

April 17, 2017

Nicholas Stuart, Board President
Curtis Creek Elementary School District
15110 Potato Ranch Road
Sonora, CA 95370

Sharon Johnson, District Superintendent
Curtis Creek Elementary School District
18755 Standard Road
Sonora, CA 95370

Subject: Approval with comments – 2016/17 Second Interim Report

Dear Mr. Nicholas and Ms. Johnson:

In accordance with the provisions of Education Code (E.C.) Section 42131, a review of the Curtis Creek Elementary School District's (District) Second Interim Report for fiscal year 2016/17 has been completed by the Tuolumne County Superintendent of Schools (County Superintendent). Per E.C. 42131, the District Governing Board makes a finding of positive, qualified or negative.

“Positive certification shall be assigned to any school district that, based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years.”

“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.”

“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.”

“These certifications shall be based upon the financial and budgetary reports required by Section 42130 but may include additional financial information known by the governing board of the school district to exist at the time of each certification.”

Nicholas Stuart, Board President
Sharon Johnson, District Superintendent
Curtis Creek Elementary School District
April 17, 2017
Page 2 of 5

At a regular meeting of the District Governing Board on March 14, 2017, the trustees took action to certify the District's Second Interim Report as 'Positive'. Upon our review of the District's certified Second Interim Report, multiyear projections (MYP) and assumptions provided by the District, it appears that the District should be able to meet its financial obligations for the current and two subsequent fiscal years.

Notwithstanding the District Governing Board's positive certification that it will meet its financial obligations for the current fiscal year and subsequent two fiscal years, and the County Superintendent's agreement with the positive certification as presented, this letter discusses the various areas of concern noted by the County Superintendent in her review of the District's 2016/17 Second Interim Report. The areas of concern include volatile enrollment, deficit spending, fund balance, collective bargaining, fund 13 (cafeteria) contributions, and fiscal recovery plan.

Volatile Enrollment

The District's 2016/17 Second Interim Report indicates that enrollment declined in 2014/15, increased in 2015/16, declined in 2016/17, and is projected to decline in 2017/18 and 2018/19. As a district with volatile enrollment, it is critical to closely monitor enrollment projections to assure that the District is budgeting and staffing appropriately.

Deficit Spending

We have noted that the District is projecting an operating deficit of (\$398,836) in 2016/17, (\$277,790) in 2017/18, and (\$416,437) in 2018/19, **leaving a projected ending fund balance in the general fund of \$248,280**. The anticipated deficit spending would result in a \$1,093,063 reduction in fund balance. The projected deficit spending not only reduces the reserves, but also greatly reduces the District's available cash. Failure to minimize deficit spending could jeopardize the financial standing of the District, including its ability to meet the state recommended minimum reserve for economic uncertainties.

Fund Balance

The District projects an ending fund balance in the general fund of \$942,506 with an unappropriated component of \$853,342 at June 30, 2017; a projected ending fund balance of \$664,717 with an unappropriated component of \$654,962 at June 30, 2018; and a projected ending fund balance of \$248,280 with an unappropriated component of \$238,525 at June 30, 2019. The District projects a reserve for economic uncertainties of approximately \$500,000 in fund 17 for 2016/17, 2017/18, and 2018/19.

Nicholas Stuart, Board President
Sharon Johnson, District Superintendent
Curtis Creek Elementary School District
April 17, 2017
Page 3 of 5

Collective Bargaining

According to the information provided in the District's Second Interim Report, labor contract negotiations for the current year remain unsettled and potential increases have not been calculated and incorporated into budgeted salary and benefit expenditures. Because labor costs make up a large portion of the District's budget, we are concerned that any salary and/or benefit increase would adversely impact the fiscal condition of the District.

Fund 13 (Cafeteria) Contributions

The District anticipates a potential required contribution (interfund transfer) from the general fund to the cafeteria fund of \$25,000 in 2016/17 and \$20,000 in 2017/18 and 2018/19. Failure to manage encroachment in the cafeteria fund and other funds directly impacts the general fund.

Fiscal Recovery Plan

We are aware that the information provided in the District's 2016/17 Second Interim Report reflects planned budget reductions from the District's board approved fiscal recovery plan. It is imperative that the District adhere to statutory timelines of the adopted Board resolutions based on the Superintendent's recommendations regarding reduction in service for both classified and certificated personnel, and any administrative personnel reductions. The District's fiscal recovery plan identifies several areas to begin addressing the structural deficit. As such, the District must adhere to the timely delivery of final termination notices and/or contract reductions on or before May 15, 2017 for certificated personnel, and on or before April 28, 2017 (or 60 days prior to the effective date of the layoff) for classified personnel.

It is imperative that the District carefully monitor and evaluate its revenue and expenditures to attain full recovery and to follow through on the District's plans and commitments to achieve fiscal solvency and cost containment to avoid future insolvency.

Third Interim Report

We are aware that the information provided reflects the District's financial position and assumptions as of January 31, 2017, and that further adjustments will be made during the year as additional data becomes available and actions are taken to act on proposed resolutions in order to comply with statutory deadlines.

Due to the District's MYP's dependence on the complete execution of Board approved staffing reductions, which may still be pending, we are requiring a Third Interim Report submission to confirm such action. In addition, please provide copies of all final layoff notices and/or contract reductions with the District's Third Interim Report.

Nicholas Stuart, Board President
Sharon Johnson, District Superintendent
Curtis Creek Elementary School District
April 17, 2017
Page 4 of 5

A Third Interim Report is the financial statement projecting the District's fund and cash balances through June 30, 2017 for the period ending April 30, 2017. These reports, projections, and supporting assumptions are due to the County Superintendent not later than June 1, 2017. The District Governing Board is not required to self-certify to a "positive", "qualified," or "negative" certification when submitting the Third Interim Report. However, we recommend that the Board review the Third Interim Report as an information item at a regular meeting of the Governing Board in advance of the June 1, 2017 deadline.

Debt Issuance

Education Code Section 42133(a), which reads: "A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United State Code, unless the county superintendent of schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the district's repayment of that indebtedness is probable. A school district is deemed to have a qualified or negative certification for purposes of this subdivision if, pursuant to this article, it files that certification or the county superintendent of schools classifies the certification for that fiscal year to be qualified or negative."

Conclusion

The District's Second Interim Report has been reviewed and accepted as submitted, with noted concerns and a requirement to submit a Third Interim Report not later than June 1, 2017. Should the District be unable to demonstrate in its Third Interim Report the ability to meet the State required minimum reserve, my office will evaluate the need to invoke the provisions of Ed Code Section 42127.6.

Nicholas Stuart, Board President
Sharon Johnson, District Superintendent
Curtis Creek Elementary School District
April 17, 2017
Page 5 of 5

We appreciate the efforts of the Board and District Administration as they strive to develop and maintain balanced budgets in these especially challenging times. Working closely with you and your staff in a proactive fashion is critical. Any technical comments from the County Superintendent's Business Office relative to the Second Interim Report will be directed to the District's Director of Business Services. If our office can be of further assistance, please contact Ms. Rico at 536-2020.

Sincerely,



Marguerite D. Bulkin
County Superintendent



Elizabeth Rico
Assistant Superintendent Business Services

ER:djh

cc: Marguerite D. Bulkin, County Superintendent
Crissy Huey, Director of Business Services
California Department of Education
State Controller's Office