memo-oab-csd-aug21item02

Attachment 1

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# 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 4 to 5 percent of expenditures, or a floor amount that is adjusted for inflation. The current inflation adjusted floor amount is $71,000. 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 measures a school’s level of financial risk. This ratio is calculated by dividing the school’s total liabilities by its total assets. 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 costs.

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 show 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 Elementary Mesa (HTEM)
* High Tech Middle Mesa (HTMM)
* Olive Grove Charter – Lompoc (OGCL)

### High Tech Elementary Mesa

* Charter Term Expires: 6/30/2023
* Grades Authorized to Serve: Kindergarten (K)–5
* 2019–20 P-2 ADA: 197.42
* 2020–21 P-2 ADA: 298

#### Fiscal Concerns

HTEM’s 2020–21 second interim report indicates that HTEM is projecting a positive ending fund balance of $118,038 with 3.96 percent in reserves for fiscal year (FY) 2020–21, which is below the recommended 5 percent in reserves outlined in the MOU between HTEM and the State Board of Education (SBE). The California Department of Education (CDE) will continue to monitor the HTEM budget, and may recommend that the SBE take appropriate action, as deemed necessary.

#### Charter School Update

HTEM submitted its 2021–22 preliminary budget report on June 30, 2021. Its preliminary budget report reflects significant changes in beginning fund balance, which indicate that HTEM is projecting a positive ending fund balance of $685,750 with 17.87 percent in reserves in FY 2021–22. Given the most recent financial information provided by HTEM, the CDE concludes that HTEM’s financial health is stronger than reflected in the 2021–22 preliminary budget.

#### 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 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2019–20 Audit | $2,530,116 | $2,689,503 | ($159,387) | 0.86 | 1.16 | 93.10% | ($64,144) | 0% |
| 2020–21 Budget | $2,993,512 | $2,933,642 | $59,870 | NA | NA | 96% | $133,862 | 4.56% |
| 2020–21 2nd Interim | $3,165,976 | $2,983,794 | $182,182 | NA | NA | 95.51% | $118,038 | 3.96% |

California Department of Education, Charter Schools Division, August 2021

### High Tech Middle Mesa

* Charter Term Expires: 6/30/2023
* Grades Authorized to Serve: 6–8
* 2019–20 P-2 ADA: 109.23
* 2020–21 P-2 ADA: 214

#### Fiscal Concerns

HTMM’s 2020–21 second interim report indicates that HTMM is projecting a positive ending fund balance of $81,379 with 3.62 percent in reserves for FY 2020–21, which is below the recommended 5 percent in reserves outlined in the MOU between HTMM and the SBE. The CDE will continue to monitor the HTMM budget, and may recommend that the SBE take appropriate action, as deemed necessary.

#### Charter School Update

HTMM submitted its 2021–22 preliminary budget report on June 30, 2021. Its preliminary budget report reflects significant changes in beginning fund balance, which indicates that HTMM is projecting a positive ending fund balance of $532,546 with 15.81 percent in reserves in FY 2021–22. Given the most recent financial information provided by HTMM, the CDE concludes that HTMM’s financial health is stronger than reflected in the 2021–22 preliminary budget.

#### 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 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2019–20 Audit | $1,549,524 | $1,628,207 | ($78,683) | 0.78 | 1.05 | 95.80% | ($21,387) | 0% |
| 2020–21 Budget | $2,243,642 | $2,198,769 | $44,873 | NA | NA | 96% | $90,948 | 4.14% |
| 2020–21 2nd Interim | $2,349,434 | $2,246,668 | $102,766 | NA | NA | 91.85% | $81,379 | 3.62% |

California Department of Education, Charter Schools Division, August 2021

### Olive Grove Charter – Lompoc

* Charter Term Expires: 6/30/2023
* Grades Authorized to Serve: K–12
* 2019–20 P-2 ADA: 128.62
* 2020–21 P-2 ADA: 133.78

#### Fiscal Concerns

OGCL’s 2020–21 second interim report indicates that OGCL is projecting a positive ending fund balance of $74,748 with 4.23 percent in reserves for FY 2020–21, which is below the recommended 5 percent in reserves outlined in the MOU between OGCL and the SBE. The CDE will continue to monitor the OGCL budget, and may recommend that the SBE take appropriate action, as deemed necessary.

#### Charter School Update

OGCL submitted its 2021–22 preliminary budget report on June 16, 2021. Its preliminary budget report reflects significant changes in beginning fund balance, which indicates that OGCL is projecting a positive ending fund balance of $363,099 with 22.23 percent in reserves in FY 2021–22. Given the most recent financial information provided by OGCL, the CDE concludes that OGCL’s financial health is stronger than reflected in the 2021–22 preliminary budget.

## 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 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2019–20 Audit | $2,151,282 | $2,152,673 | ($1,391) | 0.91 | 0.81 | 93.20% | $72,589 | 3.37% |
| 2020–21 Budget | $1,644,105 | $1,646,769 | ($2,663) | NA | NA | 94% | $73,190 | 4.44% |
| 2020–21 2nd Interim | $1,769,054 | $1,766,896 | $2,158 | NA | NA | 100.60% | $74,748 | 4.23% |

California Department of Education, Charter Schools Division, August 2021

## 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 serious decline in financial condition. Specifically, a charter school 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 school in poor financial condition is as follow:

* Prepa Tec Los Angeles High (PTLAH)

### Prepa Tec Los Angeles High

* Charter Term Expires: 6/30/2021
* Grades Authorized to Serve: 9–12
* 2019–20 P-2 ADA: 317.30
* 2020–21 P-2 ADA: 317.30

#### Fiscal Concerns

PTLAH’s 2020–21 second interim report indicates that it is projecting a negative ending fund balance of $322,448 with 0 percent in reserves for FY 2020–21, which is below the recommended 5 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 notes that as of January 31, 2021, PTLAH’s debt ratio was 3.09 and current ratio was negative 0.03. Additionally, as of this date, PTLAH’s net assets were negative $770,577; PTLAH relies heavily on short term financing to cover cash shortage. Additionally, the CDE notes that it has sent four letters of fiscal concern and one 30-day notice to the school in regards to declining pupil enrollment, lack of reserves, and negative ending fund balances on preliminary budget reports and interim reports. Although PTLAH has responded to all letters of concern and the 30-day notice, the CDE notes that PTLAH has remained in poor financial condition throughout the term of its current charter.

#### Charter School Update

On May 13, 2021, PTLAH’s petition for renewal was denied by the SBE. As of June 30, 2021, PTLAH is no longer operational.

#### California Department of Education Follow Up

On May 20, 2021, the CDE issued the PTLAH 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 PTLAH was receiving funds directly from the U.S. Department of Education.
* Close all financial records of the school effective June 30, 2021. Develop a plan to close out all financial records for FY 2020–21.
* 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 PTLAH’s closure.
* Notify the CDE in electronic format of all pending litigation to which PTLAH is a party.
* Prepare a comprehensive list of creditors and debtors, and a comprehensive inventory of all assets.
* Prepare a plan for the proposed disposal of all property owned by PTLAH (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 PTLAH; 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 PTLAH 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 PTLAH and shall verify the PTLAH’s comprehensive list of creditors and debtors, and the amounts owed or owing, as well as verify PTLAH’s comprehensive list of all assets by source, noting any restrictions on each asset’s use.

#### 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 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2019–20 Audit | $5,140,908 | $5,074,142 | $66,766 | 0.60 | 1.26 | 90.10% | ($423,026) | 0% |
| 2020–21 Budget | $5,445,170 | $5,395,479 | $49,691 | NA | NA | 97.93% | ($416,573) | 0% |
| 2020–21 2nd Interim | $5,898,818 | $5,798,241 | $100,577 | NA | NA | 97.93% | ($322,448) | 0% |

California Department of Education, Charter Schools Division, August 2021