Financial Performance Framework

Response

Prepared by

Skyline Gila River District 5

Submitted to

Arizona State Board for Charter Schools

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Please accept our responses to the following areas of deficiency for Skyline Gila River Schools, LLC (the School) using the Board's Financial Performance Framework:

Net Income

During fiscal year 2011, the School had net income of $517,952 due to the receipt of $775,968 in Impact Aid revenue late in the School year in May of 2011 when the academic year was nearly complete. As a result, the School has had sufficient cash surplus to spend on improving the instructional programs at the School in fiscal years 2012, 2013, and beyond. During fiscal year 2012, the School updated curriculum with non-recurring purchases of $32,537 in textbooks from Houghton Mifflin. In order to improve compliance with Special Education requirements as well as the educational program provided to Special Education students, the School also spent $123,797 more in Special Education in fiscal year 2012 compared to fiscal year 2011. These non-recurring and increased expenditures resulted in the net income of ($62,860) in fiscal year 2012. During fiscal year 2013, the School updated technology with non-recurring purchases of $19,600 in computers to create two labs for the Pearson SuccessMaker instructional intervention program (referenced in the Cash Flow section below). To further provide individualized instructional interventions, the School increased instructional personnel salaries and benefits by $63,714 in fiscal year 2013 compared to fiscal year 2012. These non-recurring and increased expenditures resulted in net income of ($81,081) in fiscal year 2013. In fiscal year 2014, the School expects to show a positive net income. The School has applied for and received approval for E-rate funding of $70,861 to offset internet and telecommunications expenses. Although the School expects to receive approximately $70,000 less in State Equalization Assistance revenue due to decreased student ADM, the School expects to receive over $120,000 more in Impact Aid funding during fiscal year 2014 resulting in increased net revenue of approximately $50,000. This increased revenue combined with the elimination of significant non-recurring expenditures experienced during fiscal years 2012 and 2013 leave the School confident that fiscal year 2014 will result in a positive net income.

Fixed Charge Coverage Ratio

Because the School does not have Long-Term Debt and Capital leases or the related Interest Expense and the School has consistent Lease Expense, the School's Fixed Charge Coverage Ratio is closely tied to the School's Change in Net Assets or Net Income. For instance, if the School had Net Income of only $1 in fiscal year 2012, the School's Fixed Charge Coverage Ratio would have been 1.03 which would have nearly met the Board's expectations. Similarly, if the School had Net Income of only $1 in fiscal year 2013, the School's Fixed Charge Coverage Ratio would be 1.29 which would meet the Board's expectations. Because the School has sufficient cash to fund fixed charges, and, as mentioned in the Net Income section above, the School expects its Net Income to increase in the coming years, the School feels confident that it will meet the Board's expectations in regards to the Fixed Charge Coverage Ratio in the coming years.

Cash Flow (3-Year Cumulative)

Although the fiscal year 2012 cash flow is ($206,161), the cumulative 3-year cash flow for the School is $366,012 as of June 30, 2012, and the School has sufficient cash on hand to cover expenses for nearly 60 days as of June 30, 2012 and nearly 50 days as of June 30, 2013. During fiscal year 2012, the School had non-recurring capital purchases totaling $103,518 including a maintenance vehicle, a bus, a freezer, and technology purchases. The School also had prepaid expenses of $86,200 in fiscal year 2012. These items, combined with the non-recurring and increased expenditures noted in the Net Income section above, resulted in the fiscal year 2012 Cash Flow of ($206,161). During fiscal year 2013, the School had non-recurring capital purchases totaling $81,062 nearly all of which was related to Pearson SuccessMaker licenses, an instructional intervention program. This program, combined with the non-recurring and increased expenditures noted in the Net Income section above, resulted in fiscal year 2013 Cash Flow of ($37,074). The School does not expect to incur significant non-recurring capital purchases during fiscal year 2014. Additionally, as mentioned in the Net Income Section above, the School expects increased net revenue of approximately $120,000 as a result of approved E-rate funding and increased Impact Aid funding during fiscal year 2014. As a result, the School is confident that fiscal year 2014 will result in a positive Cash Flow.