

## EXHIBIT A

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## **BERKELEY UNIFIED SCHOOL DISTRICT**

**STAFF REPORT: PETITION TO RENEW THE REALM CHARTER  
MIDDLE SCHOOL AND REALM CHARTER HIGH SCHOOL CHARTERS**

**GOVERNING BOARD PUBLIC HEARING DATE:**

**November 4, 2015**

**GOVERNING BOARD DETERMINATION MEETING DATE:**

**December 9, 2015**

## **I. INTRODUCTION**

On June 9, 2010, the Berkeley Unified School District ("District") granted two petitions to form the REALM Charter Middle School and REALM Charter High School for five-year terms, beginning on July 1, 2011 and ending June 30, 2016. The middle school serves grades 6-8, and the high school grades 9-12. On or about October 20, 2015, the District received separate petitions to renew the charters for the middle and high school for 5-year terms, starting on July 1, 2016.

The Charter Schools Act of 1992 permits school districts, county boards, and the State Board of Education ("SBE") to grant charters for the operation of charter schools. (Ed. Code § 47600, *et seq.*) Charter schools "are part of the public school system," but "operate independently from the existing school district structure." (Ed. Code §§ 47615(a)(1), 47601.) Charter schools are established through submission of a petition by proponents of the charter school to the governing board of a school district, county board or to the SBE. The governing board must grant a charter "if it is satisfied that granting the charter is consistent with sound educational practice." (Ed. Code §47605(b).) Nevertheless, a governing board may deny a petition for the establishment of a charter school if it finds that the particular petition fails to meet enumerated statutory criteria and adopts written findings in support of its decision to deny the charter. (*Ibid.*) Once a governing board grants a charter petition, the charter school becomes a separate legal entity.

Under Ed. Code §47607(a)(2), a school district evaluates a Renewal Petition under the same standards and criteria used to evaluate an initial petition to establish a charter school. If the Board grants a renewal petition, "[e]ach renewal shall be for a period of five years." (Education Code § 47607(a)(1).)

## **II. PROCEDURAL STATUS**

Ed. Code §§47605(b) and 45607 require the District's Board of Education ("Board"), within 30 days of receiving a renewal petition, to "hold a public hearing on the provisions of the charter, at which time the governing board of the school district shall consider the level of support for the petition by teachers employed by the district, other employees of the district, and parents." Ed. Code §47605(b) requires the board to "either grant or deny the charter within 60 days of receipt of the petition." The Board held the public hearing on November 4, 2015, and received input on the renewal petition. The Board will take action to grant or deny the renewal petition on December 9, 2015.

The review of the 2 renewal petitions for compliance with the requirements set forth in the Education Code was conducted by Javetta Cleveland, Deputy Superintendent; Pasquale Scuderi, Assistant Superintendent, Educational Services; Lisa Graham, Director, Special Education; and John R. Yeh, Burke, Williams & Sorensen, LLP, legal counsel.

### III. REVIEW OF THE RENEWAL PETITION

Education Code §47605(b) sets forth the following guidelines for governing boards to consider in reviewing charter Renewal Petitions:

- The chartering authority shall be guided by the intent of the Legislature that charter schools are, and should become, an integral part of the California educational system and that establishment of charter schools should be encouraged.
- A school district governing board shall grant a charter for the operation of a school under this part if it is satisfied that granting the charter is consistent with sound educational practice.
- The governing board of the school district shall not deny a petition for the establishment of a charter school unless it makes written factual findings, specific to the particular petition, setting forth specific facts to support one or more of the following findings:
  - (1) The charter school presents an unsound educational program for the pupils to be enrolled in the charter school.
  - (2) The petitioners are demonstrably unlikely to successfully implement the program set forth in the petition.
  - (3) The petition does not contain the number of signatures required by statute (not applicable to renewal petitions).
  - (4) The petition does not contain an affirmation of each of the conditions required by statute.
  - (5) The petition does not contain reasonably comprehensive descriptions of the required elements of a charter petition.

Education Code § 47607(a) contains specific requirements applicable to renewal petitions:

(1) A charter may be granted pursuant to Sections 47605, 47605.5, and 47606 for a period not to exceed five years. A charter granted by a school district governing board, a county board of education, or the state board may be granted one or more subsequent renewals by that entity. Each renewal shall be for a period of five years...

... (2) Renewals and material revisions of charters are governed by the standards and criteria in Section 47605, and shall include, but not be limited to, a reasonably comprehensive description of any new requirement of charter schools enacted into law after the charter was



originally granted or last renewed.

(3)(A) The authority that granted the charter shall consider increases in pupil academic achievement for all groups of pupils served by the charter school as the most important factor in determining whether to grant a charter renewal.

(B) For purposes of this section, "all groups of pupils served by the charter school" means a numerically significant pupil subgroup, as defined by paragraph (3) of subdivision (a) of Section 52052, served by the charter school.

See. e.g., 5 C.C.R. 11966.4(b) also contains the following requirements:

(1) When considering a petition for renewal, the district governing board shall consider the past performance of the school's academics, finances, and operation in evaluating the likelihood of future success, along with future plans for improvement if any.

(2) The district governing board may deny a petition for renewal of a charter school only if the district governing board makes written factual findings, specific to the particular petition, setting forth specific facts to support one or more of the grounds for denial set forth in Education Code section 47605(b) or facts to support a failure to meet one of the criteria set forth in Education Code section 47607(b).

#### Eligibility for Renewal

Under Ed. Code § 47607(b), a charter school must meet the following performance criteria on the Academic Performance Index (API) test in order to be eligible for or consideration for renewal:

(b) Commencing on January 1, 2005, or after a charter school has been in operation for four years, whichever date occurs later, a charter school shall meet at least one of the following criteria before receiving a charter renewal pursuant to paragraph (1) of subdivision (a):

...

(4)(A) The entity that granted the charter determines that the academic performance of the charter school is at least equal to the academic performance of the public schools that the charter school pupils would otherwise have been required to attend, as well as the academic performance of the schools in the school district in which the charter school is located, taking into account the composition of the pupil population that is served at the charter school.

Because of the suspension of API testing for 2014, the last year that API data is available for the REALM schools is 2013. Therefore, the District has evaluated

alternative assessment data, including REALM's most recent results on the California Assessment of School Performance and Progress (CAASP) tests in 2015.

To obtain renewal, a charter school must meet all of the other legal requirements for renewal, including the additional performance goals set forth in its original charter and other provisions of law.

The Charter Review Team was also guided in its analysis by the SBE regulations for the evaluation of charter petitions and renewal petitions (hereinafter "regulations"). Where relevant, the content of the Education Code and regulations are stated or paraphrased with respect to each required element of the Petition in italics.

#### **IV. CHARTER REVIEW TEAM RECOMMENDATION**

The Charter Review Team recommends that the Board grant the Renewal Petition on the condition that REALM make the following changes to its Charters as set forth at the conclusion of this Report.

#### **V. FINDINGS OF CHARTER REVIEW TEAM**

The Charter Review Team's specific findings with respect to each element are described in numbered paragraphs below with reference to the applicable statutory and regulatory requirements.

**1. THRESHOLD LEGAL REQUIREMENTS OF EDUCATION CODE §47605(A)**

*The Education Code requires that charter petitions identify a single charter school that will operate within the geographic boundaries of the District, unless certain conditions are met.*

Analysis: The Charter School's Middle School is located at 2023 Eighth Street, Berkeley, and its High School at the District's West Campus, located at 1222 University Avenue, Berkeley. The parties are in discussion for a facilities arrangement for 2016-2017.

**2. EDUCATIONAL PROGRAM [EDUCATION CODE §47605(B)(1)]**

*Education Code §47605(b)(1) permits a school board to deny a petition to establish a charter school that presents an "unsound educational program." The SBE regulations clarify an unsound educational program to be one that involves activities that would present the likelihood of physical, educational, or psychological harm to the students, and/or would not likely be of educational benefit to students. (Cal. Code Regs., tit. 5, § 11967.5.1(b)(1), (2))*

Analysis: See below, starting on p. 6.

3. **SIXTEEN REQUIRED CHARTER ELEMENTS SET FORTH IN EDUCATION CODE §47605(B)(5)**

Following is the Charter Review Team's analysis of each of the 16 elements required by Education Code §47605(b)(5).

A. **Element One: A Description of the Educational Program [Ed. Code, §47605, subd. (b)(5)(A)]**

*The Education Code requires a description of the educational program of the school, designed, among other things, to identify those whom the school is attempting to educate, what it means to be an "educated person" in the 21st century, and how learning best occurs. (Ed. Code, §47605(b)(5)(A)(i).)*

*The regulations require the educational program description to include a framework for instructional design that is aligned with the needs of the target student population, as well as descriptions of the following: the basic learning environment, and the instructional approach, including the curriculum and teaching methods that will enable the school's students to master the content standards for the core curriculum areas and to achieve objectives specified in the charter. (Cal. Code Regs., tit. 5, §11967.5.1(f)(1).) The regulations further require an explanation of how the charter school will identify and respond to the needs of students who are not achieving at or above expected grade levels, how the charter school will meet the needs of students with disabilities, English learners, students achieving substantially above, or below grade level expectations, and other special populations, and the charter school's special education plan. (Ibid.)*

1. **Target Student Population:**

**Analysis:** Both REALM charters note that the original charters sought to serve a student demographic consisting of the following:

African American	Asian American	Latino	White
26%	9%	14%	34%

REALM's Middle and High schools contain the following demographic breakdown

**Middle School:**

African American	Asian American	Latino	White
15.7%	4.0%	55.9%	10.5%

**High School:**

African American	Asian American	Latino	White
19.2%	1.6%	62.3%	4.1%

(Source: Petition, p. 11 (current), 13 (initial)<sup>1</sup>.)

<sup>1</sup> Page citations refer to both Middle School and High School Petitions unless otherwise indicated.

**BUSD Demographic Breakdown:**

African American	Asian American	Latino	White
20%	8%	24%	35%

(Source: BUSD District Profile Sheet 2013: <http://www.berkeleyschools.net/wp-content/uploads/2011/06/BUSD-SIS-2013.pdf?5759fb>)

Though the REALM charter school demographics do not match that of the District's, the charter schools do enroll predominantly students of color, with its largest demographic consisting of Latino students.

Following is REALM's demographic breakdown of students eligible for the Federal Free and Reduced Lunch program, and English Language Learners:

	Free and Reduced Lunch Eligible/SED	English Language Learners
REALM Middle	78%	58%
REALM High	72%	58%
BUSD	12%	41%

(Source: Petition, p. 14 (REALM); BUSD District Profile Sheet 2013: <http://www.berkeleyschools.net/wp-content/uploads/2011/06/BUSD-SIS-2013.pdf?5759fb> (BUSD).)

**2. Proposed Curriculum/Framework for Instructional Design:**

Analysis: The Petition's description of the Charter School's instructional program is contained on pp. 16-25 (Middle) and 16-26 (High School). The Petition contains a program rooted in Project-Based Learning aligned with Common Core State Standards, and contains separate descriptions of the curricular programs in English, Mathematics, History/Social Science, Science, Physical Education, Foreign Language and Art & Design. The High School Petition also notes that REALM attained 3-year WASC accreditation in 2013, and also contains high school graduation requirements on p. 26.

Pasquale Scuderi, Assistant Superintendent, Educational Services, conducted site observations of REALM Middle and High Schools on November 23 and 30, 2015. The observations confirmed that REALM is delivering the program set forth in its charter petitions. The findings from the site observations are attached as Exhibit 1. 3.

**Special Education Program and § 504 Compliance:**

**Analysis:**

District Feedback: The District notified REALM in writing on November 25, 2015 that it needed to provide a description of how the Charter Schools provide special education services to their students, and how they ensure that their students receive and Free and Appropriate Education. The District asked REALM to provide information in the categories listed below. Below is a summary of REALM's response, and the District's evaluation thereof.



## 1) Child Find:

REALM Response: REALM ensures that parents and staff are aware of the obligation and desire to assist students with learning needs. When students enroll at REALM and the family indicates that they may have an IEP or 504 plans, REALM staff actively search for the documents. If parents do not have a copy of the IEP, this includes contacting the previous district/school and requesting both electronic and hardcopy files. If the student does not have an IEP but the school staff suspect[s] learning and/or developmental needs, the school team will work in a variety of ways to ensure students who need assistance are identified. This includes referral to COST (Coordination of Services Team), provision of intervention services, and assessment by qualified school personnel. In addition, letters explaining the transition to EDCOE SELPA were mailed to families. Contact information for the REALM special education department was also distributed at family events such as the beginning of school welcome and back to school night. The COST process also provides information to parents and staff. Staff receive[s] ongoing training on the function of COST and the process to refer a student.

District Evaluation of REALM Response: REALM's response does not address Child Find obligations. An LEA may not use SST (or COST) as a way to delay or defer its site obligations to conduct a comprehensive evaluation of students they suspect may have a disability that would require specialized instruction.

The District would need to see the following documents to determine whether REALM is meeting its special education obligations under the law:

- Child Find policy & procedures manual describing the referral process.
- Comprehensive EDCOE SELPA Policy Binder.
- 504 Policy & Procedures Handbook, along with any forms used for this process.
- Pupil Records Guidelines Handbook.
- "Letters explaining the transition to EDCOE SELPA [that] were mailed to families."
- Any other information provided to families regarding the provision of special education services by EDCOE SELPA.
- The COST team & referral process professional development training materials, including agenda & sign-ins.

## 2) Referral and Assessment

REALM Response: REALM utilizes COST (Coordination of Services Team), an enhanced Student Study Team model, looking at any student that has needs and allocating and locating resources to assist the student. With behavioral and academic levels of interventions are attempted and documented prior to a referral to special education. The COST team meets on a weekly basis and monitors student progress. The interventions increase or decrease as needed, based on data collected such as behavioral charts or academic assessments and work samples. If a student is referred

for Special Education assessment by the team and/or family, the mandated timelines are followed. An assessment plan is developed and sent to the parent within 15 days of the referral. Once signed and returned by the parent, the IEP team has 60 days to complete the assessment and hold an IEP meeting. REALM staff will assess in all areas of suspected disability. A parent has the right to make a direct written referral for assessment. When this is received the COST team meets within 15 days to develop a plan of assessment with the parent and to provide additional interventions, if appropriate.

An interdisciplinary team assesses the student, including a school psychologist, an Educational Specialist, a school nurse and/or other professional staff, such as a speech and language pathologist or occupational therapist, in all areas of suspected disability/ areas of need. All staff use appropriate measures and batteries of assessments that they are familiar with and qualified to assess. In addition, data regarding interventions and other measures are factored in. These include individual testing, teacher observations, interviews, record reviews and work samples and parent input. Assessments are done in the student's primary language and parents are presented the information in their language, with the help of an interpreter as necessary. The assessments are completed within the 60 day timeline and the parent is invited to an IEP meeting to review the assessment data, determine eligibility, and plan for services if appropriate.

District Evaluation of REALM Response: REALM's response misstates the standard for triggering the obligation to assess. The LEA is obligated to assess in all areas related to the area(s) of suspected disability, not just "all areas of suspected disability." This is a critical distinction. REALM's response also contains no reference to providing parents with a copy of its procedural safeguards upon a request or referral for special education evaluation. REALM should provide a copy of its Procedural Safeguards document (in all languages made available to parents/guardians.)

REALM states that assessments are performed in a student's "primary language," but fails to detail how it enforces this practice for all languages or accesses multiple native language speakers for these evaluations. REALM also does not detail how it determines a student's "primary" language." REALM must provide a copy of its ELL & CELDT assessment Policy & Procedures Handbook.

### 3) Individualized Education Plan (IEP) meetings

REALM Response: When REALM took over special education services this school year, approximately 33% of IEPs were overdue. Within the first 30 days, all overdue IEPs were held, in addition to the interim IEPs necessary to document the change of SELPA. REALM will continue to hold annual and triennial IEP meetings as appropriate. IEP meetings consist of the following individuals: student, guardian, education specialist/case manager, general education teacher, administrator, and other specialists as appropriate (e.g., Speech Language Pathologist, Educationally Related Mental Health counselor). REALM case managers work closely with students to help them

participate in meaningful ways in their IEP meetings. For example, some students facilitate their own meetings, some present to the team about their learning strengths and needs, and others share work they are proud of. The level of participation is determined by student preference and level of functioning. All students are supported in the development of effective self advocacy skills.

REALM prioritizes professional development needed to write compliant, well-done IEPs that will afford student's Educational benefit. REALM participates in SELPA professional development to make sure all IEP components are addressed. IEPs are reviewed annually and every three years the students will be reassessed. Additional IEPs may be conducted at parent or school request and if for discipline reasons a Manifestation Meeting will be held prior to a change of placement or for expulsion. The components of the IEP will include: a. Statement of present levels of achievement and functional performance b. rationale for placement, c. services and means for delivery, d. when services will start, how often and who to provide, e. meaningful goals, f. how progress on goals will be measured, monitored and reported to the parents, g. accommodations required, h. 16+ transition plan in place for all students aged 16 with a disability. Timelines are adhered to and parents and students are afforded the opportunity to participate in a meaningful way.

District Evaluation of REALM Response: REALM mistakenly refers to the Manifestation Determination (MD) meeting as a "Manifestation Meeting." Moreover, the District still needs to see a copy of REALM's Student Handbook & Student Discipline Handbook, as well as its policy regarding student access to extracurricular activities and programs (per ADA regulations), including the provision of accommodations, if required. The District also needs to see copies of all IEP forms and other IEP professional development training materials, including agenda & sign-ins.

4) Specific services and supports the Charter School as an LEA would offer

REALM Response: REALM Charter School serves students in the least restrictive environment. Previously, BUSD provided a pull-out model for serving students who had SAI as an IEP service. REALM desires to have the students remain in their classrooms receiving Common Core instruction taught by highly qualified teachers to the greatest extent possible. Teachers use strategies such as differentiation and Universal Design for Learning (UDL) for all students. Students are provided the accommodations and modifications listed on their IEPs. REALM's Education Specialists and Instructional Assistants work with students in the general education setting. In addition, students that require additional help for remediation, pre-teaching, review, and/or test taking support, are pulled out for appropriate services as needed.

REALM Charter School also provides related services to students with disabilities per their IEP. REALM employs a speech language pathologist, occupational therapist, school psychologist, and ERMHS therapist to provide these services. REALM currently contracts services for Deaf/hard of Hearing and nursing services from personnel that

are on the CDE NPA approved list. If students require APE, VI, PT or other services the appropriate providers will be secured.

Should a student require placement in a more restrictive placement based on their present level of need, REALM will coordinate placement and service delivery with a school on the CDE NPS approved list, in conjunction with the SELPA.

District Evaluation of REALM Response: REALM's response fails to detail the staffing ratio expected at REALM per grade level for personnel providing special education services. REALM's response also does not provide a reasonably comprehensive description of REALM's plan to provide related services to students, if they are needed. The only services referenced as being provided by REALM are SLP, OT & counseling & contracts w/ an NPA for DHH & nursing. Other services (APE VI, PT) are noted as "appropriate providers will be secured" with no information regarding how these services would be provided. REALM's response also fails to address other areas of related services (e.g., Transportation & Assistive Technology (AT), Low Incidence requests.)

The District needs to see the following documents:

- REALM's MOU w/ EDCOE regarding the provision of all special education services & supports, including ERMHS assessments & provision of counseling services to students.
- All MOU's with NPA's to provide DHH (CEID) & nursing (K-12 Health) services.
- REALM's Independent Educational Evaluation (IEE) Policy and Procedures, including any forms used for this purpose

5) How the Charter School staffs instructional personnel to meet its special education obligations

REALM Response: REALM employs appropriate personnel to meet special education obligations. This includes: education specialists, instructional assistants, speech language pathologist, occupational therapist, school psychologist, and educationally related mental health services (ERMHS) counselor. REALM contracts Deaf/Hard of Hearing services with NPA certified Center for Early Intervention on Deafness. REALM contracts nursing services with NPA certified K12 Health.

District Evaluation of REALM Response: REALM's response fails to address specialists' credentials or qualifications under either State law or NCLB's "Highly Qualified" requirement. The statement that "REALM employs appropriate personnel to meet special education obligations" does not contain the required level of detail.

4. English Learner Instruction

Analysis: The Middle School Petition addresses this requirement on pp. 24-25, and the High School Petition on pp. 27-29.



5. Other Education Code Requirements:

*Analysis:* The Renewal Petitions address the following elements in a manner that meets minimal legal requirements: What it means to be a 21<sup>st</sup> Century Educated Person (pp. 14-15); how learning best occurs (p. 15-16); plan for low-achieving students (p. 25-26 (Middle), p. 29 (High)); and plan for high-achieving students (p. 26 (middle), p. 29 (High).)

6. Integration of Common Core and LCFF-Required Standards

*Analysis:* The Petitions address the integration of Common Core State Standards into the Project-Based Learning model in pp. 18-19. The Middle School Petition addresses the Charter School's Goals and Actions to Achieve the State Priorities on pp. 27-32, and the High School Petition on pp. 31-43.

**B. Elements Two and Three: Measurable Student Outcomes and Measuring Student Progress [Ed. Code, §47605, subd. (b)(5)(B), (C)]**

*Regarding the descriptions of Measurable Pupil Outcomes and Measuring Pupil Progress, the Petition must meet the legal requirements of Education Code §47605, subdivisions (b)(5)(B), (C) and California Code of Regulations, title 5, §11967.5.1, subdivisions (f)(2), (3) regarding the identification of outcomes and assessment tools and plans. Pupil outcomes shall include outcomes that address increases in pupil academic achievement both schoolwide and for all groups of pupils served by the charter school, as that term is defined in subparagraph (B) of paragraph (3) of subdivision (a) of Section 47607. The pupil outcomes shall align with the state priorities, as described in subdivision (d) of Section 52060, that apply for the grade levels served, or the nature of the program operated, by the charter school.*

*The SBE regulations provide that a petition should set out measurable student outcomes to be used by the charter school. (Cal. Code Regs., tit. 5, § 11967.5.1(f)(2)) The student outcomes should, at a minimum:*

*(a) specify skills, knowledge, and attitudes that reflect the school's educational objectives and can be assessed by objective means that are frequent and sufficiently detailed enough to determine whether students are making satisfactory progress;*

*(i) the frequency of the objective means of measuring student outcomes should vary according to such factors as grade level, subject matter, the outcome of previous objective measurements, and information that may be collected from anecdotal sources; and*

*(ii) objective means of measuring student outcomes must be capable of being used readily to evaluate the effectiveness*

*of and to modify instruction for individual students and groups of students.*

*(b) include the school's API growth target, if applicable. (Ibid.)*

Analysis:

Ed. Code § 47607(a)(3)(A) provides that “[t]he authority that granted the charter shall consider increases in pupil academic achievement for all groups of pupils served by the charter school as the most important factor in determining whether to grant a charter renewal.”

a. Evaluation of Charter School Academic Performance:

Education Code §47605, subdivision (b)(5)(C), requires a petitioner to identify “[p]upil outcomes [including] outcomes that address increases in pupil academic achievement both schoolwide and for all groups of pupils served by the charter school.”

Because of the suspension of API testing, API scores for REALM were only available for 2012 and 2013. REALM showed growth in the following pupil subgroups as follows:

REALM HIGH SCHOOL:

REALM 2013 API Growth by Subgroup: High School

Overall	African American	Latino	Socioeconomically Disadvantaged	English Learner
33	19	40	11	37

(See, Exhibit B; REALM High School Petition, pp. 8-9.)

REALM's 2013 API growth was within the range of that achieved in the comprehensive high schools in the BUSD and the West Contra Costa Unified School District, two primary districts from which it draws its student population.

REALM MIDDLE SCHOOL:

Other than for African American students, REALM middle school did not achieve the API growth attained by BUSD middle schools. (See, Exhibit B.) REALM's performance on the API is more commensurate than that of middle schools in the West Contra Costa Unified School District, the largest district of residence of REALM's middle school students. (See, Exhibit C.)

REALM 2013 API Growth by Subgroup: Middle School

Overall	African American	Latino	Socioeconomically Disadvantaged	English Learner

10	50	-17	-8	-49
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(See, Exhibit C; REALM Middle School Petition, pp. 8-9.)

#### CAASP

When broken down by pupil subgroup, the performance of REALM's Sixth, Seventh, Eighth and Eleventh Grade students on the CAASP test was commensurate with that of their BUSD counterparts, most notably in three areas: English Language Arts – African American students; English Language Arts – English Language Learners and Math – African American students. (See, Exhibit D.)

#### **C. Element Four: Governance Structure, Including Parental Involvement [Ed. Code, § 47605, subd. (b)(5)(D)]**

*Education Code §47605(b)(5)(D) requires the Petition to describe the governance structure of the school, including, but not limited to, the process to be followed by the school to ensure parental involvement. The regulations consider whether the proposed governance structure evidences that the charter school will become and remain a viable enterprise through organizational and technical designs, whether there will be active and effective representation of interested parties, including, but not limited to parents and guardians, and whether the educational program will be successful and parental involvement encouraged in a variety of ways at all levels of the program. (Cal. Code Regs., tit. 5, § 11967.5(f)(4).)*

**Analysis:** REALM Charter Schools operates as a California public benefit corporation with IRS 501c3 status under Education Code section 47604(a). The Petition also enumerates the Board's responsibilities and governance structures, as well as areas of Board training. (Middle School Petition, pp. 42-45; High School Petition, pp. 46-49.)

The District asked REALM to clarify following areas with respect to its governance structure::

- The Petitions state that “[a] set of bylaws, reflecting the governance structure described herein, is being drafted by a committee of elected board members, who will submit the bylaws to the full Board of Directors for consideration and approval (Appendix E). (Middle School Petition, p. 44, High School Petition, p. 48.) The attached bylaws list board members, but the expiration dates for their terms all fall in 2011 through 2013. Please clarify whether the Board has approved the bylaws, and update the list of Board members, along with the end dates for their terms.
- The Petition's description of the means to encourage parental involvement is insufficient. Please provide information regarding specific means (committees, activities, parental advisory groups) that the REALM Charter Schools have, or will, implement to provide parents a meaningful opportunity to participate in the Charter Schools' governance.

*REALM's Response:* The parent participation at REALM starts with two parents who sit on REALM's Board of Directors, one of whom is the Treasurer. REALM Parent Alliance (RPA) - formed by parents, Executive Committee meets with Executive Director twice monthly to review finances, education program, and school climate/culture issues. Per the LCFF, parents were involved in reviewing the budget, completed a survey about the educational program, and they have ongoing meetings with site principals. The RPA also holds two fundraising events each year and two social events each year.

*District Evaluation of REALM Response:* REALM still needs to submit an updated roster of board members, including their terms.

**D. Element Five: Employee Qualifications [Ed. Code, § 47605, subd. (b)(5)(E)]**

*The regulations governing charter school petitions consider whether general qualifications for the various categories of employees (e.g., administrative, instructional, instructional support, non-instructional support) are identified, whether the qualifications ensure the health and safety of the school's faculty, staff, and students, and the academic success of the students; whether positions that the charter school regards as key in each category are identified and specify the additional qualifications expected of individuals assigned to those positions; and whether all requirements for employment set forth in applicable provisions of law will be met, including, but not limited to credentials as necessary. (Cal. Code Regs., tit. 5, § 11967.5(f)(5))*

**Analysis:** The Petitions address employee qualifications of the schools' teachers, Executive Director and Principal on pp. 46-47 (Middle School), and 50-51 (High School).

- The Petitions need to be amended to include the procedures to "ensure the health and safety of the school's faculty, staff and students," including fingerprinting, background checks, and safety policies and procedures.
- The Petitions also need to state how the terms and conditions of employment for each classification of employee are determined.

**E. Element Six: Procedures to Ensure Health and Safety of Students and Staff [Ed. Code, §47605(b)(5)(F)]**

*Education Code §47605(b)(5)(F) requires the Petition to describe the procedures that the school will follow to ensure the health and safety of pupils and staff, including the requirement that each employee of the school furnish the school with a criminal record summary as described in §44237. Among other items, the regulations consider whether health and safety procedures require criminal record summaries from employees, tuberculosis examinations of employees, student immunizations, and vision, hearing and scoliosis screening for students. (Cal. Code Regs., tit. 5, § 11967.5(f)(6).)*

**Analysis:** The Petitions address Health and Safety on pp. 48-49 (Middle School) and 52-54 (High School).

- The Petition needs to address the following: Update to incorporate new laws on mandatory Child Abuse Reporting Training and stocking Epinephrine auto-injectors. (Education Code section 49414, as amended by Senate Bill 1266 in 2015.)

**F. Element Seven: Racial and Ethnic Balance**  
**[Ed. Code, §47605(b)(5)(F)]**

*The Petition must contain a description of the means by which the school will achieve a racial and ethnic balance among its pupils that is reflective of the general population residing within the territorial jurisdiction of the school district. (Cal. Code Regs., tit. 5, § 11967.5(f)(7).)*

Analysis: The Petition addresses this requirement on p. 51 (Middle School) and 55 (High School). (See, pp. 6-7, *infra*.)

**G. Element Eight: Admissions Requirements**  
**[Ed. Code, §47605(b)(5)(F)]**

*The Petition must contain a reasonably comprehensive description of admissions requirements in compliance with the requirements of law. (Cal. Code Regs., tit. 5, § 11967.5(f)(8).)*

Analysis: The Petition addresses this requirement on p. 52 (Middle School) and 56 (High School).

**H. Element Nine: Audit of Financial and Programmatic Operations [Ed. Code, § 47605, subd. (b)(5)(I)]**

*Education Code §47605(b)(5)(I) requires the Petition to describe the manner in which annual, independent financial audits shall be conducted, which shall employ generally accepted accounting principles, and the manner in which audit exceptions and deficiencies shall be resolved to the satisfaction of the chartering authority. The regulations consider whether audits will employ generally accepted accounting principles, and whether the Petition specifies who is responsible for contracting and overseeing the independent audit; whether the auditor will have experience in education finance; whether the process of providing audit reports to the chartering district, or other agency as the district may direct, is addressed, including timelines and procedures for addressing findings and/or resolving any audit exceptions. (Cal. Code Regs., tit. 5, §11967.5(f)(9).)*

Analysis: The Petition addresses this requirement on p. 53 (Middle School) and 57 (High School).



**I. Element Ten: Student Suspension/Expulsion Procedures [Ed. Code, § 47605, subd. (b)(5)(J)]**

*Education Code §47605(b)(5)(J) requires the Petition to describe the procedures by which pupils can be suspended or expelled. The regulations consider numerous factors related to this charter petition element. Procedures must minimally identify a preliminary list of offenses for which students may (or must, where discipline is non-discretionary) be suspended or expelled; identify the procedures by which students can be suspended or expelled; identify the procedures by which parents, guardians, and students will be informed about reasons for suspension or expulsion and of their due process rights in regard to suspension or expulsion; provide evidence that the petitioners reviewed the lists of offenses and discipline procedures and believe their lists provide adequate safety for students, staff, and visitors to the school and serve the best interests of the school's students and their parents/guardians; and provide due process for all students and demonstrate an understanding of the rights of students with disabilities in regard to suspension and expulsion; and outline how detailed policies and procedures will be developed and periodically reviewed and modified, as necessary. (Cal. Code Regs., tit. 5, § 11967.5(f)(10).)*

**Analysis:** The Petition addresses this requirement on p. 54-55 (Middle School) and 58-59 (High School). The Suspension and Expulsion Policy is attached as Exhibit H.

**J. Element Eleven: Manner in Which Staff Will Be Covered by STRS, PERS, or Federal Social Security [Ed. Code, § 47605, subd. (b)(5)(K)]**

*Education Code §47605(b)(5)(K) requires the Petition to describe the manner by which staff members of the charter school will be covered by the State Teachers' Retirement System, the Public Employees' Retirement System, or federal social security. This requires, at a minimum, that the charter specify the positions to be covered under each system and identify the staff who will be responsible for arranging coverage.*

**Analysis:**

The Petition addresses this requirement on p. 56 (Middle School) and 60 (High School).

**K. Element Twelve: Student Attendance Alternatives [Ed. Code, § 47605, subd. (b)(5)(L)]**

*The Petition shall address the public school attendance alternatives for pupils residing within the school district who choose not to attend charter schools. (Cal. Code Regs., tit. 5, § 11967.5(f)(12).)*

**Analysis:** The Petition addresses this requirement on p. 57 (Middle School) and 61 (High School). The Petition specifies that the parent or guardian of each pupil enrolled in the charter school shall be informed that the pupil has no right to admission in a particular school of any local educational agency (LEA) (or program of any LEA) as a

consequence of enrollment in the charter school, except to the extent that such a right is extended by the LEA.

**L. Element Thirteen: Employee Rights**  
**[Ed. Code, § 47605, subd. (b)(5)(M)]**

*The Petition shall contain a description of the rights of any employees of the school district upon leaving the employment of the school district to work in a charter school, and of any rights of return to the school district after employment at a charter school. (Cal. Code Regs., tit. 5, § 11967.5(f)(13).)*

Analysis: The Petition addresses this requirement on p. 58 (Middle School) and 62 (High School). The Renewal Petition provides that no District employee shall be required to work at the charter school, and that former District employees working at the charter school have no automatic rights of return to the District, unless specifically granted by the District. This section meets minimal legal requirements.

**M. Element Fourteen: Dispute Resolution [Ed. Code, § 47605, subd. (b)(5)(N)]**

*The Petition must contain the procedures to be followed by the charter school and the chartering authority to resolve disputes relating to provisions of the charter. (Subd. (b)(5)(N)) The procedures shall, at a minimum:*

- (a) describe how the costs of the dispute resolution process, if needed, would be funded; and*
- (b) recognize that if the substance of a dispute is a matter that could result in the taking of appropriate action, including, but not limited to, revocation of the charter, the matter will be addressed at the chartering district's discretion in accordance with that provision of law and any regulations pertaining thereto. (5 C.C.R. § 11967.5.1(f)(14).)*

Analysis: The Petition addresses this requirement on p. 59-60 (Middle School) and 63-64 (High School). The Renewal Petition contains a dispute resolution procedure involving: 1) framing the issue in a written "dispute statement," 2) an initial meeting between the charter school's Director and the District's Superintendent or designee, 3) and, if necessary, a meeting between two members of the charter school and District Boards, respectively; and, further, if necessary, referral to an independent mediator. It also contains a procedure to address disputes that are internal to the charter school.

**N. Element Fifteen: Exclusive Public School Employer [Ed. Code, § 47605, subd. (b)(5)(O)]**

*The Petition must also contain a “declaration of whether or not the charter school shall be deemed the exclusive public school employer of the employees of the charter school for the purposes of the Rodda Act.” (5 C.C.R. § 11967.5.1(f)(15).)*

**Analysis:**

The Petition addresses this requirement on p. 61 (Middle School) and 65 (High School). The Charter Schools are the exclusive employers of their employees for the purposes of the Rodda Act. The Charter Schools’ certificated employees have organized with the Berkeley Federation of Teachers. The Charter Schools acknowledge that they are obligated to follow the Rodda Act. (Government Code section 3540 *et seq.*)

**O. Element Sixteen: Closure Protocol [Ed. Code, § 47605, subd. (b)(5)(P)]**

*The Petition must include a description of closure procedures, including a plan for disposing of any net assets and for the maintenance and transfer of student records.*

**Analysis:** The Petition addresses this requirement on p. 62-63 (Middle School) and 66-67 (High School).

**IV. LIKELIHOOD OF SUCCESSFULLY IMPLEMENTING THE PROGRAM DESCRIBED IN THE PETITION [EDUCATION CODE §47605 (B)(2)]**

*The regulations require consideration of whether a charter petition has presented a realistic financial and operational plan in determining whether petitioners are likely to be successful in implementing the charter program, including the areas of administrative services, financial administration, insurance and facilities. (Cal. Code Regs., tit. 5, § 11967.5(c))*

All of the findings set forth above are incorporated into this section of the Report. In addition, the Charter Review Team makes the following additional findings.

**A. Financial/Operational Plan**

*The Education Code requires a petition to contain cash flow and financial projections for the first three years of operation. (Education Code §47605(g))*

**Analysis:** Our review of REALM’s financial position for their charter renewal included the multi-year projections and cash flows included in the petition as well previous reviews of the 2014-15 Unaudited actuals and the 2015-16 Adopted Budget since the ending balances and historical trends impact the projections for 2016-17 fiscal year.



## REALM Middle School

### Unaudited Actuals for 2014-15

Based on the review of Unaudited Actuals, the District expressed concerns about the ability of the REALM Middle School to continue as a going concern. REALM Middle is deficit spending and has a negative ending fund balance. REALM Middle closed its books with revenue of \$2.9 Million for unrestricted programs, and expenditures of \$3.6 million. REALM Middle's deficit spending was approximately \$760,000 and negative ending fund balance was \$849,000. The material negative ending funding balance created cash flows problems and needs for high interest receivable sales and there is no reserve for economic uncertainty. REALM Middle did not meet its fiscal obligations for Fiscal Year 2014-15. The comparative of the 2014-15 budget to actuals showed a material variance from projected ending fund balance to actual ending fund balance. The fact that the ending fund budget projection for 2014-15 was significantly more negative than projected is concerning when considering the charter school renewal for 2016-17. At the Second Interim budget, the fund balance was projected to be a negative fund balance of \$36,000. The actual fund balance was a negative \$849,000, for a variance of \$813,000. (See Review of Unaudited Actuals in Appendix E)

### Adopted Budget for 2015-16

Based on the review of the Adopted Budget, the District is still concerned about the ability of REALM Middle School to continue as a going concern. REALM Middle is projecting to reduce its deficit spending from \$761,000 to \$17,000. Since REALM is projected to continue deficit spending, the negative fund balance rolling from 2014-15 will slightly increase from \$849,000 to \$866,000. 2015-16 First Interim adjustments will slightly improve the negative ending fund balance to \$772,000. The First Interim adjustment will change the beginning and ending fund balances in the multi-year projections included in the charter petition and therefore, projections should be revised. The negative ending funding balance will continue to create cash flow issues and not establish reserves for economic uncertainty. Additionally, REALM may not meet its fiscal obligations for Fiscal Year 2015-16. The chart below identifies REALM's planned budget reductions of \$547,851 for 2015-16. REALM Middle needs to make additional ongoing reductions to address negative ending fund balance to ensure that cash flow needs can be met to continue as a school. (See Review of Adopted budget in Appendix F)

### Multi-Year Projections beginning 2016-17

In the 2016-17 projections, REALM Middle projects to improve deficit spending to a surplus of \$301,000 reducing the negative ending fund balance from \$866,000 to \$565,000. Due to 2015-16 First Interim adjustment to beginning fund balance for 2016-17 the negative ending fund balance will reduce to \$470,000. The reduction of deficit spending of \$761,000 in 2014-15 to a surplus of \$301,000 in 2016-17 would require expenditure reductions and increases in revenue of approximately \$1 million over two years. It appears some of the adjustments to reduce the deficit spending included one-time revenues. The REALM Middle budget reductions detailed below only identifies \$673,000 of the \$1 million swing as ongoing reductions and savings. REALM Middle

still projects a negative projected ending fund balance of \$470,000 at the end of 2016-17. The material negative ending funding balance still indicates that the cash flows will continue to be a concern and there are no reserves for economic uncertainty. REALM Middle School needs to make additional ongoing reductions to resolve the negative ending fund balance in 2016-17 and to ensure that cash flow needs are met to be able to continue forward. If the surplus of \$301,000 is valid and control over expenditures is maintained in subsequent years, REALM Middle will have a positive ending fund balance by 2018-19.

#### Middle School Historical Summary

	2014-15	2015-16	2015-16	2016-17	2016-17
	Unaudited	Budget	Draft		Corrected
	Actuals	Adoption	Interim	Petition	Petition
Beginning Fund Balance	(80,025)	(848,740)	(841,552)	(866,445)	(771,735)
Surplus/(Deficit)	(761,526)	(17,705)	69,817	301,307	301,307
Ending Fund Balance	\$ (841,551)	\$ (866,445)	\$ (771,735)	\$ (565,138)	\$ (470,428)

An analytical review was performed of the projected budget reductions and increases in revenue. A list of questions and request for information was provided to REALM for response. (See response letter in appendix G). Based on their response to unaudited actuals and the questions raised regarding the charter renewal petition, REALM identified the following budget reductions and savings to address some of the deficit and the negative fund balance. Even with these planned reductions and savings, the Middle School budget will not be balanced until 2018-19 or 2019-20 and cash flow issues will continue.

#### Middle School Ongoing Reductions

Description	Effective Date	2015-16	2016-17	Total
2 teachers not rehired from 14/15		114,634		
Spanish Teacher .25 FTE	1/1/2016	7,937	60,000	
Music Teacher .25 FTE	1/1/2016	7,284	-	
Instructional Coach	7/1/2016	-	49,615	
Studio H Instructor	7/1/2016	-	69,771	
Afterschool Coordinator	7/1/2016	-	55,000	
Food Cost		32,649	-	
Change in special Ed Services		28,735	-	
Equipment		14,389	-	
Instructional Materials/Textbooks		53,839	-	
Transfer of cost to High School		43,264	-	
Consulting/Operational cost		155,110	-	
Budget projection error for STRS			(19,192)	
Total		\$ 457,841	\$ 215,194	\$ 673,035

## REALM High School

### Unaudited Actuals for 2014-15

Based on review of Unaudited Actuals, the District expressed concerns that REALM High is deficit spending and has a negative ending fund balance. REALM High closed its books with revenue of \$3.08 million and expenditures of \$3.104 million. REALM High is deficit spending by \$16,000 and ended the year with a negative ending fund balance of \$175,000. The negative ending funding indicates that REALM High is deficit spending, cash deficient and has no reserves for economic uncertainty. REALM High School did not meet its fiscal obligations for Fiscal Year 2014-15. At Second Interim, REALM High School projected a negative fund balance of \$181,000. When they closed the books, the ending the fund balance was a negative \$175,000. (See Review of Unaudited Actuals in Appendix E)

### Adopted Budget for 2015-16

Based on the review of REALM High's Adopted Budget, revenue is projected to be \$4.1 million and expenditures are projected to be \$3.4 million. REALM High is projecting a surplus of \$723,000 with a positive fund balance of \$592,000. However, the draft 2015-16 First Interim Budget reduces the projected surplus of \$723,000 down to \$322,000 and the projected ending fund balance from \$592,000 to \$147,000. The chart below identifies REALM High's planned reductions for 2015-16 of \$228,329. REALM High needs to closely monitor the 2015-16 budget to due to the fact ending fund balance is projected to only be \$148,000. (See Review of Adopted budget in Appendix F)

### Multi-Year Projections beginning 2016-17

In the 2016-17 projections, REALM High is projected to have a surplus of \$357,000 increasing the positive ending fund balance from \$592,000 to \$949,000. The draft 2015-16 First Interim Budget reduces the projected ending fund balance for 2016-17 of \$949,000 down to \$505,000 due to change in prior year beginning fund balance. This adjustment will substantially change the beginning and ending fund balances in the multi-year projections included in the charter petition and therefore, projections should be revised. The reduction of deficit spending of \$16,000 in 2014-15 to a surplus of \$357,000 in 2016-17 would require expenditure reductions and increases in revenue of approximately \$374,000 over two years. The REALM High's expenditure reductions detailed below identifies \$299,000 of the \$374,000 increase in the surplus. The 3% reserve for economic uncertainty is not projected to be met until fiscal year 2017-18 or 2018-19 and there is no contingency surplus if all reductions, savings and fundraising do not materialized. Based on the projected ending funding balance at the end of 2015-16, there will still be problems with cash flows and insufficient reserves for economic uncertainty.



#### High School Historical Summary

	2014-15 Unaudited Actuals	2015-16 Budget Adoption	2015-16 Draft Interim	2016-17 Petition	2016-17 Corrected Petition
Beginning Fund Balance	(158,299)	(130,352)	(174,640)	592,256	147,713
Surplus/(Deficit)	(16,340)	722,608	322,353	357,324	357,324
Ending Fund Balance	\$(174,639)	\$ 592,256	\$ 147,713	\$ 949,580	\$ 505,036

An analytical review was performed of the projected budget reductions and increases in revenue. A list of questions and request for information was provided to REALM for response. (See response letter in appendix G). Based on their response to unaudited actuals and the questions raised regarding the charter renewal petition, REALM identified the following budget reductions and savings to address the insufficient reserves.

#### High School Ongoing Reductions

Description	Effective Date	2015-16	2016-17	Total
Principal	11/12/2015	75,914		
Computer Science Teacher	1/1/2016	34,219		
PE Teacher	1/1/2016	46,824		
Health Educator	7/1/2016		71,432	
Change in Special Ed Services		148,375		
Transfers of cost from Middle School		(43,264)		
Total		\$ 228,389	\$ 71,432	\$ 299,822

#### REALM's Middle and High School Liabilities

As of June 30, 2015, the total loans and liabilities for both REALM Middle and High Schools are \$2.1 million and \$1.4 million, respectively, after deducting an intercompany accounts payable. As of November 2015, REALM has fully paid the District for its special education, maintenance and operation cost included in the liabilities at June 30, 2015.

#### Cash Flow Projections

REALM has a significant cash issue and may not be able to meet upcoming payroll and other fiscal obligations. The Alameda County of Education recently notified the District that REALM could not make a timely payment of STRS contribution of \$60,569 for August 2015 due to lack of cash and the inability to get a timely loan. The STRS contribution for September 2015 was made timely. REALM continues to have to sale receivables of their future ADA revenue and property taxes to meet its expenditure obligations. REALM received two cash advances of their in-lieu of property taxes during

the current fiscal year which included an advance for January 2016. The cash issues needs to be addressed immediately.

#### Summary of Renewal Recommendation

The ability of REALM Middle and High School to continue as a going concern is dependent on the success of the actions listed below and additional cuts that need to be made to get REALM's budgets in balance. It is questionable that some of these staff and services can be reduced by the levels included in REALM's response without impacting the academic program and operations. The REALM Middle and High School Renewal should only be approved for renewal with the following conditions:

- REALM will resubmit multi-year projections for both schools to reflect first interim adjustments and other corrections identified during the review by December 18, 2015.
- REALM will make additional reductions in excess of the \$673,000 already identified over two years to fully address the Middle School's deficit spending and \$800,000 negative ending fund balance by the end of fiscal year 2016-17; they must also submit a revised detailed list of reductions by January 31, 2016.
- REALM will provide monthly budget to actual updates and cash flows to the District for each school beginning with December 2015 until negative ending fund balance is resolved and 3% reserve is obtained.
- REALM must respond to specific District concerns and request for information included in the prior fiscal oversight letters by December 18, 2015 and subsequent letters within 5 working days of the date of the letter.
- REALM understands the District will not advance REALM's share of in-lieu property taxes after charter renewal. REALM received two advances of in-lieu property taxes for more than one month in fiscal year 2015-16.

#### **B. District Impact Statement**

*Education Code §47605(g) requires that a charter petition "provide information regarding the proposed operation and potential effects of the school ... upon the school district."*

#### Analysis:

- REALM must provide a District impact statement, as required by Education Code §47605(g).

#### **V. CONCLUSION AND RECOMMENDATION RE RENEWAL**

Ed. Code §47607(a)(3)(A) provides that "[t]he authority that granted the charter shall consider increases in pupil academic achievement for all groups of pupils served by the charter school as the most important factor in determining whether to grant a charter renewal."

Although the Charter School did not fully meet the requirement of Education Code §47605, subdivisions (b)(5)(C), to identify “[p]upil outcomes [including] outcomes that address increases in pupil academic achievement both schoolwide and for all groups of pupils served by the charter school,” the District has nonetheless considered increases in pupil academic achievement for all groups of pupils served by the charter school as the most important factor in determining whether to renew the charter.

The ability of REALM Middle and High School to continue as a going concern is dependent on the success of the actions listed below and additional cuts that need to be made to get REALM’s budgets in balance. It is questionable that some of these staff and services can be reduced by the levels included in REALM’s response without impacting the academic program and operations. The REALM Middle and High School Renewal should only be approved for renewal with the following conditions:

- REALM will resubmit multi-year projections for both schools to reflect first interim adjustments and other corrections identified during the review by December 18, 2015.
- REALM will make additional reductions in excess of the \$673,000 already identified over two years to fully address the Middle School’s deficit spending and \$800,000 negative ending fund balance by the end of fiscal year 2016-17; and they must also submit a revised detailed list of reductions by January 31, 2016.
- REALM will provide monthly budget to actual updates and cash flows to the District for each school beginning with December 2015 until negative ending fund balance is resolved and 3% reserve is obtained.
- REALM must respond to specific District concerns and request for information included in the prior fiscal oversight letters by December 18, 2015 and subsequent letters within 5 working days of the date of the letter.
- REALM understands the District will not advance REALM’s share of in-lieu property taxes after charter renewal. REALM received two advances of in lieu property taxes for more than one month in fiscal year 2015-16.

REALM must certify in writing that all of the above conditions will be met in order for the renewal to be valid.

Respectfully Submitted,

Berkeley Unified School District  
Charter Review Team

# EXHIBIT A

## [SUMMARY OF SITE VISIT]

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**Leadership and Staff Criterion:** Based on student achievement data, to what extent does the school leadership and staff make decisions and initiate activities that focus on all students achieving the school wide learner outcomes and academic standards?

Both campuses, like counterparts in the district and statewide, gave the SBA for the first time and while REALM staff are certainly cognizant of the results, that summative data has limited formative use in the classroom so teachers are using formative assessments and tools to adjust instruction and reteach curriculum based on specific skill deficits or identified units or sections of content.

Both the middle and high school teachers and administrators we spoke to acknowledged the use of formative assessments and, for example, the high school noted the use of formative assessments explicitly connected to their key adopted curriculum; namely, College Preparatory Mathematics, The Big Ideas math curriculum, the Living by Chemistry curriculum, and the Principles of Life biology curriculum. Staff are conscious of the need to continuously refine and develop common assessments across content areas, but both the size of the schools and consequently the sizes of the staff, means that there are limited number of teachers at the respective sites teaching the same subject area at the same grade level. As a result, development and calibration of assessments is happening more in vertical teams along the subject matter's progression as well as in grade level interdisciplinary teams—the latter being an essential part of REALM's project-oriented and project-based approach to learning.

**Standards-Based Curriculum Criterion:** How does the school ensure that all students participate in a rigorous, relevant, and coherent standards-based curriculum that supports the achievement of the academic standards and the school wide learner outcomes?

The curriculum in use at both sites is appropriate and comparable to both district and neighboring schools. Similar to neighboring schools, teachers and administrators are working hard to adapt to the conceptual and instructional shifts associated with the common core; specifically to infuse richer levels of literacy across content areas and to



support the adoption and incorporation of the practices, crosscutting concepts, and disciplinary core ideas associated with the next-generation science standards (NGSS).

**Student Access Criterion:** How does the school ensure that all students have access to the school's entire program and assistance with a personal learning plan to prepare them for the pursuit of their academic, personal, and school-to-career goals?

One of the key structures at REALM, one that serves students both academically and in terms of social and emotional supports, is the advisory program. In terms of academic and school to career goals both the middle school and high school have been in the process of developing and now implementing specific curriculum for the advisory which includes an emphasis on secondary and postsecondary planning, as well as space for discussions of other topics like school culture and addressing individual issues including interpersonal challenges, attendance issues, work habits and time management issues, etc. As in any school, attempting an advisory in a four-year cohort model becomes challenging when there is turnover and when there is varying degrees of experience and capacity across the teaching staff providing the advising; however, despite being a self-professed "work in progress" by administrators and teachers alike, it is clear that the advisory program has made connectivity, personalization, and relationship building a formal priority for staff and the positive and productive relationships this appears to have generated on both campuses is palpable in both classrooms and in informal discussions.

**Graduation Criterion:** How does the school ensure that upon completion of the high school program, students will be able to meet all the requirements of graduation?

Here again at both schools the advisory program plays a huge role in ensuring that student's grades are being kept up and are progressing toward graduation. In addition to advisory, counseling staff is also very in tune with individual student progress and works closely with advisors to support students who are identified as struggling. Of note from student focus groups was a clear sense that teachers updated grades regularly and that those teachers who did not provide regular feedback to students and families were by and large the exception rather than the rule. The parent focus group we met

with also echoed this sentiment and the diverse group of families almost uniformly praised frequent and abundant communication about both school-wide issues and their individual students as it pertains to progress toward graduation and growth and progress in school in general.

Also of note is the fact that like Berkeley High School some years back, there are virtually no courses in the catalog/progression at REALM's high school that do not that do not do not do not meet A-G requirements and therefore completing the high school program's coursework with a C or better most often ensures that a REALM graduate is also A-G eligible.

**Strategies and Resources Criterion:** To what extent does the school ensure that all teachers use a variety of strategies and resources, including technology and experiences beyond the textbook and the classroom, that actively engage students, emphasize higher order thinking skills, and help them succeed at high levels?

Arguably one of the great strengths of both the middle and high school program. From the remarkable work being done in the studio H program which has students consistently engaged in design as well as the fabrication of large-scale products like tiny houses or small residential dwellings, to the digital arts music program with aspirations to develop an independent recording label on the school site, as well as the engaging science demonstrations that we observed, and which are provided on a consistent basis, the project oriented and project-based aspirations of the REALM program are clearly in motion and are indicative of a program that genuinely seeks to move beyond aging and outmoded models of teacher-centered instruction and to infuse the programs in general with a more student-driven, collaborative and contextualized learning experience, and wherein most classes find teachers assuming more of a facilitator role than that of a lecturer.

This willingness to move beyond antiquated modalities also is evidenced in the creative ways in which teachers have set up their classrooms and become more innovative with physical teaching space. In just one example, a particular middle school mathematics



class, a particularly impressive classroom set up saw multiple projectors aimed at six different whiteboards that were spread around the perimeter of the classroom creating six “smaller classrooms” for groups of 4 to 6 students; each module at times was used alternately as a self-paced, self-directed group workspace and also a place where broadcast functionality that the teacher had access to could also reconnect the six smaller stations at any point to the same content or same focus in the larger learning space.

**Data Collection and Analysis** Criterion: To what extent does the school use a professionally acceptable assessment process to collect, disaggregate, analyze and report student performance data to the parents and other shareholders of the community?

Both parent and student focus groups gave strong indications that results of regular formative assessments as well as progress on projects were reported consistently and with appropriate detail when students are not meeting expectations. The notion of universal common assessments is still a work in progress in some areas, yet the most salient and relevant pieces of student progress data, those generated by teachers, are shared consistently with parents and, of comparable importance, shared with student advisors so that there are multiple adults monitoring the progress of all students in single subjects to ensure that at the very least attention is put toward supporting students in problem areas.

REALM staff, teachers, and counselors provided the following examples of data used to track student progress:

**PSAT:** REALM received Level II authorization from College Board in order to administer the PSAT to enrolled students during the school week. REALM coordinated PSAT testing administrations onsite during school hours in order to ensure 100% participation in the PSAT for all 10th and 11th grade students for 13-14 and 14-15 school years.

**College Entrance Exams (SAT/ACT):** 57% of the 2015 graduating class participated in the SAT or ACT. 63% of the graduating class of 2016 have participated in the SAT or ACT exams. 70 fee waivers received and distributed each year to 11th and 12th grades students who qualify for the Free/Reduced Lunch program.

**AP courses/exams:** 2014-15 was REALM's first year offering AP courses and preparation for AP exams. 3 AP courses were offered, AP US History, AP Language and Composition, and AP Literature and Composition, with an average enrollment of 23 students per class. 40% of 11th grade students and 57% of 12th grade students participated in an AP exam in spring 14-15.

**EAP:** In 2013-14, 87% of 11th grade students enrolled participated in the EAP. 2.7% college ready based on EAP.

**CAHSEE:** From 2011 through 2014, REALM provided CAHSEE preparation classes, after school intervention, summer school, and ongoing assessment/test prep in math classes.

**College acceptance:** First graduating class was accepted into 19 private and public 4--year colleges and universities.

**Meeting A--G:** 87% of 12th grade students in 2015 met A-G requirements upon graduation

**UC Course approvals:** 35/40 or 88% courses are approved, remaining 5 courses to be submitted Feb. 1, 2016.

**Assessment of Student Achievement Criterion:** To what extent does the assessment of student achievement in relation to the academic standards and the school wide learner outcomes drive the school's program, its regular evaluation and improvement, and the allocation and usage of resources?

As both a project-oriented and project-based program both campuses are finding ways to make sure that their contextualized approach has the learning goals of the common core standards embedded within that project-based content. With SBA emerging as the largest external measurement of progress on the common core, it may take another assessment cycle or two for staff to determine the degree to which success in their innovative and project-driven curriculum will show transferrable gains in the SBA environment and/or where more aligning between the two modalities is required.

**Parental and Community Involvement Criterion:** To what extent does the school leadership employ a wide range of strategies to encourage parental and community involvement, especially with the teaching/learning process?



A diverse parent focus group gave high marks for the school for what was described as a consistent abundance of communication from school to home and genuine and consistent efforts to encourage parents to be involved in the school and the teaching and learning process with their kids. The Realm Parent Alliance has its own website for the parent community and provides a venue for monthly meetings with the principal of both the middle school and the high school. It appears that the school is perceived as far above average in terms of being supportive to parents and students as several members of the parent focus group who had attended other public schools said they had not experienced a school environment that was more genuinely welcoming to them or their students, nor had made the classroom experience and the curriculum as easily accessible to them via classroom visits as REALM.

Parents praised consistent use of multiple languages used in e-mail phone calls and even text communications with home. Parents were largely pleased with the frequency with which the Powerschool Parent Portal for both middle and high school were updated and also noted that as the school is primarily made up of working-class families the teachers and administrators had made themselves available very early in the morning or well into the evening to accommodate parent work schedules

Both the parent and student focus groups that met with us Express largely positive relationships with staff and we're quick to affirm the notion that both the middle and high school sites had provided welcoming and accessible environments for families. Many parents in the focus group expressed a willingness to have younger siblings attend the middle and high school programs respectively when they were of age.

REALM staff also provided the following information regarding parent participation:

Formal parent participation at REALM starts with two parents who sit on REALM's Board of Directors, one of whom is the Treasurer. REALM Parent Alliance (RPA) - was formed by parents, and the Executive Committee meets with Executive Director twice monthly to review finances, education program, and school climate/culture issues. Per

the LCFF, parents were involved in reviewing the budget, completed a survey about the educational program, and they have ongoing meetings with site principals. The RPA also holds two fundraising events each year and two social events each year.

**Culture Criterion:** To what extent does the school ensure that it is a safe, clean, and orderly place that nurtures learning? To what extent is the culture of the school characterized by trust, professionalism, and high expectations for all students with a focus on continuous school improvement?

Another area where both campuses appear to be excelling. Physical plants at both sites could use some fine-tuning but generally classrooms and facilities were cleaning safe and orderly.

The program at both campuses has seemingly done an exceptional job by creating a culture characterized by trust and professionalism. And diverse group of about 10 students spoke highly of the supportive nature of relationships with teachers and reported an abundance of caring as evidenced by the persistence of teachers to see the students make an effort in class and then being fairly relentless with students who were either resistant, struggling, or oppositional in the demeanor towards learning.

Students also commented on high involvement of staff in matters of student to student conflict and both parents and students noted quick turnaround times with respect to staff getting involved in reports of bullying for conflict etc.

**Student Personal Support Criterion:** To what extent do all students have access to a system of personal support services, activities, and opportunities at the school and within the community?

Again an area where the advisory program on both campuses warrants some celebration. Staff and administrators alike acknowledged the fact that there were still some minor tweaks to be made in terms of the advisory content, but by and large the core function of the advisory, that is to say, building solid relationships between staff and students and maintaining a tighter and clearer focus on the progress of cohorts of

students by assigning them advising adults for four years, appears to be having a positive effect on school climate and student growth.

Being able to loop for four years with the staff advisor provides the most efficient gateway for all students to access support services, be cognizant of activities that they are eligible to participate in on-campus, and to stay abreast of opportunities to provide or receive support from community partners.

## **HIGHLIGHTS AND PERSPECTIVES FROM SITE-VISIT FOCUS GROUPS:**

### **Parent Focus Group**

Parent group met at the middle school but included families from both the middle and high school program. Approximately 15 families represented. Parents presented a very positive general perspective on the school and commended communication on academics and school events.

Parents acknowledged (and student focus group at the high school later concurred) that teacher use of Powerschool was consistent and helpful.

Multiple parents acknowledged flexibility of staff to accommodate early morning or evening parent meets.

Multiple parents reported hands on/project-based curriculum including recording engineering, robotics, and residential design created renewed interest in school for several of their kids who struggled in a traditional academic environment.

Parents individually reported solid supports from staff during times of significant family illness and the impact of marital issues, student to student conflicts, and support for students with disabilities.

### **Staff Focus Group**

Staff discussed several aspects of moving from being a “project-oriented” school to a full “project-based” school and noted the challenges associated with developing the interdisciplinary collaborations that are necessary to more fully realize those goals.



Teachers at both sites received the equivalent of two prep periods per day. This is facilitated by a cascading schedule at the high school and an all-school PE schedule at the middle school, which creates a school-wide prep sixth period

High school teachers also noted the use of critical friends groups during one of the weekly prep periods

Small number of teachers, sometimes only one teacher, teach a specific grade level subject and that pushes collaboration more towards vertical alignment of 9-12 rather than subject specific collaboration.

Like many schools science teacher at the high school identified new challenges implementing next-generation science standards and other content teachers acknowledged some uncertainty in the shift to common core

Staff is interested in continuing to build capacity for students exposed to trauma and expanding some professional development around restorative justice and community building ---this has happened intermittently but in their opinion needs to continue.

Staff feels that building-wide expectations for behavior and norms have become more calibrated in the last 2 to 3 years and that most of the staff share the goal to not send students out of class

Most staff indicated that they feel both sites are safe smaller environments where students are generally accepted

Staff noted that year-to-year identification of student's struggling in specific subjects is handled well by advisory but could be improved in terms of what subject area teachers knew about student performance in their subject in the previous year; administration is working to improve this through spring formative/placement assessments that will give better placement info as well as more useful formative data at the start of the year to teachers

Universal academic interventions are areas that teaching staff would like to see improved but staff is doing the best they can with additional office hours in core subject areas like math and English, as well as through structuring the schedule so that kids who may be struggling in math or geometry for example, get a support section in mathematics with a low teacher/student ratio

Teachers noted that the process for teacher evaluation is becoming more developed but still has a significant way to go, and describe a building culture wherein coaching from



other teachers is having far more of an impact on improving or remediating instructional practice than the formal evaluation process itself

Teachers and students both repeatedly expressed enthusiasm for the current advisory program and for the potential that program has to be even more effective for kids moving forward.

### **Student Focus Group**

The student group we met with uniformly described a family-oriented experience at REALM and many of the kids that come from larger high schools including Skyline, Richmond, or BHS describe the space as far more welcoming and safe than the larger environments they had come from

The group of students we met with said that most of their teachers appear to be very much prepared and a large percentage of their teachers exhibited a caring and interest in their education above and beyond what they had typically come to expect.

A growing student leadership class has been credited for brains doing voice more prominently in the decision-making process at REALM

Many students expressed appreciation, particular students of color, about a curriculum that seemed more culturally responsive and where the experience of minority groups figured prominently in the curriculum rather than as an addition or a supplementation to a more typically Eurocentric curricular experience

Students praised teachers counselors and advisors for being quick to help students out, to support students by directing them to specific services when they were in need whether emotional counseling or an academic concern like assistance with instructional technology, and that staff as a whole is frequently able to intervene in developing conflicts or emerging bullying situations

Students expressed the need to see a broader range of options when it comes to elective courses even though most had positive things to say about the existing electives

Students were also interested in seeing the school expand supports to help students find internship opportunities and or part-time jobs

Students noted that additional technology would be helpful, and while the school had a nice computer lab and a mobile cart, the demands on that hardware seem to yield

inconsistent use of technology in a few of their classrooms; students noted this as a matter of limited equipment rather than a willingness on behalf of students and teachers to employ technology more regularly

Some students said that the smaller school and the “commuter” nature of the school did yield lower levels of traditional school spirit and team spirit in areas like rallies, athletics, dances, or traditional student body events

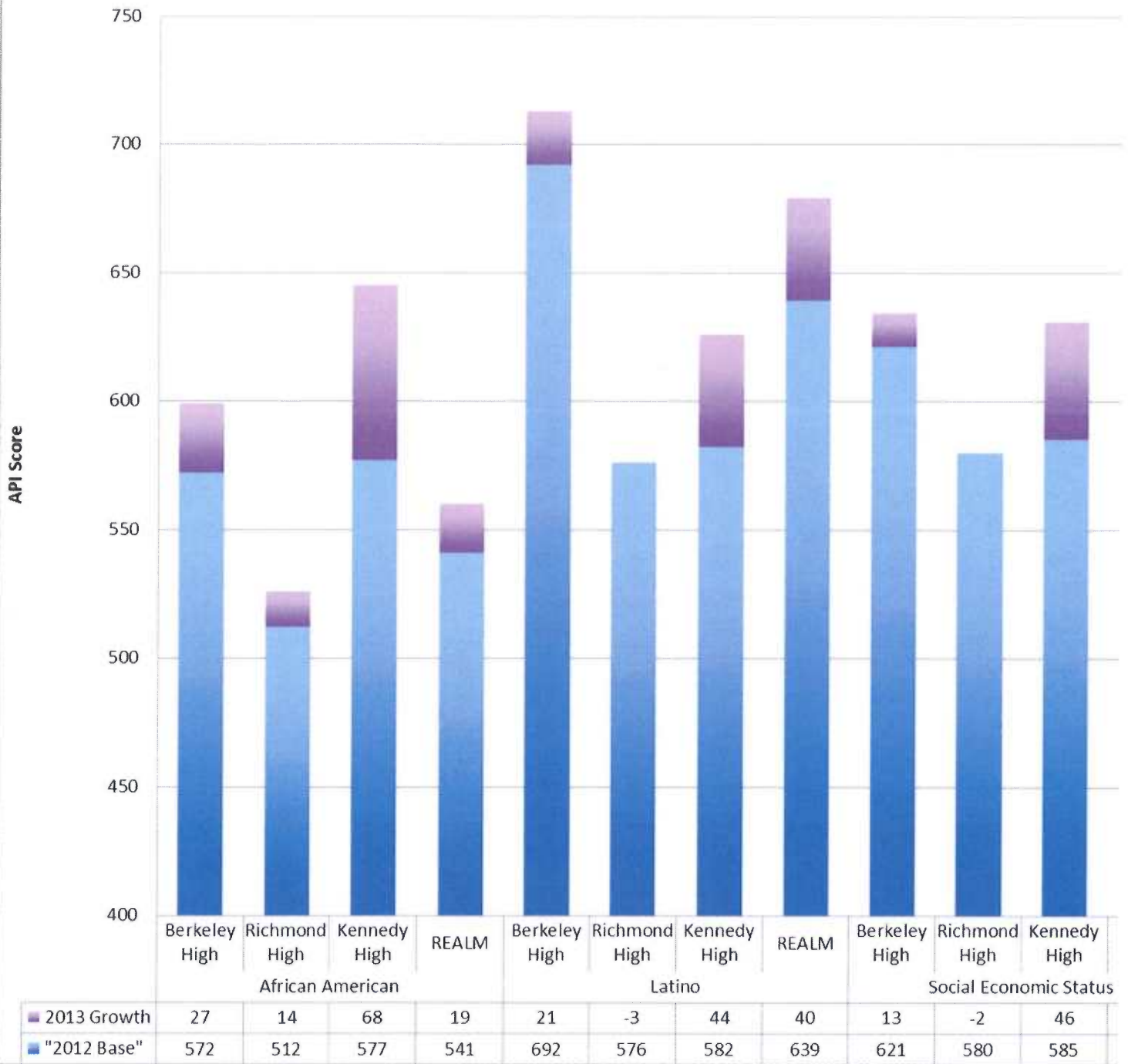
Students believe they are being served well in terms of the college preparation and college application process but ascribed the efficiency of that service to one or two particular employees and questioned the sustainability of whether or not a few people, no matter how well intended, could perform those duties or provide that level of service over time without burning out

Students also made fairly uniform complaints about the quality of food served for lunch

## EXHIBIT B

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## API Subgroup Comparison

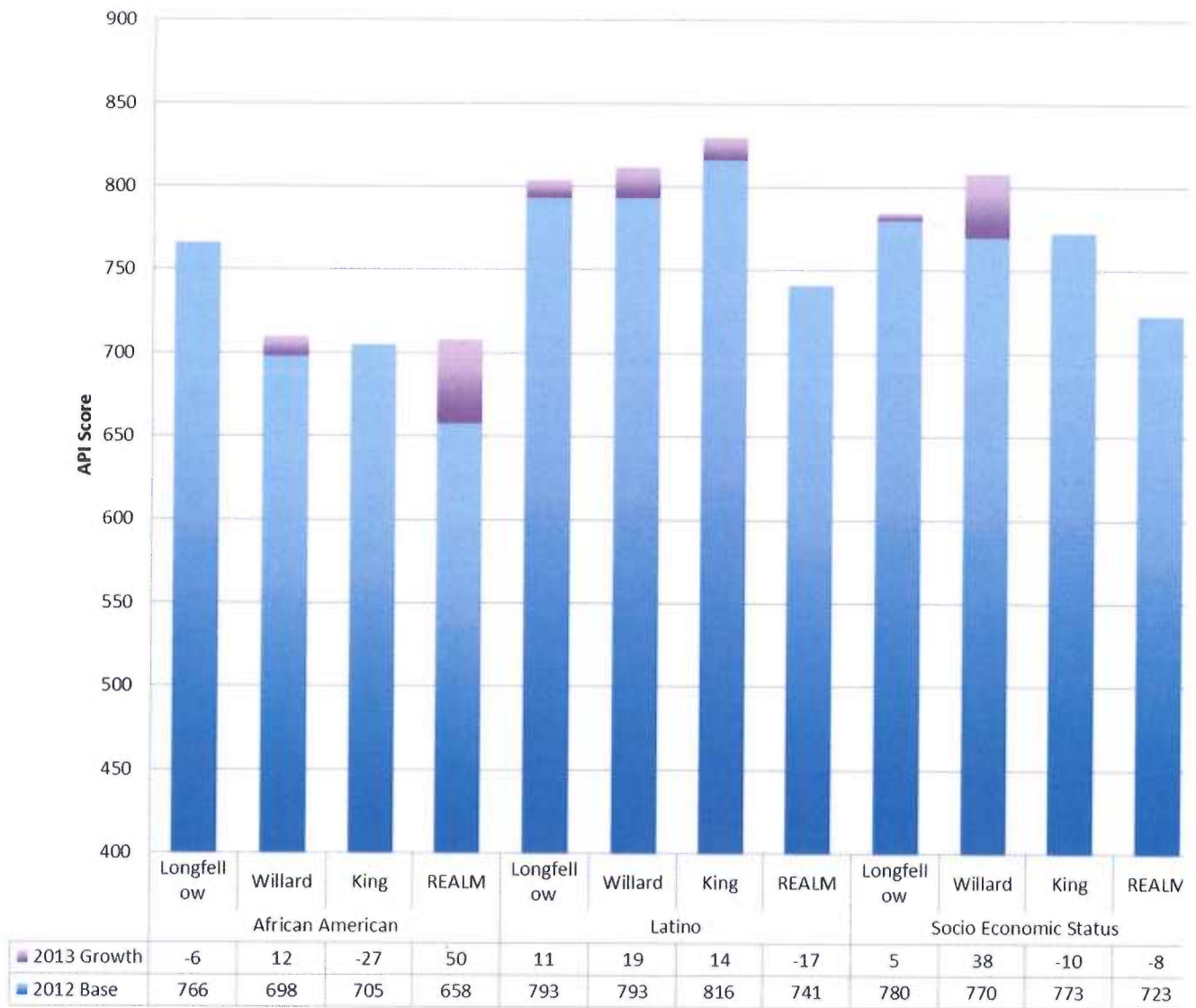




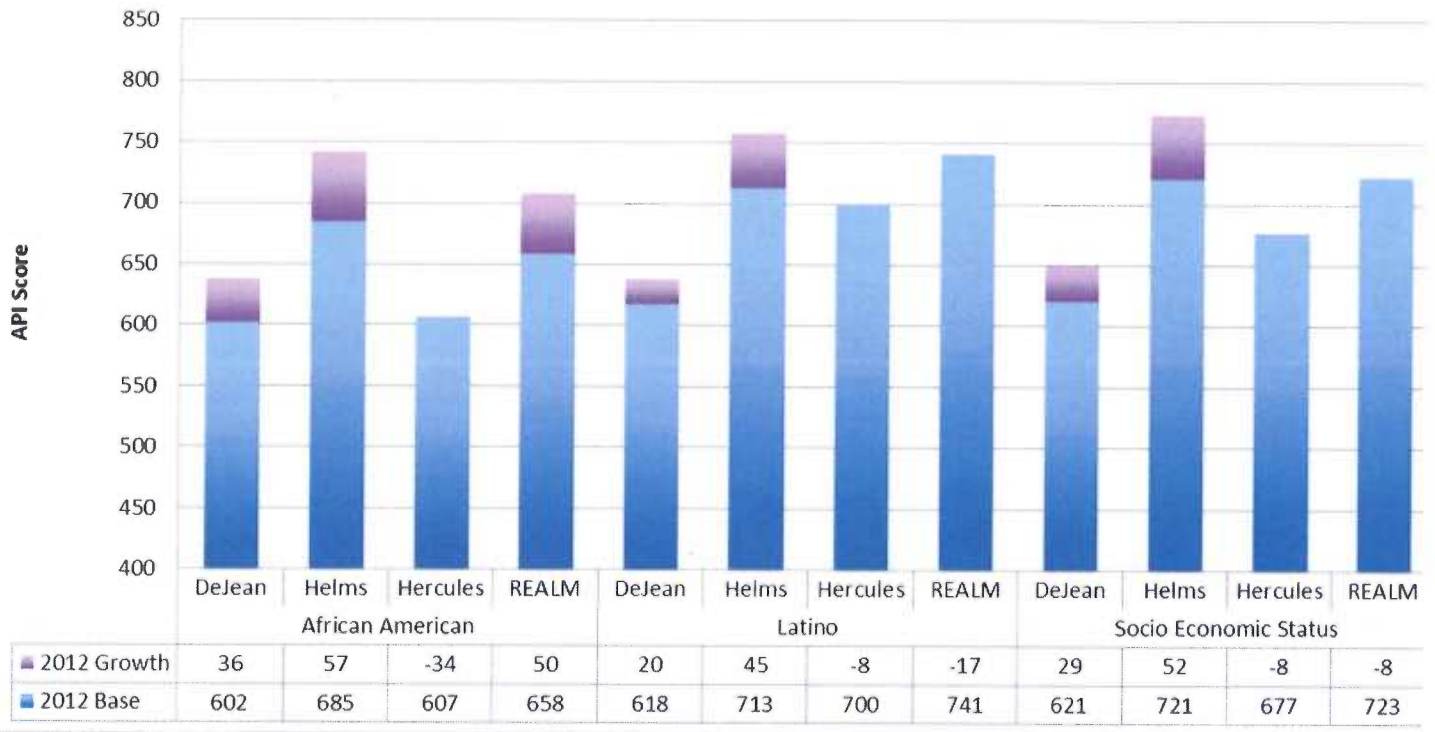
## EXHIBIT C

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# API Subgroup Comparison, Berkeley: REALM Charter Middle Sch



## API Subgroup Comparison, West Contra Costa: REALM Charter Mi



## EXHIBIT D

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Percent of Students Meeting or Exceeding Standard							
	Sixth Grade		Seventh Grade		Eighth Grade		Eleventh
	BUSD	Realm	BUSD	Realm	BUSD	Realm	BUSD
ELA All	60%	28%	51%	23%	57%	41%	61%
ELA Asian	61%	*	57%	*	64%	*	63%
ELA Black/AA	24%	27%	15%	16%	20%	26%	25%
ELA Two or More	71%	45%	62%	*	73%	*	63%
ELA Latino	47%	20%	35%	20%	44%	40%	54%
ELA White	84%	*	81%	37%	80%	45%	83%
ELA EL	8%	5%	5%	5%	7%	23%	5%
ELA SED	41%	25%	27%	14%	33%	36%	32%
	BUSD	Realm	BUSD	Realm	BUSD	Realm	BUSD
Math All	52%	14%	49%	15%	55%	24%	43%
Math Asian	59%	*	57%	*	72%	*	56%
Math Black/AA	13%	0%	9%	25%	21%	20%	11%
Math Two or More	57%	27%	59%	*	62%	*	49%
Math Latino	40%	12%	34%	12%	39%	21%	26%
Math White	76%	*	80%	25%	78%	25%	63%
Math EL	9%	0%	15%	0%	18%	9%	13%
Math SED	30%	12%	23%	10%	34%	36%	22%

\* Less than 10 Students, not reportable due to Statistical Insignificance and for Student Privacy



Berkeley Unified School District

Berkeley Research, Evaluation and Assessment

Number Tested							
	Sixth Grade		Seventh Grade		Eighth Grade		EL
	BUSD	Realm	BUSD	Realm	BUSD	Realm	BU
ELA All	696 (96.5%)	104 (96.3%)	643 (93.3%)	96 (97.0%)	612 (95.8%)	107 (97.3%)	7: (84.
ELA Asian	60	6	39	1	53	4	7
ELA Black/AA	124	15	147	12	137	15	13
ELA Two or More	81	11	75	6	69	6	7
ELA Latino	168	59	148	59	123	71	16
ELA White	250	9	228	16	221	11	26
ELA EL	66	22	43	22	27	31	5
ELA SED	309	75	294	70	264	85	27
	BUSD	Realm	BUSD	Realm	BUSD	Realm	BU
Math All	701 (97.2%)	104 (96.3%)	653 (94.8%)	96 (97.0%)	615 (96.2%)	108 (98.2%)	7: (83.
Math Asian	62	6	39	1	54	4	6
Math Black/AA	124	15	146	12	136	15	13
Math Two or More	81	11	75	6	71	6	7
Math Latino	170	59	151	59	124	71	16
Math White	251	9	236	16	221	11	25
Math EL	70	22	47	22	28	31	4
Math SED	313	75	296	70	264	85	27

## EXHIBIT E

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Staff Report Regarding Renewal Petition of  
REALM Charter Middle School and REALM Charter High School  
Page 47 of 48



Berkeley Unified School District

2020 Bonar Street, Berkeley, CA 94702  
(510) 644-8593 Fax: (510) 644-8885  
www.berkeleyschools.net  
javettacleveland@berkeley.net

Javetta Cleveland, Deputy Superintendent

November 13, 2015

Mr. Victor Diaz  
REALM Charter Middle School  
2023 8th St.  
Berkeley, CA 94710

RE: Fiscal Evaluation of REALM Charter Middle School – Unaudited Actuals FY 2014-15

Dear Mr. Diaz,

In accordance with Education Code Section 47604.33, we have reviewed the Unaudited Actuals for FY 2014-15 for **REALM Middle School**:

Our oversight responsibility includes monitoring the fiscal condition of the charter school through review of State required financial reports that include REALM's adopted budget, interim budget reports and the unaudited and audited financial statements.

**Negative Ending Fund Balance/Deficit Spending**

A review of the Unaudited Actuals indicates that REALM Middle School will close the books with revenue of \$2,686,856 for unrestricted programs, and expenditures of \$3,445,454. REALM Middle School is deficit spending by \$758,598 and ends the year with **a negative fund balance of \$929,654 for unrestricted programs.** The substantive negative ending funding indicates that the District is deficit spending, is cash deficient and has no reserves for economic uncertainty. REALM Middle School did not meet its fiscal obligations for Fiscal Year 2014-15. REALM Middle School has fully grown to its projected capacity of 300 students and the budget is still not balanced after providing responses to our prior year concerns that the financial situation will improve.

**Budget to Actual Revenues and Expenditure**

At Second Interim, REALM Middle School Unrestricted Fund Balance projected a negative fund balance of \$233,048. When they closed the books, the actual fund balance was a negative \$929,654, for a variance of \$696,606. The variance report provided by REALM Middle School does not have a fund balance, but shows an increase in fund balance for Estimated Actuals of \$347,598, compared to a decrease in fund balance of \$64,921 at Second Interim. Therefore, there is an unexplained increase in the budget of \$412,519, since Second Interim.

When comparing actuals to the revised budget, total revenue is \$383,724 less than budgeted amount due mainly to LCFF State Aid and prior year adjustments, which were \$331,725 less than budgeted.

In addition, salaries and benefits were \$450,486 over estimated actuals due mainly to Teacher, Certificated Supervisor and Administrator, and Instructional Aides salaries exceeding budgeted amounts by \$330,286, and other salary categories and benefits being over budget by \$120,200.

This is very unsettling since REALM Middle School had a goal to cut costs during FY 2014-15, as part of Management's Plan to ensure net assets would be positive at the end of FY 2014-15, as discussed in the prior year audit section in this document.



### **LCFF**

LCFF funding snapshot from the CDE for FY 2014-15 indicate that the total funding is \$2,061,602. Per the unaudited actuals, you indicate that funding is \$2,200,278, which is overstating funding y \$138,676. Please provide an explanation for the difference.

### **Balance Sheet**

The Balance Sheet indicates that there is a receivable from grantor governments of \$250,155 for Unrestricted General Fund and \$88,102 for Restricted General Fund for a total of \$338,257, which agrees to the Accounts Receivable listing provided by REALM Middle School. For the accounts receivable listing please provide received checks and other applicable support received after year end. If no payment has been received after year end, provide support indicating that such amount is confirmed and the estimated date of receipt.

Liabilities on the Balance Sheet total \$2,233,104, for Accounts Payable in the amount of \$193,934, Current Loans in the amount of \$940,609, and Long Term Liabilities in the amount of \$1,098,561. Our records indicate that at June 30, 2015, REALM Middle School owes the District \$108,762 for Special Education Share of Excess Costs, and \$11,287 for overpayment of in-lieu of property taxes, for a total of \$120,049 due to the District at June 30, 2015. The detail of accounts payable and other liabilities that were provided by REALM Middle School totals \$109,502, and includes \$108,762 due to the District for special education's share of excess costs. However, the \$11,287 owing the District for overpayment of Property Tax is not included in the ending balance. The total amount due to the District will be collected from REALM's share of their 2015-16 in-lieu of property taxes.

Total loans and liabilities for both REALM Middle and High Schools per the trail balance provided, total \$4,879,225, and \$3,201,284 after deducting an intercompany accounts payable. This does not agree to liabilities for both schools, which total \$3,579,276, so I cannot conclude that liabilities are properly disclosed on the balance sheets.

### **Prior Year Audit Report**

The prior year audited Statement of Activities for FY 2013-14 indicate negative ending net assets for the Realm Middle School in the amount of \$168,127. Note 9 to the audit indicate Management's plan to ensure net assets are positive by the end of next fiscal year. Management steps include increased enrollment, appealing to the Treasury Department for review of funding, closely monitoring costs, and implementing procedures to improve certification and reporting requirements.

As indicated in the auditor's report, the ability of REALM Middle School to continue as a going concern is dependent on the success of these actions. As noted in the expenditure section, expenditures for FY 2014-15 are less than prior year projections. However, it is questionable that services and salaries can be reduced by these levels, without impacting operations. An explanation of these reductions have been previously requested.

### **Insufficient Minimum Reserves/Multi-Year Projections**

The Unaudited Actuals report indicates that REALM Middle Charter School will not meet the recommended minimum reserve of 3%. This demonstrates that REALM middle will not be unable to sustain any unforeseen expenditures and may not be able to meet its current and future financial obligations.

### **Enrollment and ADA**

The State no longer requires ADA for charter schools to be reported on an in-district vs out-of-district basis for apportionment purposes; therefore, this information is not currently in REALM's Student Information System. Enrollment for REALM Middle School as of June 30, 2015 was not provided, so we are unable to determine reasonableness. ADA used in the LCFF calculation for grade span is 299.26, which is consistent with P-2 attendance report.

### **Overall**

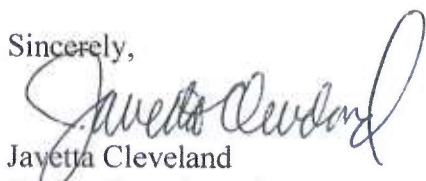
Based on our review of the Unaudited Actuals for FY 2014-15 and prior year reports, we have noted deterioration in financial condition and continue to have very serious concerns about the fiscal health of REALM Middle School and its ability to meet financial obligations and continue as a going concern.

If the District receives information by November 5, 2015, we will amend the letter accordingly. Please submit documents to Pauline Follansbee, Director of Fiscal Services, who may be reached at [paulinefollansbee@berkeley.net](mailto:paulinefollansbee@berkeley.net) or (510) 644-8915 if you have any questions.

### **REALM Response to Review of Adopted Budget**

REALM's response to the District's review of the FY 2015-16 Adopted Budget is attached.

Sincerely,



Javetta Cleveland  
Deputy Superintendent

Cc: Donald Evans, E.d.D, BUSD Superintendent,

BUSD Board of Directors

Beatriz Leyva-Cutler, Karen Hemphill, Judy Appel, Ty Alper, Josh Daniels

Board of Directors, REALM Middle School

Jabari Mahiri, Tracey Schear, Thea Oliphant, Rebecca Prager

Alameda County Office of Education

Roland Tom



November 2, 2015

Javetta Cleveland  
Deputy Superintendent  
Business and Operations  
Berkeley Unified School District  
2020 Bonar Street  
Berkeley CA 94702  
(510) 644-8593

Dear Javetta Cleveland:

Thank you for allowing us to respond to the issues raised in the district's fiscal evaluation of REALM Charter School's Second Interim report. REALM is committed to delivering a high quality educational program and we take our fiscal stability seriously and understand that this is a vital component to that end. I have prepared our response below.

#### **Staffing cuts**

Effective immediately, we will make cuts in staffing totaling \$218,132.00. We will make additional cuts in staffing on or before January 1, 2016 of \$27, 907. These cuts will not increase our student to teacher ratio and they will not impact our students' ability to graduate on time or impact their college eligibility. **Total savings from personnel, \$246,039.00.**

#### **Spending cuts**

We will hold spending and eliminate spending from our 4000's and 5000's totaling \$29,000 from our operating budget. These cuts will not impact classroom materials or students' access to textbooks or curricula. The majority of these cuts will come from a reduction in contracted services. **Total savings from spending cuts, \$29,000.00.**

#### **Fundraising**

Our current 2015-2016 budget calls for a fundraising goal is \$25,000. To date, we have already raised \$80,000. This is a net gain of \$55,000. Moreover, in conjunction with our REALM Parent Alliance (RPA) we have a fundraising goal of an additional \$10,000 for this fiscal year. They have two more events planned, one in December and one in March. They have raised \$12,000-\$15,000 each year. **Total revenue gain from fundraising, \$65,000.00.**

#### **Recruitment**

Our current enrollment is up slightly from last year. We will continue to advertise in The Berkeley Times and other local media channels in order to maintain appropriate levels of enrollment and ADA from Berkeley residence. One major issue of attrition is the loss of families due to their daily commute from cities as far north as Pittsburg and Vallejo.

#### **Summary**

Please note that the attached budget (see attachment) includes our **actual** enrollment and ADA in Powerschool as of **October 23, 2015**. Moreover, our total savings from our adopted budget, June 1, 2015, is **\$340,039.00**.



These savings and revenue generation has our new ending surplus **positive** for both schools: Middle, \$116, 146.00 and the High, \$344, 919.00 for a total positive balance of **\$461, 065.00**.

**We understand that these changes do not completely wipe away our carryover, negative ending balance but it does reduce it by 46% in one year.**

We look forward to reviewing these data with you at your earliest convenience. Please let me know if you have questions or need additional backup.

Sincerely,

A handwritten signature in black ink, appearing to read 'Victor'.

Victor Diaz  
Executive Director





Berkeley Unified School District

2020 Bonar Street, Berkeley, CA 94702

(510) 644-8593 Fax: (510) 644-8885

www.berkeleyschools.net

javettacleveland@berkeley.net

Javetta Cleveland, Deputy Superintendent

November 13, 2015

Mr. Victor Diaz  
REALM Charter High School  
2023 8th St.  
Berkeley, CA 94710

RE: Fiscal Evaluation of REALM Charter High School – Unaudited Actuals FY 2014-15

Dear Mr. Diaz,

In accordance with Education Code Section 47604.33, we have reviewed the Unaudited Actuals for FY 2014-15 for **REALM High School:**

Our oversight responsibility includes monitoring the fiscal condition of the charter school through review of State required financial reports that include REALM's adopted budget, interim budget reports and the unaudited and audited financial statements.

**Negative Ending Fund Balance/Deficit Spending**

A review of the Unaudited Actuals indicates that REALM High School will close the books with revenue of \$2,891,678 for unrestricted programs, and expenditures of \$3,445,454. REALM High School has a surplus of \$190,342, but has contributed \$206,683 to Restricted General Fund to cover a negative balance of \$206,683. As a result, REALM High School Unrestricted General Fund ends the year with **a negative fund balance of \$246,782 for unrestricted programs.** The substantive negative ending funding indicates that the District is deficit spending, is cash deficient and has no reserves for economic uncertainty. REALM High School did not meet its fiscal obligations for Fiscal Year 2014-15.

**Budget to Actual Revenues and Expenditure**

At Second Interim, REALM High School Unrestricted Fund Balance projected a deficit of \$182,308 and a negative fund balance of \$412,748. When they closed the books, they were deficit spending by \$16,341 and the fund balance was negative \$246,782, for a positive variance of \$163,966. The variance report provided by REALM High School does not have a fund balance, but shows an decrease in fund balance for Estimated Actuals of \$22,257, compared to a decrease in fund balance of \$182,308 at Second Interim. Therefore, there is an unexplained increase in the budget of \$160,051, since Second Interim.

When comparing actuals to the revised budget, total revenue is \$235,860 less than the budgeted amount due mostly to LCFF State Aid and other state revenue being less than budgeted. In addition, salaries and benefits were \$334,747 over estimated actuals due mostly to teacher salaries exceeding budgeted amount by \$405,105, which was partially offset by unspent amounts in other salary and benefit line items.

This is very unsettling since REALM High School had a goal to cut costs during FY 2014-15, as part of Management's Plan to ensure net assets would be positive at the end of FY 2014-15, as discussed in the prior year audit section in this document.

### **LCFF**

LCFF funding snapshot from the CDE for FY 2014-15 indicate that the total funding is \$2,733,028. Per the unaudited actuals, you indicate that funding is \$2,768,623, which is overstating funding by \$35,595. Please provide an explanation for the difference.

### **Balance Sheet**

The Balance Sheet indicates that there is a receivable from grantor governments of \$188,347 for Unrestricted General Fund and \$72,142 for Restricted General Fund for a total of \$260,489. Supporting documentation agree this amount, and show that the largest amount is due for 4<sup>th</sup> quarter EPA apportionment in the amount of \$200,165. For the accounts receivable listing please provide received checks and other applicable support received after year end. If no payment has been received after year end, provide whatever support indicates that such amount is owed and estimated date of receipt of item.

Liabilities on the Balance Sheet total \$1,346,171, for Accounts Payable in the amount of \$39,861, Due to Grantor Governments in the amount of \$363,111, Current Loans in the amount of \$880,698, and Long Term Liabilities in the amount of \$62,500. Our records indicate that at June 30, 2015, REALM High School owes the District \$127,791 for their share of special education excess costs, \$103,718 for Maintenance Cost and \$195,587 for overpayment in-lieu of property taxes, for a total of \$427,096 due to the District at June 30, 2015. The detail of accounts payable and other liabilities totals \$363,112, and include balances owing for special Education and Maintenance costs. The amount due for overpayment of in-lieu of property taxes was not included and we cannot verify that Debt is presented fairly. The total amount due to the District will be collected from REALM's share of their 2015-16 In Lieu Property Taxes.

Total loans and liabilities for both REALM Middle and High Schools per the trail balance provided, total \$4,879,225, and \$3,201,284 after deducting an intercompany accounts payable. This does not agree to Liabilities for both schools, which total \$3,579,276, so I cannot conclude that liabilities are properly disclosed on the balance sheets

### **Prior Year Audit Report**

The prior year audited Statement of Activities for FY 2013-14 indicate negative ending net assets for the Realm High School in the amount of \$168,127. Note 9 to the audit indicate Management's plan to ensure net assets are positive by the end of next fiscal year. Management steps include increased enrollment, appealing to the Treasury Department for review of funding, closely monitoring costs, and implementing procedures to improve certification and reporting requirements.

As indicated in the auditor's report, the ability of REALM High School to continue as a going concern is dependent on the success of these actions. As noted in the expenditure section, expenditures for FY 2014-15 are less than prior year projections. However, it is questionable that services and salaries can be reduced by these levels, without impacting operations. An explanation of these reductions has been previously requested.

### **Insufficient Minimum Reserves/Multi-Year Projections**

The Unaudited Actuals report indicates that REALM High Charter School will not meet the recommended minimum reserve of 3%]. This demonstrates that REALM High will not be unable to sustain any unforeseen expenditures and may not be able to meet its current and future financial obligations.

**Enrollment and ADA**

The State no longer requires ADA for charter schools to be reported on an in-district vs out-of-district basis for apportionment purposes; therefore, this information is not currently in REALM's Student Information System. . Enrollment for REALM High School as of June 30, 2015 was not provided, so we are unable to determine reasonableness. ADA used in the LCFF calculation for grade span is 337.12, which is consistent with P-2 attendance report.

**Overall**

Based on our review of the Unaudited Actuals for FY 2014-15 and prior year reports, we have noted a deterioration in financial condition and continue to have very serious concerns about the fiscal health of REALM High School and its ability to meet financial obligations and continue as a going concern.

If the District receives information by November 20, 2015, we will amend the letter accordingly. Please submit documents to Pauline Follansbee, Director of Fiscal Services, who may be reached at [paulinefollansbee@berkeley.net](mailto:paulinefollansbee@berkeley.net) or (510) 644-8915 if you have any questions.

**REALM Response to Review of Adopted Budget**

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Sincerely,



Jayetta Cleveland  
Deputy Superintendent

Cc: Donald Evans, E.d.D, BUSD Superintendent,

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Beatriz Leyva-Cutler, Karen Hemphill, Judy Appel, Ty Alper, Josh Daniels

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November 2, 2015

Javetta Cleveland  
Deputy Superintendent  
Business and Operations  
Berkeley Unified School District  
2020 Bonar Street  
Berkeley CA 94702  
(510) 644-8593

Dear Javetta Cleveland:

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Our current enrollment is up slightly from last year. We will continue to advertise in The Berkeley Times and other local media channels in order to maintain appropriate levels of enrollment and ADA from Berkeley residence. One major issue of attrition is the loss of families due to their daily commute from cities as far north as Pittsburg and Vallejo.

#### **Summary**

Please note that the attached budget (see attachment) includes our **actual** enrollment and ADA in Powerschool as of **October 23, 2015**. Moreover, our total savings from our adopted budget, June 1, 2015, is **\$340,039.00.**





These savings and revenue generation has our new ending surplus **positive** for both schools: Middle, \$116, 146.00 and the High, \$344, 919.00 for a total positive balance of **\$461, 065.00**.

**We understand that these changes do not completely wipe away our carryover, negative ending balance but it does reduce it by 46% in one year.**

We look forward to reviewing these data with you at your earliest convenience. Please let me know if you have questions or need additional backup.

Sincerely,

A handwritten signature in black ink. The signature is stylized, starting with a large 'V' followed by a series of loops and a final flourish that extends to the right.

Victor Diaz  
Executive Director

## EXHIBIT F

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Berkeley Unified School District

2020 Bonar Street, Berkeley, CA 94702  
(510) 644-8593 Fax: (510) 644-8885  
www.berkeleyschools.net  
javettacleveland@berkeley.net

Javetta Cleveland, Deputy Superintendent

October 5, 2015

Mr. Victor Diaz  
REALM Charter Middle School  
2023 8th St.  
Berkeley, CA 94710

RE: Fiscal Evaluation of REALM Charter Middle School – Adopted Budget FY 2015-16

Dear Mr. Diaz,

In accordance with Education Code Section 47604.33, we have reviewed the Adopted Budget for FY 2015-16 for **REALM Middle School**:

Our oversight responsibility includes monitoring the fiscal condition of the charter school through review of State required financial reports that include REALM's adopted budget, interim budget reports and the unaudited and audited financial statements.

**Negative Ending Fund Balance/Deficit Spending**

A review of the Adopted Budget indicates that revenue is projected to be \$2,780,603 for unrestricted programs, and expenditures are projected to be \$2,797,725. REALM Middle School is projected to deficit spend by \$17,122 and end the year with **a negative fund balance of \$866,445 for unrestricted programs**. As of June 30, 2014, the unrestricted ending fund balance was a negative \$168,127 and increased to a negative \$929,654 by June 30, 2015. The unrestricted ending fund balance is projected to only improve slightly to a negative \$866,445 by June 30, 2016. The substantive negative ending funding indicates that the District is deficit spending, is cash deficient and has no reserves for economic uncertainty. REALM Middle School may not be able to meet its fiscal obligations for Fiscal Year 2015-16. REALM Middle School has fully grown to its projected capacity of 300 students and the budget is still not balanced after providing responses to our prior year concerns that the financial situation will improve.

It is also significant that the multi-year projections indicate negative fund balances for both FY 2016-17 and FY 2017-18, which raises substantial doubt of REALM Middle School's ability to continue as a financially viable school. Based on the multi-year projection, REALM Middle School will not be able to meet its financial obligations for the current year and subsequent two fiscal years.

**Revenues and Expenditure**

REALM is showing a decrease in special education cost due to change from the services being provided by the District to the El Dorado County Office of Education. Projected expenditures for books and supplies appear low when compared to expenditures projected in the prior year. Expenditures for approved textbooks and core curricula materials are projected at less than half of prior year expenditures. There are also planned reductions in certificated salaries for \$232,596. These are significant reductions, which impact the school's ability to provide services and salaries. Please provide

an explanation of how these reductions salaries, textbooks and core curricula materials will be implemented.

### **LCFF**

The LCFF calculation provided with the Adopted budget is a spreadsheet provided by your fiscal management company, Charter School's Management Company (CSMC), which shows calculations of LCFF revenue for both schools using a rate for only grades 9-12 and did not include all grade levels. The base funding rate for FY 2015-16 used in the calculation of \$8,419 does not agree to School Services assumption of \$8,578 for grades 9-12. In addition, gap funding used in CSMC's calculation for years FY 2015-16, FY 2016-17 and FY 2017-18 (36%, 48% and 60%) does not agree to School Services assumption of 53.08%, 12.62% and 18.24%). What budget assumptions were used to support these GAP funding percentages? The total LCFF revenue for FY 2015-16 is not easily determined in the calculation. The amount per the Adopted Budget is \$2,179,142 for the Middle School and \$1,374,195 for the High School. We did not receive a separate LCFF calculation for each school. Please provide us with an LCFF calculation for each school that includes the assumptions used.

### **Cash Flows**

The District received two cash flow projections at Budget Adoption projecting an ending balance of \$466,329 and an ending balance of \$201,389 as of June 30, 2016. Please identify the correct cash flow statement and explain how it is possible to have a positive cash balance in light of the negative ending fund balances. The Alameda County of Education recently notified the District that REALM could not make a timely payment of STRS contribution of \$60,569 for August 2015 due to lack of cash and the inability to get a timely loan. The STRS contribution for September 2015 was made timely. REALM continues to have to sale receivables of their future ADA revenue and property taxes to meet its expenditure obligations. There is a concern that REALM has a significant cash issue and may not be able to meet upcoming payroll and other fiscal obligations. The cash issues needs to be addressed immediately. There is also a recurring expenditure of \$15,000 per month that needs explanation. Please provide a separate cash flow for each school and a response to the cash flow concerns.

### **Prior Year Audit Report**

The prior year audited Statement of Activities for FY 2013-14 indicate negative ending net assets for the Realm Middle School in the amount of \$168,127. Note 9 to the audit indicate Management's plan to ensure net assets are positive by the end of next fiscal year. Management steps include increased enrollment, appealing to the Treasury Department for review of funding, closely monitoring costs, and implementing procedures to improve certification and reporting requirements.

As indicated in the auditor's report, the ability of REALM Middle School to continue as a going concern is dependent on the success of these actions. As noted in the expenditure section, expenditures for FY 2015-16 are less than prior year projections. However, it is questionable that services and salaries can be reduced by these levels, without impacting operations. An explanation of these reductions have been previously requested.

### **Insufficient Minimum Reserves/Multi-Year Projections**

The Adopted Budget report indicates that REALM Middle Charter School will not meet the recommended minimum reserve of 3%. This demonstrates that REALM middle has a budget deficit, will not be unable to sustain any unforeseen expenditures and may not be able to meet its current and future financial obligations. Realm Middle School is also projecting a negative ending fund balance of \$850,851 for FY 2016-17 and \$795,358 for FY 2017-18 for unrestricted and restricted combined which does not include the minimum 3% reserve.



### **Enrollment and ADA**

The State no longer requires ADA for charter schools to be reported on an in-district vs out-of-district basis for apportionment purposes; therefore, this information is not currently in REALM's Student Information System. Enrollment for REALM Middle School is projected at 307 and ADA is projected at 299.2. Prior year P2 certification is 299.26, so assumption is reasonable.

### **Overall**

Based on our review of the Adopted Budget for FY 2015-16 and prior year reports, we have noted a deterioration in financial condition and continue to have very serious concerns about the fiscal health of REALM Middle School and its ability to meet financial obligations and continue as a going concern.

Please provide specific information requested by October 16, 2015 to Pauline Follansbee, Director of Fiscal Services, who may be reached at [paulinefollansbee@berkeley.net](mailto:paulinefollansbee@berkeley.net) or (510) 644-8915 if you have any questions.

Sincerely,



Javetta Cleveland  
Deputy Superintendent

Cc: Donald Evans, E.d.D, BUSD Superintendent,

BUSD Board of Directors

Beatriz Leyva-Cutler, Karen Hemphill, Judy Appel, Ty Alper, Josh Daniels

Board of Directors, REALM Middle School

Jabari Mahiri, Tracey Schear, Thea Oliphant, Rebecca Prager

Alameda County Office of Education

Roland Tom



Berkeley Unified School District

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javettacleveland@berkeley.net

Javetta Cleveland, Deputy Superintendent

October 5, 2015

Mr. Victor Diaz  
REALM Charter High School  
1222 University Ave,  
Berkeley, CA 94702

RE: Fiscal Evaluation of REALM Charter High School – Adopted Budget 2015-16

Dear Mr. Diaz,

In accordance with Education Code Section 47604.33, we have reviewed the Adopted Budget for **REALM High School:**

Our oversight responsibility includes monitoring the fiscal condition of the charter school through review of State required financial reports that include REALM High School's adopted budget, interim budget reports and the unaudited and audited financial statements.

#### **Deficit Spending**

A review of the Adopted Budget indicates that revenue is projected to be \$3,666,562 for unrestricted programs, and expenditures are projected to be \$2,943,750. REALM High School is projecting a surplus of \$722,608 and end the year with **a positive fund balance of \$592,255 for unrestricted programs**. The audited financial statements for FY 2013-14 had a negative ending fund balance of \$158,298 and the unaudited actuals for FY 2014-15 had an ending fund balance of \$174,640.

The multi-year projections indicate positive fund balances in the amount of \$1,107,232 and \$1,657,737 for FY 2016-17 and FY 2017-18, respectively.

#### **Revenues and Expenditure**

REALM is showing a decrease in special education cost due to change from the services being provided by the District to the El Dorado County Office of Education. Projected expenditures for textbooks, materials and supplies appear low when compared to expenditures projected in the prior year. Expenditures for approved textbooks and core curricula materials are projected at less than half of prior year expenditures. There is also a significant increase in certificated salaries of \$330,761 even though the prior year ended with a negative fund balance. Please provide an explanation for the increase in salaries and how textbooks and core curricula material reductions will be implemented.

#### **LCFF**

The LCFF calculation provided with the Adopted budget is a spreadsheet provided by your fiscal management company, Charter School's Management Company (CSMC), shows calculations of LCFF revenue for both schools using a rate for only grades 9-12 and not including all grade levels. The base funding rate for FY 2015-16 used in the calculation of \$8,419 does not agree to School Services assumption of \$8,578 for grades 9-12. In addition, gap funding used in CSMC's calculation for years FY

2015-16, FY 2016-17 and FY 2017-18 (36%, 48% and 60%) does not agree to School Services assumption of 53.08%, 12.62% and 18.24%). What budget assumptions were used to support these GAP funding percentages? The total LCFF revenue for FY 2015-16 is not easily determined in the calculation. The amount per the Adopted Budget is \$2,179,142 for the Middle School and \$1,374,195 for the High School. We did not receive a separate LCFF calculation for each school. Please provide us with an LCFF calculation for each school that includes the assumptions used.

### **Cash Flows**

The District received two cash flow projections at Budget Adoption projecting an ending balance of \$466,329 and an ending balance of \$201,389 as of June 30, 2016. Please identify the correct cash flow statement and explain how it is possible to have a positive cash balance in light of the negative ending fund balances. The Alameda County of Education recently notified the District that REALM could not make a timely payment of STRS contribution of \$60,569 for August 2015 due to lack of cash and the inability to get a timely loan. The STRS contribution for September 2015 was made timely. REALM continues to have to sale receivables of their future ADA revenue and property taxes to meet its expenditure obligations. There is a concern that REALM has a significant cash issue and may not be able to meet upcoming payroll and other fiscal obligations. The cash issues needs to be addressed immediately. There is also a recurring expenditure of \$15,000 per month that needs explanation. Please provide a separate cash flow for each school and a response to the cash flow concerns.

### **Prior Year Audit Report**

The prior year audited Statement of Activities for FY 2013-14 indicate negative ending net assets for the REALM High School in the amount of \$158,298. Note 9 to the audit indicate Management's plan to ensure net assets are positive by the end of next fiscal year. Management steps include increased enrollment, appealing to the Treasury Department for review of funding, closely monitoring costs, and implementing procedures to improve certification and reporting requirements. The ability of the REALM High School to continue as a going concern is dependent on the success of these actions.

### **Enrollment and ADA**


The State no longer requires ADA for charter schools to be reported on an in-district vs out-of-district basis for apportionment purposes; therefore, this information is not currently in REALM's Student Information System. Enrollment for REALM High School is projected at 382 and ADA is projected at 363.7 Prior year P2 certification is 337.12. An increase of 27 ADA has to be realized to support budget assumptions.

### **Overall**

Based on our review of the Adopted Budget for FY 2015-16 and prior year reports, we have noted a that REALM High School is projected a significant positive fund balance over the prior year's negative ending fund balance. REALM ended the prior year with a negative ending fund balance. However, we were not able to confirm the LCFF revenue calculation and determine support for LCFF Gap percentages in the multi-year projections. REALM must closely monitor the budget and actual cost to ensure that the budget actually reflects all revenue and expenditures.

Please provide specific information requested by October 16, 2015 to Pauline Follansbee, Director of Fiscal Services who may be reached at [paulinefollansbee@berkeley.net](mailto:paulinefollansbee@berkeley.net) (510) 644-8915 if you have any questions

Sincerely,



Javetta Cleveland  
Deputy Superintendent

Cc:

Pasquale Scuderi, Associate Superintendent,

BUSD Board of Directors

Beatriz Leyva-Cutler, Karen Hemphill, Judy Appel, Ty Alper, Josh Daniels

Board of Directors, REALM High School

Jabari Mahiri, Tracey Schear, Thea Oliphant, Rebecca Prager

Alameda County Office of Education

Roland Tom



# EXHIBIT G

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To: Javetta Cleveland  
From: Victor Diaz  
Re: Charter Renewal  
Date: November 30, 2015

Javetta,

I have copied your questions into this document and replied within the body of the letter. Thank you for the opportunity to respond to your questions. Please let me know if you have additional questions.

In the area of special education, a reasonably comprehensive description of how the Charter Schools provide special education services to their students, and how they would ensure that their students receive a Free and Appropriate Education. The Petition fails to address the following areas:

**REALM staff** recognize and foster the development of each student's talents and strengths while supporting areas of need with Individualized Education Plans (IEPs). General education teachers and special education service providers collaborate to ensure the implementation of services in the Least Restrictive Environment (LRE).

**REALM students** are active participants in the creation of educational and prevocational goals. They will develop a deep understanding of their personal learning strengths and challenges so that they are able to effectively advocate for themselves in the secondary educational setting and beyond.

**REALM families** are valued members of the IEP team. They will develop positive relationships with the school staff serving their children and make informed decisions about educational plans.

**Together**, REALM staff, students, and families work together to create a dynamic learning environment that furthers the acquisition of academic skills, develops resiliency, and enables students to become active, service oriented members of our communities.

- Child find

REALM ensures that parents and staff are aware of the obligation and desire to assist students with learning needs. When students enroll at REALM and the family indicates that they may have an IEP or 504 plan, REALM staff actively search for the documents. If parents do not have a copy of the IEP, this includes contacting the previous district/school and requesting both electronic and hardcopy files. If the student does not have an IEP but the school staff suspect

learning and/or developmental needs, the school team will work in a variety of ways to ensure students who need assistance are identified. This includes referral to COST, provision of intervention services, and assessment by qualified school personnel. In addition, letters explaining the transition to EDCOE SELPA were mailed to families. Contact information for the REALM special education department was also distributed at family events such as the beginning of school welcome and back to school night. The COST (Coordination of Services Team) process also provides information to parents and staff. Staff receive ongoing training on the function of COST and the process to refer a student.

- Referral & Assessment

REALM utilizes COST (Coordination of Services Team), an enhanced Student Study Team model, looking at any student that has needs and allocating and locating resources to assist the student. With behavioral and academic levels of interventions are attempted and documented prior to a referral to special education. The COST team meets on a weekly basis and monitors student progress. The interventions increase or decrease as needed, based on data collected such as behavioral charts or academic assessments and work samples. If a student is referred for Special Education assessment by the team and/or family, the mandated timelines are followed. An assessment plan is developed and sent to the parent within 15 days of the referral. Once signed and returned by the parent, the IEP team has 60 days to complete the assessment and hold an IEP meeting. REALM staff will assess in all areas of suspected disability. A parent has the right to make a direct written referral for assessment. When this is received the COST team meets within 15 days to develop a plan of assessment with the parent and to provide additional interventions, if appropriate.

An interdisciplinary team assesses the student, including a school psychologist, an Educational Specialist, a school nurse and/or other professional staff, such as a speech and language pathologist or occupational therapist, in all areas of suspected disability/ areas of need. All staff use appropriate measures and batteries of assessments that they are familiar with and qualified to assess. In addition, data regarding interventions and other measures are factored in. These include individual testing, teacher observations, interviews, record reviews and work samples and parent input. Assessments are done in the student's primary language and parents are presented the information in their language, with the help of an interpreter as necessary. The assessments are completed within the 60 day timeline and the parent is invited to an IEP meeting to review the assessment data, determine eligibility, and plan for services if appropriate.

- Individualized Education Plan (IEP) meetings

When REALM took over special education services this school year, approximately 33% of IEPs were overdue. Within the first 30 days, all overdue IEPs were held, in addition to the interim IEPs necessary to document the change of SELPA. REALM will continue to hold annual and triennial IEP meetings as appropriate. IEP meetings consist of the following individuals:

student, guardian, education specialist/case manager, general education teacher, administrator, and other specialists as appropriate (e.g., Speech Language Pathologist, Educationally Related Mental Health counselor). REALM case managers work closely with students to help them participate in meaningful ways in their IEP meetings. For example, some students facilitate their own meetings, some present to the team about their learning strengths and needs, and others share work they are proud of. The level of participation is determined by student preference and level of functioning. All students are supported in the development of effective self advocacy skills.

REALM prioritizes professional development needed to write compliant, well-done IEPs that will afford student's Educational benefit. REALM participates in SELPA professional development to make sure all IEP components are addressed. IEPs are reviewed annually and every three years the students will be reassessed. Additional IEPs may be conducted at parent or school request and if for discipline reasons a Manifestation Meeting will be held prior to a change of placement or for expulsion. The components of the IEP will include: a. Statement of present levels of achievement and functional performance b. rationale for placement, c. services and means for delivery, d. when services will start, how often and who to provide, e. meaningful goals, f. how progress on goals will be measured, monitored and reported to the parents, g. accommodations required, h. 16+ transition plan in place for all students aged 16 with a disability. Timelines are adhered to and parents and students are afforded the opportunity to participate in a meaningful way.

- Specific services and supports the Charter School as an LEA would offer

REALM Charter School serves students in the least restrictive environment. Previously, BUSD provided a pull-out model for serving students who had SAI as an IEP service. REALM desires to have the students remain in their classrooms receiving Common Core instruction taught by highly qualified teachers to the greatest extent possible. Teachers use strategies such as differentiation and Universal Design for Learning (UDL) for all students. Students are provided the accommodations and modifications listed on their IEPs. REALM's Education Specialists and Instructional Assistants work with students in the general education setting. In addition, students that require additional help for remediation, pre-teaching, review, and/or test taking support, are pulled out for appropriate services as needed.

REALM Charter School also provides related services to students with disabilities per their IEP. REALM employs a speech language pathologist, occupational therapist, school psychologist, and ERMHS therapist to provide these services. REALM currently contracts services for Deaf/hard of HEaring and nursing services from personnel that are on the CDE NPA approved list. If students require APE, VI, PT or other services the appropriate providers will be secured.

Should a student require placement in a more restrictive placement based on their present level of need, REALM will coordinate placement and service delivery with a school on the CDE NPS approved list, in conjunction with the SELPA.



- How the Charter School would staff instructional personnel to meet its special education obligations

REALM employs appropriate personnel to meet special education obligations. This includes: education specialists, instructional assistants, speech language pathologist, occupational therapist, school psychologist, and educationally related mental health services (ERMHS) counselor. REALM contracts Deaf/Hard of Hearing services with NPA certified Center for Early Intervention on Deafness. REALM contracts nursing services with NPA certified K12 Health.

- The roles and responsibilities of charter school personnel in the delivery of special education services

REALM's education specialists provide specialized academic instruction and case management to students with IEPs. Instructional assistants provide academic and behavioral support to students under the supervision of the education specialists. REALM's speech language pathologist provides speech language therapy to students with communication needs. The occupational therapist provides therapy to students with sensory motor needs. The school psychologist conducts psychoeducational assessments to assess learning needs and to provide the team with information regarding special education eligibility. The school psychologist also provides counseling services and behavioral intervention services, as well as teacher consultation regarding students' needs and intervention strategies. The ERMHS counselor provides individual and group counseling to students, parent counseling, and teacher consultation regarding social emotional needs. CEID provides both consultation to school staff about the needs of students with hearing impairments and training on the appropriate use of equipment such as FM systems. K12 health provides vision and hearing screenings, health assessments, and staff training as necessary (e.g., proper use of epipens). All special education staff work under the direction of the special education director, who remains in close contact with the SELPA to ensure appropriate provision of services to students with special needs.

- The delivery design for provision of special education services along the full continuum

REALM provides special education services along the full continuum of service. This includes Specialized Academic instruction in both push in and pull out model as determined by student need, related services (e.g., speech language therapy and occupational therapy), and placement in a CDE approved NPS.

## 2. In the area of Governance:

- a. The Petitions state that “[a] set of bylaws, reflecting the governance structure described herein, is being drafted by a committee of elected board members, who will submit the bylaws to the full Board of Directors for consideration and approval (Appendix E). (Middle School Petition, p. 44, High School Petition, p. 48.) The attached bylaws list board members, but the expiration dates for their terms all fall in 2011 through 2013. Please clarify whether the Board has approved the bylaws, and update the list of Board members, along with the end dates for their terms.
- b. **Response:** The Board has approved the By-laws back in 2011. The following Board Members name and term duration
- Victor Diaz, President, Expires, 2018
  - Jabari Mahiri, Chair, Expires, 2017
  - Tracey Schear, Treasure, Expires, 2018
  - Theo Oliphant, Board Member, Expires, 2017
- c. The Petition’s description of the means to encourage parental involvement is insufficient. Please provide information regarding specific means (committees, activities, parental advisory groups) that the REALM Charter Schools have, or will, implement to provide parents a meaningful opportunity to participate in the Charter Schools’ governance.
- **Response:** The parent participation at REALM starts with two parents who sit on REALM’s Board of Directors, one of whom is the Treasurer. REALM Parent Alliance (RPA) - formed by parents, Executive Committee meets with Executive Director twice monthly to review finances, education program, and school climate/culture issues. Per the LCFF, parents were involved in reviewing the budget, completed a survey about the educational program, and they have ongoing meetings with site principals. The RPA also holds two fundraising events each year and two social events each year.
- d. For 2013-2014 and 2014-2015, any and all internal and/or external performance data reflecting upon “increases in pupil academic achievement for all groups of pupils served by the charter school”
- **Response: REALM staff, teachers, and counselors all work collaboratively to ensure all students are prepared for college and beyond. Here are a few examples of how we use data to track students’ progress:**
    1. PSAT: REALM received Level II authorization from CollegeBoard in order to administer the PSAT to enrolled students during the school week. REALM coordinated PSAT testing administrations onsite during school hours in order to ensure 100% participation in the PSAT for all 10th and 11th grade students for 13-14 and 14-15 school years.

2. College Entrance Exams (SAT/ACT): 57% of the 2015 graduating class participated in the SAT or ACT. 63% of the graduating class of 2016 have participated in the SAT or ACT exams. 70 fee waivers received and distributed each year to 11th and 12th grades students who qualify for the Free/Reduced Lunch program.
3. AP courses/exams: 2014-15 was REALM's first year offering AP courses and preparation for AP exams. 3 AP courses were offered, AP US History, AP Language and Composition, and AP Literature and Composition, with an average enrollment of 23 students per class. 40% of 11th grade students and 57% of 12th grade students participated in an AP exam in Spring 14-15.
4. EAP: In 2013-14, 87% of 11th grade students enrolled participated in the EAP. 2.7% college ready based on EAP.
5. CAHSEE: From 2011 through 2014, REALM provided CAHSEE preparation classes, after school intervention, summer school, and ongoing assessment/test prep in math classes.
6. College acceptance: First graduating class were accepted into 19 private and public 4-year colleges and universities.
7. Meeting A-G: 87% of 12th grade students in 2015 met A-G requirements upon graduation
8. UC Course approvals: 35/40 or 88% courses are approved, remaining 5 courses to be submitted Feb. 1, 2016.

- e. For 2015, a breakdown of REALM's performance on the California Assessment of School Performance and Progress (CAASP) tests by "each subgroup of pupils identified pursuant to Section 52052," to allow the District to assess "increases in pupil academic achievement for all groups of pupils served by the charter school"

■ **Response: (Please see attachments)**

3. In the areas of Health and Safety and Employee Qualifications: The Petitions need to be amended to include the procedures to "ensure the health and safety of the school's faculty, staff and students," including fingerprinting, background checks, and safety policies and procedures.

**Response:**

All REALM staff members are fingerprinted and provide TB results prior to the beginning of their employment. In addition a background questionnaire is included in the employment packet. New employees are given an employee guidebook which outlines policies and procedures.

Teachers serve on the leadership teams that plan and coordinate the professional development topics. As a result the teachers provide direct input, implementation and feedback on the needs of staff to maintain their health. This has included a day off for all staff to take care of themselves and their health.

Student Health and Safety - The REALM Student Support Staff is working to create and maintain the infrastructure and programs within a REALM that promote the healthy social-emotional development of all students and address behavioral health-related barriers to learning. As supported by research, effective school-based behavioral health systems:

- Offer a Three Tiered continuum of interconnected services that encompass: 1) a system for promoting healthy development and preventing problems; 2) a system for responding to behavioral health problems as soon after onset as possible, and 3) a system for providing intensive care (see attached graphic for the three tiered system)
- Involve the entire school community, whereby all persons and/or departments within a school have a role to play in supporting the social-emotional health of all students, including those with behavior problems and/or mental health-related learning support needs
- Are coordinated and evaluated to ensure that students with emerging behavioral health needs are identified in a timely manner and appropriately served
- Involve input from, and the engagement of, families
- Are culturally responsive such that they honor the culture of students, family, and community as a critical element in providing effective care and reducing disparities in health and academic success

Our team of social workers and therapists are working with the school community to provide support and create/maintain these systems of care. We are in partnership with the Alameda County Center for Healthy School and Communities to learn about and build these systems.

- Rebecca Prager, LCSW, Alameda County Center For Healthy Schools and Communities (CHSC): COST facilitation and follow up, individual and group direct service, crisis intervention, community outreach, intern supervision.
- Nancy Jones, MSW student, Student and Family Support Service Coordinator: Assist with academic, behavior, truancy, conflict mediation, social-emotional support, school to home communications, student-teacher meetings, home visits, homeless student support (Mckinney-vento LEA), 9th grade girls Advisor, oversee and run BART and AC transit student discount transportation program and campus management.
- Aaron Lechuga, Dean of Students, MSW: leads behavioral interventions and conflict mediation between students, staff and families. The Dean also supervises safety officers and oversees the safety of the site.
- Belen Pulido, ELD Coordinator and Family Engagement Services Coordinator: The ELD Coordinator administers the Annual CELDT exam in addition to the Initial exam for newly enrolled students. In addition, the ELD coordinator monitors all relevant English Language Learner data, coordinates ELAC Meetings, and supports communication



between teachers and EL families. Family Engagement Coordinator encourages family involvement by volunteer, RPA, and ELAC opportunities and meetings.

- Matt Crocker, PCCI ERMHS Counselor: Individual and group counseling and family support, crisis intervention, teacher/staff support.
- Areeza Ali, Smith College MSW student Intern through the Alameda county CHSC: She is at REALM HS 20 hours a week providing individual and group counseling, and some teacher and classroom support.
- Molly Pilloton, MPH, Mentor, Health Educator: Student support and mentorship, health education, sensitive services support, teaches Health Education lab course.

REALM has deep and meaningful community partnerships with other agencies providing support for our students.

- Alameda County Center for Healthy Schools and Communities(CHSC): The CHSC works to build communities of care that foster the academic success, health, and well-being of Alameda County children, youth, and families. The Center is part of the Alameda County Health Care Services Agency (HCSA) and represents many diverse collaborations of service providers, school and school district leaders, health advocates, community partners, policy makers, and youth working to create equity in education and health for all students.
- Berkeley Youth Alternatives(BYA): We collaborate with BYA to provide counseling, case management, academic support, employment training & opportunities for our students. They also come on site to REALM to provide workshops around health issues such as drugs and alcohol use, tobacco, safe sex.
- RYSE Youth Center in Richmond: We refer our students to RYSE for youth development, after school activities, counseling, case management, academic support, employment training and job opportunities.
- Peer Health Exchange: comes to the HS 9th grade once weekly in PE to provide peer health education around healthy relationships, safe sex and sexuality, positive choices and general health education.
- Berkeley Mental Health: We partner with BMH to refer students with high need to their counseling and psychiatric services.
- 100 Strong: A mentorship and leadership development program for young girls, led and facilitated by U.C. Berkeley student mentors. 100 Strong mission is to combat the lack of female leaders in today's society by providing middle and high school girls with a network of female mentors and the opportunity to gain leadership skills by implementing their own community project. They meet with 9th grade girls once a week during advisory.

- COST: The Coordination of Services Teams (COST) is a strategy for coordinating learning supports and resources for students. COST teams meet weekly to identify and strategize supports for students and families that may be struggling and needing additional social-emotional, health, or academic supports. COST invites referrals from teachers, administrators, families and students. We triage these referrals and plan supports to address each issue. COST members include school counselors, community members, principals and teachers.
- Health educator: runs a lab class, weekly groups, and individual one-on-one health education counseling
- Counseling Intern program: Counseling interns provide mental health support to students referred by the COST process. The counseling intern is supervised by the Director of Support Services and meets weekly for required supervision.
- PBIS: Positive Behavior Intervention and Support (PBIS) initiative puts an emphasis on school-wide systems of support that include proactive strategies for defining, teaching, and supporting appropriate student behaviors to create positive school environments. There are three distinct levels of a PBIS system: Tier 1 - Whole School Positive Incentives, Tier 2 - Classroom interventions, Tier 3 - Targeted Intensive Interventions.
- Restorative Justice circles: REALM Support Staff are working together to create positive reentry circles when there is an incident at school. Circles are used at all levels of the pyramid to bring people together in a way that gives voice to every individual. Circles at the first tier (for the whole school or classroom) support in School-Wide Prevention Practices; problem solving circles are used at the second tier for those involved in Managing Difficulties; and intervention circles are used at the third tier for those persons and situations that require Intense Intervention.
- Restorative Justice training: all staff received a Restorative Justice training during the 2014 REALM Summer Institute. The training was given by Restorative Justice for Oakland Youth in order to support teachers and staff in building a system that actively engages students and families, repairs any harm or wrongdoing in the school community and ways to prevent any re-offending.
- GSA Inclusion training: All staff participated in a one day training by Chris White, the Director of Safe and Supportive Schools Project for the Gay-Straight Alliance Network. We began the conversation around how to create safe and inclusive spaces for all of our REALM community.
- Student Support Team meetings are designed to get the student, teachers, parents and support team together in a meeting that highlights the student strengths, challenges and areas of improvement. We work together collaboratively to set goals that address the student support need and give the student steps and options to use in order to feel supported and obtain academic success. The meetings are also sometimes used to assess if there are additional learning or academic supports needed (504, or IEP). Student Support Team (SST) meetings are facilitated at the HS by school Principal,

Dean of Students, Student and Family Services Coordinator and Director of Support Services. (Please see attached SST meeting forms.)

- Family Meetings Week: The purpose of Family Meetings Week is to continue building relationships between students, advisors and families, to review students' progress toward graduation, and to set goals that will support the student for graduation and life post high school. Family Meetings Week happens once per semester, with advisors, students, and parents/guardians in attendance, joined by a High School administrator as necessary.

**The Petitions also need to state how the terms and conditions of employment for non-certificated employees are determined. All employees are given an employee agreement which stipulates terms and conditions. The same terms and conditions are used for noncertified staff as certified.**

1. Duties are described based on the non-certified position as stipulated in the job description.
2. Full time noncertified staff work 8 hrs.
3. Compensation is based on the employee's years of experience, education level and comparable to neighboring districts job descriptions and compensation.
4. Employee health benefits, rights, licensure and child abuse reporting all mirror certificated employee agreements, see below.

#### **Employee Benefits**

Employee will be entitled to participate in designated employee benefit programs and plans established by REALM (subject to program and eligibility requirements) for the benefit of its employees, which from time to time may be amended and modified by REALM.

#### **Employee Rights**

Employment rights and benefits for employment at REALM shall only be as specified in this Employment Agreement, REALM's charter, the Charter Schools Act and REALM's personnel policies, which from time to time may be amended and modified by REALM. Employment rights and benefits may be affected by other applicable agreements, directives or advisories from the California Department of Education or State Board of Education. During the term of this Agreement, Employee shall not acquire or accrue tenure, or any employment rights with the Berkeley Unified School District or REALM.

#### **Licensure**

Employee understands that employment is contingent upon verification and maintenance of any applicable licensure credentials.

#### **Child Abuse Reporting**

California Penal Code section 11166 requires any child care custodian who has knowledge of, or observes, a child in his or her professional capacity or within the scope of his or her employment whom he or she knows or reasonably suspects has been the victim of child abuse to report the known or suspected instance of child abuse to a child protective agency immediately, or as soon as practically possible, by telephone and to prepare and send a written report thereof within thirty-six (36) hours of receiving the information concerning the incident.

By executing this Agreement, the Employee acknowledges he or she is a childcare custodian and is certifying that he or she has knowledge of California Penal Code section 11166 and will comply with its provisions.

- a. The Petition needs to address the following: Update to incorporate new laws on mandatory Child Abuse Reporting Training and stocking Epinephrine auto-injectors. (Education Code section 49414, as amended by Senate Bill 1266 in 2015.)

All REALM staff are required to complete an online mandated reporting module provided by California Department of Social Services, <http://www.mandatedreporter.ca.com/>.

**A review of REALM Middle School's proposed budget for the 2016-2017 school year revealed the following concerns:**

- a. Please explain what one-time and ongoing revenue make up the increase in \$150,000 LCFF revenue between unaudited actuals and 2016-17 projection? ☐
  - i. **Response:** We are projecting an Increase in projected enrollment which equals more money under LCFF. REALM's response to the adopted budget shows fundraising as a source of revenue, which is a one-time source and not ongoing. Please explain how REALM would make up such revenue in future years.
  - ii. **Response:** 2015-16 school year we were awarded a \$20k grant to hire a professional grant writer. Her charge is to raise money for both long-term and short term grants. Moreover, she is building in small amounts for development support for the 2016-2017 fiscal year. Moreover, some grants are one-time and others are ongoing. We are trying to secure more ongoing grants. These projections are also conservative and based on actual amount raised over the past few years via grants.
- b. Please explain the reduction in teacher costs from 2014-2015 unaudited actuals and the 2015-2016 adopted budget.
  - i. **Response:** REALM discontinued our contract with our back office support, EdTec. Therefore, we had no backend business service support from October 1, 2014 - February 1, 2015. As soon as we realized we were headed towards a deficit we laid off some teachers in the spring of



- 2015 and we also hired fewer teachers for 2015-2016 school year. We are also projecting to continue the staffing cuts into 2016-17 and beyond.
- c. Please identify the specific position cuts identified in your response to the 2015-2016 adopted budget and the effective date of the cuts.
    - i. **DRAFT: Elective classes, high school principal, enrichment, support staff. (me and emily)**
  - d. The reduction in STRS is disproportionate to the reduction in staff. Please explain how REALM determined the magnitude of the reduction.
    - i. **Response:** The 2015-16 adopted budget was based on an estimated number of teachers, all assumed to be receiving STRS. The revised 2015-16 budget is based on actual hires and STRS participation and projects STRS expense of \$89,363. While the 2016-17 projection was completed prior to verification of all special education employees' participation in STRS, it currently projects \$85,578 in STRS expense. Now that all STRS participants have been confirmed, the updated 2016-17 projection for STRS expense (based on 2015-16 actual) will be \$104,770.
  - e. The reduction in health benefit and Medicare costs is unjustified given the rising costs of health care, and disproportionate to the reduction in staff.
    - i. **Response:** The 2015-16 adopted budget was based on an estimated number of teachers and staff, all assumed to be receiving health benefits. The revised 2015-16 budget is based on actual hires and actual participation and projects healthcare expense of \$87,879. The 2016-17 projected health benefit expense of \$90,698 includes a 5% increase across the board for all recipients, but does not include the addition of healthcare benefits for a staff member that recently became eligible, which can potentially add approximately \$4,000 to the health expense projection for 2016-17.
  - f. Please explain the significant reduction in textbooks and other instructional materials from the 2014-2015 unaudited actuals.
    - i. **Response:** Again, once we realized we were headed toward a deficit, we reduced and eliminated all unnecessary spending—including textbooks and instructional materials.
  - g. Please explain the reduced expenditure in food since the 2014-2015 unaudited actuals.
    - i. **Response:** no backend business service support from oct 1 2014 - feb 1 2015. as soon as we realized we were headed towards a deficit we eliminated food costs by only ordering food for free and reduced lunch students
  - h. It is not clear how REALM would reduce operations, housekeeping and consultant costs.
    - i. **Response:** Change in back office provider from EdTec to CSMC was a \$70,000/yr savings. We have eliminated all consultants including

attorneys and educational consultants, and have limited contracted work to auditors and WASC consultant. We have also reduced custodial costs from last year.

- i. It is not clear whether REALM would reduce its expenditure for excess special education costs above State revenue funding for special education.
  - i. **Response:** We are not reducing expenditures for special education. We have an encroachment but it is less than what we spent when we were with BUSD. Our special education costs were being adjusted for throughout the first 8 weeks of school. Our special education enrollment numbers continued to grow over the first several weeks.
- j. There is a discrepancy in the beginning fund balance, and the negative ending fund balance of \$300,000 is insufficiently sufficient.
  - i. **Response:** The 2015-16 board approved budget was completed prior to the 2014-15 year end, and based on the 2014-15 budget, which did not account for the decrease in enrollment and reduced income that led to the large loss in 2014-15.
- k. Please provide an analysis of how much of reduction in deficit spending is attributable to one-time revenue offset by one-time expenses. □
  - i. **Response:** Deficit spending is not offset by one-time revenue. The reduction in deficit spending is due mostly to budget cuts, staffing cuts, increased enrollment, and lowering special education costs (versus 2014-2015).

5. A review of REALM High School's proposed budget for the 2016-2017 school year revealed the following concerns:

- a. What accounts for the projected increase in federal funding over last year's unaudited actuals?
  - i. **Response:** The increase in federal funding is attributed to becoming our own SELPA in 2015-2016. Those dollars are directly tied to special education funding.
- b. Please explain what one-time and ongoing revenue make up the \$1.1 Million increase in LCFF revenue between unaudited actuals and 2016-17 projection?
  - i. **Response:** REALM is predicting an increase in enrollment, overall class size increase (by grade-level), and a slight increase in LCFF funding rates-- these things make up the overall increase in LCFF funding.
- c. What is the source of increased revenue? The amount of increased local revenue identified in your response to the adopted budget is less than the increased revenue budget for the Middle and High School.
  - i. **Response:** For the 2015-2016 FY, REALM has already raised \$75,000. This is a \$50,000 increase from our adopted 2015-2016 budget.

- d. Please explain why certificated teacher costs increase by \$500,000 between unaudited actuals and the adopted budget and 2016-17 projections.
  - i. **Response:** The increase in certificated teachers is entirely due to the creation/establishment of our special education department: Director, psychologist, 4 resource teachers, 3 IA's.
- e. Please clarify whether the Executive Director is taking over the Principal's position at the high school. What is effective date and where is the reduction in 2016-17?
  - i. **Response:** Yes, please see amended budget. This was effective November 1, 2015.
- f. The budget shows an overall increase in salaries, yet no cuts for the High School. Please identify reason for new positions.
  - i. **Response:** This is inaccurate (there are cuts for high school). There are no new positions at either school other than the new hires for special education as mentioned above.
- g. The calculation of STRS decrease due to additional staffing, yet the budget projection is showing an increase in staffing. Please explain.

**Response:** The 2015-16 adopted budget was based on an estimated number of teachers, all assumed to be receiving STRS. The revised 2015-16 budget is based on actual hires and STRS participation and projects STRS expense of \$121,075. The 2016-17 projection includes \$146,404 in STRS expense, which is a 20.9% increase over 2015-16. This increase is primarily due to the increase in the employer's contribution rate.

- h. Please explain the large increase in health benefits based on additional staffing. Is any of the increase due to increasing healthcare costs or just additional staff?

**Response:** The 2015-16 adopted budget was based on an estimated number of teachers and staff, with estimates of health care expense. The revised 2015-16 budget is based on actual hires and actual participation and projects healthcare expense of \$146,327. The 2016-17 projected health benefit expense of \$160,079 includes a 5% increase across the board for all recipients, but does not include the reduction of healthcare benefits for a staff member that is not projected to return in 2016-17, reducing overall healthcare costs by approximately \$4,000 in the 2016-17 projection.

- i. Please provide more information on the reduction in operations and housekeeping services.
  - i. **Response:** We reduced services to reflect the need of the school and to reduce expenses without impacting instruction.

- j. Please provide an explanation for the decrease in special education costs since the Charter School's unaudited actuals, in light of your statement during our last meeting that special education costs would not decrease.
  - i. **Response:** Special education costs have decreased from FY14-15.
- k. Please provide an analysis of how much of net income is attributable to one-time revenue offset by one-time expenses.
  - i. **Response:** Net income is not attributable to one-time revenue. The reduction in deficit spending is due mostly to budget cuts, staffing cuts, increased enrollment, and lowering special ed costs (versus last year).
- l. There is a discrepancy in beginning fund balance in the renewal petition. Please explain. □
  - i. **Response:** We have made cuts, increased enrollment, halted all excessive spending, and increased our fundraising efforts.

6. REALM must also provide a District impact statement, as required by Education Code §47605(g).



## EXHIBIT B

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Berkeley Unified School District

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**Javetta Cleveland, Deputy Superintendent**

January 26, 2017

**VIA ELECTRONIC MAIL** -- victor@realmcharterschool.org  
Victor Diaz, Executive Director  
REALM Charter School  
1222 University Ave, Berkeley, CA 94702

Dear Mr. Diaz:

This document constitutes a Notice of Violation ("NOV") issued by the Berkeley Unified School District (the "District") to REALM Middle School and REALM High School (collectively "Charter Schools") under Education Code § 47607(d).

**I. LEGAL BASIS FOR ACTION**

**A. Purpose of Notice of Violation**

As is noted in more detail below, the purpose of the NOV is to commence a process under which the District sets forth findings in support of the NOV, as well as a remedy period. At the end of the remedy period, Charter School shall respond in writing to the findings in the NOV, and identify measures taken to remedy the violations set forth therein. At that time, the District will assess Charter School's response and remedies and will determine whether to pursue revocation of the Charter School charter through issuance of a Notice of Intent to Revoke.

**B. Education Code Provisions**

The revocation of a charter is governed by Education Code § 47607. Education Code § 47607(c) sets forth the grounds for revocation:

A charter may be revoked by the authority that granted the charter under this chapter if the authority finds, through a showing of substantial evidence, that the charter school did any of the following:

- (1) Committed a material violation of any of the conditions, standards, or procedures set forth in the charter;
- (2) Failed to meet or pursue any of the pupil outcomes identified in the charter;

- (3) Failed to meet generally-accepted accounting principles, or engaged in fiscal mismanagement; or
- (4) Violated any provision of law.

The charter-authorizing agency precedes revocation with a Notice of Violation and a reasonable opportunity to remedy the violation under Education Code § 47607(d):

Prior to revocation, the authority that granted the charter shall notify the charter public school of any violation of this section and give the school a reasonable opportunity to remedy the violation, unless the authority determines, in writing, that the violation constitutes a severe and imminent threat to the health or safety of the pupils.

Prior to revocation, the charter-authorizing agency provides the charter school with a Notice of Intent to Revoke, and conducts a public hearing on the potential revocation (Education Code § 47607(e)):

Prior to revoking a charter for failure to remedy a violation pursuant to subdivision (d), and after expiration of the school's reasonable opportunity to remedy, without successfully remedying the violation, the chartering authority shall provide a written notice of intent to revoke and notice of facts in support of revocation to the charter school. No later than 30 days after providing the notice of intent to revoke a charter, the chartering authority shall hold a public hearing, in the normal course of business, on the issue of whether evidence exists to revoke the charter. No later than 30 days after the public hearing, the chartering authority shall issue a final decision to revoke or decline to revoke the charter, unless the chartering authority and the charter school agree to extend the issuance of the decision by an additional 30 days. The chartering authority shall not revoke a charter, unless it makes written factual findings supported by substantial evidence, specific to the charter school, that support its findings.

The charter school may appeal the revocation to the County Board. (Education Code § 47607(f)(1).)

### **C. California Code of Regulations**

Cal. Admin. Code tit. 5, § 11968.5.2, sets forth additional procedures for a school district's revocation of a charter. Subsection (a) of the regulation provides the charter school 72 hours' notice before the board considers issuing a Notice of Violation:

At least 72 hours prior to any board meeting in which a chartering authority will consider issuing a Notice of Violation, the chartering authority shall provide the charter school with notice and all relevant documents related to the proposed action.

Subsection (c) describes the charter school's obligations once a Notice of Violation is served:

Upon receipt of a Notice of Violation, the charter school's governing body as described in the school's charter, if it chooses to respond, shall take the following actions:

- (1) Submit to the chartering authority a detailed, written response addressing each identified violation which shall include the refutation, remedial action taken, or proposed remedial action by the charter school specific to each alleged violation. The written response shall be due by the end of the Remedy Period identified in the Notice of Violation.
- (2) Attach to its written response supporting evidence of the refutation, remedial action, or proposed remedial action, if any, including written reports, statements, and other appropriate documentation.

Once the charter school responds to the Notice of Violation, the District will determine whether to proceed with the revocation process. As set forth in Cal. Admin. Code tit. 5, § 11968.5.2, sections (d) and (e):

- (d) After conclusion of the reasonable opportunity to remedy, the chartering authority shall evaluate the response of the charter school's governing body as described in the school's charter response to the Notice of Violation and any supporting evidence, if submitted, and shall take one of the following actions:
  - (1) If the chartering authority has substantial evidence that the charter school has failed to refute, to the chartering authority's satisfaction, or remedy a violation identified in the Notice of Violation, the district shall continue revocation of the school's charter by issuing a Notice of Intent to Revoke to the charter school's governing body as described in the school's charter; or
  - (2) Discontinue revocation of the school's charter and provide timely written notice of such action to the charter school's governing body as described in the school's charter.
- (e) If the chartering authority does not act, as specified in subdivision (d), within 60 calendar days of the conclusion of the Remedy Period specified in the Notice of Violation, the revocation process is terminated and the Notice of Violation is void.



If the District proceeds to issue a Notice of Intent to Revoke, the Board will hold a public hearing no later than 30 days thereafter, and take action on a Final Decision in open session within 30 days of the public hearing:

On the date and time specified in the Notice of Intent to Revoke, the chartering authority shall hold a public hearing concerning revocation. No more than 30 calendar days after the public hearing (or 60 calendar days by written mutual agreement with the charter school), the chartering authority shall issue a Final Decision.

The charter school must file any appeal to the County Board within 30 days of Board action. (Cal. Admin. Code tit. 5, § 11968.5.4(a).)

## **II. VIOLATIONS GIVING RISE TO THIS NOTICE**

### **A. Failure to Follow Generally Accepted Accounting Principles and Fiscal Mismanagement (Education Code section 47607(c)(1)(C)) Violation of terms of the Charter (Education Code section 47607(c)(1)(A))**

The District's oversight responsibility includes monitoring the fiscal condition of the Charter Schools through review of State required financial reports, including the Charter Schools' adopted budget, interim budget reports and unaudited and audited financial statements.

The Charter School is obligated under the law to avoid fiscal mismanagement and use Generally Accepted Accounting Principles. (Education Code section 47607(c)(1)(C).) Appendix I of the REALM Middle School Charter requires the Charter School to maintain fiscal solvency and a positive ending fund balance, as do conditions of the Board's December 9, 2015 renewal of the charter. (**Exhibit A**)

In accordance with Education Code Section 47604.33, the District has reviewed the Unaudited Actuals for Fiscal Year 2015-16 for REALM High School.

### **B. REALM HIGH SCHOOL**

#### **1. Fiscal Year 2015-2016 Analysis – Unaudited Actuals**

A review of the Unaudited Actuals indicates the following:

- Revenues are \$3,404,224 for Unrestricted programs, and \$448,881 for Restricted programs, for total revenues of \$3,853,085;

- Expenditures are \$2,758,181 and \$875,537 for Unrestricted and Restricted programs respectively, with a contribution of \$200,172 from Unrestricted to Restricted programs;
- There is a resulting surplus of \$445,870 for Unrestricted programs and a deficit of \$26,503 for Restricted program;
- The ending fund balance of \$244,725 is comprised of \$219,501 for Unrestricted Programs and \$25,224 for Restricted Programs. (**Exhibit B**)

The charter school has met the conditions of the Board's December 9, 2015 renewal of the charter by making reductions that would balance the negative ending fund balance by the end of 2016-17. The ending fund balance for the combined general fund is \$244,725 as of 2015-16, and is higher than the ending fund balance of \$147,713 projected in the charter petition renewal.

## **2. Fiscal Year 2015-2016 Analysis – Audited Actuals**

REALM'S audited financial statements for Fiscal Year 2015-2016 stated that REALM High School has net assets of \$243,646 at June 30, 2016. At Second Interim, REALM's projected ending fund balance was \$294,296. Therefore, REALM High School closed the books with an audited ending fund balance of \$50,650 less than projected. (**Exhibit C**)

REALM's audited actuals for Fiscal Year 2015-2016 also contained the following "Matter regarding Going Concern":

The accompanying financial statements have been prepared assuming the Schools will continue as a going concern. As noted in Note 9 to the financial statements, in the previous year, the School experienced an operating deficit, cash flow, difficulties, and did not have adequate cash reserves or accounts receivable to meet its current obligations without obtaining additional financing or funding. The Schools reduced the deficit for the year ended June 30, 2016, but still had an ending deficit net asset balance and required substantial financing to meet its current obligations. These factors cause substantial doubt about the Schools' ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Under Note 10 ("Management Plans"), the audited actuals note the following:

Management has taken steps to ensure that net assets are positive by the end of the next fiscal year. They following are steps and factors that Management has identified:

- Major staffing cuts over the next two years in order to balance the budget and establish a 3% reserve.
- To make major cuts without impacting the quality of the teaching and learning as promised under the charter.
- To submit monthly financial budgets to our Authorizer, Berkeley Unified School District (BUSD) in order to maintain a correct and accurate course of action.
- Apply for additional local, regional, and statewide multi-year grants.

The ability of the School to continue as a going concern is dependent on the success of these actions. The financial statements do not include any adjustments relating to the recoverability of recorded asset amounts or the amounts of liabilities that might be necessary should the Schools be unable to continue as a going concern.

The District concurs with the auditor's concerns. These steps were noted in the prior year audited financial statements and in the charter school renewal and conditions for renewal adopted by the Board on December 9, 2015. The charter school renewal petition contained a projected fund balance as of June 30, 2017 that was not met as noted below in the District's review of the First Interim for Fiscal Year 2016-17. REALM Charter High School therefore has not met the conditions of the Board's renewal.

### **3. Fiscal Year 2016-2017 – First Interim Report**

A review of the First Interim Report for Fiscal Year 2016-2017 indicates that revenues are projected to be \$4,033,991 and expenditures are projected to be \$4,204,372, for a deficit of \$170,381. The audited beginning fund balance is \$243,646 and the audited ending fund balance at First Interim is \$73,265. **(Exhibit C)**

Based on the projections included in the charter petition renewal for the combined unrestricted and restricted general fund, REALM projected a surplus of \$357,324 when in fact ended up deficit spending by \$170,381. In effect, REALM High School missed the projection by \$527,705.

The charter school's projected ending fund balance per the renewal petition was \$949,580. The ending fund balance at First Interim of \$73,265 is \$876,315, less than the balance in the charter renewal petition. REALM's failure to meet the ending fund balance projected in its renewal petition does not demonstrate financial progress toward meeting the Board's renewal conditions.

REALM High School's response to its First Interim contains the reasons that the projected ending balance for 2016-17 did not meet the projected ending fund balance included in the petition renewal.

- The District asks REALM High School to provide any additional information regarding its failure to meet its ending fund balance to the District.

### **Revenues and Expenditures**

Overall revenues at First Interim are projected to be \$284,291 less than revenues in the adopted budget, primarily due to a reduction in LCFF funding in the amount of \$472,797, which is partially offset by an increase in other state revenue in the amount of \$245,388.

Expenditures at First Interim are projected to be \$191,874 more than in the adopted budget, due primarily to an increase in professional/consulting services and operating expenditures in the amount of \$149,703. The First Interim Report contains no explanation for the significant increase in expenses for professional/consulting services.

- Please explain the basis for the significant increase in expenses for professional/consulting services.

### **LCFF and LCAP**

LCFF funding total \$3.1 million and represent 78% of all funding. REALM High School is projected to receive \$1,438,671 as State Aid funding, \$499,995 as Education Protection Account (EPA) State Aid funding and \$1,204,590 as Transfers in Lieu of Property Taxes. Per the District's books, REALM High School is projected to receive \$1,395,978, which is \$191,388 more than REALM is reporting. It is important that the District review the calculation of LCFF funding to ascertain the validity of the amounts reported for State Aid and EPA funding. The District is requesting the LCFF calculations which should be submitted with each Interim. In the future the LCFF calculation should be submitted with the budget.

### **Cash Flows**

The combined Cash Flow Statement provided with the First Interim Report shows a balance of \$275,766 at December 31, 2016. The Cash Flow Statement should have shown actual cash transactions as of the cut-off period, as well as cash flow projections through June 30, 2017. Given REALM has a significant cash flow troubles, the District cannot determine if REALM will have the cash available to meet its fiscal obligations through June 30, 2017 without accurate and complete information.

Since the charter renewal, REALM High School has not received any advances on its in-lieu property taxes, which meets the condition of the renewal. However, REALM continues to sell receivables of their future ADA revenue and property taxes to meet its expenditure obligations. On October 21, 2016, REALM sold its January 2017 State Apportionment, in-lieu of property taxes and special education revenue to receive those found now to help with current cash flow. On November 14, 2016, REALM sold the same revenue sources for February 2017 receipts. On December 13, 2016, REALM sold the



same revenue sources for March and April 2017. These indicators of poor cash flow indicate that REALM is short on cash to meet current obligations.

The conditions for renewal of the charter petition required that REALM provide monthly cash flows to the District for each school beginning with December 2015 until negative ending fund balance is resolved and 3% reserve is obtained. REALM has not met this conditional requirement. (See, **Exhibit A.**)

- Please provide cash flow projections through June 30, 2017.

### **Long Term Debt and Line of Credit**

#### **Notes Payable**

In September 2011, the Charter Schools obtained a promissory note of \$309,968 from Kaufman Constructions, Inc. The note carries annual interest rate of 8.5% and requires monthly payments of \$3,843 by the Charter Schools. The note matures in September 2021. The note balance as of June 30, 2016 was \$192,300.

In October 2013, the School's obtained a loan of \$60,000 from Fred Huxman. The loan has a term of up to 10 years and carries no interest rate. The loan balance as of June 30, 2016 was \$60,000.

In February 2016, the Schools obtained a promissory note of \$1,387,363 from Charter Asset Management Fund, Inc. The note carries annual interest rate of 10% and requires monthly payments of \$200,000. The note matures in March 2017. The note balance as of June 30, 2016 was \$1,284,446.

#### **Line of Credit**

The Schools have a revolving line of credit with Wells Fargo for \$100,000 with an annual interest rate of 10.25%. There was a balance of \$71,367 for the year ended June 30, 2016.

#### **Enrollment and ADA**

The state no longer requires ADA for charter schools to be reported on an in-district vs out-of-district basis for apportionment purposes. Therefore, this breakdown is not currently in REALM's Student Information System. The District reported P-2 ADA for REALM High School for Fiscal Year 2015-16 of 341.15, and 328.37 at P-1 for Fiscal Year 2016-17. The snapshot provided by REALM as of December 15, 2016 is 327 ADA. The amount cannot be compared to ADA used to calculate LCFF funding since the LCFF calculator was not provided.

#### **Insufficient Minimum Reserves**

In its adopted budget for Fiscal Year 2016-2017, REALM High School indicated that it met the recommended minimum reserve of 3%. However, at First Interim, the reserve for economic uncertainty is 1% and does not meet the recommended minimum reserve of 3%. This demonstrates that REALM High will be unable to sustain any unforeseen expenditures and may not be able to meet its current and future financial obligations.

### **Overall**

Based on the District's review of the Audited Actuals for Fiscal Year 2015-16, and the Budget for the First Interim Report for Fiscal Year 2016-17, we have noted a deterioration in financial condition based on the information provided. The District continues to have very serious concerns about the fiscal health of REALM High School and its ability to meet financial obligations and continue as a going concern. REALM High School not met it projected ending balance for Fiscal Year 2016-17 and the conditions of the charter petition renewal to provide monthly budget and cash flow reports.

#### **C. REALM Middle School:**

##### **1. Fiscal Year 2015-2016: Unaudited Actuals**

In accordance with Education Code Section 47604.33, the District has reviewed the Unaudited Actuals for FY 2015-16 for REALM Middle School. (Exhibit D)

##### **a. Fiscal Year 2015-2016: Deficit Spending**

A review of the Unaudited Actuals indicate that REALM middle school has engaged in a protracted pattern of deficit spending spanning over a number of fiscal years:

- Revenues are \$2,858,874 for unrestricted programs, expenditures are \$2,967,982 and contribution to restricted programs total \$161,745;
- REALM Middle School is deficit spending by \$270,853 for the unrestricted general fund. The beginning fund balance is \$929,653 and the ending fund balance is \$1,164,860;
- Based on the projections included in the charter petition renewal for the combined unrestricted and restricted general fund, REALM projected a surplus of \$69,817 when in fact ended up deficit spending by \$305,359.

The charter school has not met the conditions of the charter petition renewal by making reductions that would balance the negative ending fund balance by the end of 2016-17. The ending fund balance for the combined general fund grew to a negative \$1,146,910, Likewise, in 2015-2016, REALM Middle School projected a negative fund balance of \$771,735 in its renewal petition. This negative balance does not demonstrate financial progress toward meeting the conditions in which the charter was renewed.

- The District is requesting an explanation of why the ending balance for Fiscal Year 2015-16 did not meet the projected ending fund balance included in the petition renewal.

**b. Fiscal Year 2015-2016: Revenues and Expenditure**

Overall revenues are \$115,585 more than budgeted due to an increase in State and LCFF revenues and other local revenues. Expenditures are \$179,119 more than budgeted primarily due to Certificated Salaries and benefits exceeding budget.

- The District is requesting explanation of this budget to actual variance.

**c. Fiscal Year 2015-2016: Local Control Funding Formula (LCFF) Funding**

LCFF funding total \$2.3 million and represents 79.3% of all Unrestricted funding. REALM Middle School receives \$761,999 as State Aid funding (current and prior year), \$392,454 as Education Protection Account (EPA) State Aid funding and \$1,110,620 as Transfers in Lieu of Property Taxes. Transfers in Lieu of Property Taxes reported by REALM agree to the District's books. However, it is important that the District review the calculation of LCFF funding to ascertain the validity of the amounts reported for State Aid and EPA funding.

- The District is requesting that REALM Middle School demonstrate how it reached its LCFF calculations for the Unaudited Actuals, including actual ADA numbers.

**d. Fiscal Year 2015-2016: Assets and Liabilities**

A review of Assets shows a negative cash balance of \$202,905 and a receivable of \$408,621. Assets include \$408,621 in amounts due from Grantor Governments. We are unable to ascertain if this amount is valid since the detail to substantiate this amount was not provided.

- The District is requesting proof of subsequent receipts of this receivable, by providing the District with the dates, reference numbers and amounts of subsequent receipts.

Liabilities include accounts payable of \$273,560 and Long Term Liabilities in excess of \$1.9 million. The consolidated Accounts Payable detail schedule provided with the Unaudited Actuals does not include the amount owed to the District for the High School for maintenance services provided in the amount of \$89,828. This does not impact Unaudited Actuals for the Middle School, but it will reduce the ending fund balance for the High School.

- The District is requesting a schedule to support Long Term Liabilities totaling \$1.9 million, so the District can ascertain the validity of the amount reported.

**e. Fiscal Year 2015-2016: Cash Flows**

The combined Cash Flow Statement provided with the Unaudited Actual submittal indicates that REALM Middle School had negative cash balances for September of \$5,871, October of \$49,547 and November of \$214,555. REALM received two cash advances of its in-lieu of property taxes during 2015-16, which included an advance for January 2016. Since the charter renewal, REALM has not received any additional advances on their in-lieu property taxes, which meets the condition of the renewal.

However, REALM continues to sell receivables of their future ADA revenue and property taxes to meet its expenditure obligations. On October 21, 2016, REALM sold its January 2017 State Apportionment, in-lieu of property taxes and special education revenue to receive those funds now and help with current cash deficiency. On November 14, 2016, REALM sold receivables for these same revenue sources for February 2017. These indicators of poor cash flow indicate that REALM is short on cash to meet current obligations.

**f. Fiscal Year 2015-2016: Insufficient Minimum Reserves**

The Unaudited Actual report indicates that REALM Middle Charter School will not meet the recommended minimum reserve of 3%. This demonstrates that REALM Middle School has a budget deficit, will be unable to sustain any unforeseen expenditures and may not be able to meet its current and future financial obligations.

**g. Fiscal Year 2015-2016: Overall**

Based on our review of the Unaudited Actuals for FY 2015-16, the District has noted a deterioration in REALM Middle School's financial condition, and continues to have very serious concerns about its ability to meet its ongoing financial obligations. The charter school also has not met the conditions of the charter petition renewal make additional reductions that would balance the negative balance by the end of 2016-17.

**2. Fiscal Year 2015-2016: Audited Actuals**

The audited financial statements indicate that REALM Middle School has negative net assets (ending fund balance) of \$1,146,107 at June 30, 2016. At Second Interim for 2015-16, the projected ending fund balance was negative \$1,045,662. REALM Middle School closed the books with an audited ending fund balance of \$100,445 less than projected. This is a very large negative ending fund balance as identified in REALM's recent audited financial statements. (Exhibit E)

The audit contained the following emphasis of Matter regarding Going Concern or REALM Middle School's ability to continue operating.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As noted in Note 9 to the financial statements, in the previous year, the School experienced an operating deficit, cash flow, difficulties, and did not have adequate cash reserves or accounts receivable to meet its current obligations without obtaining additional financing or funding. The School reduced the deficit for the year ended June 30, 2016, but still had an ending deficit net asset balance and required substantial financing to meet its current obligations. These factors cause substantial doubt about the Schools' ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

The Management of the Schools have noted a negative change in unrestricted net assets on the Statement of Activities:

Management has taken steps to ensure that net assets are positive by the end of the next fiscal year. They following are steps and factors that Management has identified:

- Major staffing cuts over the next two years in order to balance the budget and establish a 3% reserve.
- To make major cuts without impacting the quality of the teaching and learning as promised under the charter.
- To submit monthly financial budgets to our Authorizer, Berkeley Unified School District (BUSD) in order to maintain a correct and accurate course of action.
- Apply for additional local, regional, and statewide multi-year grants.

The ability of the School to continue as a going concern is dependent on the success of these actions. The financial statements do not include any adjustments relating to the recoverability of recorded asset amounts or the amounts of liabilities that might be necessary should the Schools be unable to continue as a going concern.

The District concurs with the auditor's concerns. These steps were noted in the prior year audited financial statements and in the charter school conditions for renewal. The conditions for charter renewal required REALM Middle School to eliminate this negative ending fund balance by the end of FY 2016-17 as noted below in the District's review of the First Interim for Fiscal Year 2016-17.



### **3. Fiscal Year 2016-2017: First Interim Report**

#### **a. Deficit Spending**

A review of the First Interim report indicates that revenues are projected to be \$2,698,432, and expenditures are projected to be \$2,810,053, with deficit spending of \$111,621. The audited beginning fund balance is negative \$1,146,107 and the audited ending fund balance is negative \$1,257,728. (**Exhibit E**)

Based on the projections included in the charter petition renewal for the combined unrestricted and restricted general fund, REALM projected a surplus of \$301,307 when in fact ended up deficit spending by \$111,621. In effect, REALM Middle missed the projection by \$412,928.

The charter school has not met the conditions of the charter petition renewal by making additional reductions that would balance the negative balance by the end of 2016-17 (See, **Exhibit A**.) The projected ending fund balance for the combined general fund grew to a negative \$1,257,728 as of 2016-17 when it was projected to be a negative \$470,428 in the petition renewal. REALM middle missed the projection for ending fund balance by \$787,300. This balance does not demonstrate financial progress toward meeting the conditions in which the charter was renewed.

The District has attached REALM Middle School's response to its First Interim review for why the projected ending balance for 2016-17 did not meet the projected ending fund balance included in the petition renewal.

- REALM should provide any additional information on why it engaged in deficit spending as shown in its First Interim Report for Fiscal Year 2016-2017.

#### **b. Revenues and Expenditure**

Overall revenues are projected to be \$417,563 less than revenues as reflected in the adopted budget, primarily due to reduction in LCFF sources. The amount reflected for In Lieu of Property taxes of \$891,820, does not agree with the funding per our records which is \$1,185,323. There is an unexplained reduction of \$293,503 in Lieu of Property Taxes. Therefore, the amount to be received from the State after in Lieu of Property Taxes will be increased by the same amount.

Expenditures at First Interim are \$143,796 less than amount at projected as reflected in the adopted budget, primarily due to a reduction in certificated salaries. REALM Middle School needs to ensure that reductions in expenditures do not impact the quality of the teaching and learning as promised under the charter.

#### **c. LCFF and LCAP**

LCFF funding total \$1.9 million and represents 72% of all funding. REALM Middle School is projected to receive \$736,085 as State Aid funding, \$315,297 as Education Protection Account (EPA) State Aid funding and \$891,820 as Transfers in Lieu of Property Taxes. As mentioned earlier, transfers in Lieu of Property Taxes reported by REALM do not agree to the District's books. It is important that the District review the calculation of LCFF funding to ascertain the validity of the amounts reported for State Aid and EPA funding.

- The District is requesting the LCFF calculations for the First Interim Report for Fiscal Year 2016-2017, and which should be submitted with each interim report. In the future the LCFF calculation should be submitted with the budget.

**d. Cash Flows**

The combined Cash Flow Statement provided with the First Interim shows a balance of \$275,766 at December 31, 2016. The Cash Flow Statement should have shown actual cash transactions as of the cut-off period and cash flow projections through June 30, 2017. Given REALM has a significant cash flow concern, staff cannot determine if REALM will have the cash available to meet its fiscal obligations through June 30, 2017 without accurate and complete information.

The conditions for renewal of the charter petition required that REALM provide monthly cash flows to the District for each school beginning with December 2015 until negative ending fund balance is resolved and 3% reserve is obtained. REALM has not met this conditional requirement (See, Exhibit A.)

Since the charter renewal, Realm has not received any advances on their in-lieu property taxes which meets the condition of the renewal. However, REALM continues to sell receivables of their future ADA revenue and property taxes to meet its expenditure obligations. On October 21, 2016, REALM sold its January 2017 State Apportionment, in-lieu of property taxes and special education revenue to receive those found now to help with current cash flow. On November 14, 2016, REALM sold the same revenue sources for February 2017 receipts. On December 13, 2016, REALM sold the same revenue sources for March and April 2017. These indicators of poor cash flow indicate that REALM is short on cash to meet current obligations. The District is requesting cash flow projections through June 30, 2017.

**e. Long Term Debt and Line of Credit**

**i. Notes Payable**

In September 2011, the Charter Schools obtained a promissory note of \$309,968 from Kaufman Constructions, Inc. The note carries annual interest rate of 8.5% and requires monthly payments of \$3,843. The note matures in September 2021. The note balance as of June 30, 2016 was \$192,300.

In October 2013, the Charter Schools obtained a loan of \$60,000 from Fred Huxman. The loan has a term of up to 10 years and carries no interest rate. The loan balance as of June 30, 2016 was \$60,000.

In February 2016, the Charter Schools obtained a promissory note of \$1,387,363 from Charter Asset Management Fund, Inc. The note carries annual interest rate of 10% and requires monthly payments of \$200,000. The note matures in March 2017. The note balance as of June 30, 2016 was \$1,284,446.

**ii. Line of Credit**

The Charter Schools have a revolving line of credit with Wells Fargo for \$100,000 with an annual interest rate of 10.25%. There was a balance of \$71,367 for the year ended June 30, 2016.

**iii. Insufficient Minimum Reserves**

The Unaudited Actual report indicates that REALM Middle Charter School will not meet the recommended minimum reserve of 3%. This demonstrates that REALM middle has a budget deficit, will be unable to sustain any unforeseen expenditures and may not be able to meet its current and future financial obligations.

**iv. Enrollment and ADA**

The state no longer requires ADA for charter schools to be reported on an in-district vs out-of-district basis for apportionment purposes; therefore, this information is not currently in REALM's Student Information System. The District reported P2 ADA for REALM Middle School for FY 2015-16 of 289.67, and 244.3 at P1 for FY 2016-17. The snapshot provided by REALM as of December 15, 2016 is 234 ADA. This is a significant drop in ADA, which will reduce future funding. This amount cannot be compared to ADA used to calculate LCFF funding since the LCFF calculator was not provided.

**4. Overall**

Based on the District's review of the Audited Actuals for Fiscal Year 2015-16 and the First Interim Budget for Fiscal Year 2016-17, the District has noted a deterioration in financial condition, and continues to have very serious concerns about the fiscal health of REALM Middle School and its ability to meet financial obligations and continue as a going concern. The charter school also has not met two of conditions of the charter petition renewal make additional reductions that would balance the negative ending balance by the end of 2016-17 and provide monthly budget and cash flow reports.

As noted in the petition renewal review, the ability of REALM Middle and High School to continue in a financially viable manner is an ongoing concern and is dependent on REALM taking the actions set forth herein, and making and additional cuts, to achieve a balanced budget.

### **III. CONCUSION**

The District provides Charter School with a remedy period ending July 1, 2017 in which to provide a written response to this Notice of Violation. In its written response, Charter School must address the violations addressed herein and identify remedial steps in all of the areas raised in the Notice of Violation, including but not limited to responses to the following requests for REALM Middle School, and including steps it will take to achieve a balanced budget:

#### **REALM HIGH SCHOOL**

- Any additional information regarding its failure to meet its ending fund balance in its First Interim Report for 2016-2017.
- The basis for the significant increase in expenses for professional/consulting services in the First Interim Report for 2016-2017.
- Cash flow projections through June 30, 2017.

#### **REALM MIDDLE SCHOOL**


- An explanation of why the ending balance for 2015-16 did not meet the projected ending fund balance included in the petition renewal.
- An explanation of the budget to actual variance for fiscal year 2015-2016.
- A demonstration of how the Charter School reached its LCFF calculations for the Unaudited Actuals, including actual ADA numbers.
- Proof of subsequent receipts of all receivables, by providing the District with the dates, reference numbers and amounts of subsequent receipts.
- A schedule to support Long Term Liabilities totaling \$1.9 million, so the District can ascertain the validity of the amount reported.
- Any additional information on why it engaged in deficit spending as shown in its First Interim Report for Fiscal Year 2016-2017.
- The District is requesting the LCFF calculations for the First Interim Report for Fiscal Year 2016-2017, and which should be submitted with each interim report.

Victor Diaz, Executive Director  
January 26, 2017  
Page 17

Please take notice that the District reserves the right to pursue revocation if Charter School fails to remedy any or all of the violations listed above. Therefore, the District intends to issue a Notice of Intent to Revoke in the event that Charter School fails to remedy any or all of the violations set forth in this notice.

Under Cal. Admin. Code tit. 5, §11968.5.2(c) and (d), the District will evaluate Charter School's written response to this Notice of Violation, and, in light of Charter School's identified remedial measures, will consider whether to proceed with the revocation of the Charter School charter.

Sincerely,



Javetta Cleveland  
Deputy Superintendent



## EXHIBIT C

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# Berkeley Unified School District

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2020 Bonar Street, Berkeley, California 94702

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paulinefollansbee@berkeley.net

*Pauline Follansbee, CPA*

*Interim Assistant Superintendent*

## MEMORANDUM

Date: August 31, 2017

To: Victor Diaz

From: Pauline Follansbee  
Interim Assistant Superintendent Business Services

Subject: REALM Response to Notice of Violations

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Per the purpose of the Notice of Violation (NOV), the District set forth findings in support of the NOV and set a remedy period of no later than June 30, 2017. Once the responses were received, the District was to assess each Charter School's response and remedies to determine whether to pursue revocation of the Charter School through issuance of a Notice of Intent to Revoke. If the District sees evidence that the charter school has failed to refute, or remedy, a violation identified in the NOV to the district's satisfaction, the district shall continue revocation of the charter by issuing a Notice of Intent to Revoke to the charter school's governing body.

I have highlighted below significant concerns with the two responses and related financial statements. However, in order to more fully document the extent of the concerns over the lack of fiscal stability, the District needs to receive and review the following:

- Enrollment projections, and related ADA projections, for each charter school
- Cash Flow projections for 2017-18 (to track cash flow borrowings)
- Balance sheets for 2016-17 (want to see debt and receivables)
- LCFF calculators to identify the reason for the double-digit increases in LCFF revenue each year

### **REALM Charter High School**

The high school charter school has failed to show that they have remedied their fiscal situation. Their 2016-17 Estimated Actual report indicates estimated deficit spending of \$(164K), with a resulting fund balance of \$79.9K, or 2%.

The 2015-16 audited financial statements included a footnote that commented on the steps needed to be taken for the school to continue as a going concern. These steps included:

- Staffing cuts during 2016-17 to balance the budget and establish a 3% reserve
- Submitting monthly financial budgets to the District to maintain a correct and accurate course of action
- Apply for, and receive, additional multi-year grants.

The district concurred with the concerns and the steps were included as conditions for renewal of the charter by the district's Board.

As of the date of the January Notice of Violations, the First Interim report had been received and reviewed by the District. The concerns expressed in the NOV are still concerns based on a review of the Estimated Actuals and Adopted Budget – deficit spending and a reserve that falls below the 3% level.

Specific financial assumptions and results reflected in the REALM Charter High School budget documents include:

- Estimated 2016-17 results significantly below those projected in the renewal petition and adopted budget
- 2016-17 deficit of \$(164,000)
- June 30, 2017 ending balance of \$80,000, only 2% instead of the 3% recommended
- LCFF increases of 7%, 15% and 9% in the budget and MYP, in an environment of small gap funding and COLAs below 2%. There were no assumptions, enrollment or otherwise, that supported these large increases in unrestricted funding.
- State revenue increases of 6% and 4% in the two years of the MYP without any discussion as to why.

Per a review of the NOV, there are several notes and loans being carried by the charters. Monthly interest on the promissory note (8.5%) from Kaufman Construction is approximately \$1,360/month, on the promissory note from Charter Asset Management Fund (10%) is \$10,700 per month (for 9 months in 2016-17), and the line of credit (at 10.25%) is \$600/month. For 2016-17, interest expense between the two charter schools should have been \$119,800. Total interest expense recognized in the Estimated Actuals for the two charter schools combined is only \$65,000, a shortfall of \$55,000.

As stated in the NOV, there is a noted deterioration in financial condition based on the information provided. There are serious concerns about the fiscal health of REALM High School and its ability to meet financial obligations and continue as a going concern. The High School charter did not meet its projected ending balance for 2016-17 and did not provide monthly budget and cash flow reports which were a condition of the petition renewal.

#### **REALM Charter Middle School**

The middle school charter has also failed to show that they have remedied their fiscal situation. Based on the projections included in the petition renewal, REALM projected a surplus of \$70,000 but ended up deficit spending in 2016-17 by \$(174,000). Their fund balance dropped from a negative \$(1,165,000) to a negative \$(1,320,000). This is certainly the definition of fiscal insolvency.

The 2015-16 audited financial statements included a footnote that commented on the steps needed to be taken for the school to continue as a going concern. These steps included:

- Staffing cuts during 2016-17 to balance the budget and establish a 3% reserve
- Submitting monthly financial budgets to the District to maintain a correct and accurate course of action
- Apply for, and receive, additional multi-year grants.

The district concurred with the concerns and the steps were included as conditions for renewal of the charter by the district's Board.

Specific financial assumptions and results reflected in the REALM Charter Middle School budget documents include:

- 2016-17 deficit spending of \$(174,000)
- June 30, 2017 ending balance of \$(1,320,000)
- In the MYP, LCFF revenues increase 29% and 13% in an environment of declining enrollment and small levels of gap funding and COLAs. There is no documentation provided to explain these huge increases in LCFF funding.
- Ending balances in 2017-18 of (1,010,000) and in 2018-19 of \$(566,000) with no explanation regarding the large surpluses that are shown each year

Per a review of the NOV, there are several notes and loans being carried by the charters. Monthly interest on the promissory note (8.5%) from Kaufman Construction is approximately \$1,360/month, on the promissory note from Charter Asset Management Fund (10%) is \$10,700 per month (for 9 months in 2016-17), and the line of credit (at 10.25%) is \$600/month. For 2016-17, interest expense between the two charter schools should have been \$119,800. Total interest expense recognized in the Estimated Actuals for the two charter schools combined is only \$65,000, a shortfall of \$55,000.

Instead of taking steps toward fiscal solvency, the financial condition of the charter school worsened in 2016-17, eliminating the ability of the charter school to continue as a going concern. The charter school has not met the conditions of the charter petition renewal by making enough reductions that would balance the negative balance by the end of 2016-17. Even when considering the multi-year projections that project inexplicable, hefty surpluses of \$300,000 to \$600,000 per year, the charter does not end the third year with a minimal 3% reserve.

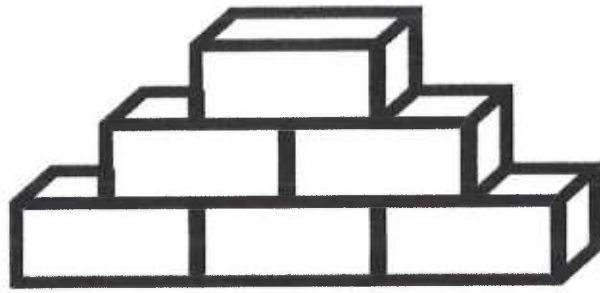
### **Summary**

The District provided the charter schools with a remedy period ending July 1, 2017 to provide a written response to the NOV. In the response, the charter school was to address the violations addressed in the NOV, including steps it will take to achieve a balanced budget. Neither charter school achieved a balanced budget by June 30, 2017. As stated in the Notice of Violation, the District reserves the right to pursue revocation if the charter schools fail to remedy any or all of the violations included therein. As outlined above, violations still exist and fiscal solvency has not been achieved.

## EXHIBIT D

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# REALM

Charter School

**REALM CHARTER SCHOOL HIGH SCHOOL**

**CHARTER RENEWAL PETITION**

**SUBMITTED TO  
BERKELEY UNIFIED SCHOOL DISTRICT**

**JULY 1, 2016 – JUNE 30, 2021**

**APPENDIX I:  
BUDGET, CASH FLOW & FINANCIAL  
PROJECTIONS**

**REALM Charter High School**  
**Expenses Summary**  
**Five Year Budget, 2016-17 to 2020-21**



SAC	SAC Code Description	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Certified Salaries</b>						
1100	Teachers' Salaries	1,414,869	1,443,166	1,472,029	1,501,470	1,531,499
1105	Teachers' Bonuses	-	-	-	-	-
1120	Substitute Expense	25,000	25,500	26,010	26,530	27,061
1200	Certificated Pupil Support Salaries	66,605	67,937	69,296	70,682	72,096
1300	Certificated Supervisor and Administrator Salaries	194,425	198,313	202,280	206,325	210,452
1305	Certificated Supervisor and Administrator Bonuses	-	-	-	-	-
1900	Other Certificated Salaries	162,750	166,005	169,325	172,712	176,166
1910	Other Certificated Overtime	-	-	-	-	-
<b>1000 Subtotal</b>		<b>\$ 1,863,649</b>	<b>\$ 1,900,922</b>	<b>\$ 1,938,940</b>	<b>\$ 1,977,719</b>	<b>\$ 2,017,273</b>

**Classified Salaries**

2100	Instructional Aide Salaries	155,415	158,523	161,694	164,928	168,226
2110	Instructional Aide Overtime	-	-	-	-	-
2200	Classified Support Salaries	-	-	-	-	-
2210	Classified Support Overtime	-	-	-	-	-
2300	Classified Supervisor and Administrator Salaries	191,213	195,038	198,938	202,917	206,976
2400	Clerical, Technical, and Office Staff Salaries	120,297	122,703	125,157	127,660	130,213
2410	Clerical, Technical, and Office Staff Overtime	-	-	-	-	-
2900	Other Classified Salaries	84,005	85,685	87,398	89,146	90,929
2905	Other Stipends	-	-	-	-	-
2910	Other Classified Overtime	-	-	-	-	-
<b>2000 Subtotal</b>		<b>\$ 550,930</b>	<b>\$ 561,948</b>	<b>\$ 573,187</b>	<b>\$ 584,651</b>	<b>\$ 596,344</b>

**Employee Benefits**

3101	State Teachers' Retirement System, certificated posi	146,404	171,293	197,118	223,909	240,606
3202	Public Employees' Retirement System, classified pos	-	-	-	-	-
3313	OASDI	77,549	79,100	80,682	82,296	83,942
3323	Medicare	35,011	35,712	36,426	37,154	37,897
3403	Health & Welfare Benefits	160,079	168,083	176,487	180,457	189,480
3503	State Unemployment Insurance	13,411	13,536	13,745	13,953	14,161
3603	Worker Compensation Insurance	28,119	39,406	40,194	40,998	41,541
3703	Other Post Employment Benefits	-	-	-	-	-
3903	Other Benefits	-	-	-	-	-
<b>3000 Subtotal</b>		<b>\$ 460,574</b>	<b>\$ 507,130</b>	<b>\$ 544,652</b>	<b>\$ 578,767</b>	<b>\$ 607,627</b>

**Total Personnel Expenses**

<b>\$ 2,875,152</b>	<b>\$ 2,970,000</b>	<b>\$ 3,056,779</b>	<b>\$ 3,141,137</b>	<b>\$ 3,221,245</b>
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**Books and Supplies**

4100	Approved Textbooks and Core Curricula Materials	15,375	15,729	16,122	16,557	17,021
4200	Books and Other Reference Materials	4,100	4,194	4,299	4,415	4,539
4300	Materials and Supplies	18,450	18,874	19,346	19,869	20,425
4315	Classroom Materials and Supplies	15,375	15,729	16,122	16,557	17,021
4400	Noncapitalized Equipment	30,750	31,457	32,244	33,114	34,041
4430	General Student Equipment	8,200	8,389	8,598	8,830	9,078
4700	Food and Food Supplies	105,484	107,910	110,608	113,594	116,775
<b>4000 Subtotal</b>		<b>\$ 197,734</b>	<b>\$ 202,282</b>	<b>\$ 207,339</b>	<b>\$ 212,937</b>	<b>\$ 218,899</b>

**Services and Other Operating Expenses**

5200	Travel and Conferences	4,100	4,194	4,299	4,415	4,539
5210	Training and Development Expense	15,375	15,729	16,122	16,557	17,021
5300	Dues and Memberships	1,538	1,573	1,612	1,656	1,702
5400	Insurance	21,525	22,020	22,571	23,180	23,829
5500	Operation and Housekeeping Services/Supplies	205,000	209,715	214,958	220,762	226,943
5501	Utilities	11,378	11,639	11,930	12,252	12,595
5505	Student Transportation / Field Trips	10,250	10,486	10,748	11,038	11,347
5600	Space Rental/Leases Expense	300,000	309,000	318,270	327,818	337,653
5601	Building Maintenance	31,500	32,225	33,030	33,922	34,872
5602	Other Space Rental	2,563	2,621	2,687	2,760	2,837
5605	Equipment Rental/Lease Expense	30,750	31,457	32,244	33,114	34,041
5610	Equipment Repair	7,688	7,864	8,061	8,279	8,510
5800	Professional/Consulting Services and Operating Exp	128,125	131,072	134,349	137,976	141,839
5803	Banking and Payroll Service Fees	3,588	3,670	3,762	3,863	3,972
5805	Legal Services and Audit	8,815	9,018	9,243	9,493	9,759
5810	Educational Consultants	-	-	-	-	-
5815	Advertising / Recruiting	10,250	10,486	10,748	11,038	11,347
5820	Fundraising Expense	5,125	5,243	5,374	5,519	5,674
5890	Interest Expense / Misc. Fees	11,275	11,534	11,823	12,142	12,482
5891	Receivables Financing Fees	179,375	174,891	139,913	90,943	45,472
5899	CMO Management Fee	-	-	-	-	-
5900	Communications	25,625	26,214	26,870	27,595	28,368

## Expenses Summary

5999	Expense Suspense	-	-	-	-	-
5000	Subtotal	\$ 1,013,843	\$ 1,030,651	\$ 1,018,612	\$ 994,322	\$ 974,801

## Capital Outlay

6900	Depreciation Expense	49,200	50,332	51,590	52,983	54,466
6000	Subtotal	\$ 49,200	\$ 50,332	\$ 51,590	\$ 52,983	\$ 54,466

## Other Outgoing

7000	Miscellaneous Expense	-	-	-	-	-
7010	Special Education Encroachment	-	-	-	-	-
7438	Debt Service - Interest	-	-	-	-	-
7500	District Oversight Fee	-	-	-	-	-
7000	Subtotal	-	-	-	-	-

## Total Non-Personnel Expenses

\$ 1,260,776	\$ 1,283,264	\$ 1,277,540	\$ 1,260,242	\$ 1,248,166
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## Total Expenses

\$ 4,135,928	\$ 4,253,264	\$ 4,334,320	\$ 4,401,379	\$ 4,469,411
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**REALM Charter High School**  
**Budget Summary**  
**Five Year Budget, 2016-17 to 2020-21**



SACS Code Description		2016-17	2017-18	2018-19	2019-20	2020-21
<b>Revenue</b>						
	State	3,904,270	4,253,182	4,319,419	4,319,739	4,320,063
	Federal	272,910	284,423	300,527	306,169	312,251
	Local	316,072	327,605	330,857	331,128	331,236
	<b>Total Revenue</b>	<b>\$ 4,493,251</b>	<b>\$ 4,865,210</b>	<b>\$ 4,950,803</b>	<b>\$ 4,957,036</b>	<b>\$ 4,963,551</b>
<b>Expenses</b>						
1000	Certificated Salaries	1,863,649	1,900,922	1,938,940	1,977,719	2,017,273
2000	Classified Salaries	550,930	561,948	573,187	584,651	596,344
3000	Benefits	460,574	507,130	544,652	578,767	607,627
4000	Books and Supplies	197,734	202,282	207,339	212,937	218,899
5000	Services and Other Operating Expenses	1,013,843	1,030,651	1,018,612	994,322	974,801
6000	Capital Outlay	49,200	50,332	51,590	52,983	54,466
7000	Other Outgoing					
	<b>Total Expenses</b>	<b>\$ 4,135,928</b>	<b>\$ 4,253,264</b>	<b>\$ 4,334,320</b>	<b>\$ 4,401,379</b>	<b>\$ 4,469,411</b>
<b>Surplus / (Deficit)</b>						
As a % of LCFF revenue		<b>357,323 \$</b> 9%	<b>611,946 \$</b> 1.5%	<b>616,483 \$</b> 1.5%	<b>555,657 \$</b> 1.3%	<b>494,140 \$</b> 1.2%
<b>Beginning Balance</b>		(47,855)	309,468	921,414	1,537,898	2,093,555
Cash + Net AR/AP						
<b>Ending Balance</b>		<b>\$ 309,468</b> 8%	<b>\$ 921,414</b> 22%	<b>\$ 1,537,898</b> 36%	<b>\$ 2,093,555</b> 49%	<b>\$ 2,587,695</b> 61%
As a % of general purpose plus cat. block grants						



**REALM Charter High School**  
**Monthly Cash Flow Projections**  
 2016-17



SAC Code Description	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Total
<b>Revenue</b>																
<b>State</b>																
8015 LCFE for all grades: state aid portion	-	95,159	95,159	171,286	171,286	171,286	171,286	171,286	134,553	100,298	77,840	53,860	-	370,740	119,139	100.00%
8012 LCFE for all grades: EPA portion	-	-	-	154,780	154,780	154,780	154,780	154,780	154,780	154,780	154,780	154,780	154,780	154,780	154,780	100.00%
8096 In-Lieu of Property Taxes, all grades	-	78,253	156,505	104,337	104,337	104,337	104,337	104,337	182,590	91,295	91,295	91,295	91,295	91,295	91,295	100.00%
8019 Prior Year Income / Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8181 Special Education (see 8290 & 8792)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8560 Lottery	-	-	15,617	-	-	-	-	-	-	-	-	-	-	-	-	-
8520 State Child Nutrition program	-	-	1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050	100.00%
8591 SB 740 Rent re-imbursment program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8590 New School Block Grant Supplement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8593 Other State funding program	-	240	240	431	431	431	431	431	339	252	196	136	-	933	300	100.00%
8599 Prior Year State Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>\$ -</b>	<b>\$ 173,651</b>	<b>\$ 267,521</b>	<b>\$ 431,884</b>	<b>\$ 277,104</b>	<b>\$ 277,104</b>	<b>\$ 447,501</b>	<b>\$ 277,104</b>	<b>\$ 318,533</b>	<b>\$ 265,292</b>	<b>\$ 170,381</b>	<b>\$ 146,340</b>	<b>\$ 262,742</b>	<b>\$ 371,673</b>	<b>\$ 119,439</b>	
<b>Federal</b>																
8220 Federal Child Nutrition Programs	-	-	-	7,344	7,344	7,344	7,344	7,344	7,344	7,344	7,344	7,344	7,344	7,344	7,344	100.00%
8290 All Other Federal Revenue, Inc SPED & Facilities b	-	-	-	-	-	-	11,500	-	-	23,000	-	-	-	11,500	0	100.00%
8291 Title I	-	-	-	-	-	-	34,348	-	-	68,697	-	-	-	34,348	0	100.00%
8292 Title II	-	-	-	-	-	-	356	-	-	712	-	-	-	356	0	100.00%
8293 Title III	-	-	-	-	-	-	3,663	-	-	7,326	-	-	-	3,663	0	100.00%
8294 Title IV	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	-
8295 Title V	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8299 Prior Year Federal Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,344</b>	<b>\$ 7,344</b>	<b>\$ 7,344</b>	<b>\$ 57,211</b>	<b>\$ 7,344</b>	<b>\$ 7,344</b>	<b>\$ 107,079</b>	<b>\$ 7,344</b>	<b>\$ 57,211</b>	<b>\$ 7,344</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Local</b>																
8660 Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	-
8732 All Other Transfers from County Offices	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8734 All Other Transfers from Other Locations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8735 CMO Management fee	-	-	22,567	22,567	22,567	22,567	22,567	22,567	22,567	22,567	22,567	22,567	22,567	22,567	22,567	100.00%
8792 Transfers of Appointments from County Offices	-	-	1,040	1,040	1,040	1,040	1,040	1,040	1,040	1,040	1,040	1,040	1,040	1,040	1,040	100.00%
8980 Student Lunch Revenue	-	-	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	100.00%
8982 Foundation Grants	-	-	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	100.00%
8983 All Other Local Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8984 Student Body (ASB) Fundraising Revenue	-	-	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	100.00%
8985 School Site Fundraising	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8986 Rental Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8989 Fees for Service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8999 Revenue Suspense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,607</b>	<b>\$ 31,607</b>	<b>\$ 31,607</b>	<b>\$ 31,607</b>	<b>\$ 31,607</b>	<b>\$ 31,607</b>	<b>\$ 31,607</b>	<b>\$ 31,607</b>	<b>\$ 31,607</b>	<b>\$ 31,607</b>	<b>\$ 31,607</b>	<b>\$ 31,607</b>	<b>\$ 31,607</b>	
<b>Total</b>	<b>\$ -</b>	<b>\$ 173,651</b>	<b>\$ 299,128</b>	<b>\$ 470,835</b>	<b>\$ 316,055</b>	<b>\$ 316,055</b>	<b>\$ 536,520</b>	<b>\$ 316,055</b>	<b>\$ 357,484</b>	<b>\$ 501,978</b>	<b>\$ 209,332</b>	<b>\$ 235,159</b>	<b>\$ 270,086</b>	<b>\$ 371,673</b>	<b>\$ 119,439</b>	
<b>Expenses</b>																
<b>Certificated Salaries</b>																
1100 Teachers' Salaries	-	-	141,487	141,487	141,487	141,487	141,487	141,487	141,487	141,487	141,487	141,487	141,487	141,487	141,487	100.00%
1105 Teachers' Bonuses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1120 Substitute Expense	-	-	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	100.00%
1200 Certificated Pupil Support Salaries	-	-	6,661	6,661	6,661	6,661	6,661	6,661	6,661	6,661	6,661	6,661	6,661	6,661	6,661	100.00%
1300 Certificated Supervisor and Administrator Salaries	-	-	16,137	16,137	16,137	16,137	16,137	16,137	16,332	16,332	16,332	16,332	16,332	16,332	16,332	100.00%
1305 Certificated Supervisor and Administrator Bonuses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1900 Other Certificated Salaries	-	-	13,508	13,508	13,508	13,508	13,508	13,508	13,671	13,671	13,671	13,671	13,671	13,671	13,671	100.00%
1910 Other Certificated Overtime	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>\$ 29,646</b>	<b>\$ 29,646</b>	<b>\$ 180,293</b>	<b>\$ 180,293</b>	<b>\$ 180,293</b>	<b>\$ 180,293</b>	<b>\$ 180,293</b>	<b>\$ 180,293</b>	<b>\$ 180,650</b>	<b>\$ 180,650</b>	<b>\$ 180,650</b>	<b>\$ 180,650</b>	<b>\$ 180,650</b>	<b>\$ 180,650</b>	<b>\$ 180,650</b>	
<b>Classified Salaries</b>																
2100 Instructional Aide Salaries	-	-	15,542	15,542	15,542	15,542	15,542	15,542	15,542	15,542	15,542	15,542	15,542	15,542	15,542	100.00%
2110 Instructional Aide Overtime	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2200 Classified Support Salaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2210 Classified Support Overtime	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2300 Classified Supervisor and Administrator Salaries	-	-	15,871	15,871	15,871	15,871	15,871	15,871	16,062	16,062	16,062	16,062	16,062	16,062	16,062	100.00%
2400 Clerical, Technical, and Office Staff Salaries	-	-	9,985	9,985	9,985	9,985	9,985	9,985	10,105	10,105	10,105	10,105	10,105	10,105	10,105	100.00%
2410 Clerical, Technical, and Office Staff Overtime	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2900 Other Classified Salaries	-	-	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	100.00%
2905 Other Salaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2910 Other Classified Overtime	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

[illegible]

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DATE	DESCRIPTION	AMOUNT	BALANCE
1/1/51	TO BALANCE		347.127
1/1/51	BY BALANCE	302.250	
1/1/51	BY BALANCE		347.127

DATE	DESCRIPTION	AMOUNT	BALANCE
1/1/51	TO BALANCE		347.127
1/1/51	BY BALANCE	302.250	
1/1/51	BY BALANCE		347.127

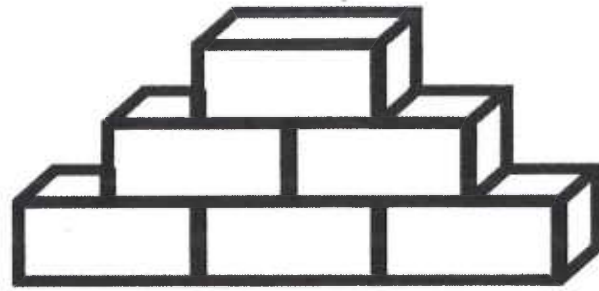
S8X719) S8440  
(S745 1661) S84771  
CEA 2001

S8X719) S8440  
(S745 1661) S84771  
CEA 2001

**REALM Charter High School**  
**Budget Summary**  
**Five Year Budget, 2016-17 to 2020-21**



SACS Code Description	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Revenue</b>					
State	3,904,270	4,253,182	4,319,419	4,319,739	4,320,063
Federal	272,910	284,423	300,527	306,169	312,251
Local	316,072	327,605	330,857	331,128	331,236
<b>Total Revenue</b>	<b>\$ 4,493,251</b>	<b>\$ 4,865,210</b>	<b>\$ 4,950,803</b>	<b>\$ 4,957,036</b>	<b>\$ 4,963,551</b>
<b>Expenses</b>					
1000 Certificated Salaries	1,863,649	1,900,922	1,938,940	1,977,719	2,017,273
2000 Classified Salaries	550,930	561,948	573,187	584,651	596,344
3000 Benefits	460,574	507,130	544,652	578,767	607,627
4000 Books and Supplies	197,734	202,282	207,339	212,937	218,899
5000 Services and Other Operating Expenses	1,013,843	1,030,651	1,018,612	994,322	974,801
6000 Capital Outlay	49,200	50,332	51,590	52,983	54,466
7000 Other Outgoing					
<b>Total Expenses</b>	<b>\$ 4,135,928</b>	<b>\$ 4,253,264</b>	<b>\$ 4,334,320</b>	<b>\$ 4,401,379</b>	<b>\$ 4,469,411</b>
<b>Surplus / (Deficit)</b>	<b>\$ 357,323</b>	<b>\$ 611,946</b>	<b>\$ 616,483</b>	<b>\$ 555,657</b>	<b>\$ 494,140</b>
As a % of LCFF revenue	9%	15%	15%	13%	12%
<b>Beginning Balance</b>	(47,855)	309,468	921,414	1,537,898	2,093,555
Cash + Net AR/AP					
<b>Ending Balance</b>	<b>\$ 309,468</b>	<b>\$ 921,414</b>	<b>\$ 1,537,898</b>	<b>\$ 2,093,555</b>	<b>\$ 2,587,695</b>
As a % of general purpose plus cat. block grants	8%	22%	36%	49%	61%



# REALM

Charter School

**REALM CHARTER SCHOOL MIDDLE SCHOOL**

**CHARTER RENEWAL PETITION**

**SUBMITTED TO  
BERKELEY UNIFIED SCHOOL DISTRICT**

**JULY 1, 2016 – JUNE 30, 2021**

**APPENDIX I:  
BUDGET, CASH FLOW & FINANCIAL  
PROJECTIONS**



**REALM Charter Middle School**  
**Expenses Summary**  
**Five Year Budget, 2016-17 to 2020-21**



**SAC's SAC Code Description**

2016-17      2017-18      2018-19      2019-20      2020-21

**Certificated Salaries**

1100	Teacher Salaries	1,030,056	1,050,657	1,071,671	1,093,104	1,114,966
1105	Teacher - Substitute	-	-	-	-	-
1120	Substitute Expense	-	-	-	-	-
1200	Certificated Pupil Support Salaries	66,605	67,937	69,296	70,682	72,096
1300	Certificated Supervisor and Administrator Salaries	149,644	152,637	155,690	158,804	161,980
1305	Certificated Supervisor and Administrator Bonuses	-	-	-	-	-
1400	Other Certificated Salaries	82,750	84,405	85,410	86,434	87,480
1500	Other Certificated Overtime	-	-	-	-	-
<b>1000 Subtotal</b>		<b>\$ 1,329,056</b>	<b>\$ 1,355,637</b>	<b>\$ 1,382,066</b>	<b>\$ 1,409,024</b>	<b>\$ 1,436,521</b>

**Classified Salaries**

2100	Instructional Aide Salaries	92,465	94,314	94,314	94,314	94,314
2110	Instructional Aide Overtime	-	-	-	-	-
2200	Classified Support Salaries	-	-	-	-	-
2210	Classified Support Overtime	-	-	-	-	-
2300	Classified Support and Administrator Salaries	59,023	60,203	61,407	62,635	63,888
2400	Classified Technical and Office Staff Salaries	103,057	105,118	106,659	108,231	109,835
2410	Classified Technical and Office Staff Overtime	-	-	-	-	-
2500	Other Classified Salaries	33,394	34,062	34,062	34,062	34,062
2600	Other Classified Overtime	-	-	-	-	-
<b>2000 Subtotal</b>		<b>\$ 287,938</b>	<b>\$ 293,697</b>	<b>\$ 296,442</b>	<b>\$ 299,242</b>	<b>\$ 302,099</b>

**Employee Benefits**

3101	State Teachers' Retirement System, certificated post	85,578	100,126	115,222	130,882	140,642
3202	Public Employees' Retirement System, classified post	-	-	-	-	-
3211	DA-SOI	58,077	59,238	60,187	61,154	62,141
3203	Medicare	23,446	23,915	24,338	24,770	25,210
3204	Health & Welfare Benefits	90,698	95,233	99,994	104,994	110,244
3403	State Life/Disability Insurance	9,885	9,978	10,131	10,285	10,438
3402	Worker's Compensation Insurance	26,603	26,389	26,856	27,332	27,818
3702	Other Payer Employment Benefits	-	-	-	-	-
3602	Other Benefits	-	-	-	-	-
<b>3000 Subtotal</b>		<b>\$ 294,287</b>	<b>\$ 314,879</b>	<b>\$ 336,729</b>	<b>\$ 359,417</b>	<b>\$ 376,492</b>

**Total Personnel Expenses**

<b>\$ 1,911,280</b>	<b>\$ 1,964,213</b>	<b>\$ 2,015,237</b>	<b>\$ 2,067,683</b>	<b>\$ 2,115,112</b>
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Expenses Summary

Books and Supplies

4100	Approved Textbooks and Core Curricula Materials	10,250	10,486	10,748	11,038	11,347
4200	Books and Other Reference Materials	3,075	3,146	3,224	3,311	3,404
4300	Materials and Supplies	15,375	15,729	16,122	16,557	17,021
4315	Classroom Materials and Supplies	10,250	10,486	10,748	11,038	11,347
4400	Noncapitalized Equipment	25,625	26,214	26,870	27,595	28,368
4430	General Student Equipment	7,175	7,340	7,524	7,727	7,943
4700	Food and Food Supplies	71,750	73,400	75,235	77,267	79,430
4000	Subtotal	\$ 143,500	\$ 146,801	\$ 150,471	\$ 154,533	\$ 158,860

Services and Other Operating Expenses

5200	Travel and Conferences	4,100	4,194	4,299	4,415	4,539
5210	Training and Development Expense	11,275	11,534	11,823	12,142	12,482
5300	Dues and Memberships	1,538	1,573	1,612	1,656	1,702
5400	Insurance	18,450	18,874	19,346	19,869	20,425
5500	Operation and Housekeeping Services/Supplies	30,750	31,457	32,244	33,114	34,041
5501	Utilities	10,250	10,486	10,748	11,038	11,347
5505	Student Transportation / Field Trips	5,125	5,243	5,374	5,519	5,674
5600	Space Rental/Leases Expense	410,000	422,300	434,969	448,018	461,459
5601	Building Maintenance	87,125	89,129	91,357	93,824	96,451
5602	Other Space Rental	2,563	2,621	2,687	2,760	2,837
5605	Equipment Rental/Lease Expense	20,500	20,972	21,496	22,076	22,694
5610	Equipment Repair	7,688	7,864	8,061	8,279	8,510
5800	Professional/Consulting Services and Operating Exp	25,625	26,214	26,870	27,595	28,368
5803	Banking and Payroll Service Fees	3,588	3,670	3,762	3,863	3,972
5805	Legal Services and Audit	7,175	7,340	7,524	7,727	7,943
5810	Educational Consultants	-	-	-	-	-
5815	Advertising / Recruiting	6,150	6,291	6,449	6,623	6,808
5820	Fundraising Expense	5,125	5,243	5,374	5,519	5,674
5890	Interest Expense / Misc. Fees	11,275	11,534	11,823	12,142	12,482
5891	Receivables Financing Fees	128,125	124,922	99,938	64,959	32,480
5899	CMO Management Fee	-	-	-	-	-
5900	Communications	15,375	15,729	16,122	16,557	17,021
5999	Expense Suspense	-	-	-	-	-
5000	Subtotal	\$ 811,800	\$ 827,191	\$ 821,875	\$ 807,694	\$ 796,907

Capital Outlay

6900	Depreciation Expense	141,450	144,703	148,321	152,326	156,591
6000	Subtotal	\$ 141,450	\$ 144,703	\$ 148,321	\$ 152,326	\$ 156,591

Other Outgoing

7000	Miscellaneous Expense	-	-	-	-	-
7010	Special Education Encroachment	-	-	-	-	-
7438	Debt Service - Interest	-	-	-	-	-
7500	District Oversight Fee	-	-	-	-	-
7000	Subtotal	-	-	-	-	-

# Expenses Summary

Total Non-Personnel Expenses

Total Expenses

\$	1,096,750	\$	1,118,695	\$	1,120,667	\$	1,114,553	\$	1,112,358
\$	3,008,030	\$	3,082,908	\$	3,135,903	\$	3,182,236	\$	3,227,470

**REALM Charter Middle School**  
**Budget Summary**  
 Five Year Budget, 2016-17 to 2020-21



SACS Code Description	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Revenue</b>					
State	2,779,345	2,846,170	2,936,634	2,936,910	2,937,189
Federal	220,085	226,391	229,502	236,172	240,865
Local	309,907	309,638	314,132	314,470	314,735
<b>Total Revenue</b>	<b>\$ 3,309,338</b>	<b>\$ 3,382,199</b>	<b>\$ 3,480,268</b>	<b>\$ 3,487,552</b>	<b>\$ 3,492,789</b>

<b>Expenses</b>					
1000 Certificated Salaries	1,329,056	1,355,637	1,382,066	1,409,024	1,436,521
2000 Classified Salaries	287,938	293,697	296,442	299,242	302,099
3000 Benefits	294,287	314,879	336,729	359,417	376,492
4000 Books and Supplies	143,500	146,801	150,471	154,533	158,860
5000 Services and Other Operating Expenses	811,800	827,191	821,875	807,694	796,907
6000 Capital Outlay	141,450	144,703	148,321	152,326	156,591
7000 Other Outgoing					
<b>Total Expenses</b>	<b>\$ 3,008,030</b>	<b>\$ 3,082,908</b>	<b>\$ 3,135,903</b>	<b>\$ 3,182,236</b>	<b>\$ 3,227,470</b>

<b>Surplus / (Deficit)</b>	<b>\$ 301,307</b>	<b>\$ 299,291</b>	<b>\$ 344,365</b>	<b>\$ 305,316</b>	<b>\$ 265,319</b>
As a % of LCF revenue	12%	12%	13%	12%	10%
<b>Beginning Balance</b>	<b>(837,310)</b>	<b>(536,003)</b>	<b>(236,711)</b>	<b>107,653</b>	<b>412,969</b>
Cash + Net AR/AP					
<b>Ending Balance</b>	<b>\$ (536,003)</b>	<b>\$ (236,711)</b>	<b>\$ 107,653</b>	<b>\$ 412,969</b>	<b>\$ 678,288</b>
As a % of general purpose plus cat. block grants	-22%	-9%	4%	16%	26%

**REALM Charter Middle School**  
**Monthly Cash Flow Projections**  
 2016-17



SAC Code Description	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Total
Revenue																
State																
8015 LCFE for all grades, state aid portion	-	53,175	53,175	95,716	95,716	95,716	95,716	95,716	75,190	56,047	43,497	30,097	-	207,171	-	100.00%
8066 In-Lieu of Property Taxes, all grades	-	-	-	102,301	-	-	102,301	-	-	102,301	-	-	-	102,301	-	100.00%
8019 Prior Year Income / Adjustments	-	60,722	121,444	80,963	80,963	80,963	80,963	80,963	141,655	70,842	70,842	70,842	-	70,842	-	100.00%
8181 Special Education (see 8290 & 8792)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8360 Lottery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8320 State Child Nutrition program	-	-	12,115	-	-	-	-	-	-	-	-	-	-	-	-	100.00%
8391 SB 740 Rent re-imbursment program	-	-	-	890	890	890	890	890	890	890	890	890	0	12,115	0	100.00%
8390 New School Block Grant Supplement	-	-	-	116,494	-	-	116,494	-	-	-	-	-	0	890	0	100.00%
8393 Other State funding program	-	-	-	-	-	-	-	-	-	-	-	-	0	890	0	100.00%
8399 Prior Year State Income	-	213	213	383	383	383	383	383	301	224	174	120	-	-	-	100.00%
Subtotal	\$ -	\$ 114,110	\$ 186,947	\$ 396,746	\$ 177,951	\$ 177,951	\$ 293,267	\$ 177,951	\$ 334,559	\$ 242,419	\$ 115,404	\$ 101,950	\$ 186,148	\$ 208,000	\$ 66,542	
Federal																
8220 Federal Child Nutrition Programs	-	-	-	6,324	6,324	6,324	6,324	6,324	6,324	6,324	6,324	6,324	6,324	6,324	6,324	100.00%
8290 All Other Federal Revenue, inc SPED & Facilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100.00%
8291 Title I	-	-	-	-	-	-	9,500	-	-	19,000	-	-	0	9,500	0	100.00%
8292 Title II	-	-	-	-	-	-	26,366	-	-	32,732	-	-	0	26,366	0	100.00%
8293 Title III	-	-	-	-	-	-	348	-	-	697	-	-	0	348	0	100.00%
8294 Title IV	-	-	-	-	-	-	2,997	-	-	5,994	-	-	0	2,997	0	100.00%
8295 Title V	-	-	-	-	-	-	-	-	-	-	-	-	0	-	0	100.00%
8299 Prior Year Federal Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100.00%
Subtotal	\$ -	\$ -	\$ -	\$ 6,324	\$ 6,324	\$ 6,324	\$ 45,535	\$ 6,324	\$ 6,324	\$ 84,747	\$ 6,324	\$ 45,535	\$ 6,324	\$ -	\$ -	
Local																
8660 Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8782 All Other Transfers from County Offices	-	-	-	-	-	-	-	-	-	-	-	-	0	-	0	100.00%
8784 All Other Transfers from Other Locations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8785 CMO Management fee	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8792 Transfers of Apportionments from County Offices	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8980 Student Lunch Revenue	-	18,341	18,341	18,341	18,341	18,341	18,341	18,341	18,341	18,341	18,341	18,341	0	18,341	0	100.00%
8982 Foundation Grants	-	893	893	893	893	893	893	893	893	893	893	893	0	893	0	100.00%
8983 All Other Local Revenue	-	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	0	7,500	0	100.00%
8984 Student Body (ASB) Fundraising Revenue	-	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	0	3,000	0	100.00%
8985 School Site Fundraising	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8986 Rental Income	-	500	500	500	500	500	500	500	500	500	500	500	0	500	0	100.00%
8989 Fees for Service	-	-	-	-	-	-	-	-	-	-	-	-	756	0	0	100.00%
8999 Revenue Suspense	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0	100.00%
Subtotal	\$ -	\$ -	\$ -	\$ 30,234	\$ 30,234	\$ 30,234	\$ 30,234	\$ 30,234	\$ 30,234	\$ 30,234	\$ 30,234	\$ 30,991	\$ -	\$ -	\$ -	
Total	\$ -	\$ 114,110	\$ 217,182	\$ 433,304	\$ 214,509	\$ 214,509	\$ 368,137	\$ 214,509	\$ 371,118	\$ 357,400	\$ 151,962	\$ 178,476	\$ 192,472	\$ 208,000	\$ 66,542	
Expenses																
Certificated Salaries																
1100 Teachers' Salaries	-	103,006	103,006	103,006	103,006	103,006	103,006	103,006	103,006	103,006	103,006	103,006	-	-	-	100.00%
1105 Teachers' Bonuses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1120 Substitute Expense	-	6,661	6,661	6,661	6,661	6,661	6,661	6,661	6,661	6,661	6,661	6,661	-	-	-	100.00%
1200 Certificated Pupil Support Salaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1300 Certificated Supervisor and Administrator Salaries	-	12,420	12,420	12,420	12,420	12,420	12,420	12,420	12,420	12,420	12,420	12,420	-	-	-	100.00%
1305 Certificated Supervisor and Administrator Bonuses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1900 Other Certificated Salaries	-	6,868	6,868	6,868	6,868	6,868	6,868	6,868	6,951	6,951	6,951	6,951	-	-	-	100.00%
1910 Other Certificated Overtime	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	\$ 19,289	\$ 19,289	\$ 128,955	\$ 128,955	\$ 128,955	\$ 128,955	\$ 128,955	\$ 128,955	\$ 129,187	\$ 129,187	\$ 129,187	\$ 129,187	-	-	-	100.00%
Classified Salaries																
2100 Instructional Aide Salaries	-	9,247	9,247	9,247	9,247	9,247	9,247	9,247	9,247	9,247	9,247	9,247	-	-	-	100.00%
2110 Instructional Aide Overtime	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2200 Classified Support Salaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2210 Classified Support Overtime	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2300 Classified Supervisor and Administrator Salaries	-	4,899	4,899	4,899	4,899	4,899	4,899	4,899	4,958	4,958	4,958	4,958	-	-	-	100.00%
2400 Clerical, Technical, and Office Staff Salaries	-	8,554	8,554	8,554	8,554	8,554	8,554	8,554	8,657	8,657	8,657	8,657	-	-	-	100.00%
2410 Clerical, Technical, and Office Staff Overtime	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2500 Other Classified Salaries	-	3,339	3,339	3,339	3,339	3,339	3,339	3,339	3,339	3,339	3,339	3,339	-	-	-	100.00%
2505 Other Stipends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2910 Other Classified Overtime	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100.00%



2000 Subtotal \$ 13,453 \$ 13,453 \$ 26,038 \$ 26,038 \$ 26,038 \$ 26,038 \$ 26,038 \$ 26,201 \$ 26,201 \$ 26,201 \$ 26,201

**Employee Benefits**

3101 State Teachers' Retirement System, certificated post	1,712	1,712	8,558	8,558	8,558	8,558	8,558	8,558	8,558	8,558	8,558	5,135	100.00%
3202 Public Employees' Retirement System, classified post	1,162	1,162	5,808	5,808	5,808	5,808	5,808	5,808	5,808	5,808	5,808	3,485	100.00%
3313 OASDI	469	469	2,345	2,345	2,345	2,345	2,345	2,345	2,345	2,345	2,345	1,407	100.00%
3323 Welfare	1,814	1,814	9,070	9,070	9,070	9,070	9,070	9,070	9,070	9,070	9,070	5,442	100.00%
3403 Health & Welfare Benefits	198	198	989	989	989	989	989	989	989	989	989	593	100.00%
3503 State Unemployment Insurance	532	532	2,660	2,660	2,660	2,660	2,660	2,660	2,660	2,660	2,660	1,596	100.00%
3603 Worker Compensation Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-
3703 Other Post Employment Benefits	-	-	-	-	-	-	-	-	-	-	-	-	-
3903 Other Benefits	-	-	-	-	-	-	-	-	-	-	-	-	-
5000 Subtotal	\$ 5,886	\$ 5,886	\$ 29,429	\$ 29,429	\$ 29,429	\$ 29,429	\$ 29,429	\$ 29,429	\$ 29,429	\$ 29,429	\$ 29,429	\$ 17,657	100.00%

**Books and Supplies**

4100 Approved Textbooks and Core Curricula Materials	6,150	6,150	308	308	308	308	308	308	308	308	308	308	100.00%
4200 Books and Other Reference Materials	923	923	4,613	4,613	4,613	4,613	4,613	4,613	4,613	4,613	4,613	4,613	100.00%
4300 Materials and Supplies	3,075	3,075	1,025	1,025	1,025	1,025	1,025	1,025	1,025	1,025	1,025	1,025	100.00%
4315 Classroom Materials and Supplies	2,127	2,127	2,127	2,127	2,127	2,127	2,127	2,127	2,127	2,127	2,127	2,127	100.00%
4400 Noncapitalized Equipment	4,305	4,305	7,175	7,175	7,175	7,175	7,175	7,175	7,175	7,175	7,175	7,175	100.00%
4420 General Student Equipment	7,175	7,175	7,175	7,175	7,175	7,175	7,175	7,175	7,175	7,175	7,175	7,175	100.00%
4700 Food and Food Supplies	2,127	2,127	29,904	15,247	10,654	10,654	22,217	10,654	10,660	10,660	9,328	9,328	100.00%
5000 Subtotal	\$ 2,127	\$ 2,127	\$ 29,904	\$ 15,247	\$ 10,654	\$ 10,654	\$ 22,217	\$ 10,654	\$ 10,660	\$ 10,660	\$ 9,328	\$ 9,328	100.00%

**Services and Other Operating Expenses**

5200 Travel and Conferences	1,230	1,128	410	410	410	410	410	410	410	410	410	410	100.00%
5210 Training and Development Expense	3,383	1,128	1,128	1,128	1,128	1,128	1,128	1,128	1,128	1,128	1,128	1,128	100.00%
5300 Dues and Memberships	461	154	154	154	154	154	154	154	154	154	154	154	100.00%
5400 Insurance	5,555	1,845	1,845	1,845	1,845	1,845	1,845	1,845	1,845	1,845	1,845	1,845	100.00%
5500 Operation and Housekeeping Services/Supplies	18,450	1,025	1,025	1,025	1,025	1,025	1,025	1,025	1,025	1,025	1,025	1,025	100.00%
5501 Utilities	1,025	513	513	513	513	513	513	513	513	513	513	513	100.00%
5505 Student Transportation / Field Trips	41,000	41,000	41,000	41,000	41,000	41,000	41,000	41,000	41,000	41,000	41,000	41,000	100.00%
5600 Space Rental/Lessons Expense	4,356	7,841	7,841	7,841	7,841	7,841	7,841	7,841	7,841	7,841	7,841	7,841	100.00%
5601 Building Maintenance	128	231	231	231	231	231	231	231	231	231	231	231	100.00%
5602 Other Space Rental	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	100.00%
5605 Equipment Rental/Less Expense	769	769	769	769	769	769	769	769	769	769	769	769	100.00%
5800 Professional Consulting Services and Operating Exp	179	179	2,563	2,563	2,563	2,563	2,563	2,563	2,563	2,563	2,563	2,563	100.00%
5803 Banking and Payroll Service Fees	359	359	646	646	646	646	646	646	646	646	646	646	100.00%
5805 Legal Services and Audit	-	-	-	-	-	-	-	-	-	-	-	-	-
5810 Educational Consultants	308	308	554	554	554	554	554	554	554	554	554	554	100.00%
5815 Advertising, Recruiting	256	256	461	461	461	461	461	461	461	461	461	461	100.00%
5820 Fundraising Expense	1,128	1,128	1,128	1,128	1,128	1,128	1,128	1,128	1,128	1,128	1,128	1,128	100.00%
5890 Interest Expense / Misc Fees	12,813	12,813	12,813	12,813	12,813	12,813	12,813	12,813	12,813	12,813	12,813	12,813	100.00%
5891 Receivables Financing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-
5899 CMO Management Fee	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	100.00%
5900 Communications	-	-	-	-	-	-	-	-	-	-	-	-	-
5999 Expense Suspense	6,862	6,862	102,249	76,726	76,726	76,726	89,026	76,726	76,742	76,742	73,206	73,206	100.00%
5000 Subtotal	\$ 6,862	\$ 6,862	\$ 102,249	\$ 76,726	\$ 76,726	\$ 76,726	\$ 89,026	\$ 76,726	\$ 76,742	\$ 76,742	\$ 73,206	\$ 73,206	100.00%

**Capital Outlay**

6901 Depreciation Expense	46,679	48,093	46,679										100.00%
6000 Subtotal	\$ 46,679	\$ 48,093	\$ 46,679										100.00%

**Other Outgoing**

7000 Miscellaneous Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
7010 Special Education Enrichment	-	-	-	-	-	-	-	-	-	-	-	-	-
7458 Debt Service - Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
7500 District Oversight Fee	-	-	-	-	-	-	-	-	-	-	-	-	-
7000 Subtotal	\$ 94,295	\$ 95,709	\$ 363,254	\$ 276,395	\$ 271,783	\$ 271,783	\$ 295,665	\$ 271,783	\$ 272,218	\$ 272,218	\$ 267,349	\$ 255,578	100.00%

**Total Expenses**

Additional items needed for cash flow	17,437												
Cash balance at previous year end													
Accounts Receivable													
Accounts Payable	100,000	(25,000)	150,000	(150,000)	50,000	75,000	(50,000)	-	(50,000)	(100,000)	100,000	75,000	
Net Receivable Transactions	117,437	(25,000)	150,000	(150,000)	50,000	75,000	(50,000)	-	(50,000)	(100,000)	100,000	75,000	
Subtotal													

**Monthly Operating Surplus (Deficit)**

	(\$94,295)	\$18,401	(\$146,072)	\$156,909	(\$57,273)	\$57,273	(\$57,273)	\$98,899	\$85,182	(\$115,587)	(\$72,402)		
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**Total Monthly Surplus (Deficit)**

	\$23,142	(\$86,809)	\$3,928	\$6,909	(\$7,273)	\$17,727	\$22,471	(\$57,273)	\$48,899	(\$148,819)	(\$15,587)	(\$2,402)	
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**Projected Monthly Cash Balance**

	\$23,142	\$16,543	\$20,471	\$27,380	\$20,106	\$37,833	\$60,204	\$3,031	\$51,930	\$37,112	\$21,725	\$19,623	
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**REALM Charter Middle School**  
**Budget Summary**  
**Five Year Budget, 2016-17 to 2020-21**



SACS Code Description	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Revenue</b>					
State	2,779,345	2,846,170	2,936,634	2,936,910	2,937,189
Federal	220,085	226,391	229,502	236,172	240,865
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<b>Total Revenue</b>	<b>\$ 3,309,338</b>	<b>\$ 3,382,199</b>	<b>\$ 3,480,268</b>	<b>\$ 3,487,552</b>	<b>\$ 3,492,789</b>
<b>Expenses</b>					
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7000 Other Outgoing					
<b>Total Expenses</b>	<b>\$ 3,008,030</b>	<b>\$ 3,082,908</b>	<b>\$ 3,135,903</b>	<b>\$ 3,182,236</b>	<b>\$ 3,227,470</b>
<b>Surplus / (Deficit)</b>	<b>\$ 301,307</b>	<b>\$ 299,291</b>	<b>\$ 344,365</b>	<b>\$ 305,316</b>	<b>\$ 265,319</b>
As a % of LCFF revenue	12%	12%	13%	12%	10%
<b>Beginning Balance</b>	(837,310)	(536,003)	(236,711)	107,653	412,969
Cash + Net AR/AP					
<b>Ending Balance</b>	<b>\$ (536,003)</b>	<b>\$ (236,711)</b>	<b>\$ 107,653</b>	<b>\$ 412,969</b>	<b>\$ 678,288</b>
As a % of general purpose plus cat. block grants	-22%	-9%	4%	16%	26%

# EXHIBIT E

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Berkeley Unified School District

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www.berkeleyschools.net  
paulinefollansbee@berkeley.net

**Pauline Follansbee,  
Interim Assistant Superintendent**

October 20, 2017

Mr. Victor Diaz  
REALM Charter High School  
1442 A Walnut Street #172  
Berkeley, CA 94709

**FISCAL EVALUATION OF REALM CHARTER HIGH SCHOOL ADOPTED BUDGET  
2017-18 AND UNAUDITED ACTUALS 2016-17**

Dear Mr. Diaz,

In accordance with Education Code Section 47604.33, we have reviewed the Adopted Budget for FY 2017-18 and Unaudited Actuals for 2016-17 for **REALM High School:**

Our oversight responsibility includes monitoring the fiscal condition of the Charter school through review of State required financial reports that include REALM's adopted budget, interim budget reports and the unaudited and audited financial statements.

**HIGH SCHOOL ADOPTED BUDGET 2017-18**

The high school charter school has failed to show that they have remedied their fiscal situation. Their 2016-17 Estimated Actual report indicates estimated deficit spending of \$(164K), with a resulting fund balance of \$79.9K, or 2%. As of the date of the January Notice of Violations, the First Interim report had been received and reviewed by the District. The concerns expressed in the NOV are still concerns based on a review of the Estimated Actuals and Adopted Budget – deficit spending and a reserve that falls below the 3% level.

**Deficit Spending and Going Concern**

As of the Adopted Budget, the high school charter has failed to show that they have remedied their fiscal situation. There is a continued deterioration in financial condition based on the information provided. There are serious concerns about the fiscal health of REALM High School and its ability to meet financial obligations and continue as a going concern. The High School charter did not meet its projected ending balance for 2016-17 and did not provide monthly budget and cash flow reports which were a condition of the petition renewal.

Specific financial assumptions and results reflected in the REALM Charter High School budget documents include:

- Estimated 2016-17 results significantly below those projected in the renewal petition and adopted budget
- 2016-17 estimated actual deficit of \$(164,000)
- June 30, 2017 estimated ending balance of \$80,000, only 2% instead of the 3% recommended
- LCFF increases of 7%, 15% and 9% in the budget and MYP, in an environment of small gap funding and COLAs below 2%. There were no assumptions, enrollment or otherwise, that supported these large increases in unrestricted funding.
- State revenue increases of 6% and 4% in the two years of the MYP without any discussion as to why.

### **Adopted Budget Versus Estimated Actual**

Per a review of the REALM High Charter School budget and estimated actual results for 2016-17, there are concerns as to the accuracy of the submitted budget for 2017-18. Without specific budget assumptions for revenue changes and expenditure reductions, it is unclear if the budgeted surplus for the current year will materialize. Based on the projections included in the charter petition renewal for the combined unrestricted and restricted general fund, REALM High projected a surplus of \$357,324 at second interim yet had estimated actual deficit spending of \$(163,732). In effect, REALM High missed last year's budgeted surplus by \$521K.

### **LCFF and LCAP**

LCFF funding totals \$3.4 million and represents 74% of all funding. REALM High School is projected to receive \$1.49M as State Aid funding, \$496K as Education Protection Account (EPA) State Aid funding and \$1.39M as Transfers in Lieu of Property Taxes. Funding per the LCFF Calculator agrees to the amount budgeted by the REALM High School.

### **Enrollment and ADA**

The District reported P1 ADA for FY 2016-17 328.37 and 321.85 for P2. The P2 amount was correctly reported in the LCFF calculator. The LCFF calculator provided by REALM as of Adopted Budget indicates 321.85 ADA for 2016-17, but indicates 338 for 2017-18, then an unexplained increase to 376 in 2018-19 and 399 in 2019-20. Enrollment is projected to increase by 95 students in the next three years – what are the plans to house these students? What are the assumptions leading to these increased projections?

per Charter MYP tab in LCFF Calculator  
REALM High School

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Enrollment	287	361	366	342	360	400	425	455
ADA	262.70	337.12	341.15	321.85	338.40	376.00	399.50	427.70
Yield	91.5%	93.4%	93.2%	94.1%	94.0%	94.0%	94.0%	94.0%
Growth (Decline) Between Years		74	5	-24	18	40	25	30



An independent LCFF revenue calculation was performed by staff to test the enrollment and ADA assumptions used by REALM on future revenue as reflected in the MYP document. If future enrollment were to continue at the level projected for the current year (360), LCFF revenues over the current and two future fiscal years are overstated in the MYP by more than \$1M. **The District requests documentation of current 2017 enrollment, as well as details for the increased enrollment and ADA projections used in the LCFF calculator.**

### **UNAUDITED ACTUALS FOR 2016-17**

The high school charter school results of operations for 2016-17 indicate a deteriorating fiscal position. The 2016-17 Estimated Actual report indicated estimated deficit spending of \$(164K), with a resulting fund balance of \$79.9K, or 2%. However, the actual results indicate deficit spending of \$(422K) and a **negative** ending fund balance of \$(178K). After deducting the restricted portion, the unrestricted ending balance is \$(240K), a shortfall of \$376K from meeting the 3% reserve requirement.

### **2016-17 Actual Results**

The 2015-16 audited financial statements included a footnote that commented on the steps needed to be taken for the school to continue as a going concern. These steps included:

- Staffing cuts during 2016-17 to balance the budget and establish a 3% reserve (did not occur)
- Submitting monthly financial budgets to the District to maintain a correct and accurate course of action (did not occur)
- Apply for, and receive, additional multi-year grants (no evidence this occurred)

The district concurred with the concerns and the steps were included as conditions for renewal of the charter by the district's Board; however, these steps did not occur during the 2016-17 fiscal year.

### **Estimated Actual Versus Unaudited Actual**

Per a review of the REALM High Charter School budget, estimated results and actuals for 2016-17, there are concerns as to the accuracy of the submitted budget for 2017-18 as well as the ability of the School to stay within that more favorable budget. In 2016-17, the estimated deficit as of Adopted Budget was \$(164K), however, the actual deficit for 2016-17 was \$258K larger, for an actual deficit of \$(422K).

- Revenue for 2016-17 was \$4.1M, compared to an estimated amount of \$4.3M
- Expenditures were \$4.5M compared to an estimated amount of \$4.4M.
- Ending fund balance decreased \$421K from \$244K to \$(178K), a negative ending balance and indicator of fiscal distress.

- Cash balance at June 30 is zero.
- Receivables at June 30 are \$406K, but payables totaled \$1.4M.

### **Cash Flows**

The combined Cash Flow Statement provided with the Adopted Budget shows a cash balance of \$347,560 at June 30, 2018. This cash balance reflects a total of \$388,785 of borrowed cash during the month of June 2018 used to prop up the cash balances and allow the charter to pay its bills. Given that REALM already has demonstrated a significant cash flow concern, and the district cannot verify specific expenditure reductions or future enrollment increases, staff cannot determine if REALM will have the cash available to meet its fiscal obligations through June 30, 2018 without accurate and complete information.

The conditions for renewal of the charter petition required that REALM Middle Charter School provide monthly cash flow projections to the District beginning with December 2015 until negative ending fund balance is resolved and a 3% reserve is obtained. REALM has not met this conditional requirement.

Since the charter renewal, REALM continues to sell receivables of their future ADA revenue and property taxes to meet its expenditure obligations. On March 23, 2017, REALM sold its January 2017 State Apportionment, in-lieu of property taxes and special education revenue to receive those funds early to help with current cash flow. Throughout the year, REALM sold and repaid receivables in order to meet cash flow needs. In October 2017, REALM sold its January 2018 State Apportionment and February in-lieu of property tax receipts, indicating that the cash flow struggles continue in the current year. These indicators of poor cash flow indicate that REALM is short on cash to meet current obligations. Per a review of the cash flow projections submitted with the Adopted Budget, this borrowing trend continues throughout the year.

### **Accounts Payable**

Consolidated accounts payable as of June 30 total \$734K, of which 80%, or \$589K, are overdue. Per a review of the cash flow projections, these amounts owed are **not** scheduled to be paid off in full, and, in fact, payables are projected to increase approximately \$300K during the year. In addition, the consolidated amount owed to Berkeley USD of \$136,765 for maintenance and services is not reflected in the list of amounts owed, so amounts payable are closer to \$870,000. The District has received inquiries from local Charter vendors regarding non-payment of invoices. In addition, as of November 2017, the County of Alameda will cease providing counseling services to charter students due to non-payment of bills over the last two years. **REALM must make plans immediately to bring their accounts current before more services by providers are terminated.** Some outstanding payables of note include: County Health Services (\$100K for the last two years); Charter School Management Corp (\$39K overdue); CharterSAFE local after school services (\$77K overdue); Contra Costa COE and Houghton Mifflin (both \$9K overdue); La

Cheim School (\$70K overdue); Summitview Child & Family Services (\$16K overdue) and so on.

### **Notes Payable**

In September 2011, the Schools obtained a promissory note of \$309,968 from Kaufman Constructions, Inc. The note carries annual interest rate of 8.5% and requires monthly payments of \$3,843. The note matures in September 2021. The note balance as of June 30, 2017 was \$161,339.

In October 2013, the Schools obtained a loan of \$60,000 from Fred Huxman. The loan has a term of up to 10 years and carries no interest rate. The loan balance remains unchanged as of June 30, 2017 at \$60,000.

In February 2016, the Schools obtained a promissory note of \$1,387,363 from Charter Asset Management Fund, Inc. The note carries annual interest rate of 10% and requires monthly payments of \$200,000. The original note matured in March 2017. During the year, the note balance increased by \$552,000, and as of June 30, 2017 is \$1,836,446.

### **Line of Credit**

The Schools have a revolving line of credit with Wells Fargo for \$100,000 with an annual interest rate of 10.25%. The balance increased to \$97,103 for the year ended June 30, 2017.

Per our review, we noted insufficient debt service payments for the above documented loans and line of credit. Monthly interest on the promissory note (8.5%) from Kaufman Construction is approximately \$1,360/month, on the promissory note from Charter Asset Management Fund (10%) is \$10,700 per month (for 9 months in 2016-17), and the line of credit (at 10.25%) is \$600/month. For 2016-17, interest expense between the two charter schools should have been \$119,800. Total interest expense recognized in the Estimated Actuals for the two charter schools combined is only \$65,000, a shortfall of \$55,000.

### **Insufficient Minimum Reserves**

The Adopted Budget and the Unaudited Actuals indicate that REALM High Charter School had a negative fund balance as of June 30, 2017 and will not meet the recommended minimum reserve of 3%. This demonstrates that REALM High has a fiscal deficit, may be unable to sustain unforeseen expenditures and be unable to meet its current and future financial obligations.

### **ACOE Review**

As the sponsoring agency, Berkeley USD has the responsibility of fiscal oversight of its charter schools. The responsibility of the Alameda County Office of Education is to review the interim report submissions for mathematical accuracy. In their review of the Adopted Budget, they noted the following items that are of concern:



The REALM High School operated with a deficit of (\$163,732) in 2016-17. The budget year 2017-18 and the two subsequent years project surpluses, restoring the LEA's reserves. We are concerned about the solvency of the REALM High School Charter and its ability to meet its financial commitments in the budget year and subsequent two fiscal years.

We noticed the following technical discrepancy with the High School's Budget Report-Alternative Form:

- The Beginning Fund Balance as of July 1, 2016, was submitted to the State as \$244,725. This is the amount that belongs on Line F.1.a.
- The Audit for 2015-16 resulted in a net restatement of (\$1 ,081 ). This is the amount that belongs on Line F.1.b.
- The Adjusted Beginning Balance, at \$243,644, is correct.
- The Beginning Fund Balance and the Adjustment must be corrected on the Alternative Form before the Unaudited Actuals will be accepted by the State.

### **Overall**

There is continued deterioration in financial condition based on the information provided. There are serious concerns about the fiscal health of REALM High School and its ability to meet financial obligations and continue as a going concern. The High School charter did not meet its projected ending balance for 2016-17 and did not provide monthly budget and cash flow reports which were a condition of the petition renewal. Accounts Payable and Loans Payable, as well as mid-year cash borrowing, continue to grow unabated. The charter school also has not met a condition of the charter petition renewal: to provide monthly budget and cash flow reports to the District.

Please provide requested information to me **within 10 working days of receipt of this letter**. Please contact me at (510) 644-8593 if you have any questions.

Sincerely,



Pauline Follansbee  
Interim Assistant Superintendent

Cc: Donald Evans, E.d.D, BUSD Superintendent,  
BUSD Board of Directors  
Beatriz Leyva-Cutler, Karen Hemphill, Judy Appel, Ty Alper, Josh Daniels  
Board of Directors, REALM Middle School  
Jabari Mahiri, Tracey Schear, Thea Oliphant

## EXHIBIT F

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Berkeley Unified School District

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www.berkeleyschools.net  
paulinefollansbee@berkeley.net

**Pauline Follansbee,**  
**Interim Assistant Superintendent**

October 20, 2017

Mr. Victor Diaz  
REALM Charter Middle School  
1442 A Walnut Street #172  
Berkeley, CA 94709

**FISCAL EVALUATION OF REALM CHARTER MIDDLE SCHOOL ADOPTED  
BUDGET 2017-18 AND UNAUDITED ACTUALS 2016-17**

Dear Mr. Diaz,

In accordance with Education Code Section 47604.33, we have reviewed the Adopted Budget for FY 2017-18 and the Unaudited Actuals for 2016-17 for **REALM Middle School**:

Our oversight responsibility includes monitoring the fiscal condition of the Charter school through review of State required financial reports that include REALM's adopted budget, interim budget reports and the unaudited and audited financial statements.

**MIDDLE SCHOOL ADOPTED BUDGET 2017-18**

**Deficit Spending and Going Concern**

In general, the middle school charter has failed to show that they have remedied their fiscal situation. A review of the Adopted Budget for 2017-18 indicates that revenues are projected to be \$2.1M and expenditures are projected to be \$1.8, reflecting a surplus of \$309K, leaving a projected **negative** ending fund balance of (\$1.0).

Based on the projections included in the charter petition renewal for the combined unrestricted and restricted general fund, REALM projected a surplus of \$301K for 2016-17 when in fact they ended up deficit spending by \$(374K), down from the 2016-17 Estimated Actuals submitted with the Adopted Budget in June of \$(174K). In effect, REALM Middle missed the projection by \$(675K).

The charter school has not met the conditions of the charter petition renewal by making additional reductions that would balance the negative balance by the end of 2016-17. The projected ending fund balance for the combined general fund grew to a negative \$(1.52M) as of June 2017 when it was projected to be positive in the petition renewal. REALM middle missed the projection for ending fund balance by more than \$(1.5M). This balance does not demonstrate financial progress toward meeting the conditions under which the charter was renewed, and in fact, indicates an entity in fiscal distress. **The District is requesting an explanation from REALM Middle as to why the small budget year surplus of \$300K and the projected ending balance for 2017-18 as adopted by the board fail to meet the projected ending fund balance included in the petition renewal.**

Specific financial assumptions and results reflected in the REALM Charter Middle School budget documents include:

- 2016-17 estimated deficit spending of \$(174,000)
- June 30, 2017 estimated ending balance of \$(1,320,000)
- In the MYP, LCFF revenues increased 29% and 13% in the two out years, in an environment of declining enrollment and small levels of gap funding and COLAs. There is no documentation provided to explain these huge increases in LCFF funding.
- Ending fund balances in 2017-18 of (1,010,000) and in 2018-19 of \$(566,000) show improvement with no explanation regarding the turn-around related to the large surpluses that are shown each year.

### **Revenues and Expenditure**

Overall revenues are projected to be \$309K more than expenditures, primarily due to:

- A decrease in revenue of \$604K due to declining enrollment and loss of one-time state revenue, netted against
- A drop in salaries/ benefits of \$482K and an unexplained drop in rents, leases and professional fees of \$348K.

While this change is positive, the ending fund balance is still a large negative balance. In addition, the significant reduction of expenditures is not explained, and the district cannot validate the assumption(s) involved. **The District is requesting an explanation for the sharp decrease in rents, leases and professional consulting services in the adopted budget.**

### **LCFF and LCAP**

LCFF funding totals \$1.5 million and represents 72% of all funding. REALM Middle School is projected to receive \$562K as State Aid funding, \$213K as Education Protection Account (EPA) State Aid funding and \$763K as Transfers in Lieu of Property Taxes. Funding per the LCFF Calculator agrees to the amount budgeted by the REALM Middle School.

### **Enrollment and ADA**

The District reported P1 ADA for REALM Middle School for FY 2016-17 as 244.3 and P-2 ADA as 242.25. The LCFF calculator provided by REALM as of Adopted Budget indicates 242.25 ADA for 2016-17, but indicates 185 for 2017-18, then an unexplained increase to 233 in 2018-19 and 257 in 2019-20.

per Charter MYP tab in LCFF Calculator  
REALM Middle School

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Enrollment	314	310	302	249	195	245	270	295
ADA	301.37	299.216	289.67	242.25	185.25	232.75	256.5	280.25
Yield	96.0%	96.5%	95.9%	97.3%	95.0%	95.0%	95.0%	95.0%
Growth (Decline) Between Years		-4	-8	-53	-54	50	25	25

An independent LCFF revenue calculation was performed by staff to test the enrollment and ADA assumptions used by REALM on future revenue as reflected in the MYP document. If future enrollment were to continue at the level projected for the current year (195), LCFF revenues over the current and two future fiscal years are overstated in the MYP by more than \$1M. **The District requests documentation of current 2017 enrollment, as well as details for the increased enrollment and ADA projections used in the LCFF calculator.**

### **MIDDLE SCHOOL UNAUDITED ACTUALS 2016-17**

#### **Deficit Spending and Going Concern**

In general, the middle school charter continues to show an insolvent fiscal position. A review of the Unaudited Actuals for 2016-17 indicates that revenues were \$2.7M and expenditures were \$3.1M, reflecting a deficit of \$(374K), leaving a **negative** ending fund balance of \$(1,520,000).

Based on the projections included in the charter petition renewal for the combined unrestricted and restricted general fund, REALM projected a surplus of \$301K for 2016-17 when in fact they ended up deficit spending by \$(374K), down from the 2016-17 Estimated Actuals submitted with the Adopted Budget in June of \$(174K). In effect, REALM Middle missed the projection by \$(675K).

The charter school has not met the conditions of the charter petition renewal by making additional reductions that would balance the negative balance by the end of 2016-17. The ending fund balance for the combined general fund grew to a negative \$(1.52M) as of June 2017 when it was projected to be positive in the petition renewal. REALM middle missed the projection for ending fund balance by more than \$(1.5M). This balance does not demonstrate financial progress toward meeting the conditions under which the charter was renewed, and in fact, indicates an entity in fiscal distress. **The District is requesting an explanation from REALM Middle as to why the Charter School failed to follow through on planned reductions and budget-balancing efforts.**



<b>REALM Middle School Historical Summary</b>					
	2014-15	2015-16		2016-17	2017-18
	Unaudited	Unaudited	2016-17	Unaudited	Adopted
	Actuals	Actuals	Est Act	Actuals	Budget
Beginning Fund Balance	(80,025)	(841,551)	(1,146,107)	(1,146,107)	(1,319,914)
FB adjustment					
<b>Surplus/(Deficit)</b>	<b>(761,526)</b>	<b>(305,359)</b>	<b>(173,807)</b>	<b>(374,300)</b>	<b>309,363</b>
Ending Fund Balance	\$ (841,551)	\$ (1,146,910)	\$ (1,319,914)	\$ (1,520,407)	\$ (1,010,551)

The 2015-16 audited financial statements included a footnote that commented on the steps needed to be taken for the charter school to continue as a going concern. These steps included:

- Staffing cuts during 2016-17 to balance the budget and establish a 3% reserve (did not occur)
- Submitting monthly financial budgets to the District to maintain a correct and accurate course of action (did not occur)
- Apply for, and receive, additional multi-year grants. (no evidence this occurred)

The district concurred with the concerns and the steps were included as conditions for renewal of the charter by the district's Board; however, these steps did not occur during the 2016-17 fiscal year.

Specific financial assumptions and results reflected in the REALM Charter Middle School unaudited actual documents include:

- 2016-17 deficit spending of \$(374,000). In June when the budget was approved, the estimated actual results indicated deficit spending of \$(174,000). Actual results worsened by \$(200K) between June estimates and when the books were finally closed as of June 30.
- June 30, 2017 ending fund balance of \$(1,520,000).
- Budgeted ending fund balances in 2017-18 of (1,010,000) and in 2018-19 of \$(566,000) show improvement with no explanation regarding the turn-around related to the large surpluses that are shown each year. In any event, the negative financial positions projected each year indicate severe fiscal distress and an inability to finance a solid educational program.

### **Second Interim Versus Unaudited Actual**

Per a review of the REALM Middle Charter School budget and actual results for 2016-17, there are concerns as to the accuracy of the submitted budget for 2017-18 as well as the ability of the School to stay within that more favorable budget. In 2016-17, the budgeted deficit as of Second Interim was \$(149K), however, the actual deficit for 2016-17 was \$225K larger, for an actual deficit of \$(374K).

	2nd Interim 2016-17	2017-18 Adopted Budget	2016-17 Unaudited Actuals	2nd Int vs Unaudited Actuals
<b>Revenues</b>				
Federal Revenue	\$ 185,337	\$ 150,884	\$ 168,407	\$ (16,930)
State and LCFF Revenues	\$ 2,434,621	\$ 1,859,615	\$ 2,463,500	\$ 28,879
Other Local Revenues	\$ 125,111	\$ 117,547	\$ 60,246	\$ (64,865)
<b>Total Revenues</b>	<b>\$ 2,745,069</b>	<b>\$ 2,128,046</b>	<b>\$ 2,692,153</b>	<b>\$ (52,916)</b>
<b>Certificated Salaries</b>	<b>\$ 1,146,617</b>	<b>\$ 832,858</b>	<b>\$ 1,178,896</b>	<b>\$ 32,279</b>
Classified Salaries	\$ 179,906	\$ 89,808	\$ 215,175	\$ 35,269
Employee Benefits	\$ 300,713	\$ 222,168	\$ 322,577	\$ 21,864
Approved Textbooks and Core Curricula Materia	\$ 118,946	\$ 73,533	\$ 112,368	\$ (6,578)
Services and Other Operating Expenditures	\$ 991,796	\$ 550,315	\$ 1,038,394	\$ 46,598
Capital Outlay				\$ -
Depreciation Expense	\$ 131,054	\$ 45,498	\$ 162,570	\$ 31,516
Other Outgo - interest debt service	\$ 25,000	\$ 4,500	\$ 36,473	\$ 11,473
<b>Total Expenditures excluding depreciation</b>	<b>\$ 2,894,032</b>	<b>\$ 1,818,680</b>	<b>\$ 3,066,453</b>	<b>\$ 172,421</b>
<b>Net Income &lt;deficit&gt;</b>	<b>\$ (148,963)</b>	<b>\$ 309,366</b>	<b>\$ (374,300)</b>	<b>\$ (225,337)</b>
Beginning Fund balance	\$ (1,047,393)	\$ (1,319,914)	\$ (1,047,393)	
adj to bb bal	\$ (98,714)		\$ (98,714)	
<b>Ending Fund Balance</b>	<b>\$ (1,295,070)</b>	<b>\$ (1,010,548)</b>	<b>\$ (1,520,407)</b>	<b>\$ (225,337)</b>

### **Cash Flows**

The combined Cash Flow Statement provided with the Adopted Budget shows a cash balance of \$347,560 at June 30, 2018. This cash balance reflects a total of \$388,785 of borrowed cash during the month of June 2018 used to prop up the cash balances and allow the charter to pay its bills. Given that REALM already has demonstrated a significant cash flow concern, and the district cannot verify specific expenditure reductions or future enrollment increases, staff cannot determine if REALM will have the cash available to meet its fiscal obligations through June 30, 2018 without accurate and complete information.

The conditions for renewal of the charter petition required that REALM Middle Charter School provide monthly cash flow projections to the District beginning with December 2015 until negative ending fund balance is resolved and a 3% reserve is obtained. REALM has not met this conditional requirement.

Since the charter renewal, REALM continues to sell receivables of their future ADA revenue and property taxes to meet its expenditure obligations. On March 23, 2017, REALM sold its January 2017 State Apportionment, in-lieu of property taxes and special education revenue to receive those funds early to help with current cash flow. Throughout the year, REALM sold and repaid receivables in order to meet cash flow needs. In October 2017, REALM sold its January 2018 State Apportionment and February in-lieu of property tax receipts, indicating that the cash flow struggles continue in the current year. These indicators of poor cash flow indicate that REALM



is short on cash to meet current obligations. Per a review of the cash flow projections submitted with the Adopted Budget, this borrowing trend continues throughout the year.

### **Accounts Payable**

Consolidated accounts payable as of June 30 total \$734K, of which 80%, or \$589K, are overdue. Per a review of the cash flow projections, these amounts owed are **not** scheduled to be paid off in full, and, in fact, payables are projected to increase approximately \$300K during the year. In addition, the consolidated amount owed to Berkeley USD of \$136,765 for maintenance and services is not reflected in the list of amounts owed, so amounts payable are closer to \$870,000. The District has received inquiries from local Charter vendors regarding non-payment of invoices. In addition, as of November 2017, the County of Alameda will cease providing counseling services to charter students due to non-payment of bills over the last two years. **REALM must make plans immediately to bring their accounts current before more services by providers are terminated.** Some outstanding payables of note include: County Health Services (\$100K for the last two years); Charter School Management Corp (\$39K overdue); CharterSAFE local after school services (\$77K overdue); Contra Costa COE and Houghton Mifflin (both \$9K overdue); La Cheim School (\$70K overdue); Summitview Child & Family Services (\$16K overdue) and so on.

### **Notes Payable**

In September 2011, the Schools obtained a promissory note of \$309,968 from Kaufman Constructions, Inc. The note carries annual interest rate of 8.5% and requires monthly payments of \$3,843. The note matures in September 2021. The note balance as of June 30, 2017 was \$161,339.

In October 2013, the Schools obtained a loan of \$60,000 from Fred Huxman. The loan has a term of up to 10 years and carries no interest rate. The loan balance remains unchanged as of June 30, 2017 at \$60,000.

In February 2016, the Schools obtained a promissory note of \$1,387,363 from Charter Asset Management Fund, Inc. The note carries annual interest rate of 10% and requires monthly payments of \$200,000. The original note matured in March 2017. During the year, the note balance increased by \$552,000, and as of June 30, 2017 is \$1,836,446.

### **Line of Credit**

The Schools have a revolving line of credit with Wells Fargo for \$100,000 with an annual interest rate of 10.25%. The balance increased to \$97,103 for the year ended June 30, 2017.

### **Insufficient Minimum Reserves**

The Adopted Budget and Unaudited Actual results indicate that REALM Middle Charter School has a negative fund balance as of June 30, 2017 and June 30, 2018, and will not meet the recommended minimum reserve of 3%. This demonstrates that REALM Middle has a fiscal deficit, will be unable to sustain any unforeseen expenditures, and is not able to meet its current and future financial obligations.

### **ACOE Review**

As the sponsoring agency, Berkeley USD has the responsibility of fiscal oversight of its charter schools. The responsibility of the Alameda County Office of Education is to review the interim report submissions for mathematical accuracy. In their review of the Adopted Budget, they noted the following items that are of concern:

The REALM Middle School has been operating at a deficit, resulting in a projected negative fund balance in 2016-17 of (\$1,319,913). The deficit spending and negative fund balance is projected to continue in 2017-18 and 2018-19. In 2019-20, when the fund balance is projected to be positive, the charter still does not have adequate reserves. We are very concerned about the solvency of the REALM Middle School Charter and its ability to meet its financial commitments in the budget year and subsequent two fiscal years.

We noticed the following technical discrepancy with the Middle School's Budget

Report- Alternative Form:

- The Beginning Fund Balance as of July 1, 2016, was submitted to the State as (\$1,146,910). That is the amount that belongs on Line F.l.a. Object 9791.
- The Audit for 2015-16 resulted in a net restatement of \$803. That is the amount that belongs on Line F.l.b. object 9793.
- The Adjusted Beginning Balance, at (\$1, 146,1 07), is correct.
- The Beginning Fund Balance and the Adjustment must be corrected on the Alternative Form before the Unaudited Actuals will be accepted by the State.

### **Overall**

Based on our review of the Adopted Budget for FY 2017-18 and Unaudited Actuals for 2016-17, we have noted deterioration in financial condition, and we continue to have very serious concerns about the fiscal health of REALM Middle Charter School and the ability to meet financial obligations and continue as a going concern. The charter school also has not met two of the conditions of the charter petition renewal: to make additional reductions that would balance the negative ending balance by the end of 2016-17 and provide monthly budget and cash flow reports.

As noted in the petition renewal review, the ability of REALM Middle and High School to continue as a going concern is dependent on the success of the actions listed in

the review and additional cuts that need to be made to get REALM's budgets in balance.

Please provide requested information to me **within 10 working days of receipt of this letter**. Please contact me at (510) 644-8593 if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "P. Follansbee", followed by a long horizontal line.

Pauline Follansbee  
Interim Assistant Superintendent

Cc: Donald Evans, E.d.D, BUSD Superintendent,  
BUSD Board of Directors  
Beatriz Leyva-Cutler, Karen Hemphill, Judy Appel, Ty Alper, Josh Daniels  
Board of Directors, REALM Middle School  
Jabari Mahiri, Tracey Schear, Thea Oliphant

## EXHIBIT G

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Berkeley Unified School District

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www.berkeleyschools.net  
paulinefollansbee@berkeley.net

**Pauline Follansbee,**  
**Interim Assistant Superintendent**

January 12, 2018

Mr. Victor Diaz  
REALM Charter High School  
1442 A Walnut Street #172  
Berkeley, CA 94709

**FISCAL EVALUATION OF REALM CHARTER HIGH SCHOOL FIRST INTERIM 2017-18**

Dear Mr. Diaz,

In accordance with Education Code Section 47604.33, we have reviewed the First Interim Report for Fiscal Year 2017-18 for **REALM High School:**

Our oversight responsibility includes monitoring the fiscal condition of the Charter school through review of State required financial reports that include REALM's adopted budget, interim budget reports and the unaudited and audited financial statements.

**HIGH SCHOOL FIRST INTERIM 2017-18**

**Deficit Spending and Going Concern**

In general, the High school charter interim report indicates an improving financial condition. A review of the First Interim report for 2017-18 indicates that revenues are projected to be \$4.4M and expenditures are projected to be \$4.0M, reflecting a surplus of \$466K, leaving a projected ending fund balance of \$288K. This fund balance is \$316K less than projected in the Adopted Budget due to a drop in the June 30, 2017 fund balance once the books were closed, and a decrease in this year's surplus of (\$58K) reflected in the First Interim report.



REALM High School Historical Summary

	2016-17 Second Interim	2016-17 Est Act	2016-17 Unaudited Actuals	2017-18 Adopted Budget	2017-18 First Interim Budget	Variance to Adopted Budget
Beginning Fund Balance	243,646	243,646	243,646	79,914	(178,307)	(258,221)
FB adjustment						
Surplus/(Deficit)	357,324	(163,732)	(421,593)	523,353	465,841	(57,512)
Ending Fund Balance	\$ 600,970	\$ 79,914	\$ (178,307)	\$ 603,267	\$ 287,534	\$ (315,733)

### **Ongoing Fiscal Concerns and Ability to Continue as a Going Concern**

The audit report for June 30, 2017 indicates concerns regarding the charter schools' ability to continue as going concerns. The opinion states, in part:

*“Emphasis of Matter Regarding Going Concern*

The accompanying financial statements have been prepared assuming the Schools will continue as a going concern. As noted in Note 10 to the financial statements, the Schools experienced an operating deficit, cash flow difficulties, and did not have adequate cash reserves or accounts receivable to meet its current obligations without obtaining additional financing or funding. The Schools increased the deficit for the year ended June 30, 2017 and required substantial financing to meet its current obligations. These factors cause substantial doubt about the Schools' ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 10. The financial statements do not include any adjustments that might result from outcome of this uncertainty. Our opinion is not modified with respect to this matter.”

Footnote 10 to the financial statements referred to above states,

“The Management of the Schools has noted a negative change in unrestricted net assets on the Statement of Activities for the third consecutive fiscal year. The significant working capital deficit, cash flow difficulties, and lack of adequate cash reserves or accounts receivable to meet its current obligations cause substantial doubt about the Schools' ability to continue as a going concern. Management has taken steps to ensure that net assets are increasing by the end of the next fiscal year. The following are steps and factors that Management has identified:

- Secured a long-term lease on a facility one block from UC Berkeley's campus for the High School.
- Improved process to properly project the number of students.
- Decreased payroll by \$115,630 per month as a result of more accurately quantifying registered students.
- Apply for additional local, regional, and statewide multi-year grants.

The ability of the School to continue as a going concern is dependent on the success of these actions. The financial statements do not include any adjustments relating to the recoverability of recorded asset amounts or the amounts of liabilities that might be necessary should the Schools be unable to continue as a going concern.”

Specific financial assumptions and results reflected in the REALM Charter High School first interim report include:

### **First Interim Versus Adopted Budget**

Per a review of the REALM High Charter School adopted budget and the first interim report for 2017-18, there are concerns as to the accuracy of the submitted budget for 2017-18 as well as the ability of the School to stay within budget.

### **Revenues and Expenditure**

Overall revenues are projected to be \$466K more than expenditures, a drop in revenue since Adopted Budget primarily due to:

- LCFF revenues dropped \$172K (5%) since Adopted Budget reflecting actual enrollment not meeting projected level.
- Special Ed Revenue dropped \$51k (10%) since Adopted Budget; Other State Revenue increased \$115K (34%)

Expenditures in total increased only slightly since Adopted Budget. One area of savings for the charter school will be in the area of purchased counseling services from the County of Alameda as the County cancelled the contract with the charter schools after years of unpaid invoices. Compared to the Adopted Budget, the following variances were noted:

- Unrestricted Certificated Support staffing (Counselors/Psych of \$80K) was eliminated
- Unrestricted Other Classified salaries dropped \$58K
- Unrestricted Health benefits increased \$40K, while statutory benefits decreased for salary savings identified above
- Other Professional Services Unrestricted decreased \$30K since Adopted Budget, however, Restricted Professional Services increased by \$167K
- Contributions to Restricted programs increased \$144K since Adopted Budget
- Net change to Unrestricted Surplus/(Deficit) is a drop of \$123K and there is a decrease in the Combined surplus of \$58K.

While the overall change to High School operations is negative, there is a projected surplus projected for the year. Unappropriated Ending Fund Balance goes from \$603K at Adopted Budget to \$160K at First Interim, a drop of 90% since the budget was adopted. Overall Revenues have dropped, expenditures have increased, Beginning Fund Balance dropped by \$258K once the books were closed, all resulting in projected Ending Fund Balance at June 30, 2018 lower than Adopted Budget by \$316K.

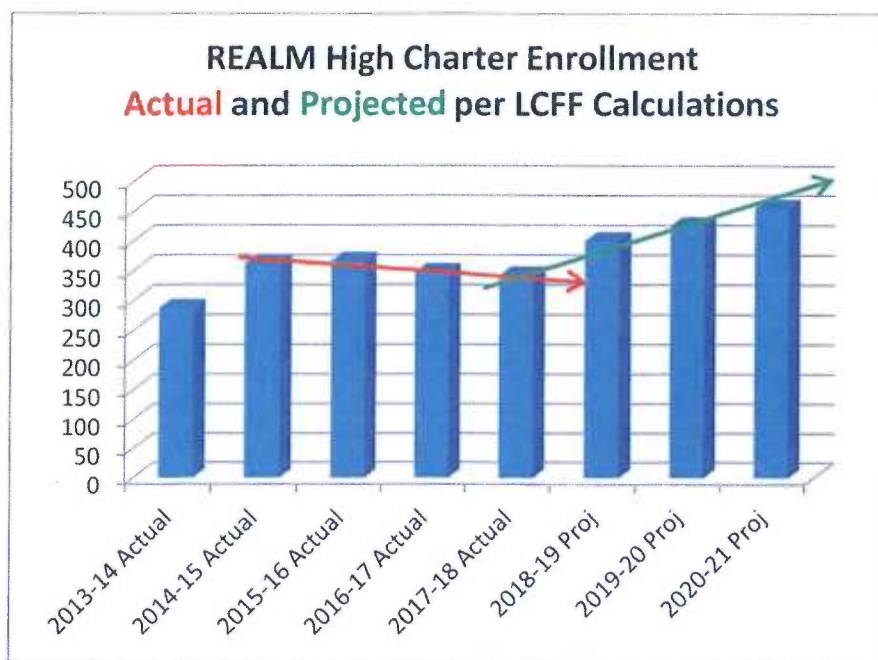
### **Enrollment and ADA**

The High school indicates an enrollment growth of 58 next year and 25 the following year, even though the school cannot show historic growth justifying those growth projections. The High School has declined 19 students in the last three years. The projected enrollment growth appears overly optimistic. In fact, if enrollment were to hold steady (instead of decline per historic trends or grow per projections) at the current year level for the next two years, LCFF revenues would be overstated \$1.4M at the High School.

Below are charts and graphs indicating the historical enrollment trends for the school, and the drastic shift in actual enrollment trends compared to projected enrollment.

per Charter MYP tab in LCFF Calculator  
REALM High School

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Actual	Actual	Actual	Actual	Proj	Proj	Proj
Enrollment	287	361	366	347	342	400	425	455
ADA	262.7	337.12	341.15	321.85	318.75	376	399.5	427.7
Yield	91.5%	93.4%	93.2%	92.8%	93.2%	94.0%	94.0%	94.0%
Growth (Decline) Between Years		74	5	-19	-5	58	25	30
LCFF Calc MYP Revenue as submitted at First Interim					3,203,783	3,876,865	4,235,626	4,720,169
LCFF Calc MYP Revenue with flat enrollment (at 17-18 level)					3,203,783	3,314,448	3,408,338	3,547,908
Revenue Understatement (Overstmt) with flat enrollment at CY					-	(562,417)	(827,288)	(1,172,261)



**The District requests documentation for the increased enrollment and ADA projections used in the LCFF calculator.**

### **MYP**

A number of items of note regarding the High School multi-year projection include:

- LCFF funding increased \$673K (21%) in 2018-19 and \$359K (9%) in 2019-20. Per the LCFF calculator, enrollment is expected to increase 58 students in 2018-19 and another 25 students in 2019-20. The last four years have shown an enrollment increase of 54, but with a decline of (24) in the last two years. An increase of 58 for next year would be a swing of +63 in one year. Recalculating LCFF revenues assuming flat enrollment over the next two years (instead of growth of 83) would result in the current LCFF revenue being overstated by \$1.4M and fund balance being overstated by \$2M as of June 2020.
- Other State revenue combined decreased by \$56K (7%) in 2018-19 and increased \$41K in 2019-20.
- Teacher salaries increased \$140K (2 FTE) in 2018-19 and \$83K (1 FTE) in 2019-20, consistent with projected enrollment/LCFF increases.
- Combined revenues over the MYP period increase \$1M and expenses increased \$360K compared to current year, with an increased enrollment of 83 over the same period. Projected fund balance grows from (\$178K) beginning balance June 30, 2017 to \$2.3M at June 30, 2020.

While the High School shows a surplus for the current year, as with prior years, the financial position has worsened since the budget was adopted.

### **Cash Flows**

Actual cash flow activity through October 31 was provided, however a revised cash flow projection was not. Comparing the actual cash activity to what was projected as of the Adopted Budget, the cash balance at October 31 was actually \$148,000 instead of the \$305,000 projected. Carrying that \$157,000 cash shortfall through the rest of the year, the adopted budget cash flow projections would indicate negative cash balances, or additional borrowing, in three months between October 31 and June 30. **An updated cash flow projection is required at each reporting period.**

The conditions for renewal of the charter petition required that REALM High Charter School provide monthly cash flow projections to the District beginning with December 2015 until negative ending fund balance is resolved and a 3% reserve is obtained. REALM has not met this conditional requirement.

Since the charter renewal, REALM continues to sell receivables of their future ADA revenue and property taxes to meet its expenditure obligations. On March 23, 2017 and again on October 13, 2017, REALM sold its future State Apportionment, in-lieu of property taxes and special education revenue to receive those funds early to help with current cash flow. Throughout the year, REALM sells and repays these same receivables in order to meet cash flow needs. These indicators of poor cash flow indicate that REALM is short on cash to meet current



obligations. Per a review of the cash flow projections submitted with the Adopted Budget, this borrowing trend continues throughout the year.

### **Accounts Payable**

Consolidated accounts payable as of June 30 total \$734K, of which 80%, or \$589K, were overdue. As of December 11, the combined payables for REALM charters totaled \$824K, with \$534K over 60 days old. The total payable balance has increased \$90K since June 30, 2017, however there are fewer payables over 60 days old. Typically, payables are accrued at the end of the fiscal year and paid off in the first few months of the year. It is atypical that accounts payable would grow between June 30 and December.

The District has received inquiries from local Charter vendors regarding non-payment of invoices, and the County Health Services department has eliminated services due to non-payment of \$100,000 in prior invoices. **REALM must make plans immediately to bring their accounts current before additional services by providers are terminated.**

### **Notes Payable**

In September 2011, the Schools obtained a promissory note of \$309,968 from Kaufman Constructions, Inc. The note carries annual interest rate of 8.5% and requires monthly payments of \$3,843. The note matures in September 2021. The note balance as of December 11, 2017 was \$150,423.

In October 2013, the Schools obtained a loan of \$60,000 from Fred Huxman. The loan has a term of up to 10 years and carries no interest rate. The loan balance remains unchanged as of December 11, 2017 at \$60,000.

In February 2016, the Schools obtained a promissory note of \$1,387,363 from Charter Asset Management Fund, Inc. The note carries annual interest rate of 10% and requires monthly payments of \$200,000. The original note matured in March 2017. During the year, the note balance increased by \$552,000, and as of December 11, 2017 is \$1,754,000.

Loans payable have decreased \$52K since June 30 to a balance of \$2.1M across the REALM organization. With cash balances running less than \$150,000 and the combined fund balance negative, there is no evidence of fiscal solvency in the charter school.

### **Line of Credit**

The Schools have a revolving line of credit with Wells Fargo for \$100,000 with an annual interest rate of 10.25%. The balance increased to \$99,873 as of December 11, 2017.

### **Minimum Reserves**

The First Interim report indicates that REALM High Charter School will have a surplus and positive fund balance for years ending June 30, 2018 and June 30,



2019, and will meet the recommended minimum reserve of 3%. This assumes significant increases in enrollment and ADA, however, so the projections are tentative until enrollment increases are shown.

**Overall**

Based on our review of the First Interim report for October 31, 2017, we have noted deterioration in financial condition, and we continue to have very serious concerns about the fiscal health of REALM Charter Schools and the ability to meet financial obligations and continue as a going concern. The charter school also has not met two of conditions of the charter petition renewal: to make additional reductions that would balance the negative ending balance by the end of 2016-17 and provide monthly budget and cash flow reports.

As noted in the petition renewal review, the ability of REALM Middle and High School to continue as a going concern is dependent on the success of the actions listed in the audit and additional cuts that need to be made to get REALM's budgets in balance.

Please provide requested information to me **within 10 working days of receipt of this letter**. Please contact me at (510) 644-8915 if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'P. Follansbee', followed by a long horizontal line.

Pauline Follansbee  
Interim Assistant Superintendent

Cc: Donald Evans, E.d.D, BUSD Superintendent,  
BUSD Board of Directors  
Beatriz Leyva-Cutler, Karen Hemphill, Judy Appel, Ty Alper, Josh Daniels  
Board of Directors, REALM High School  
Jabari Mahiri, Tracey Schear, Thea Oliphant

## EXHIBIT H

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Berkeley Unified School District

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www.berkeleyschools.net  
paulinefollansbee@berkeley.net

**Pauline Follansbee,**  
**Interim Assistant Superintendent**

January 12, 2018

Mr. Victor Diaz  
REALM Charter Middle School  
1442 A Walnut Street #172  
Berkeley, CA 94709

**FISCAL EVALUATION OF REALM CHARTER MIDDLE SCHOOL FIRST INTERIM 2017-18**

Dear Mr. Diaz,

In accordance with Education Code Section 47604.33, we have reviewed the First Interim Report for Fiscal Year 2017-18 for **REALM Middle School**:

Our oversight responsibility includes monitoring the fiscal condition of the Charter school through review of State required financial reports that include REALM's adopted budget, interim budget reports and the unaudited and audited financial statements.

**MIDDLE SCHOOL FIRST INTERIM 2017-18**

**Deficit Spending and Going Concern**

In general, the middle school charter has failed to show that they have remedied their fiscal situation. A review of the First Interim report for 2017-18 indicates that revenues are projected to be \$2.1M and expenditures are projected to be \$1.8M, reflecting a surplus of \$271K, leaving a projected **negative** ending fund balance of (\$1.25M).

The charter school has not met the conditions of the charter petition renewal by making additional reductions that would balance the negative balance by the end of 2016-17. In fact, their multi-year projection fails to eliminate the negative fund balance by June 2020. As a result of closing the books on 2016-17, the projected ending fund balance for the combined general fund grew to a negative \$(1.52M) as of June 2017 when it was projected to be positive in the petition renewal. While the current year indicates a surplus of revenues over expenditures, the result is continued negative fund balances into the future. **The District is requesting an**

**explanation from REALM Middle as to why the Charter School fails to follow through on planned reductions and budget-balancing efforts.**

REALM Middle School Historical Summary							
	2014-15 Unaudited Actuals	2015-16 Unaudited Actuals	2016-17 Est Act	2016-17 Unaudited Actuals	2017-18 Adopted Budget	2017-18 First Interim	Variance to Adopted Budget
Beginning Fund Balance	(80,025)	(841,551)	(1,146,107)	(1,146,107)	(1,319,914)	\$ (1,520,407)	\$ (200,493)
FB adjustment							
Surplus/(Deficit)	(761,526)	(305,359)	(173,807)	(374,300)	309,363	271,962	(37,401)
Ending Fund Balance	\$ (841,551)	\$ (1,146,910)	\$ (1,319,914)	\$ (1,520,407)	\$ (1,010,551)	\$ (1,248,445)	\$ (237,894)

The audit report for June 30, 2017 indicates concerns regarding the charter schools' ability to continue as going concerns. The opinion states, in part:

*"Emphasis of Matter Regarding Going Concern*

The accompanying financial statements have been prepared assuming the Schools will continue as a going concern. As noted in Note 10 to the financial statements, the Schools experienced an operating deficit, cash flow difficulties, and did not have adequate cash reserves or accounts receivable to meet its current obligations without obtaining additional financing or funding. The Schools increased the deficit for the year ended June 30, 2017 and required substantial financing to meet its current obligations. These factors cause substantial doubt about the Schools' ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 10. The financial statements do not include any adjustments that might result from outcome of this uncertainty. Our opinion is not modified with respect to this matter."

Footnote 10 to the financial statements referred to above states,

"The Management of the Schools has noted a negative change in unrestricted net assets on the Statement of Activities for the third consecutive fiscal year. The significant working capital deficit, cash flow difficulties, and lack of adequate cash reserves or accounts receivable to meet its current obligations cause substantial doubt about the Schools' ability to continue as a going concern. Management has taken steps to ensure that net assets are increasing by the end of the next fiscal year. The following are steps and factors that Management has identified:

- Secured a long-term lease on a facility one block from UC Berkeley's campus for the Middle School.
- Improved process to properly project the number of students.
- Decreased payroll by \$115,630 per month as a result of more accurately quantifying registered students.
- Apply for additional local, regional, and statewide multi-year grants.

The ability of the School to continue as a going concern is dependent on the success of these actions. The financial statements do not include any



adjustments relating to the recoverability of recorded asset amounts or the amounts of liabilities that might be necessary should the Schools be unable to continue as a going concern.”

Specific financial assumptions and results reflected in the REALM Charter Middle School first interim report include:

### **First Interim Versus Adopted Budget**

Per a review of the REALM Middle Charter School adopted budget and the first interim report for 2017-18, there are concerns as to the accuracy of the submitted budget for 2017-18 as well as the ability of the School to stay within budget.

### **Revenues and Expenditure**

Overall revenues are projected to be \$271K more than expenditures, a drop in revenue since Adopted Budget primarily due to:

- LCFF funding down by \$67K for enrollment less than projected
- Other State Revenue increased for one-time, unrestricted +\$33K
- Local revenue down \$7K

Expenditures in total increased only slightly, however, there was a shift of leases/rents/other expenses from restricted sources to unrestricted, creating a much larger deficit in unrestricted funds. One area of savings for the charter school will be in the area of purchased counseling services from the County of Alameda as the County cancelled the contract with the charter schools after years of unpaid invoices. Compared to the Adopted Budget, the following variances were noted:

- Object 1200, Cert Pupil Support (counselor, psych) unfilled for \$35K savings
- Clerical and other classified salaries up \$44K
- Health benefits up \$34K, almost double
- Reduced Unrestricted food budget of \$46K and increased Restricted food budget by \$44k
- Eliminated Restricted leases/rents of \$146K but increased Unrestricted leases/rents by \$144K. Combined costs remained relatively constant; however, this created a large restricted fund balance that is not available for the unrestricted operations of the charter school.

While the overall change to Middle School operations is negative, there is a projected surplus projected for the year. However, the ending fund balance is still a large negative balance. The Unrestricted Operating Surplus was reduced by two thirds to \$115K, and the Combined Surplus drops from \$309K TO \$272K. Unappropriated Ending Fund Balance goes from (\$1.01M) at Adopted Budget to (\$1.446M) at First Interim. Overall Revenues have dropped, expenditures have increased, Beginning Fund Balance dropped by \$200K once the books were closed,



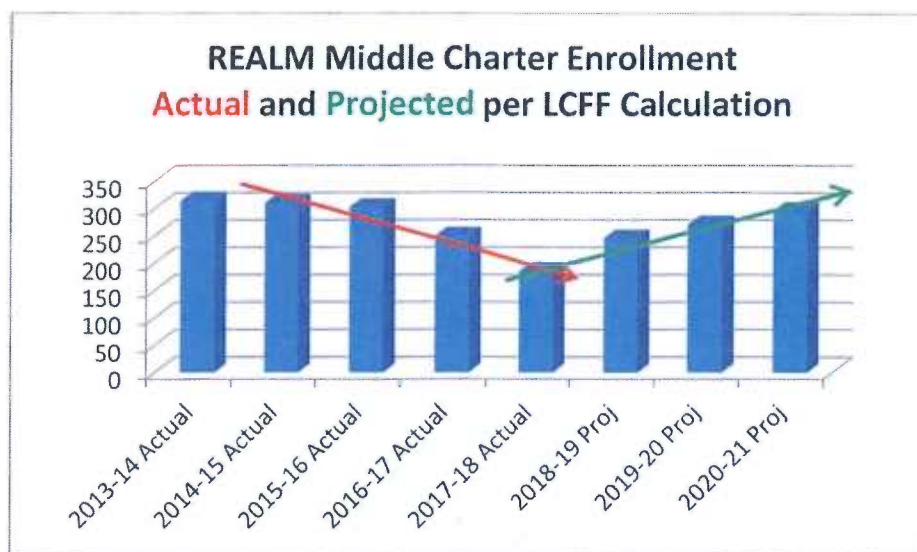
all resulting in projected Ending Fund Balance at June 30, 2018 lower than Adopted Budget by \$435K.

### **Enrollment and ADA**

The middle school indicates an enrollment growth of 60 next year and 25 the following year, even though the school cannot show historic growth justifying those growth projections. The Middle School has declined 125 students in the last three years. The projected enrollment growth in both cases appears overly optimistic. In fact, if enrollment were to hold steady (instead of decline per historic trends or grow per projections) at the current year level for the next two years, LCFF revenues would be overstated \$1.2M at the Middle School.

Below are charts and graphs indicating the historical enrollment trends for the school, and the drastic shift in actual enrollment trends compared to projected enrollment.

REALM Middle School	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Enrollment at First Interim	302	249	185	245	270	295
ADA	289.67	242.25	177	232.75	256.5	280.25
Yield	95.9%	97.3%	95.7%	95.0%	95.0%	95.0%
Growth (Decline) Between Year	-8	-53	-64	60	25	25
LCFF Calc MYP Revenue as submitted at First Interim			1,470,176	1,997,599	2,259,316	2,569,337
LCFF Calc MYP Revenue with flat enrollment (at 185)			1,470,176	1,521,811	1,563,071	1,626,101
Revenue Understatement (Overstmt) with flat enrol			-	(475,787)	(696,245)	(943,236)



**The District requests documentation for the increased enrollment and ADA projections used in the LCFF calculator.**

### **MYP**

A number of items of note regarding the Middle School multi-year projection include:

- LCFF revenue increases by \$527K (+36%) and \$262K (+13%) in the next two years. Per the LCFF calculator, enrollment is expected to increase 60 students in 2018-19 and another 25 students in 2019-20. The last four years have shown an enrollment decline of (129), with (117) of the decrease occurring in the last two years. An increase of 60 for next year would be a swing of +124 in one year, which is unlikely. Recalculating LCFF revenues assuming flat enrollment over the next two years (instead of growth of 85 as used in the Calculator) would result in the current LCFF revenue being overstated by \$1.2M and fund balance being overstated by \$1.65M as of June 2020.
- Special Ed Funding projected to increase 22% and 7%
- Other State Revenue drops by 83%, and then increases by 28% in the second year out.
- Certificated salaries increased \$136K (2 FTE) and \$78K (1 FTE). This is consistent with the projected, but unlikely, increase in enrollment.
- STRS increases are consistent with salary increases and 1.85% additional STRS costs each year
- Rents/leases/repairs almost doubled in 2018-19, an increase of \$247K. Total Professional Services and Other Operating Expenses increased \$300K, almost 50%.

Ending Fund Balance is projected to be \$(1.25M) in 2017-18, \$(1.1M) in 2018-19 and \$(834K) in 2019-20. In all three projected years, the charter school indicates a fiscally insolvent position.

### **Cash Flows**

Actual cash flow activity through October 31 was provided, however a revised cash flow projection was not. Comparing the actual cash activity to what was projected as of the Adopted Budget, the cash balance at October 31 was actually \$148,000 instead of the \$305,000 projected. Carrying that \$157,000 cash shortfall through the rest of the year, the adopted budget cash flow projections would indicate negative cash balances, or additional borrowing, in three months between October 31 and June 30. **An updated cash flow projection is required at each reporting period.**

The conditions for renewal of the charter petition required that REALM Middle Charter School provide monthly cash flow projections to the District beginning with December 2015 until negative ending fund balance is resolved and a 3% reserve is obtained. REALM has not met this conditional requirement.

Since the charter renewal, REALM continues to sell receivables of their future ADA revenue and property taxes to meet its expenditure obligations. On March 23, 2017 and again on October 13, 2017, REALM sold its future State Apportionment, in-lieu of property taxes and special education revenue to receive those funds early to help with current cash flow. Throughout the year, REALM sells and repays these same receivables in order to meet cash flow needs. These indicators of poor cash flow indicate that REALM is short on cash to meet current

obligations. Per a review of the cash flow projections submitted with the Adopted Budget, this borrowing trend continues throughout the year.

### **Accounts Payable**

Consolidated accounts payable as of June 30 total \$734K, of which 80%, or \$589K, were overdue. As of December 11, the combined payables for REALM charters totaled \$824K, with \$534K over 60 days old. The total payable balance has increased \$90K since June 30, 2017, however there are fewer payables over 60 days old. Typically, payables are accrued at the end of the fiscal year and paid off in the first few months of the year. It is atypical that accounts payable would grow between June 30 and December.

The District has received inquiries from local Charter vendors regarding non-payment of invoices, and the County Health Services department has eliminated services due to non-payment of \$100,000 in prior invoices. **REALM must make plans immediately to bring their accounts current before additional services by providers are terminated.**

### **Notes Payable**

In September 2011, the Schools obtained a promissory note of \$309,968 from Kaufman Constructions, Inc. The note carries annual interest rate of 8.5% and requires monthly payments of \$3,843. The note matures in September 2021. The note balance as of December 11, 2017 was \$150,423.

In October 2013, the Schools obtained a loan of \$60,000 from Fred Huxman. The loan has a term of up to 10 years and carries no interest rate. The loan balance remains unchanged as of December 11, 2017 at \$60,000.

In February 2016, the Schools obtained a promissory note of \$1,387,363 from Charter Asset Management Fund, Inc. The note carries annual interest rate of 10% and requires monthly payments of \$200,000. The original note matured in March 2017. During the year, the note balance increased by \$552,000, and as of December 11, 2017 is \$1,754,000.

Loans payable have decreased \$52K since June 30 to a balance of \$2.1M across the REALM organization. With cash balances running less than \$150,000 and the combined fund balance negative, there is no evidence of fiscal solvency in the charter school.

### **Line of Credit**

The Schools have a revolving line of credit with Wells Fargo for \$100,000 with an annual interest rate of 10.25%. The balance increased to \$99,873 as of December 11, 2017.

### **Insufficient Minimum Reserves**

The Adopted Budget indicates that REALM Middle Charter School will have a negative fund balance as of June 30, 2018 and June 30, 2019, and will not meet



the recommended minimum reserve of 3%. This demonstrates that REALM Middle has a fiscal deficit, will be unable to sustain any unforeseen expenditures, and is not able to meet its current and future financial obligations.

**Overall**

Based on our review of the First Interim report for October 31, 2017, we have noted deterioration in financial condition, and we continue to have very serious concerns about the fiscal health of REALM Middle Charter School and the ability to meet financial obligations and continue as a going concern. The charter school also has not met two of conditions of the charter petition renewal: to make additional reductions that would balance the negative ending balance by the end of 2016-17 and provide monthly budget and cash flow reports.

As noted in the petition renewal review, the ability of REALM Middle and High School to continue as a going concern is dependent on the success of the actions listed in the review and additional cuts that need to be made to get REALM's budgets in balance.

Please provide requested information to me **within 10 working days of receipt of this letter**. Please contact me at (510) 644-8915 if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'P. Follansbee', with a long horizontal line extending to the right.

Pauline Follansbee  
Interim Assistant Superintendent

Cc: Donald Evans, E.d.D, BUSD Superintendent,  
BUSD Board of Directors  
Beatriz Leyva-Cutler, Karen Hemphill, Judy Appel, Ty Alper, Josh Daniels  
Board of Directors, REALM Middle School  
Jabari Mahiri, Tracey Schear, Thea Oliphant