Financial Performance Response Evaluation Instrument

Charter Holder Name: Arizona Call-a-Teen Youth Resources, Inc.
Charter Holder Entity ID: 4346

Required for: Dropout Recovery Program Amendment Request
Audit Year: 2014

Arizona State Board for Charter Schools (Board) staff completed the Financial Performance Response Evaluation Instrument for the Board in its consideration of applicable requests made by the charter holder. "Not Acceptable" answers may adversely affect the Board's decision regarding a charter holder's request.

Measure	Reason(s) for "Not Acceptable" Rating
1a. Going Concern Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	
1b. Unrestricted Days Liquidity Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder does not explain the reason for not meeting the Board's target on this measure in the audited fiscal year as required by Appendix C of the Board's financial framework. Had the charter holder provided this information, along with supporting documentation, this would have been considered in Board staff's evaluation. The charter holder states "We have a line of credit that we can draw on as well as using the value of fixed assets to secure additional financing. Presently, we own three buildings with as assessed valuation in excess of $4.5 million dollars with less than 17% encumbered by a mortgage." The line of credit balance of $5,019 disclosed in the 2014 audit is already included as other liquidity in the unrestricted days liquidity calculation. Regarding the fixed assets, the charter holder mentions an appraisal conducted when the charter holder recently refinanced a long-term note payable. According to the response, the charter holder does not have access to the appraisal at this time. Therefore, no support for the buildings' appraised value was provided. Further, it is not possible to determine from the response the feasibility of using the fixed assets to secure additional funding. Had the charter holder addressed the feasibility of using its fixed assets to secure additional funding and provided supporting documentation, this would have been considered in Board staff's evaluation. The charter holder asserts, "As stated previously, the financial strength has begun to improve." The response includes a statement of financial position and statement of activities for the period ended March 31, 2015. Since the statements do not include comparable information for the same time period in 2014, it is not possible to determine if the charter holder's "financial strength has begun to improve". Had the charter holder provided comparable information for 2014 and 2015, projected year-end statements for 2015, or other documentation supporting its assertion, this would have been considered in Board staff's evaluation. The charter holder indicates, but does not support, that approximately $46,000 in "pledges receivable" identified on the statement of financial position as of March 31, 2015 were received as of April 30, 2015. Had the charter holder provided evidence of the pledges being received, this would have been considered in Board staff's evaluation.

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	The charter holder states, but does not support, "Equipment rental expense is high and a thorough analysis of the organization's needs will reduce this expense by $41,350 in the fiscal year commencing July 1, 2015. We have also conducted analysis of all expenses and have found ways to significantly reduce costs starting July 1, 2015." According to the response, the expense reductions are in the areas of equipment rental, insurance, materials and supplies, and "other expenses". Had the charter holder provided internal management reports or interim financial statements for 2016, these would have been considered in Board staff's evaluation. The charter holder indicates that its current portion of long-term debt includes debt cancellation totaling $28,500 related to a grant and identifies this as a non-cash transaction. The audit supports the arrangement under which principal is forgiven by 5% each year. Since no cash is used to pay the principal on these promissory notes, the notes do not affect the charter holder's cash balance or performance on this measure. Because the promissory notes are considered part of the charter holder's current portion of long-term debt, they would impact the charter holder's performance on the fixed charge coverage ratio.
1c. Default Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	
2a. Net Income Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder mentions its dependence on grant funding and recent reductions in its grant revenues. Specifically, the charter holder refers to its decision not to accept a replacement grant "due to restructuring certain functions within the organization". While the charter holder's audits support decreases in grant revenues from 2013 to 2014, it is not clear how the reduced grant funding affected the charter holder's net income in 2014 as the reductions in grant revenues were likely accompanied by associated reductions in grant-related expenses. Had the charter holder showed and supported how the reductions in grant funding affected the charter holder's net income, cash flow and fixed charge coverage ratio (FCCR), this would have been considered in Board staff's evaluation. The charter holder indicates "we have a fund balance in excess of half a million dollars, fixed assets with a value in excess of $1.2 million and a funding base that exceeds $ 3 million annually." However, the charter holder does not explain how this impacts net income, cash flow and FCCR. In addition, while the audit supports the value of the fixed assets, the response does not provide support for the fund balances or explain what the charter holder means by funding base (or that the charter holder has a funding base that is "solid"). Had the charter holder provided further explanation, along with supporting documentation, this would have been considered in Board staff's evaluation. The charter holder states, "The Board of Directors has taken measures to explore and implement new and innovative sources of non- governmental revenues. Each board member has pledged financial support to the organization, we had formed committees approximately one year ago and those committees are now functioning and we have a planning and finance committee that has been implementing plans to expand the 'profit' side of our

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	organization. Additionally, we have spent much time and resources on a marketing plan than will assist us in expansion of generating general fund dollars." Had the charter holder provided information showing the effectiveness of these efforts on the charter holder's net income, cash flow and FCCR in the current or subsequent fiscal year, along with supporting documentation, this would have been considered in Board staff's evaluation. The response includes a statement of activities and statement of financial position for the period ended March 31, 2015. For the nine-month period, the statement of activities reflects net income of approximately $98,000. Since the statement does not include similar information as of March 31, 2014, Board staff is unable to determine how the 2015 performance compares to the charter holder's 2014 performance for the same time period. The same is also true for the FCCR and cash flow. While the statements, along with the 2014 audit, include sufficient detail to calculate the charter holder's performance on these two measures for 2015, they do not include comparable information as of March 31, 2014. Therefore, Board staff is unable to determine how the charter holder's performance on these two measures as of March 31, 2015 compares to its performance as of March 31, 2014. Had the charter holder provided comparable information for 2014 and 2015 or projected year-end statements for 2015, this would have been considered in Board staff's evaluation.
2b. Cash Flow Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder utilizes the same financial response for net income and FCCR to address cash flow. The net income and FCCR response falls short of an acceptable response. Therefore, the response to this measure is not acceptable.
2c. Fixed Charge Coverage Ratio Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder utilizes the same financial response for net income and cash flow to address FCCR. The net income and cash flow response falls short of an acceptable response. Therefore, the response to this measure is not acceptable.