

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT – APRIL 2012**

Applicant/Obligor:	Inner City Education Foundation Lou Dantzler Preparatory Charter Middle School
Project School:	School
CDS (County – District – School) Code:	19-64733-0112227
Project Location:	8711-35 S. Western Avenue, Los Angeles, CA 90047
Type of Project:	New Construction
County:	Los Angeles
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Total OPSC Project Cost:	\$17,667,222
State Apportionment (50% Project Cost):	\$8,833,611
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$8,833,611
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$450,684
First Year of Occupancy of New Project:	2014-15

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Inner City Education Foundation (ICEF), on behalf of Lou Dantzler Preparatory Charter Middle School (Lou Dantzler Middle) is not financially sound for the purposes of the Charter School Facilities Program (Program) Advance and Final Apportionments. Staff recommends that the CSFA Board direct staff to immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.

Background: ICEF, an educational management organization (EMO), applied for CSFP Proposition 1D financing for two projects at two of its ten schools. In May 2008, ICEF received preliminary apportionment for Lou Dantzler Middle. ICEF, on behalf of Lou Dantzler Middle, is seeking Advance Apportionment of \$6,706,904 for design and site acquisition in the amounts of \$837,022 and \$5,869,882, respectively.

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

Criteria	Comments
EMO Information	
Demographic Information	<ol style="list-style-type: none"> 1. ICEF serves grades K-12 at 14 schools; for 2011-12, total enrollment is 4,244. 2. By 2013-14 when all CSFP Projects are occupied, ICEF projects total enrollment at 4,572 for all 14 schools.
Debt Service Coverage	Based on ICEF’s financial projections, projected debt service coverage for the CSFP project is 736.3% for 2015-16.
Other Financial Factors	<ol style="list-style-type: none"> 1. The financial performance for ICEF from 2008-09 through 2009-10 is considered poor. Although enrollment increased system wide with the addition of new schools and grades, ICEF sustained sizable losses due to reliance on short-term cash flow financings. 2. After properly restating the 2009-10 financial statements, ICEF ended 2009-10 with negative net assets of \$19.7 million 3. ICEF’s independent auditor included in the 2010-11 audit the following language regarding ICEF’s financial position: “ICEF has experienced significant financial difficulties and does not have adequate reserves to meet its current obligations without obtaining additional financing and revenue. These factors raise a substantial doubt about ICEF’s ability to continue as a going concern.” 4. From 2008-09 through 2010-11, ICEF’s NWC has been below \$0. ICEF’s reliance on cash flow financings and receivable sales confirm current liquidity constraints. 5. In 2011-12, ICEF improved its financial performance and projects sizable decreases in liabilities over the next four years, thus returning ICEF to a stronger net asset position in 2015-16.
Student Performance	<p>ICEF’s overall academic performance was mixed over the past four years, as follows:</p> <ol style="list-style-type: none"> 1. Nine of 15 schools met API growth in one of the two past years, and only 3 of 15 schools met their API growth target in 2010-11. 2. For 2010-11, where data was available, 6 of 12 (50%) schools had Statewide rankings of “5” or better, while 9 of the 12 (75%) schools had Similar School rankings of “5” or better 3. For 2010-11, only 3 of 15 schools met all AYP criteria. Over the past four years, all AYP criteria was met on 21 of 49 occasions (43%).

School Information	
Eligibility Criteria	Lou Dantzler Middle has met all eligibility criteria: (1) Lou Dantzler Middle commenced operations in 2007-08, and ICEF has been in operation since 1999-00; (2) Lou Dantzler Middle's charter is in place through June 2016; (3) Lou Dantzler Middle is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	Lou Dantzler Middle did not meet all AYP criteria in 2007-08, 2009-10, and 2010-11, but met all criteria in 2008-09. Lou Dantzler Middle only met its API growth targets in 2008-09 as well during the same period. Lou Dantzler Middle achieved gradually declining API growth scores of 753, 740, and 723 for 2008-09 through 2010-11, respectively.
Demographic Information	<ol style="list-style-type: none"> 1. Lou Dantzler Middle currently serves 244 students in grades 6-8 and does not anticipate enrollment growth for the foreseeable future. 2. Lou Dantzler Middle's year-to-year retention rates for 2011-12 were 86%.

Program Eligibility: On March 30, 2012, verification was received from the Innovative and Charter Schools Division of Los Angeles Unified School District (LAUSD), confirming that Lou Dantzler Middle is (1) in compliance with the terms of its charter agreement, and (2) is in good standing with its chartering authority. Lou Dantzler Middle's charter is effective through June 30, 2016. It is noteworthy that, notwithstanding LAUSD's confirmation, LAUSD's response included an attached statement indicating LAUSD's acknowledgement of ICEF's corrective actions to address its financial condition.

Legal Status Questionnaire: The Authority's Legal Counsel, Deborah Yang, reviewed ICEF's responses to the questions contained in the Legal Status Questionnaire (LSQ) portion of the application. Since 2005, ICEF has been the defendant in ten legal actions involving wrongful termination and/or harassment. Two of these legal actions remain outstanding. Although ICEF provided positive responses to the LSQ, Legal Counsel has indicated that the issues presented would not prevent the Authority from determining that ICEF is financially sound.

Project Description: ICEF is requesting funds for new construction of a facility for Lou Dantzler Middle that will consist of at least 20 classrooms serving grades 6-8 with a capacity for 300 students. ICEF is intending to move Lou Dantzler Middle from its current facility at 5029 South Vermont, Los Angeles, CA 90037 to 8711-35 S. Western Avenue, Los Angeles, CA 90047 and anticipates project occupancy in 2014-15.

ICEF's General Manager for Strategy and Operations, Chris Borunda, indicated that ICEF is considering a possible consolidation of Lou Dantzler Middle and Lou Dantzler Preparatory Elementary into a K-8 charter school.

Organizational Information: Lou Dantzler Middle received its first charter from LAUSD in 2007. The charter was subsequently renewed in 2011 for five years. The schools'

curriculum aims at providing college preparatory education for every student and prepares students for success by developing them in these core areas – effective communication, critical thinking, and self-disciplined learning and responsible citizenry. Lou Dantzler Middle has grown from 85 students in grade 6 in 2007-08 to 258 students in grades 6-8 for the current 2011-12 academic year.

Educational Management Organization: ICEF is a California 501(c)(3) not-for-profit, public-benefit corporation incorporated in 1994, which currently operates 14 charter schools in South Los Angeles. ICEF was founded on the mission of serving underserved minorities in South Los Angeles with the opportunity for a rigorous college preparatory curriculum. ICEF initially opened View Park Preparatory Accelerated Charter Elementary School in 1999, View Park Preparatory Accelerated Charter Middle School in 2002, and View Park Preparatory Accelerated Charter High School in 2003 to serve the community in South Los Angeles. In September 2006, ICEF opened Frederick Douglass Academy Charter Middle School and Frederick Douglass Academy Charter High School. ICEF also opened the Thurgood Marshall Charter Middle School and Thurgood Marshall Charter High School (closed in 2009) as well as Lou Dantzler Middle and Lou Dantzler Preparatory Charter High in September 2007. Subsequently, ICEF opened Frederick Douglass Academy Elementary School, ICEF Inglewood Elementary Academy, ICEF Inglewood Middle Academy, ICEF Vista Elementary Academy, ICEF Vista Middle Academy, Lou Dantzler Preparatory Elementary School, and Fernando Pullum Performing Arts (Closed 2011). The table below shows current enrollment for all 14 schools.

School	Opened	Grade	2011-12 Enrollment
View Park Preparatory Elementary	1999-2000	K – 5	508
View Park Preparatory Middle	2002-03	6 - 8	379
View Park Preparatory High	2003-04	9 -12	405
Frederick Douglass Elementary	2008-09	K - 5	324
Frederick Douglass Middle	2006-07	6 - 8	305
Frederick Douglass High	2006-07	9 - 12	395
Lou Dantzler Preparatory Elementary	2008-09	K - 5	264
Lou Dantzler Middle	2007-08	6 - 8	258
Lou Dantzler Preparatory Charter High	2007-08	9 - 12	326
Thurgood Marshall Middle	2007-08	6 - 8	157
ICEF Inglewood Elementary Academy	2009-10	K - 5	248
ICEF Inglewood Middle Academy	2009-10`	6 - 8	226
ICEF Vista Elementary Academy	2008-09	K - 5	302
ICEF Vista Middle Academy	2008-09	6 - 8	192
Total			4,289

¹ Enrollment data provided by ICEF as of April 17, 2012.

ICEF provides financial support, management and administrative services to each of its charter academy schools and their enrichment programs. ICEF’s business plan focuses primarily on ensuring stability of ICEF campuses and right-sizing of schools in order to continue to address improvement of its financial condition as well as conditions for its

students. ICEF also reported having a total of 618 names on the waiting list across all 14 public schools. The average daily attendance for all schools is 96%.

Management Experience for Schools Open Less than Two Years: ICEF and Lou Dantzler Middle began operations in 1999-2000 and 2007-08, respectively, thus exceeding the two years of instruction requirement.

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.

School Management: Sommer Jones is serving as Principal of Lou Dantzler Middle starting with the current 2011-12 academic year. Prior to this position, Mr. Jones served as Director of Elementary Curriculum and Development (2010-11) and Bridge Coordinator (2008-10) for ICEF Public Schools. Prior to these positions, Mr. Jones served as Dean of Academic Affairs as well as a teacher at View Park Elementary School (2000-08) and teacher at Compton Avenue Elementary School (1997-2001). Mr. Jones holds an M.A. in Education from U.C.L.A. and a California Clear Multiple Subject CLAD Credential.

EMO Management: Parker Hudnut is serving as Chief Executive Officer for ICEF starting with the current 2011-12 academic year wherein he oversees and manages all of ICEF's charter schools. Prior to this position, Mr. Hudnut served as Executive Director of Los Angeles Unified School District, Innovation and Charter School Division (2009-11), Chief Operating Officer for Alliance for College-Ready Public Schools (2004-09), and Director of Development for Imagine Schools (2002-04). Mr. Hudnut holds an MBA from University of Pennsylvania Wharton School of Business.

Board Experience:

ICEF is governed by a board of directors that creates, controls and operates its schools. The board consists of 14 members whose backgrounds include business, education, and governmental affairs. The following table depicts the current Board's membership.

ICEF Governing Board

Name	Title	County of Residence	Term
Mayor Richard Riordan	Board Chairman	Los Angeles	Oct 2012
Simeon Slovacek, Ph.D.	Board Secretary	Los Angeles	Oct 2012
Austin Beutner	Member	Los Angeles	Oct 2012
Jackson Browne	Member	Los Angeles	Oct 2012
Rebecca L. Bunn	Member	Los Angeles	Oct 2012
Bridgid Coulter	Member	Los Angeles	Oct 2012
Jerry Givens	Member	Los Angeles	Oct 2012
Russell L. Goings, III	Member	Los Angeles	Apr 2012
Tyrone Howard, Ph.D.	Member	Los Angeles	Oct 2012
Julie Kellner	Member	Los Angeles	Oct 2012
William "Boutie" Lucas	Member	Los Angeles	Oct 2012
David G. Moore	Member	Los Angeles	Oct 2012
Pat McCabe	Member	Los Angeles	Oct 2012
Stephen C. Smith	Member	Los Angeles	Oct 2012
Blair Taylor	Member	Los Angeles	Feb 2013

The primary roles and responsibilities of the Board include, but are not limited to, the following: overseeing implementation of the charter components; adopting, implementing, and interpreting school-wide policy; overseeing the Principal's performance; adopting the charter school budget; approval of charter amendments; approval of contractual agreements; and advocating on behalf of the school for purposes of fundraising.

Academic 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 1 funds.

Staff reviewed four years of reported API scores for Lou Dantzler Middle, allowing a review of progress and comparison to similar schools. The following table summarizes the school's trend in student performance.

Lou Dantzler Preparatory Charter Middle School

Lou Dantzler Preparatory Charter Middle School	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	No	Yes	No	No
Criteria Met / Required Criteria	4 / 5	13 / 13	5 / 9	7 / 13
Met API Indicator for AYP?	No	No	Yes	Yes
Met Graduation Rate?	N/A	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	N/A	Yes	No	No
Met Comparable Improvement Growth Target?	N/A	Yes	No	No
Met Both Schoolwide & CI Growth Targets?	N/A	Yes	No	No
API Base Statewide Rank (10 = best)	N/A	4	5	4
API Base Similar Schools Rank (10 = best)	N/A	N/A	10	4
School's Actual Growth	N/A	N/A	-12	-17
Similar Schools Median of Actual Growth	N/A	N/A	N/A	N/A
Did School's Growth Exceed Median?	N/A	N/A	N/A	N/A

Lou Dantzler Middle met all AYP criteria in only one of the past four years, in 2008-09, and met its API growth target in one of the past three years, also in 2008-09. For 2008-09 through 2010-11, Lou Dantzler Middle achieved API growth scores of 753, 740, and 723, respectively. Based on API base scores, Lou Dantzler Middle achieved Statewide and Similar Schools rankings of “5” and “10” for 2009-10 and “4” and “4” for 2010-11.

The following tables depict ICEF’s academic performance over the past four years.

API Base Rank (10=Best): Statewide Rank/Similar Schools Rank

School	2007-08	2008-09	2009-10	2010-11
View Park Preparatory Elementary	6/10	7/10	8/10	9/10
View Park Preparatory Middle	6/10	7/10	8/10	7/10
View Park Preparatory High	6/10	3/6	6/10	5/10
Frederick Douglass Elementary	NA	NA	NA	NA
Frederick Douglass Middle	5/NA	5/10	4/9	3/9
Frederick Douglass High	NA	3/10	2/8	3/9
Lou Dantzler Preparatory Elementary	NA	NA	NA	NA
Lou Dantzler Middle	NA	4/NA	5/10	4/4
Lou Dantzler Preparatory Charter High	NA	3/NA	3/10	1/8
Thurgood Marshall Middle	NA	2/NA	3/7	3/4
ICEF Inglewood Elementary Academy	NA	NA	NA	NA
ICEF Inglewood Middle Academy	NA	NA	NA	5/9
ICEF Vista Elementary Academy	NA	NA	4/5	7/8
ICEF Vista Middle Academy	NA	NA	4/1	7/8
Fernando Pullum Performing Arts	NA	NA	NA	1/3

Met Schoolwide API Growth Target

School	2007-08	2008-09	2009-10	2010-11
View Park Preparatory Elementary	Yes	Yes	Yes	Yes
View Park Preparatory Middle	Yes	Yes	Yes	No
View Park Preparatory High	No	Yes	Yes	No
Frederick Douglass Elementary	NA	NA	NA	No
Frederick Douglass Middle	No	No	No	No
Frederick Douglass High	Yes	No	Yes	No
Lou Dantzler Preparatory Elementary	NA	NA	NA	No
Lou Dantzler Middle	No	Yes	No	No
Lou Dantzler Preparatory Charter High	NA	Yes	No	No
Thurgood Marshall Middle	NA	No	Yes	No
ICEF Inglewood Elementary Academy	NA	NA	NA	Yes
ICEF Inglewood Middle Academy	NA	NA	NA	Yes
ICEF Vista Elementary Academy	NA	NA	Yes	No
ICEF Vista Middle Academy	NA	NA	Yes	No
Fernando Pullum Performing Arts	NA	NA	NA	Yes

AYP Performance: Met AYP Targets

School	2007-08	2008-09	2009-10	2010-11
View Park Preparatory Elementary	Yes	Yes	Yes	Yes
View Park Preparatory Middle	Yes	Yes	No	No
View Park Preparatory High	Yes	Yes	Yes	No
Frederick Douglass Elementary	NA	Yes	Yes	No
Frederick Douglass Middle	No	No	No	No
Frederick Douglass High	Yes	Yes	Yes	Yes
Lou Dantzler Preparatory Elementary	NA	Yes	Yes	No
Lou Dantzler Middle	No	Yes	No	No
Lou Dantzler Preparatory Charter High	No	No	No	No
Thurgood Marshall Middle	No	No	No	No
ICEF Inglewood Elementary Academy	NA	NA	No	No
ICEF Inglewood Middle Academy	NA	NA	No	No
ICEF Vista Elementary Academy	NA	NA	Yes	No
ICEF Vista Middle Academy	NA	No	Yes	No
Fernando Pullum Performing Arts	NA	NA	No	Yes

As shown in the table above, performance in making AYP was mixed with less favorable performance over the last two years. For 2007-08 through 2010-11, ICEF schools made AYP as follows: 4 of 8 (50%) schools in 2007-08; 7 of 10 schools (70%) in 2008-09; 7 of 15 schools (47%) in 2009-10; and 3 of 15 schools (20%) in 2010-11. This trend is consistent with the fact that the threshold for making AYP has increased each year. However, 5 of the 15 schools have not made AYP any of the years. With respect to API rankings, for 2009-10 and 2010-11, the overall performance on rankings was mixed with respect to Statewide rankings and favorable with respect to Similar Schools rankings. For 2010-11, where data was available, 6 of 12 (50%) schools had Statewide rankings of “5” or better, while 9 of the 12 (75%) schools had Similar School rankings of “5” or better. Performance in meeting API

growth targets was also mixed, with 3 of 6 (50%) of schools meeting API growth in 2007-08, 7 of 11 (64%) schools meeting API growth in 2008-09, 7 of 10 (70%) schools meeting API growth targets in 2009-10 and 4 of 12 (33%) schools meeting API growth targets in 2010-11.

Staff notes that the percent-proficient threshold requirement for AYP, both for English-language arts and mathematics, in accordance with the Elementary and Secondary Education Act (ESEA), reflects increases each year and will continue to reflect increases until 2014. Therefore, with each successive year, charter schools are increasingly challenged in “making AYP” (meeting all AYP criteria). This requirement applies to both school wide performance and performance of each numerically significant subgroup within any school. As an example, since 2002, the percent-proficient requirements for English-language arts (elementary schools, middle schools, and elementary school districts) are as follows: 13.6% for each of 2001-02, 2002-03, and 2003-04; 24.4% for each of 2004-05, 2005-06, and 2006-07; 35.2% for 2007-08; 46.0% for 2008-09; 56.8% for 2009-10, 67.6% for 2010-11, and 78.4% for 2011-12. This specific requirement will increase up until 2014 with the following percent-proficient thresholds: 89.2% for 2012-13; and 100.0% for 2013-14. The English-language arts percent-proficient requirement for high schools shows a similar trend, as do the percent-proficient requirements for mathematics for both elementary schools and high schools. Given that each numerically significant subgroup within a school must meet the percent-proficient requirement in English-language arts and mathematics in order for the school to make AYP, and given the high prevalence of English-language learners in California, charter schools are faced with increasing difficulty in making AYP¹.

Overall, Staff considers ICEF’s academic performance to be mixed, with more favorable performance when considering Similar School API performance. Although Staff has concerns with the five schools that have not made AYP and Lou Dantzler Middle’s only making AYP and meeting its API growth in one of the past four years, Staff does not consider ICEF’s overall academic performance as an impediment to being found financially sound. Staff recommends reassessment of academic performance at the time of Final Apportionment.

Enrollment Trends and Projections: With the addition of six schools over the past four years, ICEF has shown consistent growth since 2007-08, growing from 1,753 students in 2007-08 to 2,986 students in 2008-09 to 3,830 students in 2009-10, to 4,473 students in 2010-11 to 4,424 students for the current 2011-12 academic year, representing growth of over 152% over four years, and an average annual growth of approximately 29%. The table below shows consistent student enrollment growth for both individual schools as well as across ICEF over this time period.

¹ Information regarding AYP requirements is derived from the California Department of Education’s “2010 Adequate Yearly Progress Report Information Guide.

Student Enrollment by Year (five years)

School	2007-08	2008-09	2009-10	2010-11	2011-12*
View Park Preparatory Elementary	416	425	431	452	512
View Park Preparatory Middle	316	321	356	342	379
View Park Preparatory High	392	391	401	396	402
Frederick Douglass Elementary		95	105	277	366
Frederick Douglass Middle	184	276	321	275	299
Frederick Douglass High	175	294	355	419	429
Lou Dantzler Preparatory Elementary		91	142	197	271
Lou Dantzler Middle	86	207	295	326	265
Lou Dantzler Preparatory Charter High	82	166	274	314	349
Thurgood Marshall Middle	70	194	258	243	166
Thurgood Marshall High	32	132			
ICEF Inglewood Elementary Academy			174	217	254
ICEF Inglewood Middle Academy			125	275	238
ICEF Vista Elementary Academy		251	279	293	302
ICEF Vista Middle Academy		143	183	202	192
Fernando Pullum Performing Arts			131	245	
Total	1,753	2,986	3,830	4,473	4,424

*2011-12 enrollment represents an average of enrollment across five specific dates during the school year, 9/8/11, 10/5/11, 10/25/11, 1/5/12, and 3/1/12.

ICEF projects further marginal enrollment growth to 4,572 in 2012-13 and no additional enrollment growth for the foreseeable future. ICEF’s average daily attendance for 2010-11 and 2011-12 is 95.9% and 96.8%, which supports ICEF’s assumed ADA of 95% in its financial projects.

Lou Dantzler Middle showed consistent enrollment from 86 students in 2007-08 to 326 students in 2010-11. However, Lou Dantzler Middle experienced a significant decline in enrollment to 265, a decline of 18.7% in the past year. ICEF is projecting growth to 274 for 2011-13 and to 300 for all subsequent years. Upon staff’s inquiry with ICEF’s General Manager for Strategy and Operations, regarding the reason for last year’s decline in enrollment, the General Manager provided the following statement:

“The drop in enrollment was caused by the lingering concern about our last year. As we have demonstrated strong stability in both leadership and finances throughout the organization over the past year, we fully expect to fill every seat at the LDMS site next year and beyond. It is important to note the facility (Challengers Boys and Girls Club) that houses LDMS is a stellar site with unparalleled athletic resources (track, tennis courts, rugby/soccer field, basketball court, etc.). This has been one of our strongest all around schools since its founding in 2007.”

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate ICEF’s ability to meet its CSFP obligations. Staff’s review of ICEF’s financial performance is based on three years of audited financial statements (2008-09 through 2010-11), the 2011-12 second interim budget and financial projections from 2012-13 through 2015-16. The table below highlights key aspects of ICEF’s past and projected financial performance.

Lou Dantzier Preparatory Charter Middle School

ICEF	Actual FY 2008-09	Actual FY 2009-10	Actual FY 2010-11	Budgeted FY 2011-12	Projected FY 2012-13	Projected FY 2013-14	Projected FY 2014-15	Projected FY 2015-16
ENROLLMENT PROJECTIONS								
Enrollment	2,986	3,830	4,473	4,424	4,572	4,572	4,572	4,572
Average Daily Attendance	2,867	3,639	4,249	4,203	4,343	4,343	4,343	4,343
Average Daily Attendance (%)	96%	95%	95%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Lease Payment	\$ 29,553,392	\$ 39,934,507	\$ 51,029,361	\$ 39,523,199	\$ 36,484,109	\$ 36,779,357	\$ 36,991,023	\$37,553,519
Total Expenses Paid Before CSFP Lease Payment	37,718,472	43,124,009	40,816,599	33,717,250	33,079,738	33,522,123	33,936,920	34,405,939
Accounting Adjustments	-	-	-	678,759	168,095	170,595	170,595	170,595
Net Revenues Available for CSFP Lease Payment	\$(8,165,080)	\$(3,189,502)	\$ 10,212,762	\$ 6,484,708	\$ 3,572,466	\$ 3,427,829	\$ 3,224,698	\$ 3,318,175
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 450,684
Net Revenues After CSFP Lease Payment	\$(8,165,080)	\$(3,189,502)	\$ 10,212,762	\$ 6,484,708	\$ 3,572,466	\$ 3,427,829	\$ 3,224,698	\$ 2,867,491
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Lease Payment	\$(8,165,080)	\$(3,189,502)	\$ 10,212,762	\$ 6,484,708	\$ 3,572,466	\$ 3,427,829	\$ 3,224,698	\$ 3,318,175
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	736.3%
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	736.3%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.2%
Contributions / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Revenues After CSFP Lease Payment / Revenues	-27.6%	-8.0%	20.0%	16.4%	9.8%	9.3%	8.7%	7.6%
Revenues / ADA	\$ 10,310	\$ 10,976	\$ 12,009	\$ 9,404	\$ 8,400	\$ 8,468	\$ 8,517	\$ 8,646
Expenses / ADA	\$ 13,158	\$ 11,852	\$ 9,605	\$ 8,023	\$ 7,616	\$ 7,718	\$ 7,813	\$ 7,921
Surplus (Deficit) / ADA	\$ (2,848)	\$ (877)	\$ 2,403	\$ 1,381	\$ 784	\$ 750	\$ 703	\$ 725
Net Working Capital	\$(8,362,053)	\$(14,624,501)	\$(8,699,736)	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	N/A	N/A	N/A					

Financial Performance – Staff’s analysis of financial performance for CSFP applicants includes expenses for capital outlay and loan repayment; therefore, our results may differ from ICEF’s audited and internal financial figures.

The financial performance for ICEF from 2008-09 through 2009-10 is considered poor. Although enrollment increased system wide with the addition of new schools and grades, ICEF sustained sizable losses due to reliance on short-term cash flow financings. ICEF frequently utilized the sale of future receivables to fund its operations while improperly accounting for such transactions in financial audits. The 2010-11 audit included restatements of the 2009-10 audit due to misstatements to allocation of cash per school, pledge receivables, receivables, factored receivable liabilities, long-term debt, accrued liabilities, and intra-company payable/receivable accounts. The total restatement revealed an additional \$6.7 million in liabilities. In 2008-09 and 2009-10, ICEF recorded decreases to net assets of \$8.17 million and \$3.19 million, respectively. After properly restating the 2009-10 financial statements, ICEF ended 2009-10 with negative net assets of \$19.7 million, with liabilities more than twice the amount of assets. ICEF’s independent auditor, Vicenti Lloyd Stutzman LLP, included the following paragraph on page one of its audit transmittal letter to the ICEF Board on March 9, 2012:

“The accompanying financial statements have been prepared assuming that the ICEF will continue as a going concern. As discussed in Note 10 the financial statements, ICEF has experienced significant financial difficulties and does not have adequate reserves to meet its current obligations without obtaining additional financing and revenue. These factors raise a substantial doubt about ICEF’s ability to continue as a going concern. Management’s plans regarding these matters are described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.”

Staff observes ICEF not meeting the following CSFP regulations in regard to a financial soundness determination:

1. 10154(a): A financially sound charter school shall have been a financially capable concern for at least 24 months prior to submission of the application.
2. 10154 (d)(4): Whether the charter school's audited financial statements are free of material exceptions and "going concern" issues.
3. 10154 (d)(5): Whether financial results and projections demonstrate the charter school's ability to operate at least on a break-even basis, historically, as well as in the future, taking into consideration the increased obligations resulting from the applicant's participation in the program.

However, after a change in financial management, ICEF is in the process of moving toward a more financially sound position, as indicated in ICEF's Note 10 to its 2010-11 financial audit:

"ICEF is in the midst of financial recovery. During the 10-11 school year, ICEF brought in new management and outsourced its finance and accounting function to ExED, a highly reputable nonprofit provider of business management services for charter schools. ICEF has moved to a school based budgeting model, becoming increasingly transparent with faculty, staff and the board about the current financial state of the organization. Management has also put in place strong internal controls and is holding individuals, schools, and the home office accountable for their budgets by comparing them to actuals on a monthly basis.

At the end of June 30, 2010, ICEF had a negative ending fund balance of (\$20MM). ICEF has been proactive about fixing the legacy problem and by the end of June 30, 2011, ICEF had cut the deficit down by more than 50% in one year. The negative ending fund balance as of June 30, 2011 is (\$9.5MM). At the current run rate, ICEF is forecasting net income of \$5MM for the 11-12 school year. If this trend continues, ICEF plans to have a positive ending fund balance by June 30, 2013 if not sooner."

ICEFs change in financial practices currently focus on operating at a net profit before accounting for funds from philanthropy and contributions. ICEF provided the following strategies for achieving future fiscal strength:

"Living within our means:

1. *Having a positive operating net income each and every year both now and into the future. By operating income, we mean that each year we will live within the allocation of public funds and only exceed that if we have philanthropy in hand to support additional program costs.*
2. *Each and every school must maintain a 3-5% budget reserve to insure any unforeseen expenses can be covered without mid-year cuts or other detrimental activities.*
3. *Budgeting conservatively such as assuming revenues will be cut next year because of assumption that tax measure will not pass to fund K-12 education. The process means that we are expecting the worst case scenario financially and when it does not happen, we are actually better off financially.*

Right sizing the organization

1. Home office staff was cut drastically to allow the home office budget to be paid by a fixed contribution from schools. Just as schools need to live within the public dollar, the home office must live within our budget. This guarantees that 90+% of every dollar is spent at a school site focused on the needs of our students and teachers.
2. ICEF schools are of varying size with our largest at over 500 students while our smallest is at 165. We are working to have consistency of school size so that our financial and instructional needs are more consistent across all ICEF schools.”

Fundraising and Grant Revenue:

With Mayor Richard Riordan as the Board Chairman at ICEF, the Foundation has shown an ability to fundraise sizable contributions. ICEF successfully raised \$7.3 million in 2010-11 to help maintain operation of ICEF in the face of financial distress. In addition to ICEF’s ability to fundraise, ICEF’s management has also negotiated loan forgiveness for a portion of its related party loans, converting prior loan amounts into contributions.

Long Term Debt:

As of June 30, 2011, ICEF had various types of long-term debt outstanding. ICEF currently has a line of credit and mortgaged loan through Broadway Federal with an aggregate amount outstanding of \$2.12 million. ICEF’s schools have a total of eight CDE loans outstanding totaling \$1,016,668, all of which will be repaid by 2015-16. Additionally, ICEF received four related party loans with principal amounts of \$905,000, \$120,000, \$2.02 million, and \$3.32 million with respective interest rates of 10%, 3%, 3%, and 10%. The following table shows ICEF’s outstanding debts while also indicating which loans have been subsequently repaid or are in the process of loan forgiveness negotiations since June 30, 2011. In years past, ICEF has sold future receivables to Charter School Capital but currently finances short-term cash flow needs through financing provided by Mayor Riordan at an overall lower cost. ICEF also received program-related loans from the Weingart Foundation and Nonprofit Finance Fund for \$1.00 million and \$2.00 million, respectively, both of which are to be fully repaid in the 3 years. Due to the state aid deferrals, ICEF projects use of cash flow borrowings financed by Mayor Riordan or an alternative source (preferably a sufficiently sized bank line of credit) over the next four to five years. One such debt obligation not shown below is ICEF’s current IRS liability payment of approximately \$800,000. ICEF’s management plans to repay this obligation in full by 2013-14.

ICEF Projected Debt Balance	Source of Repayment	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Note Payable to Broadway Federal	View Park ES	1,455,388	1,427,330	1,358,625	1,282,069	1,199,623	1,109,326
Line of Credit with Broadway Federal	ICEF	693,699	693,699	662,835	629,166	592,690	553,409
Note Payable to Related Party*	ICEF	905,000	905,000	-	-	-	-
Note Payable to a Trust*	ICEF	2,021,553	2,021,553	1,021,553	-	-	-
CDE Revolving Loans	Various Schools	1,016,668	584,218	292,109	146,055	146,055	-
Program Related / Cash Flow Loans	ICEF & School Support	5,964,275	6,000,000	6,750,000	4,187,500	1,187,500	-
Riordan June 2011 Pledge \$3,316,000 paid off	ICEF	3,316,000	-	-	-	-	-
Note Payable to Related Party \$120,000 paid off	ICEF	120,000	-	-	-	-	-
Total Projected Debt Balances		15,492,583	11,631,800	10,085,123	6,244,789	3,125,868	1,662,735

*Loans subject to further reduction due to loan forgiveness

Staff’s evaluation of ICEF’s financial status is based on the following assumptions: (1) no future enrollment growth as described above under “Enrollment Trends and Projections”; (2) projected ADA rates of 96% for 2011-12 through 2015-16; (3) a general purpose block grant

rates of \$5,076, \$5,153, \$5,306, and \$6,148 for grades K-3, 4-6, 7-8, and 9-12, respectively; (4) cost of living adjustments (COLAs) to the general purpose block grant rate of 0.0% for 2012-13 and 2013-14 and 2.0% for 2014-15 and 2015-16. It is noteworthy that ICEF's assumptions regarding the COLAs to the general purpose block grant rates are considered very conservative and are based on anticipation of continued constraints with the State budget.

Projected Debt Service Coverage: ICEF's financial projections, with staff's modifications, indicate it will be able to afford the projected annual CSFP payments. Debt service coverage ratios on the CSFP payments are calculated using net revenues available after payment of debt service on any existing and projected indebtedness. Assuming a 3.00% interest rate and 30-year repayment period, ICEF's annual CSFP payments would total to \$450,684. The CSFP payments would commence in 2015-16 which is approximately one year following expected occupancy of the project in 2014-15. ICEF's projected available net revenues of \$3,318,175 for CSFP payments would provide debt service coverage of 736.3%.

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. From 2008-09 through 2010-11, ICEF's NWC has been below \$0. ICEF's reliance on cash flow financings and receivable sales confirm current liquidity constraints. ICEF's current financial projections anticipate ending cash balances of \$248,190 (2011-12), \$15,098 (2012-13), \$223,962 (2013-14), \$310,494 (2014-15), and \$1,991,360 (2015-16). Due to ICEF's aggressive plans to reduce liabilities over future years, ICEF doesn't anticipate accumulating a reasonable cash balance until 2015-16.

Strengths, Weaknesses and Mitigants

- + For 2015-16, the first year of CSFP payments, ICEF projects debt service coverage of 736.3%, well in excess of the minimum 100% requirement.
- Liquidity remains a problem given ICEF's current asset/liability position. ICEF ended 2010-11 with negative net assets of \$9.5 million and with net working capital well below \$0.
- + ICEF's sizable and stable enrollment levels of approximately 4,500 students strengthen ICEF's ability to improve financial performance for the foreseeable future.
- + Strong current financial management is led by an experienced specialized team, utilizing ExEd as a back-office provider.
- +/- Academic performance should improve at ICEF. Using API growth targets and AYP criteria metrics, ICEF's schools would not be characterized as academically strong. However, on a similar school comparison, ICEF school's fared relatively well.

Staff Recommendation: Staff's analysis of ICEF's financial and academic performance indicates an improving financial condition but ICEF remains in a challenging financial state. ICEF must rely on substantial philanthropy and/or short-term financings to ensure liquidity and normal operations. If access to such resources were to be materially limited, such events would diminish ICEF's ability to continue as a going concern. Given the marked recent improvements in ICEF's financial performance, Staff recommends the California School Finance Authority (CSFA) Board re-evaluate ICEF's operations after the completion of the 2011-12 financial audit and availability of initial financial performance data for 2012-13. Staff recommends that the CSFA Board determine that Inner City Education Foundation (ICEF), on behalf of Lou Dantzler Preparatory Charter Middle School (Lou Dantzler Middle) is not financially sound for the purposes of the Charter School Facilities Program (Program) Advance and Final Apportionments. Staff recommends that the CSFA Board direct staff to immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.