Liberty Traditional Charter School (Consolidated)

Financial Stability

Overview:
Liberty Traditional Charter School and Heritage Elementary School have gone through many changes over the past few years. In 2008 both charters realized they had grave financial and programmatic problems. Raena Janes was sought out to take over the charter holder position and get them both on track. This has been a long and methodical road. Both LTCS and HES had financially over extended themselves with land purchases, credit cards, lines of credit, etc. The school's grant funds were also mismanaged and monies had to be paid back to IDEA, Title 1 and E-rate. As of June 2012 all vendors, credit cards, land purchases, lines of credit and grants funds have been paid. The only lingering outstanding debt to be paid is Liberty Traditional Charter School's repayment of E-rate funds from 2005.

Unrestricted Days Cash

Liberty Traditional Charter School and Heritage Elementary School are actively raising its unrestricted days cash availability through a solid three prong approach.

1. The schools are paying off old debt and closely monitoring all expenses. As these debts are paid off, it will decrease the amount of cash that is going out and increase our cash on hand.

2. The schools are consistently evaluating the use of its assets and are streamlining all programs in an effort to raise the unrestricted days cash availability. Teachers, administrators and stakeholders are involved in each decision.

3. The schools are actively recruiting new students. This will bring in more revenue and by careful monitoring of our class size we can increase our revenue while minimizing the expenses that are incurred. This is will lead to higher cash balances and get us to the required 30 day cash on hand requirement. The last few years have been difficult with staff changes but the team that is in place now has shown great leadership abilities and increasing the student population is a major goal of the team.

Total Liabilities to Equity Ratio

The consolidated indicators reflect that Heritage Elementary School in conjunction with Liberty Traditional School Falls Far Below in the total Liabilities to Equity Ratio. Heritage Elementary School has a 2004 series bond and a 2007 series bond. Liberty Traditional Charter School is the guarantor of those bonds. The 2004 series bond was paid off with the 2007 series bond but those funds still remain on our books and those funds are being held in escrow. Steve Clark, our auditor, from May, Clark & Company, PLLC offered this memo as an explanation:

Please refer to the paragraph captioned "Series 2004 Bonds Payable" in Note 6, page 10 of the audited financial statements for June 30, 2011. The paragraph explains that since the Series 2004 trust funds, totaling approximately $6,235,000 at June 30, 2011 exceed the liability balance of approximately $5,475,000 at that date, the Series 2004 Bonds are considered legally defeased.

After reviewing the accounting treatment carried over from the financial statements audited by the prior auditors, we determined that generally accepted accounting principles did not currently allow the offsetting of the 2004 trust funds with the obligation.

For purposes of computing your debt to equity ratio, however, the total liabilities of approximately $22,928,000 ($1,050,000 short term and $21,878,000 long term) at June 30, 2011 should be reduced by the approximate $6,235,000 trust fund balance to compute a net liability balance of approximately $16,693,000.

Net Income

Liberty Traditional Charter School and Heritage Elementary School did not meet the consolidated Net Income for 2011. The main reason this occurred was because Heritage Elementary had several large old debts that were scheduled to be paid during that year. The administration team recognized that there would be a short fall and sold its kindergarten campus to offset those negative balances. The kindergarten property was owned free and clear and all those revenues were able to be put back into the school's operating fund to raise their cash balances. That transaction was delayed and not recorded onto the books until 2012.

Both schools are actively committed to raising their net income by increasing student enrollment in the next year. This strategy, along with minimizing expenses and being free from old debt will provide the net income to be a thriving school.

Fixed Charge Coverage Ratio

The largest fixed charge coverage ratio debt is the Heritage Elementary School bond. Liberty Traditional Charter School is the guarantor of the bond and the payment is split between both schools based on student enrollment. The 2011-2012 school year was a pivotal financial year for both charters. We successfully paid off over $800,000 in fixed charged debt. These debts include grant repayments, building and land loans, lines of credit, etc. Going forward both schools are excited not to have that heavy burden weighing them down. Currently, the fixed charges that each charter faces are a small fraction of what it once was just a short time ago. The schools are committed to not making those mistakes again and going forward with the goal of being debt free.

Our immediate goal is to increase enrollment at all school locations. This will increase our days of unrestricted cash, net income and fixed charge coverage ratio.

Liberty Traditional Charter School (Charter Specific)

Unrestricted Days Cash

Liberty Traditional Charter School is committed to raising its unrestricted days cash from 26.14 to 30 by the end of this year. This will be accomplished by continuing our approach of the following:

1. Paying off old debt and getting into a better cash position by not accruing new debt.

2. Streamlining the individual programs at Liberty Saddleback and Liberty Phoenix to maximize facilities, curriculum and faculty.

3. Increase student enrollment at both campuses. Add grade levels served at Liberty Saddleback.