California Department of Education

Executive Office

SBE-002 (REV. 11/2017)

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# **MEMORANDUM**

**DATE:** August 1, 2020

**TO:** MEMBERS, State Board of Education

**FROM:** TONY THURMOND, State Superintendent of Public Instruction

**SUBJECT:** Financial Condition of State Board of Education-Authorized Charter Schools - Fiscal Year 2019–20

## Summary of Key Issues

This information memorandum provides a summary and analysis of the financial condition of the State Board of Education (SBE)-authorized charter schools for fiscal year (FY) 2018–19 and through the second interim projections for FY 2019–20. As the charter authorizer, the SBE must provide oversight monitoring of the schools it authorizes. The SBE has delegated this responsibility to the California Department of Education (CDE). Under the terms of the memoranda of understanding (MOU) between the SBE and each of the SBE-authorized charter schools, the CDE reviews all revenue and expenditure reports submitted by the charter schools, pursuant to California *Education Code* (*EC*) Section 47604.33. In the course of oversight monitoring, if the CDE finds that a charter school failed to meet generally accepted accounting principles or engaged in fiscal mismanagement, it must provide a recommendation to the SBE to take appropriate action, as deemed necessary, which may include the issuance of a notice of violation or revocation of the charter.

The CDE notes that this information memorandum does not include the consequences of the impact of COVID-19 on the state budget, including the anticipated monthly apportionment deferrals in FY 2020–21.

### Financial Reporting Requirements

The 38 SBE-authorized charter school sites that were in operation for 2019–20 were required to submit financial reports and budgetary updates to the CDE. The FY financial reporting cycle begins with a budget that is submitted to the CDE by July 1. Budgetary reports, also known as interim reports, are submitted to the CDE on December 15 and March 15 of the FY, and are used to update the charter school’s budget. The CDE also requests that balance sheets and accounts payable aging reports be submitted with each interim report in order to gauge the financial condition of the charter school and to review any unpaid invoices by date. At the end of the FY, each charter school must submit an unaudited annual financial report on or before September 15. The submission of a final independent audit report by December 15 completes the FY reporting cycle. The CDE reviews the audit report in assessing trends, ratios, and significance of any footnote disclosures and findings.

* All SBE-authorized charter schools filed the required FY 2019–20 interim financial reports, including their balance sheets and accounts payable aging reports, to date.
* All SBE-authorized charter schools that were operational in FY 2018–19 submitted their annual audit report for FY 2018–19. Each SBE-authorized charter school received an unqualified audit opinion with no significant audit findings noted. An unqualified opinion means that the auditor has opined that the charter school’s financial statements are fairly presented, are free of material misstatements, and have been prepared in accordance with generally accepted accounting principles.

### California Department of Education Fiscal Analysis

The CDE’s fiscal analysis of each SBE-authorized charter school included a review of the following: independent audit reports and audit notes for FY 2018–19; budgetary updates for FY 2019–20 as reported in the first and second interim reports; supplementary reports; and budget information.

The CDE used FY 2019–20 financial reports, budgetary updates, and pertinent budget assumptions provided by each SBE-authorized charter school in its overall assessment of a charter school’s current and projected financial condition, fiscal sustainability, and appropriateness of fiscal management practices. Specifically, the CDE reviewed each charter school’s budget to identify, manage, and focus on signs of fiscal decline and fiscal viability. As a guide, the CDE used the general themes of the state’s budget reporting and monitoring system that is used for school districts, and which requires school districts to self-certify their financial condition as positive, qualified, or negative as related to their current and projected financial conditions. In its review of each SBE-authorized charter school, the CDE considered these and other factors including, but not limited to, measuring the adequacy of managing cash; evaluating debt levels; reviewing sustainability of budget operations; reviewing trends in enrollment and attendance; determining the reasonableness of revenue and expenditure projections; and assessing the multi-year projected financial position of the charter school. Definitions of the fiscal terms used by the CDE are provided in Attachment 1.

The CDE also verified SBE-authorized charter schools’ compliance with the fiscal conditions specified in their MOUs. The conditions included, but were not limited to, compliance with reserve levels, which is stated as follows:

The MOU requires each SBE-authorized charter school to maintain reserves at a level at least equivalent to a school district of similar size, as identified in *California Code of Regulations,* Title 5 Section 15450.

| School Average Daily Attendance | Expected Reserves |
| --- | --- |
| 0–300 | Greater of 5%\* or $69,000\*\* |
| 301–1,000 | Greater of 4%\* or $69,000\*\* |
| 1,001–30,000 | 3% |

\*Percentage applied to total expenditures and other financing uses.
\*\*The dollar amounts are to be adjusted annually by the prior year statutory cost-of-living adjustment, pursuant to *EC* Section 42238, and rounded to the nearest thousand.

## Financial Condition of State Board of Education-Authorized Charter Schools

For purposes of preparing this summary report, all SBE-authorized charter schools were grouped into one of three categories, which were based on the CDE’s analysis of the financial condition of each charter school and served as the basis for the level of monitoring and subsequent action taken by the CDE. Each charter school’s financial condition was categorized as good, fair, or poor. The definitions for each category are provided below.

For FY 2019–20, the CDE finds 31 charter schools to be in good financial condition, 2 charter schools to be in fair financial condition, and 5 charter schools to be in poor financial condition. For the five newly-operational charter schools, two charter schools were found to be in good financial condition, two charter schools were found to be in fair financial condition, and one charter school was found to be in poor financial condition, based on FY 2019–20 information. The financial highlights for all SBE-authorized charter schools that were in operation for FY 2019–20 are summarized in Attachment 2.

### Good Financial Condition

Thirty-one SBE-authorized charter schools were found to be in good financial condition. A charter school in good financial condition has demonstrated an ability to operate with a balanced budget; maintain stable enrollment and attendance ratios; manage cash liquidity; maintain a low debt level; maintain a positive fund balance; and meet the recommended reserve level specified in the MOU. The SBE-authorized charter schools found to be in good financial condition are as follows:

* Academia Avance Charter
* Audeo Charter II
* Baypoint Preparatory Academy (voluntary closure June 30, 2020)
* Baypoint Preparatory Academy – San Diego
* College Prep Middle School
* Grossmont Secondary School
* High Tech (seven of the nine operational sites): High Tech Elementary Chula Vista, High Tech Elementary North County, High Tech Middle Chula Vista, High Tech Middle North County, High Tech High Chula Vista, High Tech High Mesa, and High Tech High North County)
* ISANA Himalia Charter School
* KIPP Bayview Elementary School
* KIPP Navigate College Prep
* Latitude 37.8 High School
* Los Angeles College Prep Academy
* Magnolia Science Academy Santa Ana
* New West Charter
* Olive Grove Charter – New Cuyama
* Olive Grove Charter – Buellton
* OnePurpose (non-renewal, closure June 30, 2020)
* Perseverance Prep
* Rocketship Futuro Academy
* Ross Valley Charter
* Sweetwater Secondary School
* The New School of San Francisco
* The School of Arts and Enterprise
* Vista Springs Charter
* Watsonville Preparatory (newly operational)

### Fair Financial Condition

Two SBE-authorized charter schools are considered to be in fair financial condition. A charter school in fair financial condition shows some signs of fiscal distress and needs to take appropriate action to address its decline in financial condition. Specifically, a charter school in fair financial condition may have an out-of-balance (deficit spending) budget; declining enrollment or attendance ratio; cash liquidity that is not adequate; a debt level that is high; declining or low fund balances; or a reserve level that is below the level required in the MOU. The SBE-authorized charter schools found to be in fair financial condition are as follows:

* High Tech Middle Mesa (newly operational)
* Mary L. Booker Leadership Academy (newly operational and voluntary closure as of June 30, 2020)

The CDE has concerns regarding High Tech Middle Mesa’s (HTMM) fiscal condition. The CDE will continue to monitor HTMM’s budget, and may recommend that the SBE take appropriate action, as deemed necessary. Additional financial data and information for these SBE-authorized charter schools are outlined in Attachments 1 and 2.

### Poor Financial Condition

Five SBE-authorized charter schools are considered to be in poor financial condition. Charter schools in poor financial condition are in danger of jeopardizing their fiscal operations going forward. Timely and appropriate action by the charter school’s board is critical in addressing and mitigating the charter school’s serious decline in financial condition. Specifically, charter schools in poor financial condition have a negative fund balance and no reserves. These schools do not have an adequate cash level and have a high debt level. The SBE-authorized charter schools found to be in poor financial condition are as follows:

* High Tech Elementary Mesa’s (HTEM) second interim report indicates that HTEM is projecting a negative ending fund balance of $128,371 with no reserves. HTEM is newly operational as of August 2019.
* Olive Grove Charter – Lompoc’s (OGCL) 2019–20 second interim report indicates that OGCL is projecting a negative ending fund balance of $17,732 with no reserves.
* Olive Grove Charter – Santa Barbara’s (OGCSB) 2019–20 second interim report indicates that OGCSB is projecting a negative ending fund balance of $294,090 with no reserves.
* Olive Grove Charter – Orcutt/Santa Maria’s (OGCOSM) 2019–20 second interim report indicates that OGCOSM is projecting a negative ending fund balance of $225,635 with no reserves.
* Prepa Tec Los Angeles High’s (PTLAH) 2019–20 second interim report indicates that PTLAH is projecting a negative ending fund balance of $290,224 with no reserves. Additionally, PTLAH has been considered to be in poor financial condition since its inception in FY 2016–17.

The CDE has concerns regarding the fiscal condition of these charter schools. Each charter school noted above does not maintain the recommended 5 percent in reserves outlined in the MOU between the charter school and the SBE. The CDE will continue to monitor their budgets and may recommend that the SBE take appropriate action, as deemed necessary. Additional financial data and information for these SBE-authorized charter schools are outlined in Attachments 1 and 2.

## Attachments

* **Attachment 1:** State Board of Education-Authorized Charter Schools in Fair or Poor Financial Condition (17 Pages)
* **Attachment 2:** State Board of Education-Authorized Charter Schools Financial Highlights (7 Pages)