August 9, 2011

Mr. Edwin Chau, Board President
Montebello Unified School District
123 S. Montebello Blvd.
Montebello, CA 90640

Dear Mr. Chau:

In accordance with the provisions of Education Code (EC) Section 42127, a review of the Montebello Unified School District’s (District) budget for fiscal year 2011-12 has been completed by the Los Angeles County Superintendent of Schools. That review has resulted in the approval of the District’s Budget with the following comments and concerns.

Our analysis and comments on the District’s 2011-12 Budget reflects the conditions that were included in the State Adopted Budget and trailer legislation. However, we recognize that the District’s revenue and expenditure assumptions used to develop its budget may have changed as a result of the Adopted State Budget. Therefore, we have included our comments on those areas in the District’s Budget and multi-year financial projections that would merit further District actions or considerations to ensure its on-going fiscal solvency.

DEFICIT SPENDING

The District is projecting an operating deficit of $17.38 million, representing 6.49 percent of the District’s projected expenditures and other outgo for fiscal year 2011-12. The District also projects operating deficits of $12.52 million and $11.46 million, representing 4.67 percent and 4.25 percent, for 2012-13 and 2013-14, respectively. This is illustrated in the chart below.

RESERVE FOR ECONOMIC UNCERTAINTIES

As a result of deficit spending, the District’s Reserve for Economic Uncertainties (REU) are declining and projected to be 6.52 percent in 2011-12, 3.27 percent in 2012-13, and 0.33 percent in 2013-14. While the projected reserve levels for 2011-12 and 2012-13 meet the minimum requirements of the State Criteria and Standards, the reserve for 2013-14 is below the required level as illustrated in the chart below.
General Fund Projection  
($ millions)  

<table>
<thead>
<tr>
<th></th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning General Fund Balance</td>
<td>$46.15</td>
<td>$28.77</td>
<td>$16.25</td>
</tr>
<tr>
<td>Projected Deficit Spending</td>
<td>($17.38)</td>
<td>($12.52)</td>
<td>($11.46)</td>
</tr>
<tr>
<td>Ending General Fund Balance</td>
<td>$28.77</td>
<td>$16.25</td>
<td>$4.79</td>
</tr>
<tr>
<td>REU</td>
<td>$17.47</td>
<td>$8.76</td>
<td>($9.90)</td>
</tr>
<tr>
<td>REU Percent</td>
<td>6.52 Percent</td>
<td>3.27 Percent</td>
<td>0.33 Percent</td>
</tr>
</tbody>
</table>

Therefore, we are requesting that the District submit a detailed Board-approved fiscal stabilization plan that restores and maintains the reserves at the required level with its 2011-12 First Interim Report, due to our office by December 15, 2011. The plan and the District’s ability to restore and maintain the required reserve levels will be a factor in our review and approval of the District’s First Interim certification.

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District’s projected revenue limit average daily attendance (ADA) is 30,647 for 2011-12, 30,678 for 2012-13, and 30,271 for 2013-14. The estimated impact of the declining enrollment on the District’s projected revenue limit ADA reflects a two-year loss totaling 376 ADA, representing a 1.23 percent decrease from the District’s 2011-12 ADA.

However, we note that the District’s ADA projections are not consistent with the District’s prior three-year historical attendance trend, which shows an average decline of about 417 ADA per year. The information included with the 2011-12 Budget indicates that the District expects its attendance decline will begin stabilizing once the Applied Technology Center opens in 2011-12.

We request that the District update its 2011-12 enrollment and attendance estimates with the First Interim Report. We also remind the District that EC Section 42238.5(a)(1) allows districts with declining attendance to continue to receive funding based on the greater of prior year or current year actual attendance. This provides, in effect, a one-year cushion for the loss of revenue due to declining enrollment/attendance. However, the District will lose state funding over time if the decline in enrollment continues.

We request that the District carefully monitor its enrollment trends and adjust its financial projections accordingly for the current and subsequent fiscal years, if further material reductions in enrollment occur or are expected to occur.
CASH FLOW

Due to enacted cash deferrals, it is critical for all districts to review their 2011-12 cash flow projections in order to determine their cash requirements in the budget year. Current law requires the deferral of a portion or all of the Principal Apportionment, as well as some State categorical apportionments, in the months of July, August and October 2011, and February, March, April, May, and June 2012. Since the District’s cash flow projection was based on an apportionment deferral schedule that preceded the enactment of the State Budget, we request the District review its cash flow projection and requirements, and reflect these changes in its First Interim Report.

The District indicates that it has a Board-approved temporary cash borrowing resolution in place for 2011-12 and will address any potential cash shortfall through borrowing from the District’s other funds. We request that the District notify our office immediately if a cash shortfall is projected that cannot be covered through local means.

TECHNICAL ADJUSTMENTS

We note in the District’s multiyear projections that the unrestricted General Fund Revenue Limit transfers to restricted programs are over-estimated by approximately $1.0 million each year in 2012-13 and 2013-14. We discussed this issue with the District staff who indicated that the District’s multiyear projections will be revised and the correct restricted Revenue Limit transfers will be reflected in the First Interim Report.

DEBT ISSUANCE

This letter also serves as a reminder of the statutory requirements placed on debt issuance by school districts with qualified interim report certifications. These requirements are specifically addressed by EC Section 42133 (a).

2011-12 BUDGET REVISIONS

Since the District’s 2011-12 Budget assumptions may have changed from the Board adopted budget as a result of the state Adopted Budget and trailer legislation, this is a reminder that EC 42127(i)(4) states that:

“Not later than 45 days after the Governor signs the annual budget, the district shall make available for public review, any revisions in revenues and expenditures that it has made to its budget to reflect the funding made available by the Budget Act.”

The District should take steps to make any necessary adjustments to its adopted budget. The adjustments should be submitted to the County Office upon Governing Board approval.
CONCLUSION

We wish to express our appreciation to the District’s staff for their cooperation during the review of the District’s budget for fiscal year 2011-12. If our office can be of further assistance, please call me at (562) 922-6802.

Sincerely,

[Signature]
Michael Jamshidi
Business Services Consultant
Division of Business Advisory Services

MJ:gm

cc:   Mr. Henke, Interim Superintendent
     Mr. Pell, Interim Superintendent
     Ms. Plotkin, Assistant Superintendent, Business Services
     Ms. Tran, Interim Controller
     Mr. Iizuka, Los Angeles County Office of Education (LACOE)
     Mr. Burdy, LACOE
     Ms. Dunn, LACOE
     Ms. Fees, LACOE
January 6, 2012

Mr. Hector Chacon, Board President
Montebello Unified School District
123 S. Montebello Blvd.
Montebello, CA 90640

Dear Mr. Chacon:

In accordance with the provisions of Education Code (EC) Section 42131, a review of the Montebello Unified School District's (District) First Interim Report for fiscal year 2011-12 has been completed by the Los Angeles County Superintendent of Schools. Based on our review of the District’s multiyear projections and assumptions, it appears that the District may not be able to meet its financial obligations for fiscal year 2013-14. **Therefore, we concur with the District’s qualified certification.** This letter discusses the areas of concern noted in our review of the District’s 2011-12 First Interim Report as well as additional comments and requested actions.

**DEFICIT SPENDING AND RESERVES**

The District is projecting an operating deficit of $12.38 million, representing 4.65 percent of the District’s projected expenditures and other outgo for fiscal year 2011-12. The District also projects operating deficits of $9.72 million and $12.01 million, representing 3.70 percent and 4.54 percent, for 2012-13 and 2013-14, respectively.

As a result of deficit spending, the District’s Reserve for Economic Uncertainties (REU) are projected to be 6.71 percent in 2011-12, 3.13 percent in 2012-13, and 2.38 percent in 2013-14. While the reserve levels for 2011-12 and 2012-13 meet the minimum requirements of the State Criteria and Standards, the reserves for 2013-14 are below the required reserve level as illustrated in the chart below.
General Fund Projection
($ millions)

<table>
<thead>
<tr>
<th></th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning General Fund Balance</td>
<td>$52.86</td>
<td>$40.48</td>
<td>$30.76</td>
</tr>
<tr>
<td>Projected Deficit Spending</td>
<td>$(12.38)</td>
<td>$(9.72)</td>
<td>$(12.01)</td>
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<tr>
<td>Ending General Fund Balance</td>
<td>$40.48</td>
<td>$30.76</td>
<td>$18.75</td>
</tr>
<tr>
<td>REU</td>
<td>$17.85</td>
<td>$8.20</td>
<td>$6.30</td>
</tr>
<tr>
<td>REU Percent</td>
<td>6.71 Percent</td>
<td>3.13 Percent</td>
<td>2.38 Percent</td>
</tr>
</tbody>
</table>

In our letter dated August 9, 2011, we requested the District develop and submit a detailed fiscal stabilization plan that would restore reserves at the required level with the First Interim Report. Information included with First Interim Report indicates that the District is still in the process of developing a fiscal solvency plan. As a result of the projected shortfall in the 2013-14 reserve level, we are requesting that the District adopt and submit a fiscal stabilization plan that restores and maintains the required reserves in 2013-14 with its 2011-12 Second Interim Report, due to the Los Angeles County Office of Education (County Office) on or before March 15, 2012.

CASH FLOW

Due to enacted cash deferrals, it is critical for all districts to monitor their 2011-12 cash flow in order to ensure their cash requirements are met during the budget year. Current law requires the deferral of a portion or all of the Principal Apportionment, as well as some State categorical apportionments, in the months of February, March, April, May, and June 2012. Because of the state’s continued use of education funding deferrals, it is advisable that all districts have a Board-approved temporary cash borrowing resolution in place for 2011-12. Please refer to Informational Bulletin No. 256, dated March 31, 2011, for instructions and sample resolutions.

We have noted that the District is projecting a negative General Fund ending cash balance of $5.8 million for the month of June 2012. Information included with the 2011-12 First Interim Report indicates that the District is planning to address the projected cash shortfall by issuing Tax and Revenue Anticipation Notes in March 2012. We request that the District notify the County Office immediately if a cash shortfall is projected that cannot be covered through local means.
Mr. Hector Chacon, Board President  
Montebello Unified School District  
January 6, 2012  
Page 3

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District’s 2011-12 First Interim Report reflects continued declining enrollment. The District’s projected average daily attendance (ADA) is 30,632 for 2011-12, 30,074 for 2012-13, and 29,636 for 2013-14. The estimated impact of the declining enrollment on the District’s projected revenue limit ADA reflects a two-year loss totaling 996 ADA, representing a 3.25 percent decrease from the District’s 2011-12 ADA.

We remind the District that EC Section 42238.5(a)(1) allows districts with declining attendance to continue to receive funding based on the greater of prior year or current year actual attendance. This provides, in effect, a one-year cushion for the loss of revenue due to declining enrollment/attendance. However, the District will lose state funding over time if the decline in enrollment continues.

We request that the District carefully monitor its enrollment trends and adjust its financial projections accordingly for the current and subsequent fiscal years, if further material reductions in enrollment occur or are expected to occur.

MID-YEAR TRIGGER CUTS

On December 13, 2011, the State Department of Finance estimated that the 2011-12 Budget Act’s revenue will fall short by $2.2 billion, triggering the implementation of $327.6 million in reductions to K-12 education state-wide funding. These reductions are a combination of $248 million in transportation funding and $79.6 million revenue limit funding. These reductions in state education funding are likely to be on-going, but further clarity is expected when the Governor releases his proposed budget in January.

The District’s reduction in transportation funding is estimated to be $756,000 and will be effective in January, so no further apportionments are anticipated. The revenue limit funding reduction is estimated to be 0.25 percent or an average of $13 per ADA, and the District will see the impact beginning in February with the monthly Principal Apportionment. The First Interim Report indicates that the District reserved a portion of its projected General Fund ending balance to offset the impact of the mid-year reductions.

COST OF LIVING FUNDING FOR 2012-13

The District included a 3.10 percent Cost of Living Adjustment (COLA) in its revenue limit projection for 2012-13, as directed in our Bulletin No. 109, dated October 28, 2011. However, the State’s economic crisis is expected to continue, which could lead to the potential reduction in or elimination of the COLA with the Governor’s proposed 2012-13 budget in January. The District’s revenue limit funding for 2012-13 would be reduced by approximately $4,899,000 if the COLA is eliminated. The District should be prepared to adjust its revenue forecast for the upcoming year based should the COLA be affected.
DEBT ISSUANCE

This letter also serves as a reminder of the statutory requirements placed on debt issuance by school districts with qualified interim report certifications. These requirements are specifically addressed by EC Section 42133 (a).

CONCLUSION

Thank you for providing documentation that supports the District’s qualified certification. The multiyear projections, with accompanying narrative and assumptions, were extremely helpful in our analysis of the 2011-12 First Interim Report and in verifying the District’s fiscal condition.

We are aware that the information provided reflects the District’s financial position and assumptions as of October 31, 2011, and that further adjustments will be made during the year as additional data becomes available. We hope that these comments will be helpful to the District administration and board as you plan for the remainder of 2011-12 and develop your projections for 2012-13 and 2013-14. We wish to express our appreciation to the District staff for their cooperation during the review of the 2011-12 First Interim Report. If our office can be of further assistance, please call me at (562) 922-6802.

Sincerely,

Michael Jamshidi
Business Services Consultant
Division of Business Advisory Services

MJ:jj

cc: Mr. Henke, Superintendent of Schools
    Mr. Pell, Superintendent of Schools
    Ms. Plotkin, Assistant Superintendent, Business Services
    Ms. Tran, Interim Controller
    Mr. Hannan, California Department of Education
    Mr. Chiang, California State Controller
    Mr. Iizuka, Los Angeles County Office of Education (LACOE)
    Ms. Dunn, LACOE
    Mr. Burdy, LACOE
    Ms. Fees, LACOE
April 9, 2012

Mr. Hector Chacon, Board President
Montebello Unified School District
123 S. Montebello Blvd.
Montebello, CA 90640

Dear Mr. Chacon:

In accordance with the provisions of Education Code (EC) Section 42131, a review of the Montebello Unified School District's (District) Second Interim Report for fiscal year 2011-12 has been completed by the Los Angeles County Superintendent of Schools (County Superintendent). Based on our analysis of the data provided, it appears that the District may not be able to meet its financial obligations for the 2013-14 fiscal year, without the implementation of a specific Board-approved fiscal stabilization plan. We therefore concur with the District’s qualified certification and offer our comments and concerns regarding the following issues.

**FISCAL STABILIZATION PLAN**

In our letter dated January 6, 2012, we requested the District develop and submit a fiscal stabilization plan with its 2011-12 Second Interim Report. In response, the District submitted a Board-adopted solvency plan that included a number of cost saving measures, which when implemented will result in an estimated $2.55 million in ongoing expenditure reductions in 2012-13. Although the plan does account for reduction in potential expenses, we request that the District provide further clarification as to the steps it will take to reduce deficit spending. We request that the plan be submitted with the 2012-13 Adopted Budget, due to the Los Angeles County Office of Education (County Office) by July 1, 2012.

**DEFICIT SPENDING**

We have noted that the District is projecting an operating deficit of $12.33 million, representing 4.62 percent of the District’s projected expenditures and other outgo for fiscal year 2011-12. The District also projects operating deficits of $18.62 million and $23.76 million, representing 7.09 percent and 8.98 percent for 2012-13 and 2013-14, respectively. The District’s General Fund ending balance is projected to decrease as a result of deficit spending, as illustrated in the chart below.
General Fund Projection
($ millions)

<table>
<thead>
<tr>
<th></th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
</tr>
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<tbody>
<tr>
<td>Beginning General Fund Balance</td>
<td>$52.65</td>
<td>$40.32</td>
<td>$21.70</td>
</tr>
<tr>
<td>Projected Deficit Spending</td>
<td>$(12.33)</td>
<td>$(18.62)</td>
<td>$(23.76)</td>
</tr>
<tr>
<td>Ending General Fund Balance</td>
<td>$40.32</td>
<td>$21.70</td>
<td>$(2.06)</td>
</tr>
<tr>
<td>Reserve for Economic Uncertainties (REU)</td>
<td>$32.93</td>
<td>$7.87</td>
<td>$(3.13)</td>
</tr>
<tr>
<td>REU Percent</td>
<td>12.32 Percent</td>
<td>3.0 Percent</td>
<td>(1.18) Percent</td>
</tr>
</tbody>
</table>

According to our review of the District’s Second Interim data and assumptions, the projected deficit spending is primarily due to encroachment by restricted programs, including Special Education and pupil transportation, the loss of one-time funding sources, as well as reduction in State revenue if the Governor’s tax initiative fails passage. We are concerned that if this deficit spending continues, as projected, it could impact the District’s fiscal solvency in future years. Therefore, we are requesting that the District submit a deficit reduction plan with the 2012-13 Adopted Budget, due to our office by July 1, 2012.

RESERVE FOR ECONOMIC UNCERTAINTIES

As a result of deficit spending, the District’s Reserve for Economic Uncertainties (REU) is projected to be 12.32 percent in 2011-12, 3.00 percent in 2012-13, and negative 1.18 percent in 2013-14. While the reserve levels for 2011-12 and 2012-13 meet the minimum requirements of the State Criteria and Standards, the reserve for 2013-14 is below the required reserve level. Therefore, we are requesting that the District make the necessary revisions to its fiscal stabilization plan in order to restore and maintain the reserves at the required level.

CASH FLOW

Due to enacted cash deferrals, it is critical for all districts to monitor their 2011-12 cash flow in order to ensure their cash requirements are met during the budget year. Current law requires the deferral of a portion or all of the Principal Apportionment, as well as some State categorical apportionments, in the months of March, April, May, and June 2012. Because of the State’s continued use of education funding deferrals, it is advisable that all districts have a Board-approved temporary cash borrowing resolution in place for 2011-12. Please refer to Informational Bulletin No. 256, dated March 31, 2011, for instructions and sample resolutions.
The District issued an $18.0 million mid-year Tax and Revenue Anticipation Note in March 2012 and projects positive monthly cash balances through the remainder of 2011-12. We request that the District notify the County Office immediately if a cash shortfall is projected that cannot be covered through local means.

**DECLINING ENROLLMENT AND REDUCED STATE FUNDING**

The District’s 2011-12 Second Interim Report reflects continued declining enrollment. The District’s projected average daily attendance (ADA) is **30,618 for 2011-12, 30,328 for 2012-13, and 29,640 for 2013-14**. The estimated impact of the declining enrollment on the District’s projected revenue limit ADA reflects a two-year loss totaling 978 ADA, representing a 3.19 percent decrease from the District’s 2011-12 ADA.

We remind the District that EC Section 42238.5(a)(1) allows districts with declining attendance to continue to receive funding based on the greater of prior year or current year actual attendance. This provides, in effect, a one-year cushion for the loss of revenue due to declining enrollment/attendance. However, the District will lose state funding over time if the decline in enrollment continues.

We request that the District carefully monitor its enrollment trends and adjust its financial projections accordingly for the current and subsequent fiscal years, if further material reductions in enrollment occur or are expected to occur.

**SELF-INSURANCE FUND**

The District projects that its Self-Insurance Fund (Fund 67) will have a negative ending fund balance of **$1.78 million in 2011-12**. According to the information included with the Second Interim Report, the projected shortfall in Fund 67 is due to increases in the Workers’ Compensation liability based on a new actuarial report. The District projects corrective actions with multiyear ending fund balance of negative $906,000 and $33,000 for 2012-13 and 2013-14, respectively. We request that the District include updated multiyear projections with the 2012-13 Adopted Budget.

**2012-13 MID-YEAR TRIGGER CUTS**

The Governor’s Proposed 2012-13 Budget assumes revenue from the passage of a proposed tax initiative in the November 2012 election. If the ballot measure is not approved, the Governor proposes a backup plan that identifies $5.4 billion in cuts affecting education and public safety that would go into effect on January 1, 2013. The K-12 education share of the cuts is currently estimated at $370 per ADA. This would be equal to approximately $11.22 million for the District, and the impact would be seen beginning in February 2013 with the monthly Principal Apportionment.
Although the Governor initially proposed to completely eliminate transportation program funding in 2012-13, he has revised his proposal and would fund transportation through a reduction in the proposed deferrals for 2012-13 if the tax initiative passes. If the tax measure fails, transportation would not be funded and districts would see the loss of funding as an additional revenue limit cut of $85 per ADA. Therefore, districts should have a contingency plan to cover a potential revenue limit reduction of $455 per ADA if the tax initiative fails to pass.

We note that the District does not project any funding for the transportation program in 2012-13 and 2013-14, currently budgeted at $1.53 million for 2011-12. The District also submitted a Board-approved contingency plan that details how the District would address the potential trigger reductions of $370 per ADA, or $11.22 million, in 2012-13 and 2013-14. The District indicates that portions of the contingency plan are negotiable and will be revised as more budget information becomes available. We request that the District provide an update on its trigger cut contingency plan with the 2012-13 Adopted Budget.

END OF YEAR FINANCIAL STATEMENT

Pursuant to EC Section 42131(e), any school district that files a qualified Second Interim Report, must provide the County Superintendent, the State Controller’s Office, and the Superintendent of Public Instruction (SPI) with a financial statement projecting the district’s fund and cash balances through June 30th, for the period ending April 30, 2012. This financial statement and supporting assumptions should be submitted to the County Office not later than June 1, 2012.

ANNUAL REPORT

Pursuant to the provisions of EC Section 1240(e), the County Superintendent is required to present an annual report to a school district’s governing board and to the SPI regarding the fiscal solvency of any school district with a qualified interim certification. This report will be issued in June 2012.

DEBT ISSUANCE

This letter also serves as a reminder of the statutory requirements placed on debt issuance by school districts with qualified interim report certifications. These requirements are specifically addressed by EC Section 42133(a).

CONCLUSION

Thank you for providing documentation that supports the District’s qualified certification. The multiyear projections, with accompanying narrative and assumptions, were extremely helpful in our analysis of the 2011-12 Second Interim Report and in verifying the District’s fiscal condition.
We are aware that the information provided reflects the District’s financial position and assumptions as of January 31, 2012, and that further adjustments will be made during the year as additional data becomes available. We hope that these comments will be helpful to the District administration and board as you plan for the remainder of 2011-12 and develop your budget for 2012-13. We express our appreciation to the District staff for their cooperation during the review of the 2011-12 Second Interim Report. If our office can be of further assistance, please call me at (562) 922-6802.

Sincerely,

Michael Jamshidi
Business Services Consultant
Division of Business Advisory Services

cc:  Mr. Henke, Interim Superintendent
Mr. Pell, Interim Superintendent
Ms. Plotkin, Assistant Superintendent, Business Services
Ms. Tran, Controller
Mr. Hannan, California Department of Education
Mr. Chiang, California State Controller
Dr. Cherniss, Los Angeles County Office of Education (LACOE)
Mr. Iizuka, LACOE
Ms. Dunn, LACOE
Mr. Burdy, LACOE
Ms. Fees, LACOE
June 28, 2012

Mr. Hector Chacon, Board President
Montebello Unified School District
123 S. Montebello Blvd.
Montebello, CA 90640

Dear Mr. Chacon:

This letter to the Montebello Unified School District (District) Governing Board is a summary of the analyses completed by the Los Angeles County Superintendent of Schools (County Superintendent) regarding the financial status of the District during the 2011-12 fiscal year. The summary reflects the main concerns noted in the County Superintendent’s assessment of the District’s First Interim Report, Second Interim Report, and End of Year Financial Statement, and provides a reminder regarding any future debt issuance that may be considered by the District. This report fulfills the requirement of Education Code (EC) Section 1240(e) that the County Superintendent present an annual report summarizing the previous year’s financial history to the Governing Board and the Superintendent of Public Instruction for any district that had a qualified interim report certification during the fiscal year.

2011-12 FISCAL SOLVENCY SUMMARY

The County Superintendent approved the District’s 2011-12 Adopted Budget, concurred with the qualified certification of the First Interim Report, and concurred with the qualified certification of the Second Interim Report. With a qualified Second Interim Report certification, the District was required to submit an End of Year Financial Statement projecting the District’s fund and cash balances through June 30, 2012, for the period ending April 30, 2012.

FIRST INTERIM REPORT

The County Superintendent concurred with the District’s qualified certification of the First Interim Report. The District projected operating deficits of $12.38 million in the General Fund for 2011-12, $9.72 million for 2012-13, and $12.01 million for 2013-14. The reserves for those years were projected at 6.71 percent, 3.13 percent, and 2.38 percent, respectively. In addition, the District projected a negative General Fund ending cash balance of $5.8 million for the month of June 2012, and indicated that it planned to issue a mid-year Tax and Revenue Anticipation Note (TRAN) to address the projected shortfall. The County Superintendent requested that the District develop a fiscal stabilization plan that would restore and maintain the reserve for 2013-14 at the required level and submit the plan with its 2011-12 Second Interim Report.
SECOND INTERIM REPORT

General Fund

The County Superintendent concurred with the District’s qualified certification of the Second Interim Report. The District projected operating deficits of $12.33 million in the General Fund for 2011-12, $18.62 million for 2012-13 and $23.76 million for 2013-14. The reserves for those three years were projected at 12.32 percent, 3.0 percent, and negative 1.18 percent, respectively. The District issued an $18.0 million TRAN in March 2012 to address the potential cash shortfall in June 2012. The County Superintendent requested that the District revise its fiscal stabilization plan to address the deficit spending and to restore and maintain the reserves at the required level for 2013-14 and submit the plan with the 2012-13 Adopted Budget.

Self-insurance Fund

Based on a new actuarial report, the District’s Self-Insurance Fund (Fund 67) was projected to have negative ending fund balances of $1.78 million in 2011-12, $906,000 in 2012-13, and $33,000 in 2013-14. The County Superintendent requested that the District submit an updated multiyear projection for this fund with the 2012-13 Adopted Budget.

END OF YEAR FINANCIAL STATEMENT

General Fund

The District submitted an End of Year Financial Statement that projects an operating deficit of $9.72 million and a reserve level of 12.68 percent for 2011-12. The District also projects a June 2012 ending cash balance of $29.9 million. We remind the District of our request to submit a revised fiscal stabilization plan with the 2012-13 Adopted Budget.

Self-insurance Fund

The District projects that the Self-insurance Fund will end 2011-12 with a negative fund balance of $1.85 million. We remind the District of our request to submit an updated multiyear projection for this fund with the 2012-13 Adopted Budget.

DEBT ISSUANCE

EC Section 42133(a) specifies the statutory requirements placed on debt issuance for the current and next fiscal year by school districts with qualified interim report certifications.

CONCLUSION

We are aware that the information provided with each of the District’s financial reports submitted during fiscal year 2011-12 reflected the District’s financial position and assumptions at specific points in time and that further adjustments were made as data became available.
We hope that these comments will be helpful to the District administration and Board as you begin fiscal year 2012-13. We wish to express our appreciation to the District staff for their cooperation during all of the financial report reviews we conducted during 2011-12. If our office can be of further assistance, please call me at (562) 922-6802.

Sincerely,

[Signature]

Michael Jamshidi
Business Services Consultant
Division of Business Advisory Services

MJ:lc

cc:  Mr. Henke, Interim Superintendent
     Mr. Pell, Interim Superintendent
     Ms. Plotkin, Assistant Superintendent, Business Services
     Ms. Tran, Controller
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