Odyssey Charter School
Nurturing a Lifelong Love of Learning
201 Bayard Ave, Wilmington, DE 19805-1512
Office: 302-655-5760 Fax: 302-655-5761

November 3, 2014

Delaware Department of Education
Charter School Accountability Committee
401 Federal Street, Suite 2
Dover, DE 19901

Charter School Accountability Committee (CSAC) Members and Support Staff:

I would like to thank the CSAC for meeting with representatives from Odyssey Charter School (OCS) on October 22, 2014. Our school remains dedicated to providing a high quality education to our students and working with the Delaware Department of Education to continue our growth and development.

Your initial reports show that OCS has a proven track record of meeting or exceeding the standards in Academic, Financial and Organizational Performance Framework ratings over the past 3 years. However, during the 2013-14 school year, our Board of Directors made some very deliberate financial decisions in two critical areas that left us with a "Does Not Meet Standard" or "Falls Far Below" standard financial rating in 5 of the 8 categories. Below you will find an explanation for each, as well as a "Pro Forma" calculation that reflects what our rating would have been, had we not made those deliberate decisions.

1. Measure 1a. Current Ratio (Working Capital Ratio): Current Assets divided by Current Liabilities:

a. Met standards in 2010-11, 2011-12.

b. Did Not Meet standards in 2012-13.

b. Falls Far Below standards in 2013-14 with rating of 0.47

(1) Cause: Incurred one-time expenses of $619,991 spent on construction in progress (acquisition/renovation expenses of Building 20); $385,290 in Rent (Building 20); and $144,274 in one-time salary increases and retroactive pay. That reduced our available cash to $414,634 and total assets to $690,446. In addition, we incurred $142,247 of construction related payables (soft costs such as architectural and engineer fees), which increase our liabilities to $1,460,727. That left our 2013-14 ***Current Ratio*** at <u>**47%**</u>, which is ***Far Below Standards***.

(2) Pro Forma: By adding back in the one-time expenses totaling $1,149,555, our Total Current Assets increases to $1,839,671. Then by adding $142,247 in Construction Related Payables to our liabilities, our Total Current Liabilities 2013-14 increases to $1,318,480. That would have put the ***Current Ratio*** at <u>**1.40%**</u>, which ***Meets the Standard***.

2. Measure 1b. Unrestricted Days Cash: Unrestricted Cash divided by (Total Expenses/365)

   a. Met standards in in 2010-11, 2011-12 and 2012-13.

   b. Does Not Meet standards in 2013-14 with Total Unrestricted Days Cash of 16.67.

   (1) Cause: Incurred one-time expenses of $619,991 spent on construction in progress (acquisition/renovation expenses of Building 20); $385,290 in Rent (Building 20); and $144,274 in one-time salary increases and retroactive pay. That reduced our available cash to $414,634. In addition, the rent expense of $385,290 and one-time salary increase/retro of $144,274, increase our total expenses to $9,052,789. That left our 2013-14 ***Unrestricted Days Cash*** at **16.72 days**, which ***Does Not Meet*** the standard.

   (2 Pro Forma: By adding back the one-time expenses totaling $1,149,555, our total Cash increases to $1,563,859. Then by subtracting the one-time rent and salary increase expenses, our total Expenses drop to $8,523,225. That would/have put the ***Unrestricted Days Cash*** at **66.97** days, which ***Meets the Standard***.

3. Measure 2a. Total Margin: Net Income divided by Total Revenue

   a. Not Rated in 2010-11 and 2011-12.

   b. Met standards in 2012-13.

   c. Falls Far Below standards in 2013-14 because Aggregate Three-Year Total Margin is less than was -3.02%

   (1) Cause: Our 2014 Net Income was $1,300,576 because of one-time expenses of $385,290 in Rent; $144,274 in one-time salary adjustments along with retroactive pay; and a $181,502 loss on the Sale (Mundy Farms). This left our Aggregate three-year total Net Income at $616,146. When you factor in our Aggregate three-year total Revenues of $20,384,033, our ***Three-Year Total Margin*** was **-3.02%**, which ***Falls Far Below the standard***.

   (2) Pro Forma: By adding those one-time expenses totaling $711,066, our 2014 Net Income increases to $-589,510 and Aggregate Three-Year total Net Income increases to $94,920. Because our Net Revenues remain the same, that put our ***Aggregated three-year Total Margin*** at **.40%**, which is a significant increase but still would/have been ***Does Not meet the standard*** with a negative 2014 Total Margin of -.07%.

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4. Measure 2b. Debt to Asset Ratio: total Liabilities divided by Total Assets

   a. Met standards in in 2010-11, 2011-12 and 2012-13.

   b. Does Not Meet standards in 2013-14 with Total Debt to Asset Ratio of 0.95.

   (1) Cause: Incurred one-time expenses of $385,290 in Rent (Building 20); and $144,274 in one-time salary increases and retroactive pay. That reduced our Total Assets to $4,588,970, which put our ***Debt Asset Ratio*** at **0.95** and ***Does Not Meet the Standard***.

   (2) Pro Forma: By adding back the one-time expenses of $529,564, our Total Assets increased to $5,118,534. Because or Total Liabilities remained the same, our ***Total Debt to Asset Ratio*** for 2013-14 would have been raised to **0.85**, which ***Meets the Standard.***

5. Measure 2c. Cash Flow

   a. Not Rated in 2010-11 and 2011-12.

   b. Met standards in 2012-13.

   c. Falls Far Below standards in 2013-14 because our Three-Year Cumulative Cash Flow is negative (-$307,006).

   (1) Cause: Incurred one-time expenses of $619,991 spent on construction in progress (acquisition/renovation expenses of Building 20); $385,290 in Rent (Building 20); and $144,274 in one-time salary adjustments along with retroactive pay. That reduced our 2014 available cash to $414,634 and left us with a ***Three-Year Cumulative Cash Flow*** of **-$307,006**, ***which Falls Far Below the standard***.

   (2) Pro Forma: By adding back those one-time 2014 expenses totaling $1,149,555, our 2013-2014 Cash Flow increases to $200,327, which in turn increases our ***Three-Year Cumulative Cash Flow*** to **$842,549**, it would have then translated to ***Meets the Standard***.

6. Measure 2d. Debt Service Coverage: (Net Income + Depreciation + Interest Expense) divided by (Principal and Interest Payments)

   a. Met standards in in 2010-11, 2011-12 and 2012-13.

   b. Does Not Meet standards in 2013-14 with Total Debt Service Coverage of -0.26.

   (1) Cause: Our 2014 Net Income was $1,300,576 because of one-time expenses of $385,290 in Rent; $144,274 in one-time salary adjustments along with retroactive pay; and $181,502 loss on the Sale (Mundy Farms). That left our total Net Income/Depreciation/Interest

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Expenses at -$655,689, which when divided by a Total Interest Paid of $2,434,165, left our ***Debt Service Coverage*** at **-0.26** and ***Does Not Meet the Standard***

(2) Pro Forma: By adding those one-time expenses totaling $711,066, our 2014 Net Income increases to $-589,510. That put our total Net Income/Depreciation/Interest Expenses at $55,377, which when divided by a Total Interest Paid of $2,434,165, would have left our ***Debt Service Coverage*** at **-.09**. That is a significant difference, but still ***Does Not Meet the Standards***.

7. Summary and Overall Rating:

   a. Met standards in in 2010-11, 2011-12 and 2012-13.

   b. Does Not Meet standards.

   c. Discussion: Insert comments here

Odyssey would like to thank the CSAC for its consideration in making special note to the final overall rating in the 2013-14 report. We believe that when taking our past year's financial actions in context of our expanding the school leased interim facilities, positioning the school for a major property acquisition in 2014-15, and also taking proactive steps to retain our outstanding faculty and administration, those deliberate actions truly benefitted the school. Additionally, the CSAC requested a copy of our final audit (2014), which is provided under separate cover, as well as our Budget Worksheets with updated full-time equivalent (FTE) numbers, and Revenue Sheets that tie to our budget. These are all included as separate attachments to this reply.

If you have need for additional information or wish to discuss, please let us know at your earliest convenience.

Sincerely,

George Chambers
Odyssey Board President

cc: Nick Manolakos
Headmaster

Patrick Rossi
Business Manager