

September 15, 2021

Matthew Morgan, Superintendent
Harmony Union School District
1935 Bohemian Highway
Occidental, CA 95465

Dear Mr. Morgan,

In accordance with Education Code Section 42127, the Sonoma County Superintendent of Schools (County) has reviewed the Harmony Union School District's (District) 2021-22 Adopted Budget to determine if it complies with the Criteria and Standards for financial stability and allows the District to meet its financial obligations for the budget and two subsequent years.

The District's Adopted Budget has been analyzed in the context of the May Revision to the Governor's budget proposal for the 2021-22 year, as well as the 2021-22 Adopted State Budget and related trailer bills that were approved subsequent to the District's budget adoption, along with the County's approval of the District's 2021-22 Local Control and Accountability Plan (LCAP). Based on our analysis, the County Office has concluded the District has met the necessary requirements and therefore **approves** the District's budget as adopted by the District Board of Trustees (Board).

Adopted Budget

As adopted by the District's Governing Board, the 2021-22 budget reflects an ending fund balance in the General Fund, which includes the District and its conversion charter school, of \$3,796,598; comprised of \$3,203,518 in unrestricted fund balance and \$593,080 in restricted fund balance. The minimum state reserve level of 5% for a district of your size has been met. In 2021-22, the General Fund reports unrestricted deficit spending of -\$124,597. Even though the District meets minimum reserve requirements, the County Office remains concerned about on-going deficit spending. We urge the District to review and monitor revenues, expenditures, and fund balances of all funds.

The District is projecting an unrestricted ending fund balance of \$3,051,679 in 2022-23 with unrestricted deficit spending of -\$151,838 and \$2,860,933 in 2023-24 with unrestricted deficit spending of -\$190,746. The minimum state reserve reported as met in both years.

Collective Bargaining

Based upon the Criteria and Standards, negotiations with all bargaining units in the 2021-22 fiscal year are not settled. Because these costs make up the largest portion of the District's budget, any salary and/or benefit increase could adversely impact the fiscal condition of the

District. We caution the District to ensure that the costs of any proposed agreement be supported by ongoing revenues to avoid creating or exacerbating structural deficits. Before the District takes any action on a proposed collective bargaining agreement, Government Code Section 3547.5 requires the District to certify financial projections reflecting the impact of any salary negotiations on the current or two subsequent years.

Charter Schools

As the authorizing agency of Pathways Charter School, the District maintains fiscal oversight responsibilities, particularly in the key areas of accounting, attendance, budgeting and payroll. Please see Education Code Section 47604.32 for a detailed list of oversight duties.

The District should review the charter budget reports at each cycle: Budget, first interim, second interim, and unaudited actuals. It is also the District's responsibility to transmit these reports to our office by the state required deadline. Please coordinate with the charter school in advance to ensure all deadlines are met. Should any circumstances arise related to the charter school that would negatively impact the financial condition of the District, please notify this office as soon as possible.

Summary

Our Office appreciates the preparation and timely submittal of your Adopted Budget report. A technical review will be communicated to the business office. The First Interim Report is due to our office no later than December 15, 2021. **Please see the attached for standard reminders.** If you have any questions, please feel free to call me at (707) 524-2635.

Sincerely,



Sarah Lampenfeld
Director, External Fiscal Services

c:

Stacy Kalember, District Chief Business Official
Steven D. Herrington, Ph.D., County Superintendent of Schools
Mary Downey, SCOE Deputy Superintendent, Business Services
Nancy Linder, SCOE District Fiscal Management Advisor