Financial Performance Response Evaluation Instrument

Charter Holder Name: Khalsa Family Services
Charter Holder Entity ID: 79420

Required for: Renewal
Audit Year: 2013

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 ☐	The response restates the auditor's observation related to the going concern disclosure, but does not explain the reasons for the decrease in net assets and negative cash flows in the audited fiscal year (see net income and cash flow). Related to all of the measures, the response states the charter holder has "worked hard to improve student enrollment and related revenues while maintaining control over expenses". For 2014, the charter holder received a "Meets" on this measure. However, because of the limited information provided in the response, it is unclear whether the 2014 performance will continue in subsequent fiscal years.
1b. Unrestricted Days Liquidity Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The financial response does not explain the reason for not meeting the Board's target on this measure in the audited fiscal year as required by Appendix C of the Board's financial framework. The charter holder calculates that it meets the target for this measure in 2014 at 34.4 days. As part of its calculation, the charter holder considered the Classroom Site Fund (CSF) cash carryover balance at June 30th as unrestricted cash and the "Revenue Fund" portion of the bond trust fund as other liquidity. According to the Board's financial framework, the CSF cash carryover balance is considered restricted cash. Regarding the "Revenue Fund", the charter holder asserts that this fund represents the portion of operating revenues the bond trustee had not yet distributed due to a timing issue and that these monies were distributed into the charter holder's operating account in July 2014, but does not provide support. The 2014 audit supports the fund's existence, but does not explain the fund's purpose or uses. Had the charter holder provided support for its assertions regarding the Revenue Fund, this would have been considered in Board staff's evaluation. For future reference, the Board's financial framework requires that other sources of liquidity be sufficiently disclosed in the annual audits for them to be considered in this measure's calculation. For 2014, the charter holder's performance on this measure improved to 21.08 days and remained rated "Does Not Meet".

Measure	Reason(s) for "Not Acceptable" Rating
1c. Default Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	
2a. Net Income Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The financial response does not explain the reason for not meeting the Board's target on this measure in the audited fiscal year as required by Appendix C of the Board's financial framework. The charter holder states "Khalsa expects to continue to see positive Net Income in FY 2015 and future years", but does not provide support. Had the charter holder provided internal management reports or interim financial statements, these would have been considered in Board staff's evaluation. For 2014, the charter holder received a "Meets" on this measure.
2b. Cash Flow Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The financial response does not explain the reason for not meeting the Board's target on this measure in the audited fiscal year as required by Appendix C of the Board's financial framework. The charter holder "expects to maintain positive cash flow in FY 2015, which will continue to move the company toward meeting this requirement", but does not provide support. Had the charter holder provided internal management reports or interim financial statements, these would have been considered in Board staff's evaluation. The charter holder experienced positive cash flow in 2014, but had a negative three-year cumulative cash flow. Therefore, the charter holder's 2014 performance on this measure remained rated "Does Not Meet".
2c. Fixed Charge Coverage Ratio Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The financial response does not explain the reason for not meeting the Board's target on this measure in the audited fiscal year as required by Appendix C of the Board's financial framework. The charter holder states, "Khalsa expects to continue to meet this standard in FY 2015 and future years", but does not provide support. Had the charter holder provided internal management reports or interim financial statements, these would have been considered in Board staff's evaluation. For 2014, the charter holder received a "Meets" on this measure.