Financial Performance Response Evaluation Instrument

Charter Holder Name: International Charter School of Arizona, Inc.
Charter Holder Entity ID: 90877
Date Submitted: August 13, 2014

Required for: New School Site Notification Request
Audit Year: 2013
Evaluation Completed: August 20, 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	
1b. Unrestricted Days Liquidity		X		The financial performance response states, "Based on the school's ongoing financial plan, the school should finish the year with approximately $46,000 in cash on hand (see Balance Sheet Comparison), based on the projected expenses included in the accompanying Profit & Loss Projection (see Profit & Loss Projection – FY 2014)." According to the response, the charter holder projects 32.49 days liquidity for fiscal year 2014. Using the information included in the response, staff calculated the days liquidity at 32.02. For staff's calculation, depreciation was included in the total expenses amount. For the factors that contributed to the charter holder receiving a Falls Far Below on this measure for fiscal year 2013, the financial performance response refers to the response's Net Income section. The Net Income section does not include support for the statements made regarding fiscal year 2013 (see "Net Income"). Additionally, although not considered as part of the "Acceptable" or "Not Acceptable" determination, the financial performance response does not include information demonstrating that the improvement projected for fiscal year 2014 is sustainable in subsequent fiscal years when the charter holder anticipates operating two sites.

Measure	Acceptable	Not Acceptable	Not Applicable	Comments
1c. Default			X	
2a. Net Income		X		The financial performance response states, "The net operating loss for FY 2013 was the result of a combination of factors that will not reoccur…" The factors cited in the response are identified below. The charter holder's response does not include support for these statements. • Facilities – The response states the school "experienced significant difficulty securing suitable facilities" prior to beginning the 2012-2013 school year eventually securing facilities in July 2012. The response indicates facilities were also a "significant complicating factor" in fiscal year 2014. • Marketing Efforts – Due to the facility issues, marketing efforts that had been underway prior to July 2012 were not able to be specific as to the location of the new school. • Student Enrollment – Enrollment was "significantly lower than originally anticipated" due to facility issues. • Staffing Levels – Once it was determined that enrollment would fall short of the parameters included in the operating budget, the administration and school's governing board agreed that the school must maintain the quality of instruction delivered even if it meant operating at a deficit in the first year. The response indicates the decision "was necessary in order to fulfill not only the mission of the school but the expectations of the community they serve". The financial performance response projects the charter holder will have positive net income of approximately $55,000 for fiscal year 2014. This statement is supported by the Profit & Loss Projection included with the response. According to information included with the response, during fiscal year 2014, an entity forgave $359,696.38 in debt, which increased "local revenue", and the charter holder reduced expenses by approximately $58,000 from the prior year. The response also includes a section on the charter holder's "administrative oversight and governance" as it relates to financial operations. The financial performance response indicates the school will take possession of "more suitable leased facilities in July of 2014", which, since the agreement is

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				already in place, allow marketing efforts to focus on the exact location and surrounding community. Although indicated it was provided, the response does not include a copy of the lease agreement. Further, it does not address the impact adding another site might have on the charter holder's financial performance. The financial performance response states, "Based on the strength of the school's academic performance, unique programs, and (now) improved facilities, enrollment for the FY 2015 school year is expected to be significantly higher than previous years (see Enrollment Matrix)." While the response includes the Enrollment Matrix, which projects enrollment at the Phoenix campus (existing site) and the Mesa campus (requested new site) for fiscal years 2015 through 2019, the response does not include any support for the numbers provided. For fiscal years 2013 and 2014, the Phoenix campus' average daily membership (ADM) was 32.69 and 22.281, respectively, based on Arizona Department of Education (ADE) reports. For fiscal year 2015, the charter holder projects an ADM of 80 for the Phoenix campus and 102 for the Mesa campus. As of August 14, 2014, ADE reports show the charter holder reporting 70 students at its Phoenix campus. Information is not available through ADE for the Mesa campus as it has not yet been approved to operate. For fiscal year 2016, the charter holder projects a total ADM of 647, including 172 at the Phoenix campus and 475 at the Mesa campus. Additionally, although not considered as part of the "Acceptable" or "Not Acceptable" determination, the financial performance response does not include information demonstrating that the improvement projected for fiscal year 2014 is sustainable in subsequent fiscal years when the charter holder anticipates operating two sites.
2b. Cash Flow		**X**		The financial performance response refers to the projected positive net income and cash on hand for fiscal year 2014. The response also includes a Cash Flow Comparison which projects positive cash flow of approximately $24,000 in fiscal year 2014, which would result in the charter holder receiving a "meets" on this measure for fiscal year 2014. The response also includes a section on the charter holder's "administrative oversight and governance" as it relates to financial operations.

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				For the factors that contributed to the charter holder receiving a Does Not Meet on this measure for fiscal year 2013, the financial performance response refers to the response's Net Income section. The Net Income section does not include support for the statements made regarding fiscal year 2013 (see "Net Income"). Additionally, although not considered as part of the "Acceptable" or "Not Acceptable" determination, the financial performance response does not include information demonstrating that the improvement projected for fiscal year 2014 is sustainable in subsequent fiscal years when the charter holder anticipates operating two sites.
2c. Fixed Charge Coverage Ratio		**X**		The financial performance response indicates the net loss in fiscal year 2013 led to the charter holder not meeting on this measure. The response indicates net income for fiscal year 2014 "significantly improved" over fiscal year 2013 due to reduced expenses and loan forgiveness. The charter holder projects a fixed charge coverage ratio of 2.04 for fiscal year 2014, which is supported by the information found in the response. The response also includes a section on the charter holder's "administrative oversight and governance" as it relates to financial operations. For the factors that contributed to the charter holder receiving a Does Not Meet on this measure for fiscal year 2013, the financial performance response refers to the response's Net Income section. The Net Income section does not include support for the statements made regarding fiscal year 2013 (see "Net Income"). Additionally, although not considered as part of the "Acceptable" or "Not Acceptable" determination, the financial performance response does not include information demonstrating that the improvement projected for fiscal year 2014 is sustainable in subsequent fiscal years when the charter holder anticipates operating two sites.