# 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 $69,000. 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 their 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 as follows:

* High Tech Middle Mesa (HTMM)
* Mary L. Booker Leadership Academy (MLBLA)

### High Tech Middle Mesa

* Charter Term Expires: 6/30/2023
* Grades Authorized to Serve: 6–7
* 2018–19 P-2 ADA: Not applicable, HTMM was not in operation
* 2019–20 P-2 ADA: 109.23

#### Fiscal Concerns

HTMM opened in fall 2019 with a projected enrollment of 120 pupils. HTMM’s 2019–20 second interim report indicates that HTMM is projecting a positive ending fund balance of $60,188 with 4.11 percent in reserves for fiscal year (FY) 2019–20, which is below the recommended five percent in reserves outlined in the MOU between HTMM and the State Board of Education (SBE).

**High Tech Middle Mesa Financial Highlights**

NA: Not Applicable

| Fiscal Year / Source | Total Revenues | Total Expenditures | Net Operating Surplus (Deficit) | Working Capital Ratio | Debt Ratio | Attendance Ratio | Ending Fund Balance | Percent of Reserves |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2018–19 Audit | NA | NA | NA | NA | NA | NA | NA | NA |
| 2019–20 Budget | $1,323,347 | $1,310,114 | $13,233 | NA | NA | 97.34% | $13,233 | 1.01% |
| 2019–20 2nd Interim | $1,524,969 | $1,464,781 | $60,188 | NA | NA | 95.82% | $60,188 | 4.11% |

### Mary L. Booker Leadership Academy

* Charter Voluntarily Closed: 6/30/2020
* Grades Authorized to Serve: 6–12
* 2018–19 P-2 ADA: Not applicable, MLBLA was not in operation
* 2019–20 P-2 ADA: 51.33

#### Fiscal Concerns

MLBLA opened in fall 2019 with a projected enrollment of 120 pupils. MLBLA’s 2019–20 second interim report indicates that MLBLA is projecting a positive ending fund balance of $34,246 with 2.30 percent in reserves for FY 2019–20, which is below the recommended five percent in reserves outlined in the MOU between MLBLA and the SBE.

#### Charter School Update

MLBLA voluntarily closed effective June 30, 2020.

#### California Department of Education Follow Up

On June 15, 2020, the California Department of Education (CDE) issued the MLBLA Board written notice to invoke closure procedures, which included the following:

* 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 MLBLA was receiving funds directly from the U.S. Department of Education.
* Close all financial records of the school effective June 30, 2020. Develop a plan to close out all financial records for FY 2019–20.
* Provide the CDE with 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 for the following: (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 MLBLA’s closure.
* Notify the CDE in electronic format of all pending litigation to which MLBLA 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 MLBLA (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 MLBLA; 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 MLBLA 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 MLBLA and shall verify the MLBLA’s comprehensive list of creditors and debtors, and the amounts owed or owing, as well as verify MLBLA’s comprehensive list of all assets by source, noting any restrictions on each asset’s use.

**Mary L. Booker Leadership Academy Financial Highlights**

NA: Not Applicable

| Fiscal Year / Source | Total Revenues | Total Expenditures | Net Operating Surplus (Deficit) | Working Capital Ratio | Debt Ratio | Attendance Ratio | Ending Fund Balance | Percent of Reserves |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2018–19 Audit | NA | NA | NA | NA | NA | NA | NA | NA |
| 2019–20 Budget | $1,401,730 | $1,362,124 | $39,606 | NA | NA | 93% | $237,146 | 17.41% |
| 2019–20 2nd Interim | $1,357,166 | $1,487,877 | ($130,711) | NA | NA | 90.05% | $34,246 | 2.30% |

## 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 as follows:

* High Tech Elementary Mesa (HTEM)
* Olive Grove Charter – Lompoc (OGCL)
* Olive Grove Charter – Santa Barbara (OGCSB)
* Olive Grove Charter – Orcutt/Santa Maria (OGCOSM)
* Prepa Tec Los Angeles High (PTLAH)

### High Tech Elementary Mesa

* Charter Term Expires: 6/30/2023
* Grades Authorized to Serve: Kindergarten (K)–5
* 2018–19 P-2 ADA: Not applicable, HTEM was not in operation
* 2019–20 P-2 ADA: 197.42

#### Fiscal Concerns

HTEM opened in fall 2019 with a projected enrollment of 120 pupils. HTEM’s 2019–20 second interim report indicates that HTEM is projecting a negative ending fund balance of $128,371 with zero percent in reserves for FY 2019–20, which is below the recommended five percent in reserves outlined in the MOU between HTEM and the SBE.

**High Tech Elementary Mesa Financial Highlights**

NA: Not Applicable

| Fiscal Year / Source | Total Revenues | Total Expenditures | Net Operating Surplus (Deficit) | Working Capital Ratio | Debt Ratio | Attendance Ratio | Ending Fund Balance | Percent of Reserves |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2018–19 Audit | NA | NA | NA | NA | NA | NA | NA | NA |
| 2019–20 Budget | $2,346,850 | $2,299,913 | $46,937 | NA | NA | 94.59% | $46,937 | 2.04% |
| 2019–20 2nd Interim | $2,389,718 | $2,518,089 | ($128,371) | NA | NA | 93.12% | ($128,371) | 0% |

### Olive Grove Charter – Lompoc

* Charter Term Expires: 6/30/2023
* Grades Authorized to Serve: K–12
* 2018–19 P-2 ADA: 129.74
* 2019–20 P-2 ADA: 128.62

#### Fiscal Concerns

The CDE found that OGCL’s 2019–20 second interim report indicates that OGCL is projecting a negative ending fund balance of $17,732 with zero percent in reserves for FY 2019–20, which is below the recommended five percent in reserves outlined in the MOU between OGCL and the SBE.

**Olive Grove Charter – Lompoc Financial Highlights**

NA: Not Applicable

| Fiscal Year / Source | Total Revenues | Total Expenditures | Net Operating Surplus (Deficit) | Working Capital Ratio | Debt Ratio | Attendance Ratio | Ending Fund Balance | Percent of Reserves |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2018–19 Audit | $1,922,585 | $1,848,605 | $73,980 | 0.94 | 0.88 | 110.89% | $73,980 | 4% |
| 2019–20 Budget | $2,013,236 | $1,940,206 | $73,030 | NA | NA | 97% | $147,010 | 7.58% |
| 2019–20 2nd Interim | $1,986,962 | $2,078,674 | ($91,712) | NA | NA | 93.20% | ($17,732) | 0% |

### Olive Grove Charter – Santa Barbara

* Charter Term Expires: 6/30/2023
* Grades Authorized to Serve: K–12
* 2018–19 P-2 ADA: 213.21
* 2019–20 P-2 ADA: 158.5

#### Fiscal Concerns

The CDE found that OGCSB’s 2019–20 second interim report indicates that OGCSB is projecting a negative ending fund balance of $294,090 with zero percent in reserves for FY 2019–20, which is below the recommended five percent in reserves outlined in the MOU between OGCSB and the SBE.

**Olive Grove Charter – Santa Barbara** **Financial Highlights**

NA: Not Applicable

| Fiscal Year / Source | Total Revenues | Total Expenditures | Net Operating Surplus (Deficit) | Working Capital Ratio | Debt Ratio | Attendance Ratio | Ending Fund Balance | Percent of Reserves |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2018–19 Audit | $2,772,817 | $2,667,402 | $105,415 | 1.00 | 0.93 | 118.45% | $105,415 | 3.95% |
| 2019–20 Budget | $2,486,055 | $2,434,809 | $51,246 | NA | NA | 97% | $156,661 | 6.43% |
| 2019–20 2nd Interim | $2,023,145 | $2,422,650 | ($399,505) | NA | NA | 93.24% | ($294,090) | 0% |

### Olive Grove Charter – Orcutt/Santa Maria

* Charter Term Expires: 6/30/2023
* Grades Authorized to Serve: K–12
* 2018–19 P-2 ADA: 213.72
* 2019–20 P-2 ADA: 244.51

#### Fiscal Concerns

The CDE found that OGCOSM’s 2019–20 second interim report indicates that OGCOSM is projecting a negative ending fund balance of $225,635 with zero percent in reserves for FY 2019–20, which is below the recommended five percent in reserves outlined in the MOU between OGCOSM and the SBE.

**Olive Grove Charter – Orcutt/Santa Maria** **Financial Highlights**

NA: Not Applicable

| Fiscal Year / Source | Total Revenues | Total Expenditures | Net Operating Surplus (Deficit) | Working Capital Ratio | Debt Ratio | Attendance Ratio | Ending Fund Balance | Percent of Reserves |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2018–19 Audit | $3,004,079 | $2,887,135 | $116,944 | 0.99 | 0.85 | 104.76% | $116,944 | 4.05% |
| 2019–20 Budget | $4,273,747 | $4,100,677 | $173,070 | NA | NA | 97% | $290,014 | 7.07% |
| 2019–20 2nd Interim | $3,374,536 | $3,717,115 | ($342,579) | NA | NA | 93.32% | ($225,635) | 0% |

### Prepa Tec Los Angeles High

* Charter Term Expires: 6/30/2021
* Grades Authorized to Serve: 9–12
* 2018–19 P-2 ADA: 265.59
* 2019–20 P-2 ADA: 317.30

#### Fiscal Concerns

The CDE found that PTLAH’s 2019–20 second interim report indicates that PTLAH is projecting a negative ending fund balance of $290,224 with zero percent in reserves for FY 2019–20, which is below the recommended five percent in reserves outlined in the MOU between PTLAH and the SBE. PTLAH has been considered to be in poor financial condition since its inception in FY 2016–17. The CDE also notes that as of January 15, 2019, PTLAH owes $207,423 in outstanding vendor bills, of which $145,429 are overdue more than 90 days. In addition, the CDE notes that PTLAH’s net assets were negative $455,575 as of January 31, 2019.

**Prepa Tec Los Angeles High Financial Highlights**

NA: Not Applicable

| Fiscal Year / Source | Total Revenues | Total Expenditures | Net Operating Surplus (Deficit) | Working Capital Ratio | Debt Ratio | Attendance Ratio | Ending Fund Balance | Percent of Reserves |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2018–19 Audit | $4,313,128 | $3,923,205 | $389,923 | 0.28 | 1.33 | 92.2 | ($489,792) | 0% |
| 2019–20 Budget | $5,444,043 | $5,139,026 | $305,017 | NA | NA | 94% | $108,793 | 2.12% |
| 2019–20 2nd Interim | $5,133,904 | $4,934,336 | $199,568 | NA | NA | 93.32% | ($290,224) | 0% |

California Department of Education, Charter Schools Division, August 2020