# 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 $66,000. 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 schools identified as being in fair financial condition are:

* Anahuacalmecac International University Preparatory of North America
* Celerity Himalia Charter School

### Anahuacalmecac International University Preparatory of North America

* Charter Term Expires: 6/30/2019
* Grades Authorized to Serve: Kindergarten (K) –12
* 2016–17 P-2 ADA: 325.02
* 2017–18 P-2 ADA: 328.10

#### Fiscal Concerns

In January 2018, CDE had fiscal concerns for Anahuacalmecac International University Preparatory of North America’s (AIUPNA’s) due to the school’s negative fund balance and numerous outstanding bills totaling $386,701, of which $165,333 were overdue more than 90 days. The CDE also notes that AIUPNA’s net assets were negative $747,742 with long term liabilities of $1,050,517.

Subsequently AIUPNA received $1.15 million in local revenue which resulted in a positive ending fund balance of $246,525. As of May 31, 2018, AIUPNA had significantly reduced its unpaid vendor bills to $59,249. This improved financial position puts AIUPNA in fair financial condition.

#### California Department of Education Follow-Up

On June 5, 2018, the California Department of Education (CDE) had a conference call with AIUPNA regarding the local revenue of $1.15 million on the 2017–18 second interim report. AIUPNA was able to use the local revenue of $1.15 million on the fiscal year (FY) 2017–18 second interim report to pay down the accounts payable. The CDE reviewed the accounts payable aging summary as of May 31, 2018, and found that the outstanding vendor bills were reduced by $327,750 and the current balance is $59,249. The CDE also notes that AIUPNA’s net assets were increased to $260,301 with the long term liabilities decreased to $870,203 as of May 31, 2018. The AIUPNA current ratio and debt ratio are 5.87 and 0.8, respectively. Therefore, AIUPNA has more than five times the short-term assets required to cover its short-term debt and its total liabilities are less than the value of its total assets.

**AIUPNA 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** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2016–17 Audit | $4,942,150 | $4,894,206 | $47,944 | 0.51 | 1.47 | 94.6% | ($480,097) | 0% |
| 2017–18 Budget | $5,052,935 | $4,829,989 | $222,946 | NA | NA | 91.4% | ($60,264) | 0% |
| 2017–18 2nd Interim | $5,793,835 | $5,019,269 | $774,566 | NA | NA | 90.4% | $246,525 | 4.9% |

### Celerity Himalia Charter School

* Charter Term Expires: 6/30/2022
* Grades Authorized to Serve: K–8
* 2016–17 P-2 ADA: NA, Celerity Himalia Charter School (CHCS) was not in operation
* 2017–18 P-2 ADA: 579.69

#### Fiscal Concerns

CHCS’s second interim report indicates that CHCS is projecting a positive ending fund balance of $46,441 with 0.61 percent reserve for FY 2017–18, which is below the recommended five percent in reserves outlined in the MOU between CHCS and the State Board of Education (SBE). In addition, the CDE notes that CHCS’s net assets were negative $848,693 as of April 30, 2018, and CHCS relies heavily on long term intercompany loans to help cash shortages

#### California Department of Education Follow-Up

On May 31, 2018, the CDE had a conference call with CHCS regarding the fiscal concerns of a positive ending fund balance with a 0.6 percent reserve on the 2017–18 second interim report. On June 5, 2018, the CDE issued a Letter of Concern to the CHCS Board, identifying the fiscal concerns including negative ending fund balance and a 0.6 percent reserve on the second interim report and requested a fiscal corrective action plan (FCAP) to address these concerns to be submitted to the CDE by June 26, 2018. CHCS submitted the FCAP on June 22, 2018, that addresses fiscal concerns of low reserve and enrollment. CHCS also provided the CDE the preliminary budget for FY 2018–19 that reflects the projected ending fund balance of $624,200 with a reserve of 7.25 percent. In addition, the CHCS has projected enrollment of 708 students for FY 2018–19 in addition to the waitlist of 306 students. The CDE will continue to monitor the CHCS budget, and may recommend that the SBE take appropriate action, as deemed necessary.

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**CHCS 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** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2016–17 Audit | NA | NA | NA | NA | NA | NA | NA | NA |
| 2017–18 Budget | $8,182,228 | $7,765,879 | $416,349 | NA | NA | 90% | $416,349 | 5.4% |
| 2017–18 2nd Interim | $7,659,546 | $7,613,105 | $46,441 | NA | NA | 94.26% | $46,441 | 0.6% |

## 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:

* Academia Avance Charter
* Celerity Rolas Charter School
* Paramount Collegiate Academy
* Prepa Tec Los Angeles High
* Rocketship Futuro Academy

### Academia Avance Charter

* Charter Term Expires: 6/30/2020
* Grades Authorized to Serve: 6–12
* 2016–17 P-2 ADA: 387.05
* 2017–18 P-2 ADA: 382.41

#### Fiscal Concerns

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

projecting a negative ending fund balance of $204,262 with a zero percent reserve for FY 2017–18, which is below the recommended five percent in reserves outlined in the MOU between AAC and the SBE. In addition, the CDE also notes that as of January 31, 2017, AAC owes $370,164 in outstanding vendor bills, of which $143,338 are overdue more than 90 days. The CDE also notes that AAC’s net assets were negative $732,518 as of January 31, 2018, which was mainly due to the sale of the remaining 24 percent of City Terrace, LLC in the amount of $842,841 on July 9, 2017. The AAC debt ratio increased to 1.63; therefore, AAC’s total liabilities were more than one and a half times the value of its total assets. The AAC working capital ratio would drop to 0.22, which means AAC’s available current assets were inadequate as it has less than one-fourth of what is needed to pay current obligations due. The projected ending cash balance was $5,258 at the end of FY 2017–18 with cash reserves of 0.1 percent, which was also below the recommended five percent in reserves and resulted in AAC’s low liquidity. CDE issued the AAC Board an August 8, 2017, Letter of Concern Regarding 2015–16 Independent Audit Report Financial Statement Findings of cash receipts and cash disbursements. To date the CDE finds the AAC Board has not taken the 2015–16 Audit Findings under consideration nor has AAC responded to CDE’s request for the updated detailed internal control policy for both cash receipts and cash disbursements. In reviewing the 2016–17 audit, the CDE has fiscal concerns over one financial statement finding of contracts and two state award findings of weekly teacher certifications and questionable expenses in FY 2016–17, in addition to the repeated findings of cash receipts and cash disbursements.

#### California Department of Education Follow-Up

On June 5, 2018, the CDE had a conference call with AAC regarding the fiscal concerns of a negative ending fund balance with a zero percent reserve on the 2017–18 second interim report. On July 2, 2018, the CDE issued a Letter of Concern regarding the fiscal operation of AAC to the AAC Board identifying the fiscal concerns regarding the negative ending fund balance with a zero percent reserve on the 2017–18 second interim report and requested a FCAP to address these concerns to be submitted to the CDE by July 23, 2018. In addition, the CDE identified the fiscal concerns regarding the financial statement findings and state award findings on the 2016–17 independent audit report, and requested that the AAC Board provide the updated internal control policy for cash receipts, cash disbursements, contracts, and teacher certifications of attendance requirements, and how the exceptions and deficiencies have been, or will be, resolved.

**AAC 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** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2016–17 Audit | $6,026,956 | $6,174,077 | ($147,121) | 0.55 | 0.84 | 97.5% | $386,021 | 6.3% |
| 2017–18 Budget | $4,224,862 | $5,000,611 | ($775,749) | NA | NA | 95.5% | ($148,017) | 0% |
| 2017–18 2nd Interim | $4,044,380 | $5,191,961 | ($590,283) | NA | NA | 98.3% | ($204,262) | 0% |

### Celerity Rolas Charter School

* Charter Term Expires: 6/30/2022
* Grades Authorized to Serve: K–8
* 2016–17 P-2 ADA: NA, Celerity Rolas Charter School (CRCS) was not in operation
* 2017–18 P-2 ADA: 286.64

#### Fiscal Concerns

The CDE found CRCS’ 2017–18 second interim report indicates that CRCS is projecting a negative ending fund balance of $692,438 with a zero percent reserve for FY 2017–18, which is below the recommended five percent in reserves outlined in the MOU between CRCS and the SBE. In addition, the CDE noted that CRCS’s net assets were negative $1,211,147 as of April 30, 2018, and CRCS relied heavily on long-term intercompany loans to help cash shortages.

#### California Department of Education Follow-Up

On May 31, 2018, the CDE had a conference call with CRCS regarding the fiscal concerns of a negative ending fund balance with a zero percent reserve on the 2017–18 second interim report. On the same day, the CDE issued a Letter of Concern to the CRCS Board, identifying the fiscal concerns including the negative ending fund balance and a zero percent reserve on the second interim report, and requested a FCAP to address these concerns to be submitted to the CDE by June 21, 2018. CRCS submitted the FCAP on June 21, 2018, that addresses the fiscal concerns of zero percent reserve and enrollment. CRCS also provided the CDE the multiyear financial plan for FY 2018–19 through FY 2020–21 with the projected enrollment of 400 to 440 students for FY 2018–19, and the preliminary budget for FY 2018–19 with the projected enrollment of 340 students. However, the CDE found that CRCS will not have an operating surplus until FY 2020–21 and will have negative ending fund balances with no reserve for FY 2018–19 through FY 2020–21. Effective July 18, 2018, CRCS voluntarily closed and will not be enrolling students for the 2018-19 school year.

**CRCS 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** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2016–17 Audit | NA | NA | NA | NA | NA | NA | NA | NA |
| 2017–18 Budget | $3,936,709 | $4,376,641 | ($439,932) | NA | NA | 94.23% | ($439,932) | 0% |
| 2017–18 2nd Interim | $4,419,255 | $5,111,692 | ($692,438) | NA | NA | 92.76% | ($692,438) | 0% |

### Paramount Collegiate Academy

* Charter Voluntarily Closed: 2/7/2018
* Grades Authorized to Serve: 6–12
* 2016–17 P-2 ADA: 74.64
* 2017–18 P-2 ADA: 67.73

#### Fiscal Concerns

The Paramount Collegiate Academy (PCA) demonstrated consistent financial distress and was considered to be in fair financial condition since its inception in FY 2015–16. PCA’s financial problem was almost entirely attributable to the continued low pupil enrollment.

#### Charter School Update

PCA closed voluntarily effective Wednesday, February 7, 2018, and entered into bankruptcy.

#### California Department of Education Follow Up

On February 12, 2018, the CDE issued the PCA 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 PCA 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 PCA’s closure.
* Notify the CDE in electronic format of all pending litigation to which PCA 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 PCA (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 PCA; 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 PCA 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 PCA and shall verify the PCA’s comprehensive list of creditors and debtors, and the amounts owed or owing, as well as verify PCA’s comprehensive list of all assets by source, noting any restrictions on each asset’s use.

**PCA 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** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2016–17 Audit | $1,153,993 | $1,103,979 | $50,014 | 1.64 | 1.14 | 91.02 | ($80,881) | 0% |
| 2017–18 Budget | $1,103,313 | $1,066,345 | $36,968 | NA | NA | 92.12% | ($39,471) | 0% |
| 2017–18 2nd Interim | NP | NP | NP | NA | NA  | 89.12% | NP | NA |

### Prepa Tec Los Angeles High

* Charter Term Expires: 6/30/2021
* Grades Authorized to Serve: 9–12
* 2016–17 P-2 ADA: 106.15
* 2017–18 P-2 ADA: 206.74

#### Fiscal Concerns

The CDE found that Prepa Tec Los Angeles High’s (PTLAH) 2017–18 second interim report projected a negative ending fund balance of $556,533 with a zero percent reserve for FY 2017–18, 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 multi-year projection in the second interim report also indicates that PTLAH will continue to have a projected negative ending fund balance in FY 2018–19. The CDE also notes that as of January 31, 2018, PTLAH owes $310,913 in outstanding vendor bills, of which $109,968 are overdue more than 90 days. In addition, the CDE notes that PTLAH’s net assets were negative $690,523 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

On June 5, 2018, the CDE had a conference call with PTLAH regarding the fiscal concerns of a negative ending fund balance with a zero percent reserve on the 2017–18 second interim report. 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 FCAP to address these concerns to be submitted to the CDE by July 26, 2018. The CDE will continue to monitor the PTLAH budget, and may recommend that the SBE take appropriate action, as deemed necessary.

**PTLAH 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** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2016–17 Audit | $1,427,902 | $1,759,185 | ($331,283) | 0.2 | 1.32 | 94.8 | ($331,283) | 0% |
| 2017–18 Budget | $3,700,041 | $3,326,404 | $373,637 | NA | NA | 92.6% | $143,898 | 4.3% |
| 2017–18 2nd Interim | $3,218,920 | $3,444,170 | ($225,250) | NA | NA | 92.3% | ($556,533) | 0% |

### Rocketship Futuro Academy

* Charter Term Expires: 6/30/2021
* Grades Authorized to Serve: K–5
* 2016–17 P-2 ADA: 117.98
* 2017–18 P-2 ADA: 269.76

#### Fiscal Concerns

The CDE found that Rocketship Futuro Academy’s (RFA) 2017–18 second interim report projected a negative ending fund balance of $916,509 with a zero percent reserve for FY 2017–18, which is below the recommended five percent in reserves outlined in the MOU between RFA and the SBE. RFA is considered to be in poor financial condition since its inception in FY 2016–17. The multi-year projection in the second interim report also indicates that RFA will continue to have a projected negative ending fund balance in FY 2018–19. The CDE also notes that as of January 31, 2018, RFA owes $1,423,193 in outstanding vendor bills, of which $425,697 are overdue more than 90 days. In addition, the CDE notes that RFA’s net assets were negative $845,933 as of January 31, 2018 and that RFA relies heavily on intercompany loans to help cash shortages.

#### California Department of Education Follow-Up

On May 31, 2018, the CDE had a conference call with RFA regarding the fiscal concerns of a negative ending fund balance with a zero percent reserve on the 2017–18 second interim report. On June 13, 2018, the CDE issued a Letter of Concern regarding the fiscal operation of RFA to the RFA Board, identifying the fiscal concerns including the negative ending fund balance and a zero percent reserve on the 2017–18 second interim report, and requested a FCAP to address these concerns to be submitted to the CDE by July 4, 2018. RFA submitted the FCAP on July 5, 2018. RFA addressed the fiscal concerns with specific explanations for improving RFA’s financial condition. The CDE will continue to monitor the RFA budget, and may recommend that the SBE take appropriate action, as deemed necessary.

**RFA 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** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2016–17 Audit | $1,771,841 | $2,287,986 | ($516,145) | 1.38 | 2.34 | 95.2 | ($542,378) | 0% |
| 2017–18 Budget | $3,138,700 | $3,405,842 | ($267,142) | NA | NA | 90.3% | ($898,115) | 0% |
| 2017–18 2nd Interim | $2,930,302 | $3,304,434 | ($374,132) | NA | NA | 93% | ($916,509) | 0% |

*California Department of Education, August 2018*