# Financial Performance Response Evaluation Instrument

Charter Holder Name: PACE Preparatory Academy
Charter Holder Entity ID: 79068
Date Submitted: March 31, 2014

Required for: Renewal
Audit Year: 2013
Evaluation Completed: May 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 |
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| **1a. Going Concern** | | | X | |
| **1b. Unrestricted Days Liquidity** | | | X | |
| **1c. Default** | | | X | |
| **2a. Net Income** | | X | | The financial performance response includes information explaining the reasons for the charter holder's net losses in fiscal years 2012 and 2013.<br>• The charter holder attributes the fiscal year 2012 loss to increased advertising costs to increase enrollment ($2,292), increased instructional salary costs due to tutors and teachers being added "to give students an opportunity to have more one on one time with an instructional leader" ($51,955), a 48-month capital lease "to redesign the computer curriculum in order to increase academic achievement" ($88,298), and an increase in legal expenses due to an ongoing lawsuit regarding a loan from the original charter holder ($6,522). With the exception of the increase in legal expenses, the other items are generally supported by the charter holder's audits.<br>• For fiscal year 2013, the charter holder indicates it "increased instruction $5,932 from the prior year". Due to insufficient detail in the |

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| | | | | response, Board staff was unable to determine whether this statement was supported by the audit or not. In fiscal year 2013, the charter holder negotiated with vendors to reduce its business services costs by $21,542, according to the response, and the charter holder's legal costs increased $11,633. Generally, the charter holder's audits supported the decrease in overall purchased services costs. The audits did not include sufficient detail to determine legal costs. The response states, "The school would have had a $93,949 net profit in FY2013 due to all of the cost saving measures that were instituted during FY2013, however, an unexpected turn in the lawsuit arose, resulting in a settlement agreement costing the school $200,000." This statement is generally supported by the audit.<br><br>The financial performance response indicates the charter holder experienced a drop of approximately 14 ADM (average daily membership) in fiscal year 2014 from the prior year, which is supported by Arizona Department of Education (ADE) reports. The response also states, "… the belief is the attrition is due to a stronger academic push on students and items beyond the school's control. The school has also made the decision to turn over instructional staff as the results of the FY2013 data were not what was expected. Management has since hired instructional staff members that are highly qualified and more accommodating to help our student demographic make academic gains. The school has also added two more instructional positions. The hope is that the FY2014 test scores will improve with all the financial sacrifices that were made." The charter holder's response does not include support for these statements. Further, the response indicates the charter holder currently has 120 students enrolled while ADE reports as of May 14, 2014 support 113 students. As of May 13, 2014, the charter holder's ADM was 110.323. The response also states, "With the increased support academically, new curriculum software, the NCA accreditation affiliation, and new elective programs such as art education, the school is hoping to retain current students and recruit new students for FY2015." The charter holder's response does not include support for this statement.<br><br>The financial performance response states, "For fiscal year 2015, the school is considering leasing a new building which will reduce the cost of rent by $1,000 per month, saving $12,000 annually and engaging in a program using the interactive TV software offering students a more robust curriculum which will |

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| | | | | reduce salary costs for the future. The school is also analyzing vendor contracts to reduce or eliminate services for the school year." The charter holder's response does not include support for these statements.<br><br>Additionally, the charter holder's response includes a table, which, in part, looks at the effect depreciation and one-time expenses have had on the charter holder's net income in fiscal year 2011 through 2013. For fiscal year 2011, the revenue and expenses included in the charter holder's table do not match the revenue and expenses included in the table found in the Renewal Executive Summary. For the Renewal Executive Summary table, Board staff adjusted the fiscal year 2011 revenues to reflect the $64,013 of net assets released from restriction instead of adding the amount to the expenses. While either calculation does not change the net income, adding the amount to expenses would affect the charter's performance on the Unrestricted Days Liquidity measure by increasing the daily expense amount and may end up double-counting these expenses. |
| **2b. Cash Flow** | | **X** | | The financial performance response indicates the charter holder's cash flow in fiscal year 2014 is projected to be $23,260, but does not include support for this amount.<br><br>The financial performance response states, "In an effort to increase the cashflow for future periods, the school has already implementing cost saving measures as mentioned previously and is working towards saving 5% of its revenue budget to build a cash reserve for its future. The school has developed the budgeting practice of developing a budget based on less ADM then projected in order to begin building the cash reserve and securing financial sustainability for its future." The charter holder's response does not include support for these statements (see Net Income and Fixed Charge Coverage Ratio). |

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| **2c. Fixed Charge Coverage Ratio** | | **X** | | The financial performance response indicates the charter holder is working towards building a cash reserve for unexpected costs with the "hope" of the governing board being able to set aside at least 5% of revenue per year beginning in fiscal year 2015. The response also mentions reducing the rent expense for one of its campuses by $12,000 annually and reducing financial services, saving the charter holder $54,000 for the year. Further, the response states, "Management is currently looking at other services that the school can renegotiate terms or eliminate all together. The management team will re-evaluate the staffing model in order to reduce expenses to see if the current model is producing the results that it expects and will make decisions based on the test scores delivered from the AIMS scores for FY2014." The charter holder's response does not include support for these statements. The response also indicates the charter holder has access to a donor who has lent cash at a 0% interest rate, but does not include support for this statement.<br><br>The financial performance response states, "As explained above, the enrollment numbers are looking healthy for FY2015 and management is anticipating a higher enrollment due to the location change with the new building and new curriculum to retain current students and recruit new students to attend." The charter holder's response does not include support for these statements (see Net Income).<br><br>The financial performance response also includes an estimated fixed charge coverage ratio based on current projections for fiscal years 2014 and 2015. The projection estimates a ratio of 0.84 in fiscal year 2014 and 1.14 in fiscal year 2015. The response does not include sufficient information for Board staff to determine the accuracy of the amounts used to calculate the ratio. |