



CSIS *California School Information Services*

Montebello Unified School District

Fiscal Review

July 15, 2010



Joel D. Montero
Chief Executive Officer





July 15, 2010

Robert Henke, Interim Superintendent
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Montebello Unified School District
123 South Montebello Blvd.
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Interim Superintendents Henke and Pell:

In April 2010, the Montebello Unified School District entered into an agreement with the Fiscal Crisis and Management Assistance Team (FCMAT) for a fiscal review of the district. Specifically, the agreement states that FCMAT will perform the following:

1. Review the district's 2009-10 general fund budget and provide a multiyear financial projection for the current and two subsequent fiscal years utilizing the district's second interim financial report as the baseline for the projection. The MYFP will include a cash flow component for the same time period to project the district's cash balances at the end of the each fiscal year. The MYFP and cash flow analysis will also include the impact of other funds including alternative strategies for cash management from both internal and external sources.
2. The FCMAT team will validate the district's budget assumptions and provide recommendations for expenditure reductions or revenue enhancements to assist the district in maintaining their financial solvency under AB 1200.

This report contains the study team's findings and recommendations. Thank you for allowing us to serve you, and please give our regards to all the employees of teh Montebello Unified School District.

Sincerely,



Joel D. Montero
Chief Executive Officer

FCMAT

Joel D. Montero, Chief Executive Officer

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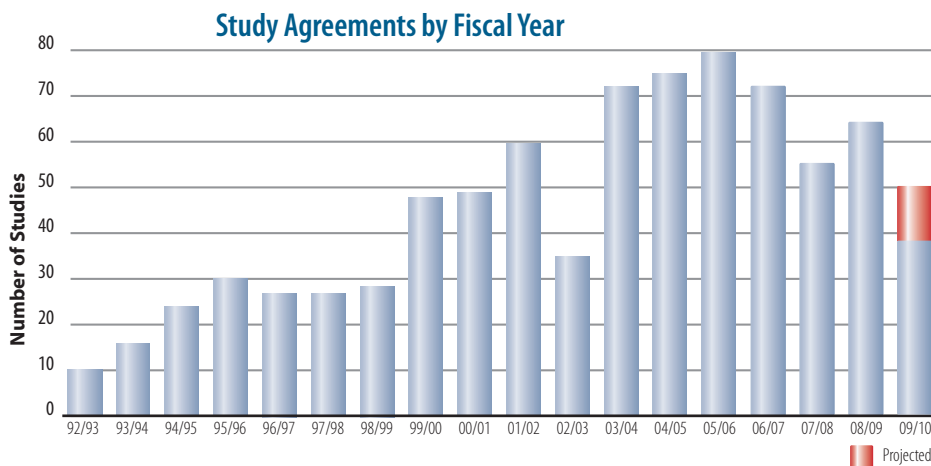
Foreword

FCMAT Background

The Fiscal Crisis and Management Assistance Team (FCMAT) was created by legislation in accordance with Assembly Bill 1200 in 1992 as a service to assist local educational agencies in complying with fiscal accountability standards.

AB 1200 was established from a need to ensure that local educational agencies throughout California were adequately prepared to meet and sustain their financial obligations. AB 1200 is also a statewide plan for county offices of education and school districts to work together on a local level to improve fiscal procedures and accountability standards. The legislation expanded the role of the county office in monitoring school districts under certain fiscal constraints to ensure these districts could meet their financial commitments on a multiyear basis. AB 2756 provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans. These include comprehensive assessments in five major operational areas and periodic reports that identify the district's progress on the improvement plans.

Since 1992, FCMAT has been engaged to perform nearly 700 reviews for local educational agencies, including school districts, county offices of education, charter schools and community colleges. Services range from fiscal crisis intervention to management review and assistance. FCMAT also provides professional development training. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The agency is guided under the leadership of Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.



Total Number of Studies..... 743
Total Number of Districts in CA.....1,050

Management Assistance	705 (94.886%)
Fiscal Crisis/Emergency	38 (5.114%)

Note: Some districts had multiple studies.
 Eight (8) districts have received emergency loans from the state.
 (Rev. 12/8/09)

Introduction

Background

Located in Los Angeles County, the Montebello Unified School District has a five-member elected governing board and serves approximately 32,744 students in kindergarten through twelfth grade. The district has 16 elementary schools, two K-8 schools, six intermediate schools, three comprehensive high schools, one alternative high school and a community day school. The district also offers an adult education program. Student enrollment increased from 1995-96 through 2004-05, but has declined each fiscal year since.

Approximately 34% of the district's students are English learners and 86% are eligible for free and reduced-price meals. According to the 2009 Adequate Yearly Progress (AYP) Report, the district has been in program improvement (PI) since 2004-05. Schools and local educational agencies that do not make AYP are identified as PI under the federal Elementary and Secondary Education Act (ESEA). The ESEA requires all states to implement statewide accountability systems based on state standards in reading and mathematics, annual testing for all students in grades three through eight, and annual statewide progress objectives with the goal that all students achieve proficiency by 2013-14. Schools and districts that fail to make AYP toward proficiency goals are subject to improvement and corrective-action measures.

The district passed a \$92 million general obligation bond measure in 1998 and a \$98 million bond measure in 2004 to help provide funding to renovate and build school facilities.

In April 2010, the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement with the district for management assistance. The study agreement specifies that FCMAT will complete the following:

1. Review the district's 2009-10 general fund budget and provide a multiyear financial projection for the current and two subsequent fiscal years utilizing the district's second interim financial report as the baseline for the projection. The MYFP will include a cash flow component for the same time period to project the district's cash balances at the end of each fiscal year. The MYFP and cash flow analysis will also include the impact of other funds including alternative strategies for cash management from both internal and external sources.
2. The FCMAT team will validate the district's budget assumptions and provide recommendations for expenditure reductions or revenue enhancements to assist the district in maintaining their financial solvency under AB 1200.

Study Team

The FCMAT study team was composed of the following members:

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Study Guidelines

FCMAT visited the district on April 14-16, 2010 to conduct interviews, collect data and review documentation. This report is the result of those activities and is divided into the following sections:

- Executive Summary
- Multiyear Financial Projections
- Cash Flow Projections
- Appendix

Executive Summary

Multiyear Financial Projections

Multiyear financial projections (MYFPs) help local education agencies make more informed decisions and forecast the effect of current decisions. Projections should be a part of annual budget development and should be evaluated and updated during each interim financial reporting period and before any significant budget adjustments, such as salary increases.

In developing and implementing the multiyear financial projection, the district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The financial crisis at the state and national levels makes it an especially challenging time financially for educational agencies statewide. The 2008-09 and 2009-10 state budget acts and the governor's 2010 May Revise included significant cuts to the education budget. This situation requires local governing boards to make extremely difficult decisions to balance the budget and remain fiscally solvent.

FCMAT's multiyear financial projection indicates that the district *will* not meet its reserve requirement in 2011-12. Following is a summary of FCMAT's projections for the district's unrestricted resources. The district faces substantial fiscal challenges that will require the governing board and administration to make and implement difficult decisions immediately based on the state's budget crisis.

Multiyear Financial Projection Summary General Fund Unrestricted Resources Only

	Base Year	Year 1	Year 2
Description	2009-10	2010-11	2011-12
Total Revenues	\$177,742,280	\$171,004,561	\$171,067,706
Total Expenditures	161,832,508	160,302,576	168,037,900
Total Other Financing Sources/Uses	-24,260,767	-25,066,149	-29,728,607
Net Increase (Decrease) in Fund Balance	-8,350,995	-14,364,164	-26,698,801
Fund Balance:			
Beginning Balance	36,042,199	25,772,533	11,408,369
Audit Adjustments	-1,901,985	0	0
Other Restatements	-16,686	0	0
Total Ending Balance	25,772,533	11,408,369	-15,290,432
Components of Ending Fund Balance:			
Revolving Cash	253,000	253,000	253,000
Stores	644,000	644,000	644,000
Other Designations	2,377,042	0	0
2% Reserve Requirement/3% (2011-12)	5,598,148	5,415,019	8,110,069
Undesignated/Unappropriated	\$16,900,343	\$5,096,350	\$0
	\$0	\$0	-\$24,297,501

One of FCMAT's primary concerns in projecting and evaluating the district's financial solvency is the continued use of multiple financial software applications. The district utilizes two financial accounting systems, PeopleSoft and GEMS, which are not fully integrated for accounting and financial reporting purposes. Comparative budget reports indicate that actual payroll costs are generally reconciled between the two systems one month in arrears. PeopleSoft is used to transmit employee salary and benefit information to the Los Angeles County Office of Education that also operates with the PeopleSoft financial accounting software. The GEMS system is used to process commercial warrants, record detailed year-to-date accounting transactions and budget information, and prepare customized reports, a capability reportedly lacking with the PeopleSoft system. The financial and accounting information stored in each system must be downloaded to the other, and the systems must be manually balanced each month through a series of journal entries that are extremely labor intensive. The process is similar to a year-end closing in that it requires staff to review and adjust all accounts on a monthly basis between two financial accounting systems to ensure that they accurately reflect the activities for the fiscal year to date.

FCMAT strongly recommends that the district make the full transition to the PeopleSoft financial and accounting software and eliminate the duplicative processes, reporting requirements and unnecessary journal entries to maintain and balance two financial accounting systems. As the district's budget continues to be reduced and experienced personnel begin to exit from the district, the loss of historical knowledge and technical expertise to balance two systems will only become more difficult to manage for the business office.

Cash Flow Projections

The purpose of a cash flow statement is to project the timing of receipts and expenses so that an organization can understand its cash flow needs. The cash flow statement reflects the district's ability to meet its payroll and other financial obligations to sustain the district's financial solvency and avoid state intervention.

In determining the district's monthly or annual cash position, it is extremely difficult to reconcile the recording of cash receipts, expenditures and general ledger accounts due to the continued use of multiple financial accounting systems. As an example, the district pays certificated staff on the first of each month, but these transactions are not posted from the PeopleSoft system to the GEMS system until the end of the month. Without transactions fully posted on a daily basis, the staff is required to manually combine financial information from both financial accounting systems to properly track the district's cash flow requirements. For a district payroll that often exceeds \$21 million dollars a month, this is extremely problematic, time consuming and requires the district to incur unnecessary labor costs.

Based on the continued and increased cash deferrals included in the state's 2009-10 budget, including deferrals equaling 25% of the current year funding into 2010-11 and additional deferrals enacted by the legislature and signed by the governor in March 2010, it is imperative that the district monitor its current year and subsequent year cash flow at least monthly and carefully monitor its annual budget to ensure that expenditures do not exceed revenues.

The cash flow projections prepared by FCMAT for the remainder of 2009-10 and the 2010-11 fiscal years reflect a negative ending cash balance of \$12.2 million in June 2011. In addition to closely monitoring cash flow, the district should work with the county office to determine the borrowing options that are available if funds are needed for cash flow purposes, which includes the governing board's prior approval of the issuance of a Tax and Revenue Anticipation Note (TRAN) of \$12 million for the 2010-11 fiscal year.

FCMAT compliments the district's staff in its ability to utilize multiple financial accounting systems to prepare the statutory financial reports, close and prepare the annual financial statements, and monitor and track the district's budgetary and general ledger accounts. However, the process is extremely labor intensive and unnecessary with today's advanced technology and software applications that are available to K-12 school districts. The continued use of these duplicative processes presents the district with the potential for a high margin of error and risk to its financial solvency.

Findings and Recommendations

Multiyear Financial Projections

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

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

Financial planning is crucial for every local educational agency, regardless of its size or structure. Long-term financial planning helps a district strategically align its budget with its instructional goals and programs. In addition, recognizing financial trends is essential to maintaining a district's fiscal health. Reviewing and analyzing year-over-year trends in key budget areas is helpful in evaluating the district's budget direction and in highlighting possible areas of concern.

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

Local educational agencies throughout the state have been forced to update multiyear assumptions and projections several times during the 2008-09 and 2009-10 fiscal years as the state continues to experience severe revenue declines. Multiyear projections in a time of fiscal instability can become somewhat less reliable, especially in the subsequent fiscal years, as projected revenue information from the state may frequently change. However, the MYFP still provides guidance with decisions that cover several fiscal years, and the district must continue to update and reassess the ramifications of state-imposed budget adjustments.

To help protect local educational agencies against economic uncertainties, the state requires school districts with average daily attendance (ADA) of between 30,001 and 400,000 to maintain reserves of not less than 2%. Districts with ADAs of between 1,001 and 30,000 must maintain reserves for economic uncertainties of not less than 3%. The Montebello Unified School District's current reserve requirement is 2%. However, because the district is projected to have 29,919 ADA in 2011-12, the reserve requirement increases to 3% that fiscal year. The increase in the required reserve amount further increases the district's negative budget shortfall in 2011-12.

AB 1200 Oversight

If at any time during the fiscal year a district is unable to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district's governing board and the state superintendent of public instruction (SPI). The county office is required to follow Education Code section 42127.6 in assisting a school district in this situation. Assistance may include assigning a fiscal expert to advise the district on financial issues, conducting a study of the district's financial and budgetary conditions and requiring the district to submit a proposal for addressing its fiscal condition. In the case of a district that does not meet its required reserve levels, the intent of the MYFP is to assist the county and the district in formulating a plan to regain fiscal solvency and restore the required ending fund balance.

Regular and frequent budget monitoring becomes critical in times of fiscal uncertainty. The district will need to ensure that multiyear financial projections are kept up to date and that the information they contain is accurate and based on the most current assumptions. This is particularly important since economic indicators will change rapidly as California continues to struggle to balance its budget.

FCMAT has updated the multiyear projections with the latest budget information, including the governor's 2010 May Revise. *The MYFP developed for this report indicates that the district will not be able to maintain its required reserve of 3% in the 2011-12 fiscal year.* The district faces substantial fiscal challenges that will require the governing board and administration to make and implement difficult decisions immediately based on the state's budget crisis.

State Budget - Overview

The 2008-09 and 2009-10 fiscal years have been unprecedented for California's local educational agencies. On February 20, 2009, the governor signed a 17-month budget, Senate Bill (SB) 1, Chapter 1, Statutes of 2009. This budget is in effect through June 2010 and included revisions to the 2008-09 budget and approval of the 2009-10 state budget. To address the state's \$41.6 billion budget deficit, state lawmakers reduced expenditures, added new taxes, borrowed money and offset the difference with federal stimulus funds.

Because of continued decline of the state's economic condition, the governor called for another special session in July 2009 to address the additional \$24 billion deficit in the state's budget. On July 28, 2009, the governor signed a package of bills that amended the 2008-09 and 2009-10 state budgets and included substantial additional cuts to education funding. These cuts included the following:

- Proposition 98 – In an effort to avoid suspending Proposition 98, the state kept \$1.6 billion in 2008-09 unallocated categorical funds and restored this amount in 2009-10, less funding for High Priority Schools grants that ended in 2008-09. The state then acted to reduce each district's 2009-10 revenue limit on a one-time basis by approximately \$253 per 2008-09 ADA.
- Revenue Limit Deficit – The July state budget revisions included an increase in the revenue limit deficit factor. The 2009-10 deficit is 18.355%. This means that education will receive approximately 82 cents on the dollar in revenue limit funding. Additionally, selected state categorical programs have experienced a 19.84% reduction over a two-year period.

The 2008-09 and 2009-10 state budget revisions provided local educational agencies with some flexibility options that allow previously restricted categorical program dollars to be used for any educational purpose, lower the contribution to the routine restricted maintenance account, and eliminate the deferred maintenance match. These flexibility options also allow state funding for the deferred maintenance and adult education programs to be used for any educational purpose. These flexibility provisions are effective through the 2012-13 fiscal year. The budget revisions also reduce the penalties for the K-3 Class Size Reduction Program through 2011-12.

Categorical Program Flexibility - SBX3 4 authorizes complete flexibility of approximately 40 categorical programs for any educational purpose. For 2008-09 through 2012-13, these programs have been reclassified from restricted to unrestricted, and program requirements provided in the Education Code are not in effect.

FCMAT's analysis includes categorical flexibility as presented in the district's 2009-10 second interim report.

K-3 Class Size Reduction - SBX3 4 established a new schedule of funding reduction percentages in Education Code Section 52124.3 for classes exceeding 20.44 pupils from 2008-09 through 2011-12. The new schedule provides for reductions to funding as follows:

Schedule of CSR Funding Reductions

Funding Reduction	Class Size Range, Inclusive
5%	20.45 to 21.44
10%	21.45 to 22.44
15%	22.45 to 22.94
20%	22.95 to 24.94
30%	24.95 or more

Like the previous schedule, funding for classes of more than 20.44 pupils will be calculated based on a count not to exceed 20 pupils multiplied by the funding rate, less the funding reduction percentage. The number of funded classes is limited to the total classes included in the district's January 31, 2009 application.

Based on information from the district and included in the 2009-10 second interim report, FCMAT's MYFP analysis includes K-3 class sizes of 32 with a corresponding penalty of 30% to K-3 CSR program funding.

Routine Restricted Maintenance Account Contribution - The contribution to the routine restricted maintenance account (RMA), required for LEAs participating in the state school facility program is reduced from 3% to 1% of the total general fund expenditures and other financing uses for 2008-09 through 2012-13. The July 2009 legislation further exempts districts with facilities maintained in good repair from the 1% contribution through 2012-13 (Education Code Section 17070.766).

The district participates in the state school facility program and budgeted approximately \$6.1 million at second interim to RMA, resource 8150, in the general fund. FCMAT continued this contribution in the MYFP analysis absent a formal decision by the board to further utilize the flexibility option.

Deferred Maintenance Program - The local matching contribution normally required as a condition of eligibility for the deferred maintenance basic grant funding is eliminated for 2008-09 through 2012-13. The district's 2009-10 second interim budget does not include a contribution to the deferred maintenance fund. Therefore, FCMAT has not included a contribution in its MYFP.

In addition to the elimination of the local match requirement, deferred maintenance program funding is one of the items made flexible by Education Code section 42605 for 2008-09 through 2012-13. State funding for this program is unrestricted for this five-year period and may be used for any educational purpose. As of the 2009-10 second interim reporting period, the district had not chosen to utilize this flexibility option; therefore, FCMAT has not included the state funding for deferred maintenance as unrestricted general fund revenue in its MYFP.

Adult Education Program – The adult education program funding is another flexible item for 2008-09 through 2012-13. Funding is unrestricted for this five-year period and may be used for any educational purpose. As of the 2009-10 second interim reporting period, the district has not chosen to utilize this flexibility option; therefore, FCMAT has not included the state funding for the adult education program as unrestricted general fund revenue in its MYFP.

Transfers of Restricted Balances – SBX3 4 and ABX4 2 provide for the transfer of certain restricted program balances to the unrestricted general fund balance retroactive to July 1, 2008. These transfers must occur prior to closing the district's books for the 2009-10 fiscal year. The district's 2009-10 second interim budget comparative report indicates that the affected restricted balances in the general fund have been moved to the unrestricted general fund. However, the ending fund balances of \$2.141 million in the adult education fund and \$2.056 million in the deferred maintenance fund, which are included in the 2008-09 unaudited actuals report, have not been transferred to the unrestricted general fund. FCMAT did not include these transfers in its MYFP analysis since this is a decision that must be made by the local governing board.

Further information regarding the flexibility provisions is located at the following CDE website:

<http://www.cde.ca.gov/fg/ac/co/>

On May 14, 2010, the governor presented his May Revision for the 2010-11 state budget, which includes expenditure reductions, revenue shifts and increased federal funding to address the estimated \$19.1 billion state budget shortfall.

The 2010-11 May Revision education budget includes a cost-of-living adjustment (COLA) of negative 0.39% as well as the ongoing deficit factor of 18.355%. The May Revision also includes a new ongoing reduction to the undeficit base revenue limit of 3.85% beginning in 2010-11, which equates to approximately \$7.7 million per year for Montebello Unified.

The governor has also signed several bills from the most recent special legislative session including ABX8 5 and ABX8 14, which include three new K-12 cash deferrals. It is essential for local education agencies to monitor their spending and cash flow and make reductions as needed to maintain reserves and weather the state's fiscal crisis.

Multiyear Financial Projection Method

Local educational agencies use many different software products to prepare MYFPs. For Montebello Unified's MYFP, FCMAT used its Budget Explorer web-based MYFP software, which was designed for California school districts. This tool is available to LEAs free of charge.

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

Multiyear Financial Projection Assumptions

The MYFP prepared by FCMAT uses the district's 2009-10 second interim financial report and the corresponding SACS data file as the baseline. FCMAT also used budget assumptions based on the 2009-10 State Budget Act, the governor's 2010-11 May Revision and School Services of California's (SSC's) Financial Dartboard assumptions updated in May 2010. FCMAT's MYFP excludes any salary increase in the current or projection years beyond the current negotiated agreement. Included in the projection years are the following assumptions:

- The average cost of step-and-column movement for all contracted salaries and the associated cost of employer-paid statutory benefits of 1.50% for certificated staff and 1.10% for classified staff.
- An increase of 0% for health and welfare costs in 2010-11 and a 2.10% increase in 2011-12 based on the projected increase to the base revenue limit.
- Increases in general operating expenditures based on the California consumer price index and the most recent economic indicators.

To verify the base year (2009-10) for the multiyear projection, FCMAT did the following:

- Prepared spreadsheet pivot tables to compare certificated, classified and management salary and benefit information budgeted at second interim to position control records and actual year-to-date salary expense activity to identify variances.
- Compared position control records with the second interim budget by resource and major object category.
- Reviewed internal and third party support documentation to verify the district's current year revenue.
- Reviewed the district's actual revenue and expenditure detail to identify potential adjustments in each resource and within major object code sections of the general fund.

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

- Letters from the county office regarding conditional approval of the district's 2009-10 adopted budget and concurrence with the district in its qualified certifications for the 2009-10 first and second interim financial reports.
- Financial system budget comparative reports that correspond to the 2009-10 second interim report and include 2008-09 actuals and 2009-10 actuals-to-date information, dated April 7 and April 30, 2010.
- Financial summary reports showing general ledger balance sheet accounts by fund for 2009-10 to analyze cash, accounts receivable and accounts payable.

- Revenue-limit worksheets, including all supporting schedules for 2009-10 projections.
- Historical enrollment information, including CBEDS data, for the current and prior five fiscal years, and projections for the subsequent two years.
- Period one (P-1), period two (P-2), and annual attendance reports for 2004-05 through 2009-10.
- Identification of any one-time revenues, including American Recovery and Reinvestment Act (ARRA) federal funds, and expenditures included in the 2009-10 second interim budget.
- Long-term debt schedules from the 2008-09 audited financial statements.
- The most current collective bargaining agreements for all employee groups.
- AB 1200 disclosure documents for the most recent salary settlement for all employee groups.
- Information on the health and welfare cap adjustments as stated in the collective bargaining agreements.
- Independent audit reports for 2007-08 and 2008-09.

The following table includes the economic factors used by FCMAT in completing the district's multiyear financial projection:

Multiyear Projection Rules and Assumptions

Title	Rule	2009-10	2010-11	2011-12
Classified COLA	Classified COLA %	0.00%	0.00%	0.00%
Certificated COLA	Certificated COLA %	0.00%	0.00%	0.00%
Certificated Step %	Certificated Staff Step-and-Column Increase %	1.50%	1.50%	1.50%
Classified Step %	Classified Staff Step Increase %	1.10%	1.10%	1.10%
CPI	California CPI (SSC)	0.80%	2.00%	2.40%
LOT - Restricted	California Lottery Restricted (SSC)	\$14.50	\$14.50	\$14.50
LOT - Unrestricted	California Lottery Unrestricted (SSC)	\$111.00	\$111.00	\$111.00
INT	Interest Rate Trend for 10-Year Treasuries (SSC)	3.70%	4.00%	4.40%
Net COLA	Net Funded Revenue Limit COLA (SSC)	-7.64%	-0.39%	2.10%
RL Deficit	Revenue Limit Deficit K-12 (SSC)	18.355%	18.355%	18.355%
Special Education COLA	Special Education COLA (SSC)	0.00%	-0.38%	2.10%
Categorical COLA	State Categorical COLA (SSC)	4.25%	-0.38%	2.10%
Statutory COLA	Statutory COLA (SSC)	4.25%	-0.39%	2.10%
Health and Welfare %	Health and Welfare Benefit Increase	0.00%	0.00%	2.10%
Tier I	Tier I Programs	0.00%	0.00%	2.10%
Tier II	Tier II Programs	-4.46%	-0.38%	2.10%
Tier III	Tier III Programs	-4.46%	-0.38%	2.10%

Based on SSC's Financial Dashboard dated May 2010 and district estimates.

Multiyear Financial Projection Analysis

An MYFP's primary purpose is to project the district's budget over several fiscal years using budget assumptions that allow the district to achieve and sustain a balanced budget and meet the required minimum reserve for economic uncertainties.

To evaluate the multiyear projection, attention is focused on the district's ability to meet its reserve requirement in each fiscal year and demonstrate a positive, unappropriated fund balance. FCMAT has analyzed all funding sources and expenditure categories by resource. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines. The unrestricted general fund summary below indicates that, without substantial expenditure reductions or revenue enhancements, the district will have a negative fund balance in the 2011-12 fiscal year.

FCMAT's MYFP indicates that the district *will not* meet its recommended reserve requirement in 2011-12 without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending. The district's enrollment is projected to decrease during the next several fiscal years, as discussed later in this report, compounding the district's current financial situation.

To protect the district's financial solvency and eliminate the projected \$24.3 million shortfall in 2011-12, the district will need to begin preparing immediately for a period of fiscal instability. To balance the budget, the district will need to make difficult choices about which expenditures and programs will continue to be funded and which will be scaled back, reconfigured or eliminated. The district should take immediate actions to address the projected budget shortfall.

Unrestricted General Fund

The district's general fund budget is a combination of unrestricted general purpose dollars and restricted grants and categorical funding. When analyzing the district's budget, much attention is focused on the unrestricted budget in particular the unappropriated ending fund balance. The unrestricted budget is projected to have a shortfall in the general fund operating budget in 2011-12. The following table demonstrates that the district is in financial crisis:

MYFP Unrestricted General Fund Summary

Name	Object Code	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
Revenues				
Revenue Limit Sources	8010 - 8099	\$152,282,409.52	\$149,966,941.57	\$150,069,122.81
Federal Revenues	8100 - 8299	\$568,234.00	\$556,869.32	\$546,344.49
Other State Revenues	8300 - 8599	\$23,115,441.00	\$18,904,749.75	\$18,876,238.87
Other Local Revenues	8600 - 8799	\$1,776,195.00	\$1,576,000.00	\$1,576,000.00
Total Revenues		\$177,742,279.52	\$171,004,560.64	\$171,067,706.17
Expenditures				
Certificated Salaries	1000 - 1999	\$90,701,916.00	\$89,878,990.43	\$89,674,647.82
Classified Salaries	2000 - 2999	\$21,114,614.00	\$23,430,134.27	\$23,687,865.75
Employee Benefits	3000 - 3999	\$37,464,993.00	\$42,457,427.93	\$42,742,223.47
Books and Supplies	4000 - 4999	\$2,637,801.00	\$3,006,320.19	\$2,513,846.25
Services and Other Operating	5000 - 5999	\$10,711,996.00	\$9,750,023.33	\$10,146,757.21
Capital Outlay	6000 - 6900	\$1,961,316.00	\$1,422,681.00	\$1,422,681.00
Other Outgo	7000 - 7299	\$10,000.00	(\$7,609,653.00)	\$10,444.80
Direct Support/Indirect Cost	7300 - 7399	(\$4,924,763.36)	(\$3,099,951.00)	(\$3,090,282.00)
Debt Service	7430 - 7439	\$2,154,635.00	\$1,066,603.00	\$929,716.00
Total Expenditures		\$161,832,507.64	\$160,302,576.15	\$168,037,900.30
Excess (Deficiency) of Revenues Over Expenditures		\$15,909,771.88	\$10,701,984.49	\$3,029,805.87
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$60,000.00	\$60,000.00	\$60,000.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00
Contributions	8980 - 8999	(\$24,200,767.00)	(\$25,006,148.46)	(\$29,668,607.08)
Total Other Financing Sources\Uses		(\$24,260,767.00)	(\$25,066,148.46)	(\$29,728,607.08)
Net Increase (Decrease) in Fund Balance		(\$8,350,995.12)	(\$14,364,163.97)	(\$26,698,801.21)
Fund Balance				
Beginning Fund Balance	9791	\$36,042,199.39	\$25,772,533.27	\$11,408,369.30
Audit Adjustments	9793	(\$1,901,985.00)	\$0.00	\$0.00
Other Restatements	9795	(\$16,686.00)	\$0.00	\$0.00
Adjusted Beginning Fund Balance		\$34,123,528.39	\$25,772,533.27	\$11,408,369.30
Ending Fund Balance		\$25,772,533.27	\$11,408,369.30	(\$15,290,431.91)
Components of Ending Fund Balance				
Reserved Balances	9700	\$0.00	\$0.00	\$0.00
Revolving Cash	9711	\$253,000.00	\$253,000.00	\$253,000.00
Stores	9712	\$644,000.00	\$644,000.00	\$644,000.00
Prepaid Expenditures	9713	\$0.00	\$0.00	\$0.00
Other Prepay	9719	\$0.00	\$0.00	\$0.00
General Reserve	9730	\$0.00	\$0.00	\$0.00
Legally Restricted Balance	9740 - 9759	\$0.00	\$0.00	\$0.00
Economic Uncertainties Percentage		2%	2%	3%

Designated for Economic Uncertainties	9770	\$5,598,148.26	\$5,415,019.28	\$8,110,068.69
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	\$0.00	\$0.00	\$0.00
Other Designated	9780	\$2,377,042.00	\$0.00	\$0.00
Undesignated/Unappropriated	9790	\$16,900,343.01	\$5,096,350.02	\$0.00
Negative Shortfall	9790	\$0.00	\$0.00	(\$24,297,500.60)

Restricted General Fund

The district has more than 50 restricted federal, state and local programs. Other than routine restricted maintenance, home-to-school transportation, special education, and special education transportation, six programs require a contribution from the district's unrestricted general fund in the 2009-10 MYFP. In addition, encroachment is projected to increase each fiscal year.

The district should carefully review all contributions and ensure all restricted programs are self-sustaining. The only exceptions should be the restricted routine maintenance, special education, and home-to-school and special education transportation programs. The special education and transportation programs typically have insufficient state and federal funding support, and state/federal funding is not specifically provided for routine restricted maintenance. The following table shows the district's projected restricted general fund budget.

MYFP Restricted General Fund Summary

Name	Object Code	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
Revenues				
Revenue Limit Sources	8010 - 8099	\$5,980,274.00	\$5,838,172.93	\$5,848,116.50
Federal Revenues	8100 - 8299	\$54,354,306.45	\$32,729,790.19	\$32,107,800.41
Other State Revenues	8300 - 8599	\$21,351,084.86	\$19,996,259.69	\$20,006,437.40
Other Local Revenues	8600 - 8799	\$15,132,490.00	\$12,892,008.50	\$12,685,168.23
Total Revenues		\$96,818,155.31	\$71,456,231.31	\$70,647,522.54
Expenditures				
Certificated Salaries	1000 - 1999	\$44,447,893.11	\$35,393,522.43	\$35,923,835.73
Classified Salaries	2000 - 2999	\$22,515,765.00	\$20,680,178.91	\$20,907,660.87
Employee Benefits	3000 - 3999	\$22,089,698.67	\$20,278,245.39	\$20,612,723.23
Books and Supplies	4000 - 4999	\$7,184,087.72	\$6,588,129.95	\$4,807,340.96
Services and Other Operating	5000 - 5999	\$14,565,722.73	\$14,634,207.57	\$14,754,241.77
Capital Outlay	6000 - 6900	\$1,378,893.63	\$1,147,543.63	\$1,147,543.63
Other Outgo	7000 - 7299	\$1,933,755.00	\$9,592,283.10	\$2,019,768.42
Direct Support/Indirect Cost	7300 - 7399	\$3,605,259.36	\$1,780,447.00	\$1,770,778.00
Debt Service	7430 - 7439	\$293,830.00	\$293,830.00	\$293,830.00
Total Expenditures		\$118,014,905.22	\$110,388,387.98	\$102,237,722.61
Excess (Deficiency) of Revenues Over Expenditures		(\$21,196,749.91)	(\$38,932,156.67)	(\$31,590,200.07)
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	\$1,000,000.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$0.00	\$0.00	\$0.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00

Contributions	8980 - 8999	\$24,200,767.00	\$25,006,148.46	\$29,668,607.08
Total Other Financing Sources\Uses		\$25,200,767.00	\$25,006,148.46	\$29,668,607.08
Net Increase (Decrease) in Fund Balance		\$4,004,017.09	(\$13,926,008.21)	(\$1,921,592.99)
Fund Balance				
Beginning Fund Balance	9791	\$19,832,481.96	\$26,525,564.05	\$12,599,555.84
Audit Adjustments	9793	\$2,689,065.00	\$0.00	\$0.00
Other Restatements	9795	\$0.00	\$0.00	\$0.00
Adjusted Beginning Fund Balance		\$22,521,546.96	\$26,525,564.05	\$12,599,555.84
Ending Fund Balance		\$26,525,564.05	\$12,599,555.84	\$10,677,962.85
Components of Ending Fund Balance				
Reserved Balances	9700	\$0.00	\$0.00	\$0.00
Revolving Cash	9711	\$0.00	\$0.00	\$0.00
Stores	9712	\$0.00	\$0.00	\$0.00
Prepaid Expenditures	9713	\$0.00	\$0.00	\$0.00
Other Prepay	9719	\$0.00	\$0.00	\$0.00
General Reserve	9730	\$0.00	\$0.00	\$0.00
Legally Restricted Balance	9740 - 9759	\$26,525,564.05	\$12,599,555.84	\$10,677,962.85
Designated for Economic Uncertainties	9770	\$0.00	\$0.00	\$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	\$0.00	\$0.00	\$0.00
Other Designated	9780	\$0.00	\$0.00	\$0.00
Undesignated/Unappropriated	9790	\$0.00	\$0.00	\$0.00
Negative Shortfall	9790	\$0.00	\$0.00	\$0.00

Unrestricted and Restricted General Fund

The combined unrestricted and restricted general fund shows a fund balance shortfall in the 2010-11 fiscal year. Contributing to this shortfall is a deficit of 18.355% each fiscal year, a one-time reduction of \$252.99 per ADA in 2009-10 and an ongoing reduction of 3.85% to the base revenue limit beginning in 2010-11. The district also experienced significant funding reductions to several state categorical programs and is declining in student enrollment.

MYFP Combined Unrestricted and Restricted General Fund Summary

Name	Object Code	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
Revenues				
Revenue Limit Sources	8010 - 8099	\$158,262,683.52	\$155,805,144.50	\$155,917,239.31
Federal Revenues	8100 - 8299	\$54,922,540.45	\$33,286,659.51	\$32,654,144.90
Other State Revenues	8300 - 8599	\$44,466,525.86	\$38,901,009.44	\$38,882,676.27
Other Local Revenues	8600 - 8799	\$16,908,685.00	\$14,468,008.50	\$14,261,168.23
Total Revenues		\$274,560,434.83	\$242,460,791.95	\$241,715,228.71
Expenditures				
Certificated Salaries	1000 - 1999	\$135,149,809.11#	\$125,272,512.86	\$125,598,483.55
Classified Salaries	2000 - 2999	\$43,630,379.00	\$44,110,313.18	\$44,595,526.62
Employee Benefits	3000 - 3999	\$59,554,691.67	\$62,735,673.32	\$63,354,946.70
Books and Supplies	4000 - 4999	\$9,821,888.72	\$9,594,450.14	\$7,321,187.21

Services and Other Operating	5000 - 5999	\$25,277,718.73	\$24,384,230.90	\$24,900,998.98
Capital Outlay	6000 - 6900	\$3,340,209.63	\$2,570,224.63	\$2,570,224.63
Other Outgo	7000 - 7299	\$1,943,755.00	\$1,982,630.10	\$2,030,213.22
Direct Support/Indirect Cost	7300 - 7399	(\$1,319,504.00)	(\$1,319,504.00)	(\$1,319,504.00)
Debt Service	7430 - 7439	\$2,448,465.00	\$1,360,433.00	\$1,223,546.00
Total Expenditures		\$279,847,412.86	\$270,690,964.13	\$270,275,622.91
Excess (Deficiency) of Revenues Over Expenditures		(\$5,286,978.03)	(\$28,230,172.18)	(\$28,560,394.20)
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	\$1,000,000.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$60,000.00	\$60,000.00	\$60,000.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00
Contributions	8980 - 8999	\$0.00	\$0.00	\$0.00
Total Other Financing Sources\Uses		\$940,000.00	(\$60,000.00)	(\$60,000.00)
Net Increase (Decrease) in Fund Balance		(\$4,346,978.03)	(\$28,290,172.18)	(\$28,620,394.20)
Fund Balance				
Beginning Fund Balance	9791	\$55,874,681.35	\$52,298,097.32	\$24,007,925.14
Audit Adjustments	9793	\$787,080.00	\$0.00	\$0.00
Other Restatements	9795	(\$16,686.00)	\$0.00	\$0.00
Adjusted Beginning Fund Balance		\$56,645,075.35	\$52,298,097.32	\$24,007,925.14
Ending Fund Balance		\$52,298,097.32	\$24,007,925.14	(\$4,612,469.06)
Components of Ending Fund Balance				
Reserved Balances	9700	\$0.00	\$0.00	\$0.00
Revolving Cash	9711	\$253,000.00	\$253,000.00	\$253,000.00
Stores	9712	\$644,000.00	\$644,000.00	\$644,000.00
Prepaid Expenditures	9713	\$0.00	\$0.00	\$0.00
Other Prepay	9719	\$0.00	\$0.00	\$0.00
General Reserve	9730	\$0.00	\$0.00	\$0.00
Legally Restricted Balance	9740 - 9759	\$26,525,564.05	\$12,599,555.84	\$10,677,962.85
Economic Uncertainties Percentage		2%	2%	3%
Designated for Economic Uncertainties	9770	\$5,598,148.26	\$5,415,019.28	\$8,110,068.69
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	\$0.00	\$0.00	\$0.00
Other Designated	9780	\$2,377,042.00	\$0.00	\$0.00
Undesignated/Unappropriated	9790	\$16,900,343.01	\$5,096,350.02	\$0.00
Negative Shortfall	9790	\$0.00	\$0.00	(\$24,297,500.61)

Enrollment and Average Daily Attendance

The FCMAT study team reviewed the district's enrollment and ADA trends for 2004-05 through 2009-10. The review compared the October California Basic Educational Data System (CBEDS) student enrollment count to the April second period J18-19 (P-2) ADA report. Enrollment and average daily attendance (ADA) projections play a crucial role in a school district's budget planning. The number of students enrolled provides a basis to identify staffing and facility needs and provides a target for obtainable ADA. Average daily attendance drives most of the district's

revenue sources and determines other fiscal health indicators, including required reserves. Through proper tracking and analysis of enrollment and ADA, the district can more accurately project future revenues, control staffing and expenditures, and plan accordingly to maintain fiscal solvency.

Any enrollment forecast has inherent limitations because it is based on certain criteria and assumptions rather than on exact calculations. Limitations include issues such as the unpredictable timing of housing trends, unanticipated changes in enrollment trends, and changing state, federal and local economic conditions. Therefore, the cohort forecasting model should be viewed as a trend based on certain criteria and assumptions rather than as a prediction of exact numbers. To maintain the most accurate and meaningful data, the projection should be updated at least at each interim financial reporting period.

FCMAT has projected a decrease in the district's enrollment in each of the two subsequent years. Proper enrollment tracking and analysis of ADA are essential to providing a solid foundation for budget planning. When enrollment and ADA are flat or declining, the district must exercise extreme caution regarding budgetary issues such as negotiations, staffing and deficit spending to ensure fiscal solvency. Diligent planning will enable the district to better understand its financial objectives and strategies to sustain financial solvency.

Methodology

The cohort survival technique is the most frequently used method of preparing school enrollment forecasts. The basic premise is that percentages are calculated from the historical enrollment data to determine a reliable percentage of increase or decrease in enrollment between any two grades. For example, if 100 students are enrolled in first grade in 2009-10, and this increased to 104 students in second grade in 2010-11, the percentage of survival would be 104%. Such ratios are calculated between each pair of grades or years in school over several years. The ratios used are key factors in projection reliability given the validity of the data at the starting point. The strength of the ratios lies in the fact that each ratio encompasses the variables that could account for an increase or decrease in the size of a grade cohort as it moves to the next grade. Each ratio represents the cumulative effect of factors such as the following:

1. Migration patterns in/out of schools
2. Retention in the same grade
3. Changes in school program
4. Dropouts, interdistrict transfers, etc.
5. Birthrates (www.cdph.ca.gov/data/statistics)
6. Residential housing starts
7. Charter/private school enrollments

Based on a reasonable set of assumptions for each of these factors, ratios must be indicative of present/future trends and are determined for each pair of grades or years. To project for the future, the ratios selected are applied to present enrollment statistics for a predetermined number of years. If any of these assumptions need to be altered in the future, it is critical that the projection be updated. This provides an opportunity for the district to plan adequately for any changes that might occur over time. The cohort enrollment method was utilized for all grade levels with the exception of the entry grade for kindergarten.

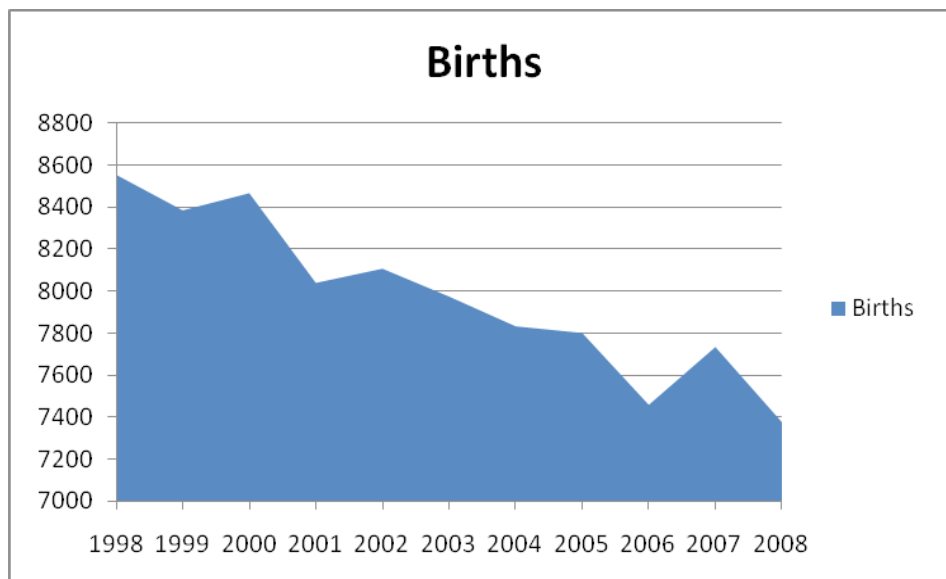
Kindergarten Enrollment

Birthrate statistics are commonly used to project future kindergarten enrollment. Many factors influence local student population growth. These include housing construction permits, including tentative and final map approval for residential and commercial construction. However, a strong correlation can be made between birthrates and kindergarten enrollment five years later by using birthrate data from the available zip codes within district boundaries to project kindergarten enrollment. Birthrate data is readily available by zip code at the California Department of Public Health website: www.cdph.ca.gov

As enrollment progresses to the start of the fiscal year, projection accuracy can be improved through analysis of vacancy rates, pre-enrollment, family polling, and local preschool enrollment data. Census data, when available and current, can also assist with projecting enrollment.

For this study, FCMAT utilized birthrate data divided by the zip codes included in the district's student attendance boundaries: 90022, 90040, 90201, 90240, 90640, 90660, 91754, 91755, and 91770. This data provides total births by zip code for each year from 1998 through 2008.

Birthrates																
Zip \ Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
90022	1513	1414	1463	1537	1435	1471	1373	1419	1429	1360	1348					
90040	228	209	214	164	205	218	255	214	206	251	242					
90201	2513	2474	2512	2376	2352	2337	2288	2245	2076	2119	2050					
90240	362	311	336	334	348	353	307	316	315	352	312					
90640	1105	1065	1080	1023	1075	991	1044	1014	959	1000	948					
91754	463	429	425	366	434	409	384	384	352	432	355					
91755	306	321	338	294	286	309	291	290	300	306	310					
91770	955	1017	994	939	892	908	881	849	828	877	832					
90660	1111	1146	1106	1007	1081	979	1010	1070	993	1037	978					
	8556	8386	8468	8040	8108	7975	7833	7801	7458	7734	7375					
Kinder enrollment						actual	projected									
						2661	2589	2415	2231	2230	2117	2246	2192	2085	2155	2056
						% = # of births in birth year to # enrollment (birth year + 5 years)						Weighted avg				
						31.1010%	30.8729%	28.5191%	27.7488%	27.5037%	26.5455%	28.6736%	28.1038%	27.9524%	27.8702%	27.8718%

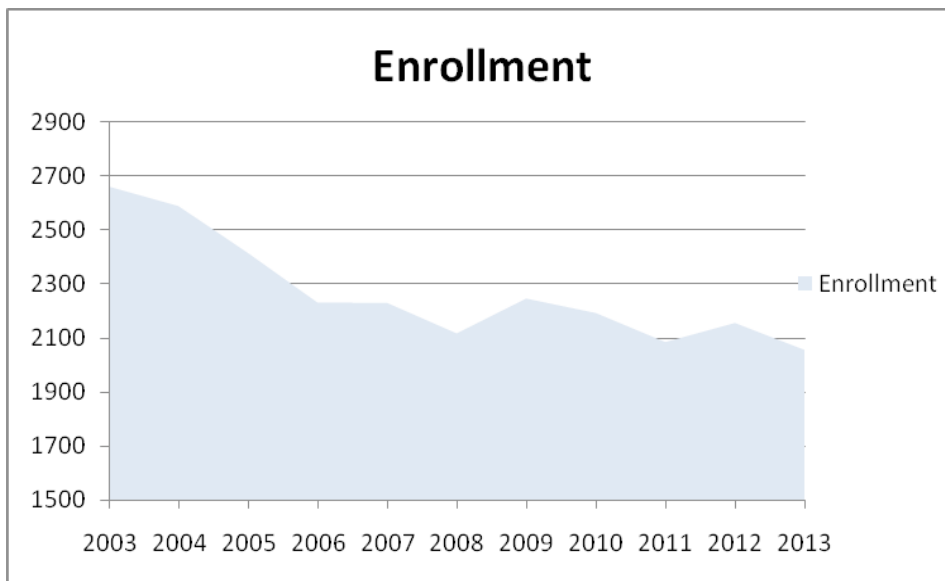


The birthrate data extracted from the California Department of Public Health shows a steady decline in birthrates for the area serviced by the district. As an example of the affect on the district's kindergarten enrollment, the 2001 decrease in birthrates resulted in a corresponding drop in kindergarten enrollment five years later. Based on the correlation analysis between birthrates and kindergarten enrollment provided in the above chart, the same trend in kindergarten enrollment is projected to occur five years after the birthrate decline in each of the successive years.

Comparing actual kindergarten enrollment each year at Montebello Unified to the birthrates five years earlier can assist in the projection of future kindergarten populations. For example, birthrate data for 1998 indicates there were 8,556 births in the district-served zip codes. Five years later, kindergarten enrollment was 2,661 students or 31.101% of the births five years prior. Following this calculation year by year, the kindergarten enrollment varies between 31.1% and 26.5% of prior births.

A weighted average is a technique used to prepare projections. This technique considers all data available within a significant period and weights each year, the most recent year receiving greater significance and this significance diminishing with the previous years. For example, seven years of historical data was available for FCMAT's calculations. Current-year data was weighted as seven times the enrollment percentage, the prior year was weighted as six times the enrollment percentage (current year - 1 = 6), the year before was weighted as five times the enrollment percentage (current year - 2 = 5), and so on.

This weighted average calculation yields kindergarten enrollment projections of 2,192 for 2010-2011 and 2,085 for 2011-2012.



Other methods of projection include: 1) averaging all birthrate-to-enrollment ratios from all the years' data, and 2) using the most recent year birthrate-to-enrollment data. Both methods yield different, more optimistic, results than the weighted average. The averaging method yields a projection of 2,233 kindergartners in 2010 and 2,135 in 2011. The recent-year method yields a projection of 2,190 kindergartners in 2010 and 2,094 in 2011. Neither of these methods is recommended unless the district has no other student data or information available.

FCMAT recommends using the weighted-average method, which more accurately considers changing influences on the enrollment of kindergartners. The results from the weighted average method will be used in the projections for this study.

First-through-Twelfth-Grade Enrollment

The cohort survival technique is frequently used to prepare school enrollment forecasts. Historical enrollment in a grade is correlated to the following year enrollment in the successive grade and a relationship is established between the two grades. This relationship becomes a reliable indicator of enrollments through future years. The strength of the relationship produces a ratio that encompasses the various individual variables that influence the size of the grade cohort as it progresses through each grade.

The ratios used to project future enrollment outcomes are based on prior historical experience. They must be indicative of present and future trends and other enrollment influencing factors. If the set of assumptions and factors changes, it is critical that the projections be altered to reflect their influence.

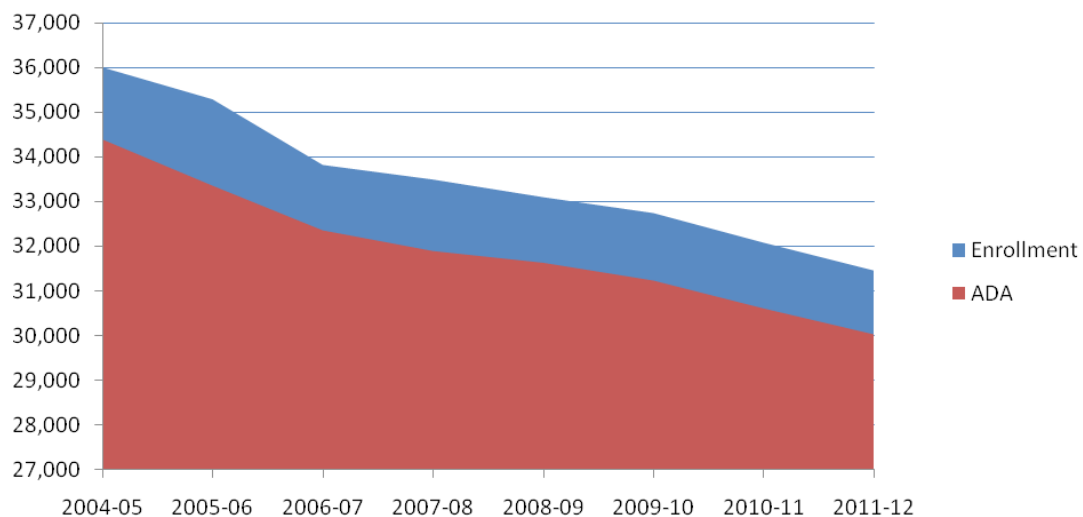
Average Daily Attendance

ADA is used to calculate the district's revenue limit and many other revenue sources. District revenue limit apportionments are based on the greater of current or prior year P-2 ADA. ADA is projected in this multiyear financial projection as a percentage of enrollment based on prior-year ADA percentages. As enrollment has declined, so has Montebello Unified's ADA.

The following charts show the district's historical trends and include FCMAT's projections for enrollment and ADA:

Enrollment and ADA

Enrollment	Historical 5 2004 - 05	Historical 4 2005 - 06	Historical 3 2006 - 07	Historical 2 2007 - 08	Historical 1 2008 - 09	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
K	2,589	2,415	2,231	2,230	2,117	2,246	2,192	2,085
1	2,748	2,568	2,462	2,311	2,281	2,220	2,326	2,274
2	2,688	2,652	2,442	2,429	2,331	2,303	2,217	2,332
3	2,790	2,608	2,569	2,395	2,438	2,315	2,283	2,202
4	2,913	2,701	2,439	2,519	2,373	2,436	2,284	2,262
5	2,841	2,781	2,550	2,357	2,480	2,350	2,385	2,243
Subtotal (K - 5)	16,569	15,725	14,693	14,241	14,020	13,870	13,687	13,398
6	2,904	2,894	2,773	2,657	2,472	2,533	2,424	2,464
7	2,853	2,843	2,825	2,723	2,649	2,499	2,527	2,424
8	2,868	2,793	2,762	2,791	2,747	2,662	2,497	2,531
Subtotal (6 - 8)	8,625	8,530	8,360	8,171	7,868	7,694	7,448	7,419
9	3,043	2,944	2,822	2,906	2,864	2,792	2,731	2,561
10	2,657	2,958	2,889	2,818	2,816	2,822	2,744	2,683
11	2,639	2,523	2,733	2,708	2,664	2,708	2,676	2,608
12	2,467	2,606	2,322	2,649	2,867	2,858	2,796	2,792
Subtotal (9 - 12)	10,806	11,031	10,766	11,081	11,211	11,180	10,947	10,644
Ungraded Elementary	0	0	0	0	0	0	0	0
Ungraded Secondary	0	0	0	0	0	0	0	0
Subtotal Excluding Charter Schools	36,000	35,286	33,819	33,493	33,099	32,744	32,082	31,461
Charter Schools (to calculate in-lieu property taxes)	0	0	0	0	0	0	0	0
Total	36,000	35,286	33,819	33,493	33,099	32,744	32,082	31,461
P2ADA	Historical 5 2004 - 05	Historical 4 2005 - 06	Historical 3 2006 - 07	Historical 2 2007 - 08	Historical 1 2008 - 09	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
Excluding Charter Schools	34,264.86	33,235.36	32,245.89	31,795.92	31,533.10	31,118.60	30,497.15	29,919.41
Charter Schools (to calculate in-lieu property taxes)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
COE CommSchs/SpEd	116.96	114.43	105.97	94.98	96.37	111.92	111.92	111.92
Total	34,381.82	33,349.79	32,351.86	31,890.90	31,629.47	31,230.52	30,609.07	30,031.33
Enrollment Factors	Historical 5 2004 - 05	Historical 4 2005 - 06	Historical 3 2006 - 07	Historical 2 2007 - 08	Historical 1 2008 - 09	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
Excluding Charter Schools	0.9518	0.9419	0.9535	0.9493	0.9527	0.9504	0.9506	0.9510
Charter Schools (to calculate in-lieu property taxes)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000



Enrollment and ADA Trends

Further examination of current trends goes beyond the district's overall declining enrollment and ADA.

Birthrate reduction to kindergarten enrollment reduction: The 2000 to 2001 reduction of 428 births resulted in a kindergarten enrollment reduction of 184 students in 2006 as reflected in the above charts. It can be anticipated that the 2005 to 2006 reduction of 343 births may result in a loss of enrollment of 107 kindergarten students in 2011. If the ratios and trend continue, the 2007 to 2008 reduction of 359 births may result in a loss of 99 enrolled kindergartners in 2013.

Kindergarten enrollment comparison to graduating or exiting twelfth grade classes: Prior to 2005-2006, the district's twelfth-grade graduating class exiting Montebello Unified was smaller than the kindergarten class entering the district. This larger enrolling class progressed through the grades with each grade level cohort carrying larger enrollment and attendance. Since 2005-2006, the trend has reversed with the current year kindergarten size of 2,246 compared to a graduating class of 2,858. Excluding other factors, this cohort differential trend of 612 students may carry through the next 12 years.

Grades K-5 compared to 6-12: Enrollment for grades K-5 has declined by 2,699 students over the last five years as compared to the grades 6-12 enrollment decline of 557. The greater decline in the lower grades indicates a growing issue of enrollment erosion.

Enrollment impact on reserves for economic uncertainty: Districts like Montebello Unified that have an ADA of more than 30,000 are required to carry a 2% unrestricted fund balance reserve to maintain a positive certification. However, districts with an ADA of 30,000 or less are required to have a 3% reserve to maintain a positive certification. Montebello Unified's ADA trend indicates that it will fall below 30,000 ADA in the foreseeable future.

New state budget language allows districts to reduce their reserves to one-third of the previously required levels in fiscal year 2009-10. ABX4 2 (Evans, D-Santa Rosa), approved by the legislature and signed by the governor on July 28, 2009, provides flexibility regarding the reserve for economic uncertainties. In that bill, school agencies are allowed to reduce the reserve to one-third of the statutory level in 2009-10. The school agency is required to make progress toward reinstating the reserve to its statutory level in 2010-11 and to restore the statutory requirement in 2011-12. However, FCMAT recommends extreme caution if this option is exercised. FCMAT's MYFP includes a reserve of 3% due to the decline in ADA to less than the 30,001 ADA threshold in the 2011-12 fiscal year.

Interdistrict transfers: District records for 2008-2009 indicate that there were 1,394 interdistrict transfers to Montebello Unified and 525 interdistrict transfers from the district. FCMAT's enrollment projections assume no change in factors influencing the current trend in interdistrict transfers. However, recent pressures and proposed actions for enrollment retention at neighboring districts may reduce the number of interdistrict transfers to the district. Conversely, completion of the district's Applied Technology Center may reduce some of the 176 transfers from grades 9-12, but this has not been included in FCMAT's projection.

California Basic Educational Data System (CBEDS) and California Longitudinal Pupil Data Achievement System (CALPADS)

The October 2009 enrollment information provided by the district's Pupil and Community Services Department (32,819) did not match the enrollment information provided to CALPADS (32,989) by the district's Information Technology Services Department. After adjustments were made to CALPADS for prekindergarten enrollment (-245), a difference of 75 students remained between the two reports. The district should review enrollment submittals to ensure proper counts are made and reported to the California Department of Education (CDE).

Attendance Reporting

The P-2 attendance reporting for 2007-08 included a delayed submission date of July 8, 2008 because of the following reason: "Amended school site reports, Independent Study submitted after the due date. NPS revised report. Home and Hospital amendments."

The P-2 attendance reporting for 2008-09 had a submission date of November 6, 2009 with the following explanation: "When our amendment was filed in September, I failed to notice that Line A-6 Continuation Education had reduced as well Line A-5 and Independent Study number was slightly lower due to amended reports received in the last month that impacted the P-1 and P-2. As well as an incorrect divisor for Continuation Education at the P-2."

Timely and accurate data submission is important to maintaining compliance and reporting requirements. The district should develop calendar and communication protocols to ensure proper data collection and submission as required.

Average Daily Attendance (ADA)

To calculate the district's revenue limit, district apportionments are based on the greater of current or prior year P-2 ADA. Because of the district's historical and projected future trends, this MYFP utilizes the prior-year ADA to model the forecast.

For the district to manage and sustain the reserves for economic uncertainties, a significant amount of attention will need to be focused on the ADA projection. The projection for ADA is only a snapshot of future years and should be adjusted with each monthly attendance report and all interim reports. Historical and future trends require careful analysis that includes, but is not limited to, grade-level fluctuations, community day school, county and district special education, nonpublic schools, and prior-year adjustments.

The district's attendance percentages as compared to CBEDS enrollment for the fiscal years 2004-05 to the present ranged from 94.19% to 95.35%. As much of the district's revenue is driven by ADA apportionment, the district should continue its efforts to maintain and increase ADA percentages, if possible. Each 1% increase in attendance for projected year 2010-11 could yield unrestricted funding of approximately \$1.6 million.

Adjustment Analysis

Employee salary and benefit costs represent the largest part of a school district's budget, averaging more than 92% of the unrestricted general fund budget in unified districts throughout California. FCMAT's MYFP indicates that 92.2% of the district's 2009-10 unrestricted general fund expenditure budget is projected to be used for employee salary and benefit compensation. Because salaries and benefits account for such a large percentage of the district's operating budget,

it is critical to accurately project employee salary and benefit costs. The financial reporting system should be fully integrated with payroll and budget modules that utilize unique identifying position control numbers to properly update the budget at each reporting period.

The district utilizes two accounting systems, PeopleSoft and GEMS, which are not fully integrated for accounting and financial reporting purposes. Comparative budget reports indicate that actual payroll costs are generally reconciled between the two systems one month in arrears. PeopleSoft is used to transmit employee salary and benefit information to the Los Angeles County Office of Education. The GEMS system is used to process commercial warrants, record detailed year-to-date accounting transactions and budget information, and prepare customized reports, a capability reportedly lacking with the PeopleSoft system. The information housed in each system must be downloaded to the other, and the systems must be manually balanced each month.

The district pays certificated staff on the first of each month, but these transactions are not posted from the PeopleSoft system to the GEMS system until the end of the month. Without transactions fully posted to date, the staff is required to manually combine financial information to properly track the cash flow requirements for a district payroll that often exceeds \$21 million dollars a month. This is extremely problematic.

The district uses the Human Resource System (HRS) to generate payroll and uses the Access database to store the remaining position control information and for budget development of salaries and benefits. The county office completes a daily download from HRS to PeopleSoft. Interviews indicated that audit reports are generated each night, and district staff members balance HRS and Access quarterly to ensure they match. In its analysis, FCMAT was unable to match the information in position control to the budget.

According to the district staff, blocks of salaries and benefits were moved to ARRA federal stimulus one-time funding throughout the current fiscal year once the stimulus funding amounts were known. Although actual costs were moved, the budget was not. This created large variances between the general fund resources, making it impossible to rely on position control information for the multiyear forecast. FCMAT instead used actual salary and benefit information as of April 30, 2010 to extrapolate these calculations to year end and prepare the multiyear forecasts.

The district staff uses this same method for lottery funding. The position control system budgets lottery positions in the unrestricted general fund. The staff creates offsetting contra accounts that move budget amounts from the unrestricted general fund to lottery funding. The salaries and benefits are paid from the unrestricted general fund, but have a placeholder budget in the lottery resource. At year end, the staff manually moves the actual cost of salaries and benefits for the year to lottery funding.

The manual movement of financial information can have serious financial implications and should be avoided. These issues are extremely problematic when trying to ensure that position control data is accurate for budgeting and payroll purposes. The district should budget and pay salaries and benefits from the appropriate resource. This would allow the staff to properly monitor the budget with the actual year-to-date information, match the budget to position control records and reduce potential errors when moving financial information throughout the general fund.

Using a slightly different method, special education transportation drivers are paid from the home-to-school transportation budget and a negative expense is posted in object 5710, transfers of direct costs. The offsetting expense is then posted in object 5710 in the special education

transportation budget. The district should record the budget and actual salary and benefits in the appropriate resource. This will reduce the chance of errors and help with proper state reporting of district transportation costs.

The payroll staff pays for all teacher substitutes from the unrestricted general fund each month. Once the payroll is posted, the staff prepares journal entries to move substitute salary and benefit costs to the appropriate resource. It is labor intensive to identify and manually transfer these costs to the correct program each month. In an attempt to spend required funds before year end, managers that are responsible for restricted programs that have carryover limitations run the risk of overspending budgets if substitute costs are not posted timely. The district should explore using a different method to charge substitute costs to the correct resource when payroll is prepared.

FCMAT prepared an analysis of the total unrestricted and restricted resources to align the salary and benefit budgets to projected spending levels as of June 30, 2010 by utilizing the April 30, 2010 financial file that contained actual year-to-date activity. Budgets were increased or decreased to the projected 2009-10 spending levels.

The team applied global rules by specific object code to indicate the projected step and/or column salary increases for 2010-11 and 2011-12. Health and welfare benefits were increased by the projected funded increase to the base revenue limit each fiscal year: 0% was applied in 2010-11, and 2.10% in 2011-12. Board-approved budget adjustments were included in the projection years.

FCMAT moved a total of \$16,921,946 in expenses back to the unrestricted general fund and restricted special education accounts from the 2009-10 ARRA federal stimulus resources in 2010-11. ARRA funds were one-time dollars dedicated to saving jobs in the current fiscal year and must be spent by September, 2011. Where possible, costs other than salaries and benefits that were charged to the ARRA resources were eliminated in 2010-11. The table below reflects the adjustments made in the multiyear projection:

Montebello Unified School District Movement of Expenses from ARRA Federal Stimulus One-Time Funding			
	From ARRA Accounts to Unrestricted General Fund	From ARRA Accounts to Special Education	Total
Certificated	\$ 8,692,002	\$ 1,248,041	\$ 9,940,043
Classified	\$ 2,083,259	\$ 846,519	\$ 2,929,778
Benefits	\$ 3,163,589	\$ 888,536	\$ 4,052,125
Total	\$ 13,938,850	\$ 2,983,096	\$16,921,946

FCMAT's multiyear projection includes the following:

Revenues

Revenue Limit Sources – The district revenue limit for current year is calculated using data from the governor's May Revise 2010, SSC's Financial Dartboard and CDE's P-1 certification data. Current factors include the statutory COLA of 4.25% for 2009-10, negative 0.39% for 2010-11 and an estimated COLA of 2.10% for 2011-12. An 18.355% deficit factor is applied to the revenue limit each year. The projection includes the one-time reduction of \$252.99 per 2008-09 ADA in 2009-10 and a 3.85% deficit on the base revenue limit beginning in 2010-11

as presented in the 2010 May Revise. Based on the state's current fiscal crisis, the district should have a contingency plan if the projected 2011-12 COLA is not funded by the state.

Because of declining enrollment and the resulting declining ADA as discussed previously in this report, prior-year P-2 ADA is used in the revenue-limit calculations.

Federal Revenue – Award letters and allocations were used to project revenues when available. Forecasting was completed using the SSC dashboard updated from the May Revise 2010 and projected ADA. In addition, the 2008-09 CAT form was used to add deferred revenue and carry-over where applicable in 2009-10.

Medi-Cal Administrative Activities (MAA) reimbursements are based on current-year receipts and adjusted for the projected ADA decline in 2010-11 and 2011-12.

One-time ARRA funding was eliminated in the projection years, and the additional income of \$1,562,368, which was received in 2009-10 to offset the Tier III categorical reductions, was included.

Title V, Innovative Education Strategies funding was discontinued. The funding for Title IV, Safe and Drug Free Schools, was eliminated, and the funding for Title II, Part D, Education Technology, was reduced by 63% in 2010-11.

State Revenue – Award letters and allocations were used to project revenues when available. MYFP projections are calculated using the SSC dashboard updated from the May Revise 2010. The state revenue was adjusted for the COLA of negative 0.38% in 2010-11 and the projected COLA of 2.10% in 2011-12 as well as the projected ADA. In addition the 2008-09 CAT Form was used to add deferred revenue and carryover where applicable in 2009-10.

FCMAT reduced the supplemental hourly program funding in 2009-10 and the projection years based on CDE's 2009-10 P-1 certification data.

Tier III categorical flexibility: The state consolidated 42 separate resources to unrestricted funding through 2012-13. The COLA associated with these funds is -4.46% for 2009-10, negative 0.38% for 2010-11, and is projected at 2.10% for 2011-12. Other categorical reductions of \$1,562,368 were imposed and offset in resource 3200.

Class Size Reduction (CSR): The student-teacher ratio for 2009-10 was projected at 24.5:1 with a 20% penalty. Based on information provided by the district, the class-size ratio for years 2010-11 and 2011-12 is projected to be 32.5:1. At that class size, the district will incur a penalty of 30% of the CSR funding per student. As stated earlier in this report, the funding is also limited to 20 students per classroom.

Lottery: This is calculated at \$111 per annual ADA.

Restricted Lottery (Proposition 20): This is calculated at \$14.50 per annual ADA.

Instructional Materials (English Language Learners, Williams Case): Resources 7157 and 7158 were fully expended and closed in 2009-10.

Routine Maintenance Account (RMA): The \$1 million contribution from fund 21 was eliminated after 2009-10.

Local Revenue – FCMAT adjusted the interest earnings in 2009-10 based on the amount received to date and projected collections through the remainder of the fiscal year.

Local revenue from warehouse, transportation, and facility usage fees were adjusted based on the receipts to date.

FCMAT's MYFP anticipates that the following revenue sources will not continue past their expiration date, or 2009-10 if an award letter was not available:

<u>Agreement</u>	<u>Amount</u>	<u>Expiration date</u>
Early School Success Program	\$100,000	June 30, 2010
ROP 71106/71107	\$1,567,696	June 30, 2010
Improving Teacher Quality	\$125,131	Sept 30, 2010
Improving Teacher Quality	\$121,105	Sept 30, 2010
California Multiple Pathways	\$125,000	June 30, 2010
Teen Suicide	\$16,086	Oct 1, 2010
CSLA Intern Program	\$117,538	June 30, 2010
Master Teacher	\$12,701	no award letter
Community Links	\$210,000	no award letter
Energy Management	\$383,014	no award letter

Expenditures

Certificated Salaries – The FCMAT multiyear projection includes the impact of ongoing step and/or column costs of 1.50%. No other adjustments for salary enhancements have been included since those are determined at the local level.

FCMAT's MYFP includes the elimination of 114.325 FTE certificated staff positions for the 2010-11 fiscal year, as reported by the district staff and approved by the governing board in an effort to balance the budget and maintain the required 2% reserve level.

The district offered an early retirement incentive option for eligible employees effective July 1, 2010. Five annual payments of \$500,000 are offset by not filling 37 retiree positions, included in the total FTE reduction of 114.325 FTEs reflected above.

FCMAT's MYFP also includes savings related to a seven-day reduction in the work year for teachers for the 2010-11 and 2011-12 fiscal years, equivalent to a 3.6% annual reduction in salary.

Certificated salary costs totaling \$9,940,043 were moved from the ARRA resources back to unrestricted and restricted special education general fund beginning in the 2010-11 fiscal year since this was a one-time funding source. In addition, five FTE counselors were moved from the unrestricted general fund to the Quality Education Investment Act (QEIA) funding source beginning in 2010-11.

Because of the projected decline in student enrollment, FCMAT included a reduction of 18 FTE teaching positions in 2011-12.

Classified Salaries – The FCMAT multiyear projection includes 1.10% for the impact of ongoing step costs. No other adjustments for salary enhancements have been included since those are determined at the local level. During FCMAT's fieldwork, the classified association and the district had not completed negotiations for the 2009-10 fiscal year. Therefore, the multiyear projection utilizes the current-year salary data as the base.

Classified salary costs totaling \$2,929,778 were moved from the ARRA funding source back to unrestricted and restricted special education general fund beginning in the 2010-11 fiscal year as this was a one-time funding source.

Employee Benefits – FCMAT adjusted statutory benefits in proportion to certificated and classified salary changes. The projected costs of employer-paid benefits have been adjusted in the current year based on year-to-date actuals projected through year end. Health and welfare benefits are increased in 2011-12 based on the projected increase of 2.10% to the base revenue limit.

Per the district's collective bargaining agreements, the health and welfare benefit caps are increased by the funded increase to the base revenue limit each fiscal year. The district charges the full cost of health insurance for each employee to the resource where that employee is funded. Sometime during the spring of each year, district staff prepares a massive adjustment across all unrestricted and restricted resources to align the amount paid for benefits to the cap per the employee contracts. If the actual cost is lower than the cap, the difference is offset to a reserve account and used to pay for the increased cost for future premiums.

The district should establish the correct cost at the beginning of the fiscal year and charge each resource accordingly. This would provide a true program cost and give program managers the ability to properly calculate any unused grant balance. The district should review the current method with its independent auditors to ensure compliance with federal and state grants.

Benefit costs totaling \$4,052,125 were moved from the ARRA funding resources back to unrestricted and restricted special education general fund beginning in the 2010-11 fiscal year as this was a one-time funding source.

Books and Supplies – The 2009-10 budget was adjusted based on current year expenditures to date. FCMAT adjusted the budget for projected years based on the consumer price index (CPI) inflation factor from the SSC Dartboard and projected ADA.

The unrestricted supply budget was decreased in the projection years based on the 5% reduction included in the district's 2009-10 second interim multiyear projections.

Services – The 2009-10 budget was adjusted based on current year expenditures to date, and the projection years were adjusted using the CPI and projected ADA.

Beginning in 2010-11, the utility budget was reduced based on the district's analysis that includes a reduction in the number of portable classrooms because of declining enrollment, approval of five fewer instructional days and the offering of summer school programs at only the high school sites. The outside services budget was reduced in the projection years to account for the reduction in costs for contracted services, a one-time legal settlement and reduced costs for travel, conference and postage as included in the district's 2009-10 second interim multiyear projections. FCMAT also reduced the budget in 2010-11 for election costs.

Capital Outlay – The budget was reduced in the projection years for the 2009-10 one-time costs associated with the gas station.

Other Outgo/Transfers – FCMAT reduced the current and projection year budgets based on the long-term debt schedules included in the 2008-09 independent audit report.

Direct Support/Indirect Costs – Indirect costs were reduced in the projection years to reflect the 2010-11 CDE approved rate of 4.14%.

The district does not charge indirect costs to all programs, particularly those that require a contribution from the unrestricted general fund such as continuation education, community day school and special education. The district should calculate and charge the full indirect cost rate for all allowable restricted programs to reflect the true cost of each program and maximize its unrestricted resources.

Other Financing Sources/Uses

Contributions to Restricted Programs – The district is projected to contribute to the restricted general fund programs as follows:

Name	Resource Code	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
Continuation Education	2200	\$692,548.00	\$759,356.67	\$787,477.88
Community Day Schools	2430	\$194,921.00	\$216,580.73	\$229,405.56
NCLB: Title I, Part B, Reading First	3031	\$4,500.00	\$0.00	\$0.00
Special Ed: IDEA Basic Local Assistance	3310	\$0.00	\$29,250.79	\$209,054.69
Special Ed: IDEA Preschool Grants, Part B	3315	\$162,155.00	\$160,081.03	\$165,978.24
Special Ed: IDEA Preschool Local Entitlement	3320	\$44,751.00	\$54,157.56	\$64,562.90
NCLB: Title IV, Part A, Drug Free Schools	3710	\$0.00	\$139,207.04	\$181,411.25
NCLB: Title II, Part D, Education Technology	4045	\$0.00	\$0.00	\$8,999.83
Special Education	6500	\$13,647,661.00	\$13,905,358.55	\$18,195,174.76
Special Education-Project Workability (97/98)	6520	\$0.00	\$0.00	\$846.41
Transportation: Home to School	7230	\$834,760.00	\$1,107,322.42	\$1,189,065.71
Transportation: Special Education	7240	\$2,470,018.00	\$2,485,380.67	\$2,487,176.85
Ongoing & Major Maintenance Account	8150	\$6,095,667.00	\$6,095,667.00	\$6,095,667.00
Other Local	9010	\$53,786.00	\$53,786.00	\$53,786.00
TOTAL CONTRIBUTIONS		\$24,200,767.00	\$25,006,148.46	\$29,668,607.08

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

Other Funds

FCMAT performed a cursory review of the district's 2009-10 budgets for other funds as reported on the 2008-09 unaudited actuals report and found the following:

Fund II - Adult Education Fund	
Beginning Fund Balance	\$2,141,760
Revenues (including transfers in)	\$13,485,827
Expenditures (including transfers out)	\$14,744,852
Ending Fund Balance	\$882,735

The adult education fund is used to account separately for federal, state, and local revenues for adult education programs and is to be expended for adult education purposes only. An overview of the adult education fund indicates a deficit spending trend. The district should pay particular attention to this fund and take appropriate action to maintain solvency of the fund. Part of the district's budget solution is to move 13.18 FTE counseling positions to QEIA and adult education funding. Because the adult education fund reflects a deficit spending trend, the district will need to consider alternative funding sources.

Fund 12 - Child Development Fund	
Beginning Fund Balance	\$8,949
Revenues (including transfers in)	\$301,077
Expenditures (including transfers out)	\$301,077
Ending Fund Balance	\$8,949

The child development fund is used to account separately for federal, state, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs. An overview of the child development fund shows an encroachment of \$50,460 on other funds in 2008-09 and a planned encroachment of \$14,434 for budget year 2009-10 to maintain a balanced budget in the fund. The district should address this encroachment to reduce any burden placed on other district funds.

Fund 14 – Deferred Maintenance Fund	
Beginning Fund Balance	\$2,056,409
Revenues (including transfers in)	\$1,519,133
Expenditures (including transfers out)	\$1,700,000
Ending Fund Balance	\$1,875,542

The deferred maintenance fund is used to account separately for state apportionments and the district's contributions for deferred maintenance purposes (Education Code Sections 17582-17587) and for items of maintenance approved by the State Allocation Board. An overview of the deferred maintenance fund indicated activities requiring a transfer in of \$1,419,133. (However, the district's budget comparative report dated April 7, 2010 shows that this transfer has been eliminated and indicates that the district plans to take advantage of one of the flexibility options offered by the state for this fund, specifically ABX4 2 (Evans, D-Santa Rosa), approved by the legislature and signed by the governor on July 28, 2009.

Fund 21 - Building Fund	
Beginning Fund Balance	\$36,187,349
Revenues (including transfers in)	\$34,500,000
Expenditures (including transfers out)	\$34,226,591
Ending Fund Balance	\$36,460,758

The building fund exists primarily to account separately for proceeds from the sale of general obligation bonds (Education Code Section 15146) and may not be used for any purposes other than those for which the bonds were issued and/or in accordance with the ballot language presented to the voters. The reduction of ending fund balance is typical of such funds and may require an interfund transfer of other capital project funds to close out the ongoing construction projects. Most receipts are posted at the beginning, and the balance is spent over the life of the project(s). The entire ending balance is reserved for projects.

Fund 25 – Capital Facilities Fund	
Beginning Fund Balance	\$321,236
Revenues (including transfers in)	\$203,600
Expenditures (including transfers out)	\$270,000
Ending Fund Balance	\$254,836

The capital facilities fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (Education

Code Sections 17620-17626). Expenditures are restricted to the purposes specified in Government Code Sections 65970-65981 or to the items specified in agreements with the developer (Government Code Section 66006). An overview of the capital facilities fund shows that revenues from community redevelopment funds and interest are included, with the majority of expenditures going toward debt service. The entire ending balance is reserved for district projects.

Education Code Section 17620 provides that up to three percent of the developer fees collected each year may be retained by the district for reimbursement of administrative costs associated with the collection of fees. However, a review of the 2008-09 unaudited actuals report found that the district does not charge the capital facilities fund for the allowed reimbursement of administrative costs. The district should charge the full amount allowed to reflect the true costs of the fund and maximize unrestricted resources.

Fund 35 – County School Facilities Fund	
Beginning Fund Balance	\$23,836,807
Revenues (including transfers in)	\$250,000
Expenditures (including transfers out)	\$8,600,000
Ending Fund Balance	\$15,486,807

The county school facilities fund is established pursuant to Education Code Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (Education Code Section 17070 et seq.).

An overview of the county school facilities fund shows only revenues from interest earnings and a fund balance that is dedicated entirely to buildings and building improvement. It is common for this type of fund to be prefunded and spent as the predetermined projects are performed.

Fund 61 – Cafeteria Enterprise Fund	
Beginning Fund Balance	\$5,023,608
Revenues (including transfers in)	\$14,317,268
Expenditures (including transfers out)	\$14,269,942
Ending Fund Balance	\$5,070,934

Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the district accounts for the financial transactions related to the Food Service Program. An overview of the cafeteria enterprise fund shows that an increase in fund balance is projected. Designations are made for the ending fund balance to be used for equipment replacement. No outside encroachment is planned for fund 61.

A review of the 2008-09 unaudited actuals shows that the indirect cost rate charged to the fund was slightly larger than the maximum rate of 4.96% allowed by the state. The district should ensure that the amount charged for indirect costs does not exceed the maximum allowed.

Fund 67 – Self-Insurance Fund	
Beginning Fund Balance	\$1,420,104
Revenues (including transfers in)	\$5,984,893
Expenditures (including transfers out)	\$4,756,359
Ending Fund Balance	\$2,648,638

The self-insurance fund has been set up as an internal service fund and is used by the district's management to charge the costs of the workers' compensation insurance program to the individual funds. Internal service funds may be used to account for any activity for which services are provided to other funds of the district on a cost-reimbursement basis.

An overview of the self-insurance fund indicates an ending fund balance of more than 50% of current-year expenditures. No encroachment from the district's unrestricted general fund exists for fund 67.

The district's 2008-09 audit report identifies an aggregate liability balance on general and workers' compensation events as of June 30, 2009 at \$7,338,784. The audit further identifies assets available to pay claims at \$8,941,926, indicating that the district has assets to cover liabilities estimated at that time. However, the district retains the risk of loss and full obligation to cover activities and claims covered by this self-insured fund. This obligation can exceed assets available in fund 67 and may require contributions from other available district funds in the future.

Fund 71 – Retiree Benefit Fund	
Beginning Fund Balance	\$358,015
Revenues (including transfers in)	\$3,368,242
Expenditures (including transfers out)	\$3,365,242
Ending Fund Balance	\$361,015

The retiree benefits fund may be used according to Education Code Section 42850 to account for amounts the district has earmarked for the future cost of post-employment benefits. According to the California School Accounting Manual (CSAM), this fund should be used only to account for irrevocable contributions to a post-employment benefit plan for which a formal trust exists. GASB 43 and 45 are governmental accounting standards that direct how state and local governments will account for and report other post employment benefits (OPEB) that are separate from pension benefits. The most common OPEB is for retiree health benefits. The intent of the reporting and accounting requirements is to understand what past retiree benefit commitments mean to current and future budgets, and to accurately reflect the cost of those commitments in the years the costs are incurred (the years the employees actually work for the district).

The plan provides retiree health benefits to eligible retirees. According to the 2008-09 independent audit report, membership of the plan consists of 358 retirees currently receiving benefits and 3,028 active plan members. The district provides employer-paid medical benefits to eligible retirees and their eligible dependents through age 67 up to an annual maximum. Certificated employees may also be eligible for an early retirement program that provides some enhanced benefits prior to age 60. Eligibility for retiree health benefits requires at least 15 years of service at retirement.

An overview of the retiree benefit fund shows a balanced revenue-to-expenditure budget and represents a "Pay as you Go" method and requirement under GASB. The revenues collected are used to pay insurance premiums for active retirees only and do not cover the unfunded portion of the annual required contribution. District premium contributions per employee for health and welfare benefit as of the audit dated June 30, 2009 are as follows: \$11,290 for certificated bargaining unit member, \$9,658 for classified bargaining unit member and \$10,011 per supervisory, confidential, and management employees.

The district's actuarial study in July 2009 indicated an OPEB actuarial liability of \$71,874,974 based on the set of information and assumptions applicable at the time of the actuarial. Also identified in the study was an annual required contribution (ARC), which represented a funding level that would cover the cost of the annual premiums and amortize the unfunded portion of the liability over a 30-year period. For the year ending June 2009, the ARC was calculated at \$7,796,187 of which the district made a contribution of \$2.53 million. As of second interim 2009-2010, the district indicates an ARC of \$8,522,014 and a budgeted contribution of \$4,137,367. Funding at the level of current premiums does not address the district's unfunded actuarial accrued liabilities (UAAL), which will continue to accrue as a future obligation to the district.

Accounts Receivable /Current Liabilities

According to the California School Accounting Manual (CSAM), the basis of accounting for local education agency (LEA) governmental funds is designated by the CDE to be the modified-accrual basis. This method recognizes revenues in the period when they become available and measurable, and expenditures are recognized when a liability is incurred regardless of when the receipt or payment of cash takes place. The term available means collectible within the current period or soon enough afterward to be used to pay the liabilities of the current period. Generally, available is defined as collectible within 45, 60, or 90 days. However, to achieve comparability of reporting among California LEAs and so as not to distort normal revenue patterns, reimbursement grants and corrections to state-aid apportionments, the CDE has defined available for LEAs as collectible within one year. (Source: CSAM 2008, Procedure 101)

The district recognizes the following as accounts receivable as of March 31, 2010:

Object 9291					
Item	Account	2nd Interim	Adjust	Remaining	Comment
Prior Yr Princ Appor 07/08	00000-00000-8011	\$234,941.00	\$ -	\$234,941.00	No funds received

This \$234,941 item from fiscal year 2007-08 is recorded as a receivable, yet no revenues have been posted. In accordance with the modified accrual accounting basis, these funds should have been collected within a year of recognition or by June 2009 in this instance. This receivable is inconsistent with the CSAM.

The following three scenarios could account for this inconsistency:

1. The revenue was received but not posted against this receivable.
2. The receivable was erroneous.
3. The funds are due the district.

In scenario one or two, the recognition of these receivables overstates the district's fiscal state. The district should count this revenue as not to be received, and the appropriate adjustment should be made to the district's accounts. If the district finds that these funds are still due, the CDE should be contacted to arrange collection. FCMAT was unable to determine that these funds are due to the district.

The district recognizes the following as current liabilities as of March 31, 2010:

Object 9520					
Item	Account	2nd Interim	Adjust	Remaining	Comment
Payables 06/07	00000	\$65,361.46	\$ -	\$65,361.46	Over 2.5 years old
Payables 07/08	00000	\$60,044.28	\$ -	\$60,044.28	Over 1.5 years old

These items amounting to \$125,405.74 from fiscal years 2006-07 and 2007-08 are recorded due to others, yet no claim has been posted against them. In accordance with the modified accrual accounting basis, these items should have been cleared by June 2008 and June 2009 respectively. These current liabilities are inconsistent with the CSAM.

The following three scenarios could account for these inconsistencies:

1. The payments were made but not posted against the current liability.
2. The current liabilities were erroneous.
3. Vendors are still due payment.

The district should research these current liabilities and take appropriate action to clear them.

The district's accounting of accounts receivables and current liabilities is inconsistent with the modified accrual accounting basis as identified by the CSAM and designated by the CDE.

Recommendations

The district should:

1. Monitor revenues and expenditures on an ongoing basis to ensure they are within budgeted levels.
2. Determine whether to further reduce the unrestricted contribution to RMA as provided in the state flexibility options.
3. Determine whether the flexibility option provided for deferred maintenance and adult education state funding should be utilized by reducing or eliminating these programs and keeping the funds in the unrestricted general fund.
4. Determine whether the flexibility option provided to transfer the ending fund balances from deferred maintenance and adult education to the unrestricted general fund should be utilized.
5. Begin preparing immediately for a period of fiscal instability and take immediate actions to address the projected budget shortfall.
6. Check and review enrollment to ensure proper counts are made and reported to the California Department of Education (CDE).
7. Correct its student attendance reporting process to ensure accurate and timely submission of information to the state.
8. Continue efforts to increase the ADA-to-enrollment ratio.
9. Explore solutions to transfer to one financial system or to integrate both current financial systems so that information matches at all times and eliminate manual posting.
10. Transfer to one system for payroll and position control functions.
11. Update position control to reflect the correct resource for each position. Each position should align with the budget, position control and actual payroll.

12. Budget positions in the correct resource. The district should compare and match position control, budget and payroll by resource.
13. Avoid manual movement of financial information by initially posting to the correct budget accounts.
14. Use contra accounts only to post interprogram or interfund charges for services rendered. The district should avoid using contra accounts to account for the movement of operating expenditures between resource (or fund) categories.
15. Explore methods of charging substitute costs to the correct resource when payroll is prepared.
16. Compare budgeted expenditures to actual expenditures plus encumbrances throughout the year and make adjustments accordingly.
17. Develop a contingency plan if the projected 2011-12 COLA is not funded by the state.
18. Ensure the staff establishes the correct cost for health and welfare benefits at the beginning of each fiscal year and posts actual charges accordingly.
19. Review the current method of journaling health and welfare benefit costs between individual resources and a reserve account with its independent auditors to ensure program compliance with federal and state restricted resources.
20. Charge the full indirect cost rate legally allowed to all programs and funds to maximize unrestricted resources and reflect the true cost of each program. The district should also ensure that the amount charged for indirect costs does not exceed the maximum rate allowed.
21. Ensure all of its funds are self-sustaining.
22. Consider alternative funding sources for the counselors projected to be funded by adult education in 2010-11.
23. Charge the full amount allowed for administrative costs associated with the collection of developer fees to reflect the true costs of the fund and maximize unrestricted resources.
24. Implement staff training and accounts auditing to ensure adherence to proper accounting procedures.

Cash Flow Projections

Based on the increasing number of cash deferrals from the state, school districts face growing challenges to maintain fiscal sustainability, making effective methods for forecasting and monitoring cash flow more critical than ever. Cash is critical for short-term operations, and although the balance sheet may represent other assets, without sufficient cash, the district is effectively bankrupt and may require intervention from the state.

The purpose of a cash flow statement is to project the timing of receipts and expenses so that an organization can understand its monthly or even daily cash needs. The cash flow statement reflects the district's liquidity and ability to meet its current payroll and other required financial obligations. As an analytical tool, the cash flow analysis should not be confused with the district's budget and fund balance; it excludes transactions that do not directly affect cash receipts and payments.

Any forecast of financial data for cash flow purposes has inherent limitations, including issues such as unanticipated changes in enrollment trends and changing economic conditions at the state, federal and local levels. Therefore, the cash flow forecasting model should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. Multiyear cash flow projections help provide for more informed decision-making and the ability to forecast the fiscal impact of current decisions. The cash flow projections should be updated each month to accurately account for all revenues, expenditures and other changes related to cash.

With the current budget crisis at the state and national levels, cash management is one of the main concerns in every local educational agency. The state has a history of deferring payments to education agencies, starting with deferral of the 2002-03 June apportionment to the 2003-04 fiscal year, which has continued each fiscal year. The 2008-09 and 2009-10 state budget acts further complicated the situation by adding numerous one-time and ongoing deferrals. In addition, the July 2009 state budget revisions included SBX4 16, which changed statutory apportionment schedules for local educational agencies and defers state funding to later in the fiscal year. To further address the state's cash needs, the governor also signed ABX8 5 and ABX8 14 in March 2010 that make further deferrals of payments to local educational agencies in 2010-11. This makes it imperative for the district to emphasize cash flow analysis.

In addition to the new apportionment schedule, the deferrals reflected in the following spreadsheet include three additional deferrals for 2010-11 per ABX8 5 and ABX8 14. As of the writing of this report, the state plans to defer the following payments but has the authority to shift these payments by 30 days:

- The July 2010 payment will be deferred for 60 days, in the amount of \$2.5 billion.
- The October 2010 payment will be deferred for 90 days, in the amount of \$2.5 billion.
- The March 2011 payment will be deferred and paid on April 29, 2011, in the amount of \$2.5 billion.

The following table reflects the most recent information regarding cash payments and deferrals for 2009-10 and 2010-11.

Apportionment & Cash Payment Schedules

		Cash Payment	
Month	Apportionment	2009-10	2010-11
July	5.00%	1.00%	0.00%
August	5.00%	0.00%	5.00%
September	9.00%	9.00%	14.00%
October	9.00%	14.00%	0.00%
November	9.00%	4.50%	9.00%
December	9.00%	13.00%	9.00%
January	9.00%	13.50%	18.00%
February	9.00%	0.50%	0.50%
March	9.00%	9.00%	0.00%
April	9.00%	6.00%	15.00%
May	9.00%	4.50%	4.50%
June	9.00%	0.00%	0.00%
Subsequent Year			
July		12.25%	17.50%
August		7.50%	7.50%
September		5.25%	0.00%
Total	100.00%	100.00%	100.00%

FCMAT's cash flow projection includes all one-time and permanent apportionment deferrals for the revenue projections. Roughly one-third of 2009-10 K-12 funding apportionments have been delayed through either inter- or intra-year deferrals. Districts should closely monitor their cash positions to meet short-term fiscal obligations. Because school entities could face additional cash deferrals, it is more important than ever for the district to monitor monthly cash flow requirements. The consequences of becoming cash insolvent are severe and should be avoided to maintain local governance and control of the district. The district must closely track and update all fund balances and cash flow projections as economic data and other fiscal information continue to change.

To complete the cash flow projections for the remainder of the 2009-10 and 2010-11 fiscal years, FCMAT reviewed the district's 2009-10 second interim Cashflow Worksheet (Form CASH) and the monthly GEMS financial system reports reflecting transactions that affect the general fund cash balance, including the following:

- Income status reports, 2009-10
- Expenditure status reports, 2009-10
- General ledger reports reflecting cash balances, 2009-10
- General ledger reports reflecting prior year receivable and payable transactions, January-May, 2010

The following statements reflect a negative ending cash balance of \$12.2 million in June 2011. It is imperative for the district to monitor its cash regularly and complete monthly cash flow statements for the current and subsequent fiscal year to ensure that financial obligations can be met.

Cash Flow 2009-10

Name	Object Code	Budget	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
Beginning Cash Balance			\$36,668,588.15	\$66,820,248.39	\$62,323,378.23	\$67,007,103.87	\$69,538,077.12	\$64,260,978.43	\$71,317,458.48
Receipts									
Revenue Limit Sources	8010 - 8099	\$158,262,683.52	\$4,603,911.04	\$973,230.12	\$12,301,048.30	\$16,861,492.53	\$7,802,330.57	\$25,786,187.51	\$20,441,885.68
Federal Revenues	8100 - 8299	\$54,922,540.45	\$9,876,303.36	\$193,230.18	\$1,163,133.11	\$3,839,891.84	\$5,336,600.62	(\$2,905,377.03)	\$800,240.40
Other State Revenues	8300 - 8599	\$44,466,525.86	\$513,976.37	\$88,850.00	\$2,582,624.95	\$5,927,331.02	\$382,103.00	\$7,161,884.56	\$3,934,783.74
Other Local Revenues	8600 - 8799	\$16,908,685.00	\$145,200.10	\$600,044.42	\$1,037,434.12	\$657,071.18	\$1,456,445.99	\$2,658,082.12	\$3,987,067.90
Interfund Transfers In	8900 - 8929	\$1,000,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00	\$0.00	(\$16,686.00)	\$16,686.00	\$0.00	\$0.00
Total Receipts		\$275,560,434.83	\$15,139,340.87	\$1,855,354.72	\$17,084,240.48	\$27,269,100.87	\$14,994,166.18	\$32,700,777.16	\$29,163,977.72
Disbursements									
Certificated Salaries	1000 - 1999	\$135,149,809.11	\$1,009,975.33	\$4,693,826.11	\$4,589,758.43	\$12,364,120.28	\$12,537,591.43	\$12,730,987.35	\$12,292,211.06
Classified Salaries	2000 - 2999	\$43,630,379.00	\$2,199,188.51	\$2,579,681.23	\$3,718,694.61	\$3,791,272.30	\$3,811,598.05	\$4,036,681.57	\$3,514,331.13
Employee Benefits	3000 - 3999	\$59,554,691.67	\$2,046,955.33	\$1,330,838.90	\$3,055,471.74	\$5,054,588.49	\$5,579,187.88	\$7,838,219.64	\$5,653,575.44
Books and Supplies	4000 - 4999	\$9,821,888.72	\$180,768.21	\$476,878.19	\$1,098,484.33	\$1,042,870.88	\$710,860.02	\$457,112.96	\$461,323.61
Services and Other Operating	5000 - 5999	\$25,277,718.73	\$816,302.45	\$1,173,870.86	\$1,337,293.83	\$1,551,349.10	\$1,876,468.00	\$1,607,343.15	\$1,994,114.30
Capital Outlay	6000 - 6900	\$3,340,209.63	\$0.00	\$47,308.17	\$41,687.05	\$462,535.45	\$115,599.98	\$12,904.30	\$5,591.01
Other Outgo	7000 - 7299	\$1,943,755.00	\$0.00	\$0.00	\$0.00	\$0.00	\$473,321.00	\$0.00	\$0.00
Direct Support/Indirect Cost	7300 - 7399	(\$1,319,504.00)	(\$1,585.16)	(\$12,240.03)	(\$46,560.95)	(\$57,960.41)	(\$62,814.20)	(\$50,834.09)	(\$43,311.36)
Debt Service	7430 - 7439	\$2,448,465.00	\$670,624.51	(\$168,455.62)	\$6,830.89	\$35,730.08	\$148,271.18	\$6,250.30	\$265,939.62
Interfund Transfers Out	7600 - 7629	\$60,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Disbursements		\$279,907,412.86	\$6,922,228.18	\$10,121,707.81	\$13,801,659.93	\$24,244,506.17	\$25,190,083.34	\$26,638,665.18	\$24,143,774.81
Assets									
Revolving Cash Account	9130	\$250,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash with a Fiscal Agent/Trustee	9135	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash Collections Awaiting Deposit	9140	\$1,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Accounts Receivable	9200	\$443,172.00	\$44,181,345.22	\$7,708,110.81	\$3,258,772.27	\$2,959,869.99	\$5,651,550.47	\$7,408,261.60	\$0.22
Due from Grantor Governments	9290	\$46,859,936.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Due from Other Funds	9310	\$105,190,501.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Assets		\$152,744,609.00	\$44,181,345.22	\$7,708,110.81	\$3,258,772.27	\$2,959,869.99	\$5,651,550.47	\$7,408,261.60	\$0.22
Liabilities									
Accounts Payable (Current Liabilities)	9500	\$27,168,614.00	\$22,246,796.67	\$3,938,627.88	\$1,857,627.18	\$3,453,491.14	\$732,732.00	\$6,413,893.53	\$1,380,285.04
Due to Grantor Governments	9590	\$1,121,183.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Due to Other Funds	9610	\$100,760,951.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Deferred Revenue	9650	\$5,050,211.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Liabilities		\$134,100,959.00	\$22,246,796.67	\$3,938,627.88	\$1,857,627.18	\$3,453,491.14	\$732,732.00	\$6,413,893.53	\$1,380,285.04
Ending Cash Balance			\$66,820,248.39	\$62,323,378.23	\$67,007,103.87	\$69,538,077.12	\$64,260,978.43	\$71,317,458.48	\$74,957,376.57
Blue - projected									
Black - actuals									

Feb	Mar	Apr	May	Jun	YTD Actuals Plus Projected Cash	Accruals	Totals	Variance
Actual	Actual	Actual	Projected	Projected				
\$74,957,376.57	\$58,317,158.10	\$60,861,144.63	\$51,953,713.51	\$37,539,603.19				
\$1,773,124.52	\$11,832,436.01	\$13,914,962.72	\$7,121,824.07	\$0.00	\$123,412,433.07	\$34,850,250.45	\$158,262,683.52	\$0.00
\$3,588,656.98	\$2,532,360.49	\$6,118,702.98	\$143,413.13	\$12,388,213.00	\$43,075,369.06	\$11,847,171.39	\$54,922,540.45	\$0.00
\$3,393,830.00	\$10,329,181.43	\$1,725,383.11	\$3,308,309.01	\$2,561,271.49	\$41,909,478.68	\$2,557,047.18	\$44,466,525.86	\$0.00
(\$65,924.70)	\$1,635,540.32	\$362,899.38	\$920,182.51	\$1,599,842.07	\$14,993,885.41	\$1,914,799.59	\$16,908,685.00	\$0.00
\$0.00	\$0.00	\$0.00	\$0.00	\$1,000,000.00	\$1,000,000.00	\$0.00	\$1,000,000.00	\$0.00
\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,689,686.80	\$26,329,518.25	\$22,121,948.19	\$11,493,728.72	\$17,549,326.56	\$224,391,166.22	\$51,169,268.61	\$275,560,434.83	\$0.00
\$12,142,566.59	\$12,455,175.82	\$12,367,009.15	\$12,259,449.80	\$24,516,466.91	\$133,959,138.26	\$1,190,670.85	\$135,149,809.11	\$0.00
\$3,714,102.33	\$3,914,529.76	\$3,847,412.21	\$3,839,484.42	\$3,839,484.42	\$42,806,460.54	\$823,918.46	\$43,630,379.00	\$0.00
\$5,565,636.45	\$1,435,387.97	\$5,583,757.38	\$5,607,948.20	\$10,462,770.36	\$59,214,337.78	\$340,353.89	\$59,554,691.67	\$0.00
\$464,297.23	\$679,049.74	\$418,342.32	\$785,765.07	\$441,992.85	\$7,217,745.41	\$2,604,143.31	\$9,821,888.72	\$0.00
\$1,610,115.42	\$1,954,926.53	\$2,377,119.27	\$1,930,907.81	\$3,517,065.70	\$21,746,876.42	\$3,530,842.31	\$25,277,718.73	\$0.00
\$247,979.98	\$483,366.23	\$126,483.81	\$129,688.43	\$0.00	\$1,673,144.41	\$1,667,065.22	\$3,340,209.63	\$0.00
\$475,395.00	\$0.00	\$0.00	\$475,395.00	\$519,645.94	\$1,943,756.94	(\$1.94)	\$1,943,755.00	\$0.00
(\$47,583.13)	(\$61,297.87)	(\$52,517.04)	(\$60,037.43)	(\$60,683.99)	(\$557,425.66)	(\$762,078.34)	(\$1,319,504.00)	\$0.00
\$38,827.11	\$51,467.33	\$164,341.27	\$639,237.74	\$0.00	\$2,159,064.41	\$289,400.59	\$2,448,465.00	\$0.00
\$0.00	\$0.00	\$0.00	\$0.00	\$60,000.00	\$60,000.00	\$0.00	\$60,000.00	\$0.00
\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$24,211,336.98	\$20,912,605.51	\$24,831,948.37	\$25,907,839.04	\$43,296,742.19	\$270,223,098.51	\$9,684,314.35	\$279,907,412.86	\$0.00
\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$250,000.00)
\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$1,000.00)
(\$1,001,656.53)	(\$2,804,818.74)	(\$6,197,445.99)	\$0.00	\$91,330,619.68	\$152,494,609.00	\$0.00	\$152,494,609.00	\$152,051,437.00
\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$46,859,936.00)
\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$105,190,501.00)
(\$1,001,656.53)	(\$2,804,818.74)	(\$6,197,445.99)	\$0.00	\$91,330,619.68	\$152,494,609.00	\$0.00	\$152,494,609.00	(\$250,000.00)
\$116,911.76	\$68,107.47	(\$15.05)	\$0.00	\$93,892,501.38	\$134,100,959.00	\$0.00	\$134,100,959.00	(\$106,932,345.00)
\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,121,183.00
\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$100,760,951.00
\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$5,050,211.00
\$116,911.76	\$68,107.47	(\$15.05)	\$0.00	\$93,892,501.38	\$134,100,959.00	\$0.00	\$134,100,959.00	\$0.00
\$58,317,158.10	\$60,861,144.63	\$51,953,713.51	\$37,539,603.19	\$9,230,305.86				

Cash Flow 2010-11

Name	Object Code	Budget	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Beginning Cash Balance			\$9,230,305.86	\$29,133,602.37	\$38,402,599.12	\$55,490,354.33	\$41,881,654.83	\$37,605,601.77	\$42,817,247.81
Receipts									
Revenue Limit Sources	8010 - 8099	\$155,805,114.50	\$712,029.37	\$7,576,802.72	\$18,693,497.64	\$363,025.92	\$13,620,483.11	\$20,103,533.92	\$26,059,963.45
Federal Revenues	8100 - 8299	\$33,286,659.51	\$7,731,095.11	\$85,901.06	\$859,010.57	\$3,006,536.99	\$4,187,676.52	\$0.00	\$644,257.93
Other State Revenues	8300 - 8599	\$38,901,009.44	\$486,282.62	\$77,802.02	\$2,334,060.57	\$5,134,933.25	\$350,109.08	\$6,224,161.51	\$3,501,099.85
Other Local Revenues	8600 - 8799	\$14,468,008.50	\$130,212.08	\$520,848.31	\$904,250.53	\$578,720.34	\$1,265,950.74	\$2,314,881.36	\$3,472,322.04
Interfund Transfers In	8900 - 8929	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Receipts		\$242,460,791.95	\$9,059,599.18	\$8,261,354.11	\$22,790,819.31	\$9,083,216.50	\$19,424,219.45	\$28,642,576.79	\$33,677,634.27
Disbursements									
Certificated Salaries	1000 - 1999	\$125,272,512.86	\$939,543.85	\$4,384,537.95	\$4,259,265.44	\$11,274,526.16	\$11,587,707.44	\$11,775,616.21	\$11,274,526.16
Classified Salaries	2000 - 2999	\$44,110,313.18	\$2,205,515.66	\$2,646,618.79	\$3,749,376.62	\$3,749,376.62	\$3,859,652.40	\$4,080,203.97	\$3,528,825.05
Employee Benefits	3000 - 3999	\$62,735,673.32	\$2,195,748.57	\$1,254,713.47	\$3,136,783.67	\$5,332,532.23	\$5,646,210.60	\$5,646,210.60	\$5,646,210.60
Books and Supplies	4000 - 4999	\$9,594,450.14	\$177,497.33	\$465,330.83	\$1,056,389.52	\$1,007,417.26	\$695,597.64	\$441,344.71	\$441,344.71
Services and Other Operating	5000 - 5999	\$24,384,230.90	\$792,487.50	\$1,121,674.62	\$1,280,172.12	\$1,463,053.86	\$1,767,856.74	\$1,524,014.43	\$1,950,738.47
Capital Outlay	6000 - 6900	\$2,570,224.63	\$0.00	\$35,983.14	\$32,127.81	\$353,405.89	\$89,957.86	\$10,280.90	\$5,140.45
Other Outgo	7000 - 7299	\$1,982,630.10	\$0.00	\$0.00	\$0.00	\$0.00	\$485,744.37	\$0.00	\$0.00
Direct Support/Indirect Cost	7300 - 7399	(\$1,319,504.00)	(\$1,319.50)	(\$11,875.54)	(\$46,182.64)	(\$58,058.18)	(\$63,336.19)	(\$50,141.15)	(\$42,883.88)
Debt Service	7430 - 7439	\$1,360,433.00	\$372,758.64	\$0.00	\$4,081.30	\$20,406.50	\$81,625.98	\$3,401.08	\$149,647.63
Interfund Transfers Out	7600 - 7629	\$60,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Disbursements		\$270,750,964.13	\$6,682,232.05	\$9,896,983.26	\$13,471,013.84	\$23,142,660.33	\$24,151,016.84	\$23,430,930.75	\$22,953,549.19
Assets									
Revolving Cash Account	9130	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash with a Fiscal Agent/Trustee	9135	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash Collections Awaiting Deposit	9140	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Accounts Receivable	9200	\$51,169,268.61	\$20,339,784.27	\$13,718,480.91	\$10,581,804.75	\$3,264,599.34	\$3,264,599.34	\$0.00	\$0.00
Due from Grantor Governments	9290	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Due from Other Funds	9310	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Assets		\$51,169,268.61	\$20,339,784.27	\$13,718,480.91	\$10,581,804.75	\$3,264,599.34	\$3,264,599.34	\$0.00	\$0.00
Liabilities									
Accounts Payable (Current Liabilities)	9500	\$9,684,314.35	\$2,813,854.89	\$2,813,855.01	\$2,813,855.01	\$2,813,855.01	\$2,813,855.01	\$0.00	\$0.00
Due to Grantor Governments	9590	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Due to Other Funds	9610	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Deferred Revenue	9650	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Liabilities		\$9,684,314.35	\$2,813,854.89	\$2,813,855.01	\$2,813,855.01	\$2,813,855.01	\$2,813,855.01	\$0.00	\$0.00
Ending Cash Balance			\$29,133,602.37	\$38,402,599.12	\$55,490,354.33	\$41,881,654.83	\$37,605,601.77	\$42,817,247.81	\$53,541,332.89
Blue - projected									
Black - actuals									

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

The district should be aware that any additional delay of cash receipts could cause further cash flow problems and result in a need to borrow to pay ongoing expenditures. If borrowing becomes necessary, options include the following:

- Internal borrowing between district funds as authorized by Education Code section 42603, which allows LEAs to borrow temporarily between funds to address cash flow shortages. This is the most common method used by school districts, but it only works if cash is available in other funds. This type of borrowing has specific limitations regarding amounts and the timing of repayment.
- External borrowing from the county office of education as authorized by Education Code sections 42621 and 42622. This option depends on the county office's willingness and ability to provide funds.
- External borrowing from the county treasurer, which is authorized by Education Code section 42620. Under Article XVI, Section 6 of the California Constitution, the county treasurer must provide funds to an LEA that cannot meet its obligations. However, the county treasurer cannot lend districts money after the last Monday in April of the current fiscal year, and the district must meet additional requirements.
- External borrowing using tax and revenue anticipation notes (TRANs). This option consists of short-term borrowing, up to 15 months, and may be necessary on a mid-year or full-year basis. Because there are arbitrage penalties, the LEA should determine its cash flow needs and size the TRANs appropriately. In addition, a mid-year TRANs may be classified as a taxable transaction thereby posing a larger cost of issuance. Working with an outside financial consultant can help avoid potential problems.

The governing board has approved the issuance of \$12 million in TRANs for August 2010. However, the scheduled repayment date is May 2011, which is the month before the cash flow projections indicate a negative ending balance. Because of these timing issues, the August 2010 TRANs will not be sufficient to meet the district's projected cash flow needs.

Cash Reporting Processes

The district's 2009-10 second interim Cashflow Worksheet indicates that actuals are presented through the month of January with projections for February through June, 2010. However, a comparison of the Cashflow Worksheet to the GEMS financial reports reflected some discrepancies in the amounts reported on the Worksheet for monthly revenue and expenditure totals.

In determining the district's monthly or annual cash position, it is extremely difficult to reconcile the recording of cash receipts, expenditures and general ledger accounts because of the continued use of multiple financial accounting systems. As an example, the district pays the certificated staff on the first of each month, but these transactions are not posted from the PeopleSoft system to the GEMS system until the end of the month. Without transactions fully posted daily, the staff is required to manually combine financial information from both financial accounting systems to properly track the district's cash flow position. For a district payroll that often

exceeds \$21 million a month, this is extremely problematic, time consuming and requires the district to incur unnecessary labor costs. Because the reconciliation of the two financial systems is at least one month in arrears, the two systems do not balance until year end, and the district's true cash position is unknown throughout the year.

The district reports cash on the SACS Cashflow Worksheet using the month-end cash balance reflected in GEMS. However, GEMS does not provide a cash flow summary report including all transactions that affect cash by major object code as required by the SACS software. Instead district staff must use a series of reports and back into the GEMS month-end cash balance by using the prior year accounts receivable and accounts payable lines. This creates an exorbitant amount of work for staff and leaves the district vulnerable to errors.

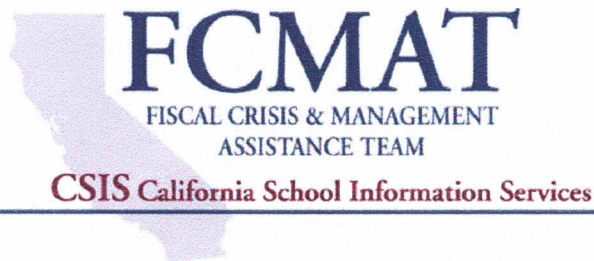
Recommendations

The district should:

1. Monitor its current year and subsequent year cash flow at least monthly.
2. Work with the county office to determine the borrowing options that are available if funds are needed for cash flow purposes.
3. Ensure that the amounts reported on the SACS Cashflow Worksheet match the monthly financial statements.
4. Investigate the ability of its financial system to provide one report that reflects all monthly cash transactions by major object code.
5. Explore solutions to transfer to one financial system.

Appendix

A. Study Agreement



**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
DRAFT STUDY AGREEMENT
April 7, 2010**

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Montebello Unified School District, hereinafter referred to as the District, mutually agree as follows:

1. BASIS OF AGREEMENT

The Team provides a variety of services to school districts and county offices of education upon request. The District has requested that the Team provide for the assignment of professionals to study specific aspects of the Montebello Unified School District operations. These professionals may include staff of the Team, County Offices of Education, the California State Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this Agreement.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The scope and objectives of this study are to:

- 1) Review the District's 2009-10 general fund budget and provide a multiyear financial projection for the current and two subsequent fiscal years utilizing the district's 2nd Interim Financial Report as the baseline for the projection. The MYFP will include a cash flow component for the same time period to project the district's cash balances at the end of each fiscal year. The MYFP and cash flow analysis will also include the impact of other funds including alternative strategies for cash management from both internal and external sources.
- 2) The FCMAT Team will validate the district's budget assumptions and provide recommendations for expenditure reductions or revenue enhancements to assist the district in maintaining their financial solvency under AB 1200.

B. Services and Products to be Provided

- 1) Orientation Meeting - The Team will conduct an orientation session at the School District to brief District management and supervisory personnel on the procedures of the Team and on the purpose and schedule of the study.
- 2) On-site Review - The Team will conduct an on-site review at the District office and at school sites if necessary.
- 3) Exit Report - The Team will hold an exit meeting at the conclusion of the on-site review to inform the District of significant findings and recommendations to that point.
- 4) Exit Letter - The Team will issue an exit letter approximately 10 days after the exit meeting detailing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.
- 5) Draft Reports - Sufficient copies of a preliminary draft report will be delivered to the District administration for review and comment.
- 6) Final Report - Sufficient copies of the final study report will be delivered to the District administration following completion of the review.
- 7) Follow-Up Support – Six months after the completion of the study, FCMAT will return to the District, if requested, to confirm the District’s progress in implementing the recommendations included in the report, at no cost. Status of the recommendations will be documented to the District in a FCMAT Management Letter.

3. PROJECT PERSONNEL

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

A. Anthony Bridges	FCMAT Deputy Executive Officer
B. Diane Branham	FCMAT Fiscal Intervention Specialist
C. Debi Deal	FCMAT Fiscal Intervention Specialist
D. Marisa Ploog, CPA	FCMAT Fiscal Intervention Specialist

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

4. **PROJECT COSTS**

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

- A. \$500.00 per day for each Team Member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc. The District will be billed for the daily rate and expenses of the independent consultant, only. The District will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the District.

Based on the elements noted in section 2 A, the total cost of the study is estimated at \$19,800.

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

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

5. **RESPONSIBILITIES OF THE DISTRICT**

- A. The District will provide office and conference room space while on-site reviews are in progress.
- B. The District will provide the following (if requested):
 - 1) A map of the local area
 - 2) Existing policies, regulations and prior reports addressing the study request
 - 3) Current organizational charts
 - 4) Current and four (4) prior year's audit reports
 - 5) Any documents requested on a supplemental listing
- C. The District Administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the Team prior to completion of the final report.

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

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for key study milestones

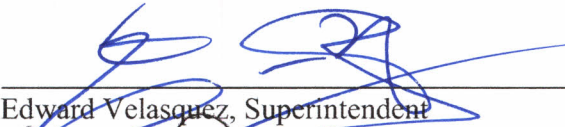
<i>Orientation:</i>	<i>April 14, 2010</i>
<i>Staff Interviews:</i>	<i>to be determined</i>
<i>Exit Interviews:</i>	<i>to be determined</i>
<i>Preliminary Report Submitted:</i>	<i>to be determined</i>
<i>Final Report Submitted:</i>	<i>to be determined</i>
<i>Board Presentation:</i>	<i>to be determined</i>
<i>Follow-Up Support:</i>	<i>If requested</i>

7. CONTACT PERSON

Name of contact person: Edward Velasquez

Telephone: (323) 887-7900 FAX: _____

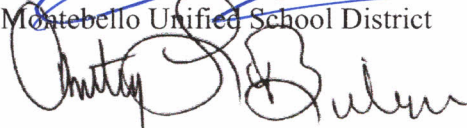
E-Mail velasquez_ed@montbello.k12.ca.us



Edward Velasquez, Superintendent
Montebello Unified School District

4/09/10

Date



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

April 7, 2010

Date

In keeping with the provisions of AB1200, the County Superintendent will be notified of this agreement between the District and FCMAT and will receive a copy of the final report.