California Department of Education

Executive Office

SBE-002 (REV. 11/2017)

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# **MEMORANDUM**

**DATE:** December 19, 2024

**TO:** MEMBERS, California 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 2023–24

## 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) 2022–23 through the second interim projections for FY 2023–24. 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.

### Financial Reporting Requirements

The 28 SBE-authorized charter schools that were in operation for 2023–24 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 2023–24 interim financial reports, including their balance sheets, cash flow statement, and accounts payable aging reports, to date.
* All SBE-authorized charter schools that were operational in FY 2022–23 submitted their annual audit report for FY 2022–23. The SBE-authorized charter schools that submitted their annual audit report 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 2022–23; budgetary updates for FY 2023–24 as reported in the first and second interim reports; supplementary reports; and budget information.

The CDE used FY 2023–24 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.

Local educational agencies (LEAs), including charter schools, have received Elementary and Secondary School Emergency Relief (ESSER) funds 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 reviewed each SBE-authorized charter school’s expenditure of ESSER funds. Details of the amounts expended by each SBE-authorized charter school on specific activities and over specific reporting periods are detailed in Attachment 2. The CDE has contacted LEAs, including charter schools, with remaining ESSER I/II/III 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 provided at the following links:

* ESSER I FAQs: <https://www.cde.ca.gov/fg/cr/esserfaqs.asp> (#12 and #13)
* ESSER II FAQs: <https://www.cde.ca.gov/fg/cr/esseriifaqs.asp> (#11 and #12)
* ESSER III FAQs: <https://www.cde.ca.gov/fg/cr/esseriiifaqs.asp> (#13 and #14)
* Learning Loss Mitigating Funding FAQs: <https://www.cde.ca.gov/fg/cr/llmffaqs.asp> (#8 and #9)

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.

Table. Average Daily Attendance and Expected Reserves

| School Average Daily Attendance | Expected Reserves |
| --- | --- |
| 0–300 | Greater of 5 percent\* or $80,000\*\* |
| 301–1,000 | Greater of 4 percent\* or $80,000\*\* |
| 1,001–30,000 | 3 percent |

\* 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 California 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 2023–24, the CDE finds 26 charter schools to be in good financial condition, one charter school to be in fair financial condition, and one charter school to be in poor financial condition. The financial highlights for all SBE-authorized charter schools that were in operation for FY 2023–24 are summarized in Attachment 2.

### Good Financial Condition

Twenty-six SBE-authorized charter schools are 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:

1. Altus Schools East County
2. Altus Schools South Bay
3. Baypoint Preparatory Academy – San Diego
4. College Preparatory Middle
5. High Tech Elementary Chula Vista
6. High Tech Elementary Mesa
7. High Tech Elementary North County
8. High Tech Middle Chula Vista
9. High Tech Middle Mesa
10. High Tech Middle North County
11. High Tech High Chula Vista
12. High Tech High Mesa
13. High Tech High North County
14. John Henry High
15. KIPP Bayview Elementary
16. KIPP Navigate College Prep
17. Latitude 37.8 High
18. Magnolia Science Academy Santa Ana
19. New West Charter
20. Olive Grove Charter – Buellton
21. Olive Grove Charter – Lompoc
22. Olive Grove Charter – Orcutt/Santa Maria
23. Olive Grove Charter – Santa Barbara
24. The New School of San Francisco
25. Vista Springs Charter
26. Watsonville Prep

Additional financial data and information for the aforementioned SBE-authorized charter schools 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 follow:

* Academia Avance Charter

The CDE has concerns regarding Academia Avance Charter’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 charter 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:

* Los Angeles College Prep Academy

With a continuously declining enrollment and prior FY’s operating deficit, Los Angeles College Prep Academy’s 2023–24 enrollment is 41, which is below its projected enrollment of 240 pupils in its charter petition. The Los Angeles College Prep Academy Board voted to voluntarily close the charter school effective June 30, 2023.

Additional financial data and information for this SBE-authorized charter school are outlined in Attachments 1 and 2.

## Attachments

* **Attachment 1:** California State Board of Education-Authorized Charter Schools Financial Condition (33 Pages)
* **Attachment 2:** California State Board of Education-Authorized Charter Schools Financial Highlights (21 Pages)