



SAN DIEGO COUNTY OFFICE OF EDUCATION

6401 LINDA VISTA ROAD, SAN DIEGO, CALIFORNIA 92111-7399 (858) 292-3500

Superintendent of Schools
Randolph E. Ward, Ed.D.

January 28, 2008

Mr. Robert Collins
Superintendent
Grossmont Union High School District
1100 Murray Drive
La Mesa, CA 91944-1043

Dear Mr. Collins:

Re: 2007-08 First Interim Report

Our office has completed its review of your First Interim Report (SACS Form 011) in compliance with the provisions of Education Code Section 42130 et seq. All of the data submitted by the district has been analyzed and appears to adequately reflect the financial status of your district as of October 31, 2007. Should any adverse circumstances arise which would negatively impact the financial condition of the district, please notify this office as soon as possible.

During our review, we noted the following items:

Overall Financial Picture

The state requires the district to maintain a Reserve for Economic Uncertainties equal to 3% of expenditures. The district projects that it will meet this requirement in 2007-08. In addition, the district is projecting that it will have a positive ending cash balance on June 30, 2008. We also note that the district projects that it will be able to meet 2007-08 operating expenses with current year revenue.

However, the district is facing significant challenges in the future. The district is projecting declining enrollment from 2007-08 through 2009-10 and is projecting deficit spending in 2008-09 and 2009-10. We understand that the district is beginning to explore options to align future revenues with expenditures to maintain continued fiscal solvency.

Declining Enrollment and Multi-Year Projection

The district experienced a decline in enrollment of 2,438 in 2007-08. Most of this decline, 2,158 students, was due to the conversion of Steele Canyon to a charter school

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and the remaining loss of 280 students was due to demographic trends. The district also projects declining enrollment of 397 in 2008-09 and 204 in 2009-10. These enrollment reductions will lead to lower revenues from sources such as Revenue Limit, Lottery, and Instructional Materials. As a declining enrollment district, revenues will fall more quickly than expenditures and long-term structural solutions are necessary to bring expenditures in alignment with revenues.

The district's multi-year projection shows deficit spending in the Unrestricted General Fund of \$1,990,630 in 2008-09 and \$4,378,458 in 2009-10. The projection also assumes a reduction of 11.68 FTE in 2008-09 for a savings of \$936,448 and reduction of 6.0 FTE in 2009-10 for a savings of \$481,052. The district projects that it will need to make budget reductions of \$1,299,281 in 2009-10 to maintain the 3% reserve requirement. We are aware that the district has been working to identify potential areas of reduction. To reduce the budget's structural imbalance, we recommend that the district identify ongoing cuts instead of one-time cuts.

Future Salary and Expenditure Increases

After the First Interim report was submitted, the district settled with certificated staff but has not yet settled with classified staff. Because the district projects that declining enrollment will continue in 2008-09 and 2009-10, you should take the associated revenue loss into account before granting any future salary increases or making any other new ongoing expenditures. In addition, the Governor's 2008-09 Budget is projecting a \$3.3 billion budget shortfall in 2007-08 and an \$11.2 billion shortfall in 2008-09 for a total of \$14.5 billion. This creates uncertainty about future cost of living increases for school districts. We also recommend that the district protect its future financial integrity by assuring a minimum of reserves (including adequate reserves for contingencies) for at least the following two years of operation.

Encroachment

The district's contribution from unrestricted funds to restricted funds is projected to increase by \$334,813 since the adopted budget, primarily due to an increase in Special Education costs. We recommend that the district monitor this encroachment and explore ways to contain costs to preclude further adverse impact on the unrestricted General Fund.

Charter Schools

As required by Education Code 47604.33, our office has received First Interim reports from Helix and Steele Canyon Charter Schools.

As a charter school sponsor, the district maintains fiscal oversight responsibilities, particularly in the key areas of accounting, attendance accounting, budgeting, and payroll. As part of this oversight, sponsoring school districts are also responsible for reviewing charter financial reports, including interim reports. Should any adverse circumstances arise related to the district's charter school responsibilities that would

negatively impact the financial condition of the district, please notify this office as soon as possible.

Conclusion

In accordance with the provisions of the Education Code Section 42131, the County Superintendent of Schools will inform the California Department of Education that your district submitted a positive certification in a timely fashion and we concur with this certification at this time.

Please review this document carefully for any changes in data submitted. Should you have any questions concerning this review, please feel free to call me at (858) 292-3537 or Victoria Carreón, Consultant, Business Advisory Services at (858) 292-3660.

Sincerely,

A handwritten signature in black ink, appearing to read "Linda Visnick". The signature is fluid and cursive, with a large initial "L" and "V".

Linda Visnick
Executive Director
District Financial Services

LV:VC:SR

cc: Board President
Chief Financial Officer