufficient information to be considered and approved by the board, either contract information for services, or a “Contract Ratifications for Board Approval” matrix that supports public contract code as well as board policy. Include project scope and bid results as supporting documentation when placed on board agendas for approval.
6. Prohibit employee use of district issued credit cards to pay for personal expenses.
7. Ensure that the business office audits all invoices, mileage claims, and travel and expense reimbursements and requests sufficient explanations, such as attendee names, number of attendees and business purpose, to meet IRS regulations.

Accounts Receivable

The business services department’s accounts receivable staff includes one intermediate account clerk who is responsible for preparing invoices. This primary clerk, who does most of the billing, is also responsible for providing training, auditing and financial assistance to the district’s ASB organizations.

An additional intermediate account clerk primarily collects cash and checks. The transactions are coded to the appropriate accounts, a log of all funds received is maintained, and bank deposits are prepared.

The intradistrict mail courier obtains the cash from the site secretary in a separate bag and signs a receipt for pickup. The bag is then delivered directly to the district office, and the deposit receipt is logged. Best practices include site personnel reconciling receipts from the district office to confirm that all funds have been deposited. Although it was reported that cash deposits were double counted, sound internal controls require two people to be present when counting cash. That procedure reportedly is not in place. One way to increase the segregation of duties would be to have the employee who opens the mail make a control list of all receipts and mark all checks received “for deposit only” to help prevent unauthorized endorsement of checks prior to deposit. After the accounts receivable staff has processed and deposited funds to the bank, a separate employee could compare the deposit slips to the control list to ensure that all funds have been deposited. The person who receives the cash and checks should not also prepare invoices. Implementing these procedures for all of the district’s cash collection locations would improve the district’s internal controls. Another best practice is limiting the amount of cash on site, with a set maximum that triggers a bank deposit. The district makes deposits once a week, even though the amount of cash on hand can exceed \$5,000 at the beginning of the year when the computer insurance fees are paid. As cash and checks are received and processed during the week, they are placed in a locking fireproof cabinet that provides secure storage.

One of the intermediate account clerks is the reviewer for one or more bank reconciliations. The focus reportedly is only on the dollar amount of the outstanding items, not the payees or a cursory reasonableness review of the payments. While confidentiality may be an issue because the account contains settlements and checks written to individual employees, a second review of a bank reconciliation is not an internal control if the reasonableness of the payments is not ascertained.

Recommendations

The district should:

1. Ensure that training of site staff includes having two people present to count cash.
2. Implement a system of checks and balances so that no single employee handles a transaction from initiation to reconciliation, and no single employee has custody of an asset and maintains the records for the related transactions.
3. Separate duties in the invoicing and cash receipts process.
4. Set a threshold at which deposits are made, no matter what day of the week it is.
5. Ensure that site and department personnel reconcile receipts from accounts receivable to confirm that all funds have been deposited.

Payroll

The payroll services section of the business services department consists of four payroll technicians. Two technicians process classified payroll and one processes certificated payroll. The fourth payroll technician is responsible for health and welfare insurance payments and support. These employees have been in the district several years and have a variety of work experience, including classified positions at sites and the district office and payroll experience at another school district. In case of absence, the payroll technician who specializes in benefits performs classified payroll duties. A retired certificated payroll technician produces the certificated payroll if the certificated payroll technician is unavailable.

The accounting specialist is responsible for the general ledger entries related to payroll. She reviews the preliminary payroll registers and corrects transactions prior to posting. She then turns the payroll information into a journal entry and posts it. She ensures that the payrolls are reconciled every week, but cannot run a report to see that payroll has been uploaded. The payroll department is supervised by the supervisor of business services. Supervisory duties include cross-training with the account specialist, responsibility for budgeting employee salary and benefit costs, analysis of bargaining unit contract negotiations and review of all district payroll tax forms. The payroll section is driven by internal and external deadlines for each pay cycle, including deadlines related to time sheet submission. Payroll personnel process the following payrolls each month:

- Certificated substitute payroll is paid at the end of the month.
- Classified hourly payroll is paid on the 10th of the month.
- Contracted classified employee payroll is paid on the 10th of the month.
- Contracted certificated employee payroll is paid on the last day of the month.

The district uses the OCDE time and attendance system (TnAS), which integrates into the OCDE Business Plus payroll system. Timekeepers are identified on each campus and for each supervisory area. Certificat-

ed staff are required to call the Frontline Education Time and Attendance System to record absences and request a substitute, as needed. Reports from Frontline are sent to the timekeepers twice daily to be used as reference material for posting attendance to TnAS. Timekeepers are responsible to ensure that the times on substitute timecards match the time entered in Frontline. Timekeepers are responsible for reconciling employee timecards to the Frontline system. The payroll technician who supports certificated payroll formally reconciles this information. The attendance technician, who reports to the human resources division, reconciles substitute timecards to the Frontline system. If a substitute is kept longer, or sent home early, the timekeeper must notify the attendance technician in the district attendance office so that the timecard will match the Frontline report used to support substitute pay. The attendance technician receives all certificated employee time reporting variances, and contacts the division/school site manager to ascertain correct information. Timekeepers sometimes make changes that affect payroll after the paper reports have been submitted to payroll. Each full-time certificated and ongoing classified employee generates a monthly one-page report, which is signed by their supervisor.

Full-time classified employees follow the same TnAS procedures listed above, but do not call Frontline. They may email or contact their assigned timekeeper. The payroll technicians reconcile attendance variances with the sites. The attendance clerk also manages classified substitutes. There is a form for sick leave pay for substitutes, which is forwarded to the attendance clerk for processing. Employees with scheduled hours have all absences recorded in the TnAS system, and the status is available to each employee online.

Extra assignment hours performed by ongoing contracted employees require differentiated budget numbers, based on the reason for the substitute or additional service. It is the responsibility of each individual working extra hours to complete a substitute card and submit it promptly to the timekeeper. The timekeeper ensures that the work was authorized in advance and that the substitute card is filled out completely. The timekeeper also reports on a manual timesheet all substitutes for the site with hours worked, budget number and the name of the employee, submitted along with a copy of the signed (employee and supervisor) substitute card. Noon duty supervisors provide hours worked weekly on a manual timesheet using the above process.

Timekeepers enter employee attendance into the TnAS system noting what type of absence the employee incurred: sick leave, personal necessity, family medical leave, or other types of leave available under the collective bargaining agreement. Timekeepers print out weekly time reports that include all employees under the supervisor, and those reports are signed by the supervisor and submitted to payroll weekly. Monthly attendance calendars are printed out, signed by the supervisor and forwarded to payroll.

Absence reporting is most accurate when it is done by employees who work the closest to the absent employee and within a short period of time after the absence. During FCMAT interviews employees questioned the need for so many redundant copies of absence data, requiring signatures. TnAS has many optional reports that can be printed out, and the intent was for individual districts to select those that work best for them and their internal control environment. Employees also expressed concern regarding rules related to minimum amounts of sick time and vacation time. Sick leave time is counted as the first full hour plus 30-minute increments, and vacation time is allowed in full hour increments only. These are limitations set by past district administration and not by OCDE or the TnAS system.

Although absence data is maintained and reviewable by the employee on the TnAS system online, the payroll technicians post the TnAS information to manual individual employee cards. There is no batch total for this supplemental ledger posting activity, and technicians occasionally mispost or double post information to the employee's manual card.

School employees drawing a pension while working for a school district must report it to the state. According to CalSTRS Employer Directive 2019-01, "Sections 24214 and 24214.5 of the Education Code impose

limitations on retired CalSTRS members who return to work and perform retired member activities. Section 22164.5 of the Education Code defines 'retired member activities' as one or more of the activities identified in subdivision (b), (c) or (d) of Education Code Section 22119.5 or subdivision (b), (c) or (d) of Education 26113 when performed as either an employee of an employer, an employee of a third party (except under certain circumstances) or an independent contractor within the California public school system." Employers are required by EC 22461 to advise each employee who is a retired CalSTRS member of the annual earnings limit.

Employers must report the retired member's earnings to CalSTRS each month. Employers are also required to report hours paid to retirees under CalPERS. According to the CalPERS guide, "Employment After Retirement," "If a common law employer-employee relationship exists, the employment is subject to the retired annuitant restrictions even if the employment agreement claims to be for an independent contractor."

<https://www.calpers.ca.gov/docs/forms-publications/employment-after-retirement.pdf> - page 14

Interviews indicate one instance where OCDE notified the district of a CalSTRS retiree exceeding annual earnings limits. The district does not identify retired annuitants, perform the retiree notification, or report applicable independent contractors to CalSTRS or CalPERS.

During interviews FCMAT was unable to ascertain which district employees were responsible for employee retirement system and individual consultant notifications related to retiree contracts paid through accounts payable and rehired annuitants paid through payroll (five interim superintendents in the last three years). A cursory review of accounts payable for the two years covered indicates that the district has issued several POs and/or entered into contracts with at least six retirees who are potential annuitants. Interviews did not identify an individual in the purchasing, accounts payable, human resources, or payroll departments who was assigned to track and report STRS retiree payments per STRS Employer Directive 2012-05, or PERS retiree hours per CalPERS Circular Letter 200-055-12.

The audit of accounts payable disclosed that three payments with the description "stipend" totaling \$1,500 over a nine-month period were paid to an employee outside of the payroll process. Supporting documentation reviewed indicates that the collective bargaining contract provides employees stipends in exchange for completing units at the local community college. IRS publication 970 requires reporting of wages and stipends as income unless there is an educational assistance program. The plan must be written and must meet certain other requirements. Publication 970 states, "To be an accountable plan, your employer's reimbursement arrangement must require you to meet all three of the following rules:

- Your expenses must have a business connection. This means your expenses must be allowed under the rules for qualifying work-related education explained earlier.
- You must adequately account to your employer for your expenses within a reasonable period of time.
- You must **return any reimbursement or allowance in excess of the expenses** accounted for within a reasonable period of time. If you are reimbursed under an accountable plan, your employer shouldn't include any reimbursement of income on your Form W-2, box 1." If this is not the case, the income is reportable to the IRS.

The Classified Professional Growth Program form does not request documentation to support actual out of pocket expenses, and there was no further supporting documentation for the payment. It is unlikely that tuition and books (IRS approved expenses) at the local community college exceeded the \$1,500 paid to the employee. Interviews with the human resources and accounting departments indicate that payments outside of the payroll process were not tracked and reported to IRS as wages.

Recommendations

The district should:

1. Provide sites and departments with additional in-service training regarding TnAS procedures and controls to ensure that modifications entered into the system are supported by supervisory signatures and communicated to necessary payroll personnel in a timely manner.
2. Allow the account specialist read-only access to the general ledger to review account postings.
3. Consider eliminating manual timecards that duplicate TnAS data. If the manual cards are kept, reconcile them to data in the TnAS system just like any subsidiary ledger.
4. Work with independent auditors and the county office to review all stipends and the district's local practices to identify items that require documentation of the expenses incurred or that are reported on Form W-2. If agreements for cash payments outside of the payroll system are found in individual employment contracts or collective bargaining agreements, modify them to meet IRS guidelines.
5. Consider discontinuing the use of select retirees to perform payroll tasks. For proper internal controls related to redundant systems and cross-training, utilize employees.
6. Consider reducing the number of times supervisors are required to sign payroll time documents.
7. Determine which employee is responsible for PERS and STRS reporting of retiree vendors, provide that person with appropriate training, and require service contract vendors to complete a form that properly identifies retiree vendors.

Revenue Increases and Expenditure Reductions

Revenue Increases

Enrollment, ADA and Unduplicated Pupil Count (UPC)

Much of a school agency's revenue is derived from enrollment, ADA, and UPC. By increasing enrollment, attendance, and the percentage of students properly identified as unduplicated pupils, a district may increase revenues. The ADA rate for California elementary school districts is 95.67% of enrollment. Although the district has consistently exceeded this rate, this remains a critical component of the district's funding. The district can increase LCFF revenues by increasing student attendance. Various methods can be used to increase student attendance, including incentives, parent education, and a system to notify parents immediately when students are absent. Timely parent notification is critical to increasing daily attendance and preserving the associated funding. When developing its school calendar, the district also needs to consider the effects of mid-week holidays, religious and cultural holidays, staff development days and other days students commonly miss school. The district may consider offering short-term independent study for students who are absent more than five days, or Saturday school to recover truancy absences. The district may also consider participation in the School Attendance Review Board. A list of potential strategies and activities that help encourage students to attend school regularly is provided by the CDE and can be found at <https://www.cde.ca.gov/ls/ai/cw/attendstrategy.asp>.

The district's unduplicated pupil percentage has remained relatively unchanged for the past five years. It would benefit the district to ensure that it properly identifies all students who are eligible for free and reduced-price meals. The direct certification process can help with this, particularly when direct certification matches are performed at least monthly. For students who are not directly certified, the district can offer meal applications online, help parents who need assistance completing the application, and offer incentives to parents or students for submitting applications. The district needs to retain documents to support the eligibility determination.

Fees and Other Charges

The Education Code gives school districts guidelines for charging facility use fees to cover the cost of maintenance and operation of facilities used by community groups. The district's Board Policy 1330, Use of School Facilities and Grounds, authorizes the use of school facilities by district residents and community groups. It would benefit the district to ensure that the fee covers no less than the direct costs of the facility use. Groups that charge admission or solicit contributions should be charged fair rental value in accordance with board policy when they use school facilities or grounds. The district will need to ensure that it charges all groups and individuals the same rate for facility use unless an exemption for such fees applies.

Sales of Surplus Equipment

If the district is not already doing so, it will need to determine if any unused or obsolete property, such as computers or district vehicles, can be sold as surplus equipment. Best business practices include ongoing evaluation of surplus equipment to determine if items stored in empty classrooms or warehouses can be used at another school or if they can be disposed of as surplus. Several private companies provide auction services for the sale of surplus goods, and many districts have found they can generate revenues by using these services rather than paying to dispose of surplus items. This process may also help minimize the storage costs and the risk of theft.

Special Education Extraordinary Cost Pool

The district should ensure that it participates consistently in all qualifying special education funding sources including the extraordinary cost pool. As part of the special education Assembly Bill (AB) 602 formula, the program reimburses SELPAs for extraordinary costs of serving students placed in nonpublic, nonsectarian schools and special education and related services for students who reside in licensed children's institutions. Information about the program may be found on the CDE website at <https://www.cde.ca.gov/fg/aa/se/senpslciecp.asp>.

Expenditure Reductions

School Staffing Levels

Staffing expenses account for the majority of every school agency's budget. The district's staffing expenses represent approximately 86% of combined general fund expenditures and approximately 91% of the unrestricted general fund expenditures in all years of the MYFP. These are above the average ratios for elementary districts per information compiled by School Services of California. The district should review its staffing ratios at least annually to ensure it is being cost effective in this area. If the district lacks staffing ratios, they should be developed, approved by the governing board and adhered to. Even staffing ratios that are already in place should be reviewed periodically to ensure they are within industry averages.

The district should also analyze the number of students being served at each of its school sites to determine if any sites could be consolidated.

Indirect Costs

The district does not charge the maximum allowable indirect cost rate to all programs, such as special education and routine restricted maintenance. The district needs to do this even when it results in a contribution back to the program resource from the unrestricted resource. All programs have general management costs, commonly known as indirect costs; these typically include administrative activities such as accounting, budgeting, payroll preparation, personnel services, purchasing, and central data processing. An indirect cost rate gives LEAs an efficient and standardized way to recover some general management costs from individual programs. The rates charged to each program are established by the CDE for all LEAs in California. An LEA may claim up to its approved indirect cost rate unless there is specific authority (e.g., legislation or regulation) that limits the rate. Charging each program the maximum allowable rate allows an LEA to provide equitable indirect cost charges across the organization, ensure that all general management costs are adequately supported by the various programs, and ensure proper program cost accounting.

Routine Restricted Maintenance Account (RRMA)

Any district that participates in the School Facility Program is required to contribute 3% of its total general fund expenditures and other financing uses to the RRMA. The state gave districts some flexibility in this requirement beginning in 2008-09 by reducing the required contribution to the RRMA from 3% to 1% of general fund expenditures and other financing uses. However, this flexibility was phased out beginning in 2015-16. For 2018-19, districts are required to contribute the greater of the following: the lesser of 3% of total general fund expenditures and other financing sources or the amount that the district deposited to the account in 2014-15; or 2% of total general fund expenditures and other financing uses. Beginning in 2019-20, districts will be required to contribute the full 3% of general fund expenditures and other financing uses. The district needs to ensure that its RRMA expenditures and contribution are no more than the minimum amount required in the current and subsequent years.

Recommendations

The district should:

1. Adopt strategies to maximize attendance.
2. Adopt strategies to correctly identify unduplicated pupils.
3. Consistently charge a facility use fee that covers no less than the direct costs of the facility use.
4. Evaluate stored surplus equipment to determine if these items can be used or sold at auction.
5. Charge all resources and funds the maximum allowable indirect cost rate even if this results in a contribution from the unrestricted general fund.
6. Continually review and monitor certificated employee assignments and class sizes to ensure staffing levels are appropriate and cost effective.
7. Reduce its RRMA expenditures and contribution to the minimum amount required.

Appendix

Appendix A - SSC Financial Projections Dashboard

Appendix B - Full MYFP

Appendix C - List of 300 Series Board Policies

Appendix D - Study Agreement

SSC School District and Charter School Financial Projection Dartboard 2019-20 Adopted State Budget

This version of School Services of California, Inc. (SSC) Financial Projection Dartboard is based on the 2019-20 adopted State Budget. 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 GRADESPAN 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 3.26%	\$243	\$247	\$254	\$295
2019-20 Base Grants	\$7,702	\$7,818	\$8,050	\$9,329
Grade Span Adjustment Factors	10.4%	0	0	2.6%
Grade Span Adjustment Amounts	\$801	0	0	\$243
2019-20 Adjusted Base Grants	\$8,503	\$7,818	\$8,050	\$9,572
Supplemental Grants (% Adj. Base)	20%	20%	20%	20%
Concentration Grants	50%	50%	50%	50%
Concentration Grant Threshold	55%	55%	55%	55%

*Average daily attendance (ADA)

LCFF FUNDING FACTORS					
Factors	2018-19	2019-20	2020-21	2021-22	2022-23
Department of Finance Gap Funding Percentage	100.00%	0	0	0	0
COLA ¹	3.70%	3.26%	3.00%	2.80%	3.16%

OTHER PLANNING FACTORS						
Factors		2018-19	2019-20	2020-21	2021-22	2022-23
Statutory COLA ²		2.71%	3.26%	3.00%	2.80%	3.16%
California CPI		3.62%	3.33%	3.14%	3.02%	3.13%
California Lottery	Unrestricted per ADA	\$164	\$153	\$153	\$153	\$153
	Restricted per ADA	\$66	\$54	\$54	\$54	\$54
Mandate Block Grant (District)	Grades K-8 per ADA	\$31.16	\$32.18	\$33.15	\$34.08	\$35.16
	Grades 9-12 per ADA	\$59.83	\$61.94	\$63.80	\$65.59	\$67.66
Mandate Block Grant (Charter)	Grades K-8 per ADA	\$16.33	\$16.86	\$17.37	\$17.86	\$18.42
	Grades 9-12 per ADA	\$45.23	\$46.87	\$48.28	\$49.63	\$51.20
One-Time Discretionary Funds per ADA		\$184	0	0	0	0
Interest Rate for Ten-Year Treasuries		2.58%	2.35%	2.58%	2.60%	2.70%
CalPERS Employer Rate ³		18.062%	19.721%	22.70%	24.60%	25.40%
CalSTRS Employer Rate ⁴		16.28%	17.10%	18.40%	18.10%	18.10%

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

¹2018-19 rate includes statutory COLA of 2.71% plus an augmentation of 0.99% for school districts and charter schools. County offices of education receive only the statutory COLA.

²Applies to Special Education, Child Nutrition, Preschool, Foster Youth, American Indian Education Centers/American Indian Early Childhood Education and Mandate Block Grant.

³California Public Employees' Retirement System (CalPERS) rate in 2019-20 is final; that rate as well as the rates in the following years are subsidized based on the adopted State Budget.

⁴California State Teachers' Retirement System (CalSTRS) rates for 2019-20 and beyond are subsidized based on the adopted State Budget.

⁵Rate adjusts upward to \$69,000 beginning in 2019-20.

Combined	Object Code	Base Year 2019 - 20	Year 1 2020 - 221	Year 2 2021 - 22
Revenues				
LCFF/State Aid	8010 - 8099	\$92,198,953.00	\$94,255,564.00	\$96,028,412.00
Federal Revenues	8100 - 8299	\$6,743,478.00	\$5,660,554.03	\$5,585,554.03
Other State Revenues	8300 - 8599	\$7,222,423.00	\$7,230,710.84	\$7,232,965.86
Other Local Revenues	8600 - 8799	\$6,845,934.00	\$6,868,672.00	\$6,898,276.59
Revenues		\$113,010,788.00	\$114,015,500.87	\$115,745,208.48
Expenditures				
Certificated Salaries	1000 - 1999	\$51,305,238.87	\$52,221,839.65	\$53,102,020.43
Classified Salaries	2000 - 2999	\$15,273,226.32	\$15,578,690.85	\$15,859,202.49
Employee Benefits	3000 - 3999	\$25,341,237.15	\$26,742,677.88	\$27,285,415.10
Books and Supplies	4000 - 4999	\$3,850,679.00	\$3,929,834.39	\$3,945,327.73
Services and Other Operating	5000 - 5999	\$10,326,729.00	\$10,649,841.14	\$10,727,309.59
Capital Outlay	6000 - 6900	\$344,719.00	\$344,719.00	\$344,719.00
Other Outgo	7000 - 7299	\$971,836.00	\$971,836.00	\$971,836.00
Direct Support/Indirect Cost	7300 - 7399	(\$634,657.00)	(\$634,657.00)	(\$634,657.00)
Debt Service	7400 - 7499	\$0.00	\$0.00	\$0.00
Expenditures		\$106,779,008.34	\$109,804,781.91	\$111,601,173.34
Excess (Deficiency) of Revenues Over		\$6,231,779.66	\$4,210,718.96	\$4,144,035.14
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$493,872.00	\$493,872.00	\$493,872.00
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		(\$493,872.00)	(\$493,872.00)	(\$493,872.00)
Net Increase (Decrease) in Fund Balance		\$5,737,907.66	\$3,716,846.96	\$3,650,163.14
Fund Balance				
Beginning Fund Balance	9791	\$35,546,643.37	\$41,284,551.03	\$45,001,397.99
Audit Adjustments	9793	\$0.00	\$0.00	\$0.00
Other Restatements	9795	\$0.00	\$0.00	\$0.00
Adjusted Beginning Fund Balance	9797	\$35,546,643.37	\$41,284,551.03	\$45,001,397.99
Ending Fund Balance	9799	\$41,284,551.03	\$45,001,397.99	\$48,651,561.13
Components of Ending Fund Balance				
Reserved Balances	9700	\$0.00	\$0.00	\$0.00
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	\$100,000.00	\$100,000.00	\$100,000.00
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	\$9,908,558.56	\$9,847,438.96	\$9,924,926.93
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	\$8,626,128.39	\$8,437,128.39	\$8,347,128.39
Economic Uncertainties Percentage		3%	3%	3%
Reserve for Economic Uncertainties	9789	\$7,509,101.62	\$7,720,905.78	\$7,846,653.16
Undesignated/Unappropriated	9790	\$15,120,762.46	\$18,875,924.86	\$22,412,852.65

	BP or AR Number	Name of Board Policy/Administrative Regulation	Latest Revision Date
BP	3000	Concepts And Roles	December-90
BP	3100	Budget	October-16
BP	3110	Transfer Of Funds	April-97
AR	3110	Transfer Of Funds	April-97
BP	3220.2	Instructional Improvement & Accountability Funds	July-90
BP	3260	Fees And Charges	February-13
AR	3260	Fees And Charges	February-13
BP	3270	Sale And Disposal Of Books, Equipment And Supplies	April-97
AR	3270	Sale And Disposal Of Books, Equipment And Supplies (Personal Property)	July-90
BP	3280	Sale Or Lease Of District Owned Real Property	February-13
AR	3280	Sale Or Lease Of District Owned Real Property	December-90
BP	3290	Gifts, Grants And Bequests	March-13
BP	3300	Expenditures/Expending Authority	October-16
BP	3310	Purchasing Procedures	June-16
AR	3310	Purchasing Procedures	July-90
BP	3311	Bids	June-16
BP	3312	Contracts	June-16
AR	3312.11	State Allocation Board Contracts	December-91
BP	3314	Payment For Goods And Services	April-97
AR	3314	Payment For Goods And Services	April-97
BP	3314.2	District Revolving Fund	December-91
AR	3314.2	District Revolving Fund	April-97
BP	3315	Relations with Vendors	December-91
BP	3316	Ethical Standards for Contact Between Contractors, Vendors and Consultants and Board Members or Employees	August-09
BP	3320	Claims And Actions Against The District	June-16
AR	3320	Claims And Actions Against The District	June-16
BP	3350	Travel Expenses	Does not exist
BP	3400	Management Of District Assets/Accounts	September-03
AR	3400	Management Of District Assets/Accounts	April-97
BP	3420	Debt Management	December-16
BP	3430	Investing	October-95
BP	3440	Inventories	July-90
AR	3440	Inventories	July-90
AR	3451	Petty Cash Funds	December-91
BP	3452	Student Activity Funds	November-98
AR	3452	Student Activity Funds	November-98
BP	3453	Credit Cards	April-07
AR	3453	Credit Cards	April-07
BP	3460	Financial Reports And Accountability	September-16
AR	3460	Financial Reports And Accountability	April-97

	BP or AR Number	Name of Board Policy/Administrative Regulation	Latest Revision Date
BP	3512	Equipment	July-90
BP	3513.3	Tobacco-Free Schools	July-14
AR	3513.3	Tobacco-Free Schools	July-14
BP	3514	Environmental Safety	January-96
AR	3514	Environmental Safety	January-94
BP	3514.1	Hazardous Substances	December-90
AR	3514.1	Hazardous Substances	December-90
BP	3515	School Safety and Security	December-90
AR	3515	Security	July-90
AR	3515.1	Crime Data Reporting	September-99
BP	3515.2	Intruders on Campus	December-90
AR	3515.2	Intruders on Campus	December-90
BP	3515.4	Recovery For Property Loss Or Damage	April-97
AR	3515.4	Recovery For Property Loss Or Damage	December-92
AR	3515.6	Criminal Background Check for Contractors	September-99
BP	3516	Emergencies And Disaster Preparedness Plan	April-97
AR	3516	Emergencies And Disaster Preparedness Plan	April-97
BP	3530	Risk Management/Insurance	April-97
AR	3530	Risk Management/Insurance	April-97
AR	3531	Worker's Compensation Insurance	July-90
BP	3540	Transportation	December-91
BP	3541	Transportation Routes And Services	July-90
BP	3541.1	School-Related Trips	July-90
BP	3541.2	Transportation For Special Education Students	December-92
BP	3541.4	Transportation for Outside Groups	July-90
BP	3541.5	Alternative Transportation Arrangements	July-90
BP	3542	Roles and Duties of Employees	July-90
AR	3542	Roles and Duties of Employees	December-90
AR	3543	Roles and Duties of Employees	September-99
BP	3550	Food Service/Child Nutrition Program	December-15
AR	3550	Food Service/Child Nutrition Program	June-16
BP	3551	Food Service Operations/Cafeteria Fund	October-16
AR	3551	Food Service Operations/Cafeteria Fund	December-16
BP	3553	Free And Reduced-Price Meals	October-16
AR	3553	Free And Reduced-Price Meals	December-16
BP	3554	Other Food Sales	April-09
AR	3554	Other Food Sales	April-09
BP	3580	District Records	July-90
AR	3580	District Records	July-90
BP	3590	Energy Management Conservation	June-04



FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
August 20, 2019**

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Westminster 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 finances and 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, FCMAT notifies the county superintendent when entering into an agreement with any district in their county. The county superintendent will receive a copy of the final report and it 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 2019-20 adopted general fund budget, considering the impact of other funds, and use it as a baseline to develop an independent multiyear financial projection (MYFP) for the current and two subsequent fiscal years. The MYFP will be a snapshot in time of the district's financial status. Make recommendations for expenditure reductions and/or revenue enhancements to help the district maintain financial solvency.
2. Review operational processes and procedures for the business services department and make recommendations for improved efficiency, if any, in the following areas:
 - Budget development
 - Budget monitoring
 - Position control

- Purchasing (review to include a random sampling of transactions)
- Accounts payable (review to include a random sampling of transactions)
- 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 include:

- | | |
|----------------------------|-------------------------|
| <i>A. To be determined</i> | <i>FCMAT Staff</i> |
| <i>B. To be determined</i> | <i>FCMAT Consultant</i> |
| <i>C. To be determined</i> | <i>FCMAT Consultant</i> |

4. PROJECT COSTS

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

- 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 \$21,800.

- 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 draft copy of the report resulting from the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The 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 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

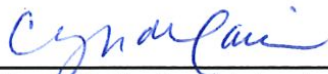
During the term of this agreement, FCMAT shall maintain liability insurance of not less than \$1 million unless otherwise agreed upon in writing by the district, automobile liability insurance in the amount required under California state law, and workers' compensation as required under California state law. FCMAT shall provide certificates of insurance, with Westminster 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: Arturo Jimenez, Assistant Superintendent
Telephone: (714) 894-7311
E-mail: ajimenez@wspd8.us

 9/17/19

Dr. Cyndi Paik, Superintendent Date
Westminster School District

 August 20, 2019

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