

**CHARTER SCHOOL FACILITIES PROGRAM
PROPOSITION 1D FUNDING ROUND
STAFF SUMMARY REPORT – NOVEMBER 2016**

Applicant/Obligor:	Inner City Education Foundation
Project School:	Lou Dantzler Preparatory Charter Elementary (aka Lou Dantzler Preparatory Academy)*
CDS (County – District – School) Code:	19 64733 0117945* (formerly 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:	\$21,161,351**
State Apportionment (50% Project Cost):	\$10,580,675
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$10,580,675
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$539,818
First Year of Occupancy of New Project:	2018-19

*The project has been transferred from ICEF Lou Dantzler Preparatory Charter Middle School to ICEF Lou Dantzler Preparatory Academy, a grades K-8 school, to serve grades 6-8 within that school.

**The amount provided for total project cost represents the maximum possible costs as provided by the Office of Public School Construction.

Staff Recommendation: Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) determine that Inner City Education Foundation (ICEF), on behalf of Lou Dantzler Preparatory Charter Elementary (also known as ICEF Lou Dantzler Preparatory Academy) (Lou Dantzler Prep), is financially sound for the purposes of the Charter School Facilities Program (“Program” or “CSFP”) Final Apportionment. This determination as it relates to an Final Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This determination of financial soundness also is contingent upon ICEF agreeing 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 immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.

Background: In May 2008, the Authority found Lou Dantzler Preparatory Charter Middle (aka Charter Academy Middle School) (Lou Dantzler Middle) financially sound for a Preliminary Apportionment, and the State Allocation Board (SAB) awarded Lou Dantzler Middle a Preliminary Apportionment in the amount of \$17,667,222. In December 2012, the Authority found Lou Dantzler Middle financially sound for Advance Apportionment for design

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and site acquisition, and on June 19, 2013, the Office of Public School Construction (OPSC) issued an Advance Apportionment of \$837,022 for design and \$5,869,882 for site acquisition.

While the CSFP project was originally intended for Lou Dantzler Middle, as Lou Dantzler Prep’s charter has expanded the school from a K-5 school to a K-8 school, and the school serves the same local area as Lou Dantzler Middle, ICEF decided to transfer its middle school grades 6-8 program from Lou Dantzler Middle to Lou Dantzler Prep, beginning with this 2016-17 academic year, and to close the operations of Lou Dantzler Middle at the end of 2015-16. Furthermore, upon completion of the CSFP project, ICEF plans to move grades 6-8 of Lou Dantzler Prep to the CSFP project site, while keeping the remaining grades, grades K-5, at another site; hence, having two sites for the school. ICEF, on behalf of Lou Dantzler Prep and Lou Dantzler Middle, has notified OPSC of the change to its original application, now designating the CSFP project for Lou Dantzler Prep in lieu of Lou Dantzler Middle.

ICEF, on behalf of Lou Dantzler Prep, is now seeking Final Apportionment in the amount of \$21,161,351 (total project costs).¹

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.

Comments	
EMO Information	
Demographic Information	<ol style="list-style-type: none"> 1. ICEF currently oversees nine schools in south central Los Angeles, representing grades K-8. For the current 2016-17 school year, the total student enrollment is 3,447. Notwithstanding its closing of seven schools that it served, for the nine schools currently in operations, ICEF has demonstrated stability in student enrollment over the past three years, growing approximately 9%. 2. ICEF’s average daily attendance for 2013-14, 2014-15, and 2015-16 was 98.6%, 93.4%, and 94.5%, respectively, or an average of 95.5% over these years. 3. ICEF is projecting enrollment to grow as follows (across its nine schools): 3,479 students in 2017-18, 3,645 students in 2018-19, 3,792 students in 2019-20, and 3,797 students in 2020-21.
Debt Service Coverage	Based on ICEF’s financial projections, projected debt service coverage for the CSFP project is 293.0% and 275.4% for 2019-20 and 2020-21, respectively.

¹ As provided by OPSC, this is the maximum amount for total project costs, but may be less. This amount was provided as an estimate in order to complete the financial soundness review prior to the issuance of the final costs.

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Other Financial Factors	<ol style="list-style-type: none"> 1. ICEF is not reliant on private contributions to meet the debt service coverage requirement. 2. ICEF's Net Working Capital as of June 30, 2016 was \$11.18 million, representing 26.4% of total expenses. As of June 30, 2016, ICEF showed having \$9.53 million in cash reserves.
School Information	
Eligibility Criteria	Lou Dantzler Prep has met all eligibility criteria: (1) Lou Dantzler Prep commenced operations in 2008-09, and ICEF has been in operation since 1999-2000; (2) Lou Dantzler Prep's charter is in place through June 2018; (3) Lou Dantzler Prep is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	Notwithstanding the limitation in the availability of academic reports within the California Department of Education's Accountability Progress Reporting system, based on the CDE-reported "Smarter Balanced" test results, Lou Dantzler Middle showed less than optimal results in the percent of students meeting or exceeding the standards in English language arts and mathematics. However, from 2014-15 to 2015-16, the percent of students meeting or exceeding the standard for English language arts doubled.
Demographic Information	<ol style="list-style-type: none"> 1. Over the past five years, Lou Dantzler Prep has shown the following enrollment growth, representing overall growth of 38.1% and average annual growth of 7.6%: 270 students in 2011-12; 303 students in 2012-13; 307 students in 2013-14; 310 students in 2014-15; 337 students in 2015-16; and 373 students in 2016-17. 2. Lou Dantzler Prep achieved year-to-year retention rates of 91.9%, 92.0%, and 93.7% for 2014-15, 2015-16, and 2016-17, respectively.

Program Eligibility: On September 30, 2016, verification was received from the Innovative and Charter Schools Division of Los Angeles Unified School District (LAUSD), confirming that Lou Dantzler Prep is (1) in compliance with the terms of its charter agreement, and (2) is in good standing with its chartering authority. Lou Dantzler Prep's charter is effective through June 30, 2018.

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. Although ICEF provided a positive response 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: Pursuant to the consolidation of students in grades 6-8 under Lou Dantzler Prep from Lou Dantzler Middle (refer to "Background" above), ICEF is now requesting funds for new construction of a facility for Lou Dantzler Prep that will consist of at least 20 classrooms serving grades 6-8 with a capacity for 450 students. Upon completion of the project, ICEF is intending to move grades 6-8 within Lou Dantzler Prep from its

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anticipated facility at 5029 South Vermont, Los Angeles, CA 90037² to the site of the CSFP project at 8711-35 S. Western Avenue, Los Angeles, CA 90047 and anticipates project occupancy in 2018-19.

Organizational Information: Lou Dantzler Middle, the original applicant school, received its first charter from LAUSD in 2007. The charter was subsequently renewed in 2011 for five years. Lou Dantzler Middle closed operations on June 30, 2016 with ICEF intending to ultimately consolidate its grade 6-8 operations for the local area under Lou Dantzler Prep. In order to ensure that all students within grades 6-8 follow the same academic curriculum and standards, ICEF has chosen to phase in these grades at Lou Dantzler Prep based on promotion of cohorts of students from the elementary grades at this school rather than transfer of students from Lou Dantzler Middle. As such, for the current academic year, Lou Dantzler Prep has students in grades K-6 with the intent of adding grades 7 and 8. In each of the subsequent years. For the current 2016-17 academic year, Lou Dantzler Prep has 380 students in grades K-6.

Lou Dantzler Prep received its first charter in 2008 as a grades K-5 school. Upon charter renewal in 2013, Lou Dantzler Prep became a grades K-8 school. The curriculum at Lou Dantzler Prep 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.

Educational Management Organization: ICEF is a California 501(c)(3) not-for-profit, public-benefit corporation incorporated in 1994, which currently operates nine charter schools in South Los Angeles serving grades K-8. 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, which were closed in 2015. ICEF also opened the Thurgood Marshall Charter Middle School and Thurgood Marshall Charter High School (closed in 2009) as well as Lou Dantzler Middle (closed in 2016) and Lou Dantzler Preparatory Charter High in September 2007 (closed in 2013). 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). Overall, ICEF has closed seven of its previously managed schools. The table below shows current enrollment for the nine schools that ICEF is currently operating.

School	Opened	Grade	2016-17* Enrollment
View Park Preparatory Elementary	1999-00	K – 5	546
View Park Preparatory Middle	2002-03	6 - 8	443
View Park Preparatory High	2003-04	9 -12	674

² Lou Dantzler Prep currently operates at 5940 South Budlong Ave., Los Angeles, CA 90044, but anticipates relocating the school to 5029 South Vermont, Los Angeles, CA 90037.

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Lou Dantzler Preparatory Elementary	2008-09	K – 6**	373
ICEF Innovation Los Angeles Charter (formerly Frederick Douglass Academy Elementary)	2008-09	K - 5	189
ICEF Inglewood Elementary Academy	2009-10	K - 5	403
ICEF Inglewood Middle Academy	2009-10	6 - 8	223
ICEF Vista Elementary Academy	2008-09	K - 5	357
ICEF Vista Middle Academy	2008-09	6 - 8	239
Total			3447

*Based on school census data for October 5, 2016. This data was used in lieu of CALPADS data, as CALPADS data has not yet been reported to CDE.

**Lou Dantzler Prep currently has grades K-6, but will be adding grades 7 and 8 in 2017-18 and 2018-19, respectively.

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.

Management Experience for Schools Open Less than Two Years: ICEF, Lou Dantzler Middle, and Lou Dantzler Prep began their operations in 1999-2000, 2007-08, and 2008-09, 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: Akysa Allen-Goods has been Principal of Lou Dantzler Prep since July 1, 2013. Prior to this position, Ms. Allen-Goods served as Instructional Specialist at ICEF Inglewood Elementary Charter (2013-16), teacher at ICEF Inglewood Elementary Charter (2012-13), Curriculum Specialist at Celerity Nascent Charter (2011-12), and teacher at Woodcrest Elementary (2006-11). Ms. Allen-Goods holds a California Clear Multiple Subjects Credential and is in the process of completing a California Administrative Credential. Ms. Allen-Goods holds a B.A. in Liberal Arts from California State University, Long Beach.

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
David Moore	President and CEO, Interconnect Solutions Group, Inc.	Board Chairman	Los Angeles	2016-19
Ranie Lambe		Board Secretary	Los Angeles	2014-17
William Lucas	Cofounder and Principal, Cataumet Partners (a wealth management organization)	Member	Los Angeles	2016-19
Tramell Johnson	Consultant for "Troops for Teachers"	Member	Los Angeles	2015-18
Brandon Roberson	Director of Learning Resources Center, Mt. Saint Mary's College	Member	Los Angeles	2015-18
Tom Strickler	Cofounder, "Endeavor" (a talent agency for film and television)	Member	Los Angeles	2014-17

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: Pursuant to SB X51 (2010), a designated California State Commission was given the authority to review the Common Core State Standards (Standards), as promulgated by the U.S. Department of Education, and make recommendations to the California Board of Education (Board). This resulted in the Board's adoption of the Standards for purposes of statewide accountability on academic performance. Although this adoption does not directly require all local educational agencies (LEAs) to adopt the standards, pursuant to Education Code, Sections 52060 through 52077, in order for districts to receive funding through LCFF, school districts must submit "Local Control and

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Accountability Plans” (LCAPs) to their respective county offices of education that address State and local educational priorities. Furthermore, pursuant to Education Code, Section 52060(d)(2), these priorities must include Common Core State Standards. Within the State of California, the Standards are derived from a set of tests, entitled “Smarter Balanced Assessment System.”

Due to the transition to the Standards, CDE’s Accountability Progress Reporting is in the process of being revised under a new rubric with new metrics anticipated for 2017. Both the Academic Performance Index (API) (growth scores, base scores, and rankings) and Adequate Yearly Progress (AYP) reporting pursuant the No Child Left Behind Act of 2001 have been suspended with the last complete set of results having been reported for the 2012-13 academic year.

As, such, staff is limited as to the availability of standardized reports for purposes of financial soundness. Notwithstanding this limitation, CDE informed staff of aggregate reports for “Smarter Balanced” testing relative to percentages of students within the following ranges for mathematics and English language arts: “standard exceeded”; “standard met”; “standard nearly met”; and “standard not met.” These reports are currently available only for the 2014-15 and 2015-16 years. For purposes of assessing academic performance via these reports, staff decided to compare the 2015-16 results of Lou Dantzler Middle with those of a nearby traditional public middle school (less than one mile away), John Muir Middle School. In addition, staff decided to compare the 2014-15 with the 2015-16 results for Lou Dantzler Middle to assess improvement. Although the grades 6-8 are going to be incorporated into Lou Dantzler Prep, staff concluded that a focus on the middle school performance is the most relevant for this assessment. The tables below depict the 2015-16 results for each of Lou Dantzler Middle and John Muir Middle School, as well as the 2014-15 results for Lou Dantzler Middle.

English Language Arts (2015-16) – Comparison Between Schools

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
Lou Dantzler Middle	1%	19%	27%	53%
John Muir Middle	2%	16%	26%	56%

Mathematics (2015-16) – Comparison Between Schools

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
Lou Dantzler Middle	0%	6%	21%	73%
John Muir Middle	2%	7%	20%	72%

Lou Dantzler Middle - English Language Arts - 2014-15 and 2015-16

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
2014-15	1%	9%	31%	58%
2015-16	1%	19%	27%	53%

Lou Dantzler Middle - Mathematics - 2014-15 and 2015-16

	Standard Exceeded	Standard Met	Standard Nearly Met	Standard Not Met
2014-15	1%	9%	31%	59%
2015-16	0%	6%	21%	73%

The comparison-between-schools results shows no significant difference between the performance of schools. However, with respect to improvement in English language arts, Lou Dantzler Middle approximately doubled the percentage of students meeting the standard in English, improving from 9% to 19%. Notwithstanding the fact that less than 50% of students meet the standard, given the demographics of the school, socioeconomically disadvantaged with approximately 74% students eligible for free or reduced-price meals, this improvement is worthy of acknowledgement. Staff recognizes that much improvement is still needed in mathematics as well as English language arts. Upon further inquiry with ICEF, the CEO of ICEF, Parker Hudnut, noted the following:

“Lou Dantzler Preparatory Middle School has welcomed the new California accountability system as it now gives teachers, parents and students a more comprehensive way to track student performance. Academically, in the first two years of the new state assessment California Assessment of Student Performance and Progress (CAASPP), Lou Dantzler successfully doubled the percentage of students meeting or exceeding standards in English Language Arts, from 10% to 20%. Lou Dantzler did slip some in Mathematics (10% to 6%) but the 16-17 school year has brought about a significant focus on math performance. For perspective, lower math performance is an issue throughout the state, especially for African-Americans.”

While these results suggest a less than optimal performance, for purposes of a determination of financial soundness, because CDE has not yet developed a reliable accountability system along with the evidence showing improvement in English language arts, staff does not believe the academic performance should be an impediment to a determination of financial soundness. Staff further acknowledges ICEF’s initiative to significantly increase its focus on performance in mathematics.

Enrollment Trends and Projections: Lou Dantzler Middle demonstrated consistent growth during its period of operations with enrollment growing from 85 students in grades 6 in 2007-08 to 289 students in grades 6-8 in 2015-16, its final year of operations. Lou Dantzler Prep, the charter school assuming the CSFP project from Lou Dantzler Middle, has shown consistent growth since beginning operations, with student enrollment growing from 91

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students in 2008-09 to approximately 373 students in grades K-6 for the current 2016-17 academic year. Over the past five years, Lou Dantzler Prep has shown the following enrollment growth, representing overall growth of 38.1% and average annual growth of 7.6%: 270 students in 2011-12; 303 students in 2012-13; 307 students in 2013-14; 310 students in 2014-15; 337 students in 2015-16; and 373 students in 2016-17.

Over the past three years, Lou Dantzler Prep is projecting the following enrollment growth through the addition of grades 7 and 8 in 2017-18 and 2018-19, respectively, as well as expansion of students within grades: 500 students in 2017-18; 670 students in 2018-19; and 810 students in each of 2019-20 and 2020-21. Lou Dantzler Prep achieved year-to-year retention rates of 91.9%, 92.0%, and 93.7% for 2014-15, 2015-16, and 2016-17, respectively.

The table below depicts historical and current student enrollment for both individual schools as well as across ICEF for 2013-14 to 2016-17.

Student Enrollment by Year (four years)

School	2013-14	2014-15	2015-16	2016-17
View Park Preparatory Elementary	538	560	549	546
View Park Preparatory Middle	327	346	424	443
View Park Preparatory High	638	690	654	674
ICEF Innovation Los Angeles Charter (formerly Frederick Douglass Elementary)	285	256	193	189
Frederick Douglass Middle	291	261	Closed	Closed
Frederick Douglass High	299	272	Closed	Closed
Lou Dantzler Preparatory Elementary	307	310	337	373
Lou Dantzler Middle	239	264	289	Closed
ICEF Inglewood Elementary Academy	366	363	394	403
ICEF Inglewood Middle Academy	166	212	216	223
ICEF Vista Elementary Academy	325	320	365	357
ICEF Vista Middle Academy	212	213	241	239
Subtotal (Currently Operating Schools)	3,164	3,270	3,373	3,447
Total	3,993	4,067	3,662	3,447

The table shows that, although the total enrollment has decreased since 2013-14 by about 500 students, when considering the nine schools still in operation, the enrollment has grown slightly (about 9%) over the past three years. Within its multiyear budget projections, ICEF is projecting 3,313 students in 2016-17, 3,479 students in 2017-18, 3,645 students in 2018-19, 3,792 students in 2019-20, and 3,797 students in 2020-21, representing average annual growth of about 3.7%, which is conservative and reasonable, and consistent with the historical student enrollment.³

ICEF's average daily attendance for 2013-14, 2014-15, and 2015-16 was 98.6%, 93.4%, and 94.5%, respectively, or an average of 95.5% over these years, which supports ICEF's

³ For 2016-17, the multi-year budget projections are slightly more conservative than the enrollment based on census data for October 5, 2016, with 3,313 students used in the budget projections and 3,447 reported based on the census data.

assumed ADA of 95% in its financial projects. Lou Dantzler Prep's year-to-year retention rates for 2015-16 and 2016-17 were 92.0% and 93.7%, respectively.

Overall, staff considers ICEF's demonstrated stable enrollment with its schools currently in operation, as well as performance with attendance and retention to be supportive of a recommendation for financial soundness and supportive of the assumed projected enrollment that is incorporated into the multi-year budget projections.

Financial Analysis: Staff's financial analysis of ICEF is based upon review of the following documents: (1) ICEF's audited financial statements for 2013-14 through 2014-15; (2) ICEF's 2015-16 unaudited actuals and 2015-16 audited financial statements⁴; (3) ICEF's adopted budget for 2016-17; and (4) ICEF's multi-year budget projections for 2017-18 through 2020-21. Additionally, ICEF provided enrollment projections through 2020-21.

ICEF's multi-year budget projections are based upon the following assumptions: (1) occupancy of the construction CSFP project in 2018-19; (2) relatively stable enrollment as described above under the Enrollment Trends and Projections section above; (3) average Local Control Funding Formula (LCFF) per-ADA target rates for 2016-17 through 2020-21 of \$9,735, \$9,760, \$9,919, \$10,168, and \$10,423, respectively based on an unduplicated percentage of approximately 86% (FRPM/EL/FY) for all projected years; (4) cost of living adjustments (COLAs) on per-ADA target rates of between 1.11% and 2.67%; (5) projected ADA rate of 95%; (6) COLAs to certificated teacher salaries for 2017-18 through 2020-21 of 3%; and (7) contributions of between \$285,000 and \$360,000 within the multi-year budget projections. Staff notes that the assumptions regarding LCFF per-ADA target rates for its multi-year budget projections are reasonable and conservative based on the rates promulgated by CDE on its website, and that its enrollment projections are reasonable based on historical performance. Staff also notes that the assumptions regarding contributions are reasonable based on the ICEF's demonstrated receipt of contributions historically in its audited financial statements. As such, the multi-year budget projections, overall, are also considered reasonable and conservative.

Highlighted below in this section are financial data and credit indicators used to evaluate ICEF's ability to meet its CSFP obligations. Please note that the revenue, expenditure and changes to net assets recorded in financial audits and provided in ICEF's financial projections may have been modified by staff, where necessary, to include capital outlays, operating leases and repayment of debt and other significant obligations, and to exclude non-cash items such as depreciation.

⁴ ICEF provided the Authority the audited financial statements for 2016 after staff had completed its analysis. Upon reviewing the audited statements and conferring with ICEF's contracted financial specialist from ExED, staff determined that there is no material difference between the results from the audited and unaudited statements relative to a financial soundness determination. As such, the results cited for 2015-16 reflect the unaudited actuals.

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ICEF Public Schools	Actual FY 2013/14	Actual FY 2014/15	Actual FY 2015/16	Budget FY 2016/17	Projected FY 2017/18	Projected FY 2018/19	Projected FY 2019/20	Projected FY 2020/21
ENROLLMENT PROJECTIONS								
Enrollment	3,993	4,067	3,662	3,313	3,479	3,645	3,792	3,797
Average Daily Attendance	3,938	3,798	3,462	3,147	3,305	3,463	3,602	3,607
Average Daily Attendance (%)	98.6%	93.4%	94.5%	95.0%	95.0%	95.0%	95.0%	95.0%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Payment	\$ 42,063,152	\$ 42,425,205	\$ 48,115,178	\$ 41,854,925	\$ 42,849,132	\$ 45,547,603	\$ 48,343,007	\$ 49,514,823
Total Expenses Paid Before CSFP Payment	36,636,388	39,698,687	42,403,420	41,049,843	42,007,691	44,734,441	47,261,102	48,518,744
Accounting Adjustments	163,426	251,606	275,512	198,566	116,420	511,772	499,721	490,593
Net Revenues Available for CSFP Payment	\$ 5,590,190	\$ 2,978,124	\$ 5,987,270	\$ 1,003,648	\$ 957,861	\$ 1,324,934	\$ 1,581,626	\$ 1,486,672
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 539,818	\$ 539,818
Net Revenues After CSFP Payment	\$ 5,590,190	\$ 2,978,124	\$ 5,987,270	\$ 1,003,648	\$ 957,861	\$ 1,324,934	\$ 1,041,808	\$ 946,854
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Payment	\$ 5,590,190	\$ 2,978,124	\$ 5,987,270	\$ 1,003,648	\$ 957,861	\$ 1,324,934	\$ 1,581,626	\$ 1,486,672
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	293.0%	275.4%
Contributions	\$ 3,110,297	\$ 2,693,941	\$ 4,215,330	\$ 285,000	\$ 335,000	\$ 335,000	\$ 360,000	\$ 360,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	226.3%	208.7%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	1.1%	1.1%
Contributions / Revenues	7.4%	6.3%	8.8%	0.7%	0.8%	0.7%	0.7%	0.7%
Net Revenues After CSFP Payment / Revenues	13.3%	7.0%	12.4%	2.4%	2.2%	2.9%	2.2%	1.9%
Revenues / ADA	\$ 10,681	\$ 11,170	\$ 13,898	\$ 13,298	\$ 12,965	\$ 13,154	\$ 13,420	\$ 13,727
Expenses / ADA	\$ 9,303	\$ 10,453	\$ 12,248	\$ 13,043	\$ 12,710	\$ 12,919	\$ 13,269	\$ 13,600
Surplus (Deficit) / ADA	\$ 1,378	\$ 718	\$ 1,650	\$ 256	\$ 255	\$ 235	\$ 150	\$ 126
Net Working Capital	\$ 6,030,285	\$ 6,304,950	\$ 11,184,374					
Net Working Capital / Expenses	16.5%	15.9%	26.4%					

Long-Term Liabilities: Based on its unaudited financials for 2016, as well as additional documentation that ICEF provided to staff relating to forgiveness of specific debts, ICEF's total long-term debt as of June 30, 2016 was \$2,194,711. This long-term debt is comprised of two long-term loans, one loan with Pacific Western Bank with a balance of \$1,928,546 and one loan with Winnifred W. Rhodes 1981 Trust (Rhodes Trust) with a balance of \$266,165. ICEF also submitted an amortization schedule for the loan with Pacific Western Bank showing an annual payment of approximately \$205,000. The loan balance for the loan with Rhodes Trust is based on partial forgiveness of the loan, and the Chief Executive Officer of ICEF indicated that he expects the entire loan to be forgiven based on the fact that the lender has consistently forgiving portions of the loan that was originally at \$2,000,000.

Notwithstanding the uncertainty in the forgiveness of the loan with Rhodes Trust, ICEF's multi-year budget projections project annual debt service payments of between \$370,000 \$615,000, which is extremely conservative, given the anticipated lower payment of approximately \$205,000.

School Facilities: ICEF leases various facilities under operating leases. The facility costs for all ICEF schools incorporated into the financial projections are as follows: \$3.66 million (2016-17), \$3.78 million (2017-18), \$3.63 million (2018-19), \$3.68 million (2019-20), and \$3.72 million (2020-21). These estimated expenses are equivalent to an average of 8.1% of annual total revenues including contributions. These levels are below the 10-15% affordability range and these commitments are not expected to impact the organization's flexibility to respond to any unforeseen costs.

Non-Operating Revenues from Contributions: Over the last four years, ICEF received the following total amounts of private grants and contributions, averaging \$3.34 million per year: \$3.11 million in 2013-14, \$2.69 million in 2014-15, and \$4.22 million in 2015-16. In its multi-year budget projections, ICEF projects contributions of between \$285,000 and \$369,000 per

year, which is extremely conservative relative to historical performance with contributions. ICEF provided a breakdown of its contributions, showing sources that include large foundations, schoolwide fund raising, and forgiveness of debt. It is noteworthy that, because of its community partnerships and relations with specific lenders, ICEF has been able to gain forgiveness of certain loans, which has had a significant effect on increasing contributions, as such forgiven loans are recognized as contributions. Although contributions are a major source of revenues, ICEF is not dependent on such contributions in order to meet the debt service coverage requirement.

Financial Performance: In 2013-14, ICEF showed a net gain of \$5.43 million on \$38.95 million revenues, \$36.64 million in expenses, and \$3.11 million in contributions. In 2014-15, ICEF showed a net gain of \$2.73 million on \$39.73 million in revenues, \$39.70 million in expenses, and \$2.69 million in contributions. In 2015-16, ICEF showed a net gain of \$5.71 million on \$43.90 million in revenues, \$42.40 million in expenses, and \$4.22 million in contributions. For the current fiscal year, 2016-17, ICEF is projecting net revenues of \$805,802 on \$41.57 million in revenues, \$41.05 million in expenses, and \$285,000 in contributions. For 2017-18 through 2020-21, ICEF is projecting net revenues of \$841,441, \$813,162, \$1,081,905, and \$996,079, respectively, as well as ending net assets exceeding \$20 million for each of these years.

Projected Debt Service Coverage of CSFP Payments: Assuming a 3.0% interest rate and 30-year repayment period, as well as an estimated maximum project cost of \$21,161,351, ICEF's annual CSFP payment will be \$539,818 beginning in 2019-20, the first year following project occupancy. ICEF's projected net revenues, available for CSFP payments, of \$1,581,626 for 2019-20 and \$1,486,672 for 2020-21 would provide debt service coverage levels of 293.0% and 275.4%, respectively, which are substantially above the minimum requirement of 100%. Without contributions, ICEF would achieve debt service coverage levels of 226.3% and 208.7% for 2019-20 and 2020-21, respectively, also well above the minimum 100% requirement; hence, ICEF is not reliant on private contributions to meet this standard. The CSFP payments would represent approximately 1.1% of projected revenues for each of these years, which is well within the preferred maximum range of 10-15%.

Liquidity: Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. ICEF's NWC as of June 30, 2015 was \$6.30 million, representing 15.9% of total expenses. ICEF's NWC as of June 30, 2016 was \$11.18 million, representing 26.4% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. On June 30, 2016, ICEF reported holding approximately \$9.53 million in cash reserves.

Staff's review of ICEF's financial performance finds that ICEF has demonstrated the ability to meet its operating expenses, maintain substantial reserves and liquidity, and substantially exceed the Program's debt service coverage requirement, all in support of a recommendation for financial soundness.

Strengths, Weaknesses and Mitigants:

- + For 2019-20 and 2020-21, the first and second years of CSFP payments, ICEF projects debt service coverage of 293.0% and 275.4%, respectively, well in excess

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of the minimum 100% requirement. ICEF is not reliant on private contributions to meet the minimum debt service coverage requirement.

- + ICEF's Net Working Capital as of June 30, 2016 was \$11.18 million, representing 26.4% of total expenses. As of June 30, 2016, ICEF showed having \$9.53 million in cash reserves.
- + For its nine schools currently in operation, over the past three years, ICEF has shown consistent growth in student enrollment (9% growth overall), with current total enrollment of 3,447 students. In addition, ICEF achieved ADA rates averaging 95.5% over the past three years. Both measures support ICEF's ability to maintain adequate financial performance.
- + Lou Dantzler Prep, the charter school assuming the CSFP project from Lou Dantzler Middle, has shown consistent growth since beginning operations, with student enrollment growing from 91 students in 2008-09 to approximately 373 students in grades K-6 for the current 2016-17 academic year. Lou Dantzler Prep's year-to-year retention rates for 2015-16 and 2016-17 were 92.0% and 93.7%, respectively.
- +/- Based on the new "Smarter Balanced" testing results reported by CDE, Lou Dantzler Middle showed mixed results. There was no significant difference when compared to a traditional public school within the same local area and less than optimal results in English-language arts and mathematics in terms percent of students meeting or exceeding the standards. Notwithstanding the less than optimal performance overall, Lou Dantzler Middle showed a two-fold increase in meeting or exceeding the standard in English language arts between 2014-15 and 2015-16. Due to the limitation in the available reporting by CDE, staff concluded that the academic performance would not be an impediment towards a recommendation of financial soundness.

Staff Recommendation: Staff recommends that the California School Finance Authority determine that Inner City Education Foundation (ICEF), on behalf of Lou Dantzler Preparatory Charter Elementary, is financially sound for the purposes of the Charter School Facilities Program Final Apportionment. This determination as it relates to a Final Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This determination of financial soundness also is contingent upon ICEF agreeing 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 immediately notify the Office of Public School Construction and the State Allocation Board regarding this determination.