

December 21, 2017

Sylvan Union Board of Trustees
C/o Sylvan Union School District
605 Sylvan Avenue
Modesto, CA 95350

Dear Board of Trustees:

In accordance with the provisions of Education Code (E.C.) Section 42131, a review of the Sylvan Union School District's (District) First Interim Report for fiscal year 2017-18 has been completed by the Stanislaus County Superintendent of Schools (County Superintendent). Based on the financial statements, multiyear projections and assumptions provided by the District, with data current as of October 31, 2017, it appears that the District should be able to meet its financial obligations for the current and two subsequent fiscal years. **We therefore concur with the District's positive certification with the following comments.**

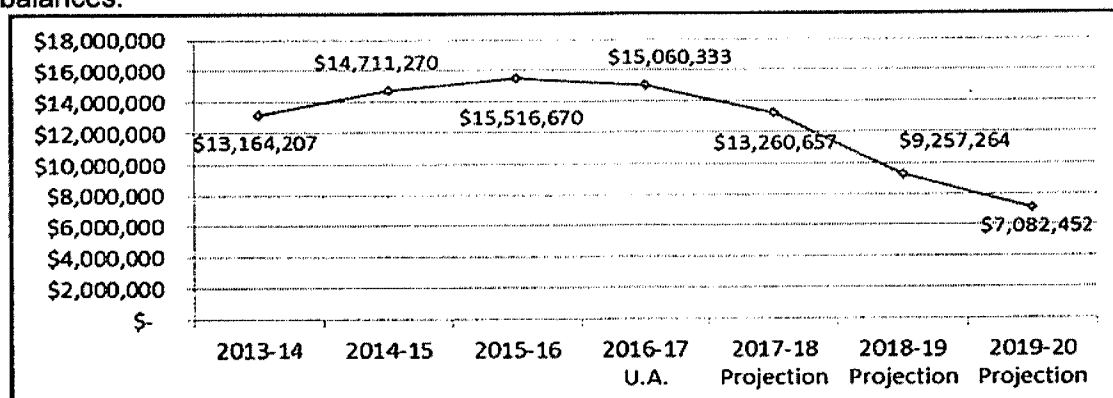
County Office staff review several components of the District's 2017-18 First Interim Report and corresponding supplemental information provided by the District. These issues include reserves and multiyear projections, change in fund balance and status of labor negotiations.

Change in Fund Balance

We note, the Unrestricted General Fund is projecting a decrease of <\$1,799,676 >. This decreases the projected ending fund balance to \$13,260,657 or 15.47% of the total General Fund's budgeted expenditures and transfers out.

Based upon the data provided by the District, the Unrestricted General Fund multiyear projections reflect year-over-year deficit spending. We remind you that continued deficit spending will ultimately diminish fund balance and cash reserves. We urge the District to monitor spending closely to ensure adequate balances are maintained.

The following chart depicts the District's historical and projected unrestricted ending fund balances.



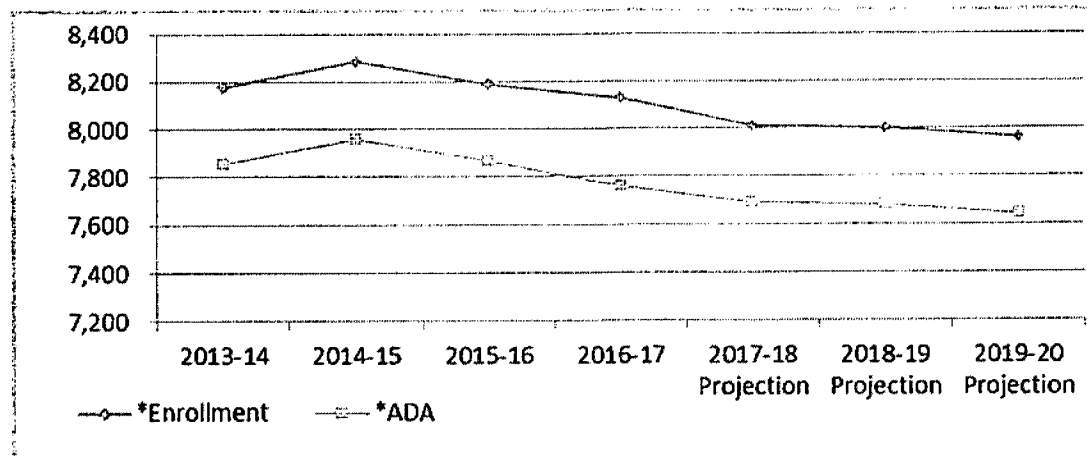
Reserves and Multiyear Projections

The minimum reserve level under the State Criteria and Standards is 3%. Review of the District's multiyear projections, inclusive of Fund 17 and after assignments, indicates reserve levels of 15.23% for 2017-18, 11.00% for 2018-19, and 8.35% for 2019-20.

Enrollment and ADA

The following charts depict the District CBEDS enrollment, ADA historical trends and estimated projections.

| ENROLLMENT AND ADA – DISTRICT | | | |
|-------------------------------|------------|----------|--------|
| Year | Enrollment | ADA | % |
| 2013-14 | 8,178 | 7,854.67 | 96.05% |
| 2014-15 | 8,283 | 7,958.33 | 96.08% |
| 2015-16 | 8,190 | 7,865.44 | 96.04% |
| 2016-17 | 8,132 | 7,760.61 | 95.43% |
| 2017-18 projection | 8,014 | 7,690.87 | 95.97% |
| 2018-19 projection | 8,000 | 7,677.44 | 95.97% |
| 2019-20 projection | 7,965 | 7,643.85 | 95.97% |



Status of Labor Negotiations and Pension Expenditures

Information reflected in the District's interim report shows that certificated and classified labor negotiations for 2017-18 have not been settled.

Prior to reaching a tentative agreement for 2017-18, we advise the District to carefully review the impact of the potential costs against its ability to maintain the minimum level of required reserves in the current and future years.

When a tentative agreement has been reached, please remember the public disclosure requirements that the District must follow surrounding the Governing Board approving the proposed bargaining agreements. In addition, upon ratification the District is required to submit the necessary budget adjustments to fulfill the terms of the agreement.

We would like to note with the rising costs in mandatory pension payments, it is advised that a multi-year STRS and PERS analysis continue to be provided comparing the increased year-over-year costs to potential LCFF increases.

Debt Issuance

This letter also serves as a reminder of the statutory requirements placed on debt issuance by school districts with qualified interim report certifications. These requirements are specifically addressed by E.C. Section 42133(a).

Submission of Studies, Reports, Evaluations and/or Audits


We remind the District that E.C. Sections 42127 and 42127.6 require the County Office be sent copies of any studies, reports, evaluations, or audits performed of the district that contain evidence that the district is showing fiscal distress.

Conclusion

We are aware that the information provided reflects the District's financial position and assumptions to date, and that further adjustments will be made during the year as additional data becomes available. We hope that these comments will be helpful to the District administration and board as you plan for the remainder of 2017-18 and develop your projections for 2018-19 and beyond.

We wish to express our appreciation to Ms. Perez and her staff for their cooperation during the preparation and review of the District's First Interim report for fiscal year 2017-18. If our office can be of further assistance, please contact me at (209) 238-1937.

Sincerely,



Julie A. Betschart
Director III, Business Services
Stanislaus County Office of Education

Cc: Ms. Debra Hendricks, Superintendent
Ms. Yvonne Perez, Assistant Superintendent of Business
Ms. Sandi Madera, Director I, District Business Support, Stanislaus County Office of Education