

**CHARTER SCHOOL FACILITIES PROGRAM  
PROP 1D 2010 FUNDING ROUND  
STAFF SUMMARY REPORT – MAY 2017**

<b>Applicant/Obligor:</b>	Ocean Charter School
<b>Project School:</b>	Ocean Charter School
<b>CDS (County – District – School) Code:</b>	19-64733-0102335
<b>Proposed Project Location:</b>	12870 Panama Street, Los Angeles, CA 90066
<b>Project Type:</b>	New Construction
<b>County:</b>	Los Angeles
<b>District in which Project is Located:</b>	Los Angeles Unified School District
<b>Charter Authorizer:</b>	Los Angeles Unified School District
<b>Total OPSC Project Cost:</b>	\$51,529,268
<b>State Apportionment (50% Project Cost):</b>	\$25,764,634
<b>Lump Sum Contribution:</b>	\$15,464,634
<b>Total CSFP Financed Amount:</b>	\$10,300,000
<b>Length of CSFP Funding Agreement:</b>	30 years
<b>Assumed Interest Rate:</b>	2.00%
<b>Estimated Annual CSFP Payment:</b>	\$459,894
<b>First Year of Occupancy of New Project:</b>	2019-20

**Staff Recommendation:** Staff recommends the California School Finance Authority (CSFA) Board determine Ocean Charter School (Ocean) to be financially sound for purposes of the Charter School Facilities Program (Program) Final Apportionment. This determination as it relates to the Final Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This recommendation is contingent upon the following requirements: (1) having its CSFP payments intercepted at the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code; (2) receiving an Augmentation Grant from the Los Angeles Unified School District of at least \$32,653,558; and (3) successfully raising \$3,000,000 by 2019-20 through its capital campaign. Staff recommends the CSFA Board direct staff to notify the Office of Public School Construction (OPSC) and the State Allocation Board regarding this determination.

**Application Highlights:** Highlighted below are key criteria evaluated by staff during the financial soundness review of Ocean Charter School. Detailed information is contained in the body of the report.

<b>Criteria</b>	<b>Comments</b>
<b>Eligibility Criteria</b>	Ocean has met all Program eligibility criteria, including: (1) having a charter in place; (2) fulfilling the requirement for two academic years of operations; and (3) being in compliance with the terms of its charter and in good standing with its chartering authorizer.
<b>Demographic Information</b>	Ocean currently serves 506 students in grades K-8, and has projected enrollment to increase to 533 students in 2019-20 and 2020-21 (the first year of CSFP repayment). OCS had an average ADA rate of 95.1% for FY 2013-14 through 2015-16.
<b>Debt Service Coverage</b>	Projected debt service coverage ratios of 100.3% and 105.7% in the first two years of CSFP repayment meet the Program's minimum debt service coverage requirement of 100%. Ocean would need to receive, on average, at least 97% of expected contributions in order to meet the debt service coverage requirement. Gross debt service coverage based on LCFF sources subject to the CSFA intercept would be 701.1% in 2020-21 and 724.7% in 2021-22.
<b>Other Financial Factors</b>	<ol style="list-style-type: none"> <li>1. Projected ratios of CSFP payments to total revenues are 8.0% (2020-21) and 7.8% (2021-22), which are at the midpoint of the preferred maximum range of 10-15%.</li> <li>2. Net working capital of \$787,546 for 2015-16 represented 15.9% of total expenses, which exceeds the preferred minimum of 5.0%.</li> </ol>
<b>Student Performance</b>	In 2014-15, 61% of Ocean students met or exceeded the new English Language Arts/Literacy standard set by the California Assessment of Student Performance and Progress' (CAASPP) Smarter Balanced Assessment. Forty-six percent of students met or exceeded the Mathematics standard under CAASPP's Smarter Balance Assessment that same year. In 2015-16, 67% of Ocean students met or exceeded the new English Language Arts/Literacy standard, an increase of six percentage points; and 58% of students met or exceeded the Mathematics standard, an increase of 12 percentage points. <i>The Smarter Balanced Assessment only captures data for grades 3 – 8, and 11.</i>

**Program Eligibility:** On May 2, 2017, the Los Angeles Unified School District verified Ocean is: (1) in compliance with the terms of its charter agreement and (2) in good standing with its chartering authority. The school confirmed the initial charter was approved in 2003, renewed in 2008, and reauthorized in January 2013. The current charter is valid through June 2018.

**Legal Status Questionnaire:** Staff reviewed Ocean’s responses to the questions contained in the Legal Status Questionnaire (LSQ). Ocean has no known disclosures to any civil, regulatory or criminal matters.

**Project Description:** The Office of Public School Construction (OPSC) has granted Ocean total Proposition 1D funding of \$51,529,268. However, Ocean’s actual total project costs are estimated at \$68,718,192. Ocean is seeking new construction of a 19-classroom facility on a 2.1 acre site located at 12870 and 12908 Panama Street, Los Angeles, California to house up to 533 students in Kindergarten through 8<sup>th</sup> grade.

The project consists of a 82,000 square foot facility with a 2-story classroom building, and single story attached Kindergarten classrooms, a single-story administrative building serving as office space and a library, a multi-purpose space that will serve as the gym and performing arts building, as well as a 62-space underground parking garage. In addition, the outdoor area will have three separate outdoor play areas, landscaping and a student drop-off and pick-up area. The existing building on the site will be demolished, the site will be graded, and the existing overhead electrical utility poles along Panama Street in front of the site will be removed and placed underground to accommodate the planned new student drop off lane.

Ocean students are currently housed as two separate locations. The Del Rey Campus is a leased, two-story building on Culver Boulevard in Los Angeles, which serves 259 students in grades K-3 and includes a small library, special resource room, and storage. The Westchester Campus is located on Manchester Avenue, Los Angeles, and serves 247 students in grades 4-8. Combined capacity at the two locations is 500 students.

**Organization Information:** Ocean is a K-8 grade charter school with 501(c)(3) non-profit public benefit status as West LA Waldorf Method Charter School D/B/A Ocean Charter School. The school received its first charter in 2003 and began instructional operations in the 2004-05 school year, with 194 students in grades K-6. The school currently serves 506 students in grades K-8 and plans enrollment to increase to 533 in 2019-20.

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

**Educational Management Organization:** Not applicable.

**Management Experience:** The resumes of the school’s personnel and the management team demonstrate professional, experienced and qualified individuals serving in key capacities within the organization.

Stephanie Edwards has served as Executive Director at Ocean since 2008. Previously she worked as a teacher for Capistrano Unified School District and Director/Teacher of Kindergarten at Journey School, a K-8 charter in San Clemente. Ms. Edwards earned her Bachelor of Arts in Liberal Studies at California State University, San Bernardino, and has a Multiple Subject Teaching Credential from the University of California, Irvine.

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

Nancy O’Rourke has served as Business Manager at Ocean since 2010. Previously she served as Administrative Assistant from September 2008 to July 2010 and also served on Ocean’s Board of Trustees from September 2007 to September 2008. Ms. O’Rourke earned a Bachelor of Arts degree from Rutgers University.

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

Board Member	Position	Term Expiration	County of Residence	Occupation
Joshua Dome	Chair	6/30/2019	Los Angeles	Entrepreneur
Jason Haas	Vice-Chair	6/30/2018	Los Angeles	Attorney
Lori Andrade	Secretary	6/30/2018	Los Angeles	Senior Business Systems Analyst, Macerich Corp.
Sue Ingles	Treasurer	6/30/2017	Los Angeles	Associate Professor, USC
Mark Galanty	Trustee, Community Representative	6/30/2017	Los Angeles	Senior Account Executive, Galanty & Co.
November McIlhargey	Trustee, Parent Representative	6/30/2019	Los Angeles	Agent, Architecture 8
Edward Eadon	Trustee, Community Representative	6/30/2018	Los Angeles	Physics Teacher, Marymount High School
Michael Krutz	Trustee, Parent Representative	6/30/2019	Los Angeles	VP of Finance, Alliance Public Schools
Laura Stoland	ACG Representative	6/30/2018	Los Angeles	Artist

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

**Student Performance:** Because of its implications for student enrollment stability and growth, staff views student performance as a leading indicator of a charter school’s financial position. Schools with improving student performance trends are viewed favorably, especially if these trends exceed threshold goals set by the school or the California Department of Education (CDE). In order to measure student performance, staff utilized Smarter Balanced Assessment data generated by the CDE. The Smarter Balanced Assessment was implemented in 2014-15 and measures English Language Arts/Literacy and Mathematics standards for grades 3 – 8, and 11.

Ocean, like all other schools in California, has two years of reported Student Balanced Assessment scores, allowing a review of progress and comparison to similar schools in the District for the past two years. In 2014-15, 61% of students at Ocean met or exceeded the new English Language Arts/Literacy standard set by the California Assessment of Student Performance and Progress’ (CAASPP) Smarter Balanced Assessment, and 46% of students met or exceeded the Mathematics standard under CAASPP’s Smarter Balance Assessment that same year. In 2015-16, 67% of Ocean students met or exceeded the new English Language Arts/Literacy standard, an increase of six percentage points; that same year, 58% of Ocean’s students met or exceeded the Mathematics standard, an increase of 12%. Staff compared Ocean Charter’s Smarter Balanced Assessment scores to that of the local elementary school and middle school. The analysis below shows that Ocean Charter greatly outperforms both local public schools in the respective grade levels.

<b>2014-15 English Language Arts/Literacy Standard (Met or Exceeded Standard)</b>						
<b>School</b>	<b>3rd</b>	<b>4th</b>	<b>5th</b>	<b>6th</b>	<b>7th</b>	<b>8th</b>
Ocean Charter School (K-8)	26%	54%	71%	76%	68%	85%
Stoner Avenue Elementary School (K-5)	27%	12%	23%			
Marina del Rey Middle School (6-8)				22%	20%	32%

<b>2014-15 Mathematics Standard (Met or Exceeded Standard)</b>						
<b>School</b>	<b>3rd</b>	<b>4th</b>	<b>5th</b>	<b>6th</b>	<b>7th</b>	<b>8th</b>
Ocean Charter School (K-8)	24%	52%	36%	55%	48%	71%
Stoner Avenue Elementary School (K-5)	28%	55%	27%			
Marina del Rey Middle School (6-8)				10%	17%	13%

<b>2015-16 English Language Arts/Literacy Standard (Met or Exceeded Standard)</b>						
<b>School</b>	<b>3rd</b>	<b>4th</b>	<b>5th</b>	<b>6th</b>	<b>7th</b>	<b>8th</b>
Ocean Charter School (K-8)	51%	60%	73%	64%	90%	62%
Stoner Avenue Elementary School (K-5)	28%	42%	32%			
Marina del Rey Middle School (6-8)				28%	32%	31%

2015-16 Mathematics Standard (Met or Exceeded Standard)						
School	3rd	4th	5th	6th	7th	8th
Ocean Charter School (K-8)	60%	43%	61%	60%	78%	29%
Stoner Avenue Elementary School (K-5)	25%	26%	14%			
Marina del Rey Middle School (6-8)				14%	18%	20%

**Enrollment and Retention Rate Information:** Ocean began instructional operations in 2004-05 with 194 students in grades K-6. In 2005-06, grade 7 was added and in 2005-06, grade 8 was added. Ocean has continued to show steady growth with student enrollment of 506 students in grades K-8 for the current academic year. Ocean has projected enrollment will consistently increase to 522 and 533, during 2017-18 and 2018-19, respectively. By 2019-20 (year of project occupancy), the enrollment is expected to level off at 533 students, given the enrollment cap established in the school's charter. OCS has achieved student retention rates of 85.3%, 91.3%, 91.7%, and 91.0% from 2013-14 through 2016-17, respectively. Furthermore, OCS has recorded ADA rates of 94%, 96%, 95%, and 95% for 2013-14 through 2016-17, respectively.

**Project Budget:** Ocean's total project cost of \$68.72 million exceeds the OPSC-approved project cost of \$51.53 million by \$17.19 million. The project budget includes the \$68.72 million project cost plus \$3.35 million of anticipated interim financing costs from Ocean's \$18.50 million grant anticipation notes (GANs) issued by CSFA in June 2016, for a total project budget of \$72.07 million. The anticipated funding sources and uses (in millions) are as shown below. Ocean's funding sources include two items -- \$32.65 million augmentation grant from LAUSD and \$3.00 million capital campaign – which carry contingent risks to the completion of the project should these amounts not be received by OCS in time to meet the construction timeline. In 2012, Ocean received an advance apportionment of the CSFP Grant in the amount of \$7,543,549; \$1,403,549 was allocated for design and \$6,140,000 for site acquisition. Below are the Sources and Uses table and the Project Breakdown comparison between Ocean's project budget and OPSC's calculated project budget.

**Sources and Uses (\$ millions)**

<u>Sources</u>		<u>Uses</u>	
CSFP Grant	\$25.76	OPSC Project Cost	\$51.53
CSFP Lease	10.30	Additional Project Cost	17.19
OCS Equity	0.60	Repay GANs	<u>18.50</u>
GANs Net Proceeds	15.15	Total	\$87.22
LAUSD Augment. Grant	32.65		
Capital Campaign	<u>3.00</u>	Surplus	\$0.25
Total	\$87.47		

**Comparison of Project Costs (\$ millions)**

<b>Ocean Project Budget (Based on 26 classrooms)</b>		<b>OPSC Project Budget* (Based on 19 classrooms)</b>	
Site Acquisition	\$20.75	Site Acquisition	\$21.55
Construction	41.17	Construction	<u>29.97</u>
Soft Costs	3.83	Total	\$51.53
Management	0.75		
Contingencies	<u>2.22</u>		
Total	\$68.72		

LAUSD Augmentation Grant – The LAUSD Board of Education originally approved an augmentation grant of \$25.79 million in April 2016 based on an OCS project cost of \$51.58 million. LAUSD staff communicated to OCS that the district would increase the augmentation grant to \$32.65 million, subject to the terms of actual construction bids received in September 2017, and via an informative memorandum to the LAUSD Board. The maximum size of the LAUSD augmentation grant will be the total project cost minus the CSFP Grant and the CSFP Lease. At this time, LAUSD has roughly \$100 million in augmentation grant funds available for new augmentation grants or increases to existing augmentation grants. The augmentation grant may not be spent by OCS to cover Project interim financing costs. However, should LAUSD elect not to increase the augmentation grant by the requested \$6.86 million, it seems unlikely that OCS would be able to locate grant funds from alternative sources in order to complete construction of the facility.

OCS Capital Campaign – Ocean’s \$3.00 million capital campaign, along with equity of \$602,969, will be applied to cover the expected \$3.35 million of interim financing costs. OCS has retained an experienced fundraiser to pursue school community members, foundations and private individuals in order to raise \$1.00 million annually from 2017-18 through 2019-20. OCS has committed to providing staff with details about existing pledges and commitments in advance of the May 9, 2017 Board meeting. It is important to note that the \$3.00 million capital campaign target would be fundraising in addition to the \$1.44 million budgeted for operations over the same three-year period (\$478,000 annually). From 2013-14 through 2015-16, OCS fundraised \$1.31 million for operations, and \$453,500 is expected in 2016-17. Should the capital campaign not reach its \$3 million target by 2019-20, the completion risk of the project would increase without meaningful cuts to the project cost.

Grant Anticipation Notes (GANs) – OCS funded \$15.15 million of project costs from the \$18.50 million note. Of the \$3.35 million interim financing costs, \$2.82 million was in the form of capitalized interest on the notes from June 8, 2016 through note maturity of January 1, 2019. OCS plans to repay the GANs using a portion of the anticipated \$28.52 million in CSFP final apportionment. However, should OCS receive final apportionment funds in time to repay the notes before the maturity date, the unspent capitalized interest would be applied to the note principal such that an equal amount of State funds would be made available for project costs. With interest on the notes accruing at \$92,500 per month, repayment of the notes on February 1, 2018, for example, would avoid \$1.02 million in interest cost and reduce Ocean’s capital campaign target from \$3.0 million to \$1.98 million.

**Financial Analysis:** Highlighted in this section are financial data and credit indicators used to evaluate Ocean’s ability to meet its CSFP obligations for its CSFP Project. Please note that the revenue, expenditure and changes to net assets recorded in financial audits 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.

Our financial analysis of OCS is based upon Staff’s review of three years of audited financial statements (2013-14 through 2015-16) and multi-year enrollment and financial projections (2016-17 through 2021-22). Ocean’s operational/financial projections are based upon the following assumptions:

- 1) Occupancy of the new facility in August 2019 (2019-20) with an annual CSFP lease payment of \$459,894
- 2) Increases in enrollment as described in the Enrollment and Retention Rate section, with projected ADA rates of 94.7 to 95.0%, which are slightly below Ocean’s historical ten-year average of 95.2%
- 3) A pupil-teacher ratio of 25.4 in 2015-16 declining to 23.2 by 2018-19 as the FTE teacher count increases from 18 to 23
- 4) Local Control Funding Formula (LCFF) sources per ADA increasing at annual average rate of 3.0% from \$7,280 in 2015-16 to \$8,665 in 2021-22
- 5) Projected fundraising for operations averaging \$477,669 per year, roughly 10% higher than the \$435,154 average for 2013-14 through 2015-16
- 6) Operating revenues per ADA growing from \$10,985 in 2015-16 to \$11,658 in 2021-22 for an average annual increase of 1.0%
- 7) Operating expenses plus CSFP lease payment per ADA of \$11,369 in 2015-16 increasing to \$11,606 in 2021-22 for an average annual increase of 0.5%

**Historical and Projected Net Income (Staff Adjusted)** – Ocean’s historical and projected financial projections presented below incorporate the aforementioned assumptions to calculate net income and debt service coverage on the CSFP lease.

In 2013-14 and 2014-15, Ocean recorded positive net income and increases to net assets of \$75,722 and 200,605. In 2015-16, after an adjustment for non-operating revenues, OCS shows a net loss of \$114,104. Looking forward, OCS is expecting annual net income to average \$13,680 for 2016-17, 2017-18 and 2018-19. In 2019-20 when the CSFP project is expected to be occupied, and facility rentals payments of roughly \$400,000 are no longer necessary, net income will increase markedly to \$414,429, and subsequently grow to \$461,366 in 2020-21 and \$486,213 in 2021-22. When CSFP lease payments of \$459,894 begin in 2020-21, the free cash flow will be marginal at \$1,472 in 2020-21 and \$26,319 in 2021-22.

**Projected Debt Service Coverage** – Assuming a 2.0% interest rate, a 30-year repayment period, and a CSFP lease amount of \$10.30 million, Ocean’s annual CSFP payment would be \$459,894 beginning 2020-21, the year after expected project occupancy in August 2019.

Ocean’s adjusted net income of \$461,366 for 2020-21 and \$486,213 for 2021-22 would provide debt service coverage of 100.3% and 105.7% respectively, which is slightly above the minimum requirement of 100%. The CSFP payments would represent 8.0% and 7.8% of projected operating revenues for each of these years, which is below the preferred maximum range of 10-15%. However, if 97% of fundraising projections are not realized then debt service coverage for these years would be well below 100%. Given Ocean’s limited net working capital and unrestricted cash position, we do not expect the school to be able to compensate for any material shortfalls in contributions through use of reserves (refer to “Liquidity” section below). Please note that gross debt service coverage based on LCFF sources subject to the CSFA intercept would be 701.1% in 2020-21 and 724.7% in 2021-22.

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022
<b>OPERATIONAL &amp; FINANCIAL</b>									
Enrollment	449	460	458	506	522	533	533	533	533
Average Daily Attendance (ADA)	424	441	435	481	496	505	505	505	505
Average Daily Attendance (%)	94.4%	95.9%	95.0%	95.1%	95.0%	94.7%	94.7%	94.7%	94.7%
FTE Teachers	18	18	18	21	23	23	23	23	23
Pupil-Teacher Ratio	24.9	25.6	25.4	24.1	22.7	23.2	23.2	23.2	23.2
LCFF Sources/ADA	\$ 6,143	\$ 6,635	\$ 7,280	\$ 7,591	\$ 7,667	\$ 7,887	\$ 8,140	\$ 8,450	\$ 8,665
% Change		8.0%	9.7%	4.3%	1.0%	2.9%	3.2%	3.8%	2.5%
Operating Revenues/ADA	\$ 9,098	\$ 10,136	\$ 10,985	\$ 10,862	\$ 10,931	\$ 11,111	\$ 11,098	\$ 11,427	\$ 11,658
% Change		11.4%	8.4%	-1.1%	0.6%	1.7%	-0.1%	3.0%	2.0%
Operating Expenses plus CSFP Lease/ADA	\$ 9,062	\$ 9,866	\$ 11,369	\$ 10,839	\$ 10,912	\$ 11,070	\$ 10,278	\$ 11,424	\$ 11,606
% Change		8.9%	15.2%	-4.7%	0.7%	1.5%	-7.2%	11.2%	1.6%
Free Cash Flow/ADA	\$ 36	\$ 270	\$ (384)	\$ 23	\$ 19	\$ 41	\$ 821	\$ 3	\$ 52
<b>DEBT SERVICE COVERAGE</b>									
Total Operating Revenues	\$ 3,857,517	\$ 4,470,004	\$ 4,778,499	\$ 5,224,846	\$ 5,421,535	\$ 5,611,113	\$ 5,604,609	\$ 5,770,541	\$ 5,887,191
Total Operating Expenses	3,842,201	4,351,047	4,945,368	5,213,588	5,412,270	5,590,597	5,190,180	5,309,174	5,400,979
Total Other Sources/Uses	-	-	-	-	-	-	-	-	-
Net Income Available for CSFP Lease Payment	15,316	118,957	(166,869)	11,258	9,265	20,516	414,429	461,366	486,213
Add Back Capital Outlay	59,906	81,648	52,765	-	-	-	-	-	-
Add Back Depreciation	-	-	-	-	-	-	-	-	-
Adjusted Net Income Available for CSFP Lease Pymt.	75,222	200,605	(114,104)	11,258	9,265	20,516	414,429	461,366	486,213
CSFP Lease Payment	-	-	-	-	-	-	-	459,894	459,894
Free Cash Flow	\$ 75,222	\$ 200,605	\$ (114,104)	\$ 11,258	\$ 9,265	\$ 20,516	\$ 414,429	\$ 1,472	\$ 26,319
Debt Service Coverage (DSC)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	100.3%	105.7%
CSFP Lease Payment/Oper. Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8.0%	7.8%
<b>FUNDRAISING</b>									
Fundraising for Operations	\$ 414,238	\$ 405,811	\$ 485,414	\$ 453,500	\$ 470,342	\$ 476,180	\$ 488,665	\$ 488,665	\$ 488,665
Fundraising/Oper. Revenues	10.7%	9.1%	10.2%	8.7%	8.7%	8.5%	8.7%	8.5%	8.3%
<b>LIQUIDITY</b>									
Current Assets	\$ 9,208,669	\$ 9,054,055	\$ 1,056,432						
Current Liabilities	7,739,093	7,527,417	268,886						
Net Working Capital	\$ 1,469,576	\$ 1,526,638	\$ 787,546						
Net Working Capital/Oper. Expenses	38.2%	35.1%	15.9%						
Unrestricted Cash & Cash Equivalents	\$ 1,267,875	\$ 1,233,080	\$ 511,864						
Unrest. Cash & CE/Oper. Expenses (Days)	120	103	38						

Operating Revenues from Fundraising – Over the last three years, OCS fundraised the following amounts and applied the majority of these dollars to ongoing operations: \$414,238 (2013-14), \$405,811 (2014-15), and \$485,414 (2015-16). OCS anticipates \$453,500 in contributions in 2016-17, \$470,342 in 2017-18, \$476,180 in 2018-19, and \$488,665 annually from 2019-20 through 2021-22. Fundraising averaged 10.0% of operating revenues for years 2013-14 through 2015-16, but this average is expected to decrease slightly to 8.6% from 2016-17 to 2021-22.

OCS relies on such fundraising to operate on at least a break-even basis. Based on a stress test of contributions using the financial projections provided by OCS, staff determined that the school would need to receive, on average, no less than 97% of its projected contributions in order to maintain debt service coverage levels of at least than 100% for 2020-21 and 2021-22.

Long-Term Liabilities – Ocean’s only long-term liability is the \$18.50 million grant anticipation note issued by CSFA on June 16, 2016. The note has a maturity date of January 1, 2019 and accrues interest quarterly at an annual rate of 6.0%. The school does not make interest payments from its operating budget as all interest through the maturity date was capitalized from the note proceeds. The notes may be prepaid without penalty on and after July 1, 2017. OCS plans to repay the GANs using a portion of the anticipated \$28.52 million in CSFP final apportionment. However, should OCS not receive final apportionment by January 1, 2019 or in an amount insufficient to repay the \$18.0 million, no other sources of funds are expected to be available for note repayment.

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. Ocean’s NWC for 2015-16 of \$787,546 (15.9% of operating expenses) decreased from \$1.53 million in 2014-15 (35.1% of operating expenses). Staff considers NWC equivalent to at least 5.0% of operating expenses to be sufficient. As of June 30, 2016, OCS recorded \$511,864 in unrestricted cash and cash equivalents, down from \$1.23 million at June 30, 2015.

**Strengths, Weaknesses and Mitigants:**

- + Ocean greatly outperforms the neighboring public schools in similar grade levels with respect to the Smarter Balanced Assessment scores in English Language Arts/Literature and Mathematics.
- Ocean’s funding sources for the CSFP project include two items -- \$32.65 million augmentation grant from LAUSD and \$3.00 million capital campaign – which carry contingent risks to the completion of the project should these amounts not be received by OCS in time to meet the construction timeline.
- +/- Ocean’s projected net revenues of \$461,366 for 2020-21 and \$486,213 for 2021-22 would provide debt service coverage of 100.3% and 105.7% respectively, which is slightly above the minimum requirement of 100%. However, if 97% of fundraising projections are not realized then debt service coverage for these years would be well below 100%. Given Ocean’s limited net working capital and unrestricted cash position, we do not expect the school to be able to compensate for any material shortfalls in contributions through use of reserves.

**Staff Recommendation:** Staff recommends the California School Finance Authority (CSFA) Board determine Ocean Charter School (“Ocean”) to be financially sound for purposes of the Charter School Facilities Program (Program) Final Apportionment. This determination as it relates to the Final Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This recommendation is contingent upon the following requirements: (1) having its CSFP

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