Financial Performance Response Evaluation Instrument

Charter Holder Name: Telesis Center for Learning, Inc.
Charter Holder Entity ID: 79218
Date Submitted: March 31, 2014

Required for: Renewal
Audit Year: 2013
Evaluation Completed: May 16, 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	
1c. Default			X	
2a. Net Income		X		The financial performance response states the fiscal year 2013 net loss was "due to non-recurring events that are not expected to repeat in future years". The six "non-recurring events" are: 1) an increase in depreciation and interest expense due to facility expansion ($145,000) and the charter holder not yet having the enrollment needed to meet the additional costs; 2) Classroom Site Fund overpayment by the Arizona Department of Education (ADE); 3) certain Title I expenses being deemed unallowable by ADE, resulting in those expenses having to be absorbed by the charter holder ($45,000); 4) an increase in repair and maintenance costs ($25,000); 5) additional pupil transportation expenses ($25,000); and 6) an increase in special education costs. Generally, the charter holder's audits and ADE reports support the amounts included in the response related to items "1)", "2)" and "3)". However, based on the projections provided by the charter holder, the item identified in "1)" may continue to be an issue in fiscal years 2014 and 2015. The charter holder's response does not

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				include support for the statements made regarding the remaining items. The financial performance response includes projections for fiscal years 2014 through 2018. Based on the projections, the charter holder will operate with net losses in fiscal years 2014 and 2015 with positive net income projected in fiscal years 2016 through 2018. The projection for fiscal year 2014 is based on a total enrollment of 469 students and includes "State Equalization Assistance" of $2,961,735, both of which are not supported by ADE reports. During the period covering fiscal years 2010 through 2014, the charter holder experienced its highest average daily membership (ADM) of 459.377 in fiscal year 2012. For fiscal year 2013, the charter holder's ADM was 437.443; as of May 13, 2014, the charter holder's fiscal year 2014 ADM is 436.799. Even if the charter holder used a head count for its projections (instead of ADM), the amount of state equalization assistance received would not change. According to ADE reports, as of the May 2014 payment, the charter holder's state equalization assistance for fiscal year 2014 is calculated at $2,835,144.30, which is $126,500 less than the amount included in the charter holder's projection. (The charter holder's response was submitted in March. According to ADE reports, as of the March 2014 payment, the charter holder's state equalization assistance for the year was calculated at $2,842,552.98.) Additionally, the response states, "The School is confident that the completion of phase two, the sports programs that the School will be able to expand having a gymnasium and an aggressive marketing campaign will increase student enrollment significantly ensuring that the Schools meets the needed enrollment to cover additional expenses of the expansion." The charter holder's response does not include evidence to support the total enrollment numbers provided in the projections for fiscal years 2015 (520) through 2018 (620).
2b. Cash Flow		**X**		The financial performance response states, "This negative number was caused by the use of some of the School's reserves to cover the non-recurring items that caused the School to have net loss in fiscal year 2013. These non-recurring items are discussed in the first part of this document." (See Net Income.) The financial performance response includes projections for fiscal year 2014 through 2018. The projections show positive cash flow in each year.

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2c. Fixed Charge Coverage Ratio		**X**		The financial performance response indicates the charter holder "received a rating of 'Does Not Meet' for the fixed charge coverage ratio due to the net loss in fiscal year 2013 and due to the large amount recorded as the current portion of long-term debt" (see Net Income). Regarding the current portion of long-term debt, the response indicates a balloon payment was due in fiscal year 2014 for the construction loans used to fund the facility expansion project. This statement is supported by the charter holder's audit. The financial performance response indicates that in December 2013, the charter holder closed on bond financing through the Town of Florence Industrial Development Authority. According to the response, the bond financing pays the balloon payment and also provides funds for the charter holder to complete its expansion project. The charter holder's response does not include support for these statements. The response mentions that the charter holder will have its consulting accountant begin to calculate this measure several times throughout future fiscal years to ensure that the charter holder receives a "meets" in the future. According to the response, the bond financing requires the charter holder to maintain a debt service coverage ratio greater than the 1.1 required for the fixed charge coverage ratio. The response includes projections for the charter holder's performance on the debt service coverage ratio for fiscal years 2014 through 2018, but does not include the performance level required by the bond financing. The projections show the charter holder achieving a 1.64 or higher for its debt service coverage ratio. It is unclear at this time if and how the issues identified in the Net Income section above (specifically the second paragraph) will affect the charter holder's performance on the bond financing's debt service coverage ratio.