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Moody's Methodology and Median Report on Charter Schools

Summary Opinion

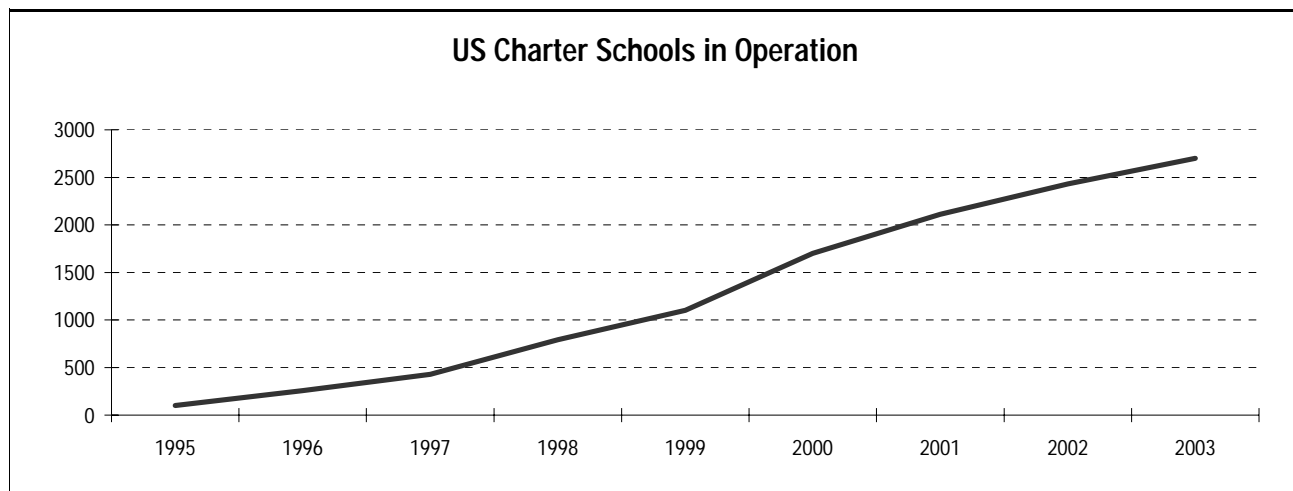
- Moody's expects continued growth in the charter school market, which has expanded from 100 schools in 1995 to nearly 2,700 currently, although the rate of growth has slowed considerably, and we expect the percentage of public school students served by charter schools to remain small at around 1%. Continued political support at the local, state and federal level; the passage of authorizing legislation in additional states; strong parental demand; and enhanced charter school legislation and funding will support this expansion. Despite their expanding numbers, however, charter schools continue to face significant challenges, with capital funding foremost among them.
- Moody's approach to rating charter school bonds focuses on five key rating elements: enrollment trends and service area demographics; management practices and financial results; legal structures and security; school oversight; and charter renewal policies. Our analysis focuses on a school's historical and projected performance, as evidenced primarily by audited financial results; enrollment trends; and projected debt service coverage levels.
- The median Baa3 rating on charter schools falls significantly below a median rating of A3 for traditional public schools and median A2 rating for private schools rated by Moody's, reflecting the considerable risk posed by this sector. More than one-third of charter schools are rated below investment grade. Potentially volatile enrollment levels, limited reserves and revenue raising capabilities, and limited business management experience and staffing are among the factors contributing to higher risk levels.
- In some cases enrollment levels have fallen below projections, in part because of increased competition from newly-formed charter schools or declines in new housing growth reflecting the ongoing economic recession. Moody's expects that the charter school sector will continue to demonstrate considerable risk, and defaults over the next three to five years are not unlikely. Despite this risk, Moody's believes that the presence of considerable reserve funds, salable assets, and strong political oversight and involvement should serve to minimize loss to investors.

Sector Outlook

Moody's outlook on the charter school sector, as a whole, remains stable reflecting three key facts:

1. Industry maturation - Overall industry maturation, as evidenced by charter schools with operating histories exceeding five years, and continuing alliances with management companies and preexisting nonprofit organizations provide important support to newer or highly leveraged enterprises.
2. Growing enrollment levels - Significant enrollment growth can be linked to augmented parental acceptance of charter schools as a viable and cost-effective educational alternative. As such, absolute headcount has more than doubled over the last five years - from an initial 300,000 children to close to over 684,000 currently compared to 1% average annual growth in public school enrollment. Roughly 60% of nation-wide charter school enrollment is clustered in 5 states - California, Arizona, Michigan, Texas and Florida.
3. Continued political support - Local, state and federal support for charter schools remains stable, correlating with the political vision of charter schools as a potential remedy to inter- and intra-district academic disparities. Local support tends to mirror the needs of the home school district and is particularly strong in large urban areas with overcrowded facilities and in growing areas with insufficient building capacity.

Since 1999 when Moody's initially began rating debt issuances sold by charter schools across the country, our portfolio of charter school credits has grown to approximately 20 charter school financings, including two pooled financing structures with a total of 18 underlying schools. Total rated debt equals \$297 million in outstanding obligations. The national charter school market continues to grow both in terms of the number of schools and students, increasing from 100 schools in 1995 to nearly 2,700 currently, educating almost 684,000 children. At present, 39 states have authorized charter school legislation, in addition to the District of Columbia and Puerto Rico, with Iowa and Tennessee passing charter school legislation in 2002. Some states with existing legislation continue to enhance the legal and funding support for the operations and capital needs of their local charter schools. In 2002, federal funding was also made available for the first time to initiate demonstration capital programs for a number of charter schools.

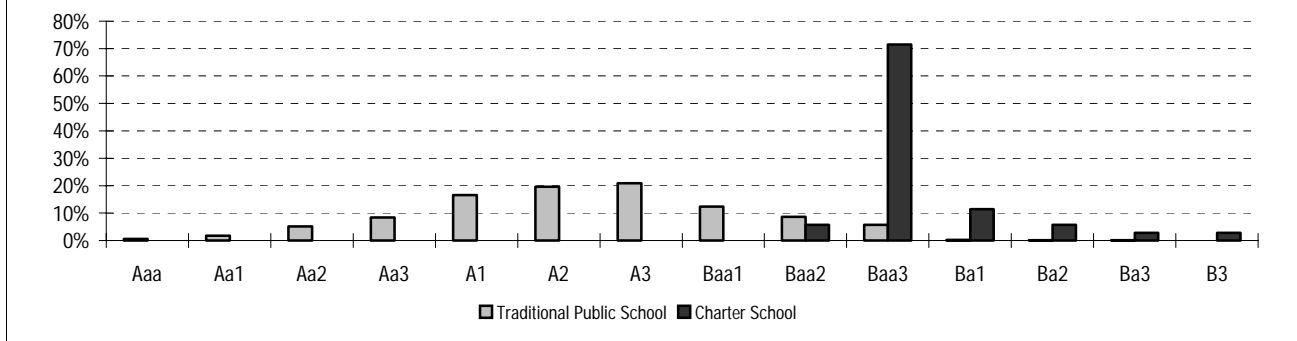


While important initiatives continue to move forward, charter schools still face significant challenges, especially in obtaining capital funding. This special comment includes an overview of the principal risks and opportunities that currently face charter schools, discusses key credit factors and Moody's rating methodology, and provides an overview of Moody's outstanding charter school ratings. Appendix A to this report provides a comprehensive list of all Moody's rated charter schools and a discussion of the current operations and capital programs of each school. The appendix also includes key credit statistics such as enrollment, debt service coverage, additional bonds test, and reserve levels.

Charter School Rating Distribution Reflects Higher Risk Levels Compared With Public or Private Schools Rated by Moody's

The median Moody's rating on charter schools is a Baa3 compared to a median A3 rating assigned to traditional public schools. This rating distinction, as evidenced in the chart below, captures the significant risks associated with charter schools - potentially volatile enrollment levels, limited capital funds, little revenue raising flexibility, and limited administrative and business management staff — that do not generally pose challenges to the operations of a typical traditional school.

Distribution of Public Ratings for Charter School Districts vs. Traditional School Districts



The average credit quality of charter schools also falls below that of private schools rated by Moody's. Moody's currently rates 60 private independent schools based on their unenhanced credit quality, with over \$1 billion of debt outstanding. These schools have an average rating of A2, but a slightly higher average rating of A1 when weighted by the amount of debt outstanding.

Although there is one very important credit characteristic shared by both charter schools and private, independent, primary and secondary schools — the school's need to attract students — independent schools typically have a more diversified revenue mix, much longer operating histories, and greater reserve levels through established endowments. Charter schools draw their revenues predominantly from state aid assistance allocated on a per-student basis. The predominant source of revenues for independent schools is also usually student-derived, including tuition and fees and, in the case of boarding schools, room and board charges. However, in contrast to charter schools, private schools derive significant income through gift revenue and endowment earnings. Indeed, some wealthy independent schools have as much as 30% of their operations funded from endowment spending and gifts typically make up 10% of operating revenue. Stock market losses have recently depressed investment income and fundraising activity and have created short-term fiscal challenges for some of these independent schools, but these schools still clearly have a more substantial cushion for their operations and debt than do charter schools. The higher ratings for independent schools generally reflect the longer operating histories, well-established fundraising records and strategies, and greater wealth of these schools in comparison to charter schools.

Assessing the Quality of Charter Schools - Five Key Factors.

Moody's evaluates five key credit categories in assigning a rating to a charter school. At the start of each analysis, each of the five credit categories carries equal weight and many qualitative factors are additionally considered. However, as analysis of an issue proceeds, one factor may become particularly dominant because it represents a particular strength or weakness for the school or represents a factor that is anticipated to generate a significant impact on credit quality in the near-term. In our view, the most useful method for evaluating charter school credit risk is through examining each factor individually as well as the interaction among these elements.

- 1. Service area demographics and enrollment trends** - While the funding structure of charter schools varies state to state, each state typically uses its average per pupil spending to provide charter school funding for operations. This dollar amount will then generally follow the student as she or he enrolls in either a charter school or public school. Headcount, therefore, drives charters schools' primary revenue source (state aid), and vacillations in enrollment can negatively affect finances and debt service coverage. A firm understanding of the service area demographics, trends in enrollment and local market demand remains critical.
- 2. Management policies and fiscal goals and results** - Charters are generally relatively new organizations with typically limited management structures, therefore challenges often arise from employee turnover, potential ambiguity in fiscal goals, and untested governing policies resulting in the need to understand and document policies and goals. Additionally, because charter schools typically begin operations with negligible financial reserves, Moody's considers: (1) a solid trend of favorable budget to actual results; (2) consistent growth in reserves to levels that ensure financial flexibility and preparedness for one-time capital needs, enrollment declines or unforeseen expenses; and (3) multi-year financial planning and forecasting as key elements necessary to achieving a strong rating level. Timely, independent, audited financial reports are a minimum requirement for an investment grade rating and constitute a critical component of ongoing credit evaluations even following the initial bond sale.

3. **Security features including additional bonds test and flow of funds** - Because charter school financings pose significantly more risk than traditional public school debt or even many private schools obligations, it is critical to understand legal restrictions covering additional bonds and revenue flow that may prevent potential net revenue dilution in the case of additional and unanticipated future capital needs.
4. **Oversight issues** - Charter oversight varies considerably depending on contract and legislative framework. Moody's analysis focuses on what agency or school district personnel provides oversight as well as the timing and tools available to assist a troubled school.
5. **Charter renewal risk** - Initial charter periods are typically three to five years and final bond maturity is 15 to 30 years. Our analysis includes an evaluation of the factors that support charter renewal, intermediate steps available to oversight authorities short of revoking a charter, and avenues for appeal that are afforded to the school should a charter be revoked or renewal denied.

1) UNDERSTANDING SERVICE AREA DEMOGRAPHICS AND ENROLLMENT TRENDS

Moody's believes that understanding the demographic characteristics of a charter school's service area is critical to assigning a charter school bond rating. This is because charter school funding is calculated on a per pupil basis resulting in a strong correlation between enrollment level and fiscal solvency. This issue is further exacerbated by the fact that as many charters embark on their capital financing plans they will need to grow headcount in order to meet future debt service requirements. Therefore, it is of particular importance to Moody's that management has a clear understanding of the potential student pool and a firm grasp on the optimal number of students to be enrolled at a particular school. To capture these dynamics in the credit evaluation, Moody's focuses on:

Total available school age population - Management must clearly define the service area (this can include the local school district, county, or wider geographic areas within commuting distance) depending on the area philosophy toward education and commutation.

- Area enrollment trends including historical and projected levels - To quantify expectations of growth or stability it is important to project population dynamics such as anticipated new residential growth and expectations of future migration.
- Enrollment growth needed to meet Maximum Annual Debt Service (MADS) - The extent to which a school will have to increase enrollment to attain the minimum number of students necessary to meet operating school needs and debt service obligations compared to current enrollment levels is a key credit consideration. Those schools whose multiyear financial projections reflect the need to significantly increase current enrollment levels to cover average annual debt service requirements generally exhibit lower initial credit quality than those for which no enrollment growth is required.
- Competitive and educational alternatives including the quality of and programs offered by local public schools, other charters, private schools and home schooling. Given the inherent correlation between enrollment and revenues it is imperative to conceptualize the realistic educational alternatives for a parent or student in the case of charter school dissatisfaction. Expectations for enrollment growth are enhanced in areas in which educational alternatives are poor; conversely, strength of the local traditional school can correlate negatively with charter enrollment stability if the charter runs into perceived or actual difficulties.
- A school's demonstrated ability to consistently meet projected enrollment growth levels. A well-demonstrated pattern of steady enrollment growth that meets or exceeds projections represents a key factor in supporting strong credit quality. Declines or fluctuations in enrollment during a charter school's early years or enrollment growth that falls short of projections during subsequent years can lead to weakened credit quality.

Moody's is often asked if we require a minimum student enrollment figure to achieve an investment grade rating. While no absolute threshold exists, the smallest schools demonstrating investment grade characteristics generally have a minimum enrollment of between 300 and 500 students, with the median enrollment for stand-alone, investment grade charter schools equaling a much higher figure of 925 students. A minimum enrollment of between 300 and 500 students represents an important threshold, because below this figure, the loss of even a few students can negatively impact debt service coverage. At minimum, a school should comfortably be able to lose between 25 and 50 students with no significant impact on debt service coverage levels. In certain cases, smaller schools have achieved investment grade ratings through pooled financing structures.

Pooled Loan Structures Can Provide Additional Security, Especially for Smaller Schools

In many cases, pooled loan structures with cross-collateralized reserve funds can provide additional security, often making the difference between investment grade versus noninvestment grade credit quality. This is especially true for smaller schools in which small, temporary deviations in enrollment can substantially reduce debt service coverage levels. To date, Moody's has rated five pooled financings for charter schools in Arizona. All four received a Baa3 rating applying to close to \$77 million in outstanding debt.

The five financings in Arizona include \$27.1 million in educational revenue bonds issued by the Maricopa County Industrial Development Authority and four issuances by the Industrial Development Authority of Pima County; for \$15.4 million, \$6.57 million, \$19.1 million and \$4.4 million. The Maricopa County pool included seven charter schools, the first Pima County pool consisted of three charter schools, the second Pima County pool included five charter schools, the third included five schools with two repeat issuers, and the fourth consisted of two schools, with one repeat issuer.

In all five financings, two reserve accounts were created, each cross-collateralized among the participating schools. The first reserve account, a Credit Reserve Fund equivalent to one year's MADs, was funded at closing. This reserve is used, in the traditional fashion, to make interest and principal payments if needed. The second reserve account, the Liquid Reserve, was funded at closing with an amount equivalent to the two highest interest payments for the combined pool at the time of closing. As described below, this reserve is drawn upon in the event of foreclosure. Together, these two accounts initially provided roughly two years' maximum annual debt service at the time of closing.

Additional deposits to the Liquid Reserve Fund are made in each subsequent month. Annually, these monthly deposits total 5% of debt service. If the Liquid Reserve Fund is funded at its requirement, these monthly deposits will be used to cure any deficiency, if necessary, in the Credit Reserve Fund. Provided there is no ongoing default by any of the schools, these additional monthly deposits will be used for early redemption of bonds, projected to occur approximately three years prior to maturity. In the event that foreclosure proceedings are initiated and the trustee is no longer receiving school revenues from the state, money in the Liquid Reserve Fund will be utilized to make payments on the defaulted school's obligations. Once foreclosure proceedings have been concluded, proceeds will be used to repay that portion of the bonds as well as replenish any reserves that have been utilized.

Neither revenues nor pledged property was cross collateralized in the Arizona pool structures. Nevertheless, the cross-collateralized Credit Reserve Fund (specific to each financing) Liquid Reserve Fund (cross collateralized among participants in each pool) significantly enhances security. Assuming, for example, that the property of the defaulted school could be resold within one year for 95% of its original appraised value, default tolerance analyses for the Pima County IDA pool indicate that approximately 50% of the outstanding bonds could default within the first year, and the Liquid Reserve Fund itself could make up any deficiencies. As additional deposits are made to the Liquid Reserve Fund over time and bonds are amortized, the credit enhancement provided by this account further improves. In addition, any increases in appraised value for collateralized property would also enhance default tolerance.

The security of the loan pools is also enhanced by direct intercept of state aid payments by the trustee and a pledge of the property being refinanced by each school for its proportionate share of the bonds. Additional similarly secured bonds may be issued only if such issuance would not result in a downward revision of Moody's rating.

Significantly, Moody's reviews each individual school participating in the pools and determines that each is well managed, demonstrates strong market demand, and is successfully meeting its educational and enrollment goals. In addition, participating schools provide regular reports on their financial results, enrollment figures and operations. The Baa3 rating assigned to the pooled loan structures incorporates an internal credit evaluation of each school and reflects our expectation that no individual school is likely to fail based on its operating history. Significantly, however, a number of schools participating in the pooled structures enroll fewer than 500 students, subjecting them to significant revenue risk from even small decreases in enrollment, and would probably not achieve an investment grade rating on their own. Since even minor variations or one-year "blips" in enrollment can seriously weaken debt service coverage levels, the additional security provided by cross collateralized reserve accounts serve to offset this risk. This enhanced security often makes the difference between an investment grade or noninvestment grade credit rating, and for charter schools themselves, can significantly reduce the cost of capital.

2) UNDERSTANDING CHARTER MANAGEMENT POLICIES AND FISCAL PLANNING AND RESULTS

School management teams nationwide are challenged to provide adequate resources to support strong academic achievement, often in an environment of revenue limits and expenditure caps. As a result, school officials are forced to utilize innovative strategies to achieve and then maintain fiscal viability while simultaneously balancing academic achievement goals, student, staff, and facility needs. While charter schools face the same challenges confronting traditional school districts, Moody's believes that obstacles to charter school success are relatively more difficult to overcome. This is because they must also deal with additional challenges such as staffing, facilities and student enrollments, given a more market-based approach to schooling. Therefore in Moody's analysis of a charter school, we seek to understand the institutionalization of strategies and planning and a school's ability to react to shifting budgetary or demographic projections. We look for a well-established trend of favorable budget to actual results, strong finances with steadily increasing reserve levels and well-established practices of multi-year forecasts and budgeting.

- Institutionalized management strategies that transcend any one individual — In the case of charter schools, power is often centered upon the individual who initiated the charter and the management of the school is highly leveraged. For example the finance officer may be the math teacher and the science teacher while some one else (perhaps even a spouse or relative) may be the charter holder, chief academic officer and the social studies teacher. While this structure may reduce salary expenditures and demonstrates staff commitment, it is a structure that can devastate a school if one or more key personnel choose to leave. Therefore, Moody's views positively independent Boards of Directors that serve in an advisory capacity and provide oversight of day-to-day management. A strong board, in Moody's opinion, includes representatives from the community with various areas of expertise (the law, finance etc.) and a legal construct that delineates at a minimum: the role of the board, voting powers, election of officers, term duration and procedures for replacement of members. In addition, Moody's believes that a charter school should maintain some transition plans to protect day-to-day operations, should it experience the loss of a key managing individual.
- Adequate reserve levels with consistent additions during initial years — Initially, bond documents themselves may remedy some of risks associated with the narrow financial reserve levels that are typical of charter schools, especially during their initial years of operations. Bond documents may directly address, for example, requirements for cash and capital reserves, thereby providing stronger security. In some cases the covenants are very general, requiring the school simply to covenant that it will have on hand sufficient cash to meet some of its key ongoing expenditures, such as salaries. More specific covenants have been designed requiring cash to be set aside in amounts measured in terms of either operating expenses or gross revenues, with typical percentages ranging from 3% to 5%. As the facilities housing charter schools are key both to the school and to bondholders, bond covenants have also emphasized funding for capital repairs and replacement. These requirements most commonly have been defined at fixed dollar levels (generally ranging from \$100,000 to \$250,000) to be funded through regular deposits until the school has met or exceeded the requirement. The repair and replacement funds are intended to be segregated from the school's other funds, and in some cases bond covenants have called for establishment of a separate account, either at a commercial bank or with the bond Trustee.
- Strong budgeting practices with the ability to react to budget variances and projected demographic shifts in order to meet fiscal objectives. Because funding is driven by enrollment levels, the need to react to demographic shifts or budget variances to ensure fiscal goals is an important component to Moody's analysis. In some cases, charters have been generally successful at augmenting their per student revenues by obtaining grant money and charitable contributions (in the form of land and buildings as well as donations from individuals and corporations) as well as providing tuition based programs such as full-day kindergarten or before-and after-school care. The maintenance of adequate reserve levels and meaningful multi-year budget forecasting represent two critical components of our analysis. In addition we seek to understand a school's fiscal management strategies such as the employment and qualifications of its chief financial officer and any delegation of administrative responsibilities such as payroll and purchasing to either for-profit management companies or a traditional public school district.

Challenges Remain Greatest During Buildout Phase

Challenges for a charter school remain greatest during the buildout phase, as a charter school adds classes, grade levels and students up to its envisioned and authorized maximum enrollment. During this period, charters must successfully establish a system of governance and administration, obtain and manage funding (including start-up cashflow), establish a mission and marketing strategy to generate enrollment, develop a curriculum, hire staff and secure and maintain facilities. While clearly daunting, Moody's believes that all new charter schools are not equally challenged by these obstacles. For example, start up charters that are affiliated with larger, more estab-

lished organizations such as universities, private companies, management companies, non-profits, or an affiliated charter school are better able to draw upon the expertise of these institutions and, as a result, will typically be better positioned to surmount the challenges of starting a new school. For example, a charter school affiliated with a large university might leverage that institution's existing resources, such as technology, infrastructure, or teaching personnel to supplement additional curriculum options. Conversely a charter school on its own, with no connection to another entity, must depend fully upon its own financial and human assets, which may not be sufficient through its initial years, and could result in an early school closing. Once a charter school reaches full enrollment, a foundation of governance, curriculum, and financial viability is frequently established. Therefore, certain difficulties will be diminished, and remaining obstacles will focus on seven areas:

1. Following and acting upon legislative initiatives
2. Maneuvering among different levels of government including the state, local school district, and other chartering entities
3. Maintaining and augmenting teachers' support and salaries
4. Building community support which includes expanding or maintaining an enrollment base
5. Achieving academic goals
6. Securing and maintaining adequate facilities
7. Maximizing funding dollars

3) SECURITY FEATURES SUPPORTING CHARTER SCHOOL DEBT

In Moody's opinion, it is imperative to have a firm grasp on the legal structure that supports repayment expectations of a charter school as various legal structures can inherently weaken or strengthen expectations of debt repayment given charter viability or investment recovery in the case of a school closure. In addition, scrutiny of legal covenants that support or minimize additional parity obligations, thereby protecting net pledged revenues from dilution, is critical. Given the fundamental importance of the legal analysis Moody's focuses on:

Additional bonds test (ABT)/restrictions on future debt issuance - The focus here is whether the school may issue additional parity debt that may dilute the credit quality of the original rated issue. Although the specific ABT will vary from issue to issue it is typically quantified through the limitation of additional debt if repayment of the new obligations would reduce coverage of total debt service by net revenue below a certain level - for example 1.50 times. The additional bonds test may be multi-tiered to factor in current coverage as well as forecasted coverage given enrollment growth projections. The closure of the lien, eliminating the possibility of future debt, or a more restrictive additional bonds in the case of a more risky venture can provide some enhancement to credit quality.

In some cases, bond documents have included limitations on operating debt, cash flow borrowing and subordinated debt as well. Bond covenants generally constrain but do not prohibit the amount of such borrowing, again with the objective of permitting operating flexibility while controlling overall exposure.

Required debt reserve funds (DSRF) and working capital requirements - A DSRF is a required component of every Moody's rated transaction and is typically sized at maximum annual debt service and funded at closing with bond proceeds. In our opinion, the presence of a fully-funded DSRF provides the investor with repayment continuity if revenues fall short of expectations or in the case of a school closure that is not immediately followed by an asset sale to cover remaining outstanding debt. Pooled transactions often have additional cross-collateralized reserves and/or supplemental reserves (see sidebar on pooled transactions), and required working capital reserves provide additional liquidity and financial cushion.

Loan to value ratio - Given the inherent risk that a charter school can close, Moody's requires that the pledged asset, typically a school plus a debt service reserve, exceeds or is at minimum equal to the outstanding parity debt. We also consider area zoning regulations to gain assurance that the asset can be reused and sold.

Flow of funds - Because charter funding does not typically benefit from a discrete capital component, debt service expenditures may compete with other school spending priorities. In an effort to eliminate this issue, Moody's views positively a legal flow of funds which ensures that revenue flows directly from the state to the trustee for debt service payments. However, some states require that the funds flow first to the chartering entity and then to the trustee before flowing to the charter. The weakest payment method in Moody's view is a structure in which funds are remitted to the local school district without a date by which the traditional school is required to transfer the funds to the charter or its trustee. This flow is evident in New York and Pennsylvania and can result in significant funding delays particularly if local support is lacking.

Coverage levels - Unlike a traditional revenue bond, charter schools can not raise rates when coverage levels narrow. As such, Moody's analysis of coverage ratios is conservative in recognition of the revenue-raising limitations in the event costs exceed budget or enrollment does not meet projections. Some credit comfort may be derived from covenants requiring a school to increase enrollment (where permitted by charter) in the event coverage dips below a certain level. Conversely, requirements regarding expenditure controls in the event coverage narrows would also be a credit positive. Downward credit pressure is greatest for schools in which enrollment would have to grow significantly to meet average annual debt service, especially in cases where growth is assumed for grades levels that the charter school does not currently serve.

4) UNDERSTANDING CHARTER SCHOOL OVERSIGHT

Although charter schools are legal in 39 states and the District of Columbia, the legislative framework delineating oversight and charter assignment varies tremendously in terms of reporting requirements, academic expectations, and renewal process. Therefore Moody's believes before a rating can be assigned it is critical to evaluate the state in which the school is located, the authorizing entity as well as the oversight requirements that stem from each.

Four characteristics of strong oversight:

- The oversight role is clearly defined.
- The oversight role supports proactive behavior in reviewing charter school finances and academic standards, more than once a year.
- The oversight entity is permitted to review operating procedures including fiscal policies.
- The oversight entity can provide a greater allocation of personnel or financial resources to a charter school that runs into temporary academic, fiscal or management hurdles.

In Moody's opinion, a cooperative relationship between the charter and the chartering entity (whether a university, the local school district, or the state), is a critical component in meeting the challenges faced by charter schools. This is because these organizations are often empowered to provide critical guidance and resources especially during a charter school's early years of operations. Furthermore, these organizations may also be the principal provider of oversight for the charter and therefore can play a key role by intervening to help address underlying problems of a charter experiencing difficulties before these problems require a school censure or closure. Conversely, if there is ambivalence or lack of support by the chartering entity, early signs that the charter school may be experiencing financial or academic distress may go unmonitored or undetected or may, without a remediation period, provide the basis for charter revocation.

Evidence suggests a national failure rate of close to 5% with some highly publicized cases closed for fiscal mismanagement. Many officials, however, argue that this closure rate under-represents the number of unsuccessful charter school attempts by undercounting schools closed within the first year and schools that never successfully got beyond the application process. Ultimately, Moody's believes that the ability of a charter school to open and then close or never open reinforces the critical nature of having adequate and experienced oversight.

5) CHARTER RENEWAL RISK

Because charter schools typically issue debt that matures in 20 to 30 years and an initial charter period typically extends only three to five years, Moody's believes that charter renewal risk remains a fundamental credit issue. Colorado remains the one state with provision for 30-year charters, and Arizona has 15-year charter approvals that include five-year incremental reviews. Given charter renewal risks, Moody's evaluates the following three factors to gauge prospects for probable charter renewal.

1. Clearly delineated renewal criteria - A charter contract with clearly delineated renewal criteria allows the evaluation of specific criteria that will determine probable charter renewal. In most states, if these indicators are being met then the charter should be renewed. We believe it important to note, that in most states a charter may be terminated at any time for violation of a charter contract; although to date, we have seen charters revoked primarily for gross fiscal mismanagement.
2. Clearly outlined timing and appeal process - The legislative framework for renewal should clearly delineate the timing of the renewal process, the possibility of transferring the charter to another sponsor, and timing and intermediate steps of the appeal process either by the state or in the courts. In the strongest cases, if a charter is not renewed, the mechanics of the renewal process should provide adequate time for the charter to find another sponsor or appeal the revocation, while allowing for continued operation until the final decision is reached. In the weaker cases the appeal must be done through the courts, and the timing does not allow for a charter to maintain operations in the interim.

3. Political support - The level of political support is reviewed at the state and local level. California, Arizona, Colorado, Texas, Florida Minnesota and Michigan are among those states that Moody's views as demonstrating the strongest support. Charter support on the local level tends to be very strong in large urban school districts where the charter school is typically strongly embraced by the parent body and in growing areas where school districts struggle to meet capital needs.

Timely and Full Disclosure Remains Critical in Ongoing Surveillance and Maintenance and Improvement of Credit Quality

Once a charter school has received an initial rating, ongoing disclosure serves a critical role in both maintaining and improving a school's credit quality as reflected in its outstanding rating. Ongoing analysis is conducted until the bonds are redeemed or reach maturity, and subsequent reviews also incorporate these five key credit elements. These reviews reflect not only information obtained from audited financial results but also from discussions with school officials on operational and financial trends as well as any changes in funding or legislation at the local and state levels. At a minimum, timely disclosure of operational information and audited finances, as required in bond covenants and lease agreements, is critical to maintaining current credit quality.

Conclusion

Moody's anticipates continued growth in the charter school sector. This expectation reflects industry maturation, enrollment growth, and continued political support at the local, state and federal level. While recognizing that charter school financing poses inherently more risk than traditional school debt, we also believe that important analytic information can be inferred from evaluating successfully issued and rated charter school debt. As such, we have included in the appendix to this report a compilation of medians and financing summaries on all charter schools rated by Moody's to date.

Appendix A

Moody's Charter School Ratings - An Overview

In contrast to general obligation bonds issued by public schools, for which the average rating level is A3, most charter schools are rated Baa3, reflecting the higher level of risk inherent to this sector. Over one-third of charter schools rated by Moody's are rated below investment grade. Over time, Moody's expects charter school ratings to improve incrementally as schools continue to enroll additional students and build reserve levels. Only two charter schools carry a positive outlook, however, indicating that we expect credit quality to potentially improve within a two-year time horizon, and for most schools Moody's anticipates that any upward rating movements would occur only after a considerably longer period of favorable operating results.

The Baa3 rating level for most charter schools also reflects the relatively weak financial results of many charter schools. It's important to note, however, that for those credits rated investment grade, Moody's does not believe that these narrow financial margins reflect weak financial management or controls, but are inherent, instead, to the significant start-up costs faced by charter schools. During their initial years of operation, charter schools must purchase equipment and supplies that frequently delays any significant growth in reserve levels. Many have also borne significant costs in retrofitting leased space not originally designed for educational uses. And in most cases, monthly rental payments on leased space exceed the costs of tax-exempt financing for new construction, which replaces these lease payments following debt issuance. For all of these reasons, Moody's expects that operating flexibility and year-end results should improve somewhat as operating costs become more incremental and completed debt financings provide some relief on capital expenditures. Importantly, some states continue to increase funding support of charter schools as well. Colorado, for example, began providing capital funding of roughly \$340 per student annually beginning in fiscal 2001, in addition to per pupil reimbursements. It should be noted that most charter schools raise additional funds through grants and private contributions as well as tuition-based programs such as before- and after- school care and full-day kindergarten. Nevertheless, because of the highly variable nature of some of these revenues, Moody's discounts these revenue sources under various stress scenarios in assigning our rating.

Nevertheless, Moody's expects that operating flexibility for charter schools will remain restricted, especially given pressure at most schools to raise teacher pay scales to more closely approximate district averages. The average teacher salary in Colorado charter schools during the 2001-02 school year, for example, was 30% less than the state average salary of \$40,659. Moreover, this salary gap has actually widened since 1997. In addition, most charter schools, while generally having much lower administrative overhead than public schools, attempt to maintain smaller class sizes than district averages, a factor that also increases expenditure levels. And finally, charter schools must bear costs for advertising and recruitment not faced by district public schools. In general, Moody's expects additions to reserve levels and improvements in financial flexibility to remain incremental, another reason why most rating improvements are a number of years away.

In addition to narrow financial reserves, anticipated coverage of maximum annual debt service remains relatively slim, with median debt service coverage levels for fiscal 2002 of 1.3, a slight improvement over last year's figure of 1.09 and approaching a median projected coverage of maximum debt service of 1.58. It should be noted, however, that a number of charter schools remain within their capitalized interest period or buildup of debt service payments, and annual debt service payments for most schools will increase going forward. Moody's expects that debt service coverage levels will remain relatively narrow, and by themselves are unlikely to contribute to any future rating improvements.

The median enrollment level of charter schools rated by Moody's is 517, with most schools offering a K-8 program. This figure remains essentially unchanged from last year, reflecting the relatively large number of smaller schools, especially in the Arizona pooled issuances, that are already at maximum enrollment. Other schools continue to add to enrollment with most meeting original enrollment targets. In those cases in which charter schools have fallen short of enrollment estimates, this frequently reflects the growing number and competition among charter schools or a slowdown in the local new housing market rather than a diminished public enthusiasm for their educational offerings.

In essentially all cases, the financings undertaken by these charter schools will provide the required facilities for full enrollment. Here again, however, Moody's anticipates that enrollment growth will remain incremental, flattening out once a particular school has attained its desired target. While having facilities for larger enrollment, most schools prefer to add new students incrementally, often expanding by one grade level annually because it allows for a more controlled and planned approach to curriculum and instructional expansion. Many charter schools also prefer to "grow their own," finding that students who have completed a middle school curriculum at a particular school, for example, are those most likely to be successful in the school's high school grades.

Of all the rating factors, enrollment and finances represent the two factors most critical in determining the credit worthiness of charter schools, and it is fluctuations in these two areas, either positively or negatively, which are most likely to drive future changes in credit quality. In general, while it remains our expectation that both of these factors for most investment grade charter schools will continue to strengthen, improvements will remain incremental and occur over an extended period of time.

Colorado Charter Schools

Bromley East Charter School (Baa3; Negative Outlook)

Key Facts:

Fall 2001 Enrollment: 738

Fall Enrollment: 927

FY02 General Fund balance: \$195,802 (5.8%) Bromley East

FY02 General Fund Balance: \$83,776 (7.2%) Brighton Charter School

The Brighton school began operation in fiscal 1999, offering core knowledge based curriculum in grades 6-12 and serving 307 students. The school's \$11.9 M in outstanding debt was issued to construct a new K-8 facility for East Bromley Charter School. Brighton high school is a designated neighborhood school, which requires the students to "opt out" of going to the charter and to a traditional school facility. The negative outlook reflects in part shortfalls in projected enrollment growth, with the school's current enrollment of 927 students falling short of a projected fall 2002 enrollment of 1,159 and below the minimum number of students required to cover maximum annual debt service in 2004, estimated at roughly 970 total students. While finances at the two schools remain generally stable, the negative outlook reflects risks associated with enrollment shortfalls that may weaken the schools' ability to meet escalating debt service while maintaining satisfactory reserve levels.

CHERRY CREEK ACADEMY (Baa2)

Key Facts:

Fall 2001 Enrollment: 419

Fall 2002 Enrollment: 449

FY01 General Fund Balance: \$187,000 (8.3%)

FY02 General Fund balance: \$308,857 (13.0%)

The Cherry Creek Academy is a charter school created by Arapahoe County School District Number Five (Cherry Creek School District) in July 1, 1995. Following a renewal of the school's initial five-year charter, Cherry Creek School District approved an amendment to the charter in February of 2001 to extend the life of the charter to June 30, 2030. The Cherry Creek Academy is primarily funded from state aid, receiving approximately 95% of the state's per pupil allotment with a limited amount of additional funding provided by grants and revenue-generating school enterprise systems such as an extended day program. The Cherry Creek Academy began operation in 1996 offering a core knowledge curriculum for 343 students in grades K-6. Fall 2002 enrollment reached 449, just under the 450 charter maximum, and the school now houses grades K-8. Officials have no plans to seek increased enrollment authorization and expect to maintain the 450 student count. Cherry Creek Academy currently maintains a waitlist of around 900 students, with applicants for every grade level. Net revenues in fiscal 2002 covered debt service requirements by 1.93 times, exceeding projections. No further enrollment increases are required to meet projected debt service payments. Cherry Creek Academy has completed seven years of operation and has maintained balanced financial operations and has met or exceeded enrollment and operating projections in each year. In fiscal 2002, the school maintained over \$308,000 in General Fund reserves.

CLASSICAL ACADEMY (Baa3)

Key Facts:

Fall 2001 Enrollment: 1,148

Fall 2002 Enrollment: 1,630

FY02 School Fund balances: \$191,279 (3.3%)

The charter school's \$19.6M in outstanding debt was issued to construct a West Campus for the Classic Academy Charter School and purchase the land and existing modular facilities on the existing East Campus. The Classic Academy Charter School is a charter school approved by El Paso County School District 20 (Academy), for a thirty year charter. The Classic Academy charter school benefited from a year of planning and development prior to opening in September 1997 with six grades and 403 students. Current enrollment in grades K-12 totals 1,630 students, which includes 255 home-school students, with approximately 1,429 students required to meet MADS. There are currently 4,500 students on the school's waitlist. General "School" Fund balance equaled an adequate \$191,279 (3.3% of revenues) in fiscal 2002, a slight decline from an ending balance of \$234,118 in fiscal 2001 reportedly due to expenditures exceeding projections.

COLLEGIATE ACADEMY (Ba1; Negative Outlook)

Key Facts:

Fall 2001 Enrollment: 520

Fall 2002 Enrollment: 543

FY01 General Fund unreserved deficit balance: (\$281,419) (9.6%)

FY02 General Fund unreserved deficit balance: (\$135,833) (4.6%)

Opened in 1994 with an initial enrollment of 126 students, the Core-Knowledge school has expanded enrollment fairly steadily to the current figure of 543 students. Enrollment jumped most significantly in 1999, when the school added grades K-6 to its junior and high school program. While enrollment is generally at capacity for grades K-8, high school figures fall below capacity and have experienced periodic declines, reportedly due in part to the school's rigorous academic and discipline requirements. Going forward, the school's five-year budget estimate projects enrollment growing by an average of just over 4% annually, made possible by anticipated improvements in high school enrollment supported by the new facilities. The school will need to meet these growth projections in order to attract the 570 students required to meet maximum annual debt service of over \$600,000 in 2007. Audited financials for fiscal 2002 reflect a negative unreserved General Fund deficit of \$135,833 (4.6% of revenues), a second consecutive improvement from an ending unreserved deficit of \$281,419 in fiscal 2001. The school's financial position is expected to improve given savings provided by the financing over previous leasing costs and the addition of state capital aid. Bond proceeds were used to purchase the school's previously leased facilities and finance the construction of an addition replacing previous modular high schools classrooms.

FRONTIER ACADEMY (Ba1; Positive Outlook)

Key Facts:

Fall 2001 Enrollment: 562

Fall 2002 Enrollment: 654

FY01 General Fund unreserved deficit balance: (\$275,000) (11.1%)

FY02 General Fund unreserved balance: \$383,798 (12.1%)

Frontier Academy was formed in February 1996 as a non-profit corporation for the purpose of operating a charter school. The school's charter was approved on July 1, 1996 and was extended on August 8, 2001 for a thirty-year term expiring June 30, 2031. The charter school opened in the fall of 1997 with an enrollment of 258 students (kindergarten through fifth grade). Since that time, the school has added a grade each year, expanding to its current enrollment of 654 students in K - 10th grades, with actual enrollment exceeding projections. The charter school intends to continue adding a grade a year through 12th grade. Ultimately, the school intends to limit enrollment to around 800 students with three classes per grade. In addition to state aid, the Frontier School also solicits private grants and contributions. The school's audited financials for fiscal 2002 reflect an unreserved General Fund balance of close to \$384,000 (12.1% of revenues), and an overall General Fund balance of close to \$470,000 (14.8%), eliminating an ending deficit of negative \$146,000 (5.9% of revenues) at yearend fiscal 2001. Improved financial results were largely due to authorization by the Colorado State Legislature of an additional \$322 per pupil for capital needs. Officials estimate the additional revenue totals approximately \$200,000 annually, beginning in fiscal 2002. A higher PPR reimbursement figure and a significant reduction in lease payments of roughly \$400,000, due to a renegotiated lease and capitalized interest beginning in January 2002, also contributed to enhanced financial results.

PEAK TO PEAK CHARTER SCHOOL (Ba2; Positive Outlook)

Fall 01 Enrollment: 605

Fall 02 Enrollment: 991

FY02 General Fund unreserved balance: \$211,894 (5%)

First opened in the fall of 2000, the school offers a modified core knowledge curriculum for an original 179 full-time equivalents (FTE) in grades K-5. Fall 2002 enrollment totaled 991 students in grades K-10. The school will add grade 11 in the fall of 2003 and anticipates enrollment increasing to 1,133, approaching the school's anticipated maximum of 1,250. Ten-year financial projections provide for approximately 1.61 times coverage of debt service in fiscal 2004, the first year of a full debt service payment, and a minimum of 1.77 times coverage of maximum annual debt service once the school reaches full capacity. The school needs a total of approximately 860 students in order to meet maximum debt service requirements. Bond proceeds were used to construct a new facility opened in the fall of 2002.

PINNACLE CHARTER SCHOOL (Baa3)

Fall 2001 Enrollment: 832

Fall 2002 Enrollment: 1,183

FY01 General Fund Balance: \$591,569 (21%)

FY02 General Fund balance: \$1,409,042 (33.2%)

First opened in the fall of 1997, the school's initial enrollment totaled 409 students (K-9). The school subsequently added a grade each year until 12th grade was added in 2000, bringing enrollment to 656 students. Current enrollment at this Core Knowledge school totals 1,183, well in excess of a projected enrollment of 832 and close to the school's projected maximum enrollment of 1,500. Preliminary audited financials for fiscal 2002 reflect an unreserved General Fund balance of \$857,572 (20.2% of revenues), with an overall General Fund balance equal to \$1,409,042 (33.2%). Bond proceeds were used to redeem outstanding bonds issued to finance the acquisition and renovation of the school's existing facilities, which include 52 classrooms, a gymnasium, library and administrative spaces in a 116,000 square foot building on a 13-acre site.

PLATTE RIVER ACADEMY (Ba2; Watchlist for Positive Downgrade)

Fall 2001 Enrollment: 375

Fall 2002 Enrollment: 390

Opened in 1997, offering a core knowledge curriculum to 280 students in grades K-6. The school added one grade in each subsequent year to its present offering of grades K-8. Student enrollment has grown to its current level of 390 FTEs, although this figure appears to fall short of both earlier projections and an estimated breakeven enrollment of 413. Information obtained from the audited financials of Douglas County School District RE-1 and NRMSIRs indicate that the school, which has an annual budget of approximately \$2.5 million, experienced an operating deficit in fiscal 2002 of over \$500,000. While a portion of this was reportedly for capital outlay purposes, it remains unclear what portion of the operating deficit resulted from recurring annual expenditures. The Watchlist status reflects uncertainty regarding the school's finances and operations given delays in the school's provision of complete, independent audited financial statements aside from the district's audit, and its response to requests for additional information on fiscal 2002 results and projections for fiscal 2003. The school's lack of independent audited financial statements also makes it difficult to determine, without additional information, whether the school is expected to comply with reserve requirements outlined in the Lease Agreement. These include an unrestricted working capital balance equal to at least 5% of operating expenses, reserves as required under TABOR, and unrestricted cash reserves sufficient to meet all accrued and unrestricted salary obligations of the Charter School. Bond proceeds constructed a new facility that included a 40,000 square foot building housing a multi-purpose gym, library, art and music classrooms and technology lab. The site also provides a playground and soccer field.

UNIVERSITY LAB SCHOOL (Baa2)

Fall 2001 Enrollment: 649

Fall 2002 Enrollment: 725

FY02 General Fund balance: \$640,410 (18.1%)

The Lab School, a college preparatory charter school, opened in 1892 as a private school in association with the Teacher's College at the University of Northern Colorado (UNC). Expansion at the University and the availability of public funds under the state's charter school legislation led school officials to seek charter status in September of 2000.

The new school opened in the fall 2002, located adjacent to Frontier Charter School, another Greeley School District charter. The Lab School received its charter from the Greeley School District and maintains a thirty-year charter subject to renewal on June 30, 2031. The school's fall 2002 student body totaled 725 full time equivalents (FTEs), exceeding projections. Officials anticipate a maximum enrollment of 920 FTEs at buildout. The school ended fiscal 2002 with a General Fund balance of \$640,410 (18.1% of revenues). Improvement in the school's financial position was due in part to a contingency reserve funded in fiscal 2002 at \$400,000 and the addition of state capital aid. Additionally, the school maintains several active fundraising organizations that provide financial assistance with both the district's current capital needs and ongoing operational costs.

Michigan Charter Schools

BLACK RIVER PUBLIC SCHOOL (Ba3; Negative Outlook)

Fall 2001 enrollment: 291

Fall 2002 enrollment: 417

FY01 General Fund Balance: \$85,000 (4.3%)

FY02 General Fund Balance: \$107,000 (4.3%)

Located in Holland, Michigan, Black River Public School operates under a five-year charter that was re-authorized in July 2001 by Grand Valley University, the school's authorizing body and fiscal agent. The school's financial operations are narrow, stemming primarily from less than projected enrollment that, in turn, drives state aid. Following some management uncertainty, the school sustained enrollment fluctuations that have begun to stabilize recently, with improved prospects for growth going forward. The school began operation in fiscal 1997 offering college preparation education to approximately 200 students in grades six through nine, later expanding to grade twelve. Approximately 291 students registered in September 2000 and in the following year. This was a significant departure from original projections that forecast an expansion to 500 students in fiscal 2001 and 560 students the following year. However, nearly 417 students are currently registered for fall 2002, well above the 252 students who had registered at the same time last year. School officials are optimistic that enrollment will reach 470 by the fall of 2003, bringing the headcount closer to but still below original projections of 560 and still less than breakeven enrollment. Enrollment projections for the coming fiscal year, 2002-03, still fall short of a breakeven headcount. As a result, financial operations will likely remain tight.

DETROIT ACADEMY OF ARTS AND SCIENCES (Ba1; Negative Outlook)

Fall 2001 enrollment: 2,277

Fall 2002 enrollment: 2,108

FY01 General Fund Balance: \$12,081 (0.2%)

FY02 General Fund Balance: \$149,331 (1.0%)

The Detroit Academy of Arts and Sciences (DAAS), located in Detroit, was first sponsored by Central Michigan State University (CMU) in 1997 and received charter renewal for a second five-year term in 2001. However in March of 2003, DAAS requested termination of this contract citing their interest to partner with Oakland University for oversight, and the associated benefits negotiated for DAAS students and teaching staff. CMU will decide at its July 2003 board meeting whether to honor this termination request or to require DAAS to remain under contract through November of 2003. Enrollment has expanded from 840 students in grades K-6 at one location to 2,108 students in grades K-11 at two locations in the 2001-2002 school year. The school will reach a full K-12 program in 2003 with anticipated enrollment of about 2,300. Previous capacity projections were understated and as a result the school is looking into contingency plans for temporary space next year. Additional uncertainty exists as a result of DAAS' recent termination of its contract with Edison Schools, Inc. as operator and manager. DAAS will not replace Edison and plan to operate independently. Management largely reduced Edison's role for the current fiscal year and projects improved financial operations as a result, particularly in FY 2004, which would be the first year reflective of independent operations. Financial operations are narrow with revenues barely outpacing expenditures for the current year including debt service, and General Fund Balance at \$149,000 or a minimal 1.0% of General Fund revenues. Coverage levels are adequate, with current year revenues covering current year debt service by 1.28 times and covering maximum annual debt service by .98 times. DAAS' \$30.7 million in outstanding bonds are secured by a pledge of no more than 20% of state aid payments distributed by the State of Michigan directly to a trustee via CMU. Current State budgetary pressures pose risks in the form of reduced future state aid. In addition to the direct intercept of state aid payments, the bonds also benefit from a reserve funded at maximum annual debt service and a supplemental reserve equal to 25% of maximum annual debt service previously funded by Edison, which will need to be funded by DAAS in incremental payments over a 36-month time period.

SUMMIT NORTH ACADEMY (Baa3; Negative Outlook)

Fall 2001 enrollment: 827

Fall 2002 enrollment: 872

FY01 General Fund Balance: \$423,000 (6.9%)

FY02 General Fund Balance: \$471,000 (6.4%)

As part of its annual surveillance efforts, Moody's Investors Service has affirmed the Baa3 rating and assigned a negative outlook to Summit Academy North. The negative outlook is based on an uncertainty involving a lease agreement (which is currently under review by Moody's) with Summit Academy, a sister charter school in the area. The income from this lease agreement provided approximately 15% of the revenue in 2002, aiding Summit North in meeting debt service. Located in Huron Township, near New Boston, in southern Wayne County, Michigan, Summit North is a Michigan Public School Academy approved by Oakland University in July 1998 for a three-year term. The Charter was renewed for a 5-year period in 2001 with Oakland University. Summit Academy North is currently a K-12 facility, with students from its sister school Summit Flat Rock also sending students to the high school. The school provides unique social and emotional development through nongraded or multiage programming, with a focus on technology and an integrated curriculum. Since Moody's initial rating in July 2001, enrollment was projected to be 1,050 by 2004. In fiscal 2002, enrollment in grades K-12 numbered 872, but mid-year projections for FY2003 show that number improving to 1,100. In addition, officials report a wait list of between 250-300 students, mostly in grades K-6. Audited financial statements for FY2002 reflect an unreserved, undesignated General Fund balance of \$471,000 or a somewhat narrow 6.4% of revenues, which is a slight improvement over FY2001 operations. Debt service coverage was 1.33x in FY2002, with 15% of the revenue derived from a lease agreement with Summit Academy, a sister school in the area.

SANKOFA SHULE (PUBLIC SCHOOL ACADEMY) (B3; Negative Outlook)

Fall 2001 enrollment: 142

Fall 2002 enrollment: 195

FY01 unreserved General Fund deficit balance: -\$3,000

FY02 unreserved General Fund Balance: \$72,000 (5.7%)

Sankofa Shule (Public School Academy), located in Lansing, Michigan, began operating in 1996 with 111 students in grades kindergarten through fourth grade, later expanding to grade nine. Enrollment has fallen far short of initial projections that called for 200 students by fiscal 2001. However, 195 students were enrolled last fall at the beginning of the 2002-03 school year, up from 156 students in June 2002. Sankofa Shule's enrollment fell off dramatically in January 2002, to 129 students, following the replacement of the school's original director and management team due to a dispute over fees, among other issues. The new superintendent embarked on an aggressive marketing campaign to increase enrollment and progress is evident, although turnover continues to be a challenge in part due to lack of transportation. Sankofa Shule's financial operations remain narrow, due to less than projected enrollment that drives state aid, the primary source of revenue for the school. The school's unreserved General Fund balance was \$72,000 at year-end fiscal 2002, up from a negative \$3,000 the prior year, reflecting significant cuts in operating expenses to offset lower than expected revenues. However, liquidity remains tight, and the school relies on lines of credit for cash flow needs. Sankofa Shule's \$2.56 million in certificates are secured by a pledge of 20% of state aid school payments that are distributed by the State of Michigan directly to the trustee via Central Michigan University, Sankofa Shule's authorizing body and fiscal agent, within ten days of receipt. The state aid payments are not subject to annual appropriation. Fiscal 2002 net revenues provided 1.18 times debt service on the certificates. Revenue in excess of the amount required to pay debt service on the certificates and replenish the debt service reserve, if necessary, are returned to the school for operations. Legal provisions also include a pledge of the financed asset, a building that is complete and occupied by the school. The charter for Sankofa Shule was renewed on August 30, 2000 for a second five-year term.

YMCA SERVICE LEARNING ACADEMY (Ba1)

Fall 2001 enrollment: 1,085

Fall 2002 enrollment: 1,084

FY01 General Fund Balance: \$52,535 (0.7%)

FY02 General Fund Balance: \$81,628 (1.1%)

The YMCA Service Learning Academy, located in Detroit, was chartered by Lake Superior State University for a renewable five-year term presently in place through June of 2004 and is currently managed by Edison Schools, Inc.

The school opened in September 1999 with 668 students in grades K-5, and has expanded to 1,084 in grades K-8. Financial operations are narrow with revenues for the current year at \$7.75 million and spending at \$7.77 million, including debt service, while General Fund Balance is at \$82,000 or a minimal 1.1% of General Fund revenues. Management projections for FY 2003 reflect an estimated \$800,000 net contribution to fund balance. The Academy's \$12 million in outstanding bonds are secured by a pledge of no more than 20% of state aid payments distributed by the State of Michigan directly to a trustee via Lake Superior State University. Current State budgetary pressures pose risks in the form of reduced future state aid. Debt service coverage for FY 2002 was 1.02 times and is projected for the current FY 2003 to be 1.82 times. Projected current year coverage of maximum annual debt service of approximately \$1.2 million is projected at 1.55 times. In addition to the direct intercept of state aid payments, the bonds also benefit from a reserve funded at maximum annual debt service and a supplemental reserve equal to 25% of maximum annual debt service funded by Edison.

Minnesota

COMMUNITY OF PEACE ACADEMY (Baa3)

Fall 2001 enrollment: 425

Fall 2002 enrollment: 472

FY01 General Fund Balance: \$1.0M (29.3%)

FY02 General Fund Balance: \$1.3M (29.4%)

Community of Peace Academy (COPA) is sponsored by the St. Paul Independent School District, who also sponsored the first charter school in the nation. A more mature charter school, COPA was first chartered in 1995, and has been renewed twice, evidencing the state's relatively short charters of three years. COPA, via the St. Paul Housing & Redevelopment Authority as issuer, issued approximately \$11 million in debt to finance an addition to an existing K-10 facility, expanding to include grades 11-12, with enrollment expected to increase to 624. Through 2002, enrollment had increased an average of 20% annually; enrollment is currently estimated at 472, an increase of 47 students from the FY2001 enrollment of 425, and approximately one class behind initial projections. This is the result of a management decision to not attempt to add as many students in the mid point of the program, instead building enrollment by adding students to the lower grades. In addition to strong financial and legal covenants, the Academy continues to perform well financially, evidenced in part by achieving a better-than-budgeted operating surplus in fiscal 2002, resulting in reserves of \$1.3 million (29.4% of General Fund revenues), up from \$1.0 million (29.3% of General Fund revenues) in FY2001. This strong financial performance may weaken with the slowing enrollment growth as well as possible state revenue cuts. MADS coverage grew to 1.02 times in FY2002, boosted over the previous year in part due to the state aid formula providing for increased revenue in conjunction with increased debt service obligations. Current debt service coverage is 1.89 times. While state budget pressures continue to pose risks in the form of possible state aid reductions, the academy projects 1.07 times coverage for FY2003.

Florida

FLORIDA STATE UNIVERSITY SCHOOL (A3 on Watchlist for Possible Downgrade)

Fall 2001 enrollment: 1,406

Fall 2002 enrollment: 1,487

FY01 General Fund Balance: \$818,000 (13%)

FY02 General Fund Balance: \$562,000 (7.8%)

Florida State University School is a K-12 research and developmental school that has been in existence since 1857 as a private school and was, historically, located on the Florida State University campus. The school serves students from a five-county area and maintains a 15-year charter from Florida State University that is subject to annual extensions under an evergreen provision. Florida State University is the school's sponsor and provides strong oversight requiring annual progress reports on academic goals and financial records. The school's student body currently totals 1487 FTEs, slightly below earlier projections to achieve an enrollment of 1500 by fiscal 2003. Officials expect to increase to 1550 FTEs next year, however, and to achieve the maximum 1600 FTEs by fiscal 2005. The neighborhood developer, Saint Joe/Arvida, maintains right of first refusal on up to 500 of the school's total 1600 seats and is required, if necessary, to pay equivalent capital funding if the school cannot fill the seats without the Southwood kids, which it did in fiscal 2002 and 2003. The school projects an ending fiscal 2002 General Fund balance of approximately \$562,000 (7.8%

of revenues) based upon unaudited results, a reduction from 2001 levels. Officials were required to pull from reserves to make the school's interest payment in fiscal 2002 given irregularities in charter school capital outlay and development research capital outlay funds (also known as the 2 mill equivalent), both state-funded and pledged for repayment of debt service. Officials report similar actions in fiscal 2003 and, if funding irregularities continue, may be required to do so in fiscal 2004. The neighborhood developer, Saint Joe/Arvida, provided the school with \$1.25 million at closing on the bonds to be placed in an escrow account to be used, if necessary, to meet debt service or a 1.25 times debt service coverage target. The 1.25 times target in the agreement includes the use of reserves to meet coverage. Officials have not been required to make a draw on these funds but anticipate that they may have to do so in fiscal 2004. The bonds are secured by lease payments made using capital outlay and development research capital outlay funds (the 2 mill equivalent) from the state, which flow through Florida State University to the trustee.

Texas

NORTH HILLS CHARTER SCHOOL (Baa3)

Fall 2001 enrollment: 820

Fall 2002 enrollment: 853

FY01 General Fund Balance: \$1.1 million (36%)

FY02 General Fund Balance: \$973,000 (22.4%)

Opened in 1997 with an initial enrollment of 200 students, North Hills has expanded rapidly to a current weighted average daily attendance of 853, serving grades 1-12. The previous year's enrollment was 820. Audited financial reports for fiscal 2002 reflect an unreserved General Fund balance of \$973,000 (22.4% of revenues), a slight drop in absolute value from the \$1.1 million (36% of revenues) reported in fiscal 2001. The drawdown was used to add an additional instructional building to the school's campus, supplementing a \$972,000 federal grant for the same project. While the school's financial position has benefited from rising enrollment, an increase in the percentage of students from relatively wealthy school districts led to slightly reduced total state assistance in 2002. The current mix appears to have stabilized, which should minimize state funding volatility going forward. Bond proceeds were used to construct a new campus facility in Irving, Texas, which has been completed and occupied. North Hills was the first charter school in Texas to issue debt and continues to demonstrate demand from prospective students throughout the Dallas/Fort Worth metropolitan area. The school also benefits from a flow of funds in which all state aid revenues are remitted directly from the state to a trustee for debt service payments, with the balance returned to the school for maintenance and operations. The school's coursework follows the International Baccalaureate Program, a liberal arts based curriculum.

Arizona Charter Schools

Maricopa County Pool: (Baa3)

TEMPE PREPARATORY ACADEMY (TPA)

Fall 2001 enrollment: 242

Fall 2002 enrollment: 271

FY01 Unrestricted net assets: \$17,635 (1.2%)

FY02 Unrestricted net assets(deficit): (\$5,992) (-0.4%)

TPA received its charter for 218 students in July 1996 from the Arizona State Board for Charter Schools and serves grades 7-12. TPA completed its new building for the 2002 school year to accommodate 300 students. Fall 2002 enrollment was 271, and TPA is projecting to reach its roughly 300 student capacity in the fall of 2003. In fiscal 2002, net revenues (net of depreciation) provided 1.1 times coverage of debt service of \$212,000. Fiscal 2003 operations are projected to reflect an operating surplus of approximately \$28,000. The district's cash position was modest last year with only \$96,500 (6% of revenues) at the end of 2002.

WESTWIND ACADEMY (WA)

Fall 2001 enrollment: 293

Fall 2002 enrollment: 258

FY01 Unrestricted net assets: \$18,953 (1.0%)

FY02 Unrestricted net assets: \$14,287 (0.7%)

WA received its charter for 300 students in October 1997 from the Arizona State Board for Charter Schools and opened for operation in September of 1998. WA serves grades 9-12, although it has a new state-funded middle school, which includes grades 7 and 8, as part of its facilities. WA purchased an existing facility and constructed an expansion to accommodate 350 students. Current enrollment is estimated at 258, representing a slight decline from the previous year and falling short of projections of 325. The school expects to enroll 325 students in the fall of 2003. Net revenues (net of depreciation) provided 1.6x coverage of debt service in fiscal 2002. In 2002, WA had \$129,000 in cash (6% of revenues).

OMEGA ACADEMY (OA)

Fall 2001 enrollment: 524

Fall 2002 enrollment: 477

FY01 Unrestricted net assets: \$694,000 (19.3%)

FY02 Unrestricted net assets: \$675,025 (20.3%)

OA received its charter for 465 students in September 1997 from the Arizona State Board of Education and currently serves grades K-12. OA used \$7.96 million in bond proceeds to refinance a loan that funded the land purchase and construction of a facility in Phoenix as well as the purchase of land to construct a facility at a new Peoria campus. The two campuses will accommodate a total of 1,075 students. The Peoria campus was delayed one year due to permitting problems, but opened in the fall of 2002. Current enrollment is 477 versus an original forecast of 1,100, largely due to the delayed opening. Projected average annual debt service of \$670,000 was covered 1.1x by 2002 net revenues, and yearend cash was \$230,000 (7% of revenues).

FOOTHILLS ACADEMY (FA)

Fall 2001 enrollment: 168

Fall 2002 enrollment: 283

FY01 Unrestricted net assets (deficit): (\$168,000) (19.4%)

FY02 Unrestricted net assets (deficit): (\$60,256) (5.0%)

FA received its charter for 120 students in May 1995 from the Arizona State Board of Education Schools and currently serves grades 6-12. FA was operated as a private school prior to the receipt of its charter from 1993 through 1995. FA constructed a new building in Scottsdale to accommodate around 295 students. The project was delayed by one-year due to permitting problems but opened in the fall of 2002. The school was required to purchase additional land costing \$250,000 and cut its capacity by 50 to get its permit. Moody's believes these events reduce operating flexibility at least in the medium term. Fall 2002 enrollment is 283, slightly exceeding a forecast of 250. FA is projecting to reach 295 students, its maximum anticipated enrollment, in the fall of 2003. Fiscal 2002 net revenues provided 2.1 times coverage of debt service of \$117,000, although fiscal 2002 net revenues provide only 0.7 times coverage of projected average annual debt service of \$338,000. FA had a cash balance of \$731,000 (6.0% of revenues) in fiscal 2002.

AMERICAN HERITAGE ACADEMY

Fall 2001 enrollment: 236

Fall 2002 enrollment: 274

FY01 Unrestricted net assets: \$496,629 (45.3%)

FY02 Unrestricted net assets: \$541,359 (45.1%)

American Heritage Academy (AHA) received its charter for 370 students in March, 1998 from the Arizona State Board for Charter Schools and currently serves grades K-12. AHA used \$3.31 million in bond proceeds to purchase 5 acres of land, construct a new building and fund improvements to combine two existing campuses into one. Current enrollment is 274 students which is below anticipated levels, and at this time management has no intention of reaching previously stated projections of 350 students by 2004, instead preferring to maintain enrollment at around 275 students. Currently, the school has a waitlist of approximately 30 students. In fiscal 2002, AHA had an increase in net assets of \$44,730, increasing unrestricted net assets to \$541,359 or 45.1% of revenues. Fiscal 2002 net revenues, net of depreciation, provided 1.4 times coverage of debt service of \$276,000.

ARIZONA MONTESSORI

Fall 2001 enrollment: 243

Fall 2002 enrollment: 278

FY01 Unrestricted net assets: \$10,265 (0.9%)

FY02 Unrestricted net assets: \$140,969 (8.5%)

Arizona Montessori Charter (AMC) received its charter for 600 students in August 1995 from the Arizona State Board of Charter Schools and serves grades K-8 at two locations (Glendale and Prescott Valley campuses). AMC used \$1.86 million in bond proceeds to purchase 3 acres of leased land to construct a new building and fund related improvements to accommodate 120 students at the Prescott Valley campus. Current enrollment is 278 students, falling slightly below projections but above an estimated breakeven enrollment of 305. Fiscal 2002 results reflected an operating surplus of \$165,000 and debt service coverage of 2.3 times.

CHALLENGE CHARTER SCHOOL (CCS)

Fall 2001 enrollment: 482

Fall 2002 enrollment: 549

FY01 Unrestricted net assets (deficit): (\$373,428) (15.1%)

FY02 Unrestricted net assets (deficit): (\$445,624) (15.7%)

CCS received its charter for 600 students in April 1998 from the Arizona State Board for Charter Schools and served grades K-7 in the 2002-2003 school year. However, officials have revised initial plans to serve grades 7 and 8 and now intend to serve only grades K-6th beginning in the fall of 2003. CCS used \$4.07 million in bond proceeds to refinance a loan that was obtained to purchase 3.5 acres and construct its current facility as well as finance equipment. Fall 2002 enrollment totaled 549 FTEs, exceeding a projection of 535. In fiscal 2002, CCS had net operating deficit of \$72,196, reducing the school's cash position to a narrow \$47,067. Ending unrestricted net assets in fiscal 2002 reflect a deficit balance of \$445,624 (15.7% of revenues.) The school expects fiscal 2003 results to reflect balanced operations. Fiscal 2002 net revenues provided 0.8 times coverage of debt service obligations of \$478,000. While the school's finances reflected further deterioration in fiscal 2002, overall operations remain generally stable with a 200 student waitlist, indicating strong demand, especially at the lower grade levels.

Pima County Pool: (Baa3)

YOUNG SCHOLARS ACADEMY (YSA)

Fall 2001 enrollment: 318

Fall 2002 enrollment: 347

FY01 Unrestricted net assets: \$559,893 (48.7%)

FY02 Unrestricted net assets: \$901,028 (51.8%)

YSA first began as a private school in 1994 and received its charter in 1996 for 900 students from the Arizona State Board for Charter Schools. It currently serves grades K-8. YSA utilized \$3 million in bond proceeds to build additional classrooms and 25% of proceeds to refinance an existing loan. The campus in Bullhead City opened in the fall of 2002 with grades K-8. Fall 2002 enrollment equaled 347 (in line with projections). The school has maintained a wait list, which has grown from 175 students in fiscal 1999 to over 500 students in the current fiscal year. Average annual debt service is equal to \$322,245 (including a 5% accumulator reserve). In 2002, YSA had net income of approximately \$416,000, which provides 1.29 times coverage of average annual debt service.

KINGMAN ACADEMY OF LEARNING (KAL)

Fall 2001 enrollment: 900

Fall 2002 enrollment: 1,036

FY01 Unrestricted net assets: \$1,018,691 (25.7%)

FY02 Unrestricted net assets: \$884,504 (17.9%)

Received its charter for 400 students at each location in August 1995 from the Arizona Department of Education and serves grades K-8 at four locations. KAL used \$6.85 million in bond proceeds for land acquisition, the construction of a new building and related improvements to accommodate 400 additional students. Fall 2002 enrolment was 1,036,

exceeding projections of 996, with an additional 50 students expected for fall 2003. KAL is projecting to reach 1,196 students in fiscal 2005, but does not need the additional student growth to cover debt service. KAL's wait list has grown from 184 students in 1997 to 350 currently. Projected average annual debt service is \$623,000 (including a 5% accumulator reserve). Fiscal 2002 net revenues provided 0.7 times coverage of debt service of debt service obligations.

INTERNATIONAL STUDIES ACADEMY (ISA)

Fall 2001 enrollment: 338

Fall 2002 enrollment: 335

FY01 Unrestricted net assets: \$192,938 (13.7%) ISA

FY02 Unrestricted net assets: \$183,363 (12.6%) ISA

FY02 Unrestricted net assets (deficit): (\$66,143) (11.4%) Carden Elementary

FY02 Unrestricted net assets: \$285,259 (133%) E-Institute

ISA currently has three charters from the Arizona State Board for Charter Schools. It maintains a separate charter for its elementary, middle school and e-learning institutes, all of whose revenues are pledged to the bonds. It opened its middle and high school program in 1996 with 181 students. Since that time enrollment has grown fairly steadily, although the school did lose sixteen students from fall 2000 to 2001 and three students from fall 2001 to fall 2002. Fall 2002 enrollment totaled 335, behind initial projections of 465. Total enrollment is limited to 1,575 students per the school's charter. ISA initially used \$2.685 million in bond proceeds to refinance a loan that was obtained to purchase its current facility. In fiscal 2002, ISA had operating income (net of depreciation) of \$164,163 providing 1.3 times coverage of debt service. Audited financials for 2002 reflect generally balanced operations for all three schools. The school expects to eventually grow to a combined enrollment of 750 students between the campuses. The school currently faces outstanding litigation arising from a case of an ISA employee who was charged with sexual misconduct with an enrolled student, and school officials attribute poor enrollment growth in part to parental concerns over the school's ability to open in the fall given the outstanding litigation. Officials currently believe that the school's insurance policy, which covers a maximum liability of \$2 million, remains adequate to cover a potential settlement of this case.

STEPPING STONES ACADEMY

Fall 2001 enrollment: 175

Fall 2002 enrollment: 153

FY01 Unrestricted net assets: \$14,604 (1.7%)

FY02 Unrestricted net assets (deficit): (\$230,254) (23%)

Stepping Stones Academy, located in Phoenix, serves K-8 students under a charter granted by The Arizona State Board for Charter School (State Board) in 1999. The charter does not limit enrollment (class size is limited to 25), which was 143 in 2001, 175 in 2002 and 153 in 2003. The school expects enrollment to increase to around 170 in the fall of 2003, and reports a waitlist for grades K-2 totaling 30 students. There are no plans for capacity expansion. Stepping Stones has \$2.3 million in bonded debt outstanding, of which 68% refinanced outstanding debt, and 10% was used for land acquisition and new construction. The new construction component, which consisted of a multipurpose facility, has fallen slightly behind schedule, with completion now expected for fall 2003, delayed from the spring of 2003 due to permitting problems. Stepping Stones had an operating deficit (net of depreciation) of \$178,000 in fiscal 2002, reportedly due to costs associated with the debt financing, although results are expected to improve in fiscal 2003.

PARAMOUNT EDUCATION STUDIES (PARAMOUNT)

Fall 2001 enrollment: 365

Fall 2002 enrollment: 407

FY01 Unrestricted net assets: \$167,000 (8.7%)

FY02 Unrestricted net assets: \$228,899 (12.1%)

Paramount, located in Peoria, serves students in grades 1-8 under a charter with the State Board, which does not limit school enrollment. Enrollment in fall 2002 407, falling short of a projected 500 students, but in excess of an approximate breakeven figure of 327. Paramount has \$3.99 million in outstanding bonded debt, of which 54% refinanced outstanding debt and 25% funded land acquisition and new construction. Three rooms have been added to the school, providing capacity necessary for growth. Net operating revenue in fiscal 2002 was \$432,000 providing 1.4 times coverage of average annual debt service (\$306,000).

ACADEMY WITH COMMUNITY PARTNERS (ACP)

Fall 2001 enrollment: 201

Fall 2002 enrollment: 193

FY01 Unrestricted net assets: \$117,000 (13.7%)

FY02 Unrestricted net assets: \$153,919 (12.2%)

ACP, located in Mesa, serves students in grades 9-12 under a charter with the State Board, which was granted in 2000. Prior to the present charter, which does not limit campus enrollment, ACP operated in academic years 1996-7 under a charter with Ganado School District and with Higley School District in academic years 1998-2000. The school uses block scheduling to accommodate students who have not been successful within the traditional school setting. Enrollment was 201 in fiscal 2002, up from 133 in 2001. Fall 2002 enrollment totaled 193, falling below projections of 265. The school expects fall 2003 enrollment to reach 225, with a maximum build-out of 250 students. Fiscal 2002 net revenues (net of depreciation) provided 2.0 times coverage of debt service obligations.

HEARN ACADEMY

Fall 2001 enrollment: 318

Fall 2002 enrollment: 337

FY02 Unrestricted net assets: \$723,788 (28%)

The Hearn Academy, located in Phoenix, is chartered by the state board to serve 540 K-8 students. Enrollment was 318 in the fall of 2001, and 337 in the fall of 2002, with both figures falling slightly below projections. This shortfall was in part due to the school's delayed entrance into its new building, which occurred in January 2003 rather than the fall, as anticipated. The school projects enrollment will grow to 467 students in the fall of 2003, exceeding an estimated breakeven enrollment of approximately 425. Hearn borrowed \$4.44 million, of which 75% funded this new construction and 5% funded 8 months of capitalized interest. Fiscal 2002 net operating revenues were \$488,000, providing 1.4 times coverage of average annual debt service of \$342,000. Six months capitalized interest will provide coverage on the small interest payment in 2002 as well as supplement 2 months in 2003.

DOBSON ACADEMY

Fall 2001 enrollment: 394

Fall 2002 enrollment: 517

FY02 Unrestricted net assets: \$1,225,444 (44%)

The Dobson Academy, located in Chandler, is chartered to serve K-8 student by the Arizona State Board of Education. Enrollment was 517 in the fall of 2002, ahead of both projections and an estimated breakeven enrollment of 460. The school anticipates enrollment growing to 525 in the fall of 2003, with a maximum enrollment of 575 at buildout. The school also has a strong waitlist at 123 students, with applicants for each grade level. Unrestricted net assets equaled \$1,225,444 at the end of fiscal 2002, or 44% of revenues, remaining essentially in line with fiscal 2001 results. In addition to state aid, the school provides fee-for-service, after-hours programs, full day kindergarten and meal service, which supplement revenues. Enrollment is limited to 595 students in the school's existing charter. The school's \$4.5 million in bonded debt includes 54% to purchase its buildings, 20% to fund expansion of the site and 5% proceeds to fund 8 months of capitalized interest. Fiscal 2002 net revenues equaled \$485,000, providing 1.3 times coverage of MADs (\$367,000). Roughly 460 students are required to meet MADs.

VALLEY ACADEMY, INC.

Fall 2001 enrollment: 507

Fall 2002 enrollment: 547

FY01 Unrestricted net assets: \$801,750 (32.4%)

FY02 Unrestricted net assets: \$1,076,835 (38.6%)

The school opened in the fall of 1995 serving grades K-12. However the school subsequently discontinued its high school program beginning fall 1999, and now serves K-8. The school offers a curriculum focusing on basic skills while requiring high academic and behavioral standards of every student. An issuance of \$4.4 million funded the purchase of the school's existing campus and modular units. Fall 2002 enrollment of 547 exceeded projections of 507, with fall 2003 enrollment expected to increase to the school's intended buildout of 685. Fiscal 2002 net revenues, net of depreciation, provide students provides 1.45 times coverage of projected MADs of \$352,000. The school's unrestricted net assets totaled a satisfactory 5.3 months of operating expenditures in fiscal 2002. This figure has increased due to consecutive operating surpluses in fiscal years 1999 - 2002.

NEW SCHOOL FOR THE ARTS (NSA)

Fall 2001 enrollment: 236

Fall 2002 enrollment: 270

FY01 Unrestricted net assets: \$25,105 (1.7%)

FY02 Unrestricted net assets: \$16,130 (0.9%)

The school opened in the fall of 1995 with an enrollment of 210 students. The school's enrollment experienced a significant decline in students (247 to 204) from 1999 to 2000, but has generally expanded since this drop and is expected to increase with the improved facilities. NSA is a college preparatory high school, which tailors instruction to youths who have expressed an interest and talent in the arts. The school fills a unique market niche in Phoenix, which lacks a district public arts high school. An issuance of \$5.4 million funded the acquisition of land and an existing 20,100 square foot building along with the construction of seven modular classroom buildings. The school's fall 2002 enrollment of 270 exceeded projections of 236, and enrollment is expected to increase to 325 in the fall of 2003. Breakeven enrollment for one-times MADS is 275 students. The school's finances reflect generally balanced operations.

BENCHMARK CHARTER SCHOOL

Fall 2001 enrollment: 135

Fall 2002 enrollment: 225

FY01 Unrestricted net assets: \$78,908 (10.9%)

FY02 Unrestricted net assets: \$134,475 (13.5%)

Benchmark Charter School's debt issuance refinanced its land purchase for a five-acre campus and construction costs for its completed facilities, with the remainder funding construction of additional classroom space and related improvements. The campus facility currently includes two buildings totaling approximately 20,000 square feet with twenty classrooms along with a kitchen, library and administrative offices. The school's current facility provides capacity for around 400 students, and the planned improvements added four additional classrooms in one building with capacity for approximately 100 additional students. The school obtained a fifteen-year charter in 1999 from the Arizona State Board of Education, opening in the fall of 1999 with 48 students. Since that time, the school's enrollment has grown steadily to its current level of 225 students in grades K-4. The school plans to add grades 5 and 6 over the next two years, increasing enrollment to 330 in the fall of 2003 and eventually growing to 390 students at full build-out.

Audited fiscal 2002 net revenues, with enrollment of 225, provide 0.74 times coverage of MADS (roughly \$335,000 in fiscal 2007.) Budgeted figures for fiscal 2003, however, reflect that net revenues are expected to provide an improved 1.43 times coverage of MADS. Breakeven enrollment is roughly 200 students.

Research Links

Rating Updates

[Colorado Ed. & Cultural Fac. Auth., June 10, 2003](#)

[Colorado Ed. & Cultural Fac. Auth., June 25, 2003](#)

[Summit North Academy, MI, June 27, 2003](#)

[Detroit Academy of Arts and Sciences, MI, June 26, 2003](#)

[Tallahassee \(City of\) FL, June 27, 2003](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Name	State	Rating	Outlook	Issuance Amt (\$000)	Debt Outstanding	Date Opened	Charter Authorizer	Charter Exp. Date	Renewed	State Capital Assistance
Bromley East	CO	Baa3	Negative	\$12,955	\$11,870	Fall 2001	Brighton SD 27J	Evergreen	Yes; 5/00	Yes
Cherry Creek Academy	CO	Baa2	Stable	\$4,155	\$4,110	1995	Arapahoe County SD 5	6/30/1930	2/1/2001	Yes
Classical Academy	CO	Baa3	Stable	\$19,600	\$19,600	1997	Academy School District 20, El Paso Co	12/31/2030	N/a	Yes
Collegiate Academy	CO	Ba1	Negative	\$6,780	\$6,780	1994	Jefferson County SD	11/30/2006	Yes;11/01	Yes
Frontier Academy	CO	Ba1	Positive	\$15,830	\$15,830	1996	Weld County School District 6 (Greeley)	6/31/31	8/8/2001	Yes
Peak to Peak Charter School	CO	Ba2	Positive	\$18,320	\$18,320	1999	Boulder Valley School District	6/1/2005	No	Yes
Pinnacle Charter School	CO	Baa3	Stable	\$12,355	\$12,355	1997	Adams 12 SD	6/30/2005	Yes; 6/00	Yes
Platte River Academy	CO	Ba2	Watchlist	\$6,620	\$6,620	1997	Douglas County RE-1 SD	6/30/2005	Yes; 08/00	Yes
The University Lab School (1)	CO	Baa2	Stable	\$18,235	\$17,630	1892	Weld County School District 6 (Greeley)	6/30/2031	Original charter	Yes
Michigan Municipal Bond Authority										
Black River Public Schools	MI	Ba3	Negative	\$5,740	\$5,700	1997	Grand Valley St. Univ	Evergreen Policy	Yes	No
Detroit Academy of Arts & Sciences	MI	Ba1	Negative	\$30,900	\$30,700	1997	Central Mich Univ.	6/30/2006	Yes; 4/01	None
Sankofa Shule	MI	B3	Negative	\$2,555	\$2,550	1996	Central Mich Univ.	8/30/2005	Yes; 8/00	No
Summit Academy North	MI	Baa3	Negative	\$15,700	\$15,700	1998	Oakland University	6/1/2006	Yes; 06/01	No
YMCA Service Learning Academy	MI	Ba1	Stable	\$12,100	\$12,100	1999	Lake Superior State Univ.	6/30/2004	Initial 5-yr	None
Minnesota School										
Community of Peace Academy	MN	Baa3	Stable	\$11,700	\$11,663	1995	St. Paul ISD	4/24/2004	Yes: '98 & '01	Yes
Florida School										
Florida State University Schools, Inc	FL	A3	Watchlist	\$23,330	\$22,825	1857	Florida State University	8/1/2015	Original charter	Yes; 1/15th of cost per student
Texas School										
North Hills Charter School	TX	Baa3	Stable	\$6,000	\$6,000	1997	Texas Board of Education	2011	Yes; 2001	Yes
Maricopa Co. IDA,	AZ	Baa3	Stable	\$28,008						
Ser. 2000A&B Participants										
Tempe Prep. Academy				\$2,225	\$2,170	1996	Arizona State Board of Charter Schools	8/26/2011	NA	No
Westwind Academy				\$3,905	\$3,811	1998	Arizona State Board of Charter Schools	4/28/2013	NA	No
Omega Academy				\$8,125	\$7,664	1997	Arizona State Board of Charter Schools	8/11/2012	NA	No
Foothills Academy				\$4,510	\$4,450	1995	Arizona State Board of Charter Schools	5/2/2010	NA	No
American Heritage				\$3,310	\$3,240	1998	Arizona State Board of Charter Schools	3/1/2013	No	No
Arizona Montessori				\$1,860	\$1,822	1995	Arizona State Board of Charter Schools	8/1/2010	No	No
Challenge Charter School, Inc				\$4,920	\$4,920	1996	Arizona State Board of Charter Schools	2013	No	No
Pima County IDA Education Revenue	AZ	Baa3	Stable							
Young Scholars Academy				\$4,460	\$4,460	1996	Arizona State Board of Charter Schools	2011	N/a	No
Kingman Academy of Learning				\$8,250	\$8,250	1995	Arizona DOE	2010	N/a	No
International Studies Academy				\$2,685	\$2,685	1996	Arizona State Board of Charter Schools	2011	N/a	No
Stepping Stones Academy				\$2,300	\$2,290	1999	Arizona State Board of Charter Schools	15 yrs	No	No
Paramount Education				\$4,105	\$4,105	1998	Arizona State Board of Charter Schools	15 yrs	No	No
Academy with Community Partners				\$3,165	\$3,165	2000	Arizona State Board of Charter Schools	15 yrs	No	No
Hearn Academy				\$4,595	\$4,595	1998	Arizona State Board of Charter Schools	15 yrs	No	No
Dobson Academy				\$4,470	\$4,470	1998	Arizona State Board of Education	15 yrs	No	No
Valley Academy, Inc.				\$4,405	\$4,405	1995	Arizona State Board of Education	2010	No	No
New School for the Arts				\$5,425	\$5,425	1995	Arizona State Board of Education	2010	No	No
Benchmark				\$4,120	\$4,120	1999	Arizona State Board of Education	2014	No	No
Median				\$5,583	\$5,425	\$1,997				

Name	Current Grade Level	Anticipated Grade Levels at Full Build-out	# of Students (FTE) Fall 2002	# Required for max. annual debt service	Waitlist	Meeting Growth Projections	Current Year Debt Service Coverage	Projected MADs at Build-Out
Bromley East	K-8th	K-8th	927	970	No	No	1.24	1.33
Cherry Creek Academy	K-8th	K-8th	449	375	900	Yes	1.93	1.50
Classical Academy	k-12th plus homeschool	Currently at buildout	1,630	1,429	4,500	Yes	1.77	
Collegiate Academy	K-12th	K-12th	543	570	129	No	N/A	1.09
Frontier Academy	K-10th	K-12th	654	667	800	Yes	N/A	1.33
Peak to Peak Charter School	K-10th	K-12th	991	857	695	Yes	N/A	1.77
Pinnacle Charter School	K-12th	K-12th	1,183	700	0	Yes	N/A	1.65
Platte River Academy	K-8th	K-8th	390	413	0	No	N/A	1.3
The University Lab School (1)	K-12th	Pre K-12	725	717	800	Yes	N/A	1.08
Michigan Municipal Bond Authority								
Black River Public Schools	6-12th	6-12th	417	420-440	10	No	1.02	n/a
Detroit Academy of Arts & Sciences	K-11th	K-12th	2,108	2,052	small	Yes	1.28	
Sankofa Shule	K-9th	K-9th	195	195	none	No	1.18	1.46
Summit Academy North	K-12	K-12	872		250	No	1.33	
YMCA Service Learning Academy	K-8th	K-8th	1,084	931	98	Yes	1.02	1.18
Minnesota School								
Community of Peace Academy	K-12	K-12	532	384	117	No; 1-yr behind	1.89	1.27
Florida School								
Florida State University Schools, Inc	K-12	K-12	1,487		255	No		1.25 (w/ developer agreement)
Texas School								
North Hills Charter School	1-12th	1-12th	853	134	400	Yes	1.2	1.5
Maricopa Co. IDA, Ser. 2000A&B Participants								
Tempe Prep. Academy	7 to 12	7 to 12	271	275	100	Slightly below	1.1	1.5 (2004)
Westwind Academy	9 to 12	9 to 12	258	283	0	No	1.6	1.5
Omega Academy	K-12	K-12	477	500	0	No; 1-yr behind	2.0	3.3 (2004)
Foothills Academy	6 to 12	6 to 12	283	250	30	Yes	2.1	1.5
American Heritage	K-12	K-12	274	250	30	Revised projections	1.4	1.5
Arizona Montessori	K-8th	K-8	278			No	2.3	1.5
Challenge Charter School, Inc	K-7th	K-6th	549	500	200	Revised projections	0.8	1.5
Pima County IDA Education Revenue								
Young Scholars Academy	K-8th	K-8th	347		500	Yes	n/a	3.29
Kingman Academy of Learning	K-10th	K-12th	1,036	475	350	Yes	0.7	1.8
International Studies Academy	K-12th	K-12th	335	400	406	No	1.34	1.5
Stepping Stones Academy	K-8th	K-8th	175	161	30	No	n/a	2.13
Paramount Education	1-8th	1-8th	407	329	0	No	1.52	3.5
Academy with Community Partners	9-12th	9-12th	193	189	0	Yes	2.04	2.45
Hearn Academy	K-8th	K-8th	337	427	14	No	n/a	1.05
Dobson Academy	K-8th	K-8th	517	405	123	Yes	n/a	1.99
Valley Academy, Inc.	K-8th	K-8	547	456	98	Yes	2.2	1.76
New School for the Arts	9-12th	9-12th	270	287	0	Yes	n/a	1.65
Benchmark	K-4TH	K-6TH	225	200	133	Yes	n/a	2.0
Median			517	416	117		1.3	1.5

Name	Additional Bonds Test	Debt Service Reserves	General Fund Balance	General Fund Balance as % of Revenues	Undesignated General Fund Balance	Undesignated General Fund Balance as % of Revenue	Debt Service as % of Expenditures	Construction (expected completion)
Bromley East	None	1 Year MADs	195,802	5.8%	68,438	2.0%	30.0%	Complete
Cherry Creek Academy	1.25x MADS	1 Year MADs	308,857	13.0%	117,313	4.9%	9.9%	Complete
Classical Academy	None allowed	1 Year MADs	191,279	3.3%	6,478	0.1%	0.0%	Complete
Collegiate Academy	None allowed	1 Year MADs	-41,605	-1.4%	-135,833	-4.6%	N/A	Complete
Frontier Academy	No additional debt allowed	1 year MADs	469,944	14.8%	383,798	12%	N/A	Complete
Peak to Peak Charter School	No greater than 20% of original issue	1 year MADs	329,894	7.6%	211,894	5%	N/A	Complete
Pinnacle Charter School	1.25x	1 year MADs	1,409,042	33.2%	857,572	20.2%	N/A	Complete
Platte River Academy	None allowed	1 year MADs	—	—	—	—	—	Complete
The University Lab School (1)	1.35x	1 Year MADs	640,410	18.1%	132,810	3.8%	N/A	Complete
Michigan Municipal Bond Authority								
Black River Public Schools	1.25x	500,000	107,000	4.3%	107,000	4.6%	14.5%	Ongoing
Detroit Academy of Arts & Sciences	1.4x	MADs, plus 25%	149,331	1.0%	\$149,331	1.0%	18.1%	Complete
Sankofa Shule	1.25 times MADS	MADS (235,000) fully funded	72,000	5.7%	\$72,000	5.7%	16.9%	Building complete
Summit Academy North		637,396	471,000	6.4%	\$471,000	6.4%	15.0%	Yes
YMCA Service Learning Academy	1.4x	MADs, plus 25%	81,628	1.1%	\$81,628	1.1%	10.4%	Complete
Minnesota School								
Community of Peace Academy	1.25x	10% par/MADS/125% avg annual	1,325,503	29.4%	1,325,503	29.4%	18.9%	Yes
Florida School								
Florida State University Schools, Inc	1.25x	1 Year MADs	562,000	7.8%	562,000	7.8%	9.3%	Complete
Texas School								
North Hills Charter School	1.5x MADS	1 Year MADs	973,000	22.4%	973,000	22.4%	10.9%	Complete
Maricopa Co. IDA, Ser. 2000A&B Participants								
	B-44		Unrestricted Net Assets FY 2002	Unrestricted Assets as % of Revenues				
Tempe Prep. Academy	No Downgrade Provision	Cross-collateralized reserves	(5,992)	-0.4%			10.8%	Complete
Westwind Academy	No Downgrade Provision	Cross-collateralized reserves	14,287	0.7%			21.7%	Complete
Omega Academy	No Downgrade Provision	Cross-collateralized reserves	675,025	20.3%			6.0%	Complete
Foothills Academy	No Downgrade Provision	Cross-collateralized reserves	(60,256)	-5.0%			10.7%	Complete
American Heritage	No Downgrade Provision	Cross-collateralized reserves	541,359	45.1%			25%	Complete
Arizona Montessori	No Downgrade Provision	Cross-collateralized reserves	140,969	8.5%			2.3%	Ongoing
Challenge Charter School, Inc	No Downgrade Provision	Cross-collateralized reserves	(445,624)	-15.7%			16%	Complete
Pima County IDA Education Revenue								
Young Scholars Academy	No Downgrade Provision	Cross-collateralized reserves	901,028	51.8%			n/a	Complete
Kingman Academy of Learning	No Downgrade Provision	Cross-collateralized reserves	884,504	17.9%			9.0%	Complete
International Studies Academy	No Downgrade Provision	Cross-collateralized reserves	183,363	12.6%			5.8%	Complete
Stepping Stones Academy	No Downgrade Provision	Cross-collateralized reserves	(230,254)	-22.6%			n/a	Delayed; Expected fall 2003
Paramount Education	No Downgrade Provision	Cross-collateralized reserves	228,899	12.1%			16.2%	Complete
Academy with Community Partners	No Downgrade Provision	Cross-collateralized reserves	153,919	12.2%			9.8%	Complete
Hearn Academy	No Downgrade Provision	Cross-collateralized reserves	722,732	28%			n/a	Complete
Dobson Academy	No Downgrade Provision	Cross-collateralized reserves	1,225,444	44%			n/a	Complete
Valley Academy, Inc.	No Downgrade Provision	Cross-collateralized reserves	1,076,835	38.6%			6.1%	Complete
New School for the Arts	1.2	Cross-collateralized reserves	16,130	0.9%			n/a	Complete
Benchmark	1.2	Cross-collateralized reserves	134,475	13.5%			n/a	Complete
Median	\$1	\$568,698	\$228,899	12.1%	\$149,331	\$0	\$0	

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