Premier Charter High School – Entity ID 79569
School: Premier Charter High School

Renewal Executive Summary

I. Performance Summary

Area	Acceptable	Not Acceptable
Academic Framework	☒	☐
Financial Framework	☐	☒
Operational Framework	Not Yet Rated See Section V	Not Yet Rated See Section V

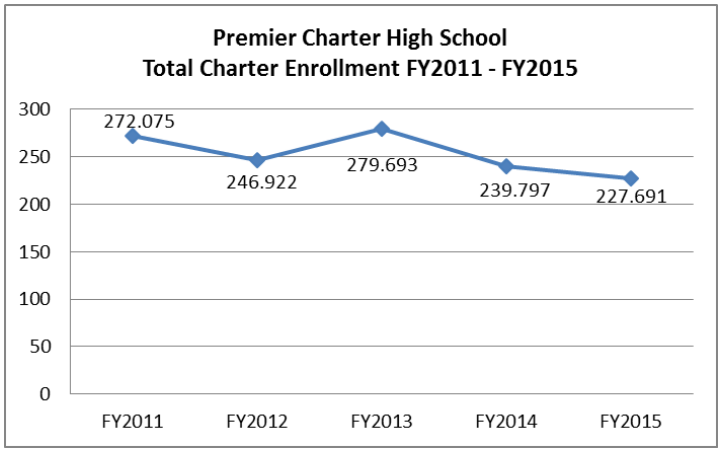
Premier Charter High School met the Board's Academic Performance Expectations as set forth in the Performance Framework adopted by the Board and was waived from submitting the Academic Performance Section of the renewal application.

Premier Charter High School did not meet the Financial Performance Expectations of the Board as set forth in the Performance Framework and was required to submit a Financial Performance Response.

The Charter Holder does have compliance matters, which are described in the "Adherence to the Terms of the Charter" section of this report.

II. Profile

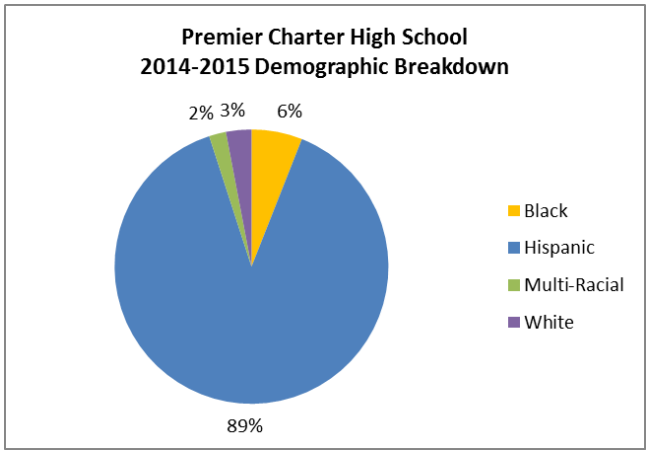
Premier Charter High School operates one school serving grades 9-12. The graph below shows the Charter Holder's actual 100th day average daily membership (ADM) for fiscal years 2011-2015.



The academic performance of Premier Charter High School is represented in the table below. The Academic Dashboard for the school can be seen in the portfolio: c. Academic Dashboard.

School Name	Opened	Current Grades Served	2012 Overall Rating	2013 Overall Rating	2014 Overall Rating
Premier Charter High School	08/11/2003	9-12	52.5/D	64.79/C-ALT	71.25/B-ALT

The demographic data for Premier Charter High School from the 2014-2015 school year is represented in the chart below.[1]



The percentage of students who were eligible for Free and Reduced Lunch, classified as English Language Learners, and classified as students with disabilities in the 2013-2014 school year is represented in the table below.[2]

Category	Premier Charter High School
Free and Reduced Lunch (FRL)	40%
English Language Learners (ELLs)	*
Special Education	6%

III. Success of the Academic Program

The academic performance of the school operated by the Charter Holder meets the Board's Academic Performance Expectations set forth in the Performance Framework adopted by the Board. Therefore, the Charter Holder was not required to submit a Demonstration of Sufficient Progress.

[1] Information provided by the Research and Evaluation Division of the ADE.
[2] Information provided by the Research and Evaluation Division of the ADE. If the percentage of students in a non-ethnicity-based demographic group is not reported or is 0% or 100%, the percentage for that demographic group was redacted.

IV. Viability of the Organization

The Charter Holder was required to submit a Financial Performance Response because it did not meet the Board's Financial Performance Expectations, as reflected in the table below which includes the Charter Holder's financial data and financial performance for the last three audited fiscal years. Please note the fiscal year 2014 audit restated the Charter Holder's net assets at June 30, 2013 to account for accrued bond interest and to reflect the bond reserve fund.

Financial Data				
Statement of Financial Position	**2014**	**2013**	**2012**	**2011**
Cash	$206,116	$180,183	$147,336	$256,452
Unrestricted Cash	$133,078	$95,156	$56,307	
Other Liquidity	-	-		
Total Assets	$2,481,238	$2,370,222	$2,465,339	
Total Liabilities	$2,910,021	$2,433,792	$2,605,549	
Current Portion of Long-Term Debt & Capital Leases	$1,637,448	$2,340,232	$2,506,832	
Net Assets	($428,783)	($63,569)	($140,210)	
Statement of Activities	**2014**	**2013**	**2012**	
Revenue	$1,966,143	$2,102,319	$1,942,447	
Expenses	$1,894,453	$2,025,678	$2,057,697	
Net Income	$71,690	$76,641	($115,250)	
Change in Net Assets	$71,690	$76,641	($115,250)	
Financial Statements or Notes	**2014**	**2013**	**2012**	
Depreciation & Amortization Expense	$125,675	$126,100	$127,854	
Interest Expense	$190,462	194,159	196,704	
Lease Expense	$2,961	$2,961	$2,388	
Financial Performance				
	2014	**2013**	**2012**	**3-yr Cumulative**
Near-Term Indicators				
Going Concern	Yes	Yes	Yes	N/A
Unrestricted Days Liquidity*	25.64	17.15	9.99	N/A
Default	Yes	Yes	Yes	N/A
Sustainability Indicators				
Net Income	$71,690	$76,641	($115,250)	N/A
Cash Flow	$25,933	$32,847	($109,116)	($50,336)
Fixed Charge Coverage Ratio	0.21	0.16	0.08	N/A

* For fiscal year 2012, the field reflects the charter holder's performance under the financial framework's previous "Unrestricted Days Cash" measure.

The Charter Holder's Financial Performance Response has been provided in the meeting materials (portfolio: e. Supplemented Financial Response).[3] Staff's final evaluation of the Financial Performance Response resulted in zero "Acceptable" and five "Not Acceptable" determinations (portfolio: d. Financial Response Evaluation). An analysis of the Charter Holder's financial performance, focusing on those measures where the Charter Holder failed to meet the Board's target and using information from the Charter Holder's Financial Performance Response and related documents, is provided below.

Financial Measure Analysis

In 2005, the Charter Holder and another charter entity entered into a bond financing agreement for the purpose of purchasing land, buildings, and to fund improvements, among other items. The financing arrangement contained a joint and severable liability clause which required that both entities bear responsibility for paying the debt regardless of their individual share of the liability. In 2008, the other charter entity ceased operations. As a result of joint and severable liability, the trustee issued a notice of default to both organizations. This resulted in a reclassification of all remaining bond principal as current debt, and placed the Charter Holder in the position as the only source of funds for bond payments.[4] According to the 2014 audit, "As a result of the default, the ability of Premier to continue as a going concern at its current level of operations is questionable." As of June 30, 2014, the Charter Holder's portion of the debt obligation is approximately $2.9 million in principal and accrued interest, while approximately $6.4 million is owed for the joint debt. As expressed in the audit, "It is not expected that Premier's revenues will ever be sufficient to pay the joint debt service."

In order to address the bond default, and by extension the going concern designation, the Charter Holder has entered into negotiations with the current bond trustee to restructure the terms of the current bond issue by June 30, 2015. Under the proposed bond financing arrangement, the current bond series will be replaced by the issuance of three new bond series: Series 2015A, 2015B, and 2015C (collectively referred to as the "Series 2015 bonds") totaling approximately $7.6 million.[5]

The Series 2015 bonds establishes an arrangement where the trustee would distribute a monthly allocation to pay the Charter Holder's budgeted operating and capital expenses, including payment of the Series 2015A bonds. If any amount is remaining after paying expenses and 2015A series bond debt, (defined by the trustee as the "School's Annual Net Income"), a portion will be allocated to the Charter Holder's operating account and the remainder towards paying down the Series B and the Series C bonds, in that order. Only if the "School's Annual Net Income" is sufficient will the Charter Holder have to pay down the Series B and C bonds. If the negotiations with the bond trustee to secure the new debt funding are successful, it should allow for debt relief in the form of reduced interest-only bond payments, as well as a reclassification of all current bond debt to long-term debt in 2015 and 2016, thereby providing immediate and substantial debt relief.

The Charter Holder provided a revised "Five Year Projections" document that shows the effects of the debt restructure agreement from 2015 to 2020. Based on the document, maintaining the projected positive net income is dependent upon on the average daily membership (ADM) projections.[6] In particular, the charter holder based its ADM projections in 2017 and 2018 on the Board's approval of a night school program and the addition of 25 night school students in each year. The charter holder

[3] On April 10, 2015, Board staff emailed a copy of staff's initial evaluation and provided a deadline by which the Charter Holder could supplement its Financial Performance Response to address areas evaluated as "Not Acceptable". By the deadline, the Charter Holder submitted supplemental information.

[4] The other charter entity's assets were sold in 2011 and the proceeds were used to reduce the bond debt.

[5] The conditions required by the bond refinancing agreement include "Renewal of the charter contract from ASBCS".

[6] See Financial Response Evaluation.

explained "the school is dependent on the increased membership provided by the inclusion of night school in FY17 to meets its obligations under the bond financing agreement provided thus far." The charter holder's ability to cover its expenses and meet its obligations under the bond financing agreement in 2017, 2018 and subsequent years is dependent on the revenues generated by the additional students. Should the night school not be approved by the Board, or the students not enroll at the levels projected, it is not clear that the charter holder would be able to meet its obligations, especially in 2017 and 2018. Based on the assumptions provided for the "Five Year Projections" document, the expenses associated with the night school program are less than the revenues the charter holder projects to generate from the program. The bond financing agreement indicates that if the charter holder fails to receive approval for the night school, then a consultant will provide a report relating to the feasibility of the night school, but does not address actions that would occur if enrollment in the school does not meet the projections.

The Charter Holder indicated that the debt is restructured in a way that "considered the school's ability to meet all of the Charter Board's financial performance framework measures that it has not met in the recent past." Based on its projections, the Charter Holder anticipates meeting the unrestricted days liquidity, fixed charge coverage ratio, and cash flow targets for 2015 through 2020.

V. Adherence to the Terms of the Charter

Does the delivery of the education program and operation reflect the essential terms of the educational program as described in the charter contract?
Yes. Based on the available information in fiscal years 2013 and 2014 and the current fiscal year, the Charter Holder's education program, in operation, reflects the essential terms as described in the charter contract.

Does the Charter Holder adhere with applicable education requirements defined in state and federal law?
Yes. Based on the available information in fiscal years 2013 and 2014 and the current fiscal year, the Charter Holder adheres with applicable education requirements defined in state and federal law.

Do the Charter Holder's annual audit reporting packages reflect sound operations?
As reported in fiscal years 2013 and 2014 and the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to the annual audit reporting package ("audit"), except that the fiscal years 2012, 2013 and 2014 audits, respectively, each included a disclaimer of audit opinion on the financial statements because of the "significance of the uncertainty" related to the bond default and the Charter Holder's ability to continue as a going concern (see the "Viability of the Organization" section above).

Is the Charter Holder administering student admission and attendance appropriately?
Yes. Based on the available information and as reported in fiscal years 2013 and 2014 and the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to administering student admission and attendance.

Is the Charter Holder maintaining a safe environment consistent with state and local requirements?
Yes. Based on the available information in fiscal years 2013 and 2014 and the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to maintaining a safe environment.

Is the Charter Holder transparent in its operations?
Yes. Based on the available information in fiscal years 2013 and 2014 and the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to transparency of operations.

Is the Charter Holder complying with its obligations to the Board?
Yes. Based on the available information in fiscal years 2013 and 2014 and the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to its obligations to the Board.

Is the Charter Holder complying with reporting requirements of other entities to which the Charter Holder is accountable?
Based on the available information and as reported in the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to the reporting requirements of other entities to which the Charter Holder is accountable, except that the Charter Holder failed to timely submit its fiscal year 2014 Annual Financial Report to the Arizona Department of Education.

Based on the available information and as reported in fiscal years 2013 and 2014, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to the reporting requirements of other entities to which the Charter Holder is accountable.

Is the Charter Holder complying with all other obligations?
Yes. Based on the available information in fiscal years 2013 and 2014and the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to all other obligations.

VI. Board Options

Option 1: The Board may approve the renewal. Staff recommends the following language provided for consideration: Renewal is based on consideration of academic, fiscal and contractual compliance of the Charter Holder. In this case, the Charter Holder meets the Academic Performance Expectations set forth in the Board's Performance Framework. The Board has reviewed a record of past contractual noncompliance and the Charter Holder's failure to meet the Board's financial expectations. With that taken into consideration as well as all information provided to the Board for consideration of this renewal application package and during its discussion with representatives of the Charter Holder, I move to approve the request for charter renewal and grant a renewal contract to Premier Charter High School.

Option 2: The Board may deny the renewal. The following language is provided for consideration: Based upon a review of the information provided by the representatives of the Charter Holder and the contents of the application package which includes the academic performance, the fiscal compliance, and legal and contractual compliance of the Charter Holder over the charter term, I move to deny the request for charter renewal and to not grant a renewal contract for Premier Charter High School. Specifically, the Charter Holder, during the term of the contract, failed to meet the obligations of the contract or failed to comply with state law when it: (Board member must specify reasons the Board found during its consideration.)