

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
EMO SUMMARY REPORT – APRIL 2008
ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS**

Overview of Alliance College Ready Public Schools: The Alliance for College-Ready Public Schools (Alliance) is a 501(c)(3) non-profit public benefit corporation, governed by a board of directors that creates, controls, and operates its schools. The Alliance currently operates 8 high schools and 2 middle schools, and plans to grow to 15 high schools and 5 middle schools by the 2010-11 school year.

Enrollment Trends and Projections: Historical, current, and projected enrollment for the Alliance schools is provided below.

School	Opened	Enrollment by Grade							Total
		6	7	8	9	10	11	12	
Gertz-Ressler High School	2004-05				126	103	103	143	475
Heritage College-Ready Academy High School	2005-06				163	107	126	0	396
Huntington Park College-Ready Academy High School	2005-06				145	142	127	0	414
Richard Merkin Middle School	2005-06	138	138	128					404
College-Ready Academy High School No. 4	2006-07				128	140	0	0	268
College-Ready Academy High School No. 6	2006-07				121	131	0	0	252
Marc and Eva Stern Math and Science School	2006-07				144	156	0	0	300
Jack H Skirball Middle School	2007-08	132							132
College-Ready Academy High School No. 5	2007-08				136	0	0	0	136
College-Ready Academy High School No. 7	2007-08				119	0	0	0	119
College-Ready Academy High School No. 8	2008-09				0	0	0	0	0
College-Ready Academy High School No. 9	2008-09				0	0	0	0	0
College-Ready Academy High School No. 10	2008-09				0	0	0	0	0
Total		270	138	128	1082	779	356	143	2896

The Alliance’s schools do not typically maintain waitlists of more students than each expects to need through attrition in a given year, usually 25 to 40 students for entry grades only (6th or 9th). During the process of enrollment for September 2008, the school’s below have already filled next years incoming grade and they maintain the following waitlist:

School	Number of Students on Waiting List
Heritage HS	55
Richard Merkin MS	95
Skirball MS	5
Gertz-Ressler	45
Huntington Park	88
Math and Science School	124

ADA as a percent of enrollment averaged 96% in 2004-05, 93.75% in 2005-06 and 96.02% in 2006-07. The projections for the schools anticipate a rate of 95% which seems reasonable. The average retention rate for the last 3 years is 88% in 2004-05, 78.1% in 2005-06, and 92% in 2006-07.

School Growth Plan: The first Alliance charter school opened in the fall of 2004. Currently, the Alliance operates 10 schools and the Alliance expects to operate 20 schools by 2010-11 as shown in the table below.

	05-06	06-07	07-08	08-09	09-10	10-11
High Schools	1	3	6	8	10	12
Middle Schools	0	1	1	2	3	4
Total Existing Schools	1	4	7	10	13	16
New High Schools	2	3	2	2	2	3
New Middle Schools	1	0	1	1	1	1
Total New Schools	3	3	3	3	3	4
Total Schools Cumulative	4	7	10	13	16	20

School Model: The Alliance brand of high performance schools delivers a consistent educational environment and experience for students-preparing every student with the skills, experience, and knowledge to enter college. The measures for success are that all students continuously enrolled for at least four years will graduate from high school prepared for college, and that 100% of graduates will be accepted into a college and that middle school students enrolled for three years will culminate ready for success in high school. The Alliance's primary role is to ensure the effective and consistent operations of its schools and quality experience for each individual student. Alliance provides its schools with operation services, resources, guidance, and oversight. Alliance defines and implements key non-negotiable parameters that define the Alliance brand of schools. Alliance is the charter holder of record and local operator of its schools.

The Alliance schools provide small and personalized learning environments with a school size of 500 students for high schools and 450 students for middle schools. Within these schools, small learning communities are created of 100-125 students each, where no teacher works with more than 75 students per day in core academic areas, and 85% of teacher-student time is spent together within that small learning community. In addition, teachers will stay with students for at least two years. Each student will be known intensely by at least one adult through advisory groups of 15-20 students.

The mission for Alliance is to open and operate a network of exemplary small high-performing 9-12 and 6-8 public schools in historically underachieving, low income, overcrowded communities in Los Angeles that will significantly outperform other public schools in preparing students to enter and to succeed in college. This is being accomplished through consistent implementation of five core values and is the basis of its educational model: 1) High expectations for all students; 2) Small personalized schools and classrooms; 3) Increased instructional time; 4) Highly qualified principals and teachers; 5) Parents as partners.

Academic Performance: Because of its implications for student enrollment stability and growth, staff views student performance as a leading indicator of a charter school's financial position. Schools with improving student performance trends are viewed favorably, especially if these trends exceed threshold goals set by the school or the California Department of Education (CDE). In order to measure student performance, staff utilizes

Academic Performance Index (API) and Adequate Yearly Progress (AYP) trend data generated by the CDE. The API is also used as an indicator for measuring AYP per the No Child Left Behind Act of 2001. Any school not meeting AYP targets would face additional mandates and corrective actions if the school is a recipient of federal Title I funds.

API rankings data is only available for 4 Alliance schools. Aside from Huntington Park College-Ready Academy High School (HPCRAHS), API rankings on a similar school basis have been solid. According to the Alliance, HPCRAHS mistakenly reported participants in Free/Reduced lunch as 34% when the actual number was over 90%. Alliance believes the similar school ranking for HPCRAHS would have been much higher. On a statewide basis, however, rankings have been low, as shown in the following table. For 2006-07, 3 of the 4 schools listed below have met their API growth target.

API Base Rank (10=Best): Similar Schools/Statewide		
School	2004-05	2005-06
Gertz-Ressler High School	10/6	10/6
Heritage College-Ready Academy High School		8/2
Huntington Park College-Ready Academy High School		2/1
Richard Merkin Middle School		8/3

The Alliance schools' AYP performance has been poor in each school's first year of operation. The poor first year statistic may be due to AYP using the more challenging CST tests to measure proficiency levels versus using the CAHSEE results when the school only has 9th graders who do not take the CAHSEE test. Two schools have shown improvement in the second year of operation, though it is too early to determine a trend in such data.

AYP Performance - Met AYP Targets			
School	2004-05	2005-06	2006-07
Gertz-Ressler High School	No	Yes	Yes
Heritage College-Ready Academy High School		No	No
Huntington Park College-Ready Academy High School		No	Yes
Richard Merkin Middle School		No	No
College-Ready Academy High School No. 4			No
College-Ready Academy High School No. 6			No

Fundraising and Contribution Revenue: The Alliance has been successful in fundraising over the past four years. Contributions are a significant portion of total revenues and other sources for such years at 75%, 63%, and 42%, respectively. For the most recent fiscal year 2006-07, Alliance recorded an increase to net assets of \$8,353,834, resulting in a fund balance of \$13,834,616. This increase is largely due to contributions increasing from approximately \$5 million to \$9.6 million. For more information on financial contributions, please see the "Financial Analysis" Section.

Organization and Management: The Alliance is a 501(c)(3) non-profit public benefit corporation, governed by a board of directors that creates, controls and operates its schools. A 501(c)(3) non-profit public benefit corporation is formed for each Alliance school. The Board of Directors of Alliance serves as the governing board and policy-making body for the organization. The Alliance schools commonly share three Alliance directors that also represent the entire Alliance organization. The Board of Directors of each school includes

the three Alliance directors, the Alliance President/CEO, the Principal, a parent, a teacher, and a representative of LAUSD as ex-officio members. Each Alliance school maintains a local advisory council with representation from the community it serves. The local advisory council works with each school Principal in elements of curriculum, parental involvement, and day-to-day school operations.

The Alliance staff demonstrates many years of education, management, and bicultural experiences. Judy Burton has been the President/CEO of Alliance since 2003. Prior to joining Alliance, Ms. Burton served as the superintendent to LAUSD Local District B for 3 years. Ms. Burton attended the Doctoral Program in Educational Management at the Graduate School of Education, University of La Verne and received an A.B.D. in 1992.

Ms. Jennifer Drake has been with Alliance since November of 2006 in the capacity of Chief Development Officer. Prior to joining Alliance, Ms. Drake worked for several different foundations helping develop and implement communication strategies, grant programs, and budgets. She graduated Magna Cum Laude from the University of Arkansas at Little Rock with a BA in Psychology and a minor in Education.

Parker Hudnut, Chief Operating Officer/Chief Financial Officer of Alliance since 2004, received his MBA from the Wharton School in 2002. As the COO/CFO of Alliance, he has reengineered the operational and financial strategy of the organization. Prior to joining Alliance, Mr. Hudnut was the Director of School Development at Imagine Schools in Boston, MA.

David Linzey recently joined Alliance as Chief Academic Officer and is charged with providing instructional leadership and direction for the Alliance school Principals. His background includes serving as Principal at Huntington Beach High School, Diamond Ranch High School and Southridge Middle School. He holds a Masters in Counseling Psychology from Pepperdine University.

Board Experience: The 25 member board includes a diverse set of experience and background covering critical aspects of the organization including education reform, charter school management, leadership development, political management, community/parent engagement, at risk students, finance, operations, legal, and fund raising. The board is organized into five standing committees (executive, facilities, finance, fund development, and legal/audit). According to the bylaws adopted July 2, 2004, each director holds office for a term of five years and until a successor has been elected and qualified. There is a three term limit.

Richard Riordan is in his first term as Chairman of the Board. He is Founder of the Riordan Foundation and was formerly the California Secretary of Education and Mayor of Los Angeles. Harold Williams is Vice Chairman and is currently serving his second term that expires in 2010. He is President Emeritus of the J. Paul Getty Trust. The board is comprised of 16 additional members. Members' résumés reflect expertise and experience in the areas of finance, education, real estate, and the legal field. Members serve a 5-year term. The names, occupations and terms of the other Board members are as follows:

Name	Occupation	Company	Term
Alan Arkatov	Chief Strategy Office	The Rogers Group	2005-2010
Kurt Benjamin	VP of Business Development	Pacific Core LLC	2005-2010
Judy Burton	President/CEO	ACRPS	2003-2008
Maria Casillas	President	Families in School	2003-2008
David Cunningham III	Partner	Kelly, Lytton & Van LLP	2007-2012
Rebecca DiBiase	Associate Director	The Broad Foundation	2006-2011
David Fisher	Chairman	Capital Group International	2003-2008
Jeffrey Glassman	Managing Director	Covington Capital Management	2007-2012
Paul Hudson	CEO	Broadway Federal	2003-2008
Stewart Kwoh	President	Asian Pacific American Legal Center	2006-2011
Lauren Leichtman	CEO	Levine Leichtman Capital Partners	2005-2010
Atheur Levine	President	Levine Leichtman Capital Partners	2005-2010
Harry Levitt	Executive Vice President	Mullin TBG	2005-2010
Richard Merkin	CEO	Heritae Provider Network	2004-2009
Neal Millard	Partner	White & Case	2003-2008
Gayle Miller	Co Founder	Go Alongside Foundation	2005-2010

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate the applicant's ability to meet its CSFP obligations. The table on page 8 summarizes key aspects of the Alliance's past and projected financial performance.

The financial analysis of Alliance is based on four years of audited financial statements (2003-04 through 2006-07), the 2007-08 budget, and projections for 2008-09 through 2011-12 provided by the Alliance.

Financial Performance – The Alliance projections include both existing schools and schools projected to open in the future, including additional schools beyond the projects under consideration for funding. For the fiscal year 2007-08, revenues are projected to be just over \$28 million while expenses are expected to be \$27.7 million not including the Alliance's internal accounting for a required reserve fund. Net income is just over \$300,000. The 2007-08 projections assume 8 high schools, 2 middle schools, with 2,800 students and 250 staff members.

For the fiscal year 2008-09, the Alliance anticipates a 42% increase in total revenues along with a 40% increase in total expenses resulting in revenues of \$39.8 million, expenses of \$38.9 million, and a net income of approximately \$830,000. The basis of such projections assumes 10 high schools, 3 middle schools, with 4,350 students, and 350 staff members. [please note I have updated all these student numbers to match the financial table at the end of the document] These numbers are in question due to having the total enrollment from different time period than the new projections with different enrollment.

For the fiscal year 2009-10, the Alliance estimates its revenues will increase 34% to \$53.3 million, while its expenses will increase 28% to \$49.9 million, resulting in a net income of over \$3.4 million. The projections for such year include 12 high schools, 4 middle schools, with 5,850 students, and 480 staff members.

In 2010-11, the Alliance plans to grow its revenues to \$65.7 million, a 23% increase over the prior year. Its expenses are expected to increase 26% to \$63 million. As a result, the net income is estimated to be \$2.7 million. Included in such year projections are 15 high schools, 5 middle schools, with 7,350 students and 600 staff members.

The final year projections for 2011-12 project \$74.8 million in revenues, a 14% increase. Expenses are projected to be \$69.5 million or a 10% increase over the prior year. The resulting net income is projected to be \$5.3 million. The year 2011-12 projections include 15 high schools, 5 middle schools, with 9,000 students and 730 staff members.

The Alliance builds into the financial plan of each school the ability to support up to \$1,200 per student out of its operating budget to cover facilities cost.

The net revenues available on a cash basis (excludes depreciation) are \$707,500, \$1.28 million, \$6.27 million, \$4.18 million, and \$3.36 million for the fiscal years 2007-08 to 2011-12. As a result, the surplus per ADA is estimated to be \$116, \$202, \$1,034, \$513 and \$326, respectively.

For the fiscal years ending June 30, 2004 through 2006, the Alliance recorded increases to net assets of \$730,000, \$981,000, and \$5.5 million. Contributions were a significant portion of total revenues and other sources for such years at 75%, 63%, and 42%, respectively. For the most recent fiscal year 2006-07, Alliance recorded an increase to net assets of \$4.6 million, resulting in a fund balance of \$11 million. This increase is largely due to contributions increasing from \$5.2 million to \$9.7 million. While contributions are a significant source of revenue for the guarantor, the guarantor's projections include a conservative percentage of contributions, 5%, 7%, 6%, and 2% for the years 2009-2012. Included in the pledged contributions, The Broad Foundation (TBF) has committed to fund up to \$6.5 million, assuming certain benchmarks are met including but not limited to the Alliance must open 13 new schools in Los Angeles by and the schools' financial needs must be in line with the budgets submitted in the 2007 Alliance Business Plan and will not exceed the \$800,000 funding gap before break-even in year four of operation. In return, TBF will provide up to \$500,000 for each school opened, if certain prescribed criteria are met.

NewSchools Venture Fund has pledged up to \$2.2 million to the Alliance. The amount will be paid in five installments based on the satisfaction of specific milestones.

The Alliance also increased its net plant, property and equipment (PP&E) and debt substantially. In 2005-06 the Net PP&E was \$8.4 million and for 2006-07 it increased to \$30.4 million. For the same period, debt increased from \$6.3 million to \$26.7 million. The Alliance's debt consists of two bond issues and a short term contract payable for modular classrooms. The Alliance issued approximately \$15.7 million of debt through the California Statewide Communities Development Authority for Huntington Park. The debt amortizes over 35 years and the annual payment is approximately \$1.5 million. Additionally, the Alliance maintains several operating leases with commitments of approximately \$400,000 per year.

The Alliance commits to provide all new schools with \$120,000 in start up money, \$55,000 the year prior to opening and \$65,000 the year it opens and gets paid back during each school's third and fourth year of operation, \$50,000 and \$70,000 respectively. Should Alliance be successful with startup grants and other sources of grants, the schools would receive this money as a grant and therefore not have to repay Alliance.

Subsequent to the fiscal year, the Alliance has set up a new subsidiary to hold and manage real property acquired in October 2007. It has made down payments on four properties totaling \$290,000 for properties to be used for its new schools. The total purchase price of the properties is \$13.675 million of which all is to be financed except \$1.85 million which will be paid in cash.

Projected Debt Service Coverage of CSFP Lease Payments – The financial projections indicate that the Alliance can afford the projected annual lease payment.

Total CSFP lease payments projected for the Alliance are \$2,283,654 for 2010-11 and \$5,728,379 for 2011-12. As a result, coverage is projected to be 282.9% and 158.6%, respectively. The Alliance does rely heavily on contributions and during economic downturns the debt service coverage levels could be pressured. The CSFP lease payment is projected to be a low 3.3% of revenues for 2010-11 and 7.3% of revenues for 2011-12.

Liquidity – The Alliance's NWC for 2005-06 was \$3,028,095, or 18.9% of total expenses, and increased to \$6,907,500 for 2006-07, or 16.1% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. The Alliance's cash and cash equivalents increased from \$4.4 million to \$5.6 million.

Alliance College Ready	Actual FY 2005-06	Actual FY 2006-07	Projected FY 2007-08	Projected FY 2008-09	Projected FY 2009-10	Projected FY 2010-11	Projected FY 2011-12
ENROLLMENT PROJECTIONS							
Enrollment	854	1,839	2,950	4,350	5,850	7,350	9,000
Average Daily Attendance	794	1,765	2,816	4,126	5,550	6,993	8,596
Average Daily Attendance (%)	93%	96%	95%	95%	95%	95%	96%
FINANCIAL PROJECTIONS							
Total Revenues Available for CSFP Lease Payment	\$ 12,413,394	\$ 25,799,724	\$ 28,046,909	\$ 39,780,755	\$ 55,630,107	\$ 68,872,287	\$ 78,071,729
Total Expenses Paid Before CSFP Lease Payment	16,024,103	42,814,117	27,719,405	38,945,562	49,890,793	63,002,794	69,542,172
Accounting Adjustments	8,426,150	22,584,079	380,000	446,950	535,459	591,828	555,915
Net Revenues Available for CSFP Lease Payment	\$ 4,815,441	\$ 5,569,686	\$ 707,504	\$ 1,282,143	\$ 6,274,773	\$ 6,461,321	\$ 9,085,472
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,283,654	\$ 5,728,379
Net Revenues After CSFP Lease Payment	\$ 4,815,441	\$ 5,569,686	\$ 707,504	\$ 1,282,143	\$ 6,274,773	\$ 4,177,667	\$ 3,357,093
FINANCIAL INDICATORS							
Net Revenues Available for CSFP Lease Payment	\$ 4,815,441	\$ 5,569,686	\$ 707,504	\$ 1,282,143	\$ 6,274,773	\$ 6,461,321	\$ 9,085,472
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	282.9%	158.6%
Contributions	\$ 5,212,472	\$ 9,714,386	\$ 1,500,000	\$ 2,715,000	\$ 3,190,000	\$ 1,050,000	\$ 925,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	237.0%	142.5%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	3.3%	7.3%
Contributions / Revenues	42.0%	37.7%	5.3%	6.8%	5.7%	1.5%	1.2%
Net Revenues After CSFP Lease Payment / Revenues	38.8%	21.6%	2.5%	3.2%	11.3%	6.1%	4.3%
Revenues / ADA	\$ 15,634	\$ 14,617	\$ 9,960	\$ 9,641	\$ 10,023	\$ 9,849	\$ 9,082
Expenses / ADA	\$ 20,181	\$ 24,257	\$ 9,844	\$ 9,439	\$ 8,989	\$ 9,336	\$ 8,756
Surplus (Deficit) / ADA	\$ (4,547)	\$ (9,640)	\$ 116	\$ 202	\$ 1,034	\$ 513	\$ 326
Net Working Capital	\$ 3,028,095	\$ 6,907,500					
Net Working Capital / Expenses	18.9%	16.1%					

CSFP Applicants: The Alliance is applying for facility financing for five schools. Each school intends to fund its 50% match through a 30-year commitment through the CSFP. Although payments will be made from the revenues of each school, the Alliance will serve as the Guarantor.

The table below presents a summary of the Alliance's projected facility cost and estimated lease payments assuming 30-year terms and interest rates of 5.50%.

School	School Opening	CSFP Facility Occupancy Date	Project Cost	50% of Project Cost	Annual Payment
College-Ready Academy High School No. 5	2007-08	2010-11	\$ 33,329,764	\$ 16,664,882	\$ 1,146,634
College-Ready Academy High School No. 7	2007-08	2010-11	33,050,312	16,525,156	1,137,020
College-Ready Academy High School No. 8	2008-09	2011-12	33,050,312	16,525,156	1,137,020
College-Ready Academy High School No. 9	2008-09	2011-12	34,028,872	17,014,436	1,170,685
College-Ready Academy High School No. 10	2008-09	2011-12	33,050,312	16,525,156	1,137,020

Strengths, Weaknesses and Mitigants

- + Alliance projected revenues cover debt service by 282.9% and 158.6% in 2010-11 and 2011-12, respectively.
- + Low reliance on private donations relative to historical values.
- The Alliance projections include 20 schools of which only 10 are open, though 14 approved charters.
- /+ Many of the Alliance schools have failed to fulfill AYP requirements. However, 75% of Alliance schools are scoring 8 or higher on the similar schools ranking.