The International Charter School of Arizona, Inc.

Financial Performance Framework Response

NEAR TERM INDICATORS

1b. Unrestricted Days Liquidity

Due to the factors explained under item 2b. Net Income, the school ended FY 2013 with 13.94 days of cash on hand, failing to meet the Board's criteria for Unrestricted Days Liquidity of 30 days.

Net Income for FY 2014 is significantly improved over FY 2013 due to planned reduction in expenses, and the generosity and commitment of local organizations (as explained under item 2b. Net Income). Based on current budgetary projections the school is poised to record positive Net Operating Income in FY 2014 of approximately $55,000 (see Profit & Loss Projection - FY 2014).

Based on the school's ongoing financial plan, the school should finish the year with approximately $46,000 in cash on hand (see Balance Sheet Comparison), based on the projected expenses included in the accompanying Profit & Loss Projection (see Profit & Loss Projection - FY 2014).

This will serve to help ensure the sustainability of the organization, and would result in an Unrestricted Days Liquidity measure of 32.49 (see Unrestricted Days Liquidity Projection), increasing the school's rating to "Meets Standard" for item 1b. Unrestricted Days Liquidity.

SUSTAINABILITY INDICATORS

2a. Net Income

The Audited Financials for Fiscal Year 2013 state a Change in Net Assets of ($125,175).

The net operating loss for FY 2013 was the result of a combination of factors that will not reoccur, and are explained as follows:

Suitability of Facilities - Consistency of Location

The school experienced significant difficulty securing suitable facilities prior to beginning the FY 2013 school year. The school was not able to secure committed facilities until July of 2012 due to complications with the potential landlord.

Facilities were also a significant complicating factor in the FY 2014 school year. Based on this experience, the Governing Board began searching for long term facility options at the beginning of FY 2014 (see Improved Facilities for FY 2015 below).

Marketing Efforts - Reduced Impact

Due to the facilities concerns indicated above, the marketing efforts that had been underway prior to July of 2012 were not able to be specific as to the location of the new school.

Focused marketing efforts began once the school took possession of the new facilities, however based on the delay finalizing the location, the school did not see significant impact as a result of marketing efforts leading into FY 2013.

Reduced Student Enrollment

Student Enrollment in FY 2013 was significantly lower than originally anticipated, due to the difficulty the school had in securing suitable facilities for the FY 2013 school year.

The school was not able to secure committed facilities until July of 2012 due to complications with the potential landlord. This meant that marketing efforts that had been underway until July of 2012 were not able to be specific as to the location of the new school.

Focused marketing efforts began once the school took possession of the new facilities, however based on the delay finalizing the location the school did not see significant impact as a result of marketing efforts leading into FY 2013.

Staffing Levels

The FY 2013 school year was the first year of operation for the school. Once it was clear that student enrollment would fall short of the parameters upon which the operating budget was built, Administration and the school's Governing Board agreed that the school must maintain the quality of instruction delivered even though it would mean operating at a deficit in the first year. The Governing Board determined that while it was necessary to reduce Support expenses wherever possible, it would be in the school's best interest to maintain the budgeted staffing levels for Instruction. Spending on both instructional personnel and programs of service remained substantially similar to the original budget. This decision was necessary in order to fulfill not only the mission of the school but the expectations of the community they serve.

Improvement in Net Income for FY 2014

Positive Net Income in FY 2014

Net Income for FY 2014 is significantly improved over FY 2013 due to planned reduction in expenses, and the generosity and commitment of local organizations. Based on current budgetary projections the school is poised to record positive Net Operating Income in FY 2014 of approximately $55,000 (see Profit & Loss Projection - FY 2014).

Based on the school's ongoing financial plan, this will serve to help ensure the sustainability of the organization, and would increase the school's rating to "Meets Standard" for item 2a. Net Income.

Local Revenue Increased in FY 2014

Based on a facilities provision agreement entered into in conjunction with Hillcrest Academy (see Facilities Lease Agreement), the school's outstanding Current Liabilities will be paid in total through the forgiveness of loans originally made available to the school by Hillcrest Academy (see Loan Forgiveness Letters). This will be recognized as revenue in 2014, resulting in a positive Net Income of approximately $55,000 as stated above (see Profit & Loss Projection - FY 2014).

Improved Facilities for FY 2015

Through the facilities lease agreement mentioned above, the school will take possession of more suitable leased facilities in July of 2014. As the agreement is already in place, marketing efforts focused on the exact location and surrounding community are already underway.

Increased Enrollment for FY 2015

Based on the strength of the school's academic performance, unique programs, and (now) improved facilities, enrollment for the FY 2015 school year is expected to be significantly higher than previous years (see Enrollment Matrix).

Administrative Oversight & Governance

Budgeted revenue and spending as compared to actual activities are reviewed on a day to day basis by Administration. All adjustments to spending in response to anticipated underperformance in revenue or projected overspending are also made on a weekly basis by Administration. All unscheduled expenses (expenses not included in the school's operating budget at the beginning of the operating period) are first reviewed to establish whether or not budget capacity exists for the expenditure prior to authorization.

Upon review by administration, should an unscheduled expense be deemed necessary, budget capacity will be moved from an expense line where it is not needed to the expense line where the unscheduled expense will be booked, prior to encumbrance of the expense. The school has also established additional contingency as part of each expense object grouping. This funding can be used as a last resort for unscheduled expenses occurring later in the fiscal year that are deemed necessary but cannot be paid for through reallocation of budget capacity from another expense line.

Budget performance is reviewed weekly by the Corporation Executives (President, Vice President and Secretary), who also monitors the Statements of Activities, Budget Performance, and statement of Cash Flows as part of their weekly meetings.

Budget performance is reviewed quarterly by the Board of Directors, who also monitors the Statement of Activities, Budget Performance, and Statement of Cash Flows as part of their quarterly regular session meetings.

2b. Cash Flow

The Audited Financials for Fiscal Year 2013 state a Net Change in Cash of ($15,142). Because the school's first year of operation was FY 2013, the Cumulative Net Change in Cash was ($15,142) as of the close of FY 2013.

FY 2013

Due to the factors explained under item 2b. Net Income a Net Change in Cash of ($15,142) was recorded in FY 2013.

FY 2014

Net Income for FY 2014 is significantly improved over FY 2013 due to planned reduction in expenses, and the generosity and commitment of local organizations (as explained under item 2b. Net Income). Based on current budgetary projections the school is poised to record positive Net Operating Income in FY 2014 of approximately $55,000 (see Profit & Loss Projection - FY 2014).

Based on the school's ongoing financial plan, the school should finish the year with approximately $46,000 in cash on hand (see Balance Sheet Comparison), based on the projected expenses included in the accompanying Profit & Loss Projection (see Profit & Loss Projection - FY 2014).

This will serve to help ensure the sustainability of the organization, and would result in a positive Cash Flow of approximately $24,000 (see Cash Flow Comparison), increasing the school's rating to "Meets Standard" for item 2b. Cash Flow for the current year. As FY 2014 is only the school's second year of operation, the school would need to record positive Cash Flow in FY 2015 in order to fully meet the Boards criteria for item 2b. Cash Flow.

Administrative Oversight & Governance

Budgeted revenue and spending as compared to actual activities are reviewed on a day to day basis by Administration. All adjustments to spending in response to anticipated underperformance in revenue or projected overspending are also made on a weekly basis by Administration. All unscheduled expenses (expenses not included in the school's operating budget at the beginning of the operating period) are first reviewed to establish whether or not budget capacity exists for the expenditure prior to authorization.

Upon review by administration, should an unscheduled expense be deemed necessary, budget capacity will be moved from an expense line where it is not needed to the expense line where the unscheduled expense will be booked, prior to encumbrance of the expense. The school has also established additional contingency as part of each expense object grouping. This funding can be used as a last resort for unscheduled expenses occurring later in the fiscal year that are deemed necessary but cannot be paid for through reallocation of budget capacity from another expense line.

Budget performance is reviewed weekly by the Corporation Executives (President, Vice President and Secretary), who also monitors the Statements of Activities, Budget Performance, and statement of Cash Flows as part of their weekly meetings.

Budget performance is reviewed quarterly by the Board of Directors, who also monitors the Statement of Activities, Budget Performance, and Statement of Cash Flows as part of their quarterly regular session meetings.

2c. Fixed Charge Coverage Ratio

The Audited Financials for Fiscal Year 2013 indicate a Fixed Charge Coverage Ratio of .20.

The net operating loss for FY 2013 led to the fixed charge coverage ratio deficit. This is directly attributable to the causes outlined in the response to item 2a. Net Income.

Net Income for FY 2014 is significantly improved over FY 2013 due to planned reduction in expenses, and the generosity and commitment of local organizations (as explained under item 2b. Net Income). Based on current budgetary projections the school is poised to record positive Net Operating Income in FY 2014 of approximately $55,000 (see Profit & Loss Projection - FY 2014).

Based on achievement of the Net Income as outlined in the accompanying Profit & Loss Projection for FY 2014 (see Profit & Loss Projection - FY 2014), a Change in Net Assets in excess of approximately $55,000 will be achieved. The school will finish the year with approximately $46,000 in cash on hand (see Balance Sheet Comparison), resulting in a Fixed Charge Coverage Ratio of 2.04 (see Fixed Charge Comparison). This would increase the school's rating to "Meets Standard" for item 2c. Fixed Charge Coverage Ratio.

Administrative Oversight & Governance

Budgeted revenue and spending as compared to actual activities are reviewed on a weekly basis by Administration. All adjustments to spending in response to anticipated underperformance in revenue or projected overspending are also made on a weekly basis by Administration. All unscheduled expenses (expenses not included in the school's operating budget at the beginning of the operating period) are first reviewed to establish whether or not budget capacity exists for the expenditure prior to authorization.

Upon review by administration, should an unscheduled expense be deemed necessary, budget capacity will be moved from an expense line where it is not needed to the expense line where the unscheduled expense will be booked, prior to encumbrance of the expense. The school has also established additional contingency as part of each expense object grouping. This funding can be used as a last resort for unscheduled expenses occurring later in the fiscal year that are deemed necessary but cannot be paid for through reallocation of budget capacity from another expense line.

Budget performance is reviewed quarterly by the Board of Directors, who also monitors the Statement of Activities, Budget Performance, and Statement of Cash Flows as part of their quarterly regular session meetings.

ICSA
Profit & Loss Projection
July 2013 through June 2014

	Jul '13 - Jun 14
Ordinary Income/Expense	
Income	
1000 · Revenue From Local Sources	322,439.44
3000 · Revenue From State Sources	164,482.30
4000 · Revenue From Fed & State Grants	102,522.97
Total Income	589,444.71
Expense	
6100 · Personal Services	67,340.15
6200 · Personal Services - Benefits	28,112.48
6300 · Purch Professional & Tech Svcs	210,127.48
6400 · Purchased Property Services	25,223.13
6500 · Other Purchased Services	187,681.73
6600 · Supplies	2,128.53
6800 · Other Expenses.	6,081.50
Total Expense	526,695.00
Net Ordinary Income	62,749.71
Other Income/Expense	
Other Expense	
Depreciation Expense	7,683.12
Total Other Expense	7,683.12
Net Other Income	-7,683.12
Net Income	**55,066.59**

HILLCREST ACADEMY, INC.
4710 E. Baseline Road
Mesa, Arizona 85206

June 30, 2014

International Charter School
of Arizona, Inc.
1973 E. Maryland
Phoenix, AZ 85016

Re: Forgiveness of Debt Obligation/Conversion to Donation

Dear Board of Directors:

Hillcrest Academy, Inc., an Arizona nonprofit corporation (formerly known as DCS Partners, Inc.) ("Hillcrest") has previously advanced Three Hundred Fifty-Nine Thousand, Six Hundred Ninety-Six and Thirty-Eight/100ths Dollars, either directly or indirectly to or on behalf of International Charter School of Arizona, Inc., an Arizona nonprofit corporation ("ICSA") that has been determined to be an organization exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code.

The purpose of this letter is to inform you that the board of directors of Hillcrest has determined that it is in the best interests of Hillcrest to declare forgiven all such funds so expended to the extent repayment was contemplated and declare all such amounts paid to ICSA or on behalf of ICSA as a donation.

Please feel free to call me if you have any questions regarding the foregoing.

Sincerely,

Hillcrest Academy, Inc.

By: _____
Ryan Christensen, President

School: INTERNATIONAL CHARER SCHOOL OF ARIZONA

Projected Enrollment Matrix

PHOENIX CAMPUS

GRADE	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
7	20	56	75	84	84
8	20	56	75	75	84
9	15	20	75	75	75
10	15	20	30	75	75
11	5	15	20	30	75
12	5	5	15	20	30
Totals:	80	172	290	359	423
ADM	80	172	290	359	423

MESA CAMPUS

GRADE	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
7	40	120	140	140	140
8	20	120	140	140	140
9	20	120	140	140	140
10	15	75	140	140	140
11	5	30	75	140	140
12	2	10	35	75	140
Totals:	102	475	670	775	840
ADM	102	475	670	775	840

	182	647	960	1134	1263

ICSA
Unrestricted Days Liquidity Comparison
June 30, 2013 vs. June 30, 2014

	Jun 30, 14	Jun 30, 13
Cash on Hand	46,882.07	22,628.23
Expenses/Daily	1,443.00	1,622.81
Unrestricted Days Liquidity	32.49	13.94

ICSA
Balance Sheet Comparison
As of June 30, 2014

	Jun 30, 14	Jun 30, 13
ASSETS		
Current Assets		
Checking/Savings		
MidFirst Checking	46,534.12	0.00
Virtual Cash Account	223.95	0.00
Chase Business Checking	64.00	22,628.23
Total Checking/Savings	46,822.07	22,628.23
Accounts Receivable		
1200 · Accounts Receivable	0.00	15,490.36
Total Accounts Receivable	0.00	15,490.36
Total Current Assets	46,822.07	38,118.59
Fixed Assets		
Accum Depreciation	-16,777.94	-9,094.82
Equipment	34,407.97	34,407.97
Total Fixed Assets	17,630.03	25,313.15
Other Assets		
Hillcrest Academy - Loan	0.00	0.00
Total Other Assets	0.00	0.00
TOTAL ASSETS	**64,452.10**	**63,431.74**
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable		
2000 · Accounts Payable	65,976.62	43,101.22
Total Accounts Payable	65,976.62	43,101.22
Other Current Liabilities		
Notes Payable	0.00	61,158.66
Accrued Payroll	0.00	14,595.26
Accrued Payroll Taxes	0.00	1,167.71
2400 · Payroll Liabilities	0.00	0.00
Total Other Current Liabilities	0.00	76,921.63
Total Current Liabilities	65,976.62	120,022.85

ICSA
Balance Sheet Comparison
As of June 30, 2014

	Jun 30, 14	Jun 30, 13
Total Liabilities	65,976.62	120,022.85
Equity		
1110 · Retained Earnings	-56,591.11	65,618.63
Net Income	55,066.59	-122,209.74
Total Equity	-1,524.52	-56,591.11
TOTAL LIABILITIES & EQUITY	**64,452.10**	**63,431.74**

ICSA
Cash Flow Comparison
FY 2013 vs. FY 2014

	Jul '13 - Jun 14	Jul '12 - Jun 13
OPERATING ACTIVITIES		
Net Income	55,066.59	-125,174.97
Adjustments to reconcile Net Income		
to net cash provided by operations:		
1200 · Accounts Receivable	15,490.36	-15,490.36
Prepaid Rental Expenses	-7,138.18	70,000.00
Accrued Payroll & Taxes	-9,843.00	9,843.00
Net cash provided by Operating Activities	53,575.77	-60,822.33
INVESTING ACTIVITIES		
Accum Depreciation	7,683.12	7,683.12
Net cash provided by Investing Activities	7,683.12	7,683.12
FINANCING ACTIVITIES		
2000 · Accounts Payable	27,610.92	38,365.70
Interest Payable	-3,457.31	2,964.69
Note Payable: ISA	-54,492.00	0.00
Notes Payable:S. Cartwright Note Payable	-3,333.33	0.00
Notes Payable: S. Vearstriaght	0.00	-3,333.33
Notes Payable:K. Moran Note Payable	-3,333.33	0.00
Net cash provided by Financing Activities	-37,005.05	37,997.06
Net cash increase for period	24,253.84	-15,142.15
Cash at beginning of period	22,628.23	37,770.38
Cash at end of period	**46,882.07**	**22,628.23**

ICSA
Fixed Charge Coverage Ratio Comparison
FY 2013 and FY 2014

	Jul '13 - Jun 14	Jul '12 - Jun 13
Ordinary Income/Expense		
Adjusted Earnings		
Change in Net Assets	55,066.59	-125,175.00
Deprecitaion & Amortization	7,683.00	7,683.00
Interest Expense	0.00	0.00
Lease Expense	60,500.00	85,000.00
Total Adjusted Earnings	123,249.59	-32,492.00
Fixed Costs		
Interest Expense*	0.00	0.00
Lease Expense	60,500.00	85,000.00
Current Portion	0.00	61,158.00
Total Fixed Costs	60,500.00	146,158.00
Fixed Charge Coverage Ratio	**2.04**	**-0.22**