

ENVISION SCHOOLS

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May 25, 2007

Ms. Marla Blackledge
Chief Financial Officer
Novato Unified School District (“NUSD”)
1015 Seventh Street
Novato, CA 94945

Re: Response to Letter dated May 17, 2007
re: Marin School of Arts & Technology (“MSAT”) 2nd Interim Report

Greetings Marla:

Context of Recent Communications. As an opening point of clarification, your letter dated May 17, 2007 which outlines “required remedies to identified deficiencies” has no valid standing regarding MSAT’s obligations to the NUSD pertaining to its 2nd Interim Report. Despite your numerous references in the NUSD Board Report and May 17 letter, which allude to Envision Schools (“ES”) providing materials on an untimely basis, your letter was received by ES approximately *nine weeks* after your receipt on March 15 of the 2nd Interim Report. As you are aware, this is over a month beyond the required period to express such concerns as clearly stated in paragraph II.D.1.e of the Second Amended Memorandum of Understanding (“MOU”) between the NUSD and ES:

“All problems, questions, concerns, and/or issues if any related to the documents, data and reports that are produced by Envision Schools and delivered to the District shall be brought to the Envision Schools’ attention in writing within thirty (30) days of receipt by the District of the documents, data and records.”

As such, all responses by me to your inquiries are solely for the sake of good faith and constructive willingness to communicate and provide information on these matters. Envision Schools wholly rejects the premise that we are in a position to provide “remedies to identified deficiencies” as described in your letter. **Moreover, the responses below to the individual items you outlined will clarify that no such deficiencies exist, irrespective of the timing of commentary.**

Authorization and Organizational/Communications Protocols. As you know, the Superintendent is the authorized party to communicate to ES on matters pertaining to the MOU. Alternatively, the Superintendent may designate a staff member to communicate on [her] behalf. To date, we have received no such designation by the District Superintendent that you are an authorized to communicate on matters pertinent to the MOU. As to your operating role, we received no notice of your promotion to “Chief Financial Officer” from your prior position of “Director of Fiscal Services, nor did we receive any notice whatsoever of the departure of your apparent predecessor Jim Cerreta. This is particularly concerning, given the extreme turnover in the District’s CFO position during the

operating life of MSAT, evidenced by no less than *six (6) different CFO's in five years*. Among other challenges, it has been difficult to deal with the different expectations as to format and content of the various materials requested by the various CFO's, including different interpretations of the requirements under the MOU and CAP. Finally as to your current role, we are troubled by your own interpretation of such documents as you cite several "deficiencies" as to materials not received from ES/MSAT, and yet such materials are not required by the MOU (see below). As an aside, the executed copy of the MOU provided by the District did not include the various Exhibits, including the Corrective Action Plan to which various references have been made in your NUSD Board report. Please forward the Exhibits at your earliest opportunity.

Regarding the matters in your letter and your verbal and written NUSD Board report, it is not clear to me why you did not ever call, write, email (other than timing reminders) or set up a meeting with me to discuss any of these issues BEFORE you presented them IN AN OPEN PUBLIC FORUM at an NUSD Board meeting. This is disturbing, as our working teams had agreed that if we had questions on our respective communications, financials, assumptions, etc., we would discuss them at a staff level to clear up any confusion before wasting any time on distorted or incomplete information at a Board level (just as any rational professionals would and just as ALL the other districts we deal with do if there are any such questions).

As in the past when the NUSD has issued alarmist public broadcasts without context or prior notice, there are very reasonable explanations to the issues you have cited, most of which I had already explained in my own email communications to you. On other matters you appear to be confused or are simply inaccurate in your conclusions.

Financial and "Timeliness" Issues. In light of your preamble regarding the NUSD Board's concerns over MSAT's fiscal health, I wish to point out that the NUSD itself is imposing fiscal strain upon MSAT. As an immediate example, the NUSD is substantially past due on its "in lieu of Prop 39" rental payments for MSAT's facility at the College of Marin. **These delinquent amounts total \$102,500 are past the two contractual payment dates by eleven months and five months respectively.** During this time, ES/MSAT is forced to cover this amount to the fund MSAT's operating budget, making up for the District's failure to meet its MSAT facilities payments. It is ironic that the District is concurrently expressing concern over MSAT's financial health, while itself contributing to MSAT's financial burden. As described below, such irony extends to the District's reference to ES/MSAT's providing compliance materials "late" with 11-month past due payables to MSAT outstanding. Please remedy this situation immediately.

Note this is not the first time that the NUSD has raised significant alarmist concern over "late" ES/MSAT obligations, *while at the same time being delinquent in its own obligations to MSAT*. One notable example (among others) was the public "drama" created over various payables of MSAT to the NUSD prior and during the charter renewal process during October through December 2006. As you well know, during the exact same period the District was three months past due in its payments to MSAT for "in lieu of" property tax payments in the amount of \$125,080. We request that if you are asking ES and MSAT to operate according to certain standards of timeliness and fiscal responsibility, that the NUSD adopt and act according to the same standards internally and, as importantly, refrain from damaging the public perception of MSAT in the context of the NUSD's own hypocrisy.

Specific Responses to Your Inquiries. With respect to the specific items on which you are seeking clarity or modifications to prior information, I will address them in order:

Bullet One - Narrative of Changes in Budget from 1st to 2nd Interim: Contrary to what you implied by your report to the NUSD Board in public, and in your May 17 letter seeking “remedies to deficiencies”, **this item is not required by the MOU between the District. As such there is no “deficiency” associated with such item.** If, however, this narrative would be useful to you as a matter of general understanding (as opposed to an errant sense of compliance), I would be happy to provide it pursuant to our general commitment to provide information as requested for the sake of constructive clarity. Please advise.

Bullet Two – Verify State Unemployment Insurance: The zero balance in the 2nd Interim Report for this category is correct. As of January 31, the EDD had not forwarded any invoices for the year to EdTec’s accounts payable department and so there were no entries through such date.

Bullet Three – Revise Materials and Supplies Budget: Again, **this item is not required by the MOU, and therefore does not represent a “deficiency” requiring a “remedy”.** Moreover, despite the fact the budget was reduced between 1st and 2nd Interim, and despite an excess in that category, Envision Schools operates its schools based upon two budgets during the school year: an initial budget as adopted by the Board at the beginning of the fiscal year, and an amended budget developed in the Fall based upon actual enrollment numbers. It is not the policy of ES to make changes in the budget simply because there is a negative variance in a line item, particularly when it is **immaterial to MSAT’s overall cost structure.** Specifically, this expense category has an overage of \$9,117 which represents 0.45% of MSAT’s overall expense budget totaling slightly more than \$2.0 million. Finally, it is curious that the District does not request we change the budget for the numerous expense line items where MSAT demonstrates a *positive* variance.

Bullet Four – Revise Dues and Memberships Budget: Again, **this item is not required by the MOU.** Please see the response to the prior bullet. In this case, the amount of overage in the Dues and Memberships category, *for which you are suggesting we amend our budget*, is even **more striking in its immateriality. The overage is \$50 or .002% of MSAT’s overall expense budget.**

Bullet Five – Reclassify Rent from Object Code 5800 to 5600: I am confused by this request. Rent expense is properly classified as object code 5600 in each of the 1st and 2nd Interim Reports. Object code 5800 properly reflects Professional/Consulting Services in both reports. Please clarify your reason for highlighting this item as a “deficiency” in both the NUSD Board report and your May 17 letter.

Bullet Six – Issues Regarding the MYP: First, some points of clarification regarding the introduction of your letter, including *“the MYP was sent late and not via U.S. mail, the MYP was prepared in December 2006 and not in conjunction with the preparation of the Second Interim Report, and that the MYP was not approved by the Envision board”*: The MYP was first submitted to both you and your predecessor Jim Cerreta in physical copy (mailed and

hand delivered) in December 2006, and sent again with adjustments as explained via email on April 22 (receipt of which you acknowledged as of such date). The last MYP dated December 24, was appropriate timing relative to the January 31 Second Interim Report date, as updates to the MYP not were possible between these dates given the uncertainty over the facilities question for MSAT. The various facility alternatives at that time entailed a wide range of facility configurations, rent and other facilities operating expenses. The lack of clarity on facilities created commensurate uncertainty over enrollment, related staffing and virtually every other variable expense category which vary with student and staff count. Here I must remind the District of the obvious which is that provision of a facilities plan was the responsibility of the NUSD given its Prop 39 obligation to MSAT.

It should be noted that *up through February 8, 2007, the District had not provided MSAT any specific facilities proposals whatsoever*, whether on a District site or a third-party building, despite their awareness of their need to do so as early as August 2006. In a February 8, 2007 facilities meeting among ES/MSAT and District staff (including the Superintendent), it was the ES/MSAT team that had to come to the District with a credible commercial site alternative (given inaction on the District's part), and proposed a three-year arrangement for partnering in such site as an "in lieu of" Prop 39 alternative, with rents split approximately \$300k for each entity for the '07-08 through '09-10 school years (this scenario is depicted in the MYP as previously submitted). Despite a Letter of Intent in hand which was satisfactory to the Lessor and reflecting these terms, the District came back with a preliminary Prop 39 proposal on same property where the NUSD *would not co-sign the lease and would contribute just \$137k for the first year only, and MSAT would need to demonstrate its ability to pay the three-year balance of approximately \$1.66 million and be solely obligated under the lease, notwithstanding the District's powers to suspend or revoke MSAT's ability to operate a school and therefore receive state funding for its operations including facilities payments*. Finally the District was well aware that this extreme financial burden on MSAT would immediately place MSAT in breach of the fiscal constraints imposed through the District's own Corrective Action Plan and conditional Charter. In short, the District made a preliminary Prop 39 offer that would clearly put MSAT out of business, and yet retaining a \$1.6+ million lease obligation. (The magnitude of this proposed liability dwarfs MSAT's annual rent expense of approximately \$135k per year previously.)

Without recalling the immense amount of time and other resources expended up and until the "Final Proposition 39 Offer", (including the extension granted by ES on the basis of good faith toward a whole school *and fiscally sound* solution), the District's "Final Offer" was equally untenable with an estimated cost to MSAT of \$1.7 million, and with months of precious time having been wasted -- all, tragically, at the expense of the MSAT students. (Remarkably, this uncertainty over facilities remains even today as the District's latest "Prop 39 Offer" contains no specifics whatsoever as to facility size or configuration, *pro rata* rent expense, etc., all continuing to make planning for MSAT extremely difficult. As such the rent expense in the MYP has been left as is per the last version until further clarity is provided.). The backdrop above is to affirm that as of January 31, 2007, we were in no position to credibly update the MYP. Moreover, these various caveats were previously explained to you in my email of April 22 and yet you failed to properly reflect them in your report to your Board, or in your May 17 letter. That said, in response to the sub-bullets in your May 17 letter (in the order presented):

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- MYP must reflect the 2006/2007 Second Interim budget. An updated MYP as attached conforms with the Second Interim budget.
- Future year attendance to enrollment ratio should be 90%. Attendance percentage has been adjusted to 90%.
- Revise the General and Categorical Block grants to reflect the lower attendance to enrollment ratio. This change has been effected consistent with the bullet above. In addition, the increase in Block and Categorical Grant revenues per ADA as provided by the State's May budget revisions have been incorporated.
- Carry-over 2006/2007 salary increases into the future years. Revise 2007/2008 projected salaries and benefits to reflect the staffing list that was submitted to me on May 11, 2007. This updated staffing and salary information has been incorporated including recent adjustments made by Stewart Fox.
- Verify that the benefits on the staffing list are correct. An updated benefits schedule is being forwarded separately by EdTec.
- The Envision Board should review and approve this MYP at their next board meeting and the board minutes that are submitted to the District should reflect this. ES Board approval of the "cash flow projections" to be submitted with each quarterly report is not required by the MOU, and the ES Board is not in a position to approve a MYP where the facilities question and related capital requirements are still uncertain for reasons described above.

Please feel free to call if you have questions or comments regarding the content of this letter, or any other matters in which I may be helpful.

Sincerely,

Christopher Y. Pelgrift
Chief Financial Officer

cc: Jan Derby
Daniel McLaughlin
Bob Lenz
Stewart Fox
Pat Macias
Ruth Kalter
NUSD Board
Envision Schools Board