Financial Performance Response Evaluation Instrument

Charter Holder Name: Hillcrest Academy, Inc.
Charter Holder Entity ID: 4328
Date Submitted: August 13, 2014

Required for: New School Site Notification Request
Audit Year: 2013
Evaluation Completed: August 21, 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 has incurred significant decreases in unrestricted net assets such that the charter holder has net assets of ($1,599,185) as of June 30, 2013. Additionally, the notes cite that the charter holder's current liabilities exceeded current assets by $1,118,374 as of June 30, 2013. Similar disclosures were included in the fiscal years 2011 and 2012 audits. The financial performance response indicates the going concern in fiscal year 2013 is "directly attributable" to the net operating loss for the same period. The response also indicates that the charter holder expects the fiscal year 2014 audit to include the going concern disclosure for the same reason. The fiscal year 2014 preliminary profit and loss statement projects net income of ($1,287,446.94), resulting in net assets for fiscal year 2014 of ($2,815,341.83). For fiscal year 2013, the auditor also cited as the basis for the going concern the charter holder's current liabilities exceeding current assets. Based on the Balance Sheet Comparison submitted with the response, this situation is projected to exist at June 30, 2014 with current liabilities exceeding current assets by $2,426,413.15. The financial performance response indicates the charter holder was able to restructure debt and was awarded a private grant to be used for the purpose of securing new facilities. To support these statements, the response includes copies of an "Estimated Settlement Statement" for facility purchases and the grant award letter. The response states, "Based on the revenues generated through both the Facilities Purchase (see Settlement Statement for Facilities

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				Purchase) and the private grant award (see Grant Award Letter), the school will satisfy all current liabilities (see Balance Sheet Comparison). These factors, combined with recording a positive Net Income through the measures described under Net Income 2a. ensures that the school will avoid a repeat Going Concern Finding in FY 2015." Based on the Balance Sheet Comparison, the charter holder's current assets are projected to exceed its current liabilities at June 30, 2015. While the "Profit & Loss Projection FY 2015" indicates the charter holder will end the year with positive net income, no support was provided for the enrollment numbers used in that projection (see "Net Income"). The financial performance response also includes a section on the charter holder's "administrative oversight and governance" as it relates to financial operations.
1b. Unrestricted Days Liquidity			**X**	
1c. Default			**X**	
2a. Net Income		**X**		The financial performance response indicates the net loss for fiscal year 2013 was the result of a combination of factors. According to the response, the charter holder projects a loss for fiscal year 2014 of ($1,287,447), which is the result of a combination of factors that will not reoccur past fiscal year 2014. The response includes information about the previous charter holder board and mentions the changes made to the board. While the response does not include support for the specific statements made, these statements are generally supported by the charter contract. According to the response, the fiscal year 2013 net loss is attributable to "higher than normal operating costs related to facilities, improvements, and staffing as they began positioning to grow substantially in the 2014-2015 school year." Regarding fiscal year 2014, the response indicates the charter holder board "made the decision to facilitate growth and to operate in the negative" during fiscal year 2014, relying on short

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				term loans and lines of credit. According to the response, "This decision was made with the knowledge that these short term loans would not only keep the school's operations in tact, but would be satisfied upon entering into the agreement to secure the new facilities…" The response also indicates that this decision allowed the new administration to use fiscal year 2014 as a planning year "to establish the operational processes upon which to build a solid foundation, and to ensure the success of the 2014-2015 academic year and growth". The financial performance response states, "The school's facilities plan is complete, and receipt of funding is well underway (see Facilities Settlement Statement). This will ensure a positive Functional Net Operating Income for FY 2015 based on a substantial increase in local funding via the award of a local grant designed to be used for securing facilities (see Grant Award Letter), as well as the anticipated additional income that will coincide with increased student enrollment driven by the school's new facilities." According to the response, the charter holder is projecting net income of approximately $728,000 for fiscal year 2015. The "Profit & Loss Projection FY 2015" is based on a combined enrollment of 1,160 (694 for "Campus 1" and 466 for "Campus 2"). The charter holder's response does not include support for the enrollment numbers used in the fiscal year 2015 projection. As of August 14, 2014, Arizona Department of Education (ADE) reports show the charter holder reporting 228 students (or an estimated count of 204.5) for the currently operating campus. Information is not available through ADE for the other campus as it has not yet been approved to operate. Assuming "Campus 1" is the campus currently operated by the charter holder, as of August 14, 2014, the actual number of students reported to ADE represents about one-third of the enrollment used for the fiscal year 2015 projection. The financial performance response also includes a section on the charter holder's "administrative oversight and governance" as it relates to financial operations.
2b. Cash Flow			**X**	

Measure	Acceptable	Not Acceptable	Not Applicable	Comments
2c. Fixed Charge Coverage Ratio		**X**		The financial performance response indicates the net operating loss recorded in fiscal year 2013 led to the negative fixed charge coverage ratio. The response also indicates that the charter holder expects a similar result for fiscal year 2014 for the same reason. According to the response, "The school has sufficient cash available (in the form of short term lines of credit and loans) to augment cash flow to fund the fixed charge deficit for the foreseeable future…" For fiscal year 2013, the charter holder had 279.04 days liquidity available due primarily to available lines of credit balances of approximately $1 million. The financial performance response indicates the charter holder anticipates a fixed charge coverage ratio of 1.70 for fiscal year 2015 based on a projected change in net assets of more than $725,000. The response included a Fixed Charge Coverage Ratio Comparison for fiscal years 2013 through 2015. While the ratio value is the same as the Board's for fiscal year 2013, the numbers used in the charter holder's calculation do not match the numbers used by Board staff. As a result, Board staff cannot assume the numbers used in fiscal years 2014 and 2015 would be the same as those that staff would use. The response does not include sufficient detail to determine how the "comparison" numbers were determined. Additionally, for fiscal year 2015, the ratio calculation includes $728,274.29 for the change in net assets. While the "Profit & Loss Projection FY 2015" indicates the charter holder will end the year with positive net income in this amount, no support was provided for the enrollment numbers used in that projection (see "Net Income"). The financial performance response also includes a section on the charter holder's "administrative oversight and governance" as it relates to financial operations.