Financial Performance Response Evaluation Instrument

Charter Holder Name: Highland Free School Fund, Inc.
Charter Holder Entity ID: 79061
Date Submitted: March 31, 2014

Required for: Renewal
Audit Year: 2013
Evaluation Completed: May 21, 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 indicates the net loss was due to a non-recurring event. Specifically, in 2013, the charter holder made classroom improvements, which were available for use on August 1, 2013, to provide room for approximately 40 additional students, according to the financial statement notes submitted with the response. The response states, "Certain expenses related to the enlargement of the facility during the last two years will no longer be present in the next school year and thereafter. This fact by itself will reduce the school expenditures substantially." The charter holder's response does not include support for these statements. The audit, through the statement of cash flows, supports the use of cash for the construction of the classroom improvements, but does not show the classroom improvements affecting the charter holder's net income in fiscal year 2013. The response also states, "As a contingency plan, the related party, holding the lease on the land, if necessary, is ready to defer 50% of the monthly payment (or $12,000/year) of

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				lease payments to the school (see note 6 in the audited financial statements), which will result in reduction of expenditures." While the audit supports the existence and amount of this lease, it does not support the related party's willingness to defer 50% of the monthly payment. The financial performance response states, "During FY 2013, the school built a new building to replace the much smaller classroom used for its kindergarten/first grade program. In the interim, the enrollment had to be kept at a level adequate for the space available for instruction." The charter holder's response and Arizona Department of Education reports do not support the restrictions identified in these statements. Additionally, the response states, "The school expects increased enrollment in SY 2015 and thereafter, as a result of the new facility available" and indicates that as of March 2014, there are 10 applications for kindergarten/first grade for school year 2015. The charter holder's response does not include support for these statements.
2b. Cash Flow		**X**		The financial performance response states "As of March, 2014, Highland Free School has a positive cash flow and meets the other financial requirements (see Budget)." The budget included with the response shows a net income of ($51,556.08), so far, for fiscal year 2014 and a budgeted net income for the year of $721.00. The budget provided does not support the statement made. The financial performance response indicates the charter holder has sufficient cash to fund cash deficiencies for the foreseeable future. In support of this statement, the response indicates: a) as of February 28, 2014, the charter holder has a cash reserve of $50,151.66; b) the charter holder has a credit card with a credit limit of $35,000; and c) the school founder "is prepared to back any financial need that may arise in the foreseeable future". These items are supported by the evidence included with the charter holder's response. Additionally, according to the table found in the Renewal Executive Summary, the charter holder had 111.55 days of unrestricted liquidity as of June 30, 2013. The response also indicates that the related party that holds the lease on the land is ready to defer, if necessary, 50% of the monthly payment (or $12,000/year) of lease payments. The charter holder's response does not include support for the land lease deferment option. The financial performance response states, "There will be no need to make

Measure	Acceptable	Not Acceptable	Not Applicable	Comments
				additional facility-related expenditures, which will increase the positive cash flow in FY 2015 and thereafter." The fiscal year 2013 audit supports the use of cash for the construction of classroom improvements. The response also indicates increased enrollment will increase revenues and increase cash flow (see Net Income).
2c. Fixed Charge Coverage Ratio	**X**			The financial performance response indicates the charter holder has sufficient cash to fund cash deficiencies for the foreseeable future. In support of this statement, the response indicates: a) as of February 28, 2014, the charter holder has a cash reserve of $50,151.66; b) the charter holder has a credit card with a credit limit of $35,000; and c) the school founder "is prepared to back any financial need that may arise in the foreseeable future". These items are supported by the evidence included with the charter holder's response. Additionally, according to the table found in the Renewal Executive Summary, the charter holder had 111.55 days of unrestricted liquidity as of June 30, 2013. Based on the fiscal year 2013 audit, the charter holder's fixed charges are $24,000 in lease expense and approximately $12,000 in interest expense. The financial performance response indicates the related party that holds the lease on the land is ready to defer, if necessary, 50% of the monthly payment (or $12,000/year) of lease payments. The response also indicates the charter holder expects improved performance on this measure due to increased ADM and there being no need for additional facility expenditures (see Net Income). While no support is provided for these statements, the charter holder has demonstrated through the response that it has sufficient cash to fund fixed charges for the foreseeable future.