Financial Performance Response Evaluation Instrument

Charter Holder Name: Premier Charter High School
Charter Holder Entity ID: 79569

Required for: Renewal
Audit Year: 2014

Arizona State Board for Charter Schools (Board) staff completed the Financial Performance Response Evaluation Instrument for 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	Reason(s) for "Not Acceptable" Rating
1a. Going Concern Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder is currently in negotiations with the bond trustee to restructure the terms of the bond financing agreement. Based on the response and audits, the charter holder's ability to achieve its financial performance goals and meet the Board's financial performance expectations is contingent upon the success of the bond negotiations. The charter holder states "if said negotiations do not produce a resolution agreeable to both parties during the current fiscal year, the school will pursue other financing options." The response indicates "Other financing options to be considered include refinancing through a Community Financial Development Institution", but "documentation proving the viability of this option is unavailable at this time." Therefore, the possibility of other financing options in the event the bond negotiations are not successful is not supported. The response includes a "Five Year Projections" document. In addition to an estimate for 2015, the document projects, among other items, average daily membership (ADM), revenues, expenses, and net income for 2016 - 2020. • For 2015, the charter holder includes a state equalization amount that is approximately $21,500 higher than the amount reflected on the Arizona Department of Education (ADE) report for April 2015. If the charter holder revises its 2015 state equalization amount to reflect current information available through ADE, this information would be considered in Board staff's evaluation. In addition, the charter holder asserts, but does not support, that shifting to a closed campus and extending the scheduled school day to accommodate breakfast and lunch being provided on campus negatively impacted enrollment in 2015. According to ADE attendance reports, the ADM decrease between 2014 and 2015 (approximately 12 based on the ADE report as of April 13, 2015) was smaller than the ADM decrease from 2013 to 2014 (approximately 40) when the open campus and other schedule were in place. Had the charter holder provided documentation showing the effect the closed campus and extended school day schedule had on ADM, this would have been considered in Board staff's evaluation. • For 2016, the charter holder states, "The school continues to report an increase in ADM of approximately 5 students in 2016. The basis for the increase is based on the evaluation of recent changes to our student schedule and ADM history." The response indicates that the charter holder's proposed recent changes to the 2016 student schedule offers (1) implementing a later start time, (2) shortening the school day, and (3) adjusting the schedule to "increase credit recovery time". The charter holder "is optimistic that the added flexibility combined with recruitment efforts will translate into increased membership of 5 in 2016." However, the charter holder does not support how the proposed changes to the student schedule will

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	result in an increased membership of five in 2016. In addition, the charter holder asserts, but does not support "membership realized by the school in the past indicates that the membership goal for 2016 is attainable." Past membership (ADM) includes a 14% decrease and a 5% decrease in 2014 and 2015, respectfully, which appears inconsistent with a 2% increase in 2016. Further, the response indicates "recruitment efforts" in 2016, but does not explain the recruitment efforts being made by the charter holder. Had the charter holder provided further explanation and support, this would have been considered in Board staff's evaluation. • For 2017 and 2018, the charter holder bases its ADM projections on the Board's approval of a night school program and the addition of 25 night school students in each year. Based on information included in the response, 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 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. Had the charter holder provided further explanation and support regarding contingencies should the night school program not be approved or the projected enrollment not be realized, these would have been considered in Board staff's evaluation. In addition, the charter holders states, but does not support, "The school and the trustee (acting on behalf of the bondholders) have had ongoing negotiations to ensure that the restructuring of the bond is satisfactory to its bondholders in addition to ensuring the long term financial success of the school. The discussions occurring will improve the school's position from the most conservative approach presented thus far" Had the charter holder provided documentation supporting the "discussions", this would have been considered in Board staff's evaluation. • For 2019 and 2020, the charter holder projects an increase of 7 students and 6 students, respectively, in the day program. The charter holder provides historical ADM data for 2011 through 2015 and determines that "Using the school's average membership history suggests an ADM average of 253. The addition of 7 students in FY19 and the addition of 6 students in FY20 is within the normal range of enrollment experienced in the school's day program." However, decreases in 2014 and 2015 ADM (discussed above) do not support a relationship to the projected increases in 2019 and 2020 in the charter holder's Five Year Projections document. Therefore, the basis for these increases is not clear. Had the charter holder provided further explanation and support, this would have been considered in Board staff's evaluation. In addition, the "Five Year Projections" document includes line items for "Adjustments for series B Bonds" and "Income available to school after adjustments". The amounts in these line items are based on adjustments made to

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	the charter holder's projected net income (total revenues minus total expenses). The bond financing agreement establishes a "distribution waterfall" for paying off the series B Bonds and series C Bonds and defines the "School's Annual Net Income" as any amounts available after certain expenses have been covered and principal payments made on the series A bonds. The calculations included in the last two line items on the "Five Year Projections" document do not appear to be based on the "School's Annual Net Income". Had the charter holder provided further explanation and support, these would have been considered in Board staff's evaluation. The charter holder submitted a revised supplemental Five Year Projection document which revised down projected ADM in 2015 - 2020. This had a negligible effect on revenue and net income figures in the Five Year Projections and no impact on the charter holder's anticipated rating for unrestricted days liquidity, cash flow, and fixed charge coverage ratio targets discussed below.
1b. Unrestricted Days Liquidity Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder projects unrestricted days liquidity (UDL) that anticipates meeting the Board's target in 2015-2020. However, the charter holder's 2015-2020 performance on this measure is based on the "Five Year Projections" document, which is not fully supported (see going concern). Therefore, it is not clear that the UDL projection will be realized. In addition, the UDL projection uses the "Net Increase in Cash" as its starting point for determining unrestricted liquidity instead of the charter holder's "Cash at year end". Further, the charter holder projects "restricted funds" (restricted cash) as equal to 2014 in years 2015 - 2020. However, based on past audits, restricted funds change each year. Had the charter holder provided support for its use of the "Net Increase in Cash" and for its restricted cash projections, this would have been considered in Board staff's evaluation.
1c. Default Acceptable ☒ Not Acceptable ☐ Not Applicable ☐	Based on the bond refinancing agreement, the charter holder expects "to be able to cover future debt service payments" and to meet this measure's target "starting in FY 15". However, these expectations are contingent upon the success of the bond negotiations and the charter holder realizing the projections included on the "Five Year Projections" document (see going concern).
2a. Net Income Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	
2b. Cash Flow Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder projects cash flows that show it meeting the Board's target on this measure in years 2015-2020. However, the charter holder's 2015-2020 performance on this measure is based on the "Five Year Projections" document, which is not fully supported (see going concern). Therefore, it is not clear that the cash flow projections will be realized.

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2c. Fixed Charge Coverage Ratio Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder projects meeting the Board's target on this measure in 2015-2020. However, the current portion of long-term debt and interest expense in the fixed charge coverage ratio (FCCR) projection are contingent upon the success of bond negotiations (see going concern). The response does not support the likelihood of other financing options; therefore it is not clear that the FCCR projections will be realized if the bond negotiations are not successful. In addition, the FCCR projections for 2015-2020 are based, in part, on the "Five Year Projections" document, which is not fully supported (see going concern). Therefore, it is not clear that the FCCR projections will be realized.