Khalsa Family Services - Entity ID 79420

School: Khalsa School

Renewal Executive Summary

I. Performance Summary

Area	Acceptable	Not Acceptable
Academic Performance	☒	☐
Financial Performance	☐	☒
Operational Framework	Not Yet Rated See Section III	Not Yet Rated See Section III

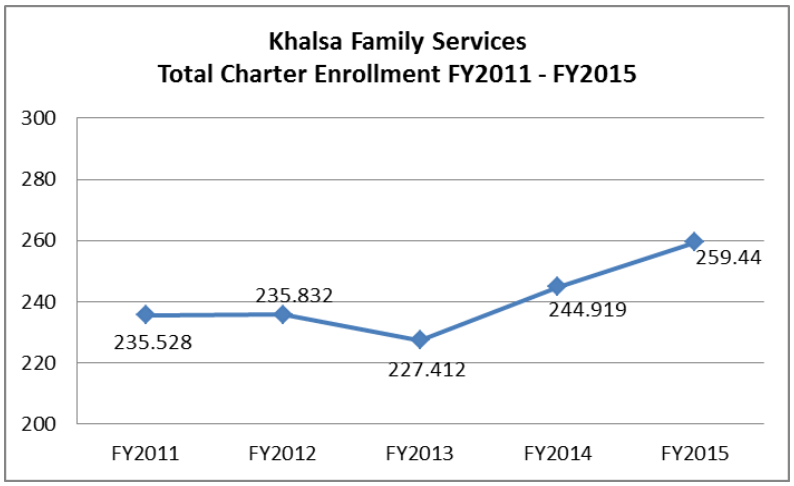
Khalsa Family Services met the Board's Academic Performance Expectations as set forth in the Performance Framework adopted by the Board and was waived from submitting the Academic Performance Section of the renewal application.

The Charter Holder did not meet the Financial Performance Expectations of the Board as set forth in the Performance Framework and was required to submit a Financial Performance Response.

The Charter Holder's Organizational Membership on file with the Board was consistent with the information on file with the Arizona Corporation Commission.

II. Profile

Khalsa Family Services operates one school serving grades K-8. The graph below shows the Charter Holder's actual 100th day average daily membership (ADM) for fiscal years 2010-2014.



The academic performance of the school operated by Khalsa Family Services is represented in the table below. The Academic Dashboard can be seen in the portfolio: c. Academic Dashboard.

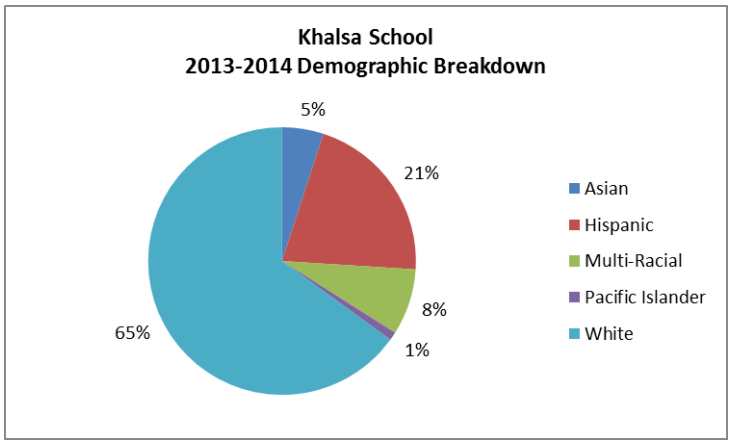
School Name	Opened	Current Grades Served	2012 Overall Rating	2013 Overall Rating	2014 Overall Rating
Khalsa School	08/18/2003	K – 8	75 / A	84.38 / A	86.25 / A

The website for Khalsa School states that Khalsa Montessori School is a community of children, families, and school staff which works together to create a positive and nurturing environment to support learning and personal growth. The website further states that the school works to continue to address community needs through expanded services and programs.

Khalsa School's website also states that the excellent educational programs and conscious, loving care-giving encourage the development of healthy bodies, thinking minds and loving, confident spirits. The school site administration believes that children have freedom to explore, gain hands-on experience and learn in a safe, peaceful environment equipped with beautiful learning materials and positive role models.

The website states that Khalsa School's professional staff is dedicated to high standards of education, care, and service, and believes in the importance of education. It further states the staff members are committed to personal and professional growth, creatively apply and share their knowledge and skills and create a safe and healthy environment, and like what they do.

The demographic data for Khalsa School from the 2013-2014 school year is represented in the chart below.[1]



The percentage of students who were classified as English Language Learners and classified as students with disabilities in the 2013-2014 school year is represented in the table below.[2]

Category	Khalsa School
English Language Learners (ELLs)	1%
Special Education	9%

III. Success of the Academic Program

The academic performance of the school operated by the Charter Holder meets the Board's Academic Performance Expectations set forth in the performance framework adopted by the Board. Therefore, the Charter Holder was not required to submit a Demonstration of Sufficient Progress.

[1] Information provided by the Research and Evaluation Division of the ADE.
[2] Information provided by the Research and Evaluation Division of the ADE. If the percentage of students in a non-ethnicity-based demographic group is not reported or is 0% or 100%, the percentage for that demographic group is not provided.

IV. Viability of the Organization

The Charter Holder did not meet the Board's financial performance expectations based on the fiscal years 2012 and 2013 audits and was required to submit a financial performance response. The table below includes the Charter Holder's financial data and financial performance for the last three audited fiscal years.

Financial Data				
Statement of Financial Position	**2014**	**2013**	**2012**	**2011**
Cash	$70,645	$38,382	$136,825	$179,515
Unrestricted Cash	$58,644	$38,382	$136,825	
Other Liquidity	$67,500	$67,500		
Total Assets	$2,692,035	$2,717,331	$2,970,100	
Total Liabilities	$2,972,474	$3,018,094	$3,099,136	
Current Portion of Long-Term Debt & Capital Leases	$55,000	$50,000	$50,000	
Net Assets	($280,439)	($300,763)	($129,036)	
Statement of Activities	**2014**	**2013**	**2012**	
Revenue	$2,204,561	$1,981,493	$2,027,493	
Expenses	$2,184,237	$2,130,745	$2,168,416	
Net Income	$20,324	($149,252)	($140,923)	
Change in Net Assets	$20,324	($149,252)	($140,923)	
Financial Statements or Notes	**2014**	**2013**	**2012**	
Depreciation & Amortization Expense	$119,052	$115,320	$116,843	
Interest Expense	$209,100	$212,800	$216,500	
Lease Expense	$89,000	$66,300	$109,200	
Financial Performance				
	2014	**2013**	**2012**	**3-yr Cumulative**
Near-Term Indicators				
Going Concern	No	Yes	No	N/A
Unrestricted Days Liquidity*	21.08	18.14	23.03	N/A
Default	No	No	No	N/A
Sustainability Indicators				
Net Income	$20,324	($149,252)	($140,923)	N/A
Cash Flow	$32,263	($98,443)	($42,690)	($108,870)
Fixed Charge Coverage Ratio	1.24	0.74	0.80	N/A

* For fiscal year 2012, the field reflects the charter holder's performance under the financial framework's previous "Unrestricted Days Cash" measure.

The Charter Holder's Financial Performance Response has been provided in the meeting materials (portfolio: e. Financial Response).[3] Staff's final evaluation of the Financial Performance Response resulted in zero "Acceptable" and five "Not Acceptable" determinations (portfolio: d. Financial Response Evaluation). An analysis of the Charter Holder's financial performance, focusing on those measures where the Charter Holder failed to meet the Board's target and using information from the Charter Holder's Financial Performance Response and related documents, is provided below.

Going Concern

Based on information disclosed in the notes to the financial statements, the Charter Holder received a "Falls Far Below" on this measure for 2013. According to the financial statement note, the Charter Holder experienced decreases in net assets and negative cash flows from operations in 2012 and 2013, which have "put a strain" on the Charter Holder's liquidity.

In its response, the Charter Holder restated the auditor's observation, but did not explain the circumstances that resulted in the decrease in net assets and the negative cash flows. According to the response, "management's continued efforts resulted in improved student enrollment and related revenues and recognized a positive change in Net Assets and Cash Flow" for 2014. Based on Arizona Department of Education reports, the Charter Holder's average daily membership increased each year from 2013 to 2015. As shown in the table above, the Charter Holder almost doubled its cash from 2013 to 2014. For 2014, the audit did not contain a going concern disclosure. However, it is unclear whether the 2014 performance will continue in subsequent fiscal years (see also Net Income and Cash Flow).

Unrestricted Days Liquidity

The Charter Holder did not explain the circumstances that resulted in less than 30 days liquidity in 2013. For 2014, the Charter Holder's performance improved to 21.08 days.[4] According to the Charter Holder's response, positive cash flow and increased student enrollment and related revenues contributed to the improvement experienced in 2014. The Charter Holder's response referenced a line of credit and a "Revenue Trust Fund" associated with the Charter Holder's facility bonds. The number of days liquidity reflected in the table above for 2013 and 2014 included the available credit line balance. The 2014 audit supported the Revenue Trust Fund's existence, but did not explain the fund's purpose or uses. Had the fund's purpose been sufficiently disclosed in the audit, staff would have considered including the fund's balance in the measure's calculation.

Net Income

The Charter Holder did not explain the circumstances that resulted in the net loss in 2013. For 2014, the Charter Holder had positive net income for the first time since 2009. The response indicated the Charter Holder expects to continue to see positive net income in future years, but did not explain how this would be accomplished.

[3] On February 3, 2015, Board staff emailed a copy of staff's initial evaluation and provided a deadline by which the Charter Holder could supplement its financial performance response to address areas evaluated as "Not Acceptable". No additional information was submitted by the Charter Holder.

[4] The difference between the number of days liquidity reflected in the staff report table and the number identified in the Charter Holder's response is explained in staff's final evaluation (portfolio: d. Financial Response Evaluation).

Fixed Charge Coverage Ratio (FCCR)

The Charter Holder did not explain the circumstances that resulted in the "Does Not Meet" in 2013. For 2014, the Charter Holder met the Board's FCCR target. The response indicated the Charter Holder expects to continue to meet the target in future years, but did not explain how this would be accomplished.

Cash Flow

The Charter Holder did not explain the negative cash flows in 2012 and 2013. For 2014, the Charter Holder had positive net income for the first time since 2011, but did not meet the Board's target due to its three-year cumulative cash flow being negative. The Charter Holder attributed the positive cash flow in 2014 to increased enrollment revenues and management of expenses. The response indicated the Charter Holder expects to maintain positive cash flow in 2015, but did not explain how this would be accomplished.

V. Adherence to the Terms of the Charter

Does the delivery of the education program and operation reflect the essential terms of the educational program as described in the charter contract?
Yes. Based on the available information in the last three fiscal years, the Charter Holder's education program, in operation, reflects the essential terms as described in the charter contract.

Does the Charter Holder adhere with applicable education requirements defined in state and federal law?
Yes. Based on the available information in the last three fiscal years, the Charter Holder adheres with applicable education requirements defined in state and federal law.

Do the Charter Holder's annual audit reporting packages reflect sound operations?
As reported in fiscal year 2014 and the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to the fiscal years 2013 and 2014 annual audit reporting packages, respectively.

As reported in fiscal year 2013, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to the annual audit reporting package, except that the fiscal year 2012 audit reporting package included a serious impact finding resulting from fingerprinting noncompliance having been identified in three consecutive audit reporting packages. Specifically, the fiscal year 2012 audit reporting package identified 1 individual for whom the Charter Holder did not provide evidence that a fingerprint check had been conducted. Additionally, the audit reporting package identified 4 individuals that did not have a valid fingerprint clearance card (FCC) as of the auditor's testing date – 1 individual had an expired FCC and 3 were new hires. For the 3 new hires, the Charter Holder did not comply with all of the requirements for hiring individuals prior to them obtaining a FCC. Subsequent to the testing date, the Charter Holder provided the auditor with valid FCCs for 3 of the 4 individuals, including the individual whose FCC had expired.

Is the Charter Holder administering student admission and attendance appropriately?
Yes. Based on the available information in the last three fiscal years, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to administering student admission and attendance.

Is the Charter Holder maintaining a safe environment consistent with state and local requirements?

As reported in the current fiscal year and fiscal year 2014, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to maintaining a safe environment.

As reported in fiscal year 2013, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to maintaining a safe environment, except that the fiscal year 2012 audit reporting package included a serious impact finding resulting from fingerprinting noncompliance having been identified in three consecutive audit reporting packages (see above).

Is the Charter Holder transparent in its operations?
Yes. Based on the available information in the last three fiscal years, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to transparency of operations.

Is the Charter Holder complying with its obligations to the Board?
Yes. Based on the available information in the last three fiscal years, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to its obligations to the Board.

Is the Charter Holder complying with reporting requirements of other entities to which the Charter Holder is accountable?
Yes. Based on the available information in the last three fiscal years, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to operational requirements monitored by other entities to which the Charter Holder is accountable.

Is the Charter Holder complying with all other obligations?
Yes. Based on the available information in the last three fiscal years, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to all other obligations.

VI. Board Options

Option 1: The Board may approve the renewal. Staff recommends the following language provided for consideration: Renewal is based on consideration of academic, fiscal and contractual compliance of the Charter Holder. In this case, the Charter Holder meets the Academic Performance Expectations set forth in the Board's performance framework. The Board has reviewed a record of past contractual noncompliance and the Charter Holder's failure to meet the Board's financial expectations. With that taken into consideration as well as all information provided to the Board for consideration of this renewal application package and during its discussion with representatives of the Charter Holder, I move to approve the request for charter renewal and grant a renewal contract to Khalsa Family Services.

Option 2: The Board may deny the renewal unless certain provisions are included. The following language is provided for consideration: I move that, based upon a review of the information provided by the representatives of the Charter Holder and the contents of the application package which includes the academic performance, the fiscal compliance, and legal and contractual compliance of the Charter Holder over the charter term, the Board has sufficient basis to deny the request of Khalsa Family Services for the renewal of its charter on the grounds that: (Board member must specify reasons the Board found during its consideration.)

That taken into consideration, there is an expectation that the Charter Holder can [identify corrective action that can be taken]. Therefore, the Board will grant a renewal contract so long as [identify corrective action requirements] are completed by the close of business on [identify date]. If Khalsa Family Services fails to submit the [identify corrective action requirements] by the [date], deadline, then it is the Board's decision that Khalsa Family Services' request for renewal of its charter be denied for the reasons already specified.

Option 3: The Board may deny the renewal. The following language is provided for consideration: Based upon a review of the information provided by the representatives of the Charter Holder and the contents of the application package which includes the academic performance, the fiscal compliance, and legal and contractual compliance of the Charter Holder over the charter term, I move to deny the request for charter renewal and to not grant a renewal contract for Khalsa Family Services. Specifically, the Charter Holder, during the term of the contract, failed to meet the obligations of the contract or failed to comply with state law when it: (Board member must specify reasons the Board found during its consideration.)