



# MENDOCINO COUNTY OFFICE OF EDUCATION

WARREN GALLETTI, SUPERINTENDENT OF SCHOOLS

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April 15, 2015

Ron Miles, President  
Members, Board of Trustees  
Pt. Arena Joint Union High/Arena Union Elem School Districts  
P.O. Box 87  
Point Arena, CA 95468

SUBJECT: REVIEW OF 2014/15 SECOND INTERIM POINT ARENA JOINT UNION  
HIGH/ARENA UNION ELEMENTARY SCHOOL DISTRICTS BUDGET

Dear Members of the Board:

We have reviewed your 2014/15 Second Interim Report in accordance with Education Code Section 42130, regarding our fiscal oversight responsibilities. The Mendocino County Superintendent of Schools is required to review Interim Reports to ensure expenditures will not exceed available resources and projected revenues are realistic. Education Code Section 33127 further explains the guide used to monitor the fiscal stability of school districts shall be the adopted State Board of Education's Standards and Criteria. School districts shall also use these same Standards and Criteria in developing their budgets and managing their expenditures. AB1200 and AB2756 charge County Offices of Education with certain fiscal oversight responsibilities for school districts. In order to comply with these requirements, MCOE must assure all budget documents are complete and accurate. Any technical corrections to the budget brought to our attention are being addressed with your district Business Manager.

As a result of our review, we concur with the positive certification of your Second Interim Report with the following comments:

### **2015/16 State Budget**

As noted in our First Interim review letter, the Governor's January budget proposals included an increase to the local control funding formula gap percentage for 2015-16. District multi-year plan (MYP) revenues have been recalculated using these new factors.

As gap percentages and total revenues increase, Supplemental and Concentration funds to be expended on improving outcomes for low income, English learner and foster youth students increase as well. This necessitates updating expenditure plans.

We now await the Governor's May revise for an update on these and other matters contained in the proposals.

## Supplemental and Concentration Grant Expenditures

Our review of your District's MYP determined that supplemental and concentration revenues are appropriately matched by expenditures for all years.

At 2015-16 budget adoption time, your District will prepare the annual update to the Local Control and Accountability Plan (LCAP). The Annual Update will include information on planned expenditures for 2014-15, student outcomes for 2014-15 and program and expenditure plan updates for the three years starting in 2015-16. Our fiscal review of the LCAP, per Education Code Section 52064 (Appendix F) must encompass:

- Adherence to the State Board of Education (SBE) template
- Sufficient expenditures in the plan to implement the LCAP
- Adherence to SBE expenditure regulations

This will include a review to ensure that the three year expenditures in the LCAP continue to be included in all years of the District's MYP.

## Deficit Spending

Your District's second interim MYP reflects deficit spending **all three years**, resulting in a decline of the unrestricted fund balance in excess of <\$1.3mil> over the 3 year budget period. **It is essential that you reduce deficit spending by developing a Board approved plan of specific actions to bring expenditures in line with projected revenues.**

## Reserves

The January 2015 Legislative Analyst's Office (LAO) report concluded that decisions about reserve levels are a key component of the annual choices school districts make about allocating their resources. The report stated that healthy reserves help districts to manage cash flow, mitigate funding volatility, address unexpected costs, save for large purchases and reduce borrowing costs. The LAO concluded the Legislature could improve local planning and make district budgets more responsive to local needs if it would repeal the SB 858 reserve caps and focus attention on refining reserve disclosure requirements.

Regardless of whether or not the SB 858 reserve cap is repealed, districts should continue to maintain adequate reserves for prudent short-term fiscal planning and long-term fiscal solvency. We support your commitment to additional reserves above the state required minimum.

The MYP indicates the ending fund balance will be adequate to meet the state required minimum 4% Reserve for Economic Uncertainties as well as the additional Board reserve for the three year period. **We encourage the district to start the process now to bring expenditures into alignment with projected revenues for the 2015-16 budget to further ensure adequate reserves and fiscal solvency.**

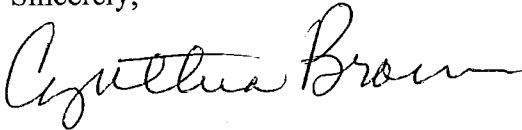
**In Closing**

We support you in your efforts to maintain the fiscal health of your School District. We continue to urge that School District budgets be managed with conservatism given:

- known major future cost increases such as those for pensions, and
- the potential that always exists for revenues to decrease, costs to increase further and/or for mandates to expand.

We are here to support you in all that you are striving to do for the children of your District. Please feel free to call on us if we may be of assistance.

Sincerely,



Cynthia Brown  
Director, Fiscal Services

cc: Colleen Cross, Superintendent  
Catherine Chin, Business Manager  
Warren Galletti, Superintendent, MCOE