

# Appendix A

June 30, 2003

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
Vallejo City Unified School District  
211 Valle Vista Avenue  
Vallejo, CA 94590-3282

**SUBJECT:** County Office Review of the 2002-03 Third Interim Financial Report Certification

Dear Mr. Pendergast and Dr. Phillips-Evans:

In compliance with the provision of Education Code Section 42131, a review of the Vallejo City Unified School District's (District) "financial statement projections of the district's fund and cash balances through June 30 for the period ending April 30" has been completed by the County Superintendent of Schools.

Based on the data current as of April 30, 2003 and with multiyear projections and assumptions provided by the District, we concur with the District's qualified certification. A "qualified" certification indicates that the District "may not be able to meet its financial obligations for the current and two subsequent fiscal years." With this certification and in conjunction with the current State budget crisis and the related uncertainties surrounding educational funding, the District is urged to exercise a high level of caution in implementing its spending priorities. Further, the District should carefully develop realistic fiscal and budget planning parameters that will fully restore the District's required Reserve for Economic Uncertainty.

### FINANCIAL STATUS

A review of the 2002-03 financial status of the Vallejo City Unified School District (VCUSD) as of April 30, 2003 was undertaken. This review of the current 2002-03 VCUSD financial condition is also the first step in the County Office's review of the 2003-04 Proposed/Adopted Budget. The results of this detailed review were discussed and provided to District staff. In general, the projections submitted accurately reflect the overall anticipated 2002-03 Annual Revenue and Expenditures. Areas of possible variance and reduced income are included in the District's report and are under review by the District.

---

#### Board of Education

Larry Asera, *President*   Ray Silva, *Vice President*   Mayrene Bates   Jose V. Briseño   Douglas J. Ford   John T. Galvan   Geneva Watts

★ "Pursuing Excellence"   ★ An Equal Opportunity Employer   ★

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
June 30, 2003  
Page 2

## **RESERVE FOR ECONOMIC UNCERTAINTIES**

The District's adherence to 2002 – 03 Fiscal Recovery Plan has restored the District to a 3% Reserve for Economic Uncertainty (REU). While revenue and expenditures should continue to be closely monitored to maintain this minimum level, especially in light of the State budget crisis, the District is to be commended for the discipline exercised in restoring solvency and prudent fiscal planning.

## **DEBT ISSUANCE**

This letter is also a reminder of the statutory requirements for debt issuance for school districts with qualified or negative interim report certifications.

These requirements are specifically addressed by EC Section 42133(a), which reads:

"A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United States Code, unless the county superintendent of schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the district's repayment of that indebtedness is probable. A district is deemed to have a qualified or negative certification for purposes of this subdivision if, pursuant to this article, it files that certification or the county superintendent of schools classifies the certification of that fiscal year to be qualified or negative "

## **ACTIONS REQUIRED BY THE DISTRICT**

The 2003-04 Vallejo City Unified School District Budget needs to continue the progress made to date in maintaining a balanced budget with an adequate Reserve for Economic Uncertainties, and continuing the implementation of a financial plan where the District can meet its' fiscal obligations in future years. While the 3% REU is the level identified for the District by State Standards and Criteria, it should only be viewed as a minimum. The District is advised that reserves in excess of the required level will only secure a more stable financial position for the District during these times of financial stress with the State.

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
June 30, 2003  
Page 3

We commend the District for the adherence to the approved Fiscal Recovery Plan and the progress demonstrated to this point. Additionally, we wish to express our appreciation for the communications and cooperation in working with the District.

Should you have any questions concerning this review, please call Ms. Barbara Kohrt, at 399-4412 or me at 399-4404.

Sincerely,



Donald Kenneth Shelton  
Deputy Superintendent, Administrative Services/Chief Business Official

- cc Wendall Kuykendall, Ed.D, Solano County Superintendent of Schools  
Dee Alarcón, Deputy Superintendent, Solano County Office of Education  
Barbara Kohrt, District Business Services, Solano County Office of Education  
Sarah Hart, Business Services Consultant, Solano County Office of Education  
Frank Remkiewicz, Associate Superintendent, Business Services, VCUSD

# Appendix B

August 21, 2003

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
Vallejo City Unified School District  
211 Valle Vista Avenue  
Vallejo, CA 94590-3282

SUBJECT: 2003-04 Vallejo City Unified School District Adopted Budget

Dear Mr. Pendergast and Dr. Phillips-Evans:

In accordance with *Education Code* sections 42127, we have reviewed the Vallejo Unified School District 2003-04 Adopted Budget to determine if the budget complies with the Criteria and Standards adopted by the State Board of Education, will allow the school district to meet their financial obligations during the fiscal year, and is consistent with a financial plan that will enable the school district to meet their multiyear financial commitments. Based on our review, the Solano County Office of Education is unable to approve the Vallejo Unified School District 2003-04 Adopted Budget at this time. Solano County Office of Education staff and District staff met on August 21, 2003 to review areas of concern with the goal of identifying by September 8, 2003 the revisions and corrections necessary for an approvable budget.

The Solano County Office of Education initial review of the District's 2003-04 Adopted Budget has identified several areas that may affect the ability of the District to meet their financial obligations during the 2003-04 fiscal year and their multiyear financial commitments. The main areas of concern are:

1. The District 2003-04 Adopted Budget includes five District Funds (Adult Education, Child Development, Cafeteria, Capital Facilities, Self Insurance) projected to end the 2002-03 fiscal year with significant negative balances. The 2003-04 Adopted Budgets for these five funds continue the deficit ending balances.
2. The June 30, 2002 Audit Report, prepared by Goodell, Porter & Fredericks, LLP, lists Interfund Payables from the above five funds to the General Fund. The basis for these amounts and the impact of these payables on the General Fund and Ancillary Funds Ending Balances are unclear.

---

**Board of Education**

Larry Asera, *President*   Ray Silva, *Vice President*   Mayrene Bates   Jose V. Briseño   Douglas J. Ford   John T. Galvan   Geneva Watts

★ "Pursuing Excellence" ★ An Equal Opportunity Employer ★

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
August 21, 2003  
Page 2

3. The 2002-03 Estimated Actuals do not accurately reflect the financial condition of the General Fund and Ancillary Funds. The inaccurate projected 2002-03 Ending Balances/2003-04 Beginning Balances then distort the projected financial position of these funds.

The above items are not a comprehensive list of technical or budgetary concerns identified during the Solano County Office of Education review of the Vallejo Unified School District 2003-04 Adopted Budget, but represent the major items that must be addressed in order to determine the ability of the District to meet its financial obligations in 2003-04 and the following two fiscal years.

The Solano County Office of Education would like to work together with District staff in order to resolve these issues and to determine the accurate financial status of the Vallejo Unified School District. The following work plan is suggested:

1. Conduct a general review of the 2002-03 Estimated Actuals for reasonableness and to determine the approximate 2002-03 Ending Balances of the General Fund and Ancillary Funds.
2. Conduct a general review of the 2003-04 Adopted Budget for reasonableness and to determine the approximate 2003-04 Ending Balances of the General Fund and Ancillary Funds.
3. Schedule a joint meeting between the District, County Office and Independent Auditor to review the outstanding Interfund Payables/Receivables, identify the total amount due from these funds to the General Fund, and determine the General Fund Ending Balance/Beginning Balance based on the reasonable expectation of 2003-04 receipts.
4. Revise the General Fund and Ancillary Fund budgets as necessary in order for the Vallejo Unified School District to meet their financial obligations for the 2003-04 fiscal year and consistent with a financial plan that will enable the school district to meet their multiyear financial commitments.

Also enclosed is a copy of the 2003 Financial Reporting Calendar as prepared by the California Department of Education. This report lists key dates for the filing of required financial information with the Solano County Office of Education.

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
August 21, 2003  
Page 3

The Solano County Office of Education would like to express their appreciation to the District for their cooperation as we continue the budget review process. Should you have any questions regarding this letter or the budget review process, please give me a call.

Sincerely,



Dee Alarcón  
Deputy Superintendent

SH/mmw

Enclosure

cc Frank Remkiewicz, Associate Superintendent, Business Services  
Sarah Hart, Business Services Consultant, SCOE  
Barbara Kohrt, Director, District Business Services, SCOE

# Appendix C



**Solano County Office of  
education**

5100 Business Center Drive, Fairfield, CA 94534-1658 707.399.4400 www.solanocoje.net

Dee Alarcón, Superintendent of Schools

September 15, 2003

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
Vallejo City Unified School District  
211 Valle Vista Avenue  
Vallejo, CA 94590-3282

SUBJECT: 2003-04 Vallejo City Unified School District Adopted Budget

Dear Mr. Pendergast and Dr. Phillips-Evans:

In accordance with *Education Code* sections 42127, we have reviewed the Vallejo City Unified School District 2003-04 Adopted Budget to determine if the budget complies with the Criteria and Standards adopted by the State Board of Education, will allow the school district to meet their financial obligations during the fiscal year, and is consistent with a financial plan that will enable the school district to meet their multiyear financial commitments. Based on our review, the Vallejo City Unified School District 2003-04 Adopted Budget is disapproved.

Solano County Office of Education staff and District staff met on August 21, 2003 to review areas of concern with the goal of identifying by September 8, 2003 the revisions and corrections necessary for an approvable budget. On September 8, 2003 the Vallejo City Unified School District notified the Solano County Office of Education that the County Office requested review of the 2003-04 Adopted Budget and preparation of the necessary budget revisions would not be completed until the beginning of October 2003.

On September 9, 2003 and September 15, 2003, the Solano County Office of Education Superintendent of Schools and county office staff met with the Vallejo City Unified School District Superintendent of Schools and district staff to review the major areas of concern that together formed the basis for determination that the 2003-04 Vallejo City Unified School District Adopted Budget does not comply with the standards and criteria established pursuant to Education Code Section 33127. Major areas identified are:

**Average Daily Attendance**

The 2003-04 VCUSD Adopted Budget Average Daily Attendance, Form A, projects Average Daily Attendance of 19,693, a growth of 1,746.62 ADA - 1,267 Elementary ADA and 479 High School ADA. This projection is significantly higher than the growth estimates listed in the 2003-04 Adopted Budget Graphs section.

**Board of Education**

Larry Asera, *President* Ray Silva, *Vice President* Mayrene Bates Jose V. Briseño Douglas J. Ford John T. Galvan Geneva Watts

"Pursuing Excellence" An Equal Opportunity Employer

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
September 15, 2003  
Page 2

The 2003-04 VCUSD Adopted Budget Revenue Limit calculation, Form RL, is based on the ADA projection of 19,693. Revenue Limit income in the 2003-04 Adopted Budget is significantly overstated.

### **Mandated Cost Revenue**

The 2003-04 VCUSD Adopted Budget includes Mandated Cost Claims Reimbursement Revenue of \$327,000. State funding for Mandated Cost Claims has been suspended for the 2003-04 fiscal year.

### **Ancillary Funds - Projected Negative Ending Balances**

The 2003-04 VCUSD Adopted Budgets for the following funds were submitted with negative fund balances:

	<u>Fund Balance</u>
Adult Education Fund	(994,512.50)
Child Development Fund	(542,656.34)
Cafeteria Fund	(1,510,239.21)
Capital Facilities Fund	(372,925.34)
Self-Insurance Fund	<u>(2,655,679.61)</u>
Total Deficit Balances	(6,076,013.00)

Although several of these funds do have negative balances, the above negative balances are overstated. The 2003-04 VCUSD Adopted Budgets for these funds do not accurately reflect their financial condition nor do they provide the necessary transfers or plans to eliminate the negative ending balances.

### **Ancillary Funds – Interfund Transactions**

The VCUSD Audit Report, Note 4—Interfund Transactions, lists individual fund Interfund receivable and payable balances as of June 30, 2002. Interfund Payables for the Ancillary Funds under review are:

Adult Education Fund	718,438
Child Development Fund	765,338
Cafeteria Fund	2,019,788
Capital Facilities Fund	418,520
Self-Insurance Fund	513,972

The above Interfund Payables comprise part of the \$11,779,450 General Fund Interfund Receivable and receipt of these amounts is included in the General Fund June 30, 2002 Ending Fund Balance.

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
September 15, 2003  
Page 3

These Interfund payables to the General Fund are not reflected in the current financial statements for these funds and these outstanding balances could further affect the financial condition of these funds.

The Vallejo City Unified School District has advised the Solano County Office of Education that the following actions will be taken to address the above noted items:

### **Average Daily Attendance**

The District will review current 2003-04 enrollment to determine decline or growth in enrollment. The District will revise ADA projections to accurately reflect projected 2003-04 ADA. The Revenue Limit will be recomputed based on the revised 2003-04 ADA projections. Additional budget reductions, budget revisions and the creation of a new Vallejo City Unified School District Fiscal Recovery Plan may be necessary based on the revised Revenue Limit calculations.

### **Mandated Cost Revenue**

The District has agreed to revise Mandated Cost Revenue to reflect elimination of 2003-04 State funding for Mandated Cost claims. Mandated Cost 2003-04 Revenue can then be revised, if claims are actually paid during the 2003-04 fiscal year.

### **Ancillary Funds - Negative Ending Balances**

The District will determine accurate 2002-03 Ending Balances/2003-04 Beginning Balance for each fund. 2003-04 Revenue and Expenditure budgets will be revised to accurately reflect planned revenue and expense. This revision will allow the district to accurately determine the estimated positive amount a fund will have available to offset the prior year negative fund balance or determine the amount of General Fund contribution necessary to offset the deficit financing. The District will budget a General Fund contribution to offset the negative fund balance or create a detailed fiscal recovery plan for any fund continuing to operate at a deficit that will eliminate the negative balance within five (5) years.

### **Ancillary Funds – Interfund Transactions**

The District agreed to conduct an analysis of the Interfund Payable balances by fund to determine the portion of the amount due that was the repayment of temporary cash loans and the portion of the amount due that represented Indirect Support charges or other fund expenditures. The resolution of these Interfund Payables is a key component of the reconciliation of these funds and will be addressed as part of the Fiscal Recovery Plan for any funds with negative ending balances.

## Summary

The District's 2003-04 budget indicates that the District will be able to meet its financial obligations in the current and two subsequent fiscal years. However, based on our analysis, there are serious questions in regard to the reliability of the ADA projections, Revenue Limit calculations and continued negative condition of several of the auxiliary funds that upon revision will significantly affect the ability of the District to meet its financial commitments.

## Budget Revisions Required

In order to determine a more accurate assessment of the District's financial condition, the District must immediately take the following steps:

1. Revise the Adopted Budget for the General Fund to accurately reflect projected ADA, Revenue and Expenditures and provide a revised copy of the budget to the Solano County Office of Education. Any revisions in revenues and expenditures must be approved by the Vallejo City Unified School District Board of Education.
2. Revise the Adult Education, Child Development, Cafeteria, Capital Facilities and Self-Insurance Funds as appropriate and provide Fiscal Recovery Plans for any fund with a negative ending balance not covered by the General Fund.
3. Provide the Solano County Office of Education with revised multi-year projections for 2003-04, 2004-05 and 2005-06 based on the revised 2003-04 budget and including budget assumptions for each year.
4. Revise the Criteria and Standards to reflect the revised budget and complete all required sections.

The completion of these revisions will then provide a basis for the District and the County Office to determine the amount of budget reductions and corrective action necessary to restore the fiscal health of the District.

Until the District's budget is approved, the District will use the proposed budget for the 2003-04 year as a working budget.

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
September 15, 2003  
Page 5

The Vallejo City Unified School District has made substantial budget reductions and taken significant steps to address their enormous fiscal challenges. With California's economic and political conditions and as a declining enrollment district, unfortunately these challenges continue and the work of financial recovery is ongoing. The Solano County Office of Education will continue to work collaboratively with the District to address areas of concern until the District's fiscal health is restored.

Sincerely,



Dee Alarcón  
Superintendent

SH/mmw

cc Frank Remkiewicz, Associate Superintendent, Business Services  
Sarah Hart, Assistant Superintendent, Business and Finance, SCOE  
Barbara Kohrt, Director, District Business Services, SCOE

# Appendix D



county office of  
**education**

5100 Business Center Drive, Fairfield, CA 94534-1658 707.399.4400 www.solanocoe.net

Dee Alarcón, Superintendent of Schools

October 8, 2003

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
Vallejo City Unified School District  
211 Valle Vista Avenue  
Vallejo, CA 94590-3282

SUBJECT: 2003-04 Vallejo City Unified School District Adopted Budget as revised on  
October 1, 2003

Dear Mr. Pendergast and Dr. Phillips-Evans:

On August 21, 2003 the Solano County Office of Education notified the Vallejo City Unified School District that the County Office was unable to approve the Vallejo City Unified School District 2003-04 Adopted Budget as submitted. On September 15, 2003 the Solano County Office of Education notified the Vallejo City Unified School District that in accordance with Education Code Section 42127 the 2003-04 Vallejo City Unified School District Adopted Budget was disapproved. This decision was based on several factors, the most critical of which were the significant revenue overstatement by 1,747 ADA in the General Fund and the financial condition of several of the auxiliary funds. The Vallejo City Unified School District agreed to review and revise the 2003-04 Adopted Budget.

Regretfully the Solano County Office of Education is unable to approve the 2003-04 revised budget approved by the Vallejo City Unified School District Governing Board on October 1, 2003 as it does not accurately reflect the current and projected financial status of the District. The key factors in this decision are the overstatement of the 2002-03 Ending Balance/2003-04 Beginning Balance and the underbudgeting of 2003-04 expenditures based on current staffing and programs.

**Basis for Determination of Disapproved Budget**

**2002-03 Unaudited Actuals**

The 2002-03 Ending Balance/2003-04 Beginning Balance includes the following Accounts Receivables which are a part of the 2002-03 Designated Reserve for Economic Uncertainties.

- A \$1,322,276 Accounts Receivable for payment of 1999-00 Mandated Costs claims was established as part of the 2003-04 year-end adjustments (Exhibit A). As stated and

**Board of Education**

Larry Asera, *President* Ray Silva, *Vice President* Mayrene Bates Jose V. Briseño Douglas J. Ford John T. Galvan Geneva Watts

"Pursuing Excellence" An Equal Opportunity Employer

Mr. William Pendergast, Board President  
 Dr. Gladys L. Phillips-Evans, Superintendent  
 October 8, 2003  
 Page 2

shown in the September 11, 2003 materials previously given to the District, Mandated Cost funding is currently suspended and the soonest prior year claims will be paid is the 2005-06 fiscal year.

- The entire \$1,775,202 insurance payment for the Stefan Manor fire was applied to the Unrestricted General Fund balance. Only \$400,671 of this amount is available to offset General Fund expense as \$831,610 is dedicated to Fund 40 for construction costs and \$542,921 is dedicated for furniture, equipment and supply expense (Exhibit B).
- Information system rebates from Nortel of \$400,000 were applied to the Unrestricted General Fund balance. Per District staff, this revenue is dedicated for yet unbudgeted 2003-04 expense and, therefore, will not be available for other General Fund expenses.

Accounts Receivable Adjustments/Overstatements:

Mandated Costs Receivable	(\$1,322,276)
Stefan Manor Insurance commitments	( 1,374,531)
Nortel Rebate commitment	( 400,000)
Overstatement of Unrestricted General Fund Ending Balance	(\$3,096,807)

2002-03 Designated Account -  
 October 1, 2003 Unaudited Actuals \$2,913,792 2.1% Reserve

2002-03 Revised Contingency Reserve (\$183,015)

Note: 2002-03 3% Reserve Requirement equals \$4,159,608

Summary of 2002-03 General Fund Unrestricted Revenue and Expense Adjustments

The major areas of General Fund Unrestricted Revenue and Expense adjustments or revisions at 2002-03 year end as reflected in the Unaudited Actuals were:

	<u>Impact on Contingency Account</u>
Revenue Limit income under budget	(\$ 1.6 Million)
Lottery Income under budget	( .6 Million)
Mandated Cost Income under budget	( .8 Million)
Salary and Benefit expense over budget	( 2.0 Million)
Total Shortfall	(\$ 5.0 Million)

District transfers or adjustments to address shortfall:

Mandated Cost Income Receivable	\$ 1.3 Million
Stefan Manor Fire Claim Receivable	1.3 Million

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
October 8, 2003  
Page 3

Transfer from Fund 17, Board Designated Special Reserve Fund (also to Fund 49)	1.7 Million
Transfer of Rents and Leases expense to Fund 49	<u>1.0 Million</u>
Total Adjustments	\$5.3 Million

The 2002-03 General Fund Unaudited Actuals reflect an attempt to balance the 2002-03 fiscal year by the use of one-time transfers and the above-mentioned Accounts Receivable entries.

### 2003-04 Revised Budget – October 1, 2003

#### **General Fund Unrestricted Accounts**

##### Revenue

- Revenue Limit income was revised as requested by the County Office to reflect 2003-04 enrollment and the declining enrollment formula. Per District staff, the District Revenue Limit projections are based on 17,950 ADA as shown on the April 29, 2003 J-18 report. Current California Department of Education web site Review Limit calculations reflect 17,850 ADA. The variance between the VCUSD projected Revenue Limit (based on 17,950 ADA) and SCOE projected Revenue Limit based on 17,850 ADA and using the School Services Revenue Limit forms is (\$591,907). This difference is not a factor in the current budget approval decision and can be resolved as part of the First Interim Financial Report (Exhibit C).

##### Expense

- Certificated Salary Expense - Unrestricted Certificated Salary Expense appears to be under budgeted on the 2003-04 Revised Budget.

2002-03 Unrestricted Teacher Salary Expense listed on the Unaudited Actuals was \$48.5 Million.

Per June, 2003 District detailed budget projections listed by school and staff members, approximately 63 teaching positions were eliminated for the 2003-04 school year. Based on the District's estimate of \$52,000 per teacher (least senior teacher not including benefits), the reduction of these positions would generate approximately \$3,276,000 in salary savings. The original 2003-04 Adopted Budget reflected teacher salary projections of \$45.4 Million which would be in line with the reduction of 63 positions.

The 2003-04 Revised Budget, October 1, 2003, further reduces Teachers' salaries to \$41.4 Million, or \$7.1 Million less than 2002-03 Actual expense and \$4.0 Million less than the Adopted Budget. Although the District transferred a number of teachers to the

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
October 8, 2003  
Page 4

School Improvement Program to provide substitute services, the Unrestricted Teacher Salary account still appears to be under budgeted on the 2003-04 Revised Budget.

On the Revised Budget, Certificated Salaries were reduced an additional \$4.4 Million and Classified Salaries were reduced an additional \$.7 Million; however, the only adjustment in Employee Benefits was a reduction in STRS.

- Contribution from the Unrestricted account for Restricted Program Encroachments – The 2002-03 Unaudited Actuals reflect a necessary contribution of \$5.1 Million to Restricted Programs. The 2003-04 Adopted Budget projected a contribution of \$4.7 Million. For the 2003-04 Revised Budget this contribution was reduced to \$3.9 Million.

The Solano County Office of Education also has questions regarding transfers, contracts and other areas that will be part of future reviews but are not a factor in this decision at this time.

A summary of the 2002-03 Adopted Budget, Revised Budget, Unaudited Actuals and the 2003-04 Adopted and Revised Budgets for Revenue is attached as Exhibit D and for Expense is attached as Exhibit E.

### Auxiliary Funds

The Solano County Office of Education received the revised budget and Fiscal Recovery Plan for the Adult Education Fund. The Adult Education fund is projected to end the 2003-04 fiscal year with a (\$138,706) ending balance which will be addressed in future years.

The Solano County Office of Education received the revised budget and Fiscal Recovery Plan for the Child Development Fund. The Child Development Fund is projected to end the 2003-04 year with an \$112,852 Ending Balance. However, the Revised Budget approved by the Board establishes a \$308,267 Contingency which then puts the Vallejo City Unified School District in a negative position and appears to be an error that should be corrected at the First Interim Report.

The Cafeteria Fund Revised Budget depicts a positive ending balance of \$9,702. This positive balance is possibly due to a projected \$433,000 increase in local revenue, a 22% increase. Although the District has increased lunch prices, this budget should be carefully monitored to assure the projected revenue increases are achieved.

The Capital Facilities Fund Revised Budget reflects a contribution from the General Fund to maintain this fund in a positive condition.

The Self-Insurance Fund was in a (\$466,734) negative position due to a (\$969,034) audit adjustment as part of the 2002 Annual Audit. During the 2002-03 fiscal year, expense exceeded income in this fund by an additional (\$549,894) resulting in a total deficit of (\$1,016,628). The 2002 audit adjustment was reversed by District staff thereby leaving the fund with only a (\$47,594) negative balance. District staff stated that the audit adjustment was in error. The Solano County Office of Education will request auditor approval of this reversal.

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
October 8, 2003  
Page 5

Also, the 2003-04 Self-Insurance Fund Revised Budget projects a reduction in Workers' Compensation expense of \$792,000 from prior year. This fund will need to be carefully monitored to assure this reduction in Workers' Compensation expense.

### **Summary**

The 2002-03 Ending Balance/2003-04 Beginning Balance is overstated by approximately \$3.0 Million.

The Vallejo City Unified School District revised the 2003-04 Revenue Limit projections and Ancillary Fund budgets as requested by the Solano County Office of Education in the letter dated September 15, 2003. However when the District was required to reduce Revenue Limit income projections by \$8.5 Million, it appears expenditure categories were correspondingly reduced to amounts that do not accurately reflect current staffing and program operations.

The 2003-04 Revised Budget Designated Reserve for Economic Uncertainties of \$2,556,798 (1.9%) will be eliminated upon correction of the 2002-03 Accounts Receivable adjustments and upon careful review and revision of the 2003-04 Certificated Salary accounts and other expenditure accounts, the Vallejo City Unified School District will be in a negative financial position.

The Solano County Office of Education has not received revised multi-year projections reflecting how the District plans to address the ongoing declining enrollment and deficit financing condition in the 2004-05 and 2005-06 fiscal years as required as part of the budget submittal.

### **SCOE Action**

#### **Budget Review Committee**

Per Education Code Section 42127.3, if the Superintendent of Schools disapproves a District's budget, the County Superintendent shall call for the formation of a budget review committee, unless the governing board of the school district and the County Superintendent of Schools agree to waive the budget review committee requirement and the California Department of Education approves the waiver. The County Superintendent and the Vallejo City Unified School District have agreed to waive the budget review committee process and a waiver will be requested from the California Department of Education.

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
October 8, 2003  
Page 6

### Appointment of Fiscal Advisor

Assembly Bill (AB) 1200 allows the county superintendent of schools to assign a fiscal advisor, if she or he disapproves the budget. Effective immediately, I will be appointing School Services of California (SSC) as the fiscal advisor to provide management assistance and fiscal crisis intervention to the District.

The primary task of the fiscal advisor will be to develop a fiscal recovery plan for the District. It is the responsibility of the VCUSD Board and staff to work with the fiscal advisor and implement the actions that must be taken in order for the District to regain fiscal solvency. There must be accountability at all levels, from the Board, management and site level staff. Specific charges to the fiscal advisor are as follows (EC 42127.6(e)):

- *Develop and impose...in consultation with the Superintendent of Public Instruction and the school district governing board, a budget revision that will enable the district to meet its financial obligations in the current fiscal year.*
- *Stay or rescind any action that is determined to be inconsistent with the school district's ability to meet its obligations for the current or subsequent fiscal year...*
- *Assist in developing, in consultation with the governing board of the school district, a financial plan that will enable the district to meet its future obligations.*
- *Assist in developing, in consultation with the governing board of the school district, a budget for the subsequent fiscal year....*

Within five (5) days of receiving this letter/determination, Vallejo City Unified School District may appeal to the Superintendent of Public Instruction the basis of the determination and any proposed actions that the County Superintendent has indicated that will need to take place to further examine the financial conditions of the District.

By assigning School Services of California to assist the District, the District and County Superintendent can begin to address the problems of the District and formulate an accurate budget and fiscal recovery plan. The first step in this process must be the review and revision of the 2002-03 ending balance and the determination of 2003-04 Revenue and Expense projections based on current staffing and programs. The fiscal advisor will also provide analysis of special contracts and funding sources for District projects. Only upon identification of the District's true financial condition can a fiscal recovery plan be created to restore Vallejo City Unified School District to a positive financial status.

Mr. William Pendergast, Board President  
Dr. Gladys L. Phillips-Evans, Superintendent  
October 8, 2003  
Page 7

**Conclusion**

Vallejo City Unified School District continues to face enormous fiscal challenges. The District has implemented substantial budget and staffing reductions; however, these cutbacks have not kept pace with the declining enrollment and state funding reductions of the last two years. The goal of the County Superintendent of Schools is to work together with the Fiscal Advisor and the District to determine the current financial status of the District and agree upon a 2003-04 Budget and Fiscal Recovery Plan that provides for fiscal solvency and supports the educational goals of the District for both the 2003-04 fiscal year and future years.

Sincerely,



Dee Alarcón  
Superintendent of Schools

SH/mmw

Enclosures

cc Governing Board, Vallejo City Unified School District  
Frank Remkiewicz, Associate Superintendent, Business Services  
Sarah Hart, Assistant Superintendent, Business and Finance, SCOE  
Barbara Kohrt, Director, District Business Services, SCOE  
The Honorable Jack O'Connell, Superintendent of Public Instruction, California  
Department of Education  
Scott Hannon, Director, School Fiscal Services, California Department of Education  
School Services of California, Inc.