

San Bernardino County  
Superintendent of Schools

Gary S. Thomas, Ed.D.  
County Superintendent

**Business Services**  
Business Advisory Services  
Cynna Hinkle, Director

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YUCAIPA-CALIMESA JUSD

August 12, 2014

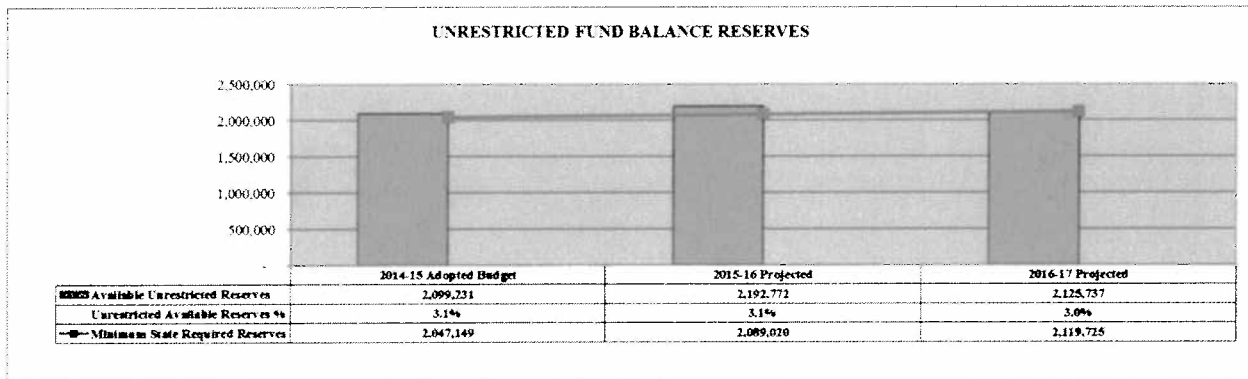
George Velarde  
Assistant Superintendent, Business Services  
Yucaipa-Calimesa Joint Unified School District  
12797 Third Street  
Yucaipa, CA 92399

Dear Mr. Velarde:

Thank you for the submission of the district's 2014-15 Adopted Budget. We recognize the district's efforts in the development of a budget and financial plan that provides for the ongoing financial stability of the district. On June 20, 2014, the Governor signed the State Budget Act and most of the associated trailer bills. The provisions of these bills, coupled with the advice contained in the Common Message – 2014-15 State Enacted Budget and Related Multi-year Projections, were used in our review.

The Education Support Services (ESS) Local Control Accountability Plan (LCAP) Office has informed Business Advisory that the district's LCAP has been approved. The 2014-15 Adopted Budget of the **Yucaipa-Calimesa Joint Unified School District** has been reviewed and **approved** pursuant to the provisions of Education Code Section 42127 (a) through (d) and the approval of the district's LCAP pursuant to the provisions of Education Code 52060.

As adopted by the district's Governing Board, the budget reflects an unrestricted ending balance reserve in the General Fund of 3.1% in 2014-15, 3.1% in 2015-16, and 3.0% in 2016-17.



The approval of the Adopted Budget is based on an assessment and analysis of the following additional major components of the district's budget:

Yucaipa-Calimesa Joint USD – 2014-15 Adopted Budget

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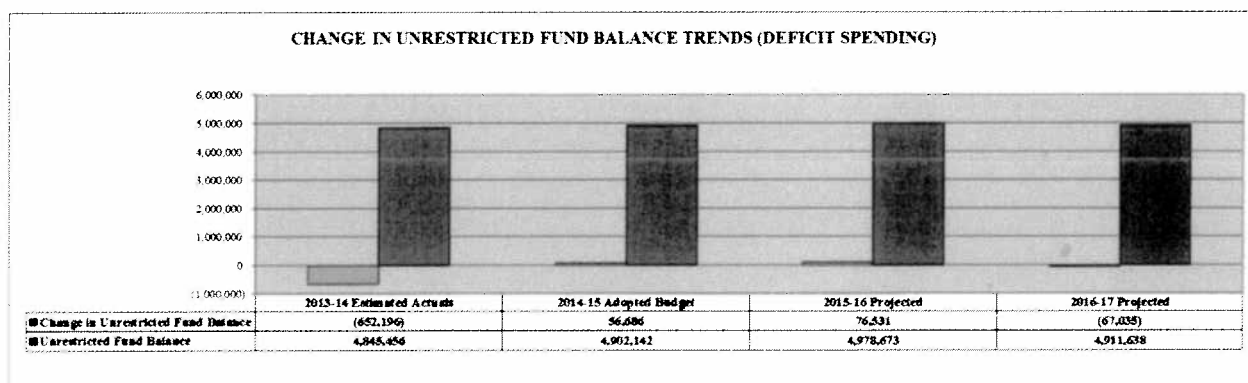
- Unrestricted Deficit Spending Trends
- Average Daily Attendance (ADA) & Enrollment Projections
- Current and Multiyear Projections
- Negotiations Status/Salaries and Benefits Trends
- Long Term Debt
- Cash Flow
- Charter Schools
- Future Risks
- State Enacted Budget – 45 Day Revision

The budget is a dynamic document that reflects the Governing Board’s plan for receipt of revenues and utilization of expenditures to meet the goals and financial obligations of the school district in the coming year based on the information known to the district and board at the time of adoption. To assure that the budget continues to reflect that plan, the following items should be taken into consideration:

- **UNRESTRICTED DEFICIT SPENDING TRENDS** – The district is not projecting unrestricted deficit spending in the 2014-15 and 2015-16 fiscal years. The district is projecting deficit spending of \$67,035 in fiscal year 2016-17. This deficit spending appears to be attributed to Gap funding estimates and ongoing operational costs. The district’s deficit spending could increase in the future years due to increases in the employer State Teachers Retirement System (STRS) rates. Anticipated deficit spending should be for one-time, non-recurring expenditures to avoid depletion of the district’s on-going unrestricted reserves. Ongoing deficit spending will cause an even greater reliance on district cash reserves.

The district is within the established state deficit spending standards for the current and two subsequent fiscal years. The State’s established standard is one-third (1/3) of the district’s available unrestricted reserve percentage.

The following chart displays the actual Unrestricted General Fund balance change for the prior fiscal year, the projected adopted budget, and board approved multi-year financial projections reflecting the 2015-16 and 2016-17 fiscal years.

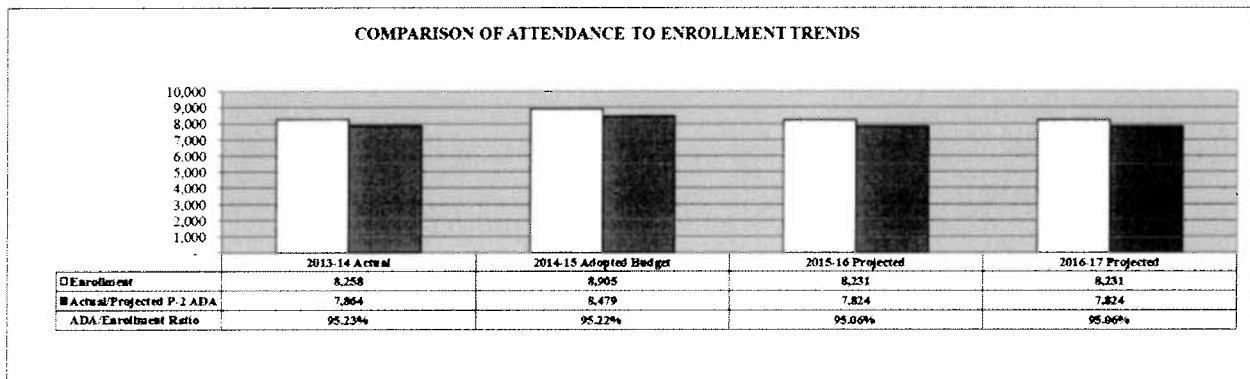


- **AVERAGE DAILY ATTENDANCE (ADA) & ENROLLMENT PROJECTIONS** – The district is projecting 2014-15 P-2 ADA of 7,824. The district’s three-year average change in ADA has been a decline of 3.62%. Compared to the enrollment projection of 8,231, the district is anticipating an attendance ratio of 95.06% for the current year. The district is projecting no change in ADA, enrollment or attendance ratio for 2015-16 or 2016-17. Additionally, the district is projecting its percentage of

Target Pupils (unduplicated count of English Learners, Free and Reduced Price Meal students, and Foster Youth) to be 56.22% in 2014-15 and 2015-16, and 56.21% in 2016-17.

The state’s standard is based on the average ratio of P-2 ADA to enrollment over the past three years. Based on the enrollment and ADA projections for the current and two subsequent fiscal years, the district is within the state standard of 95.7% for each of those years. Although the district appears to be projecting ADA at a reasonable level based on state standards, we recommend that the district continue to monitor changes in attendance and enrollment closely. If the projected ADA or enrollment does not materialize as anticipated, the board will need to adjust the budget accordingly.

The following chart displays the district’s actual reported ADA and enrollment in the 2013-14 fiscal year along with the district’s projected ADA and enrollment for the budget and two subsequent fiscal years. Since a significant portion of a school district’s revenue is derived from ADA, it is imperative to monitor the correlation between enrollment and ADA closely.



- CURRENT AND MULTIYEAR PROJECTIONS** – Our review included an analysis of the district’s projection of revenues and expenditures in the current and two subsequent fiscal years. The district’s projection of current and subsequent state aid appears to be reasonable. The district included Gap funding increases of 28.06% in 2014-15, 7.90% in 2015-16, and 8.20% in 2016-17. The enacted budget included Gap funding increases of 29.56% for 2014-15, 20.68% for 2015-16, and 25.48% for 2016-17. In addition, the district’s 2014-15 budget appears to include sufficient expenditures to implement the district’s LCAP goals and actions based on the projections of the costs included in the plan and as submitted to our office.

The district is projecting a decline in current year ADA and is utilizing the state’s prior year guarantee of ADA in the state aid projections. The state allows districts to utilize the current or prior year P-2 district ADA, whichever is higher, to determine annual state aid projections. Any ADA related to county operated programs or contracted programs, such as Non Public School (NPS) are always funded on the current year reported annual attendance.

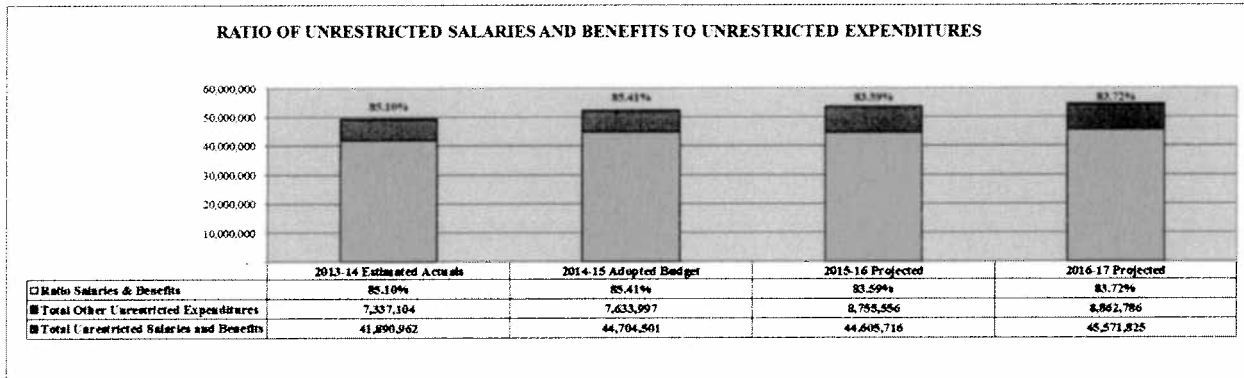
- NEGOTIATIONS STATUS/SALARIES AND BENEFITS TRENDS** – The information submitted with your Adopted Budget indicates that salary negotiations have not been concluded for the 2014-15 fiscal year. The documents also indicate that there are no potential increases included in the adopted budget or subsequent fiscal years other than annual step and column advancements. Please keep us apprised of the status of the district’s negotiations process for 2014-15.

Pursuant to AB 1200/2756 (GC 3540 et. seq.), please provide an analysis and disclosure of the costs or savings associated with any proposed or tentative agreements and/or Memoranda of Understanding

(MOUs) **at least ten days prior to adoption by the board.** This analysis must be disclosed at a public board meeting regardless of whether there is an increase, decrease, or no change in expenditures or language. Budget transfers implementing the adjustments must also be posted in the financial system no later than 45 days after approval of the agreement by the Governing Board. If the costs associated with a negotiated salary or benefit increase reduce the available unrestricted ending balance below the required state minimum reserve level in the current and/or two subsequent fiscal years, the district's Governing Board will be required to take action to reduce other expenditures in order to maintain the required state reserves in the current and two subsequent fiscal years.

An outline of the disclosure procedures and a copy of the required disclosure documents are available in an EXCEL format on the San Bernardino County Superintendent of Schools, Business Administrators website (<http://www2.sbcss.k12.ca.us/sbcss/busServe/bas FormFI.php>), under AB1200/AB2756 Salary disclosure. Instructions for completing these forms are also available on the website.

The majority of a school district's budget is spent on salaries and benefits. The following chart shows the percentage of unrestricted salaries and benefits to the total unrestricted general fund expenditures for the prior year, adopted budget, and multi-year projections. The state's established standard is based on an average of the district's prior three years of unrestricted salaries to total unrestricted expenditures. The district's ratio of unrestricted salaries and benefits to total unrestricted expenditures is within the state's established standard for the current year, with 85.41% of unrestricted expenditures being consumed by salary and benefit costs. If salaries and benefits are growing at a rate faster than total expenditures, these costs will consume a disproportionately greater share of the district's resources, putting significant pressures on the rest of the budget.



- LONG TERM DEBT** – The district's 2012-13 Audit Report indicates non-voter approved long-term debt of \$5,531,709, which constitutes 8.11% of the district's projected general fund budget. The debt repayment is budgeted in the General and Self-Insurance Funds. The district should monitor these funds closely to ensure that adequate revenues are received to provide for the current debt repayment schedule for principal and interest payments, and take appropriate action should revenues not materialize as anticipated.
- CASH FLOW** – Our review of the 2014-15 cash flow provided by the district, in conjunction with our internal cash analysis, indicates that the district will have a positive cash balance at the end of each month and at the end of the current fiscal year. The district's cash flow shows the June 30 cash balance is estimated to be 67.24% of the projected 2014-15 Ending Fund Balance including any cross-year temporary borrowing. To maintain a positive cash position, the district projected the use of inter-fund borrowing of \$3.5M and Tax Revenue Anticipation Notes (TRANS) of \$6.5M, both of which are projected to be repaid in the 2015-16 fiscal year. However, the district also projected deferrals on a

similar schedule to the 2013-14 fiscal year. With most of the deferrals eliminated, the district should not need to borrow as heavily as projected.

Additionally, the district's LCFF is computed to be 10.3% Property Taxes and 89.7% State Aid. The budget does not eliminate deferrals, but does reduce the amount to approximately \$1B statewide. Based on that figure, our projections indicate that the state will defer approximately \$1.7M of the district's 2014-15 state aid into the 2015-16 fiscal year. The district will need to continue to monitor cash on a monthly basis to ensure that sufficient cash is available to cover operational costs. A good cash projection will allow the district to schedule expenditures in months when adequate cash will be available and plan for temporary borrowing as necessary.

- **CHARTER SCHOOLS** – As required by Education Code 47604.33, the district must submit the Adopted Budget(s) from the following charter schools to our office:
  - Competitive Edge Charter Academy (CECA)
  - Inland Leaders Charter School (ILCS)

As a charter school sponsor, the district maintains fiscal oversight responsibilities, particularly in the key areas of accounting, attendance accounting, budgeting, and payroll. As part of this oversight, sponsoring school districts are also responsible for reviewing charter financial reports, including interim reports. Should any adverse circumstances arise related to the district's charter school responsibilities that would negatively impact the financial condition of the district, please notify this office as soon as possible.

CECA is a dependent charter of the district and is reported in the district's Charter Schools Special Revenue Fund (Fund 09). Once the district has completed the review and assessment of the fiscal and budgetary condition of ILCS, please submit the fiscal review analysis document reflecting the district's oversight review of the charter's Adopted Budget documents to our office.

- **FUTURE RISKS** – There are significant inherent risks with the LCFF funding model. A district's ability to mitigate these risks will depend on the flexibility that exists in its financial structure. If a district's financial structure is such that it has significant entanglement, meaning that it takes time to redirect financial resources, the greater the risk of fiscal insolvency.

The current risks that could have a significant impact on the District's fiscal wellbeing are as follows:

1. The effects of SB 858, which imposes a maximum reserve level on districts, are unknown.
2. The LCFF does not include any guarantees that future Legislatures/Governors will fund the LCFF at the proposed target level, or at any level of increase.
3. The rubrics for assessing a school district's performance will not be adopted by the State Board of Education until October 1, 2015.
4. Districts are now responsible for the projected increases to CalPERS employer contributions.

At this time, the cost impact of the Affordable Care Act (ACA) is still unknown. As the Federal Government continues to work out the regulations attached to the law more information and the ability to determine current and future costs will be possible.

5. According to CalSTRS, in order to fund fully the retirement program within thirty years, additional contributions will be required. The budget includes increased employer contributions

of 8.88% for 2014-15 and projected yearly increases rising to 19.1% in 2020-21. Districts are responsible for these increased costs.

- **STATE ENACTED BUDGET – 45 DAY REVISION** – Our review has been based on the latest information available to this office with the 2014-15 State Enacted Budget. Please remember that Education Code Section 42127(i)(4) requires that:

*“Not later than 45 days after the Governor signs the annual Budget Act, the school district shall make available for public review any revisions in revenues and expenditures that it has made to its budget to reflect the funding made available by that Budget Act”.*


The 45-day period ended August 4, 2014. We will require these revisions in the 2013-14 Unaudited Actuals submission, which is due to our office per Education Code § 42100 on or before September 15, 2014. Please submit a narrative of all changes made to the 2014-15 Adopted Budget.

**CONCLUSION** – As LCFF, LCAP, and ACA reforms remain unfinished, it is important during these times that school districts stay proactive and cautious. Districts should develop budgets and contingency plans that allow the most flexibility in resource allocation so that they can quickly react to unexpected decreases in revenues and/or unexpected increases in expenditures.

We anticipate a timely year-end closing of the 2013-14 financial records by the district, along with the annual audit by the district’s external auditors, which will determine the actual beginning fund balances for 2014-15 and audited ending balances for 2013-14. These actions will also ultimately affect the availability of reserves for the 2014-15 operating budgets. The audit report is due on or before December 15, 2014.

Any questions concerning the review of the district’s 2014-15 Adopted Budget may be addressed to me at (909) 386-9680.

Sincerely,



Thomas G. Cassida Jr., MBA  
Business Services Advisor  
Business Advisory Services

TGC:ls

cc: Ted Alejandre, Deputy Superintendent, Business Services – SBCSS  
Cynna Hinkle, Director, Business Advisory Services – SBCSS  
Beth Higbee, Ph.D., Assistant Superintendent, Education Support Services – SBCSS