Rec'd 1/21/09-vw

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January 15, 2009

Rick Ledesma, Board President
Orange Unified School District
1401 N. Handy Street
Orange, CA 92867

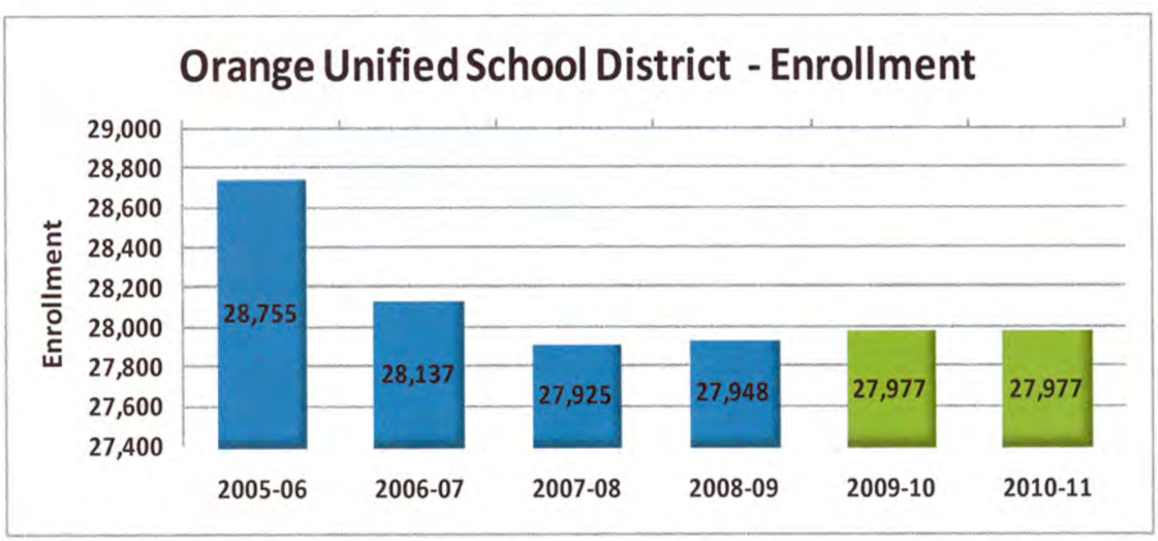
Renae Dreier, Ed.D., Superintendent
Orange Unified School District
1401 N. Handy Street
Orange, CA 92867

RE: 2008-09 FIRST INTERIM REPORT

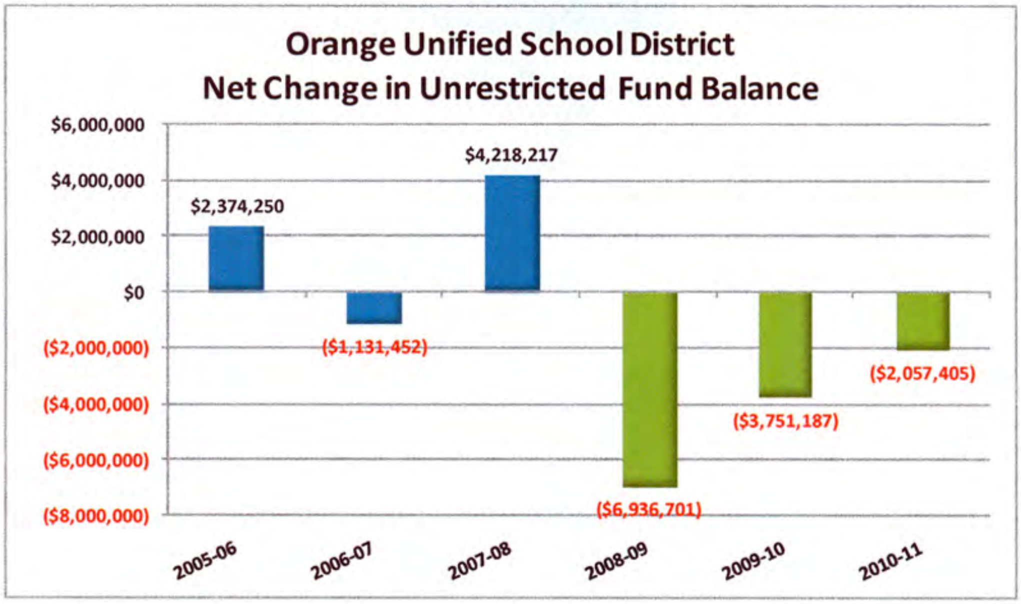
Dear Mr. Ledesma and Dr. Dreier:

Thank you for the timely submission of the First Interim Report. We have completed our review and analysis of your 2008-09 First Interim Report and the accompanying certification of financial solvency. We agree with your assessment that based on projections prior to the Governor's January 2009 proposal, the Orange Unified School District will be able to meet its financial obligations for the current and subsequent two fiscal years, and that a positive certification is appropriate.

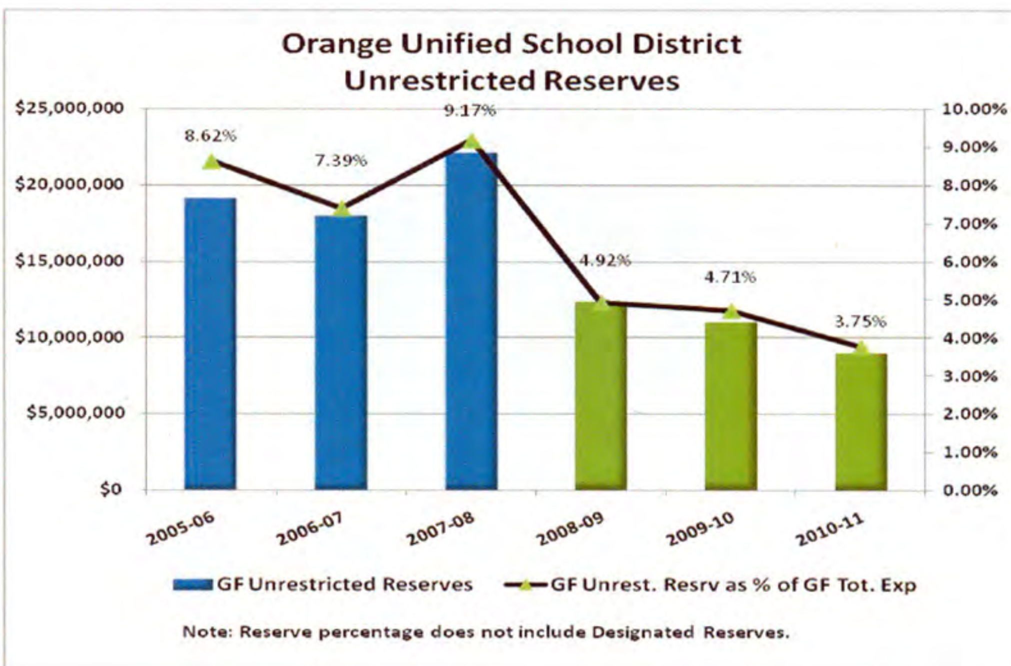
The District is projecting 2008-09 enrollment of 27,948 or an increase of 23 over the prior year enrollment (CBEDS). For the subsequent year, the District is projecting an enrollment increase of 29 and to remain flat in the following year (see chart below). Based on the information provided and conversations with District staff, the District's projection for future student enrollment appears reasonable. We encourage the District to closely monitor future enrollment trends and prepare for appropriate budget adjustments should enrollment projections fluctuate adversely.



The District's unrestricted expenditures are projected to exceed revenues in the current year and the unrestricted ending fund balance is expected to decrease by ($6.9 Million). However, it is our understanding that the Board is in the process of developing a plan to make $10.2 million of ongoing budget reductions in 2009-10 to address the deficit spending (see chart below).



Although the District's budgeted reserve level meets the State recommended minimum level, in light of the economic crisis we are all facing, we are concerned about the District's rapidly diminishing unrestricted reserves (see chart below). We encourage the District to closely monitor the encroachment of restricted programs on the unrestricted portion of the general fund and to bring revenues and expenditures into balance.



The information submitted with your First Interim Report indicates that salary negotiations have not been concluded for the 2008-09 fiscal year. Although the District has included the estimated costs for step and column in the current year and two subsequent years, they have not included the increased cost of health benefit premiums for 2009-10 and 2010-11. It is also important to note that, although financial projections for the current budget year, as well as the 2009-10 and 2010-11 budget years project adequate reserves, revenue increases associated with the 2010-11 statutory cost of living adjustment are included. Including revenue associated with the COLA, but not the potential corresponding increases in salaries and health and benefits, may artificially inflate projected reserves.

In accordance with AB1200 (Statutes of 1991, Chapter 1213), Government Code 3547.5, amended by AB 2756, please complete the Disclosure of Collective Bargaining Agreements prior to Board action of the proposed settlements and send a copy to this office along with the certification pages.

In addition, the Criteria and Standards indicate that the District issued other post-employment benefit bonds in the amount of $94.7 million in May of 2008, with an annual requirement to repay the bonds from the general fund. We recognize that the District has made the assumption that the return on investment will be sufficient to offset the future annual repayment and the increased costs of health and welfare benefits for retirees. With the global financial crisis and unstable investment market, we encourage the District to monitor its long term debts, investment returns, and the impact on the general fund.

Due to the escalating State Budget crisis which is currently estimated to be at least $41 billion over the next 18 months, we anticipate that there will be further budget reductions (mid-year and next year) to education to address the State's revenue shortfall. Because of the State's deteriorating cash position, we advise districts to closely monitor their cash flow in the event that the State defers additional apportionment funding in the current year.

We recognize that the Governing Board took proactive steps to ensure fiscal solvency and the District will implement $10.2 million in ongoing budget reductions in 2009-10. Furthermore, as presented in the Criteria and Standards, we recognize that the District will meet or exceed the minimum reserve requirement in the current and two subsequent fiscal years. This indicates the District's willingness to make additional reductions as needed. The District is required to submit a detailed list of Board approved ongoing budget reductions with the 2008-09 Second Interim Report. Our office continues to recommend that the District maintain unrestricted reserves above the State recommended minimum. Through experience, we have all learned that by maintaining reserves greater than the State recommended minimum level, districts are better prepared to face the uncertainty of the future.

Sincerely,

Wendy Benkert

Wendy Benkert, Ed.D.
Assistant Superintendent
Business Services

WB:dd

cc: Jon Archibald, Assistant Superintendent, Business Services