

April 17, 2017

Jenny David, Board President
Columbia Union School District
23410 Italian Bar Road
Columbia, CA 95310

Diane Dotson, Interim District Superintendent
Columbia Union School District
22540 Parrotts Ferry Road
Columbia, CA 95310

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

Dear Ms. David and Ms. Dotson:

In accordance with the provisions of Education Code (E.C.) Section 42131, a review of the Columbia Union School District's (District) Second Interim Report for fiscal year 2016/17 has been completed by the Tuolumne County Superintendent of Schools (County Superintendent). Based on the multiyear projections 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. 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. Any technical comments relative to the report have been directed to the District's Chief Business Official.

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."

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This letter discusses the various areas of concern noted by the County Superintendent in its review of the District's 2016/17 Second Interim Report. The areas of concern include volatile enrollment, cash flow, deficit spending, collective bargaining, board identified budget reductions, and significant changes in administration.

Volatile Enrollment

The District's 2016/17 Second Interim Report indicates that enrollment declined in 2014/15 and 2015/16, increased in 2016/17, and is projected to remain flat 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.

Cash Flow

The District's June 30, 2017 cash, as reported in the District's cash flow worksheet, is estimated to be \$722,106, **which is \$1,272,177 less than the cash balance at June 30, 2016. The District's payroll and benefits are approximately \$380,000 per month.** We continue to urge school districts to monitor their cash very closely and give careful consideration to any "non-essential" expenditures. In addition, as deficit spending continues and reserves are reduced it will become more difficult to keep cash balances high

Deficit Spending

We have noted that the District is projecting an operating deficit of (\$617,684) in 2016/17, (\$199,704) in 2017/18, and (\$92,461) in 2018/19 leaving a projected ending fund balance in the general fund of \$813,736. The anticipated deficit spending would result in a \$909,849 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.

Collective Bargaining

According to the information provided in the District's Second Interim Report, classified and management 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.

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Board Identified Budget Reductions

With significant projected deficit spending and current year classified and management negotiations unsettled, the District's current fiscal condition indicates the need for further budget reductions in the 2017/18 and 2018/19 years. We understand that necessary reductions will be made to ensure that the District will be able to maintain fiscal solvency. Should the District's governing board not approve and implement a deficit reduction plan to drastically reduce proposed deficit spending, the District's ability to maintain the required reserve for economic uncertainty could be jeopardized.

Significant Changes in Administration

During the period 2015/16 through 2016/17, the District has experienced personnel changes in the superintendent, chief business official, and district office support staff. While this indicates a weakness in stability and leadership it is also one of the key indicators of potential risk of insolvency or fiscal issues, in accordance with the Fiscal Crisis and Management Assistance Team's (FCMAT) "Fiscal Health Risk Analysis, Key Fiscal Indicators for K-12 Districts".

Conclusion

The District's Second Interim Report has been reviewed and accepted as submitted. 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. If our office can be of further assistance, please call me at 536-2020.

Sincerely,



Marguerite D. Bulkin
County Superintendent



Elizabeth Rico
Assistant Superintendent Business Services

ER:djh

cc: Christine Fouts, Chief Business Official