



August 13, 2012

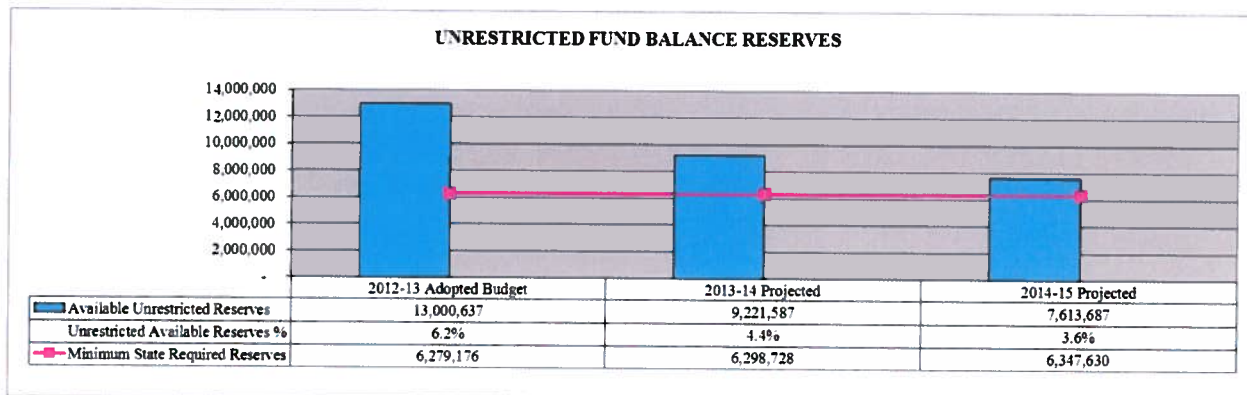
Ms. Sharon Flores, Director of Fiscal Services  
Rialto Unified School District  
182 East Walnut Avenue  
Rialto, CA 92376-3598

Dear Ms. Flores:

Thank you for the submission of the district's 2012-13 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 in these tough economic times. On June 27, 2012, the Governor signed the State Budget Act, AB 1464, and the Education Trailer Bill, SB 1016. The provisions of these bills, coupled with the advice contained in the Common Message - 2012-13 State Enacted Budget and Related Multi-year Projections, were used in our review.

The 2012-13 Adopted Budget of the **Rialto Unified School District** has been reviewed and **approved** pursuant to the provisions of Education Code Section 42127 (a) through (d).

As adopted by the district's Governing Board, the budget reflects an unrestricted ending balance reserve in the General Fund of 6.2%. The district is projecting unrestricted ending fund balance reserves at 4.4% in 2013-14 and at 3.6% in 2014-15. However, the district did not include any revenue reductions or assigned reserves for the potential on-going trigger reduction in its projections. The district has submitted Resolution 11-12-35 authorizing \$12M in ongoing reductions in 2012-13 and an additional \$5M of ongoing reductions in 2013-14 should the trigger reduction be implemented.



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

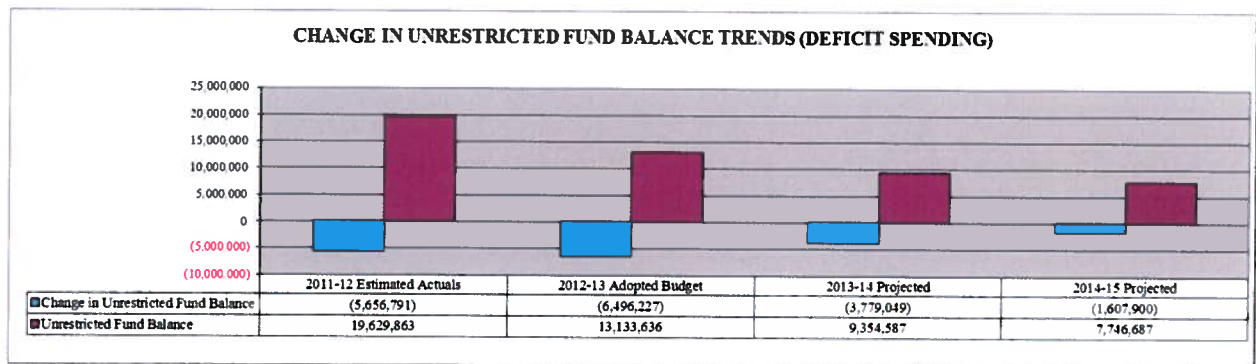
- Unrestricted Deficit Spending Trends
- Average Daily Attendance (ADA) & Enrollment Projections
- Current and Multiyear Projections
- Negotiations Status/Salaries and Benefits Trends
- Long Term Debt
- Cash Flow

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 projecting unrestricted expenditures to exceed unrestricted revenues by \$6,496,227 in the current fiscal year, primarily due to the state revenue limit deficit, a high salaries and benefits ratio, and ongoing operational costs. The district is continuing this trend of deficit spending in fiscal year 2013-14 by \$3,779,049 and in fiscal year 2014-15 by \$1,607,900. This ongoing deficit spending appears to be attributed to the state revenue limit deficit and ongoing operational costs. 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’s deficit spending is **not** within the established state standards for the current and first subsequent 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 adopted budget, and board approved multi-year financial projections reflecting the 2013-14 and 2014-15 fiscal years.

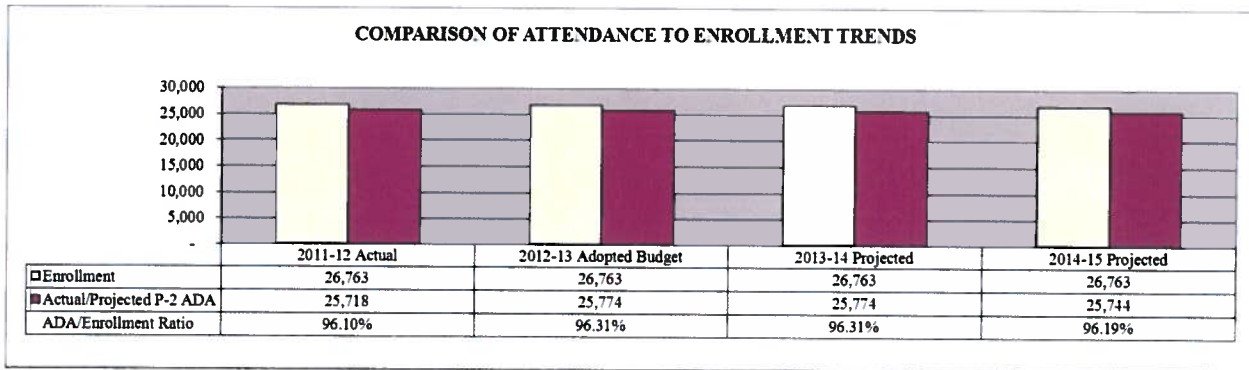


- **AVERAGE DAILY ATTENDANCE (ADA) & ENROLLMENT PROJECTIONS** – The district is projecting 2012-13 P-2 ADA of 25,774 or equal to prior year P-2 ADA. The district’s three-year average change in ADA has been an increase of 0.22%. Compared to the enrollment projection of 26,763, the district is anticipating an attendance ratio of 96.31% for the current year. The district is projecting no

change in ADA for 2013-14 and a 0.12% decline in ADA for 2014-15, resulting in an attendance ratio of 96.31% and 96.19% respectively.

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 not within the state standard of 95.8% for each of those years. Although the district is projecting a higher ADA to enrollment ratio than the state standard, the projection is based on current ADA recovery rates achieved through its Saturday School program in fiscal year 2011-12. A one year increase may not reflect an ongoing trend. 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 2011-12 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 and does not include a per ADA state aid trigger reduction in the revenue limit or Assigned Reserves. However, the State Enacted Budget estimates the trigger reduction at \$457 per ADA.

The district has incorporated COLA adjustments in the 2013-14 and 2014-15 fiscal years as estimated by the School Services of California’s (SSC) dartboard, but has not set aside any unrestricted reserves in the event that this COLA is not funded. The district’s Governing Board has resolved to make ongoing budget reductions of \$12M in 2012-13 and an additional \$5M in 2013-14 to compensate for the state trigger reductions and any potential unfunded COLAs.

The district has expended its entire one-time Federal Education Jobs award. It appears that the district has adjusted the multiyear revenue projections to remove that funding.

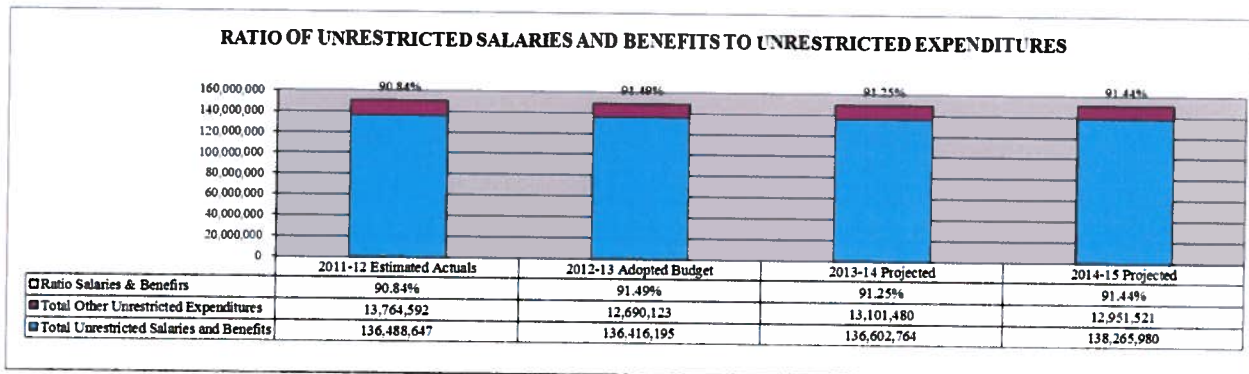
Our review of the district’s current and projected expenditures indicates \$1.2M of classified salary cost reductions were made in the 2013-14 fiscal year. The district indicates these reductions have not been fully negotiated.

- NEGOTIATIONS STATUS/SALARIES AND BENEFITS TRENDS** – The information submitted with your Adopted Budget indicates that certificated salary negotiations have been concluded but classified salary negotiations are still ongoing for the 2011-12 and 2012-13 fiscal years. Annual step and column adjustments are included for both units in each year. The certificated agreement includes five furlough days and 100% employer-paid benefits. The district is maintaining a 177-day school year. Please keep our office apprised of the status of the negotiations process for 2012-13.

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 is required to be publicly disclosed at a board meeting regardless of whether there is an increase, decrease, or no change in expenditures or language. Budget transfers implementing the adjustment(s) 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 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](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 are within the state’s established standard; however, 91.5% of unrestricted expenditures are 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. We recommend that the district monitor these ratios and take them into consideration as part of collective bargaining negotiations and oversight of position control.



- LONG TERM DEBT** – The Adopted Budget includes non-voter approved long-term debt of \$21,456,423 which constitutes 10.25% of the district’s general fund budget. The debt repayment is budgeted in the General, Child Development, and Debt Service for Blended Component Units 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 cash flow provided by the district, in conjunction with our internal cash analysis, indicates that the district will not have sufficient cash in the months of December 2012 through June 2013 unless further expenditure reductions, revenue enhancements, or temporary borrowing is implemented. The district's cash flow shows the June 30 cash balance is estimated to be 18.54% of the projected 2012-13 Ending Fund Balance including any cross-year temporary borrowing. To maintain a positive cash position, the district has issued \$18M in Tax Revenue Anticipation Notes (TRANS), which is scheduled to be repaid in January 2013, and interfund borrowing of \$9M, which must be repaid by June 30, 2103. The district also projects the issuance of a mid-year TRANS in February 2013, which would be repaid in July and/or August 2013. With cross-year temporary borrowing excluded, the district would have a negative cash balance of approximately \$50M in June 2013.

Additionally, the district's revenue limit is computed to be 6.29% Property Taxes and 93.71% 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 \$57.3M of the district's 2012-13 state aid into the 2013-14 fiscal year.

A good cash projection will allow the district to schedule expenditures in months when adequate cash will be available.

Our review has been based on the latest information available to this office with the 2012-13 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 11, 2012. We anticipate a timely year-end closing of the 2011-12 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 2012-13 and audited ending balances for 2011-12. These actions will also ultimately affect the availability of reserves for the 2012-13 operating budgets. The unaudited actuals report is due to our office per Education Code § 42100 on or before September 15, 2012, and the audit report is due on or before December 15, 2012.

Any questions concerning the review of the district's 2012-13 Adopted Budget may be addressed to me at (909) 386-9680.

Sincerely,



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

CC: Ted Alejandre, Assistant Superintendent Business Services – SBCSS  
Cynna Hinkle, Director Business Advisory Services - SBCSS