



Board Agenda Item #	Agenda II B
Date:	October 6, 2016
To:	MPS Finance Committee
From:	Caprice Young, Ed.D., CEO & Superintendent
Staff Lead:	Oswaldo Diaz, Chief Financial Officer
RE:	Approval of 2016-17 Intra Company Loans

Proposed Board Recommendation

I move that the MPS Finance Committee recommend approval of the cash management intra-company loans for operational expenses as presented in the agenda item.

Background

Currently MSA-SA requires temporary loans to address the cash flow requirement for fiscal year 2016-17. Based on the cash flow projections, MSA-SA is expected to require a new intra-company loan totaling \$1,150,000. The loan is required due to the fact that the funding that MSA-SA receives during the first half of the year is based on prior year enrollment (2015-16 P2 enrollment). The proposed cash flow loan will be paid off next year as the school builds reserves; however, because the school will again be adding students repeated cash flow loans will be required until the school has reached full capacity. This is a normal part of the opening of new schools that will be included in our ongoing budget and cash flow projections.

As of September 30, 2016, MSA-SA has two (2) board approved loans totaling \$1.3 million and has utilized \$1,252,500 for operational expenses incurred by the school. Based on the projected operational expenses, MSA Santa Ana will require that the operational loan in increased by an additional \$1.202 million.

10.02.2015 loan approval	700,000.00	
09.30.2016 additional loan approval	600,000.00	
Loan Disbursements and Payments FY 2015-16	(582,500.00)	
Loan Disbursements and Payments FY 2016-17	(670,000.00)	
Remaining Loan amount	47,500.00	
Expected cash flow needs MSA-SA	1,250,000.00	(x)
Additional loan required MSA-SA	1,202,500.00	

Notes: (x) MSA-SA cash flow requirements includes an additional \$100,000 for contingency purposes

The current outstanding loans to Santa Ana, which were incurred in prior years due to planned deficit budgeting until the new site could be occupied, will be paid off during fiscal years 2016-17 and 2017-18. The current MSA-SA balance as September 30, 2016 is shown as follows:

**Magnolia Science Academy - Santa Ana
Operational Expenses Intra-Company Loans**

Fiscal Year	Date	Description	Amount	Balance
2015-16	3/26/2015	Loan Disbursement	100,000.00	100,000.00
2015-16	4/30/2015	Loan Disbursement	100,000.00	200,000.00
2015-16	5/27/2015	Loan Disbursement	50,000.00	250,000.00
2015-16	6/26/2015	Loan Disbursement	80,000.00	330,000.00
2015-16	9/29/2015	Loan Repayment	(37,500.00)	292,500.00
2015-16	9/29/2015	Loan Disbursement	100,000.00	392,500.00
2015-16	6/13/2016	Loan Disbursement	90,000.00	482,500.00
2015-16	6/28/2016	Loan Disbursement	100,000.00	582,500.00
2016-17	8/12/2016	Loan Disbursement	200,000.00	782,500.00
2016-17	8/30/2016	Loan Disbursement	150,000.00	932,500.00
2016-17	9/14/2016	Loan Disbursement	120,000.00	1,052,500.00
2016-17	9/29/2016	Loan Disbursement	200,000.00	1,252,500.00
Loan Balance as of September 30, 2016				1,252,500.00

Cash Management Intra-Company Loan for Operational Expenses

Currently, and projected over the course of 2016-17, several schools have excess cash funds that can be utilized as loans to support the operational expenses of MSA-SA on a short term basis while delivering high quality education consistent with their charters. Staff calculated the availability of cash flow loan funds by projecting the 2016-17 cash flow needs of all schools and identifying which schools had excess reserve funds available. Based on the resulting projected cash flow for the fiscal year ended June 30,

2017, MSA-5, MSA-6, MSA-7, and MSA-8 have additional reserves that can be used to meet financial cash flow needs of MSA-SA.

Financial Impact to the Academies

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. 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.

A potential risk associated with this loan is that MSA-SA will be unable to pay due to mitigating circumstances related to one-time unexpected expenses; however, this risk has been significantly reduced by the strong enrollment outcome this year.

Total unrestricted reserves by school after considering required reserves to address each school's annual cash flow needs, reductions to address MSA Santa Clara loan, and the one time accounting change for certificated employees' STRS calculation are below. Also included in the chart below are the amounts of loans to MSA-SA by school and the available non-restricted reserves by school following the loan disbursements.

**Unrestricted Reserves
Available During 2016-17**

School	Current Unrestricted Reserves	Loan Disbursement	Revised Unrestricted Reserves
MSA-1	None available due to bond reserve requirements		None available due to bond reserve requirements
MSA-2	114,427		114,427
MSA-3	113,065		113,065
MSA-4	453,627		453,627
MSA-5	321,787	(200,000)	121,787
MSA-6	411,094	(150,000)	261,094
MSA-7	449,796	(100,000)	349,796
MSA-8	815,394	(700,000)	115,394
MSA-SA	(536,414)	1,150,000	613,586
MSA-SD	597,463		597,463
Home Office	28,430		28,430
Total	2,768,668	-	2,768,668

The remaining funds (Revised Estimated Unrestricted Reserves) are available for future contingencies, capital project cash flow financing, and ongoing reserves.

Repayment Plan:

The following cash disbursement schedule and loan repayment table has been prepared based on the current cash requirements and available funds of MSA-SA.

**MSA-SA Projected Disbursements and Payments
(For all MSA-SA Loans)**

	Date	Description	Amount	Balance
Actual		Loan Balance as of September 30, 2016		1,252,500.00
Projected	10/15/2016	Loan Disbursement	300,000.00	1,552,500.00
Projected	11/15/2016	Loan Disbursement	350,000.00	1,902,500.00
Projected	12/15/2016	Loan Disbursement	350,000.00	2,252,500.00
Projected	1/15/2017	Loan Disbursement	150,000.00	2,402,500.00
Projected	2/15/2017	Loan Repayment	(100,000.00)	2,302,500.00
Projected	3/15/2017	Loan Repayment	(100,000.00)	2,202,500.00
Projected	4/15/2017	Loan Repayment	(100,000.00)	2,102,500.00
Projected	5/15/2017	Loan Repayment	(200,000.00)	1,902,500.00
Projected	6/15/2017	Loan Repayment	(282,500.00)	1,620,000.00
Projected	7/15/2017	Loan Repayment	(150,000.00)	1,470,000.00
Projected	8/15/2017	Loan Repayment	(150,000.00)	1,320,000.00
Projected	9/15/2017	Loan Repayment	(150,000.00)	1,170,000.00
Projected	10/15/2017	Loan Repayment	(100,000.00)	1,070,000.00
Projected	11/15/2017	Loan Repayment	(100,000.00)	970,000.00
Projected	12/15/2017	Loan Repayment	(100,000.00)	870,000.00
Projected	1/15/2018	Loan Repayment	(100,000.00)	770,000.00
Projected	2/15/2018	Loan Repayment	(100,000.00)	670,000.00
Projected	3/15/2018	Loan Repayment	(150,000.00)	520,000.00
Projected	4/15/2018	Loan Repayment	(150,000.00)	370,000.00
Projected	5/15/2018	Loan Repayment	(200,000.00)	170,000.00
Projected	6/15/2018	Loan Repayment	(170,000.00)	-
Loan Balance as of June 30, 2018				-

Budget Implications:

By self-financing the cash flow for MSA Santa Ana, the organization avoids expensive cash flow loans.

Name of Staff Originator:

Oswaldo Diaz
Chief Financial Officer

Attachments: Loan Documents

**MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION
INTRA-COMPANY LOAN TO MSA-SA**

Summary

Based on the current estimated operating expenses for FY 2016-17, MSA-SA requires an additional loan totaling \$1,250,000. This loan will be used to fund legitimate educational and operational expenses in accordance with Generally Accepted Accounting Principles.

Intracompany Loan Terms

Total Additional Loan Amount: \$1,250,000

Repayment Period: 20 months

Interest Rate: 0.00%

Intracompany Repayment Schedule

Date	Description	Amount
9/15/2017	Loan Repayment	80,000.00
10/15/2017	Loan Repayment	100,000.00
11/15/2017	Loan Repayment	100,000.00
12/15/2017	Loan Repayment	100,000.00
1/15/2018	Loan Repayment	100,000.00
2/15/2018	Loan Repayment	100,000.00
3/15/2018	Loan Repayment	150,000.00
4/15/2018	Loan Repayment	150,000.00
5/15/2018	Loan Repayment	200,000.00
6/15/2018	Loan Repayment	170,000.00
Total Payments		1,250,000.00

**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%

**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%

**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: \$100,000

Date of Disbursements: As needed not to exceed \$100,000

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

Interest Rate: 0.00%

**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: \$700,000

Date of Disbursements: As needed not to exceed \$700,000

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

Interest Rate: 0.00%