



MARIN COUNTY

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April 15, 2011

Mr. Raoul Wertz, President
Mill Valley School District

Mill Valley, CA 94941

Dear Mr. Wertz:

We have completed our review and analysis of the Mill Valley School District's Second Interim Report and the accompanying certification of financial solvency as approved by your board. The Second Interim Report is as of January 31, 2011. We agree with your assessment that based upon the information that was available as of January 31, 2011 the district will be able to meet its financial obligations for the current and subsequent two fiscal years, and that a positive certification is appropriate.

OPERATING DEFICITS

We note operating deficits in the unrestricted general fund of \$34,897 for 2010-2011, \$948,550 for 2011-2012, and \$1,861,808 for 2012-2013. Although the district maintains the state-required designation for economic uncertainty of 3% in each year, an operating deficit reduces the district's available fund balance and its ability to respond to emergencies, unanticipated revenue reductions, or unanticipated expenditures.

LONG-TERM STABILITY

We commend the board for maintaining a designation for economic uncertainty above the 3% required by the state. This action provides the district a greater degree of financial stability.

We note that the district benefits from rental income of district properties. Revenues generated by lease income are anticipated to provide approximately 3.1% of the total general fund revenues for the 2010-2011 school year.

We note that the district will continue to benefit from the generous support provided by the local community. Local contributors are anticipated to provide approximately 8.5% of the total general fund revenues for the 2010-2011 school year.

As Basic Aid districts are funded by local property taxes, their main source of funding generally has no direct relationship with district enrollment. Basic Aid districts can experience years of low or falling property tax growth at the same time enrollment may be increasing.

This is the case in the current year and subsequent years for Mill Valley School District, as enrollment growth is significantly higher than property tax growth. Given this, the district should continue to review their enrollment projections very carefully and determine if additional staffing should be included in multi-year projections, as well as determining what positions would be funded.

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GASB 45

The Governmental Accounting Standards Board (GASB) is the national organization that establishes accounting standards for governments. When the GASB establishes a new accounting standard or changes an existing standard, the GASB issues a Statement.

GASB Statement Number 45 establishes standards for accounting for postemployment benefits for governments. As a part of the implementation of GASB Statement Number 45, districts are required to have an actuarial study of their postemployment benefits every 2 years.

The next date for your district to have an updated actuarial study was January 1, 2011. Please send a copy to our office upon its completion.

During our review of the district's 2010-2011 budget, we noted that the district is paying for all of the postemployment benefit costs from the unrestricted general fund. The law allows the district to charge these benefits to all of its programs (including the restricted programs) using an equitable allocation method. We encourage the district to consider this as part of its strategy for funding the postemployment benefits. Please see Procedure 785 of the *California School Accounting Manual*.

“FAIR SHARE” REDUCTION

Trailer Bill SB 70 was signed into law on March 24, 2011 which includes an ongoing 8.92% “Fair Share” reduction for Basic Aid Districts beginning in 2011-2012 that would be calculated based on the 2010-2011 Undeficitated Revenue Limit and recaptured (paid) from 2011-2012 State categorical funds.

During our review it was noted that the 5.81% “Fair Share” reduction was included in your Multi-Year projection. However, with the 8.92% ongoing “Fair Share” reduction, which equates to \$1,472,878, has been enacted this would increase your district's reduction by \$536,800 beginning in 2011-2012. The district would need to include the full amount of the 8.92% “Fair Share” reduction when preparing the 2011-2012 budget and Multi-Year projections. Districts must still receive at least \$120 per average daily attendance in funding, and the reduction cannot be greater than the extent to which the district has excess property tax above the revenue limit.

Currently applying the 8.92% “Fair Share” reduction to the Multi-Year projection would result in a negative fund balance in 2012-2013. We recommend that the district implement reductions which would ensure that the district maintain the minimum required state reserve.

STATE OF THE STATE

The Governors' January proposed 2011-2012 budget included \$8.8 billion in revenues due to the extension of sales tax, income tax, and vehicle license fees. However, at this time, it appears that the temporary taxes will not be extended. As such, we are recommending that all districts include in their 2011-2012 budget and Multi Year Projections an ongoing reduction which equates to a minimum of \$330 per ADA as further cuts to education are anticipated. The estimated reduction to your district 2011-2012 budget would be \$ 892,703 based on estimated ADA of 2705 (2010-2011 P-1 reporting). Contingency plans should be developed in the event that an “all cuts” state budget is approved.

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OTHER REPORTS ON DISTRICT OPERATIONS

As a reminder, Education Code Section 42127.6 requires school districts to provide the county superintendent of schools with a copy of a study, report, evaluation, or audit that was commissioned by the district, the county superintendent, the Superintendent of Public Instruction, or state control agencies that contain evidence that the school district is showing fiscal distress under the standards and criteria adopted in Section 33127, or a report on the school district by the FCMAT or any regional team. Please provide copies of any such reports to us immediately upon their release.

We want to thank Michele Rollins for her timely submission of the Second Interim Report. If you have any questions, please do not hesitate to contact me at (415) 499-5805.

Sincerely,

MARY JANE BURKE
Marin County Superintendent of Schools



KAREN MALONEY
Assistant Superintendent

KM/ss

cc: Ken Benny, Superintendent
Michele Rollins, Assistant Superintendent Business Services