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September 24, 2019

Susan Domenighini, Interim Executive Director
Blue Oak Charter School
450 W. East Ave
Chico, CA 95926

Re: Chico Unified School District
Fiscal Review of Blue Oak Charter School
Notice of Concern

Dear Ms. Domenighini:

This letter constitutes a Notice of Concern with regard to the fiscal condition of Blue Oak Charter School ("Blue Oak" or "Charter School").

PROCEDURAL BACKGROUND

The Chico Unified School District Governing Board renewed the Blue Oak charter for an additional term of five years on April 4, 2018. The resolution approving the renewal contained the following conditions, which were subsequently memorialized in a Memorandum of Understanding executed between the parties:

The Charter School must improve the financial condition of the Charter School by taking the following steps:

- a. Submit an updated interim budget for the current year to the District no later than 30 days following Board action to renew the charter.
- b. Submit monthly cash flow reports to the District.
- c. Submit monthly accounts receivable and accounts payable reports to the District.
- d. Maintain a positive ending fund balance each fiscal year of the renewal term.
- e. Submit a report to the District within 30 days following Board action to renew the charter setting forth specifically how the Charter School will maintain a positive ending fund balance by the end of the current fiscal year.
- f. Timely pay off all financial obligations (i.e., pay off all debts when legally due, or when demanded by the creditor.)

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The District has issued three (3) prior Notices of Concern arising out of Blue Oaks financial condition. These notices include the following:

June 2, 2017 Notice of Concern: This notice addressed Blue Oak's delinquency of \$231,559.00 in paying special education encroachment to the District.

January 29, 2018 Notice of Concern: This notice addressed concerns regarding Blue Oak's overprojection of Average Daily Attendance in its budget reports, and exacerbation of the Charter School's already negative cash flow.

June 11, 2018: This notice addresses Blue Oak's incurrence of additional debt by selling its accounts receivable to borrow \$300,000 during Fiscal Year 2017-2018. The notices also states that the Charter School projected borrowing an additional three times during Fiscal Year 2018-2019.

The District has recently addressed concerns to Blue Oak that the Charter School again intends to borrow \$200,000 in the form of selling its receivables, with projected financing costs in the sum of \$3,700. The Charter School's multi-year reliance upon incurring additional debt to alleviate cash flow problems in indicative of structural and institutional financial issues. The District is concerned that Blue Oak has not made the difficult reduction in program expenditures to improve its cash flow and financial health. The Charter School's failure to make these necessary reduction imperils the continuity and health of its operations and educational program.

Please provide in writing, within fifteen (15) business days, a detailed plan describing how Blue Oak will reduce expenditures, improve cash flow, and achieve a positive fund balance during the next three (3) fiscal years, starting with the current fiscal year. The plan should include the following

- Identification of specific expenditures to be reduced.
- Realistic assessment of projected A.D.A. and State revenue.
- Programmatic changes resulting from the reduction of expenditures.

Please contact us if you have any questions.

Very Truly Yours,



Tina Keene
Director, State and Federal Programs
Chico Unified School District