Financial Performance Response Evaluation Instrument

Charter Holder Name: Milestones Charter School
Charter Holder Entity ID: 79207
Date Submitted: March 31, 2014

Required for: Renewal
Audit Year: 2013
Evaluation Completed: May 14, 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		According to the Independent Auditor's Report, the fiscal year 2013 financial statements were prepared assuming the charter holder will continue as a going concern. The notes to the financial statements cite as the basis for the going concern that: a) the charter holder has incurred significant decreases in unrestricted net assets such that the charter holder has a deficit in net assets of $1,556,023 as of June 30, 2013; and b) the charter holder's current liabilities exceeded current assets by $186,810 as of June 30, 2013. In its financial performance response, the charter holder mentions it has had a going concern cited in the audit for "the past few years". The financial performance response indicates the charter holder has "worked over the past few years" to address the going concern. According to the response, "While we have made some progress in addressing the current assets vs. current liabilities we have not been able to improve them enough to remove the going concern." Board staff reviewed the charter holder's fiscal years 2009 through 2013 audits. While the audits shows that the charter holder's current liabilities exceeded its current assets in all five years, the charter holder's current ratio (current assets divided by current liabilities) improved between fiscal years 2010 and 2012. This improvement did not continue for fiscal year 2013. In fiscal year 2013, the charter holder's current ratio was 0.31 ($85,593/$272,403), which was down from its current ratio high of 0.63 ($169,788/$270,049) in fiscal year 2012. The financial performance response states, "We have made a big effort in enrollment for fiscal year 2014-2015 that will hopefully bring a higher ratio of current assets to liabilities. This is the main criteria for the going concern in the audit. Milestones has made improvements over the last two years and the

Measure	Acceptable	Not Acceptable	Not Applicable	Comments
				current year is on track to do the same. We feel that with higher enrollment this will increase revenue and cash on hand for a better ratio." The charter holder's response does not include any support for these statements. Please also see the preceding paragraph. The financial performance response does not explain the reason(s) for the going concern designation identified in the fiscal year 2013 audit.
1b. Unrestricted Days Liquidity		X		The financial performance response indicates that having a higher level of liquidity is an issue the charter holder has addressed over the last few years and that the audit has shown a slight increase last year from prior years. According to the table included in the Renewal Executive Summary, the charter holder's total cash increased from fiscal year 2012 to fiscal year 2013. The Renewal Executive Summary table also shows the charter holder's total cash has fluctuated up and down between fiscal years 2010 and fiscal years 2013. Further, the response states, "The efforts to bring in more enrollment will add more cash to the bank balance and offer a higher level of liquidity….We feel the efforts we are making this year for next year will allow for a higher cash balance in the future." The charter holder's response does not include any support for these statements. The financial performance response does not explain the reason(s) for the charter holder having fewer than 30 days of cash or other liquidity in fiscal year 2013.
1c. Default			X	

Measure	Acceptable	Not Acceptable	Not Applicable	Comments
2a. Net Income		X		The financial performance response states, "Milestones has worked to lower costs and tighten the level of spending during the current year. This will bring a higher net income for the fiscal year and it has provided for a strong base to enter into the next fiscal year. With higher enrollment and the projection of not having to hire more teachers this will greatly improve the net income of the school." The charter holder's response does not include any support for these statements. The financial performance response does not explain the reason(s) for the charter holder having negative net income in fiscal year 2013.
2b. Cash Flow			X	
2c. Fixed Charge Coverage Ratio		X		The financial performance response indicates the charter holder entered into a bond in 2003, which is supported by the charter holder's fiscal year 2013 audit. The response also mentions that while the charter holder saw growth for many years, the charter holder did see a decline in enrollment over the last few years. This statement is supported by Arizona Department of Education (ADE) reports. ADE reports show the charter holder's average daily membership (ADM) increased annually between fiscal year 2009 and fiscal year 2011. Between fiscal year 2011 and fiscal year 2014 (as of May 13, 2014), the charter holder's ADM declined from 286.439 to 241.941. The financial performance response states, "We have strengthened our efforts and are back to increasing enrollment. This scenario lead to a smaller revenue stream and affected our fixed charge cost coverage. With the efforts of enrollment for next year and the small increase this year we will be seeing an increase in this ratio. We are confident that the efforts we are making will show and increase to this ratio in years to come." The charter holder's response does not include any support for these statements.