1b. Unrestricted Days Cash

Stability at our new location and enrollment at near capacity are key factors in our financial plan for establishing and maintaining a cash reserve to ensure the economic success of our school. Our projected budget is designed to support our academic programs, pay debt incurred in the transition years and build a carryover that ensures resources to accommodate fluctuations in government funding. Our unrestricted days cash as a near term indicator has improved significantly now that we are settled in our new campus (see chart 1). This improvement and the sustainability indicator, Fixed Charge Coverage Ratio where we MEET, demonstrates that the school is progressing in the long term with positive changes in net assets. Over 50% of our accounts payable reported in our FY2012 current liabilities are to one vendor and described in detail in the Total Liabilities to Equity Ratio section. This debt was incurred by circumstances beyond our control relative to the bond market.

The urgency to expand and relocate our campus was accelerated by the fact that our 12-year lease at our original campus was not going to be renewed. We created a business plan including demographic studies, an identifiable focus with business and community partners and a strategic marketing plan. In collaboration with a developer specializing in building schools we identified a new school site that was located in an area with favorable demographics ie: ‘kids in cul-sacs’ and ‘urban pioneers’ (Neilson Study). This area in South Phoenix also has multiple low preforming schools, students with severe academic and behavioral needs and demoralizing socio-economic challenges. In this neighborhood there is a high percent of parents in jail and grandparents raising grandchildren. Many families have been living in poverty for generations and many are disenfranchised.

We began the process to raise bond financing, meeting with City of Phoenix officials at the Industrial Development Authority (IDA) to present our plan and gained subsequent support and approval by City Council for our project. The need for school choice in underserved, low-performing neighborhoods was clearly a priority for Councilman and Community advocates.

The project was 'shovel-ready' to build a new campus near Central Ave and Baseline Road. The developer purchased the property. The bond financing however, was at a standstill due to the significant downturn in the economy. We had pre-enrolled 450 students based on the promise of a school on the empty lot. Unfortunately, we were not able to accommodate these families, in our original campus. We rented classrooms from the YMCA for two years as we persevered in the process of financing. Supporting the two campuses and the transportation between them stretched our budget fully.

In March of 2011, we received an offer for financing, not through the bond process, but through Entertainment Properties, a publicly-traded Real Estate Investment Trust (REIT). As part of the financing, we were provided with 'lease incentives' for furnishing, fixtures and equipment. Other start up expenses needed to be covered by our regular M&O school budget i.e.: instructional materials, books for classroom libraries, text and workbooks, playground/field and security system. This year we have added 16 Smart Boards and 80 additional classroom computers.

Our first school day at our new campus was August 15, 2011. We had actually moved in over the weekend, with teachers passing student desks and chairs through the halls and up the stairwells, like an old fashioned fire brigade. On the first day of school, the line of students and parents stretched around the block for the first look at our much anticipated school building. We

exceeded our projections for enrollment for 1st and 2nd year and met the 3rd year with 540 students or 486 ADM (see chart 2). The school opened with four Kindergarten classes, three First Grade, two each of Second, Third Fourth, Fifth and Sixth with one each of Seventh and Eighth. With this 'pyramid', we immediately realized that we would not be able to accommodate the demand in future years without curbing our growth. This year we have three Kindergarten and First Grade classrooms with two each through Seventh Grade and one Eighth Grade class. Next year, we will stabilize with two classrooms at each grade, and an ELL classroom. We use our 20th classroom for Special Education Services.

During our transition, our investor loaned the school money to operate during the first two months of SY 2011-12 while our state equalization was delayed because of the tight timeframe we had for building and receiving our Certificate of Occupancy (August 13, 2011). This loan was repaid in full. We also have a Line of Credit (LOC) with Wells Fargo Bank and business credit at First Fidelity Bank. Currently, we are working with Charter Schools Capital Solutions to establish a revolving bridge loan to cover inevitable fluctuations in state and federal funding. These sources of liquidity and our relationships with vendors have enabled us to meet the challenges of unrestricted cash. Careful planning with continued debt reduction in conjunction with a stabilized enrollment will enable the school to accrue sufficient carryover to build our goal of 10% reserves based on our revenue eliminating the need for borrowing to meet obligations.

The majority of our current liabilities are secured by assets (i.e., School Bus, two GMAC vans, two copiers, and computers) totaling $137,780. These assets are financed and will be owned by the school at the end the payment period. Other reported liabilities are related to our lease incentive and accrued lease expense totaling $492,654. These liabilities are reported in our

audit but will be amortized and paid as part of our lease. Of our total liabilities reported, $627,434. or 67% are backed by assets. The projections reflected in our Operational Budget demonstrate that we are on track to meet our goal of 10% of our revenue in reserve based on our current data (see chart 3).

Our non-profit Corporate Board includes two financial consultants, a marketing strategist and the school principal, maintaining a focus on the economic development of the school. Both consultants provide on-going oversight of school revenues and expenses. At the school level we have a Leadership Team made up of the School Principal, Academic and Athletic Directors and three teachers. The teachers represent specific grade bands. This is designed to give all teachers a representative and a process to share ideas and voice concerns. This Leadership Team maintains a focus of the daily operations, planning and implementing all aspects of our comprehensive plan for measuring the effectiveness of our curriculum to enhance student growth. These two management teams work together facilitated by the school principal to discuss, analyze and monitor all aspects of our operations to grow our school successfully in this new location and demographic.

A third group of stakeholders are the students and their families who are delighted to have an attractive school choice opening in a area with widespread low-performing schools where their children do not feel safe. Frequently families report that they did not have positive relationships with the teachers and administrators at those schools. It is a very important aspect of our operations to make sure that parents are invited to participate in multiple events including monthly Parent Nights, Mandatory Parent/Teacher/ Student Conferences twice per year and celebrating Honor Roll awards each term.

Providing an adequate facility, rich in resources for students is an important aspect of our plan. We are currently leasing our campus, with an option to purchase in a few years. It was built specifically for us with a 20-classroom building, and smaller gymnasium, administration and food service building. We are utilizing all of the space, operating very close to maximum enrollment. Given these two factors, plans for longevity and demand for enrollment, we expect to continue to improve our financial position.

Data: 1b. Unrestricted Days Cash

Chart 1

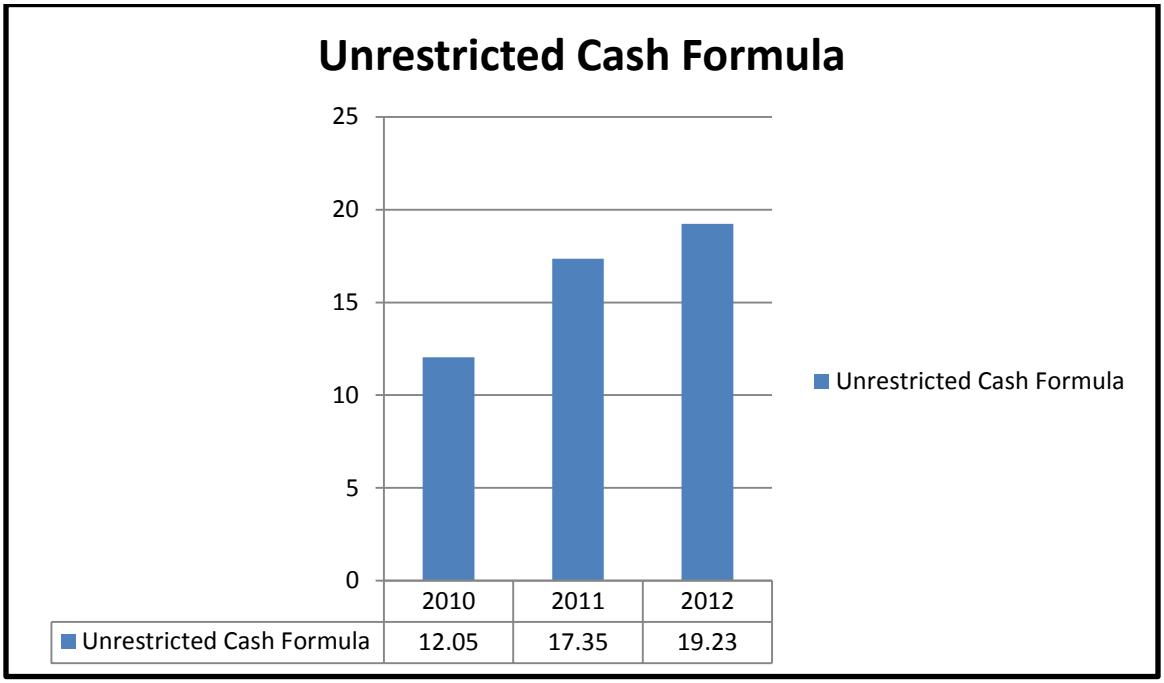
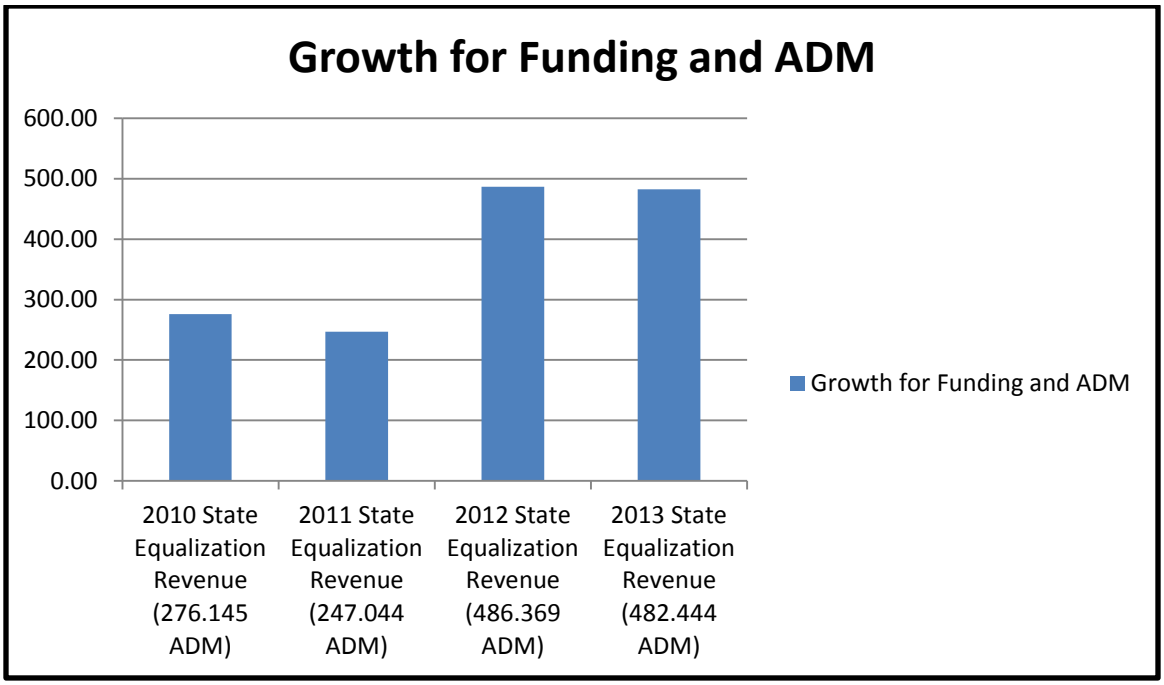


Chart 2



2a. Total Liabilities to Equity Ratio

Our long term plan to achieve complete financial sustainability is supported by our increased capacity and enrollment at our new location. Serving a larger high need student body has resulted in an increase in salaries and facilities expenses as our data shows. However, the percentage of the expenses in the Major Categories remains within a reasonable overall plan to support improvement in our financial sustainability (see chart 1). Salaries and Benefits are approximately 40% of our total revenue and facility costs are approximately 20% of our total revenue. We are currently in a position to balance our budget, pay our debts, increase our income and enable us to build the equity required to lower our Total Liabilities to Equity Ratio (TLER). This strategy is supported by our MEET in the Cash Flow measurement that demonstrates that our three-year cumulative cash flow has been positive.

The school has enough income and cash flow necessary to cover fixed obligations such as lease payments, fixed expenses and outstanding interest and loans. Our unrestricted cash flow is accruing and trending up, and we MEET in the Fixed Charge Coverage Ratio, an indicator of long term sustainability. A reduction in new expenses, re-payment of debt with our sufficiently stabilized and increased income will result in building reserves increasing our equity to lower our ratio in future periods.

We do not have any more ‘start up’ expenses now that the new campus is complete. We have paid all of the debt related to opening the new campus (i.e., playground, security system, furniture, technology, textbooks, tables and awning for lunch area). All of the minor debt accumulated in FY2009 and FY2010 with the higher expense of maintaining two campuses has been re-paid.

Our total liabilities are reported as $923,377 with the majority, $627,434 backed by assets. This includes $255,039 reported as a lease incentive which covered furniture, fixtures and equipment and will be paid as part of our lease. We entered into the lease for the school campus through the fiscal year ending June 30, 2031. Part of the lease agreement granted the school an allowance paid by the lessor for furnishings. Our auditor recorded the allowance as a lease incentive and is amortizing it straight-line over the term of the lease. For the fiscal year ended June 30, 2012, rental expense was $752,967, with a net of $13,423 in annual lease incentive amortization.

Another large amount in total liabilities reported was an accrued lease expense of $237,615. This is the cumulative difference of cash paid related to the school campus lease and rent expense reported as required by general accepted accounting principles (GAAP).This portion of our total liabilities can be described as 'deferred rent' as the lease escalates at 2% per year. Our goal is to re-finance through traditional bank or bond financing in 3-4 years to lower our payments and provide ownership of the school campus to Fit Kids, Inc. the non-profit charter holder.

Long term debt reported in our total liabilities includes our School Bus ($98,974 financed over 60 months) and two GMAC vans purchased in FY2010 ($36,591 remaining with a term date of November 2014). The School Bus is newly financed in FY2012 and has not depreciated significantly. These purchases are essential components of our school operations, and are expenses backed by assets and both covered in our Fixed Charge Ratio.

In addition to the aforementioned, 58% of our accounts payable reported as part of our net assets is a debt to a law firm. In March 2010, we engaged a law firm to raise bond financing

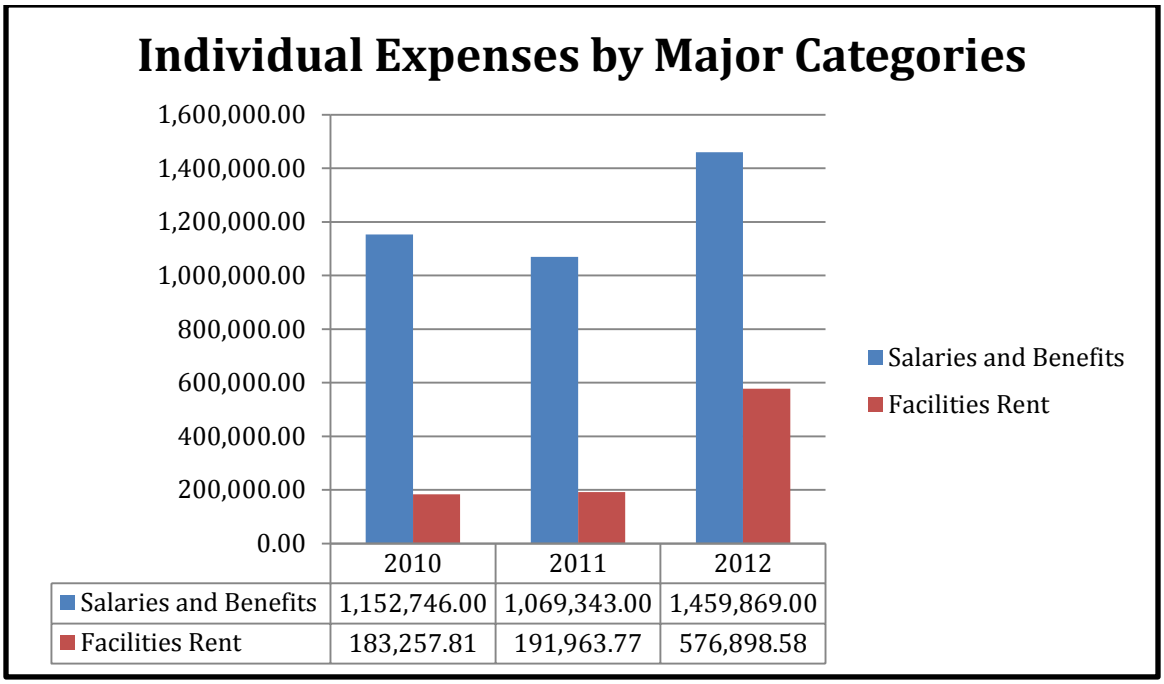
for our project. Unfortunately, over the next 12 months, they were unsuccessful. Through bond financing, these legal expenses would have been paid in the transaction and repayment included in the lease. Per the failure to raise bond financing, the school was obligated to pay all related expenses out of the Maintenance and Operations (M&O) as part of our normal budget. This included other expenses related to the bond financing that became our obligation i.e.: appraisals, survey and soil testing and the legal fees of the City of Phoenix Industrial Development Authority (IDA). These Bond related expenses have been paid in full. As to the law firm representing the school, we negotiated a significant reduction in the legal fees originally charged to the school. These legal expenses were the main reason we reported a loss in FY2011, as they were originally booked as an accounts payable. These legal fees were very high ($185,000). The entire amount was booked because the settlement agreement had not been reached. In FY2012, after the settlement was reached, our accounts payable was reduced to $120,000 and reported as a subsequent event on our audit. If we had been able to reach a settlement in FY2011, our liabilities would have been reduced significantly and we would have been able to make payments during the year that would have improved our net assets for FY2012. Since November 2012, we have paid $40K toward this obligation.

Our total expenses have increased from FY2010 to FY2012 with our growth in students, staff and new facility (see chart 2). Our allocation for FRL students through Title I has increased from $78,578.00 (Cycle 0) to $201,104.00 (Cycle 2). We have used this funding to hire Reading and Math specialists, provide Saturday School, offer remediation through Reading Rocks and Math Counts programs and additional professional development. The school has received grants from NIKE, Athletes Performance and Phoenix Thunderbirds for our “I’m Going to College Program”. We also host an annual Scholastic Books Fair to earn ‘points’ for classroom books.

Traditional, grassroots fundraisers are part of our strategy to keep parents and students involved while supporting extra-curricular programs i.e.: car washes, sports bottles, bake sales, candles and Dress Down Days are sponsored throughout the year. All of these factors combined give us the momentum to provide a full educational experience to students and meet our financial goal of becoming debt free and building a 10% cash reserve based on our total revenue.

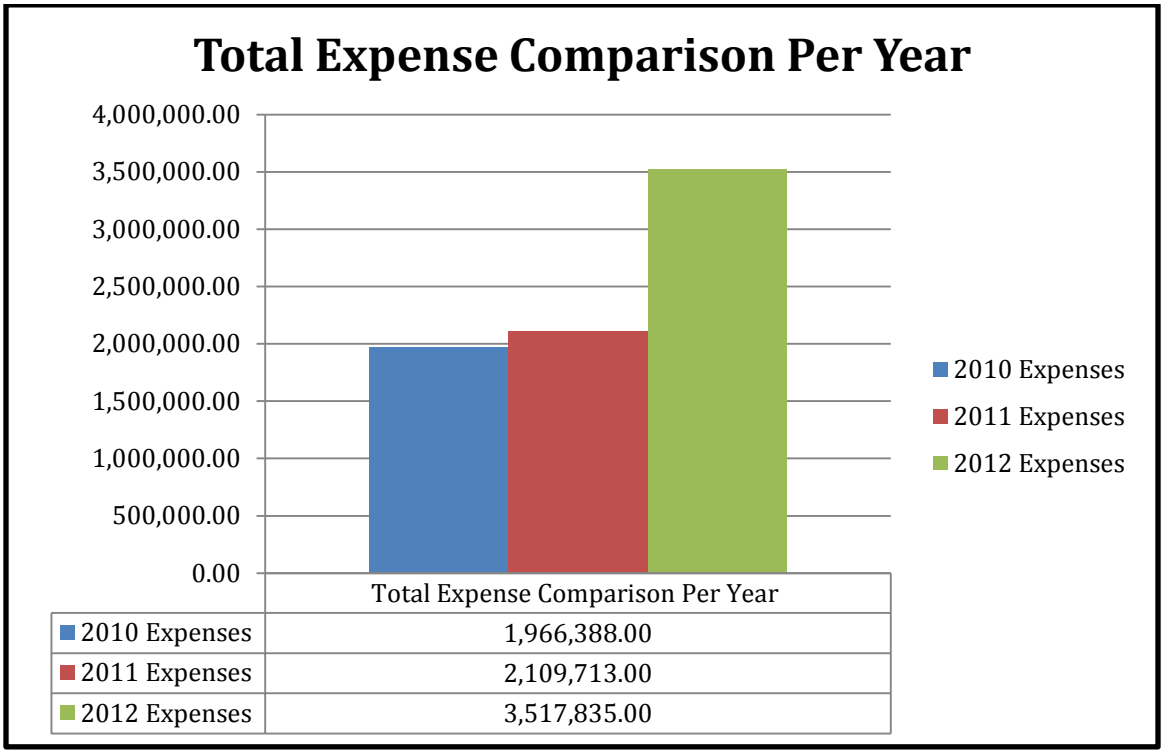
Data: 2a. Total Liabilities to Equity Ratio

Chart 1



	2010	2011	2012
Salaries and Benefits	1,152,746.00	1,069,343.00	1,459,869.00
Facilities Rent	183,257.81	191,963.77	576,898.58

Chart 2



	Total Expense Comparison Per Year
2010 Expenses	1,966,388.00
2011 Expenses	2,109,713.00
2012 Expenses	3,517,835.00

Fit Kids, Inc Projections

	2012-2013			2013-2014			2014-2015			2015-2016		
STUDENT COUNT (ADM)			**500**			**550**			**600**			**650**
Number of Students (Budget based on)			**480**			**530**			**580**			**630**
CARRYOVER												
REVENUE			**$ Amount**			**$ Amount**			**$ Amount**			**$ Amount**
State Funding (Equalization Assistance)			$2,863,200			$3,161,450			$3,459,700			$3,874,500
Classroom Site Fund			$100,790			$117,936			$136,620			$144,750
Instructional Improvement Fund			$19,000			$21,000			$23,000			$25,000
Food Service			$35,000			$40,000			$45,000			$50,000
Federal Grants			$40,000			$45,000			$50,000			$55,000
After Care			$55,000			$60,000			$65,000			$70,000
Preschool			$140,000			$140,000			$140,000			$140,000
Misc. Revenue			$55,000			$60,000			$65,000			$70,000
Total Revenue			$3,307,990			$3,645,386			$3,984,320			$4,429,250
EXPENDITURES	**# of Staff**	**@ Salary**	**Total**	**# of Staff**	**@ Salary**	**Total**	**# of Staff**	**@ Salary**	**Total**	**# of Staff**	**@ Salary**	**Total**
1. Administration, Instruction, & Support:												
Salaries												
Director/Principal	1.00	$96,000	$96,000	1.00	$97,000	$97,000	1.00	$99,000	$99,000	1.00	$101,000	$101,000
Asst. Director	1.00	$61,000	$61,000	1.00	$62,000	$62,000	1.00	$64,000	$64,000	1.00	$66,000	$66,000
Business Manager			$	1.00	$50,000	$50,000	1.00	$52,000	$52,000	1.00	$54,000	$54,000
Teacher-Regular Education	25.00	$40,000	$1,000,000	27.00	$41,000	$1,107,000	29.00	$43,000	$1,247,000	31.00	$45,000	$1,395,000
Teacher-Special Education	1.00	$42,000	$42,000	1.00	$43,000	$43,000	2.00	$45,000	$90,000	2.00	$47,000	$94,000
Instructional Assistants	5.00	$27,000	$135,000	6.00	$28,000	$168,000	8.00	$30,000	$240,000	8.00	$32,000	$256,000
Summer School	6.00	$5,250	$31,500	8.00	$5,500	$44,000	9.00	$5,750	$51,750	10.00	$6,000	$60,000
Preschool	5.00	$25,000	$125,000	5.00	$25,000	$125,000	5.00	$25,000	$25,000	5.00	$25,000	$125,000
Office Staff	3.00	$35,000	$105,000	3.00	$36,000	$108,000	3.00	$38,000	$114,000	3.00	$40,000	$120,000
Bus Driver/Maintenance	2.00	$33,000	$66,000	2.00	$34,000	$68,000	2.00	$36,000	$72,000	2.00	$38,000	$76,000
Employee Benefits			$332,300			$374,400			$410,950			$469,400
Office Supplies (Paper, Postage, etc.)			$9,000			$10,000			$11,000			$12,000
Instructional Supplies			$75,000			$78,000			$81,000			$84,000
Membership Dues, Registrations, & Travel			$6,000			$7,000			$8,000			$9,000
Purchased Services (Contracted Services, Accounting Services, Legal, Consultants, etc.)			$28,000			$31,000			$34,000			$37,000
Purchased Services (Special Education)			$55,000			$60,000			$65,000			$70,000
Curriculum & Resource Materials			$17,000			$19,000			$21,000			$23,000
Library Resources/Software			$7,000			$9,000			$11,000			$13,000
SAIS Software			$5,000			$7,000			$9,000			$11,000
Auditor Fees			$19,000			$20,000			$21,000			$22,000
Miscellaneous			$6,000			$7,000			$8,000			$9,000
Total Administration, Instruction, & Support			$2,220,800			$2,494,400			$2,734,700			$3,106,400

Operational Budget

EXPENDITURES			**Total**			**Total**			**Total**			**Total**
2. Operations & Maintenance:												
Building Lease			$671,381			$684,809			$698,505			$712,475
Supplies			$9,000			$11,000			$13,000			$15,000
Marketing/Advertising			$15,000			$15,000			$15,000			$15,000
Purchased Services (Contracted Services, Custodial/Maintenance)			$50,000			$52,000			$54,000			$56,000
Property/Casualty Insurance			$16,000			$17,000			$18,000			$19,000
Liability Insurance			$10,000			$12,000			$14,000			$16,000
Utilities (Electric, Gas, Water, Waste)			$76,000			$80,000			$84,000			$88,000
Phone/Communications/Internet Connectivity			$17,000			$18,000			$19,000			$20,000
Transportation			$38,000			$41,000			$44,000			$47,000
Food Service			$35,000			$40,000			$45,000			$50,000
Student Furniture & Other Equipment			$10,000			$12,000			$14,000			$14,000
Office Furniture & Other Equipment			$2,000			$2,000			$2,000			$2,000
Student Technology Equipment			$10,000			$12,000			$14,000			$14,000
Office Technology Equipment			$5,000			$5,000			$5,000			$5,000
Other Leases/Loans (Security, Copiers, etc.)			$14,000			$16,000			$18,000			$20,000
Miscellaneous			$6,000			$7,000			$8,000			$9,000
Total Operations & Maintenance			$984,381			$1,024,809			$1,065,505			$1,102,475
Total Expenditures			$3,205,181			$3,519,209			$3,800,205			$4,208,875
Total Revenues			$3,307,990			$3,645,386			$3,984,320			$4,429,250
			$3,307,990			$3,645,386			$3,984,320			$4,429,250
Budget Balance (Revenues-Expenditures)			$102,809			$126,177			$184,115			$220,375