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

April 3, 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 **2013-14 Second Interim Financial Report**. We recognize the district's efforts in the development of a financial plan that provides for the ongoing financial stability of the district.

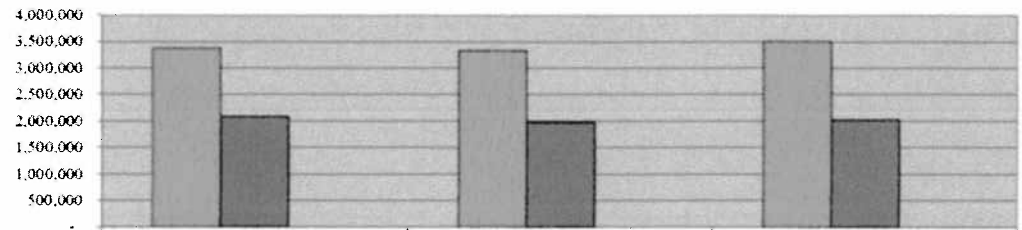
The Office of the San Bernardino County Superintendent of Schools has reviewed the Second Interim Financial Report submitted by the Yucaipa-Calimesa Joint Unified School District for the period ending **January 31, 2014**. Based on our analysis, the data provided supports the board's ***Positive Certification*** of the district's financial condition and ability to meet its financial obligations in the current and two subsequent fiscal years.

Our review included an assessment and analysis of the following major components of the district's report:

- Unrestricted Ending Fund Balance and State Minimum Reserve
- Unrestricted Deficit spending trends
- Average Daily Attendance (ADA) & Enrollment
- Revenue and Expenditure Projections
- Ending cash and Monthly cash flows
- Staffing Projections/Salary Settlements
- Multi-year Financial Projections
- Long Term Debt
- Charter Schools

- **UNRESTRICTED ENDING FUND BALANCE AND STATE MINIMUM RESERVE** – As certified by the district's Governing Board, the Second Interim Financial Report projects an unrestricted ending balance reserve in the General Fund of 4.8% in the current year, 5.0% in 2014-15, and at 5.2% in 2015-16. The district projects a higher ending fund balance that exceeds the State minimum reserve in the 2014-15 or 2015-16 fiscal years due to the district's Local Control Accountability Plan (LCAP) and spending of LCFF revenues in those years not yet being defined. The level of expenditures and how the district deals with its current structural deficit will determine deficit spending levels and reserves in the future fiscal years. The District's State Required Minimum Reserve percentage is 3.0%.

UNRESTRICTED FUND BALANCE RESERVES



	2013-14 Projected	2014-15 Projected	2015-16 Projected
■ Available Reserves	3,372,986	3,326,650	3,496,090
■ Minimum State Required Reserves	2,091,102	1,981,045	2,019,152
Unrestricted Available Reserves %	4.8%	5.0%	5.2%

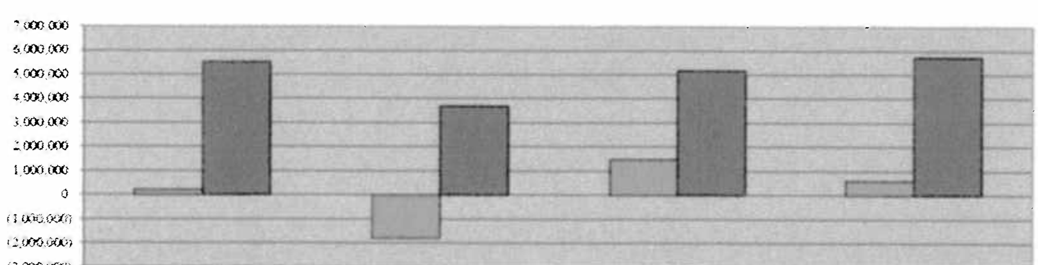
The Second Interim Financial Report provides the Governing Board with the opportunity to revise and review its operating budget plan based on the most recent State Budget information and local decisions made since the Adopted Budget. This plan should incorporate any updated revenue projections and utilization of expenditures to meet the goals and financial obligations of the school district in the current and two subsequent fiscal years. To ensure that the district's operating budget continues to reflect that plan, we noted the following items that should be taken into consideration:

- **UNRESTRICTED DEFICIT SPENDING** – The district is projecting unrestricted expenditures to exceed unrestricted revenues by $1,806,664 in the current fiscal year, primarily due to projected expenditure of carryover balances and other ongoing operational costs. The district does not project deficit spending in the 2014-15 or 2015-16 fiscal years due to the district's LCAP and spending of LCFF revenues in those years not yet being defined. The level of expenditures and how the district deals with its current structural deficit will determine deficit spending levels and reserves in the future fiscal years. Anticipated deficit spending should be for one-time, non-recurring expenditures to avoid depletion of the district's ongoing unrestricted reserves.

The district's projected deficit spending is not within the established state standard for the current fiscal year. 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 change based on the Second Interim Report, and board approved multi-year financial projections for the 2014-15 and 2015-16 fiscal years.

CHANGE IN UNRESTRICTED FUND BALANCE TRENDS



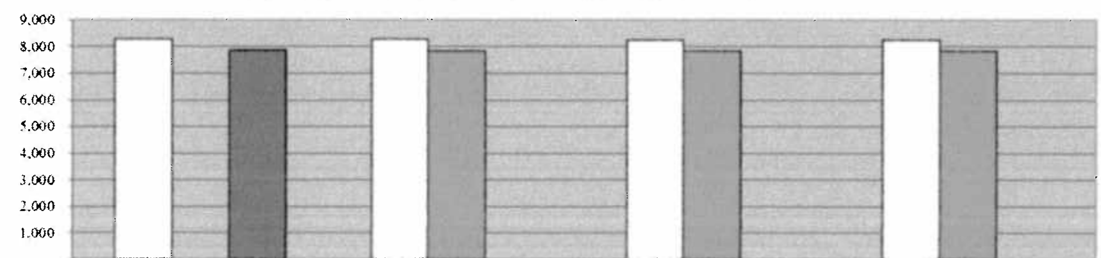
	2012-13 Actual	2013-14 2nd Interim	2014-15 Projected	2015-16 Projected
■ Change in Unrestricted Fund Balance	221,019	(1,806,664)	1,468,704	577,960
■ Unrestricted Fund Balance	5,497,652	3,690,988	5,159,692	5,737,652

- **AVERAGE DAILY ATTENDANCE (ADA) & ENROLLMENT PROJECTIONS** – The district is projecting 2013-14 K-12 P-2 ADA of 7,855 or a 0.15% decline over prior year P-2 ADA. Based on an enrollment projection of 8,289, the district is anticipating a current year attendance ratio of 94.76%. The district is projecting a 0.11% decline in ADA for 2014-15 and no change in ADA for 2015-16, resulting in an attendance ratio of 95.16 for both years. 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 51.72% in 2013-14, 2014-15, and 2015-16.

  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 95.5% 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 P-2 ADA and enrollment in the prior year along with the district's projected ADA and enrollment for the current 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.

COMPARISON OF ATTENDANCE TO ENROLLMENT TRENDS



	2012-13 Actual	2013-14 2nd Interim	2014-15 Projected	2015-16 Projected
Enrollment	8,282	8,289	8,245	8,245
ADA Projections		7,855	7,846	7,846
Actual ADA	7,867			
ADA/Enrollment Ratio	94.99%	94.76%	95.16%	95.16%

- **REVENUE AND EXPENDITURE 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 28.05% in 2014-15 and 2.12% in 2015-16. Using a conservative estimate for Gap Funding in fiscal year 2015-16 helps to minimize the risk associated with projecting future funding increases.

  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. 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.

- **ENDING CASH POSITION AND MONTHLY CASH FLOWS** – Due to the current State Budget including deferrals of state revenues, changes in apportionment distribution schedules, and inclusion of Education Protection Account (EPA) funds, the monitoring and projection of monthly cash balances are critical to ensure fiscal solvency. These changes by the state can cause a district's cash balances to be depleted, even if budget plans indicate a positive fund balance. Our review of the cash flow provided by the district indicates that the district will have a positive cash balance at the end of each month and at the end of the fiscal year. The district's cash flow reflects the June 30 cash balance as 93.19% of the projected 2013-14 Ending Fund Balance, with temporary borrowing included. Without the temporary borrowing, the district's cash balance on June 30 would be negative.

  Additionally, the district's LCFF funding is computed to be 11.5% Property Taxes and 88.5% State Aid, which means your district will realize a greater loss of cash due to state deferrals than a higher property tax district. Our projections indicate that the state will defer approximately $9.1M of the district's 2013-14 state aid into the 2014-15 fiscal year. To maintain a positive cash position, the district projects $4.5M of Inter-fund borrowing, which will require repayment by June 30, 2015 if actually borrowed. A good cash projection will allow the district to schedule expenditures in months when adequate cash will be available.

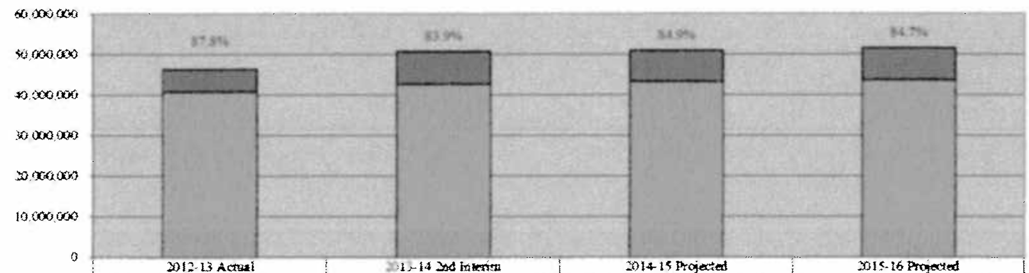
- **STAFFING PROJECTIONS/SALARY SETTLEMENTS** – The district has indicated that negotiations have not been finalized with the certificated and classified bargaining units. The documents also indicate that there are no potential salary schedule increases or decreases included in the current projected budget or subsequent fiscal years other than annual step and column advancements. Please keep our office apprised of any changes to the district's negotiations status.

  Pursuant to AB1200/AB2756 and the First Interim Qualified Certification, an analysis of the costs or savings associated with any proposed or tentative agreement(s) or MOUs must be provided to our office **at least ten days prior to adoption by the board**. The analysis must include the agreement's impact on the current operating budget and multi-year financial projections. Budget transfer documents implementing any adjustment(s) must also be input into 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 Governing Board will be required to take action in order to maintain the required state reserves.

  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. These forms must be completed and disclosures taken to the board for all contract changes regardless of fiscal impact. This includes contract wording, furlough or non-work days, etc.

  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, current year, and multi-year projections. The state's established standard is based on an average of the district's three prior years of unrestricted salaries to total unrestricted expenditures. The district's ratio of unrestricted salaries and benefits to total unrestricted expenditures is not within the state's established standard, with 83.9% 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.

RATIO OF UNRESTRICTED SALARIES AND BENEFITS TO UNRESTRICTED EXPENDITURES



	2012-13 Actual	2013-14 2nd Interim	2014-15 Projected	2015-16 Projected
Ratio Salaries & Benefits	87.8%	83.9%	84.9%	84.7%
Total Other Unrestricted Expenditures	5,689,905	8,137,345	7,683,006	7,858,006
Total Unrestricted Salaries and Benefits	40,767,776	42,558,915	43,182,390	43,669,590

- **MULTI-YEAR PROJECTIONS** – The district is projecting to meet minimum state reserves in all fiscal years with 4.8% in 2013-14, 5.0% in 2014-15 and 5.2% in 2015-16. However, the reserve appears to be healthy because a substantial amount of LCFF revenue for 2014-15 and 2015-16 remains unspent and is incorporated in the district's reserves. The district is currently developing the LCAP, which will develop a spending plan for the currently unspent LCFF revenue. The district used the Governor's projected Gap Funding percentage of 28.05% for the 2014-15 year and used the Proposition 98 projected COLA percentage of 2.12% as the Gap funding percentage for 2015-16. **We recommend that the district continue to be proactive by developing contingency plans in response to the potential for further changes in the Governor's 2014-15 January Budget proposal.**

- **LONG TERM DEBT** – The district's 2012-13 Audit Report indicates non-voter approved long-term debt of $5,518,608 which constitutes 7.92% 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.

- **CHARTER SCHOOLS** – As required by Education Code 47604.33, the district must submit the Second Interim report(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 Second Interim documents to our office.

If you have any questions concerning our review of the district's 2013-14 Second Interim Financial Report, please contact the undersigned.

Sincerely,

Thomas G. Cassida Jr., MBA
Business Services Advisor
Business Advisory Services
(909) 386-9675

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cc: Cynna Hinkle, Director, Business Advisory Services

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