

September 15, 2021

Bradley Johnson  
Superintendent/CBO  
Dehesa Elementary School District  
4612 Dehesa Road  
El Cajon, CA 92019-2922

**Re: 2021-22 Adopted Budget Approval**

Dear Superintendent Johnson:

Our office has completed its review of the district's 2021-22 Adopted Budget in compliance with the provisions of Education Code Section 42127. The County Superintendent of Schools is required to review the budget and determine if it complies with the standards and criteria for fiscal stability and if the budget allows the district to meet its financial obligations during the current fiscal year and satisfy its multiyear financial commitments.

The district's Adopted Budget has been analyzed in the context of guidance provided by the San Diego County Superintendent of Schools, the Governor's 2021-22 May Revise and the 2021-22 State Adopted Budget.

Based on this analysis, we have concluded that the district will be able to meet its financial obligations in 2021-22. The district's budget has therefore been approved by the San Diego County Superintendent of Schools. However, the budget submitted projects the district would not be able to meet its financial commitments in subsequent years without transfers from other funds and additional budget solutions. The district must submit a detailed list of approved budget reductions by the First Interim Report.

The district's budget will be reevaluated at the time of the First Interim Report to determine if the budget should be certified as positive, qualified, or negative. 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.

## Reserves and Multi-Year Projections

The district projects that it will meet the minimum reserve by making transfers from other funds of \$760,000 in 2022-23 and \$800,000 in 2023-24. These amounts exceed the 2021-22 unrestricted ending fund balances in other funds by \$116,820. In our analysis, we reduced the transfer from other funds by \$116,820 in 2023-24. Based on this analysis, the district continues to deficit spend in the unrestricted general fund and will not meet the minimum reserve in 2023-24 as follows:

- Projected unrestricted deficit spending
  - 2021-22 = Deficit <\$595,000>
  - 2022-23 = Deficit <\$ 37,000>
  - 2023-24 = Deficit <\$129,000>
  
- Projected unrestricted ending fund balance
  - 2021-22 = \$232,000
  - 2022-23 = \$195,000
  - 2023-24 = \$ 65,000
  
- Reductions needed to meet reserve requirement
  - 2023-24 = \$112,000

Excluding transfers from other funds, the impact to the unrestricted general fund is as follows:

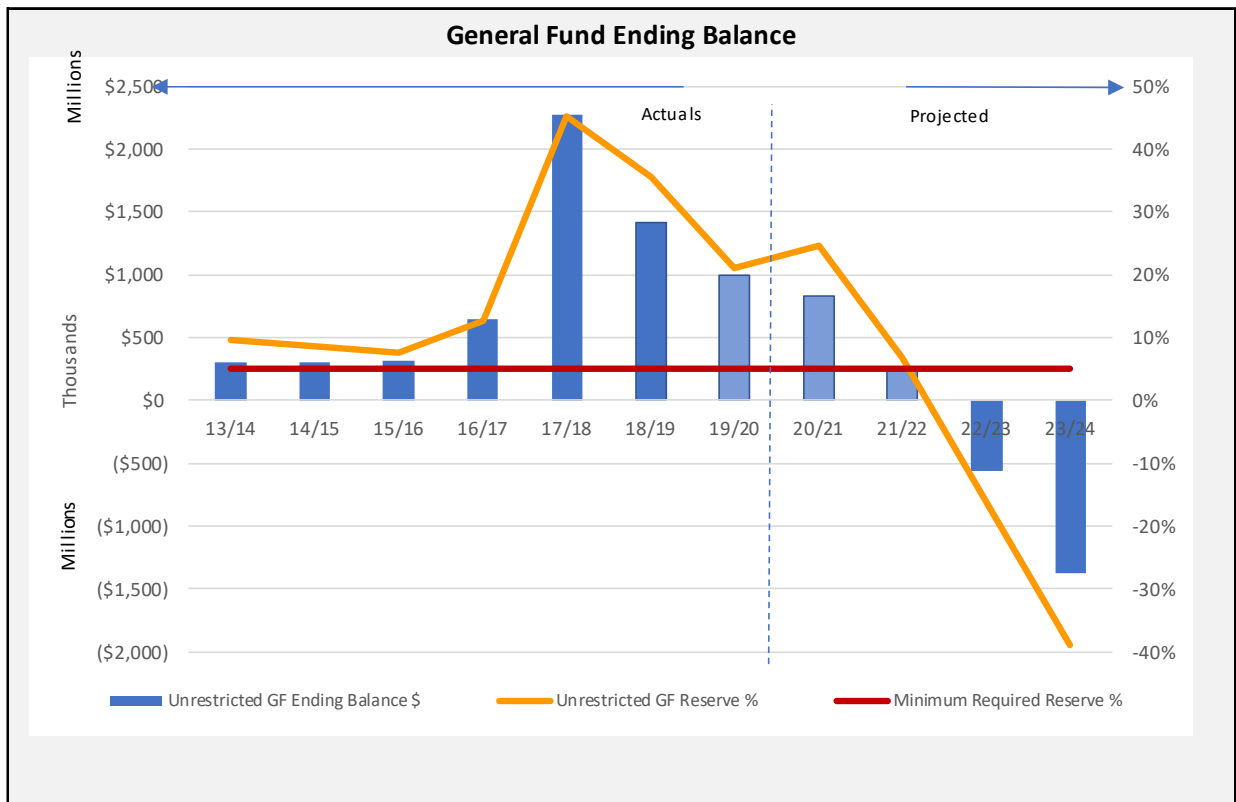
- Projected unrestricted deficit spending
  - 2021-22 = Deficit <\$595,000>
  - 2022-23 = Deficit <\$797,000>
  - 2023-24 = Deficit <\$813,000>
  
- Projected unrestricted ending fund balance
  - 2021-22 = \$ 232,000
  - 2022-23 = <\$ 565,000\*>
  - 2023-24 = <\$1,378,000\*>

\*denotes negative ending fund balance
  
- Reductions needed to meet reserve requirement
  - 2022-23 = \$ 739,000
  - 2023-24 = \$1,555,000

In order to meet the 5% reserve requirement, the district needs to make budget reductions of \$112,000 in fiscal year 2023-24. Without transfers from other funds, the district would need to make budget reductions of \$739,000 in 2022-23 and \$1.56 million in 2023-24. These amounts are substantial amounts to reduce, and they represent 33% and 68% of the district's unrestricted General Fund expenditure budget in 2022-23 and 2023-24, respectively.

**Unrestricted General Fund Ending Balance and Reserve Trend**

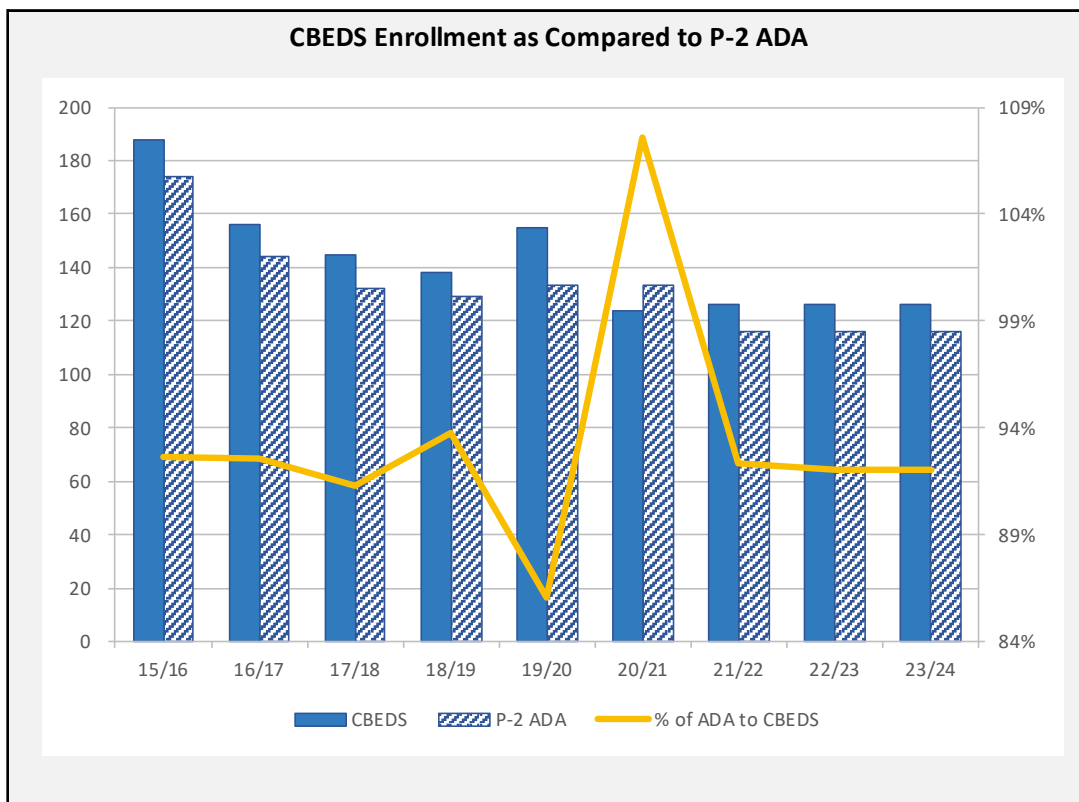
The following chart displays the district’s ending fund balance and reserve status from fiscal year 2013-14 through the projection period. This analysis does not include the transfers from other funds.



### Enrollment and Average Daily Attendance (ADA)

Historical enrollment and attendance figures, as well as the assumptions included in the district’s multi-year projection, are presented in the chart below. The district has been experiencing declining enrollment since 2019-20, but that trend is not projected to continue in to the future. It is recommended the district continue to monitor enrollment and attendance to ensure that actual ADA is in line with projections.

*Note: The graph reflects the hold harmless prior year ADA in 2020-21, which is causing an inflated percentage of ADA to enrollment.*



### Cash Flow

The cash flow submitted with the 2021-22 Adopted Budget projects positive cash balances for all months in 2021-22. The district should continue to closely monitor cash balances in all funds and prepare cash flow projections for the next 18-24 months for the General Fund, as well as the Child Development Fund and the Cafeteria Fund.

## **Transfers to Other Funds**

The district estimates that the General Fund will have to make a transfer to the Cafeteria Fund to cover operating expenses in 2021-22. The district should explore ways to contain costs in programs creating encroachment. Alternatively, the district can explore developing ongoing revenue sources to fund the encroachment.

## **Charter Schools**

The District is the authorizing agency of the following Charter Schools:

- Cabrillo Point Academy
- Diego Hills Central Public Charter
- Method Schools
- Pacific Coast Academy
- The Heights Charter School

As the authorizing agency, the district maintains fiscal oversight responsibilities. 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, first 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.

## **Conclusion**

The Adopted Budget shows the district will be able to meet its financial commitments in 2021-22 and 2022-23, but will need to make budget reductions of \$112,000 in 2023-24 to meet the minimum reserve requirement. The district is relying on transfers from other funds in the multi-year projections to meet the minimum reserve. While transfers provide short term relief to the General Fund, these one-time solutions are masking a structural deficit in the current year and in the multi-year projections. Without transfers from other funds, the district's unrestricted ending fund balance would be negative by \$565,000 in 2022-23 and \$1.34 million in 2023-24. The district also experienced declining enrollment in 2020-21, which will directly impact funding levels beginning in 2022-23. The 2021-22 First Interim Report must include a multi-year projection incorporating the 2021-22 State Adopted Budget, as well as a detailed plan to align expenditures with ongoing revenues sources and maintain required reserve levels through fiscal year 2023-24.

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During the past year, the state and federal governments have appropriated significant one-time funding to mitigate the impacts and effects of the COVID-19 pandemic on the district, its staff members and students. We encourage the district to prepare detailed plans and review expenditures to ensure compliance with the requirements of each funding source. The district should continue to monitor the operating budget, and the ongoing expenditures that will remain after one-time funding sources have been exhausted, to maintain future solvency. Large sources of one-time funds can mask an underlying structural deficit if not managed prudently.

If you have any questions concerning this review, please feel free to call me at (858) 295-6702 or Lori Wigg, Business Advisor, at (858) 295-6607. This letter can be found on our website at: <https://www.sdcoe.net/business-services/financial-services/business-advisory-services/Pages/Correspondence.aspx>.

Sincerely,



Brent Watson  
Executive Director  
District Financial Services

BW: LW: VS

cc: Cindy White, Board President, Dehesa Elementary School District