



MAGNOLIA PUBLIC SCHOOLS

Board Of Directors

Board Agenda Item #	II E
Date:	June 2, 2016
To:	MPS Finance Committee
From:	Caprice Young, Ed.D., CEO & Superintendent
Staff Lead:	Oswaldo Diaz, Chief Financial Officer
RE:	Approval of Cash Management Intra-Company Loans for Operational Expenses

Proposed Board Recommendation

I move that the Finance Committee recommends approval of the cash management intra-company loans for operational expenses as presented in the agenda item. Specifically, direct staff to establish a \$1,250,000 cash flow fund from schools with sufficient reserves, transfer the \$842,500 in loans to MSA Santa Ana and MSA Santa Clara from the Home Office account to the cash flow fund, and use the remainder of the cash flow fund to ensure that all end of the year payments are made in an appropriate and timely way.

Background

The purpose of this item is to ensure that all schools and the Home Office have sufficient cash flow as we reach the end of the fiscal year to make all payments in a timely and appropriate manner while ensuring that all academic programs deliver a high quality education consistent with their charters. In order to avoid cash flow financing expenses of 6.5 to 9.5 percent, Magnolia self-funds cash flow management throughout the year using school site reserves as temporary loans on an Intra-Company basis. Loans are necessary because Magnolia maintains separate accounts for each entity and because the school revenues do not match the timing of the expenses. The State Auditor requires that these loans be publicly documented through board action.

As of March 31, 2016, MSA-SC and MSA-SA had received a total of \$450,000 and \$392,500 (totaling \$842,500) in board approved Intra-Company operating loans respectively. The intra-company operating loans have been provided by the Home Office and funded with the CMO fees collected from the schools for FY 2015-16. Currently, the Home Office loans that have been provided to the schools are as follows:

Magnolia Science Academy - Santa Clara Operational Expenses Intra-Company Loan

Date	Description	Amount	Balance
5/7/2015	1st Loan Disbursement	40,000	40,000
5/7/2015	2nd Loan Disbursement	100,000	140,000
5/27/2015	3rd Loan Disbursement	80,000	220,000
6/12/2015	4th Loan Disbursement	100,000	320,000
6/26/2015	5th Loan Disbursement	60,000	380,000
7/26/2015	6th Loan Disbursement	100,000	480,000
8/14/2015	7th Loan Disbursement	100,000	580,000
9/29/2015	Loan Repayment	(40,000)	540,000
10/3/2015	Payment Reversal	(140,000)	400,000
11/26/2015	8th Loan Disbursement	50,000	450,000
Loan Balance as of 03/31/2016			450,000



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Magnolia Science Academy - Santa Ana Operational Expenses Intra-Company Loan

Date	Description	Amount	Balance
3/26/2015	1st Loan Disbursement	100,000	100,000
4/30/2015	2nd Loan Disbursement	100,000	200,000
5/24/2015	3rd Loan Disbursement	50,000	250,000
6/26/2015	4th Loan Disbursement	80,000	330,000
9/29/2015	Loan Repayment	(37,500)	292,500
11/26/2015	5th Loan Disbursement	100,000	392,500
Loan Balance as of 03/31/2016			392,500

Cash Management Intra-Company Loan for Operational Expenses

Currently several of the academies have sufficient cash funds that can be utilized as a loan to support the operational cash flow loans of MSA-SA and MSA-SC and remove the burden of those loans from the Home Office account. Based on the cash flow management of MSA-4, MSA-5, MSA-6, MSA-7, and MSA-8, these academies have cash funds that can be utilized on a short term basis while delivering high quality education consistent with their charters.

EdTec's projected cash flow (see attached) shows that for the fiscal year ended June 30, 2016, MSA-4, MSA-5, MSA-6, MSA-7, and MSA-8 have additional reserves that can be used to meet financial obligations in accordance with approved budgets and board approved contracts. The proposed amounts that will need to be drawn from each of the school accounts in order to create the intra-company loan fund are as follows:

Intra-Company Loan Fund to be used for Operational Expenses

Academy	Maximum Loan Amount
MSA-4	200,000.00
MSA-5	200,000.00
MSA-6	150,000.00
MSA-7	300,000.00
MSA-8	400,000.00
Total	1,250,000.00

From this Intra-Company Loan Fund, the Home Office account will be reimbursed \$842,500, leaving the remaining \$407,500 to address end of year payments required as final invoices are received and paid from all school sites and the home office and specific, appropriate repayment plans will be incorporated into the Intra-Company Loan item reported to the board on a regular basis.

Budget Implications:

The schools that will provide the proposed intra-company loans currently have excess funds to meet all recurring obligations and will retain minimum reserve requirements in accordance with their charter petitions.



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Taking into consideration the specific cash requirements for each of the academies, and in order to allow the academies to deliver high-quality education consistent with their charter, the intra-company loans have taken into consideration current needs and obligations for each of the academies. These loans will be used to fund legitimate educational and operational expenses in accordance with Generally Accepted Accounting Principles.

As disclosed when these loans were originated, the potential risk associated with this loan is that MSA-Santa Clara and/or MSA Santa Ana will be unable to pay due to mitigating circumstances related to one-time unexpected expenses and/or inability to meet projected student enrollment.

Name of Staff Originator:

Oswaldo Diaz
Chief Financial Officer



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MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION INTRA-COMPANY LOAN FROM MSA-4

Summary

MSA-4 has excess cash funds that can be utilized by Magnolia Educational and Research Foundation to provide operational loans to the academies and to meet financial obligations in accordance with board approved contracts. The temporary intra-company loan will be used for:

- 1) Provide cash flow to the academies that require temporary funds.
- 2) Provide additional cash flow to expedite payments relating to Board approved contract obligations.

This loan will be used to fund legitimate educational and operational expenses with the charter school in accordance with Generally Accepted Accounting Principles.

Intra-Company Loan Terms

Total loan amount: \$200,000

Date of Disbursements: As needed not to exceed \$200,000

Repayment Period: Not to exceed one (1) year from the time of initial disbursement.

Interest Rate: 0.00%



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MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION INTRA-COMPANY LOAN FROM MSA-5

Summary

MSA-5 has excess cash funds that can be utilized by Magnolia Educational and Research Foundation to provide operational loans to the academies and to meet financial obligations in accordance with board approved contracts. The temporary intra-company loan will be used for:

- 1) Provide cash flow to the academies that require temporary funds.
- 2) Provide additional cash flow to expedite payments relating to Board approved contract obligations.

This loan will be used to fund legitimate educational and operational expenses with the charter school in accordance with Generally Accepted Accounting Principles.

Intra-Company Loan Terms

Total loan amount: \$200,000

Date of Disbursements: As needed not to exceed \$200,000

Repayment Period: Not to exceed one (1) year from the time of initial disbursement.

Interest Rate: 0.00%



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MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION INTRA-COMPANY LOAN FROM MSA-6

Summary

MSA-6 has excess cash funds that can be utilized by Magnolia Educational and Research Foundation to provide operational loans to the academies and to meet financial obligations in accordance with board approved contracts. The temporary intra-company loan will be used for:

- 1) Provide cash flow to the academies that require temporary funds.
- 2) Provide additional cash flow to expedite payments relating to Board approved contract obligations.

This loan will be used to fund legitimate educational and operational expenses with the charter school in accordance with Generally Accepted Accounting Principles.

Intra-Company Loan Terms

Total loan amount: \$150,000

Date of Disbursements: As needed not to exceed \$150,000

Repayment Period: Not to exceed one (1) year from the time of initial disbursement.

Interest Rate: 0.00%



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MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION INTRA-COMPANY LOAN FROM MSA-7

Summary

MSA-7 has excess cash funds that can be utilized by Magnolia Educational and Research Foundation to provide operational loans to the academies and to meet financial obligations in accordance with board approved contracts. The temporary intra-company loan will be used for:

- 1) Provide cash flow to the academies that require temporary funds.
- 2) Provide additional cash flow to expedite payments relating to Board approved contract obligations.

This loan will be used to fund legitimate educational and operational expenses with the charter school in accordance with Generally Accepted Accounting Principles.

Intra-Company Loan Terms

Total loan amount: \$200,000

Date of Disbursements: As needed not to exceed \$200,000

Repayment Period: Not to exceed one (1) year from the time of initial disbursement.

Interest Rate: 0.00%



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MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION INTRA-COMPANY LOAN FROM MSA-8

Summary

MSA-8 has excess cash funds that can be utilized by Magnolia Educational and Research Foundation to provide operational loans to the academies and to meet financial obligations in accordance with board approved contracts. The temporary intra-company loan will be used for:

- 1) Provide cash flow to the academies that require temporary funds.
- 2) Provide additional cash flow to expedite payments relating to Board approved contract obligations.

This loan will be used to fund legitimate educational and operational expenses with the charter school in accordance with Generally Accepted Accounting Principles.

Intra-Company Loan Terms

Total loan amount: \$400,000

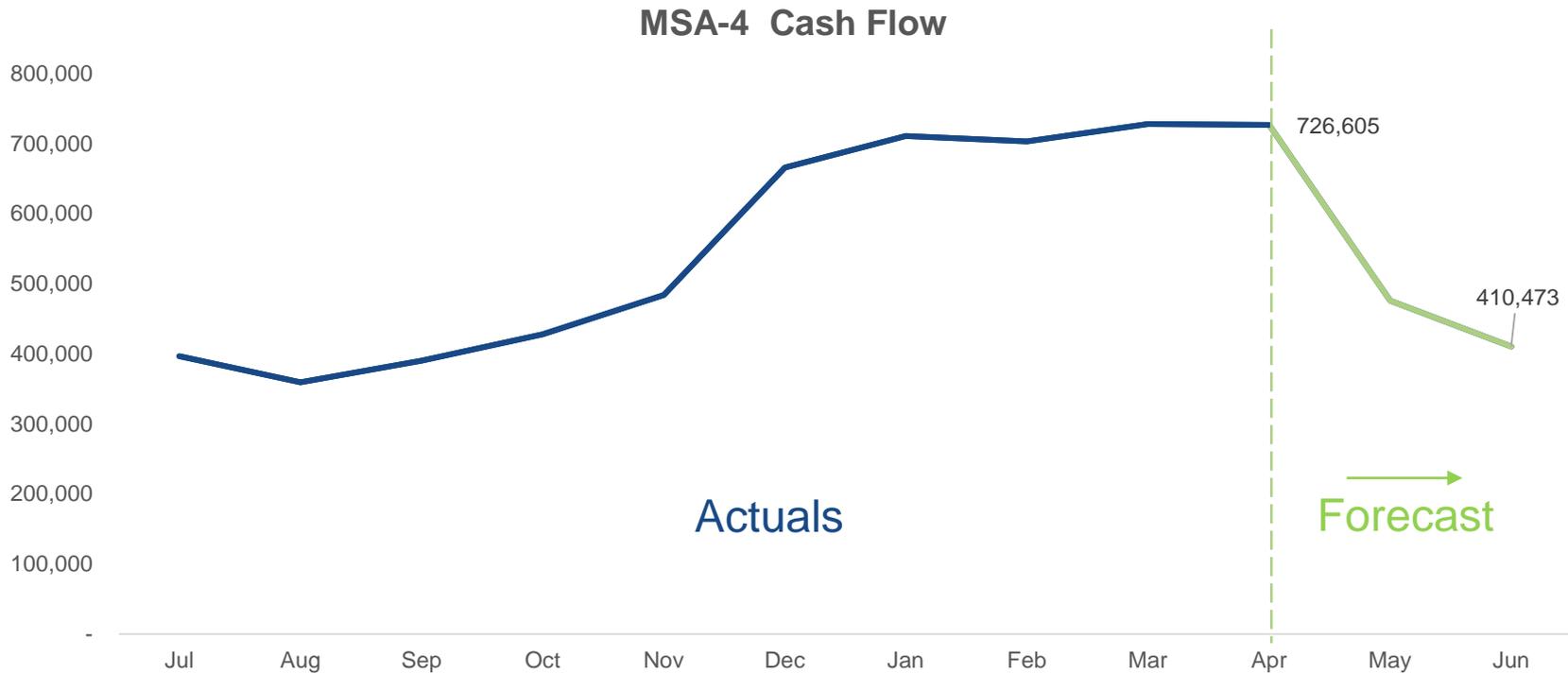
Date of Disbursements: As needed not to exceed \$400,000

Repayment Period: Not to exceed one (1) year from the time of initial disbursement.

Interest Rate: 0.00%

MSA-4 Cash Flow Forecast

Ending cash balance as of 4/30 was \$726,605, and forecasted ending cash balance as of 6/30 is \$410,473



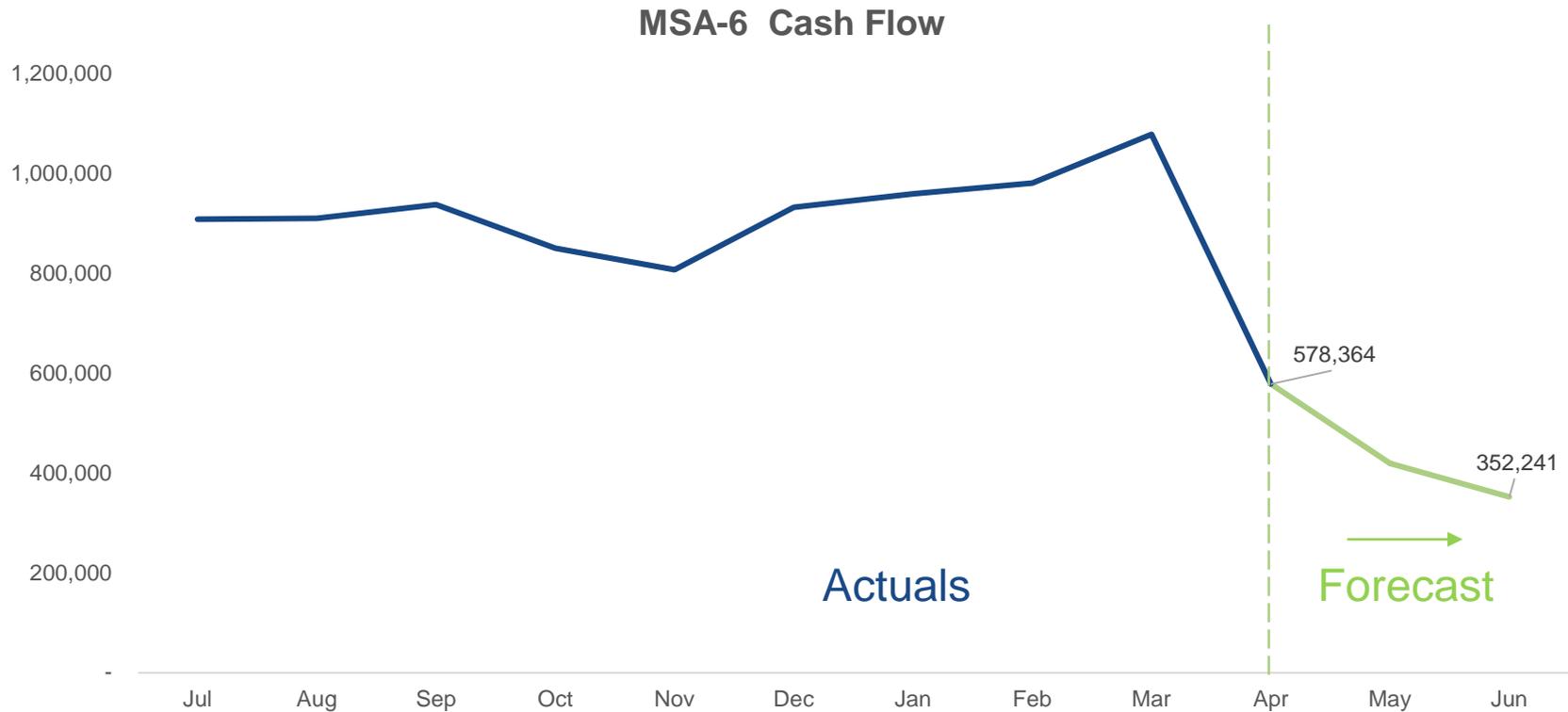
MSA-5 Cash Flow Forecast

Ending cash balance as of 4/30 was \$588,435, and forecasted ending cash balance as of 6/30 is \$442,789



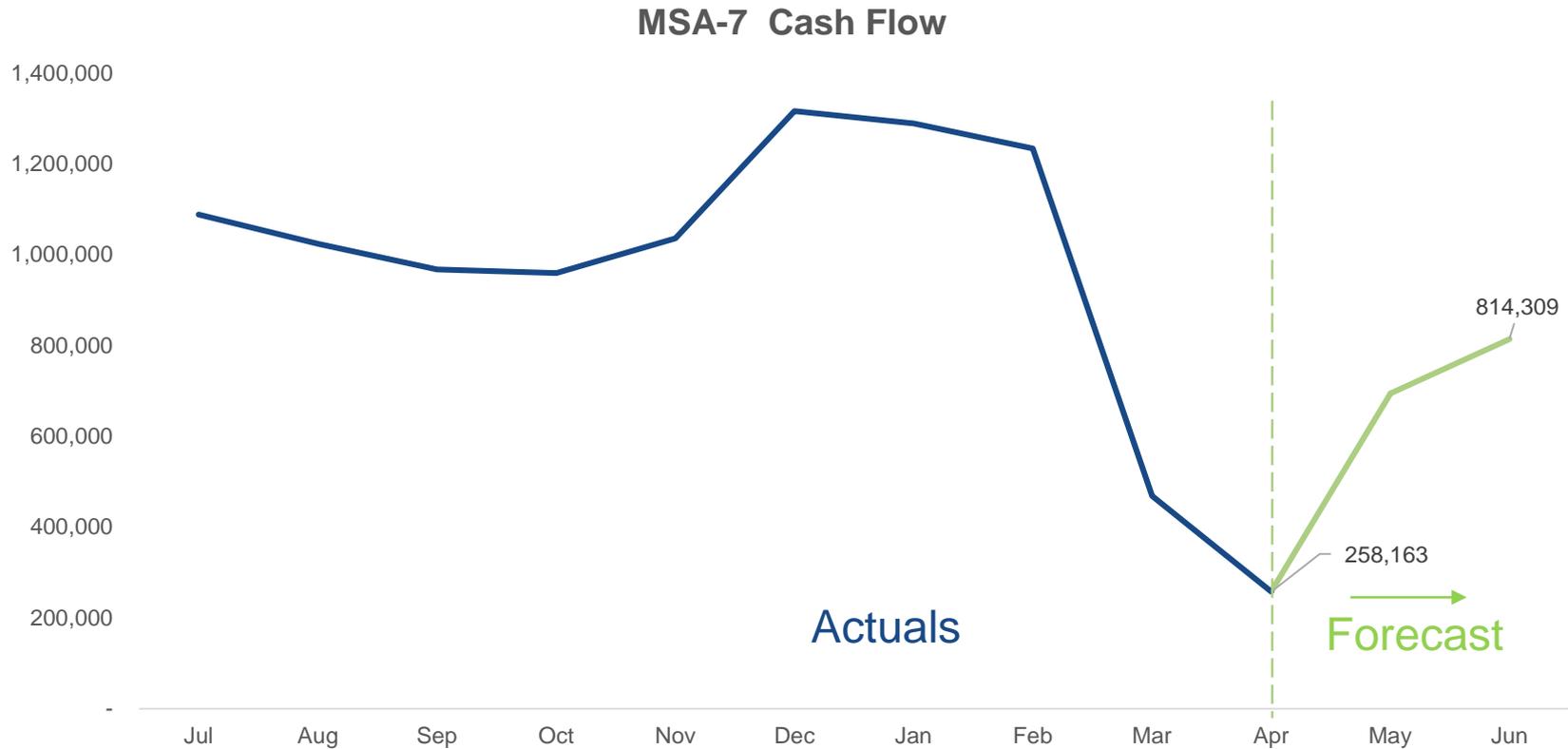
MSA-6 Cash Flow Forecast

Ending cash balance as of 4/30 was \$578,364, and forecasted ending cash balance as of 6/30 is \$352,241



MSA-7 Cash Flow Forecast

Ending cash balance as of 4/30 was \$258,163, and forecasted ending cash balance as of 6/30 is \$814,309



MSA-8 Cash Flow Forecast

Ending cash balance as of 4/30 was \$1,154,919, and forecasted ending cash balance as of 6/30 is \$795,893

