

California Department of Education
6\ \MP V6 XSSRU\B Branch

Charter Schools Division

Financial Condition of State Board of Education—Authorized
Districtwide Charters – 201 –1 Second Interim



CALIFORNIA
DEPARTMENT OF
EDUCATION



fresno county superintendent of schools

Jim A. Yovino
Superintendent

April 26, 2017

Mr. David Davila
Board President
Alvina Elementary School District
295 W. Saginaw
Caruthers, CA 93609

SUBJECT: 2016-17 Second Interim Report Certification

Dear Mr. Davila:

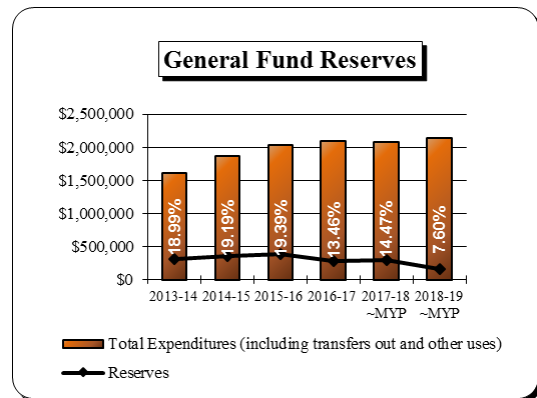
The Fresno County Superintendent of Schools' (FCSS's) District Financial Services (DFS) Department has reviewed the Alvina Elementary School District's (District's) 2016-17 *Second Interim Report* in accordance with State Criteria and Standards and has reported its findings to the FCSS. Based upon this review, the FCSS has concurred with the District's **POSITIVE CERTIFICATION**¹ and has reported his findings to the California Department of Education and the State Controller's Office. A "Positive Certification" indicates that, based on current projections, the District "will meet its financial obligations for the current fiscal year and subsequent two fiscal years" (Education Code Section [ECS] 42131(a)(1)). The FCSS's concurrence with the District's Positive Certification is based on the information available at the time the District certified its Second Interim Report and may not be indicative of the District's current fiscal position.

Additional information regarding the District's fiscal position, budgeting for 2017-18, Local Control and Accountability Plans, cash management, non-voter-approved debt, and collective bargaining is provided below.

I. ALVINA ELEMENTARY CHARTER SCHOOL DISTRICT'S FISCAL POSITION AS OF JANUARY 31, 2017

A. Reserves

The District certified its Second Interim Report as "Positive", based on its anticipated ability to meet its financial obligations and the minimum 5% Reserve for Economic Uncertainties (Reserve) standard in the current and subsequent two years. As shown on the General Fund Reserves graph, the District's reserve levels are projected to be 13.46% (June 30, 2017)², 14.47% (June 30, 2018)³ and 7.60% (June 30, 2019). In the 2017-18 year, the District anticipates using its Fund 17 balance to help meet the required Reserve.



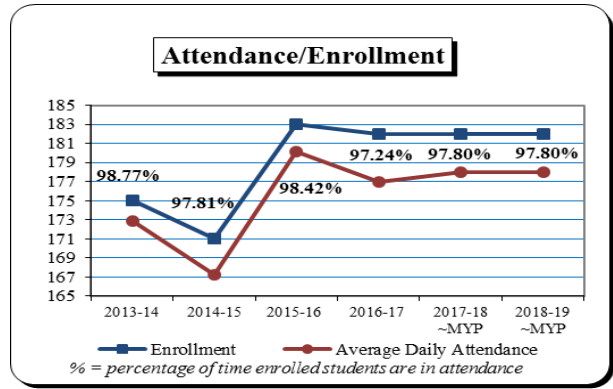
¹ A "Positive" certification indicates that a district will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A "Qualified" certification indicates that a district may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A "Negative" certification will be assigned to any district that will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

² Excludes #101,761 in the Special Reserve Fund – Noncapital Outlay (Fund 17).

³ Includes a \$102,462 transfer in from Fund 17.

B. Enrollment

School district funding is driven primarily by its enrollment and corresponding Average Daily Attendance (ADA). As shown on the Attendance/Enrollment graph, the District’s enrollment has fluctuated in recent years, with a 2016-17 enrollment of 182 (one less than the prior year). The District’s Second Interim Report assumed that the District’s enrollment would remain flat in the subsequent two years. Although the slight decrease from the prior year may support status quo enrollment projections, if enrollment declines further, the District may need to find savings in its budget to close the revenue shortfall.



C. Alvina Elementary School District’s 2015-16 Annual Audit

Alvina Elementary Charter School District had one finding in the 2015-16 Audit pertaining to Internal Controls (#30000) being insufficient for the Student Body Fund. The District responded, as in prior years, that it is impractical to segregate duties further by hiring additional staff.

II. 2017-18 BUDGETS – REMINDER REGARDING DISCLOSURE REQUIREMENTS AT BUDGET PUBLIC HEARING

Senate Bill 858 (June 2014) included language that affects annual disclosure of district reserves greater than the minimum standard and also requires caps on reserves the year after the state makes a deposit into the state school reserve established by Proposition 2. While it may be some time before the reserve cap portion of the law is triggered, the requirement to disclose information regarding reserves greater than the minimum standard is applicable for the 2017-18 budget adoption hearings. Education Code section 42127(a)(2)(B) states that:

*Commencing with budgets adopted for the 2015–16 fiscal year, the governing board of a school district that proposes to adopt a budget, or revise a budget pursuant to subdivision (e), that includes a combined assigned and unassigned ending fund balance in excess of the minimum recommended reserve for economic uncertainties adopted by the state board pursuant to subdivision (a) of Section 33128, shall, **at the public hearing held** pursuant to paragraph (1), provide all of the following for public review and discussion:*

(i) The minimum recommended reserve for economic uncertainties for each fiscal year identified in the budget.

(ii) The combined assigned and unassigned ending fund balances that are in excess of the minimum recommended reserve for economic uncertainties for each fiscal year identified in the budget.

(iii) A statement of reasons that substantiates the need for an assigned and unassigned ending fund balance that is in excess of the minimum recommended reserve for economic uncertainties for each fiscal year that the school district identifies an assigned and unassigned ending fund balance that is in excess of the minimum recommended reserve for economic uncertainties, as identified pursuant to clause (ii).

We have posted a “Sample Template for Statement of Reasons for Excess Reserves” form on our website (<http://dfs.fcoe.org/resources>) **for your use in making the necessary disclosures at your budget adoption public hearing**, if applicable. Please contact your District Financial Services Supervisor at (559) 265-3021 if you have any questions about these new disclosure requirements.

We will provide additional information related to 2017-18 Budget development once the Governor’s May Revision becomes available in mid-May.

III. 2017-18 LOCAL CONTROL AND ACCOUNTABILITY PLANS

School district budgets have always reflected a district’s goals and priorities, but implementation of the Local Control Funding Formula (LCFF) formalized the alignment of a spending plan and resources to support that plan through development of Local Control and Accountability Plans (LCAPs). As you work on your 2017-18 LCAP, we encourage you to review FCSS’s LCAP website (<http://lcap.fcoe.org>), the current “Common Message” (<http://dfs.fcoe.org/resources>), and CDE’s LCAP page (<http://www.cde.ca.gov/re/lc/>) as needed for support. You may also contact Roberto Castro, Director of LCAP & Compliance, at (559) 265-4045 or rcastro@fcoe.org.

IV. CASH MANAGEMENT

Cash management is a critical component of financial planning in a school district. Since implementation of the LCFF, cash flow has become more favorable for school districts. However, districts with healthy fund balances and reserves may experience periodic operating cash shortages. The District should monitor its cash flow continually and plan for short-term interfund or other borrowing options if necessary to meet operational needs.

V. NON-VOTER APPROVED DEBT

Pursuant to ECS 17150.1, school districts must disclose information related to non-voter approved debt when that debt is secured by real property. The disclosure must be made to the FCSS and the County Auditor at least 30 days prior to Board approval of the debt.

FCSS has prepared a “Disclosure of Non-Voter Approved Debt” form to assist you in meeting the disclosure requirements. The “Disclosure” form, as well as an Excel workbook prepared by the Fiscal Crisis & Management Assistance Team (FCMAT), have been posted here: <http://dfs.fcoe.org/resources>. If your District plans to issue non-voter approved debt, please submit FCSS’s disclosure form to this Office and to the County Auditor. (The FCMAT worksheet may be helpful to you, but is optional.)

VI. COLLECTIVE BARGAINING

Government Code Section [GCS] 3547.5 requires public disclosure of fiscal information related to a collective bargaining agreement, **before a district enters into the agreement**. This disclosure includes, but is not limited to, the costs that would be incurred by the district under the agreement for the current and subsequent fiscal years. This requirement applies whether a district is negotiating for salary and benefit increases or concessions.

GCS 3547.5 also requires the district superintendent and the chief business officer to certify that the costs incurred by the district can be met during the complete term of the agreement. The certification must include any budget revisions necessary to meet the cost of the agreement in each year of its term. The code further specifies that if the budget revisions are not made, the FCSS is required to declare the district as qualified or negative at the next interim reporting period.

Per ECS 42142, within 45 days of adopting a collective bargaining agreement, the superintendent of the school district shall forward to the county superintendent of schools any revisions to the district’s current

year budget that are necessary to fulfill the terms of that agreement. Any additional costs that may result from the agreement must also be reflected in the district's interim fiscal reports and multiyear fiscal projections.

If you have settled with your bargaining units since the Second Interim reporting period, please submit the Disclosure of Collective Bargaining Agreement worksheet (available for download at <http://dfs.fcoe.org/resources>) to our office, along with supporting documents (e.g., copies of Board approval documents showing key terms of the agreement(s) or similar documents) that can be used in our analysis of the fiscal impact of the agreements. Any necessary budget revisions should also be submitted.

Thank you for your consideration of this information. Please feel free to contact the District Financial Services team at (559) 265-3021 if you have any questions regarding this letter or if we may assist you with any finance-related matter.

Sincerely,

Jamie D. Perry, Senior Director
District Financial Services

c: Jim A. Yovino, Fresno County Superintendent of Schools, FCSS
Richard A. Martin, Deputy Superintendent/CFO, FCSS
Mike Iribarren, Superintendent, AESD
Kathy Bagwell, Finance Officer, AESD
Janet Finley, School Fiscal Services Division, CDE (via email jfinley@cde.ca.gov)



fresno county superintendent of schools

Jim A. Yovino
Superintendent

June 27, 2017

Ms. Karyll Smith Quinn
Board President
Kingsburg Elementary Charter School District
1310 Stroud Avenue
Kingsburg, CA 93631

SUBJECT: 2016-17 Second Interim Report Certification

Dear Ms. Smith Quinn:

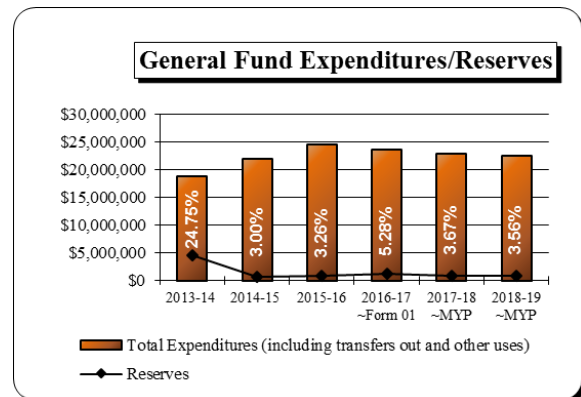
The Fresno County Superintendent of Schools' (FCSS's) District Financial Services (DFS) Department has reviewed the Kingsburg Elementary Charter School District's (District's) 2016-17 *Second Interim Report* in accordance with State Criteria and Standards and has reported its findings to the FCSS. Based upon this review, the FCSS has concurred with the District's **POSITIVE CERTIFICATION**¹ and has reported his findings to the California Department of Education and the State Controller's Office. A "Positive Certification" indicates that, based on current projections, the District "will meet its financial obligations for the current fiscal year and subsequent two fiscal years" (Education Code Section [ECS] 42131(a)(1)). The FCSS's concurrence with the District's Positive Certification is based on the information available at the time the District certified its Second Interim Report and may not be indicative of the District's current fiscal position.

Additional information regarding the District's fiscal position, 2017-18 Budgets, Local Control and Accountability Plans, cash management, non-voter-approved debt, and collective bargaining is provided below.

I. KINGSBURG ELEMENTARY CHARTER SCHOOL DISTRICT'S FISCAL POSITION AS OF JANUARY 31, 2017

A. Reserves

The District certified its Second Interim Report as "Positive", based on its anticipated ability to meet its financial obligations and the minimum 3% Reserve for Economic Uncertainties (Reserve) standard in the current and subsequent two years. As shown on the General Fund Reserves graph, the District's reserve levels are projected to be 5.28% (June 30, 2017), 3.67% (June 30, 2018) and 3.56% (June 30, 2019). The

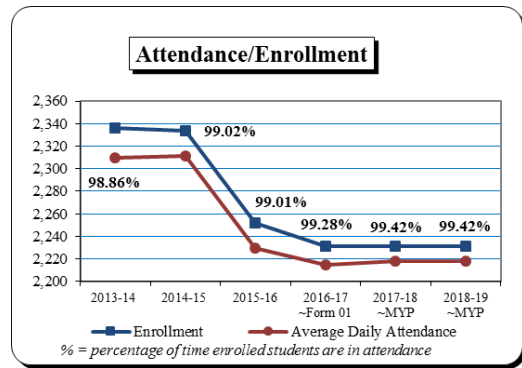


¹ A "Positive" certification indicates that a district will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A "Qualified" certification indicates that a district may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A "Negative" certification will be assigned to any district that will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

reduction in reserves is due to anticipated deficit spending in the General Fund.

B. Declining Enrollment

School district funding is driven primarily by its enrollment and corresponding Average Daily Attendance (ADA). The District’s Second Interim Report assumed that the District’s enrollment in the subsequent two years would remain flat at 2,231. According to District staff, enrollment has increased since October, possibly supporting a levelling-off of enrollment declines. This assumption may be optimistic based on recent history. If enrollment declines further in subsequent years, the District may need to find savings in its budget in order to close the revenue shortfall.



C. Deficit Spending

The District is in the process of completing the Professional Development Center, which has caused the spend-down of the Unrestricted General Fund balance. From June 30, 2017 to June 30, 2019 (projected), the fund balance will continue to decrease from \$1,250,642 to \$803,082 (a difference of 36%). These deficits are no longer due to one-time building projects but appear to be structural in nature, and, if enrollment continues to decline, revenues will be impacted and the District may need to consider budget reductions. The District should continue to monitor its enrollment and ADA trend closely and budget conservatively.

D. Kingsburg Elementary Charter School District’s 2015-16 Annual Audit

The District has three findings in the 2015-16 Audit pertaining to the National School Lunch Program (#50000 category). The first involves over-reimbursement for meals that were possibly incorrectly deemed free or reduced. The questioned costs are up to \$925. The second finding involves menu planning. The required offering of vegetables were not offered due to menu-planning errors. No questioned costs are identified. The third finding related to a summary of the State Reviewer’s findings during the State Administrative Review. There is a fourth finding (#40000) regarding not adopting an Educator Effectiveness plan at a public meeting prior to spending the funds. Lastly, the District had a finding regarding CALPADS unduplicated pupil count (#40000) involving one student. The District has put forth sufficient suggested corrective actions and implemented them already.

II. 2017-18 BUDGETS – REMINDER REGARDING DISCLOSURE REQUIREMENTS AT BUDGET PUBLIC HEARING

Senate Bill 858 (June 2014) included language that affects annual disclosure of district reserves greater than the minimum standard and also requires caps on reserves the year after the state makes a deposit into the state school reserve established by Proposition 2. While it may be some time before the reserve cap portion of the law is triggered, the requirement to disclose information regarding reserves greater than the minimum standard is applicable for the 2017-18 budget adoption hearings. Education Code section 42127(a)(2)(B) states that:

*Commencing with budgets adopted for the 2015–16 fiscal year, the governing board of a school district that proposes to adopt a budget, or revise a budget pursuant to subdivision (e), that includes a combined assigned and unassigned ending fund balance in excess of the minimum recommended reserve for economic uncertainties adopted by the state board pursuant to subdivision (a) of Section 33128, shall, **at the public hearing held** pursuant to paragraph (1), provide all of the following for public review and discussion:*

(i) *The minimum recommended reserve for economic uncertainties for each fiscal year identified in the budget.*

(ii) *The combined assigned and unassigned ending fund balances that are in excess of the minimum recommended reserve for economic uncertainties for each fiscal year identified in the budget.*

(iii) *A statement of reasons that substantiates the need for an assigned and unassigned ending fund balance that is in excess of the minimum recommended reserve for economic uncertainties for each fiscal year that the school district identifies an assigned and unassigned ending fund balance that is in excess of the minimum recommended reserve for economic uncertainties, as identified pursuant to clause (ii).*

We have posted a “Sample Template for Statement of Reasons for Excess Reserves” form on our website (<http://dfs.fcoe.org/resources>) **for your use in making the necessary disclosures at your budget adoption public hearing**, if applicable. Please contact your District Financial Services Supervisor at (559) 265-3021 if you have any questions about these new disclosure requirements.

We will provide additional information related to 2017-18 Budget development once the Governor’s May Revision becomes available in mid-May.

III. 2017-18 LOCAL CONTROL AND ACCOUNTABILITY PLANS

School district budgets have always reflected a district’s goals and priorities, but implementation of the Local Control Funding Formula (LCFF) formalized the alignment of a spending plan and resources to support that plan through development of Local Control and Accountability Plans (LCAPs). As you work on your 2017-18 LCAP, we encourage you to review FCSS’s LCAP website (<http://lcap.fcoe.org/>), the current “Common Message” (<http://dfs.fcoe.org/resources>), and CDE’s LCAP page (<http://www.cde.ca.gov/re/lc/>) as needed for support. You may also contact Roberto Castro, Director of LCAP & Compliance, at (559) 265-4045 or rcastro@fcoe.org.

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V. NON-VOTER APPROVED DEBT

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FCSS has prepared a “Disclosure of Non-Voter Approved Debt” form to assist you in meeting the disclosure requirements. The “Disclosure” form, as well as an Excel workbook prepared by the Fiscal Crisis & Management Assistance Team (FCMAT), have been posted here: <http://dfs.fcoe.org/resources>. If your District plans to issue non-voter approved debt, please submit FCSS’s disclosure form to this Office and to the County Auditor. (The FCMAT worksheet may be helpful to you, but is optional.)

VI. COLLECTIVE BARGAINING

Government Code Section [GCS] 3547.5 requires public disclosure of fiscal information related to a collective bargaining agreement, **before a district enters into the agreement**. This disclosure includes, but is not limited to, the costs that would be incurred by the district under the agreement for the current and subsequent fiscal years. This requirement applies whether a district is negotiating for salary and benefit increases or concessions.

GCS 3547.5 also requires the district superintendent and the chief business officer to certify that the costs incurred by the district can be met during the complete term of the agreement. The certification must include any budget revisions necessary to meet the cost of the agreement in each year of its term. The code further specifies that if the budget revisions are not made, the FCSS is required to declare the district as qualified or negative at the next interim reporting period.

Per ECS 42142, within 45 days of adopting a collective bargaining agreement, the superintendent of the school district shall forward to the county superintendent of schools any revisions to the district's current year budget that are necessary to fulfill the terms of that agreement. Any additional costs that may result from the agreement must also be reflected in the district's interim fiscal reports and multiyear fiscal projections.

If you have settled with your bargaining units since the Second Interim reporting period, please submit the Disclosure of Collective Bargaining Agreement worksheet (available for download at <http://dfs.fcoe.org/resources>) to our office, along with supporting documents (e.g., copies of Board approval documents showing key terms of the agreement(s) or similar documents) that can be used in our analysis of the fiscal impact of the agreements. Any necessary budget revisions should also be submitted.

Thank you for your consideration of this information. Please feel free to contact the District Financial Services team at (559) 265-3021 if you have any questions regarding this letter or if we may assist you with any finance-related matter.

Sincerely,

Jamie D. Perry, Senior Director
District Financial Services

c: Jim Yovino, Fresno County Superintendent of Schools, FCSS
Richard A. Martin, Deputy Superintendent/CFO, FCSS
Wesley Sever, Superintendent, KECSO
Nick Taylor, CBO, KECSO
Janet Finley, School Fiscal Services Division, CDE (via email jfinley@cde.ca.gov)

April 17, 2017

Mrs. Carey Alves, Board President
Island Elementary School District
7799 21st Ave.
Lemoore, CA 93245

Dear Mrs. Alves,

Reporting Requirements

Pursuant to the reports required by Section 42130, the governing board of each school district shall certify, in writing, within 45 days after the close of the period being reported, whether or not the school district is able to meet its financial obligations for the remainder of the fiscal year and, based on current forecasts, for the two subsequent fiscal years. These certifications shall be based upon the board's assessment, on the basis of standards and criteria for fiscal stability adopted by the State Board of Education pursuant to Section 33127, of the district budget, as revised to reflect current information regarding the adopted state budget, district property tax revenues pursuant to Sections 95 to 100, inclusive, of the Revenue and Taxation Code, and ending balances for the preceding fiscal year as reported pursuant to Section 42100. The certifications shall be classified as positive, qualified, or negative, as prescribed by the Superintendent of Public Instruction for the purposes of determining subsequent actions by the Superintendent of Public Instruction, the Controller, or the county superintendent of schools.

Within 75 days after the close of each reporting period, each county superintendent of schools shall report to the Controller and the Superintendent of Public Instruction as to whether the governing board of each of the school districts under his or her jurisdiction has submitted the certification. That report shall indicate the type of certification filed by each district.

Analysis of District's Fiscal Position

The Kings County Office of Education has reviewed the Second Interim Financial Report submitted by the Island Union School District for the period ending January 31, 2017. Our review included an analysis of the district's estimated average daily attendance (ADA), projected revenues, expenditures, fund balance and multiyear financial projections. *The following are our notes:*

- **Revenue/Expenditure Projections:** The district is projecting revenues to exceed expenditures based on general fund unrestricted/restricted in the current fiscal year by \$17,900. Deficit spending of \$122,194 is projected in 2017-18 followed by deficit spending of \$108,300 in 2018-19. Anticipated deficit spending should be for one-time, non-recurring expenditures to avoid depletion of the district's ongoing reserves.
- **ADA Estimations:** The district is projecting K-12 ADA at 378 for the current fiscal year. This is an increase of roughly 17 ADA from prior year 2015-16 Second Period Attendance report. The district is projecting a decrease of 5 ADA in 2017-18 followed by an increase of 9 ADA in 2018-19. While the ADA projections appear reasonable based on the district's historic trends, our office recommends that the district continue to review and monitor the ADA budgeted and revise the budget accordingly. The District, as a charter district, is reliant on non-resident ADA. If a drop in non-resident ADA occurs, there is no prior year P-2 protection.
- **Impact of Negotiations:** The district has indicated that negotiations have been finalized with the certificated and classified bargaining units.

- **Multi-year Projections:** With respect to the two subsequent fiscal years 2017-18 and 2018-19, because the ultimate disposition of the State's budget cannot be predicted at this time and due to the current economic issues at both the state and national levels, it is important that the district's governing board and administration closely monitor and manage the district's financial resources, including monthly cash flow reviews, to assure maintenance of a positive financial condition. It remains essential for each school district to maintain the required state minimum unrestricted reserves throughout the current fiscal year and to budget at least the state minimum required reserves in each future year due to the uncertainty of ongoing funding levels at the state or federal levels.

Conclusion

Based on our analysis, the data provided supports the board's *positive certification* of the district's financial condition and ability to meet its financial obligations. The district's unrestricted reserve balances meet the minimum state criteria and standards of 4% for the current and two subsequent years.

This certification is not a guarantee of future positive certifications. Circumstances do change and this opinion does not guarantee financial stability for the next two years. Your financial position is the result of management decisions and other issues, such as attendance, state and federal revenue funding, bargaining unit pressures, and price inflators for supplies and services.

In January 2017, Governor Brown presented his proposed budget for the 2017-2018 fiscal year. The Governor's K-12 budget proposal has COLA projected at 1.48% to be applied to the target and with estimated gap funding of 23.67% for the Local Control Funding Formula (LCFF). Discretionary one-time Proposition 98 funding equal to about \$48 ADA is also included in the proposed budget.

Future Concerns

The Governor's Proposed Budget for 2017-2018 reflects the flattening out of state revenues, which impacts 2017-2018 Prop 98 funding. The Governor is still projecting to have full implementation of LCFF by 2020-2021 but has put a pause on the implementation in 2017-2018. The Governor's budget proposal simply funds the COLA with no additional gap funding in 2017-2018. This proposal will require changes to future projections. With the adoption of the Local Control Accountability Plan (LCAP) the district will need to budget accordingly to meet the needs of the LCAP.

Finally, please be advised of the following requirements resulting from the enactment of AB2756 (June 21, 2004):

- 1) AB2756 now requires the district to update and certify multiyear financial projections reflecting the impact of any salary negotiations on the current and two subsequent fiscal years prior to board approval. Please send a copy of the updated multiyear financial projections with the submission of the AB1200 Salary settlement disclosure documents to our office 5 days prior to board action.
- 2) AB2756 expanded the responsibilities of the county superintendent in reviewing school district budgets and in monitoring fiscal solvency. Education Code Section 42127.6 (a)(1) now states, "A

school district shall provide the county superintendent of schools with a copy of a study, report, evaluation, or audit that was commissioned by the district, the county superintendent, the Superintendent of Public Instruction, and state control agencies and that contains evidence that the school district is showing fiscal distress under the standards and criteria adopted in Section 33127, or a report on the school district by the County Office Fiscal Crisis and Management Assistance Team or any regional team created pursuant to subdivision (i) of Section 42127.8.” If the district commissions such a study, please submit a copy to our office to the attention of Sarah Smigiera.

If you have any questions concerning the review of the district’s 2016-17 Second Interim Financial Report, please contact the undersigned.

Sincerely,

Stephen G. Corl
Assistant Superintendent, Business Services

CC: Tim Bowers
Charlotte Hines
Diane Augusto

April 17, 2017

Mr. Adam Medeiros, Board President
Kings River-Hardwick Union School District
10300 Excelsior Avenue
Hanford, CA 93230

Dear Mr. Medeiros,

Reporting Requirements

Pursuant to the reports required by Section 42130, the governing board of each school district shall certify, in writing, within 45 days after the close of the period being reported, whether or not the school district is able to meet its financial obligations for the remainder of the fiscal year and, based on current forecasts, for the two subsequent fiscal years. These certifications shall be based upon the board's assessment, on the basis of standards and criteria for fiscal stability adopted by the State Board of Education pursuant to Section 33127, of the district budget, as revised to reflect current information regarding the adopted state budget, district property tax revenues pursuant to Sections 95 to 100, inclusive, of the Revenue and Taxation Code, and ending balances for the preceding fiscal year as reported pursuant to Section 42100. The certifications shall be classified as positive, qualified, or negative, as prescribed by the Superintendent of Public Instruction for the purposes of determining subsequent actions by the Superintendent of Public Instruction, the Controller, or the county superintendent of schools.

Within 75 days after the close of each reporting period, each county superintendent of schools shall report to the Controller and the Superintendent of Public Instruction as to whether the governing board of each of the school districts under his or her jurisdiction has submitted the certification. That report shall indicate the type of certification filed by each district.

Analysis of District's Fiscal Position

The Kings County Office of Education has reviewed the Second Interim Financial Report submitted by the Kings River-Hardwick Union School District for the period ending January 31, 2017. Our review included an analysis of the district's estimated average daily attendance (ADA), projected revenues, expenditures, fund balance and multiyear financial projections. *The following are our notes:*

- **Revenue/Expenditure Projections:** The district is projecting revenues to exceed expenditures based on general fund unrestricted/restricted balances in the current fiscal year by \$53,988. The district is projecting deficit spending of \$161,765 in 2017-18 with deficit spending of \$141,383 projected to continue in 2018-19. Anticipated deficit spending should be for one-time, non-recurring expenditures to avoid depletion of the district's ongoing reserves.
- **ADA Estimations:** The district is projecting K-12 ADA at 745 for the current fiscal year. This is a decrease of approximately 23 ADA over the prior year. The district is projecting a slight increase in ADA for 2017-18 with no change projected in 2018-19. While the ADA projections appear reasonable based on the district's historic trends, our office recommends that the district continue to review and monitor the ADA budgeted and revise the budget accordingly, if the ADA does not materialize as planned. The District, as a charter district, is reliant on non-resident ADA. If a drop in non-resident ADA occurs, there is no prior year P-2 protection.

- **Impact of Negotiations:** The district has indicated that negotiations have been finalized with the certificated and classified bargaining units.
- **Multi-year Projections:** With respect to the two subsequent fiscal years 2017-18 and 2018-19, because the ultimate disposition of the State's budget cannot be predicted at this time and due to the current economic issues at both the state and national levels, it is important that the district's governing board and administration closely monitor and manage the district's financial resources, including monthly cash flow reviews, to assure maintenance of a positive financial condition. It remains essential for each school district to maintain the required state minimum unrestricted reserves throughout the current fiscal year and to budget at least the state minimum required reserves in each future year due to the uncertainty of ongoing funding levels at the state or federal levels.
- **STRS On-Behalf Contribution:** As of second interim the district has not budgeted for the State Teachers' Retirement System (STRS) On-Behalf Contribution for 2016-17. Governmental Accounting Standards Board (GASB) 24 requires employers to recognize in their governmental funds any on-behalf contributions to pension plans made by a non-employer contributing entity, such as a state. In 2016-17, the State of California will make an on-behalf contribution for Kings-River Hardwick totaling \$243,706. The on-behalf contribution is recognized by debiting pension contribution expenditures and crediting revenue. We recommend the district budget for the on-behalf contribution by 2017-18 adopted budget in accordance with GASB 24.

Conclusion

Based on our analysis, the data provided supports the board's **positive certification** of the district's financial condition and ability to meet its financial obligations. The district's unrestricted reserve balances meet the minimum state criteria and standards of 4% for the current and two subsequent years.

This certification is not a guarantee of future positive certifications. Circumstances do change and this opinion does not guarantee financial stability for the next two years. Your financial position is the result of management decisions and other issues, such as attendance, state and federal revenue funding, bargaining unit pressures, and price inflators for supplies and services.

In January 2017, Governor Brown presented his proposed budget for the 2017-2018 fiscal year. The Governor's K-12 budget proposal has COLA projected at 1.48% to be applied to the target and with estimated gap funding of 23.67% for the Local Control Funding Formula (LCFF). Discretionary one-time Proposition 98 funding equal to about \$48 ADA is also included in the proposed budget.

Future Concerns

The Governor's Proposed Budget for 2017-2018 reflects the flattening out of state revenues, which impacts 2017-2018 Prop 98 funding. The Governor is still projecting to have full implementation of LCFF by 2020-2021 but has put a pause on the implementation in 2017-2018. The Governor's budget proposal simply funds the COLA with no additional gap funding in 2017-2018. This proposal will require changes to future projections. With the adoption of the Local Control Accountability Plan (LCAP) the district will need to budget accordingly to meet the needs of the LCAP.

Finally, please be advised of the following requirements resulting from the enactment of AB2756 (June 21, 2004):

- 1) AB2756 now requires the district to update and certify multiyear financial projections reflecting the impact of any salary negotiations on the current and two subsequent fiscal years prior to board approval. Please send a copy of the updated multiyear financial projections with the submission of the AB1200 Salary settlement disclosure documents to our office 5 days prior to board action.
- 2) AB2756 expanded the responsibilities of the county superintendent in reviewing school district budgets and in monitoring fiscal solvency. Education Code Section 42127.6 (a)(1) now states, "A school district shall provide the county superintendent of schools with a copy of a study, report, evaluation, or audit that was commissioned by the district, the county superintendent, the Superintendent of Public Instruction, and state control agencies and that contains evidence that the school district is showing fiscal distress under the standards and criteria adopted in Section 33127, or a report on the school district by the County Office Fiscal Crisis and Management Assistance Team or any regional team created pursuant to subdivision (i) of Section 42127.8." If the district commissions such a study, please submit a copy to our office to the attention of Sarah Smigiera.
- 3) AB2756 expanded the responsibilities of the county superintendent in reviewing school district budgets and in monitoring fiscal solvency. Education Code Section 42127.6 (a)(1) now states, "A school district shall provide the county superintendent of schools with a copy of a study, report, evaluation, or audit that was commissioned by the district, the county superintendent, the Superintendent of Public Instruction, and state control agencies and that contains evidence that the school district is showing fiscal distress under the standards and criteria adopted in Section 33127, or a report on the school district by the County Office Fiscal Crisis and Management Assistance Team or any regional team created pursuant to subdivision (i) of Section 42127.8." If the district commissions such a study, please submit a copy to our office to the attention of Sarah Smigiera.

If you have any questions concerning the review of the district's 2015-16 Second Interim Financial Report, please contact the undersigned.

Sincerely,

Stephen G. Corl
Assistant Superintendent, Business Services

CC: Tim Bowers
Cathlene Anderson
Trish Singh

April 17, 2017

Mr Jack Soares, Board President
Pioneer Union School District
1888 N. Mustang Dr.
Hanford, CA 93230

Dear Mr. Soares,

Reporting Requirements

Pursuant to the reports required by Section 42130, the governing board of each school district shall certify, in writing, within 45 days after the close of the period being reported, whether or not the school district is able to meet its financial obligations for the remainder of the fiscal year and, based on current forecasts, for the two subsequent fiscal years. These certifications shall be based upon the board's assessment, on the basis of standards and criteria for fiscal stability adopted by the State Board of Education pursuant to Section 33127, of the district budget, as revised to reflect current information regarding the adopted state budget, district property tax revenues pursuant to Sections 95 to 100, inclusive, of the Revenue and Taxation Code, and ending balances for the preceding fiscal year as reported pursuant to Section 42100. The certifications shall be classified as positive, qualified, or negative, as prescribed by the Superintendent of Public Instruction for the purposes of determining subsequent actions by the Superintendent of Public Instruction, the Controller, or the county superintendent of schools.

Within 75 days after the close of each reporting period, each county superintendent of schools shall report to the Controller and the Superintendent of Public Instruction as to whether the governing board of each of the school districts under his or her jurisdiction has submitted the certification. That report shall indicate the type of certification filed by each district.

Analysis of District's Fiscal Position

The Kings County Office of Education has reviewed the Second Interim Financial Report submitted by the Pioneer Union School District for the period ending January 31, 2017. Our review included an analysis of the district's estimated average daily attendance (ADA), projected revenues, expenditures, fund balance and multiyear financial projections. *The following are our notes:*

- **Revenue/Expenditure Projections:** The district is projecting expenditures to exceed revenues based on general fund unrestricted/restricted in the current fiscal year of \$1,038,264. Deficit spending is not projected for either 2017-18 or 2018-19. Anticipated deficit spending should be for one-time, non-recurring expenditures to avoid depletion of the district's ongoing reserves.
- **ADA Estimations:** The district is projecting ADA of 1,558.03 for the current fiscal year. This is a increase of approximately 66 ADA over the prior year Second Period Attendance report. The district is projecting flat ADA in 2017-18 and 2018-19. While the ADA projections appear reasonable based on the district's historic trends, our office recommends that the district continue to review and monitor the ADA budgeted and revise the budget accordingly, if the ADA does not materialize as planned. The District, as a charter district, is reliant on non-resident ADA. If a drop in non-resident ADA occurs, there is no prior year P-2 protection.
- **Impact of Negotiations:** The district has indicated that negotiations have been finalized with the certificated and classified bargaining units.

- **Multi-year Projections:** With respect to the two subsequent fiscal years 2017-18 and 2018-19, because the ultimate disposition of the State's budget cannot be predicted at this time and due to the current economic issues at both the state and national levels, it is important that the district's governing board and administration closely monitor and manage the district's financial resources, including monthly cash flow reviews, to assure maintenance of a positive financial condition. It remains essential for each school district to maintain the required state minimum unrestricted reserves throughout the current fiscal year and to budget at least the state minimum required reserves in each future year due to the uncertainty of ongoing funding levels at the state or federal levels.

Conclusion

Based on our analysis, the data provided supports the board's *positive certification* of the district's financial condition and ability to meet its financial obligations. The district's unrestricted reserve balances meet the minimum state criteria and standards of 3% for the current and two subsequent years.

This certification is not a guarantee of future positive certifications. Circumstances do change and this opinion does not guarantee financial stability for the next two years. Your financial position is the result of management decisions and other issues, such as attendance, state and federal revenue funding, bargaining unit pressures, and price inflators for supplies and services.

In January 2017, Governor Brown presented his proposed budget for the 2017-2018 fiscal year. The Governor's K-12 budget proposal has COLA projected at 1.48% to be applied to the target and with estimated gap funding of 23.67% for the Local Control Funding Formula (LCFF). Discretionary one-time Proposition 98 funding equal to about \$48 ADA is also included in the proposed budget.

Future Concerns

The Governor's Proposed Budget for 2017-2018 reflects the flattening out of state revenues, which impacts 2017-2018 Prop 98 funding. The Governor is still projecting to have full implementation of LCFF by 2020-2021 but has put a pause on the implementation in 2017-2018. The Governor's budget proposal simply funds the COLA with no additional gap funding in 2017-2018. This proposal will require changes to future projections. With the adoption of the Local Control Accountability Plan (LCAP) the district will need to budget accordingly to meet the needs of the LCAP.

Finally, please be advised of the following requirements resulting from the enactment of AB2756 (June 21, 2004):

- 1) AB2756 now requires the district to update and certify multiyear financial projections reflecting the impact of any salary negotiations on the current and two subsequent fiscal years prior to board approval. Please send a copy of the updated multiyear financial projections with the submission of the AB1200 Salary settlement disclosure documents to our office 5 days prior to board action.
- 2) AB2756 expanded the responsibilities of the county superintendent in reviewing school district budgets and in monitoring fiscal solvency. Education Code Section 42127.6 (a)(1) now states, "A

school district shall provide the county superintendent of schools with a copy of a study, report, evaluation, or audit that was commissioned by the district, the county superintendent, the Superintendent of Public Instruction, and state control agencies and that contains evidence that the school district is showing fiscal distress under the standards and criteria adopted in Section 33127, or a report on the school district by the County Office Fiscal Crisis and Management Assistance Team or any regional team created pursuant to subdivision (i) of Section 42127.8.” If the district commissions such a study, please submit a copy to our office to the attention of Sarah Smigiera.

If you have any questions concerning the review of the district’s 2016-17 Second Interim Financial Report, please contact the undersigned.

Sincerely,

Stephen G. Corl
Assistant Superintendent, Business Services

CC: Tim Bowers
Paul van Loon
Julie Semas

April 17, 2017

Mr. Kelly Graham, Superintendent
Ackerman Charter District
13777 Bowman Road
Auburn, CA 95603

RE: FY 2016-17 Second Interim

Dear Superintendent Graham,

In accordance with the provisions of Education Code Section 42131, a review of the Ackerman Charter District's Second Interim Report for fiscal year 2016-17 has been completed by the Placer County Office of Education (PCOE). The District filed a Second Interim Report with a positive certification. Our analysis of the data provided indicates the District should be able to meet its financial obligations for the current and two subsequent years. We therefore concur with the District's positive certification and offer the following comments:

Current and Multi Year Expenditures Exceed Income (Deficit Spending)

Using the most current Gap and COLA percentage provided by the Department of Finance, the District's adjusted projected unrestricted deficit spending would be (\$617,124) or 12.6% in FY 2016-17, (\$207,465) or 4.6% in FY 2017-18 and (\$79,139) or 1.7% in FY 2018-19. We recommend the District monitor the projected deficit and adjust its future spending plans to reduce deficit spending and maintain positive fund balances.

Negotiations

According to the information provided in the District's interim report, certificated and classified labor contract negotiations for FY 2016-17 remain unsettled. Because labor costs make up a large portion of the District's budget, we are concerned that any salary and benefit increase, if paid from reserves or other one-time resources, could adversely impact the fiscal condition of the District. This letter is a reminder that the Criteria and Standards specify that, upon settlement of a labor contract, the District must provide the county office of education with a disclosure of the settlement including its current and ongoing fiscal impact on the District.

We appreciate the efforts of the District staff in preparing and submitting the Second Interim Report. A duplicate original of this letter is being sent to the Board President. Please feel free to contact me or Martin Fregoso at (530) 889-5920 should you have any questions or concerns about PCOE's review of the District's interim report.

Yours in education,

Gayle Garbolino-Mojica
County Superintendent of Schools

GGM/jk
C: Shelly Saunders

Stanislaus County Office of Education
Tom Changnon, Superintendent
Business Services Division
1100 H Street, Modesto, CA 95354
209-238-1900, Fax 209-238-4205

April 6, 2017

Hickman Community Charter Board of Trustees
c/o Hickman Community Charter School District
13306-A 4th Street
Hickman, CA 95323

Dear Board of Trustees:

In accordance with the provisions of Education Code (E.C.) Section 42131, a review of the Hickman Community Charter School District's (District) Second Interim Report for fiscal year 2016-17 has been completed by the Stanislaus County Superintendent of Schools (County Superintendent). Based on the financial statements, multiyear projections and assumptions provided by the District, with data current as of January 31, 2017, it appears that the District should be able to meet its financial obligations for the current and two subsequent fiscal years. **We therefore concur with the District's positive certification with the following comments.**

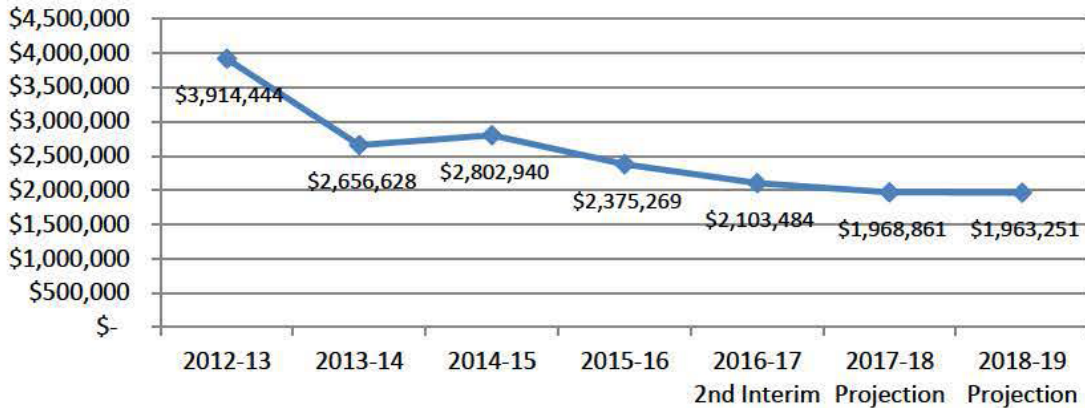
This letter discusses various issues noted by the County Office staff during their review of the District's 2016-17 Second Interim Report and corresponding supplemental information provided by the District. These issues include reserves and multiyear projections, change in fund balance, cash flow, pension expenses and status of labor negotiations.

Fund Balance

We note, the Unrestricted General Fund projected deficit spending in 2016-17 is estimated at <\$271,782>. This reduces the projected ending fund balance to \$2,103,484, or 20.75% of the budgeted total expenditures and transfers out.

Based upon the data provided by the District, the Unrestricted General Fund multiyear projections reflect year-over-year decreases to the ending fund balance. We urge the District to monitor spending closely to ensure adequate balances are maintained.

The chart below reflects the Unrestricted Ending Fund Balances and Estimated Projections.



Reserves and Multiyear Projections

The minimum reserve level for the district is 3.00% under the State Criteria and Standards. Our review of the District's multiyear projections indicates reserve levels, inclusive of Fund 17, after Assignments of 20.72% for 2016-17, 20.91% for 2017-18, and 20.52% for 2018-19.

Enrollment and Average Daily Attendance (ADA)

The chart below depicts CBEDS enrollment, ADA and estimated projections.

YEAR	ENROLLMENT	ADA
2012-13	1,126	1,095.65
2013-14	1,088	1,076.77
2014-15	1,104	1,074.04
2015-16	1,061	1,040.76
2016-17 2nd Interim	1,071	1,049.00
2017-18 Projections	1,071	1,049.00
2018-19 Projections	1,071	1,049.00

Cash Flow

The Governor's January budget proposal for 2017-18 included a one-time principal apportionment deferral from June 2017 to July 2017. This translates to approximately 27% of the June P-2 principal apportionment payment.

We note that the Cash Flow summary did not reflect this proposed deferral. We advise this deferral, in addition to a two year summary, and not just a single year, be completed at the next reporting period to ensure cash flow needs are monitored more closely.

Status of Labor Negotiations and Pension Expenses

Information reflected in the District's Interim report shows that certificated and classified labor have settled. We would like to thank you for your timely submission of the required documents.

With the rising costs in mandatory pension payments, it is advised that a multi-year STRS and PERS analysis be completed at the next reporting period comparing the increased year-over-year costs to potential LCFF increases.

Debt Issuance

This letter also serves as a reminder of the statutory requirements placed on debt issuance by school districts with qualified or negative interim report certifications. These requirements are specifically addressed by E.C. Section 42133(a).

Submission of Studies, Reports, Evaluations and/or Audits

We remind the District that E.C. Sections 42127 and 42127.6 require the County Office be sent copies of any studies, reports, evaluations, or audits done of the district that contain evidence that the district is showing fiscal distress. We are then required to incorporate that information into our analysis of budgets, interim reports and the district's overall financial condition.

Conclusion

We are aware that the information provided reflects the District's financial position and assumptions to date, and that further adjustments will be made during the year as additional data becomes available. We hope that these comments will be helpful to the District administration and board as you plan for the remainder of 2016-17 and develop your projections for 2017-18 and beyond.

We wish to express our appreciation to Mr. Gardner and his staff for their cooperation during the preparation and review of the District's Second Interim report for fiscal year 2016-17. If our office can be of further assistance, please contact me at (209) 238-1937.

Sincerely,

Julie A. Betschart
Director III, District Business Support

c: Mr. Paul Gardner, Superintendent
Ms. Cathy Thomasson, Business Manager
Ms. Sandi Madera, Director I, District Business Support, Stanislaus County Office of Education