

March 15, 2018

Dr. Herbert Nichols
Inspire Charter Schools
1740 Huntington Dr., #205
Duarte, CA 91010

Re: Notice of Violation, Inspire Charter School - North

Dear Dr. Nichols:

This letter ("Notice") serves as official notification, pursuant to Education Code section 47607, subdivision (d) and California Code of Regulations, Title 5, section 11968.5.2 that the Winship-Robbins Elementary School District ("District") has immediate concerns regarding aspects of the operation of Inspire Charter School – North ("Inspire North"), a charter school authorized by the District and established and operated by Inspire Charter Schools ("CMO"). As the charter authorizer, the District is responsible for supervisory oversight of the charter school.

These concerns, if not remedied or refuted, may lead to revocation of the charter of Inspire North ("Charter"), pursuant to Education Code section 47607, subdivision (c)(1). The Charter, approved by the District's Board of Trustees ("District Board") on January 13, 2016, is attached hereto as Exhibit A.

This notice is issued by the District Board in accordance with action taken by the District Board at its meeting of March 14, 2018. The District Board determined that six months is a reasonable time for ~~CMO and~~ Inspire North to refute, remedy, or propose remedies for the violations identified below. This timeline is reasonable, given the period of time necessary to implement budget adjustments and reduce a negative fund balance, and since the District, ~~CMO~~, and Inspire North have discussed the District's concerns and ~~CMO~~ and Inspire North are taking steps to address the concerns and reduce the negative balance. As described below, ~~CMO and~~ Inspire North provided the District with progress reports that reflect significant progress in reducing the negative balance. Accordingly, CMO and Inspire North are provided the opportunity to remedy, propose remedies, or refute the violations on or before September 15, 2018. This timeline allows for ~~CMO and~~ Inspire North to submit the 2017-2018 unaudited actuals report for Inspire North as evidence of the progress made in reducing the negative fund balance.

I. IDENTIFICATION OF GROUNDS FOR REVOCATION AND OPPORTUNITY TO REMEDY

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:

- A. Committed a material violation of any of the conditions, standards, or procedures set forth in the charter.

- B. Failed to meet or pursue any of the pupil outcomes identified in the charter.
- C. Failed to meet generally accepted accounting principles, or engaged in fiscal mismanagement.
- D. Violated any provision of law.

(Ed. Code § 47607(c)(1).)

Before revocation, the authority that granted the charter shall notify the charter school of any violation of this section and give the school a reasonable opportunity to remedy the violation. (Ed. Code § 47607(d).) This letter serves as that notice, and provides what the District Board has determined to be a reasonable opportunity to remedy the violations. Pursuant to subdivision (c) of section 11968.5.2 of Title 5 of the California Code of Regulations, ~~CMO and~~ Inspire North may respond by the end of the remedy period, addressing each violation with a refutation, remedial action taken, or remedial action proposed, and attaching supporting evidence of the refutation, remedial action or proposed remedial action.

II. IDENTIFICATION OF VIOLATION

- A. ~~CMO and~~ Inspire North engaged in fiscal mismanagement of Inspire North, by: Managing its operations in a manner that resulted in an Ending Fund Balance of (\$3,313,008.94) after its first year of operation.

III. EVIDENCE SUPPORTING ALLEGATIONS OF VIOLATION

- A. ~~CMO and~~ Inspire North engaged in fiscal mismanagement of Inspire North, by: Managing its operations in a manner that resulted in an Ending Fund Balance of negative \$3,313,008.94 after its first year of operation.

The Inspire North Charter School Unaudited Actuals Financial Report, from July 1, 2016 to June 30, 2017 (“Unaudited Actuals”), attached hereto as Exhibit B, stated an Ending Fund Balance of negative \$3,313,008.94 following Inspire North’s first year of operation. Similar amounts were confirmed in the Inspire North Independent Auditor’s Report for the Year Ended June 30, 2017 (“Audit”), attached hereto as Exhibit C. The Audit identified an end-of-year net assets balance of negative \$3,290,298, including liabilities of \$4,941,821. The liabilities primarily consist of a \$2,423,700 short term loan and \$2,032,294 payable to a related entity.

As total revenues for 2016-2017 were \$7,280,274.28, Inspire North’s negative Ending Fund Balance/negative Net Assets is approximately 45% - nearly half – of its total revenues for 2016-2017. The size of the negative balance, particularly from one year of operation, is deeply troubling.

Also troubling is the lack of relationship between the figures in the Unaudited Actuals and Audit, and the initial proposed Inspire North budget (“Proposed Budget”) presented to the Board as Appendix G of the Charter Petition. The Proposed Budget anticipated \$2,659,956 of revenue,

and expenditures of \$2,273,562, in 2016-2017, Inspire North's first year of operation. The anticipated ending balance of \$386,394 represented a 15% surplus to be carried forward to the 2017-2018 year. Instead, Inspire North ended 2016-2017 with a negative ending fund balance greater than its initial anticipated revenue. Though some variance between the figures in the Proposed Budget and Unaudited Actuals/Audit is expected, these numbers reflect a significant disparity between the proposal and reality. The disparity indicates the CMO did not have the financial and operational expertise necessary to prepare its Proposed Budget, and manage the charter school's operations and budget. Even though enrollment in the first year of operation was much higher than anticipated, CMO is an experienced charter school operator and should have been able to manage enrollment and its expenses without incurring such a significant negative balance.

	Proposed Budget (\$)	Audit (\$)
Revenues	2,659,956	7,280,275
Expenditures	2,273,562	10,063,064
Surplus/Deficit	386,394	(3,290,298)
Surplus/Deficit as % of Total Revenues	15%	(45%)

Comparing these reports, certain categories of expenses increased at higher rates than other categories. In particular, the District notes that noncertificated salaries expenditures were 15083% of proposed noncertificated salaries expenditures; books and supplies, 8210%; and travel, 6698%.

Select Categories of Expenditures	Proposed Budget (\$)	Audit (\$) (or Unaudited Actual)	Actual Expenditures, as % of Budgeted Expenditures
Certificated Salaries	923,080	3,535,068	383%
Noncertificated Salaries	6,000	904,975	15083%
Retirement and Benefits	266,090	1,124,974	423%
Books and Supplies	17,250	1,416,282	8210%
Operating:			
- Travel and Conferences	1,500	100,471	6698%
- Insurance	12,000	23,355	195%
- Operations and Housekeeping Serv.	5,000	90,432.73 (Unaudited Actual)	1815%
Subagreements for Services (Object Code 5100)	285,187 (Professional Services)	1,738,393.08 (Unaudited Actual)	610%

As a result of the increase in expenditures that far outpaced the increase in revenues, Inspire North ended its first year of operations with a bank account balance of negative \$53,767.90

(Unaudited Actuals), liabilities of \$4,941,821 (Audit), and an overall position of negative \$3,290,298 (Audit).

As described in the Audit, one of the reasons for the negative fund balance was an increase of 40 ADA after the P2 certification, and as a result Inspire North did not receive state funding for the 40 ADA. This may be a factor, but it is not the only factor. The negative net assets, divided by 40 ADA, is equivalent to approximately \$82,257 per ADA, an amount that far exceeds the funding the charter school would expect to receive for each ADA.

Originally, Inspire North anticipated an ADA of 270 in its first year of operation, though the Proposed Budget noted the estimate was conservative based on enrollment at other schools operated by Inspire North-CMO. (Petition, p. 181.) The final annual ADA, including the unfunded ADA of 40, was 807.10. (Audit, p. 18.) The annual ADA was 299% of the anticipated ADA, and the actual revenues were 274% of the proposed revenues, but the actual expenditures were 443% of the anticipated expenditures. The increase in ADA does not explain the much higher rate by which the expenditures increased.

The District notes ~~CMO and Inspire North~~ is already making progress in addressing the negative fund balance. Since receiving the Unaudited Actuals, the District met with Dr. Nichols on multiple occasions to discuss Inspire North's finances and its plan to address the negative fund balance. At the District Board's November 6, 2017, meeting, Dr. Nichols presented the District with a Detailed Financial Statement reflecting the expected revenues and expenditures of Inspire North through June 2018, attached hereto as Exhibit D. The Detailed Financial Statement anticipated a 35% reduction of the negative Ending Fund Balance by the end of the 2017-2018 fiscal year. As of January 2018, Inspire North's CMO's Fund Balance Progress Report regarding Inspire North, attached hereto as Exhibit E, indicated the fund balance has decreased to negative \$2,460,828. ~~CMO Inspire North~~ now anticipates a 2017-2018 ending fund balance of negative \$1,597,462, approximately 48% of the 2016-2017 ending fund balance. Inspire North CMO is paying down its negative fund balance at a faster rate than anticipated in November 2017.

The District has determined six months, September 15, 2018, is a reasonable time for ~~CMO and Inspire North~~ to refute, remedy, or propose remedies regarding the financial mismanagement described here. The District requests that ~~CMO and Inspire North's~~ remedy or proposed remedy include, at a minimum: 1) evidence of the reduced fund balance reflected in Exhibit E, the Fund Balance Progress Report, including the 2017-2018 unaudited actuals report, 2) a revised anticipated financial plan through the year 2020-2021, and 3) evidence that Inspire North continues to provide a quality educational program despite its expenditure reductions, including an operational plan for reducing expenditures and reflecting appropriate staffing, expenditures supporting Inspire North's annual goals and student outcomes, and other necessary and appropriate expenditures. In the meantime, the District requests ~~CMO and Inspire North~~ provide it with bimonthly progress reports regarding its estimated fund balance through September 15, 2018.

IV. EVALUATION OF STUDENT PERFORMANCE

Failure to improve outcome for pupil subgroups *is not* a violation or grounds for possible revocation at consideration here. However, if the violations described in Section III. of this Notice are not remediated or refuted by September 15, 2018, the remedy period which the District Board has identified as reasonable for each of these violations, the District may initiate revocation proceedings and issue a Notice of Intent to Revoke. Through the revocation process, the District will consider increases in pupil academic achievement as the most important factor in determining whether to revoke a charter, pursuant to Education Code section 47607, subdivision (c)(2).

In its evaluation of increases in pupil academic achievement, the District will consider the scores of Inspire North for the California Assessment of Student Performance and Progress (“CAASPP”) system. The state’s use of the Accountability Performance Index (“API”) was suspended during the 2014-2015 school year, and the CAASPP system is the current statewide assessment of pupil academic achievement. These scores are available at the CAASPP website: <http://caaspp.cde.ca.gov/>.

The District recognizes that Inspire North is in its second year of operation. By September 15, 2018, two years of CAASP scores will be available. The District will also consider local assessments, including the assessments and scores provided by Inspire North~~CMO~~ to the District at District’s board meeting of October 11, 2017. If there are local assessments or any other measurements of pupil academic achievement that ~~CMO~~ Inspire North asserts should be considered regarding increases in pupil academic achievement as the most important factor throughout the revocation process, the District requests that ~~CMO~~ Inspire North provide those local assessments or measurements to the District at the same time it responds to this Notice.

V. CONCLUSION

Pursuant to Education Code section 47607(d), and California Code of Regulations, Title 5, section 11968.5.2, all of the above matters must be remedied or refuted.

Through this letter, the District is affording ~~CMO~~ and Inspire North the opportunity to remedy, propose a remedy, or refute the violations noted above on or before September 15, 2018. Given ~~CMO’s~~ and Inspire North’s January 2018 Progress Report and anticipated schedule of reducing the negative ending fund balance, at the very least the District expects to see significant progress made toward reducing the negative ending fund balance, through the end of 2017-2018, and expects to see ~~CMO~~ and Inspire North’s progress report and anticipated financial plan for 2018-2019. The District requests that ~~CMO~~ and Inspire North providing it with bimonthly progress reports through September 15, 2018.

If ~~CMO~~ and Inspire North fail to remedy or refute the violations on or before September 15, 2018, the District may notify ~~CMO~~ and Inspire North of its intent to revoke the Charter. The above issues are those that have currently been identified, but this notice does not limit the District’s ability to issue an additional Notice of Violation should or additional issues be identified.

Sincerely,

Dr. Laurie Goodman
Superintendent