Financial Performance Response Evaluation Instrument

Charter Holder Name: The Griffin Foundation, Inc.
Charter Holder Entity ID: 79500

Required for: Renewal
Audit Year: 2014

NOTE: The financial performance response submitted by The Griffin Foundation addressed both fiscal years 2013 and 2014. This evaluation focuses on the information submitted for the Unrestricted Days Liquidity and Cash Flow measures since the charter holder's performance on the Net Income and Fixed Charge Coverage Ratio measures improved from "Does Not Meet" in 2013 to "Meets" in 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 ☒	
1b. Unrestricted Days Liquidity Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The financial response includes a letter from the bond trustee indicating that the June 30 payment was not credited to the charter holder's bank account until July 1. Information submitted through the Board's audit corrective action plan process and with the response indicates the amount transferred on July 1 was $107,598. According to a letter from the charter holder's audit firm provided with the response, the payment was reported as a component of escrow funds and not specifically identifiable in the audit by amount or source. For future reference, the Board's financial framework requires that other sources of liquidity (e.g., the delayed transfer of the June 30 payment, credit lines) be sufficiently disclosed in the annual audits for them to be considered in this measure's calculation. Had the transfer been specifically identified in the 2014 audit's "Escrow Funds" financial statement note or disclosed elsewhere in the financial statement notes, the charter holder's performance on this measure would have improved from approximately 4 days ("Falls Far Below") to approximately 18 days ("Does Not Meet"). The delayed transfer does not fully explain the reason for the charter holder not meeting the Board's 30-day target. Had the charter holder provided further explanation for the charter holder's performance on this measure, along with supporting documentation, this would have been considered in Board staff's evaluation. The response refers to a "General Reserve Fund - $178,166.67 (maximum: Cash Reserve)" and a "Capital & Maintenance Fund - $55,000 (current balance in fund)." The Bond Reserve Fund balance of $29,965 disclosed in the 2014 audit is already included as other liquidity in the unrestricted days liquidity calculation. The response does not support that the charter holder has access to additional bond reserve funds in the audited fiscal year or can draw from the $178,166.67 fund balance separate from the Bond Reserve Funds disclosed in the audit. Had the charter

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	holder provided documentation showing access to $178,166.67 held by the trustee under the provision of the loan agreement, this would have been considered in Board staff's evaluation. Regarding the Capital & Maintenance Fund, the response indicates that these monies are restricted for facility maintenance and repair related expenses and not available for general operating expenses. Therefore, the Capital & Maintenance Fund is not considered as an "other source of liquidity" under the financial framework. The charter holder references a Community Investment Corporation (CIC) line of credit described as a "Three to six month loan from $60,000 to $75,000 depending on financial need of the school district." The response includes a letter from the CIC that verifies it "previously approved and lent Griffin Foundation up to $75,000… In the future, upon a request from the Griffin Foundation and all terms are met, Community Investment Corporation will consider extending credit to the Foundation." Should the CIC issue a line of credit to the charter holder in the future, the credit line must be sufficiently disclosed in the audit for it to be considered in this measure's calculation (see above).
1c. Default Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	
2a. Net Income Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	
2b. Cash Flow Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder asserts, but does not support "The decrease in cash was due to the rescinding of the State bill that funded full-Day Kindergarten classes." While the State of Arizona ceased full-day kindergarten funding in 2011, neither the audits nor the response provide sufficient detail regarding the impact of the loss on cash flow in 2012 through 2014, or the three-year cumulative cash flow period in 2014. In addition, while the reduction in full-day kindergarten funding occurs in 2011, it does not explain how the greatest loss of cash occurs in 2013, two years after the State of Arizona reduced program funding. Had the charter holder provided documentation showing the impact of the loss of full-day kindergarten funding on this measure, this would have been considered in Board staff's evaluation. The charter holder explains "These [full-day kindergarten] reductions were during the same timeframe that ADE changed their equalization payment system by skipping a payment and combining July's payment to be paid in late June. Due to these factors, it was necessary for GFI to borrow $130,000.00 for the short fall in revenue. GFI later repaid these funds to our Operating Reserve Funds account." While the 2010 and 2011 audits show changes in the reserve fund balances, as well as borrowing and repayment of notes, they do not include sufficient detail to show

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	cash flows representing the approximately $130,000 borrowed and later repaid as indicated in the financial response. Had the charter holder provided other information, such as, operating reserve fund requisitions from the bond issuer or account statements showing the movement of cash, or any other information, these would have been considered in Board staff's evaluation. The charter holder indicates the school did not "adequately budget for all expenses" and although revenues increased in 2013, so did expenses. Had the charter holder provided internal management report, this would have been considered in Board staff's evaluation. The charter holder asserts that, in part, due to a "reduction in federal grant funding; it will take time to meet the Board's expectations for Cash Flow (3-Year Cumulative)." However, the audits show that government grants have increased 13% in 2013 and 27% in 2014 which shows an increase in grant funding. Had the charter holder provided documentation showing the impact of federal funding on this measure, this would have been considered in Board staff's evaluation. The charter holder states, but does not support, that it "will continue to improve this measure by lowering expenses when possible and working on increasing the student count to counter continued State and Federal funding cuts and higher health benefit costs." Arizona Department of Education reports show the charter holder's average daily membership has declined from 326.919 in 2014 to 294.713 in 2015 as of March 13, 2015. Had the charter holder provided internal management reports or interim financial statements, these would have been considered in Board staff's evaluation.
2c. Fixed Charge Coverage Ratio Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	