ACCELERATED LEARNING CHARTER SCHOOL
320 South Main Street
Cottonwood, AZ 86326

Financial Sustainability Narrative

INTRODUCTION:

We would like to address the financial sustainability issues for Accelerated Learning Charter School. Specifically, we would like to discuss our financial performance based on the fiscal year 2012 audit. The charter school met four out of the seven financial performance expectations. We will address the three areas where the school did not meet these financial performance expectations, (Net Income, Cash Flow, and Fixed Charges Coverage Ratio).

NET INCOME:

Accelerated Learning Charter School is located in a small rural community consisting of one public school district. The local district recently opened a new school to entice students back into the District. It is advertised as an International Baccalaureate school, and is located on a beautiful campus. 34 of our students (42%) transferred to this new option in town.

The opening of that district school is a non-recurring event, and the subsequent loss of enrollment was the only reason we sustained a net loss in 2012. Of the $41,469 net loss, $29,139 was depreciation expense.

Due to the drop in enrollment described above, we anticipated that we would experience temporary financial difficulty and reduced expenses as follows:

Restructured classes
Eliminated one teaching position
Charter School Director accepted a 27% salary reduction

We have submitted a renewal budget plan showing profit for 2013 and future years.

CASH FLOW:

The School showed positive cash flow for two of the last three years. The negative cash flow sustained in 2012 was due to the reduced enrollment explained above.

At this point the charter holder does have sufficient cash to operate and does not anticipate future cash flow deficiencies.

At the end of the 2012 school year the Board made the decision to eliminate the position of Principal to further reduce expenses. The Director is presently serving as Principal/Director and will continue in that capacity next year.

FIXED CHARGES COVERAGE RATIO:

The School has sufficient cash reserves to fund fixed charges for the foreseeable future (see Renewal Budget Plan). The school does not have buses and equipment that would need to be covered by the cash flow cushion. Since the school has sufficient facilities to accommodate projected growth in enrollment, there will be no need for additional financing. The school has met with financial experts to determine if refinancing the current loan on the building would reduce fixed charges.

SUMMATION:

We usually have a very healthy return rate; therefore, we fully anticipate an increase in enrollment that will result in increased revenue.

The school currently has on file preregistration forms of students who will be new to our school next school year.

Although we acknowledge the loss of revenue due to the loss of enrollment, we are a strong, healthy charter school and a wonderful choice for students.

Accelerated Learning Charter School,Inc.
Renewal Budget Plan
Projected Financial Information

	2012	2013	2014	2015	2016	2017
ADM:	57.00	57.00	62.00	67.00	67.00	69.00
REVENUE						
State Equalization Assistance	$ 354,903.00	$ 394,237.00	$ 412,157.00	$ 456,567.00	$ 463,215.00	$ 483,055.00
Classroom Site Fund	$ 17,659.00	$ 18,237.00	$ 18,500.00	$ 18,700.00	$ 18,900.00	$ 19,100.00
Instructional Improvement Fund	$ 2,830.00	$ 3,738.00	$ 3,700.00	$ 3,700.00	$ 3,700.00	$ 3,700.00
Federal Funds/Grants	$ 36,135.00	$ 30,417.00	$ 30,000.00	$ 25,000.00	$ 25,000.00	$ 25,000.00
Other State Funds/Grants	$ 3,478.00	$ 3,500.00	$ 3,500.00	$ 3,500.00	$ 3,500.00	$ 3,500.00
Extracurricular Tax Credits	$ 5,570.00	$ 3,150.00	$ 3,000.00	$ 3,000.00	$ 3,000.00	$ 3,000.00
Fundraising	0	$0	$0	$0	$0	$0
Cash Reserves/CD's	$ 17,048.00	$ 17,000.00	$ 40,788.00	$ 61,233.00	$ 76,804.00	$ 84,869.00
Other	$ 99,325.00	$ 90,000.00	$ 90,000.00	$ 90,000.00	$ 90,000.00	$ 90,000.00
TOTAL REVENUE	$ 536,948.00	$ 560,279.00	$ 601,645.00	$ 661,700.00	$ 684,119.00	$ 712,224.00
EXPENSES						
Instructional						
Salaries	$ 163,500.00	$ 160,000.00	$ 163,000.00	$ 197,000.00	$ 214,000.00	$ 234,000.00
Payroll Taxes	$ 12,716.00	$ 12,700.00	$ 13,080.00	$ 14,000.00	$ 15,000.00	$ 18,000.00
Employee Benefits	$ 16,819.00	$ 22,000.00	$ 23,000.00	$ 25,000.00	$ 26,000.00	$ 27,000.00
Purchased Services	$ 4,342.00	$ 3,100.00	$ 3,000.00	$ 3,000.00	$ 3,000.00	$ 3,000.00
Purchased Services (Special Education)	$ 15,417.00	$ 7,500.00	$ 7,500.00	$ 7,500.00	$ 7,500.00	$ 7,500.00
Technology	$ 2,623.00	$ 2,100.00	$ 2,100.00	$ 2,100.00	$ 2,100.00	$ 2,100.00
Textbooks/Curriculum/Library	$ 10,650.00	$ 10,000.00	$ 10,000.00	$ 10,000.00	$ 20,000.00	$ 15,000.00
Instructional Supplies	$ 23,853.00	$ 11,000.00	$ 11,500.00	$ 12,000.00	$ 20,000.00	$ 17,000.00
Professional Development	$ 1,774.00	$ 1,000.00	$ 1,000.00	$ 1,000.00	$ 3,000.00	$ 3,000.00
Other	$ 2,358.00	$ 1,000.00	$ 1,000.00	$ 1,000.00	$ 1,000.00	$ 1,000.00
Total Instructional	**$ 254,052.00**	**$ 230,400.00**	**$ 235,180.00**	**$ 272,600.00**	**$ 311,600.00**	**$ 327,600.00**
Non-Instructional						
Salaries	$ 150,857.00	$ 139,200.00	$ 153,676.00	$ 158,286.00	$ 163,035.00	$ 183,500.00
Payroll Taxes	$ 11,541.00	$ 10,648.00	$ 11,756.00	$ 12,110.00	$ 13,043.00	$ 15,000.00
Employee Benefits	$ 21,422.00	$ 15,593.00	$ 16,000.00	$ 16,000.00	$ 16,000.00	$ 17,000.00
Purchased Services	$ 35,217.00	$ 30,000.00	$ 30,000.00	$ 30,000.00	$ 30,000.00	$ 30,000.00
Repairs and Maintenance		$ 4,000.00	$ 4,500.00	$ 5,000.00	$ 5,000.00	$ 5,000.00
Property, Casualty, Liability Insurance	$ 6,576.00	$ 6,500.00	$ 6,700.00	$ 7,000.00	$ 7,200.00	$ 7,400.00
Interest/Property Taxes	$ 20,041.00	$ 20,000.00	$ 20,000.00	$ 20,000.00	$ 20,000.00	$ 20,000.00
Communications	$ 5,275.00	$ 4,900.00	$ 5,000.00	$ 5,000.00	$ 5,000.00	$ 5,000.00
Note/Loan/Non-Facility Lease Payments	$ 15,176.00	$ 15,500.00	$ 15,500.00	$ 15,500.00	$ 15,500.00	$ 15,500.00
Audit	$ 9,400.00	$ 9,400.00	$ 9,400.00	$ 9,400.00	$ 9,400.00	$ 9,400.00

Legal	$0	$0	$0	$0	$0	
Advertising/Marketing	$ 917.00	$ 1,000.00	$ 1,200.00	$ 1,200.00	$ 1,200.00	$ 1,200.00
Travel	$ 694.00	$ 800.00	$ 800.00	$ 900.00	$ 900.00	$ 950.00
Printing and Postage	$ 824.00	$ 900.00	$ 900.00	$ 1,000.00	$ 1,000.00	$ 1,000.00
Supplies	$ 18,245.00	$ 19,000.00	$ 18,000.00	$ 19,000.00	$ 20,000.00	$ 20,000.00
Food Service	$ 6,486.00	$ 6,850.00	$ 7,000.00	$ 7,000.00	$ 7,000.00	$ 7,000.00
Transportation		$0	$0	$0	$0	
Student Activities	$ 1,426.00	$ 1,500.00	$ 1,500.00	$ 1,500.00	$ 1,500.00	$ 1,500.00
Fees and Dues	$ 1,281.00	$ 1,300.00	$ 1,300.00	$ 1,400.00	$ 1,400.00	$ 1,500.00
Other	$ 1,939.00	$ 2,000.00	$ 2,000.00	$ 2,000.00	$ 2,000.00	$ 2,000.00
Total Non-Instructional	**$ 307,317.00**	**$ 289,091.00**	**$ 305,232.00**	**$ 312,296.00**	**$ 319,178.00**	**$ 342,950.00**
TOTAL EXPENSES	$ 561,369.00	$ 519,491.00	$ 540,412.00	$ 584,896.00	$ 630,778.00	$ 670,550.00
TOTAL REVENUES	$ 536,948.00	$ 560,279.00	$ 601,645.00	$ 661,700.00	$ 684,119.00	$ 712,224.00
Increase (Decrease) in Net Assets	$ (41,469.00)	$ 40,788.00	$ 61,233.00	$ 76,804.00	$ 53,341.00	$ 41,674.00
Net Assets, Beginning of Year	$ 221,370.00					
Net Assets, End of Year	$ 179,901.00					

ASSUMPTIONS/NOTES

Net Assets actual for year 2012 includes $ 29,139 in depreciation

2013 ADM-Actual 100th day count

ACCELERATED LEARNING CHARTER SCHOOL
320 South Main Street
Cottonwood, AZ 86326

Budget Narrative

INTRODUCTION:

Accelerated Learning Charter School is K-8 Elementary School located in Cottonwood, Arizona. Accelerated Learning operates as a 501 C3 non-profit corporation. The school is philosophically organized as a Montessori school in the lower elementary, transitioning to a traditional school in the upper elementary and middle school. The school is dedicated to providing individualized instruction of the core curriculum. This is accomplished through weekly, focused observations and assessments of every student prior to the presentation of lessons. Core lessons are then presented to students based on academic need and specific learning styles. Accelerated Learning has high expectations for all students; emphasizes strong behavioral standards; and includes the development of positive social behaviors, personal responsibility and accountability; and development of independent decision-making among all students. Community service is a required aspect for enrolled students, as we believe it is an important part of citizenship.

ADM:

The pro-forma budget projections are organized around maintenance of a core enrollment of 63 students in the educational program and 20 students in the Arizona licensed preschool program. We expect to add additional students but would rather be conservative with our estimates. We have illustrated a projected budget based on a range between 57 and 69 students for the K-8 program and between 18 and 30 students in the preschool program.

REVENUE:

The primary source of revenue for the operation of our academic program is Arizona State Equalization Assistance. On any given year between 66% and 75% of the budget of revenues are allocated through the ADE Equalization Program. Historically, Arizona has had periods where equalization funds were reduced by virtue of legislative action during times of economic decline. The uncertainty of what may occur during the period included in the pro-forma budget proposed has caused us to take a very conservative approach to our budget projections for that section of income.

The next largest portion of our revenue is generated by fees collected in the operation of the day care and pre-school programs. In a typical year we will receive between 14% and 18% of the operational funding from those programs.

As a non-profit corporation, ALCS is eligible to participate in Federal entitlement programs administered through the Arizona Department of Education. The school operates a Title I LEA Program, Title II Teacher Quality Program, and IDEA Part B program under the auspices of the ADE. Between 4% and 7% of the total projection of revenues is authorized under those programs for supplementary services to students with qualifying learning handicaps. Again, given the high susceptibility of Federal funds to the political winds in Washington, we have taken care to underestimate projected revenues as a safety precaution. A very small amount of additional funding is also received from special grants and programs through other grant programs such as ELL, summer programs, and special needs programs.

ALCS receives Classroom Site and Instructional Improvement Funds annually based on the ADM and allocation levels established by the ADE. Classroom Site funds are allocated for base salary improvement, compensation improvement, and merit compensation in accordance with the approved guidelines. Instructional Improvement funds are allocated equally for professional development and staffing. We anticipate receiving a total of between $18,000 and $20,000 in Site funds in each of the years included in the pro-forma budget.

Three percent of the current expense budget has been maintained in a cash reserve in the event of unforeseen emergency expense. We have been fortunate to maintain this reserve for the last several years and anticipate adding to it over the next several years. Any additional revenues received over and above those required by the expense budget will continue to be "rolled over" into the cash reserve with an objective of increasing it to 10% of the budget of expense.

Less than $6,000 annually of ALCS revenues are derived from Arizona Tax Credit Funds. In the rural communities of Arizona competition for the available Tax Credit donations is intense and larger schools have a distinct advantage simply from a numbers perspective. Rural populations also appear to be affluent in terms of income levels benefiting from the Tax Credit donation. Consequently, we do not rely on this source as a significant revenue generator.

TOTAL REVENUE:

The total revenue available to ALCS recently went through a significant decline. The largest impact was the result of a new International Baccalaureate school operated by the local School District in Cottonwood. A few families re-located for employment or to share residence with family members. Pre-school declined as it is dependent upon discretionary family income. The net effect was a substantial loss of revenue due to a decline in ADM. Our school made appropriate reductions in spending to ensure the short term solvency of our fiscal operations and implementation of an austerity plan to ensure stability going forward.

EXPENSES:

Instructional Salaries – All Regular, Special, and Federal Education salaries related to instructional operations are budgeted here. It should be noted that our special education services are provided by fully certified subcontractors and contained in that section. During the past two years the staff size has been trimmed and re-organized to accommodate the financial exigency faced during the decline in funding driven by ADM tied to legislative reductions.

Payroll Taxes: All mandated taxes associated with the instructional salaries are budgeted here. Our payroll taxes are paid electronically at the conclusion of each payroll period.

Employee Benefits: All supplementary benefit programs are included here, including: Health Insurance, Workmen's Compensation, Unemployment, IRA and 403B programs, and matching funds. All benefit payments are scheduled for submission by pay period, monthly, or quarterly as dictated by the contractual arrangements with vendors and/or government entities.

Purchased Services: Our instructional purchased services includes technology support, printing and copier charges, professional development, and similar support provided by appropriately certified or licensed personnel paid as vendors on a weekly or monthly basis. The majority of the providers are paid on a flat fee basis for the service provided. We do not anticipate any significant increase in the requirements for such services or in the flat fee rates in the near future.

Purchased Services [Special Education]: This section includes those services for speech therapy, resource personnel, psychological services, and other related services that can be more effectively supplied utilizing licensed subcontractors than by employing specialized staff. Several high need ALCS students have since completed their education at our school and have moved on to the next level at other schools within the area. Consequently, we have been able to reduce the amount of service within MOE requirements in the foreseeable future.

Technology: This section includes our budget expectations for high speed internet and networking expense for instruction related services. Both of these services have been streamlined in the past two years. We have firm contractual relationships that encompass the time frame of the pro-forma budget.

Textbooks/Curriculum/Library: This section includes textbooks, curriculum materials, and library materials for the Regular Education, Special Education, Federal Programs, and Extended School Program. We have anticipated the increasing requirements for Common Core materials and have budgeted accordingly. As previously indicated, we have the latitude to move any excess funds to other areas of the budget as appropriate through the approved amendment of budget process.

Instructional Supplies: This section includes funds spent on general supply items acquired across the instructional programs in Regular, Special, Federal, and Extended Education programs. The amount allocated is based on historical data indicating that a slight decrease initially is appropriate based on present day requirements and inventory. We have the flexibility to re-allocate any excess funds as previously illustrated.

Professional Development: This section contains our projected expense for professional development, including Title II resources. Our rural location makes travel to Phoenix and registrations for ADE mandated trainings the priority use of available funding. We are fortunate to have resource personnel within the immediate area who provide services reasonably due a limited travel requirement.

Other Expense: This section provides for dues, fees, awards, contests, and other minor expenses associated with the instructional program. The amount is minimal, but has historically been adequate.

Summation: Generally, our total expenditure budget for instruction is relatively flat. The only growth projected is in areas that are necessary to retain quality staff, meet mandated requirements, and mirror increases in revenue tied to the relationship between ADM and the Equalization formula. In the event reductions in our primary revenue sources by legislative or regulatory actions, we will be required to make corresponding reductions across the instructional budget. However, if existing funding formula legislation is maintained, our revenue stream appears to be adequate to support existing and anticipated instructional expenditures.

Expenses – Non Instructional

The following expenses encompass all other operational functions of the Accelerated Learning Charter School. Those expenditures are categorized and addressed by general function. Our working budget for planning and decision-making is inherently more detailed so that we can track individual functions within specific categories.

Salaries: This section includes the salaries of all administrative, clerical/secretarial, maintenance, and operations staff. Each of those individuals performs several specific work assignments that may split across several subcategories within the working budget. This section brings them all together within one line item. This section of the budget has undergone significant reductions in the face of the recent economic downturn.

Payroll Taxes: All mandated taxes associated with the non-instructional salaries are budgeted here. Our payroll taxes are paid electronically at the conclusion of each payroll period.

Employee Benefits: All supplementary benefit programs are included here, including: Health Insurance, Workmen's Compensation, Unemployment, IRA and 403B programs, and matching funds. All benefit payments are scheduled for submission by pay period,

monthly, or quarterly as dictated by the contractual arrangements with vendors and/or government entities.

Purchased Services: This section includes all non-instructional contracted services with the exception of audits. The audit is listed on a separate line item as it is reported separately in several ADE financial documents. Included are grant writers, financial services, custodial services, repair/maintenance services, contracted food services, and professional/technical services. The majority of the contractual rates are "flat rates" which provide ALCS with the knowledge that the allocations will continue to provide the required services within the expected life of the pro-forma budget.

Repairs and Maintenance: We have anticipated and set aside funds for the repair, maintenance, and replacement of instructional equipment and furniture. While the funds are set aside in this section, the expenditure of such funds will be coded to specific sub-categories within our working budget to assist us in tracking and refining specific types of expenditures.

Property/Casualty/Liability Insurance: This section includes the costs of all insurance policies – property, casualty, liability, for employees, directors, building, and contents. Our historical data indicates no extraordinary increases in premium amounts in recent years and we have no reason to expect any dramatic increase in the foreseeable future.

Interest/Property Taxes: ALCS has a long-term, fixed rate purchase agreement for the loan to fully acquire ownership in the school building and grounds. The monthly payment is in equal installments, with the only variance being the amount of the split distribution going to principal and interest. ALCS has filed the appropriate exemption papers for property taxes for a non-profit and pays a limited amount in annual property taxes. There is no expectation that there will be any significant changes during the life of the pro-forma budget.

Communications: This section contains the projected expenses for all telephone, postage, brochures, and advertising for ALCS. The school administrative staff has full authority to regulate all expenses for postage, brochures, and advertising. Telephone expense is based upon historical usage over time and subscription to bundled service costs provided at the lowest possible rates. The annual budget projection appears to be prudent and reasonable.

Note/Loan/Facility Lease Payments: This section represents the offsetting amount contained in the purchase agreement for the school building and grounds referred to in the section above **Interest/Property Taxes**. The combination of the two amounts are wholly adequate to cover principal, interest, and property taxes. Over the length of the loan, the payment remains stable, while the amounts split for principal and interest will change. At the present time 43% of the payment is applied to principal. In time, that percentage will equalize and eventually exceed the amount going to interest.

Audit: The audit is a flat rate charge that is historically accurate. ALCS has built a small increase into the pro-forma budget and has every expectation that the budgeted amount is

wholly adequate. The Audit fees are fully reimbursed one year in arrears through the Arizona Equalization Formula.

Advertising/Marketing: This section includes all expenses for legal publications, employment advertising, website maintenance, and direct marketing. ALCS is an established community school with a significant degree of name recognition within the community of Cottonwood and surrounding area from which students would be drawn. The amount allocated appears to be prudent to cover the related costs based on historical data. The administrative staff has the ability to adjust the budgeted amount within the approved budget amendment process.

Travel: The amount allocated for travel is sufficient for necessary travel for staff development activities and limited travel for supply, maintenance, and repair items that are not available within the immediate area of Cottonwood.

Printing and Postage: This section contains an annual allocation for printing and postage services necessary in the administrative, business, and operations area. The allocation of $1,000 or less each year is based on prior year expenditures over time and appears to be adequate. Consideration has been given to the increase in postage rates, elimination of Saturday pickup and delivery services, and flat rate charges passed on by subcontractor reimbursements. We see no apparent reason for any significant increases to present-day allocations.

Supplies: This section contains all projected expenses for utilities, custodial supplies, check stock, office supplies, ordinary repair/maintenance supplies, paper products and general supplies utilized in the non-instructional program. The individual annual allocations are based upon prior historical data, inventory of consumables on hand, and immediate requirements for stocking items. Our historical record of expense data indicates our allocations are sufficient over the life of the pro-forma budget.

Food Service: ALCS does not operate a reimbursable lunch program. The budgeted allocation is provided for the acquisition of vendor prepared items for lunch and snacks that are sold on a cash basis to students in lieu of bringing a daily sack lunch. The proceeds from sales are put back into an appropriate income category to be utilized again. Historically, the food service program has made a slight operational profit each year.

Student Activities: The budget for student activities is limited to a small selection of activities that are not covered through the instructional program, AZ Tax Credit funds, or other "revolving" funds. Typically, the funds allocated in this section are utilized for field trip admissions and travel in excess of appropriately allocated AZ Tax credit funds, art, music, and PE programs, participation in Spelling and other academic contests; field trips; assemblies; holiday programs; and other non-instructional programs that students participate in without a fee levied.

Other Expense: This sections includes miscellaneous expenses that are not budgeted as a line item or regularly available as part of any particular program. Bank charges, NSF check charges, portions of depreciation, and other non-delineated line item expenses are assigned to this section. The amount allocated has a historical basis for being adequate on an annual basis.

Summary: ALCS has been able to maintain a cash reserve to be carried forward over the history of time. It appears reasonable to assume that ALCS will be able to maintain that balance over the life of the pro-forma budget and make significant progress towards the objective of increasing that balance. The conservative approach to budgeting and management processes has established a solid basis for the assumption that ALCS has the sustainability to operations into the future. The Board, administrative staff, instructional staff, and parent group have made a commitment to ensuring continued sustainability for a small school delivering a necessary alternative commodity for residents of the rural community of Cottonwood.