Financial Performance Response Evaluation Instrument

Charter Holder Name: Little Lamb Community School
Charter Holder Entity ID: 79050
Date Submitted: March 26, 2014

Required for: Renewal
Audit Year: 2013
Evaluation Completed: May 1, 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 in fiscal year 2013 was due to a non-recurring event that will not occur in future periods. Specifically, the response indicates the charter holder covered start-up costs for its replication charter – The Farm at Mission Montessori Academy ("The Farm"), which was approved by the Board in January 2013 and began operating in August 2014. As part of its response, the charter holder included "Project Summary" reports obtained from the Arizona Department of Education's (ADE) Grants Management website ("grant reports"). The information and analysis provided by the charter holder do not support or help explain statements in the response as follows: • The charter holder indicates The Farm was awarded a three-year, $690,000 Arizona Charter School Program grant in June 2013. The grant reports include an "award year" of 2009, but refer to "2013" in the grant names. According to ADE program staff, the grant was

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				awarded April 1, 2012. • The charter holder indicates funds from the grant were not available to The Farm until December 2013 and refers to the grant reports. According to ADE program staff, The Farm's first project year was April 1, 2012 through March 31, 2013 and the second project year was April 1, 2013 through March 31, 2014. According to the grant reports and ADE program staff, The Farm received $32,167.96 in grant funds in July 2012, $154,082.04 in May 2013, and $80,350.61 in August 2013. The fourth disbursement of $83,772.13 was requested and approved in November 2013, according to ADE program staff and other reports available on ADE's website. • During the start-up period, the response states the charter holder "cash advanced start-up costs in the amount of $101,855.35 to secure facilities, provide furnishings and equipment. As of March 17, 2014, The Farm has reimbursed $47,506.76 of those funds." The "Transactions by Account" report for "Loans to FARM for Start-Up" supports the amounts referenced by the charter holder. However, the response does not include sufficient detail to support that the assistance provided to The Farm is the reason for the net loss in fiscal year 2013 as it is unclear when the amount was determined to be a "loan". While a "loan" to The Farm could affect the charter holder's performance on other measures, it would not affect the charter holder's performance on the Net Income measure. The charter holder's fiscal year 2013 audit did not include any information to help clarify the situation. The financial performance response states, "The one year of replication when the replicating school provided cash for start-up costs is a non-recurring one-time event. There is no need to make adjustments in the cost structure as the educational needs require the same expenditures while those expenditures are supported by adequate coverage of state equalization revenues." According to the table included in the Renewal Executive Summary, the charter holder received "meets" on the Net Income measure in fiscal years 2011 and 2012. The financial performance response includes the charter holder's historical and current average daily membership (ADM). The ADM provided generally aligns with reports accessed through ADE's website. The response indicates the charter holder currently has 280 students enrolled for fiscal year 2015. The

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				charter holder's response does not include support for this statement, but does indicate the charter holder's enrollment has leveled. Based on the response, the charter holder is not relying on increases in revenues to improve its performance on this measure in future years.
2b. Cash Flow		**X**		The financial performance response states, "The cash flow of the school has always been stable because of the steady enrollment and steady income. The only difference compared to last year's financial performance is the lack of start-up cash advances associated with the replication school." Please see "Net Income" above. The financial performance response indicates that as of March 31, 2014, the charter holder has built $514,905.11 in cash reserves. The response includes detail regarding the amounts included in the total, as well as copies of bank statements. The $514,905.11 amount is not supported by the information provided in the narrative and included on the bank statements. The narrative supports a total of $482,810.66 while the bank statements support a total of $459,383.58. Both totals appear to include some monies that may be restricted in their use. The difference between the narrative total and the bank statement total results from the narrative double-counting $23,427.08. Based on the fiscal year 2013 audit, the charter holder has 98.94 days of unrestricted liquidity. The financial performance response states, "The projected operating expenses for the fiscal year (2014) are less than the projected revenues, plus the carry-forward surpluses clearly provide for a positive cash flow with increasing carry-forward amount into the next fiscal year." The charter holder's response does not include support for projected operating expenses in fiscal year 2014 being less than projected revenues.

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2c. Fixed Charge Coverage Ratio		**X**		The financial performance response mentions the charter holder's start-up cash advances to the replication school (see "Net Income") and the charter holder's cash reserve (see "Cash Flow"). The financial performance response indicates that in "any previous year, prior to the replication year," the charter holder met all criteria in the Board's financial performance framework. According to the table included in the Renewal Executive Summary, the charter holder received "meets" on all measures in fiscal years 2011 and 2012. The response also states that the charter holder will "meet" on this measure in fiscal year 2014 and "any future fiscal year". The charter holder's response does not include support for this statement.