# State Board of Education-Authorized Charter Schools in Fair or Poor Financial Condition

## Definition of Fiscal Indicators

Deficit Spending

Deficit spending occurs when the charter school’s (school) expenditures exceed its revenues. A school’s operational unrestricted budget should be balanced and ideally provide for growth in fund balance and reserves. Deficit spending depletes fund balance and reserves and as such, must be addressed or it will lead to an insolvent financial position.

Fund Balance

The unrestricted fund balance of a school should be positive. At a minimum, the school’s unrestricted fund balance should be at a level to provide for reserves required in the Memorandum of Understanding (MOU). If the cause of the negative fund balance is not addressed in a timely and appropriate manner, the school could be in jeopardy of financial insolvency that increases the likelihood of revocation. A negative fund balance is indicative of a poor financial condition.

Reserves for Economic Uncertainty

MOU terms are written with the expectation that each school, depending on the level of the school’s average daily attendance (ADA), set aside reserves at the greater of four to five percent of expenditures, or a floor amount that is adjusted for inflation. The current inflation adjusted floor amount is $67,000. Reserves below the minimum levels are indicative of a poor financial condition.

Attendance Ratio

The attendance ratio is calculated by dividing the second period report of ADA for the Second Principal (P-2) Apportionment by the fall October enrollment count. Generally, the attendance ratio is between 93 to 96 percent.

Debt Ratio

The debt ratio is calculated by dividing the total liabilities by the total assets. The debt ratio measures a school’s level of financial risk. A debt ratio of more than 1.0 indicates that the school has more debts than assets. Schools with a high debt ratio have limited options for short-term financing and generally will pay more in financing and interest cost.

Working Capital Ratio

The working capital ratio is calculated by dividing current assets by current liabilities. The working capital ratio, also known as current ratio, measures cash liquidity and whether the school has enough short-term assets to cover its short-term debt. A ratio of less than 1.0 means current assets are less than current liabilities. A school with a ratio below 0.8 may have difficulty paying its bills in a timely manner. A current ratio of 1.2 or higher is considered to represent good short term liquidity.

## Fair Financial Condition

Charter schools in fair financial condition are showing some signs of fiscal distress and need to take appropriate actions to address the decline in financial condition. Specifically, charter schools in fair financial condition may have budgets that are out of balance (deficit spending), declining enrollment or attendance ratio, cash liquidity that is not adequate, debt levels that are high, declining or low fund balances, or reserve levels that are below the levels required in the MOU. The charter school identified as being in fair financial condition is:

* Academia Avance Charter

### Academia Avance Charter

* Charter Term Expires: 6/30/2020
* Grades Authorized to Serve: 8–12
* 2017–18 P-2 ADA: 382.41
* 2018–19 P-2 ADA: 367.4

#### Fiscal Concerns

Academia Avance Charter’s (AAC’s) second interim report indicates that AAC is

projecting a positive ending fund balance of $492,937 with a 9.34 percent reserves for FY 2018–19. However, the California Department of Education (CDE) notes that as of February 28, 2019, AAC owes $292,101 in outstanding vendor bills, of which $161,476 are overdue more than 90 days. The CDE also notes that AAC’s net assets were negative $7,656 as of February 28, 2019. In reviewing the 2017–18 audit, the CDE found the repeated financial statement finding of cash disbursements due to not adhering to its internal control procedures and AAC not properly defining the areas of responsibility for disbursements; two state award findings of California Longitudinal Pupil Achievement Data System (CALPADS) unduplicated pupil counts due to the CALPADS reports not being updated in a timely manner to correct student changes in the 2017–18 year; and one grade seven core-classroom teacher did not hold a valid Commission on Teacher Credentialing certificate, resulting in the affected instructional minutes for grade 7 being disallowed. The CDE also notes that AAC’s financial services provider has estimated that its ending cash balance will be positive by approximately $11,642 at the end of 2018–19 with a condition of continuance of factoring its receivables.

#### California Department of Education Follow-Up

On May 2, 2019, the CDE requested updated financial statements to determine if AAC has improved it financial condition. AAC’s April financial report indicates that AAC is projecting a positive ending fund balance of $504,470 with a 9.52 percent reserves for FY 2018–19. In addition, AAC’s net assets were increased to $2,286 as of April 30, 2019. AAC’s ending cash balance is projected to be $2,753 at the end of 2018–19 with the condition that AAC continue to factor its receivables. The projected cost of receivables sales, however, were reduced from FY 2017–18 to FY 2018–19 by three percent, from $217,999 to $210,652. To address the cash disbursements finding in the 2017–18 audit, AAC now requires proper documentation for every payment that must be within the expense allowance authorized by the Fiscal Policy for approval by the Executive Director or Business Manager, and is within an approved budget category. AAC’s Fiscal Policy was revised by the Governing Board in January 2019 to clarify and improve the purchasing controls to mitigate this condition. The CDE will continue to monitor the AAC budget, and may recommend that the SBE take appropriate action, as deemed necessary.

**Academia Avance Charter Financial Highlights**

NA = Not Applicable

| **FY / Source** | **Total Revenues** | **Total Expenditures** | **Net Operating Surplus (Deficit)** | **Working Capital Ratio** | **Debt Ratio** | **Attendance Ratio** | **Ending Fund Balance** | **Percent of Reserves** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2017–18 Audit | $5,811,440 | $5,574,717 | $236,723 | 0.58 | 1.00 | 98.3% | $6,562 | 0% |
| 2018–19 Budget | $5,554,062 | $5,147,610 | $406,452 | NA | NA | 95.4% | $259,893 | 5.05% |
| 2018–19 2nd Interim | $5,761,838 | $5,275,463 | $486,375 | NA | NA | 96.8% | $492,937 | 9.34% |

## 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 serious decline in financial condition. Specifically, charter schools in poor financial condition may have a negative fund balance, no reserves, an inadequate cash balance, and a high debt level. The SBE-authorized charter schools in poor financial condition are:

* Celerity Rolas Charter School
* Prepa Tec Los Angeles High

### Celerity Rolas Charter School

* Charter Voluntarily Closed: 7/19/2018
* Grades Authorized to Serve: K–8
* 2017–18 P-2 ADA: 286.64
* 2018–19 P-2 ADA: NA

#### Fiscal Concerns

The Celerity Rolas Charter School (CRCS) demonstrated financial distress since its inception in FY 2017–18. CRCS relied heavily on long-term intercompany loans to help cash shortages.

#### Charter School Update

CRCS voluntarily closed effective Thursday, July 19, 2018.

#### California Department of Education Follow-Up

On July 27, 2018, the CDE issued the CRCS Board written notice to invoke closure procedures including:

* Return grant funds and restricted categorical funds to their source in accordance with the terms of the grant or state and federal law as appropriate. Federal grants must be closed out, including the filing of the required Final Expenditure Reports and Final Performance Reports. Federal Forms 269 and 269a may apply if CRCS was receiving funds directly from the U.S. Department of Education.
* Develop a plan to close out all financial records for the FY 2017–18.
* Provide the CDE a description of current and projected payroll and payroll benefits commitments through closure, including a list of each employee and their job duties, and a projection of the funds necessary to: (1) transition the pupils and records; (2) complete all administrative closure related tasks; and (3) complete contracts and grants.
* Provide the CDE with notice of any outstanding payments to staff and the method by which the school will make the payments.
* Notify all funding sources (including charitable partners), all current and former contractors (such as a charter management organization, education management organization, food service provider, instructional service provider, or transportation service provider), and lenders of CRCS’s closure.
* Notify the CDE in electronic format of all pending litigation to which CRCS is a party to.
* Prepare a comprehensive list of creditors and debtors and comprehensive inventory of all assets.
* Prepare a plan for the proposed disposal of all property owned by CRCS (and acquired with public funds) in order to maximize revenue in accordance with law; payment of any and all liabilities and the disbursement of any remaining assets of CRCS; and liquidation of assets to pay off any and all outstanding liabilities, bearing in mind that assets paid for by state funds may be transferred in accordance with the nonprofit corporation’s bylaws to another public agency such as another charter school. Assets donated to CRCS may be returned to donors or disposed of in accordance with donor’s wishes. Net assets (after the payment of outstanding liabilities), if any, may be transferred to another public agency such as another charter school.
* Arrange for final closure audits to be paid for from the special reserve or bond revenue. The auditor engaged to perform the audit shall be from the list of approved school auditors maintained by the California State Controller’s Office and shall be approved by the CDE. The audit, at a minimum, shall determine the disposition of all assets and liabilities of CRCS and shall verify the CRCS’s comprehensive list of creditors and debtors, and the amounts owed or owing, as well as verify CRCS’s comprehensive list of all assets by source, noting any restrictions on each asset’s use.

**Celerity Rolas Charter School Financial Highlights**

NP = Not Provided

| **FY / Source** | **Total Revenues** | **Total Expenditures** | **Net Operating Surplus (Deficit)** | **Working Capital Ratio** | **Debt Ratio** | **Attendance Ratio** | **Ending Fund Balance** | **Percent of Reserves** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2017–18 Audit | NP | NP | NP | NP | NP | NP | NP | NP |
| 2018–19 Budget | $4,855,197 | $5,167,076 | ($311,879) | NA | NA | NP | ($1,390,022) | 0% |
| 2018–19 2nd Interim | NA | NA | NA | NA | NA | NA | NA | NA |

### Prepa Tec Los Angeles High

* Charter Term Expires: 6/30/2021
* Grades Authorized to Serve: 9–12
* 2017–18 P-2 ADA: 206.74
* 2018–19 P-2 ADA: 265.59

#### Fiscal Concerns

The CDE found that PTLAH’s 2018–19 second interim report projected a negative ending fund balance of $202,038 with a zero percent reserve for FY 2018–19, which is below the recommended five percent in reserves outlined in the MOU between PTLAH and the SBE. PTLAH is considered to be in poor financial condition since its inception in FY 2016–17. The CDE also notes that as of March 15, 2018, PTLAH owes $234,328 in outstanding vendor bills, of which $121,550 are overdue more than 90 days. In addition, the CDE notes that PTLAH’s net assets were negative $544,846 as of January 31, 2018, and that PTLAH relies heavily on a line of credit of $514,000 to help cash shortages.

#### California Department of Education Follow-Up

The CDE issued a Letter of Concern to the PTLAH Board, identifying the fiscal concerns including the negative ending fund balance and a zero percent reserve on the second interim report and requested a Fiscal Corrective Action Plan to address these concerns to be submitted to the CDE by July 5, 2019. The CDE will continue to monitor the PTLAH budget, and may recommend that the SBE take appropriate action, as deemed necessary.

**Prepa Tec Los Angeles High Financial Highlights**

| **FY / Source** | **Total Revenues** | **Total Expenditures** | **Net Operating Surplus (Deficit)** | **Working Capital Ratio** | **Debt Ratio** | **Attendance Ratio** | **Ending Fund Balance** | **Percent of Reserves** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2017–18 Audit | $3,232,464 | $3,780,896 | ($548,432) | 0.16 | 1.53 | 92.3 | ($879,715) | 0% |
| 2018–19 Budget | $4,679,613 | $4,197,516 | $482,097 | NA | NA | 95% | ($346,192) | 0% |
| 2018–19 2nd Interim | $4,183,104 | $3,505,427 | $677,677 | NA | NA | 95.3% | ($202,038) | 0% |

*California Department of Education, August 2019*