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UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF CALIFORNIA, SACRAMENTO DIVISION

In re Highlands Community Charter and Technical Schools, Debtor and Debtor in Possession.[1]	Case No. 26-25868 Chapter 11 **DCN: SMR-5** Judge: Hon. [●] Date: [●], 2026 Time: [●] Place: [●]

DECLARATION OF JONATHAN RAYMOND IN SUPPORT OF DEBTOR'S EMERGENCY MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS (I) AUTHORIZING THE DEBTOR TO USE CASH IN THE ORDINARY COURSE OF BUSINESS IN ACCORDANCE WITH APPROVED BUDGET; (II) AUTHORIZING THE STATE OF CALIFORNIA TO RECOVER PREPETITION OVERPAYMENTS FROM FUTURE APPORTIONMENTS; (III) FINDING THAT HOLDERS OF EQUIPMENT LIENS ARE ADEQUATELY PROTECTED; AND (IV) GRANTING RELATED RELIEF

[1] The last four digits of the Debtor's federal tax identification number is 0967. The mailing address for the Debtor is 1111 Howe Ave., Suite 505, Sacramento, CA 95825.

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I, Jonathan Raymond, hereby declare as follows:

1. I am the Executive Director of Highlands Community Charter and Technical Schools ("HCCTS" or the "Debtor"), a California Non-Profit Corporation organized under the laws of the State of California, and the above-captioned debtor and debtor-in-possession in this voluntary chapter 11 case (the "Chapter 11 Case") filed on the date hereof (the "Petition Date") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). I submit this declaration (this "Declaration") in support of the *Debtor's Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtor to Use Cash in the Ordinary Course of Business in Accordance with Approved Budget; (II) Authorizing the State of California to Recover Prepetition Overpayments from Future Apportionments; (III) Finding that Equipment Lessors Are Adequately Protected; and (IV) Granting Related Relief* (the "Motion"). The Motion seeks entry of orders, substantially in the form attached to the Exhibit List as **Exhibit A** and **Exhibit B** (the "Interim Order" and the "Final Order," respectively) filed concurrently herewith: (i) authorizing the Debtor to use its cash, including cash on hand as of the Petition Date and cash received after the Petition Date (collectively, the "Cash"), to fund its operations and the administration of this Chapter 11 Case in accordance with the 13-week budget attached to the Exhibit List as **Exhibit C** (as may be modified from time to time in accordance with the Interim Order and the Final Order, the "Approved Budget"); (ii) authorizing the State of California (the "State"), pursuant to the Final Order, to recover from the Debtor the Overpayments (as defined below) from the Debtor's 2026-27 Apportionments (as defined below) in accordance with the Recovery Terms (as defined below); (iii) solely to the extent necessary, pursuant to the Final Order, modifying the automatic stay and authorizing the State to apply the Withheld Apportionments (as defined below) and subsequent 2026-27 Apportionments to the Overpayments in accordance with the Recovery Terms; (iv) authorizing the Debtor to pay its postpetition obligations under the Equipment Leases (as defined below) as they come due, and finding that the Equipment Lessor (as defined below) is adequately protected; (v) scheduling a final hearing on the Motion (the "Final Hearing"); and (vi) granting related relief. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

2. Except as otherwise indicated, all facts in this Declaration are based upon my personal knowledge, my discussions with others in the Debtor's management team and the Debtor's advisors, my review of relevant documents and information concerning the Debtor's operations, financial affairs, and restructuring initiatives, or my opinions based upon my experience and knowledge. The documents referenced herein, or otherwise relied upon for purposes of this Declaration, are business records of the Debtor, prepared and kept in the ordinary course of the regularly conducted business activities of the Debtor and used by me for those purposes. I am over the age of eighteen and authorized to submit this Declaration on behalf of the Debtor. If called upon as a witness, I could and would testify competently to the facts set forth in this Declaration.

A. General Background

3. The Debtor filed the Chapter 11 Case on the Petition Date. The Debtor is operating its business and managing its properties as a debtor in possession pursuant to §§ 1107(a) and 1108 of the Bankruptcy Code. No request for the appointment of a trustee or examiner has been made in this Chapter 11 Case, and no committees have been appointed or designated.

4. The Debtor is a California non-profit public benefit corporation that owns, manages, and operates two adult-serving charter schools in Sacramento County: Highlands Community Charter School ("HCCS") and California Innovative Career Academy ("CICA" and, together with HCCS, the "Schools"). The Twin Rivers Unified School District ("Twin Rivers") issued the current charters (the "Charters") that authorize HCCTS to operate both HCCS and CICA. Since opening in August 2014, HCCTS has served approximately 60,000 students. The Debtor is exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. A more detailed description of the Debtor, including its current and historical business operations and the events precipitating the Chapter 11 Case, are set forth in the *Declaration of Jonathan Raymond in Support of Chapter 11 Petition and First Day Motions* (the "First Day Declaration"), which is incorporated herein by reference.

B. The Debtor's Capital Structure and Cash Position as of the Petition Date

5. As of the Petition Date, the Debtor holds approximately $93,571,466 in cash and cash equivalents across its three Bank Accounts, which are described in detail in the Cash Management Motion filed contemporaneously herewith.

6. Of that amount, approximately $51,787,028 (comprised of approximately $48,644,422 for HCCS and approximately $3,142,606 for CICA) is restricted cash and the remainder is unrestricted cash. The restricted cash consists of categorical and grant funds that the Debtor receives subject to restrictions imposed by the applicable federal, state, and local grant programs, including funds designated for specific instructional, nutrition, and special education programs. The Debtor may use those funds only for the purposes designated by the applicable grantor, and it accounts for them separately from its unrestricted cash in accordance with the grant programs' requirements. Those restrictions are conditions of the grants, not interests of a third party in the Cash, and the Debtor will continue to use restricted cash only for its designated purposes and to account for it as the grant programs require. The Debtor's unrestricted cash, which is not subject to any such limitations, is the primary source of funding for the Debtor's general operating expenses under the Approved Budget, which is described further below.

7. The Debtor has no funded debt, has not issued any bonds or notes, and is not a party to any credit agreement, loan agreement, or line of credit. The Debtor's only secured debt consists of certain equipment leases described further below. The Debtor's most significant prepetition obligations are: (a) the unliquidated and disputed approximately $186 million Audit Liability described in the First Day Declaration, which arises from the Audit Report and remains subject to the pending Audit Appeal; (b) the Overpayments described below; (c) accrued prepetition wages, paid time off, and other employee-related obligations, as further described in the Wages Motion filed contemporaneously herewith; and (d) approximately $800,000 on account of trade debt and other amounts owing to vendors and service providers in the ordinary course of business. Aside from these obligations, the Debtor has no other material prepetition liabilities.

C. The Debtor's Revenue Streams

8. The Debtor's primary source of revenue is the Local Control Funding Formula ("LCFF"), which the Debtor receives based on its certified average daily attendance ("ADA").

9. The Debtor has made a direct funding election, under which its LCFF apportionments are paid directly to it rather than through Twin Rivers Unified School District. For the 2026-27 school year, the Debtor's aggregate ADA is projected at approximately 1,207.2 (comprised of approximately 651.7 for HCCS and approximately 555.5 for CICA), yielding aggregate projected LCFF apportionments of approximately $21,772,607 (comprised of approximately $11,230,457 for HCCS and approximately $10,542,150 for CICA).

10. In addition to the LCFF, the Debtor receives other State funding allocated through various block grants and categorical programs, including funding tied to pupil attendance, instructional support, and arts and music education. The Debtor also receives federal funding passed through the California Department of Education, including funding to support adult education and school improvement for local educational agencies. These federal and categorical funds are generally restricted to the specific purposes for which they are granted, as described above.

D. The Overpayments and Withheld Apportionments

11. The Overpayments are separate and distinct from the Audit Liability. They arise because charter schools that were in operation in the prior fiscal year are initially funded in the subsequent year based on the average daily attendance ("ADA") reported in that prior year. The Schools experienced a significant enrollment decline in the 2025-26 fiscal year, resulting in a corresponding decline in actual ADA. Because the Schools were initially funded at the prior year's higher ADA rate, the State overfunded the Schools relative to their actual 2025-26 ADA.

12. By letter dated August 17, 2026, the California Department of Education ("CDE") demanded payment of $30,820,947.00 from HCCS on account of the Overpayments attributable to HCCS. The State has separately claimed that CICA owes approximately $22,404,357.00 on account of the Overpayments attributable to CICA. The Debtor disputes the amount the State claims CICA owes. CICA is a nonclassroom-based charter school, and nonclassroom-based

charter schools must obtain a funding determination from the State Board of Education ("SBE") to establish their funding rate. CICA has been unable to obtain that funding determination because the SBE requires a completed audit of CICA's 2023-24 fiscal year, and that audit has not yet been finalized. As a result, CICA has received no State funding determination for the 2025-26 fiscal year or for the current fiscal year to date, despite continuing to serve students. Because CICA has not received a funding determination for the 2025-26 school year, the State has asserted that the entire $22,404,357 amount is an overpayment. CICA believes that, if it had received a funding determination for the 2025-26 school year (and once it does), the actual overpayment amount will be approximately $12.2 million, though the ultimate amount is not yet known. Accordingly, while HCCTS does not dispute that, absent the Chapter 11 Case, HCCS would owe the State the full $30,820,947.00 reflected in the CDE's demand, HCCTS disputes the amount the State claims is owed on account of CICA's Overpayments.

13. The State has begun to recover the Overpayments by reducing the Debtor's LCFF apportionments for the current, 2026-27 school year (the "2026-27 Apportionments"). As of the Petition Date, the State has withheld, on account of the Overpayments, approximately $1,813,024 of 2026-27 Apportionments owed to HCCS and $1,729,611 of 2026-27 Apportionments owed to CICA, in each case that had accrued prior to the Petition Date (collectively, the "Withheld Apportionments"). In the ordinary course, the State would further be entitled to withhold the full amount of each subsequent 2026-27 Apportionment, up to the amount of the Overpayments, until the Overpayments are recouped in full.

E. The Proposed Recovery Terms

14. The Debtor has developed a proposed framework, described in the Motion, for the State's recovery of the Overpayments from future 2026-27 Apportionments, calibrated to track the amount of each School's own Overpayments. The Debtor has engaged in discussions with representatives of the State prior to the Petition Date regarding the Overpayments and the Withheld Apportionments generally. Those discussions are ongoing, but the Debtor and the State have not discussed the specific terms proposed in the Motion, which reflect the Debtor's own

proposal for the Court's consideration. The Debtor and its advisors intend to continue discussions with the State and will update the Court on their status at or before the Final Hearing.

F. The Approved Budget

15. The Approved Budget projects the Debtor's receipts and disbursements for the 13 weeks following the Petition Date. It includes payroll and benefits, facilities costs, payments under the Equipment Leases, instructional and operating expenses, and the costs of administering this Chapter 11 Case. In my view, the Debtor's Cash on hand, which does not depend on the 2026-27 Apportionments, is sufficient to fund operations throughout the Approved Budget period and the duration of the 2026-2027 school year.

16. The Debtor will report its actual results against the Approved Budget in monthly reports comparing the Debtor's actual receipts and disbursements to the Approved Budget, to be provided to the Office of the United States Trustee, the State, and any official committee appointed in this Chapter 11 Case.

17. In my view, without authority to use its Cash, the Debtor could not meet its payroll postpetition or satisfy other administrative expenses incurred in the ordinary course of business, and would be forced to close the Schools imminently, in the middle of the school year. That would displace approximately 2,000 students and approximately 167 employees, and it would jeopardize the Charters and the value of the Debtor's operations.

G. The Equipment Leases

18. The Debtor is party to certain leases of personal property with De Lage Landen Financial Services, Inc. and Canon Financial Services, Inc., each of which covers equipment used in the Schools' daily operations. The Debtor is not seeking to reject its leases with De Lage Landen Financial Services, Inc. (collectively, the "Equipment Leases," and the lessor thereunder, the "Equipment Lessor"), which generally require regular monthly payments and, as of the Petition Date, the Debtor estimates that it owes approximately $10,141 in accrued and unpaid amounts under the Equipment Leases.

19. Upon information and belief, the Equipment Lessor holds liens on the equipment subject to the Equipment Leases, as evidenced by UCC financing statements filed with the

California Secretary of State. The Equipment Lessor holds no interest in the Debtor's Cash or any property other than the equipment subject to the Equipment Leases. The equipment is insured and maintained in accordance with the terms of the Equipment Leases.

I declare under penalty of perjury that the foregoing is true and correct and that this declaration was executed this 4th day of October, 2026, at Sacramento, California.

Signed by:
Jonathan Raymond
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Jonathan Raymond