

January 17, 2023

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

Re: 2022-23 First Interim Report

Dear Superintendent Johnson:

Our office has completed its review of the Dehesa School District's First Interim Report (SACS Form 01I) in compliance with the provisions of Education Code Section 42130 et seq. The district has submitted a positive certification, which means that the district will meet its financial obligations for the current fiscal year and subsequent two years.

The district's First Interim Report has been analyzed in the context of guidance provided by the San Diego County Superintendent of Schools and the 2022-23 State Budget Act and appears to adequately reflect the financial status of the district as of October 31, 2022.

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 positive certification, and we concur with this certification at this time. However, during our review, we noted some concerns that could impact the unrestricted ending fund balance in the multi-year projections. If these concerns are not resolved in the Second Interim Report, the district's certification status may be impacted.

The district's budget will be reevaluated at the time of the Second 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.

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

In our analysis, we removed the district's placeholders for transfers from other funds of \$360,000 in 2023-24 and \$1,060,000 in 2024-25. We also included the following adjustments in our analysis:

- I. LCFF revenues were reduced by \$5,000 in 2023-24 and \$86,000 in 2024-25 to match the district's First Interim LCFF calculator
- II. Local Revenues were increased by \$107,000 in 2022-23 to reverse the Fair Value budget adjustment
- III. Unrestricted expenditures were reduced by \$44,000 to account for a classified position the district indicated is budgeted but will not be filled
- IV. Contributions from the unrestricted general fund to restricted programs were increased by \$250,000 in 2023-24

Based on this analysis, the district continues to deficit spend and the ending fund balance is projected to be negative in the unrestricted general fund in 2023-24 and 2024-25 as follows:

- Projected unrestricted deficit spending
 - 2022-23 = <\$ 90,000>
 - 2023-24 = <\$ 796,000>
 - 2024-25 = <\$1,098,000>

- Projected unrestricted ending fund balance
 - 2022-23 = \$ 599,000
 - 2023-24 = <\$ 197,000>*
 - 2024-25 = <\$1,295,000>*

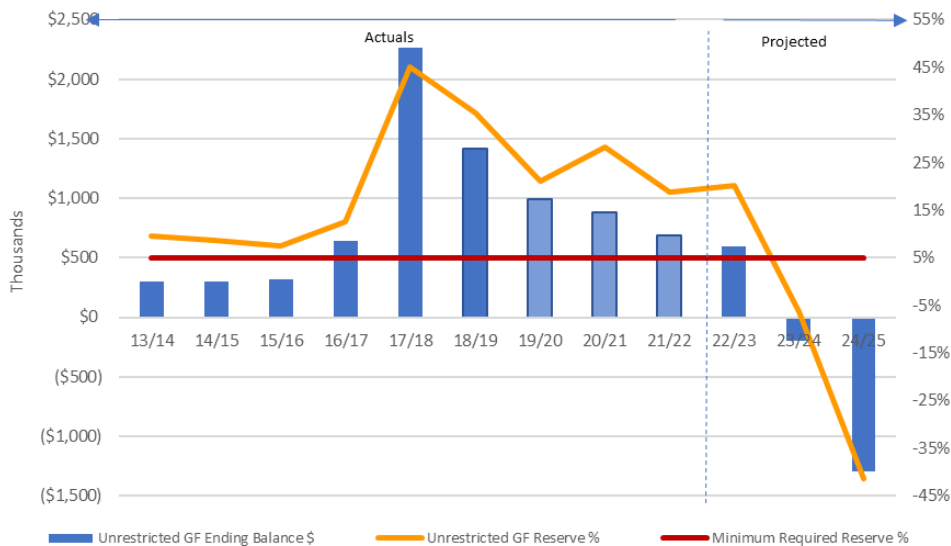
*denotes negative ending fund balance

- Reductions needed to meet reserve requirement
 - 2023-24 = \$ 350,000
 - 2024-25 = \$1,452,000

In order to maintain a positive fund balance and meet the 5% reserve requirement, the district needs to make budget reductions of \$350,000 in fiscal year 2023-24 and \$1,452,000 in fiscal year 2024-25. These amounts are substantial amounts to reduce over a two-year period. They represent 17% of the district's unrestricted General Fund expenditure budget in 2023-24 and 70% in 2024-25.

Unrestricted General Fund Ending Balance and Reserve Trend

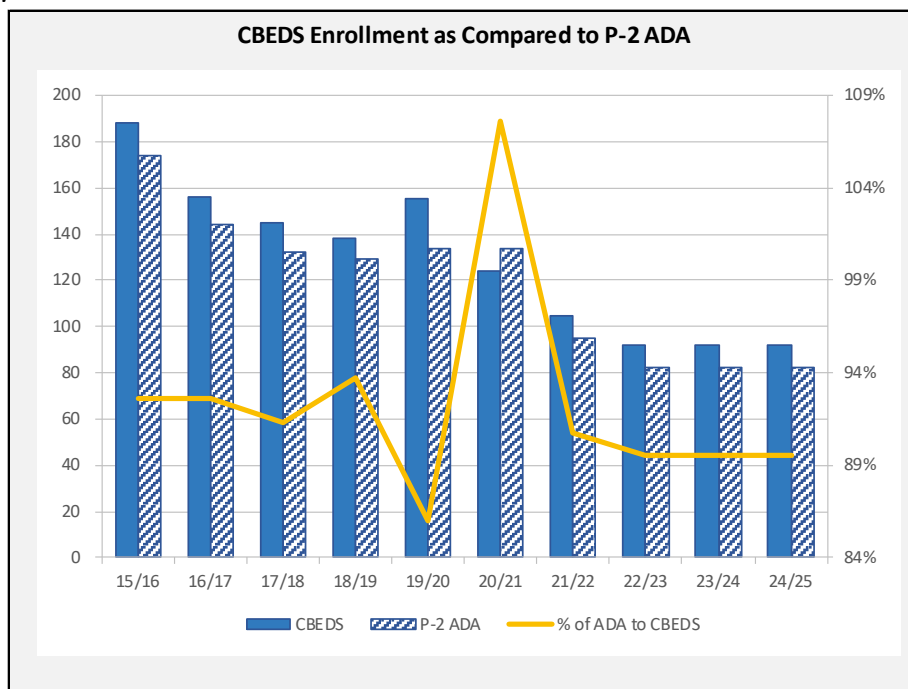
The following chart displays the district’s ending fund balance and reserve status from fiscal year 2013-14 through the projection period. *Note: Budget adjustments I through IV have been included in this analysis. The district’s planned transfers from other funds have been removed from the chart to illustrate the structural deficit in the multi-year projection.*



Enrollment and Average Daily Attendance (ADA)

The district’s historical and projected enrollment and attendance figures are presented in the chart below. The district has a history of declining enrollment, but this trend is not projected to continue in future years. The district is projecting enrollment and ADA to remain flat in the multi-year projections. Since a significant portion of the district’s funding is based on ADA, we recommend the district continue to monitor enrollment and attendance and update projections accordingly.

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 2022-23 First Interim Report projects positive cash balances for all months in 2022-23. It is imperative that the district 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 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 2022-23. 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.

Audit Adjustments

The district’s 2021-22 Audit Report is pending completion. Audit adjustments as a result of the 2021-22 Audit Report must be incorporated in the Second Interim Report.

Local Control Accountability Plan (LCAP)

The district should compare the amount of supplemental and concentration grant funds projected for the current year with budgeted and actual expenditures for planned actions to increase or improve services to unduplicated pupils. Education Code 42238.07(d) requires any unspent supplemental and concentration funds to be carried forward and spent on actions that contribute toward meeting the increased or improved services requirement. The carryover calculation must be completed as part of the annual update process of the LCAP.

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, 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, 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 First Interim Report shows the district will meet the minimum required reserve in 2022-23 and 2023-24 by making transfers from other funds. However, by the end of the projection period, the amounts available in the district's other funds will be fully exhausted. In fiscal year 2024-25, after making all available transfers from other funds, the district projects that the unrestricted ending fund balance will be negative. In order to maintain a positive fund balance and meet the minimum reserve requirement in 2024-25, the district needs to make budget reductions of \$162,000 in 2024-25. We encourage the district to identify and implement ongoing expenditure reductions to minimize deficit spending and sustain long-term fiscal solvency. Failure to implement ongoing expenditure reductions will impact the district's ability to maintain a positive certification on future reports.

During the past few years, 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.

Bradley Johnson, Superintendent

January 17, 2023

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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/administrative-services/business-services/district-financial-services/business-advisory-services>.

Sincerely,



Brent Watson
Executive Director
District Financial Services

BW: LW: VS

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