

\$16,000,000\*  
**CALIFORNIA SCHOOL FINANCE AUTHORITY (CSFA)**  
**EDUCATIONAL FACILITY TAXABLE LOAN**  
**(KIPP PUBLIC SCHOOLS NORTHERN CALIFORNIA)**  
**SERIES 2021**  
**ITEM #6 - RESOLUTION 21-08**  
**STAFF SUMMARY**

EXECUTIVE SUMMARY																																	
<b>Applicant/Borrower:</b>	KBARE	<b>Par Amount Requested:</b>	Not-to-Exceed * \$16,000,000																														
<b>Financing Term:</b> Up to 35 years		<b>Interest Rate:</b> Not to exceed 5%																															
<b>Applicant Description:</b> KBARE, a California nonprofit public benefit corporation described under section 501(c)(3) of the Internal Revenue Code. KBARE was formed as a support corporation for KIPP Bay Area Public Schools (now KIPP Public Schools Northern California), also a California non-profit public benefit corporation and also an organization described under section 501(c)(3).																																	
<b>Type of Financing:</b> Educational Facility Taxable Loan																																	
<b>Project User:</b>	KIPP Esperanza High School	<b>County Served:</b>	San Mateo																														
<b>District in Which Project is Located:</b>	Sequoia Union High School District	<b>Charter Authorizer:</b>	Sequoia Union High School District																														
<b>Project Description:</b> Fund the acquisition of the current Aspire Public Schools' East Palo Alto Phoenix Academy (EPAPA) facility in which KBARE will operate KIPP Esperanza High School. KBARE is currently leasing the property from Aspire.																																	
<b>Project Sites:</b> 1039 Garden St., East Palo Alto, CA 94303																																	
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<b>CSFA Analyst:</b> Michael Pack																																	
<b>Date of CSFA Board Meeting:</b> March 25, 2021		<b>Resolution Number:</b> 21-08																															
<b>Staff Recommendation:</b> Staff recommends the California School Finance Authority Board approve Resolution Number 21-08 authorizing an Educational Facility Taxable Loan in an amount not to exceed \$16,000,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, and/or equipping of certain educational facilities located in San Mateo County for use by KIPP Esperanza High School.																																	

## BACKGROUND AND HISTORY

KIPP Public Schools Northern California (KIPP NorCal) is the parent organization for all KIPP schools located in Northern California. While both KIPP SoCal and KIPP NorCal are part of the national KIPP organization, they operate as completely independent entities. KIPP NorCal currently operates 16 schools across the Bay Area, educating over 6,500 students, of which over 78% qualify for free or reduced lunch.

KIPP Bay Area Real Estate (KBARE) is a separate nonprofit public benefit corporation formed by KIPP NorCal to operate all school facilities and real estate holdings.

While this is the sixth KIPP issuance through CSFA, it is only the second KBARE issuance, as the other four issuances were for KIPP SoCal. This is also the second loan through Equitable Facilities Fund, Inc. (EFF) issued on behalf of KBARE. The previous loan was issued in 2019 for a refinancing for KIPP Bridge Academy and KIPP Heritage Academy, when EFF was still branded as the Charter Impact Fund. That financing was for \$16,000,000.

The 2019 transaction also established a Master Trust Indenture (Indenture) for future KBARE-EFF transactions. The financing for KIPP Esperanza High School (KEHS) will be completed pursuant to that Indenture, and the landlord entity, 1039 Garden Street LLC, will become a member of the obligated group created thereby. The KEHS loan payments will be cross-collateralized with the lease payments for KIPP Bridge and KIPP Heritage, as the 2021 obligation will be on parity with the 2019 obligation.

KIPP NorCal Financing Obligations		
School Full Name	Abbreviation	EFF Loan
1. KIPP Bridge Academy	KBA	2019 Loan
2. KIPP Heritage Academy	KHA	2019 Loan
3. KIPP Esperanza High School	KEHS	2021 Loan

KEHS opened in the 2020-21 school year, serving as the feeder high school for the already operating KIPP Valiant and KIPP Excelencia TK-8s. KIPP Valiant and KIPP Excelencia are also located in San Mateo County more specifically Menlo Park and Redwood City, respectively, and KEHS will be located in East Palo Alto. KEHS serves a 100% Latinx population with 83% of students FRPM eligible and 53% ELL. Current enrollment projections for KIPP Esperanza include:

KIPP Esperanza High					
Grade	FY21	FY22	FY23	FY24	FY25
9 <sup>th</sup>	106	130	130	130	130
10 <sup>th</sup>	0	105	121	121	121
11 <sup>th</sup>	0	0	100	113	113
12 <sup>th</sup>	0	0	0	95	105
Total:	106	235	351	459	469

With two fully enrolled KIPP TK-8s operating without a feeder high school, KBARE has every expectation of meeting enrollment projections. Additionally, as this is a secured loan between KBARE and EFF, with CSFA serving as conduit issuer, EFF has done its own due diligence as it relates to the enrollment projections for KEHS, and, between the projections themselves and the security of the obligated group, notes no concerns.

Financial projections for this loan are included as Appendix A. KBARE/KEHS leadership are included as Appendix B.

**PROJECT DESCRIPTION**

The proceeds of the loan will be used to (i) finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of certain educational facilities and office space located at 1039 Garden Street, East Palo Alto, CA; and (ii) pay certain costs of delivery of the loan.

Bond Proceeds				
Site	Landlord	Location	Purpose	Amount
KEHS	1039 Garden Street LLC	1039 Garden Street, East Palo Alto	Purchase	\$20,505,000
<b>Total Estimated Project Costs (Including KBARE Equity Contribution)</b>				<b>\$20,505,000</b>

KBARE, on behalf of KIPP, currently leases the Garden Street facility from Aspire Public Schools’ East Palo Alto Phoenix Academy (EPAPA). The expectation is that acquisition will occur immediately following the Conditional Use Permit (CUP) process, the late first or early second quarter of 2021. Once acquired, EPAPA will lease their portion of the facility from KBARE through June 30, 2021 (the remainder of the school year). Subsequently EPAPA will leave for a new campus, but will rent out a few classrooms for storage from July 1-September 30.

The facility is on an approximately 2.67 acre lot with about 40,000 square feet and includes a two-story facility with 19 classrooms as well as an 11,000 square foot gym and 90 parking spaces.

The total not-to-exceed amount is \$16,000,000, with acquisition costs totaling a little over \$20,000,000. The remaining funding will come from a \$7,505,000 equity contribution from KIPP NorCal. While the not-to-exceed amount requested is \$16,000,000, the actual loan amount will likely be closer to \$13,000,000, as KIPP NorCal decides how much equity it wants to inject.

**EFF / Orrick, Herrington & Sutcliffe LLP Relationship**

EFF is a Delaware-based nonstock nonprofit corporation that has 501(c)(3) tax-exempt status as a public charity. EFF was initially funded by philanthropic contributions from the Walton Family Foundation, and is organized to make low-cost, long-term, fixed rate loans to charter schools for facilities. The EFF program is set up as a revolving loan fund, so that as existing school loans are repaid, the loan repayment revenues can be used to make new loans. In addition, EFF has obtained and will continue to seek capital market financing in the form of tax-exempt bonds to leverage the revenue streams from their pool of school loans. Depending on the locations of the projects financed by the loans over time, EFF will issue bonds using various conduit issuers in various jurisdictions, and, as it did in connection with its first issuance of bonds in 2019 and its second issuance of bonds in 2020, possibly use a national conduit issuer that has authority to finance projects in multiple jurisdictions. EFF will use the proceeds of such bonds to reimburse itself for loans it previously originated, in order to make additional loans.

Orrick, Herrington & Sutcliffe LLP (Orrick) represents EFF, and acts as its primary outside counsel on all lending and financing transactions nationally. Orrick’s relationship with EFF is managed by Eugene Clark-Herrera.

In the proposed loan to KBARE, structured as a conduit loan through CSFA, Orrick would act as EFF’s counsel. Although Orrick would not have an attorney-client relationship with CSFA on the KBARE

transaction, Orrick would perform most, if not all, of the tasks ordinarily performed in other transactions when acting as bond counsel to CSFA. While these tasks are associated with the role of “bond counsel”, there is no legal or ethical requirement that the firm performing these tasks be retained by the conduit issuer. In the KEHS transaction, EFF and KBARE have agreed that Orrick should perform these tasks because of its prior experience in doing so on similar transactions. The only difference on this transaction would be that Orrick’s client relationship is not with CSFA, but instead with EFF. Therefore, in this transaction, the Attorney General’s Office will represent CSFA (as issuer’s counsel), without need for an additional law firm to act as CSFA’s outside bond counsel.

The financing will be structured as a tri-party loan, with EFF as the lender, CSFA as the conduit loan facilitator, and KBARE as the borrower. As with the previous loans through EFF for KBARE, Caliber and Equitas, the intercept will lower the costs for KBARE vs. a conventionally-structured loan.

## FINANCING

The facilities acquired with the proceeds of the Loan will be leased by 1039 Garden Street LLC (Landlord) to KEHS (Lessee), a nonprofit public benefit corporation, pursuant to certain leases by and between the Lessee and the Landlord. The Facilities will be used by the Lessee to operate KEHS.

### **Security and Source of Payment**

The Loan will be secured by an obligation issued pursuant to a Indenture that established an Obligated Group, including a pledge of rental revenues and mortgages on all related property interests naming Master Trustee as mortgagee. The lease with Lessee will be subject to Intercept. Lessee is required under the lease to maintain certain financial covenants. As additional security, and in connection with the issuance of the Loan, KBARE will provide instructions to the State Controller’s Office to make an apportionment to Zions Bancorporation, National Association (Trustee) with respect to KEHS in the amounts, and on the dates provided, in a written notice sufficient in the aggregate to repay the Loan and pay necessary and incidental costs (Intercept). Funds received by the Trustee pursuant to such Intercept will be held in trust and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture, including if necessary, the payment of debt service on the Loan. Under the laws of the State of California, no party, including KBARE, the Lessee, or any of their respective creditors will have any claim to the money apportioned or to be apportioned to the Trustee by the State Controller’s Office pursuant to the Intercept.

### **COVID Note and 2020-21 Budget**

Instead of imposing cuts to make up for the state’s massive \$54.3 billion COVID-19 related budget shortfall, the state budget calls for deferrals totaling about \$12.5 billion that will stretch through November 2021. The deferrals are expected to be phased back in to school districts in future years to the extent the general fund revenue grows, or additional federal aid is received. KIPP NorCal’s healthy liquidity position of 12 months; cash on hand as of fiscal year 2020 will allow the organization to navigate the deferrals without experiencing liquidity concerns. KIPP NorCal additionally has \$3,000,000 line of credit, which adds additional flexibility to the organization’s working capital position, though it is not anticipated that KIPP NorCal will need to draw on the line.

### **Note on Rating**

KIPP NorCal as a network has a rating of BBB+. The current rating for the completed 2019 KBARE-EFF loan is BBB. As such the existing rating only reflects the security of the Indenture under which the 2021 obligation is being issued on parity. This will not, however, impact sales restriction-dictated denominations as it is a single loan from EFF to KBARE.

## Preliminary Sources and Uses and Preliminary Costs of Issuance

Below are the preliminary estimated sources and uses, and detailed information about the expected costs of issuance for board consideration. Please note these figures are subject to change between the time the Board packets are distributed and the time the Board meets, and are further subject to final pricing. Members will be provided updated figures should significant changes occur before the Board meeting date.

### Sources and Uses

Sources:	2021 Taxable Loan	Total
<b>Loan Proceeds:</b>		
Par Amount	\$13,000,000.00	\$13,000,000.00
Equity Contribution	\$7,505,000.00	\$7,505,000.00
<b>Total:</b>	<b>\$20,505,000.00</b>	<b>\$20,505,000.00</b>
Uses:	2021 Taxable Loan	Total
<b>Project Fund Deposits:</b>		
Garden Street Acquisition	\$20,200,000.00	\$20,200,000.00
Total	\$20,200,000.00	\$20,200,000.00
<b>Delivery Date Expenses:</b>		
Cost of Issuance	\$305,000.00*	\$305,000.00*
	<b>\$305,000.00*</b>	<b>\$305,000.00*</b>
<b>Total:</b>	<b>\$20,505,000.00</b>	<b>\$20,505,000.00</b>

### Total Costs of Issuance\*

Expense	Amount
Lender's Counsel	\$150,000
Financial Advisor Fee	\$35,000
CSFA Issuance Fee	\$16,500
CSFA 1st Admin Fee	\$1,950
CSFA Issuer Fee - PFD Fee	\$6,000
Issuer's Counsel (AG)	\$6,000
Trustee & Trustee's Counsel Fee	\$10,000
Title Insurance/Escrow	\$70,000
Appraiser Fee	\$8,000
Contingency	\$1,550
<b>Total</b>	<b>\$305,000</b>

\*Estimates based on a Par Amount of \$13,000,000, as not-to-exceed is \$16,000,000, amounts could increase.

## SALES RESTRICTIONS

The following sales restrictions will apply. The Authority's sales restrictions can be viewed at: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

The Loan will be non-transferable except between EFF and its affiliated entity, Equitable School Revolving Fund, LLC (ESRF), and in the case of default, to QIBs. The following restrictions will apply:

1. The Note will not be broken into smaller denominations;
2. The Note will be privately-placed with EFF and/or ESRF;
3. EFF and ESRF will each be required to execute an Investor Letter;
4. Subsequent transfers of the Note will be limited to transfers between EFF and ESRF or to Qualified Institutional Buyers in the case of a default;
5. Sales restrictions will be conspicuously noted on the Note and described in detail in offering materials, if any, as well as included in the Loan documents; and
6. Loan repayments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code.

## OTHER PROJECT DATA

**Tax Equity and Fiscal Responsibility Act (TEFRA):** Not applicable as this is a taxable loan.

**Due Diligence Undertaken to Date:** No information disclosed cause CSFA to question the financial viability or legal integrity of the Borrower. Standard opinions of counsel (i.e., that the borrowing entity and/or its sole member has been duly organized, is in good standing, is a disregarded subsidiary of a 501(c)(3) organization, has the full authority to enter into all documents which are valid and binding, etc.) will be delivered at closing.

Additionally, section 17183.5 of the CSFA Act states that it is the intent of the Legislature to provide financing only for projects demonstrated by the participating party to be financially feasible. In demonstrating financial feasibility, the participating party may take into account all of its funds, and may base future projections upon historical experience or reasonable expectations, or a combination thereof. Nothing in this section shall be construed to imply that any project is required to produce revenue in order to be financed under this chapter.

**Borrower Financial Data:** KBARE was formed and is operated exclusively to support KIPP Bay Area Schools (KBAS). The primary mission of KBARE is (i) to acquire, develop, construct and/or renovate charter school facilities and to lease or sublease such facilities to KIBAS for charter school purposes on terms favorable to KBAS, all directly or through one or more wholly owned limited liability companies, and (ii) to otherwise provide philanthropic and operational support to KBAS. KBARE has received a determination letter from the Internal Revenue Service recognizing it as an entity described in Section 501(c)(3) of the Code."

## STAFF RECOMMENDATION

Staff recommends the California School Finance Authority's (CSFA) Board approve Resolution Number 21-08 authorizing the Educational Facility Taxable Loan in an amount not to exceed \$16,000,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, furnishing, and/or equipping of certain educational facilities located in San Mateo County, California for use by KIPP NorCal.

1. **Applicant / Borrower:** KBARE
2. **Project:** New Construction & Acquisition
3. **Amount of Financing:** Not –to- exceed \$16,000,000
4. **Maturity:** Up to 35 years
5. **Repayment/Security:** Lease Payments and Deed of Trust on Real Property
6. **Interest Rate:** Not to exceed 5%
7. **Fees:** \$305,000\* is the total Costs of Issuance, based on a not –to- exceed amount of \$13,000,000.
8. **Not an Unconditional Commitment:** The CSFA resolution shall not be construed as unconditional commitment to finance the Project, but rather CSFA's approval pursuant to the resolution conditioned upon entry by CSFA and the Borrower into a loan agreement, in form and substance satisfactory to CSFA and its counsel.
9. **Limited Time:** The Board's approval expires 12 months from the date of its adoption. Thus, CSFA must enter into the loan agreement no later than 12 months from such date. Once the approval has expired, the item must return to the Board for new approval.
10. **Loan Agreement Covenants:** N/A

## APPENDIX A: ESTIMATED BUDGET AND ENROLLMENT (PROJECTED)

**KIPP NORTHERN CALIFORNIA SCHOOLS**  
**KIPP Esperanza**

	Forecast	Forecast	Forecast	Forecast	Forecast	
	FY2021	FY2022	FY2023	FY2024	FY2025	No
<b>INCOME STATEMENT</b>						
<b>REVENUE</b>						
<b>State Revenue</b>						
General Purpose	1,272,173	2,574,894	4,040,120	5,550,052	5,957,320	As
Lottery	0	47,544	72,787	97,563	102,181	
SB740 Facility Grant	103,570	238,763	365,537	489,960	513,150	
Other State Block Grant(s)	0	4,670	10,503	15,687	20,513	
<b>Total State Revenue</b>	<b>1,375,742</b>	<b>2,865,870</b>	<b>4,488,946</b>	<b>6,153,261</b>	<b>6,593,165</b>	
<b>Federal Revenue</b>						
Title I/II/III/IV	49,814	100,473	148,510	195,657	204,444	
<b>Total Federal Revenue</b>	<b>49,814</b>	<b>100,473</b>	<b>148,510</b>	<b>195,657</b>	<b>204,444</b>	
<b>Total Local Revenue</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Other Local/Private Revenue</b>						
Grants and Philanthropy	3,650,689	1,100,678	864,826	553,185	201,315	
School Based Revenue	12,306	27,965	42,813	57,386	60,102	
<b>Total Other Local/Private Revenue</b>	<b>3,662,995</b>	<b>1,128,643</b>	<b>907,639</b>	<b>610,571</b>	<b>261,417</b>	
<b>TOTAL REVENUE</b>	<b>5,088,551</b>	<b>4,094,986</b>	<b>5,545,096</b>	<b>6,959,489</b>	<b>7,059,026</b>	
<b>EXPENSES</b>						
<b>Personnel</b>						
Teacher Salaries	542,648	958,718	1,407,512	1,884,735	1,930,459	
Administrative Salaries	536,000	554,000	718,993	923,569	952,523	
Employee Benefits	238,332	338,561	483,321	642,541	665,678	
<b>Total Personnel Expenses</b>	<b>1,316,980</b>	<b>1,851,279</b>	<b>2,609,825</b>	<b>3,450,846</b>	<b>3,548,660</b>	
<b>Supplies and Materials</b>						
Curriculum, Materials, and Books	150,795	234,377	342,015	445,694	418,836	
Student Tech	99,488	78,643	91,293	105,930	68,153	
Staff Tech and Tech Infrastructure	113,874	47,975	85,652	107,984	86,536	
Furniture	64,600	62,500	62,500	62,500	1,258	
Food Services	2,000	4,545	6,958	9,326	9,768	
<b>Total Supplies and Materials Expenses</b>	<b>430,758</b>	<b>428,040</b>	<b>588,418</b>	<b>731,434</b>	<b>584,551</b>	
<b>Operating Services</b>						
Professional Development & Travel	0	25,876	32,979	45,818	84,022	
Staff Recruitment and Retention	16,738	19,978	26,100	32,965	31,972	
Software, Systems, and Subscriptions	26,235	50,164	70,028	88,748	85,780	
Communications	21,678	14,596	17,563	20,643	18,209	
Rent	1,040,000	710,000	727,750	745,944	764,592	
Occupancy	135,416	155,654	181,103	205,769	212,822	
Special Education	108,400	227,643	335,152	435,189	455,787	
After-School Programming	6,000	13,634	20,874	27,979	29,303	
CMO and District Management Fees	194,006	399,446	616,089	834,785	893,479	
Field Lessons	0	22,000	33,681	45,146	47,282	
Student Recruitment	10,000	10,000	10,000	10,000	10,473	
Student Transportation	75,000	150,000	250,000	250,000	256,250	
Substitutes	7,339	16,677	25,532	34,223	35,843	
<b>Total Operating Services Expenses</b>	<b>1,640,813</b>	<b>1,815,668</b>	<b>2,346,852</b>	<b>2,777,210</b>	<b>2,925,815</b>	
<b>Additional Expenses</b>						
<b>Total Additional Expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>TOTAL EXPENSE</b>	<b>3,388,551</b>	<b>4,094,986</b>	<b>5,545,096</b>	<b>6,959,489</b>	<b>7,059,026</b>	
<b>Investment Income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Net Income</b>	<b>1,700,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(0)</b>	
<b>Cash Flow</b>						
Beginning Cash	23,100	1,341,448	950,632	1,141,356	1,157,680	
Net Income	1,700,000	0	0	0	(0)	
Depreciation	0	0	0	0	0	
Intercompany Loans	0	0	0	0	0	



**KIPP NORTHERN CALIFORNIA SCHOOLS**  
**KIPP Esperanza**

	Forecast	Forecast	Forecast	Forecast	Forecast
	FY2021	FY2022	FY2023	FY2024	FY2025
<b>INCOME STATEMENT</b>					
Intracompany Loans	0	0	630,292	469,304	(274,899)
External Loan	0	0	0	0	0
Capital Expenditures	0	0	0	0	0
Change in Receivables (state funding deferrals)	(381,652)	(390,816)	(439,568)	(452,980)	316,254
<b>Ending Cash</b>	<b>1,341,448</b>	<b>950,632</b>	<b>1,141,356</b>	<b>1,157,680</b>	<b>1,199,035</b>
<b>Fund Balance</b>					
Beginning Fund Balance	23,100	1,723,100	1,723,100	1,723,100	1,723,100
Net Income	1,700,000	0	0	0	(0)
<b>Ending Fund Balance</b>	<b>1,723,100</b>	<b>1,723,100</b>	<b>1,723,100</b>	<b>1,723,100</b>	<b>1,723,100</b>
<b>ENROLLMENT</b>					
	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>
9th	106	130	130	130	130
10th	0	105	121	121	121
11th	0	0	100	113	113
12th	0	0	0	95	105
<b>Total</b>	<b>106</b>	<b>235</b>	<b>351</b>	<b>459</b>	<b>469</b>
<b>CASH ON HAND</b>					
Days of Cash on Hand	120	63	60	60	60
<b>COVERAGE RATIO</b>					
Coverage Ratio for the Related Schools	13.8	1.6	2.0	2.3	2.4

**APPENDIX B:  
SCHOOL GOVERNANCE**

***Officers***

Beth Thompson	CEO
Marie Kawase Huxley	Chief of Schools
Ruchi Thiru	Chief Operating Officer
Cory Harris	Chief Financial Officer
David Ling	Chief People Officer
Cherise Brauer	Chief Equity & Inclusion Officer
Judy Li	Chief of Growth, Real Estate, Advocacy
Lisa Daggs	Chief External Officers/Communications Officer

***Board of Directors***

Andrea C. Evans	Board Chair
Grace Voorhis	Vice Chair
Michael Cohen	Trustee
Caretha Coleman	Trustee
Doris Fisher	Trustee
Laura Fisher	Trustee
Cheryl Frank	Trustee
Abe Friedman	Trustee
Ron Gonzales	Trustee
Andrea Higuera-Ballard	Trustee
Tom Holland	Trustee
Emani' Lewis	Trustee
Jenny Shimizu Risk	Trustee
Emily Rummo	Trustee
David Eli Santos	Trustee
Lisa Sobrato Sansini	Trustee
David Stinfil	Trustee
Sandra Thompson	Trustee