

California Department of Education

Executive Office

SBE-003 (REV. 11/2017)

lacb-csd-mar25item02

# California State Board of Education March 2025 Agenda Item #10

## Subject

Academia Avance Charter: Consider Issuing a Notice of Violation Pursuant to California *Education Code* Section 47607(g).

## Type of Action

Action, Information

## Summary of the Issue

The California Department of Education (CDE) has determined that substantial evidence exists demonstrating that Academia Avance Charter (Academia Avance or Charter School), a California State Board of Education (SBE)-authorized charter school, engaged in fiscal mismanagement, pursuant to California *Education Code* (*EC*) Section 47607(f)(3). Pursuant to *EC* Section 47607(g), the authority that granted the charter petition shall notify the charter school of any violation and provide the charter school with a reasonable opportunity to remedy the violation.

## Recommendation

The CDE recommends that the SBE issue a Notice of Violation to Academia Avance (Attachment 1) pursuant to *EC* Section 47607(g), as the Charter School engaged in fiscal mismanagement, as set forth in *EC* Section 47607(f)(3).

Pursuant to *EC* Section 47607(g) and *California Code of Regulations*, Title 5 (5 *CCR*) Section 11968.5.2, Academia Avance shall have the opportunity to present evidence that refutes, remedies, or proposes to remedy the alleged violations at the May 7–8, 2025 SBE meeting. At that meeting, the SBE will consider issuing a Notice of Intent to Revoke with Notice of Facts, pursuant to *EC* Section 47607(h), and consider taking action to revoke the Academia Avance charter petition.

## Reasons for Revocation

*EC* Section 47607(f) states that a charter may be revoked by the authority that granted the charter if the authority finds, through a showing of substantial evidence, that the charter school did any of the following:

1. Committed a material violation of any of the conditions, standards, or procedures set forth in the charter.
2. Failed to meet or pursue any of the pupil outcomes identified in the charter.
3. Failed to meet generally accepted accounting principles or engaged in fiscal mismanagement.
4. Violated any provision of the law.

The CDE has determined that substantial evidence exists to support the finding that the Charter School engaged in fiscal mismanagement pursuant to *EC* Section 47605(f)(3).

## Background

The Charter School currently operates under the authorization of the SBE, with oversight duties delegated to the CDE. The current charter term ends June 30, 2028.

The Charter School offers a classroom-based program serving approximately 200 students in grades six through twelve. The Charter School opened during the 2005–06 school year and is in located in Los Angeles. The Charter School previously operated two sites but consolidated into a single site as part of addressing declining revenue.

The following table summarizes the Charter School’s history with the Los Angeles Unified School District (District), the Los Angeles County Office of Education (County), and the SBE, including the establishment of the Charter School, renewal petitions granted and denied, and recent letters of concern.

Table. History of the Charter School

| **Date** | **Action** |
| --- | --- |
| 2005/05/24 | The District granted the petition to establish the Charter School. |
| 2005/09/30 | The Charter School opened. |
| 2010/05/18 | The District denied the renewal petition, and the Charter School appealed to the County. |
| 2010/08/17 | The County granted the renewal petition and became the chartering authority of the Charter School. |
| 2015/05/12 | The County denied the renewal petition, and the Charter School appealed to the SBE. |
| 2015/09/02 | The SBE granted the renewal petition and became the chartering authority of the Charter School. The SBE delegated oversight of the Charter School to the CDE. |
| 2020/03/12 | The SBE granted the renewal petition of the Charter School. |
| 2024/05/06 | The CDE issued a letter of concern to the Charter School. |
| 2024/11/06 | The CDE issued a second letter of concern to the Charter School |

The CDE has provided regular technical assistance to the Charter School throughout its charter term. Specifically, CDE staff meet monthly with Charter School leadership to review the fiscal condition as well as other oversight areas. In addition, CDE staff conduct an annual in-person site visit at the Charter School that includes interviews with leadership, other employees, and board representatives. Discussion topics at monthly oversight meetings and annual site visits have included the CDE's concerns about the Charter School's budget development, assumptions including enrollment projections, decreasing revenue, increasing debts and liabilities, and the lack of internal controls. The CDE has issued two letters of concern to the Charter School within the past 10 months. The Charter School has failed to remedy the concerns addressed in each letter.

For purposes of determining whether an agency has engaged in fiscal mismanagement, the CDE considers the Fiscal Crisis and Management Assistance Team Indicators of Risk or Potential Insolvency for Charter Schools[[1]](#footnote-1) (FCMAT Indicators), which identifies practices that indicate a lack of function, commitment, or attention to critical elements of a charter school’s operations. FCMAT Indicators identifies the following:

1. Unreliable Budget Development
2. Insufficient Budget Monitoring or Updates
3. Inadequate Cash Management
4. Mismanaged Salary and Benefit Decisions
5. Increasing and/or Unplanned Contributions
6. Continuing Deficit Spending
7. Mismanaged Employee Benefits
8. Inattention to Enrollment and Attendance Reporting
9. Decreasing Fund Balance and Reserve for Economic Uncertainty
10. Ineffective Internal Controls and Fraud Prevention
11. Breakdown in Leadership and Communication
12. Lack of Multiyear Planning
13. Inattention to Debt and Risk Management
14. Lack of Position Control
15. Related Issues of Concern

The CDE considered the following documents provided by the Charter School, in its review of the Charter School’s financial condition and in making its finding of fiscal mismanagement:

* 2023–24 Second Interim Report
* 2023–24 Unaudited Actuals Report
* 2024–25 Budget, provided on July 1, 2024
* Revised 2024–25 Budget, provided on July 22, 2024
* September 30, 2024, Statement of Financial Position
* October 23, 2024, Aging Report
* 2024–25 First Interim Report

## Instances of Violation

### Ineffective Internal Controls

FCMAT identifies the following as a demonstration of ineffective internal controls: “Beginning balances for the new fiscal year not posted and reconciled with the ending balances from the prior fiscal year” (FCMAT Indicators, p. 3).

The Charter School’s beginning fund balance for the current fiscal year does not align with its ending fund balance of the prior fiscal year. The Charter School’s 2024–25 First Interim Report indicates a beginning fund balance of negative $2,258,911, while the Charter School’s 2023–24 Unaudited Actuals Report reflects an ending fund balance of negative $1,900,807 (Attachment 10, pp. 30 and 170).

The $358,104 difference between the Charter School’s ending and beginning fund balances demonstrates ineffective internal controls, which supports a finding of fiscal mismanagement.

### Decreasing Fund Balance and Reserve for Economic Uncertainty

FCMAT lists unstable unrestricted fund balances, failure to maintain a minimum reserve for economic uncertainty, and absence of a plan to restore the minimum reserve as examples of indicators of risk or potential insolvency (FCMAT Indicators, p. 2).

The Charter School reported a projected ending fund balance of negative $1,939,086 in its 2024–25 First Interim Report (Attachment 10, p. 173).

Additionally, the Charter School has failed to maintain a reserve for economic uncertainty. Pursuant to the Memorandum of Understanding between the Charter School and the SBE, the Charter School is required to maintain a minimum of 5 percent financial reserve for economic uncertainty (Attachment 4, p. 16). The Charter School’s 2023–24 Second Interim Report indicated the Charter School maintained reserves of 4.86 percent, which is below the required minimum. The CDE notified the Charter School of this concern in a letter of concern dated May 6, 2024 (Attachment 6). Subsequently, the Charter School reported having no reserves as of its 2024–25 First Interim Report (Attachment 10, p. 173).

The Charter School’s projected negative ending fund balance for the current fiscal year and the Charter School’s failure to maintain the minimum reserve for economic uncertainty supports a finding of fiscal mismanagement.

### Inattention to Enrollment

FCMAT provides enrollment decreasing and/or unstable, and enrollment projections and assumptions not based on reasonable considerations as examples of a charter school’s inattention to enrollment (FCMAT Indicators, p. 2).

The Charter School has experienced significant declining enrollment for seven consecutive years, as summarized in the below table.

*Table. Historical Enrollment of the Charter School*

| **2018–19** | **2019–20** | **2020–21** | **2021–22** | **2022–23** | **2023–24** | **2024–25** |
| --- | --- | --- | --- | --- | --- | --- |
| 391 | 328 | 293 | 263 | 256 | 241 | 200\* |

\* As of January 23, 2025

In its letter of concern dated May 6, 2024, the CDE notified Academia Avance of the CDE’s concern regarding the Charter School’s declining enrollment (Attachment 6).

In response to the CDE's concern, on June 1, 2024, the Charter School submitted a fiscal corrective action plan, which stated, in part, that the Charter School would develop its 2024–25 budget based on a projected enrollment of 200 students (Attachment 7, p. 8).

On July 1 and 22, 2024, the Charter School submitted budgets to the CDE that were based on a projected enrollment of 220 students, an enrollment figure 10 percent greater than the enrollment target of 200 students that the Charter School identified in the fiscal corrective action plan it submitted to the CDE the previous month (Attachment 7, p. 8 and Attachment 10, p. 87).

The Charter School’s overall declining enrollment and repeated use of unreasonable enrollment projections demonstrate the Charter School’s inattention to enrollment and consequently unreliable budget assumptions, which supports a finding of fiscal mismanagement.

### Unreliable Budget Development

FCMAT includes unreasonable and unclear budget assumptions as an indication of a charter school’s unreliable budget development (FCMAT Indicators, p. 1).

Pursuant to *EC* sections 47604.33(a) and 47605(m), the Charter School is required to submit its prior year Unaudited Actuals Report to the CDE by September 15 of each year and its First Interim and Independent Financial Audit Reports to the CDE by December 15 of each year. The table below summarizes these timelines as well as the Charter School’s submission dates for each report:

*Table. Financial Reports*

| **Report** | **Statutory Due Date** | **Date Submitted** |
| --- | --- | --- |
| **Unaudited Actuals**  for the full prior year ending June 30 | September 15, 2024 | January 31, 2025 |
| **First Interim**  reflecting changes through October 1 | December 15, 2024 | November 26, 2024 |
| **Independent Audit**  for the full prior year ending June 30 | December 15, 2024 | Not Submitted \* |

\* As of February 14, 2025  
  
Based on the above-summarized dates, the Charter School submitted its fiscal year 2024–25 First Interim Report before completing its fiscal year 2023–24 Unaudited Actuals Report. As they were developed without prior year financial data, the Charter School’s 2024–25 Budgets include unreasonable and unclear budget assumptions.

The Charter School’s budget development without a timely unaudited actuals report and without an independent financial audit report demonstrates a lack of reliability, which supports a finding of fiscal mismanagement.

### Inattention to Debt

FCMAT includes high levels of debt with total debt services payments greater than 2 percent of a charter school’s general revenues as an indicator of financial risk or potential insolvency (FCMAT Indicators, p. 3).

A current ratio of <1 indicates a may be unable to meet short-term financial obligations. A debt ratio of >1 indicates that a school has more debts than assets, limiting its options for financing, which may result in being unable to meet long-term financial obligations.

Per the Statement of Financial Position dated September 30, 2024 (Attachment 10, p. 136), the Charter School had a current ratio of 0.11. The current ratio is calculated by dividing current assets ($580,258) by current liabilities ($5,122,794). The debt ratio for the Charter School was 2.62. The debt ratio is calculated by dividing total liabilities ($5,600,382) by total assets ($2,139,432).

Per the Aging Report, as of October 23, 2024 (Attachment 10, p. 158), the Charter School had outstanding invoices totaling $1,581,843 of which $1,183,120 is 120 days past due. During its October 24, 2024, monthly oversight meeting with the CDE, the Charter School communicated making efforts to address several of the outstanding invoices. Specifically, the current Board Chair explained that the previous Executive Director established the Avance Community Foundation to pay the leases for two school properties. During the investigation of the debts owed to the Avance Community Foundation, the Charter School uncovered discrepancies in the amounts billed versus the amount owed. The Charter School expressed efforts to establish payment plans and correct the amounts owed to vendors listed on the Aging Report; however, those changes were not reflected on the October 23, 2024, Aging Report provided to the CDE.

The inattention to the debt ratio and past due outstanding invoices of the Charter School indicates significant risk of potential insolvency, which supports a finding of fiscal mismanagement.

## Attachments

* **Attachment 1:** Draft Notice of Violation, Pursuant to California *Education Code* Section 47607(g), to Academia Avance Charter Executive Director and Governing Board (7 Pages)
* **Attachment 2:** Academia Avance Charter Petition as Approved by the California State Board of Education on March 12, 2020 (309 Pages)
* **Attachment 3:** California State Board of Education Approval Letter with Conditions Dated April 22, 2020 (3 Pages)
* **Attachment 4:** Memorandum of Understanding between the California State Board of Education and Academia Avance Charter (36 Pages)
* **Attachment 5:** Addendum to Section 1 of Memorandum of Understanding Between the California State Board of Education and Academia Avance Charter (4 Pages)
* **Attachment 6:** California Department of Education Letter of Concern to Academia Avance Charter Dated May 6, 2024 (3 Pages)
* **Attachment 7:** Academia Avance Charter Response to the California Department of Education May 6, 2024, Letter of Concern and 2024–25 Fiscal Corrective Action Plan (9 Pages)
* **Attachment 8:** Avance Schools, Inc. Resolution of Adoption of 2024–25 Fiscal Corrective Action Plan (2 Pages)
* **Attachment 9:** California Department of Education Letter of Concern to Academia Avance Charter Dated November 6, 2024 (4 Pages)
* **Attachment 10:** Academia Avance Charter Financial Reports and Other Documents (176 Pages)

1. <https://www.fcmat.org/PublicationsReports/Charter-School-Indicators-2020.pdf> [↑](#footnote-ref-1)