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INFORMATIONAL SUBMITTAL

DATE: June 18, 2015
TO: Catherine Payne, Chairperson
FROM: Tom Hutton, Executive Director
AGENDA ITEM: Update on Financial Review of Charter Schools’ Third Quarter Financials

I. DESCRIPTION

Report on charter schools’ third quarter financial reports.

II. AUTHORITY

Hawaii Revised Statutes §302D-17 provides that “ (a) An authorizer shall continually monitor the performance and legal compliance of the public charter schools it oversees, including collecting and analyzing data to support ongoing evaluation according to the charter contract.”

III. BACKGROUND

As provided in the charter school contract, quarterly financial information is required from all charter schools, to include balance sheet, income statement, and statement of cash flows. The required information has been received from all schools.

Information provided by the schools was for the nine months ended March 31, 2015. The Commission’s financial performance framework utilizes ratios that usually measure annual performance. As a result, the information from the schools must to be annualized and certain assumptions made on income and expenses. The summary chart for all schools is provided as **Exhibit 1**.

IV. DECISION MAKING STATEMENT

At the end of March, 2015, six schools had less than 90 days' cash on hand, approximately the amount of days left in the fiscal year. Although the annual target for this indicator is 60 days, using 90 days at the end of the third quarter is prudent to evaluate a school's sustainability through the end of the fiscal year. The current analysis is from the perspective that schools at this point during the year have already been provided 90% of their annual per pupil funding and still have three months remaining in the fiscal year. Available cash also must sustain the school through the July 20 first allocation of the following year's per pupil funding.

The six schools with less than 90 days' cash on hand as of March were:

- Ka Waihona o ka Na`auao Public Charter School*;
- Kanu o ka `Aina New Century Public Charter School*;
- Kanuikapono Public Charter School*;
- Kawaikini Public Charter School*;
- Na Wai Ola Public Charter School; and
- SEEQS: The School for Examining Essential Questions of Sustainability.

Since the submission of third quarter financial information from schools, the last 10% of this fiscal year's annual per pupil funding has been disbursed to schools. It also must be acknowledged that, as a result of a finding of the external audit of the Department of Education's federal programs and recommended corrective action, starting with this fiscal year schools are required to encumber federal Title program funds before receiving those funds from the Title programs. In many instances, the schools expend the funds and then seek reimbursement from the Title program. For some schools, this is a significant expenditure and may be causing some stress on their cash situations, but this factor alone would not fully account for low cash balances.

Most of the six schools have significant amounts in Accounts Receivable. Four of the six schools receive grants from Kamehameha Schools and the Office of Hawaiian Affairs (OHA) and are identified in the list above with an asterisk (*). Historically, these grants are received late in the fiscal year. At the last general meeting of the Commission, staff was asked to seek clarification on the proper and reasonable assumption to include grants receivable from reliable granting agencies as part of a school's days' cash on hand. Staff met with former Commission Chairperson Terri Fujii, a partner at a local accounting firm, for advice.

Staff was advised that it is reasonable to include grants receivable in cash where there is proper supporting documentation providing assurance that the funds either already have been received or will be received in the near future. For example, in the case where the school's not-for-profit received the proceeds at month's end, and issued the disbursement to the school in the following month, a copy of the check to the not-for-profit would suffice. Acceptable supporting documentation to be provided to the Commission may include the grant award letter or the grant award document.

Staff also has discussed this matter with Kamehameha Schools, which indicates that while it considers the memorandum of understanding executed with each public charter school to be confidential, it would have no objection to the school's submitting its grant award letter to the Commission.

Going forward, when a school's cash is adjusted to include such properly documented receivables, staff proposes to identify the funds in question as "Adjusted Days' Cash on Hand" in the summary table. For the third quarter, the schools' days cash on hand has not been adjusted to include grants receivable. Instead, at this time staff has contacted each of the above schools for updated information on grants and other cash variables. As of this writing, here are the updates:

- Ka Waihona o ka Na'auao Public Charter School: The school reports that it received approximately \$400,000 from Kamehameha Schools on June 12, 2015 and is awaiting the transfer of an estimated \$151,600 from OHA. The school has taken out a line of credit, the balance on which as of early May was \$200,000. The school reports that it intends to pay this off from out of its first per pupil funding allocation for fiscal year 2015-2016, which staff estimates should be somewhere around \$2.5 million, sufficient to close out the line of credit. The school should be adequately funded through the first allocation.
- Kanu o ka 'Aina New Century Public Charter School: The school had estimated that it would receive \$212,000 from Kamehameha Schools and OHA grant funds in the amount of \$122,187 this month. Assuming these amounts are received, the school should be funded adequately through the first allocation of per pupil funds for 2015-2016.
- Kanuikapono Public Charter School: Projected funding to the school from OHA this month was to be \$73,882. Staff is still attempting to gather information from the school about its receipt of these funds and about whatever amount the school may be receiving from Kamehameha Schools this month.
- Kawaikini Public Charter School: This school recently received Title I reimbursement in the amount of \$11,311.89. The school anticipates receipt next week Kamehameha Schools funds of about \$100,000 and OHA in the amount of \$42,000. KALO's estimate of the OHA funds actually is higher: \$62,683. Assuming these amounts are received, the school should be funded adequately through the first allocation of per pupil funds for 2015-2016.
- Na Wai Ola Public Charter School: This school reports that in the near term it will be delaying by 30 to 60 days payments to about eight vendors, in the aggregate amount of about \$20,000. The school indicates that it has notified all the vendors of this and that they are "okay" with the situation. The school currently is in process of leasing modular units which would enable it to expand back into the 7th grade, and it also will be participating in the Commission's federally funded Pre-K initiative starting this school year. These increases in enrollment should position the school better financially for 2015-2016.
- SEEQS: The School for Examining Essential Questions of Sustainability: the school reports that it has a \$100,000 grant available to draw upon once monies have been spent; at this point \$10,000 has been spent but not drawn. This grant can be used for payroll. In addition, the school reports \$30,000 in amounts receivable in the form of reimbursements from the Department of Education for 1.5 FTE special education positions, which amount will be received after June 30, 2015. Based on this information, the school's financial position should be fine through July 20, 2015.

V. RECOMMENDATION

None; for information purposes only.

