Financial Performance Response Evaluation Instrument

Charter Holder Name: International Commerce Secondary Schools, Inc.

Required for: Failing School Designation

Charter Holder Entity ID: 4334

Audit Year: 2014

NOTE: This evaluation instrument addresses the financial performance response submitted by the College of the Humanities & Sciences Harrison Middleton University, Inc., a consolidated entity which includes the charter holder as a subsidiary ("Consolidated Entity").

Arizona State Board for Charter Schools (Board) staff completed the Financial Performance Response Evaluation Instrument for 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	Reason(s) for "Not Acceptable" Rating
1a. Going Concern Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	
1b. Unrestricted Days Liquidity Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The response identifies three one-time factors that contributed to the Consolidated Entity's fiscal year 2014 performance on this measure – purchase of computer workstations, purchase of a new student information system, and payments made to settle an error in prior years' online curriculum billings. While the fiscal year 2014 audit generally supports the purchase of property and equipment, no support was provided for the other two factors. The Consolidated Entity states it could have achieved the 30-day target for fiscal year 2014 because it had access to a $100,000 line of credit, which, according to the response, had not been drawn down and was fully available at June 30, 2014. The fiscal year 2014 audit supports the existence of a line of credit, but indicates $100,000 had been fully drawn down as of June 30, 2014. The response indicates that for fiscal year 2015 a credit line of $200,000 is available, but does not provide support. The Consolidated Entity does not support the assertion that this measure's target is expected to be met "in the future".

Measure	Reason(s) for "Not Acceptable" Rating
1c. Default Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	
2a. Net Income Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	
2b. Cash Flow Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The Consolidated Entity attributes its not meeting on this measure to one-time and unusual expenses that occurred in fiscal year 2014, which are not supported by the response (see "Unrestricted Days Liquidity"). For fiscal year 2014, the Consolidated Entity does not meet the target because its three-year cumulative cash flow is negative. Even if the Consolidated Entity's positive cash flow in fiscal year 2014 had been enough to result in the three-year cumulative cash flow being positive, the Consolidated Entity would still not have met on this measure because it had negative cash flow in two of the three fiscal years (2012 and 2013). The response refers to lines of credit the Consolidated Entity has available, but does not provide support for these statements (see "Unrestricted Days Liquidity"). For fiscal year 2015, the response indicates the Consolidated Entity is looking into whether it can renegotiate its rental agreements to reduce monthly payments, but does not provide support for this statement. The Consolidated Entity does not support the assertion that it expects its three-year cumulative cash flow to be positive in fiscal year 2015.
2c. Fixed Charge Coverage Ratio Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The Consolidated Entity asserts that it incurred an unusual one-time expense required to correct a prior year error due to an understated bill. However, this was not supported by the response. Additionally, the response indicates that a one-time expense for a new student information system was incurred, but does not provide support for this statement (see "Unrestricted Days Liquidity"). The does not support the assertion that it should meet this measure's target in fiscal year 2015. For fiscal year 2015, the response indicates the Consolidated Entity is looking into whether it can renegotiate its rental agreements to reduce monthly payments, but does not provide support for this statement.