Financial Performance Framework Response

Prepared by

Skyline Prep High School

Submitted to

Arizona State Board for Charter Schools

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

Unrestricted Days Liquidity

For the fiscal year ended June 30, 2010, the School had 46 unrestricted days liquidity. Despite experiencing a reduction of 16% of its student population and 34% of its revenue, the School did not proportionally decrease expenses between fiscal year 2010 and fiscal year 2011 (only a 26% reduction in expenses). Likewise, in 2012 the School experienced a 28% decrease in student population and a 19% reduction in revenue, but only decreased expenses by 12%. As a result of this poor financial management, the School's cash was used to offset losses in fiscal years 2011 and 2012, and the School's unrestricted days liquidity significantly dwindled. Towards the end of fiscal year 2012, the School made a strategic shift in its financial management personnel by replacing its Chief Financial Officer with an individual with previous audit and consulting experience with Charter Schools across the state of Arizona. During fiscal year 2013, the School did not experience a material change in revenue received, but decreased expenses by 22% resulting in a positive net income. The School is confident that, under new financial leadership, the School will gradually be able to have positive cash flows moving forward to help increase its unrestricted days liquidity. Additionally, the School has access to other sources of liquidity, through related parties, to augment its short-term liquidity needs. As mentioned in the related party footnotes of the 2012 and 2013 audited financial statements, Skyline Education, Inc., a related party, provided the School with short-term loans to augment liquidity needs.

Net Income

As mentioned in the unrestricted days liquidity section above, the School has experienced a change of financial direction since making personnel changes in the tail end of fiscal year 2012. Since fiscal year 2010, the School experienced decreased student enrollment and revenue without proportionally decreasing expenses. However, during fiscal year 2013, under new financial management, the School has decreased expenses by 22% overall while keeping revenue steady. For the fiscal year ended June 30, 2013, the School had a Net Income of $107,379 which meets the Board's expectations. The School expects this positive net income trend to continue

Fixed Charge Coverage Ratio

Because the School has consistent depreciation, interest and lease expenses, the School's fixed charge coverage ratio is heavily dependent on net income. As mentioned in the net income section above, the School's financial direction with regards to net income has changed starting with the change in financial management that occurred in fiscal year 2012. For the fiscal year ended June 30, 2013, the School had a Fixed Charge Coverage Ratio of 1.12 which meets the Board's expectations. Because the School expects net income to continue to be positive moving forward, the School also expects that the fixed charge coverage will continue to "meet" the Board's expectations.

Cash Flow (3-Year Cumulative)

As mentioned in the unrestricted days liquidity section above, the School's cash balance has been used to offset losses in fiscal years 2011 and 2012 – specifically a nearly $400,000 decrease in cash and cash equivalents in fiscal year 2011. The School's cash flow situation is another area of focus for the School's new financial management. For the fiscal year ended June 30, 2013, the School had positive Cash Flow of $82,011. As a result, both fiscal years 2012 and 2013 have positive Cash Flows. The School expects to show positive cash flow in fiscal year 2014 which will result in three straight years of positive cash flows and meeting the Board's expectations.