Financial Performance Response Evaluation Instrument

Charter Holder Name: Skyline Gila River Schools, LLC
Charter Holder Entity ID: 90329
Date Submitted: March 28, 2014

Required for: Renewal
Audit Year: 2012
Evaluation Completed: May 21, 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 during fiscal year 2011 the charter holder had net income of $517,952 due to the receipt of $775,968 in federal Impact Aid revenues late in the school year. "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," according to the response. The response indicates the charter holder updated curriculum in fiscal year 2012 with purchases of $32,537 in textbooks and, in order to improve compliance with special education requirements, also spent $123,797 more in special education in fiscal year 2012 than it did in fiscal year 2011. The response states, "These non-recurring and increased expenditures resulted in the net income of ($62,860) in fiscal year 2012." The charter holder's response does not include support for these statements. The audits indicate the charter holder's expenses increased by $430,027 from fiscal year 2011 to fiscal year 2012. During the same period, the charter holder's revenues decreased by $150,785.

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				The financial performance response indicates during fiscal year 2013, the charter holder updated technology with purchases of $19,600 in computers to create two labs for the Pearson SuccessMaker instructional intervention program. The response also indicates to "further provide individualized instructional interventions", the charter holder increased instructional personnel salaries and benefits by $63,714 in fiscal year 2013 compared to fiscal year 2012. According to the response, "These non-recurring and increased expenditures resulted in net income of ($81,081) in fiscal year 2013." The charter holder's response does not include support for these statements. Based on the audits, the total amount spent by the charter holder on salaries and wages, payroll taxes and employee benefits decreased by $50,787 from fiscal year 2012 to fiscal year 2013. The audits did not breakout instructional and non-instructional salary costs. The financial performance response states, "In fiscal year 2014, the School expects to show a positive net income." The response indicates the charter holder applied for and received approval for E-rate funding of $70,861 to offset internet and telecommunications expenses. Additionally, the response indicates the charter holder expects to receive approximately $70,000 less in state equalization assistance due to decreased student average daily membership (ADM) and over $120,000 more in Impact Aid funding during fiscal year 2014. According to the response, "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." Arizona Department of Education reports support the drop in ADM and state equalization assistance from fiscal year 2013 to fiscal year 2014. The charter holder's response does not include support for the other statements made.
2b. Cash Flow		**X**		The financial performance response indicates the charter holder has sufficient cash to cover expenses and cites that under the Board's financial framework, the charter holder had 59.31 days cash for fiscal year 2012 and 48.86 days liquidity for fiscal year 2013. The financial performance response indicates and the audit supports the charter holder having capital purchases totaling $103,518 and prepaid expenses

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				to related parties totaling $86,200 in fiscal year 2012. According to the response, "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)." (See Net Income.) The response also indicates and the audit supports the charter holder having capital purchases totaling $81,062 in fiscal year 2013. According to the response, "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)." (See Net Income.) The financial performance response states, "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." The charter holder's response does not include support for these statements (see also Net Income). Please note regardless of its fiscal year 2014 cash flow, the charter holder will receive a "Does Not Meet Standard" in fiscal year 2014 due to the charter holder having negative cash flow in two of the three years (2012 and 2013) and possibly due to the charter holder's three-year cumulative cash flow being negative. If the charter holder's fiscal year 2014 cash flow is at least $243,236, then the three-year cumulative cash will be positive.
2c. Fixed Charge Coverage Ratio		**X**		The financial performance response states, "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." To demonstrate this, the response indicates that if the charter holder had net income of $1 in fiscal year 2012 and fiscal year 2013, the charter holder's ratio would have been 1.03 and 1.29, respectively. In fiscal years 2012 and 2013 the charter holder's ratio was 0.42 and 0.57, respectively. Calculations made by Board staff confirmed the accuracy of these statements. The financial performance response states, "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

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				feels confident that it will meet the Board's expectations in regards to the Fixed Charge Coverage Ratio in the coming years." For fiscal years 2012 and 2013, the charter holder had 59.31 days cash and 48.86 days liquidity, respectively. The charter holder's response does not include support for the statements made regarding its fiscal year 2014 net income (see Net Income).