California Department of Education

Executive Office

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# **MEMORANDUM**

**DATE:** October 13, 2022

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

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

**SUBJECT:** Financial Condition of California State Board of Education-Authorized Charter Schools - Fiscal Year 2021–22

## Summary of Key Issues

This information memorandum provides a summary and analysis of the financial condition of the California State Board of Education (SBE)-authorized charter schools for fiscal year (FY) 2020–21 through the second interim projections for FY 2021–22. 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 that it oversees, 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.

Pursuant to *EC* Section 47605(k)(1), the SBE delegated oversight of T.I.M.E. (Teamwork, Individualization, Mastery, and Extension) Community School (TCS) to the Los Angeles County Office of Education (LACOE). While TCS remains under the authorization of the SBE, the oversight monitoring of TCS, including the review of its revenue and expenditure reports, is conducted by LACOE.

### Financial Reporting Requirements

The 30 SBE-authorized charter schools that were in operation for 2021–22 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 2021–22 interim financial reports, including their balance sheets and accounts payable aging reports, to date.
* All SBE-authorized charter schools that were operational in FY 2020–21 submitted their annual audit report for FY 2020–21. 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 2020–21; budgetary updates for FY 2021–22 as reported in the first and second interim reports; supplementary reports; and budget information.

The CDE used FY 2021–22 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.

In addition, the CDE reviewed each SBE-authorized charter school’s expenditure of Elementary and Secondary School Services (ESSER) funds. Local educational agencies (LEAs), including charter schools, have received ESSER and Governor’s Emergency Education Relief (GEER) funds to support their ability to continue to provide educational services to students and to support the ongoing functionality of the LEA. The CDE has contacted LEAs, including charter schools, with remaining ESSER I and/or GEER I balances to offer assistance in developing spending plans and highlighting examples of successful and thoughtful expenditures of ESSER and GEER funds. Additionally, the CDE held trainings for LEAs with outside federal consultants to provide information on allowable expenditures and to answer questions regarding allowable uses.

Frequently asked questions (FAQs) for each funding source are located here:

* ESSER I FAQs: <https://www.cde.ca.gov/fg/cr/esserfaqs.asp> (#12 and #13)
* Learning Loss Mitigating Funding FAQs: <https://www.cde.ca.gov/fg/cr/llmffaqs.asp> (#8 and #9)
* ESSER II FAQs: <https://www.cde.ca.gov/fg/cr/esseriifaqs.asp> (#10 and #11)

The CDE also verified the 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 $75,000\*\* |
| 301–1,000 | Greater of 4%\* or $75,000\*\* |
| 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 2021–22, the CDE finds 28 charter schools to be in good financial condition, 1 charter school to be in fair financial condition, and 1 charter school to be in poor financial condition. The financial highlights for all SBE-authorized charter schools that were in operation for FY 2021–22 are summarized in Attachment 2.

### Good Financial Condition

Twenty-eight 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
* Baypoint Preparatory Academy – San Diego
* College Preparatory Middle
* Grossmont Secondary School
* High Tech (nine operational sites): High Tech Elementary Chula Vista, High Tech Elementary Mesa, High Tech Elementary North County, High Tech Middle Chula Vista, High Tech Middle Mesa, High Tech Middle North County, High Tech High Chula Vista, High Tech High Mesa, and High Tech High North County
* KIPP Bayview Elementary
* KIPP Navigate College Prep
* Latitude 37.8 High
* Los Angeles College Prep Academy
* Magnolia Science Academy Santa Ana
* New West Charter
* Olive Grove Charter – Buellton
* Olive Grove Charter – Lompoc
* Olive Grove Charter – Orcutt/Santa Maria
* Olive Grove Charter – Santa Barbara
* Perseverance Preparatory
* Sweetwater Secondary School
* The New School of San Francisco
* Vista Springs Charter
* Watsonville Prep

Additional financial data and information for the aforementioned SBE-authorized charter school are provided in Attachments 1 and 2.

### Fair Financial Condition

One SBE-authorized charter school is 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 school found to be in fair financial condition is as follows:

* John Henry High

The CDE has concerns regarding John Henry High’s fiscal condition. The CDE will continue to monitor its budget, and may recommend that the SBE take appropriate action, as deemed necessary. Additional financial data and information for this SBE-authorized charter school are outlined in Attachments 1 and 2.

### Poor Financial Condition

One SBE-authorized charter school is considered to be in poor financial condition. A charter school in poor financial condition is in danger of jeopardizing its 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, a charter school in poor financial condition has a negative fund balance and no reserves. The school does not have an adequate cash level and has a high debt level. The SBE-authorized charter school found to be in poor financial condition is as follows:

* Eagle Collegiate Academy (ECA)

ECA reported enrollment of 12 students in its Charter School 20-Day Attendance Report on November 1, 2021.

On November 12, 2021, the CDE sent a Letter of Concern to ECA regarding ECA’s unanticipated and drastic decline in enrollment. ECA responded to the CDE’s Letter of Concern and included in its response a Fiscal Corrective Action Plan and other requested documentation. However, ECA’s response to budget was based on unrealistic enrollment projections.

On January 12, 2022, the SBE issued a Notice of Violation. The CDE found that ECA was not fiscally sustainable. ECA continued to base its fiscal solvency on unrealistic and overestimated enrollment. In addition, ECA maintained a negative ending fund balance. Based on the CDE’s analysis of ECA’s response to the Notice of Violation, the CDE found that ECA had not refuted, remedied, or proposed to remedy this violation.

On March 10, 2022, SBE voted to revoke the ECA charter. ECA closed on March 30, 2022. Additional financial data and information for this charter school are outlined in Attachments 1 and 2.

## Financial Condition of State Board of Education-Authorized Charter Schools with Delegated Oversight

### T.I.M.E. Community School

TCS was approved by the SBE at its July 9, 2020, meeting. At the same meeting, the oversight of TCS was delegated to LACOE.

At the July 14, 2022, SBE meeting, LACOE recommended that the SBE issue a Notice of Violation (NOV) to TCS citing significant fiscal and operational concerns. LACOE’s specific concerns are outlined in Agenda Item 18 of the SBE Agenda for July 2022, which is available <https://www.cde.ca.gov/be/ag/ag/yr22/agenda202207.asp>. The SBE motioned to approve the request to issue an NOV to TCS; however, the motion failed by a vote of five to four. Six votes by the SBE are required for an action to carry. As such, no action was taken and an NOV was not issued.

LACOE continues to have concerns regarding TCS’ unrealistic enrollment projections, and is requiring a fiscal stabilization plan and monthly cash flow projections from TCS for the current school year. This report covers the 2021-22 fiscal year ending June 30, 2022 and does not provide an update of fiscal activities or concerns for the current fiscal year beginning July 1, 2022.

## Attachments

* **Attachment 1:** California State Board of Education-Authorized Charter Schools Financial Condition (36 Pages)
* **Attachment 2:** California State Board of Education-Authorized Charter Schools Financial Highlights (16 Pages)