

The following draft report was prepared prior to Monsenor Oscar Romero indicating their intention to use the YPI Organization as a guarantor. No financial soundness recommendations are included.

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

Applicant/Obligor:	Monseñor Oscar Romero Charter Middle School
Project School:	Monseñor Oscar Romero Charter Middle School
CDS (County – District – School) Code:	19-64733-0114959
[Proposed] Project Location:	1814 Berkeley Ave., Los Angeles, CA 90026
County:	Los Angeles
Type of Project:	New Construction
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Total OPSC Project Cost:	\$13,464,960
State Apportionment (50% Project Cost):	\$6,732,480
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$6,732,480
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$343,486
First Year of Occupancy of New Project:	2012-13

Applicant/Obligor:	Monseñor Oscar Romero Charter Middle School
Project School:	Monseñor Oscar Romero Charter Middle School
CDS (County – District – School) Code:	19-64733-0114959
[Proposed] Project Location:	1814 Berkeley Ave., Los Angeles, CA 90026
County:	Los Angeles
Type of Project:	Rehabilitation
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Total OPSC Project Cost:	\$725,940
State Apportionment (50% Project Cost):	\$362,970
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$362,970
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$18,518
First Year of Occupancy of New Project:	2012-13

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

Criteria	Comments
Eligibility Criteria	MORMS has met all the eligibility criteria for the Program: 1) a charter is in place; 2) MORMS has more than two years of instructional operations experience; and 3) is in compliance and in good standing with its chartering entity.
Demographic Information	MORMS has shown a consistent increase in enrollment from 65 students serving grade 6 in 2007-08 to the current 227 students serving grades 6-8, and anticipates an increase in enrollment to 300 for 2010-11 and 2011-12 (32% increase from 2009-10) and to 405 (capacity) in 2012-13, the first year of project occupancy, and thereafter.
Debt Service Coverage	MORMS projects debt service coverage ratios of 141.9% and 143.1% during 2013-14 and 2014-15, the first two years of CSFP payments.
Other Financial Factors	<ol style="list-style-type: none"> 1. MORMS does not rely on contributions. 2. MORMS' CSFP lease payments are anticipated at 12.2% and 12.0% of revenues during the first two years after occupancy, which is within the recommended threshold of 15%. 3. MORMS can only sustain a 7% reduction in 2014-15 projected enrollment and still meet the Program debt service coverage requirement.
Student Performance	Although MORMS met all AYP criteria in 2007-08, it did not meet all AYP criteria in 2008-09. Furthermore, MORMS did not meet its 2008-09 growth target and ranked 3 out of 10 statewide with a 2008 API base score of 716.

Program Eligibility: On November 18, 2009, verification was received from Los Angeles Unified School District (District) stating that MORMS is: 1) in compliance with the terms of its charter agreements, and 2) is in good standing with its chartering authority.

MORMS' charter was approved by the Los Angeles Unified School District on May 22, 2007, and the school commenced instructional operations in September 2007. The charter will expire on June 30, 2012. As the charter school has been in operations for two years, it meets the minimum two-year operational requirement set forth by the Program regulations.

Legal Status Questionnaire: Staff reviewed MORMS' responses to the questions contained in the Legal Status Questionnaire (LSQ) (dated September 21, 2009). MORMS answered "No" to all LSQ questions.

Project Description: MORMS is requesting funding for both new construction and rehabilitation of permanent facilities at 1814 Berkeley Avenue in the Echo Park area of Los Angeles. The school is currently located in the Pico-Union are of Los Angeles. Through these projects, MORMS is planning for the development of a multi-level facility consisting of 16 classrooms, as well as administrative offices, auditorium, science laboratory, art studio, multi-purpose room, and library. The rehabilitation component represents the construction

of one classroom, while the new construction component represents the remainder of the development. Both projects will provide capacity for 405 students and MORMS anticipates project completion in September 2012.

Organizational Information: MORMS is organized as a 501(c)(3) nonprofit, public-benefit corporation (incorporated in 2007). The school commenced instructional operations in September 2007 with 55 students in sixth grade. The school has added a grade each year such that, for the current 2009-10 academic year, it has 227 students in grades 6-8, and anticipates a maximum student enrollment of 400 students in grades 6-8 by the first year of occupancy, 2012-13.

The Youth Policy Institute (YPI), a Los Angeles-based non-profit organization that designs and operates education programs for low-income communities, has been a key developer of MORMS' educational programs. YPI served in the development of MORMS' charter petition and shares in MORMS' educational oversight by having its Executive Director and Director of Valley Operations serve as Board President and Board Vice President, respectively. YPI provides similar oversight to Bert Corona Middle School, which has been in operations since 2004-05.

According to information provided by the applicant, the mission of the MORMS is to prepare students for academic success in high school, as well as post-secondary education, to be responsible and active participants in their community and to be life-long learners. MORMS uses a learning model that treats all students as 'gifted and talented', with an emphasis on effective education and collaborative inquiry.

MORMS' target population comes from the local community of the Pico-Union area, which is densely populated with low-income minority students. The school uses the community as its primary means of student recruitment through informational meetings with families, open houses and school tours. In addition to these community meetings, MORMS will also develop promotional and informational material for local media and distribute them in a variety of community settings to a broad range of community groups, agencies, neighborhood youth organizations, social service providers, churches, grocery store, public libraries, and legislators.

MORMS will keep a competitive advantage by placing a cap to remain small with a maximum enrollment of 405 students. MORMS believes that smaller schools can provide students with more advantages than a larger school would.

MORMS' charter was originally approved by the District in May 2007, and the school began operations in September 2007. The charter will expire in June 2012. The District charges a 1% fee for supervisory oversight.

Educational Management Organization: MORMS is not run by an EMO, but is affiliated with Youth Policy Institute (see discussed above).

Management and School Experience: The resumes of the school's personnel and the management team demonstrate professional, experienced and qualified individuals serving in key capacities within the organization.

Dr. Nick Vasquez has been the Executive Director of MORMS since 2008. Prior to this, Mr. Vasquez served as Principal of Morningside Elementary School (LAUSD, 1997-2008), Assistant Principal of Sixty-Sixth Street Elementary School (LAUSD, 1995-97), and Assistant Principal of Edison Elementary School (Glendale USD, 1994-95). Prior to his experience as a public school administrator, Mr. Vasquez served as a public school advisor, coordinator, and teacher (1977-94). Dr. Vasquez has also served as a consultant for Project GRAD USA, a school reform organization (2005-present). Dr. Vasquez holds both an Ed.D. and M.Ed. from UCLA.

Lori Reaves has been the Principal of MORMS since 2008. Prior to this position, Ms. Reaves served as teacher/facilitator with Fenton Charter School (LAUSD, 1994-2007). Ms. Reaves holds an M.Ed. in Educational Administration and Supervision from Arizona State University and a California State Teaching Credential from National University.

Board Experience: The MORMS Board of Directors is represented by the following chart.

Name	Occupation	Term Expiration Date
Dixon Slingerland, Board President	Director of Youth Policy Institute	6/30/10
Mario Matute, Board Vice President	Director of Valley Operations, YPI	6/30/10
Mary Keipp, Treasurer	Program Director, UCLA Office of Instructional Development	6/30/10
Sandra Mendoza, Secretary	Community Activist	6/30/10
Isaias Martinez, Member	Principal, Harrison Span School	6/30/10
Gene Straub, Member	Chief Operating Officer, Youth Policy Institute	6/30/10

Dixon Slingerland has been the Executive Director of Youth Policy Institute for the past ten years. Mr. Slingerland has also been the President of the Board for Bert Corona Middle School (another school served by the Youth Policy Institute since 2004). Mario Matute, Sandra Mendoza, Isa Martinez, Gene Straub, Mary Keipp all have educational and community leadership experience.

Management Experience for Schools Open Less than Two Years: (Not Applicable)

Student Performance: Because of its implications for student enrollment stability and growth, staff reviews student performance as a leading indicator of a charter school's financial position. Schools with improving student performance trends are viewed favorable, 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 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 not a recipient of federal Title 1 funds.

As MORMS began operations in 2007-08, only two years of AYP data and one year of API data are available upon which to assess the school's performance. As such, in addition to the review of MORMS' academic performance, staff also reviewed the academic performance of MORMS' sister school Bert Corona Middle School (Bert Corona), which is also affiliated with the Youth Policy Institute (YPI), the organization responsible for the

development of MORMS' charter petition as well as much of its oversight. The tables below reflect academic performance data for MORMS and Bert Corona.

Monseñor Oscar Romero Charter Middle School	FY 2007-08	FY 2008-09
ADEQUATE YEARLY PROGRESS (AYP)		
Met All AYP Criteria?	Yes	No
Criteria Met / Required Criteria	5 / 5	12 / 17
Met API Indicator for AYP?	Yes	Yes
Met Graduation Rate?	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)		
Met Schoolwide Growth Target?	N/A	No
Met Comparable Improvement Growth Target?	N/A	Yes
Met Both Schoolwide & CI Growth Targets?	N/A	No
API Base Statewide Rank (10 = best)	N/A	3
API Base Similar Schools Rank (10 = best)	N/A	N/A
School's Actual Growth	N/A	-7
Similar Schools Median of Actual Growth	N/A	N/A
Did School's Growth Exceed Median?	N/A	N/A

Bert Corona Charter Middle School	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	No	No	No	No
Criteria Met / Required Criteria	16 / 17	9 / 17	10 / 17	13 / 17
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	N/A	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	Yes	No	Yes	No
Met Comparable Improvement Growth Target?	Yes	No	Yes	No
Met Both Schoolwide & CI Growth Targets?	Yes	No	Yes	No
API Base Statewide Rank (10 = best)	1	2	1	2
API Base Similar Schools Rank (10 = best)	N/A	1	2	8
School's Actual Growth	46	-18	47	5
Similar Schools Median of Actual Growth	N/A	7	16	16
Did School's Growth Exceed Median?	N/A	No	Yes	No

Although MORMS met all AYP criteria in 2007-08, it did not meet all AYP criteria in 2008-09. Furthermore, MORMS did not meet its 2008-09 growth target and ranked "3" statewide with a 2008 API base score of 716. Bert Corona has failed to make AYP for four years in a row and has been on Progress Improvement (PI) status per the "No Child Left Behind Act of 2001" for the past three years. In addition, Bert Corona only met its API growth target in two of the past four years.

Given MORMS' failure to make AYP or meet its API growth target for 2008-09, as well as Bert Corona's (MORMS' sister school's) failure to make AYP in four consecutive years,

leaving it on PI status for three years, staff has concern regarding MORMS' long-term sustainability as a financially sound entity. Therefore, staff recommends that, notwithstanding any recommendation regarding financial soundness for preliminary apportionment, MORMS demonstrate significant improvement in both AYP and API prior to any determinations of financial soundness for advance or final apportionment.

Student Enrollment and Retention Rates: MORMS has shown a consistent increase in enrollment from 55 students serving grade 6 in 2007-08 to the current 227 students serving grades 6-8, and anticipates an increase in enrollment to 300 for 2010-11 and 2011-12 (32% increase from 2009-10). MORMS anticipates reaching its enrollment capacity of 405 in 2012-13, the first year of project occupancy, and remaining at that level thereafter. Staff has concerns that MORMS' enrollment projections may be overly optimistic, especially given the inconsistent academic performance and lack of students on the waiting list. Although MORMS' enrollment more than doubled from 2007-08 to 2008-09 and increased by 58% from 2008-09 to 2009-10, these increases were primarily due to the addition of the 7th and 8th grades during each of these years, respectively, rather than the growth of students within specific grades. As such, staff's financial analysis (see below) considers the level of actual enrollment that MORMS would need to meet Program debt service coverage requirements.

Based on average attendance for 2007-08 and 2008-09, as provided by MORMS, along with average daily attendance (ADA) information set forth in the audited financial statements for these years (P-2 reporting), MORMS' ADA rates for these years were 96% and 97%, respectively. Staff included MORMS' assumed 95% ADA rate in projected years in its financial analysis. In addition, MORMS has assumed the maintenance of student to teacher ratio of 28:1.

Although MORMS had a year-to-year retention rate of 95% in 2008-09 based on 6th graders who proceeded to 7th grade, MORMS had a retention rate of 70.3% for the current year, 2009-10, based on 6th and 7th graders from 2008-09 who returned this year. MORMS indicated in its application that there is no current waiting list. This low retention rate further adds to staff's concern regarding MORMS' aggressive student enrollment projections.

Financial Performance: Highlighted below are selected financial data and credit indicators used to evaluate MORMS' ability to meet its CSFP obligation.

Staff's evaluation of MORMS' financial performance is based on review of the following documents: (1) audited financial statements for 2007-08 and 2008-09; (2) MORMS' budget for 2009-10; (3) MORMS' budget projections for 2010-11 through 2014-15; and (4) MORMS' current enrollment for 2009-10 and projected average annual enrollment for 2010-11 through 2014-15.

MORMS' financial projections and projected debt service coverage are based upon the following assumptions: (1) an interest rate of 3.0% on the CSFP local matching share amortized over 30 years; (2) total project cost of \$18,184,728 (based on combination of rehabilitation and new construction costs, as provided by the Office of Public School Construction); (3) project occupancy in 2012-13; (4) increases in enrollment from the current 227 students (2009-10) to 300 for 2010-11 and 2011-12 to 405 for 2012-13 (year of occupancy) and all subsequent years; (5) projected ADA rates of 95% for 2009-10 through

2014-15; (6) general purpose block grant funding rates for 2009-10 of \$4,855 and \$5,003 for grades 4-6 and 7-8, respectively; (7) revenue growth (cost of living adjustments) to the block grant funding rates of 0.7% for 2010-11, 2.3% for 2011-12, 2.5% for 2012-13, 3.0% for 2013-14 and 2014-15; and (8) no reliance on contributions. Expenses are assumed to grow around 2%-3% annually except in 2012-13 when MORMS expects a large influx in student enrollment (300 students in 2011-12 to 405 students in 2012-13). Certified salaries and books/supplies expense categories are expected to increase by 27% and 38%, respectively, from the prior year.

Long Term Debt: Based on the review of the 2008-09 audited financial statements, MORMS' only long term debt is a CDE revolving \$250,000 loan, which, as of June 30, 2009, reflected a current portion of \$50,000. It is noteworthy that during the current year, 2009-10, MORMS received a California Charter School Association Growth Loan in the amount of \$228,840, which funds a portion of the enrollment growth at the beginning of the year, and expects to pay the entire principal during the current year.

Financial Performance/Change in Net Assets: For 2007-08, the first year of operations, MORMS recorded a gain in net revenues of \$129,587 on \$930,275 in revenues and \$800,688 in expenses. For 2008-09, MORMS recorded a gain in net revenues of \$7,850 on \$1.305 million in revenues and \$1.297 million in expenses. This resulted in increases of net assets of \$137,437. For the current budgeted year, 2009-10, MORMS is projecting a gain in net revenues of \$137,927 on \$1.84 million in revenues and \$1.98 million in expenses, resulting in net assets \$275,364. For the projected years, MORMS is anticipating net gains of \$153,648, \$121,979, and \$509,676 for years 2010-11 through 2012-13, respectively. In 2013-14 and 2014-15, increases in net assets after CSFP lease payments are projected to be \$290,492 and \$294,929.

It is noteworthy that MORMS' significant increases in projected revenues and net revenues are primarily due to the significant projected increases in enrollment, which are 32% from 2009-10 to 2010-11, and 35% from 2011-12 to 2012-13. In addition to staff's concern regarding MORMS' aggressive enrollment assumptions, staff also finds concern with MORMS' assumptions regarding increases in expenses. While MORMS projects a 21% increase in revenues from 2009-10 to 2010-11, it only projects an 8% increase in expenses for the same period, and while MORMS projects a 26% increase in revenues from 2011-12 to 2012-13, it only projects a 10% increase in expenses for this period.

Projected Debt Service Coverage of CSFP Payments: It should be noted that, because the Office of Public School Construction has determined that the rehabilitation and new construction project components can only be achieved in combination, staff is only evaluating financial soundness for the combined projects. Given a projected CSFP payment of \$362,005 during the first year of CSFP payments, 2013-14, MORMS' net revenues of \$513,763 would provide debt service coverage of 141.9%. In addition, during the second year of CSFP payments, 2014-15, MORMS' net revenues of \$518,200 would provide debt service coverage of 143.1%. The CSFP payment would represent 12.2% and 12.0% of projected revenues for 2013-14 and 2014-15, respectively.

Staff conducted a stress test regarding MORMS' ability to withstand a reduction in enrollment and still meet the minimum 100% debt service coverage required by Program regulations, as follows: MORMS is estimated to meet the minimum debt service coverage

requirements if at least 57% of projected enrollment materializes in 2013-14. In 2014-15, however, the estimated minimum actual enrollment necessary to meet the debt service coverage threshold increases to 93% of projected enrollment. Given this restriction along with staff's concern regarding MORMS' aggressive enrollment assumptions relative to the significantly smaller increases in expenses, staff is unable to find that that MORMS would be able to meet its CSFP obligation in the event of unexpected expenses or a moderate variance in enrollment from its original projections.

Liquidity: Liquidity is measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. MORMS' NWC for 2007-08 was \$113,479, or 14.9% of total expenses, and increased to \$327,216 for 2008-09, or 25.2% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. As of June 30, 2009, MORMS reported holding \$308,171 in cash.

Monseñor Oscar Romero Charter Middle School	Actual FY 2007-08	Actual FY 2008-09	Budgeted FY 2009-10	Projected FY 2010-11	Projected FY 2011-12	Projected FY 2012-13	Projected FY 2013-14	Projected FY 2014-15
ENROLLMENT PROJECTIONS								
Enrollment	55	144	227	300	300	405	405	405
Average Daily Attendance	53	139	216	285	285	385	385	385
Average Daily Attendance (%)	96%	97%	95%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Payment	\$ 930,275	\$ 1,304,711	\$ 2,167,917	\$ 2,269,101	\$ 2,301,799	\$ 2,900,651	\$ 2,961,026	\$ 3,023,212
Total Expenses Paid Before CSFP Payment	800,688	1,296,861	1,979,990	2,140,453	2,204,820	2,415,975	2,447,263	2,505,012
Accounting Adjustments	2,317	4,800	25,000	25,000	25,000	25,000	-	-
Net Revenues Available for CSFP Payment	\$ 131,904	\$ 12,650	\$ 212,927	\$ 153,648	\$ 121,979	\$ 509,676	\$ 513,763	\$ 518,200
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 362,005	\$ 362,005
Net Revenues After CSFP Payment	\$ 131,904	\$ 12,650	\$ 212,927	\$ 153,648	\$ 121,979	\$ 509,676	\$ 151,758	\$ 156,195
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Payment	\$ 131,904	\$ 12,650	\$ 212,927	\$ 153,648	\$ 121,979	\$ 509,676	\$ 513,763	\$ 518,200
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	141.9%	143.1%
Contributions	\$ -	\$ -	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	135.0%	136.2%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	12.2%	12.0%
Contributions / Revenues	N/A	N/A	1.2%	1.1%	1.1%	0.9%	0.8%	0.8%
Net Revenues After CSFP Payment / Revenues	14.2%	1.0%	9.8%	6.8%	5.3%	17.6%	5.1%	5.2%
Revenues / ADA	\$ 17,552	\$ 9,386	\$ 10,053	\$ 7,962	\$ 8,076	\$ 7,539	\$ 7,696	\$ 7,858
Expenses / ADA	\$ 15,107	\$ 9,330	\$ 9,181	\$ 7,510	\$ 7,736	\$ 6,279	\$ 7,302	\$ 7,452
Surplus (Deficit) / ADA	\$ 2,445	\$ 56	\$ 871	\$ 451	\$ 340	\$ 1,260	\$ 394	\$ 406
Net Working Capital	\$ 119,479	\$ 327,216						
Net Working Capital / Expenses	14.9%	25.2%						

Strengths, Weaknesses and Mitigants:

- + Based on its enrollment assumptions, MORMS is projecting debt service coverage ratios of 141.9% and 143.1% for the first two years after occupancy, 2013-14 and 2014-15.
- + MORMS does not rely on contributions in order to meet the debt service coverage requirement.
- MORMS' enrollment growth assumptions are overly aggressive relative to its historical enrollment growth, and even with its assumptions, MORMS can only sustain a 7% reduction in projected enrollment in 2014-15 and still meet the Program debt service coverage requirement.
- MORMS' year-to-year retention rate for 2009-10 was 70.3% which is well below the preferred 85% threshold.

- MORMS failed to meet all AYP criteria or its API growth target during 2008-09. In addition, MORMS' affiliate school, Bert Corona Middle School, also overseen, in part by the Youth Policy Institute, has failed to meet all AYP criteria for four consecutive years, 2005-06 through 2008-09, and is currently in its third year on Progress Improvement status under the No Child Left Behind Act of 2001.