August 16, 2010

Mr. David Vela, Board President
Montebello Unified School District
123 S. Montebello Blvd.
Montebello, CA 90640

Dear Mr. Vela:

In compliance with the provisions of Education Code (EC) Section 42127, a review of the Montebello Unified School District’s (District) budget for fiscal year 2010-11 has been completed by the Los Angeles County Superintendent of Schools (County Superintendent).

It is our opinion that this budget currently:

- does allow the District to meet its financial obligations during the fiscal year 2010-11, but is not consistent with a financial plan that will enable the District to satisfy its multiyear financial commitments for 2011-12 and 2012-13, and therefore

- does not allow the District to operate consistently with a financial plan that will enable the District to satisfy its multiyear financial commitments.

Based on the above, the County Superintendent does not approve the District’s 2010-11 Budget. In accordance with EC Section 42127(d), discussed below are our recommendations for revisions that should be included in the District’s Revised Budget.

We recognize that the District has made significant expenditure reductions to adopt its 2010-11 Budget. We also recognize that the State’s financial condition is the source of an increasing level of fiscal distress to the District and is outside of the District’s control; however, the District is still required to meet State Criteria and Standards for a current year budget and two subsequent fiscal years. The budget submitted to the Los Angeles County Office of Education (LACOE) does not fully address the minimum requirements. This letter will highlight those specific areas of concern to be addressed and resubmitted to LACOE. In addition, we offer our comments and concerns regarding the following.

CASH FLOW

We note that the District projects that it will end June 2010-11 with a General Fund cash balance of approximately negative $6.0 million. While the District is planning to issue $12.0 million in 2010-11 Tax and Revenue Anticipation Notes (TRANs), we also recommend that the District obtain Governing Board approval of an inter-fund borrowing resolution that will allow them to borrow dollars from other District funds if a cash shortfall should occur during the year. We caution the District to carefully monitor its cash projections at least monthly throughout 2010-11 and request that our office be notified immediately if a cash shortfall is projected that cannot be covered through local means.
Additionally, we note that a Fiscal Crisis and Management Team (FCMAT) report (see related section on page four), issued on July 15, 2010, projects a negative $12.2 million ending cash balance in June 2011. FCMAT report also recommends that the District monitor its cash regularly and complete monthly cash statements for the 2010-11 fiscal year.

DEFICIT SPENDING

We have noted that the District is projecting an unrestricted General Fund operating deficit of $18.85 million, representing 6.98 percent of the District’s projected expenditures and other outgo for fiscal year 2010-11. The District also projects operating deficits of $18.90 million for 2011-12 and $18.08 million for 2012-13. As a result of projected deficit spending, the District’s unrestricted General Fund ending balance is projected to be negative $9.79 million for 2011-12 and negative $27.87 million for 2012-13, as illustrated in the table below. However, we also noted the District’s multiyear projections included:

- certificated salary cost savings of $4.30 million that have not been negotiated for 2012-13, and
- $4.40 million in K-3 Class Size Reduction (CSR) funds in 2012-13, for which the District is not eligible in that year (see Technical Correction section).

When the District’s multiyear projections are revised for these corrections, the projected 2012-13 operating deficit increases to $26.79 million.

<table>
<thead>
<tr>
<th>Unrestricted General Fund</th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>District Adopted Reserves</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund Beginning Balance</td>
<td>$27.95</td>
<td>$9.10</td>
<td>$(9.79)</td>
</tr>
<tr>
<td>Projected Deficit Spending</td>
<td>$(18.85)</td>
<td>$(18.90)</td>
<td>$(18.08)</td>
</tr>
<tr>
<td>General Fund Ending Balance Reserve for Economic Uncertainties (REU)</td>
<td>$9.10</td>
<td>$(9.79)</td>
<td>$(27.87)</td>
</tr>
<tr>
<td>REU Percent</td>
<td>2.67%</td>
<td>(3.93%)</td>
<td>(10.51%)</td>
</tr>
<tr>
<td><strong>REU As Adjusted</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment for Proposed Savings from Furlough Days and Unfunded K-3 CSR</td>
<td>-</td>
<td>-</td>
<td>$(8.70)</td>
</tr>
<tr>
<td>Adjusted General Fund Ending Balance</td>
<td>$9.10</td>
<td>$(9.79)</td>
<td>$(36.59)</td>
</tr>
<tr>
<td>Adjusted REU</td>
<td>$7.50</td>
<td>$(10.69)</td>
<td>$(37.48)</td>
</tr>
<tr>
<td>Adjusted REU Percent</td>
<td>2.67%</td>
<td>(3.93%)</td>
<td>(13.48%)</td>
</tr>
<tr>
<td><strong>General Fund Reserve Shortfall</strong></td>
<td>-</td>
<td>$(16.13)</td>
<td>$(43.05)</td>
</tr>
</tbody>
</table>
Please note that the District can only meet all its financial obligations by meeting the standards and criteria reserve requirements in the current and two subsequent years.

TECHNICAL CORRECTION

Informational Bulletin No. 349, dated June 10, 2010, indicated that the current class size flexibility for the K-3 CSR program is provided only through 2011-12 and expires in 2012-13. Districts must operate classes at 20:4:1 student/teacher ratio in order to be eligible for funding in 2012-13. The District’s 2010-11 Adopted Budget projects continuation of funding for K-3 CSR program in 2012-13 with a projected 30:1 class size. The District’s reflected $4.40 million funding from this program is an overstatement of its projected revenues for 2012-13. We request that the overstated revenue be adjusted with the submission of the revised budget.

RESERVE FOR ECONOMIC UNCERTAINTIES

We noted in our review that the District’s 2010-11 Adopted Budget reflected projected reserve levels of 2.67 percent for 2010-11, negative 3.93 percent for 2011-12, and negative 10.51 percent for 2012-13. While the reserve level for 2010-11 meets the minimum requirements of the State Criteria and Standards, the reserves for 2011-12 and 2012-13 are below the required levels, as illustrated in the table above. Additionally, when the District’s financial projections are adjusted for the yet-to-be negotiated expenditure reductions and the overstated revenues, the projected reserve level for 2012-13 decrease further to negative 13.48 percent.

In our letter, dated April 29, 2010, we expressed concern regarding the District’s projected reserves after adoption of the settlement with the Montebello Teachers Association. Our concern was that the projected reserve level for 2011-12 was below the minimum requirements. We also cautioned that with adoption of contract language barring any further reductions in the certificated work year, the District must develop a plan whereby either revenue’s are increased and/or expenses reduced to meet the reserve requirement in 2011-12.

The District has implemented budget reduction measures, including staffing reductions, to maintain the minimum reserve level for 2010-11. However, it will take additional ongoing expenditure reductions and/or revenue enhancements of $43.05 million in order to meet the required reserve levels for 2011-12 and 2012-13. We therefore request that the District take steps to reevaluate its spending priorities for the 2010-11 budget and multiyear projections in order to restore and maintain the reserves at the required level for 2011-12 and 2012-13. The District is further requested to adopt and submit a fiscal stabilization plan with the revised adopted budget due to our office by September 8, 2010. The plan should address potential options the Governing Board will consider in order to meet its financial commitments in 2011-12 and 2012-13.

DISTRICT COMMISSIONED FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM (FCMAT) STUDY

EC Section 42127 and 42127.6 require districts to submit to the county office any studies, reports, evaluations, or audits done of the district that contain evidence that the district is showing fiscal distress. They also require the county offices to incorporate that information into their analysis of budgets, interim reports, and the district’s overall financial condition.
A District commissioned FCMAT study was initiated to review the District’s operations and to recommend possible efficiency opportunities and to identify areas for cost reductions. FCMAT’s report, issued on July 15, 2010, was based on planning assumptions in place for the 2009-10 Second Interim Report, and included multiyear projections using the Governor’s 2010 May Revise. FCMAT projects that:

- the District’s 2011-12 General Fund will have a negative fund balance and will not meet its reserve requirements, and

- the District’s General Fund will have a negative cash balance of $12.2 million in June 2011.

Our analysis of the District’s 2010-11 Adopted Budget indicate that FCMAT’s concerns over cash and reserves are still valid. FCMAT recommended that the District prepare immediately for a period of fiscal instability and to take immediate actions to address the projected budget shortfall.

The District is currently analyzing FCMAT’s recommendations for possible implementation. We request that the District provide LACOE with an update of its implementation of the FCMAT recommendations with the submission of the First Interim Report due to our office on or before December 15, 2010.

**PROJECTED COST OF LIVING ADJUSTMENTS IN 2011-12 AND 2012-13**

Informational Bulletins No. 348, dated June 2, 2010, titled “May 2010 Revision Update” and No. 349, dated June 10, 2010, titled “2010-11 Budget Development and Financial Reporting Software: Assumptions and Instructions” cautioned that there is no assurance a statutory cost-of-living adjustment (COLA) will be funded for 2011-12 and 2012-13 because of the uncertainty of the State’s economy and financial resources. The County Office recommended that should districts include the COLA in their revenue projections for 2011-12 and 2012-13, an alternative plan be submitted with the Adopted Budget that includes other revenue enhancements and/or expenditure reductions to offset the potential loss of COLA revenue in both years.

Our review noted that the District’s revenue limit projections for 2011-12 and 2012-13 include the COLAs currently forecast at 2.10 percent and 2.40 percent, respectively, with no alternative plan currently in place. We request that the District submit a Board-approved plan that would address the potential revenue limit shortfalls of $3.23 million in 2011-12 and $6.94 million in 2012-13 should the projected COLAs not be funded. This alternative plan should be included with the revised budget.

**DECLINING ENROLLMENT AND REDUCED STATE FUNDING**

The District’s Budget and multiyear projections reflect continued declining enrollment. The District’s projected revenue limit average daily attendance (ADA) is 31,223 for 2010-11, 31,077 for 2011-12, and 30,783 for 2012-13. The estimated impact of the declining enrollment on the District’s projected revenue limit ADA reflects a two-year loss totaling 440 ADA, representing a 1.41 percent decrease from the District’s 2010-11 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.

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).

LATE STATE BUDGET ADOPTION

LACOE’s evaluation of district budgets was based on assumptions from the Governor’s May Revision. There is still significant uncertainty surrounding the passage of the State budget in terms of the final impact upon K-12 education. Districts may find it necessary to make adjustments to their budgets once the State budget is passed. Please remember that EC Section 42127(i)(4) requires that:

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

LACOE will issue a bulletin with additional guidance for districts to follow once the State budget is adopted. Based on the impact the State Adopted Budget will have on education, our office may require additional budget adjustments with or before the First Interim Report submission.

LACOE RECOMMENDATION

Because LACOE is not able to approve the District’s 2010-11 Adopted Budget, we request that the District submit any additional and relevant information and a Board-adopted resolution along with the 2010-11 Revised Budget. This resolution should reflect the Board’s commitment to address the issues noted in our analysis and comments. The resolution should include potential beginning balance adjustments, cost reductions or revenue enhancement options that the Board will be considering in addressing the shortfalls in 2011-12 and 2012-13. The District’s plan should address the following issues:

• Reduction or elimination of deficit spending in 2011-12 and 2012-13.

• Establishment of General Fund reserves in 2011-12 and 2012-13 to meet the 2.0 percent minimum.
FOLLOW-UP ACTIONS

District Actions

In order for LACOE to approve the District’s revised budget for 2010-11, the District needs to respond with a new and complete SACS budget (i.e., all funds). This revised submittal should incorporate the 2009-10 unaudited actuals, all revisions and/or modifications, any new assumptions, State Criteria and Standards, and a cash flow projection reflecting July 2010 through June 2011.

Furthermore, the District’s Board of Education should do the following by September 8, 2010:

- at a regular meeting of the Board, review the recommendations contained in this letter and submit a response to the recommendations,

- reflect changes in the projected revenue or expenditures subsequent to July 1, 2010, including incorporating the 2009-10 Unaudited Actuals data, and

- prepare and submit the revised budget and supporting data.

County Superintendent Actions

By October 8, 2010, the County Superintendent must approve or disapprove the revised budget. This new budget, if approved, will be frozen as the District’s official final budget for 2010-11. Resolution of the County Superintendent’s concerns by September 8, 2010, will prevent a disapproval of the final budget and the subsequent imposition of a Budget Review Committee.

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 2010-11. If our office can be of further assistance, please call me at (562) 922-6164 or your Business Services Consultant, Michael Jamshidi at (562) 922-6802.

Sincerely,

[Signature]

Donald Kenneth Shelton
Assistant Superintendent
Business Services

cc:  Board of Trustees
     Mr. Robert Henke, Interim Superintendent
     Mr. Cleve Pell, Interim Superintendent
     Ms. Cheryl Plotkin, Assistant Superintendent, Business Services
     Mr. Mark Schiel, Controller
     Mr. Scott Hannan, California Department of Education
     Mr. Michael Jamshidi, Los Angeles County Office of Education (LACOE)
September 30, 2010

Mr. David Vela, Board President
Montebello Unified School District
123 S. Montebello Blvd.
Montebello, CA 90640

Dear Mr. Vela:

In accordance with the provisions of Education Code (EC) Section 42127(g), a review of the Montebello Unified School District’s (District) Revised Budget for fiscal year 2010-11 has been completed by the Los Angeles County Superintendent of Schools (County Superintendent). That review has resulted in the approval of the District’s 2010-11 Revised Budget.

BACKGROUND

In our August 9, 2010, letter, the County Superintendent did not approve the District’s 2010-11 Adopted Budget. Our analysis indicated that the District might not be able to meet its financial obligations for 2011-12 and 2012-13, with the District projecting negative General Fund reserves in those two years. In addition, the District’s multiyear projections included unfunded revenues and salary reductions that were yet-to-be negotiated and approved by the District’s Governing Board. In accordance with EC Section 42127(d), the District was required to submit a revised budget by September 8, 2010.

SEPTEMBER 8 REVISED BUDGET

The District’s 2010-11 Revised Budget was approved by the Board on September 2, 2010, along with its 2009-10 Unaudited Actuals. The revised budget and multiyear projections included approximately $39.0 million in additional expenditure reductions, including salary cost savings from the settlement with the California Schools Employee Association, which were not part of the original budget adoption. Additionally, the 2009-10 Unaudited Actuals increased the 2010-11 beginning General Fund balance by approximately $10 million. The following are our comments on the District’s 2010-11 Revised Budget.
DEFICIT SPENDING

The District is projecting an unrestricted General Fund operating deficit of $13.93 million, representing 5.26 percent of the District’s projected expenditures and other outgo for fiscal year 2010-11. The District also projects operating deficits of $5.71 million for 2011-12 and $9.56 million for 2012-13. Although the District projects that it will be able to meet minimum reserve requirements for all three years, this level of deficit spending is not sustainable over the long term. We request that the District provide a deficit reduction plan with its First Interim Report due to the Los Angeles County Office of Education (LACOE) on or before December 15, 2010.

RESERVE FOR ECONOMIC UNCERTAINTIES

The District’s 2010-11 Revised Budget projects reserve levels of 7.36 percent for 2010-11, 5.74 percent for 2011-12, and 2.01 percent for 2012-13. While the projected reserve levels meet the minimum requirement of the State Criteria and Standards, the projections for 2011-12 and 2012-13 include salary cost savings that are subject to negotiation with the District’s bargaining units. When these yet-to-be negotiated cost savings are removed, the reserves in 2011-12 and 2012-13 are negatively impacted, as illustrated in the table below.

<table>
<thead>
<tr>
<th>Unrestricted General Fund</th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>District September 2010 Revised Reserves</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund Beginning Balance</td>
<td>$35.33</td>
<td>$21.39</td>
<td>15.67</td>
</tr>
<tr>
<td>Projected Deficit Spending</td>
<td>($13.93)</td>
<td>($5.71)</td>
<td>($9.56)</td>
</tr>
<tr>
<td>General Fund Ending Balance</td>
<td>$21.39</td>
<td>$15.68</td>
<td>$6.11</td>
</tr>
<tr>
<td>Reserve for Economic Uncertainties (REU)</td>
<td>$19.50</td>
<td>$14.78</td>
<td>$5.21</td>
</tr>
<tr>
<td>REU Percent</td>
<td>7.36%</td>
<td>5.74%</td>
<td>2.01%</td>
</tr>
</tbody>
</table>

**County Superintendent Adjustments**

| Adjustment for Proposed Savings from To-Be Negotiated Furlough Days | - | ($1.40) | ($5.70) |
| Adjusted REU | $19.50 | $13.38 | ($1.88) |
| Adjusted REU Percent | 7.36% | 5.17% | (0.71%) |

We noted in the District’s fiscal stabilization plan that in the event of unsuccessful negotiations, the Administration will submit to the Board a plan for alternative reductions. Therefore, we request that the District either finalize negotiations with the bargaining units or submit a revised fiscal stabilization plan with the First Interim Report.
Mr. David Vela, Board President  
Montebello Unified School District  
September 30, 2010  
Page 3

The revised plan should include alternative cost reduction options the Governing Board will consider in order to meet its financial commitments in 2012-13. Please note that the District can only meet all its financial obligations by meeting the standards and criteria reserve requirements in the current and two subsequent years.

**FISCAL STABILIZATION PLAN**

The District submitted, along with its 2010-11 Revised Budget, a fiscal stabilization plan intended to enable the District to meet the minimum reserves requirement for 2011-12 and 2012-13. The plan is comprised of a number of proposed cost reduction measures including continuation of the furlough days through 2012-13. Currently, the furlough days are approved through the current year for classified employees and through 2011-12 for certificated employees. The District’s multiyear projections include $1.4 million in yet-to-be negotiated classified salary reductions in 2011-12 and 2012-13. It also includes $4.3 million in yet-to-be negotiated certificated salary reductions in 2012-13. The District intends to continue negotiations with both bargaining units to extend the furlough days and/or obtain other compensation concessions. In the event the negotiations are not successful, the District will present to the Board an alternate plan for reductions.

The proposed cost reduction measures in the plan are based on cost savings that are either subject to negotiations with the District’s bargaining units or lack sufficient details to identify specific expenditure items. Therefore, we request that the District update its fiscal stabilization plan to include sufficient detail on how the proposed cost savings will be realized. The updated plan, as noted above, should provide specific or possible alternative measures in cases where the proposed cost reduction measures are subject to negotiations.

**PROJECTED COST OF LIVING ADJUSTMENTS IN 2011-12 AND 2012-13**

In our August 9, 2010, letter, we noted the District’s revenue limit projections included cost of living adjustments (COLA) of 2.1 percent for 2011-12 and 2.4 percent for 2012-13. We requested that the District submit a Board-approved alternative plan that would address the potential revenue limit shortfall of $3.23 million in 2011-12 and $6.94 million in 2012-13 should the projected COLAs not be funded. This letter serves as a reminder the alternative plan should be included with the District’s First Interim Report.

**CASH FLOW**

The District’s updated General Fund cash flow analysis projects a June 2011 ending cash balance of approximately $7.8 million. Additionally, the District is planning to issue $12.0 million in 2010-11 Tax and Revenue Anticipation Notes (TRANs). We request the District to carefully monitor its cash projections at least monthly throughout 2010-11; and request that our office be notified immediately if a cash shortfall is projected that cannot be covered through local means.
DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District’s Budget and multiyear projections reflect continued declining enrollment. The District’s projected revenue limit average daily attendance (ADA) is 31,223 for 2010-11, 31,077 for 2011-12, and 30,783 for 2012-13. The estimated impact of the declining enrollment on the District’s projected revenue limit ADA reflects a two-year loss totaling 440 ADA, representing a 1.41 percent decrease from the District’s 2010-11 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.

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).

LATE STATE BUDGET ADOPTION

LACOE’s evaluation of district budgets was based on assumptions from the Governor’s May Revision. There is still significant uncertainty surrounding the passage of the State budget in terms of the final impact upon K-12 education. Districts may find it necessary to make adjustments to their budgets once the State budget is passed. Please remember that EC Section 42127(i)(4) requires that:

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

LACOE will issue a bulletin with additional guidance for districts to follow once the State budget is adopted. Based on the impact the State Adopted Budget will have on education, our office may require additional budget adjustments with or before the First Interim Report submission.
CONCLUSION

We wish to express our appreciation to the District’s staff for their cooperation during the review of the District’s Revised Budget for fiscal year 2010-11. If our office may 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  
    Mr. Schiel, Controller  
    Mr. Hannan, California Department of Education  
    Ms. Smith, Los Angeles County Office of Education (LACOE)  
    Mr. Iizuka, LACOE  
    Mr. Villanueva, LACOE  
    Mr. Burdy, LACOE  
    Ms. Dunn, LACOE  
    Ms. Fees, LACOE
January 14, 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 42131, a review of the Montebello Unified School District’s (District) First Interim Report for fiscal year 2010-11 has been completed by the Los Angeles County Superintendent of Schools (County Superintendent). Our analysis of the data provided indicates that the District should be able to meet its financial obligations for the current and two subsequent years. **We therefore concur with the District’s positive certification** and offer our comments regarding the following issues.

**REVISED FISCAL STABILIZATION PLAN**

In our September 30, 2010, letter, we noted that the District’s proposed cost reduction plan included cost saving measures that were either subject to negotiation or lacked sufficient detail. The District was requested to submit an updated plan that would address those concerns with the 2010-11 First Interim Report. We note that targeted areas for cost reduction measures have now been identified and the previously proposed salary cost savings that were subject to negotiation have been removed from the District’s multiyear projections.

**DEFICIT SPENDING**

The District is projecting an operating deficit of $0.9 million, representing less than one percent of the District’s projected expenditures and other outgo for fiscal year 2010-11. The District also projects operating deficits of $6.3 million (2.4 percent) for 2011-12 and $15.1 million (5.6 percent) for 2012-13. According to our review of the District’s First Interim data and assumptions, the projected operating deficits are due to declining enrollment, the loss of one time Federal funds, the loss of K-3 Class Size Reduction (CSR) flexibility, and the expiration of negotiated furlough days in 2012-13.
While the District projects it will maintain the required level of reserves, it is important that this trend of deficit spending be recognized and monitored so that it remains manageable. We request that the District provide our office with an explanation along with the Second Interim Report if the level of deficit spending increases.

CASH FLOW

We note that the District projects that the General Fund will end 2010-11 with a cash balance of only $4.0 million. The District has obtained Governing Board approval of a resolution to allow the General Fund to borrow cash from other District funds in 2010-11, and that they will use this authority to cover any potential cash shortfall. We request that the District continue to carefully monitor its cash status throughout the fiscal year, and notify our office immediately if a cash shortfall is projected that cannot be covered through local means.

PROJECTED COST OF LIVING ADJUSTMENTS

In our September 30, 2010, letter, our office requested that the District submit a Board-approved plan that would address the potential revenue limit shortfalls should the projected cost of living adjustments (COLAs) not be funded. We note in our review of the First Interim Report that the District has complied with the above request.

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District’s 2010-11 First Interim Report continues to project declining enrollment. The District’s projected average daily attendance (ADA) is 31,239 for 2010-11, 30,500 for 2011-12, and 30,500 for 2012-13. The District’s estimated impact of declining enrollment on its projected average daily attendance reflects a loss totaling 739 ADA, representing a 2.37 percent decrease from the District’s 2010-11 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 as 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.

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).
BUDGET ASSUMPTION UNCERTAINTIES

The current State budget crisis has received considerable attention over the last month. State budget deficits have been projected to be as high as $28 billion over the remainder of this fiscal year and next. We caution districts that the planning assumptions used in the First Interim Report could change dramatically over the next several months as the State begins the budget planning process for 2011-12. This could result in mid-year reductions in 2010-11 and/or significant revenue reductions in 2011-12. Districts should exercise caution in their spending plans for the rest of this and the upcoming fiscal year and develop alternate scenarios for a worsening financial outlook for next year.

CONCLUSION

Thank you for providing documentation that supports the District’s positive certification. The multiyear projections, with accompanying narrative and assumptions, were extremely helpful in our analysis of the 2010-11 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, 2010, 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 2010-11 and develop your projections for 2011-12 and 2012-13. We wish to express our appreciation to the District staff for their cooperation during the review of the 2010-11 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:gm

cc: Mr. Henke, Interim Superintendent
Mr. Pell, Interim Superintendent
Ms. Plotkin, Assistant Superintendent, Business Services
Mr. Schiel, Controller
Mr. Iizuka, Los Angeles County Office of Education (LACOE)
Mr. Burdy, LACOE
Ms. Dunn, LACOE
Ms. Fees, LACOE
April 11, 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 42131, a review of the Montebello Unified School District's (District) Second Interim Report for fiscal year 2010-11 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 fiscal year 2012-13 without the implementation of specific Board-approved budget reductions and a fiscal stabilization plan. **We therefore concur with the District's qualified certification.** The District is required to prepare an End of Year Financial Statement as discussed later in this letter. We offer our comments and concerns regarding the following issues.

**CASH FLOW PROJECTIONS**

The District's projected June 2011 General Fund ending cash balance is approximately $15.0 million. The District has a Board-approved inter-fund borrowing resolution and has indicated that it intends to borrow cash from the District's other funds to cover any potential General Fund cash shortfall during this fiscal year. We request that the District notify Los Angeles County Office of Education (County Office) immediately if a cash shortfall is projected that cannot be covered through local means.

**DEFICIT SPENDING**

The District is projecting an operating deficit in the Unrestricted General Fund of $5.55 million, representing 2.07 percent of the District's projected expenditures and other outgo for 2010-11. The District is also projecting operating deficits of $11.67 million and $11.69 million, representing 4.36 percent and 4.34 percent for 2011-12 and 2012-13, respectively. According to our review of the Second Interim data and assumptions provided by the District, the projected deficit spending is primarily caused by declining enrollment, and reinstatement of the furlough days previously negotiated through 2011-12.
The District’s unrestricted General Fund ending balance is projected to decrease as a result of deficit spending, as discussed in the following section. We are concerned that, if this deficit spending continues as projected, it could severely impact the District’s fiscal solvency in future years. Therefore, we are requesting that the District address the deficit in the fiscal stabilization plan to be submitted with its 2011-12 Adopted Budget, due to the County Office on or before July 1, 2011.

RESERVE FOR ECONOMIC UNCERTAINTIES

The District’s 2010-11 Second Interim Report projects available Reserve for Economic Uncertainties (REU) of 10.75 percent for 2010-11, 3.81 percent for 2011-12, and negative 3.15 percent for 2012-13. The District’s projections also reflect designated reserves of $7.0 million and $14.0 million in 2011-12 and 2012-13, respectively, for the potential reduction of $330 per ADA as recommended in our Informational Bulletin No. 201, dated February 18, 2011, and titled “2010-11 Second Interim Financial Reporting.”

Unrestricted General Fund Projection
($ millions)

<table>
<thead>
<tr>
<th></th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>District Projected Available REU</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Fund Balance</td>
<td>$35.33</td>
<td>$29.78</td>
<td>$18.10</td>
</tr>
<tr>
<td>Projected Deficit Spending</td>
<td>($5.55)</td>
<td>($11.68)</td>
<td>($11.69)</td>
</tr>
<tr>
<td>Ending Fund Balance</td>
<td>$29.78</td>
<td>$18.10</td>
<td>$6.41</td>
</tr>
<tr>
<td>Reserve Amount</td>
<td>$28.88</td>
<td>$10.20</td>
<td>($8.48)</td>
</tr>
<tr>
<td>Reserve Percent</td>
<td>10.75%</td>
<td>3.81%</td>
<td>(3.15%)</td>
</tr>
</tbody>
</table>

As a result of the projected deficit spending and shortfall in the 2012-13 reserve level, we are requesting that the District submit an updated fiscal stabilization plan that restores the reserves in 2012-13, with its 2011-12 Adopted Budget.
DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District’s 2010-11 Second Interim Report continues to project declining enrollment. The District’s projected average daily attendance (ADA) is 31,226 for 2010-11, 30,452 for 2011-12, and 30,420 for 2012-13. The District’s estimated impact of declining enrollment on its projected average daily attendance reflects a two-year loss totaling 806 ADA, representing a 2.58 percent decrease from the District’s 2010-11 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 as 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.

END OF YEAR FINANCIAL STATEMENT

Pursuant to EC Section 42131(e), any school district with a qualified Second Interim Report must provide the County Superintendent, the State Controller’s Office, and the Superintendent of Public Instruction with a financial statement projecting the district’s fund and cash balances through June 30th, for the period ending April 30, 2011. This financial statement and supporting assumptions should be submitted to the County Office not later than June 1, 2011.

DEBT ISSUANCE

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

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 Superintendent of Public Instruction (SPI) regarding the fiscal solvency of any school district with a qualified interim certification. This report will be issued in June 2011.
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 2010-11 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, 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 2010-11 and develop your Budget for 2011-12. We wish to express our appreciation to the District staff for their cooperation during the review of the 2010-11 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

MJ:lr

cc: Mr. Henke, Interim Superintendent
    Mr. Pell, Interim Superintendent
    Ms. Plotkin, Assistant Superintendent, Business Services
    Mr. Schiel, Controller
    Mr. Hannan, California Department of Education
    Mr. Chiang, California State Controller
    Mr. Iizuka, Los Angeles County Office of Education (LACOE)
    Mr. Burdy, LACOE
    Ms. Dunn, LACOE
    Ms. Fees, LACOE
June 28, 2011

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

Dear Mr. Chau:

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 2010-11 fiscal year. The summary reflects the main concerns noted in the County Superintendent’s assessment of the District’s 2010-11 Adopted and Revised Budgets, 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 during the fiscal year.

2010-11 FISCAL SOLVENCY SUMMARY

The County Superintendent did not approve the District’s 2010-11 Adopted Budget, approved the 2010-11 Revised Budget, and concurred with the District’s positive certification for the First Interim Report and qualified certification for the Second Interim Report. With a qualified Second Interim certification, the District was required to submit an End of Year Financial Statement projecting the District’s fund and cash balances through June 30, 2011, for the period ending April 30, 2011.

2010-11 ADOPTED AND REVISED BUDGETS

The District’s 2010-11 Adopted Budget was not approved based on the District’s inability to meet the minimum reserve requirements in 2011-12 and 2012-13. The projected reserves were 2.67 percent for 2010-11, negative 3.93 percent for 2011-12, and negative 10.51 percent for 2012-13.
When adjusted for expenditure reductions subject to negotiations, the 2012-13 reserve level decreased to negative 13.48 percent. We requested that the District submit a Board-approved fiscal stabilization plan with the 2010-11 Revised Budget. The plan was to include revenue enhancements and/or expenditure reductions that would address deficit spending and restore the District's required reserve levels for 2011-12 and 2012-13.

The District's 2010-11 Revised Budget projected reserve levels of 7.36 percent for 2010-11, 5.74 percent for 2011-12, and 2.01 percent for 2012-13. When adjusted for expenditure reductions subject to negotiations, the projected reserve levels decreased to 5.17 percent for 2011-12 and negative 0.71 percent for 2012-13. The County Superintendent approved the 2010-11 Revised Budget with the condition that the District either finalize negotiations with the bargaining units or submit a revised fiscal stabilization plan with the 2010-11 First Interim Report that would allow the District to meet its financial commitments in 2012-13.

FIRST INTERIM REPORT

The County Superintendent concurred with the District's positive certification of the First Interim Report. The District projected operating deficits of $0.9 million for fiscal year 2010-11, $6.3 million for 2011-12 and $15.1 million for 2012-13. Despite the increasing level of deficit spending the District projected to maintain the required level of reserves in all three years. Additionally, the District projected a General Fund June 2011 ending cash balance of $4.0 million. The District obtained Governing Board approval of a resolution to allow the General Fund to borrow cash from other District funds to cover any potential cash shortfall.

SECOND INTERIM REPORT

The County Superintendent concurred with the District's qualified Second Interim Report certification. The District projected operating deficits of $5.55 million for fiscal year 2010-11, $11.67 million for 2011-12 and $11.69 million for 2012-13. The District's unrestricted General Fund ending balance decreased as a result of deficit spending, and reserve levels were 10.75 percent for 2010-11, 3.81 percent for 2011-12, and negative 3.15 percent for 2012-13. As a result of the projected deficit spending and shortfall in the 2012-13 reserve level, the County Superintendent requested that the District submit an updated fiscal stabilization plan that would restore the reserves in 2012-13, with its 2011-12 Adopted Budget.

END OF YEAR FINANCIAL STATEMENT

The General Fund is projected to end the 2010-11 fiscal year with a 13.19 percent reserve and an ending cash balance of approximately $19.3 million. We remind the District of our request to submit a Board-approved fiscal stabilization plan with the 2011-12 Adopted Budget. The plan should address deficit spending and restore the reserve levels for all three years using the assumptions in our May Revision Bulletin No. 292, dated May 26, 2011.
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 2010-11 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 2011-12. We wish to express our appreciation to the District staff for their cooperation with all financial report reviews we conducted during 2010-11. 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:gm

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