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MICHELLE HUTCHINS
Superintendent of Schools

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April 15, 2022

Warren Galletti, Superintendent
Members, Board of Trustees
Arena Union Elementary-Point Arena Joint Union High
P.O. Box 87
Point Arena, California 95468

Subject: County Office Review of the 2021-22 Second Interim Report

Dear Superintendent and Members of the Board:

We have reviewed the 2021-22 Second Interim Report of the Arena Union Elementary-Point Arena Joint Union High, in accordance with Education Code Section 42130, to determine if it complies with the criteria and standards adopted by the State Board of Education pursuant to EC Section 33127. AB1200 and AB2756 charge County Offices of Education with certain fiscal oversight of school districts, and in order to comply, MCOE must assure that expenditures will not exceed available reserves and that all budget documents are complete and accurate.

Based on our review and analysis, we believe that the second interim report that was approved by the district's governing board on March 16, 2022, reflects the financial status of the district and is consistent with the state's criteria and standards. We therefore concur with the district's positive certification, with our comments outlined below:

Fiscal Crisis Indicators

Your district's fiscal crisis indicators include the following risk factors:

- **Deficit Spending and Reserves:** Unrestricted deficit spending is projected to total \$(66,672) over the current and two subsequent years, spending down approximately 5% of reserves. The unrestricted ending fund balance decreases from \$1,566,667 at the beginning of 2020-21 to \$1,311,814 at the end of June 2024. We encourage the district to work on a plan to reduce spending in order to bring expenditures in alignment with projected revenues.

In each year of the Multi Year Projection (MYP), the district maintains Reserve for Economic Uncertainty (REU) of 12%, well above the state required 4%. We commend the district on

maintaining healthy reserves and encourage you to keep a watch on deficit spending trends and the effects on meeting future financial obligations.

Declining Enrollment and ADA: Schools in declining enrollment will experience a sharp decline in LCFF funding in 2022-23. The district must monitor enrollment and ADA projections, as well as align staffing and services with student counts and budget projections.

2022-23 Proposed Budget

In a recent presentation by Michael Fine, Chief Executive Officer of FCMAT – Fiscal Crisis & Management Assistance Team, he mentioned that close to 50% of the increases that schools are seeing are going towards the rise in the cost of pension - STRS and PERS. While the Cost of Living Adjustments (COLA) means an increase in dollars to the districts, the cost of all goods are rising at a faster and higher rate than the COLA. At the same time, Average Daily Attendance (ADA) continues to be a strong concern for many districts. While there is proposed legislation that will add to ability to use the average of the prior 3 years, to the existing options of this year versus last year's ADA, this has not yet been passed into law, and it simply softens the blow of the decline.

Districts must focus on using restricted dollars first when planning budgets. Additionally, districts need to have an exit strategy for the all one-time funds that will be coming to an end in the next couple of years. More precisely, districts will need to adjust their expenses to reflect the reduced revenue. FCMAT also warns that they have seen a surge in the number of small districts experiencing fiscal distress as they try to navigate these changes.

We recognize that there are many challenges ahead and are committed to supporting all our districts in providing the best education possible while maintaining the fiscal health of your school district. We want 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.

If you have any questions or comments, please contact Marilyn Tiriboyi, Assistant Superintendent of Business Services at (707) 467-5030 or Michelle Ebert, Director of External Business Services at (707) 467-5043.

Sincerely,



Michelle Hutchins
County Superintendent of Schools

cc: Catherine Chin, Business Manager, AUE-PAJUH

Merilyn Tiriboyi, Assistant Superintendent of Business Services, MCOE
Michelle Ebert, Director, External Fiscal Services, MCOE
Roberta Watkins, District Fiscal Advisor, MCOE
Jami Vallejo, District Fiscal Advisor, MCOE