Khalsa Family Services, Inc.
3701 E. River Rd., Tucson, AZ 85718

December 16, 2014
Arizona State Board for Charter Schools

RE: Response to Financial Sustainability Measures

Khalsa Family Services is pleased to have worked hard to improve student enrollment and related revenues while maintaining control over expenses. These efforts resulted in improved financial performance for Fiscal Year 2014 and Khalsa now "Meets" all but one of the Financial Performance Standards as described below. We trust that these responses will show that Khalsa Family Services has overcome the previous year's poor Financial Performance and now satisfies the Financial Performance requirements in Fiscal Year 2014.

1a. Going Concern – "Falls Far Below" FY 2013; **"Meets" FY 2014**
Khalsa Family Services received a Statement of Going Concern in the company's 2013 Audit resulting from decreases in Net Assets and negative cash flows for the consecutive periods 2012 and 2013. During FY 2014 management's continued efforts resulted in improved student enrollment and related revenues and recognized a positive change in Net Assets and Cash Flow for the year. These efforts have successfully resolved the previous period's Going Concern issue and the FY 2014 Audit does not include a Statement of Going Concern.

1b. Unrestricted Days Liquidity – "Does Not Meet" FY 2013; **"Meets" FY 2014**
Khalsa Family Services received a Does Not Meet designation for FY 2013 showing 18.4 days cash on hand, which is less than the standard of 30 days cash on hand. The company showed improvements in the FY 2014 Audit resulting in Unrestricted Days Liquidity ratio of 34.4 days cash on hand, thereby exceeding this standard and meeting the requirement. Positive cash flow, continual management of expenses, and improvements in student enrollment and related revenues contributed to the improvement of this indicator. The company also does not carry a balance on its line of credit, and has not incurred any additional debt proving that Khalsa Family Services is able to manage its cash flow appropriately. In FY 2014 it is important to note that the company had an additional source of liquidity in the Revenue Trust Fund, which is a sub account of the Bond Trust Fund stated on the Balance Sheet. In the Audit Notes, the Revenue Fund showed a balance of $67,782 and represents the portion of operating revenues the Bond Trustee had not yet distributed due to a timing issue. These funds are considered liquid operational assets and the full balance was distributed into our Operating Account the following month, July 2014.

2a. Net Income – "Does Not Meet" FY 2013; **"Meets" FY 2014**
Khalsa Family Services received a Does Not Meet Standard rating for the 2013 fiscal year. Net Income for FY 2014 improved to positive $20,324 from the prior year's reported loss, therefore satisfying this requirement. Khalsa expects to continue to see positive Net Income in FY 2015 and future years.

2b. Cash Flow – "Does Not Meet" FY 2013; **"Does Not Meet" FY 2014**
Khalsa Family Services showed negative 3-year cumulative cash flow in 2013 resulting in a Does Not Meet indicator. In FY 2014 cash flow increased $32,263 due to increase enrollment revenues and continued management of expenses. While this improved positive cash flow was not enough to overcome previous period declines and meet the three year standard, Khalsa did meet all other Financial Sustainability Standards for FY 2014 and expects to maintain positive cash flow in FY 2015, which will continue to move the company toward meeting this requirement.

2c. Fixed Charge Coverage Ratio – "Does Not Meet" FY 2013; **"Meets" FY 2014**
Khalsa Family Services showed a 0.74 Fixed Charge Coverage Ratio for 2013. In FY 2014 this ratio improved to 1.24, thereby exceeding the 1.10 requirement and meeting this standard. Khalsa expects to continue to meet this standard in FY 2015 and future years.