

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D 2009 FUNDING ROUND
STAFF SUMMARY REPORT – MAY 2010**

Applicant/Obligor:	Magnolia Educational and Research Foundation
Project School:	Magnolia Science Academy – San Diego
CDS (County – District – School) Code:	01 61259 0101469
[Proposed] Project Location:	5160 Federal Blvd., San Diego, CA
Project Type:	New Construction
County:	San Diego
District in which Project is Located:	San Diego Unified School District
Charter Authorizer:	San Diego Unified School District
Total OPSC Project Cost:	\$17,976,920
State Apportionment (50% Project Cost):	\$8,988,460
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$8,988,460
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$458,585
First Year of Occupancy of New Project:	2011-12

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Magnolia Educational and Research Foundation (MERF), applying on behalf of Magnolia Science Academy – San Diego (MSA-SD), is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Preliminary and Advance Apportionment, 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 (OPSC) and the State Allocation Board regarding this determination.

Background: Under the Program's 2009 Funding Round, in addition to its application on behalf of MSA-SD, MERF has submitted an application on the behalf Pacific Technology School – Santa Ana (PTS-SA) of in the amount of \$17,413,956. A separate staff report has been prepared for this application. As MERF is the applicant and financial obligor for both of these schools, a discussion of the broader issues with MERF's financial soundness is included in each report.

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

Criteria	Comments
Eligibility Criteria	MSA-SD has met all Program eligibility criteria: 1) a charter is in place; 2) MSA-SD has at least two years of instructional operations; and 3) MSA-SD is in compliance with the terms of its charter and in good standing with its chartering entity.
Demographic Information	<ol style="list-style-type: none"> 1. MSA-SD currently serves 324 students in grades 6-8 as a middle school, and projects enrollment to increase to 360 students in grades 6-8 in 2010-11 and to remain stable at that level through 2013-14 (all projected years). 2. MSA-SD has achieved year-to-year student retention rates of 84%, 76%, and 91% for 2007-08, 2008-09, and 2009-10, respectively. 3. MERF achieved successful enrollment growth from 188 students in one school (MSA-1) in 2002-03 to 710 students in three schools in 2007-08 to its current 1,617 students in nine schools. MERF achieved an aggregate ADA rate of 96% in both 2007-08 and 2008-09.
Debt Service Coverage	MERF's projected debt service coverage ratios of 424.3% in 2012-13 and 397.3% in 2013-14 (both CSFP payments) exceed the minimum requirement of 100.0%. However, MERF's ability to meet the minimum debt service coverage is highly dependent on MERF realizing projected enrollment at existing schools (5,183 students by 2012-13; 221% growth from 1,671 students in 2009-10). MERF's enrollment must be at least 4,640 students in 2012-13 to generate projected debt service coverage of at least 100.0%, which is a 10.5% margin of error.
Other Financial Factors	<ol style="list-style-type: none"> 1. MERF has small reliance on contributions from private sources. Contributions are projected to constitute only 1.2% of revenues in 2012-13. 2. The CSFP payment would represent 2.5% of projected revenues during the first year of CSFP payment, which is within the preferred maximum range of 10-15%. 3. Net working capital for 2008-09 of \$608,297 represented 5.7% of total expenses, which exceeds the preferred minimum of 5.0%.
Student Performance	<p>Under the auspices of MERF, the following academic results have been achieved:</p> <ol style="list-style-type: none"> 1. MSA-1 has met all AYP criteria during the past four years as well as its API growth target during three of the past four years. 2. MSA-SD achieved API growth scores of 810, 803, and 797, for 2006-07, 2007-08, and 2008-09, respectively, and met its API growth target in two of the past three years (all years except 2008-09). MSA-SD failed to meet all AYP criteria during 2007-08 and 2008-09 and is currently in its first year of Program Improvement (PI) status per the No Child Left Behind Act of 2001.

Program Eligibility: On March 24, 2010, staff received verification from San Diego Unified School District (SDUSD) MSA-SD's charter authorizer, confirming that MSA-SD is: 1) in compliance with the terms of its charter agreement, and 2) is in good standing with its chartering authority. MSA-SD's initial charter was approved on July 31, 2005 and is due to expire on June 30, 2010 (staff's confirmation of renewal is pending). MSA-SD commenced instructional operations in 2005-06.

Legal Status Questionnaire: Staff reviewed the response to the questions contained in the Legal Status Questionnaire (LSQ) for MSA-SD. MERF indicated that it does not have any civil or criminal matters to disclose for which MERF or any of its affiliates is a party (no disclosures provided).

Project Description: MSA-SD is proposing new construction at 5160 Federal Blvd., San Diego, a site that is currently being used by a private school and a non-profit organization. The scope of the project is to convert one private school building into a public educational facility that will consist of 15 classrooms, a multi-purpose auditorium, gymnasium, student service activities space, and faculty and administrative offices. Upon completion in August 2011, the school will have capacity for 630 students in grades 6-8.

Organization Information: MSA-SD commenced instructional operations in 2005-06 with 81 students in grade 6 and currently serves 324 students in grades 6-8 (chartered for grades 6-8). MSA-SD operates as an independent charter school under the auspices of MERF, an educational management organization (EMO) (described below). Through its management staff and Board of Directors, MERF is largely responsible for developing MSA-SD's curriculum, educational priorities, and policies, as well as overseeing the day-to-day operations of the school in conjunction with the school's principal.

Educational Management Organization: Magnolia Educational and Research Foundation is a non-profit organization founded in 1997, becoming a 501(c)(3) entity in 1998. MERF established itself as an organization to provide tutoring prior to establishing its first charter school, Magnolia Science Academy, in 2002. Since 2002, MERF has established nine charter schools and plans to operate a total of seven more charter schools within the next five years (refer to EMO management staff below).

Altogether, MERF oversees nine charter schools of which six have begun instructional operations within the past two years. The two schools that have been in operations for three or more years, in addition to MSA-1, are MSA-2 and MSA-SD. Six of the schools, including MSA-1, MSA-2, MSA-3, MSA-4, MSA-5, and MSA-6 operate in Los Angeles County with LAUSD as the charter authorizer. The three schools that operate outside of Los Angeles County, MSA-SD (San Diego County) has San Diego Unified School District as its authorizer, and both PTS-SA (Orange County) and PTS-SJ (El Dorado County) have the State Board of Education as their charter authorizer.

It is noteworthy that, in 2007-08, MERF became the EMO responsible for oversight and development, and prior to this time, the two schools in operation, MSA-1 and MSA-SD, operated independent of an EMO, with MERF only providing a consultative role. Additionally, based on the application materials, the California State Board of Education has approved MERF's petition to start 10 more state-wide approved MERF schools over the next six years.

MERF's educational philosophy and mission are to serve students in grades 6-12 by: (1) preparing students to become responsible, educated citizens who have the skills and understanding to participate and work productively in a diverse, multicultural, globally oriented environment; (2) providing a sound educational plan with emphasis on math, science and technology; and (3) providing a rigorous, innovative, and challenging enhanced curriculum with a focus on preparing students to attend the universities of their choice. The prospective student population will likely represent the demographics of the local communities in which the students reside, which are primarily in the metropolitan areas of Los Angeles, and other metropolitan areas throughout the state. MERF specifically targets low-achieving students, English language learners, and students coming from socio-economically disadvantaged families.

Management 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, as described below.

Mr. David Yilmaz has been Principal of MSA-SD since August 2008. Prior this position, Mr. Yilmaz served as Dean of Academics (2006-08) and Math/Science/Computer Teacher (2005-06) at MSA-SD and Math/Science/Computer Teacher at MSA-1 (2002-05). Mr. Yilmaz holds an M.S. in Electrical and Computer Engineering from University of California, Irvine, and a Clear Single Subject Credential.

EMO Management: Mr. Bahceci Suleyman started as the CEO of MERF in 2009. Prior to this position, Mr. Suleyman served as a scientist at Exelisix, Inc. (2000-2008). Mr. Suleyman holds a Ph.D. in chemistry and biochemistry from the University of Texas.

Mr. Mahmet Irfan Erol has served as the CFO of MERF since 2007. Prior to this position, Mr. Erol served as Business Manager at MSA-1 (2006-07) and Financial Manager at Federal Marble (2005-06). Mr. Erol holds an MBA in Finance from Cal State University, Dominguez Hills.

Board Experience: MSA-SD is governed by the MERF Board of Directors, which is comprised of the members set forth in the table below.

Name	Occupation	Term
Metin Oguzmert, Board Chairman	Senior Engineer	6/14/2007 – 6/30/2012
Saken Sherkanov, Board Vice Chair	Biologist	11/13/2008 – 6/30/2013
Mustafa Kaynak, Member	Electronics Engineer	11/19/2009 – 11/19/2014
Nichole Ataizi, Member	Architect	7/10/2008 – 6/30/2013
Bayram Yenikaya, Member	Consultant	11/1/2009 – 11/1/2014
Duygu Ustun, Member	Environ. Engineer	11/19/2009 – 11/19/2014
Pauline Galeano, Member	Accountant	11/19/2009 – 11/19/2014

Management Experience for Schools Open Less than Two Years: Not applicable. MERF has been involved in the oversight of instructional operations of MSA-1 since 2002 and MSA-SD since 2005.

Student 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 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 a recipient of federal Title 1 funds.

Given that MERF oversees MSA-SD, staff reviewed the academic performance of all MERF schools for which academic performance has been reported, as shown in the tables below. As only three of MERF’s nine schools have been in operations for three or more years, and three of the schools began operations in 2008-09, only six schools have reported AYP data and only three schools have reported API data (three of the schools began operations with the current 2009-10 academic year). Within these tables, a blank cell denotes that either the data is not available or the school was not yet opened. Partially omitted information within a specific cell indicates that the data is not available.

API Growth Scores / Met API Growth Target				
School	2005-06	2006-07	2007-08	2008-09
MSA-1	765 /Yes	767/No	781/Yes	788 /Yes
MSA-2			700/NA	697/No
MSA-SD	732/NA	810/Yes	803/Yes	797/No

Adequately Yearly Progress				
School	2005-06	2006-07	2007-08	2008-09
MSA-1	Yes	Yes	Yes	Yes
MSA-2			Yes	Yes
MSA-3				No
MSA-4				Yes
MSA-5				Yes
MSA-SD	Yes	Yes	No	No

Statewide Ranking / Similar School Ranking				
School	2005-06	2006-07	2007-08	2008-09
MSA-1	7/10	7/10	7/10	7 /10
MSA-2				4/NA
MSA-SD		5/NA	8/10	8/3

For the three schools that have been in operations for at least three years, MSA-1 and MSA-2 have been consistent in meeting all AYP criteria while MSA-SD has not. Also for these schools, MSA-1 has met its API growth target for each of the past four years and MSA-2 met its API growth target for 2008-09 (the only year reported thus far), while MSA-SD met its API growth target in two of the past three years. With respect to rankings, MSA-1 has shown consistently high rankings for the past four years of “7” statewide and “10”

against similar schools, while MSA-SD has shown high statewide rankings of “8” for the past two years (“10” = best).

MSA-SD Enrollment and Retention Rates: With the addition of grades 7 and 8 as a middle school in 2006-07 and 2007-08, respectively, and the expansion of class size within grades during subsequent years, MSA-SD has shown consistent enrollment growth from 81 students in grade 6 in 2005-06 to 274 students in grades 6-8 in 2008-09 to its current 324 students in grades 6-8. MERF is projecting MSA-SD’s enrollment to grow to 360 students in grades 6-8 in 2010-11 and to remain stable at that level through 2013-14 (all projected years).

Based on the application materials submitted, MSA-SD’s year-to-year retention rates for 2007-08, 2008-09 and 2009-10 have been 84%, 76%, and 91%, respectively, and MSA-SD’s current waiting list includes 80 students. In addition, MSA-SD’s average daily attendance (ADA) for 2007-08 and 2008-09 was 97% and 94%, respectively. Notwithstanding MSA-SD’s waiting list, successful enrollment growth, and strong ADA rates, staff is concerned that MSA-SD has failed to consistently achieve year-to-year retention rates of at least 90% and recommends that staff re-evaluate MSA-SD’s year-to-year retention rates at the time of MSA-SD’s request for advance or final apportionment.

MERF Enrollment and Retention Rates: The tables below depict MERF’s historical, current, and projected enrollment by school (through 2013-14), as well as the year-to-year retention rates by school (applicable schools only). It should be noted that the enrollment projections below do not incorporate MERF’s plans to add 10 more state-wide approved schools over the next six years as a result of the State Board of Education’s approval of MERF’s petition to start such schools.

Historical, Current, and Projected Enrollment by School											
School (grades served)	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
MSA-1 (6-12)	276	396	391	430	402	419	461	525	560	630	630
MSA-2 (6-11)					59	157	212	448	533	635	635
MSA-3 (6-12)						228	195	450	550	650	650
MSA-4 (6-11)						61	95	300	475	575	575
MSA-5 (4-8)						63	115	350	425	525	600
MSA-6 (6-11)							74	200	300	375	450
MSA-8 (4-8)								468	468	468	468
MSA-SD (6-9)			81	135	249	274	324	360	360	360	360
PTS-SA (6-12)							62	225	300	475	475
PTS-SJ (6-12)							79	276	390	490	490
TOTAL	276	396	472	565	710	1,202	1,617	3,602	4,361	5,183	5,333

MERF has achieved enrollment growth from 276 students in one school (MSA-1) in 2003-04 to 710 students in three schools in 2007-08 to its current 1,617 students in nine schools. In addition, MERF has achieved an aggregate ADA rate of 96% for both 2007-08 and 2008-09. For the nine schools currently in operation, MERF is projecting the following enrollment growth: 1,617 students for the current 2009-10 academic year; 3,134 students for 2010-11

(94% growth from prior year); 3,893 students for 2011-12 (24% growth from prior year), 4,715 for 2012-13 (21% growth from prior year) and 4,865 (3% growth from prior year and 200% growth from current year).

Year-to-Year Retention Rates			
School	2007-08	2008-09	2009-10
MSA-1	73%	83%	90%
MSA-2	N/A	87%	74%
MSA-3	N/A	N/A	68%
MSA-4	N/A	N/A	85%
MSA-5	N/A	N/A	63%
MSA-SD	84%	76%	91%

With respect to the year-to-year retention rates, for the most recent year, only two of the six schools with returning students showed retention rates of 90% or more, and all prior rates have been less than 90%. Staff will continue to monitor the retention rates at MERF schools.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate MERF’s ability to meet both projects’ CSFP obligations. The table below summarizes key aspects of the obligor’s past and projected financial performance.

Staff’s analysis of financial performance includes adjustments for capital outlay and loan repayment; therefore, our results may differ from audited figures presented by MERF’s representatives.

Magnolia Educational and Research Foundation	Actual FY 2006-07	Actual FY 2007-08	Actual FY 2008-09	Second Int. FY 2009-10	Projected FY 2010-11	Projected FY 2011-12	Projected FY 2012-13	Projected FY 2013-14
ENROLLMENT PROJECTIONS								
Enrollment	565	710	1,202	1,617	3,602	4,361	5,183	5,333
Average Daily Attendance	520	685	1,155	1,593	3,458	4,187	4,976	5,120
Average Daily Attendance (%)	92%	96%	96%	99%	96%	96%	96%	96%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Lease Payment	\$ 3,884,177	\$ 6,222,419	\$ 11,520,224	\$ 15,006,941	\$ 24,325,606	\$ 30,343,629	\$ 36,617,884	\$ 37,213,637
Total Expenses Paid Before CSFP Lease Payment	3,877,573	6,139,043	10,621,556	15,353,921	22,736,047	27,586,045	32,869,892	33,709,998
Accounting Adjustments	148,216	207,367	205,874	81,000	41,500	86,500	83,000	83,000
Net Revenues Available for CSFP Lease Payment	\$ 154,820	\$ 290,743	\$ 1,104,542	\$ (265,980)	\$ 1,631,059	\$ 2,844,084	\$ 3,830,992	\$ 3,586,638
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 902,808	\$ 902,808
Net Revenues After CSFP Lease Payment	\$ 154,820	\$ 290,743	\$ 1,104,542	\$ (265,980)	\$ 1,631,059	\$ 2,844,084	\$ 2,928,184	\$ 2,683,830
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Lease Payment	\$ 154,820	\$ 290,743	\$ 1,104,542	\$ (265,980)	\$ 1,631,059	\$ 2,844,084	\$ 3,830,992	\$ 3,586,638
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	424.3%	397.3%
Contributions	\$ 60,111	\$ 93,666	\$ 111,840	\$ 320,000	\$ 322,000	\$ 415,000	\$ 427,000	\$ 470,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	377.0%	345.2%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	2.5%	2.4%
Contributions / Revenues	1.5%	1.5%	1.0%	2.1%	1.3%	1.4%	1.2%	1.3%
Net Revenues After CSFP Lease Payment / Revenues	4.0%	4.7%	9.6%	-1.8%	6.7%	9.4%	8.0%	7.2%
Revenues / ADA	\$ 7,472	\$ 9,085	\$ 9,975	\$ 9,422	\$ 7,035	\$ 7,247	\$ 7,359	\$ 7,268
Expenses / ADA	\$ 7,460	\$ 8,964	\$ 9,197	\$ 9,640	\$ 6,575	\$ 6,588	\$ 6,787	\$ 6,760
Surplus (Deficit) / ADA	\$ 13	\$ 122	\$ 778	\$ (218)	\$ 460	\$ 659	\$ 572	\$ 508
Net Working Capital	\$ (32,115)	\$ (265,795)	\$ 608,297					
Net Working Capital / Expenses	N/A	N/A	5.7%					

Staff’s financial analysis of MERF is based upon review of the following documents: (1) three years of audited financial statements (2006-07 through 2008-09), (2) 2009-10 second

interim report; and (3) multi-year budget projections from 2010-11 through 2013-14. Additionally, MERF provided enrollment projections through 2013-14.

Contributions: MERF's contributions over the last three years were as follows: \$60,111 for 2006-07; \$93,666 for 2007-08, and \$111,840 for 2008-09. MERF, however, anticipates substantially higher contributions in budgeted and projected years, averaging \$390,800 in contributions annually. Staff notes that projected contribution levels are optimistic given the historical trend. CDE start-up grants are included in MERF's revenues but excluded from the contribution discussion.

Financial Performance: As of June 30, 2009, MERF had eight loans and lines of credit bearing various interest rates totaling \$522,825. Of these liabilities, \$355,325 is due prior to June 30, 2010. Four of these obligations are in connection with MSA-SD with the rest attributable to MSA-1, MSA-2, and MSA-3.

Based on the audited financial statements for 2006-07, MERF recorded net revenues of \$6,604 on revenues of \$3.88 million and expenses of \$3.88 million. Excluding contributions in 2006-07, MERF operated at a net loss of \$53,507. In 2007-08, MERF ended with a net surplus after contributions, but would have recorded a net deficit of \$10,290 if contributions of \$93,666 are excluded. In 2008-09, MERF increased net assets by \$898,668, including contributions of \$111,840. This was the result of \$11.52 million in revenues and \$10.62 million in expenses.

MERF's financial projections are based upon the following assumptions: (1) occupancy of both CSFP projects in 2011-12; (2) increases in enrollment as described above; (3) 2009-10 funding rates for the charter school general purpose block grant of \$4,855, \$5,003, and \$5,845 for grades 4-6, 7-8, and 9-12, respectively; (4) projected ADA rates of 96-97%, which is consistent with MERF's historical performance; (5) revenue growth (cost of living adjustments) on charter school block grant of 0% for all projected years (conservative assumption); and (8) cost of living adjustments to certified salaries of approximately 1.5% per year while maintaining a teacher to student ratio of 17:1. Expense categories other than salaries and benefits, such as books and supplies, services and miscellaneous expenses, are increased for the effects of enrollment growth.

On total revenues and expenses of \$15.01 million and \$15.35 million, MERF's second interim budget estimate for 2009-10 indicates decreased net assets by \$346,980. As MERF's enrollment is expected to rapidly increase from year to year, the organization anticipates large increases to both revenue and expenses. With enrollment expecting to grow by 123% to 3,602 students next year (2010-11), MERF projects increasing total revenues to \$24.33 million, and expenses to \$22.74 million, for a net increase of \$1.59 million. In the first year of the CSFP project occupancy, 2011-12, MERF projects an enrollment of 4,361 students and a wide margin between revenues and expenses as no lease payment for their two CSFP facilities would be required. MERF expects an increase to net assets of \$2.76 million on \$30.34 million in revenues and \$27.59 million in expenses. MERF's projected enrollment growth is expected to continue into 2012-13 with 5,183 students, resulting in an increase to net assets of \$3.75 million before payment of the expected CSFP lease obligations. With student enrollment of 5,333 students expected for 2013-14, total revenues of \$37.21 million would exceed total expenses of \$33.71 million by \$3.50 million, before CSFP lease payments are expensed.

Projected Debt Service Coverage of CSFP Payments: Assuming a 3.0% interest rate and 30-year repayment period, as well as estimated combined project cost of \$35,390,876, MERF's combined annual CSFP payment (two projects) would be \$902,809 beginning in 2012-13. MERF's projected net revenues of \$3,830,992 for 2012-13 would provide debt service coverage of 424.3%, while the projected net revenues of \$3,586,638 would result in debt service coverage of 397.3% for 2013-14. However, MERF's ability to meet the minimum debt service coverage is highly dependent on MERF realizing projected enrollment at its existing schools (5,183 students by 2012-13; 221% growth from 1,671 students in 2009-10). MERF's enrollment must be at least 4,640 students in 2012-13 to generate projected debt service coverage of at least 100.0%, which is a 10.5% margin of error.

Due to a limited amount of the Prop 1D funding in this round (approximately \$50 million), and the project funding mechanism adopted by the State Allocation Board, it is not likely that MERF will receive awards for both project applications. Projected debt service for both CSFP payments by MERF serve as a "worst-case" scenario as the actual CSFP payment is not expected to include both projects. If only one of the two projects (MSA-SD) received an award, debt service coverage is estimated at 782.1% in 2013-14.

The two CSFP payments would average 2.45% of projected total revenues, which is within the preferred maximum range of 10-15%.

Liquidity: At June 30, 2009, MERF reported holding \$1.11 million in cash or cash equivalents. Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. MERF's NWC for 2007-08 and 2008-09 was (\$265,795) and \$608,297, respectively, or less than 0% and 5.7% of total expenses for these years. Staff considers NWC equivalent of at least 5.0% of total expenses to be sufficient. Although NWC as a percentage of expenses was higher than 5% in 2008-09 by a small margin, historically MERF has operated with low liquidity, which could restrict MERF's ability to withstand unexpected expenses.

Strengths, Weaknesses and Mitigants

- + MERF projects debt service coverage of 424.3% in 2012-13
- + MERF has achieved enrollment growth from 188 students at one school (MSA-1) in 2002-03 to 710 students at three schools in 2007-08 to its current 1,617 students at nine schools. In addition, MERF achieved an aggregate ADA rate of 96% for both 2007-08 and 2008-09.
- MERF's ability to produce its projected debt service coverage ratios is heavily reliant on the aggressive enrollment growth projected for its existing schools.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that MERF, applying on behalf of Magnolia Science Academy – San Diego, is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Preliminary and Advance Apportionment, 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 (OPSC) and the State Allocation Board regarding this determination.