



San Bernardino County
Superintendent of Schools

Transforming lives through education

Ted Alejandre
County Superintendent

April 12, 2016

RECEIVED

APR 13 2016

YUCAIPA-CALIMESA JUSD

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 **2015-16 Second Interim Financial Report**. We recognize the district's efforts in the development of a financial plan that provides for ongoing financial stability.

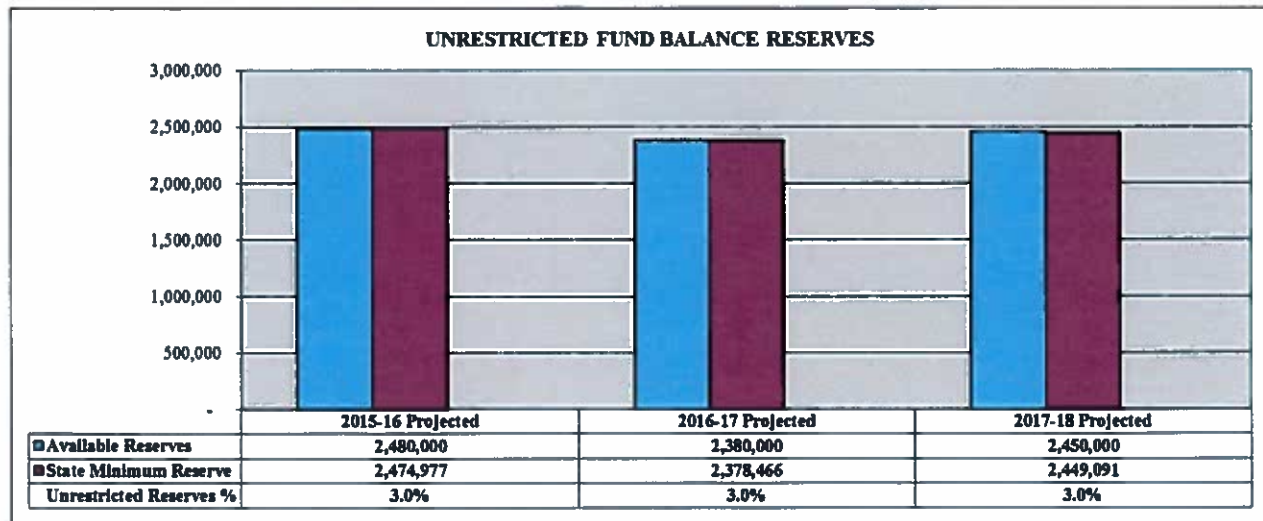
The Office of the San Bernardino County Superintendent of Schools has reviewed the Second Interim Financial Report submitted by the Yucaipa-Calimesa Joint Unified School District for the period ending **January 31, 2016**. Based on our analysis, the data provided supports the board's *Positive Certification* 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
 - Multi-year Financial Projections
 - Revenue and Expenditure Projections
 - Staffing Projections/Salary Settlements
 - Long Term Debt
 - Ending cash and Monthly cash flows
 - Charter Schools
 - Other Funds
-
- **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 3.0% in the current year and two subsequent fiscal years. The District's State Required Minimum Reserve percentage is 3.0%.

Business Services • Richard De Nava, Assistant Superintendent

Business Advisory Services • Thomas Cassida, Director
760 East Brier Drive • San Bernardino, CA 92408 • P: 909.386.9676 • F: 909.386.9690 • www.sbcss.k12.ca.us

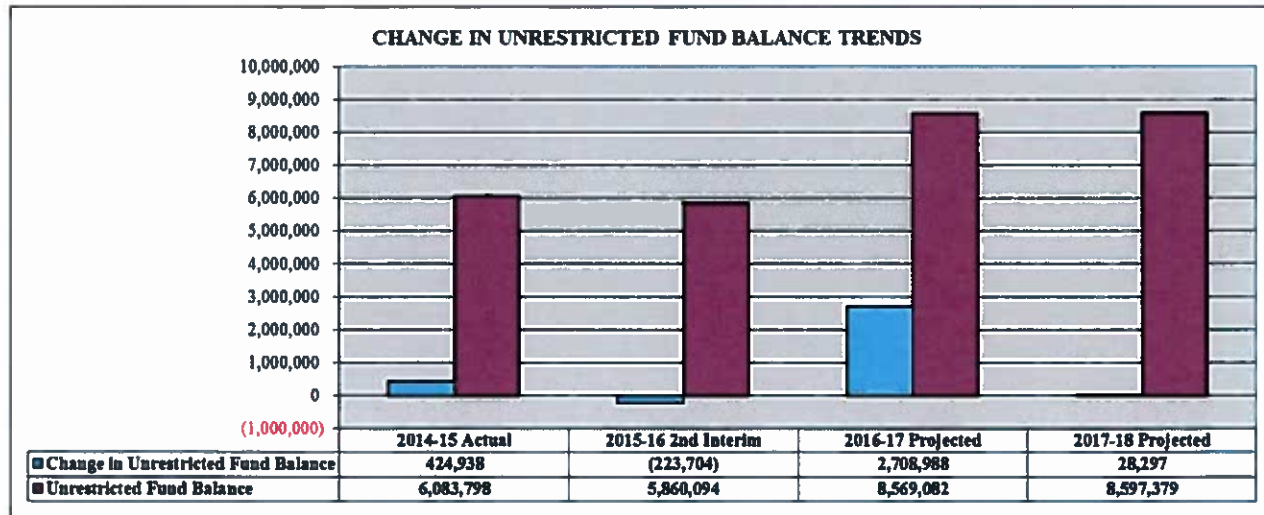


The Second Interim Financial Report provides the Governing Board with the opportunity to revise and review its operating budget plan based on the most recent State Budget information and local decisions made since the Adopted Budget. This plan should incorporate any updated revenue projections and utilization 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 deficit spending of \$223,704 in the current fiscal year, primarily due to one-time expenditures. This trend of deficit spending is not continuing in the subsequent 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 within the established state standard 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.

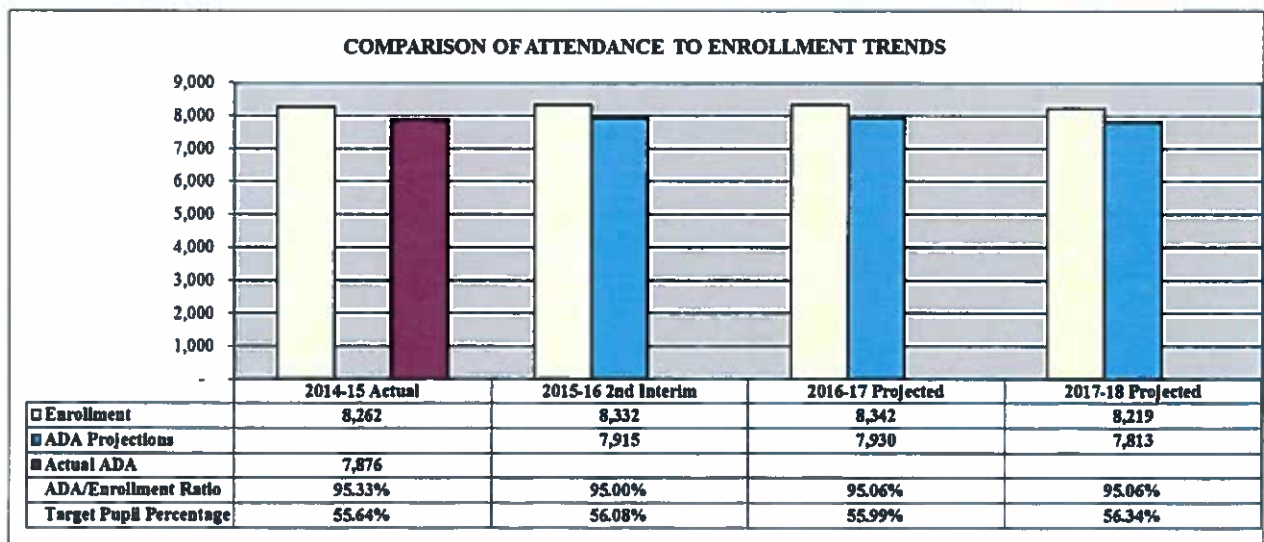
The following chart displays the actual Unrestricted General Fund balance change for the prior fiscal year, the projected change based on the Second Interim Report, and board approved multi-year financial projections for the two subsequent fiscal years.



- AVERAGE DAILY ATTENDANCE (ADA) & ENROLLMENT PROJECTIONS** – The district is projecting 2015-16 P-2 ADA of 7,915 or a 0.50% increase over prior year P-2 ADA. Based on an enrollment projection of 8,332, current year ADA to enrollment ratio is anticipated to be 95.0%. Enrollment and ADA to enrollment ratio are projected to be 8,342 and 95.06% for 2016-17 and 8,219 and 95.06% 2017-18. Additionally, the district is projecting its Unduplicated Pupil Percentage (UPP) to be 56.08% in 2015-16, 55.99% in 2016-17, and 56.34% in 2017-18.

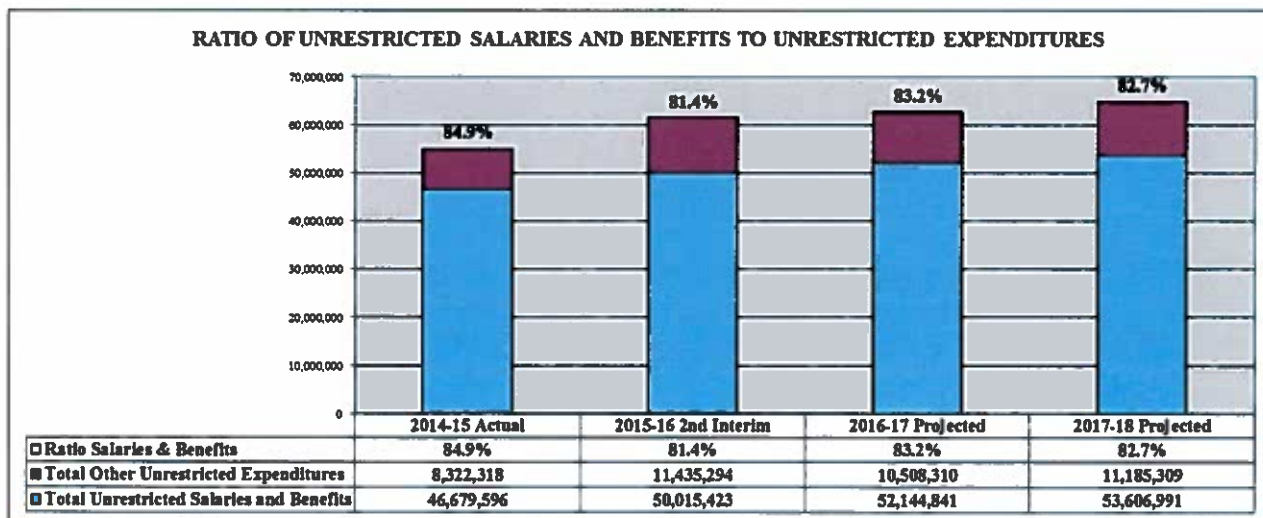
The state’s standard is based on the average ratio of P-2 ADA to enrollment over the past three years. Based on the district’s enrollment and ADA projections, it is within the state standard of 95.9% for the current and two subsequent years. Although ADA projections appear to be reasonable based on state 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 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.



- **MULTI-YEAR PROJECTIONS** – The district has included Gap Funding increases of 51.97% in 2015-16, 49.08% in 2016-17, and 45.34% in 2017-18. As a high-LCFF district, projecting future funding increases carries a higher risk, since Gap Funding increases are not guaranteed. 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 2016-17 January Budget proposal.
- **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. Projections of current and subsequent state aid appear to be reasonable. Expenditure projections for the current and two subsequent years also appear to be reasonable.
- **STAFFING PROJECTIONS/SALARY SETTLEMENTS** – The district has indicated that negotiations have been finalized with the certificated and classified bargaining units. The agreements provided a 3.5% salary schedule increase and increases to the district contribution for health and welfare benefits. The agreements do not have reopeners. The documents also indicate that there are 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 us apprised of any changes to the district’s negotiations status.

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 multiyear 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 81.4% of unrestricted expenditures being consumed by salary and benefit costs. If salaries and benefits grow 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 2014-15 Audit Report indicates non-voter approved long-term debt of \$6,204,906, which constitutes 7.52% of the district’s projected general fund budget. The debt repayment is budgeted in the General and Self-Insurance Fund. 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. Additionally, the Audit Report identifies the district's Net Pension Liability of \$39,890,870 as long-term debt. This is recognition of the present value of the district's portion of the unfunded liability for earned CalSTRS and CalPERS retirement benefits. The district's portion is approximately 0.0683% (CalSTRS) and 0.0950% (CalPERS) of the Statewide liability.

- **ENDING CASH POSITION AND MONTHLY CASH FLOWS** – Our review of the cash flow provided indicates that the district will have a positive cash balance at the end of each month and at the end of the fiscal year. Additionally, the district's LCFF funding is computed to be 10.01% Property Taxes and 89.99% State Aid. A good cash projection will allow the district to schedule expenditures in months when adequate cash will be available.
- **CHARTER SCHOOLS** – As required by Education Code 47604.33, the district must submit the Second Interim reports 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.

The Second Interim Financial Reports for CECA are included as part of the district's report in the 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. Our comments, if any, on this review will be communicated in a separate correspondence.

If you have any questions concerning our review of the district's 2015-16 Second Interim Financial Report, please contact the undersigned.

Sincerely,



Annette E. Baker
Business Services Advisor
Business Advisory Services
(909) 386-9675

AEB:ls

cc: Richard De Nava, Assistant Superintendent, Business Services – SBCSS
Thomas G. Cassida, Director, Business Advisory Services - SBCSS