



# SAN DIEGO COUNTY OFFICE OF EDUCATION

6401 Linda Vista Road, San Diego, CA 92111 • 858-292-3500 • www.sdcoe.net  
San Diego County Superintendent of Schools Dr. Paul Gothold

April 27, 2018

Cindy Marten  
Superintendent  
San Diego Unified School District  
4100 Normal Street  
San Diego, CA 92103-2682

Dear Superintendent Marten:

**Re: 2017-18 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 positive certification, which means that the district will meet its financial obligations for the current fiscal year and subsequent two years.

The district's Second Interim Report has been analyzed in the context of the 2017-18 State Budget Act, as well as the Governor's proposed state budget for 2018-19. All of the data submitted by the district has been analyzed and appears to adequately reflect the financial status of your district as of January 31, 2018.

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.

**Deficit Spending / Ending Fund Balance / Reserve for Economic Uncertainties**

The Second Interim Report projects the following impacts to the unrestricted General Fund:

- Projected Unrestricted Deficit Spending
  - 2017-18 = \$21.9 million
  - 2018-19 = \$0
  - 2019-20 = \$417,000
  
- Projected Unrestricted Ending Fund Balance
  - 2017-18 = \$29.7 million
  - 2018-19 = \$31.1 million
  - 2019-20 = \$30.6 million
  
- Reductions needed to meet Reserve Requirement
  - 2019-20 = \$41.1 million

The state requires the district to maintain a Reserve for Economic Uncertainties equal to 2% of expenditures. The district projects that it will meet this requirement in 2017-18 or beyond.

### **Multi-Year Projection**

In our analysis, we removed the district's placeholder for reductions in 2019-20 and took into account \$41.1 million. Based on this analysis, cuts of this exact amount will be needed in 2019-20 to maintain a positive fund balance and meet the 2% reserve requirement.

### **Cash Flow**

The district has issued Tax and Revenue Anticipation Notes (TRANS) 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 a Temporary Transfer of Funds (TTF) from the County Treasury. We recommend that the district continue to closely monitor its cash situation.

### **Charter Schools**

As required by Education Code 47604.33, our office has received Second Interim Reports from charter schools that you authorize.

As a charter school sponsor, the district maintains fiscal oversight responsibilities, particularly in the key areas of accounting, attendance accounting, budgeting, and payroll. As part of this oversight, sponsoring school districts are also responsible for reviewing charter financial reports, including interim reports. Should any adverse circumstances arise related to the district's charter school responsibilities that would negatively impact the financial condition of the district, please notify this office as soon as possible.

### **Conclusion**

As noted above, the district is assuming \$41.1 million in reductions in the 2019-20 fiscal year. Without these expenditure assumptions, a negative ending fund balance would be projected in the 2019-20 fiscal year. The district will need to have a plan in place to make expenditure reductions that are on-going in nature.

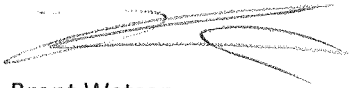
We have also been informed that the district has a tentative agreement with its certificated bargaining unit. This agreement has yet to be approved by the Board, so the expenditures associated with it have not been included in these calculations or our analysis of the report. We caution that any increase in on-going expenditures will need to be met with reductions in other areas.

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.

April 27, 2018  
Superintendent Cindy Marten  
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If you have any questions concerning this review, please feel free to call me at (858) 292-3537.

Sincerely,

A handwritten signature in black ink, appearing to read "Brent Watson", with a stylized flourish extending to the right.

Brent Watson  
Executive Director  
District Financial Services

BW:VS

cc: Kevin Beiser, Board President, San Diego Unified School District  
Greg Ottinger, Chief Business Officer, San Diego Unified School District  
Debbie Foster, Executive Director, Finance, San Diego Unified School District