

**CHARTER SCHOOL FACILITIES PROGRAM
2011 LOTTERY FUNDING ROUND
STAFF SUMMARY REPORT – OCTOBER 2013**

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| Applicant/Obligor: | Language Academy of Sacramento |
| Project School: | Language Academy of Sacramento |
| CDS (County – District – School) Code: | 34-67439-0106898 |
| School Address/Proposed Site: | 2850 49 th Street, Sacramento, CA 95817 |
| Type of Project: | New Construction/Rehabilitation |
| County: | Sacramento |
| District in which Project is Located: | Sacramento City Unified School District |
| Charter Authorizer: | Sacramento City Unified School District |
| | NC: \$10,015,630 |
| | <u>Rehab: \$1,517,902</u> |
| Total OPSC Project Cost: | Total: \$11,533,532 |
| | NC: \$5,007,815 |
| | <u>Rehab: \$758,951</u> |
| State Apportionment (50% Project Cost): | Total: \$5,766,766 |
| Lump Sum Contribution: | \$0.00 |
| | NC: \$5,007,815 |
| | <u>Rehab: \$758,951</u> |
| Total CSFP Financed Amount: | Total: \$5,766,766 |
| Length of CSFP Funding Agreement: | 30 years |
| Assumed Interest Rate: | 2.00% |
| | NC: \$223,599 |
| | <u>Rehab: \$33,887</u> |
| Estimated Annual CSFP Payment: | Total: \$257,486 |
| First Year of Occupancy of New Project: | 2014-15 |

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Language Academy of Sacramento (LAS) is financially sound for purposes of the Charter School Facilities Program (CSFP or the Program) Final Apportionment. This determination as it relates to a Final 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 LAS 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.

Background: In April 2010, the Authority found LAS financially sound for preliminary apportionment under the 2009 Proposition 1D Funding for both its New Construction and Rehabilitation projects, in the amounts of \$6,662,240 and \$1,878,376, respectively. In May 2010, the State Allocation Board (SAB) awarded LAS with these preliminary apportionments. In June 2011, the Authority found LAS financially sound for Advance Apportionment for design for both projects, contingent upon the establishment of a

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restricted reserve account of \$10,000 to meet debt service coverage in the first year of debt service payments. Subsequently, in August 2011, the Office of Public School Construction issued advance releases in the amounts of \$620,824 and \$187,837 for design for New Construction and Rehabilitation, respectively. LAS is now seeking Final Conversion of both projects.

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

| Criteria | Comments |
|--------------------------------|---|
| Eligibility Criteria | LAS has met all eligibility criteria for the Program: 1) a charter is in place, 2) LAS has at least two years of instructional operations, and 3) LAS is in compliance with the terms of its charter and in good standing with its chartering authority, Sacramento City Unified School District. |
| Demographic Information | LAS' enrollment has consistently grown over the past eight years. LAS commenced operations in 2004-05 serving K through 6 th grade with 237 students. LAS currently serves 488 K through 8 th grade students in 2013-14. By occupancy of the project in 2014-15, total student enrollment is projected at 515 students. |
| Debt Service Coverage | LAS is projected to have debt service coverage of 249.4%, 210.4% during 2015-16 and 2016-17, respectively. |
| Other Financial Factors | CSFP payments represent 6.5% of revenues, on average, for 2015-16 and 2016-17. |
| Student Performance | LAS' Academic Performance Index (API) results slightly decreased in 2012-13 after LAS met its API growth target for four consecutive years. In addition, for 2012-13, LAS' statewide and similar school rankings improved from previous years, increasing from below "4" on each ranking to "4" on each ranking. LAS' STAR Test results, which are the basis for API performance, showed that the majority of students in grades 7-8 are performing at levels of "Proficient" or "Advanced" in English-Language Arts. |

Program Eligibility: On August 28, 2013, staff received verification from the Superintendent of Sacramento City Unified School District confirming that LAS is currently 1) in compliance with the terms of its charter and 2) in good standing with its chartering authority.

LAS' charter was initially granted in 2004, renewed in 2009, and is currently valid through June 30, 2014.

Legal Status Questionnaire: Staff reviewed LAS' responses to the questions contained in the completed Legal Status Questionnaire that was executed on July 18, 2013. LAS answered "None" to all LSQ questions.

Project Description: LAS originally requested funding for new construction of a school facility located on the south side of its current campus which is shared with Fruit Ridge Elementary. The location of the project has been moved, with the approval of OPSC, to a site previously housed by Marian Anderson Elementary school at 2850 49th Street, Sacramento, California, which is also located within the boundaries of Sacramento City Unified School District.

LAS is proposing new construction and rehabilitation projections on the former Marian Anderson site. The new construction consists of a 2-story modular building with 6 classrooms on each floor. In addition, the new construction project provides for a full-size gymnasium. LAS is planning to use the funding to create new space to be located on the south side of the Marian Anderson campus. The additional space would provide opportunity for the following project plan to be implemented: house eight (8) additional classrooms, resource Specialist Room with full capacity classroom, wet-Lab Science Room, computer and interactive media room, K-8 gymnasium with a boys and girls changing room and parent university center.

The rehabilitation project consists of the remodeling of four modular classrooms, with one of the modular classrooms being converted to a physical education classroom in the new gymnasium. The rehabilitation project would create a permanent middle school facility. With the exception of the remodeling of four currently portable classrooms, LAS's proposed projects are intended to supplement the current facilities, which include 12 classrooms, main office, small multipurpose/cafeteria and small library, and 8 portables classrooms.

LAS anticipates project occupancy for both projects to commence in 2014-15 with a capacity of approximately 600 students.

Organizational Information: LAS is a 501(c)(3), non-profit public benefit corporation that is governed by a 9-member board consisting of community leaders, teachers, and parents.

LAS commenced operations in 2004-05 with 228 students in grades K-6. For the current 2013-14 academic year, LAS is serving 488 students in grades K-8 and anticipates growing enrollment to 515 students in 2014-15, the first year of project occupancy.

According to information provided by the applicant, the LAS academic program is based on a Two-Way Spanish Immersion educational model. Students in Kindergarten and first grade receive 90% of their daily instruction in Spanish and 10% in English. Each year, students receive more instruction in English and less in Spanish. By 5th grade, students receive 50% of their daily instruction in Spanish and 50% in English. This 50/50 model continues through 8th grade.

A critical component of the LAS instructional approach is the consistent implementation of research-based instructional methods and strategies recognized as best practices for effective dual-language immersion education. LAS students engage in a highly challenging

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curriculum derived from essential California State Standards aligned with the Common Core State Standards. In addition, teachers have received training in the area of Common Core State Standards implementation and best practices to help students achieve in these areas. Curriculum implementation and teaching strategies are designed to provide universal access for all students, and student engagement is monitored in order to ensure active participation in classroom lessons and activities. On the macro level, LAS teachers incorporate in their daily instruction the components of the LAS Learning Principles, a framework based on Wiggins and Grant's work, *Understanding by Design*. In order to facilitate comprehension, teachers build background knowledge, scaffold instruction to ensure access to the curriculum for all language learners, and frontload language frames and structures to support communication and academic development in the target language.

Parents actively participate in the development of the school plan and the charter. Moreover, parents contribute to the fiscal solvency of the school by reviewing the school budget and orchestrating fundraising opportunities. Parents receive ongoing information about Title I, standardized test scores and related information, parents' role in school governance [Ed. Code 47605(b)(5)(D)], a description and explanation of the school's curriculum, academic assessments used to measure student progress, and student benchmarks. Parent Association meetings are held on a monthly basis. Each Association meeting includes reports from the Parent Council and the Student Council; a student presentation; an informational presentation about fiscal matters, governance, federal and state compliance, and/or student achievement; and an interactive workshop related to families' needs and interests. The Parent Association actively participates in the planning, organization, and execution of family activities. Examples of academic and artistic events include Family Reading Night, Spelling Bee, Science Fair, Book Fair, Art Exhibits, Harvest Festival, Student Performances, and an annual spring carnival.

Educational Management Organization: LAS is not managed by an EMO.

School Management: Eduardo deLeón has served as the Academic Director of LAS since 2010. Prior to this post, Mr. deLeón served as Assistant Principal at LAS from 2008-2010. Mr. deLeón began teaching in 2002 and has extensive experience working in two-way immersion educational programs. He holds a B.A. in Sociology, Multiple Subject Teaching Credentials, Administrative Clear Credential, and is in progress of completing his graduate thesis in Education from California State University, Sacramento. Mr. de León has been selected as an Administrative Visiting Fellow to Argentina by the American Councils of Education in conjunction with the U.S. Department of Education. He is currently a part-time lecturer in the College of Education at the California State University, Sacramento.

Judith Morales has served as the Business Manager of LAS since 2010. Prior to this post, Ms. Morales served as an Administrative Assistant to the Principal/Director from 2004-2009. Ms. Morales has had extensive training in charter school leadership, governance and operations from the California Charter Schools Association (CCSA) and the Charter Schools Development Center (CSDC). She completed Chief Business Officer Training Program in 2010 designed by the State Superintendent of Public Instruction and the State Board of Education in partnership with the CSDC.

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Board Experience: A nine-member Governing Board oversees LAS operations, and these members serve three-year terms. Current board composition includes: two members who are teachers at LAS, one member who is an instructional aide at LAS, three members who are parents at the school, and three members from the community. All members reside in Sacramento.

| Name | Type of Member | Occupation | City of Residence | Term |
|-------------------|---------------------------|--|--------------------------|-------------|
| Amanda Cervantes | Treasurer, Staff Member | Instructional Aid | Sacramento | 2011-14 |
| Pamela Phelps | President, Teacher Member | Teacher | Sacramento | 2012-15 |
| Adriana Gutierrez | Teacher Member | Teacher | Sacramento | 2013-16 |
| Rene Nava | Parent Member | Producer and Sports Anchor, Univision Media | Sacramento | 2011-14 |
| Michelle Ramos | Secretary, Parent Member | Program Manager Grid Planning and Operations, SMUD | Sacramento | 2013-16 |
| Erika Ruiz | Parent Member | EDD Representative, State of California | Sacramento | 2013-16 |
| Adolfo Mercado | Community Member | Educator | Sacramento | 2011-14 |
| Roger Kaplan | Community Member | Architect | Sacramento | 2013-16 |
| Maryann Miller | Community Member | Business and Operations Officer, UC Davis | Sacramento | 2013-16 |

Management Experience for Schools Open Less than Two Years: Not applicable; LAS has been in operations since 2004-05.

Student Performance: Because of its implications for student enrollment stability and growth, staff views student performance as a leading indicator of a charter school’s financial position. Schools with improving student performance trends are viewed favorable, especially if these trends exceed threshold goals set by the school or the California Department of Education (CDE). In order to measure student performance, staff utilizes Academic Performance Index (API) and Adequate Yearly Progress (AYP) trend data generated by CDE. The API is also used as an indicator for measuring AYP per the No Child Left Behind Act of 2001. Any school not meeting AYP targets would face additional mandates and corrective actions if the school is a recipient of federal Title 1 funds.

LAS has more than four years of reported API scores, allowing a review of progress and comparison to similar schools. The following table summarizes the school’s trends in student performance.

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| Language Academy of Sacramento | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 | FY 2012-13 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| ADEQUATE YEARLY PROGRESS (AYP) | | | | | |
| Met All AYP Criteria? | No | No | Yes | No | No |
| Criteria Met / Required Criteria | 13 / 17 | 13 / 17 | 17 / 17 | 13 / 17 | 9 / 17 |
| Met API Indicator for AYP? | Yes | Yes | Yes | Yes | Yes |
| Met Graduation Rate? | N/A | N/A | N/A | N/A | N/A |
| ACADEMIC PERFORMANCE INDEX (API) | | | | | |
| Met Schoolwide Growth Target? | Yes | Yes | Yes | Yes | No |
| Met Comparable Improvement Growth Target? | No | Yes | Yes | Yes | No |
| Met Both Schoolwide & CI Growth Targets? | No | Yes | Yes | Yes | No |
| API Base Statewide Rank (10 = best) | 2 | 2 | 3 | 3 | 4 |
| API Base Similar Schools Rank (10 = best) | 2 | 2 | 2 | 2 | 4 |
| School's Actual Growth | 19 | 33 | 23 | 21 | -27 |
| Similar Schools Median of Actual Growth | 10 | 10 | 5 | 7 | -7 |
| Did School's Growth Exceed Median? | Yes | Yes | Yes | Yes | No |

LAS has only met all of its AYP criteria in one of the past five years, 2010-11 and is on Program Improvement status per the No Child Left Behind Act of 2001, LAS has met its API growth target for four of the past five years, all years except the most recent reported year, 2012-13, in which LAS' API growth score declined by 27 points. LAS' API growth scores for 2008-09 through 2012-13 are 714, 748, 771, 792, and 770, respectively. LAS' statewide and similar schools rankings based on its API base score include statewide similar schools rankings of "3" and "2", respectively, for each of 2010-11 and 2011-12, and "4" and "4", respectively, for 2012-13. Hence, LAS has shown moderate improvement in its API performance over the past five years, given the slight increase in rankings and growth scores. As the national and statewide accountability landscape change to reflect the Common Core State Standards (CCSS) national reform, LAS will continue to redefine its achievement measures and present future evidence that demonstrates sustained academic improvement.

As a result of its failure to meet AYP in four of the past five years, LAS has been on Program Improvement Status since 2006-07 pursuant to No Child Left Behind Act of 2001. Notwithstanding this fact, staff acknowledges the fact that the threshold for meeting AYP has become increasingly difficult in each successive year, as described below.

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; 78.4% for 2011-12; and 89.2% for 2012-13. This specific requirement will increase to 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

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mathematics in order for the school to make AYP, and given the high prevalence of English-language learners in California, public schools and charter schools alike have been faced with increasing difficulty in making AYP¹.

In April 2011, school officials presented staff with an explanation regarding student performance and the school's Program Improvement status, which included consideration of LAS' unique dual-language immersion model. In this explanation, the school explained that students within this model typically perform better in the higher grades, given that their English-language proficiency increases as they promote through the grades. Because of staff's continuing concerns, staff requested an updated explanation and action plan to address academic performance. LAS' response to staff's request sets forth the following:

1. LAS met its API growth target in the three years up to 2011-12;
2. LAS students performed at least as well as students in the public schools that its charter school pupils would otherwise have been required to attend, taking into account the pupil population; and
3. For 2011-12, LAS' API growth of 21 points represented its outperforming both the school's local educational agency, Sacramento City Unified School District, and the State of California.

LAS also emphasized that the most recent year's decline in API growth is due largely to a shift in the "scope of instructional design, evaluation, and methodology as driven by the nationwide shift towards the implementation of the 'Common Core State Standards' (CCSS) as promulgated he State of California," and that this decline is consistent with an overall statewide decline in API growth scores. In addition, LAS submitted a breakdown of CST test score metrics showing that the percent of students scoring "Below Basic or Far Below Basic" was far less in the middle school grades than in the primary grades, and that the percent of students scoring "Proficient" or "Advanced" was much higher in the middle schools grades than in the primary grades; hence, supporting its explanation that, as students progress through grades within the dual-language immersion model, they ultimately perform within required standards, illustrating full alignment with the theoretical research on dual language immersion programs academic achievement pattern.

Staff reviewed LAS' "STAR Test Results," for 2011 through 2013, as posted on CDE's website, and found that for English-Language Arts, students in grades 7 and 8 showed a substantially lower percentage in the "Below Basic" and "Far Below Basic" levels as compared with grades 2 through 6, and students in grades 7 and 8 showed a substantially higher percentage in the "Proficient" and "Advanced" levels as compared to students in grades 2 through 6, as represented by in the tables below:

STAR Test Results/Percent of Students at "Below Basic" or "Far Below Basic" in English-Language Arts by Grade Category (2011 through 2013)

| Year | Grades 2-6 | Grades 7-8 |
|-------------|-------------------|-------------------|
| 2011 | 32.3% | 5.1% |
| 2012 | 28.3% | 3.0% |

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

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| | | |
|------|-------|-------|
| 2013 | 30.6% | 15.0% |
|------|-------|-------|

STAR Test Results/Percent of Students at “Proficient” or “Advanced” in English-Language Arts by Grade Category (2011 through 2013)

| Year | Grades 2-6 | Grades 7-8 |
|------|------------|------------|
| 2011 | 39.2% | 71.6% |
| 2012 | 39.7% | 72.6% |
| 2013 | 39.4% | 60.0% |

These results conform with LAS’ statement regarding students’ increasing English language proficiency as they progress in grades and LAS’s explanation regarding its API growth performance.

To address LAS’ continued Program Improvement status, LAS set forth its “Corrective Action Restructuring Plan,” which includes the following components.

1. Hiring of an Academic Director and Academic Accountability Specialist who, as a team, meet with teaching teams to monitor student progress throughout the year based on benchmark data;
2. Allocation of regular time blocks within the day-to-day schedule that are dedicated to subject matters such as “English Language Development” and mathematics as well as the carving out of weekly “Common Planning Time” for teachers within common grades to communicate amongst each other regarding student assessment data and instructional planning.

LAS’ response emphasizes that its students are “outperforming their neighborhood peers in the standardized assessment in English, while simultaneously acquiring literacy in another global language.”

In consideration of LAS’ moderate improvement in measure performance, LAS’ unique model, the additional metrics showing the satisfactory performance at the middle school grades, and LAS’ action plan, staff concludes that LAS’ performance is sufficient to support a recommendation for financial soundness.

School Enrollment and Retention: LAS’ enrollment has consistently grown over the past eight years. Since enrolling 228 students in 2004-05, LAS grew enrollment to 339, 378, 413, and 442 from 2009-10 through 2012-13, respectively, representing an average annual increase of 11%. LAS currently enrolls 488 students for the current 2013-14 year, and projects growth to 515 students in 2014-15, the first year of project occupancy, and 546 students in subsequent years, which is consistent with the school’s historical trend. LAS reports having year-to-year retention rates of 96.5% and 97.0% for 2011-12 and 2012-13, respectively, as well as a current wait list of approximately 550 students. LAS’ average daily attendance (ADA) for 2010-11 through 2012-13 was 96%, 96%, and 97%, respectively.

Based on LAS’s historical growth, retention rates, and ADA, staff considers LAS’ enrollment projections to be reasonable and its ADA rates consistent with the assumed 95% ADA in

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the multi-year projections. In addition, staff considers LAS' consistent growth to be supportive of a recommendation for financial soundness.

Financial Analysis: Below are highlighted selected financial data and credit indicators to evaluate LAS' ability to meet its CSFP obligation. Staff's analysis of financial performance includes expenses for capital outlay and loan repayment; therefore, our results may differ from audited figures presented by school representatives.

| Language Academy of Sacramento | | | | | | | |
|---|----------------------|----------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Actual FY 2010/11 | Actual FY 2011/12 | Unaudited FY 2012/13 | Projected FY 2013/14 | Projected FY 2014/15 | Projected FY 2015/16 | Projected FY 2016/17 |
| ENROLLMENT PROJECTIONS | | | | | | | |
| Enrollment | 378 | 413 | 442 | 488 | 515 | 546 | 546 |
| Average Daily Attendance | 361 | 398 | 429 | 464 | 489 | 519 | 519 |
| Average Daily Attendance (%) | 96% | 96% | 97% | 95% | 95% | 95% | 95% |
| FINANCIAL PROJECTIONS | | | | | | | |
| Total Revenues Available for CSFP Payment | \$ 2,804,770 | \$ 3,020,001 | \$ 3,187,976 | \$ 3,590,184 | \$ 3,923,527 | \$ 4,528,503 | \$ 4,584,083 |
| Total Expenses Paid Before CSFP Payment | 2,663,716 | 2,972,989 | 3,263,834 | 3,392,259 | 3,633,920 | 3,886,287 | 4,042,349 |
| Accounting Adjustments | 7,300 | 1,825 | - | - | - | - | - |
| Net Revenues Available for CSFP Payment | \$ 148,354 | \$ 48,837 | \$ (75,858) | \$ 197,925 | \$ 289,607 | \$ 642,216 | \$ 541,734 |
| CSFP Payment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 294,216 | \$ 294,216 |
| Net Revenues After CSFP Payment | \$ 148,354 | \$ 48,837 | \$ (75,858) | \$ 197,925 | \$ 289,607 | \$ 348,000 | \$ 247,518 |
| FINANCIAL INDICATORS | | | | | | | |
| Net Revenues Available for CSFP Payment | \$ 148,354 | \$ 48,837 | \$ (75,858) | \$ 197,925 | \$ 289,607 | \$ 642,216 | \$ 541,734 |
| Debt Service Coverage by Net Revenues | N/A | N/A | N/A | N/A | N/A | 218.3% | 184.1% |
| Contributions | \$ - | \$ - | \$ - | \$ 40,000 | \$ 40,000 | \$ 40,000 | \$ 40,000 |
| Debt Service Coverage by Net Revenues (w/out Contributions) | N/A | N/A | N/A | N/A | N/A | 204.7% | 170.5% |
| CSFP Lease Payment / Revenues | N/A | N/A | N/A | N/A | N/A | 6.5% | 6.4% |
| Contributions / Revenues | N/A | N/A | N/A | 1.1% | 1.0% | 0.9% | 0.9% |
| Net Revenues After CSFP Payment / Revenues | 5.3% | 1.6% | -2.4% | 5.5% | 7.4% | 7.7% | 5.4% |
| Revenues / ADA | \$ 7,769 | \$ 7,588 | \$ 7,431 | \$ 7,744 | \$ 8,019 | \$ 8,730 | \$ 8,838 |
| Expenses / ADA | \$ 7,379 | \$ 7,470 | \$ 7,608 | \$ 7,317 | \$ 7,428 | \$ 8,060 | \$ 8,360 |
| Surplus (Deficit) / ADA | \$ 391 | \$ 118 | \$ (177) | \$ 427 | \$ 592 | \$ 671 | \$ 477 |
| Net Working Capital | \$ 1,038,228 | \$ 1,850,192 | | | | | |
| Net Working Capital / Expenses | 39.0% | 62.2% | | | | | |

Financial Performance – Staff's review of LAS' financial performance is based on three years of audited financial statements (2009-10 through 2011-12), unaudited actuals for 2012-13, budgets for 2013-14, and financial projections from 2014-15 through 2016-17 as provided by LAS. The school expects to occupy the project facility in 2014-15, by which time their enrollment will have increased to 515 students, up from 488 students this current academic year.

Assets/Liabilities: As of June 30, 2013, LAS has no long-term liabilities nor substantial long-term assets. Since its inception, LAS' only liabilities have been payroll related.

Change in Net Assets: In 2010-11, LAS recorded an increase in net assets of \$148,354, on revenues of \$2.8 million, expenses of \$2.66 million, and \$7,300 in accounting adjustments. LAS operated at a slight surplus of \$48,837 in 2011-12 with revenues and expenses of \$3.02 million and \$2.97 million, respectively. The unaudited financials for 2012-13 reflect revenues of \$3.19 million and expenses of \$3.26 million, resulting in a net deficit of \$75,858. The 2013-14 budget indicates LAS projects to produce net revenues of \$197,925 based on revenues and expenditures of \$3.59 million and \$3.39 million, respectively.

LAS's financial projections are based upon the following assumptions: (1) project occupancy in 2014-15; (2) increases in enrollment as described above; (3) general purpose block grant funding rates of \$5,077 (grades K-3), \$5,153 (grades 4-6), \$5,306 (grades 7-8)

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in 2013-14 with annual increases to the base rate through the Local Control Funding Formula; (4) cost of living adjustment (COLA) on charter school general purpose block grant and other State charter school entitlements of 0.0% for the years 2014-15, 2.5% for 2015-16 and 2016-17; (5) projected ADA rates of 95%; Expense categories other than salaries and benefits, like books and supplies, services and miscellaneous expenses, while increased for the effects of enrollment growth, are adjusted for inflation through 2016-17; and (7) LAS doesn't project contributions to represent more than, on average, 1.0% of its revenues in projected years.

Projected Debt Service Coverage – In its application, LAS stated that it would fund its upfront local matching amount with the lease option, repaying its 50% local matching share with a long term-lease. Debt service coverage ratios for CSFP are calculated using net revenues available after payment of debt service on any existing and projected indebtedness, with any expenses for capital outlay and depreciation added back as net revenues.

Assuming project costs of \$11,533,532, an interest rate of 2.00%, and a 30-year repayment period, LAS' annual CSFP payment will be \$257,486 beginning in 2015-16, the first year after project occupancy. LAS' projected net revenues of \$642,216 and \$541,734 for 2015-16 and 2016-17 would provide debt service coverage of 249.4% and 210.4%, respectively. The CSFP payments would represent 6.5% of projected revenues for 2015-16 and 6.4% in 2016-17. For preliminary apportionment in April 2010 CSFA staff recommended that LAS set aside a reserve for purposes of CSFP payment for the amount of \$10,000, or commit to raising an additional \$10,000 through the school's capital campaign. For this Final apportionment award, CSFA staff recommends that LAS is no longer required to maintain such a reserve.

Liquidity – As of June 30, 2013, LAS maintained \$465,593 in cash. Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. LAS' NWC for 2010-11 was \$1.04 million, or 39.0% of total expenses. In 2011-12, NWC increased to \$1.85 million, or 62.2% of total expenses. LAS currently maintains a strong liquidity position as staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient.

Strengths, Weaknesses and Mitigants

- + LAS' financial projections indicate that they will be able to meet the combined debt service obligation for the renovation and new construction costs and no longer needs to augment its first year's debt service payment with designated funds.
- + LAS is providing an important and relatively unique dual-immersion learning environment in an underserved area of Sacramento.
- + LAS' Academic Performance Index (API) results slightly decreased in 2012-13 after LAS met its API growth target for four consecutive years. In addition, for 2012-13, LAS' statewide and similar school rankings improved from previous years, increasing from below "4" on each ranking to "4" on each ranking. LAS' STAR Test results, which are the basis for API performance, showed that the

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majority of students in grades 7-8 are performing at levels of “Proficient” or “Advanced” in English-Language Arts.

- LAS has failed to meet all AYP criteria in four the last five years and continues to be in Program Improvement status.

Staff Recommendation: Staff recommends that the California School Finance Authority (CSFA) Board determine that Language Academy of Sacramento (LAS) is financially sound for purposes of the Charter School Facilities Program (CSFP or the Program) Final Apportionment. This determination as it relates to an Final 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 LAS 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.