Financial Performance Response Evaluation Instrument

Charter Holder Name: Calibre Academy, Inc.
Charter Holder Entity ID: 79055
Date Submitted: March 31, 2014

Required for: Renewal
Audit Year: 2013
Evaluation Completed: May 27, 2014

Arizona State Board for Charter Schools (Board) staff completed the Financial Performance Response Evaluation Instrument to be used by 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	Acceptable	Not Acceptable	Not Applicable	Comments
1a. Going Concern		X		According to the Independent Auditor's Report, the fiscal year 2013 financial statements were prepared assuming the charter holder will continue as a going concern. The notes to the financial statements cite as the basis for the going concern that the charter holder's net assets decreased substantially during the year ended June 30, 2013, due primarily to stable enrollment and increased operating costs. The financial performance response addresses the factors which contributed to the going concern designation, including the 2012 issuance of revenue bonds, increased operational costs of the new Surprise facility and "continued struggling enrollment at the Glendale campus". The response includes an analysis of the charter holder's net income between fiscal years 2011 and 2013. Revenues increased by $604,094 from fiscal year 2012 to fiscal year 2013 with expenses (excluding one-time expenses) increasing by $1,080,722. The response attributes the increased expenses primarily to interest expense and costs associated with opening the new facility. Generally, these statements are supported by the response and the charter holder's audits. According to the response, "While enrollment continues to improve at the Surprise campus, it did not increase at a pace significant enough to cover the increases in operational expenses associated with the new location and the debt service expenses that were felt this past year." The response does not specify a "break-even" average daily membership (ADM), but the bond-related documents provided in Appendix A (page A-10) projected a total ADM in fiscal year 2013 of 1,050 (825 at the Surprise campus and 225 at the Glendale campus). The financial performance response indicates the charter holder is projecting an approximately $1.2 million increase in its net income for fiscal year 2014,

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				including an approximately $828,000 increase in revenues and an approximately $372,000 decrease in expenses. This is generally supported the charter holder's response, audits and Arizona Department of Education reports. If the projection holds true, the charter holder would end fiscal year 2014 with net income of approximately ($113,000). The financial performance response indicates for fiscal year 2015, the charter holder will be closing the Glendale campus and includes a rationale for the closure. According to the response, closing the Glendale campus will result in a $1,263,416 reduction in revenues and a $1,209,660 reduction in expenses. The response indicates rental income of the Glendale facility to a related charter holder will remain at $500,000 and will be offset by facility operating costs of $145,068. As of May 26, 2014, the charter holder has not submitted the required closure notification request. The financial performance response indicates the Surprise campus will undergo reorganization in fiscal year 2015. The reorganization includes a recommended reduction of instructional positions (4 FTE) "in an effort to realign student/teacher ratios to maximize cost-effectiveness". The estimated savings is $160,000, according to the response. Additionally, the response indicates enrollment at the Surprise campus is currently forecasted to increase by 81 students, which will generate increased revenues of approximately $534,000, and refers to the marketing plan and related materials included with the response. The charter holder's response does not include support for enrollment increasing by 81 students.
1b. Unrestricted Days Liquidity	**X**			The financial performance response refers to the charter holder's debt service costs, including interest expense. While interest expense is not expected to decrease in fiscal year 2015, the response states overall expenses are expected to decrease with the reorganization of the Surprise campus and the closing of the Glendale campus. Additionally, the response indicates the charter holder is able to receive operating assistance through a related charter holder. These statements are supported by the charter holder's response and audits.

Measure	Acceptable	Not Acceptable	Not Applicable	Comments
1c. Default			X	
2a. Net Income		X		The financial performance response includes the same information for this measure as was included for the Going Concern measure (see Going Concern).
2b. Cash Flow		X		The financial performance response indicates the negative cash flow in fiscal year 2013 is "largely due" to the interest payments on the bonds. The response does not address fiscal year 2014, but indicates cash flow in fiscal year 2015 "is expected to improve based upon increased enrollment at the Surprise campus and reduced expenses at the Surprise campus and the savings demonstrated by closing the Glendale campus." The charter holder's response does not include support for increased enrollment for fiscal year 2015.
2c. Fixed Charge Coverage Ratio		X		The financial performance response projects a "much improved forecasted change in net assets for FY2014 thereby increasing the Estimated Fixed Charge Coverage Ratio to 1.30 for FY2014". Based on the calculations made by Board staff using the information found in the response and the charter holder's fiscal year 2013 audit, the ratio may be closer to 1.2 than to 1.3, but in either case would result in a "meets" for fiscal year 2014. The financial performance response states, "As explained above, the enrollment numbers are looking healthy for FY2015 at the Surprise campus and management has decided to close the Glendale campus." The charter holder's response does not include support for the enrollment numbers for fiscal year 2015.