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July 31, 2012

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Ms. Christine Walters, Board President
Glendale Unified School District
223 W. Jackson Street
Glendale, CA 91206-4380

Dear Ms. Walters:

In accordance with the provisions of Education Code (EC) Section 42127, a review of the Glendale Unified School District's (District) budget for fiscal year 2012-13 has been completed by the Los Angeles County Superintendent of Schools. **That review has resulted in the approval of the District's budget with the following comments.**

DEFICIT SPENDING

We have noted that the District is projecting an operating deficit of approximately \$15.4 million, representing 7.02 percent of the District's projected expenditures and other outgo for fiscal year 2012-13. The District also projects operating deficits of \$21.2 million and \$6.2 million for 2013-14 and 2014-15, respectively. As a result, the District's reserves are negatively impacted and decrease, which is illustrated in the chart below.

General Fund Projection (\$ millions)

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Beginning General Fund Balance	\$48.5	\$33.1	\$11.9
Projected Deficit Spending	(\$15.4)	(\$21.2)	(\$6.2)
Ending General Fund Balance	<u>\$33.1</u>	<u>\$11.9</u>	<u>\$5.7</u>
REU Amount	\$28.9	\$7.7	\$2.2
REU Percent	13.1 percent	3.5 percent	0.96 percent

We are concerned that, if this deficit spending continues as projected, it could severely impact the District's fiscal solvency in future years. Therefore, we are requesting that the District address deficit spending in its fiscal stabilization plan.

RESERVE FOR ECONOMIC UNCERTAINTIES

As shown in the chart above, the District is projecting reserve levels of 13.1 percent for 2012-13, 3.5 percent for 2013-14, and 0.96 percent for 2014-15. While the reserve levels for 2012-13 and 2013-14 meet the minimum requirements of the State Criteria and Standards, the reserve for 2014-15 is below the required level.

We therefore request that the District develop and adopt a fiscal stabilization plan that restores and maintains the reserves at the required level for 2014-15. These adjustments should be reflected in the First Interim Report due to our office by December 15, 2012.

CASH FLOW

Because of the state's continued use of education funding deferrals, it is advisable that all districts have a Board-approved temporary cash borrowing resolution in place for 2012-13. Please refer to Informational Bulletin No. 243, dated April 23, 2012, for instructions and sample resolutions.

We have noted that the District is projecting a low General Fund ending cash balance of \$4.4 million for the month of June 2013. Information included with the 2012-13 Adopted Budget indicates that the District will secure an inter-fund borrowing resolution and has cash available in other funds in order to address any potential shortfalls during the year. We request that the District notify the County Office immediately if a cash shortfall is projected that cannot be covered through local means.

CONTINGENCY PLAN

Districts were requested to submit a contingency plan with their adopted budget outlining what actions would be considered to offset a potential \$441 per average daily attendance (ADA) ongoing reduction in 2012-13 should the Governor's tax initiative not pass in November. With the passage of the 2012-13 Budget Act, the potential reduction has grown to \$457 per ADA. While the District submitted a contingency plan comprised of transfers into the General Fund from four different funds it is not sufficient to restore and maintain reserves at the required level for 2014-15 as shown in the table below.

Reserve for Economic Uncertainties (\$ millions)

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
<u>District Adopted Reserves</u>			
District Ending Fund Balance	\$33.1	\$11.9	\$5.7
District Reserve Amount	\$28.9	\$7.7	\$2.2

District Reserve Percent	13.13 percent	3.46 percent	0.96 percent
Potential \$457 per ADA Ongoing Reduction	(\$11.7)	(\$11.7) (\$11.5)	(\$11.7) (\$11.5) (\$11.4)
Contingency Plan		\$24.7	
<u>Reserves As Adjusted</u>			
Adjusted Reserve Amount	\$17.2	\$9.3	(\$7.7)
Adjusted Reserve Percent	7.83 percent	4.14 percent	(3.40) percent

We request that the District develop and submit a revised Board-approved contingency plan with the First Interim Report that outlines what actions would be considered to offset a potential \$457 per ADA reduction should the Governor's tax initiative not pass in November.

CONCLUSION

We wish to express our appreciation to the District's staff for their cooperation during the review of the District's budget for fiscal year 2012-13. If our office can be of further assistance, please call me at (562) 922-6133.

Sincerely,



Dionisio Brache
Business Services Consultant
Division of Business Advisory Services

DB:gm

cc: Dr. Sheehan, Superintendent, Glendale Unified School District (GUSD)
Ms. Lueck, Chief Business and Financial Officer, GUSD
Mr. Lee, Director of Fiscal Services, GUSD
Mr. Larimer, Financial Analyst, GUSD
Dr. Cherniss, Los Angeles County Office of Education (LACOE)
Ms. Dunn, LACOE
Mr. Burdy, LACOE
Ms. Smith, LACOE