Financial Performance Response Evaluation Instrument

Charter Holder Name: Patagonia Montessori Elementary School
Charter Holder Entity ID: 79069

Required for: Replication
Audit Year: 2015

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 ☒	
1b. Unrestricted Days Liquidity Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	
1c. Default Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	
2a. Net Income Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder asserts that the 2015 increase in average daily membership (ADM) led to "increased expenses in salaries, benefits and areas that directly support the education of the students. According to the audit there were decreases in the areas of purchased property services and other expenses and losses." Overall, the response implies that the charter holder's efforts to reduce expenses in 2015 were masked by increased expenses attributed to the higher ADM. Even if staff accepts that the increased expenses in salaries, benefits and "areas that directly support the education of the students" are due to the higher ADM,[1] this does not explain the net loss in 2015. When the

[1] The increases in ADM and certain expenses occurred in the same year, but the response does not provide a basis for making the connection that one follows the other. While it seems reasonable that ADM and salaries would rise and fall in response to one another, historically that has not always been the case for this charter holder. In 2012, the charter holder experienced increases in ADM with decreases in salaries. In 2013, ADM decreased while salaries increased substantially. In 2014 and 2015, salaries and ADM moved in the same direction. Had the charter holder provided an analysis and support for how it used up resources in response to the additional ADM, this would have been considered in Board staff's evaluation.

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	expenses [$39,602] and revenues [$79,180] associated with the increased ADM are removed, the charter holder's overall expenses decrease from 2014 to 2015, but the magnitude of the net loss in 2015 increases substantially. The charter holder indicates depreciation expense of $15,471 also contributed to the net loss of $6,334. While depreciation is a non-cash expense, it is used to allocate the initial costs of fixed assets over the assets' life. As such, the Board's financial framework intentionally does not remove depreciation from the measure's calculation. While the charter holder reduced the magnitude of its net loss from 2014 to 2015, based on the two paragraphs above, the charter holder's response falls short of identifying and supporting the cause of the net loss in 2015. Had the charter holder provided additional explanation for its performance on this measure, along with supporting documentation, this would have been considered in Board staff's evaluation. The charter holder states, but does not support, "the charter is on track for a continued positive financial position." The charter holder provides a "Profit and Loss July through October 2015" and "Balance Sheet As of October 31, 2015" that show approximately $5,000 in net income thus far in 2016. However, the charter holder erroneously included the November 2, 2015 state equalization payment in the "3110 State Equalization" line item on the profit and loss statement. While this may have been an oversight, it has the effect of overstating revenue and net income by approximately $14,000 at October 31, 2015. As a result, instead of positive net income, the charter holder shows a net loss of approximately $9,000 at October 31, 2015. Since the profit and loss statement does not appear to include depreciation expense, the net loss calculated by staff at October 31, 2015 may be understated. Had the charter holder provided a profit and loss statement at October 2014 for comparison with the profit and loss statement at October 2015, thus looking at a year-to-date comparison, it may have provided support that the charter holder is "on track for a continued positive financial position" and would have been considered in Board staff's evaluation.
2b. Cash Flow Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder asserts, but does not support, "The cash flow balance for just 2015 was positive and this was due to the cuts in expenses that were made." While cash flow was positive in 2015, the audit shows that total expenses increased by approximately $12,000 that year. (Please also see net income.) If expenses had decreased in 2015, which the audit does not support, it would still not be possible to determine that cash flow would necessarily increase as a result. Had the charter holder provided additional explanation for its performance on this measure, along with supporting documentation, this would have been considered in Board staff's evaluation. The charter holder asserts, but does not support, "The profit and loss and balance sheet that is attached as support shows a positive balance on the profit and loss and a cash balance of nearly $23,000 as of the end of October, 2015…The financial statements at the end of October, 2015 show us to be on track for a continued improvement in our financial performance." Because they both include the November 2, 2015 state equalization payment, the "positive balance on the profit and loss" and the cash balance identified on the balance sheet are both overstated (see net income). Even if staff accepts the cash balance, the balance sheet indicates the charter holder's cash balance has decreased from $38,791 at June 30, 2015 to $22,895.31 at October 31, 2015. Had the charter holder

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	provided a balance sheet at October 31, 2014 for comparison with the balance sheet at October 31, 2015, thus looking at a year-to-date comparison, it may have provided support that the charter holder is "on track for a continued improvement in our financial performance" and would have been considered in Board staff's evaluation. The charter holder asserts, but does not support, "There was a group that presented to the governing board in the month of November that is wanting to lease some ground for gardening. This will bring some additional revenue to the school with no additional expenses going out. The board will make in decision in December on the contract and this will be implemented in January, 2016." Had the charter holder provided the amount of additional revenue this arrangement could provide and projected financial statements to determine the impact this additional revenue would have on the charter holder's cash flow, these would have been considered in Board staff's evaluation.
2c. Fixed Charge Coverage Ratio Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	