

June 13, 2016

To: Magnolia Public Schools, Board of Directors
From: Magnolia Public Schools, C-Team

Re: MSA SC 15-16 Budget Expenditures

Question: Why did you need to overspend to exceed your budget for MSA-SC?

Many factors led to the overspending at Magnolia Science Academy-Santa Clara during the 2015-2016 school year as outlined below.

Overview

The Santa Clara Unified School District ("SCUSD") did not renew the lease for the school facility at Central Park Elementary School where MSA SC was located for the previous three (3) years. The lease included onerous provisions including a non-renewal clause and a waiver of Proposition 39 rights for a total of seven (7) years from lease inception.

Due to provisions within the executed lease, Magnolia did not file a request for Proposition 39 facilities for the 15-16 school year (by the deadline in November 2014), even though it is highly likely that the Prop. 39 waiver provision would have been deemed illegal by a court of law in the State of California, according to an analysis by YMC. This left MSA SC with very few facilities options.

Enrollment Decrease

During the Spring 2015 semester, school administrators sent out intent to return forms to the families of existing students in order to understand how many students would be returning to the school in the upcoming 15-16 school year. Approximately 175 'yes' responses were received from the 484 students enrolled at the time. It was anticipated that at least that many students would enroll at MSA SC during the 15-16 school year at a new site.

Timely Decisions

In June 2015 a facility was located at the National Hispanic University ("NHU"), which is located 13 miles from the former site in Santa Clara. The lease was negotiated with the Lessors and brought forward for a vote by the board of directors and execution by the Superintendent, Dr. Caprice Young.

The execution of the lease was delayed to pursue another possible facility option that was identified by ACCORD. This process prolonged the lease execution and the announcement of the new location to former students and families, with the result being that a significant number of students decided to enroll at other district and charter schools due to the protracted uncertainty. As a result the school started the 2015-2016 school year with 102 students.

Expenditures

Staff:

In an effort to increase enrollment, the school hired a full time administrator to focus on recruitment as enrollment was below anticipated levels and far from the 250 students projected for the 16-17 school year. The school site also included a part-time administrator/part-time Spanish teacher familiar with the neighborhood and local community. The school administrators retained teachers and staff above the average staffing plan in order to keep strong and talented teachers with Magnolia. It was important to continue to have a strong educational program in order to attract students in future years in this new community. Some of this teacher overstaffing was made due to the requirement to provide the full A-G course loads to high school students. And, a part-time support person was hired to focus on collection of documents needed for prior year revenues.

Outreach:

Outreach efforts in the Spring included open houses, door to door knocking, fliers, postcards and as well as a \$25,000 contract for outreach and publicity with a local firm, Milagro Advertising, that was covered by the home office budget, but has now been appropriately charged back to the school. There were very few students from the east San Jose community that enrolled at MSA SC during the 15-16 school year. Possible reasons include timing of recruitment efforts, an inability to develop relationships with community leaders and organizations, as well as other factors such as unfamiliarity with the Magnolia Public Schools program and brand. We also heard from parents that they were uncomfortable committing to send their students to a school without a long term facility. It also seems to be the case that, despite low test scores, residents prefer their traditional public schools. Nearby San Jose Leadership Public School also closed down this year due to a lack of enrollment

Health Insurance:

Additionally, overpayment of health insurance premiums in the amount of \$78,676 also affected the school's budget. As soon as the overpayment was identified, Caprice met with the C-team to form an action plan and assign specific duties to assure policies and procedures were put in place to assure compliance and negotiate return of the overpaid funds. Since then we have received a credit of \$29,633 and we continue to work to recover additional funds.

Busses:

In an effort to retain students from Santa Clara and surrounding communities the school provided buses from Santa Clara to the new school facility in east San Jose. The buses costs \$118,000 for the 15-16 school year. The anticipated bump in enrollment did not happen, even with paid transportation.

Facilities:

Our lease included a location to accommodate 250 students, more than twice as many as we had. So, while our facilities expenses were not more than anticipated, they were expensive relative to the number of students we had. We had an opportunity to purchase

land just north of NHU; however, affording it would have required attracting 800+ students and taken 18 months for permitting and the build. It is possible this option could be resurrected, but the risks are significant.

Conclusion

The above named factors combined to put MSA SC in the current budgetary situation. For a detailed accounting of the school's expenditures, please see Exhibit A, MSA SC unaudited financials, attached hereto.

Magnolia Science Academy - Santa Clara

Budget vs. Actuals

As of most recent monthly close-April 2016

	Budget		Variance (Budget vs. Current Forecast)	
	2015-16 Budget Projections	Current Forecast		
SUMMARY				
Revenue				
General Block Grant	1,718,292	709,424	(1,008,868)	Reduction in ADA
Federal Revenue	109,740	27,417	(82,323)	Reduction in ADA, no SpEd or Nutrition Revenue
Other State Revenues	263,867	305,639	41,771	Reduction in ADA, no SpEd or Nutrition Revenue
Local Revenues	-	26	26	
Fundraising and Grants	20,000	1,500	(18,500)	Fundraising budget assumptions based on higher ADA
Total Revenue	2,111,899	1,044,006	(1,067,893)	
Expenses				
Compensation and Benefits	1,174,531	1,257,612	83,081	Compensation and benefits higher due to additional employees and benefit overpayment
Books and Supplies	181,948	73,201	(108,747)	Books and supplies budgeted based on higher ADA
Services and Other Operating Expenditures	700,741	1,157,727	456,986	PY Expenses and write off of AR
Capital Outlay	21,600	6,051	(15,549)	
Total Expenses	2,078,819	2,494,591	415,772	
Operating Income (excluding Depreciation)	33,079	(1,450,585)	(1,483,665)	
<i>Operating Income (including Depreciation)</i>	33,079	(1,484,388)	(805,952)	
Fund Balance				
Beginning Balance (Unaudited)	466,305	473,945		
Audit Adjustment	-	24,592		
Beginning Balance (Audited)	466,305	498,537		
Operating Income (including Depreciation)	33,079	(1,484,388)		
Ending Fund Balance (including Depreciation)	499,385	(985,851)		
Total ADA	243.0	95.3	(148)	

Magnolia Science Academy - Santa Clara

Budget vs. Actuals

As of most recent monthly close-April 2016

		Budget		
		2015-16 Budget		Variance
		Projections	Current Forecast	(Budget vs. Current Forecast)
LCFF Entitlement				
8011	Charter Schools LCFF - State Aid	492,482	200,952	(291,530) ADA 148 less than budget
8012	Education Protection Account Entitlement	300,924	134,734	(166,190) ADA 148 less than budget
8019	State Aid - Prior Years	-	(70)	(70) PY not budgeted
8096	Charter Schools in Lieu of Property Taxes	924,886	373,808	(551,078) ADA 148 less than budget
		1,718,292	709,424	(1,008,868)
8100 Federal Revenue				
8181	Special Education - Entitlement	36,012	-	(36,012) MSA-SC did not receive SpEd funds, goes directly to SCCOE
8220	Child Nutrition Programs	45,878	-	(45,878) MSA-SC did not apply for child nutrition due to school size and lack of meal facilities
8291	Title I	26,170	25,688	(482)
8292	Title II	680	673	(7)
8293	Title III	1,000	1,056	56
SUBTOTAL - Federal Income		109,740	27,417	(82,323)
8300 Other State Revenues				
8319	Other State Apportionments - Prior Years	-	798	798 Not budgeted
8381	Special Education - Entitlement (State)	-	-	-
8520	Child Nutrition - State	-	-	-
8550	Mandated Cost Reimbursements	181,875	255,336	73,461 One-time funding was estimated conservatively and was higher than expected
8560	State Lottery Revenue	68,295	17,240	(51,055) ADA148 less than budgeted
8590	All Other State Revenue	13,697	32,264	18,567 One-time funding higher than expected
SUBTOTAL - Other State Income		263,867	305,639	41,771
8600 Other Local Revenue				
8699	All Other Local Revenue	-	26	26 Not budgeted
SUBTOTAL - Local Revenues		-	26	26
8800 Donations/Fundraising				
8801	Donations - Parents	-	500	500
8803	Fundraising	20,000	1,000	(19,000) Fundraising budget assumptions based on higher ADA
SUBTOTAL - Fundraising and Grants		20,000	1,500	(18,500)
TOTAL REVENUE		2,111,899	1,044,006	(1,067,893)

Magnolia Science Academy - Santa Clara

Budget vs. Actuals

As of most recent monthly close-April 2016

		Budget		Variance	
		2015-16 Budget	Current Forecast	(Budget vs.	
		Projections	Current Forecast	Current Forecast)	
EXPENSES					
Compensation & Benefits					
Certificated Employees Summary					
1100	Teachers Salaries	742,695	682,907	(59,788)	Teacher assumptions based on higher ADA
1300	Certificated Supervisor & Administrator Salaries	93,888	186,732	92,844	Additional position required as a support role (outreach and recruitment)
SUBTOTAL - Certificated Employees		836,583	869,639	33,056	
Classified Employees Summary					
2400	Classified Clerical & Office Salaries	36,810	69,353	32,543	Additional position required (office manager and part time position required to collect student records)
2900	Classified Other Salaries	30,000	7,736	(22,264)	Employee left mid year (custodian)
SUBTOTAL - Classified Employees		66,810	77,089	10,279	
3000	Employee Benefits				
3100	STRS	85,430	88,486	3,056	Increase of certificated salaries
3200	PERS	8,418	2,462	(5,956)	Higher due to additional position that MSA-SC did not hire
3300	OASDI-Medicare-Alternative	24,263	21,453	(2,811)	Higher due to additional position that MSA-SC did not hire
3400	Health & Welfare Benefits	116,800	180,846	64,046	higher due to overpayment of health benefits
3500	Unemployment Insurance	18,068	473	(17,594)	unemployment insurance estimate
3600	Workers Comp Insurance	18,158	17,164	(994)	
SUBTOTAL - Employee Benefits		271,138	310,885	39,747	
4000	Books & Supplies				
4100	Approved Textbooks & Core Curricula Materials	2,000	4,257	2,257	
4200	Books & Other Reference Materials	16,000	3,435	(12,565)	Estimate was based on higher enrollment
4315	Custodial Supplies	500	500	-	
4320	Educational Software	5,500	5,500	-	
4325	Instructional Materials & Supplies	20,500	15,296	(5,204)	Estimate was based on higher enrollment
4330	Office Supplies	28,000	20,000	(8,000)	Estimate was based on higher enrollment
4346	Teacher Supplies	1,000	954	(46)	
4400	Noncapitalized Equipment	2,000	1,000	(1,000)	Estimate was based on higher enrollment
4410	Classroom Furniture, Equipment & Supplies	2,500	3,000	500	
4420	Computers (individual items less than \$5k)	13,000	6,500	(6,500)	Estimate was based on higher enrollment
4430	Non Classroom Related Furniture, Equipment & S	2,000	1,500	(500)	
4700	Food	87,948	10,228	(77,720)	MSA-SC did not apply for child nutrition due to school size and lack of meal facilities
4720	Other Food	1,000	1,031	31	
SUBTOTAL - Books and Supplies		181,948	73,201	(108,747)	

Magnolia Science Academy - Santa Clara

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		Budget		Variance	
		2015-16 Budget	Current Forecast	(Budget vs.	
		Projections	Current Forecast	Current Forecast)	
5000	Services & Other Operating Expenses				
5200	Travel & Conferences	5,000	6,512	1,512	Remains the same, shifted from 5210
5210	Conference Fees	3,488	3,488	0	Remains the same, shifted to 5200
5215	Travel - Mileage, Parking, Tolls	100	100	-	
5220	Travel and Lodging	14,107	14,107	0	
5300	Dues & Memberships	2,000	1,850	(150)	
5450	Insurance - Other	17,250	33,229	15,979	Insurance higher than originally projected
5500	Operations & Housekeeping	11,000	11,000	-	
5510	Utilities - Gas and Electric	6,000	6,000	-	
5605	Equipment Leases	41,536	37,156	(4,380)	Part of budget was based on loan payment for chromebooks. Reduced to include only leases
5610	Rent	314,625	314,625	0	
5615	Repairs and Maintenance - Building	1,000	1,000	-	
5617	Repairs and Maintenance - Other Equipment	1,000	1,000	-	
5631	Other Rentals, Leases and Repairs - Site Relocati	66,800	66,800	-	
5803	Accounting & Audit Fees	6,000	6,000	-	
5809	Banking Fees	1,000	1,000	-	
5814	School Programs - Academic Competitions	765	905	140	
5822	Other Professional Services	21,014	19,747	(1,267)	
5824	District Oversight Fees	7,094	7,094	0	
5843	Interest - Loans Less than 1 Year		-	-	
5845	Legal Fees	10,000	10,000	-	
5851	Marketing & Student Recruiting	3,600	3,600	-	
5857	Payroll Fees	6,930	6,930	-	
5861	Prior Yr Exp (not accrued)		38,997	38,997	Not budgeted legal fees
5863	Professional Development	4,224	4,224	(0)	
5884	Substitutes	4,642	4,642	0	
5887	Technology Services	21,000	21,000	-	
5893	Transportation - Student	118,080	118,080	-	
5898	Bad Debt Expense		406,155	406,155	Write off of AR
5899	Miscellaneous Operating Expenses		-	-	
5900	Communications	8,000	8,000	-	
5915	Postage and Delivery	4,486	4,486	(0)	
	SUBTOTAL - Services & Other Operating Exp.	700,741	1,157,727	456,986	
6000	Capital Outlay				
6400	Equipment	21,600	6,051	(15,549)	Higher due to estimated capitalized equipment that was not acquired
	SUBTOTAL - Capital Outlay	21,600	6,051	(15,549)	
TOTAL EXPENSES		2,078,819	2,494,591	415,772	

Magnolia Science Academy - Santa Clara

Budget vs. Actuals

As of most recent monthly close-April 2016

		Budget		
		2015-16 Budget Projections	Current Forecast	Variance (Budget vs. Current Forecast)
6900	Total Depreciation (includes Prior Years)	21,600	39,853	18,253
TOTAL EXPENSES including Depreciation		2,078,819	2,528,393	449,574