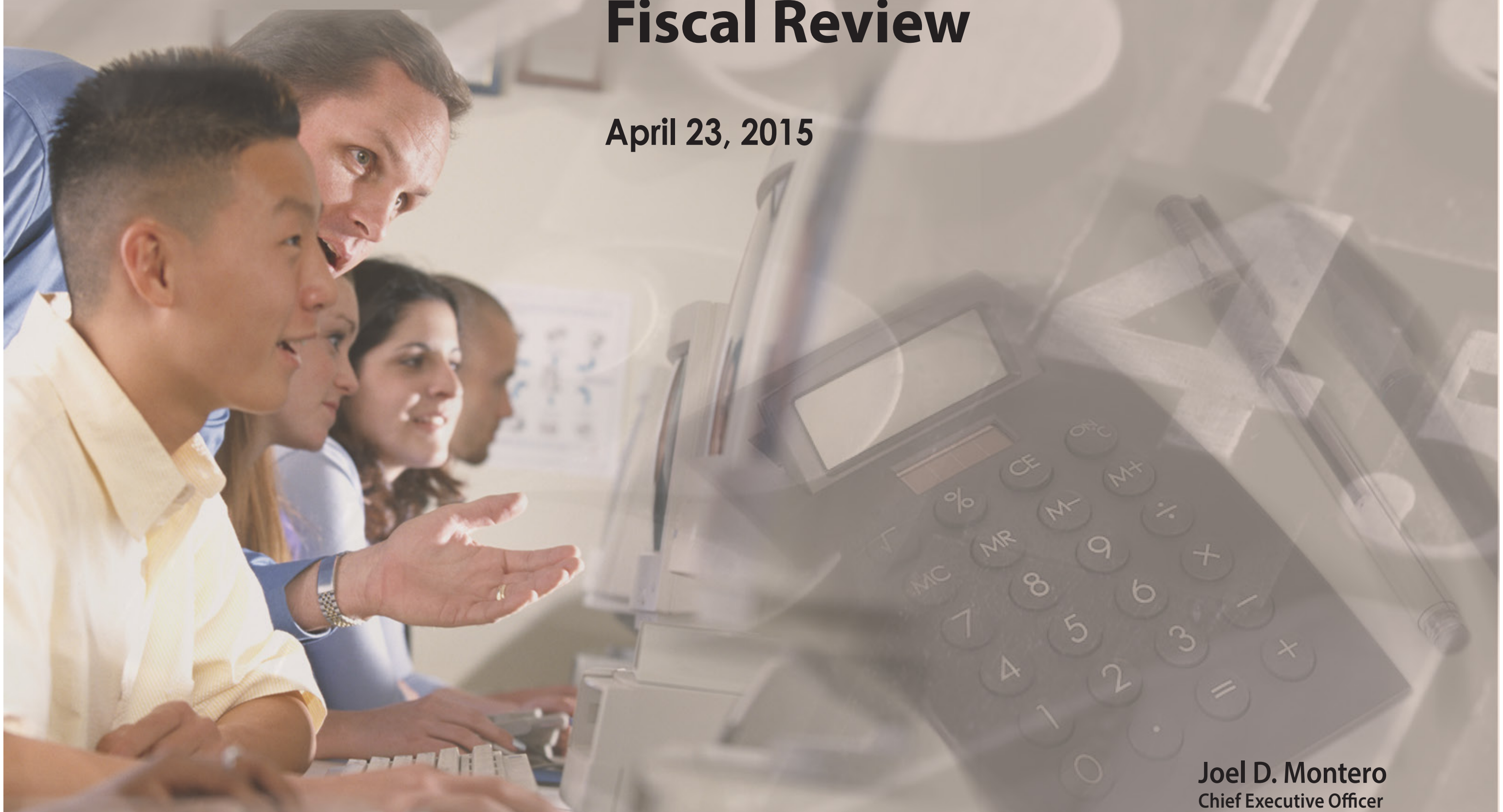
FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

Sweetwater Union High School District

Fiscal Review

April 23, 2015



Joel D. Montero
Chief Executive Officer



April 23, 2015

Philip Stover, Interim Superintendent
Sweetwater Union High School District
1130 Fifth Avenue
Chula Vista, CA 91911

Dear Interim Superintendent Stover:

In October 2014, the Sweetwater Union High School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for management assistance. Specifically, the agreement stated that FCMAT will perform the following:

1. The Sweetwater Union High School District is requesting FCMAT to develop a multiyear financial projection (MYFP) for the 2014-15 budget and two subsequent fiscal years to validate the financial status of the district. The MYFP will be a snapshot in time regarding the current financial status and will use the district's 2014-15 Adoption Budget as the baseline for developing the MYFP. Any forecast of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment trends, cost-of-living adjustments, forecasts for utilities, supplies and equipment, and changing economic conditions at the state, federal and local levels. The MYFP will be developed as a trend based on certain criteria and assumptions instead of a prediction of exact numbers. The MYFP will be developed for the district's general fund and will include the review and fiscal impact of other funds.
2. Development of the MYFP will include the use of FCMAT's Budget Explorer multiyear financial projection and cash flow software and LCFF calculator to determine the level of funds required to sustain the district's financial solvency.

During FCMAT's fieldwork, the district and FCMAT agreed that the 2014-15 first interim budget, rather than the 2014-15 adoption budget, would be used as the baseline for developing the MYFP.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the Sweetwater Union High School District, and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

Joel D. Montero
Chief Executive Officer

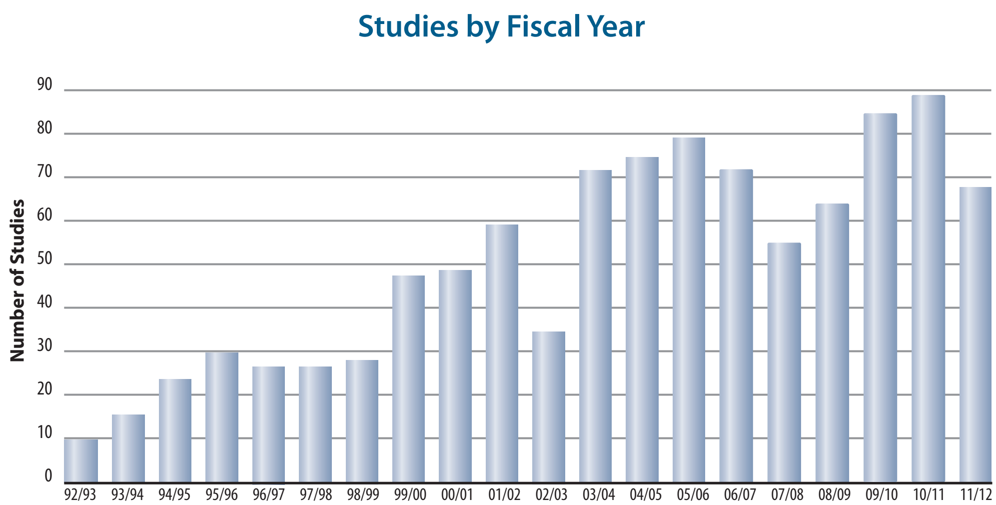
Table of Contents

About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices and efficient operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and share information.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the local education agency to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help local educational agencies operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) arm of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS) and also maintains DataGate, the FCMAT/CSIS software LEAs use for CSIS services. FCMAT was created by Assembly Bill 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. Assembly Bill 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. Assembly Bill 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. Assembly Bill 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, SB 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

Located in San Diego County, the Sweetwater Union High School District has a five-member governing board. The district serves approximately 40,133 students at 28 middle, junior high and high school campuses, and has authorized three charter schools. According to data from the California Department of Education, student enrollment has fluctuated from a high of 42,804 in 2008-09 to a low of 40,901 in 2013-14, and has continued to decline based on the October 2014 enrollment count. The district serves a relatively high-needs population; the unduplicated count of free and reduced-price meal eligible, English learner and foster youth students is approximately 59-62% of enrollment.

In October 2014, the Sweetwater Union High School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for management assistance to develop a multiyear financial projection (MYFP) for the 2014-15 budget and two subsequent fiscal years to validate the financial status of the district. During FCMAT's fieldwork, the district and FCMAT agreed that the 2014-15 first interim budget, rather than the 2014-15 adoption budget, would be used as the baseline for developing the MYFP.

Study and Report Guidelines

FCMAT visited the district on December 9-10, 2014 to conduct interviews, collect data, and begin reviewing documents. District staff continued to provide requested documents through February 2015. This report is the result of those activities and is divided into the following sections:

- Executive Summary
- Multiyear Financial Projections
- District Procedures
- Appendix

In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

Study Team

The study team was composed of the following members:

Diane Branham
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Los Angeles, CA

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FCMAT Consultant
Kingsburg, CA

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FCMAT Technical Writer
Bakersfield, CA

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District Fiscal Analyst
Kern County Superintendent of Schools Office
Bakersfield, CA

*As a member of this study team, this consultant was not representing her employer but was working solely as an independent contractor for FCMAT. Each team member reviewed the draft report to confirm its accuracy and to achieve consensus on the final recommendations.

Executive Summary

The 2008-09 through 2012-13 fiscal years were unprecedented for California's local educational agencies (LEAs). To address the state's ongoing budget deficit, lawmakers used numerous strategies to help balance the budget, including reducing expenditures, adding new taxes, borrowing money and using federal stimulus funds. During that time, the state provided LEAs with several flexibility options, including Senate Bill X3 4 that allowed previously restricted state categorical program dollars to be used for any educational purpose.

The 2013-14 state budget included the Local Control Funding Formula (LCFF), which significantly changed the way school districts are funded. The LCFF replaced revenue limits and most state categorical program funding with base pupil grants by grade span and supplemental and concentration grants determined by the number of students eligible for free and reduced-price meals, English learners and foster youth.

State funding for education has increased since 2013-14. However, due to ongoing state budget reductions from prior years, LEAs throughout the state continue to struggle to eliminate deficit spending, maintain a balanced budget in the current and subsequent fiscal years, and sustain the state's prescribed level of reserves for economic uncertainties and the cash balances necessary to maintain financial solvency.

Multiyear financial projections (MYFPs) help local educational agencies make more informed decisions and forecast the effects of current decisions. Projections are a part of annual budget development and should be evaluated and updated during each interim financial reporting period and before any significant budget adjustments, such as salary increases. In developing and implementing the multiyear financial projection, the district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance.

FCMAT's multiyear financial projection indicates that the district **may not** be able to maintain a 2% reserve for economic uncertainties in 2016-17, if steps are not taken to increase revenue or decrease expenditures. Following is a summary of FCMAT's projections for the district's unrestricted resources.

Multiyear Financial Projection Summary General Fund Unrestricted Resources Only			
Description	Base Year 2014-15	Year 1 2015-16	Year 2 2016-17
Total Revenues	$312,731,004.00	$326,318,312.50	$336,262,927.85
Total Expenditures	$260,783,246.90	$276,803,208.35	$284,793,083.07
Total Other Financing Sources/Uses	($50,274,016.31)	($57,918,450.22)	($60,913,086.95)
Net Increase (Decrease) in Fund Balance	$1,673,740.79	($8,403,346.07)	($9,443,242.17)
Fund Balance:			
Beginning Balance	$24,003,081.72	$23,773,013.51	$15,369,667.44
Audit Adjustments	($1,903,809.00)	$0.00	$0.00
Other Restatements	$0.00	$0.00	$0.00
Total Ending Balance	$23,773,013.51	$15,369,667.44	$5,926,425.27
Components of Ending Fund Balance:			
Revolving Cash	$24,999.00	$24,999.00	$24,999.00
Stores	$226,552.00	$226,552.00	$226,552.00
Other Assignments	$3,641,556.00	$0.00	$0.00
2% Reserve for Economic Uncertainties	$7,409,333.35	$7,633,877.43	$7,840,373.27
Undesignated/Unappropriated	**$12,470,573.16**	**$7,484,239.01**	**($2,165,499.00)**

Based on these projections, the governing board and district administration may need to make and implement difficult budget decisions. Unless revenue is increased, the district will need to implement expenditure reductions to balance its general fund budget and remain fiscally solvent.

Subsequent Events

Following completion of FCMAT's fieldwork, the district completed its 2014-15 second interim budget report and presented it to the governing board on March 30, 2015. Per Education Code Section 42130, the second interim report includes information through January 31, 2015. As indicated previously, FCMAT used the district's 2014-15 first interim report as the baseline for its analysis, which includes financial information through October 31, 2014.

Findings and Recommendations

Multiyear Financial Projections

Multiyear financial projections (MYFPs) are required by Assembly Bill (AB) 1200 and AB 2756 and are a part of the adoption budget and interim reporting process. AB 2756 was signed into law in June 2004 and made substantive changes to the financial accountability and oversight used to monitor the fiscal position of school districts and county offices. Among other things, AB 2756 strengthened the roles of the superintendent of public instruction (SPI) and county offices of education and their ability to intervene during fiscal crises, including requesting assistance from FCMAT.

MYFPs help local educational agencies (LEAs) make more informed decisions and project the future effect of current decisions. Projections are a required part of annual budget development and must be evaluated and updated during each interim financial reporting period. They should also be updated before any significant decisions are made that affect the budget, such as salary increases. When developing and implementing its multiyear financial projections, a district's main objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The MYFP helps identify specific planning milestones that will help the district make decisions.

Financial planning is crucial for every LEA, regardless of its size or structure. Long-term financial planning helps a district strategically align its budget with its instructional goals and programs. In addition, recognizing financial trends is essential to maintaining a district's fiscal health. Monitoring and analyzing year-to-year trends in key budget areas helps a district evaluate its budget direction and highlight possible areas of concern.

Any projection of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment trends; cost-of-living adjustments; estimates for utilities, supplies and equipment; and changing economic conditions at the state, federal and local levels. Therefore, the budget projection model should be evaluated as a trend based on certain criteria and assumptions instead of a prediction of exact numbers.

Multiyear projections can become somewhat less reliable in a time of fiscal instability, especially in the subsequent fiscal years, because projected revenue information from the state may frequently change. However, the MYFP still provides guidance for decisions that affect multiple fiscal years, and the district must continue to update and reassess the ramifications of state-imposed budget adjustments.

Assembly Bill (AB) 1200 Oversight

If at any time during the fiscal year a district is unable to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district's governing board and the SPI. The county office is required to follow Education Code Section 42127.6 when assisting a school district in this situation, and take all actions necessary to ensure that the district meets its financial obligations. Assistance may include steps such as assigning a fiscal expert or fiscal advisor to advise the district on financial issues, conducting a study of the district's financial and budget conditions and requiring the district to submit a proposal for addressing its fiscal condition. In the case of a district that does not meet its state prescribed reserve levels, the intent of the MYFP is to help the county office and the district formulate a plan to regain fiscal solvency and restore the reserve. The district filed a positive certification on its 2014-15 first interim budget report.

FCMAT developed its multiyear projections using the information included in the state's 2014-15 budget and the governor's 2015-16 state budget proposal. The MYFP developed for this report indicates that the district **may not** be able to maintain a 2% reserve for economic uncertainties in the 2016-17 fiscal year if actions are not taken to increase revenues and/or reduce expenditures. The district has faced fiscal challenges, including ongoing deficits in state funding and declining student enrollment that will require the governing board and administration to continue to make and implement difficult decisions to ensure that the district remains fiscally solvent.

Regular and frequent budget monitoring becomes even more critical in times of fiscal uncertainty. The district will need to continue to ensure that multiyear financial projections are kept up to date and that the information they contain is accurate and based on the most current assumptions available.

State Budget Overview

Fiscal years 2008-09 through 2012-13 were unprecedented budget years for California's LEAs. To address the state's ongoing budget deficit, lawmakers used numerous strategies to help balance the budget, including reducing expenditures, adding new taxes, borrowing money, and using federal stimulus funds.

On July 1, 2013, Governor Brown signed Assembly Bill 97, which became effective immediately. AB 97 enacted the Local Control Funding Formula (LCFF), which was the most significant change to California's school finance model in almost 40 years, replacing both the prior revenue limit funding formula and most categorical funding. Like revenue limit funding, the LCFF is based on average daily attendance (ADA); however, the methods of calculation have changed significantly. The LCFF provides a pupil base grant by grade level and additional funding based on the district's student population of English language learners, those who are eligible for the free and reduced-price meal program, and foster youth. In its simplest form, the LCFF has four main components:

1. LCFF sets four uniform base grant grade span rates: K-3, 4-6, 7-8 and 9-12. These constitute the majority of general purpose funding.
2. Base rate grade span adjustments for grades K-3 and 9-12 are calculated based on a percentage of the grade span rates: 10.4% for grades K-3 class size reduction, and 2.6% for grades 9-12 career technical education.
3. Supplemental grant funding totaling 20% of the adjusted base rate is provided for certain student subgroups including English learners, foster youth, and students who qualify for free or reduced-price meals.
4. Concentration grant funding equal to 50% of the adjusted base rate is provided when these student subgroups exceed 55% of total enrollment.

Consequently, all students generate funds from base grants and all K-3 and 9-12 students generate funds from base rate adjustments; however, supplemental and concentration grant funds are generated from specific pupil counts. Supplemental and concentration funds are to be spent to increase or improve services to the groups that generate them. California Code of Regulations, Title 5, Section 15496 defines the requirements necessary for districts to demonstrate these increased or improved services for unduplicated pupils in proportion to the increase in funds appropriated for supplemental and concentration grants.

Following the calculation of the four main components, there are add-ons for Targeted Instructional Improvement Block Grant and pupil transportation funding. The add-ons do not receive cost of living adjustments over the eight-year target implementation period.

During the transition from fiscal year 2012-13 to 2013-14, a base funding level and a target, representing full funding at the end of eight years, was determined for each school district and charter school. The difference between the base and the target is referred to as the gap. Beginning in 2013-14, districts and charter schools receive a percentage of the remaining gap amount each year until full funding is achieved. Base rates are adjusted each year for cost of living increases and for grade span adjustments if applicable. Because both supplemental and concentration grants are a percentage of the adjusted base grants, they also benefit from cost of living increases.

The state obligation for LCFF funding is offset by local property taxes and the economic protection account (EPA); therefore, the total revenue under LCFF received by each school district is a combination of state apportionments, local property taxes, and EPA. The EPA, also known as Proposition 30, was approved in the November 2012 election in an attempt to stabilize K-14 funding following massive budget cuts to education over the four previous fiscal years. The EPA generates revenues through a temporary state sales tax rate increase of 0.25% beginning January 1, 2013 and continuing through December 31, 2016 and through an increase to the California state personal income tax rates for upper-income taxpayers beginning January 1, 2012 and ending December 31, 2018. These payments are separate from the principal apportionment and are paid quarterly.

The LCFF is in the second year of the projected eight-year implementation period. As funding is increased during this period, LEAs will rely heavily on the estimated cost of living adjustments and gap funding percentages provided by the Department of Finance to produce accurate budget and multiyear projections. For LEAs such as Sweetwater Union High School District, with high unduplicated pupil counts, the reliance on these estimates is increased due to funding projections for supplemental and concentration grants.

Multiyear Financial Projection Method

LEAs use many different software products to prepare MYFPs. For Sweetwater's MYFP, FCMAT used its Budget Explorer web-based MYFP software, which was designed for California school districts and is available to LEAs free of charge.

Budget Explorer allows school districts to create and update financial projections by interfacing with the state's standardized account code structure (SACS) software or importing data directly from a district's financial system. Its comprehensive modeling capabilities allow MYFPs to be produced efficiently, accurately and more rapidly than with conventional spreadsheets. Budget Explorer can be used to make more informed budget decisions and incorporate educational goals and objectives into several financial scenarios. The MYFP provided in this document is also available online to the district.

Enrollment and Average Daily Attendance

Accurate enrollment tracking and analysis of average daily attendance (ADA) are essential to providing a solid foundation for budget planning. Because the district's primary funding is based on the total number of student attendance days, monitoring and projecting student enrollment and attendance is a crucial function. When enrollment and related ADA decline, the district must consider the budgetary effects of the decline on teacher-to-student ratios and plan accordingly. The district must also exercise extreme caution regarding issues such as negotiations, staffing and deficit spending to ensure fiscal solvency. Accurate tracking and analysis of enrollment and ADA can help the district better project future revenues and control staffing expenditures to help maintain fiscal solvency.

Enrollment Projection

To project the district's future seventh grade enrollment, FCMAT used enrollment information provided by the California Department of Education (CDE) on its DataQuest website for the three K-6 feeder school districts: Chula Vista, National and South Bay Union elementary school districts. This information shows that an increasing percentage of sixth grade students from the feeder districts are matriculating to charter schools in seventh grade: 1.37% in 2008-09 and 9.31% in 2013-14.

To project the district's future eighth through 12th grade enrollment, FCMAT used the cohort survival method, which groups students by grade level upon entry and tracks them through each year they stay in school. This method evaluates the longitudinal relationship of the number of students who pass from one grade to the next in a subsequent year. This method closely accounts for retention, dropouts and students transferring to and from the district grade by grade. Although other projecting techniques are available, the cohort survival method usually is the best choice for school districts because of its sensitivity to incremental changes in several key variables.

Percentages are calculated from historical enrollment data to determine a reliable weighted average percentage of increase or decrease in enrollment between any two grades over the projection period. Ratios are calculated between grade levels from year to year, usually using data from the last five years. Enrollment variables include the following:

- Historical ratio of enrollment progression between grade levels
- Changes in educational programs
- Interdistrict and intradistrict transfers
- Migration patterns
- Changes in local and regional demographics
- Industry changes such as a new industry coming to the area or an industry leaving
- Residential housing starts and the generation factor per household

Average Daily Attendance

Average daily attendance is used to calculate the district's LCFF and many other federal and state revenue sources. District LCFF apportionments are based on the greater of current or prior year second period principal apportionment (P-2) ADA.

FCMAT reviewed the district's enrollment and ADA trends for 2009-10 through 2013-14 and the October 2014 enrollment data. The review compared October California Basic Educational Data System (CBEDS)/California Longitudinal Pupil Achievement Data System (CALPADS) student enrollment counts to the P-2 ADA to determine the average ADA-to-enrollment ratios. Historical data indicates that the district has experienced declining enrollment in four of the five fiscal years. FCMAT's projections indicate that enrollment will continue to decline in the next two years, partly due to the increase in charter school enrollment. However, the district needs to carefully monitor and project enrollment and ADA at each reporting period to ensure the most recent data is included in its budget assumptions.

The following table shows the historical and projected enrollment using the cohort survival method.

Enrollment	Historical 5 2009 - 10	Historical 4 2010 - 11	Historical 3 2011 - 12	Historical 2 2012 - 13	Historical 1 2013 - 14	Base Year 2014 - 15	Year 1 2015 - 16	Year 2 2016 - 17
7	5,948	5,908	5,641	5,855	5,620	5,691	5,582	5,607
8	6,273	5,977	5,852	5,765	5,918	5,699	5,761	5,629
Subtotal (7 - 8)	12,221	11,885	11,493	11,620	11,538	11,390	11,343	11,236
9	7,112	7,062	6,846	6,924	6,806	7,051	6,736	6,825
10	7,121	7,068	7,141	6,969	6,995	6,975	7,176	6,860
11	7,242	7,113	6,973	7,220	6,948	6,954	6,958	7,160
12	8,208	8,001	7,858	7,770	7,894	7,763	7,707	7,714
Subtotal (9 - 12)	29,683	29,244	28,818	28,883	28,643	28,743	28,577	28,559
Total	41,904	41,129	40,311	40,503	40,181	40,133	39,920	39,795

P2ADA	Historical 5 2009 - 10	Historical 4 2010 - 11	Historical 3 2011 - 12	Historical 2 2012 - 13	Historical 1 2013 - 14	Base Year 2014 - 15	Year 1 2015 - 16	Year 2 2016 - 17
7-8	11,795.90	11,554.99	11,257.79	11,350.52	11,279.24	11,118.92	11,080.98	10,977.57
9-12	27,536.97	27,220.95	27,028.05	26,972.33	26,991.38	26,920.69	26,785.22	26,779.77
Total	39,332.87	38,775.94	38,285.84	38,322.85	38,270.62	38,039.61	37,866.20	37,757.34

Enrollment Factors	Historical 5 2009 - 10	Historical 4 2010 - 11	Historical 3 2011 - 12	Historical 2 2012 - 13	Historical 1 2013 - 14	Base Year 2014 - 15	Year 1 2015 - 16	Year 2 2016 - 17
7-8	0.9652	0.9722	0.9795	0.9768	0.9776	0.9762	0.9769	0.9770
9-12	0.9277	0.9308	0.9379	0.9338	0.9423	0.9366	0.9373	0.9377
Total	0.9386	0.9428	0.9498	0.9462	0.9525	0.9478	0.9486	0.9488

Multiyear Financial Projection Assumptions

The MYFP prepared by FCMAT uses the district's 2014-15 first interim financial report and the corresponding SACS data file as the baseline.

FCMAT used budget assumptions based on the 2014-15 State Budget Act, the governor's 2015-16 budget proposal, School Services of California's (SSC's) Financial Projection Dartboard and Department of Finance estimates for LCFF funding factors.

To verify the base year (2014-15) for the multiyear projection, FCMAT did the following:

- Reviewed internal and third party support documentation to verify the district's current year revenue.
- Reviewed the district's actual year-to-date and prior two years' revenue and expenditure detail to identify potential adjustments in each resource and major object code of the general fund.
- Compared certificated, classified and management employee salary and benefit information budgeted at first interim to actual year-to-date expenditures and projected costs for the remainder of the fiscal year.

In addition to conducting interviews with staff, FCMAT used a number of district documents to develop a baseline and future assumptions for the MYFP, including the following:

- Letters from the county office regarding the district's 2013-14 and 2014-15 adopted budget reports and the 2013-14 interim financial reports
- District chart of accounts
- 2014-15 first interim report
- 2014-15 adoption budget report
- 2013-14 unaudited actuals report
- Comparative financial report that includes 2012-13 and 2013-14 actuals and 2014-15 first interim budget, actuals-to-date and encumbrance totals
- Balance sheet summary reports
- Position control records
- September and October 2014 payroll reports
- Collective bargaining agreements for all employee groups
- Collective bargaining disclosures
- Scattergrams and salary schedules for all employee groups
- Long-term debt schedules
- District LCFF calculator spreadsheets
- 2013-14 and 2014-15 Consolidated Application data
- Enrollment information, including CBEDS/CALPADS data for the current and prior five fiscal years
- Attendance reports for 2009-10 through 2013-14
- Annual independent audit reports for 2012-13 and 2013-14

The following table includes the economic factors used by FCMAT in completing the district's MYFP.

Projection Rules

Description	Base Year 2014-15	Year 1 2015-16	Year 2 2016-17
Certificated COLA %	Included	0.00%	0.00%
Classified COLA %	Included	2.20%	0.00%
Certificated Staff Step and Column Increase %	Included	2.00%	2.00%
Classified Staff Step Increase %	Included	1.30%	1.30%
California CPI (SSC)	1.80%	2.10%	2.50%
California Lottery Restricted (SSC)	$34.00	$34.00	$34.00
California Lottery Unrestricted (SSC)	$128.00	$128.00	$128.00
Interest Rate Trend for 10 Year Treasuries (SSC)	2.20%	2.50%	2.80%
State Categorical and Special Education COLA (SSC)	0.85%	1.58%	2.10%
Statutory COLA (SSC)	0.85%	1.58%	2.10%
LCFF COLA (DOF at first interim reporting period)	0.85%	1.58%	2.17%
LCFF Gap Closure (DOF at first interim reporting period)	29.56%	32.19%	23.71%
Federal COLA	0.00%	0.00%	0.00%
Health and Welfare Benefits	Included	4.04%	0.00%
STRS Employer Rates (SSC)	8.88%	10.73%	12.58%
PERS Employer Rates (SSC)	11.77%	12.60%	15.00%
Year-to-Year Change in Enrollment	-0.12%	-0.53%	-0.31%

Multiyear Financial Projection Analysis

The primary purpose of a MYFP is to project the district's budget over several fiscal years using current budget assumptions to determine if the district is able to achieve and sustain a balanced budget and meet the state-prescribed reserve for economic uncertainties. To evaluate the multi-year projection, attention is focused on the district's ability to meet its reserve requirement in each fiscal year and demonstrate a positive, unappropriated fund balance. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines.

FCMAT has analyzed all funding sources and expenditure categories by resource. The unrestricted general fund summary below indicates that, without expenditure reductions or revenue increases, the district **may not** meet the 2% reserve for economic uncertainties in 2016-17.

To protect the district's financial solvency and eliminate the projected $2.16 million shortfall in 2016-17, the district will need to make difficult choices about which expenditures and programs will continue to be funded and which will be scaled back, reconfigured or eliminated, unless an increase in funding is obtained.

Unrestricted General Fund

The district's general fund budget is a combination of unrestricted general purpose dollars and restricted grants and categorical funding. However, when analyzing the district's budget, much attention is focused on the unrestricted budget, in particular the unappropriated ending fund balance. The district's unrestricted budget is projected to have a shortfall in 2016-17 as shown in the following table.

MYFP Unrestricted General Fund Summary

Name	Object Code	Base Year 2014 - 15	Year 1 2015 - 16	Year 2 2016 - 17
Revenues				
LCFF/State Aid	8010 - 8099	$297,588,146.00	$315,941,268.00	$325,901,901.00
Federal Revenues	8100 - 8299	$1,310,000.00	$510,000.00	$510,000.00
Other State Revenues	8300 - 8599	$10,256,925.00	$6,873,988.00	$6,856,234.00
Other Local Revenues	8600 - 8799	$3,575,933.00	$2,993,056.50	$2,994,792.85
Revenues		**$312,731,004.00**	**$326,318,312.50**	**$336,262,927.85**
Expenditures				
Certificated Salaries	1000 - 1999	$140,974,551.00	$149,953,229.02	$152,625,935.86
Classified Salaries	2000 - 2999	$42,400,460.00	$43,896,602.63	$44,467,258.46
Employee Benefits	3000 - 3999	$50,887,451.00	$57,394,646.18	$61,690,101.92
Books and Supplies	4000 - 4999	$7,382,373.00	$7,497,454.59	$7,661,067.79
Services and Other Operating	5000 - 5999	$20,938,581.90	$21,383,772.93	$21,924,892.04
Capital Outlay	6000 - 6900	$969,500.00	$969,500.00	$969,500.00
Other Outgo	7000 - 7299	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($5,678,124.00)	($5,582,641.00)	($5,695,904.00)
Debt Service	7400 - 7499	$2,908,454.00	$1,290,644.00	$1,150,231.00
Expenditures		**$260,783,246.90**	**$276,803,208.35**	**$284,793,083.07**
Excess (Deficiency) of Revenues Over Expenditures		$51,947,757.10	$49,515,104.15	$51,469,844.78
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($50,274,016.31)	($57,918,450.22)	($60,913,086.95)
Other Financing Sources/Uses		**($50,274,016.31)**	**($57,918,450.22)**	**($60,913,086.95)**
Net Increase (Decrease) in Fund Balance		$1,673,740.79	($8,403,346.07)	($9,443,242.17)
Fund Balance				
Beginning Fund Balance	9791	$24,003,081.72	$23,773,013.51	$15,369,667.44
Audit Adjustments	9793	($1,903,809.00)	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$22,099,272.72	$23,773,013.51	$15,369,667.44
Ending Fund Balance	9799	$23,773,013.51	$15,369,667.44	$5,926,425.27
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	$24,999.00	$24,999.00	$24,999.00
Nonspendable Stores	9712	$226,552.00	$226,552.00	$226,552.00
Nonspendable Prepaid Items	9713	$0.00	$0.00	$0.00
All Other Nonspendable Assets	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Restricted Balance	9740	$0.00	$0.00	$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Assignments	9780	$3,641,556.00	$0.00	$0.00
Economic Uncertainties Percentage		2%	2%	2%
Reserve for Economic Uncertainties	9789	$7,409,333.35	$7,633,877.43	$7,840,373.27
Undesignated/Unappropriated	9790	$12,470,573.16	$7,484,239.01	($2,165,499.00)

Restricted General Fund

The district has approximately 20 restricted federal and state programs. Not including the restricted maintenance account, three programs require a contribution from the district's unrestricted general fund in the budget and/or projection years. In addition, resource 9010, other restricted local, requires a contribution for the regional occupational program, which will be discussed in greater detail later in this report. The table below shows the programs that are projected to require a contribution.

Beginning in 2008-09, the state provided LEAs with some flexibility options, including reducing the contribution to the restricted maintenance account to 1% (or eliminating it if certain conditions were met). This flexibility provision is available through fiscal year 2014-15. The contribution requirement reverts back to 3% of general fund expenditures in 2015-16. FCMAT's projection includes the 3% contribution beginning in 2015-16.

Contributions

Name	Resource Code	Base Year 2014 - 15	Year 1 2015 - 16	Year 2 2016 - 17
Unrestricted Resources				
Unrestricted	0000	($50,274,016.31)	($57,918,450.22)	($60,913,086.95)
Total Unrestricted		**($50,274,016.31)**	**($57,918,450.22)**	**($60,913,086.95)**
Restricted Resources				
Special Ed: IDEA Mental Health Allocation Plan, Part B, Sec 611	3327	$62,941.00	$73,693.19	$86,761.87
Department of Rehab: Workability II, Transition Partnership	3410	$20,681.00	$28,015.06	$34,972.12
Special Education	6500	$40,729,002.30	$43,204,858.25	$45,131,993.87
Ongoing & Major Maintenance Account (RMA: Education Code Section 17070.75)	8150	$7,977,619.01	$11,448,485.00	$11,758,229.00
Other Restricted Local	9010	$1,483,773.00	$3,163,398.72	$3,901,130.09
Total Restricted		**$50,274,016.31**	**$57,918,450.22**	**$60,913,086.95**
Balance		**$0.00**	**$0.00**	**$0.00**

The district will need to continue to review all contributions from its unrestricted general fund and ensure that restricted programs are self-sustaining. The only exceptions should be the restricted maintenance account and special education. Special education typically has insufficient state and federal funding support, and state and federal funding is not specifically provided for restricted maintenance. The following table shows the projected restricted general fund budget.

MYFP Restricted General Fund Summary

Name	Object Code	Base Year 2014 - 15	Year 1 2015 - 16	Year 2 2016 - 17
Revenues				
LCFF/State Aid	8010 - 8099	$1,649,848.00	$1,649,848.00	$1,649,848.00
Federal Revenues	8100 - 8299	$22,844,176.00	$21,623,025.00	$21,623,025.00
Other State Revenues	8300 - 8599	$5,778,668.00	$4,746,074.10	$4,810,913.84
Other Local Revenues	8600 - 8799	$23,875,604.00	$22,058,700.00	$21,463,257.00
Revenues		**$54,148,296.00**	**$50,077,647.10**	**$49,547,043.84**
Expenditures				
Certificated Salaries	1000 - 1999	$39,614,509.00	$39,430,128.16	$40,168,332.95
Classified Salaries	2000 - 2999	$20,706,694.00	$21,378,041.46	$21,634,105.54
Employee Benefits	3000 - 3999	$17,617,746.66	$18,895,792.24	$20,304,427.87
Books and Supplies	4000 - 4999	$10,838,731.30	$5,007,008.04	$4,623,095.12
Services and Other Operating	5000 - 5999	$14,458,489.76	$13,827,926.06	$14,030,588.96
Capital Outlay	6000 - 6900	$134,324.00	$134,324.00	$134,324.00
Other Outgo	7000 - 7299	$270,000.00	$270,000.00	$270,000.00
Direct Support/Indirect Cost	7300 - 7399	$5,005,154.00	$4,909,671.00	$5,022,934.00
Debt Service	7400 - 7499	$960,066.00	$960,066.00	$960,066.00
Expenditures		**$109,605,714.72**	**$104,812,956.96**	**$107,147,874.44**
Excess (Deficiency) of Revenues Over Expenditures		($55,457,418.72)	($54,735,309.86)	($57,600,830.60)
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$77,706.00	$77,706.00	$77,706.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$50,274,016.31	$57,918,450.22	$60,913,086.95
Other Financing Sources/Uses		**$50,196,310.31**	**$57,840,744.22**	**$60,835,380.95**
Net Increase (Decrease) in Fund Balance		($5,261,108.41)	$3,105,434.36	$3,234,550.35
Fund Balance				
Beginning Fund Balance	9791	$6,451,869.31	$1,190,760.90	$4,296,195.26
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$6,451,869.31	$1,190,760.90	$4,296,195.26
Ending Fund Balance	9799	$1,190,760.90	$4,296,195.26	$7,530,745.61
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	$0.00	$0.00	$0.00
Nonspendable Stores	9712	$0.00	$0.00	$0.00
Nonspendable Prepaid Items	9713	$0.00	$0.00	$0.00
All Other Nonspendable Assets	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Restricted Balance	9740	$1,190,760.90	$4,296,195.26	$7,530,745.61
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Assignments	9780	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		2%	2%	2%
Reserve for Economic Uncertainties	9789	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$0.00	($0.00)	$0.00

Unrestricted and Restricted General Fund

The combined unrestricted and restricted general fund shows a negative $2.16 million undesignated/unappropriated balance in fiscal year 2016-17. Contributing to this shortfall is the projected enrollment decline in each fiscal year.

MYFP Combined Unrestricted and Restricted General Fund Summary

Name	Object Code	Base Year 2014 - 15	Year 1 2015 - 16	Year 2 2016 - 17
Revenues				
LCFF/State Aid	8010 - 8099	$299,237,994.00	$317,591,116.00	$327,551,749.00
Federal Revenues	8100 - 8299	$24,154,176.00	$22,133,025.00	$22,133,025.00
Other State Revenues	8300 - 8599	$16,035,593.00	$11,620,062.10	$11,667,147.84
Other Local Revenues	8600 - 8799	$27,451,537.00	$25,051,756.50	$24,458,049.85
Revenues		**$366,879,300.00**	**$376,395,959.60**	**$385,809,971.69**
Expenditures				
Certificated Salaries	1000 - 1999	$180,589,060.00	$189,383,357.18	$192,794,268.81
Classified Salaries	2000 - 2999	$63,107,154.00	$65,274,644.09	$66,101,364.00
Employee Benefits	3000 - 3999	$68,505,197.66	$76,290,438.42	$81,994,529.79
Books and Supplies	4000 - 4999	$18,221,104.30	$12,504,462.63	$12,284,162.91
Services and Other Operating	5000 - 5999	$35,397,071.66	$35,211,698.99	$35,955,481.00
Capital Outlay	6000 - 6900	$1,103,824.00	$1,103,824.00	$1,103,824.00
Other Outgo	7000 - 7299	$270,000.00	$270,000.00	$270,000.00
Direct Support/Indirect Cost	7300 - 7399	($672,970.00)	($672,970.00)	($672,970.00)
Debt Service	7400 - 7499	$3,868,520.00	$2,250,710.00	$2,110,297.00
Expenditures		**$370,388,961.62**	**$381,616,165.31**	**$391,940,957.51**
Excess (Deficiency) of Revenues Over Expenditures		($3,509,661.62)	($5,220,205.71)	($6,130,985.82)
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$77,706.00	$77,706.00	$77,706.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00
Other Financing Sources/Uses		**($77,706.00)**	**($77,706.00)**	**($77,706.00)**
Net Increase (Decrease) in Fund Balance		($3,587,367.62)	($5,297,911.71)	($6,208,691.82)
Fund Balance				
Beginning Fund Balance	9791	$30,454,951.03	$24,963,774.41	$19,665,862.70
Audit Adjustments	9793	($1,903,809.00)	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$28,551,142.03	$24,963,774.41	$19,665,862.70
Ending Fund Balance	9799	$24,963,774.41	$19,665,862.70	$13,457,170.88
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	$24,999.00	$24,999.00	$24,999.00
Nonspendable Stores	9712	$226,552.00	$226,552.00	$226,552.00
Nonspendable Prepaid Items	9713	$0.00	$0.00	$0.00
All Other Nonspendable Assets	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Restricted Balance	9740	$1,190,760.90	$4,296,195.26	$7,530,745.61
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Assignments	9780	$3,641,556.00	$0.00	$0.00
Economic Uncertainties Percentage		2%	2%	2%
Reserve for Economic Uncertainties	9789	$7,409,333.35	$7,633,877.43	$7,840,373.27
Undesignated/Unappropriated	9790	$12,470,573.16	$7,484,239.01	($2,165,499.00)

Adjustment Analysis

The following table and narrative show the differences between the district's 2014-15 first interim report and FCMAT's analysis. The narrative also includes additional details regarding the assumptions used in the projection years.

Combined General Fund Comparison Summary

Name	Object Code	District First Interim 2014-15	FCMAT Analysis 2014-15	Difference
Revenues				
LCFF/State Aid	8010 - 8099	$300,295,829.00	$299,237,994.00	($1,057,835.00)
Federal Revenues	8100 - 8299	$24,223,230.00	$24,154,176.00	($69,054.00)
Other State Revenues	8300 - 8599	$14,555,008.21	$16,035,593.00	$1,480,584.79
Other Local Revenues	8600 - 8799	$27,258,140.00	$27,451,537.00	$193,397.00
Revenues		**$366,332,207.21**	**$366,879,300.00**	**$547,092.79**
Expenditures				
Certificated Salaries	1000 - 1999	$179,149,204.35	$180,589,060.00	$1,439,855.65
Classified Salaries	2000 - 2999	$62,066,445.00	$63,107,154.00	$1,040,709.00
Employee Benefits	3000 - 3999	$66,992,201.66	$68,505,197.66	$1,512,996.00
Books and Supplies	4000 - 4999	$19,400,691.01	$18,221,104.30	($1,179,586.71)
Services and Other Operating	5000 - 5999	$35,535,011.09	$35,397,071.66	($137,939.43)
Capital Outlay	6000 - 6900	$1,103,824.00	$1,103,824.00	$0.00
Other Outgo	7000 - 7299	$270,000.00	$270,000.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($672,970.00)	($672,970.00)	$0.00
Debt Service	7400 - 7499	$3,868,615.00	$3,868,520.00	($95.00)
Expenditures		**$367,713,022.11**	**$370,388,961.62**	**$2,675,939.51**
Excess (Deficiency) of Revenues Over Expenditures		($1,380,814.90)	($3,509,661.62)	($2,128,846.72)
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$77,706.00	$77,706.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00
Other Financing Sources/Uses		**($77,706.00)**	**($77,706.00)**	**$0.00**
Net Increase (Decrease) in Fund Balance		($1,458,520.90)	($3,587,367.62)	($2,128,846.72)
Fund Balance				
Beginning Fund Balance	9791	$30,454,951.03	$30,454,951.03	$0.00
Audit Adjustments	9793	($1,903,809.00)	($1,903,809.00)	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$28,551,142.03	$28,551,142.03	$0.00
Ending Fund Balance	9799	$27,092,621.13	$24,963,774.41	($2,128,846.72)

Revenues

Local Control Funding Formula/State Aid – FCMAT calculated and adjusted the LCFF for the current year based on October 2014 enrollment and projected ADA.

Calculations for the projection years include statutory COLAs of 1.58% in 2015-16 and 2.17% in 2016-17 and the gap funding rates of 32.19% in 2015-16 and 23.71% in 2016-17. The enrollment and ADA projection included earlier in this report was also used for the projection years.

Federal Revenues – Federal revenues were balanced to the current year awards including deferred revenues and/or carryover balances. Medi-Cal Administrative Activities (MAA) funding was adjusted based on reports submitted by the district's third-party consultants and amounts due from prior years.

In the projection years, deferred revenues and/or carryover were eliminated and Medi-Cal Billing Option and MAA funding were reduced. Other federal funding was left at current year amounts. There are still many unknowns regarding federal funding for the projection years because of the effects of the 2011 Budget Control Act, also referred to as "sequestration." FCMAT's projection does not include reductions in federal program funding in the two subsequent years; however, the district should develop a contingency plan to prepare for the possibility of reductions as a result of sequestration.

State Revenues – State revenues were balanced to grant and entitlement letters, as well as information provided by the California Department of Education. Deferred revenues and/or carryover balances are also included in the current year budget.

Calculations for the projection years include statutory COLAs of 1.58% in 2015-16 and 2.10% in 2016-17 for all applicable resources.

Lottery funds are estimated at $128 per ADA for non-Proposition 20 funds and $34 per ADA for Proposition 20 funds. Government Code Section 8880.5(a)(2) extended lottery funding based on the 2007-08 regional occupational center/program and adult education ADA through 2014-15. Under current law this ADA will no longer be part of the lottery calculation beginning in 2015-16. Therefore, the district's total ADA for lottery funding will be reduced by approximately 6,000 ADA. FCMAT included this reduction in the MYFP.

Funding for the one-time mandated cost grant was eliminated in the projection years. The governor's 2015-16 budget proposal includes additional one-time funding for prior year mandated cost claims. However, because the budget has not been approved, these funds were not included in the MYFP.

Funding for the Quality Education Investment Act ends in 2014-15; therefore, it was eliminated in the MYFP beginning in 2015-16.

Local Revenues – FCMAT adjusted various local revenue amounts based on the amount received to date and projected collections through the remainder of the fiscal year. Some accounts did not have a budget and were updated to reflect amounts received to date. Transportation fees were increased slightly in subsequent years because of the board-approved increases for the cost of bus passes.

The district collects local revenues for items such as transportation fees, use of facilities, sale of surplus equipment and donations. Because these revenues cannot be guaranteed on a year-to-year basis, budgets and MYFPs for these items should be conservative and take into account historical trend data. The budgets should also be monitored and updated throughout the year based on amounts received to date.

Beginning in 2013-14, funding for regional occupational centers and programs (ROC/P) was folded into the LCFF. However, LEAs are required to maintain 2012-13 expenditure levels in 2013-14 and 2014-15. County offices of education that passed through funds in 2012-13 to joint powers agencies are also required to continue to pass through funds to those agencies through 2014-15. The San Diego County Office of Education implemented a transition plan that reduces the district's ROC/P allocations significantly in 2015-16 and 2016-17, and eliminates them in 2017-18. Although legislation has been proposed that would continue to fund these programs, it has not yet been approved. To continue the program at the current level, the district's contribution will increase from approximately $1.48 million in 2014-15 to $3.9 million in 2016-17.

Expenditures

FCMAT based its analysis of the district's salary and benefit costs on the following assumptions:

- Contracted employee salaries – October 31, 2014 year-to-date financial activity plus the encumbered salaries reported on the December 1, 2014 comparative financial report.
- Non-contracted salaries, including substitutes, extra duty, 1/6 period stipends, and overtime – October 31, 2014 year-to-date financial activity plus the average of the September and October 2014 payrolls multiplied by the eight remaining months to be paid in the current fiscal year.

Certificated Salaries – Salary accounts were adjusted based on the above assumptions and analysis of actual year-to-date activity, encumbrances and payroll reports.

The FCMAT MYFP includes ongoing step and/or column costs of 2% each year. The district's collective bargaining agreement with teaching staff provides for class size to be reduced from 30 to 28 students beginning in 2015-16. Therefore, the cost for 77 additional teachers at an average salary of $79,989 each has been added to the MYFP in 2015-16. Because of projected declining enrollment, unrestricted certificated salaries were reduced by four teachers in 2016-17.

Classified Salaries – Salary accounts were adjusted based on the above assumptions and analysis of actual year-to-date activity, encumbrances and payroll reports.

The FCMAT MYFP includes the impact of ongoing step costs of 1.3% each year, and a 2.2% salary increase beginning in 2015-16 based on the district's negotiated agreements with classified bargaining units.

Employee Benefits – Benefit accounts were adjusted based on actual year-to-date activity, encumbrances and September and October 2014 payroll reports. Adjustments for statutory and health and welfare benefits were posted to the current and projected fiscal years to reflect changes as a result of the salary budget review.

The FCMAT MYFP includes a cap of $13,130 for health and welfare benefits beginning in 2015-16 based on the district's negotiated agreements with its employee groups. Health and welfare and statutory benefit costs were also included for the additional teachers.

Increased employer contribution rates for the California State Teachers' Retirement System (STRS) and the California Public Employees' Retirement System (PERS) were included in the MYFP as follows:

	2015-16	2016-17
STRS	10.73%	12.58%
PERS	12.60%	15.00%

Books and Supplies – The books and supplies budgets were reviewed for reasonableness using the prior two years' actual expenditures, current year-to-date expenditures and encumbrances.

The FCMAT MYFP for subsequent years includes adjustments based on the consumer price index (CPI) inflation factor from the SSC financial dartboard and projected ADA.

Services and Other Operating Expenditures – The services and operating expenditure budgets were reviewed for reasonableness using the prior two years' actual expenditures, current year-to-date expenditures and encumbrances.

The projection for subsequent years includes adjustments based on the CPI inflation factor.

Capital Outlay – The capital outlay budgets were reviewed for reasonableness using the prior two years' actual expenditures, current year-to-date expenditures and encumbrances.

The FCMAT MYFP for subsequent years continues to include the 2014-15 budgeted amount.

Other Outgo – The capital outlay budgets were reviewed for reasonableness using the prior two years' actual expenditures, current year-to-date expenditures and encumbrances.

The FCMAT MYFP for subsequent years continues to include the 2014-15 budgeted amount.

Direct Support/Indirect Cost – Indirect costs were adjusted based on the California Department of Education's approved district rate of 5.29%, and the maximum allowable rate for each restricted program was applied in the current and subsequent years.

Debt Service – Debt service was adjusted in the current and subsequent years based on the district's long-term debt schedule for capital lease agreements and early retirement incentive payments.

FCMAT's projection reduced supplies and/or services in the restricted resources where possible to maintain spending within the projected revenue estimates. However, this action may also affect programs by reducing expenditures for these items.

General Ledger

In accordance with generally accepted accounting principles (GAAP), school districts and other governmental agencies use a modified accrual accounting basis, which combines accrual-basis accounting with cash-basis accounting. Modified accrual allows for the establishment of accounts receivable at year end.

The Governmental Accounting Standards Board (GASB) establishes standards, generally referred to as pronouncements, which govern GAAP practices. GASB statement 33 allows for the recognition of revenues under the modified accrual basis "when all applicable eligibility requirements are met and the resources are available …" and measurable. Under this provision, revenues that can be reasonably expected to be received within a short period of time following the close of the fiscal year should be recognized as accounts receivable. Funds due the district that do not meet this definition should not be recognized until the period in which these revenues are actually received.

A review of the district's general ledger revealed unusual balances in accounts receivable with negative offsets to current year revenue accounts. According to district staff, amounts due from various state, federal and local sources are posted as accounts receivable when closing the books for the fiscal year and are immediately reversed to revenue accounts in the subsequent fiscal year. Once posted in the new fiscal year, revenue accounts are initially displayed with negative account balances, and the general ledger balance for accounts receivables is zeroed out.

Revenues received during the current year are commingled with the reversals of prior year accounts receivable amounts, making it difficult to monitor prior year amounts owed to the district, or to properly forecast and/or monitor current year revenues. When prior year receivables are reversed using this methodology they lose their identity, making it extremely difficult for staff to distinguish current revenue from prior year receivables. Although using this methodology is acceptable, it requires that staff develop a separate system to monitor accounts receivable to ensure that each item is received and investigate any differences timely.

Information provided to the study team shows that accounts receivables are re-established annually if not received during the fiscal year. Staff confirmed that there is no monitoring during the fiscal year; therefore, the ending fund balance could be overstated. Furthermore, the district is not following GAAP as receivable balances are comprised of multiple fiscal years in some cases.

One example of this is Medi-Cal Billing Option funding. Amounts posted as accounts receivable at the end of fiscal year 2013-14 totaled $2,092,004 representing multiple fiscal years. This amount was reversed on July 1, 2014 to the current year revenue account, and a revenue report generated on that date shows ($2,092,004) as current year-to-date revenues. As of October 31, 2014, the district had received $191,624 in actual cash receipts showing a new year-to-date balance of ($1,900,380). Business office staff members are unable to ascertain the current status of accounts receivable at any given point in time and could not identify current year revenues received as of October 31, 2014 across all operating funds, including the cafeteria fund.

The district is encouraged to reconsider the current methodology for reversing accounts receivable immediately following the close of the fiscal year into the current year revenue accounts.

Other Funds

In addition to interviewing staff, FCMAT completed a basic review of the district's 2013-14 unaudited actuals and its 2014-15 first interim report for other funds and found the following:

Adult Education Fund – Beginning in 2013-14, funding for adult education was folded into the LCFF. Senate Bill (SB) 91 required LEAs to maintain 2012-13 adult education expenditure levels in 2013-14 and 2014-15. SB 91 also required regional consortia to be developed, which must consist of one community college district and at least one school district. Senate Bill 897 further states, "It is the intent of the Legislature to provide additional funding in the 2015-16 fiscal year to the regional consortia to expand and improve the provision of adult education."

Interviews with staff indicated that the district plans to continue providing an adult education program, and the first interim budget report includes an annual transfer of $11.89 million from the unrestricted general fund budget to support it. The first interim budget also shows projected deficit spending of $225,113. It is unknown at this time whether or not the governor's 2015-16 budget proposal to allocate additional funds to adult education will be implemented.

Cafeteria Fund – The cafeteria fund required a contribution from the unrestricted general fund in 2012-13 and 2013-14. No contribution is projected for 2014-15. However, the first interim budget shows that projected revenues exceed expenditures by only $66,221, and the fund is not charged the maximum allowable indirect cost rate of 5.29%.

Deferred Maintenance Fund – Beginning in 2013-14, funding for deferred maintenance was folded into the LCFF, and the local matching fund requirement was eliminated. However, funds are still needed to ensure that district facilities are maintained in good repair to comply with Education Code Section 52060(d)(1).

Interviews with staff indicated that the district plans to continue contributing funds to deferred maintenance, and the first interim budget report includes an annual transfer of $1.6 million from the unrestricted general fund budget to support it.

Capital Facilities Fund – The capital facilities fund, otherwise known as the developer fee fund, is used primarily to account for funds received from fees levied on developers or other agencies as a condition of approving a development. The district collects Level I developer fees, and per Education Code Section 17620 is allowed to charge up to 3% of the annual developer fees collected for administrative costs and transfer those funds to the general fund. The district does not currently make this transfer.

Special Reserve Fund for Capital Outlay Projects – The district's long-term debt schedule includes the "L Street Property" with a balance owed of $33.65 million. Staff indicated that the district is leasing the property through a joint powers agreement and that payments are made from the special reserve fund. If the district decides to keep the property, a long-term funding source will be needed to support the ongoing cost.

Recommendations

The district should:

1. Adopt a budget and MYFPs that eliminate deficit spending and meet reserve requirements in the budget and projection years.
2. Maintain a reserve level sufficient to ensure that cash is available to meet payroll and other expenditure obligations and to avoid any adverse effects related to the requirements of AB 1200.
3. Continue to ensure that MYFPs are kept up to date and that the information they contain is accurate and based on the most current budget assumptions available.
4. Continue to monitor and project student enrollment and ADA at each reporting period to ensure that the most recent data is included in budget assumptions.
5. Continue to review contributions to restricted programs and ensure they are self-sustaining, except for restricted maintenance and special education.
6. Compare unduplicated student counts and enrollment numbers reported by the CDE at each reporting period to ensure they agree with the district's CALPADS totals.
7. Update revenue budgets throughout the year to ensure they match information provided by the CDE and award letters.
8. Recognize deferred revenue in the current year budget upon completion of the prior year unaudited actuals, and ensure that deferred revenue is not included in the subsequent two years of the multiyear financial projection.
9. Be conservative when budgeting amounts for local revenue and update the budget throughout the year as necessary to account for year-to-date receipts.

10. Follow proper accounting procedures for the recognition of revenues that cross multiple fiscal years.

11. Establish roles and responsibilities for monitoring and tracking outstanding accounts receivable in all funds, and reconsider the current methodology for reversing accounts receivable immediately following the close of the fiscal year into the current year revenue accounts.

12. Continue to monitor and project revenues and expenditures for all other funds throughout the year and ensure the assumptions used are the most current available.

13. Review contributions to other funds and ensure that they are self-sustaining unless the governing board has made a decision to provide a contribution to a specific fund, such as adult education and deferred maintenance.

14. Consider charging the maximum allowable indirect cost rate to the cafeteria fund.

15. Consider charging a 3% administration fee on developer fees collected, and transfer those revenues to the general fund.

District Procedures

Position Control

One of the most critical elements in budgeting for expenditures is accurately projecting employee salary and benefit costs. These costs are the largest part of school district budgets, and comprise approximately 90% of Sweetwater Union High School District's unrestricted general fund budget. Therefore, it is critical to maintain an effective position control system to manage the cost of salaries and benefits and to properly reflect those expenditures in the district's budget. Budgets should be compared against summary payroll data periodically to ensure that budgeted amounts are sufficient and align with position control records.

A reliable position control system establishes positions by site or department and helps prevent overstaffing by ensuring that staffing levels conform to district-approved formulas and standards. To be effective, the position control system must be integrated with other financial modules such as budget and payroll. Position control functions also must be separated to ensure proper internal controls. The controls must ensure that only board-authorized positions are entered into the system, that human resources hires only for authorized positions, and that the payroll department pays employees hired for authorized positions. The proper separation of duties is a key factor in creating strong internal controls and a reliable position control system.

A fully functioning position control system helps districts maintain accurate budget projections, employee demographic data and salary and benefit information. The system should be fully integrated with payroll and budget modules and used to update the budget at each reporting period.

The district uses the TrueCourse financial software system, which is separate from the county office's Legacy system used to process district payroll. Staff indicated that the county office is transitioning to the PeopleSoft financial software system, and that the district also plans to transition to PeopleSoft.

The district does not have an integrated position control system, but instead uses a file created from the San Diego County Office of Education payroll system. Therefore, it was necessary for the study team to review several files to test the reasonableness of the salaries and benefits budgeted in the general fund. The analysis included the district's position control spreadsheet; the September and October 2014 payroll transactions; actual year-to-date expenditures and encumbrances; and year-end actuals for the prior two fiscal years. Additionally, the position control spreadsheet did not indicate if any positions were vacant. Therefore, FCMAT was not able to identify and adjust the budget for any active vacant positions.

District staff indicated that a few years ago the budget development process was modified for certificated teaching positions to accommodate consistent delays in obtaining instructional staffing levels from the school sites for restricted programs. In an effort to simplify the process, all of the payroll costs for teachers are charged to the unrestricted general fund until the school site determines who is to be charged to restricted programs and submits a personnel action form indicating the funding source for the fiscal year. When the form is received in the business office, staff must complete journal entries to move the year-to-date payroll costs from the unrestricted general fund to the correct funding source. Staff indicated that this process is typically completed by October 31 and changes are included in the first interim budget report. However, the process had not been finalized at the 2014-15 first interim reporting period.

The end result of this budgeting practice is problematic because the adopted budget for salaries and benefits could be understated in restricted resources and overstated in unrestricted resources, resulting in financial statements that are not fairly presented. It also requires a significant amount of staff time to analyze and complete adjusting entries for the actual payroll costs. Additionally, school sites could reallocate some of their staffing allocations to other educational priorities, leading to budget overruns in some resources.

The study team's review also found some salary and benefit expenditures that were posted to programs that are closed and no longer funded. Although most entries were for small dollar amounts, best practice would be to investigate and correct the entries as quickly as possible to eliminate ongoing payroll posting errors.

Indirect Cost

FCMAT's review of reports from the district's financial system indicated that the district does not charge the maximum allowable indirect cost rate to all programs, including those programs that require a contribution from the unrestricted general fund such as special education and restricted maintenance. The district should calculate and charge the full indirect cost rate to all allowable restricted programs and funds to show the true cost of each program and maximize unrestricted resources. In addition, the 2014-15 first interim report shows that indirect costs are projected at a rate higher than allowed in some programs, including Title I and the California Partnership Academies: Green and Clean.

Assembly Bill 1522

Beginning July 1, 2015, Assembly Bill 1522 requires employers to provide sick leave to all employees, including short-term employees and substitutes, that work 30 days or more per year. At the time of FCMAT's fieldwork, staff indicated that the cost to implement AB 1522 was not yet known.

Affordable Care Act

Beginning January 1, 2015, the Affordable Care Act requires employers with at least 50 full-time employees, or a combination of full-time and part-time employees that is equivalent to this number, to comply with the Employer Shared Responsibility provisions of Section 4980H of the Internal Revenue Code. Coverage must be offered to all full-time employees, defined by the statute as an individual employed on average at least 30 hours per week.

Staff interviews indicated that the district is working with a consultant on implementation of the Affordable Care Act, but the costs for implementation were not known at the time of FCMAT's fieldwork.

Cash Flow

The purpose of a cash flow statement is to project the timing of receipts and expenses so that an organization can understand its monthly or even daily cash needs. The cash flow statement shows a district's liquidity and ability to meet its current payroll and other financial obligations. The cash flow analysis should not be confused with the district's budget and fund balance; it is a different analytical tool. The cash flow statement excludes transactions that do not directly affect cash receipts and payments. Cash is critical for operations and, although the balance sheet may include other assets, without sufficient cash a district is effectively bankrupt and may require intervention from the state.

Any projection of financial data for cash flow purposes has inherent limitations as a result of issues such as unanticipated changes in enrollment trends and changing economic conditions at the state, federal and local levels. Therefore, the cash flow projection should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. Multiyear cash flow projections help a district make more informed decisions and enable it to better project the fiscal impact of current decisions. The cash flow projections should be updated at least monthly to accurately account for all revenues, expenditures and other changes related to cash.

The state has a history of deferring payments to LEAs, starting with deferral of the 2002-03 June apportionment to the 2003-04 fiscal year and continuing each fiscal year. Following that time, several annual state budget acts added numerous one-time and ongoing deferrals. The 2012-13 state budget included funding to begin reducing the cash deferrals, and the 2014-15 state budget includes a provision to buy back the remaining deferral if certain state revenue conditions are met. These state deferrals made it more critical than ever for districts to place an emphasis on cash flow analysis.

Interviews with staff indicated that the district relies on county office staff to complete its cash flow projections. Because cash is critical for operations and the consequences of becoming cash insolvent are severe, the district should have at least one staff member who is trained and assigned to track and update cash flow projections monthly.

Recommendations

The district should:

1. Work with the county office of education to implement the position control module when transitioning to PeopleSoft.
2. Ensure the position control system includes items such as substitutes, extra duty pay, stipends, vacation payouts, estimated column changes, retiree health and welfare benefits, and vacant active positions.
3. Budget salary and benefit costs to the correct resource during budget adoption and make corrections as necessary throughout the fiscal year.
4. Ensure that expenditures are not posted to closed resources.
5. Ensure that all programs are charged the maximum allowable indirect cost rate.
6. Determine the costs, if any, for implementation of Assembly Bill 1522 and adjust its budget as necessary.
7. Determine the costs, if any, for implementation of the Affordable Care Act and adjust its budget as necessary.
8. Monitor its current year and subsequent year cash flow at least monthly.

Appendix

Appendix A

Study Agreement

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
September 25, 2014

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Sweetwater Union High School District, hereinafter referred to as the district, mutually agree as follows:

1. BASIS OF AGREEMENT

The team provides a variety of services to school districts and county offices of education upon request. The district has requested that the team assign professionals to study specific aspects of the district's operations. These professionals may include staff of the team, county offices of education, the California State Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this agreement.

In keeping with the provisions of Assembly Bill 1200, the county superintendent will be notified of this agreement between the district and FCMAT and will receive a copy of the final report. The final report will also be published on the FCMAT website.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The scope and objectives of this study are:

1. The Sweetwater Union High School District is requesting FCMAT to develop a multiyear financial projection (MYFP) for the 2014-15 budget and two subsequent fiscal years to validate the financial status of the district. The MYFP will be a snapshot in time regarding the current financial status and will use the district's 2014-15 Adoption Budget as the baseline for developing the MYFP. Any forecast of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment trends, cost-of-living adjustments, forecasts for utilities, supplies and equipment, and changing economic conditions at the state, federal and local levels. The MYFP will be developed as a trend based on certain criteria and assumptions instead of a prediction of exact numbers.

The MYFP will be developed for the district's general fund and will include the review and fiscal impact of other funds.

2. Development of the MYFP will include the use of FCMAT's Budget Explorer multiyear financial projection and cash flow software and LCFF calculator to determine the level of funds required to sustain the district's financial solvency.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the district to brief district management and supervisory personnel on the team's procedures and the purpose and schedule of the study.
2. On-site Review - The team will conduct an on-site review at the district office and at school sites if necessary.
3. Exit Report - The team will hold an exit meeting at the conclusion of the on-site review to inform the district of significant findings and recommendations to that point.
4. Exit Letter – Approximately 10 days after the exit meeting, the team will issue an exit letter briefly summarizing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.
5. Draft Reports - Electronic copies of a preliminary draft report will be delivered to the district's administration for review and comment.
6. Final Report - Electronic copies of the final report will be delivered to the district's administration and to the county superintendent following completion of the review. Printed copies are available from FCMAT upon request.
7. Follow-Up Support – If requested, FCMAT will return to the district at no cost six months after completion of the study to assess the district's progress in implementing the recommendations included in the report. Progress in implementing the recommendations will be documented to the district in a FCMAT management letter.

3. PROJECT PERSONNEL

The study team will be supervised by Anthony L. Bridges, CFE, CICA, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The FCMAT study team may also include:

A. Diane Branham	Chief Management Analyst, Project Leader
B. Deborah Deal, CICA, CFE	Fiscal Intervention Specialist, Project Leader

C. To be determined Consultant
D. To be determined Consultant

Other equally qualified staff or consultants will be substituted in the event one of the above individuals is unable to participate in the study.

4. PROJECT COSTS

The cost for studies requested pursuant to E.C. 42127.8(d)(1) shall be as follows:

A. $500 per day for each staff member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate.

B. All out-of-pocket expenses, including travel, meals and lodging.

C. The district will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon the district's acceptance of the final report.

Based on the elements noted in section 2 A, the total estimated cost of the study will be $12,000.

D. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT's services are payable to Kern County Superintendent of Schools - Administrative Agent.

5. RESPONSIBILITIES OF THE DISTRICT

A. The district will provide office and conference room space during on-site reviews.

B. The district will provide the following if requested:

1. Policies, regulations and prior reports that address the study scope.
2. Current or proposed organizational charts.
3. Current and two prior years' audit reports.
4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in electronic format.
5. Documents should be provided in advance of field work; any delay in the receipt of the requested documents may affect the start date of the project.

Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository, where the district will upload all requested documents.

C. The district's administration will review a preliminary draft copy of the report resulting from the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The district shall take appropriate steps to comply with EC 45125.1(c).

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for different phases of the study:

Orientation:	November 3, 2014
Staff Interviews:	to be determined
Exit Meeting:	to be determined
Preliminary Report Submitted:	to be determined
Final Report Submitted:	to be determined
Board Presentation:	to be determined
Follow-Up Support:	if requested

7. CONTACT PERSON

Name:	Karen Michel, CFO
Telephone:	(619) 585-6090
Fax:	(619) 425-3394
E-mail:	karen.michel@sweetwaterschools.org

10/1/14

Tim Glover, Interim Superintendent Date
Sweetwater Union High School District

September 25, 2014

Anthony L. Bridges, CFE, CICA Date
Deputy Executive Officer
Fiscal Crisis and Management Assistance Team