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

Harmony Union School District

Organizational Review and Multiyear Projection

November 7, 2017

Michael H. Fine
Chief Executive Officer



November 7, 2017

Rene McBride, Superintendent/Principal
Harmony Union School District
1935 Bohemian Hwy.
Occidental, CA 95465

Dear Superintendent McBride:

In April 2017, the Harmony Union School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to conduct a review of the district's 2016-17 general fund budget and develop a multiyear financial projection (MYFP) for the current and two subsequent fiscal years to validate the district's financial status. Additionally, the agreement called for an organizational and staffing review of the district's central office and review of operational processes and procedures for the functions assigned to the administrative and clerical central office personnel to include the following:

- Superintendent
- Principal
- Business manager
- Business clerk
- Office manager
- Data clerk

FCMAT will make recommendations for staffing improvements, if any, based on the findings of the review. Specific study objectives are outlined in the study agreement attached as Appendix C of this report.

This draft contains the study team's findings and recommendations.

FCMAT appreciates the opportunity to serve you and extends thanks to all the staff of the Harmony Union School District for their cooperation and assistance during fieldwork.

Sincerely,

Michael H. Fine
Chief Executive Officer

Table of Contents

About FCMAT

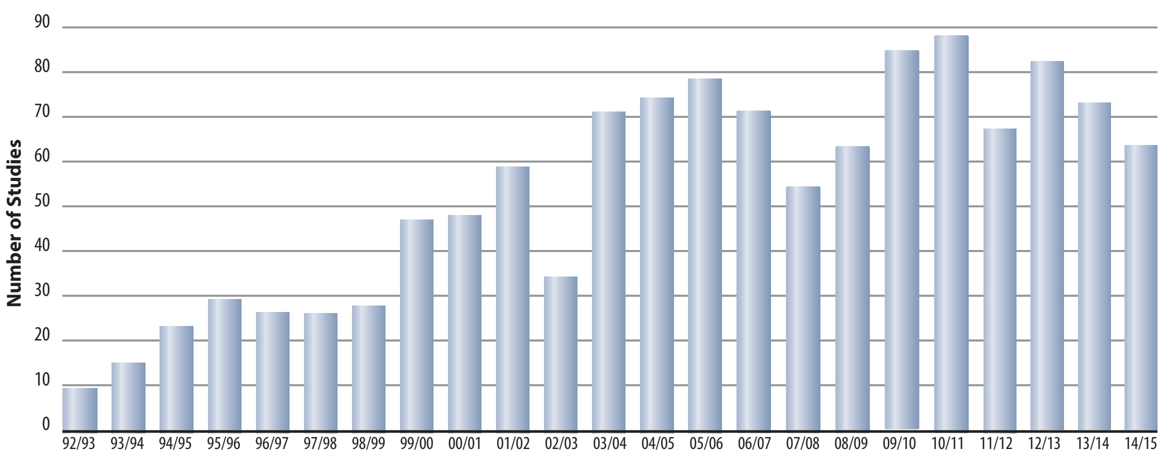
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related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

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

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

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

Studies by Fiscal Year



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

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

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

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

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

The Harmony Union School District is located in Sonoma County approximately 15 miles west of Santa Rosa California and serves approximately 260 students in grades TK-8. The district is comprised of Harmony Elementary School serving grades TK-1 and Salmon Creek Charter School, which is authorized and operated by the district, serving grades 2-8. The district is also the authorizer of the Pathways Charter School, a nonclassroom-based charter school serving approximately 435 students, many of which are nonresident students of the district.

The district authorizes the Pathways Charter School, an independent charter school and the Salmon Creek Charter School, a dependent charter school operated by the district. Because the district is the authorizer and sponsor of these charter schools, and is composed of a traditional school and a charter school, a few unique challenges present fiscal vulnerability for the district.

The Pathways Charter School offers a nonclassroom-based instructional program that provides alternative access to instruction to students outside of the district's residential boundaries. The charter's average daily attendance (ADA) is approximately 425, much of it from these nonresident students. The Salmon Creek Charter School also provides an opportunity to serve nonresident students. As the sponsor of these two charter schools, the district is required to forward in-lieu property taxes determined through the Local Control Funding Formula (LCFF) calculations to each local educational agency (LEA). Because of this requirement, the district is eligible to receive additional funding through the Basic Aid Supplement Funding Program (BASFP) from the state, which is intended to partly offset the amounts transferred to these schools for in-lieu property taxes attributable to nonresident students. However, this funding source is not guaranteed because many factors beyond the district's control determine whether the state will provide funding and if so, the amount. Therefore, LEAs should consider this revenue as a one-time funding source in any given year and prepare an alternative MYFP that excludes the funding in subsequent years so that the governing board has sufficient time to take corrective action if the district becomes ineligible. Additional details on the conditions of funding are provided in the revenue section of this report.

Over the last several years, the district has relied on BASFP funding to partly offset the ongoing expenditures of the Harmony Elementary and Salmon Creek Charter schools, serving as its primary method of maintaining fiscal balance. This strategy has helped the district mitigate the costs of healthy staffing levels districtwide; however, in the absence of BASFP funding an ongoing shortfall of revenue over expenditures otherwise known as a structural deficit becomes very apparent and could cause fiscal insolvency absent significant expenditure reductions.

Because of the mounting concern that the BASFP funding is used for ongoing expenditures, the Sonoma County Office of Education requested that the district remove the funding from its 2016-17 budget and MYFP to better expose the potential shortfall. This allows for greater transparency, provides the ability to more easily assess the district's financial position and increases the awareness of the effect these funds have on the district's fiscal condition. Removal of these funds from projections increased concern about the district's fiscal position, and the district engaged FCMAT to conduct an independent fiscal review to validate its budget assumptions and projections.

Study Guidelines

FCMAT conducted fieldwork at the district office on July 11-13, 2017, to conduct interviews and obtain and review documents; additional off-site work occurred during the weeks that followed. 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 this information and on reports from the district's financial system through June 30, 2017. Additional input from district staff was also considered before the team concluded its work. This report is the result of those activities.

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:

Marisa A. Ploog, CPA, CFE, CICA, CGMA
FCMAT Intervention Specialist
Bakersfield, CA

Leonel Martínez
FCMAT Technical Writer
Bakersfield, CA

Debbie Riedmiller *
Chief Financial Operations Officer
Kern County Superintendent of Schools
Bakersfield, CA

*As a member of this study team, this consultant was not representing her employer but was working solely as an independent contractor for FCMAT. Each team member reviewed the draft report to confirm its accuracy and to achieve consensus on the final recommendations.

Executive Summary

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

A comparison of FCMAT's MYFP with the district's 2016-17 second interim report found only minor differences, many of which are the result of timing in preparation; FCMAT had an advantage in that the fiscal year had concluded and actual revenue and expenditures were easy to determine. FCMAT and the district use many of the same budget assumptions and economic variables for projecting revenue and expenditures in the two subsequent years of the MYFP. However, some staffing changes were not anticipated when the district's second interim report was prepared, and these became known after the conclusion of the fiscal year. FCMAT was able to incorporate these changes into its projection.

The district operates under a unique structure in that it is composed of students in transitional kindergarten through first grade, but the remaining grade levels (second through eighth) are educated under the charter school model authorized and operated by the district. Under this model, the district is treated as two separate LEAs for some reporting and funding purposes. Therefore, separate projection models for enrollment and attendance are prepared for each. Additionally, the district is the authorizer of the Pathways Charter School, an independently operated charter school. As a result, the district receives additional funding that is based on complex factors relative to attending students. This unique composition adds a level of uncertainty regarding funding each year that requires constant vigilance of the district's financial position.

Based on FCMAT's fiscal review, the district's 2016-17 second interim budget appears reasonable in all material respects. The multiyear financial projection prepared by FCMAT indicates that the district's fiscal position is healthy; however, that conclusion is based solely on receiving approximately $1.5 million in Basic Aid Supplement Funding Program revenue in each year of the projection. The district has relied greatly on these resources to support expenditures related to its healthy staffing levels districtwide. Without these funds, the district's fiscal health would rapidly erode. This is a very challenging circumstance since the district does not know whether it will receive revenue from the BASFP until the beginning of the same year that the funds could be granted. Therefore, it should develop strategies for timely expenditure reductions, even in the absence of an anticipated decline in the economy.

Findings and Recommendations

Multiyear Financial Projections

Multiyear financial projections 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 multiyear financial projections, and they are a part of 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 (SPI), county offices of education and FCMAT and their ability to intervene during fiscal crises. California school districts and county offices use many different methods and software products to prepare multiyear financial projections. The projections for the district's general fund used in this report were prepared using FCMAT's Budget Explorer multiyear 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 Schools Services of California Financial Dartboard, and based its projection on the district's 2016-17 second interim 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, projected deferrals, forecasts of costs for utilities, fuel and other consumables, and local, state and national economic conditions. Therefore, the projection should be viewed as a trend based on certain criteria and assumptions rather than a prediction of exact numbers.

Multiyear financial projections 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 a MYFP, attention is focused on the district's ability to meet its required reserve for economic uncertainty and achieve a positive unappropriated fund balance. The district's deficit spending trends indicate if the $1.5 million in funding for BASFP is not received in each fiscal year, it will need to increase revenue, decrease expenditures, or both to maintain a positive unappropriated fund balance. When the unappropriated fund balance is negative, it represents the amount by which budgeted expenditures must be reduced or revenues increased to meet the reserve requirements in accordance with AB 1200.

California school districts must continue to plan for the slowing of funding growth. The largest funding increases from LCFF implementation are from prior fiscal years, and state revenue growth has slowed. 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.

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

In such an uncertain environment, all districts should strive to maintain fiscal solvency and protect the integrity of educational programs by performing the following:

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 expenditure plans to be changed as needed.
3. Routinely prepare alternative MYFP that exclude the BASFP revenue, and closely monitor this effect on the districts reserve balance.
4. Develop an expenditure reduction plan that can be implemented in a timely manner to offset the reduction in funding should the BASFP funding be reduced or eliminated.

Enrollment and ADA Projections

Enrollment and ADA projections are core components to any multiyear financial projection. Enrollment projections are essential in identifying changes that may have a significant impact on an LEA's estimated revenue in subsequent years of a projection. When prepared timely, they also provide key information for determining instructional staffing. Enrollment projections should be prepared frequently and with sufficient detail by grade level to monitor and project class sizes in subsequent years.

Historical enrollment and attendance patterns help identify potential changes in grade level enrollment in future years. The primary source of funding for LEAs comes from the LCFF, which contains numerous calculations, many of which are based on student enrollment and ADA by grade level.

The district operates under a unique structure in that it is composed of students in transitional kindergarten through first grade; the remaining grade levels (second through eighth), are educated under the charter school model, authorized and operated by the district. Under this model, the school district is treated as two separate LEAs for some reporting and funding purposes. Therefore, separate projection models for enrollment and attendance are prepared for each. Additionally, the district is the authorizer of the Pathways Charter School, an independently operated charter school, for which it receives additional funding that is based on complex factors related to attending students. Details of this funding and its complexity are addressed in the revenue section of this report.

FCMAT used the cohort survival technique to project the district's enrollment. Cohort survival 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, dropouts, and new and departing students by grade.

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 2015-16 and that number increased to 104 in second grade in 2016-17, 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 a period of time.

The process of projecting kindergarten enrollment differs from other grades because little data is available on the presence of four- and five-year-old children that may enroll in the district the following year. The industry standard for projecting kindergarten enrollment is to identify the percentage of countywide live births that enroll in the district five years later. For small school districts, evaluating and applying historical averages is generally a more simplistic approach. FCMAT used a five-year average to project kindergarten enrollment for Harmony Elementary School. Because the five-year average also includes eligible transitional kindergarten, the projected funding is susceptible to reduction if the enrollment and relative ADA do not materialize.

In part, LCFF funding is also determined based on the LEA's unduplicated pupil percentage (UPP) which is determined based on a three-year rolling average of the number of enrolled students who are eligible for free/reduced priced meals or identified as English learners and/or foster youth and dividing the results by total enrollment; eligibility is only counted as one if the student meets multiple criteria. FCMAT used a four-year historical average for this factor.

Enrollment projections for Harmony Elementary School and Salmon Creek Charter School by grade level are presented in the tables below.

Harmony Elementary School Enrollment and Average Daily Attendance

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 Oct 2016	2017-18 Projected	2018-19 Projected
Grade Kindergarten (*)	20	24	36	43	49	42	35	41	41
Grade 1 (#)	24	23	21	20	25	22	33	23	27
Grade 2 ($)	40	26	0	0	0	0	0	0	0
Total Enrollment	84	73	57	63	74	64	68	63.73	67.62
Increase/(Decrease) over prior year		-11	-16	6	11	-10	4	-4	4
Total Unduplicated Pupil Count Free/ Reduced-Price Meals, English Learners & Foster Youth (Δ) (¥)				24	20	20	19	20.75	20.75
UPP %				38.10%	27.03%	31.25%	27.94%	32.56%	30.69%
ADA (¤)			55.49	47.46	50.52	58.62	63.75	54.33	57.65
ADA to Enrollment	0.00%	0.00%	97.35%	75.33%	68.27%	91.59%	93.75%	85.26%	3.32
ADA to Enrollment Five Year Average								85.26%	

(*) Projected years based upon 5 year historical average and includes ADA eligible Transitional Kindergarten (TK)

Historical 5 year average 41

(#) Enrollment projections for grade 1 is based on cohort progression adjusted for a 5 year average of historical retention.

Historical Five-Year Average

2012-13	2013-14	2014-15	2015-16	2016-17 5-17-17	Retention %
87.50%	55.56%	58.14%	44.90%	78.57%	64.93%

($) Grade 2 enrollment utilized in enrollment projection calculations for Salmon Creek.

(Δ) Source - CALPADS 1.17 report - (2014-15, 2015-16 and 2016-17 only)

(¥) Projection year Unduplicated Pupil Count & ADA = 4 year average

(¤) Source - CDE Apportionment Web Exhibits

Projections exclude county program enrollment and ADA

Salmon Creek Charter School Enrollment and Average Daily Attendance

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 Oct 2016	2017-18 Projected	2018-19 Projected
Grade 2 ($)	40	26	22	19	19	25	20	31	21
Grade 3	23	25	21	24	18	21	25	20	31
Grade 4	25	25	28	21	24	20	26	27	22
Grade 5	28	21	25	28	24	24	24	28	29
Grade 6	31	22	15	24	19	23	31	22	26
Grade 7	29	31	18	15	28	21	27	33	23
Grade 8	23	29	26	16	17	27	24	27	32
Total Enrollment	199	179	155	147	149	161	177	188	184
Increase/(Decrease) over prior year		-20	-24	-8	2	12	16	11	-3
Total Unduplicated Pupil Count Free/Reduced-Price Meals, English Learners & Foster Youth (Δ) (¥)				65	76	74	59	68.5	68.5
UPP %				44.22%	51.01%	45.96%	33.33%	43.63%	43.63%
ADA Grades TK-3 (¥)				40.14	35.15	43.82	43.84	48.39	49.67
ADA Grades 4-6 (¥)				67.69	62.82	66.13	77.60	73.33	72.60
ADA Grades 7-8 (¥)				30.25	42.36	45.42	47.06	56.46	52.88
Salmon Creek Charter School ADA (¤)				138.08	140.33	155.37	168.50	178.18	175.15
Pathways Charter ADA				522.52	500.47	476.06	428.29	481.80	481.80
				660.60	640.80	631.43	596.79	659.98	656.95
ADA to Enrollment	0.00%	0.00%	0.00%	93.93%	94.18%	96.50%	95.20%	94.95%	94.95%
ADA to Enrollment Four Year Average				94.95%					
Increase/(Decrease) over prior year					2.25	15.04	13.13	9.68	-3.03

($) Grade 2 enrollment utilized in enrollment projection calculations for Salmon Creek

(Δ) Source - CALPADS 1.17 report - (2014-15, 2015-16 and 2016-17 only)

(¤) Source - CDE Apportionment Web Exhibits

(¥) Projection year Unduplicated Pupil Count & ADA = 4 year average

Projections exclude county program enrollment and ADA

Historical Five-Year Average

	2012-13	2013-14	2014-15	2015-16	2016-17 5-17-17	Retention %
Grade 1-2	95.65%	90.48%	95.00%	100.00%	90.91%	94.41%
Grade 2 -3	80.77%	109.09%	94.74%	110.53%	100.00%	99.02%
Grade 3-4	112.00%	100.00%	100.00%	111.11%	123.81%	109.38%
Grade 4-5	100.00%	100.00%	114.29%	100.00%	120.00%	106.86%
Grade 5-6	71.43%	96.00%	67.86%	95.83%	129.17%	92.06%
Grade 6-7	81.82%	100.00%	116.67%	110.53%	117.39%	105.28%
Grade 7-7	83.87%	88.89%	113.33%	96.43%	114.29%	99.36%

Year	Harmony SD Enrollment	Harmony SD Enrollment Inc./(Dec.)	Salmon Creek Charter School Enrollment	Salmon Creek Charter School Enrollment Inc./(Dec.)	Combined Enrollment	Charter School Enrollment as a % of Total Enrollment
2010-11	84.00		199.00		283.00	70%
2011-12	73.00	(11.00)	179.00	(20.00)	252.00	71%
2012-13	57.00	(16.00)	155.00	(24.00)	212.00	73%
2013-14	63.00	6.00	147.00	(8.00)	210.00	70%
2014-15	74.00	11.00	149.00	2.00	223.00	67%
2015-16	64.00	(10.00)	161.00	12.00	225.00	72%
2016-17	68.00	4.00	177.00	16.00	245.00	72%
2017-18 Projected	63.73	(4.27)	188.00	11.00	251.73	75%
2018-19 Projected	67.62	3.89	184.00	(4.00)	251.62	73%

The projections prepared by FCMAT indicate that for the Harmony Elementary School, the district should anticipate a small decline in enrollment for 2017-18 that is recovered in the subsequent year. For Salmon Creek, FCMAT's projections indicate growth of approximately 11 students in 2017-18 followed by a decline of four students in 2018-19.

The district's unique structure complicates the revenue projection since approximately 73% of enrollment attends the charter school. School districts are generally funded based on the greater of the prior year or current year P-2 ADA. This provides the traditional school district with one year to make necessary staffing adjustments when student enrollment declines. However, charter schools do not receive this same protection and are funded based on the current year P-2 ADA. For the district, this adds another layer of fiscal risk since the majority of its students attend the charter school, which does not receive revenue protection when enrollment declines.

Historical and projected ADA for Harmony Elementary School and Salmon Creek Charter School are presented in the tables below.

YEAR	Harmony Elementary School Actual P-2 ADA	Harmony Elementary Inc. / (Dec.) ADA	Harmony Elementary Funded ADA	Harmony Elementary Funded ADA	Salmon Creek Charter School P-2 ADA	Salmon Creek Charter School Change in funded ADA
2010-11	76.32	0.00			148.72	
2011-12	69.37	-6.95	76.32		146.94	(1.78)
2012-13	55.49	-13.88	69.37	(6.95)	147.38	0.44
2013-14	47.46	-8.03	55.49	(13.88)	138.08	(9.30)
2014-15	50.52	3.06	50.52	(4.97)	140.33	2.25
2015-16	58.62	8.10	58.62	8.10	155.37	15.04
2016-17	64.60	5.98	64.60	5.98	167.97	12.60
2017-18 Projected	54.49	-10.11	64.60	0.00	178.04	10.07
2018-19 Projected	57.82	3.33	57.82	(6.78)	175.01	(3.03)

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 have adequate time to prepare them. Once the deadline has passed, the opportunity to adjust charter school staffing levels is lost along with the funding necessary to offset those costs. The lack of the P-2 funding guarantee for charter schools limits the ability of the school district to respond to fluctuations in enrollment and ADA in an expeditious manner and presents considerable financial risk. Failure to identify potential reductions in revenue and plan for necessary staffing reductions in a timely manner can have a significant impact on the district's financial position.

The business office staff prepares limited, basic, enrollment projections for revenue projections in the subsequent two years of the multiyear financial projection. However, these projections do not assess the changes in enrollment as each cohort progresses into its subsequent grade levels in future years or project ADA based on historical ADA to enrollment ratios. This is not a significant issue during periods of flat enrollment and ADA; however, during a period of increasing or decreasing enrollment and ADA, projected revenue and expenditures become less accurate.

Enrollment and ADA projections have inherent limitations because they are based on certain criteria and assumptions instead of exact calculations. 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 potential enrollment decline and make adjustments to staffing levels and expenditure budgets where appropriate.

Projection Assumptions

FCMAT prepared its multiyear financial projection to include the impact of the state's 2016-17 enacted budget and 2017-18 proposed budget updated for the May revision. The team reviewed the district's records, interviewed staff members and examined a variety of financial documents to gather the information needed for the multiyear financial projection. 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, School Services of California, grant letters and analysis of district estimates for any sources that could not be independently verified.

Local Control Funding Formula (LCFF) Sources (8010-8099)

The LCFF was implemented by the California Department of Education (CDE) beginning with the 2013-14 fiscal year and replaced the former revenue limit calculation and Charter School Block Grant state apportionment distribution methodologies. The LCFF provides the following:

- A base per-pupil grant that varies by grade level.
- Supplemental funding that provides an additional 20% of the base grant multiplied by the district's percentage of disadvantaged pupils (the unduplicated count of low-income students, English language learners, and foster youth).

- An additional 50% of the base grant multiplied by the district's percentage of disadvantaged pupils that exceed 55%.

Many former state categorical programs were eliminated, and the related funding was redirected to support the implementation of the LCFF. Full implementation of the LCFF was expected to take eight years, with districts receiving a transitional level of funding during implementation. A target level of funding is determined using the above formula, and a floor level of funding is computed using 2012-13 revenue limit funding (or charter school block grant) rates multiplied by current year funded ADA. The LCFF transition funding is calculated yearly, and funding during the phase-in period is based on the difference between each LEA's floor funding and its target funding. This difference is referred to as the gap. An LEA that has not reached the target level of funding receives a percentage of the gap, determined by how much is appropriated in the state budget. The floor is recalculated each year and increased to include the prior year gap funding adjusted for current year ADA.

Districts are advised to use the FCMAT LCFF Calculator for estimating funding from the LCFF. Two separate calculations are required for Harmony Union School District, one for Harmony Elementary School, and one for Salmon Creek Charter School. Harmony Elementary School has reached its funding target, meaning it receives no additional gap funding, only an annual cost-of-living (COLA) adjustment, which is added to the base grade span funding rates. Salmon Creek Charter School received 92.3% of its target for 2016-17, leaving a remaining gap of $58,611. The gap is further reduced as the charter school reaches 95.7% and 95.9% of its projected target funding in 2017-18 and 2018-19 fiscal years, respectively.

For most districts, the LCFF entitlement is funded through a combination of local property taxes and state aid. A district's property tax will first be applied toward the total LCFF entitlement and the balance is funded through state aid. The district is unique in that it is positioned in a location with higher tax collections than other areas. This generally makes the district qualify as a basic aid district, which means its revenues from local property tax exceed the amount it is entitled to as determined by the LCFF calculation. Basic aid school districts retain the "excess" property taxes that exceed their LCFF entitlement. A hold harmless provision referred to as minimum state aid was established with the implementation of LCFF to ensure no basic aid district receives less in state aid funding than it received in categorical funding in 2012-13. Basic aid districts also receive a minimum of $200 per ADA in education protection account (EPA) revenues. Proposition 30, passed in 2012, temporarily added a quarter-cent sales tax and increased state income tax rates on high income taxpayers. These additional state revenues are deposited into a state account called the EPA, and are then distributed to school districts, charter schools, and community colleges. The sales tax increase was set to expire in 2016, and the income tax increase was set to expire in 2018. Proposition 55, passed in 2016, extended the income tax increase through 2030.

Because of the cyclical nature of property values, property taxes are highly volatile revenues, difficult to project with certainty, and can be subject to dramatic fluctuations from year to year. Projections of property tax revenues are based on estimates received from the tax assessor's office, but final numbers are not known until after the end of the fiscal year. Basic aid districts need higher reserves because of the uncertainty of tax collections. These districts have no safety net when taxes decline until they are no longer in basic-aid status, and even then, they must be sufficiently out of status to provide protection.

A basic aid district typically receives no additional revenue for increased enrollment. Additionally, in the absence of increased tax collections, no new revenue is received to offset natural increases in expenditure commitments, including the increasing costs of salaries (step/column, negotiated increases, class size incentive payments), benefits (health and welfare rate increases in the absence of benefit caps, STRS/PERS rate increases, and inflation).

As the sponsoring district of two charter schools, the district is required to transfer funding "in lieu of property taxes" to each associated charter school for all students who attend those charter schools, even if they are not resident students of the district. This transfer causes Harmony Unified to fall out of basic aid status, an unusual circumstance that creates some benefits and challenges. A basic aid district that loses that status as a result of transferring property taxes to a charter school becomes eligible to receive funding from the state, known as Basic Aid Supplement Funding Program.

The School District Basic Aid Supplement Funding Program provides basic aid school districts supplemental funding to backfill, in part, for the loss of local revenue due to required in lieu tax transfers to charter schools that provide instruction to nonresident (out of district) students. Funding for the sponsoring district is calculated using the base, supplemental, and concentration grants of the district of residence of each nonresident student, multiplied by the ADA of students attending each charter school, multiplied by 70%.

As discussed earlier, charter schools are funded based on current year funding criteria. The basic aid status of the district and each district of residence of each nonresident student determines if and/or how much BASFP funding the district receives in any given year. This makes this funding source extremely vulnerable and unpredictable.

Based on the state certified exhibit for the 2016-17 P-2, the district is projected to receive approximately $1.5 million in BAFSP funding in 2016-17. As is the case with property tax revenue, the BASFP is a volatile funding source because of several factors. If the sponsoring district loses basic aid status without regard to the in-lieu transfer, it will no longer receive BASFP funding. Additionally, if the district of residence of a nonresident student attending the sponsored charter school becomes basic aid, the sponsoring district will receive no BASFP funding for those students.

The BASFP funding is also capped at the amount of in-lieu taxes that are transferred to sponsored charter schools for non-resident charter ADA, including those attending Salmon Creek. The funds are further capped by the ratio of the base grant to the target entitlement of the district of residence. The funding is also limited by the ratio of state aid after resident in-lieu transfer to the in-lieu taxes from the nonresident charter ADA. Because of the volatility and uncertainty of the BASFP eligibility, the Sonoma County Office of Education recommends districts within the county treat the BASFP resources as one-time funding to be spent on one-time expenditures and develop contingency plans in case of a decline or elimination.

Despite the volatility and risk, the district utilizes the majority of these funds for ongoing purposes including salaries and benefits. It is essential that the district prepare detailed multiyear financial projections throughout the year based on current funding expectations and prepare alternative projections that identify the district's financial position should the BASFP funding discontinue. Much of the funding is based on criteria outside the district's control, and there is no hold harmless deferring the impact of funding reductions that result due to declines in enrollment and ADA or changes in basic aid status. Therefore, the district should maintain reserve balances of more than the required minimum sufficient to offset the potential loss of one year's funding to allow for appropriate reductions of expenditures necessary to offset the loss of funding.

FCMAT prepared independent LCFF calculations for Harmony Elementary School and Salmon Creek Charter School using the most current version of the LCFF calculator at the time of preparation, which contained the updated gap percentages enacted in the states 2017-18 budget, 55.03%, 43.97% and 71.53% for fiscal years 2016-17, 2017-18 and 2018-19 respectively. LCFF revenues for Harmony are based on a projected funded P-2 ADA of 65.57, which includes county program ADA in 2016-17, 64.60 in 2017-18, and 57.82 in 2018-19. Property tax and Basic Aid Supplemental Funding Program revenues are projected at flat funding for 2017-18 and 2018-19 fiscal years because of the unpredictability of change for those sources. The in-lieu property tax transfer is projected to increase slightly with the increase in Salmon Creek Charter School ADA. Based on these assumptions, total LCFF revenues are projected to decline $40,755 over the two years. LCFF revenues for Salmon Creek Charter School are based on a projected P-2 ADA of 167.97 in 2016-17, 178.04 in 2017-18, and 175.01 in 2018-19. Based on these assumptions, LCFF revenues are projected to increase slightly in 2017-18, then decline slightly in 2018-19, resulting in an overall increase in LCFF revenues of $119,644 over the two years.

FCMAT will provide the district with electronic copies of each LCFF calculation if requested.

Federal Revenue (8100-8299)

Federal award amounts for 2016-17 were confirmed and are carried forward to 2017-18 and 2018-19, less one-time amounts received in 2016-17.

Other State Revenue (8300-8599)

Unless described otherwise, other state grant award amounts for 2016-17 were confirmed and are carried forward to 2017-18 and 2018-19, less one-time amounts received in 2016-17. COLA was only applied to special education mental health funding.

Mandate Funding

Harmony Union School District is projected to receive $45,913 in one-time mandate funding in 2016-17, and $34,188 in 2017-18. This revenue source has been eliminated in 2018-19, as these funds are considered one-time and it is unknown whether they will be appropriated in the 2018-19 state budget.

The district is also projected to receive $3,874 in ongoing mandate block grant funding in 2016-17. This is an ongoing revenue source; therefore, the revenues for 2017-18 and 2018-19 are calculated based on per ADA amounts from the School Services of California (SSC) Dartboard (Appendix A). Receipt of mandate block grant funds is contingent upon the district filing a funding application each year with the CDE.

Lottery

FCMAT projected unrestricted lottery revenues based on projected annual ADA for Harmony Elementary and Salmon Creek Charter School multiplied by $146 and $48 for restricted lottery instructional material revenues per the SSC Dartboard. Total lottery revenues are projected to decline slightly in 2017-18, and remain flat in 2018-19. Expenditure of unrestricted lottery funds is reduced in 2018-19 to eliminate a negative ending balance.

Proposition 39 – CA Clean Energy Jobs Act

The California Clean Energy Jobs Act allocates funds to eligible LEAs for five fiscal years, beginning with fiscal year 2013-14. LEAs may request funds by submitting an energy expenditure plan application to the California Energy Commission. The purpose of the program is to fund projects to improve energy efficiency and expand clean energy generation in schools.

The California Energy Commission has an estimated five-year allocation plan for both Harmony Elementary and Salmon Creek Charter School totaling $329,377; $66,778 designated for planning costs, and $262,599 designated for project costs. The commission advanced funds to the district totaling $265,249; $66,778 designated as planning funds and $198,471 designated for project costs. The district has spent $327,352, which exceeds the total advanced funding by $62,103 however, FCMAT cannot determine how much of these expenditures were attributable to planning costs and project costs. Remaining eligibility of $64,128 for 2017-18 should be available to the district if another energy expenditure plan is submitted and approved by the January 12, 2018 deadline. This plan should include a request to redesignate all unused planning funds as project funds. The plan should then include project costs totaling the redesignated planning funds and the balance of remaining allocated project funds. FCMAT's projection assumes that the district files the appropriate plans, and additional funds are received in 2017-18, eliminating the negative balance in the resource.

Other local revenue (8600-8799)

Other local revenues include parcel taxes, interest, donation from the ARK Education Foundation and other miscellaneous revenues. FCMAT adjusted the district's projected 2016-17 second interim revenues to actual, and reduced 2017-18 and 2018-19 projected revenues by the amount of one-time revenues received in 2016-17.

Contributions (8980-8990)

The flexibility provided to districts beginning in 2008-09 reduced the required contribution to the routine restricted maintenance account (resource 8150) from 3% to 1% of total general fund expenditures and other financing uses; however, this provision will be phased out beginning in 2015-16. The required contribution in 2016-17 is the lesser of 3% of general fund expenditures or the amount of the 2014-15 contribution. For 2017-18 and 2018-19, the required contribution increases to the greater of: 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. Accordingly, contributions to the routine restricted maintenance account for 2017-18 and 2018-19 are projected at 2% of general fund expenditures and other financing uses.

When restricted resource expenditure budgets exceeded projected revenue in the second and third year of the projection, FCMAT first reduced expenditures in the 4XXX object code series. If a shortfall remained, the team reduced expenditures in the 5XXX object code range; no reductions of salary and benefit budgets were made. A contribution from the unrestricted resource was made to balance any restricted resource when expenditures exceeded revenue after these adjustments.

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 does not utilize an automated position control system integrated with the automated financial system to manage salary and benefit data. Instead, a simplistic spreadsheet is used to track these commitments for the budget year. FCMAT reviewed 2016-17 employment salary and benefit calculations for all certificated and classified positions and prepared an independent salary and benefit position control calculation. All salary and benefit costs were compared to the 2016-17 budget and 2016-17 payroll records. Adjustments to 2016-17 salaries and benefits were made to reflect actual expenditures through June 30, 2017.

Certificated Salaries (1XXX)

Certificated salaries for 2017-18 were reduced by $151,958.57 to account for the reduction of 1.0 full time equivalent (FTE) teaching position, 1.0 FTE superintendent position, an increase in certificated administrative salaries for a new superintendent/principal position and projected step/column and changes for longevity (2.0%).

Classified Salaries (2XXX)

Classified salaries for 2017-18 were reduced to account for the reduction of two .8275 FTE instructional aid/paraprofessional positions and increased for projected step/column and changes for longevity based on average year over year historical increase in classified wages (4.0%).

Benefits (3XXX)

- All benefits were adjusted proportionally to increases/decreases in salaries
- STRS rate increased 14.71% for 2017-18 and 12.82% in 2018-19
- PERS increases 11.83% for 2017-18 and 16.54% for 2018-19

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

- Expenditure budgets for books, supplies and services included in the second interim report appear reasonable, with a focus on expenditure restraint. FCMAT made a $40,000 increase to the unrestricted expenditures for services to account for an administrative support contract to support the transition from the change in administrative leadership model and continued this amount into the 2018-19 fiscal year.
- Books, supply and service expenditure budgets were adjusted for inflation based on the Consumer Price Index (CPI) for 2017-18 (3.11%) and 2018-19 (3.19%).
- Books and services budgets in restricted resources were reduced when ongoing revenue was insufficient to cover ongoing expenditures as adjusted by CPI.

Capital Outlay (6XXX)

- Insignificant amounts were budgeted in resource 8150, ongoing and major maintenance, a restricted resource. No adjustment was made in 2017-18 or 2018-19.

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 resource. The allowable indirect cost rates applied were 4.86% to 2016-17, 4.84% to 2017-18 and 4.84% to 2018-19.

Interfund Transfers (8919 & 7619)

Other Authorized Interfund Transfers In (8919)

The district's second interim report includes transfers into the general fund from other funds totaling $715,009.35 in 2016-17; which included the following:

- $81,428 from the special reserve fund (17)
- $56,880 from the retiree benefit fund (20) for retiree health and welfare benefits
- $59,744.75 from the deferred maintenance fund (14) for one-time expenditures
- $516,956.60 from the general fund (01) to the charter school fund (03)

In the district's second interim multiyear financial projection, it projects transfers from fund 17 into the general fund of $90,000 and $190,000 for 2017-18 and 2018-19 respectively. To provide greater clarity of the district's financial position in unrestricted resources, FCMAT's projection eliminates the transfers from fund 17 in 2017-18 and 2018-19. FCMAT also eliminated the transfer in from the deferred maintenance fund since the 2016-17 transfer was identified for one-time expenditures.

FCMAT's projection continues the transfer into the general fund from the retiree benefit fund in 2017-18 and 2018-19 at a flat amount as the retiree benefit premiums are capped and will not increase in the subsequent years of the projection.

Other Authorized Interfund Transfers Out (7619)

The district's second interim report includes transfers out of the general fund into other funds totaling 1,481,456.60, which included as follows:

- $50,000 into the cafeteria fund (13)
- $500,000 into the deferred maintenance fund 14
- $414,500 into the special reserve for capital outlay fund (40)
- $516,956.60 into the charter school fund (03) from the general fund (01)

FCMAT's projection reduces the transfer into fund 13 to $45,000 in 2016-17, and increases it to $60,000 in 2017-18 and $65,000 in 2018-19, due to projected expenditure increases for salaries and benefits and the addition of indirect costs. FCMAT eliminated the transfers out to fund 14 and fund 40 in the out years of the projection since the district identified the purpose of these 2016-17 transfers as one-time.

A comparison of FCMAT's projection for 2016-17 compared to the district's second interim report is as follows:

COMBINED	Object Code	FCMAT	HUSD 2nd Interim	Difference
Revenues				
LCFF Sources	8010 - 8099	$ 3,715,659.98	$ 3,770,464.00	$ (54,804.02)
Federal Revenue	8100 - 8299	108,560.00	114,977.00	(6,417.00)
Other State Revenue	8300 - 8599	190,289.72	197,447.39	(7,157.67)
Other Local Revenue	8600 - 8799	215,055.99	251,885.32	(36,829.33)
Total Revenues		**$ 4,229,565.69**	**$ 4,334,773.71**	**$ (105,208.02)**
Expenditures				
Certificated Salaries	1000 - 1999	$ 1,485,508.76	$ 1,485,920.83	$ (412.07)
Classified Salaries	2000 - 2999	739,404.52	733,565.80	5,838.72
Employee Benefits	3000 - 3999	1,095,314.96	1,097,968.90	(2,653.94)
Books and Supplies	4000 - 4999	119,640.31	170,638.04	(50,997.73)
Services and Other Operating	5000 - 5999	885,559.10	1,029,818.47	(144,259.37)
Capital Outlay	6000 - 6900	6,718.55	15,738.55	(9,020.00)
Other Outgo	7000 - 7299	-	-	-
Direct Support/Indirect Cost	7300 - 7399	(7,727.25)	-	(7,727.25)
Debt Service	7400 - 7499	-	-	-
Total Expenditures		**$ 4,324,418.95**	**$ 4,533,650.59**	**$ (209,231.64)**
Excess (Deficiency) of Revenues Over Expenditures		**$ (94,853.26)**	**$ (198,876.88)**	**$ 104,023.62**
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$ 715,009.35	$ 715,009.35	$ -
Interfund Transfers Out	7600 - 7629	1,476,456.60	1,481,456.60	5,000.00
All Other Financing Sources	8930 - 8979	-	-	-
All Other Financing Uses	7630 - 7699	-	-	-
Contributions	8980 - 8999	-	-	-
Other Financing Sources/Uses		**$ (761,447.25)**	**$ (766,447.25)**	**$ (5,000.00)**
Net Increase (Decrease) in Fund Balance		**$ (856,300.51)**	**$ (965,324.13)**	**$ 109,023.62**
Fund Balance				
Beginning Fund Balance	9791	**$ 3,903,875.41**	**$ 3,903,874.98**	**$ 0.43**
Ending Fund Balance	9799	**$ 3,047,574.90**	**$ 2,938,550.85**	**$ 109,024.05**

Second Interim Budget Assessment

The district's budget, as revised for the 2016-17 second interim reporting period and submitted to the county office, required reasonable revision by FCMAT based on the review's timing. Revenue and expenditure budgets appear reasonable and reflective of actual anticipated revenue and expenditures that could be reasonably known at the time of preparation.

Multiyear Financial Projections

FCMAT's multiyear financial projection indicates that the district's fiscal condition is healthy, but is founded on some unstable factors as described in the preceding sections including the lack of a funding guarantee for charter school ADA; the potential loss of funding because of basic aid status, and most significant, the potential loss of BASFP.

The following table summarizes the results of FCMAT's MYFP for the general fund unrestricted resources, including the BASFP in the current and subsequent two fiscal years.

FCMAT UNRESTRICTED Resource Projection	Base Year 206-17	Year 1 2017-18	Year 2 2018-19
Revenues	$ 3,863,435.66	$ 3,924,452.91	$ 3,869,987.55
Expenditures	$ 3,547,914.73	$ 3,413,005.08	$ 3,510,891.98
Excess (Deficiency) of Revenues Over Expenditures	**$ 315,520.93**	**$ 511,447.83**	**$ 359,095.57**
Other Financing Sources/Uses			
Interfund Transfers In	$ 715,009.35	$ 556,880.00	$ 556,880.00
Interfund Transfers Out	1,476,456.60	560,000.00	565,000.00
Contributions	(439,586.77)	(486,101.11)	(518,565.62)
Other Financing Sources/Uses	$ (1,201,034.02)	$ (489,221.11)	$ (526,685.62)
Net Increase (Decrease) in Fund Balance	**$ (885,513.09)**	**$ 22,226.72**	**$ (167,590.05)**
Fund Balance			
Beginning Fund Balance	$ 3,808,999.43	$ 2,923,486.34	$ 2,945,713.06
Ending Fund Balance	**$ 2,923,486.34**	**$ 2,945,713.06**	**$ 2,778,123.01**
Reserve Balance %	**50.4%**	**61.5%**	**56.7%**
Reserve For Economic Uncertainties (greater of 5% or $66,000)	**$ 290,043.78**	**$ 239,578.62**	**$ 245,002.04**
Unrestricted General Fund Balance after REU	**$ 2,633,442.56**	**$ 2,706,134.44**	**$ 2,533,120.97**

When the BASFP funding is treated as ongoing in each year of FCMAT's projection, deficit spending in the unrestricted resources is present during the 2016-17 fiscal year; however, this deficit is eliminated in the subsequent two years. Districts can often deficit spend in the budget year because of unique circumstances, most of which are based on carryover and/or the receipt of one-time revenue and the timing of expending those funds. Deficit spending occurs when the district's ongoing spending exceeds its revenue in any given year. Deficit spending in a single year is not uncommon; however, a structural deficit presents great concern. A structural deficit occurs when there is a deficit in each year of a multiyear financial projection. A structural deficit can quickly erode a district's fund balance. Deficit spending must be carefully controlled.

This same projection also indicates that the district will have a positive general fund balance at the end of the current and subsequent two fiscal years and meet the minimum reserve requirements.

The following table summarizes the results of FCMAT's MYFP for the unrestricted resources excluding the BASFP in years two and three of the projection:

FCMAT UNRESTRICTED Resource Projection Excluding Basic Aid Supplemental Funding in 2017-18 & 2018-19	Base Year 206-17	Year 1 2017-18	Year 2 2018-19
Revenues	$3,863,435.66	$3,924,452.91	$3,869,987.55
Basic Aid Supplemental Funding		$(1,500,000.00)	$(1,500,000.00)
Expenditures	$3,547,914.73	$3,413,005.08	$3,510,891.98
Excess (Deficiency) of Revenues Over Expenditures	**$315,520.93**	**$(988,552.17)**	**$(1,140,904.43)**
Other Financing Sources/Uses			
Interfund Transfers In	$715,009.35	$556,880.00	$556,880.00
Interfund Transfers Out	1,476,456.60	560,000.00	565,000.00
Contributions	(439,586.77)	(486,101.11)	(518,565.62)
Other Financing Sources/Uses	$(1,201,034.02)	$(489,221.11)	$(526,685.62)
Net Increase (Decrease) in Fund Balance	$(885,513.09)	$(1,477,773.28)	$(1,667,590.05)
Fund Balance			
Beginning Fund Balance	**$3,808,999.43**	**$2,923,486.34**	**$1,445,713.06**
Ending Fund Balance	**$2,923,486.34**	**$1,445,713.06**	**$(221,876.99)**
Reserve Balance %	**50.4%**	**30.2%**	**-4.5%**
Reserve For Economic Uncertainties (greater of 5% or $66,000)	**$290,043.78**	**$239,578.62**	**$245,002.04**
Unrestricted General Fund Balance after REU	**$2,633,442.56**	**$1,206,134.44**	**$(466,879.03)**

When the Basic Aid Supplemental funding is removed from this same projection, a structural deficit develops that quickly erodes reserve balances; by the third year of the projection the district will not meet the reserve requirements. Routine monitoring and a plan to reduce expenditures are essential to ongoing fiscal solvency.

Because there is no guarantee that the district will receive BASFP funding in each subsequent year and that this revenue is committed to the district's ongoing salaries, benefits and other operational costs, additional reserves beyond the recommended minimum should be set aside and designated to cover the costs of these commitments for one fiscal year to ensure reserve balances are not eliminated.

The best defense is to ensure multiyear financial projections are routinely prepared, detailed and updated with the most current known factors. The key to maintaining fiscal solvency is retaining sufficient reserves to allow the district to take correction action should the funding discontinue and developing a detailed plan for expenditure reductions should the need arise. Once the funding circumstances are known, the next steps identified in the district's plan can be followed.

If a district is unable to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district governing board and the SPI. The county office of education must follow Education Code section 42127.6 when 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 in helping 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. Emergency apportionment 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. At Harmony Union, 78.6 percent of the unrestricted budget is composed of salaries and benefits. When the BASFP is removed from revenues in the second year of the projection, this percentage increases to 115.58% exhausting all current year unrestricted revenue sources.

FCMAT's full multiyear financial projection is attached as Appendix B to this report. FCMAT can provide the district with access to Budget Explorer for projection files upon request.

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's nutrition service program is not self-supporting and requires annual contributions from the general fund's unrestricted resources each year. While historical transfers are approximately $50,000 annually, not all salary and benefit expenditures of the nutrition services program are appropriately allocated to this fund. Additionally, indirect costs are not charged against the fund. Therefore, the real deficit of this program has not been determined. FCMAT made a reasonable assessment of the increase in operational expenditures in step/column increases and the application of indirect costs in its projection of the general fund. Consideration of these costs increase dependency on the unrestricted general fund to at least $60,000 and $65,000 in 2017-18 and 2018-19 respectively. This does not include any increased costs relative to allocation and recognition of salaries and benefits currently not allocated to the cafeteria fund.

The district should make certain that all costs attributable to the operation of the child nutrition program are appropriately accounted for in this fund to ensure appropriate program cost accounting. This includes the proper application and charge for indirect costs, which are the allocation of overhead costs supporting operations of the program. Only through proper recognition of all revenue and relative expenditures can the board make informed decisions regarding the goods and services offered by the district.

Special Reserve – Other than Capital Outlay Fund (17)

As of June 30, 2017, the district had $562,047.58 set aside in the special reserve for other than capital outlay fund (17). While the district's multiyear financial projection that accompanied the second interim budget included transfers into the general fund during the two subsequent years of the projection, FCMAT removed those transfers to help provide a clearer picture of the district's structural deficit if the BASFP were to terminate. The balances in this fund serve as an additional safety net of one-time resources that help offset the excess expenditures that result from continued operations in the absence of BASFP funding, but not enough to maintain solvency.

Special Reserve Fund for Postemployment Benefits (20)

The district has set aside funds to provide for the costs of ongoing retiree benefits in this fund. The district's projected June 30, 2017 balance for this fund was $879,000.

Deferred Maintenance Fund (14) and Special Reserve Fund –Capital Outlay (40)

The district has set aside money to provide for the costs of facilities maintenance projects identified in a recent deferred maintenance study. The district contracts with a construction management consultant and opts into the California Uniform Public Construction Cost Accounting (CUPCCA) for public works projects. More information on CUPCCA can be found at www.sco.ca.gov/ard_cuccac.html. Four projects are underway, including roofing, window replacement and painting. Total projected costs attributable to all projects in the study are estimated at $750,000.

Recommendations

The district should:

1. Routinely prepare a detailed MYFP that incorporates detailed assumptions focused on enrollment and ADA changes and considers the potential effect on the unrestricted general fund and the district's ability to meet minimum reserve requirements in the absence of BASFP funds in each given year. This will require the district to maintain designated reserve balances above the state recommended minimum.

2. Develop a fiscal solvency plan or other cost reduction priority list to counteract the fiscal effects of potential funding reductions. This plan should be detailed and identify, in order of priority, specific expenditure reductions and the calculated costs savings of each that the governing board can implement in a timely manner if needed.

3. Ensure that all costs attributable to operation of the child nutrition program and other programs are appropriately recorded in funds and resources appropriate for the activity and ensure appropriate program cost accounting. This includes the proper application and charge for indirect costs.

4. Charge all resources and funds indirect costs at the allowable rate, even if this results in a contribution from the unrestricted general fund.

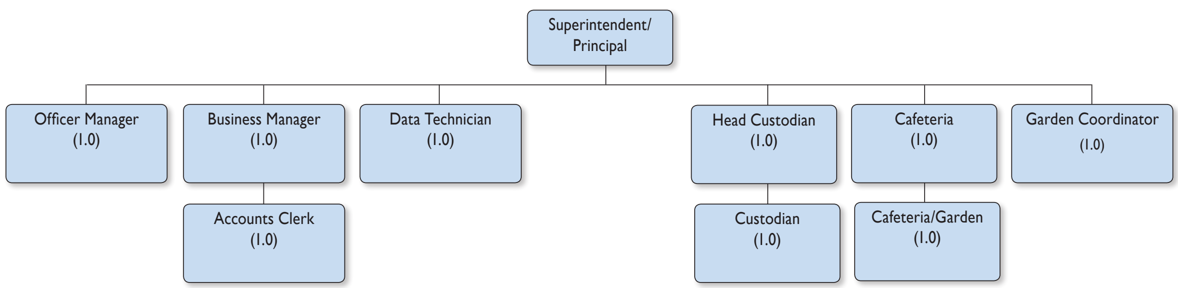
5. Carefully monitor the activity of other funds to ensure the financial impact on the unrestricted general fund in the current and subsequent two years is considered in all multiyear financial projections.

Organizational Structure and Staffing

The district has healthy staffing levels for an educational agency of fewer than 300 students. Salary and benefit costs account for 78.5% of the district's total revenue. Although technically Harmony Elementary and Salmon Creek Charter are two schools, they share one campus, which helps reduce operational expenditures and facility costs.

The district allocates most of the costs of instruction to each school based on the grade level or classroom served by each certificated and classified position. The cost of all other shared positions is allocated between the elementary school and the charter school based on a 20% - 80% split, reasonably consistent with the distribution of students served districtwide.

The following organizational chart depicts the administrative and operations structure of the district as modified for the 2017-18 fiscal year.



The superintendent who initiated and executed the study agreement with FCMAT left the district at the end of the 2016-17 fiscal year. The governing board hired an interim superintendent and began a search for a replacement administrator. Shortly after FCMAT's fieldwork, the governing board elected to discontinue its search for a full-time superintendent and elected to develop a superintendent/principal position, which was filled by the current principal. The governing board also approved a $40,000 contract for administrative support/mentoring services. This change in administrative staffing resulted in a savings in salary and benefit costs of approximately $146,282; $106,282 when the consultant contract is factored in.

Small school districts must often find creative ways to develop positions with combined duties to accomplish the numerous responsibilities of administration. Districts the size of Harmony Union do not commonly divide the administrative leadership position because it is not typically economically viable to staff two full-time administrators. While the district is small, the responsibilities are not. The demands of a combined superintendent/principal position require additional support often obtained by staffing an additional position such as a teacher in charge, teacher on special assignment or through a service contract with the county office. The costs of this support are typically far lower than staffing two full-time administrative positions.

Similar to the administrative leadership, small districts must be creative in how their business offices are staffed. Small districts often find it difficult to have sufficient staff to adequately segregate duties in the business office in ways that ensure proper internal control is established. Harmony Union is fortunate to have a realistic administrative staffing structure for the required level of work that must be performed; however, it is staffed with more positions overall than most LEAs of this size mostly due to financial constraints.

The instructional and pupil support functions are also well staffed. The district has the following staff:

- Counselor (1.0+ FTE)
- Library Technician (1.0 FTE)
- Teachers (17.0 FTE)
- Paraprofessionals/instructional aides (8.72 FTE)
- Hourly tutoring (.15 FTE)

Interviews with the former superintendent and district staff indicated that class sizes are intentionally loaded at or under 20-to-1 in grades TK-2 and 23-32 in grades 3-8. While extremely beneficial to the classroom setting and delivery of instruction, staffing levels in grades TK-3 are unsustainable under the state's established maximum of 24-to-1 for most districts. It was widely acknowledged that under the former class size reduction model, funding received for class loading at ratios of 20-to-1 was insufficient to offset related salary and benefit costs.

Further, the district incurs additional costs for every student enrolled in a classroom exceeding set class load levels as follows:

- TK-1 20 students not to exceed 25
- 2-3 22 students not to exceed 27
- 4-8 26 students not to exceed 32

When class sizes exceed the lowest end of the established allowable loading, teachers are compensated with an additional $6 per student per day for self-contained classes and $3 per day for departmentalized classes. Further, the collective bargaining unit and the district agreed that when the class sizes reach the upper limit of class loading, a new class will be formed unless other accommodations are agreed to. The only adjustment time provided to the district in this agreement is at the first 10 days of the school year. When class loads are at 20-22 in grades TK-3, this severely limits the district's ability to make thoroughly considered decisions on staffing and student placement without financial impact.

The district has historically staffed one .872 FTE paraprofessional/instructional aid in each classroom. This is generous staffing compared to what is commonly economically viable or sustainable unless it is identified as a priority in the district's Local Control and Accountability Plan (LCAP) and funded through supplemental and concentration grant funding. Harmony Union receives no concentration grant funding.

Recommendation

The district should:

1. Evaluate all staffing levels in all areas of the district as a whole. Identify the district's requirements, critical functions and needs to establish a baseline for each operational and instructional area and better evaluate staffing levels against priorities.

Operational Processes and Procedures

While it is often difficult for small school districts to ensure proper segregation of duties are established for core business functions, Harmony Union is well staffed and maintains a reasonable separation of duties to ensure proper internal controls.

Typical responsibilities centralized in a district business office are distributed among four positions in HUSD. The district business manager (1.0 FTE) oversees the overall operation of the district's business services; directs the maintenance of employee personnel/payroll records; develops the district's budget and prepares interim revisions; performs all financial accounting and state reporting activities and fiscal management of the district's facilities projects.

Under the business manager's supervision, the accounts clerk (1.0 FTE) is responsible for many routine accounting activities including accounts payable, accounts receivable, payroll and payroll tax reporting, student body accounting, cafeteria and clearing accounts and some human resources activities including the preparation of annual employee pay and health and welfare benefit deduction calculations.

The office manager position (1.0 FTE) serves as the primary point of first contact in the school office. Responsibilities include enrolling students, attendance collection and support activities, procuring substitutes, printing report cards, coordinating school communications and serving as the schools' health technician under the direction of the school nurse.

The data technician (1.0 FTE) has responsibilities that are divided between child nutrition and data management and reporting. This position supports the child nutrition program by providing morning supervision of students, typing menus, collecting and entering into the student information system (SIS) data relative to the National School Lunch Program, preparing and submitting Child Nutrition Information and Payment System (CNIPS) claims, preparing and entering into the financial system cafeteria deposits and helping in the snack shop. This position also annually sets up and maintains the SIS, performs all duties associated with California Longitudinal Pupil Achievement Data System (CALPADS) reporting and all state attendance reporting. While a great deal of this position is concentrated on the activities of the district's child nutrition fund, no salary and benefit costs are allocated to that cost center; therefore, the true cost of operations are understated.

The district staffs 2.0 FTE custodial positions, one serving as the head custodian. These two positions are responsible for the maintenance and cleanliness of all district facilities. The costs of these two positions are coded solely to operations (custodial), although a portion of their salary and benefits could be coded to the district's routine restricted maintenance account (resource 8150). As mentioned earlier in this report, the district is required to set aside up to 3% of its total general fund expenditures and transfers out into this resource as a condition of receiving modernization/facility funding from the state. The purpose of this set-aside is to ensure districts have resources to maintain the facilities once they have been improved or constructed. Allowable expenditures of resource 8150 could include the portion of salaries and benefits for these two positions that can be attributed to the work performed that is related to maintenance rather than custodial duties.

The district is composed of a large forested area that requires trail clearing and poison oak removal. It has historically engaged additional contracted help to manage this work.

The district operates a scratch-cooking based child nutrition meal program that incorporates the produce cultivated on a 1.5 acre working garden. This garden is also used as an instructional setting for students who learn about horticulture and earth sciences. The district staffs 1.0 FTE head of cafeteria and nutrition program position. This position is responsible for the development of menus, state and federal meal program compliance and all operations of the child nutrition program. The position is supported by a 1.0 FTE cafeteria/garden liaison position that assists with nutrition program duties including preparation, serving and cleanup. This position also collaborates with the department head and school garden coordinator on matters involving the schools' working farm and the nutrition program. One FTE garden coordinator position is responsible for the overall management of the district's working garden.

FCMAT's review of salary and benefit coding identified a number of positions whose account code classification for the work performed did not coincide with guidance provided in the California School Accounting Manual (CSAM). Each component of the account code structure serves a specific purpose and often contributes to other calculations, including the determination of the district's allowable indirect cost rate, maintenance of effort requirements, allowable program costs and state reporting and comparison data. It is essential that districts follow the guidance provided in the CSAM for each position and ensure that salary and benefit coding is appropriately applied to budgets and financial transactions. Furthermore; when allowable costs are not properly allocated to other funds and programs, the governing board's ability to analyze the viability of that program and/or future expenditures is drastically limited because the true picture of a program's cost is not provided.

Cash Collections

The data technician and administrative assistant manage the duties involved in receiving cash. Most cash received by the district is for the child nutrition program. For meal sales, the administrative assistant uses a manual checklist to record all student meals served each day. The data technician then scans the meals noted as served on this sheet into the student information system, Schoolwise. Parents can pay in advance on student accounts and/or students are permitted to charge meals to their student account. The data technician produces and mails statements to parents from the SIS at the beginning of each month.

The administrative assistant collects payments for student accounts for the child nutrition program; daily collections are placed in a deposit bag, each with a note identifying the payment and the student account it should be applied to. If the payment is made in cash, the assistant writes the amount on the note as well. The administrative assistant also records all payments on a daily cash collections log. Although the district has receipt books, staff informed FCMAT that the auditors advised them not to use a receipt book for food service payments. This likely referred to daily individual student payments not parent payments on account. All payments on account should be recorded using prenumbered, preprinted receipt books and those receipts should accompany the cash collection logs. The daily cash collection log is attached with the weekly deposit.

The data technician prepares the weekly deposits for nutrition services, the accounts clerk verifies the deposit documentation; preparation and review are both acknowledged by signature. The accounts clerk prepares the deposit for general cash collections. Copies of checks and daily cash collection sheets are attached to each deposit. The accounts clerk makes all bank deposits; separate accounts are maintained for child nutrition and general clearing. Account balances are transferred to the county treasurer's office and deposited into appropriate funds monthly. The accounts clerk also prepares all bank reconciliations; no secondary review is performed.

To establish effective internal control, the duties associated with receiving cash, preparing deposits, taking deposits to the bank, recording deposits in the financial system and preparing bank reconciliations should be segregated. Small school districts often cannot afford to staff administrative offices sufficiently to achieve ideal segregation. In such cases, the district should implement alternative control activities that require actions by a second party to complete any given process. Such alternative controls includes secondary review and approval of work.

Human Resources, Position Control and Payroll

A strong position control system provides for the establishment of positions by site/department and is meant to prevent overbudgeting or underbudgeting salaries and benefits for board-authorized positions. An effective position control 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. Ideally, the position control system is integrated with other financial system modules such as budget development and payroll.

The district utilizes the Escape software for financial accounting and reporting. This financial system is an integrated software that includes human resources, position control, finance, budget and payroll. However, the district uses basic spreadsheets instead of the position control module for projecting salaries and benefits. This is not uncommon for small districts, but is not ideal because these spreadsheets are cumbersome to maintain and subject to user entry and calculation errors.

Significant inefficiencies exist in the area of benefit management as the district offers multiple health and welfare plan offerings to employees of each bargaining unit; each with different coverage arrangements. Premiums for each plan offered are also based on differing percentages of tiered rates, single, two-party and family. Additionally, employees are able to opt out of coverage and receive a portion of the eligible coverage premiums as compensation. Managing these benefit offerings is time intensive, inefficient and subject to errors in manual calculations. Greater efficiencies could be obtained if plan offerings were universal across all employee groups and managed within an integrated position control system. The district should also evaluate the options of moving to a composite rate structure to determine, if based on the employee population, cost savings could be obtained; this may require an overall restructure of plan offerings since the district currently offers benefit packages through Kaiser and SISC. This undertaking would also require collaboration with the districts bargaining units.

Purchasing and Accounts Payable

The district accounts clerk is responsible for most of the tasks related to purchasing, receiving and accounts payable. The district utilizes a paper requisition that is completed by the requesting party and is forwarded to the principal for approval. Once approved, the accounts clerk prepares a paper purchase order, and assigns the account code based on the items being purchased. Before the change in administrative leadership, purchase orders were forwarded to the superintendent for final approval. Once approved, the accounts clerk places the orders by forwarding purchase orders to the vendor.

The accounts clerk is also responsible for receiving all deliveries and marks off items received on the purchase order when packing slips are not available or provided. On occasion, the accounts clerk will rely on the requesting party of the order to review the content of goods received and sign off on packing slips. Receiving documentation is filed with the business office copy of the purchase order until the invoice is received for payment.

The accounts clerk is also responsible for processing vendor payments through the accounts payable system. Batches are prepared weekly and reviewed by the business manager prior to processing. The business manager reviews the budget availability and makes budget transfers as necessary. The business manager signs off on accounts payable prelists before the county office processes batches. Warrants are printed at the county office and picked up by the accounts clerk; at times they are delivered by district courier.

The accounts clerk reviews the warrants for payment accuracy against the vendor payment packages, mails warrants and files complete payment packets by vendor. The segregation of duties of the procurement and accounts payable functions presents some internal control weaknesses. No single individual should be solely responsible for establishing new vendors, procuring items and making vendor payments. Although a few controls add a secondary party to the process, internal control could be improved by simply assigning a secondary party for receiving all deliveries, picking up/receiving warrants from the county office and checking them against vendor payment documentation and mailing vendor payments. Each of these tasks should be performed by a different person who is not assigned other duties in the process such as the administrative assistant and data technician positions.

Because the district does not utilize the automated purchase order system, budget monitoring and encumbrance tracking capability is lost; the district does not track purchase orders after issuance. The business manager prepares and maintains a crosswalk between budget and the Local Control Accountability Plan, but expenditures are not tracked in the automated financial system. Use of district defined codes available within the district's automated financial system may provide greater efficiencies in correlating expenditures with the goals and actions identified in the district's LCAP.

The district uses credit cards for some purchases where purchase orders are not feasible. Four cards are issued to the principal, superintendent, data technician and business manager. The card issued to the business manager is utilized to secure travel reservations when necessary. Other cards are primarily used for purchases relative to travel or online vendors such as Amazon. Approved purchase requisitions are required for all credit card purchases.

Cross Training

While some positions work collaboratively, there is little cross training to ensure adequate coverage for each position in the administrative offices. Lack of adequate backup for each essential task in the absence of an assigned employee leaves the district vulnerable to work stoppage or delays. This can result in missed deadlines; some of which may result in a negative financial consequence.

Operational Policy and Procedures

Board policies and administrative regulations are customarily based on laws and regulations in numerous documents, including the California Constitution, Education Code, California Code of Regulations and Government Code, federal regulations, Internal Revenue Code, case law, and industry practice. Board policies and regulations provide guidelines and directives for district operation and for its personnel to follow and are a key component of internal controls. It is important to ensure the board policies are developed, implemented, monitored and routinely updated to reflect changes in legislation.

While the governing board is responsible for establishing board policy and administrative regulations, management is responsible for designing and implementing operational procedures, including the development of a system of internal control. This system should provide reasonable assurance that fraud, misappropriation of funds or other illegal acts are prevented or detected through normal operating procedures and corrected in a timely manner.

The district subscribes to the California School Boards Association Gamut board policy and administrative regulation services. District staff report that most policies are adopted as designed in Gamut without any further tailoring to district specific criteria or requirements.

The district does not maintain documented operational policy and procedures or desk reference manuals. No operational policy is established for travel and conference, employee reimbursement, and/or credit card use. Operating procedures should be developed with careful consideration of actions that protect the district's assets, including cash, from misuse or fraud.

Recommendations

The district should:

1. Review CSAM guidance for the allocation of salaries and benefits for all positions and ensure appropriate object codes are used for each position and that salaries and benefits are appropriately distributed to the programs and funds applicable to the percentage of time performing those duties
2. Issue receipts for all cash collections, except daily cash collections for individual meals, using prenumbered, preprinted receipt books, and attach one duplicate copy with the cash collection logs that accompany deposit documentation.
3. Segregate the duties for cash collection, bank deposit preparation and bank account reconciliations.
4. Implement a secondary review of all bank reconciliations.
5. Implement the automated position control system available in the Escape software.
6. Implement the automated purchase order system integrated with the district's financial system software to improve expenditure tracking and budget monitoring.\Segregate the duties of receiving delivery of goods, receiving accounts payable warrants, verifying vendor warrants to accounts payable documentation and mailing warrants to vendors.
7. Consider developing a district defined code for tracking expenditures within the financial system that correlates them to the goals established and described in the district's Local Control Accountability Plan.
8. Implement cross training for each position in the administrative offices to ensure essential tasks can be completed in the absence of an assigned employee.
9. Develop and implement a credit card use policy and require each authorized cardholder to acknowledge receipt of the policy annually.

10. Ensure board policy is routinely reviewed and updated. Policy developed using subscription sources should be reviewed and tailored to meet the unique needs of the district and/or requirements established by the governing board.

11. Develop and document operational policy and procedures for each significant business function and/or activity. Standard operating procedures for each major task or designated responsibility of each administrative position in the business office should provide a step-by-step guide for the performance of required tasks. The focus should be on the tasks related to district business activities and the school office including accounting activities, cash handling, procurement, attendance, accounts payable, payroll, personnel, budget development and financial management activities.

12. Collaboratively evaluate the opportunity to modify existing health benefit structure and plan offerings to establish universal plan offerings across all employee groups. Evaluate the options of moving to a composite rate structure to determine if, based on the employee population, cost savings could be obtained; this may require an overall restructure of plan options as the district currently offers benefit packages through Kaiser and SISC.

13. Work towards implementing the position control module integrated with the ESCAPE system and manage all health benefit elections using this module.

Appendices

A: SSC Dartboard

B: FCMAT MYFP

C: Study Agreement

Appendix A -SSC Dartboard

5-53

SSC School District and Charter School Financial Projection Dartboard
2017-18 May Revision

This version of SSC's Financial Projection Dartboard is based on the 2017-18 May Revision. We have updated the Local Control Funding Formula (LCFF) factors. We have also updated the cost-of-living adjustment (COLA), Consumer Price Index (CPI), and ten-year T-bill planning factors per the latest economic forecasts. We rely on various state agencies and outside sources in developing these factors, but we assume responsibility for them with the understanding that they are general guidelines.

LCFF ENTITLEMENT FACTORS

Entitlement Factors per ADA	K-3	4-6	7-8	9-12
2016-17 Base Grants	$7,083	$7,189	$7,403	$8,578
COLA at 1.56%	$110	$112	$115	$134
2017-18 Base Grants	$7,193	$7,301	$7,518	$8,712

Entitlement Factors per ADA	K-3	4-6	7-8	9-12
2017-18 Base Grants	$7,193	$7,301	$7,518	$8,712
Grade Span Adjustment Factors	10.4%	-	-	2.6%
Grade Span Adjustment Amounts	$748	-	-	$227
2017-18 Adjusted Base Grants	$7,941	$7,301	$7,518	$8,939
Supplemental Grants (% Adj. Base)	20%	20%	20%	20%
Concentration Grants	50%	50%	50%	50%
Concentration Grant Threshold	55%	55%	55%	55%

LCFF DARTBOARD FACTORS

Factor	2016-17	2017-18	2018-19	2019-20	2020-21
LCFF Planning Factors	SSC Simulator	SSC Simulator	SSC Simulator[2]	SSC Simulator[2]	SSC Simulator[2]
SSC Gap Funding Percentage	55.03%	43.97%	39.03%	41.51%	44.07%
Department of Finance Gap Funding Percentage	55.03%	43.97%	71.53%	73.51%	100.00%
Gap Funding Percentage[1] (May Revise)	54.84%	43.97%	–	–	–

PLANNING FACTORS

Factor		2016-17	2017-18	2018-19	2019-20	2020-21
Statutory COLA		0.00%	1.56%	2.15%	2.35%	2.57%
COLA on state and local share only of Special Education, Child Nutrition, Foster Youth, Preschool, American Indian Education Centers/American Indian Early Childhood Education		0.00%	1.56%	2.15%	2.35%	2.57%
California CPI		2.50%	3.11%	3.19%	2.86%	2.97%
Interest Rate for Ten-Year Treasuries		2.20%	2.67%	2.90%	3.05%	3.00%
California Lottery	Unrestricted per ADA	$144	$144	$144	$144	$144
	Restricted per ADA	$45	$45	$45	$45	$45
Mandate Block Grant (District)	Grades K-8 per ADA	$28.42	$28.42	$28.42	$28.42	$28.42
	Grades 9-12 per ADA	$56	$56	$56	$56	$56
Mandate Block Grant (Charter)	Grades K-8 per ADA	$14.21	$14.21	$14.21	$14.21	$14.21
	Grades 9-12 per ADA	$42	$42	$42	$42	$42
One-Time Discretionary Funds per ADA		$214	$170[3]	–	–	–
CalPERS Employer Rate (projected)		13.888%	15.531%	18.1%	20.8%	23.8%
CalSTRS Employer Rate (statutory)		12.58%	14.43%	16.28%	18.13%	19.10%

RESERVES

State Reserve Requirement	District ADA Range	Reserve Plan
The greater of 5% or $66,000	0 to 300	SSC recommends one year's increment of planned revenue growth
The greater of 4% or $66,000	301 to 1,000	
3%	1,001 to 30,000	
2%	30,001 to 400,000	
1%	400,001 and higher	

[1] Either this percentage or the final State Budget gap percentage can be used for calculating movement toward class sizes of 24:1 at grades transitional kindergarten-3.

[2] For the forecast years, the total dollar amount needed to fund the statutory COLA is applied to the SSC LCFF Simulator.

[3] Amount is not eligible for receipt until May 2019, and LEAs should exclude from their budget and multiyear projection.

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Appendix B -FCMAT MYFP

COMBINED	Object Code	Base Year 2016 - 17	Year 1 2017 - 18	Year 2 2018 - 19
Revenues				
LCFF Sources	8010 - 8099	$ 3,715,659.98	$ 3,815,398.98	$ 3,794,548.98
Federal Revenue	8100 - 8299	108,560.00	108,378.00	108,378.00
Other State Revenue	8300 - 8599	190,289.72	253,396.16	167,923.44
Other Local Revenue	8600 - 8799	215,055.99	189,522.92	190,241.97
Revenues		**$ 4,229,565.69**	**$ 4,366,696.06**	**$ 4,261,092.39**
Expenditures				
Certificated Salaries	1000 - 1999	$ 1,485,508.76	$ 1,329,346.03	$ 1,355,332.96
Classified Salaries	2000 - 2999	739,404.52	695,430.61	723,247.83
Employee Benefits	3000 - 3999	1,095,314.96	1,073,184.30	1,138,222.18
Books and Supplies	4000 - 4999	119,640.31	124,758.60	112,023.05
Services and Other Operating	5000 - 5999	885,559.10	1,009,643.09	1,007,177.86
Capital Outlay	6000 - 6900	6,718.55	6,718.55	6,718.55
Other Outgo	7000 - 7299	-	-	-
Direct Support/Indirect Cost	7300 - 7399	(7,727.25)	(7,508.70)	(7,681.67)
Debt Service	7400 - 7499	-	-	-
Expenditures		**$ 4,324,418.95**	**$ 4,231,572.48**	**$ 4,335,040.76**
Excess (Deficiency) of Revenues Over Expenditures		**$ (94,853.26)**	**$ 135,123.58**	**$ (73,948.37)**
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$ 715,009.35	$ 556,880.00	$ 556,880.00
Interfund Transfers Out	7600 - 7629	1,476,456.60	560,000.00	565,000.00
All Other Financing Sources	8930 - 8979	-	-	-
All Other Financing Uses	7630 - 7699	-	-	-
Contributions	8980 - 8999	-	-	-
Other Financing Sources/Uses		**$ (761,447.25)**	**$ (3,120.00)**	**$ (8,120.00)**
Net Increase (Decrease) in Fund Balance		**$ (856,300.51)**	**$ 132,003.58**	**$ (82,068.37)**
Fund Balance				
Beginning Fund Balance	**9791**	**$ 3,903,875.41**	**$ 3,047,574.90**	**$ 3,179,578.48**
Ending Fund Balance	**9799**	**$ 3,047,574.90**	**$ 3,179,578.48**	**$ 3,097,510.11**

UNRESTRICTED	Object Code	Base Year 2016 - 17	Year 1 2017 - 18	Year 2 2018 - 19
Revenues				
LCFF Sources	8010 - 8099	$ 3,692,863.98	$ 3,792,602.98	$ 3,771,752.98
Federal Revenue	8100 - 8299	-	-	-
Other State Revenue	8300 - 8599	86,310.49	73,121.81	38,787.40
Other Local Revenue	8600 - 8799	84,261.19	58,728.12	59,447.17
Revenues		**$ 3,863,435.66**	**$ 3,924,452.91**	**$ 3,869,987.55**
Expenditures				
Certificated Salaries	1000 - 1999	$ 1,355,912.11	$ 1,205,702.15	$ 1,229,216.20
Classified Salaries	2000 - 2999	725,896.46	681,922.55	709,199.45
Employee Benefits	3000 - 3999	953,001.66	914,555.38	963,418.43
Books and Supplies	4000 - 4999	115,221.99	120,091.99	107,100.15
Services and Other Operating	5000 - 5999	437,386.24	531,233.69	542,286.41
Capital Outlay	6000 - 6900	-	-	-
Other Outgo	7000 - 7299	-	-	-
Direct Support/Indirect Cost	7300 - 7399	(39,503.73)	(40,500.68)	(40,328.66)
Debt Service	7400 - 7499	-	-	-
Expenditures		**$ 3,547,914.73**	**$ 3,413,005.08**	**$ 3,510,891.98**
Excess (Deficiency) of Revenues Over Expenditures		**$ 315,520.93**	**$ 511,447.83**	**$ 359,095.57**
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$ 715,009.35	$ 556,880.00	$ 556,880.00
Interfund Transfers Out	7600 - 7629	1,476,456.60	560,000.00	565,000.00
All Other Financing Sources	8930 - 8979	-	-	-
All Other Financing Uses	7630 - 7699	-	-	-
Contributions	8980 - 8999	(439,586.77)	(486,101.11)	(518,565.62)
Other Financing Sources/Uses		**$ (1,201,034.02)**	**$ (489,221.11)**	**$ (526,685.62)**
Net Increase (Decrease) in Fund Balance		**$ (885,513.09)**	**$ 22,226.72**	**$ (167,590.05)**
Fund Balance				
Beginning Fund Balance	**9791**	**$ 3,808,999.43**	**$ 2,923,486.34**	**$ 2,945,713.06**
Ending Fund Balance	**9799**	**$ 2,923,486.34**	**$ 2,945,713.06**	**$ 2,778,123.01**
Reserve Balance %		50.4%	61.5%	56.7%
Reserve For Economic Uncertainties (greater of 5% or $66,000)		$ 290,043.78	$ 239,578.62	$ 245,002.04
		$ 2,633,442.56	$ 2,706,134.44	$ 2,533,120.97

RESTRICTED	Object Code	Base Year 2016 - 17	Year 1 2017 - 18	Year 2 2018 - 19
Revenues				
LCFF Sources	8010 - 8099	$ 22,796.00	$ 22,796.00	$ 22,796.00
Federal Revenue	8100 - 8299	108,560.00	108,378.00	108,378.00
Other State Revenue	8300 - 8599	103,979.23	180,274.35	129,136.04
Other Local Revenue	8600 - 8799	130,794.80	130,794.80	130,794.80
Revenues		**$ 366,130.03**	**$ 442,243.15**	**$ 391,104.84**
Expenditures				
Certificated Salaries	1000 - 1999	$ 129,596.65	$ 123,643.88	$ 126,116.76
Classified Salaries	2000 - 2999	13,508.06	13,508.06	14,048.38
Employee Benefits	3000 - 3999	142,313.30	158,628.92	174,803.75
Books and Supplies	4000 - 4999	4,418.32	4,666.61	4,922.90
Services and Other Operating	5000 - 5999	448,172.86	478,409.40	464,891.45
Capital Outlay	6000 - 6900	6,718.55	6,718.55	6,718.55
Other Outgo	7000 - 7299	-	-	-
Direct Support/Indirect Cost	7300 - 7399	31,776.48	32,991.98	32,646.99
Debt Service	7400 - 7499	-	-	-
Expenditures		**$ 776,504.22**	**$ 818,567.40**	**$ 824,148.78**
Excess (Deficiency) of Revenues Over Expenditures		**$ (410,374.19)**	**$ (376,324.25)**	**$ (433,043.94)**
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$ -	$ -	$ -
Interfund Transfers Out	7600 - 7629	-	-	-
All Other Financing Sources	8930 - 8979	-	-	-
All Other Financing Uses	7630 - 7699	-	-	-
Contributions	8980 - 8999	439,586.77	486,101.11	518,565.62
Other Financing Sources/Uses		**$ 439,586.77**	**$ 486,101.11**	**$ 518,565.62**
Net Increase (Decrease) in Fund Balance		**$ 29,212.58**	**$ 109,776.86**	**$ 85,521.68**
Fund Balance				
Beginning Fund Balance	**9791**	**$ 94,875.98**	**$ 124,088.56**	**$ 233,865.42**
Ending Fund Balance	**9799**	**$ 124,088.56**	**$ 233,865.42**	**$ 319,387.10**

Appendix C - Study Agreement

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

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
April 5, 2017

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

1. BASIS OF AGREEMENT

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

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

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

1. Review the district's 2016-17 general fund budget and develop a multiyear financial projection (MYFP) for the current and two subsequent fiscal years to validate the district's financial status. Make recommendations for expenditure reductions and/or revenue enhancements to help the district eliminate its structural budget deficit and maintain financial solvency. The MYFP will be a snapshot in time of the current financial status and will use the district's 2016-17 second interim report as the baseline. The MYFP will be developed as a trend based on certain criteria and assumptions instead of a prediction of exact numbers. It will be developed for the district's general fund and will include the review and fiscal impact of other funds on the general fund.

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2. Conduct an organizational and staffing review of the district's central office and make recommendations for staffing improvements, if any. The positions reviewed will include:

   - Superintendent
   - Principal
   - Business manager
   - Business clerk
   - Office manager
   - Data clerk

3. Review operational processes and procedures for the functions assigned to the administrative and clerical central office personnel listed above and make recommendations for improved efficiency, if any.

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 study team will be supervised by Michael H. Fine, Chief Administrative Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

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

4. **PROJECT COSTS**

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

A. $650 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 $14,900.

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

Payments for FCMAT's services are payable to Kern County Superintendent of Schools - Administrative Agent.

5. **RESPONSIBILITIES OF THE DISTRICT**

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

B. The district will provide the following if requested:

1. Policies, regulations and prior reports that address the study scope.
2. Current or proposed organizational charts.
3. Current and two prior years' audit reports.
4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic

format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in electronic format.

5. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date and/or completion date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository, where the district will upload all requested documents.

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

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

6. **PROJECT SCHEDULE**

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

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

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

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

8. **INDEPENDENT CONTRACTOR**

FCMAT is an independent contractor and is not an employee or engaged in any manner with the district. The manner in which FCMAT's services are rendered shall be within its sole control and discretion. FCMAT representatives are not authorized to speak for, represent, or obligate the district in any manner without prior express written authorization from an officer of the district.

9. **INSURANCE**

During the term of this agreement, FCMAT shall maintain liability insurance of not less than $1 million unless otherwise agreed upon in writing by the district, automobile liability insurance in the amount required under California state law, and workers compensation as required under California state law. FCMAT shall provide certificates of insurance, with Harmony Union 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: Rachael Maves
Telephone: (707) 874-1205
E-mail: Rmaves@harnmonyusd.org

4-21-17

Rachael Maves, Superintendent — Date
Harmony Union School District

April 5, 2017

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