Financial Performance Response Evaluation Instrument

Charter Holder Name: Skyline Schools, Inc.
Charter Holder Entity ID: 79084
Date Submitted: March 31, 2014

Required for: Renewal
Audit Year: 2012
Evaluation Completed: April 22, 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		The financial performance response provides information regarding the charter holder's student population, revenues and expenses between fiscal years 2010 and 2013. The information included in the response is supported by reports accessed through the Arizona Department of Education's website and the charter holder's annual audits. The response indicates the charter holder had 46 days unrestricted liquidity for fiscal year 2010, which is supported by the audit. Despite declines in the number of students and revenues, according to the response, the charter holder did not proportionately decrease its expenses in fiscal years 2011 and 2012, resulting in the charter holder's cash being used to offset the losses. The response indicates that towards the end of fiscal year 2012, the charter holder replaced its chief financial officer and in fiscal year 2013, the charter holder did not experience a material change in its revenues, but decreased expenses by 22%, which resulted in positive net income. The financial performance response indicates the charter holder has access to other sources of liquidity through related parties and refers to the related party footnotes in the fiscal years 2012 and 2013 audits. The footnotes support Skyline Education, Inc. (SEI) providing the charter holder with short-term loans to cover costs, but do not reflect the maximum amount the charter holder may access through these loans. Therefore, no amount has been entered as "Other Liquidity" for the fiscal year 2013 calculation. The audits do show the charter holder's use of the short-term loans decreasing from fiscal year 2012 to fiscal year 2013. According to the audit, the charter holder borrowed $262,000 in

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				fiscal year 2012 and repaid $130,000, leaving a balance of $132,000. For fiscal year 2013, the audit indicates the charter holder borrowed $103,000 and repaid $175,000, leaving a balance at June 30, 2013 of $60,000. The financial performance response states, "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." The charter holder's response does not include support for this statement. While the charter holder had positive cash flow in fiscal years 2012 and 2013, its performance on this measure decreased from 5.87 days in fiscal year 2012 to 3.46 days in fiscal year 2013. No information was provided regarding the charter holder's performance for fiscal year 2014, so far.
1c. Default			X	
2a. Net Income		X		The financial performance response refers to the Unrestricted Days Liquidity section and the charter holder's change in financial direction since making personnel changes at the end of fiscal year 2012. The response indicates that during fiscal year 2013, the charter holder decreased expenses by 22% overall while keeping revenue steady, which resulted in positive net income of $107,379. For fiscal year 2013, the charter holder's performance on this measure is rated "Meets Standard". The financial performance response states, "The School expects this positive net income trend to continue." The charter holder's response does not include support for this statement.
2b. Cash Flow		X		The financial performance response refers to the Unrestricted Days Liquidity section and mentions that the charter holder's cash balance has been used to offset losses in fiscal years 2011 and 2012. Specifically, the response mentions the nearly $400,000 decrease in cash and cash equivalents in fiscal year 2011, which is supported by the charter holder's audit. The response indicates that the charter holder's cash flow is "another area of focus for the School's new financial management" and that for fiscal year 2013, the charter holder had

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				positive cash flow of $82,011. Using the fiscal year 2013 audit, the charter holder did not meet on this measure due to its cumulative three-year cash flow being negative. However, for the two most recent fiscal years, the charter holder had positive cash flow. The financial performance response states, "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." The charter holder's response does not include support for this statement.
2c. Fixed Charge Coverage Ratio		**X**		The financial performance response states, "Because the School has consistent depreciation, interest and lease expenses, the School's fixed charge coverage ratio is heavily dependent on net income." The response refers to the Net Income section and notes that for fiscal year 2013, the charter holder had a fixed charge coverage ratio of 1.12. For fiscal year 2013, the charter holder's performance on this measure is rated "Meets Standard". The financial performance response states, "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." The charter holder's response does not include support for this statement.