



SAN DIEGO COUNTY OFFICE OF EDUCATION

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

March 31, 2008

Mr. Robert Collins
Superintendent
Grossmont Union High School District
1100 Murray Drive
El Cajon, CA 92020

Dear Mr. Collins:

Re: 2007-08 Second Interim Report

Our office has completed its review of your Second Interim Report (SACS Form 01I) in compliance with the provisions of Education Code Section 42130 et seq. The district has submitted a positive certification, which means that the district certifies that it will meet its financial obligations for the current fiscal year and subsequent two years.

The district's Second Interim Report has been analyzed in the context of the Governor's Proposed Budget for 2008-09, which includes a 2.4% reduction to Revenue Limit funding and reductions of 6.5% to 6.9% to state categorical programs. All of the data submitted by the district has been analyzed and appears to adequately reflect the financial status of your district as of January 31, 2008. In accordance with the provisions of 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.

During our review, we noted the following items:

Financial Picture for 2007-08

Overall, the Grossmont Union High School District has a positive financial picture for 2007-08. The district projects that it will be able to maintain the required Reserve for Economic Uncertainties equal to 3% of expenditures. The district also projects that it will have a positive ending cash balance on June 30, 2008. However, the district projects deficit spending in the Unrestricted General Fund and faces increases in contributions from unrestricted funds to restricted funds.

Board of Education

Nick Aguilar Susan Hartley Sharon C. Jones Robert J. Watkins John Witt

SERVICE AND LEADERSHIP

Deficit Spending: The district is projecting deficit spending in the Unrestricted General Fund of \$2,512,899. However, the district has instituted a spending freeze which will likely reduce the amount of deficit spending. Deficit spending needs to be carefully monitored to prevent any financial difficulties in future years.

Encroachment: The district's contribution from unrestricted funds to restricted funds is projected to increase by \$264,812 since the First Interim Report due to cost increases in various programs such as special education, transportation, and community day school. We recommend that the district monitor this encroachment and explore ways to contain costs to preclude further adverse impact on the unrestricted General Fund.

Financial Picture for 2008-09 and 2009-10

The Grossmont Union High School District faces two major financial challenges in 2008-09 and 2009-10: (1) the budget reductions in the Governor's 2008-09 Proposed Budget; and (2) continued declining enrollment. The district projects that budget reductions of \$11.8 million in the Unrestricted General Fund would be necessary in order to meet the 3% reserve requirement in 2008-09. Additional cuts of \$1.5 million would be required in 2009-10. We have reviewed the district's multi-year projection and concur that the assumptions are reasonable.

The district has taken positive steps to ensure continued fiscal solvency. On March 5, 2008, the district's governing board approved \$11.8 million in budget reductions/solutions for 2008-09. The governing board also approved layoff notices for 96.8 FTE. These board actions should enable the district to continue to meet its financial obligations in 2008-09 and 2009-10.

Most of the approved budget reductions will create ongoing savings. However, \$2 million of the budget solution is a transfer from the Special Reserve Fund, which will be done annually for three years. In addition, the district is implementing an initiative to increase attendance that will generate \$1 million. This revenue will not be realized until 2009-10 since the district has declining enrollment and will receive funding based on prior-year ADA. Therefore, the district plans to transfer \$1 million from the Special Reserve Fund to the General Fund in 2008-09 to cover this revenue need. Once the revenue from the attendance initiative is realized, the district projects that it will be ongoing.

Declining Enrollment: 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 and the remaining loss of 280 students was due to demographic trends. Enrollment losses for the next two years are projected at 327 for 2008-09 and 285 for 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 fall more quickly than expenditures and long-term structural solutions are necessary to bring expenditures in alignment with revenues.

Future Salary and Expenditure Increases: The district has completed salary negotiations for 2007-08. 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 proposed budget reductions for 2008-09 create uncertainty about future cost of living increases for school districts. We 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.

Charter Schools

As required by Education Code 47604.33, our office has received Second 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

Should any adverse circumstances arise which would negatively impact the financial condition of the district, please notify this office as soon as possible. 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,



Linda Visnick
Executive Director
District Financial Services

LV: VC: SR

cc: Board President
Chief Financial Officer