

RESPONSE TO GRAND JURY REPORT

Report Title: Leadership and Management of the Southern Humboldt Joint Unified School District

Report Date: 08-07-2020

Response by: Chris Hartley, Ed.D. **Title:** Humboldt County Superintendent of Schools
and on behalf of the Humboldt County Board of Education

FINDINGS

1. I (we) agree with the findings numbered: _____
2. I (we) disagree wholly or partially with the findings numbered : F-8, F-9
(Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons.)

RECOMMENDATIONS

1. Recommendations numbered R-7 have been implemented.
(Fully implemented and ongoing. Summary is attached.)
2. Recommendations numbered _____ have not yet been implemented, but will be implemented in the future.
(Attach a timeframe for the implementation.)
3. Recommendations numbered R-8 require further analysis.
(This Grand Jury recommendation is based on conditions. Analysis is currently in process. Outcomes may result in either action or no action. Summary is attached).
4. Recommendations numbered _____ will not be implemented because they are not warranted or are not reasonable.
(Attach an explanation.)

Date : 08/07/2020

Number of pages attached: 18

Signed 
Humboldt County Superintendent of Schools

RESPONSE TO GRAND JURY REPORT

By
HUMBOLDT COUNTY OFFICE OF EDUCATION and on behalf of the
HUMBOLDT COUNTY BOARD OF EDUCATION

Title:
Leadership and Management of the Southern Humboldt Joint Unified School District

August 7, 2020

Completed by:
Chris Hartley, Ed.D.
Humboldt County Superintendent of Schools

GRAND JURY FINDINGS:

F-8: The Humboldt County Board of Education is required to provide oversight to school district budgets and intervene preemptively when necessary. Southern Humboldt Unified School District may be in need of intervention (R-7,8)

Respectfully, the Grand Jury's finding is incorrect. The Humboldt County Board of Education is not required to provide oversight to school district budgets and intervene preemptively when necessary. That is a requirement of the county superintendent of schools which has consistently exercised those duties in accordance with the law.

The duties and responsibilities of a county board of education are limited and described in California Education Code section (E.C.) 1040.

The general duties of the county superintendent of schools is described in E.C. 1240. Specifics as to the county superintendent's role and responsibilities regarding oversight of school district budgets and providing assistance and intervention when necessary are described in E.C. 1240(b), 1240(e), 1241.5, 33127, 41020, 41020.2, 41020.5, 42100, 42127, 42127.1, 42127.2, 42127.3, 42127.6, 42128, 42638(b), 52070 and California Government Code sections 3540.2 and 3547.5, among other provisions.

The standard process for county superintendent of schools to review school district budgets and provide necessary intervention is outlined and summarized in the Fiscal Oversight Guide, published by the state's Fiscal Crisis and Management Assistance Team (FCMAT) and available at https://www.fcmat.org/PublicationsReports/Fiscal_Oversight_Guide_final_11-8-2019.pdf. FCMAT also provides professional development for county superintendent of schools' staff. Five appropriate staff of the Humboldt County Superintendent of Schools attended such training in Sonoma County on October 23, 2019.

F-9: Establishment of a Charter school through the Humboldt County Board of Education will have a negative financial impact on Southern Humboldt Unified School District (R-8,8)

Respectfully, the Grand Jury’s finding is inconsistent with California law. The California legislature established the Charter Schools Act of 1992 (Act), which has been amended from time to time. The provisions of the Act are delineated in E.C. 47600 et seq. Two of the most comprehensive amendments to the Act were in 2019. Senate Bill 126 (Chapter 3/ 2019) added clarity as to certain transparency and disclosure obligations of charter schools. Assembly Bill (AB) 1505 (Chapter 486 / 2019) revised and added major provisions relative to the role of county boards of education hearing charter school petition appeals, reasons for denial of petitions and determination of fiscal impact. Most AB 1505 provisions were effective July 1, 2020. For charter petitions approved prior to July 1, 2020 the long-standing rules applied.

Specific to the Grand Jury’s improper conclusions is E.C. 47605, as it read before July 1, 2020. E.C. 47605 provided that a charter petition could only be denied for six reasons. Fiscal impact on the local school district was not among those six reasons. E.C. 47605(b), as it read prior to July 1, 2020, provided, in part, the following:

[...] In reviewing petitions for the establishment of charter schools pursuant to this section, the chartering authority shall be guided by the intent of the Legislature that charter schools are and should become an integral part of the California educational system and that the establishment of charter schools should be encouraged. The governing board of the school district shall grant a charter for the operation of a school under this part if it is satisfied that granting the charter is consistent with sound educational practice. The governing board of the school district shall not deny a petition for the establishment of a charter school unless it makes written factual findings, specific to the particular petition, setting forth specific facts to support one or more of the following findings:

- (1) The charter school presents an unsound educational program for the pupils to be enrolled in the charter school.
- (2) The petitioners are demonstrably unlikely to successfully implement the program set forth in the petition.
- (3) The petition does not contain the number of signatures required by subdivision (a).
- (4) The petition does not contain an affirmation of each of the conditions described in subdivision (d).
- (5) The petition does not contain reasonably comprehensive descriptions of all of the following:

[...]

- (6) The petition does not contain a declaration of whether or not the charter school shall be deemed the exclusive public employer of the employees of the charter school for purposes of Chapter 10.7 (commencing with Section 3540) of Division 4 of Title 1 of the Government Code.

(Emphasis added.)

E.C. 47605(b)(5) goes on to provide numerous subjects that the petition must include.

Petitions denied by a school district may be appealed to the county board of education. This was the case in the Grand Jury's review. County boards of education are obligated to follow the same requirements as noted above for school districts. Specifically, E.C. 47605(j)(1) provides the following:

If the governing board of a school district denies a petition, the petitioner may elect to submit the petition for the establishment of a charter school to the county board of education. The county board of education shall review the petition pursuant to subdivision (b). If the petitioner elects to submit a petition for establishment of a charter school to the county board of education and the county board of education denies the petition, the petitioner may file a petition for establishment of a charter school with the state board, and the state board may approve the petition, in accordance with subdivision (b). A charter school that receives approval of its petition from a county board of education or from the state board on appeal shall be subject to the same requirements concerning geographic location to which it would otherwise be subject if it received approval from the school district to which it originally submitted its petition. A charter petition that is submitted to either a county board of education or to the state board shall meet all otherwise applicable petition requirements, including the identification of the proposed site or sites where the charter school will operate.

(Emphasis added.)

The default is that charter school petitions be approved. The Education Code limits the reasons why a charter petition may be denied. The reasons for denial are the same whether it is a school district considering an initial petition, or a county board of education considering a petition on appeal. Fiscal impact on the school district was not consideration nor was it an allowed reason to deny a charter petition through June 30, 2020.

As noted, AB 1505 revised E.C. 47605 effective July 1, 2020. One of the revisions was to expand the reasons a petition can be denied. Included in this expansion is "consideration of the fiscal impact of the proposed charter" [E.C. 47605(c)(7)] and E.C. 47605(c)(8) which provides:

The school district is not positioned to absorb the fiscal impact of the proposed charter school. A school district satisfies this paragraph if it has a qualified interim certification pursuant to Section 42131 and the county superintendent of schools, in consultation with the County Office Fiscal Crisis and Management Assistance Team, certifies that approving the charter school would result in the school district having a negative interim certification pursuant to Section 42131, has a negative interim certification pursuant to Section 42131, or is under state receivership. Charter schools proposed in a school district satisfying one of these conditions shall be subject to a rebuttable presumption of denial.

(Emphasis added.)

If the changes in E.C. 47605 were effective when Agnes J. Johnson Charter School petition was filed, SHUSD and the Humboldt County Board of Education would still not have been able to deny the charter petition based on fiscal impact because SHUSD did not meet any of the three conditions provided above. SHUSD did not have either a qualified or negative interim certification pursuant to Section 42131, or was it under state receivership.

Pursuant to E.C. 42131:

- A qualified certification shall be assigned to any school district that, based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.
- A negative certification shall be assigned to any school district that, based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

As a point of reference, currently among California's 1,100 school districts, there are 41 qualified certifications and four negative certifications.

Furthermore, the recently adopted education omnibus trailer bill [Senate Bill 98 (Chapter 24 / 2020), Section 34, E.C. 43502(b)] to implement the state budget for school districts, county offices of education and charter schools provides for 2020-21, as a result of COVID-19, a hold harmless and appropriates funds to California's K12 education system on average daily attendance from 2019-20 (the prior year). As such for 2020-21, SHUHSD would not suffer a loss in state funding if their student attendance was reduced due to the opening of a new charter school.

R-7: The Humboldt County Civil Grand Jury recommends that the Humboldt County Office of Education become more proactive in its responsibility to examine and approve the Southern Humboldt Unified School District budget. Budget oversight should be ongoing. HCOE should collaborate with the District, effective at the start of 2020/21 school year (F-6, 7, 8, 9)

It should be noted that the responsibility for the Southern Humboldt Unified School District's budget, cash flow, multiyear financial projections and overall fiscal solvency rests solely with the governing board of the district [E.C. 42120 et seq.].

As noted in our response to F-8 above, it is the county superintendent of school's responsibility to provide for fiscal oversight of a school district within their county. The Humboldt County Superintendent of Schools acknowledges that responsibility, and has consistently and appropriately exercised his authority in this regard. Such oversight shall be consistent with state law and best practices. The standards and criteria used in identifying a financially at-risk district, and therefore providing assistance and intervention, are adopted by the State Board of Education pursuant to E.C. 33127.

Your attention is directed to E.C. 42127(c) through (g) which provides an exhaustive list of required steps for the county superintendent of schools regarding the district's adopted budget. Among these steps are:

- Examine the district's budget to determine compliance with the adopted standards and criteria and identify what technical corrections, if any, are required.

- Determine whether the district’s budget will allow the district to meet its financial obligations during the fiscal year and is consistent with its multiyear financial commitments.
- Determine whether the district’s budget includes expenditures necessary to implement the local control and accountability plan.
- Determine whether the district’s budget includes a combined assigned and unassigned ending fund balance that exceeds the minimum recommended reserve for economic uncertainties.

On September 13, 2019, the Humboldt County Superintendent of Schools sent SHUSD an analysis of their adopted 2019-20 budget which outlined observations, concerns and recommendations consistent with E.C. 42127(c).

Your attention is further directed to E.C. 42130 and 42131 which provides responsibilities the county superintendent of schools must adhere to regarding the district’s interim financial reports.

On January 2, 2020 and April 7, 2020, the Humboldt County Superintendent of Schools sent SHUSD an analysis of their respective interim financial reports for the 2019-20 fiscal year which outlined observations, concerns and recommendations consistent with E.C. 42131.

HCOE keeps the districts and charter schools informed of the latest fiscal news, procedures and best practices at the BIG (Business Information Group) meetings, which occur quarterly and are open to all district Superintendents, charter directors and business managers. Additional trainings and meetings are scheduled throughout the year to continue this information sharing.

(Additional documentation demonstrating the level of HCOE oversight is attached.)

R-8: The Humboldt County Civil Grand Jury recommends that the Humboldt County Office of Education perform an intervention with Southern Humboldt Unified School District in order to assist the District in achieving financial stability, a district-wide positive behavior program, and academic rigor. These efforts are to be ongoing, with implementation starting at the start of the 2020/2021 school year. (F-1,2,3,4,7,8,9,12)

Regarding the recommendation on financial stability, it should be noted that the responsibility for the Southern Humboldt Unified School District’s fiscal stability and solvency rests solely with the governing board of the district [E.C. 42120 et seq.]. As noted in our response to F-8 above, it is the county superintendent of school’s responsibility to provide for fiscal oversight of a school district within their county. While the county superintendent of schools may offer a variety of services and assistance to the districts in the county, those are generally done on a cooperative basis and at the request of the district. The Humboldt County Superintendent of Schools office provides such assistance and services on a regular basis. “Performing an intervention with” the district implies a circumstance that is less than voluntary for the district and as such must be done within the parameters set forth in the Education Code.

Specific to the responsibility to intervene, if warranted, is E.C. 42127.6 which provides for a two-stage intervention. Stage one is based on proof and review of evidence of fiscal distress using the standards and criteria noted above or a report by FCMAT or an external reviewer. If findings regarding fiscal distress are made, the county superintendent of schools shall investigate the financial condition of the district and determine if the district may be unable to meet its financial obligations for the current or two subsequent years, or should receive a qualified or negative interim report certification. The district's 2019-20 second interim report was qualified.

Provisions also provide for the county superintendent of schools to make similar findings at any time in the fiscal year (other than an interim report). In that event, the county superintendent of schools must recommend remedial action and shall do at least one of the following actions:

- Assign a fiscal expert to advise the district on its financial problems.
- Conduct a study of the financial and budgetary conditions of the district, including internal controls.
- Direct the district to submit a financial projection of all fund and cash balances.
- Direct the district to submit a proposal for addressing the fiscal conditions.
- Withhold compensation of the members of the district's governing board and the superintendent for failure to project the required information.
- Assign FCMAT.

Stage two provides that if after taking the actions in above, the county superintendent of schools determines that the district is will be unable to meet its financial obligations for the current or subsequent year, the county superintendent, in consultation with the state superintendent of public instruction, shall take at least one of the following actions:

- Develop and impose a budget revision for the district.
- Stay or rescind any action that is determined to be inconsistent with the ability of the district to meet its obligations for the current or subsequent fiscal year.
- Assist in developing a financial plan that will enable the district to meet its future obligations; commonly referred to as a Fiscal Stabilization Plan.
- Assist in developing a budget for the subsequent fiscal year.
- Appoint a Fiscal Adviser to perform any or all of these actions.

It should be noted that none of these actions shall abrogate any provision of a collective bargaining agreement. The Humboldt County Superintendent of Schools has determined that there is insufficient evidence to implement stage two interventions.

The SHUSD collaborates directly with HCOE on many innovative and comprehensive programs and projects. HCOE will continue to provide universal continuous improvement support for the districts in the form of instructional coaching, leadership development, curriculum review, improvement science and other professional development opportunities. For instance, a 5 month online teaching institute has been made available to SHUSD teachers and administrators to support rigor and engagement with distance learning as well as best practices in pedagogy related to direct instruction.

SHUSD continues to be part of the HCOE sponsored North Coast Multi-Tiered System of Support (MTSS) Coalition where support in the three domains of the MTSS Framework of behavioral, academic, and social-emotional development are emphasized. In addition, utilizing Carnegie's continuous improvement model, HCOE is working to assist the district in building capacity of teacher leadership through the support of dedicated instructional coaching and continued partnership with local educators and colleagues in a supportive countywide network.



September 13, 2019

Don Boyd, Superintendent
Southern Humboldt Unified School District
PO Box 650
Miranda, CA 95553

SUBJECT: 2019-2020 BUDGET & LCAP REVIEW PROCESS

Dear Don:

Thank you for submission of the district's 2019-2020 Adopted Budget and Local Control Accountability Plan. The County Superintendent of Schools is required to review the adopted budget and determine if the budget meets the Criteria and Standards for fiscal stability, allows the district to meet its financial obligations during the current fiscal year and satisfies its multiyear financial obligations. The County Superintendent is also required to approve the Local Control Accountability Plan (LCAP) that has been adopted by the District prior to the approval of the district's adopted budget (Education Code Section 42127(d)(2)).

The District's Adopted Budget has been analyzed in the context of the 2019-2020 Adopted State Budget. The budget analysis also included a review of the expenditure sections of the LCAP. Based on prior approval of the district's LCAP, the 2019-2020 Adopted Budget of the School District has been reviewed and approved pursuant to the provisions of Education Code Section 42127(a) through (d).

The attached review and approval form documents and communicates our observations and/or concerns with regard to your district's budget. The last page provides detailed information under the Description of Recommendations and Technical Corrections section.

We recognize the challenges around developing a budget and financial plan that provides for ongoing fiscal stability and advancing the goals and activities contained within your district's LCAP. As the school year continues, the business office staff and I look forward to working with you. Please do not hesitate to call on any of us if we can be of any further service in either the budget development or the budget administration process.

Sincerely,

Chris Hartley, Ed. D.
Superintendent of Schools

CH:CW:jw

Enclosures

c: Corey Weber
District Board President

REVIEW AND APPROVAL OF FISCAL YEAR 2019-2020 FINAL ADOPTED BUDGET

TO THE GOVERNING BOARD: Southern Humboldt Joint Unified School District
FROM: Chris N. Hartley, Ed.D., Humboldt County Superintendent of Schools

In accordance with the provisions of Education Code (E.C.) Section 42127, we have completed our review of the final adopted budget for your district. A report on that review follows.

AN ITEM MARKED WITH AN ASTERISK (*) REQUIRES THE DISTRICT SUPERINTENDENT AND GOVERNING BOARD TO DO THE FOLLOWING BY OCTOBER 8:

- Review the comments, recommendations and/or technical corrections at a public meeting of the board, and
- Provide a written response communicating any actions taken and, if required, submit a revised budget.

1. TYPE OF APPROVAL

- The adopted budget has been approved.
- * The adopted budget has been conditionally approved. Board action and response to HCOE is required before OCTOBER 8. (See Section 8 for details).
- * The adopted budget has not been approved. (See Section 8 for details).

2. STANDARDS AND CRITERIA (E.C. 33127 and 33129)

- We accept your school district Criteria and Standards Review as complete and narrative(s) as reasonable.
- * We have made recalculations based upon updated information for the prior fiscal year. (See Section 8 for details).

3. OTHER INFORMATION (E.C. 42127(c)(2))

We are required to review and consider studies, reports, evaluations or audits that may contain information relative to the fiscal stability or distress of a school district. You have provided all such information to us and based upon our review:

- The information does not indicate other evidence of fiscal distress.
- * The information does indicate some evidence of fiscal distress. (See Section 8 for details).

4. RECOMMENDATIONS AND TECHNICAL CORRECTIONS

A. Revenue and Expenditures

- * The revenue appears to be overstated (see Section 8 for details).
- * The total expenditures appear to be understated. (See Section 8 for details).
- There appears to be a structural deficit in the general fund.
- Total available reserves appear adequate to offset this condition.
- * Total available reserves do not appear adequate to offset this condition. (See Section 8 for details).

B. Average Daily Attendance (ADA): We recommend you budget the funding guaranteed by the state based on prior year ADA. The district ADA upon which this budget is based is 442.40, which funds 17 units of necessary small school (NSS) funding.

- This represents the state guaranteed level of ADA funding.
- With our prior concurrence, this level of ADA is above the state guaranteed level of funding by ___ADA (actual ADA should be monitored closely).
- * This exceeds the state guaranteed level of ADA funding by ____ ADA (See Section 8 for details).

C. Other Recommendations

- See Section 8 for details.
- * See Section 8 for details.

D. Technical Corrections

- * Other technical corrections have been made to your final adopted budget (See Section 8 for details).

5. **SPECIAL RESERVES**

We have completed a preliminary review of the ending unrestricted reserves for the prior year based on information available at this time as well as the unrestricted reserves for the budget year and two subsequent years. They:

- Appear to meet the state required reserves.
- * Are projected or recalculated to be below the state recommended minimum reserves as of June 30, _____. (See Section 8 for details).

6. **CASH BALANCE**

- Appears adequate.
- * Cash shortage appears possible in one or more months of the budget year.

7. **MULTI-YEAR FINANCIAL PLAN (E.C. 42127(c)(2))**

We have reviewed your board adopted multi-year budgets and found that they were based upon the following assumptions:

1st Subsequent Fiscal Year

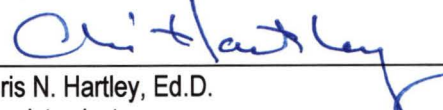
2nd Subsequent Fiscal Year

	<u>1st Subsequent Fiscal Year</u>	<u>2nd Subsequent Fiscal Year</u>
Staffing Changes:		
Certificated	No FTE Change	No FTE Change
Classified	No FTE Change	No FTE Change
Enrollment	760	761
ADA	699.81	700.66
Unduplicated %	54.93%	54.95%
COLA %	2.86%	2.92%

8. DESCRIPTION OF RECOMMENDATIONS AND TECHNICAL CORRECTIONS

SECTION NUMBER	DESCRIPTION
* ITEM REQUIRES SPECIFIC BOARD ACTION	
4C	<p><u>Cafeteria</u> We also noted that the Cafeteria Fund projects a deficit of \$75,000 representing 29.73% of the total annual revenue generated by the fund. Every effort should be made to mitigate the deficit as quickly as possible so that the impact on the unrestricted resources will be minimized.</p>
	<p><u>Facilities</u> We also noted the budget contains expenditures for facility projects funded by bond proceeds. We recommend that the district closely monitor the expenditures to avoid any unintended fiscal impact to district reserves or cash.</p>
6	<p><u>Cash</u> We are aware that during the budget adoption process the original 2019-20 cash flow projection with the expenditure information driven by trend data resulted in a negative cash balance in the general fund. The results of the initial projection indicate the need for the district to maintain a monthly review and projection of cash to ensure the district maintains a positive cash balance.</p>

EXAMINED BY COUNTY SUPERINTENDENT OF SCHOOLS:

BY: 
 Chris N. Hartley, Ed.D.
 Superintendent

DATE: 9/13/19

CH:jw

c: Board President
 District Superintendent and Business Office
 County Business Office



CHRIS HARTLEY, Ed.D., Superintendent

901 Myrtle Avenue, Eureka, California 95501-1294

Phone: 707/445-7000

FAX: 707/445-7143

www.hcoe.org

January 2, 2020

Don Boyd, Superintendent
Southern Humboldt Unified School District
P.O. Box 650
Miranda, CA 95553-1921

Subject: Certification of 2019-2020 First Interim Report

Dear Don:

Thank you for the timely submission of the district's 2019-2020 First Interim Report. We acknowledge that you and the governing board have issued a positive certification of the district's financial status.

In accordance with Education Code Section 42131, we have completed our review and analysis of the district's First Interim Report. While we concur with the positive certification, we wish to share the following:

Multi-Year Projections:

During our review of the multi-year projections, we noted that the Local Control Funding Formula (LCFF) was based on School Services of California (SSC) projections for cost-of-living (COLA) increases of 3.00% for 2020-21 and 2.80% for 2021-22. Under these revenue assumptions, the multi-year budgets project deficits of \$50,071 in 2020-21 and \$216,954 in 2021-22.

Reserves:

Due to the budget deficits, the district's reserve level is projected to drop from 4.87% in 2019-20 to 4.22% in 2021-22, which is only \$21,271 above minimum reserve requirement. We recommend that the district continue working on ways to reduce the deficits in the multi-years in order to mitigate the impacts to the district's reserves.

Cash

We noted that the 2019-20 first interim cash flow projection, with the expenditure information driven by trend data, resulted in a negative cash balance in November 2019. We recommend that the district review cash and update projections monthly so that the district can make adjustments to expenditures as needed to mitigate the negative impact on the monthly cash balances.

We wish to acknowledge and express our appreciation to the district's staff, the governing board and the community for their continued diligence and hard work. If you have any questions regarding our review process, please feel free to contact our office.

Sincerely,

Chris Hartley, Ed. D.
Superintendent, Humboldt County Schools

CW:hg

c: Corey Weber, Director of Fiscal Services, HCOE
Thomas Mulder, District School Board President

SOUTHERN HUMBOLDT JOINT UNIFIED SCHOOL DISTRICT
 ALL FUNDS
 ADOPTED BUDGET
 FISCAL YEAR 2019-20

5/31/2019

	General Fund/TRANS			SPECIAL REVENUE FUNDS			OTHER FUND TYPES				Total All Funds
	Unrestricted	Restricted	Total	Cafeteria Fund	Special Reserves	Bond Building Fund	County School Facilities	Capital Outlay	Retiree Fund	Capital Facilities	
A. REVENUES											
Local Control Funding Formula	\$ 8,312,069	\$	\$ 8,312,069	\$	\$	\$	\$	\$	\$	\$	\$ 8,312,069
Federal Sources		440,990	440,990	170,000							610,990
Other State Sources	134,831	372,997	507,828	14,043							521,871
Other Local Sources	81,899	302,621	384,520	68,244							452,764
Total Revenue	8,528,799	1,116,608	9,645,407	252,287							9,897,694
B. EXPENDITURES											
Certificated Salaries	2,598,377	375,540	2,973,917								2,973,917
Classified Salaries	1,281,537	678,654	1,960,191	153,386							2,113,577
Employee Benefits	2,044,604	816,914	2,861,518	83,722							2,945,240
Supplies	222,823	119,406	342,229	84,424		27,922					454,575
Services & Other Operating	839,901	440,353	1,280,254	5,755							1,286,009
Capital Outlay		7,641	7,641					13,335			20,976
Other Outgo	1,450	139,510	140,960								140,960
Support Costs	(9,064)	9,064									
Total Expenditures	6,979,628	2,587,082	9,566,710	327,287		27,922		13,335			9,935,254
C. EXCESS REVENUES (EXPENDITURES)	1,549,171	(1,470,474)	78,697	(75,000)		(27,922)		(13,335)			(37,560)
D. OTHER FINANCING SOURCES/USES											
Interfund Transfers In				75,000							75,000
Interfund Transfers Out	(75,000)		(75,000)								(75,000)
Other Sources											
Other Uses											
Contributions	(1,457,587)	1,457,587									
Total Other Sources (Uses)	(1,532,587)	1,457,587	(75,000)	75,000							
E. FUND BALANCE INCREASE (DECREASE)	16,584	(12,887)	3,697			(27,922)		(13,335)			(37,560)
F. ADJUSTED BEGINNING BALANCE	356,230	122,195	478,425	39,847	442,125	27,922		78,812			1,067,130
G. ENDING BALANCE	\$ 372,814	\$ 109,308	\$ 482,122	\$ 39,847	\$ 442,125	\$ (0)		\$ 65,477	\$	\$	\$ 1,029,570

<i>Total General Fund Expenditures, Transfers out and Uses</i>	\$9,641,710	<i>District Reserve of 5.05% includes:</i>	
<i>Recommended Minimum Reserve Calculation at 4%:</i>	\$385,668	<i>General Fund Designated for Economic Uncertainty:</i>	\$ 44,858
<i>Budgeted Reserve Level:</i>	5.05%	<i>Special Reserve Fund Ending Balance:</i>	\$ 442,125
		TOTAL:	\$ 486,983

MULTI-YEAR BUDGET PROJECTION

SOUTHERN HUMBOLDT JOINT UNIFIED SCHOOL DISTRICT											5/31/2019												
ALL FUNDS	General Fund/TRANS	General Fund/TRANS	General Fund/TRANS	----- SPECIAL REVENUE FUNDS -----			----- OTHER FUND TYPES -----				Total												
ADOPTION MULTI-YEAR PROJECTION	Unrestricted	Restricted	Total	Cafeteria Fund	Special Reserves	Bond Building Fund	County School Facilities	Capital Outlay	Retiree Fund	Capital Facilities	All Funds												
FISCAL YEAR 2020-21																							
A. REVENUES																							
Local Control Funding Formula	\$ 8,523,325	\$	\$ 8,523,325	\$	\$	\$	\$	\$	\$	\$	\$ 8,523,325												
Federal Sources		448,990	448,990	170,000							618,990												
Other State Sources	134,831	372,997	507,828	14,043							521,871												
Other Local Sources	81,899	302,621	384,520	68,244							452,764												
Total Revenue	8,740,055	1,124,608	9,864,663	252,287							10,116,950												
B. EXPENDITURES																							
Certificated Salaries	2,664,145	375,540	3,039,685								3,039,685												
Classified Salaries	1,349,590	722,718	2,072,308	153,386							2,225,694												
Employee Benefits	2,128,119	844,837	2,972,956	83,722							3,056,678												
Supplies	225,449	117,362	342,811	84,424							427,235												
Services & Other Operating	839,901	372,176	1,212,077	5,755							1,217,832												
Capital Outlay		7,641	7,641								7,641												
Other Outgo	1,450	139,510	140,960								140,960												
Support Costs	(9,064)	9,064																					
Total Expenditures	7,199,590	2,588,848	9,788,438	327,287							10,115,725												
C. EXCESS REVENUES (EXPENDITURES)	1,540,465	(1,464,240)	76,225	(75,000)							1,225												
D. OTHER FINANCING SOURCES/USES																							
Interfund Transfers In				75,000							75,000												
Interfund Transfers Out	(75,000)		(75,000)								(75,000)												
Other Sources																							
Other Uses																							
Contributions	(1,457,587)	1,457,587																					
Total Other Sources (Uses)	(1,532,587)	1,457,587	(75,000)	75,000																			
E. FUND BALANCE INCREASE (DECREASE)	7,878	(6,653)	1,225								1,225												
F. ADJUSTED BEGINNING BALANCE	372,814	109,308	482,122	39,847	442,125	(0)		65,477			1,029,570												
G. ENDING BALANCE	\$ 380,692	\$ 102,655	\$ 483,347	\$ 39,847	\$ 442,125	\$ (0)		\$ 65,477	\$	\$	\$ 1,030,795												
<p style="text-align: right;"><i>District Reserve of 4.96% includes:</i></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 30%;"><i>Total General Fund Expenditures, Transfers out and Uses</i></td> <td style="width: 10%; text-align: right;">\$9,863,438</td> <td style="width: 30%;"><i>General Fund Designated for Economic Uncertainty:</i></td> <td style="width: 10%; text-align: right;">\$ 46,890</td> </tr> <tr> <td>Recommended Minimum Reserve Calculation at 4%:</td> <td style="text-align: right;">\$394,538</td> <td><i>Special Reserve Fund Ending Balance:</i></td> <td style="text-align: right;">\$ 442,125</td> </tr> <tr> <td><i>Budgeted Reserve Level:</i></td> <td style="text-align: right;">4.96%</td> <td>TOTAL:</td> <td style="text-align: right;">\$ 489,015</td> </tr> </table>												<i>Total General Fund Expenditures, Transfers out and Uses</i>	\$9,863,438	<i>General Fund Designated for Economic Uncertainty:</i>	\$ 46,890	Recommended Minimum Reserve Calculation at 4%:	\$394,538	<i>Special Reserve Fund Ending Balance:</i>	\$ 442,125	<i>Budgeted Reserve Level:</i>	4.96%	TOTAL:	\$ 489,015
<i>Total General Fund Expenditures, Transfers out and Uses</i>	\$9,863,438	<i>General Fund Designated for Economic Uncertainty:</i>	\$ 46,890																				
Recommended Minimum Reserve Calculation at 4%:	\$394,538	<i>Special Reserve Fund Ending Balance:</i>	\$ 442,125																				
<i>Budgeted Reserve Level:</i>	4.96%	TOTAL:	\$ 489,015																				

MULTI-YEAR BUDGET PROJECTION

SOUTHERN HUMBOLDT JOINT UNIFIED SCHOOL DISTRICT											5/31/2019
ALL FUNDS	General			----- SPECIAL REVENUE FUNDS -----			----- OTHER FUND TYPES -----				Total
ADOPTION MULTI-YEAR PROJECTION	Fund/TRANs	Fund/TRANs	Fund/TRANs	Cafeteria	Special	Bond	County School	Capital	Retiree	Capital	All Funds
FISCAL YEAR 2021-22	Unrestricted	Restricted	Total	Fund	Reserves	Building Fund	Facilities	Outlay	Fund	Facilities	
A. REVENUES											
Local Control Funding Formula	\$ 8,688,782		\$ 8,688,782	\$	\$	\$	\$	\$	\$	\$	\$ 8,688,782
Federal Sources		448,990	448,990	170,000							618,990
Other State Sources	134,831	372,997	507,828	14,043							521,871
Other Local Sources	81,899	302,621	384,520	68,244							452,764
Total Revenue	8,905,512	1,124,608	10,030,120	252,287							10,282,407
B. EXPENDITURES											
Certificated Salaries	2,744,377	375,540	3,119,917								3,119,917
Classified Salaries	1,409,435	722,718	2,132,153	153,386							2,285,539
Employee Benefits	2,148,343	844,837	2,993,180	83,722							3,076,902
Supplies	225,449	112,270	337,719	84,424							422,143
Services & Other Operating	839,901	369,794	1,209,695	5,755							1,215,450
Capital Outlay		7,641	7,641								7,641
Other Outgo	1,450	139,510	140,960								140,960
Support Costs	(9,064)	9,064									
Total Expenditures	7,359,891	2,581,374	9,941,265	327,287							10,268,552
C. EXCESS REVENUES (EXPENDITURES)	1,545,621	(1,456,766)	88,855	(75,000)							13,855
D. OTHER FINANCING SOURCES/USES											
Interfund Transfers In				75,000							75,000
Interfund Transfers Out	(75,000)		(75,000)								(75,000)
Other Sources											
Other Uses											
Contributions	(1,457,587)	1,457,587									
Total Other Sources (Uses)	(1,532,587)	1,457,587	(75,000)	75,000							
E. FUND BALANCE INCREASE (DECREASE)	13,034	821	13,855								13,855
F. ADJUSTED BEGINNING BALANCE	380,692	102,655	483,347	39,847	442,125	(0)		65,477			1,030,795
G. ENDING BALANCE	\$ 393,726	\$ 103,476	\$ 497,202	\$ 39,847	\$ 442,125	\$ (0)		\$ 65,477	\$	\$	\$ 1,044,650
<i>District Reserve of 4.95% includes:</i>											
<i>Total General Fund Expenditures, Transfers out and Uses</i>	\$10,016,265		<i>General Fund Designated for Economic Uncertainty:</i>		\$ 54,078						
Recommended Minimum Reserve Calculation at 4%:	\$400,651		<i>Special Reserve Fund Ending Balance:</i>		\$ 442,125						
<i>Budgeted Reserve Level:</i>	4.95%		TOTAL:		\$ 496,203						

SOUTHERN HUMBOLDT JT UNIFIED SCHOOL DISTRICT
CASH FLOW WORKSHEET -- GENERAL FUND (INCLUDES RESERVE)

2019-20

	0	1	2	3	4	5	6	7	8	9	10	11	12	
Actuals through the month of	Before FY start	July	August	September	October	November	December	January	February	March	April	May	June	Accruals
Beginning Cash	759,945	910,121	1,039,762	748,635	566,372	(249,719)	1,395,428	937,876	496,624	27,923	1,331,784	806,283		
Local Control Funding Formula	502,776	502,776	538,004	502,776	-	2,347,011	201,110	347,603	278,229	2,041,853	246,155	803,776	-	
Federal Revenues	-	-	1,920	-	10,947	106,323	61,695	8,640	10,304	36,296	96,010	21,666	87,189	
State Revenues	-	-	-	36,516	29,119	-	11,675	-	25,227	36,516	-	270,517	98,259	
Local Revenues	34,170	46,293	53,782	48,286	7,422	7,703	27,368	24,399	10,764	25,146	33,187	63,999	2,000	
Sources	-	-	-	-	-	-	-	-	-	-	-	-	-	
Receivables	21,909	18,392	16,173	16,858	-	14,189	42,180	-	10,888	13,241	0			
1000	36,290	36,600	276,149	290,947	307,165	319,559	260,654	278,326	293,040	289,116	305,104	280,969	-	
2000	67,000	106,448	167,824	164,768	179,286	184,960	173,767	181,672	175,618	192,798	182,606	183,444	-	
3000	146,720	157,817	223,116	223,162	233,114	239,286	227,211	229,524	235,073	230,115	235,095	481,283	-	
4000	91	38,942	62,083	21,754	30,013	16,684	41,270	19,540	15,310	25,311	28,427	42,803	-	
5000	158,578	98,014	171,235	86,069	114,000	68,274	98,678	111,820	85,071	111,666	149,622	27,228	-	
6000	-	-	598	-	-	588	-	1,011	-	187	-	5,257	-	
7000	-	-	-	-	-	728	-	-	-	-	-	140,232	-	
TF in	-	-	-	-	-	-	-	-	-	-	-	-	-	
TF out	-	-	-	-	-	-	-	-	-	-	-	-	75,000	
Uses	-	-	-	-	-	-	-	-	-	-	-	-	-	
Payables	-	-	-	-	-	-	-	-	-	-	-	-	-	
Deferred Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	
TRANS Note Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	
Prepaid Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	
Cash Balance	910,121	1,039,762	748,635	566,372	(249,719)	1,395,428	937,876	496,624	27,923	1,331,784	806,283	730,024		

Total Projected Receivables (including deferred appropriations if any): 187,448
Final Projected Cash Balance General/Charter Fund, TRANS, Reserve: **\$730,024**



April 7, 2020

Don Boyd, Superintendent
Southern Humboldt Unified School District
P.O. Box 650
Miranda, CA 95553-1921

Subject: Certification of 2019-2020 Second Interim Report

Dear Mr. Boyd:

Thank you for the timely submission of the district's 2019-2020 Second Interim Report. We acknowledge that you and the governing board have issued a qualified certification of the district's financial status.

In accordance with Education Code Section 42131, we have completed our review and analysis of the district's Second Interim Report. Given the assumptions underlying these budget projections, we concur with your qualified certification.

As we continue to work through the challenges Southern Humboldt Unified School District is facing, we would like to share the following focus areas which represent important points to consider and review:

Multi-Year Projections:

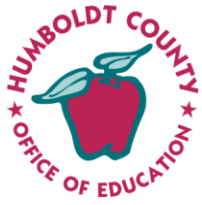
During our review of the multi-year projections, we noted that the Local Control Funding Formula (LCFF) was based on School Services of California (SSC) projections for cost-of-living (COLA) increases of 2.29% for 2020-21 and 2.71% for 2021-22. Under these revenue assumptions, the multi-year budgets project deficits of \$181,325 in 2020-21 and \$155,060 in 2021-22.

Reserves:

Due to the budget deficits, the district's reserve level is projected to drop from 6.06% in 2019-20 to 4.07% in 2021-22, which is only \$6,410 above minimum reserve requirement. We recommend that the district continue working on ways to reduce the deficits in the multi-years in order to mitigate the impacts to the district's reserves.

Cash

Based on the 2019-20 County Cash Report, the district had a negative cash balance in November 2019. We recommend that the district review the timing of expenditures and monitor cash going into the 2020-21 fiscal year so that adjustments can be made to help maintain a positive cash balance.



Negotiations

In our review of your Second Interim Report, we note that the district has not concluded negotiations with the bargaining units for this year. We also noted that no increases in salary other than for step and column were included in the two subsequent years' projections. Because the district is projecting to deficit spend, compensation increases may have an additional impact on the district reserves.

Please plan on providing us with the financial effects of any collective bargaining agreements on our prescribed forms at least ten working days prior to the public meeting at which the board will take action as prescribed by Government Code 3540.2.

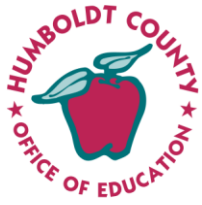
COVID-19 Fiscal Impacts

At this time, the full fiscal impact of COVID-19 is not known for the district, however we anticipate that the May Revise will be much lower than the January budget proposal. The Department of Finance has already issued a letter to all state agencies to expect a workload only budget and there should be no expectation of full funding. As we face the inevitable fiscal challenges ahead, it will be critical for the District's fiscal solvency to carefully evaluate all program spending and establish priorities for the district. Districts will need to act as swiftly as possible to align spending with available resources.

Implications of a qualified certification

The district's fiscal status results in the following additional requirements under current law:

1. *“Third Interim report”* – Provide the county superintendent, the SPI and the controller with a financial statement, no later than June 1 of that fiscal year, that projects the district's fund and cash balances through June 30 for the period ending April 30 [E.C. 42131(e)]. This report is sometimes referred to as the “third interim report.” A district is not required to self-certify to a “positive,” “qualified,” or “negative” certification when submitting their June 1 financial statement.
2. *Non-Voter-Approved Debt* – Because the district's financial status mirrors that of a district with a qualified certification, Education Code Section 42133 prohibits the district from issuing non-voter-approved debt (e.g., certificates of participation, tax and revenue anticipation notes [TRANs], and capital leases) in 2019/20 and 2020/21, unless the county superintendent determines that repayment of the debt is probable. Please submit a non-voter-approved debt disclosure to our office at least 30 days prior to the governing board's approval to proceed with all non-voter approved debt issuance, excluding TRANs. For TRANs, please contact our office for a list of requirements.
3. *Employee Negotiations* – Government Code Section 3540.2(a) requires the district to allow the county office of education at least 10 working days to review and comment on any proposed collective bargaining agreement.



Therefore, please provide us any forthcoming agreements or re-openers within this timeframe, along with a certification, signed by the district superintendent and chief business official, that the district can fulfill the agreement's costs.

Summary

Based on the level of structural deficit it is important that the district take a pro-active approach to mitigate deficit spending. We encourage the district to develop a fiscal stability plan that addresses these on-going deficits.

We wish to acknowledge and express our appreciation to the district's staff, the governing board and the community for their continued diligence and hard work. If you have any questions regarding our review process, please feel free to contact our office.

Sincerely,

Corey Weber
Director of Fiscal Services

CW: hg

c: Chris N. Hartley, Ed. D., Superintendent, HCOE
Thomas Mulder, District School Board President