Monterey County Office of Education

Dr. Nancy Kotowski
County Superintendent of Schools

April 28, 2015

Kari Yeater, Superintendent
North Monterey County Unified School District
8142 Moss Landing Rd
Moss Landing, CA 95039

RE: Review of Second Interim Report

Dear Superintendent Yeater:

Thank you for the submission of your Fiscal Year 2014-15 Second Interim Report. *Education Code* 42131 requires that as part of the interim review process the County Superintendent of Schools reviews and analyzes District Interim Reports in accordance with State Board-approved Criteria and Standards pursuant to *Education Code* 33127. Based upon this review, the County Superintendent may either accept or change the District certification to qualified or negative as appropriate.

I. CERTIFICATION

Based upon the review of the District financial information, we concur with the District's positive certification.

II. BUDGET SUMMARY – GENERAL FUND

A.	Total Revenues (Form 01, Line A5 plus Line D1a plus Line D2a)	$ 45,601,581.36
B.	Total Expenditures (Form 01, Line B9 plus Line D1b plus Line D2b)	$ 46,186,526.53
C.	Net Decrease in Fund Balance (Form 01, Line E)	($ 584,945.17)
D.	Total Available Unrestricted Reserves (Form 01, Col. D, Accounts 9789 and 9790)	$ 1,387,000.00
E.	Available Unrestricted Reserves expressed as a percent of Total Expenditures (Line D divided by Line B)	3.00%

State Reserves Criteria for your district is 3%.

III. COMMENTS/RECOMMENDATIONS

1. The evaluation of your District's Second Interim report is based upon an unaudited unrestricted beginning balance of $3,703,897.39.

2. The District's calculation of the unrestricted total LCFF sources is $35,030,086.48.

3. The school district's projected ADA of 4,231.16 is 79.85 higher than last year's P2 ADA; this figure does not include the county supplement.

4. 85.3% of unrestricted General Fund expenditures are allocated to unrestricted salaries and benefits.

5. The multiyear projections provided in the Second Interim report indicate that the District **will** be able to meet its financial obligations for the current and two subsequent fiscal years.

6. The district is projecting unrestricted deficit spending in the amount of ($951,242.00) in 2015-16.

7. The district is projecting unrestricted deficit spending in the amount of ($1,449,871.00) in 2016-17.

8. Although deficit spending in itself may not be an indication of district fiscal distress, it has been identified by the Fiscal Crisis and Management Assistance Team (FCMAT) as one of the key fiscal health risk indicators and the district should evaluate future expenditure projections in an effort to eliminate on-going deficit spending.

9. Items solely of a technical nature have been forwarded directly to the District's Chief Business Official.

IV. GENERAL INFORMATION

The recommendations and comments that appear in this document are based upon an in-depth review of the District's interim documents, and an analysis of the District budget as measured by State-adopted Criteria and Standards. We hope that the review and analysis prove to be useful to the District Board and Administration. We want to thank Danica Salazar for the timely submission of the Second Interim Report.

The Governor's 2015-16 budget proposal assumes significant growth in Prop 98 revenue. This is good news for districts as it leads to an increase in the projected 2015-16 LCFF gap funding percentage, to a current estimate of 32.19%, as well as significant one-time resources for a variety of purposes. However, this surge in funding also serves to highlight the volatility of state revenues. Under LCFF such rapid revenue growth can create expenditure challenges as well, such as a need to accelerate the reduction in districts K-3 class sizes, increasing competition for a limited pool of qualified teaching candidates, coupled with increasing STRS and PERS costs borne by employees and employers.

Every district situation is unique, and in such a dynamic and uncertain operating environment, there are key aspects to maintaining fiscal solvency and protecting the integrity of education programs that apply to all districts:

1. Maintaining adequate reserves to allow for unanticipated circumstances (with the adequate level based in part of each districts unique situational assessment).
2. Maintaining fiscal flexibility by limiting commitments to future increased expenditures based on projections of future revenue growth, and/or establishing contingencies that allow expenditure plans to be changed if needed.

We thank you in advance for the thoughtful planning and effort being put into the development of your 2015-16 budget and accompanying Local Control Accountability Plan.

If you have any questions, please do not hesitate to contact me at (831) 755-0308.

Sincerely,

Garry P. Bousum
Associate Superintendent
Finance and Business Services Division



Colleen Stanley
Executive Director of Finance

cc: Dr. Nancy Kotowski, Monterey County Superintendent of Schools
Liann Reyes, Assistant Superintendent of Business Services, NMCUSD
Danica Salazar, Director of Fiscal Services, NMCUSD
Karen Hennessy, Director, District Advisory Services
Marvalee English, MCOE Financial Analyst