



San Bernardino County Superintendent of Schools

Gary S. Thomas, Ed.D.
County Superintendent

Business Services

Business Advisory Services
Cynna Hinkle, Director

April 8, 2014

Mohammad Z. Islam
Interim Superintendent
Rialto Unified School District
182 East Walnut Avenue
Rialto, CA 92376-3598

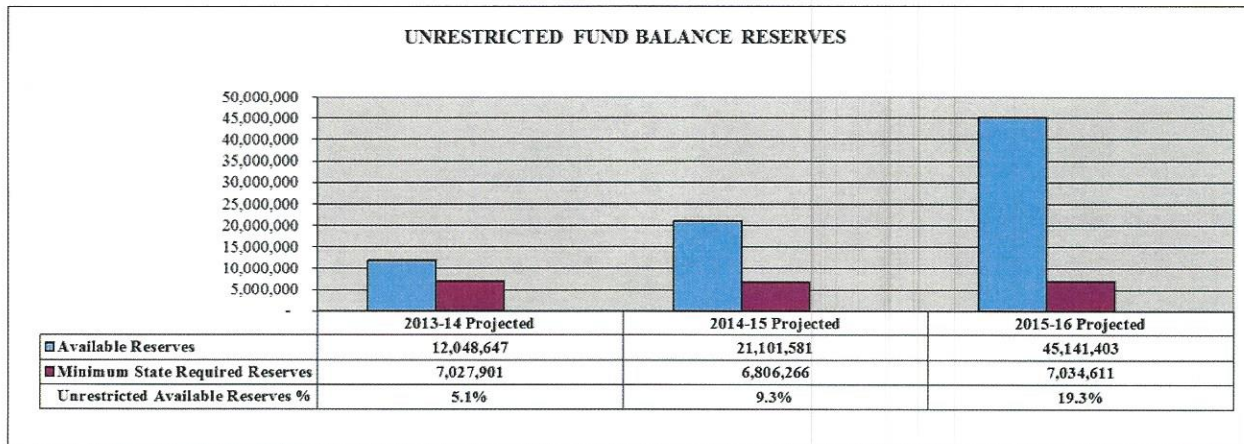
Dear Mr. Islam:

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 Rialto 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
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- **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 5.1% for the current year, 9.3% in 2014-15, and at 19.3% in 2015-16. The District's State Required Minimum Reserve percentage is 3.0%.

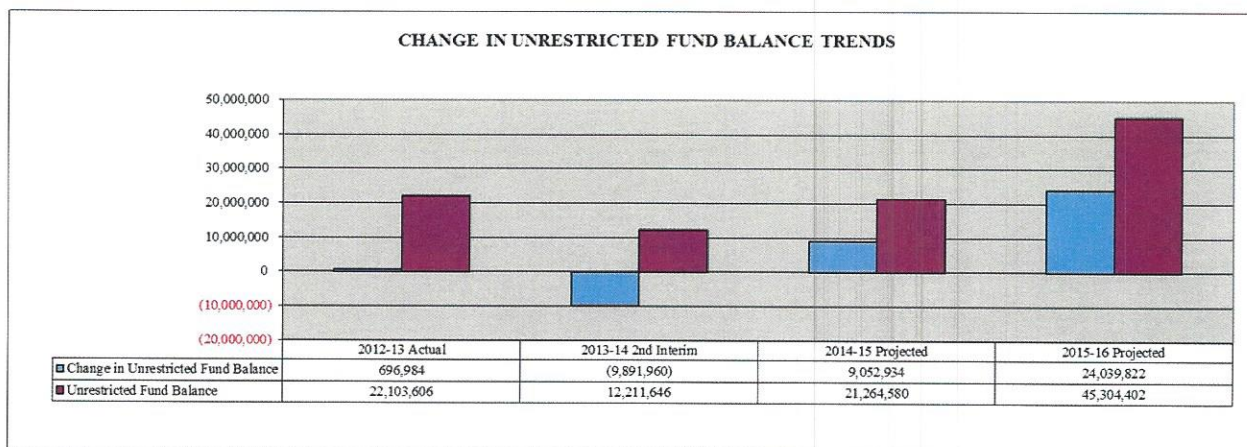


The Second Interim Financial Report provides the Governing Board with the opportunity to revise and review its operating budget plan based on the most recent State Budget information and local decisions made since the Adopted Budget. This plan should incorporate any updated revenue projections and utilization 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 \$9,891,960 in the current fiscal year, primarily due to projected expenditure of budgeted carryover, a high salaries and benefits ratio, and other ongoing operational costs. The district is not projecting to deficit spend in the 2014-15 and 2015-16 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 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.

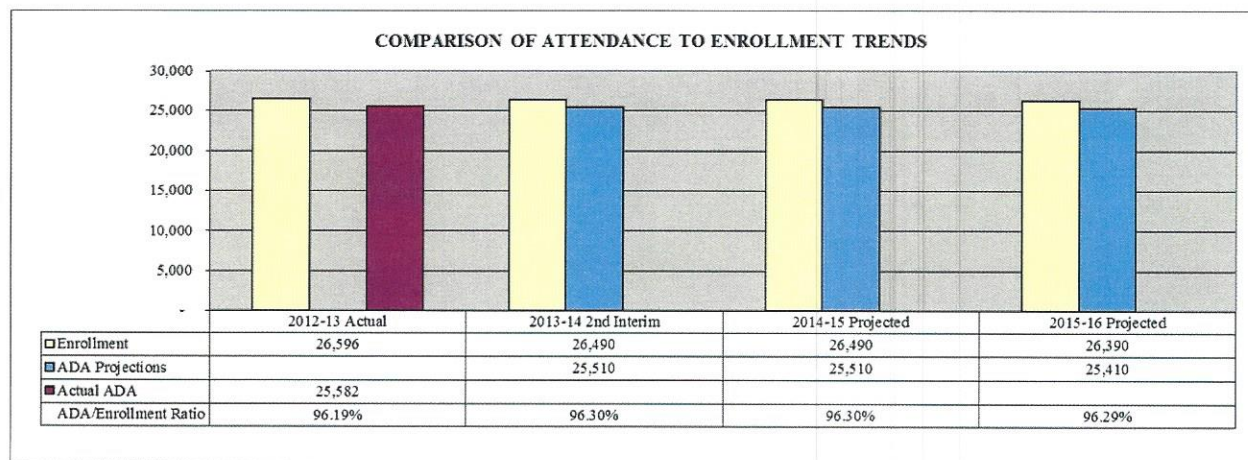


- **AVERAGE DAILY ATTENDANCE (ADA) & ENROLLMENT PROJECTIONS** – The district is projecting 2013-14 K-12 P-2 ADA of 25,510 or a 0.28% decline over prior year P-2 ADA. Based on an enrollment projection of 26,490, the district is anticipating a current year attendance ratio of 96.30%. The

district is projecting no change in ADA for 2014-15 and a 0.39% decline in ADA for 2015-16, resulting in an attendance ratio of 96.30% for 2014-15 and 96.29% for 2015-16. 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 82.39% in 2013-14, 82.38% in 2014-15, and 82.38% in 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 96.5% 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.



- **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 33.95% in 2015-16. The district has a budget reduction plan in place and has Unappropriated reserves in 2015-16 in the event that Gap Funding is not received as projected.

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.

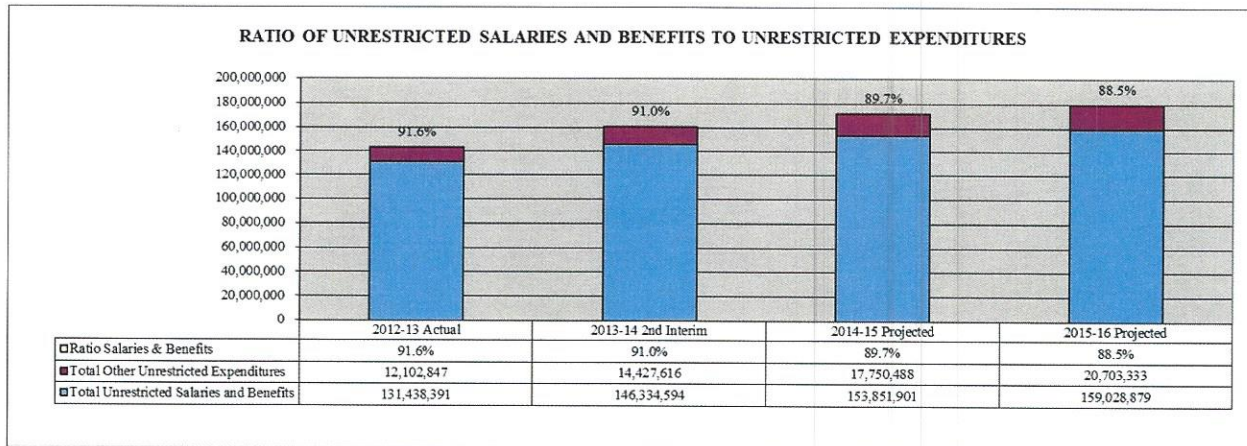
- **ENDING CASH POSITION AND MONTHLY CASH FLOWS** – Due to the current State Budget including deferrals of state revenues, changes in apportionment distribution schedules, and inclusion of Education Protection Account (EPA) funds, the monitoring and projection of monthly cash balances are critical to 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 **-50.8%** of the projected 2013-14 Ending Fund Balance, excluding temporary borrowing.

Additionally, the district's LCFF funding is computed to be 7.2% Property Taxes and 92.8% 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 \$30.4M of the district's 2013-14 state aid into the 2014-15 fiscal year. To maintain a positive cash position, the district is using Tax Revenue Anticipation Notes of \$23M which requires repayment by July 31, 2014. 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 been finalized with the certificated and classified bargaining units. The agreements include a 1.57% one-time, off-schedule bonus for both 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.

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 within the state's established standard. **However, the district's high ratio of 90.9% carries a great deal of risk to future fiscal solvency. With the significant change to the school funding model brought about by LCFF, maintenance of effort requirements, and no guarantee of future funding increases, districts need to build a level of flexibility with contingency plans and greater reserves. With a significant amount of the district's expenditures committed to salaries and benefits, its ability to build reserves and develop contingency plans is limited, and this limitation carries greater risk.**



- **MULTI-YEAR PROJECTIONS** – The district is projecting to meet minimum state reserves in all fiscal years with 5.1% in 2013-14, 9.3% in 2014-15 and 19.3% in 2015-16. The district has a board-approved budget reduction plan in place and has unappropriated reserves in the 2015-16 fiscal year to help minimize the risk associated with projecting future Gap funding increases. **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 \$25,563,136 which constitutes 10.91% of the district’s projected general fund budget. The debt repayment is budgeted in the General and Child Development 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.

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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