FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Montebello Unified School District

Fiscal Review and Multiyear Financial Projection

March 13, 2008

Joel D. Montero
Chief Executive Officer

March 10, 2008

Edward Velasquez, Superintendent
Montebello Unified School District
123 S. Montebello Blvd.
Montebello, California 90640

Dear Superintendent Velasquez,

In October 2007, the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for a fiscal review and multiyear financial projection with the Montebello Unified School District. The request specified that FCMAT would perform the following work:

> The district's 2007-08 adoption budget received conditional approval from the Los Angeles County Office of Education indicating that the budget was based on $4 million in nonspecific expenditure reductions included in the budget submittal. Due to the uncertainty and status of these proposed reductions, the COE had determined that the district's 2007-08 budget did not meet the recommended 2% reserve requirements. On August 24 the district submitted $5.56 million in various budget adjustments to the COE for further review and consideration.
>
> The district currently faces ongoing challenges of declining enrollment, deficit spending and impending salary negotiations with its respective employee bargaining units. It is anticipated that the district will need to make budget adjustments totaling approximately $9 million to sustain its financial solvency. The district is requesting the team to conduct an in-depth review of the district's 2007-08 general fund budget and complete a multiyear financial projection for the current and two subsequent fiscal years.
>
> The team shall utilize FCMAT's Budget Explorer v.2.0 multiyear financial projection software to complete this component of the work. Recommendations will be provided to enhance revenues or reduce expenditures, as requested.

FCMAT
Joel D. Montero, Chief Executive Officer
1300 17th Street - City Centre, Bakersfield, CA 93301-4533 • Telephone 661-636-4611 • Fax 661-636-4647
422 Petaluma Blvd North, Suite. C, Petaluma, CA 94952 • Telephone: 707-775-2850 • Fax: 707-775-2854 • www.fcmat.org
Administrative Agent: Larry E. Reider - Office of Kern County Superintendent of Schools

The attached final report contains the study team's findings with regard to the above areas of review. We appreciate the opportunity to serve you, and we extend our thanks to all the staff of the Montebello Unified School District.

Sincerely,

Joel D. Montero
Chief Executive Officer

Table of Contents

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.

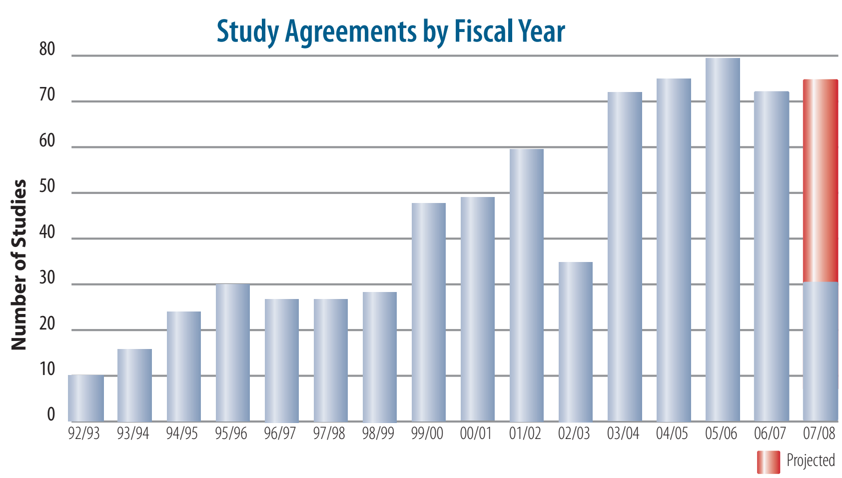
AB 1200 was established from a need to ensure that local educational agencies throughout California were adequately prepared to meet and sustain their financial obligations. AB 1200 is also a statewide plan for county offices of education and school districts to work together on a local level to improve 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.................... 694
Total Number of Districts in CA.......... 982

Management Assistance............................ 658 (94.8%)
Fiscal Crisis/Emergency 36 (5.2%)

Note: Some districts had multiple studies.
Districts (7) that have received emergency loans from the state.
(Rev. 2/21/08)



Introduction

Located in Los Angeles County, the Montebello Unified School District serves approximately 33,642 students in 18 elementary schools, six intermediate schools, three comprehensive high schools, one continuation school and one community day school. The district also operates an adult education program. The district's enrollment increased annually through 2004-05 but has declined beginning in 2005-06.

In September 2007 the Fiscal Crisis and Management Assistance Team (FCMAT) received a request for management assistance from the Montebello Unified School District. The study agreement specifies that FCMAT will perform the following:

1. The district's 2007-08 adoption budget received conditional approval from the Los Angeles County Office of Education indicating that the budget was based on $4 million in nonspecific expenditure reductions included in the budget submittal. Due to the uncertainty and status of these proposed reductions, the COE had determined that the district's 2007-08 budget did not meet the recommended 2% reserve requirements. On August 24 the district submitted $5.56 million in various budget adjustments to the COE for further review and consideration.

   The district currently faces ongoing challenges of declining enrollment, deficit spending and impending salary negotiations with their respective employee bargaining units. It is anticipated that the district will need to make budget adjustments totaling approximately $9 million to sustain its financial solvency. The district is requesting the team to conduct an in-depth review of the district's 2007-08 general fund budget and complete a multiyear financial projection for the current and two subsequent fiscal years.

   The team shall utilize FCMAT's Budget Explorer v.2.0 Multiyear Financial Projection software to complete this component of the work. Recommendations will be provided to enhance revenues or reduce expenditures, as requested.

Due to the Governor's proposed 2008-09 state budget and declared fiscal emergency, the district requested FCMAT to expand the scope of the study to include the current and three subsequent fiscal years in the multiyear projection.

Study Guidelines

FCMAT visited the district on November 1-2 and 7-8, 2007 and February 1, 2008 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 Projection
- District Procedures
- Appendices

Study Team

The FCMAT study team was composed of the following members:

Anthony Bridges
Deputy Executive Officer
Fiscal Crisis and Management
Assistance Team
Atascadero, California

Diane Branham
Fiscal Intervention Specialist
Fiscal Crisis and Management
Assistance Team
Bakersfield, California

Margaret Rosales
FCMAT Consultant
Kingsburg, California

Laura Haywood
Public Information Specialist
Fiscal Crisis and Management
Assistance Team
Bakersfield, California

Executive Summary

In developing and implementing the multiyear financial projection (MYFP), the district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The district is confronted by substantial fiscal challenges that require difficult decisions to be made and implemented. The district's goal of sustaining a balanced budget will be extremely difficult because of declining enrollment and its current spending projections. The state's economic status, including the projected state deficit and the fiscal emergency declared by the Governor in January 2008, is also projected to significantly affect the district's general fund balance.

The district's 2007-08 adopted budget was conditionally approved by the Los Angeles County Office of Education on August 14, 2007. The letter stated, "Conditional approval indicates that the County Superintendent has approved the budget, with the condition that specified action(s) are taken by the district and approved by its Board of Education by August 16, 2007." The budget as presented by Montebello reflected $4 million in nonspecific expenditure reductions. However, the specific reductions had not yet been approved by the district's Governing Board. The letter from the county office also cited the fiscal challenges associated with declining enrollment and projected deficit spending as areas of concern for the district. The district reported that on August 16, 2007, the Governing Board approved the list of specific expenditure reductions, and the district submitted that list to the county office.

FCMAT's multiyear financial projection reflects that the district *will not* meet its reserve requirement in the 2009-10 and 2010-11 fiscal years without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending. The district's current reserve requirement is 2%. However, because the district is projected to have fewer than 30,000 in average daily attendance (ADA) in 2009-10, the reserve requirement increases to 3%. FCMAT's MYFP for the general fund uses the 2007-08 state budget, the 2008-09 Governor's state budget proposal and the current Financial Dartboard as outlined by School Services of California (SSC). The projection does not include any annual cost-of-living adjustments for employee salaries in the current or three subsequent fiscal years, as this item is determined at the local level.

To evaluate an MYFP, much attention is focused on the bottom line. If the bottom line demonstrates a positive unappropriated fund balance, this amount may be used by the district for enhancements such as improved educational programs or employee compensation. If the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced to sustain the recommended reserve levels. The summary reflects a negative balance in 2009-10 and 2010-11.

Multiyear Financial Projection Summary				
General Fund				
Unrestricted Resources Only				
	Base Year	Year 1	Year 2	Year 3
Description	**2007-08**	**2008-09**	**2009-10**	**2010-2011**
Total Revenues	$202,564,483	$192,734,253	$192,923,916	$192,585,520
Total Expenditures	182,797,666	181,019,081	181,646,444	182,041,044
Total Other Financing Sources/Uses	-20,874,934	-25,798,823	-26,294,592	-26,894,595
Net Increase (Decrease) in Fund Balance	-1,108,117	-14,083,651	-15,017,120	-16,350,119
Fund Balance:				
Beginning Balance	23,504,981	22,396,864	8,313,213	-6,703,907
Total Ending Balance	22,396,864	8,313,213	-6,703,907	-23,054,026
Components of Ending Fund Balance:				
Revolving Cash	257,000	257,000	257,000	257,000
Stores	640,000	640,000	640,000	640,000
2% Reserve Requirement (2007-08 & 2008-09)	5,679,160	5,661,147		
3% Reserve Requirement (2009-10 & 2010-11)			8,541,479	8,594,271
Undesignated/Unappropriated	$15,820,703	$1,755,066	$0	$0
Negative Shortfall	**$0**	**$0**	**-$16,142,386**	**-$32,545,297**
Rounding used in all calculations				

The state's economic status, including the projected state deficit and the fiscal emergency declared by the Governor in January 2008, are projected to significantly affect the district's general fund balance. Difficult fiscal decisions need to be made and implemented. The board, administration and community will need to identify potential areas of reduction to eliminate deficit spending and sustain fiscal solvency. Otherwise, the district may need outside financial assistance and may face the loss of local governance and decision-making authority.

Because employee salaries and benefits, on average, are over 91% of the unrestricted general fund balance of unified school districts throughout California, the district should develop current staffing formulas for all positions and ensure that ratios are within employee contract guidelines, meet students' needs and agree with approved district goals and objectives, including the goal of maintaining fiscal solvency.

In an effort to maximize unrestricted general fund resources, the district should consider charging the full indirect cost rate legally allowed to all programs and investigate the feasibility of further utilizing the federal, AB 825 and mega-item flexibility transfer options. The district should also review options such as increasing the percentage of ADA and reducing the number of different school calendars in an effort to increase revenues and decrease expenditures.

The district is contracting with an individual on a part-time basis to help fill the current Chief Business Official (CBO) vacancy. This position is essential to the organization and it will be crucial for the district to find an experienced, qualified candidate to fill the position full-time. The responsibilities of the CBO should include oversight of various district departments such as business services, purchasing, risk management and food services. The CBO should be included on the district's negotiating team. Since the CBO is responsible for determining the district's financial condition and the impact of negotiations on the district's budget, it is important for the CBO to be included at the negotiating table and to be involved in all discussions that relate to negotiations.

Multiyear Financial Projection

Multiyear financial projections (MYFP) are required by AB 1200 and AB 2756 and are a part of the adoption budget and interim reporting process. They should be produced accurately and timely and contain the most current fiscal information available. These projections allow the district and the county to project revenues and expenditures and help ensure that the district will be able to meet its financial obligations in the current and two subsequent fiscal years. 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 MYFP helps identify specific planning milestones that will aid the district in the decision-making process.

If a district is not able 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 must notify the Governing Board of the district and the Superintendent of Public Instruction (SPI). The county office must follow Education Code 42127.6 when 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.

Public school districts receive funding from a variety of local, state and federal resources. Some funds are earmarked for specific purposes, such as special education and home-to-school transportation, while most of the funds are used to support the general purpose operating expense of the district. The complex state revenue limit funding calculation provides for funding per average daily attendance (ADA) using a combination of local property taxes and state taxes.

Categorical programs are not being charged the full allowable indirect cost rate by the district; and federal, mega-item and AB 825 block grant flexibility transfer options are not being utilized to the full extent allowed. The district should consider charging the full indirect cost rate to recapture allowable costs according to program guidelines and reflect the true cost of each program. In addition, the district should investigate the feasibility of utilizing the flexibility transfer options to determine whether this would provide any additional funding flexibility.

The MYFP developed for this report reflects that the district *will not* be able to maintain its required reserve of 3% in the 2009-10 and 2010-11 fiscal years without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending.

Multiyear Forecast Assumptions

California school districts and county offices use many different methods and software products to prepare multiyear financial projections. The FCMAT projections for the general fund were prepared using FCMAT's Budget Explorer multiyear projection software, a Web-based forecasting tool that is available at no cost to all California school districts.

There are inherent limitations with any forecast of financial data. These limitations include issues such as unanticipated changes in enrollment trends and changing economic conditions at the state, federal and local levels. Therefore, the budget forecasting model should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. Multiyear financial projections help to provide for more informed decision-making and the ability to forecast the fiscal impact of current decisions. The projection should be updated at least at each interim financial reporting period and before providing increases for salaries and benefits in an effort to maintain the most accurate data.

To evaluate the multiyear projection, much attention is focused on the bottom line, which demonstrates the district's undesignated, unappropriated fund balance. For example, if the bottom line demonstrates a positive unappropriated fund balance, this amount may be used by the board and/or Superintendent to improve educational programs, increase employee compensation or spend in other categories. However, if the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced to sustain the recommended reserve levels under AB 1200 guidelines. The projection must be viewed comprehensively, and the district must determine what compounding effects using any or all of the unappropriated fund balance will have on the projection in the current and future years.

FCMAT reviewed the district records, interviewed staff members and examined financial reports to gather the information needed for the multiyear financial projection. The initial review included a summary assessment of the district's 2006-07 unaudited actuals, the 2007-08 adopted budget and the 2007-08 first interim report. The review also included a fiscal analysis of the projected revenues, expenditures, transfers and components of the ending fund balance for the general fund. FCMAT's multiyear analysis utilizes the district's 2007-08 adopted budget as the baseline for the MYFP. FCMAT reviewed the district's budget assumptions to validate the 2007-08 budget and multiyear financial projections for the three subsequent years. FCMAT also included the budget reductions that were adopted by the governing board at its meeting on December 20, 2007 and the reallocation of the 2006-07 designated fund balance.

FCMAT budget assumptions depict conservative economic factors and estimates as addressed in the 2007-08 state budget, the 2008-09 Governor's state budget proposal and the SSC Financial Dartboard. FCMAT's MYFP does not include any increases for salary in the current or projection years because those costs are considered at the local level.

Included in the projection years are the average cost of step and column movement for all contracted salaries and the associated cost of employer paid statutory benefits.

General Fund

2007-08 Unrestricted Projected Ending Balances

FCMAT has focused attention on the unrestricted portion of the district's general fund budget, including the impact of general fund contributions to restricted categorical programs.

The MYFP used the following rules for 2008-09, 2009-10 and 2010-11. It is important to note that the impact of the latest state budget information does not include the impact for the county office of education (COE) programs. Just as the reduction/cuts from the state affect the district's programs, the COE will also be impacted, which could negatively affect the district in terms of larger excess cost billings as the district participates in the COE special education program.

Multiyear Projection Rules	Year 1 2008-09	Year 2 2009-10	Year 3 2010-2011
Certificated Step/Column %	1.50%	1.50%	1.50%
Classified Step %	1.50%	1.50%	1.50%
CPI (SSC)	2.70%	2.50%	2.70%
Lottery – Restricted (SSC)	$22.50	$22.50	$23.00
Lottery – Unrestricted (SSC)	$121.00	$121.00	$121.00
Interest (SSC)	4.10%	4.80%	5.00%
Revenue Limit Deficit (SSC)	6.99%	6.99%	6.99%
Special Education COLA (SSC)	-6.50%	3.00%	2.60%
State Categorical COLA (SSC)	-6.50%	3.00%	2.60%
Statutory COLA (SSC)	4.94%	3.00%	2.60%
Health and Welfare Increase	4.94%	3.00%	2.60%

(SSC) – based on School Services of California Financial Dartboard dated 2/19/08

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

The following MYFP prepared by FCMAT identifies the district's projected revenues, expenditures and changes in fund balance for the unrestricted general fund in the current and three subsequent fiscal years.

General Fund/County School Service Fund
Unrestricted Resources Only
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2006 - 07	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10	Year 3 2010 - 11
Revenues						
Revenue Limit Sources	8010 - 8099	$182,581,031.29	$182,124,918.55	$173,960,974.36	$174,170,661.96	$173,877,843.59
Federal Revenues	8100 - 8299	$339,812.00	$346,294.00	$0.00	$0.00	$0.00
Other State Revenues	8300 - 8599	$18,229,087.24	$17,433,270.00	$16,213,278.33	$16,193,253.98	$16,147,676.64
Other Local Revenues	8600 - 8799	$3,059,564.00	$2,660,000.00	$2,560,000.00	$2,560,000.00	$2,560,000.00
Total Revenues		$204,209,494.53	$202,564,482.55	$192,734,252.69	$192,923,915.94	$192,585,520.23
Expenditures						
Certificated Salaries	1000 - 1999	$105,824,755.92	$104,249,554.00	$104,365,206.38	$104,636,594.92	$105,025,016.32
Classified Salaries	2000 - 2999	$24,123,593.00	$22,608,042.00	$22,601,812.95	$22,955,860.13	$23,315,218.02
Employee Benefits	3000 - 3999	$38,723,567.66	$39,985,212.00	$40,487,368.93	$40,940,818.03	$41,362,606.46
Books and Supplies	4000 - 4999	$3,004,746.63	$3,766,811.00	$2,777,107.82	$2,769,394.39	$2,770,219.66
Services and Other Operating Expenditures	5000 - 5999	$9,568,196.51	$11,285,023.00	$10,844,008.88	$11,084,278.60	$11,355,425.38
Capital Outlay	6000 - 6900	$477,161.38	$1,711,178.00	$543,100.00	$543,100.00	$543,100.00
Other Outgo	7000 - 7299	($1,754.70)	$20,000.00	$20,000.00	$20,000.00	$20,000.00
Direct Support/Indirect Cost	7300 - 7399	($3,724,649.33)	($3,555,279.00)	($3,546,649.00)	($3,537,191.00)	($3,538,373.00)
Debt Service	7430 - 7439	$3,185,848.17	$2,727,125.00	$2,927,125.00	$2,233,589.00	$1,187,831.00
Total Expenditures		$181,181,465.24	$182,797,666.00	$181,019,080.96	$181,646,444.07	$182,041,043.84
Excess (Deficiency) of Revenues Over Expenditures		$23,028,029.29	$19,766,816.55	$11,715,171.73	$11,277,471.87	$10,544,476.39
Other Financing Sources\Uses						
Interfund Transfers In	8910 - 8929	$0.00	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$1,689,004.74	$113,766.00	$113,766.00	$113,766.00	$113,766.00
All Other Financing Sources	8930 - 8979	$67,648.39	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($18,847,506.39)	($20,761,168.02)	($25,685,056.66)	($26,180,825.36)	($26,780,829.50)
Total Other Financing Sources\Uses		($20,468,862.74)	($20,874,934.02)	($25,798,822.66)	($26,294,591.36)	($26,894,595.50)
Net Increase (Decrease) in Fund Balance		$2,559,166.55	($1,108,117.47)	($14,083,650.93)	($15,017,119.49)	($16,350,119.11)
Fund Balance						
Beginning Fund Balance (as of July 1 – Unaudited)	9791	$21,092,949.41	$23,504,981.11	$22,396,863.64	$8,313,212.71	($6,703,906.78)
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	($147,134.85)	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$20,945,814.56	$23,504,981.11	$22,396,863.64	$8,313,212.71	($6,703,906.78)
Ending Fund Balance		$23,504,981.11	$22,396,863.64	$8,313,212.71	($6,703,906.78)	($23,054,025.89)
Components of Ending Fund Balance						
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$252,000.00	$257,000.00	$257,000.00	$257,000.00	$257,000.00
Stores	9712	$653,899.47	$640,000.00	$640,000.00	$640,000.00	$640,000.00
Prepaid Expenditures	9713	$7,721.00	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$0.00	$0.00	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		2.00%	2.00%	2.00%	3.00%	3.00%
Designated for Economic Uncertainties	9770	$5,693,676.38	$5,679,160.20	$5,661,146.57	$8,541,479.08	$8,594,270.62
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$3,454,194.05	$0.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$13,443,490.21	$15,820,703.44	$1,755,066.14	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00	($16,142,385.86)	($32,545,296.51)

The following MYFP prepared by FCMAT identifies the district's projected revenues, expenditures and changes in fund balance for the restricted general fund in the current and three subsequent fiscal years.

General Fund/County School Service Fund
Restricted Resources Only
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2006 - 07	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10	Year 3 2010 - 11
Revenues						
Revenue Limit Sources	8010 - 8099	$6,300,690.72	$6,297,209.00	$6,297,209.00	$6,297,209.00	$6,297,209.00
Federal Revenues	8100 - 8299	$35,085,642.71	$37,497,213.00	$30,128,845.00	$29,923,444.00	$29,923,444.00
Other State Revenues	8300 - 8599	$35,540,992.99	$28,997,880.00	$25,027,990.40	$25,727,997.34	$26,351,964.72
Other Local Revenues	8600 - 8799	$14,673,919.27	$14,535,920.00	$13,782,184.96	$14,112,015.88	$14,407,439.31
Total Revenues		$91,601,245.69	$87,328,222.00	$75,236,229.36	$76,060,666.22	$76,980,057.03
Expenditures						
Certificated Salaries	1000 - 1999	$36,305,439.38	$34,665,431.00	$35,543,294.40	$36,069,066.14	$36,598,241.74
Classified Salaries	2000 - 2999	$21,262,712.78	$21,528,237.00	$22,364,750.57	$22,700,221.81	$23,040,725.12
Employee Benefits	3000 - 3999	$17,001,818.85	$18,216,227.00	$19,027,277.30	$19,455,586.45	$19,854,766.80
Books and Supplies	4000 - 4999	$11,546,722.48	$11,620,808.00	$10,171,266.67	$9,961,912.83	$9,885,148.19
Services and Other Operating Expenditures	5000 - 5999	$11,482,079.73	$9,359,070.82	$9,115,131.57	$9,040,881.40	$9,181,669.21
Capital Outlay	6000 - 6900	$337,298.30	$444,900.00	$444,900.00	$444,900.00	$444,900.00
Other Outgo	7000 - 7299	$1,097,346.66	$1,105,000.00	$1,159,587.00	$1,194,374.61	$1,225,428.35
Direct Support/Indirect Cost	7300 - 7399	$2,367,495.94	$2,154,617.00	$2,145,987.00	$2,136,529.00	$2,137,711.00
Debt Service	7430 - 7439	$412,434.82	$355,597.00	$355,597.00	$355,597.00	$355,597.00
Total Expenditures		$101,813,348.94	$99,449,887.82	$100,327,791.51	$101,359,069.24	$102,724,187.41
Excess (Deficiency) of Revenues Over Expenditures		($10,212,103.25)	($12,121,665.82)	($25,091,562.15)	($25,298,403.02)	($25,744,130.38)
Other Financing Sources\Uses						
Interfund Transfers In	8910 - 8929	$0.00	$1,000,000.00	$1,000,000.00	$1,000,000.00	$1,000,000.00
Interfund Transfers Out	7600 - 7629	$0.00	$1,596,690.00	$1,596,690.00	$1,596,690.00	$1,596,690.00
All Other Financing Sources	8930 - 8979	$10,341.04	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$18,847,506.39	$20,761,168.02	$25,685,056.66	$26,180,825.36	$26,780,829.50
Total Other Financing Sources\Uses		$18,857,847.43	$20,164,478.02	$25,088,366.66	$25,584,135.36	$26,184,139.50
Net Increase (Decrease) in Fund Balance		$8,645,744.18	$8,042,812.20	($3,195.49)	$285,732.34	$440,009.12
Fund Balance						
Beginning Fund Balance (as of July 1 – Unaudited)	9791	$18,289,156.59	$23,296,852.12	$31,339,664.32	$31,336,468.83	$31,622,201.17
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	($3,638,048.65)	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$14,651,107.94	$23,296,852.12	$31,339,664.32	$31,336,468.83	$31,622,201.17
Ending Fund Balance		$23,296,852.12	$31,339,664.32	$31,336,468.83	$31,622,201.17	$32,062,210.29
Components of Ending Fund Balance						
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$0.00	$0.00	$0.00	$0.00	$0.00
Stores	9712	$0.00	$0.00	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$23,296,852.12	$31,339,664.32	$31,336,468.83	$31,622,201.17	$32,062,210.29
Designated for Economic Uncertainties	9770	$0.00	$0.00	$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	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$0.00	$0.00	$0.00	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00	$0.00	$0.00

Enrollment and Average Daily Attendance

The FCMAT study team reviewed the district's enrollment and ADA trends for 2002-03 through 2007-08. The review compared the October California Basic Educational Data System (CBEDS) student enrollment count to the April second period (P-2) ADA data. FCMAT has projected a decrease in the district's enrollment in each of the three 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 enrolled in first grade in 2005-06 and increased to 104 students in second grade in 2006-07, 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 the reliability of the projections, given the validity of the data at the starting point. The strength of the ratios lies in the fact that each ratio encompasses collectively the variables that could possibly account for an increase or decrease in the size of a grade cohort as it moves on 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. Birth rates (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 thus selected are applied to the 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.

Average Daily Attendance

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

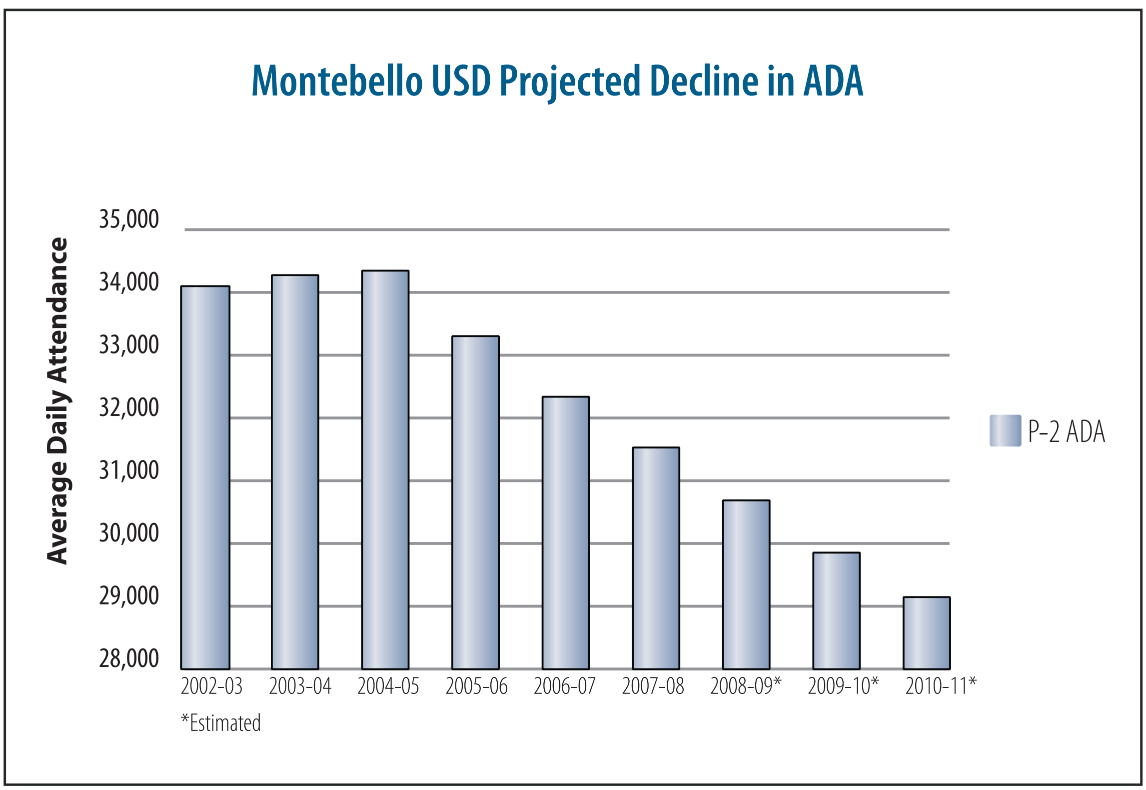
For the district to manage and sustain the recommended reserves for economic uncertainties, a significant amount of attention will need to be focused on the ADA projection. The projection for ADA is only a snapshot of future years and should be adjusted with each monthly attendance report and all interim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

The following chart shows the district's historical trends of CBEDS and P-2 ADA, and includes FCMAT's projected CBEDS and ADA calculations.

Enrollment and ADA

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09*	2009-10*	2010-11*
CBEDS	35,590	35,952	36,000	35,286	34,327	33,642	32,699	31,814	30,987
P-2 ADA	34,093.25	34,215.53	34,264.86	33,235.36	32,245.89	31,603.29	30,717.44	29,886.07	29,109.19
ADA %	95.79%	95.17%	95.18%	94.19%	93.94%	93.94%	93.94%	93.94%	93.94%

**Estimated*



Revenues

Revenue Limit Sources - FCMAT calculated the district's revenue limit for 2007-08 using the state budget information from the September 2007 California School Finance and Management Conference and the current SSC Financial Dartboard. These factors include the estimated statutory COLA of 4.94% for 2008-09, 3.0% for 2009-10, 2.6% for 2010-11 and a revenue limit deficit of 6.99% beginning in 2008-09 and continuing throughout the projection.

Federal Revenues – Per recent federal regulations, the Medi-Cal Administrative Activities funding has been deleted beginning in 2008-09.

Restricted federal revenues were adjusted in 2007-08 based on the prior year carryover and current year allocations as reported by the California Department of Education (CDE) if available. Subsequent year funding was reduced or eliminated in some programs based on the most recent information from the federal government.

State Revenues – FCMAT did not budget for mandated cost reimbursement claim funding in the current and projection years because these revenues have not been included in the state's 2007-08 budget. The SSC Dartboard was used for lottery rates in the current and projected fiscal years.

Restricted state revenues were adjusted based on the current year allocation as reported by the California Department of Education (CDE) if available. For those resources that have not yet been posted by the CDE, the prior year allocation was used with estimated adjustments for COLA.

Local Revenues – Revenue was adjusted based on the district's current receipts and projected annual collections.

Expenditures

Certificated Salaries – The FCMAT multiyear projection includes the impact of a 1.50% ongoing cost of step and column movement for contracted salaries in the projection years and *no other adjustments* for salary enhancements since those are determined at the local level. FCMAT's MYFP *reduces the number of certificated teaching staff* by 31 FTE in 2008-09, an additional 29 FTE in 2009-10 and an additional 27 FTE in 2010-11 based on the projected decline in student enrollment. The projection also includes the items that were approved by board resolution on December 20, 2007.

Classified Salaries – FCMAT included the cost of step movement at 1.50% and *no other adjustments* were included for salary enhancements as those are determined at the local level. FCMAT's MYFP includes those items which were approved by board resolution on December 20, 2007, the reorganization of the Facilities and Operations budget and the proposed reduction in the school police and noon duty aide budgets.

Employee Benefits – FCMAT adjusted statutory benefits in proportion to certificated and classified salary changes and increased the projected cost of employer paid health and welfare contributions by 4.94% in 2008-09, 3.0% in 2009-10 and 2.6% in 2010-11.

Books and Supplies – FCMAT adjusted the budget for materials and supplies using the consumer price index (CPI) inflation factor from the SSC Dartboard and the reduction in projected student enrollment.

Services and other Operating Expenditures – The budget was adjusted using the CPI and the reduction in projected student enrollment where appropriate.

Capital Outlay – No adjustments were made except for the reallocation of the 2006-07 designated fund balance.

Other Outgo – No adjustments were made to this category.

Direct Support/Indirect Costs – Adjustments were made to this category where the budgeted indirect costs exceeded the amount allowed by statute.

Debt Service – Adjustments were made to reflect the use of projected redevelopment agency funds to offset the certificates of participation (COP) payment. Adjustments were also made based on the payoff of the student information system in 2008-09 and the COP debt service schedule dated 10/19/07.

Other Financing Sources/Uses

Transfers Out – The transfer to deferred maintenance was moved to Resource 8150.

The district is also contributing to the child development fund and that transfer is continued in the projection years.

Contributions to Restricted Programs - The district is projected to contribute to the following restricted programs in the current and/or projection years: Continuation Education; Community Day School; Title I, Reading First; Special Education; Workability; Title IV, Drug Free Schools; Teaching American History; Cal-SAFE; CAHSEE Intervention; Home-to-School Transportation; Special Education Transportation; and Ongoing and Major Maintenance. Beginning in 2007-08 the district will transfer $1 million from the bond fund interest to support the Ongoing and Major Maintenance account.

Fund Balance/Reserve Level

Net Increase/Decrease in Fund Balance - The difference in the 2007-08 budgeted unrestricted revenues and expenditures is a negative $1,108,117, leaving a projected ending fund balance of $22,396,864.

Reserve Level - The FCMAT projection indicates that the district *will not* be able to meet the required reserve level in fiscal years 2009-10 and 2010-11.

Projected Reserve Unrestricted General Fund				
	2007-08	2008-09	2009-10	2010-11
Projected Ending Balance	22,396,864	8,313,213	(6,703,907)	(23,054,026)
Projected Reserve Level	7.89%	2.94%	-2.35%	-8.05%
Negative Shortfall	**0**	**0**	**(16,142,386)**	**(32,545,297)**

Recommendations

The district should:

1. Adopt a budget and multiyear projections in 2007-08 that eliminates deficit spending and meets the reserve requirement in the current and projection years.
2. Review staffing ratios to ensure that ratios are within employee contract guidelines, meet students' needs and agree with approved district goals and objectives, including the goal of maintaining fiscal solvency.
3. Consider charging the full indirect cost rate legally allowed to all programs to maximize unrestricted resources and reflect the true cost of each program.
4. Investigate the feasibility of further utilizing the federal, AB 825 and mega-item flexibility transfer options to determine whether they would provide any additional funding flexibility.

District Procedures

Budget Monitoring

The budget should reflect the district's goals and objectives that are developed annually and approved by the Governing Board. The Education Code states that amounts budgeted in each major object category shall be the maximum amount that can be expended under each classification. Budgets should be monitored during the fiscal year to ensure that appropriations are not overspent and that revenues received and expenditures made are the same as projected. If revisions need to be made, they are subject to board approval. The budget should be reviewed and updated monthly to reduce the chance of overspending. The review should be at both the resource and object levels to ensure the district knows its projected fund balance at any given time. Budget transfers, adjustments and journal entries should be completed monthly.

An encumbrance is a commitment to purchase goods and services, including salary and employee benefit obligations. Encumbrances are a major source of budgetary control and are important in preventing overspending of an appropriation and budget line. They are also an excellent way to monitor budgets to ensure that monies that have been committed are protected from being spent in any other manner. Encumbrances are of utmost importance to districts experiencing fiscal distress because they are a key to providing a full picture of the district's finances. Encumbering payroll (salary and benefits) is also essential so that any differences between position control and payroll are readily recognized. Statutory and health and welfare benefits should follow the salary accounts for each employee to ensure that each program is being charged correctly.

Revenues and expenditures for categorical programs should be reviewed and evaluated in the same manner as the unrestricted general fund. Carryover and deferred revenue of categorical programs should be similarly monitored. Categorical program budget development should be integrated with the district's goals and used to address student needs. Categorical funding should be spent in the year it is earned whenever possible.

School sites receive monthly budget reports from the business office but do not have online access to the financial system. To monitor their respective budgets in a timely manner, all budget managers should be provided read-only access to the financial system.

The child development fund has required a contribution from the general fund in past years and is projected to require a transfer in the current and out years. The district should perform an in-depth analysis of the program to evaluate how it may become self-sustaining.

Chief Business Official (CBO)

The district's former CBO, who was with the district for 28 years, retired in September 2007. The district is contracting with an individual on a part-time basis to help fill the void while advertising for a new CBO. This position is key to the organization and it will be essential for the district to find an experienced, qualified candidate to fill the position full-time. The responsibilities of the CBO should include oversight of various district departments such as business services, purchasing, risk management and food services.

The CBO has not been included on the district's negotiating team. Since the CBO is responsible for determining the district's financial condition and the impact of negotiations on the district's budget in the current and subsequent years, it is important for the CBO to be included at the negotiating table and to be involved in all discussions that relate to negotiations.

California Basic Educational Data System (CBEDS)

In reviewing the student enrollment data, FCMAT found that the district's 2006-07 enrollment numbers (34,327) did not match those reflected by the CDE (33,819). The district should work with the CDE to ensure that the 2006-07 enrollment numbers are recorded correctly. The district should also compare the numbers reported by CDE annually to ensure that they agree with the district's CBEDS totals.

Staffing Formulas

The district does not use staffing formulas for all positions. Current staffing formulas should be developed for all certificated and classified positions and used as a guide to determine staffing allocations for each site and department. Staffing allocations should be made for all positions based on district-wide formulas that include variables such as projected site enrollment, collective bargaining agreements, square footage of buildings and numbers of acres to be maintained.

Position Control

One of the most critical elements in budgeting for expenditures is accurately projecting employee salary and benefit costs. These costs are the largest part of school district budgets, averaging more than 91% of the unrestricted general fund budget in unified districts throughout California.

A reliable position control system establishes positions by site or department and helps prevent overstaffing by ensuring that staffing levels conform to district-approved formulas and standards. To be effective, the position control system must be integrated with other financial modules such as budget and payroll. Position control functions must be separated to ensure proper internal controls. The controls must ensure that only board-authorized positions are entered into the system, that human resources hires employees only for authorized positions, and that the payroll department pays only employees hired for authorized positions. The proper separation of duties is a key factor in creating strong internal controls and a reliable position control system.

Internal controls help ensure efficient operations, reliable financial information and legal compliance. They also help protect the district from material weaknesses, serious errors and fraud. These controls should be in place for any position control system. The following table provides a suggested distribution of labor between the Business and Personnel departments to help provide the necessary internal control structure.

Task	Responsibility
Approve or authorize position	Governing Board
Input approved position into position control, with estimated salary/budget. Each position is given a unique number.	Business Department
Enter demographic data into the main demographic screen, including: Employee name Employee address Social Security number Credential Classification Salary schedule placement Annual review of employee assignments	Personnel Department
Update employee benefits Review and update employee work calendars	Business or Personnel Department
Annually review and update salary schedules	Business Department
Account codes Budget development Budget projections Multiyear projections Salary projections	Business Department

The rollover of position control data from the current fiscal year to the budget year provides a starting point for development of the district's budget and should be completed early in the cycle. Position control files for the budget year should then be updated to eliminate positions as necessary, add new approved positions, make changes in statutory and health and welfare benefit rates and make any other adjustments that will affect salaries and benefits for the budget year. A fully functioning position control system helps districts maintain accurate budget projections, employee demographic data and salary and benefit information. The system should be fully integrated with payroll and budget modules and used to update the budget at each reporting period.

Average Daily Attendance (ADA)

As reflected in the Enrollment and ADA table presented earlier, the district's ADA percentage has decreased annually from a high of 95.79% in 2002-03 to a low of 93.94% in 2006-07. This reflects a total drop of 1.85%. Based on the 2007-08 base revenue limit of $5803.15 per ADA, the district could increase its unrestricted funding by $1.9 million annually for each 1% increase in ADA.

School Calendars

The district uses several different variations of school calendars including traditional, single-track year round and modified calendars. The district should investigate the possibility of reducing the number of different calendar options to determine if a savings may be realized by having more schools on the same schedule.

Other Post-Employment Benefits (OPEB)

In June 2004, GASB issued GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions," which establishes new accounting standards for state and local governments for reporting such non-pension costs. These costs include retiree medical care, prescription drugs, life and dental insurance. These costs are primarily related to retiree health care provided to employees who have retired.

The new accounting standards are being phased in over several years, based on the amount of revenue collected by each school agency in its governmental and enterprise funds as of June 30, 1999.

All School Agency Governmental and Enterprise Funds	GASB 43 Implementation Dates	GASB 45 Implementation Dates
Revenues over $100 million	2006-07	2007-08
Revenues between $10 million and $100 million	2007-08	2008-09
Revenues under $10 million	2008-09	2009-10

Beginning with the 2007-08 fiscal year, the district is required to recognize the unfunded liability associated with providing retiree health benefits for active and retired employees in its financial statements. Recognizing this obligation is a new requirement under accounting standards issued by GASB 45. The district's current estimate for OPEB is $93 million.

The GASB 45 statement deals exclusively with issues of disclosure and financial reporting and does **not** require the liability to be prefunded. School districts may continue funding OPEB on a pay as you go basis. However, according to published reports from Fitch and Standards & Poor's credit rating agencies, reporting a substantial unfunded liability on the district's financial statements **may** negatively affect future credit and bond ratings.

Recommendations

The district should:

1. Perform budget monitoring by resource and object monthly, and take budget transfers and budget adjustments to the board for approval monthly.
2. Encumber all expenditures in the financial system including salary and benefit amounts if the software provides that capability.
3. Ensure that statutory and health and welfare benefits follow the salary accounts for each employee.
4. Consider charging all salaries and benefits to the appropriate resource during the budget process rather than using contra (offset) accounts and journaling the expense during the closing process.
5. Consider charging substitutes to the proper accounts when payroll is processed rather than journaling the expense to the proper accounts sometime later in the year.
6. Consider using Resource 1300 rather than Resource 0000 for K-3 Class Size Reduction revenue and expense to more closely monitor the encroachment in the CSR program.
7. Consider utilizing Resource 3310, federal special education funds, for classified salaries rather than certificated salaries to reduce the district's PERS reduction contribution.
8. Consider utilizing funds in Resource 6200, class size reduction facilities, for portable classroom payments that are associated with the K-3 Class Size Reduction program.
9. Provide online, read-only access to the financial system for all budget managers.
10. Complete an in-depth analysis of the child development program to evaluate how it can become self-sustaining.
11. Continue to recruit for a qualified, experienced candidate to fill the CBO position full time.
12. Include the CBO as a member of the district's negotiating team.
13. Work with the CDE to ensure that the 2006-07 enrollment numbers are recorded correctly. Compare the numbers reported by CDE annually to ensure that they agree with the district's CBEDS totals.
14. Develop current staffing formulas for all positions and use them as a guide to determine staffing allocations for each site and department.
15. Keep the position control system current at all times and utilize the position control system to upload salary and benefit information for each reporting period.

16. Investigate methods to improve the ratio of ADA to enrollment.
17. Investigate the possibility of reducing the number of different school calendar options to determine if a savings may be realized by having more schools on the same schedule.
18. Determine the effect that the current pay-as-you-go funding method for OPEB will have on its ability to seek outside financing or sell general obligation bonds.

Appendices

General Fund/County School Service Fund
Unrestricted Resources Only
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2006 - 07	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10	Year 3 2010 - 11
Revenues						
Revenue Limit Sources	8010 - 8099	$182,581,031.29	$182,124,918.55	$173,960,974.36	$174,170,661.96	$173,877,843.59
Federal Revenues	8100 - 8299	$339,812.00	$346,294.00	$0.00	$0.00	$0.00
Other State Revenues	8300 - 8599	$18,229,087.24	$17,433,270.00	$16,213,278.33	$16,193,253.98	$16,147,676.64
Other Local Revenues	8600 - 8799	$3,059,564.00	$2,660,000.00	$2,560,000.00	$2,560,000.00	$2,560,000.00
Total Revenues		$204,209,494.53	$202,564,482.55	$192,734,252.69	$192,923,915.94	$192,585,520.23
Expenditures						
Certificated Salaries	1000 - 1999	$105,824,755.92	$104,249,554.00	$104,365,206.38	$104,636,594.92	$105,025,016.32
Classified Salaries	2000 - 2999	$24,123,593.00	$22,608,042.00	$22,601,812.95	$22,955,860.13	$23,315,218.02
Employee Benefits	3000 - 3999	$38,723,567.66	$39,985,212.00	$40,487,368.93	$40,940,818.03	$41,362,606.46
Books and Supplies	4000 - 4999	$3,004,746.63	$3,766,811.00	$2,777,107.82	$2,769,394.39	$2,770,219.66
Services and Other Operating Expenditures	5000 - 5999	$9,568,196.51	$11,285,023.00	$10,844,008.88	$11,084,278.60	$11,355,425.38
Capital Outlay	6000 - 6900	$477,161.38	$1,711,178.00	$543,100.00	$543,100.00	$543,100.00
Other Outgo	7000 - 7299	($1,754.70)	$20,000.00	$20,000.00	$20,000.00	$20,000.00
Direct Support/Indirect Cost	7300 - 7399	($3,724,649.33)	($3,555,279.00)	($3,546,649.00)	($3,537,191.00)	($3,538,373.00)
Debt Service	7430 - 7439	$3,185,848.17	$2,727,125.00	$2,927,125.00	$2,233,589.00	$1,187,831.00
Total Expenditures		$181,181,465.24	$182,797,666.00	$181,019,080.96	$181,646,444.07	$182,041,043.84
Excess (Deficiency) of Revenues Over Expenditures		$23,028,029.29	$19,766,816.55	$11,715,171.73	$11,277,471.87	$10,544,476.39
Other Financing Sources\Uses						
Interfund Transfers In	8910 - 8929	$0.00	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$1,689,004.74	$113,766.00	$113,766.00	$113,766.00	$113,766.00
All Other Financing Sources	8930 - 8979	$67,648.39	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($18,847,506.39)	($20,761,168.02)	($25,685,056.66)	($26,180,825.36)	($26,780,829.50)
Total Other Financing Sources\Uses		($20,468,862.74)	($20,874,934.02)	($25,798,822.66)	($26,294,591.36)	($26,894,595.50)
Net Increase (Decrease) in Fund Balance		$2,559,166.55	($1,108,117.47)	($14,083,650.93)	($15,017,119.49)	($16,350,119.11)
Fund Balance						
Beginning Fund Balance (as of July 1 – Unaudited)	9791	$21,092,949.41	$23,504,981.11	$22,396,863.64	$8,313,212.71	($6,703,906.78)
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	($147,134.85)	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$20,945,814.56	$23,504,981.11	$22,396,863.64	$8,313,212.71	($6,703,906.78)
Ending Fund Balance		$23,504,981.11	$22,396,863.64	$8,313,212.71	($6,703,906.78)	($23,054,025.89)
Components of Ending Fund Balance						
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$252,000.00	$257,000.00	$257,000.00	$257,000.00	$257,000.00
Stores	9712	$653,899.47	$640,000.00	$640,000.00	$640,000.00	$640,000.00
Prepaid Expenditures	9713	$7,721.00	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$0.00	$0.00	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		2.00%	2.00%	2.00%	3.00%	3.00%
Designated for Economic Uncertainties	9770	$5,693,676.38	$5,679,160.20	$5,661,146.57	$8,541,479.08	$8,594,270.62
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$3,454,194.05	$0.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$13,443,490.21	$15,820,703.44	$1,755,066.14	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00	($16,142,385.86)	($32,545,296.51)

General Fund/County School Service Fund
Restricted Resources Only
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2006 - 07	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10	Year 3 2010 - 11
Revenues						
Revenue Limit Sources	8010 - 8099	$6,300,690.72	$6,297,209.00	$6,297,209.00	$6,297,209.00	$6,297,209.00
Federal Revenues	8100 - 8299	$35,085,642.71	$37,497,213.00	$30,128,845.00	$29,923,444.00	$29,923,444.00
Other State Revenues	8300 - 8599	$35,540,992.99	$28,997,880.00	$25,027,990.40	$25,727,997.34	$26,351,964.72
Other Local Revenues	8600 - 8799	$14,673,919.27	$14,535,920.00	$13,782,184.96	$14,112,015.88	$14,407,439.31
Total Revenues		$91,601,245.69	$87,328,222.00	$75,236,229.36	$76,060,666.22	$76,980,057.03
Expenditures						
Certificated Salaries	1000 - 1999	$36,305,439.38	$34,665,431.00	$35,543,294.40	$36,069,066.14	$36,598,241.74
Classified Salaries	2000 - 2999	$21,262,712.78	$21,528,237.00	$22,364,750.57	$22,700,221.81	$23,040,725.12
Employee Benefits	3000 - 3999	$17,001,818.85	$18,216,227.00	$19,027,277.30	$19,455,586.45	$19,854,766.80
Books and Supplies	4000 - 4999	$11,546,722.48	$11,620,808.00	$10,171,266.67	$9,961,912.83	$9,885,148.19
Services and Other Operating Expenditures	5000 - 5999	$11,482,079.73	$9,359,070.82	$9,115,131.57	$9,040,881.40	$9,181,669.21
Capital Outlay	6000 - 6900	$337,298.30	$444,900.00	$444,900.00	$444,900.00	$444,900.00
Other Outgo	7000 - 7299	$1,097,346.66	$1,105,000.00	$1,159,587.00	$1,194,374.61	$1,225,428.35
Direct Support/Indirect Cost	7300 - 7399	$2,367,495.94	$2,154,617.00	$2,145,987.00	$2,136,529.00	$2,137,711.00
Debt Service	7430 - 7439	$412,434.82	$355,597.00	$355,597.00	$355,597.00	$355,597.00
Total Expenditures		$101,813,348.94	$99,449,887.82	$100,327,791.51	$101,359,069.24	$102,724,187.41
Excess (Deficiency) of Revenues Over Expenditures		($10,212,103.25)	($12,121,665.82)	($25,091,562.15)	($25,298,403.02)	($25,744,130.38)
Other Financing Sources\Uses						
Interfund Transfers In	8910 - 8929	$0.00	$1,000,000.00	$1,000,000.00	$1,000,000.00	$1,000,000.00
Interfund Transfers Out	7600 - 7629	$0.00	$1,596,690.00	$1,596,690.00	$1,596,690.00	$1,596,690.00
All Other Financing Sources	8930 - 8979	$10,341.04	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$18,847,506.39	$20,761,168.02	$25,685,056.66	$26,180,825.36	$26,780,829.50
Total Other Financing Sources\Uses		$18,857,847.43	$20,164,478.02	$25,088,366.66	$25,584,135.36	$26,184,139.50
Net Increase (Decrease) in Fund Balance		$8,645,744.18	$8,042,812.20	($3,195.49)	$285,732.34	$440,009.12
Fund Balance						
Beginning Fund Balance (as of July 1 – Unaudited)	9791	$18,289,156.59	$23,296,852.12	$31,339,664.32	$31,336,468.83	$31,622,201.17
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	($3,638,048.65)	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$14,651,107.94	$23,296,852.12	$31,339,664.32	$31,336,468.83	$31,622,201.17
Ending Fund Balance		$23,296,852.12	$31,339,664.32	$31,336,468.83	$31,622,201.17	$32,062,210.29
Components of Ending Fund Balance						
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$0.00	$0.00	$0.00	$0.00	$0.00
Stores	9712	$0.00	$0.00	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$23,296,852.12	$31,339,664.32	$31,336,468.83	$31,622,201.17	$32,062,210.29
Designated for Economic Uncertainties	9770	$0.00	$0.00	$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	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$0.00	$0.00	$0.00	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00	$0.00	$0.00

General Fund/County School Service Fund
Unrestricted and Restricted Resources
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2006 - 07	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10	Year 3 2010 - 11
Revenues						
Revenue Limit Sources	8010 - 8099	$188,881,722.01	$188,422,127.55	$180,258,183.36	$180,467,870.96	$180,175,052.59
Federal Revenues	8100 - 8299	$35,425,454.71	$37,843,507.00	$30,128,845.00	$29,923,444.00	$29,923,444.00
Other State Revenues	8300 - 8599	$53,770,080.23	$46,431,150.00	$41,241,268.73	$41,921,251.32	$42,499,641.36
Other Local Revenues	8600 - 8799	$17,733,483.27	$17,195,920.00	$16,342,184.96	$16,672,015.88	$16,967,439.31
Total Revenues		$295,810,740.22	$289,892,704.55	$267,970,482.05	$268,984,582.16	$269,565,577.26
Expenditures						
Certificated Salaries	1000 - 1999	$142,130,195.30	$138,914,985.00	$139,908,500.78	$140,705,661.06	$141,623,258.06
Classified Salaries	2000 - 2999	$45,386,305.78	$44,136,279.00	$44,966,563.52	$45,656,081.94	$46,355,943.14
Employee Benefits	3000 - 3999	$55,725,386.51	$58,201,439.00	$59,514,646.23	$60,396,404.48	$61,217,373.26
Books and Supplies	4000 - 4999	$14,551,469.11	$15,387,619.00	$12,948,374.49	$12,731,307.22	$12,655,367.85
Services and Other Operating Expenditures	5000 - 5999	$21,050,276.24	$20,644,093.82	$19,959,140.45	$20,125,160.00	$20,537,094.59
Capital Outlay	6000 - 6900	$814,459.68	$2,156,078.00	$988,000.00	$988,000.00	$988,000.00
Other Outgo	7000 - 7299	$1,095,591.96	$1,125,000.00	$1,179,587.00	$1,214,374.61	$1,245,428.35
Direct Support/Indirect Cost	7300 - 7399	($1,357,153.39)	($1,400,662.00)	($1,400,662.00)	($1,400,662.00)	($1,400,662.00)
Debt Service	7430 - 7439	$3,598,282.99	$3,082,722.00	$3,282,722.00	$2,589,186.00	$1,543,428.00
Total Expenditures		$282,994,814.18	$282,247,553.82	$281,346,872.47	$283,005,513.31	$284,765,231.25
Excess (Deficiency) of Revenues Over Expenditures		$12,815,926.04	$7,645,150.73	($13,376,390.42)	($14,020,931.15)	($15,199,653.99)
Other Financing Sources\Uses						
Interfund Transfers In	8910 - 8929	$0.00	$1,000,000.00	$1,000,000.00	$1,000,000.00	$1,000,000.00
Interfund Transfers Out	7600 - 7629	$1,689,004.74	$1,710,456.00	$1,710,456.00	$1,710,456.00	$1,710,456.00
All Other Financing Sources	8930 - 8979	$77,989.43	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00	$0.00	$0.00
Total Other Financing Sources\Uses		($1,611,015.31)	($710,456.00)	($710,456.00)	($710,456.00)	($710,456.00)
Net Increase (Decrease) in Fund Balance		$11,204,910.73	$6,934,694.73	($14,086,846.42)	($14,731,387.15)	($15,910,109.99)
Fund Balance						
Beginning Fund Balance (as of July 1 – Unaudited)	9791	$39,382,106.00	$46,801,833.23	$53,736,527.96	$39,649,681.54	$24,918,294.39
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	($3,785,183.50)	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$35,596,922.50	$46,801,833.23	$53,736,527.96	$39,649,681.54	$24,918,294.39
Ending Fund Balance		$46,801,833.23	$53,736,527.96	$39,649,681.54	$24,918,294.39	$9,008,184.40
Components of Ending Fund Balance						
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$252,000.00	$257,000.00	$257,000.00	$257,000.00	$257,000.00
Stores	9712	$653,899.47	$640,000.00	$640,000.00	$640,000.00	$640,000.00
Prepaid Expenditures	9713	$7,721.00	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$23,296,852.12	$31,339,664.32	$31,336,468.83	$31,622,201.17	$32,062,210.29
Economic Uncertainties Percentage		2.00%	2.00%	2.00%	3.00%	3.00%
Designated for Economic Uncertainties	9770	$5,693,676.38	$5,679,160.20	$5,661,146.57	$8,541,479.08	$8,594,270.62
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$3,454,194.05	$0.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$13,443,490.21	$15,820,703.44	$1,755,066.14	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00	($16,142,385.86)	($32,545,296.51)

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM
CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
October 19, 2007

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's fiscal 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 District's 2007-08 Adoption Budget received "Conditional Approval" from the Los Angeles County Office of Education indicating that the Budget was based upon $4 million in non specific expenditure reductions included in the budget submittal. Due to the uncertainty and status of these proposed reductions, the COE had determined that the District's 2007-08 Budget did not meet the recommended 2% reserve requirements. On August 24th the District submitted $5.56 million in various budget adjustments to the COE for further review and consideration.

The District currently faces ongoing challenges of declining enrollment, deficit spending and impending salary negotiations with their respective employee bargaining units. It is anticipated that the District will need to make budget adjustments totaling approximately $9 million dollars to sustain their financial solvency. The District is requesting the Team to conduct an in depth review of the District's 2007-08 General Fund Budget and complete a Multi-Year Financial Projection for the current and two subsequent fiscal years.

The Team shall utilize FCMAT's Budget Explorer v.2.0 Multi-Year Financial Projection software to complete this component of the work. Recommendations will be provided to enhance revenues or reduce expenditures, as requested.

B. <u>Services and Products to be Provided</u>

1) Orientation Meeting - The Team will conduct an orientation session at the 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) Progress Reports - 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 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 costs. 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. Michele Huntoon, Chief Management Analyst
B. Debi Deal, Fiscal Intervention Specialist
C. Diane Branham, Fiscal Intervention Specialist
D. Margaret Rosales, FCMAT Consultant

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. Based on the elements noted in section 2 A, the total cost of the study is estimated at $16,500. 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

C. Any change to the scope will affect the estimate of total cost referenced in item 4B and shall be mutually agreed upon. The terms and conditions proposed by FCMAT may be accepted by the District within a thirty day period from the receipt of this agreement. All terms and conditions contained herein will become null and void should the District fail to execute this agreement within the specified time period.

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. The Team anticipates interviews with the following personnel:

1.) Board Members
2.) Superintendent
3.) Interim Assistant Superintendent of Business Services
4.) Assistant Superintendent of Facilities & Operations
5.) Controller
6.) Payroll Personnel
7.) Accounts Payable Personnel
8.) Categorical Personnel
9.) Site Principals, if requested

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 by District and Department
4) Current and four (4) prior years' audit reports
5) Documents requested on a supplemental listing upon contract approval

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. <u>PROJECT SCHEDULE</u>

Scheduling of the review will be confirmed following notice by the District to FCMAT of Governing Board approval.

The following schedule outlines the estimated completion dates for key study milestones if confirmation of board approval is received by October 19, 2007:

Orientation:	Estimated November
Staff Interviews:	to be determined
Exit Interviews:	to be determined
Preliminary Report Submitted:	to be determined
Final Report Submitted:	Estimated mid to late December 2007
Board Presentation:	to be determined

Follow-Up Support: Estimated July 2008

7. CONTACT PERSON

Please print name of contact person: Edward Velasquez, Superintendent

Telephone 323-887-7900 x2206 FAX 323-887-5890

Internet Address velasquez_ed@montebello.k12.ca.us

____

Edward Velasquez, Superintendent Date
Montebello Unified School District

Barbara Dean 10/19/07
Barbara Dean, Deputy Administrative Officer Date
Fiscal Crisis and Management Assistance Team

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.