Financial Performance Response

International Commerce Secondary Schools, Inc. – Charter Holder CTDS 078710000 – Entity 4334

Unrestricted Days Liquidity

Target: 30 days
Result: 20.78 days

The cash used in the June 30, 2014 year included $34,000 for the purchase of 39 new computer workstations (*Wyse Thin Clients)* for the students (to meet State-mandated bandwidth requirements) and $12,000 for a new Student Information System (*Pearson PowerSchool*). In addition, the on-line curriculum provider had an understatement error in billings from past years that required the charter holder to pay $65,000 to settle these underpayments. These one-time purchases and the payments of prior year under-billings were funded out of operating cash.

The FY2014 30-day target could have been achieved because at June 30, 2014 the charter holder had access to a $100,000 line of credit at a local Bank. On June 30, 2014 that line of credit had $0 drawn on it so the charter holder did have access to those funds on June 30, 2014. Just for comparison purposes, this line had the full $100,000 drawn on it at June 30, 2013. Had the charter holder drawn $71,000 on the $100,000 line on June 30, 2014 the unrestricted days liquidity would have been calculated at 30.07 days and the target would have been met.

Moving forward to FY2015, the line of credit was refinanced with a different local bank in September 2014 with an increased availability of $200,000.

Based on the unusual cash expenditures that were funded out of operations and the increased amount available on the line, the unrestricted days liquidity target is expected to be met in the future.

Net Income

Target: Greater than $1
Result: ($49,096)

The net income for June 30, 2014 year included a one-time $12,000 expense in changing to a new Student Information System (*Pearson PowerSchool*). The charter holder shares many common expenses with one other charter holder. That other charter holder easily met its net income target (over $217,000). A more thorough analysis and allocation of these shared expenses would likely have shifted some common expenses away from this charter holder and allowed for this charter holder to be in a positive net income. Note that the consolidated entity did post positive net income for FY2014.

Moving forward to FY2015, the charter holder is investigating whether it can renegotiate its rental agreements with the building owner so that its monthly rent payments can be lowered. This could have a positive impact in meeting this ratio. Also, a more thorough

analysis of the allocation of common expenses will be made in FY2015 and that should also help in meeting the positive net income target.

Based on the unusual one-time expenses incurred in FY2014 and the potential for a rent expense decrease in FY2015, the charter holder should meet the positive net income target.

Fixed Charge Coverage Ratio

Target: Greater than 1.10
Result: 0.92

The net income for June 30, 2014 year included a one-time $12,000 expense in changing to a new Student Information System (*Pearson PowerSchool*). The charter holder shares many common expenses with another charter holder. That other charter holder easily met its fixed charge coverage ratio. A more thorough analysis and allocation of these shared expenses would likely have shifted some common expenses away from this charter holder and allowed for the fixed charge coverage ratio to be met.

Moving forward to FY2015, the charter holder is investigating whether it can renegotiate its rental agreements with the building owner so that its monthly rent payments can be lowered. This could have a positive impact in meeting this ratio.

Based on the unusual one-time expenses incurred in FY2014 and the potential for a rent expense decrease in FY2015, the charter holder should meet the 1.10 Fixed Charge Coverage Ratio target in the future.

International Commerce Secondary Schools, Inc. – Consolidated Entity

Unrestricted Days Liquidity

Target: 30 days
Result: 29.80 days

The cash used in the June 30, 2014 year for the consolidated entity included $64,000 for the purchase of 75 new computer workstations (*Wyse Thin Clients)* for the students (to meet State-mandated bandwidth requirements) and $27,000 for a new Student Information System (*Pearson PowerSchool*). In addition, the on-line curriculum provider had an understatement error in billings from past years that required the consolidated entity to pay $130,000 to settle these underpayments. These one-time purchases and the payments of prior year under-billings were funded out of operating cash.

The FY2014 30-day target could have been achieved because at June 30, 2014 the charter holder had access to a $100,000 line of credit at a local Bank. On June 30, 2014 that line of credit had $0 drawn on it so the charter holder did have access to those funds on June 30, 2014. Just for comparison purposes, this line had the full $100,000 drawn on it at

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June 30, 2013. The target for the consolidated entity was missed by a very small margin; had the consolidated entity drawn $5,000 on the $100,000 line on June 30, 2014 the unrestricted days liquidity would have been calculated at 30.21 days and the target would have been met.

Moving forward to FY2015, the line of credit was refinanced with a different local bank in September 2014 with an increased availability of $200,000.

Based on the unusual cash expenditures that were funded out of operations and the increased amount available on the line, the unrestricted days liquidity target should be met in the future.

Fixed Charge Coverage Ratio

Target: Greater than 1.10
Result: 1.03

The net income for June 30, 2014 year included a $130,000 deduction for an on-line curriculum expense that the provider billed in FY2014 due to billing understatement errors in earlier years. In addition, the consolidated entity incurred a one-time $27,000 expense in changing to a new Student Information System (*Pearson PowerSchool*). If the under-billing expense and the cost of the new Student Information System were not included in the June 30, 2014 net income, the consolidated entity would have easily met the 1.10 target.

Moving forward to FY2015, the consolidated entity is investigating whether it can renegotiate its rental agreements with the building owner so that its monthly rent payments can be lowered. This could have a positive impact in meeting this ratio. For FY2014, a 7% rent decrease would have allowed the consolidated entity to meet the 1.10 target.

Based on the unusual one-time expenses incurred in FY2014 and the potential for a rent expense decrease in FY2015, the consolidated entity should meet the 1.10 Fixed Charge Coverage Ratio target in the future.

Cash Flow

Target: 3-year positive 3-year cash flow
Result: ($59,710) negative 3-year cash flow

The consolidated entity had positive cash flow in the most recent year.

The cash used in the June 30, 2014 year included $64,000 for the purchase of 75 new computer workstations (*Wyse Thin Clients)* for the students (to meet State-mandated bandwidth requirements) and $27,000 for a new Student Information System (*Pearson PowerSchool*). In addition, the on-line curriculum provider had an understatement error

in billings from past years that required the consolidated entity to pay $130,000 to settle these underpayments. These one-time purchases and the payments of prior year under-billings were funded out of operating cash.

The consolidated entity had $100,000 available on a line of credit at a local bank at June 30, 2014. On June 30, 2014 that line of credit had $0 drawn on it so the consolidated entity did have access to those funds on June 30, 2014. Just for comparison purposes, this line had the full $100,000 drawn on it at June 30, 2013 so the line was paid down in full during FY2014.

Moving forward to FY2015, the line of credit was refinanced with a different local bank in September 2014 with an increased availability of $200,000. In addition, a $100,000 Certificate of Deposit matures in early 2015 and the funds will be available for use in operations at that time. The consolidated entity is investigating whether it can renegotiate its rental agreements with the building owner so that its monthly rent payments can be lowered. These items will have a positive impact on cash flow.

If not for the unusual cash expenditures that were funded out of operations, the consolidated entity could have met the 3-year positive cash flow target. Even with these unusual expenses in FY2014 the consolidated entity still had positive cash flow in FY2014. In addition to the potentially lower rent in FY2015, the consolidated entity now has access to a $200,000 line of credit and that will provide positive cash flow if needed in FY2015. It is expected that a 3-year positive cash flow will exist for FY2015.