

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

Applicant/Obligor:	Inner City Education Foundation
Project School:	Lou Dantzler Preparatory Charter Middle School
CDS (County – District – School) Code:	19-64733-0112227
Project Location:	8711-35 S. Western Avenue, LA, 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:	2015-16

Staff Recommendation: Staff’s analysis of ICEF’s financial and academic performance indicates an improving financial condition. ICEF’s financial performance has less reliance on substantial philanthropy and/or short-term financings to ensure liquidity and normal operations. In the April 2012 financial soundness review presented to the California School Finance Authority (CSFA) Board, Staff recommended the 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. After Staff’s review of ICEF’s recent financial performance, 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 financially sound for the purposes of the Charter School Facilities Program (Program) Advance Apportionments. Although Staff does not consider ICEF’s academic performance to be an impediment for its recommendation of financial soundness for Advance Apportionment, Staff recommends that ICEF be required to demonstrate significant improvement in AYP and API performance prior to a recommendation of financial soundness for Final Apportionment. CSFA also requests ICEF provide semi-annual reports on financial and student performance prior to Final Apportionment. This recommendation is contingent upon ICEF agreeing to have Lou Dantzler Middle’s general purpose block grant 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 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. At the April 25, 2012 meeting of the Authority, staff recommended that ICEF, on behalf of Lou Dantzler Middle, be found not financially sound for Advance Apportionment due to a challenging financial state wherein ICEF must rely on substantial philanthropy and/or short-term financings to ensure liquidity and normal operations. In addition, staff recommended that it be allowed to re-evaluate ICEF’s operations after the completion of the 2011-12 financial audit and availability of initial financial performance data for 2012-13. The Authority did not take any action pursuant to staff’s recommendation on April 25, 2012, and the Authority agreed that a re-evaluation take place in accordance with staff’s recommendation. Based on updated information requested of ICEF in October 2012, staff has re-evaluated ICEF’s performance relative to a recommendation for financial soundness for Advance Apportionment.

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
<i>EMO Information</i>	
Demographic Information	<ol style="list-style-type: none"> 1. ICEF serves grades K-12 at 14 schools; for 2012-13, total enrollment is 4,209. ICEF closed 1 school in 2011-12. 2. By 2015-16 when all CSFP Projects are occupied, ICEF’s total enrollment is projected to be 4,406 for all 14 schools.
Debt Service Coverage	Based on ICEF’s financial projections, projected debt service coverage for the CSFP project is 779.0% and 790.8% for 2016-17 and 2017-18, respectively.
Other Financial Factors	<ol style="list-style-type: none"> 1. After poor financial performance ICEF in 2008-09 and 2009-10, ICEF demonstrated marked improvement in 2010-11 and 2011-12. 2. ICEF ended 2009-10 with negative net assets of \$19.7 million but ended 2011-12 with only negative assets of 3.70 million. ICEF projects to return to positive net assets in 2013-14. 3. In recent audits, ICEF’s auditor has noted ICEF’s ability to continue as a going concern but such language was not included in the 2011-12 audit. 4. At June 30, ICEF’s NWC was below \$0 in 2008-09 and 2009-10 but increased to \$1.18 million in 2011-12 and is expected to increase to \$2.85 million in 2012-13. ICEF is reliant on cash flow financings in the near term while aggressively reducing other liabilities over the next three years.

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. With respect to AYP, 4 of the 15 schools (27%) have not met all AYP criteria during the past four years, and 6 of the current 14 schools (40%) have not met all AYP criteria during the past three years, including Lou Dantzler Middle. In addition, only 2 of 14 schools (14%) met all AYP criteria during 2011-12. 2. With respect to API growth, 7 of 10 schools (70%) met targets in 2009-10, 4 of 15 schools met targets in 2010-11 (27%), and 3 of 14 schools met targets in 2011-12 (21%). 3. With respect to API base score rankings: for 2011-12, based on available data, 4 of 14 schools (29%) had Statewide rankings of "5" or better, while 10 of 13 schools (77%) had Similar School Rankings of "5" or better.
School Information	
Eligibility Criteria	<p>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.</p>
Student Performance	<ol style="list-style-type: none"> 1. Lou Dantzler Middle failed to meet all AYP criteria during each of the past four years, 2009-10 through 2011-12, and is currently in its third year of "Program Improvement Status" per the No Child Left Behind Act of 2001. 2. For the past three years, 2009-10 through 2010-12, Lou Dantzler Middle achieved API growth scores of 740, 723, and 643, respectively, representing losses of 12 points, 17 points, and 80 points, respectively.
Demographic Information	<ol style="list-style-type: none"> 1. Lou Dantzler Middle currently serves 256 students in grades 6-8 and anticipates growing to a capacity of 450 students upon project occupancy in 2015-16. 2. Lou Dantzler Middle's year-to-year retention rates for 2010-11 through 2012-13 were 90.1%, 72.8%, and 85.0%, respectively.

Program Eligibility: On December 4, 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, Mark Paxson, 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 fourteen 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 450 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 2015-16.

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 256 students in grades 6-8 for the current 2012-13 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	2012-13 Enrollment
View Park Preparatory Elementary	1999-00	K – 5	527
View Park Preparatory Middle	2002-03	6 - 8	340
View Park Preparatory High	2003-04	9 -12	414
Frederick Douglass Elementary	2008-09	K - 5	293
Frederick Douglass Middle	2006-07	6 - 8	293
Frederick Douglass High	2006-07	9 - 12	364
Lou Dantzler Preparatory Elementary	2008-09	K - 5	307
Lou Dantzler Middle	2007-08	6 - 8	256
Lou Dantzler Preparatory Charter High	2007-08	9 - 12	251

Thurgood Marshall Middle	2007-08	6 - 8	161
ICEF Inglewood Elementary Academy	2009-10	K - 5	301
ICEF Inglewood Middle Academy	2009-10	6 - 8	191
ICEF Vista Elementary Academy	2008-09	K - 5	312
ICEF Vista Middle Academy	2008-09	6 - 8	199
Total			4,209

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: Candice Waters has been Principal of Lou Dantzler Middle since July 2012. Prior to this position, Ms. Waters served as Principal of Lou Dantzler Preparatory High School (February 2011-June 2012), Assistant Principal of Lou Dantzler Preparatory High School (July 2008-February 2011), and School Improvement Facilitator at David Starr Jordan High School (November 2005-June 2008), and Secondary Literary Advisor at Los Angeles Unified School District/Local District 7 (October 2003-November 2005). Ms. Waters also served as an English teacher at John C. Fremont High School (2001-2003) and Henry Clay Middle School (1997-2001). Ms. Waters holds a M.S. in Educational Administration and Preliminary Administrative Services Credential from National University, and a B.A. in English from U.C. Davis.

EMO Management: Parker Hudnut has served as Chief Executive Officer for ICEF since 2011-12 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	June 2013
Simeon Slovacek, Ph.D.	Board Secretary	Los Angeles	June 2013
Austin Beutner	Member	Los Angeles	June 2013
Jackson Browne	Member	Los Angeles	June 2013
Rebecca L. Bunn	Member	Los Angeles	June 2013
Brigid Coulter	Member	Los Angeles	June 2013
Russell L. Goings, III	Member	Los Angeles	June 2013
Julie Kellner	Member	Los Angeles	June 2013
William "Boutie" Lucas	Member	Los Angeles	June 2013
David G. Moore	Member	Los Angeles	June 2013
Pat McCabe	Member	Los Angeles	June 2013
Stephen C. Smith	Member	Los Angeles	June 2013
Frank Baxter	Member	Los Angeles	June 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 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
ADEQUATE YEARLY PROGRESS (AYP)				
Met All AYP Criteria?	Yes	No	No	No
Criteria Met / Required Criteria	13 / 13	5 / 9	7 / 13	6 / 13
Met API Indicator for AYP?	Yes	Yes	Yes	No
Met Graduation Rate?	N/A	N/A	N/A	N/A
ACADEMIC PERFORMANCE INDEX (API)				
Met Schoolwide Growth Target?	Yes	No	No	No
Met Comparable Improvement Growth Target?	Yes	No	No	No
Met Both Schoolwide & CI Growth Targets?	Yes	No	No	No
API Base Statewide Rank (10 = best)	4	5	4	3
API Base Similar Schools Rank (10 = best)	N/A	10	4	6
School's Actual Growth	51	-12	-17	-80
Similar Schools Median of Actual Growth	N/A	18	11	15
Did School's Growth Exceed Median?	N/A	No	No	No

Lou Dantzler Middle met all AYP criteria and its API growth target in only one of the past four years, in 2008-09. For the past three years, 2009-10 through 2011-12, Lou Dantzler Middle achieved API growth scores of 740, 723, and 643, respectively, representing losses of 12 points, 17 points, and 80 points, respectively. Based on API base scores, Lou Dantzler Middle achieved Statewide and Similar Schools rankings of “4” and “4” for 2010-11, respectively, and “3” and “6” for 2011-12, respectively. The following tables depict ICEF’s academic performance over the past four years.

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

School	2008-09	2009-10	2010-11	2011-12
View Park Preparatory Elementary	7/10	8/10	9/10	9/10
View Park Preparatory Middle	7/10	8/10	7/10	6/9
View Park Preparatory High	3/6	6/10	5/10	3/10
Frederick Douglass Elementary	NA	NA	NA	4/7
Frederick Douglass Middle	5/10	4/9	3/9	3/9
Frederick Douglass High	3/10	2/8	3/9	2/7
Lou Dantzler Preparatory Elementary	NA	NA	NA	5/NA
Lou Dantzler Middle	4/NA	5/10	4/4	3/6
Lou Dantzler Preparatory Charter High	3/NA	3/10	1/8	1/3
Thurgood Marshall Middle	2/NA	3/7	3/4	2/2
ICEF Inglewood Elementary Academy	NA	NA	NA	4/6
ICEF Inglewood Middle Academy	NA	NA	5/9	3/6
ICEF Vista Elementary Academy	NA	4/5	7/6	3/2
ICEF Vista Middle Academy	NA	4/1	7/8	5/8
Fernando Pullum Performing Arts	NA	NA	1/3	Closed

Met Schoolwide API Growth Target

School	2008-09	2009-10	2010-11	2011-12
View Park Preparatory Elementary	Yes	Yes	Yes	Yes
View Park Preparatory Middle	Yes	Yes	No	No
View Park Preparatory High	Yes	Yes	No	No
Frederick Douglass Elementary	NA	NA	No	No
Frederick Douglass Middle	No	No	No	No

School	2008-09	2009-10	2010-11	2011-12
Frederick Douglass High	No	Yes	No	No
Lou Dantzler Preparatory Elementary	NA	NA	No	No
Lou Dantzler Middle	Yes	No	No	No
Lou Dantzler Preparatory Charter High	Yes	No	No	Yes
Thurgood Marshall Middle	No	Yes	No	No
ICEF Inglewood Elementary Academy	NA	NA	Yes	NA
ICEF Inglewood Middle Academy	NA	NA	Yes	No
ICEF Vista Elementary Academy	NA	Yes	No	Yes
ICEF Vista Middle Academy	NA	Yes	No	No
Fernando Pullum Performing Arts	NA	NA	Yes	Closed

AYP Performance: Met AYP Targets

School	2008-09	2009-10	2010-11	2011-12
View Park Preparatory Elementary	Yes	Yes	Yes	No
View Park Preparatory Middle	Yes	No	No	No
View Park Preparatory High	Yes	Yes	No	No
Frederick Douglass Elementary	Yes	Yes	No	No
Frederick Douglass Middle	No	No	No	No
Frederick Douglass High	Yes	Yes	Yes	No
Lou Dantzler Preparatory Elementary	Yes	Yes	No	No
Lou Dantzler Middle	Yes	No	No	No
Lou Dantzler Preparatory Charter High	No	No	No	Yes
Thurgood Marshall Middle	No	No	No	No
ICEF Inglewood Elementary Academy	NA	No	No	No
ICEF Inglewood Middle Academy	NA	No	No	No
ICEF Vista Elementary Academy	NA	Yes	No	Yes
ICEF Vista Middle Academy	No	Yes	No	No
Fernando Pullum Performing Arts	NA	No	Yes	Closed

As shown in the table above, performance in meeting AYP criteria was mixed with less favorable performance over the last two years. For 2008-09 through 2011-12, ICEF schools met all AYP criteria, as follows: 7 of 10 schools (70%) in 2008-09; 7 of 15 schools (47%) in 2009-10; 3 of 15 schools (20%) in 2010-11; and 2 of 14 schools (14%) in 2011-12. This trend is consistent with the fact that the threshold for making AYP has increased each year. However, 4 of the 15 schools have not met all AYP criteria during the past four years, and 6 of the current 14 schools (40%) have not met all AYP criteria during the past three years, including Lou Dantzler Middle. With respect to API rankings, for 2010-11 and 2011-12, the overall performance on rankings was mixed with respect to Statewide rankings and favorable with respect to Similar Schools rankings. For 2011-12, where data was available, 4 of 14 (29%) schools had Statewide rankings of “5” or better, while 10 of the 13 (77%) schools had Similar School rankings of “5” or better. Performance in meeting API growth targets was also mixed, with 7 of 11 (64%) schools meeting API growth in 2008-09, 7 of 10 (70%) schools meeting API growth targets in 2009-10, 4 of 15 (27%) schools meeting API growth targets in 2010-11, and 3 of 14 schools (21%) meeting API growth targets in 2011-12.

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.

In response to staff’s inquiry with ICEF regarding its action plan to address academics, ICEF’s CEO provided the following statement:

While ICEF primarily focused on financial stability in the 11-12 year, we also maintained our priority of sending students to college. ICEF’s class of 2012 achieved a graduation rate of 98 percent, with over 88 percent of those graduates now attending some of the top colleges and universities in the country, at rates double that of their African-American and Latino counterparts in nearby schools. ICEF has also preserved its strong extracurricular offerings in athletics and visual/performing arts, through the belief that these activities contribute to the development of interesting and talented members of society.

In the 12-13 school year, ICEF has put many new academic systems and supports in place. First and foremost, we have installed new leadership in two schools that were struggling, including Lou Dantzler Middle School. Our model requires strong instructional leadership at each school to ensure successful student outcomes. Therefore, we will continue to be aggressive in making sure every school has the right leader for the job.

One of the most significant structural changes for instruction this year was to add quarterly benchmark exams and four dedicated student-free days where the results of those exams are analyzed by teachers and principals. A relentless focus on data is already providing dividends as we now know how students are performing on the standards for each subject and at every grade. This data allows teachers to share their successes with one another, ask for help in areas of need and focus student time on the areas that still need improvement.

Additional changes to our instructional program are listed below:

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

- *Participation in weekly professional development to build the capacity of teachers and their content knowledge. The professional development agendas are defined by and linked to school improvement plans. Those school improvement plans result from analysis of the state testing data and the areas in need of improvement. Therefore, instructional data drives professional development so that teachers are being supported in the areas of most need.*
- *Creation of additional home office support positions specifically designed to work with and physically at school sites, such as the Director of Math Instruction and Directory of Literacy.*
- *Creation and implementation of a School-wide Response to Intervention Plan to provide re-teaching and remediation opportunities for all students who are underperforming. Additionally, teacher professional development will connect to any school-wide issues that teachers need as determined by the Response to Intervention Plan.*
- *Consistently implement the Step program to manage student discipline effectively and fairly. This includes offering academic targets required for participation in extracurricular activities and more active parent engagement for students not improving their behavior.*
- *Increase parent involvement and awareness to inform parents of school-wide goals and provide strategies to be used beyond the instructional day.”*

Overall, Staff considers ICEF’s academic performance to be mixed, with more favorable performance when considering Similar School API performance. Staff has serious concerns with the four schools that have not met all AYP criteria during the past four years, as well as Lou Dantzler Middle’s failure to meet AYP criteria and its API growth in three of the past four years, including the significant decline in its 2011-12 API growth score (loss of 80 points). Although Staff does not consider ICEF’s academic performance to be an impediment for its recommendation of financial soundness for Advance Apportionment, Staff recommends that ICEF be required to demonstrate significant improvement in AYP and API performance prior to a recommendation of financial soundness for Final Apportionment, and hereby places ICEF on notice that Staff will scrutinize such performance prior to such a recommendation.

Enrollment Trends and Projections: The table below depicts historical and current student enrollment for both individual schools as well as across ICEF for 2008-09 to 2012-13.

Student Enrollment by Year (five years)

School	2008-09	2009-10	2010-11	2011-12	2012-13
View Park Preparatory Elementary	425	431	452	512	527
View Park Preparatory Middle	321	356	342	379	340
View Park Preparatory High	391	401	396	402	414
Frederick Douglass Elementary	95	105	277	366	293
Frederick Douglass Middle	276	321	275	299	293
Frederick Douglass High	294	355	419	429	364
Lou Dantzler Preparatory Elementary	91	142	197	271	307
Lou Dantzler Middle	207	295	326	265	256
Lou Dantzler Preparatory Charter High	166	274	314	349	251
Thurgood Marshall Middle	194	258	243	166	161
Thurgood Marshall High*	132	CLOSED			
ICEF Inglewood Elementary Academy		174	217	254	301
ICEF Inglewood Middle Academy		125	275	238	191
ICEF Vista Elementary Academy	251	279	293	302	312
ICEF Vista Middle Academy	143	183	202	192	199
Fernando Pullum Performing Arts*			131	245	CLOSED
Total	2,986	3,830	4,473	4,424	4,209

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 2011-12, representing growth of over 152% over four years, and an average annual growth of approximately 29%. ICEF experienced a decrease in enrollment of approximately 4.85% to 4,209 for the current 2012-13 academic year. Notwithstanding the decline for 2012-13, ICEF projects further marginal enrollment growth to 4,256 in 2013-14, 4,331 in 2014-15, and 4,406 in all further projected years. Upon inquiry with the CEO regarding this decrease of 4.85% for the current academic year, the CEO provided the following statement:

“In the 2012-13 school year, ICEF-wide enrollment was lower by approximately 200 students. Two schools alone are primarily responsible for this decline.

The first school, Frederick Douglass Elementary was intentionally reduced in size from close to 400 to just under 300 so that we could house the entire school on one campus.

The second major reduction was at Lou Dantzler High School and was also approximately 100 students. This decline was a combination of their distance from their feeder school (Lou Dantzler Middle School), currently 10 miles away, and our inability to move them to a new campus this year. We are working to relocate them closer to Lou Dantzler Middle School next year which will prevent further declines in enrollment.”

ICEF’s average daily attendance for 2010-11 and 2011-12 was 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 (18.7%) in 2011-

12, with a minor decrease in enrollment to 256 for the current 2012-13 academic year. ICEF is projecting growth to 302 students for 2013-14, 377 students for 2014-15, and to 450 students for all subsequent years based on the capacity of the CSFP project. Lou Dantzler Middle's ADA for 2010-11 and 2011-12 was 93.9% and 94.7% respectively.² Lou Dantzler Middle's year-to-year retention rates for 2010-11, 2011-12 and 2012-13 were 90.1%, 72.8%, and 85.0%, respectively.

Upon staff's inquiry with ICEF regarding Lou Dantzler Middle's relatively low year-to-year retention rates for the past two years, ICEF's CEO provided the following statement:

"In the transition of the 10-11 to 11-12 year, there were serious concerns about the viability of the school and ICEF as a whole so the retention was quite low. In the 11-12 to 12-13 transition, some families had already decided to move on before the new school leadership was announced so retention was better but still lower than ideal."

Upon staff's inquiry with ICEF's General Manager for Strategy and Operations, regarding the reason for the decline in Lou Dantzler Middle's enrollment for 2011-12, 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."

Given, ICEF's consistent growth since its inception, with the exception of the small decline for 2011-12, staff considers ICEF's overall enrollment projections to be reasonable. In addition, staff also considers the enrollment projections for Lou Dantzler Middle based on the CSFP project capacity to be reasonable.

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 (2009-10 through 2011-12), the 2012-13 budget and financial projections from 2013-14 through 2015-18. The table below highlights key aspects of ICEF's past and projected financial performance.

² The ADA rates for these two years are based on CBEDS data, as reported by CDE, which normally reflect higher enrollment than average annual enrollment. Hence, ADA rates based on average annual enrollment would be slightly higher than those cited.

ICEF	Actual FY 2010-11	Actual FY 2011-12	Budgeted FY 2012-13	Projected FY 2013-14	Projected FY 2014-15	Projected FY 2015-16	Projected FY 2016-17	Projected FY 2017-18
ENROLLMENT PROJECTIONS								
Enrollment	4,473	4,424	4,209	4,256	4,331	4,406	4,406	4,406
Average Daily Attendance	4,249	4,203	4,003	4,043	4,114	4,186	4,186	4,186
Average Daily Attendance (%)	95%	95%	95%	95%	95%	95%	95%	95%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Lease Payment	\$ 53,270,116	\$ 41,254,037	\$ 34,842,928	\$ 35,718,745	\$ 36,276,526	\$36,824,681	\$ 36,874,633	\$37,470,564
Total Expenses Paid Before CSFP Lease Payment	40,816,588	36,439,037	36,438,114	35,856,752	35,617,329	33,312,507	33,898,133	34,441,030
Accounting Adjustments	648,809	1,172,311	641,259	641,259	546,435	539,342	534,396	534,396
Net Revenues Available for CSFP Lease Payment	\$ 13,102,337	\$ 5,987,311	\$ (953,926)	\$ 503,252	\$ 1,205,633	\$ 4,051,516	\$ 3,510,896	\$ 3,563,930
CSFP Lease Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 450,684	\$ 450,684
Net Revenues After CSFP Lease Payment	\$ 13,102,337	\$ 5,987,311	\$ (953,926)	\$ 503,252	\$ 1,205,633	\$ 4,051,516	\$ 3,060,212	\$ 3,113,246
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Lease Payment	\$ 13,102,337	\$ 5,987,311	\$ (953,926)	\$ 503,252	\$ 1,205,633	\$ 4,051,516	\$ 3,510,896	\$ 3,563,930
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	779.0%	790.8%
Contributions	\$ 13,957,255	\$ 4,313,185	\$ 1,072,660	\$ 888,000	\$ 888,000	\$ 888,000	\$ 888,000	\$ 888,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	582.0%	593.7%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	1.2%	1.2%
Contributions / Revenues	26.2%	10.5%	3.1%	2.5%	2.4%	2.4%	2.4%	2.4%
Net Revenues After CSFP Lease Payment / Revenues	24.6%	14.5%	-2.7%	1.4%	3.3%	11.0%	8.3%	8.3%
Revenues / ADA	\$ 12,536	\$ 9,816	\$ 8,704	\$ 8,834	\$ 8,817	\$ 8,798	\$ 8,810	\$ 8,952
Expenses / ADA	\$ 9,605	\$ 8,670	\$ 9,102	\$ 8,868	\$ 8,657	\$ 7,959	\$ 8,099	\$ 8,228
Surplus (Deficit) / ADA	\$ 2,931	\$ 1,146	\$ (398)	\$ (34)	\$ 160	\$ 839	\$ 711	\$ 724
Net Working Capital	\$(8,699,736)	\$ 1,177,476	\$ 2,846,174					
Net Working Capital / Expenses	Less than 0%	3.2%	7.8%					

*Total Expenses from 2012-13 through 2017-18 include projected debt repayment

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 in 2008-09 and 2009-10 was considered poor. Although enrollment increased system wide with the addition of new schools and grades, ICEF sustained sizable losses and increased 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."

In the financial soundness review presented to the CSFA board in April 2012, Staff observed ICEF not meeting the following sections of the CSFP regulations as they relate 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.

Staff now determines that ICEF has moved towards meeting the preceding criteria after review of ICEF's recent and projected financial performance.

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

"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."

In 2011-12, ICEF generated \$36.70 million in revenues, prior to contributions, with \$35.45 million in expenses. Additional revenue of \$4.55 million in the form of grants and fundraising increased net assets in 2011-12 by \$5.80 million. As of June 30, 2012, ICEF had reduced the negative net asset position to -\$3.70 million. ICEF is projecting to use annual increases in future net assets generated from operating income to aggressively reduce short-term liabilities (loans from Winifred Rhodes, Smith, Weingart Foundation, & Non Profit Finance Fund). ICEF projects the full repayment of \$13.55 million in outstanding loans from 2012-13 through 2015-16.

For 2012-13, ICEF anticipates operating revenue of \$33.8 million and \$32.1 million in expenses. With budgeted contributions of \$1.0 million, ICEF is projecting an increase in net assets of \$2.7 million in 2012-13. In accordance with ICEF's financial priorities, ICEF anticipates further reduction in liabilities and expects a negative net asset balance of -\$975,000 in 2012-13 and positive net asset balances of \$2.52 million at the end of 2013-14.

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 \$14.0 million and \$4.3 million in 2010-11 and 2011-12, respectively, 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, 2012, 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 \$500,000, all of which will be repaid by 2015-16. Additionally, ICEF had two outstanding loans with principal amounts of \$905,000 and \$2.02 million with respective interest rates of 10% and 3%. The following table shows ICEF’s outstanding debts.

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. As of June 30, 2012, ICEF maintained a loan balance of \$6.97 million in Mayor Riordan loans and intends to repay these amounts in 2012-13. Due to the state aid deferrals, ICEF projects use of cash flow borrowings financed by Mayor Riordan over the next three years. Subsequent to June 30, 2012, Mayor Riordan has provided additional loans in the amount of \$3.75 million, with \$1.0 million of the loan proceeds used as an escrow payment in relation to purchasing the Prop 1D project property.

Program-related loans from the Weingart Foundation and Nonprofit Finance Fund equal \$1.00 million and \$2.00 million, respectively, both of which are to be fully repaid in three years. One such debt obligation not shown below is ICEF’s current IRS liability payment of approximately \$767,805. ICEF’s management plans to repay this obligation in full by 2014-15.

ICEF Projected Debt Balances	Source of Repayment	2011-12	2012-13	2013-14	2014-15	2015-16
Note Payable to Broadway Federal	View Park ES	1,430,978	1,406,568	1,382,158	1,357,748	1,333,338
Line of Credit with Broadway Federal	ICEF	686,269	678,835	671,401	663,967	656,533
Note Payable to Related Party*	ICEF	905,000	905,000	905,000	905,000	-
Note Payable to a Trust*	ICEF	2,021,553	1,521,553	1,521,553	1,521,553	-
CDE Revolving Loans	Various Schools	500,000	200,000	100,000	-	-
Program Related Loans (Weingart/NFF)	ICEF & School Support	3,000,000	2,750,000	2,000,000	-	-
Riordan Cash Flow Loans	ICEF & School Support	6,971,028	3,750,000	1,000,000	-	-
Total Projected Debt Balances		15,514,828	11,211,956	7,580,112	4,448,268	1,989,871

*Loans subject to further reduction due to loan forgiveness

Staff’s evaluation of ICEF’s financial status is based on the following conservative assumptions: (1) no future enrollment growth as described above under “Enrollment Trends and Projections”; (2) projected ADA rates of 95% for 2012-13 through 2017-18; (3) a general purpose block grant rates of \$5,076, \$5,153, \$5,308, and \$6,141 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 the foreseeable future. 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 2016-17 which is approximately one year following expected occupancy of the project in 2015-16. ICEF's projected available net revenues of \$4.40 million and \$4.45 million for CSFP payments would provide debt service coverage of 779.0% and 790.8% in 2016-17 and 2017-18, respectively.

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. However, NWC in 2011-12 increased to \$1.18 million (3.2% of expenses) with ending cash balances of \$4.11 million. ICEF's current financial projections anticipate ending cash balances of \$281,035 (2012-13), \$1.17 million (2013-14), \$2.26 million (2014-15), and \$3.38 million (2015-16). ICEF anticipates accumulating higher cash balances in 2015-16 as ICEF intends to continue to aggressively reduce liabilities in the near term.

Strengths, Weaknesses and Mitigants

- + For 2016-17 and 2017-18, the first and second years of CSFP payments, ICEF projects debt service coverage of 779.0% and 790.8%, respectively, well in excess of the minimum 100% requirement.
- Although liquidity concerns remain, they are largely mitigated by improved financial performance and access to working capital financing through Riordan. While ICEF ended 2010-11 with net working capital well below \$0, 2011-12 ended with NWC of \$1.17 million. ICEF anticipates NWC increasing to \$2.8 million (7.8% of expenses) in 2012-13.
- + ICEF's sizable and stable enrollment levels of approximately 4,200 students strengthen ICEF's ability to improve financial performance for the foreseeable future.
- + Strong current financial management is lead by an experienced specialized team, utilizing ExEd as a back-office provider.
- Using API growth targets and AYP criteria metrics, ICEF's schools would be characterized as academically weak. However, on a similar school comparison, based on available data, ICEF schools fared moderately well with 10 of the 13 (77%) schools having Similar School rankings of "5" or better.
- Lou Dantzler Middle failed to meet all AYP criteria during each of the past four years, 2009-10 through 2011-12, and is currently in its third year of "Program Improvement Status" per the No Child Left Behind Act of 2001. For the past three years, 2009-10 through 2010-12, Lou Dantzler Middle achieved API growth scores of 740, 723, and 643, respectively, representing losses of 12 points, 17 points, and 80 points, respectively.

Staff Recommendation: Staff's analysis of ICEF's financial performance indicates an improving financial condition. ICEF's financial performance has less reliance on substantial philanthropy and/or short-term financings to ensure liquidity and normal operations. In the April 2012 financial soundness review presented to the California School Finance Authority (CSFA) Board, Staff recommended the 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. After Staff's review of ICEF's recent financial performance, 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 financially sound for the purposes of the Charter School Facilities Program (Program) Advance Apportionments. Although Staff does not consider ICEF's academic performance to be an impediment for its recommendation of financial soundness for Advance Apportionment, Staff recommends that ICEF be required to demonstrate significant improvement in AYP and API performance prior to a recommendation of financial soundness for Final Apportionment. CSFA also requests ICEF provide semi-annual reports on financial and student performance prior to Final Apportionment. This recommendation is contingent upon ICEF agreeing to have Lou Dantzler Middle's general purpose block grant 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 immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.