

**CHARTER SCHOOL FACILITIES PROGRAM  
PROP 1D 2010 FUNDING ROUND  
STAFF SUMMARY REPORT – JANUARY 2012**

|  |                                     |
|--|-------------------------------------|
| <b>Applicant/Obligor:</b>                      | Ocean Charter School                |
| <b>Project School:</b>                         | Ocean Charter School                |
| <b>CDS (County – District – School) Code:</b>  | 19 64733 0102335                    |
| <b>Proposed Project Location:</b>              | 13151 Appleton Way, Los Angeles     |
| <b>Project Type:</b>                           | New Construction                    |
| <b>County:</b>                                 | Los Angeles                         |
| <b>District in which Project is Located:</b>   | Los Angeles Unified School District |
| <b>Charter Authorizer:</b>                     | Los Angeles Unified School District |
| <b>Total OPSC Project Cost:</b>                | \$20,175,488                        |
| <b>State Apportionment (50% Project Cost):</b> | \$10,087,744                        |
| <b>Lump Sum Contribution:</b>                  | \$250,000                           |
| <b>Total CSFP Financed Amount:</b>             | \$9,837,744                         |
| <b>Length of CSFP Funding Agreement:</b>       | 30 years                            |
| <b>Assumed Interest Rate:</b>                  | 3.00%                               |
| <b>Estimated Annual CSFP Payment:</b>          | \$501,914                           |
| <b>First Year of Occupancy of New Project:</b> | 2015-16                             |

**Staff Recommendation:** Staff recommends that the California School Finance Authority (CSFA) Board determine that Ocean Charter School (“Ocean” or “OCS”) is financially sound for purposes of the Charter School Facilities Program (Program) Advance Apportionment, but not for purposes of a 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. This recommendation is contingent upon Ocean electing to have its CSFP payments intercepted at the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. 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.

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

| <b>Criteria</b>                | <b>Comments</b>   |
|--------------------------------|---|
| <b>Eligibility Criteria</b>    | Ocean has met all Program eligibility criteria, including: 1) having a charter in place; 2) fulfilling the requirement for two academic years of operations; and 3) being in compliance with the terms of its charter and in good standing with its chartering authorizer.  |
| <b>Demographic Information</b> | Ocean currently serves 432 students in grades K-8, and has projected enrollment to increase to 500 students in 2015-16 and 2016-17 (first year of CSFP repayments). OCS has an average ADA rate of 96% for FY 2006-07 through 2010-11.  |
| <b>Debt Service Coverage</b>   | Projected debt service coverage ratios will meet the minimum Program requirement of 100% at 124.2% and 132.8%, when including contributions, for the first two years of CSFP payments commencing in 2016-17. Ocean will need to receive on average at least 70% (\$281,856) of expected contributions in 2016-17 in order to meet the 100% projected debt service coverage ratio threshold. In 2017-18, Ocean will need to receive at least 59% (\$238,719) to maintain 100% projected debt service coverage. |
| <b>Other Financial Factors</b> | <ol style="list-style-type: none"> <li>1. Projected ratios of CSFP payments to total revenues are 12.3% (2016-17) and 12.1% (2017-18), which is at the lower end of the preferred maximum of 10-15%.</li> <li>2. Net working capital for 2010-11 of \$1,220,514 represented 37.7% of total expenses, which greatly exceeds the preferred minimum of 5.0%.</li> </ol>  |
| <b>Student Performance</b>     | Ocean has met all AYP criteria for the past six years. In addition, API growth scores have increased from 802 in 2005-06 to 862 in 2010-11. Ocean's statewide and similar schools rankings were 8 and 1 (10 = best), respectively, in 2010-11.  |

**Program Eligibility:** On November 20, 2011, the Los Angeles Unified School District verified Ocean is: 1) in compliance with the terms of its charter agreement, and 2) in good standing with its chartering authority. The school confirmed the initial charter was approved in 2003 and renewed in 2008. The current charter is valid through June 2013.

**Legal Status Questionnaire:** Staff reviewed Ocean's responses to the questions contained in the Legal Status Questionnaire (LSQ). Ocean responded: "OCS has no known disclosures" to any civil or criminal matters. However, Ocean did state on their response, "While there is no pending or threatened litigation, in the spirit of full disclosure, OCS wishes to inform the CSFA that the school is currently in arbitration with the teachers' union to resolve outstanding labor issues. As part of those same issues, the teachers' union has also

filed an unfair labor practice claim against OCS with the California Public Employee Relations Board (PERB). The immediate and primary goal of OCS is to achieve a positive settlement of these outstanding matters. OCS is confident a full resolution is imminent and that these proceedings will in no way affect the performance or completion of the project.” When staff inquired about the financial impact of the litigation, OCS stated that, were OCS to be financially liable in the case, they have projected the financial impact within the financial projections forwarded to CSFA staff under the certificated staff salary line item.

**Project Description:** Ocean has requested a total Proposition 1D funding for anticipated project costs of \$20,175,488. Ocean is seeking new construction of a 19-classroom facility in the West Los Angeles area to house up to 500 students in Kindergarten through 8<sup>th</sup> grade. Ocean intends to develop a facility with approximately 30,000-35,000 square feet on 2 acres of land. The plans include the building of a special resource teaching space, administrative offices, a library, auditorium, gymnasium and cafeteria.

The school is currently divided between two locations. The South Campus is a leased, two-story building on Culver Boulevard in Los Angeles, which serves 243 students in grades K-3 and includes a small library, special resource room, and storage. The North Campus is shared space on the Walgrove Elementary School campus on Appleton Way, Los Angeles, and serves 189 students in grades 4-8. Capacity at the two locations is 500 students.

**Organization Information:** Ocean is a K-8 grade charter school with 501(c)(3) non-profit public benefit status as West LA Waldorf Method Charter School D/B/A Ocean Charter School. The school received its first charter in 2003 and began instructional operations in the 2004-05 school year, with 194 students in grades K-6. The school currently serves 432 students in grades K-8 and plans enrollment to increase to 500 in 2014-15.

The school describes itself as the only Waldorf-informed charter school in the Los Angeles region and the largest of its kind in the United States. Its Whole Child Curriculum integrates the arts into every aspect of the program allowing children to learn academic content and meet California Academic Achievement Standards in an approach that is developmentally appropriate, meaningful, and multidimensional. The school further describes a vital element to their competitive advantage is the method of looping teachers in their two-year Kindergarten program, where the students’ Kindergarten teacher remains a constant as they develop a community together and prepare for first grade. Teachers in grades 1-3 remain with their classes in those three years, allowing teachers a better understanding of each child’s learning style and the advantage of adapting their own teaching style to each child. Likewise, teachers in grades 4 to 6 and grades 7 to 8, remain with their classes.

**Educational Management Organization:** Not applicable.

**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.

Stephanie Edwards has served as Executive Director at Ocean since 2008. Previously she worked as a teacher for Capistrano Unified School District and Director/Teacher of Kindergarten at Journey School, a K-8 charter in San Clemente. Ms. Edwards earned her

Bachelor of Arts in Liberal Studies at California State University, San Bernardino, and has a Multiple Subject Teaching Credential from the University of California, Irvine.

Kristy Mack-Fett, Director of Ocean’s North Campus since 2009, previously served as Ocean’s Assistant Director and Education Coordinator from August 2006 to 2009. Ms. Mack-Fett earned a Bachelor’s of Arts in Comparative Area Studies: Certificate in Women’s Studies from Duke University, North Carolina and is in the process of earning a Doctorate in Education (Ed.D.) in Educational Leadership from the University of California, Los Angeles.

**Board Experience:** Ocean is governed by a Board of Trustees based on a consensus model involving key stakeholders such as parents, teachers, staff, and community members. Its Board of Trustees, which may include 7–20 members, currently includes members with a variety of occupations and experiences, as noted below.

| <b>Board Member</b>              | <b>Joined Board</b> | <b>Current Expiration</b> | <b>City of Residence</b> | <b>Occupation</b>   |
|----------------------------------|---------------------|---------------------------|--------------------------|---|
| Fran Montano, Board Chair        | 2008                | 2012                      | Westchester              | Business Owner -The Actors Studio   |
| Elspeth Delaney-Paul, Vice Chair | 2011                | 2014                      | Los Angeles              | Attorney, Catholic Healthcare West  |
| Lori Andrade, Board Secretary    | 2010                | 2013                      | Los Angeles              | Senior Business Systems Analyst, Macerich Corp.   |
| Charles Francis, Board Treasurer | 2010                | 2013                      | Santa Monica             | Director, DVD Budgeting/Estimating- Warner Brothers/Warner Premiere                         |
| Elizabeth Brownlow               | 2009                | 2012                      | Culver City              | Marketing & Communications Consultant, Nestle<br>Director of Annual Giving, Scripps College |
| Joshua Dome                      | 2011                | 2014                      | Los Angeles              | Director of Sales, North American Division, Global Business Media Company                   |
| Craig Garner                     | 2011                | 2013                      | Los Angeles              | Attorney/Healthcare Consultant, Coast Plaza Hospital  |
| Jason Haas                       | 2011                | 2012                      | Culver City              | Attorney-at-Law, Theodora Oringher Miller and Richman PC                                    |
| Jill Hayashi                     | 2011                | 2012                      | Los Angeles              | Teacher, Formerly of Clear View Charter Elementary School, Administrative Credential        |
| Carolyn Healey                   | 2011                | 2012                      | Los Angeles              | Parent, OCS ACG Governor, Credentialed Teacher  |

| <b>Board Member</b>                       | <b>Joined Board</b> | <b>Current Expiration</b> | <b>City of Residence</b> | <b>Occupation</b>  |
|---|---------------------|---------------------------|--------------------------|--|
| Joan Jaeckel                              | 2009                | 2012                      | Studio City              | Consultant, Board Member Rudolf Steiner College, Lead Developer El Rio Charter School, Facilitator Certificate prog. – The Work of Byron Katie |
| Nile Park                                 | 2010                | 2013                      | Los Angeles              | Senior Director, Food Arts Group   |
| Olivier Taillieu                          | 2011                | 2012                      | Los Angeles              | Attorney, Zuber & Taillieu LLP   |
| Stephanie Edwards, OCS Executive Director | NA                  | NA                        | San Clemente             | Executive Director, Ocean Charter School<br>Founding Director – Journey Charter School Credentialed Teacher                                    |
| Kristy Mack-Fett                          | NA                  | NA                        | Los Angeles              | Director, Ocean Charter School<br>Credentialed Teacher   |

**Management Experience for Schools Open Less than Two Years:** Not applicable. Ocean began instructional operations in 2004, which exceeds the requirement for two years of management charter experience.

**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 favorably, especially if these trends exceed threshold goals set by the school or the California Department of Education (CDE). In order to measure student performance, staff utilizes Academic Performance Index (API) and Adequate Yearly Progress (AYP) trend data generated by the CDE. The API is also used as an indicator for measuring AYP per the No Child Left Behind Act of 2001. Any school not meeting AYP targets would face additional mandates and corrective actions if the school is a recipient of federal Title I funds.

Ocean has six years of reported API scores, allowing a review of progress and comparison to similar schools. Ocean met all 9 of 9 AYP criteria for each year from 2005-06 through 2009-10, and 17 of 17 in the 2010-11 school year. Additionally, the school has met growth targets every year and achieved base scores of 802, 823, 847, and 896 between 2005-06 and 2008-09. However, Ocean experienced a 41 point drop in their 2009-10 API test scores. Ocean explained that the drop occurred due the transfer of students from a nearby charter school, Pacifica Charter School, which closed. The students were assessed upon enrollment and were found to be below grade level, or had not taken the exam at all. Additionally some of the students that were accepted have learning disabilities, and did not test at a proficient level. Ocean has stated that they will remedy this decrease by hiring a special resource teacher for the students with disabilities, placing math teaching assistants in 6-8 grades, and a recognition program for students that are deficient are sure to receive additional support from their teacher. For the 2010-11 API test scores, Ocean increased their score to 862, a seven point increase from their 2009-10 API score. The school received a statewide ranking of 8 and a similar schools ranking of 1 in 2010-11, the most recent year reported.

| Ocean Charter School                      | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 | FY 2009-10 | FY 2010-11 |
|---|------------|------------|------------|------------|------------|------------|
| <b>ADEQUATE YEARLY PROGRESS (AYP)</b>     |            |            |            |            |            |            |
| Met All AYP Criteria?                     | Yes        | Yes        | Yes        | Yes        | Yes        | Yes        |
| Criteria Met / Required Criteria          | 9 / 9      | 9 / 9      | 9 / 9      | 9 / 9      | 9 / 9      | 17 / 17    |
| Met API Indicator for AYP?                | Yes        | Yes        | Yes        | Yes        | Yes        | Yes        |
| Met Graduation Rate?                      | N/A        | N/A        | N/A        | N/A        | N/A        | N/A        |
| <b>ACADEMIC PERFORMANCE INDEX (API)</b>   |            |            |            |            |            |            |
| Met Schoolwide Growth Target?             | Yes        | Yes        | Yes        | Yes        | Yes        | Yes        |
| Met Comparable Improvement Growth Target? | Yes        | Yes        | Yes        | Yes        | Yes        | Yes        |
| Met Both Schoolwide & CI Growth Targets?  | Yes        | Yes        | Yes        | Yes        | Yes        | Yes        |
| API Base Statewide Rank (10 = best)       | 7          | 7          | 8          | 8          | 9          | 8          |
| API Base Similar Schools Rank (10 = best) | N/A        | 4          | 2          | 5          | 3          | 1          |
| School's Actual Growth                    | 25         | 24         | 28         | 54         | -41        | 7          |
| Similar Schools Median of Actual Growth   | N/A        | 10         | 7          | 13         | 3          | 6          |
| Did School's Growth Exceed Median?        | N/A        | Yes        | Yes        | Yes        | No         | Yes        |

**Enrollment and Retention Rate Information:** Ocean began instructional operations in 2004-05 with 194 students in grades K-6. In 2005-06, grade 7 was added and in 2005-06, grade 8 was added. Ocean has continued to show steady growth with student enrollment of 432 students in grades K-8 for the current academic year. Ocean has projected enrollment will consistently increase to 456, 480, and 500, during 2012-13 through 2014-15, respectively. By 2015-16 (year of project occupancy), the enrollment is expected to level off at 500 students. OCS has recorded ADA rates of 97%, 96%, 95%, 93%, and 96% for 2006-07 through 2010-11, respectively.

**Financial Analysis:** Highlighted in this section is financial data and credit indicators used to evaluate Ocean’s ability to meet its CSFP obligation. The table on the following page summarizes key aspects of the school’s past and projected financial performance. *Staff’s analysis of financial performance includes adjustments for depreciation, capital outlay and loan repayment; therefore, these results may differ from audited figures.*

Staff’s evaluation of Ocean’s financial performance is based on review of the following documents: (1) Ocean’s audited financial statements for 2007-08 through 2010-11; (2) Ocean’s approved budget for 2010-11; (3) Ocean’s budget projections for 2012-13 through 2017-18; and (4) Ocean’s current enrollment for 2011-12 as well as projected average annual enrollment for 2012-13 through 2017-18. *Note: the budget and projections provided by Ocean have incorporated the trigger cuts that took place mid-December 2011. However, Ocean’s financial projections include a 7% cut (\$377 per student), which is far greater than the maximum 4% trigger that was proposed in the original budget bill. Thus, Ocean has been able to demonstrate that it will be able to meet Debt Service Coverage with a budget and financial projections that are excessively conservative.*

Ocean’s financial projections are based upon the following assumptions: (1) occupancy of the constructed CSFP project in 2015-16; (2) increases in enrollment as described above under the Enrollment Trends and Projections section; (3) 2011-12 funding rates for the charter school general purpose block grant of \$4,700, \$4,776, \$4,922, and \$5,767 for grades K-3, 4-6, 7-8, and 9-12, respectively; (4) projected ADA rates of 95%, which is consistent with Ocean’s historical performance; (5) revenue growth (cost of living adjustments) on charter school block grant of 1.8% for 2012-13, 2.3%, 2.7%, 2.8%, 2.8%,

and 2.8% for the years of 2013-14 through 2017-18, respectively; (6) revenue growth (cost of living adjustments) on certificated salaries of 7% for 2012-13 (in regards to the open legal issues with the teachers union), and 1.0% for the years of 2013-14 through 2017-18; and (7) Ocean maintaining a teacher to student ratio of 25:1. Cost of living adjustments for the expense categories are 2.0% for the fiscal years of 2012-13 through 2017-18.

| Ocean Charter School  | Actual<br>FY 2007-08 | Actual<br>FY 2008-09 | Actual<br>FY 2009-10 | Actual<br>FY 2010-11 | Budgeted<br>FY 2011-12 | Projected<br>FY 2012-13 | Projected<br>FY 2013-14 | Projected<br>FY 2014-15 | Projected<br>FY 2015-16 | Projected<br>FY 2016-17 | Projected<br>FY 2017-18 |
|---|----------------------|----------------------|----------------------|----------------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>ENROLLMENT PROJECTIONS</b>                               |                      |                      |                      |                      |                        |                         |                         |                         |                         |                         |                         |
| Enrollment  | 295                  | 320                  | 355                  | 359                  | 432                    | 456                     | 480                     | 500                     | 500                     | 500                     | 500                     |
| Average Daily Attendance                                    | 283                  | 304                  | 330                  | 343                  | 410                    | 433                     | 456                     | 475                     | 475                     | 475                     | 475                     |
| Average Daily Attendance (%)                                | 96%                  | 95%                  | 93%                  | 96%                  | 95%                    | 95%                     | 95%                     | 95%                     | 95%                     | 95%                     | 95%                     |
| <b>FINANCIAL PROJECTIONS</b>                                |                      |                      |                      |                      |                        |                         |                         |                         |                         |                         |                         |
| Total Revenues Available for CSFP Payment                   | \$ 2,752,742         | \$ 3,010,542         | \$ 2,987,099         | \$ 3,204,866         | \$ 3,460,787           | \$ 3,638,543            | \$ 3,857,837            | \$ 4,067,342            | \$ 3,989,376            | \$ 4,070,768            | \$ 4,154,439            |
| Total Expenses Paid Before CSFP Payment                     | 2,411,951            | 2,649,344            | 3,048,400            | 3,233,256            | 3,461,960              | 3,575,822               | 3,722,225               | 3,793,066               | 3,539,226               | 3,469,319               | 3,509,853               |
| Accounting Adjustments                                      | 29,584               | 28,905               | 30,374               | 43,751               | 22,149                 | 22,139                  | 22,139                  | 22,139                  | 22,139                  | 22,139                  | 22,139                  |
| Net Revenues Available for CSFP Payment                     | \$ 370,375           | \$ 390,103           | \$ (30,927)          | \$ 15,361            | \$ 20,976              | \$ 84,860               | \$ 157,751              | \$ 296,415              | \$ 472,289              | \$ 623,588              | \$ 666,725              |
| CSFP Payment  | \$ -                 | \$ -                 | \$ -                 | \$ -                 | \$ -                   | \$ -                    | \$ -                    | \$ -                    | \$ -                    | \$ 501,914              | \$ 501,914              |
| Net Revenues After CSFP Payment                             | \$ 370,375           | \$ 390,103           | \$ (30,927)          | \$ 15,361            | \$ 20,976              | \$ 84,860               | \$ 157,751              | \$ 296,415              | \$ 472,289              | \$ 121,674              | \$ 164,811              |
| <b>FINANCIAL INDICATORS</b>                                 |                      |                      |                      |                      |                        |                         |                         |                         |                         |                         |                         |
| Net Revenues Available for CSFP Payment                     | \$ 370,375           | \$ 390,103           | \$ (30,927)          | \$ 15,361            | \$ 20,976              | \$ 84,860               | \$ 157,751              | \$ 296,415              | \$ 472,289              | \$ 623,588              | \$ 666,725              |
| Debt Service Coverage by Net Revenues                       | N/A                  | N/A                  | N/A                  | N/A                  | N/A                    | N/A                     | N/A                     | N/A                     | N/A                     | 124.2%                  | 132.8%                  |
| Contributions   | \$ 424,316           | \$ 424,968           | \$ 425,089           | \$ 388,679           | \$ 346,771             | \$ 403,530              | \$ 403,530              | \$ 403,530              | \$ 403,530              | \$ 403,530              | \$ 403,530              |
| Debt Service Coverage by Net Revenues (w/out Contributions) | N/A                  | N/A                  | N/A                  | N/A                  | N/A                    | N/A                     | N/A                     | N/A                     | N/A                     | 43.8%                   | 52.4%                   |
| CSFP Lease Payment / Revenues                               | N/A                  | N/A                  | N/A                  | N/A                  | N/A                    | N/A                     | N/A                     | N/A                     | N/A                     | 12.3%                   | 12.1%                   |
| Contributions / Revenues                                    | 15.4%                | 14.1%                | 14.2%                | 12.1%                | 10.0%                  | 11.1%                   | 10.5%                   | 9.9%                    | 10.1%                   | 9.9%                    | 9.7%                    |
| Net Revenues After CSFP Payment / Revenues                  | 13.5%                | 13.0%                | -1.0%                | 0.5%                 | 0.6%                   | 2.3%                    | 4.1%                    | 7.3%                    | 11.8%                   | 3.0%                    | 4.0%                    |
| Revenues / ADA  | \$ 9,720             | \$ 9,903             | \$ 9,052             | \$ 9,344             | \$ 8,433               | \$ 8,399                | \$ 8,460                | \$ 8,563                | \$ 8,399                | \$ 8,570                | \$ 8,746                |
| Expenses / ADA  | \$ 8,517             | \$ 8,715             | \$ 9,238             | \$ 9,426             | \$ 8,436               | \$ 8,254                | \$ 8,163                | \$ 7,985                | \$ 7,451                | \$ 8,360                | \$ 8,446                |
| Surplus (Deficit) / ADA                                     | \$ 1,203             | \$ 1,188             | \$ (186)             | \$ (83)              | \$ (3)                 | \$ 145                  | \$ 297                  | \$ 577                  | \$ 948                  | \$ 210                  | \$ 300                  |
| Net Working Capital   | \$ 904,779           | \$ 1,277,755         | \$ 1,229,497         | \$ 1,220,514         | \$ -                   | \$ -                    | \$ -                    | \$ -                    | \$ -                    | \$ -                    | \$ -                    |
| Net Working Capital / Expenses                              | 37.5%                | 48.2%                | 40.3%                | 37.7%                | N/A                    | N/A                     | N/A                     | N/A                     | N/A                     | N/A                     | N/A                     |

*Projected Contributions:* Over the last four years, Ocean received the following total amounts of private grants and contributions averaging \$415,763 per year: \$424,316 (2007-08), \$424,968 (2008-09), \$425,089 (2009-10), and \$388,679 (2010-11). The financial projections estimate the following donations averaging \$395,422 per year. Historically, fundraising annual receipts averaged 14.0% of revenues for fiscal years 2007-08 through 2010-11, but this average is expected to decrease to 10.2% from 2011-12 through 2017-18. The projected percentage of contributions to revenues is below the 15.0% threshold level employed by staff.

Ocean has stated that it bases its projection of contributed income on its proven track record, the percentage of growth from year to year, and the forecasted development plan for the upcoming year. Ocean does not budget more than 10% of their income as donations.

Ocean has initiated research towards capacity building grants to allow the school to hire a development director to oversee a capital campaign. Ocean expects to see a slight decrease in program fundraising as folks in the community donate to both- the current program and the future facility. In this anticipation, Ocean agreed to keep the fundraised income flat-lined and extremely conservative for the next 5 years. Also of note, Ocean did not project the revenues of the capital campaign in the school budget projections. Since Ocean's last review they have initiated the preliminary steps and are preparing to launch the capital campaign. While Ocean hopes to raise the entire cash matching share, they have a more conservative goal of raising \$5 million over the next three years. Now, set to launch in 2012, the capital campaign includes a schedule of grants, three large events over the next three years, corporate partnerships, and active individual donor cultivation, including both existing "low-level" community donors and prospective major donors.

*Long Term Debt:* According to Ocean's 2010-11 audited financial statements and approved 2011-12 budget report, Ocean does not have any long term debt. The only loan reported is regarding the school's acceptance into the California Department of Education's Charter School Revolving Loan Program in 2004-05. The school received a loan in the amount of \$250,000 bearing an interest rate of 2.30 percent, which was repaid over four years with the final \$63,760 payment in 2008-09.

*Financial Performance/Change in Net Assets:* For 2007-08 through 2010-11, OCS recorded the following increases (decreases) to net assets: \$340,791, \$361,198, (\$61,301), and (\$28,390). Excluding the contributions noted above, OCS would have recorded the following operating surpluses (deficits) in the same years: (\$83,525), (\$63,770), (\$486,390), and (\$417,069). Based on the budget for 2011-12, OCS is expected to book an operating deficit of (\$1,173) which, when adjusted for anticipated contributions of \$346,771, would result in a decrease of \$324,800 in net assets. In 2015-16, when Ocean is scheduled to occupy the CSFP facility and cease making lease payments to LAUSD for its two existing facilities, net assets are forecasted to increase by \$450,150, net of anticipated contributions of \$403,530. Prior to CSFP payments, which are expected to commence in 2016-17, Ocean forecasts the following annual increases to net assets: \$601,449 in 2016-17, and \$644,586 in 2017-18.

*Projected Debt Service Coverage of CSFP Payments* – Ocean’s financial projections indicate the school will be able to afford the projected annual CSFP payments for the new construction project with its forecast of contributions and enrollment growth, and an initial lump sum payment of \$250,000. Given a projected CSFP payment of \$501,914, Ocean’s net revenues (including contributions) of \$623,588 during the first year of CSFP payments, 2016-17, would provide debt service coverage of 124.2%. During the second year of CSFP payments, Ocean’s net revenues would provide debt service coverage of 132.8%. Without contributions, Ocean’s debt service coverage ratios for the first two years of CSFP payments would not meet the minimum 100.0% debt service threshold required by Program regulations. However, Ocean is projecting contributions of \$403,530 annually. Based on a stress test of Ocean’s reliance on private contributions, OCS would need to receive at least 70% (\$281,856) of expected contributions in 2016-17 and 59% (\$238,719) of contributions in 2017-18 to maintain debt service coverage greater than 100.0%. When looking at Ocean’s historical average (\$415,763) and future projections in regards to their contributions, staff believes that the school will receive adequate contributions to meet debt service coverage requirements.

*Liquidity:* Liquidity is measured in terms of net working capital (NWC) and is calculated by subtracting current liabilities from current assets. Ocean’s NWC for 2007-08 was \$904,779, or 37.5% of total expenses. In 2008-09, this figure increased to \$1,277,755, or 48.2% of total expenses. In 2009-10, NWC was \$1,229,497, or 40.3% of total expenses. For 2010-11, NWC was 1,220,514, or 37.7% of total expenses. Staff considers NWC equivalent of at least 5.0% of total expenses to be sufficient.

Ocean is pledging \$250,000 in cash on hand toward its CSFP project cost in order to reduce the program loan amount to \$9,837,744. (Staff will require that these pledged funds become restricted assets of OCS.)

**Strengths, Weaknesses and Mitigants:**

- + Ocean met all AYP criteria for each of the past five years from 2005-06 to 2010-11, and its API growth scores grew steadily from 802 to 896 from 2005-06 to 2008-09, decreased to 855 for 2009-10, and increased to 862 in 2010-11.
- + Given the extremely conservative budget and financial projections, which incorporate a 7% cut in the categorical block grant for the 2011-12 year, Ocean is projected to have debt service coverage ratios of 125.9%, and 134.6% including contributions, for the first two years after project occupancy.
- + Ocean has a strong fundraising track record raising an average of \$415,763 per year over the last four years.
- +/- Ocean would need to receive at least 68% of expected contributions 2016-17 and 58% of expected contributions in 2017-18 to maintain debt service coverage greater than 100.0%. However, this is also a byproduct of the conservative budget and projections that was forwarded to staff for the financial soundness review.

**Staff Recommendation:** Staff recommends that the California School Finance Authority (CSFA) Board determine that Ocean Charter School is financially sound for the purpose of the Charter School Facilities Program advance 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. This recommendation is contingent upon Ocean electing to have its CSFP payments intercepted at the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.