

AGENDA ITEM: Consideration of Modifications to the Renewal Application Instructions

Background

Charter holders that intend to apply for renewal must file an application package. The Board approved the initial Renewal Application Instructions in September 2009 and approved revisions to the instructions in November 2010. The instructions identify the required components to be submitted with the application package.

A.R.S. §15-185(l) requires the Board notify a charter holder of its eligibility to apply for renewal at least 18 months prior the contract’s expiration. For the current renewal cohort, staff notified the last charter holder of its eligibility in June 2012. The next charter holder will be notified in October 2012.

Proposed Revisions to Instructions

During its meeting on [July 19, 2012](#), the Board’s Financial Subcommittee directed staff to revise the renewal application documents. The major revisions discussed by the Subcommittee include the following:

	Current Standard	Proposed Change
Renewal Budget Plan Template (Financial Sustainability “Part A”)	<p>The charter holder must complete and submit the template if any of the following apply:</p> <ul style="list-style-type: none"> • The charter holder is required to submit the application’s Academic Performance Section. • At least one of the charter holder’s two previous audits identified a going concern. • At least of the charter holder’s two previous audits identified that the charter holder ended the year with negative equity. 	<p>Only those charter holders required to complete the application’s Academic Performance Section are required to complete and submit the template.</p>
Financial Sustainability “Part B” Applicability	<p>The charter holder must submit “Part B” if either or both of the following apply:</p> <ul style="list-style-type: none"> • At least one of the charter holder’s two previous audits identified a going concern. • At least of the charter holder’s two previous audits identified that the charter holder ended the year with negative equity. 	<p>“Part B” must be submitted if the charter holder’s financial performance as evaluated using the Board’s Financial Performance Framework and the most recent audit reporting package reviewed by Board staff includes:</p> <ul style="list-style-type: none"> • Two measures or more receiving a “Does Not Meet Standard” rating; and/or • One measure or more receiving a “Falls Far Below Standard” rating.
Financial Sustainability “Part B” Submission Requirements	<p>The charter holder must submit:</p> <ul style="list-style-type: none"> • A written explanation for the charter holder’s current financial situation. • A written description of the specific steps the charter has already taken to improve its financial situation and ensure the continued financial sustainability of the charter school(s). • Evidence supporting the specific steps taken by the charter holder to improve its financial situation as identified in the narrative. 	<p>The Board has not prescribed the specific information that must be submitted by the charter holder. The charter holder’s response should focus on each measure where the charter holder received a “Does Not Meet Standard” or “Falls Far Below Standard”.</p> <p>The Board’s Financial Performance Framework and Guidance document includes examples of items that the charter holder may want to consider addressing in or including with its required response.</p>

The other proposed revisions to the [Renewal Application Instructions](#) represent technical changes or are intended to provide clarification.

Effect and Implementation of Changes

Between January 2011 and June 2012, 68 charter holders were notified of their eligibility to apply for renewal. Under the existing renewal performance standard, 23 of the 68 charter holders (approximately 34%) were required to submit "Part B" of the renewal application based on the information available at the time they were notified of their eligibility. For an additional 3 charter holders (approximately 4%), the audit reporting packages received subsequent to the eligibility notification, but prior to the Board's consideration of their renewal application packages, disclosed information that would have required the charter holders to submit "Part B". This information was disclosed in the renewal executive summary reports provided to the Board when it considered these renewal application packages.

Between October 2012 and December 31, 2012, 18 charter holders will be notified of their eligibility to apply for renewal. Staff reviewed the fiscal year 2011 audit reporting packages for the 18 charter holders using the Financial Performance Framework and provided the results to the Subcommittee at its July meeting. The results show that based on the fiscal year 2011 audit reporting packages approximately half will be required to submit additional information with their renewal application packages and approximately half will be waived from submission requirements related to their financial operations. Using the existing renewal financial performance standard, approximately one-fifth of the 18 charter holders would have been required to submit additional information as part of their renewal application packages.

During the July meeting, the Subcommittee also discussed the information staff will provide to charter holders that must submit a response related to their financial performance with their renewal application packages and the information staff will provide to the Board when it considers these charter holders' renewal application packages.

- At the time the charter holder receives its eligibility notification letter, staff will make available in the charter holder's Document Management System (DMS) in ASBCS Online the charter holder's results for each of the Financial Performance Framework's measures. (Please see Table 1 on the last page of this report.)
- When the Board considers the charter holder's renewal application package, the renewal executive summary report will include the information found in Table 2 on the last page of this report.

Board Options

Option 1: I move to approve the Renewal Application Instructions as presented at the meeting for implementation beginning with those charter holders that will be notified of their eligibility to apply for renewal in October 2012.

Option 2: I move to approve the Renewal Application Instructions as presented at the meeting with the modifications discussed (may require specific reference depending upon whether clarification of discussion is needed) for implementation beginning with those charter holders that will be notified of their eligibility to apply for renewal in October 2012.

Table 1 – Information Provided to Charter Holder

ABC Charter Holder

Financial Performance Based on Fiscal Year 2011 Audit			
Near-Term Indicators			
Going Concern	No	Meets	
Unrestricted Days Cash	13.87	Falls Far Below	
Default	No	Meets	
Sustainability Indicators			
Total Liabilities to Equity Ratio	(2.70)	Falls Far Below	
Net Income	(\$17,517)	Does Not Meet	
Fixed Charge Coverage Ratio	0.84	Does Not Meet	
Cash Flow (3-Year Cumulative)	\$12,879	Meets	
Cash Flow Measure Detail	\$11,778 [FY11]	(\$24,179) [FY10]	\$25,280 [FY09]

Note: Negative numbers are indicated by parentheses.

Table 2 – Information Provided to Board in Renewal Executive Summary

ABC Charter Holder

Financial Data				
	2011	2010	2009	2008
Statement of Financial Position				
Cash	\$14,398	\$2,620	\$26,799	\$1,519
Unrestricted Cash	\$14,398	\$2,620	\$26,688	
Total Assets	\$30,219	\$11,035	\$32,260	
Total Liabilities	\$47,947	\$11,264	\$20,551	
Current Portion of Long-Term Debt & Capital Leases	-	-	-	
Net Assets	(\$17,728)	(\$211)	\$11,709	
Statement of Activities				
Revenue	\$361,385	\$309,392	\$252,248	
Expenses	\$378,902	\$321,312	\$227,951	
Net Income	(\$17,517)	(\$11,920)	\$24,297	
Change in Net Assets	(\$17,517)	(\$11,920)	\$24,297	
Financial Statements or Notes				
Depreciation & Amortization Expense	\$3,595	\$1,001	\$440	
Interest Expense	-	-	-	
Lease Expense	\$85,415	\$55,132	\$46,297	
Financial Performance				
	2011	2010	2009	3-yr Cumulative
Near-Term Indicators				
Going Concern	No	No	No	N/A
Unrestricted Days Cash	13.87	2.98	42.73	N/A
Default	No	No	No	N/A
Sustainability Indicators				
Total Liabilities to Equity Ratio	(2.70)	(53.38)	1.76	N/A
Net Income	(\$17,517)	(\$11,920)	\$24,297	N/A
Cash Flow	\$11,778	(\$24,179)	\$25,280	\$12,879
Fixed Charge Coverage Ratio	0.84	0.80	1.53	N/A