Financial Sustainability

Responses to the "Does Not Meet" ratings for the Sustainability Indicators of the financial performance framework are included below:

Sustainability Indicator – Net Income

Telesis Center for Learning, Inc. had a net loss of $255,060 for the fiscal year ending June 30, 2013 due to non-recurring events that are not expected to repeat in future years. A table showing these non-recurring expenses is shown below:

Non-recurring Event	Estimated Cost
1. Site Expansion Costs	$145,000
2. Unallowable Grant Expenses	45,000
3. Classroom Site Fund Overpayment	16,000
4. Repair & Maintenance	25,000
5. Additional Pupil Transportation Expenses	25,000
6. Special Education Cost Increase	15,000
Total Non-recurring Event Cost	**$271,000**

1. In fiscal year 2012, the School began to expand its site to meet its projected enrollment needs. The expansion was to take place in two phases and was planned to increase instructional space for the growing student enrollment as well as to add a gymnasium to campus. The first phase was completed in time for the 2012-2013 school year and the second phase was put off for about a year while the School went through the bond financing process.

   As the expansion's purpose was to allow the school a higher enrollment in the future, the School did not yet have the enrollment needed to meet the additional costs associated with the new buildings. The estimated additional costs totaled $145,000 and this contributed to the net loss incurred in fiscal year 2013. This amount includes the increased amount of depreciation in the amount of $115,000 and the increased amount of interest expense in the amount of $30,000, both from the new facilities.

During the winter and spring quarters of 2014, the School had begun construction on the second phase of the expansion project. The second phase includes the construction of the gymnasium. The School is confident that the completion of phase two, the sports programs that the School will be able to expand having a gymnasium and an aggressive marketing campaign will increase student enrollment significantly ensuring that the School meets the needed enrollment to cover the additional expenses of the expansion.

2. In addition to the expansion costs, the School wrote their Title I grant application to include an additional first grade teacher in the fiscal year ending June 30, 2013. The teacher had been hired at the beginning of the school year after the School had discussed the hire with the School's Title I Specialist at the Arizona Department of Education. However, when the annual completion report was submitted to the Arizona Department of Education after the fiscal year had ended, the Title I department determined that the position was not allowable under the Title I guidelines. Since the cost had already been incurred and paid, the School had to take the additional expense. If the cost had been unallowable from the start then the School would not have added the position. The salaries and benefits for the position cost the School a one-time expense of approximately $45,000 that contributed to the net loss in fiscal year 2013.

   To ensure that this truly is a non-reoccurring event, the School has provided extra professional development for the administrative staff members responsible for grants management and has had the Title I department at the Arizona Department of Education review in detail the School's Title I plans and budget prior to expending any Title I funds.

3. During fiscal year 2013, the Arizona Department of Education determined that an error had occurred in the calculation of previous year Classroom Site Fund allocations to schools throughout Arizona. When the Arizona Department of Education released the results of the error, it was determined that Telesis Center for Learning, Inc. owed the Arizona Department of Education approximately $16,000 because they had been overpaid due to the error. Even though the error was for overpayments that occurred in previous years, Generally Accepted Accounting Principles (GAAP) required the error to be booked in the year of discovery rather than restating previous year audited financial statements. As this situation was beyond the School's control, no correction action has been implemented to ensure it does not happen again.

4. In the fiscal year ending June 30, 2013 the School had several increased repair and maintenance costs. The repairs included air conditioner repair, painting in the

school and repairs to the gates/fences that surround the School. The amounts were individually below the School's capital asset threshold policy causing the School to expense the items rather than capitalize them. The total additional expenses were approximately $25,000 and this contributed to the net loss for fiscal year 2013.

While the School budgets for repairs and maintenance every year, it is difficult to know the exact costs or when something will break. The School will increase their budgeted repair and maintenance expenses in the future in the hopes of capturing the upcoming expenses.

5. For fiscal year 2012, the School purchased a bus and employed a bus driver. The main purpose of this expense was pupil transportation for after school activities such as sports. As the School is located in Lake Havasu City, the students often have to travel to Phoenix and surrounding areas in order to play sports, etc.

   After some research, the School determined it would cost less for them to use a bus company to transport the students and so the bus was sold and a bus driver was not employed for fiscal year 2013. The sports department was also directed and agreed to do fundraising to help reduce the cost to the School's general budget.

   Unfortunately, by the middle of the school year, the fundraising was not adequate to cover the transportation costs and it was determined that if the School did not cover the costs for transportation for the spring sports, the spring sports would need to be cancelled. As part of the School's philosophy involves sports and after school activities, the School's administration made the decision to cover the costs. The additional costs of $25,000 contributed to the net loss for fiscal year 2013.

   For fiscal year 2014 and beyond, the School has made sure to budget a larger amount for sports. In addition, a large tax credit campaign has been put into place to help fund the sports and the transportation costs association with them.

6. The last item that contributed to the net loss for fiscal year 2013 was the increased cost of the special education program. The School had a slight increase in special education students between fiscal year 2012 and fiscal year 2013. In addition, the School added to the special education program to ensure all needs were being met. The School spent approximately $15,000 in additional costs. The School's administration made the decision to incur these additional costs because it was in the students' best interest and part of the School's mission.

In fiscal year 2014, the special education enrollment has again increased. The increase for this fiscal year is significant and the School has been able to obtain additional grant funding from the Arizona Department of Education to help with the costs.

Sustainability Indicator – Fixed Charge Coverage Ratio

Telesis Center for Learning, Inc. received a rating of "Does Not Meet" for the fixed charge coverage ratio due to the net loss in fiscal year 2013 and due to the large amount recorded as the current portion of long-term debt.

The School incurred several one-time type of expenses (as explained in the above section) that contributed to the net loss. If those one-time expenses were removed, the School would have shown a net profit of almost $16,000. As discussed in the previous section though, some expenses were beyond the School's ability to avoid and others were made to ensure the students had all of their needs met.

The large amount recorded as the current portion of long-term debt was due to a balloon payment that was due in fiscal year 2014 for the construction loans used to fund the expansion project of the School. In December 2013 the School closed on bond financing through the Town of Florence Industrial Development Authority. The bond financing pays the balloon payment in the current portion and also provides funds for the School to complete their expansion project. If the one-time expenses are removed and the balloon payment for the construction loans was paid off, the School would have more than met the fixed coverage ratio.

The School will have its consulting accountant begin to calculate the fixed coverage ratio several times throughout future fiscal years to ensure that the School will receive a "Meets" rating in the future. In addition, the bond financing requires the School to maintain a Debt Service Coverage Ratio (similar ratio to the fixed charge coverage ratio) greater than the 1.10 required for the fixed charge coverage ratio in the financial performance framework.

The School has included projections with the debt service coverage ratio calculated below:

Fiscal Year Ending June 30	PROJECTED				
	2014	**2015**	**2016**	**2017**	**2018**
Total Enrollment	469	520	550	580	620
Revenue					
State Equalization Assistance	$ 2,961,735	$ 3,283,800	$ 3,473,250	$ 3,662,700	$ 3,915,300
State Grants	152,413	168,986	178,735	188,484	201,483
Federal Grants	555,854	616,214	673,815	688,888	700,929
Other Revenues	168,000	189,800	209,790	217,500	224,440
Total Revenue	$ 3,838,002	$ 4,258,800	$ 4,535,590	$ 4,757,572	$ 5,042,152
Expenses					
Personal Services - Instructional Salaries	$ 1,576,185	$ 1,651,590	$ 1,728,879	$ 1,808,101	$ 1,889,304
Personal Services - Other Salaries	365,002	374,127	383,480	393,067	402,894
Personal Services - Benefits	465,885	486,172	506,966	528,281	550,128
Purchased Facilities Services	117,300	123,165	125,628	128,141	130,704
Purchased Other Services	189,750	193,545	197,416	201,364	205,392
Supplies	467,449	497,131	507,073	517,215	527,559
Depreciation and Amortization	266,561	309,539	309,539	309,539	309,539
Interest	262,573	392,225	392,225	390,050	385,338
Other Expenses	224,948	280,239	378,191	397,838	418,238
Total Expenses	$ 3,935,653	$ 4,307,733	$ 4,529,398	$ 4,673,597	$ 4,819,095
Net Operating Income	**$ (97,651)**	**$ (48,933)**	**$ 6,192**	**$ 83,975**	**$ 223,057**
Add Back:					
Depreciation and Amortization	266,561	309,539	309,539	309,539	309,539
Interest	262,573	392,225	392,225	390,050	385,338
Net Income Available for Debt Service	**$ 431,483**	**$ 652,831**	**$ 707,956**	**$ 783,564**	**$ 917,934**
Debt Service					
Principal	$ -	$ -	$ 30,000	$ 65,000	$ 70,000
Interest	262,573	392,225	392,225	390,050	385,338
Total Debt Service	**$ 262,573**	**$ 392,225**	**$ 422,225**	**$ 455,050**	**$ 455,338**
Debt Service Coverage Ratio	1.64	1.66	1.68	1.72	2.02

Fiscal Year Ending June 30	PROJECTED				
Assets	**2014**	**2015**	**2016**	**2017**	**2018**
Cash	438,035	656,415	905,171	1,207,186	1,618,159
Accounts Receivable	19,160	20,800	22,000	23,200	24,800
Total Current Assets	457,195	677,215	927,171	1,230,386	1,642,959
Deferred Bond Issuance Cost (net)	339,020	327,462	315,904	304,346	292,788
Repair and Replacement Fund	16,667	41,667	66,667	91,667	116,667
Cash held by trustee	455,788	455,788	455,788	455,788	455,788
Land	145,922	145,922	145,922	145,922	145,922
Building	5,447,830	5,447,830	5,447,830	5,447,830	5,447,830
Furniture, Vehicles and Equipment	576,231	576,231	576,231	576,231	576,231
Accumulated Depreciation	(1,587,633)	(1,885,614)	(2,183,595)	(2,481,576)	(2,779,557)
Total Property and Equipment	4,582,350	4,284,369	3,986,388	3,688,407	3,390,426
Total Assets	5,851,020	5,786,501	5,751,918	5,770,594	5,898,628
Accounts Payable	16,765	18,200	19,250	20,300	21,701
Notes Payable	5,062	5,349	5,653	5,972	6,310
Capital Leases Payable	53,931	36,623	32,625	30,957	4,196
Prop 301 Overpayment	8,132	8,133	-	-	-
Total Current Liabilities	83,890	68,304	57,528	57,229	32,206
Revenue Bonds	5,410,000	5,410,000	5,380,000	5,315,000	5,245,000
Total Liabilities	5,493,890	5,478,304	5,437,528	5,372,229	5,277,206
Beginning Unrestricted Fund Balance	397,611	299,960	251,027	257,220	341,195
Net increase (decrease) fund balance	(97,651)	(48,933)	6,192	83,975	223,057
Ending Unrestricted Fund Balance	299,960	251,027	257,220	341,195	564,252
Beg Classroom Site Fund Balance	57,170	57,170	57,170	57,170	57,170
Net increase (decrease) fund balance	-	-	-	-	-
End Classroom site fund balance	57,170	57,170	57,170	57,170	57,170
Total Liabilities and Fund Balances	5,851,020	5,786,502	5,751,918	5,770,594	5,898,628

Fiscal Year Ending June 30	PROJECTED				
	2014	**2015**	**2016**	**2017**	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES					
Changes in net assets	(97,651)	(48,933)	6,192	83,975	223,057
Adjustments to reconcile changes in net assets to cash provided/(used) by operating activities:					
Depreciation and amortization	266,561	309,539	309,539	309,539	309,539
(Increase)/Decrease in operating assets:					
Accounts receivable	(202)	(1,640)	(1,200)	(1,200)	(1,600)
Capitalized Loan Costs	(350,123)	-	-	-	-
Accumulated Amortization	(2,396)	11,558	11,558	11,558	11,558
Other operating assets	-	-	-	-	-
Increase/(Decrease) in operating liabilities					
Accounts payable and accrued expenses	(2,139)	1,435	1,050	1,050	1,400
Accrued payroll	(9,772)	-	-	-	-
Due to governmental agencies	(8,132)	(8,132)	-	-	-
Unearned revenue	(44,895)	-	-	-	-
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	(248,749)	263,827	327,139	404,922	543,954
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment	(1,904,089)	-	-	-	-
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	(1,904,089)	-	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from notes and loans payable	5,410,000	-	-	-	-
Repayments on notes and capital leases payable	(2,745,284)	(20,447)	(53,384)	(77,907)	(107,981)
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES	2,664,716	(20,447)	(53,384)	(77,907)	(107,981)
Net Changes in Cash	511,878	243,380	273,755	327,015	435,973
Cash at beginning of year	398,612	910,490	1,153,870	1,427,626	1,754,641
Cash at end of year	910,490	1,153,870	1,427,626	1,754,641	2,190,614
Net of Cash held by Trustee & Repair/Replacement Fund	438,035	656,415	905,171	1,207,186	1,618,159

Sustainability Indicator – Cash Flow (3-Year Cumulative)

Telesis Center for Learning, Inc. received a rating of “Does Not Meets” for the cash flow measurement because although the total cash flow amount was positive, the cash flow for fiscal year 2013 was a negative number. This negative number was caused by the use of some of the School’s reserves to cover the non-recurring items that caused the School to have net loss in fiscal year 2013. These non-recurring items are discussed in the first part of this document.

In the projections provided above, it is clear to see that the School has budgeted to increase reserves over the next several years allowing the school to meet this indicator in the future.