

**CHARTER SCHOOL FACILITIES PROGRAM  
PROPOSITION 1D FUNDING ROUND  
STAFF SUMMARY REPORT – MARCH 2010**

<b>Applicant/Obligor:</b>	KIPP Bay Area Schools
<b>Project School:</b>	KIPP King Collegiate High School
<b>CDS (County – District – School) Code:</b>	01-61309-0114421
<b>[Proposed] Project Location:</b>	2005 Via Barrett, San Lorenzo, CA 94580
<b>Type of Project:</b>	Rehabilitation of District Facilities
<b>County:</b>	<u>Alameda</u>
<b>District in which Project is Located:</b>	San Lorenzo Unified School District
<b>Charter Authorizer:</b>	San Lorenzo Unified School District
<b>Total OPSC Project Cost:</b>	\$3,607,942
<b>State Apportionment (50% Project Cost):</b>	\$1,803,971
<b>Lump Sum Contribution:</b>	\$0
<b>Total CSFP Financed Amount:</b>	\$1,803,971
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$92,037
<b>First Year of Occupancy of New Project:</b>	2011-12

<b>Applicant/Obligor:</b>	KIPP Bay Area Schools
<b>Project School:</b>	KIPP King Collegiate High School
<b>CDS (County – District – School) Code:</b>	01-61309-0114421
<b>[Proposed] Project Location:</b>	2005 Via Barrett, San Lorenzo, CA 94580
<b>Type Of Project:</b>	New Construction
<b>County:</b>	<u>Alameda</u>
<b>District in which Project is Located:</b>	San Lorenzo Unified School District
<b>Charter Authorizer:</b>	San Lorenzo Unified School District
<b>Total OPSC Project Cost:</b>	\$11,041,874
<b>State Apportionment (50% Project Cost):</b>	\$5,520,937
<b>Lump Sum Contribution:</b>	\$3,000,000
<b>Total CSFP Financed Amount:</b>	\$2,520,937
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$128,616
<b>First Year of Occupancy of New Project:</b>	2011-12

**Staff Recommendation:** Staff’s recommendation that the California School Finance Authority (CSFA) Board determine that KIPP Bay Area Schools (KIPP BAS) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Advance Apportionment on behalf of KIPP King Collegiate High School (KIPP King), but not for purposes of Final Apportionment. This determination as it relates to an advance apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.

**Background:** On May 6, 2008, the Authority determined that KIPP King Collegiate High School was financially sound for purposes of a preliminary apportionment. The State Allocation Board subsequently awarded the preliminary apportionment in the amount of \$14,649,816, which included \$3,607,942 for rehabilitation and \$11,041,874 for new construction. Effective July 1, 2008, KIPP King was subsumed under KIPP BAS through a merger with that organization, which is now the financial obligor and the umbrella organization for the following seven schools: KIPP Bayview Academy; KIPP Bridge College Preparatory Academy; KIPP Heartwood Academy; KIPP San Francisco Bay Academy; KIPP Summit Academy; KIPP King; and KIPP San Jose Collegiate High School. KIPP BAS, on behalf of KIPP King, is now requesting an Advance Apportionment for design in the amount of \$1,464,981, which includes \$1,104,187 for new construction and \$360,794 for rehabilitation. KIPP King has documented the receipt of \$3,000,000 in local matching funds from San Lorenzo Unified School District to finance the construction of the new campus in July 2009. This amount will be used towards the CSFP upfront payment and thus reduce the amount financed through CSFP.

To assess KIPP BAS’s financial soundness status for purposes of Advance Apportionment, Authority staff reviewed updated information, including, but not limited to: updated financial information for KIPP BAS, updated project information for KIPP King; updated academic performance and student enrollment information (for all KIPP BAS schools), an updated Legal Status Questionnaire; copies of contracts with the chartering authority; updated management and Board of Directors information; and disclosure of additional material changes that may have an impact on KIPP BAS’s financial condition.

**Application Highlights:** Below staff has highlighted key criteria that were evaluated when conducting our financial soundness review of KIPP BAS. Detailed information is contained in the body of the report.

<b>Criteria</b>	<b>Comments</b>
<b>Eligibility Criteria</b>	Applicant meets all Program eligibility criteria: 1) KIPP BAS was created in 2008-09 but is comprised of seven schools, six of which have operated for at least two years of operation. KIPP BAS meets the two-year minimum of operations eligibility requirement; 2) a charter is in place through June 2011 for KIPP King; and 3) KIPP King <u>is in good standing</u> with its chartering authority and is in compliance with the terms of its charter.

<b>Demographic Information</b>	KIPP King opened in 2007-08 with 9 <sup>th</sup> grade, serving 98 students. Enrollment for 2009-10 is at 291 students, serving grades 9 to 12. KIPP King's projects operating at full enrollment capacity with 419 students in 2011-12.
<b>Debt Service Coverage</b>	Based on KIPP BAS' projections, calculated debt service coverage ratios are 571.3% (2012-13) and 836.2% (2013-14) for the CSFP payments. KIPP BAS must receive 70%-80% of expected contributions in order to maintain debt service coverage ratios of no less than 100.0%.
<b>Other Financial Factors</b>	<ol style="list-style-type: none"> <li>1. CSFP payments for both projects would represent an acceptable 1.2% of KIPP BAS' total revenues.</li> <li>2. KIPP BAS total contributions are projected to comprise 22.0% of revenues in 2012-13 and 2013-14, which are well above the threshold level of 15.0%.</li> </ol>
<b>Student Performance</b>	In 2008-09, KIPP King met all six of its AYP criteria and met its API growth target. KIPP King ranked 9 out of 10 statewide with a base API score of 804

**Program Eligibility:** In a letter dated March 2, 2010, San Lorenzo Unified School District (SLUSD) confirmed that KIPP King is (1) in compliance with the terms of its charter agreement, and (2) is in good standing with its chartering authority.

**Legal Status Questionnaire:** Staff reviewed the applicant's responses to the questions contained in the Legal Status portion of the application. As KIPP BAS answered "None" to all LSQ questions, no information was disclosed that would lead the staff to question the financial or legal integrity of this applicant.

**Project Description:** KIPP King is requesting funding mainly for new construction of a facility addition but also for the rehabilitation of classroom space. KIPP BAS intends to build new facilities on the campus on which KIPP King and KIPP Summit Academy are currently located, which is 2005 Via Barrett, San Lorenzo, CA 94580. The project is expected to include 10 new classrooms, 3 science labs, administrative offices, new bathrooms, a library and a gymnasium. Facilities are to provide capacity for up to 400 students. The school site will be shared with the KIPP Summit Academy. The project is expected to cost \$11.04 million for the new construction portion, and \$3.61 million for the rehabilitation. The rehabilitation is of four existing classrooms and related core area totaling 4,310 square feet. KIPP BAS anticipates project occupancy in August 2011.

**Organizational Information:** KIPP King began instructional operations in 2007-08 serving 98 students in grade 9. Adding one additional grade each year, for the current 2009-10 academic year, KIPP King has 291 students serving grades 9 to 11, and for 2010-11, KIPP King plans to have 389 students serving grades 9 to 12. KIPP King's charter with San Lorenzo Unified School District was initially approved in 2007 and is due to expire June 30, 2011.

KIPP King was established following the national KIPP model, as set forth by the KIPP Foundation (see further description below) wherein all KIPP students spend "more time on task" by devoting nine hours every weekday, plus alternate Saturdays throughout the

extended school year, to class work and school-based activities. In addition, summer school is in session four hours a day for three weeks. The School correlates its curriculum objectives to California standards and works to ensure that all students master all areas of the content standards.

In October 2008, KIPP BAS was created through a consolidation of seven charter schools, including five middle schools and two high schools, under its auspices. Each of these schools was established under the KIPP model, and KIPP BAS assumed all fiscal and operational oversight responsibilities.

As set forth in KIPP King's charter, Knowledge is Power Program (KIPP) is based around a core set of operating principles, known as the Five Pillars: (1) high expectations; (2) choice and commitment; (3) more time on task; (4) power to lead; and (5) focus on results. The key components of the program are summed up in KIPP's motto – "There are no shortcuts" – words that apply to administration, faculty, students and parents alike.

**Educational Management Organization:** KIPP Foundation is a non-profit, public benefit corporation with 501(c)(3) status. The Foundation recruits and prepares educators to open and independently run charter schools. KIPP California, an affiliated state organization, was created to provide better local support for schools. The two KIPP parent organizations, the Foundation and KIPP California, essentially function as one organization. The co-founders of the KIPP Foundation, Mike Feinberg and Dave Levin, are deeply involved with the organization, providing oversight for the schools' leadership program, assisting in recruitment, real estate, growth and other issues that individual schools might face.

Before opening and running a KIPP school, potential leaders receive 12 months of management and academic training. Their time includes a six-week summer institute at a leading business school, a three-month residency at two exemplary schools across the nation, and supervised start up work in the communities of the future schools.

Pursuant to the creation of KIPP BAS in 2008, KIPP BAS became the ultimate financial obligor and overseer for KIPP King, even though it is still under the auspices of KIPP Foundation. Prior to the merger, KIPP BAS was established as a non-profit 501(c)(3) organization, in 2007. Back office operations such as finances, student reporting, and facilities management are handled by KIPP BAS. In addition, KIPP BAS personnel handle real estate and legal issues, teacher development, charter authorization and fundraising. School leaders, however, retain control over their budget and personnel. After chartering, through KIPP BAS, schools have access to curricular and instructional best practices as well as consulting services for help with business and academic issues. Schools pay for these services via a "licensing fee" to KIPP BAS, which is 1 percent of per pupil revenues for the first year of operations and 3 percent of revenues every year thereafter. The agreement requires schools to uphold the Five Pillars, among other stipulations.

**School Management:** KIPP King is led by Jason Singer, Principal. Prior to founding KIPP King, Mr. Singer founded and served as Principal of KIPP Summit Academy (middle school) from 2003-04 to 2006-07. Mr. Singer received his Bachelor of Arts degree from Pitzer College, and a Masters in secondary education from the University of Mississippi. Mr. Singer received his teaching credential from the State of Mississippi, and was awarded "Teacher of the Year" from Greenwood Public Schools. Upon his return to California, Mr.

Singer founded C.H.A.L.K. (Communities in Harmony Advocating for Learning and Kids). Mr. Singer is a Fulbright Scholar.

Tina Cheuk, Dean of Students at KIPP King, has a Masters in Education from Stanford University, and a Bachelors of Science degree from the University of Chicago. Ms. Cheuk recently served a Corps Member Advisor for Teach for America in Harlem, and also was a Teacher for America instructor in the Bronx. Ms. Cheuk served in the Peace Corps in Ghana from 2003-05.

Patrinia Sandals serves as the Youth Director of Community Service and Summer Enrichment at KIPP King. Ms. Sandals has a Masters in Education Policy, Organization, and Leadership Studies from Stanford University, and a Bachelors Degree from Texas A & M University.

**Board Experience:** KIPP BAS's board of directors consists of 19 directors. The following is a list of directors and their respective professional backgrounds:

- Rick Intrater, Board Chair; President & CEO, Long-Term Solutions
- John Philip Coghlan, former President and CEO, Visa USA
- Michael Crowley, President, Oakland Athletics
- David Cumming, Senior Vice President, McMorgan & Company
- Chuck Daggs, Executive Vice President, Wells Fargo
- Lauren Dutton, former Partner, NewSchools Venture Fund
- Brewster Ely, Headmaster, Town School for Boys
- Bill Falik, CEO, Live Oak Enterprises
- Doris Fisher, Co-Founder, Gap, Inc.
- Jacquelyn Hadley, Partner, Bridgespan Group
- Constance Heldman, President, Datanation Services Corp
- Carl Kawaja, Senior Vice President, Capital Group Companies
- Mimi Kingsley, Community Volunteer
- Dr. Joi Lewis, Dean of Students, Mills College
- Joan Lonergan, Head of School, Castilleja School
- Amy Morgenstern, President, Main Stream Enterprises, Inc.
- Satya Patel, Partner, Battery Ventures
- David Paulson, Partner, Jones Day
- Mary Robinson, Fundraising Consultant

**Management Experience for Schools Open Less than Two Years:** Not applicable. KIPP King began instructional operations in the 2007-08 school year, meeting the two years of instruction requirement.

**Student Performance:** Student performance data for KIPP King is available as the school began instructional operations in 2007-08. Below we have highlighted student performance data from KIPP King along with the other six schools managed by KIPP BAS.

KIPP King Collegiate High School	FY 2007-08	FY 2008-09
<b>ADEQUATE YEARLY PROGRESS (AYP)</b>		
Met All AYP Criteria?	Yes	Yes
Criteria Met / Required Criteria	6 / 6	6 / 6
Met API Indicator for AYP?	Yes	Yes
Met Graduation Rate?	N/A	N/A
<b>ACADEMIC PERFORMANCE INDEX (API)</b>		
Met Schoolwide Growth Target?	N/A	Yes
Met Comparable Improvement Growth Target?	N/A	Yes
Met Both Schoolwide & CI Growth Targets?	N/A	Yes
API Base Statewide Rank (10 = best)	N/A	9
API Base Similar Schools Rank (10 = best)	N/A	N/A
School's Actual Growth	N/A	N/A
Similar Schools Median of Actual Growth	N/A	N/A
Did School's Growth Exceed Median?	N/A	N/A

<b>KIPP Bay Area Schools - API Growth Scores / Met API Growth Target*</b>				
School	2005-06	2006-07	2007-08	2008-09
KIPP Bayview Academy	706 / No	741 / Yes	728 / No	757 / Yes
KIPP Bridge College Prep (6-12)	N/A	N/A	760 / N/A	789 / Yes
KIPP Heartwood Academy (K-8)	921 / Yes	914 / Yes	903 / Yes	894 / Yes
KIPP San Francisco Bay Academy (K-8)	838 / Yes	865 / Yes	857 / Yes	832 / Yes
KIPP Summit Academy (K-5)	N/A	805 / N/A	808 / Yes	817 / Yes
<b>KIPP King Collegiate High School (9-12)</b>	<b>N/A</b>	<b>N/A</b>	<b>804 / N/A</b>	<b>862 / Yes</b>
KIPP San Jose (K-6)	N/A	N/A	N/A	N/A

\*Commencing in 2006-07, green and red text indicate increases and decreases, respectively in API Growth from prior year

<b>KIPP Bay Area Schools – Base API Score Statewide Ranking / Similar School Ranking (10 = best)</b>				
School	2005-06	2006-07	2007-08	2008-09
KIPP Bayview Academy	4 / 8	5 / 10	4 / 10	5 / 10
KIPP Bridge College Prep (6-12)	N/A	N/A	N/A	6 / 10
KIPP Heartwood Academy (K-8)	10 / N/A	10 / 10	10 / 10	10 / 10
KIPP San Francisco Bay Academy (K-8)	3 / 7	9 / 10	10 / 10	9 / 10
KIPP Summit Academy (K-5)	7 / 10	9 / 10	8 / 10	8 / 10
<b>KIPP King Collegiate High School (9-12)</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>9 / N/A</b>
KIPP San Jose (K-6)	N/A	N/A	N/A	N/A

<b>KIPP Bay Area Schools – Met All AYP Targets</b>				
<b>School</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
KIPP Bayview Academy	Yes	Yes	No	Yes
KIPP Bridge College Prep (6-12)	N/A	N/A	No	Yes
KIPP Heartwood Academy (K-8)	Yes	Yes	Yes	Yes
KIPP San Francisco Bay Academy (K-8)	Yes	Yes	Yes	Yes
KIPP Summit Academy (K-5)	N/A	Yes	Yes	Yes
<b>KIPP King Collegiate High School (9-12)</b>	<b>N/A</b>	<b>N/A</b>	<b>Yes</b>	<b>Yes</b>
KIPP San Jose (K-6)	N/A	N/A	N/A	Yes

**Student Enrollment:** KIPP BAS projects moderate future growth in student population. Enrollment is expected to continue growing in the near future as KIPP BAS adds grades to their existing schools. In 2011-12, KIPP BAS expects to be enrolled at near capacity at all of their schools with enrollment totaling 2,424 students. KIPP BAS has seen high ADA percentages in past years (2007-08: 94%, 2008-09: 99%) and expects to maintain a 97% ADA rate from 2010-11 through 2013-14. KIPP King’s enrollment has more than tripled in its first three years due to the addition of grades in every year. While starting with 98 students in the 9<sup>th</sup> grade in 2007-08, KIPP King expects to reach student capacity in 2011-12 with 419 students in grades 9 to 12. KIPP King’s enrollment for 2009-10 is at 291 students. KIPP BAS and KIPP King have made reasonable enrollment growth assumptions and do not depend on an exorbitant level of student growth in order to meet the CSFP payment obligation.

**Financial Analysis:** Below we have highlighted selected financial data and credit indicators to evaluate KIPP BAS's ability to meet its CSFP obligation. Staff evaluated KIPP BAS ability to meet its CSFP payment using the combined payment obligation of both the new construction and rehabilitation components. In addition to the financial analysis of KIPP BAS, staff has also evaluated KIPP King to determine the affordability of CSFP payments from solely KIPP King's operations.

**KIPP BAS Financial Model:**

Kipp Bay Area Schools (for KIPP King Collegiate High)	Actual FY 2007-08	Actual FY 2008-09	Projected FY 2009-10	Projected FY 2010-11	Projected FY 2011-12	Projected FY 2012-13	Projected FY 2013-14
<b>ENROLLMENT PROJECTIONS</b>							
Enrollment	1,576	1,722	2,051	2,296	2,424	2,425	2,459
Average Daily Attendance	1,485	1,710	1,972	2,225	2,349	2,350	2,383
Average Daily Attendance (%)	94%	99%	96%	97%	97%	97%	97%
<b>FINANCIAL PROJECTIONS</b>							
Total Revenues Available for CSFP Lease Payment	\$ -	\$ 22,629,809	\$ 18,566,063	\$ 20,317,278	\$ 21,998,646	\$ 22,528,811	\$ 23,466,874
Total Expenses Paid Before CSFP Lease Payment	-	18,244,962	19,837,585	20,424,597	20,934,163	21,415,138	21,773,151
Accounting Adjustments	-	-	230,600	231,035	192,483	146,945	151,353
Net Revenues Available for CSFP Lease Payment	\$ -	\$ 4,384,847	\$(1,040,922)	\$ 123,716	\$ 1,256,966	\$ 1,260,618	\$ 1,845,075
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 220,654	\$ 220,654
Net Revenues After CSFP Lease Payment	\$ -	\$ 4,384,847	\$(1,040,922)	\$ 123,716	\$ 1,256,966	\$ 1,039,964	\$ 1,624,421
<b>FINANCIAL INDICATORS</b>							
Net Revenues Available for CSFP Lease Payment	\$ -	\$ 4,384,847	\$(1,040,922)	\$ 123,716	\$ 1,256,966	\$ 1,260,618	\$ 1,845,075
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	571.3%	836.2%
Contributions	\$ -	\$ 7,327,195	\$ 3,752,914	\$ 4,644,665	\$ 5,039,759	\$ 5,155,675	\$ 5,336,655
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	less than 0%	less than 0%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	1.0%	0.9%
Contributions / Revenues	N/A	32.4%	20.2%	22.9%	22.9%	22.9%	22.7%
Net Revenues After CSFP Lease Payment / Revenues	N/A	19.4%	-5.6%	0.6%	5.7%	4.6%	6.9%
Revenues / ADA	N/A	\$ 13,234	\$ 9,415	\$ 9,131	\$ 9,365	\$ 9,587	\$ 9,848
Expenses / ADA	N/A	\$ 10,670	\$ 10,060	\$ 9,180	\$ 8,912	\$ 9,207	\$ 9,229
Surplus (Deficit) / ADA	N/A	\$ 2,564	\$ (645)	\$ (48)	\$ 453	\$ 380	\$ 618
Net Working Capital	\$ -	\$ 10,192,447					
Net Working Capital / Expenses	N/A	55.9%					

**KIPP King Financial Model:**

KIPP King Collegiate High	Actual FY 2007-08	Actual FY 2008-09	Projected FY 2009-10	Projected FY 2010-11	Projected FY 2011-12	Projected FY 2012-13	Projected FY 2013-14
<b>ENROLLMENT PROJECTIONS</b>							
Enrollment	98	185	291	389	419	419	419
Average Daily Attendance	92	179	282	377	406	406	406
Average Daily Attendance (%)	94%	97%	97%	97%	97%	97%	97%
<b>FINANCIAL PROJECTIONS</b>							
Total Revenues Available for CSFP Lease Payment	\$ 1,934,389	\$ 1,925,706	\$ 2,682,087	\$ 3,545,437	\$ 3,918,316	\$ 4,017,574	\$ 4,137,953
Total Expenses Paid Before CSFP Lease Payment	1,417,472	2,182,755	2,857,630	3,255,910	3,216,558	3,304,207	3,341,288
Accounting Adjustments	73,465	14,336	53,500	53,500	14,500	14,500	14,935
Net Revenues Available for CSFP Lease Payment	\$ 590,382	\$ (242,713)	\$(122,044)	\$ 343,028	\$ 716,257	\$ 727,867	\$ 811,600
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 220,654	\$ 220,654
Net Revenues After CSFP Lease Payment	\$ 590,382	\$ (242,713)	\$(122,044)	\$ 343,028	\$ 716,257	\$ 507,213	\$ 590,946
<b>FINANCIAL INDICATORS</b>							
Net Revenues Available for CSFP Lease Payment	\$ 590,382	\$ (242,713)	\$(122,044)	\$ 343,028	\$ 716,257	\$ 727,867	\$ 811,600
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	329.9%	367.8%
Contributions	\$ 757,889	\$ 390,667	\$ 559,610	\$ 768,641	\$ 852,214	\$ 877,631	\$ 903,811
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	less than 0%	less than 0%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	5.5%	5.3%
Contributions / Revenues	39.2%	20.3%	20.9%	21.7%	21.7%	21.8%	21.8%
Net Revenues After CSFP Lease Payment / Revenues	30.5%	-12.6%	-4.6%	9.7%	18.3%	12.6%	14.3%
Revenues / ADA	\$ 20,985	\$ 10,744	\$ 9,502	\$ 9,396	\$ 9,641	\$ 9,885	\$ 10,181
Expenses / ADA	\$ 15,377	\$ 12,178	\$ 10,124	\$ 8,629	\$ 7,914	\$ 8,673	\$ 8,764
Surplus (Deficit) / ADA	\$ 5,608	\$ (1,434)	\$ (622)	\$ 767	\$ 1,727	\$ 1,212	\$ 1,417
Net Working Capital	\$ 715,072	\$ 196,858					
Net Working Capital / Expenses	50.4%	9.0%					

Financial Performance: Staff's review of KIPP BAS & KIPP King's financial performance is based on the 2007-08 & 2008-09 financial audits and financial projections from 2009-10 through 2013-14 as provided by KIPP BAS. Staff's analysis of financial performance includes expenses for capital outlay and loan repayment; therefore, our results may differ from KIPP BAS's internal financial figures.

KIPP King expects to occupy the project in 2011-12, by which time their enrollment is projected to have increased to 419 students (grades 9 to 12).

Long-Term Liabilities: As of June 30, 2009, KIPP BAS had no long-term liabilities. KIPP BAS has only borrowed through three short-term notes in aggregate of \$154,709. The borrowed funds went to construction and start-up costs for KIPP King, KIPP Bayview Academy, and KIPP San Francisco Bay Academy.

Financial Projections: The 2009-10 ADA funding rates of \$4,855 (grades 4 to 6), \$5,003 (grades 7 to 8), and \$5,845 (grades 9 to 12) were used as a base when determining projected future funding rates. KIPP BAS assumed growth of 0.5%, 2.3%, 2.5%, 3.0% and 3.0% in years 2010-11 through 2013-14, respectively, to the general purpose block grant per ADA funding rates. The assumed growth rates are applied to the categorical block grant as well. KIPP BAS has also made the assumption of a 3.0% annual COLA for teacher salaries in 2010-11 and 2012-13 with a 0.0% COLA in all other years through 2013-14. The number of teachers increases from six in 2007-08 to 21 in 2010-11, which is represented by regular increases in the expense for classified salaries through 2010-11. Expenses not related to personnel also are expected to increase based on enrollment levels, without annual COLAs.

In 2008-09, KIPP BAS produced revenues of \$15.3 million along with \$18.2 million in expenses. Including contributions of \$7.33 million (\$1.3 million restricted), KIPP BAS experienced an increase in net assets of \$4.38 million. For 2009-10, KIPP BAS is projecting deficits of \$1.04 million inclusive of \$3.75 million in contributions. KIPP BAS is expected to operate at a smaller deficit in 2010-11 of \$123,716 after contributions of \$4.64 million. From 2011-12 through 2013-14, KIPP BAS expects to see annual increases in net assets between \$1.26 million and \$1.62 million. In these years, KIPP BAS also anticipates between \$5.04 million and \$5.34 million in annual contributions.

In its first year of operations in 2007-08, KIPP King experienced an increase of net assets of \$590,382 after accounting adjustments. This was a result of \$1.18 million in revenues, \$1.42 million in expenses and \$757,889 in contributions. The following year, KIPP King's management merged with the other six schools to form KIPP BAS. Revenues of \$1.54 million, expenses of \$2.18 million and contributions of \$390,667 resulted in a decrease of net assets of \$257,049.

An analysis of KIPP King's financial projections indicate a projected deficit for 2009-10 of \$122,044, inclusive of \$559,610 in contributions. An increase in net assets is expected in 2010-11 of \$343,028. The increase would be due to the estimated \$2.78 million in operating revenue, \$768,641 in contributions, and \$3.26 million in expenses. From 2011-12 through 2013-14, KIPP King is expected to experience annual net increases to assets of between \$716,257 and \$590,946. During this period, contributions are expected to increase from \$852,214 to \$903,811 while operating revenues and expenses experience modest

increases. KIPP King will meet its facilities capacity at 419 students in 2011-12 and does not anticipate further growth in student population.

Contributions: Contributions are accounted for as either unrestricted support, temporarily restricted support, or permanently restricted support depending on donor imposed restrictions. It was indicated in the auditor's findings that certain unrestricted contributions received before the end of the 2008-09 fiscal year should have been accounted for as temporarily restricted support. KIPP BAS recorded the contributions as deferred revenue because the donors requested use of the funds in the next fiscal year. The auditor suggested this change in accounting practices so that contributions are recorded in the accounting period in which they are received or promised. KIPP BAS agreed with the auditor's assessment.

Contributions and fundraising revenues represent significant portions of KIPP BAS and KIPP King's total revenue. As separate entities in 2007-08, the schools comprising KIPP BAS totaled contributions of \$5.84 million with \$96,316 accounted for as temporarily restricted. In 2008 -09, contributions of \$7.33 million (32.4% of revenue) and \$390,667 (20.3% of revenue) were accounted for by KIPP BAS and KIPP King, respectively. Both KIPP BAS and KIPP King are forecasting contributions averaging approximately 21.0% of total revenue from 2009-10 through 2013-14. Of the projected contributions to KIPP BAS and KIPP King, 85% is expected to be unrestricted with the remaining contributions subject to donor imposed restrictions. These restricted amounts may not be available to fund CSFP lease payments in the year received. However, KIPP BAS still maintains the ability to reallocate resources throughout the organization to ensure payment of the CSFP lease.

Projected Debt Service Coverage: Assuming a 3.00% interest rate and 30-year repayment period, KIPP BAS's annual CSFP payments for KIPP King would total to \$220,654 commencing in 2012-13. KIPP BAS's financial projections show that KIPP BAS is projected to have sufficient funds to meet its annual CSFP payments. After completion of the two projects in 2011-12, KIPP BAS anticipates net revenues available for its CSFP payments to be \$1,260,618 and \$1,845,075 in 2012-13 and 2013-14. KIPP King projects available revenues of \$727,867 and \$811,600 for the CSFP payment in these years as well. Inclusive of both project components, CSFP payments would represent an acceptable 5.4% of total revenues for KIPP King and 1.0% for KIPP BAS.

KIPP BAS' debt service coverage ratios of 571.3% and 836.2% for 2012-13 and 2013-14, respectively, exceed the minimum debt service coverage requirement of 100.0% for both the proposed rehabilitation and new construction projects. Analysis of KIPP King's financial projections indicated debt service coverage ratios of 329.9% and 367.8% for these years as well. However, if all contributions are removed from KIPP BAS and KIPP King's revenue projections in these two years, the organization and school would be operating at a deficit with the CSFP lease payment exceeding available funds. KIPP BAS would need to receive at least 75% of expected contributions to maintain debt service coverage ratios of greater than 100.0%. Although KIPP BAS's projected debt service coverage figures are substantially higher than the required coverage of 100%, the necessity of 70%-80% of expected contributions highlight the dependence on contributions.

Liquidity: KIPP BAS maintained strong cash balances in 2008-09 of \$8.29 million. Liquidity is also measured in terms of net working capital (NWC) and is calculated by subtracting

current liabilities from current assets. While KIPP King's NWC at June 30, 2009 was \$196,858 or 9.0% of total expenses, KIPP BAS ended 2008-09 with \$10.19 million in NWC or 55.9% of expenses. Staff considers an NWC equivalent of at least 5.0% of total expenses to be sufficient, KIPP BAS comfortably meets this threshold with strong liquidity.

**Strengths, Weaknesses and Mitigants**

- + KIPP King's financial projections indicate that they will be able to afford the annual CSFP payments for the new construction and rehabilitation projects, as evidenced by the projected debt service coverage ratios of 571.3% and 836.2% calculated for 2012-13 and 2013-14.
- + The KIPP organization is well established throughout the nation, with significant experience within the charter school area and providing a network of support. KIPP King also has strong local school leadership.
- KIPP King's reliance on revenues generated by fundraising could result in debt service coverage ratios of less than 100.0% if actual contributions received are less than approximately 75% of projected levels.

**Staff Recommendation:** Staff's recommendation that the California School Finance Authority (CSFA) Board determine that KIPP Bay Area Schools (KIPP BAS) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Advance Apportionment on behalf of KIPP King Collegiate High School (KIPP King), but not for purposes of Final Apportionment. This determination as it relates to an advance apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.