



April 15, 2020

Dr. Matthew Doyle
Vista Unified School District
1234 Arcadia Avenue
Vista, CA 92084-3495

Dear Dr. Doyle:

Re: 2019-20 Second Interim Report

Our office has completed its review of your Second Interim Report (SACS Form 011) in compliance with the provisions of Education Code Section 42130 et seq. The district has submitted a qualified certification, which means that the district may not meet its financial obligations for the current fiscal year or two subsequent years.

The district's Second Interim Report has been analyzed in the context of the 2019-20 State Budget Act and appears to adequately reflect the financial status of your district as of January 31, 2020.

In accordance with the provisions of Education Code Section 42131, the County Superintendent of Schools will inform the California Department of Education that your district submitted a qualified certification and we concur with this certification at this time.

Multi-Year Projections / Deficit Spending / Reserve for Economic Uncertainties

The Second Interim Report projects the following impacts to the unrestricted general fund:

- Projected unrestricted deficit/surplus spending
 - 2019-20 = <\$2,225,289>
 - 2020-21 = \$ 55,410
 - 2021-22 = \$ 923,899

- Projected unrestricted ending fund balance
 - 2019-20 = \$8.66 million
 - 2020-21 = \$8.72 million
 - 2021-22 = \$9.64 million

The above projections include the following budget reduction solutions:

- 2019-20 = \$ 5.56 million
- 2020-21 = \$15.40 million
- 2021-22 = \$ 3.10 million

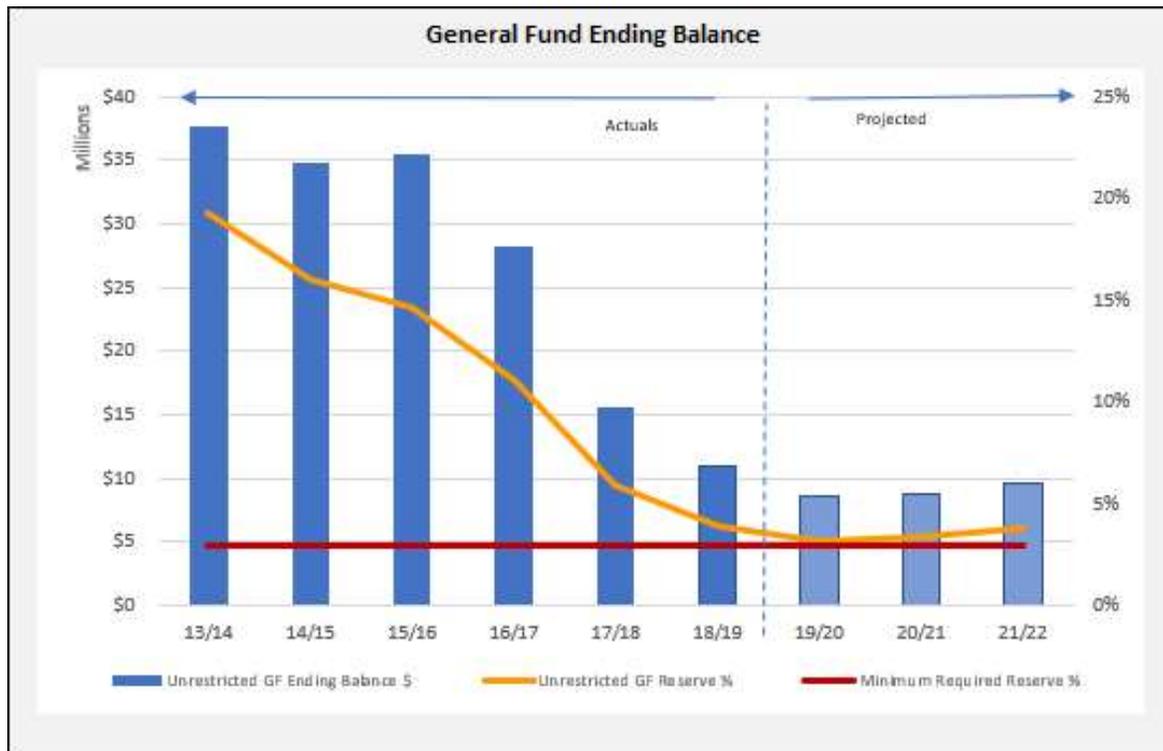
Deficit spending has been lowered due to interfund transfers of \$1.5 million in 2019-20 and \$605,245 in the subsequent years. Continued deficit spending will erode the district's ending fund balance and will minimize the district's ability to address unforeseen circumstances.

The state requires the district to maintain a Reserve for Economic Uncertainties equal to 3% of expenditures. The district projects that it will meet this requirement in 2019-20 and beyond.

We have reviewed the district's assumptions for the multi-year projection and they appear to be reasonable. Based upon these assumptions, the district will meet the required reserve percentage.

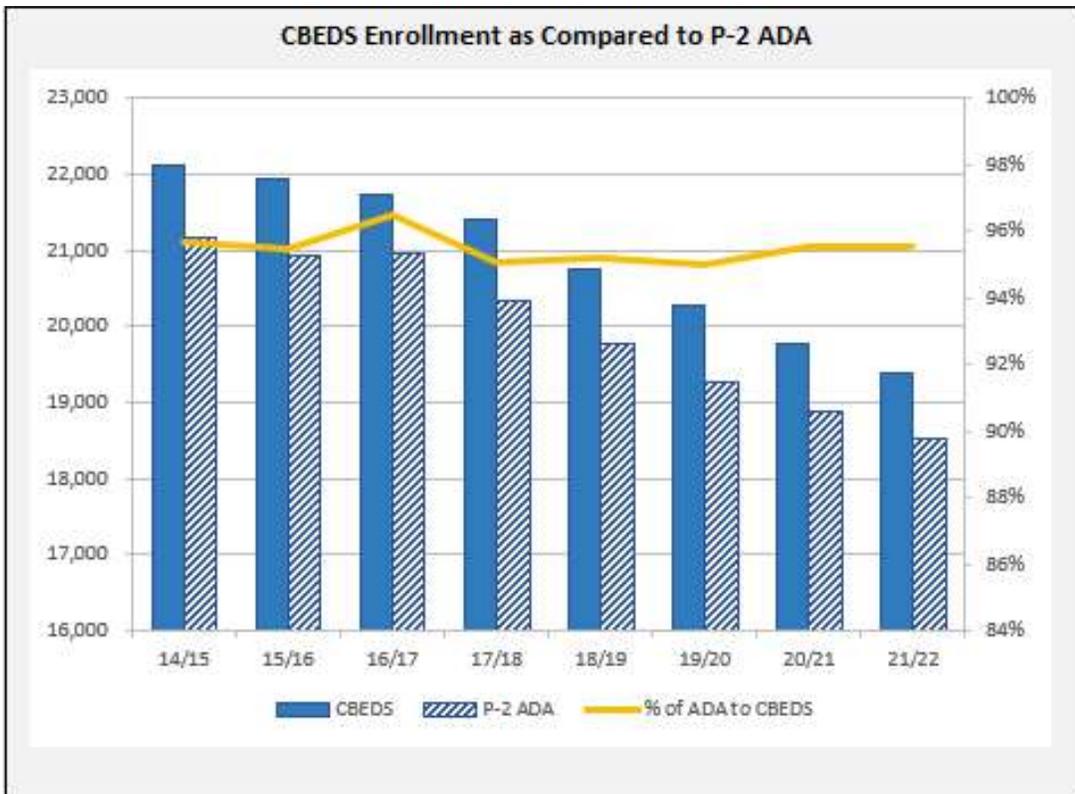
Unrestricted General Fund Ending Balance and Reserve Trend

The following chart displays the district's ending fund balance and reserve status from fiscal year 2013-14 through the projection period. The budget reduction solutions for the multi-year projection are included in this analysis.



Enrollment and Average Daily Attendance (ADA)

The district continues to experience declining enrollment. A five-year history of the district's enrollment and attendance figures are presented in the chart below.



Cash Flow

The district issued Tax and Revenue Anticipation Notes (TRANS) of \$30 million in August 2019 to help address anticipated cash shortfalls. Other options to help with cash flow include borrowing from other funds, spending freezes, working with vendors on the timing of revenues and payments, and borrowing from the County Treasury. We recommend that the district continue to closely monitor its cash situation.

Charter Schools

As the authorizing agency of the following Charter Schools:

- Bella Mente Montessori Academy
- Guajome Learning Center
- Guajome Park Academy Charter
- North County Trade Tech High
- SIA Tech

The district maintains fiscal oversight responsibilities, particularly in the key areas of accounting, attendance accounting, budgeting, and payroll. Please see Education Code Section 47604.32 for a detailed list of oversight duties.

The district should review charter budget reports at each cycle: budget, second interim, second interim, and unaudited actuals. It is also the district's responsibility to transmit these reports to our office by the deadline. Please coordinate with your district's charter schools in advance to ensure that the deadline is met.

Should any circumstances arise related to the district's charter schools that would negatively impact the financial condition of the district, please notify this office as soon as possible.

Implications of a Qualified Certification

By submitting a qualified Second Interim Report for the period ending January 31, 2020, the district becomes subject to the following requirements in the Education Code:

1. Copies of the interim report and this letter will be forwarded to the Superintendent of Public Instruction and the State Controller. [Education Code Section 42131(a)(2)]
2. During fiscal years 2019-20 and 2020-21, the district must obtain approval from SDCOE prior to the issuance of all nonvoter approved debt, including Tax and Revenue Anticipation Notes (TRANS) and Certificates of Participation (COPs). [Education Code Section 42133(a)]
3. An End of Year Report for the period ending April 30, 2020, that projects the district's fund and cash balances through June 30 must be prepared and approved by the governing board. This report must be completed in the SACS2019ALL software, using the End of Year Projection option under the Preferences menu, and submitted electronically to SDCOE no later than May 15, 2020 so that the required submission can be forwarded to the State Controller and the Superintendent of Public Instruction by June 1, 2020. Required forms include Form 011, Form AI, Cash Flow as of 4/30/20, and a multi-year projection. The Criteria and Standards and Certification page are not applicable for the End of Year Report. [Education Code Section 42131(e)]
4. The district is required to provide a written proposal that addresses the fiscal conditions that resulted in the determination that the district may not be able to meet its financial obligations by May 15, 2020. [Education Code Section 42127.6(a)(1)(E)]
5. The county superintendent is required to present an annual report to a school district's governing board and the Superintendent of Public Instruction regarding the fiscal solvency of any school district with a qualified certification. This annual report will be issued by June 2020. [Education Code Section 1240(e)]

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The county superintendent also has the authority to determine that a school district is not a going concern at any time during the fiscal year if the district may not meet its financial obligations [Education Code Section 42127.6(a)(1)]. Our office can take this action at any time if substantial progress is not made towards budget reductions.

Conclusion

The multi-year projection shows a significant decrease in deficit spending. This is a result of the district's proactive approach in identifying ongoing budget reductions. Achieving projected fund balances is contingent on realizing all planned reductions included in the Second Interim Report. We encourage the district to closely monitor its expenditures and ensure reductions are implemented. Also, further declining enrollment could exacerbate the need for reductions, so we encourage the district to continue to monitor enrollment and adjust expenditures accordingly.

It is critical to note that the district's Second Interim Report and multi-year projections were developed prior to the COVID-19 pandemic. As the economic impact becomes known, we anticipate further reductions to cost of living adjustments (COLA) in subsequent years. In addition, all funding outlined in the Governor's January budget proposal for special education, early childhood education, and new categorical programs should not be included in 2020-21 budget development. The Governor's May revision will provide districts with more realistic budget projections for next fiscal year. We encourage the district to develop alternative budget scenarios (including a zero-COLA analysis) and cash flow projections to begin planning for potential reductions in funding.

We appreciate the district's efforts to ensure fiscal solvency. Should any adverse circumstances arise which would negatively impact the financial condition of the district, please notify this office as soon as possible.

Should you have any questions concerning this review, please call me at (858) 292-3537 or Alex Wilmot, Business Advisor, at (858) 292-3649.

Sincerely,



Brent Watson
Executive Director
District Financial Services

BW: AW: VS

cc: Rosemary Smithfield, Board President, Vista Unified School District
Ami Shackelford, Assistant Superintendent, Business Services, Vista Unified School District
Natalie Schuff, Director, Business Advisory Services, SDCOE