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Superintendent

April 13, 2016

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Mr. Howard Goldstein, Board President
Beverly Hills Unified School District
255 S. Lasky Drive
Beverly Hills, CA 90212

Dear Mr. Goldstein:

Under Education Code (EC) Section 42131, the Los Angeles County Superintendent of Schools (County Superintendent) has completed a review of the Beverly Hills Unified School District's (District) 2015-16 Second Interim Report. Our analysis of the data provided indicates that the District should be able to meet its financial obligations for the current and two subsequent years.

We therefore concur with the District's positive certification. **However, we are concerned about the District's future fiscal viability should the pending construction litigation appeal not be resolved in favor of the District.**

CONSTRUCTION MANAGEMENT LITIGATION AWARD

We are aware that the District is appealing the construction management litigation decision with an award liability of up to \$22.8 million. According to staff, any award payment resulting from the litigation would be paid from Fund 17. Because Fund 17 is a limited resource with an estimated 2015-16 ending balance of only \$9.3 million, we are concerned about the District's future financial viability should the appeal be denied.

EC Sections 42127 and 42127.6 require districts to submit to the County Superintendent any studies, reports, evaluations, or audits completed of the district that contain evidence that the district is showing fiscal distress. The regulations also require the County Superintendent to incorporate that information into the analysis of budgets, interim reports and the district's overall financial condition. **Therefore, we request that the District (1) Provide an update on the litigation matter; and, (2) Submit a Board approved fiscal contingency plan that addresses how the litigation award would be paid while maintaining overall fiscal solvency with its 2016-17 Adopted Budget, due to the Los Angeles County Office of Education (County Office) by July 1, 2016.**

DEFICIT SPENDING

We noted the District is projecting an operating deficit of \$0.1 million, representing 0.11 percent of the District's unrestricted General Fund projected expenditures and other outgo for fiscal year 2015-16. The District also projects operating deficits of \$3.1 million and \$1.6 million for 2016-17 and 2017-18, respectively. According to our review of the District's Second Interim data and assumptions, and as confirmed by the District, the projected deficits are primarily due to restricted program encroachment. While the District continues to maintain the required level of reserves, this trend of deficit spending should be recognized and monitored so it remains manageable.

CASH FLOW PROJECTION

We noted the District is projecting low General Fund ending cash balances of \$280,118 for December 2016 and \$817,237 for June 2017. Information included with the Second Interim Report indicates that the District has an inter-fund borrowing resolution in place with cash available in other funds to address any potential shortfalls during the year. We request that the District notify the County Office immediately if a cash shortfall is projected that cannot be covered through local means.

CONCLUSION

The information provided reflects the District's financial position and assumptions as of January 31, 2016, and further adjustments will be made during the year as additional data becomes available. We hope these comments will be helpful to the District administration and board as you plan for the remainder of 2015-16 and develop your projections for 2016-17 and 2017-18. We wish to express our appreciation to the District staff for their cooperation during the review of the 2015-16 Second Interim Report. If our office can be of further assistance, please call me at (562) 922-6133.

Sincerely,



Dionisio Brache
Business Services Consultant
Division of Business Advisory Services

DB:lc

cc: Mr. Kessler, Superintendent
Ms. Kirk-Carter, Chief Administrative Officer
Ms. Villafior, Director of Fiscal Services
Dr. Price, Los Angeles County Office of Education (LACOE)
Mr. Crafton, LACOE
Mr. Faulkner, LACOE
Mr. Burdy, LACOE
Mr. Young, LACOE
Ms. Smith, LACOE
Ms. Minor, LACOE