April 15, 2025

Lauren Daley, Foundation Co-President
Jolene Yee, Foundation Co-President
Cathy Adams, Head of School

Napa Foundation for Options in Education
Mayacamas Charter Middle School
983 Napa St.
Napa, CA 94559

Subject: 2024-25 Second Interim Financial Report

Dear Co-Presidents Daley and Yee and Head of School Adams,

The Napa County Office of Education (NCOE) has contracted with the Fiscal Crisis Management Assistance Team (FCMAT) to perform its statutorily required oversight responsibilities for Mayacamas Countywide Middle School (MCMS-2) during the 2024-25 fiscal year. FCMAT's role is to support the charter school in fulfilling the requirements of its petition and memorandum of understanding with NCOE, as well as to provide guidance in maintaining fiscal solvency.

Second Interim Financial Report

This letter confirms that NCOE received MCMS-2's 2024-25 Second Interim Financial Report by the March 15 deadline, in compliance with Education Code 47604.32 and 47604.33. The Napa Foundation for Options in Education (NFOE) Board of Directors formally adopted the 2024-25 Second Interim Financial Report – Alternative Form for MCMS-2 at its meeting on March 13, 2025.

This letter summarizes FCMAT's and NCOE's review of the MCMS-2 documents submitted for the second interim reporting period, spanning July 1, 2024 through January 31, 2025. Technical comments and questions regarding the submitted data were provided to ExED Vice President of School Finance Franci Sassin, who provides back-office support to the charter school.

Enrollment and Unduplicated Pupil Percentage

Mayacamas Countywide Middle School began the 2024-25 academic year with an enrollment of 127 students. As of the second interim reporting period, enrollment remains steady at 125 students. Although MCMS-2 has not met the enrollment projections outlined in its charter petition, the school has exceeded its unduplicated pupil percentage (UPP) goal of 43%. UPP reflects the percentage of students who are low income, foster youth, or English learners. During the California Longitudinal Pupil Achievement Data System (CALPADS) Fall 1 certification period, the school reported 73 unduplicated pupils, representing 57.5% of total enrollment, as of October 2, 2024.

Mayacamas Countywide Middle School's NFOE board-approved 2024-25 second interim multiyear financial projection (MYFP) includes anticipated enrollment growth over the following two years. For 2025-26, MCMS-2 projects enrollment will increase to 220 students, reflecting an increase of 73% over the current year, and resulting in an estimated $979,487 in additional Local Control Funding Formula (LCFF) revenue. By 2026-27, enrollment is expected to rise to 270 students, a 23% increase from the prior year, generating an additional $624,389 in LCFF revenue.

As requested, MCMS-2 submitted preliminary enrollment data for the 2025-26 school year with its second interim report, projecting 154 students. This total includes both new applications and returning seventh- and eighth-grade students. In addition, the charter school presented an alternate enrollment scenario as part of its MYFP to the NFOE board for discussion at its March 2025 meeting. The enrollment assumption in this alternate projection more closely reflects the current preliminary estimate. Under this scenario, enrollment is expected to grow modestly — rising by 18% to 150 students in 2025-26 and by 20% to 180 students in 2026-27. These alternative assumptions would generate less LCFF revenue than the board-approved MYFP, with estimated increases of $318,682 in 2025-26 and $433,801 in 2026-27.

According to FCMAT's *Indicators of Risk or Potential Insolvency for California Charter Schools*, unstable enrollment and/or average daily attendance (ADA) is a key fiscal risk factor in evaluating a charter school's financial health. These variables directly affect both revenues and expenditures. LCFF funding — typically a charter school's primary revenue source — is based on enrollment and ADA. Staffing levels, which often account for the largest share of expenditures, are also determined by these same figures. Therefore, it is essential that MCMS-2 continue to update its enrollment and ADA projections and closely monitor actual data to ensure alignment with fiscal planning.

To ensure MCMS-2's fiscal solvency, it is imperative that NFOE continue to take the following actions:

- Maintain ongoing student recruitment efforts.
- Closely monitor actual enrollment and attendance data and compare it to projections.
- Provide monthly enrollment reports to both the NFOE board and NCOE.
- Develop additional MYFP scenarios for MCMS-2 with varying levels of projected enrollment and unduplicated pupil counts (UPCs) in subsequent years. Each scenario should:
  - Include both best- and worst-case projections for enrollment and UPCs.
  - Incorporate corresponding adjustments to staffing and expenditures.
  - Be presented to the NFOE board for review and discussion.
  - Inform contingency planning if enrollment continues to fall significantly below projections.
  - Be submitted to NCOE with required budget reports (e.g., first interim report, adopted budget, June estimated actuals).

Ending Net Position

Mayacamas Countywide Middle School's second interim report shows an ending net position of $34,545 for the period ending June 30, 2025, which is $17,836 higher than projected in the first interim report adopted in December 2024. However, to meet the 5% minimum reserve requirement for economic uncertainties, as outlined in its memorandum of understanding with NCOE, MCMS-2 must end the year with approximately $95,100. This shortfall of roughly $62,000 will require the board to either increase revenue or reduce expenditures. The approved MYFP indicates that the charter school is expected to meet the 5% minimum reserve requirement in subsequent years due to projected increases in enrollment and LCFF funding. The charter school anticipates ending with a net position of $542,987 in 2025-26 and $781,319 in 2026-27.

However, as previously noted, the alternate MYFP assumes lower enrollment and LCFF revenue than the version approved by the NFOE board. While it projects reduced ending net positions — $79,999 in 2025-26 and $194,658 in 2026-27 — these figures are supported by current recruitment efforts and preliminary enrollment estimates for 2025-26. MCMS-2 and NFOE should carefully evaluate the alternate projections and monitor recruitment progress when developing the 2025-26 budget to maintain fiscal stability and meet reserve requirements.

Cash Balance Analysis

As a startup charter school, MCMS-2 continues to experience typical cash flow challenges, largely due to the timing of public funding disbursements, which often do not align with monthly operating expenses. As a result, the charter school must continue to closely monitor its cash flow to ensure it can meet all financial obligations.

According to its second interim report, MCMS-2 projects an ending cash balance of $58,582 for 2024-25 and $209,235 for 2025-26, representing 3% and 9% of total expenditures, respectively. These balances include approximately $115,100 in 2024-25 and $250,000 in 2025-26 in short-term loans borrowed to address cash flow needs.

To avoid reliance on costly borrowing options, FCMAT recommends that charter schools adopt a policy to maintain a minimum cash reserve equal to 5% of total budgeted expenditures and develop a five-year plan to increase that reserve to at least 10%. Establishing and maintaining these reserves will support long-term cash flow stability and overall fiscal health.

A key metric for assessing a charter school's financial health is "cash in hand," which refers to the number of days the school's readily available cash can cover daily operating expenses. According to the cash flow projection submitted with the second interim report, MCMS-2 has 20 days of cash on hand — meaning it could sustain operations for 20 days without additional income or funding. Maintaining at least 60 to 90 days of cash on hand is a best practice and enables charter schools to navigate potential cash flow disruptions, such as state apportionment deferrals or enrollment fluctuations, and supports long-term fiscal stability. The NFOE board should establish a goal to gradually increase the number of days of cash in hand to improve MCMS-2's financial resilience.

To ensure MCMS-2's fiscal solvency, NFOE should continue to follow best practices for cash management, including:

- Preparing and regularly updating 18- to 24-month cash flow projections.
- Incorporating prior-month actuals into cash flow projections.
- Providing updated cash flow projections at monthly NFOE board meetings.
- Submitting copies of the cash flow projections presented at board meetings to NCOE.

FCMAT extends its appreciation to MCMS-2 for its continuing cooperation and assistance during the 2024-25 second interim review. If you have questions regarding this letter or the review process, please do not hesitate to contact me at (530) 919-4931 or rmanansala-smith@fcmat.org, or NCOE Deputy Superintendent Joshua Schultz at (707) 253-6832.

Sincerely,

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