Financial Performance Response Evaluation Instrument

Charter Holder Name: Espiritu Community Development Corp.
Charter Holder Entity ID: 4335
Date Submitted: July 15, 2014

Required for: Replication
Audit Year: 2013
Evaluation Completed: September 3, 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 indicates the charter holder missed meeting on this measure by $23,407. According to the response, the charter holder did not meet on this measure due to the timing of reducing its accounts payable. In fiscal year 2013, the charter holder reduced payables by approximately $70,000. The response notes that by delaying payment on a few expenses, the charter holder would have met on this measure. These statements are supported by the response and the charter holder's audits. The financial performance response projects the charter holder will end fiscal year 2014 with 39.6 days liquidity. The improvement is attributed to an increase in the charter holder's end-of-year cash balance even with a further decrease in accounts payable of approximately $130,000. The table included with the response provides the charter holder's performance on this measure for fiscal years 2012 through 2014 and detailed information on how the performance was determined. The numbers and calculations provided for fiscal years 2012 and 2013 match staff's numbers and calculations using the financial framework. Based on this, while the response does not include detailed internal financial statements to support the fiscal year 2014 expense and cash balance amounts used by the charter holder, it is reasonable to conclude that the charter holder's actual performance for fiscal year 2014 using audited information will be similar to the projected performance.

Measure	Acceptable	Not Acceptable	Not Applicable	Comments
1c. Default			X	
2a. Net Income	X			The financial performance response includes an explanation for the net losses experienced by the charter holder in fiscal years 2012 and 2013. For fiscal year 2012, "a major contributing factor" was an approximately $210,000 loss on the disposal of a fixed asset related to a lease termination. For fiscal year 2013, contributing factors were identified as increases in instructional wages and an increase in the Arizona State Retirement System contribution rate. These statements are supported by the response and the charter holder's audits. The financial performance response projects the charter holder is on track to receive a "meets" on this measure for fiscal year 2014. According to the response, the charter holder projects positive net income of $93,665, which is an improvement of approximately $234,000 from fiscal year 2013. The response indicates the charter holder increased its average daily membership (ADM) by 29 students between fiscal year 2013 and 2014 and by 50 students since fiscal year 2012. These numbers are in line with Arizona Department of Education reports. The table included with the response provides the charter holder's performance on this measure for fiscal years 2012 through 2014 and shows the charter holder's net income per student improving during this time period and its expenses per student decreasing. Staff was able to verify the information provided for fiscal years 2012 and 2013. Based on this, while the response does not include detailed internal financial statements to support the fiscal year 2014 net income projection, it is reasonable to conclude that the charter holder's actual performance for fiscal year 2014 using audited information will be similar to the projected performance.
2b. Cash Flow		X		Even though the three-year cumulative cash flow was positive, the charter holder received a "Does Not Meet Standard" rating on this measure for fiscal year 2013 due to negative cash flow for fiscal year 2013. To determine the charter holder's performance on this measure, staff used the cash amounts disclosed on the statement of financial position. In its response, the charter holder used the cash amounts disclosed on the statement of cash flows. This explains the differences between the annual cash flow numbers on the table in

Measure	Acceptable	Not Acceptable	Not Applicable	Comments
				the staff report and the annual cash flow numbers included in the charter holder's response. The financial performance response indicates the negative cash flow for fiscal year 2013 was due to a "significant decrease" in accounts payable and a need to increase revenues. These statements are supported by the response and the charter holder's audits. The financial performance response indicates the charter holder projects positive cash flow for fiscal year 2014. According to the response, the improvement can be attributed to increased revenues from increased enrollment. While the charter holder's audited cash flow statements support the amounts included in the table for fiscal years 2012 and 2013, the projected change in cash for fiscal year 2014 is not supported by the rest of the response. The unrestricted days liquidity response indicates the charter holder's cash increased by $197,654 from fiscal year 2013 [$455,189) to fiscal year 2014 [$652,843]. The cash flow response indicates an increase of $97,104, which would result in an end of year cash balance of $552,293. While both reflect positive cash flow, it is not clear which amount is correct. If the $97,104 amount is correct, then the charter holder's performance on the unrestricted days liquidity measure would drop from 39.6 days to 33.51 days, but would still receive a "meets".
2c. Fixed Charge Coverage Ratio			**X**	