DOBSON ACADEMY

An Arizona Ball Charter School

"WHERE CHILDREN ARE THE PRIORITY"

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Response to Arizona State Charter Board

Re: Charter Holder's Financial Sustainability Financial Performance based on Fiscal Year 2012 Audit

The three listed items above were the result of Ball Charter Schools opening a new school at Gilbert, Arizona. As noted in the note 12 (Related Party Transactions) on page 14 of the 2011-12 audit, the costs of starting Ball Charter Schools Val Vista had a negative impact on our financials. In order to finance the construction of the building, Chase Bank required a 30% ownership for a $4.2 million loan. In the lending documents, Ball Charter Schools Dobson and Hearn were to gift the land to Val Vista (formally known as Eastside). The cost of the land was approximately $1,376,956.00 which was evenly split between Hearn and Dobson. We also had to loan some money to Val Vista to cover operations and development fees. Therefore, our books carried $688,478 for the land purchase and promissory notes of $321,695 which impacted 2b Fixed Charge Coverage Ratio (See note 3 in audit page 10) over the last two years which gave us a negative balance for the fiscal year in question. In total, we spend $1,010,173 on opening a new campus.

We ended the June 30, 2012 year with $1,384,924 in the bank (see audit page 5) down from the $2,296,043 the previous year. We did loan Ball Charter School Val Vista an additional $107,000 in the 2012-13 Fiscal Year but do not anticipate any further cash infusion for the next fiscal year or thereafter. Currently we have a two month operating cash reserve and anticipate a positive cash ending balance. Attached are copies of the audit reference herein. Taking all that into consideration and if the numbers were reversed, you would notice a positive outcome in the Fiscal Year ending 2012. Our financial goal for Dobson is to always end the year in a positive cash flow.

Charter Holder's Financial Sustainability

Board staff has evaluated the financial performance of Ball Charter Schools (Dobson) using the Board's Financial Performance Framework and the fiscal year 2012 audit reporting package. Based on this evaluation, Ball Charter Schools (Dobson) **must complete** the renewal application's Charter Holder's Financial Sustainability section because the charter holder received one or more "Falls Far Below Standard" and/or two or more "Does Not Meet Standard". Your results on each of the financial framework's measures may be found in the table below.

For more information on completing this section of the application, please see the Renewal Application Instructions and the Board's Financial Performance Framework and Guidance document.

Ball Charter Schools (Dobson)

Financial Performance Based on Fiscal Year 2012 Audit			
Near-Term Indicators			
Going Concern	No	Meets	
Unrestricted Days Cash	75.60	Meets	
Default	No	Meets	
Sustainability Indicators			
Total Liabilities to Equity Ratio	3.02	Meets	
Net Income	($483,546)	Does Not Meet	
Fixed Charge Coverage Ratio	(0.34)	Does Not Meet	
Cash Flow (3-Year Cumulative)	($494,904)	Does Not Meet	
Cash Flow Measure Detail	($911,119) [FY12]	$137,043 [FY11]	$279,172 [FY10]

Note: Negative numbers are indicated by parentheses.

BALL CHARTER SCHOOLS (DOBSON)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

(Decrease) in Cash and Cash Equivalents

Cash Flows From Operating Activities:	
(Decrease) in net assets	$ (483,546)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	118,843
(Increase) in accounts receivable	(205,035)
(Increase) in due from governmental entities	(23,288)
(Increase) in prepaid expenses	(22,288)
Decrease in deferred charges	17,719
Increase in accounts payable	1,413
Increase in accrued payroll and benefits	92,743
Increase in unearned revenues	63,360
(Decrease) in compensated absences payable	(5,792)
(Decrease) in interest payable	(11,351)
Net cash used by operating activities	(457,222)
Cash flows from investing activities:	
(Increase) in notes receivable	(254,732)
Purchase of property and equipment	(80,267)
Net cash used for investing activities	(334,999)
Cash flows from financing activities:	
Payment on notes payable	(118,898)
Net cash used for financing activities	(118,898)
Net increase (decrease) in cash and cash equivalents	(911,119)
Cash and cash equivalents, July 1, 2011	2,296,043
Cash and cash equivalents, June 30, 2012	$ 1,384,924

Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position

Cash	$ 974,562
Restricted cash	789,359
Less restricted cash and investments not maturing in less than three months	(378,997)
Total cash and cash equivalents	$ 1,384,924

Supplemental data:

Interest paid on notes	$ 207,322

The accompanying notes are an integral part of these financial statements.

NOTE 3 – NOTES RECEIVABLE

The School issued four promissory notes to Ball Charter Schools (Val Vista) dated December 10, 2007, June 2, 2008, June 30, 2010, and July 11, 2011 in the amount of $152,260. These promissory notes were issued in order to aid in the development of a new Ball Charter School. The promissory note agreements were amended to collect principal and interest when Ball Charter Schools (Val Vista) begins to receive equalization payments and is self-sustainable. In addition, the School issued five promissory notes to Ball Charter Schools (Val Vista) with three dated October 26, 2011, one dated October 28, 2011 and one dated January 9, 2012 for a total of $169,435. Interest and principal will be collected on the promissory notes beginning the year in which Ball Charter Schools (Val Vista) receives equalization payments and is determined by the Board of Directors to be self-sustainable. All six promissory notes collect interest only for the first two years at a rate of 6 percent per annum and collect principal and interest annually until all promissory notes have been paid back to the School in full.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land, buildings, and improvements	$ 4,610,323
Furniture and equipment	856,026
Total property and equipment	5,466,349
Less accumulated depreciation and amortization	(2,933,489)
Net property and equipment	$ 2,532,860

NOTE 5 - DUE FROM GOVERNMENTAL ENTITIES

The amounts and captions of due from governmental entities on the statement of financial position consist of the following:

Due from Federal government	$ 42,029
Due from State government	33,931
Total	$ 75,960

NOTE 9 – RESTRICTION ON NET ASSETS

Temporarily restricted net assets at June 30, 2012 are available for subsequent year activities in periods after June 30, 2012.

NOTE 10 – COMPLIANCE

The School's compliance with certain laws and regulations is subject to review by the State of Arizona and the School's sponsor. Although such reviews could result in a reduction of state equalization assistance or federal grants, in the opinion of the School's management, any required reductions are not expected to be significant.

NOTE 11 – CONCENTRATIONS

The School's revenue sources are based primarily on state financial assistance subject to availability of funds and the School's compliance with state laws and regulations.

NOTE 12 – RELATED PARTY TRANSACTIONS

Ball Charter Schools (Dobson) shares board of directors members with Ball Charter Schools (Hearn) and Ball Charter Schools (Val Vista). New board members are appointed by the Board of Directors and the Board elects a president and vice president. The makeup of the governing board is distributed evenly between each school. As discussed in Note 7, Ball Charter Schools (Dobson) borrowed $250,000 in education revenue bonds from the Industrial Development Authority of the County of Pima. Fifty-nine percent of this amount was loaned to Ball Charter Schools (Hearn). The loan has an outstanding balance at year end of $85,297. During fiscal year 2012, Ball Charter Schools (Dobson) received $32,070 as payment for the loan. Furthermore, as discussed in Note 3, the School loaned $321,695 to Ball Charter Schools (Val Vista) through nine promissory notes to help the newly opened Ball Charter Schools (Val Vista) operate. Ball Charter Schools (Dobson) is to receive payments on the promissory notes when Ball Charter Schools (Val Vista) begins to receive state equalization payments and is self-sustainable. Additionally, during fiscal year 2011-12, Ball Charter Schools (Dobson) paid $688,478 to purchase land which was donated to Ball Charter Schools (Val Vista). Lastly, the School lent monies in the amount of $288,710 to Ball Charter Schools (Val Vista) to help cover grant, construction, and other minor expenses. These monies will be paid back in the subsequent fiscal year.