



Kings County Office of Education

Tim Bowers - County Superintendent of Schools

January 16, 2018

Dr. Guadalupe Solis, Board President
Lemoore Union High School District
5 Powell Ave.
Lemoore, CA 93245

Dear Dr. Solis,

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 First Interim Financial Report submitted by the Lemoore Union High School District for the period ending October 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 by \$490,779 based on general fund unrestricted/restricted multi-year projection in the current year. The district is projected to deficit spend in fiscal year 2018-19 by \$438,283 and in fiscal year 2019-20 by \$351,487.
- 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 at 1,832 for the current fiscal year. This is a decrease of roughly 9 ADA over the prior year. As a result, the district will be funded at the 2016-17 rate based on P-2 protection from the prior year Second Principal Attendance Report. The district is projecting no change in ADA in the two subsequent fiscal years according to the general fund unrestricted/restricted multi-year projection. 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.
- **Impact of Negotiations:** The district has indicated that negotiations have been finalized with the classified and/or certificated bargaining units.
- **Multi-year Projections:** With respect to the two subsequent fiscal years 2018-19 and 2019-20, 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.

Future Concerns

The Governor's Budget for 2018-19 proposes full funding of LCFF which is two years ahead of the original full implementation target of 2020-21. This is largely attributable to growth in personal income tax over the last several years. As full LCFF funding is anticipated it is important to note that schools will experience a flattening out of state revenues as we move into a COLA funded only environment. Increase in demand on a district's base funding which includes pension contributions, health and benefit contributions, negotiated salary increases, and special education contributions will outpace COLA increases in 2019-20 and beyond. This may require changes to future budget projections.

The Governor's Budget proposal for 2018-19 requires districts to show how their budget expenditures align with the actions and services outlined in their Local Control Accountability Plan (LCAP) for serving students who generate the additional supplemental and concentration funding. It is proposed that this will be facilitated by calculating and reporting on a single website the total amount of supplemental and concentration funding provided to each district under LCFF. During 2018-19 LCAP development it is critical that districts both budget accordingly to meet the needs of the LCAP and meet the minimum proportionality requirement as calculated under Title 5, California Code of Regulations, Section 15496(a).

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 2017-18 First Interim Financial Report, please contact the undersigned.

Sincerely,



Stephen G. Corl
Assistant Superintendent, Business Services

CC: Tim Bowers
Debbie Muro
Mark Howard