Financial Performance Response Evaluation Instrument

Charter Holder Name: Omega Schools, Inc.
Charter Holder Entity ID: 4295
Date Submitted: November 12, 2013

Required for: Failing School Designation
Audit Year: 2012
Evaluation Completed: November 18, 2013

Arizona State Board for Charter Schools (Board) staff completed the Financial Performance Submission Evaluation Instrument to be used by the Board in its consideration of applicable requests made by the charter holder. "Not Acceptable" answers may adversely affect the Board's decision regarding a charter holder's request.

Measure	Acceptable	Not Acceptable	Not Applicable	Comments
1a. Going Concern			X	
1b. Unrestricted Days Cash		X		The financial performance response addresses efforts underway to reduce debt, including the charter holder selling the facility and leasing it back and "agreements in place with all of our past and current vendors that will take the amounts down to manageable monthly payments". • In support of efforts related to the facility, the charter holder provided a letter of intent, which was executed in August 2013 and would expire if the transaction doesn't close by November 15, 2013. In its response, the charter holder states, "We originally had hoped to close by the end of November, but it looks as if it may be January instead." The charter holder's response does not include evidence supporting that the later date is agreeable to the other party in the transaction. • The response does not include any support for the statements made regarding agreements with past and current vendors. While the budget projections include line items for debt reduction, it is not clear what the amounts were previously and how the new agreements either reduce the amounts owed or provide more favorable repayment terms. Additionally, the fiscal year 2012 audit, which is the most current audit available, references a note payable that was established by the U.S. Bankruptcy Court under the terms of the reorganization. The original amount of the note was set at $2.5 million and calls for annual payments of $198,000. It is not readily clear whether this note is addressed by the charter holder's response and budgets.

Measure	Acceptable	Not Acceptable	Not Applicable	Comments
				The financial performance response states, "Attachment (B) will show a month to month documentation of how funding will occur for the rest of this fiscal year. As you can see by February we should be close to a 30 day liquidity rate." The attachment provides monthly information for July through February and not the full year. While the attachment shows positive net income during this period and the response mentions efforts to reduce debt and cut expenses, sufficient information was not provided to determine whether the charter holder will be close to 30 days liquidity by February. Please note in reviewing the month-to-month document, it appears that the amounts included for state funding reflect the amounts received by the charter holder after the trustee intercepts the funds for the bond payments. Further, according to ADE reports, the charter holder's fiscal year 2014 40th day ADM as of November 13, 2013 is 179.801, which is less than the 204 referenced in the budgets. The financial performance response mentions a bond default, but it is unclear what this is referring to. Further, the response states the charter holder has not drawn down any title funds or IDEA funds this year (fiscal year 2014). ADE's website indicates that a programmatic hold was placed on the charter holder's fiscal year 2013 IDEA funds.
1c. Default			X	
2a. Net Income			X	
2b. Cash Flow		X		The financial performance response states, "Omega did not meet the criteria for positive cash flow over the past three years. Omega did however end Fiscal year 2013 with a positive $29,000." The charter holder did not provide any support for that statement. The charter holder's fiscal year 2013 audit was due by November 15th. Since the audit has not yet been received, Board staff is unable to verify the accuracy of that statement. The financial performance response includes information related to the charter

Measure	Acceptable	Not Acceptable	Not Applicable	Comments
				holder's efforts to reduce expenses in the current fiscal year and to increase funding and decrease debt by fiscal year 2016. The response also addresses the charter holder's efforts to recruit students in fiscal years 2015 and 2016 and anticipates the school will serve 100 new students in fiscal year 2015 (300) and an additional 50 students in fiscal year 2016 (350). The "proposed" fiscal year 2014 budget submitted by the charter holder is based on an ADM of 204. According to ADE reports, the charter holder's fiscal year 2014 40th day ADM as of November 13, 2013 is 179.801. To the extent that the projected ADM is realized in current and future years, the facility leaseback occurs under the terms included in the letter of intent (see "Unrestricted Days Cash" above), and the budgets reflect all of the charter holder's debt (see "Unrestricted Days Cash" above), these efforts may result in improved cash flow over time.
2c. Fixed Charge Coverage Ratio			**X**	

Financial Performance Response

November 12, 2013

1b. Unrestricted days liquidity: Omega scored 'falls far below' on the Fiscal Year 2012 Audit. This is due largely to the bond default. Omega has been struggling with trying to make ends meet even though half of their state equalizations payments are intercepted. Changes in administration has led to inconsistency and thus lowering student numbers. An enormous debt has piled up and monthly cash liquidity is being used to pay that down.

Omega will address these issues going forward. First of all, the bond is currently in refinance in the hopes of lowering monthly payments. At this time BNY Mellon takes approximately $58,000 monthly as payment for Omega's share of the bond pool. STORE Capital has agreed to purchased the bond and lease it back to the school. We have signed a letter of intent (see attachment A) and are going through the process. We originally had hoped to close by the end of November, but it looks as if it may be January instead. This lease back option would lower monthly payments by a minimum of $25,000 and free up a large portion of the equalization funds.

Pat Keech has just become the new Charter Representative and has added stability to the school. Along with Funding Schools, Inc. (the new business vendor) Pat has agreed to work without pay until such a time that the school becomes solvent. We are hoping that her dedication and past experience as a Charter holder will make a difference, not only in academics, but student population growth as well. We have already seen an increase of 18 students since she has taken over. We have a fantastic marketing plan in place for the next school year and should begin seeing results almost immediately. This will be addressed in the next response measure 2b. cash flow.

As far as paying off the debt that has incurred, Omega has taken several steps to rectify the situation. Internal controls have tightened and only expenses that are vital to the daily operation of the school are currently being permitted. We have agreements in place with all of our past and current vendors that will take the amounts down to manageable monthly payments. The bond refinance and subsequent lease back to the school will also pay off much of the existing debt.

Finally, we have not drawn down any title funds or IDEA funds this year, but have continued to pay for those services out of our general fund. Last years free and reduced numbers were reported inaccurately so we have also filed a 915 form with Title 1 that should increase our grant funding by almost $100,000. Attachment (B) will show a month to month documentation of how funding will occur for the rest of this fiscal year. As you can see by February we should be close to a 30 day liquidity rate.

2b. Cash Flow: Omega did not meet the criteria for positive cash flow over the past three years. Omega did however end Fiscal year 2013 with a positive $29,000. Going forward Omega has made several changes which will definitely increase revenues and cut expenses to insure positive cash flow for the next three years. As pointed out in (1b.) changes in administration, a well – conceived marketing plan and a bond refinance with a lease back option will all affect the cash flow for the next three years. Budget numbers (attachment C) will show that by year 2016 there will be a consistent increase in funding and significant decrease in debt.

Our marketing plan will focus on the only proven means of recruitment. We have created a very hard working and supportive parent group. They will be out soliciting new students from their neighborhood. We will also be using a number of mailers and open houses to recruit new students. Current students will walk the neighborhood to sign up new students this summer. We also plan on extending summer hours so that someone will always be available on site. We anticipate the effort to draw 100 new students the first year and an additional 50 the following year. In previous schools we have been able to recruit 300-400 to open the school year. These are vital if we hope to become completely solvent by year 2016.

Assumptions from budget attachment: The current year will focus on the bond refinance and reconciling our SAIS data to insure we are getting all the money that is due to the school. Going forward this will only make it easier to manage a positive cash flow. In addition we were able to secure a contract with St. John Vianney to manage out school lunch program which means no additional costs to the school.
The dean and business manager both resigned and Pat Keech along with Funding Schools have been brought in at no cost until the school becomes financially secure
In addition to making several cuts to the budget we were able to negotiate settlement agreements with vendors who are still owed money.
Other information should be listed in the budget forms

As you can see from the projected budgets for years 15 &16 we should be self-sufficient without the use of grant funds.

STORE capital

August 23, 2013

Trevor Klinkhamer
Cassidy Turley
2375 E Camelback Road, Suite 300
Phoenix, AZ 85016

RE: **Letter of Intent for Omega Academy**

Dear Mr. Klinkhamer:

It is our pleasure to present a proposal for a potential transaction. STORE Capital Advisors, LLC is a principal, long-term investor in real estate and the primary benefits of a financing partnership with us include the following:

- Speed and certainty of execution –STORE Capital Advisors, LLC is a cash buyer and can close deals within a short period of time after execution of the letter of intent;
- Operational flexibility – as a principal buyer of real estate assets, STORE Capital Advisors, LLC can be flexible with terms that may be important to sellers, such as offering substitution rights; and
- Certainty – one landlord; one lease; one servicer

We offer the following terms for your consideration:

Seller / Lessee:	Omega Academy, an Arizona Not-For-Profit / Omega Academy, an Arizona Not-For-Profit
Gaurantor:	Personal and Corporate Gaurantors to be determined
Buyer / Lessor:	STORE Capital ("Buyer") or an affiliated entity. Buyer will purchase the Property (defined below) and lease to Lessee pursuant to a new Lease.
Properties:	Seller will sell, and Buyer will purchase and leaseback to Lessee, the properties described on Exhibit A (the "Properties").
Purchase Price:	$4,300,000
Lease Term:	20 years
Initial Rent:	$397,750 per annum.

Rental Escalations: Rent will increase 10% every five (5) years.

NNN Lease: Lease will be true triple net where the Lessee is responsible for all costs associated with the facility including maintenance (including building structure and roof), taxes, insurance and common area maintenance ("CAM") charges, if applicable.

Due Diligence: Over a 30-day period following the execution of a purchase and sale agreement, Buyer will perform customary real estate due diligence including title, survey, appraisal, environmental, financial and legal due diligence.

Conditions: The terms of this letter of intent are subject to approval of Buyer's Board of Directors as well as Buyer's approval of the results of its due diligence. Lease must require both location and corporation financial reporting.

Closing Costs: Seller to pay for its legal expenses, as well as appraisal fee, transfer taxes, property condition report, environmental due diligence (including Phase I), title, survey and recording costs. Buyer to pay for its legal expenses. All of the above expenses except for legal expenses shall be reimbursed at closing by increasing the Purchase Price.

Funding: Funding and closing of the transaction would take place within five business days after the conclusion of Buyer's due diligence period described above.

Documents: Buyer's counsel will prepare the principal legal documents, including purchase and sale agreement. The documents will include customary representations, warranties and covenants.

Broker's Fee: Seller responsible for paying the fee of any brokers associated with this opportunity.

Exclusivity: During the period from the date hereof until the first to occur of (a) the termination of this Letter of Intent, or (b) the execution and delivery of a Purchase and Sale Agreement by both parties hereto, Seller shall not initiate, solicit, continue or respond to any offers or negotiations for the sale of the Properties to any person or entity other than Buyer.

First Right: Tenant shall have the first right to purchase Property at Fair Market Value. Fair Market Value to be further defined in the Purchase and Sale Agreement.

Non-binding: This letter of intent is not a commitment to invest, and is subject to satisfaction of the Conditions outlined above, as well as execution of a definitive purchase and sale agreement.

Expiration: The terms and conditions in this letter of intent are valid as long as the letter of intent is signed within six (6) days of this letter and the transaction closes by November 15th, 2013.

If the foregoing is acceptable, please execute where indicated below. We look forward to working with you and Omega Academy on this opportunity.

Sincerely,

STORE Capital Advisors, LLC

By: _____
Name: Bill Totherow
Title: Managing Director

AGREED TO AND ACCEPTED:

Omega Academy, an Arizona Not-For-Profit

By: Dr. Patricia A. Bassett
Name:
Title President/CEO

Date: 8/29/13

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EXHIBIT A

PROPERTY

1. 8632 West Northern Avenue, AZ 85305

Charter School Name: Omega Schools

	July	August	September	October	November	December	January	February	Assumptions
Number of Students (ADM):	**223.5**	**223.5**	**223.5**	**223.5**	**223.5**	**204**	**204**	**204**	
Revenue									
Start up carryover			**$11,483**	**$22,642**	**$22,334**	**$43,537**	**$130,512**	**$107,537**	
State Funding (Equalization Assistance)			$ 67,421.04	$ 71,407.00	$ 87,249.00	$ -	$ 32,000.00	$ 75,000.00	Dec/Jan reduction in state funding enrollment
Classroom Site Funds			$ 5,374.26	$ 7,983.00	$ 6,200.00	$ 5,400.00	$ 6,100.00	$ 6,100.00	
Title funding/grants			$ 29,061.31	$ 19,223.00	$ 35,000.00	$ 55,000.00	$ 35,000.00	$ 45,000.00	draw down available beginning Nov. 1st
Secured Loans						$ 120,000.00			investors willing to loan money until the lease back
Total Revenue	$	$	$113,340	$121,255	$150,783	$223,937	$203,612	$233,637	
Expenses									
Salaries includes 21st century (16-26)			$71,043	$58,110	$77,135	$66,000	$66,000	$66,000	Nov is catch up from Oct 21st payroll
Director/Principal									
Teacher-Regular Education									
Teacher-Special Education									
Instructional Assistants									
Office Manager									
Front Office									
Business Mgr.									
Assistant Principal									
Facilities Manager									
Employee Benefits / 1800									
Travel									
Purchase Services (consultants)			$500	$1,035	$1,200	$1,200	$1,200	$1,200	
Purchase Services-Special Education				$4,651	$4,350	$1,750	$1,750	$2,000	
SAIS Software									
Instructional Aids/Books/Library/Software				$1,250					
Instructional Supplies/textbooks			$958	$685	$750	$750	$750	$750	
Legal			$750		$750	$750	$750	$750	structured payments
Auditor									

Marketing									
Other (printing; postage; parttime staff)									
Total Instruction, Administration & Support		$	$73,251	$65,731	$84,185	$70,450	$70,450	$70,700	
Operations & Maintenance									
Office supplies			437		680	500	500	500	
Phone/Communications				675	675	675	675	675	
Custodial Services				1200	1200	1200	1200	1200	
Advertising									
Property/Casualty Insurance					1100	1100	1100	1100	
Utilities (elect, water,waste)			6145	4150	3445	3000	3000	4000	
Rent/taxes(already paid intercept)									
Fees/Permits & dues			40	275	50	50	50	50	
Transportation			5360	6860	3856	3850	6500	7000	
Food Service				4325					St. John Vianney handling NSLP
Accounting Services/audit				7000	500	2500	2500	2500	audit
Land & Improvements					1455				
Building & Improvements					1400	1400	1400	1400	health dept and fire compliance
Computer Equipment DCI/CIT/MF									
Furniture & Other Equipment									
Upgrades (Connectivity)									
Leases/Loan Payments/SIG/DES/DRB			5464	8500	8500	8500	8500	8500	
Other (security, copier lease)				205	200	200	200	200	
Total Operations & Maintenance	$	$	$17,446	$33,190	$23,061	$22,975	$25,625	$27,125	
Total Expenditures	$	$	$90,697	$98,921	$107,246	$93,425	$96,075	$97,825	
Total Revenues	$	$	$113,340	$121,255	$150,783	$223,937	$203,612	$233,637	
Budget Balance (Revenues-Expenditures)	$	$	$22,642	$22,334	$43,537	$130,512	$107,537	$135,812	

				Total

Charter School Name:_____OMEGA SCHOOLS_____

	2013 - 14 projected			2013/14 adjusted					assumptions
Number of Students (ADM):			**current**			**actual**		**proposed**	
			223.5			**204**		**204**	current 40th day
Revenue			**Total**			**Total**		**Total**	
State Funding (Equalization Assistance) /wksht12/reflects cut			$ 1,463,100.00			$ 1,290,000.00		$ 1,290,000.00	
Title Funds (include in budget *)			$ 212,000.00			$ 52,600.00		$ 147,000.00	file 915 with Title office
Classroom Site Funds (40% incl.in budget**)20% salaries			$ 58,080.00			$ 53,220.00		$ 53,220.00	
School Lunch reimbursement			$ 106,044.00						SJV contract
Additional grants…(IDEA)^/21st cent			$ 236,900.00			$ 43,000.00		$ 43,000.00	SPED only/21st century separate acct
Total Revenue			$2,076,124			$1,438,820		$1,533,220	
Expenses	**# of Staff**	**@ Salary**	**Total**	**of Sta**	**@ Salary**	**Total**	**f S**	**Total**	
Salaries			$			$		$	
Director/Principal	1.00	$ 80,000.00	$80,000	1.00	$ 13,333.00	$13,333		$13,333	resignation of dean
Teacher-Regular Education*	9.00	$ 33,600.00	$302,400	9.00	$ 33,600.00	$302,400		$302,400	no additional teachers needed
Teacher-Special Education^	1.00	$ 35,000.00	$35,000			$35,000		$35,000	20.5 from IDEA
Instructional Assistants/title funds*			$18,000			$18,000		$18,000	
Office Manager	1.00	$ 30,000.00	$30,000			$30,000		$30,000	
Receptionist/attendance/transcripts			$						
Asst. Principal									
Business Manager			$40,000			$6,333		$6,333	resignation of business mgr
Parttime hours/night school/subs(10)			$180,000			$35,000		$35,000	reduction of extra hours
Employee Benefits 18%			$112,400			79140		$79,140	reduction of hours
Travel									
Purchase Services (consultants/district office)*			$ 70,000.00			70000		$70,000	DO consulting
Purchase Services-Special Education^			$ 43,750.00			17000		$17,000	IDEA
SAIS Software									
Instructional Aids/Books/Library/Software*			$ 43,000.00			25000		$43,000	
Textbooks/general supplies			$ 24,000.00			24000		$24,000	
Legal									
Auditor									
Marketing			$ 30,000.00						

Other (printing; postage)/audit			$ 16,000.00			16000		$16,000	
Total Instruction, Administration & Support			$1,024,550			$671,206		$689,206	
Operations & Maintenance			**Total**			**Total**		**Total**	
Supplies…class and office			24000			24000		12000	cut supply budget
Phone/Communications (Qwest)/e-rate…			15000			0		0	reinstate erate
Custodial Services/includes supplies			15000			15000		15000	
sports/activities (student support 2100)									
Property/Casualty Insurance			1200			1200		1200	
Utilities…electric,water, waste			90000			56000		56000	based on current usage
Rent…bond repayment			697200			491000		491000	bond refi
Fees/Permits & dues									
Transportation/bus cards			67000			67000		50250	D&S renegotiated
Food Service			95850			4325		0	agreement with St. John Vianney
Accounting Services									prorated funding schools
Land & Improvements			6000			6000		6000	
Building Improvements			10000			15000		15000	maintenance/repairs/fire/health dept
computers									
Furniture & Other Equipment									
Upgrades (Connectivity)									
Leases			9600			9600		9600	
Miscellaneous/ debt reduction / SIG/DES			59000			59000		59000	negotiated paybacks
Total Operations & Maintenance			$1,089,850			$748,125		$715,050	
Total Expenditures			$2,114,400			$1,419,331		$1,404,256	
Total Revenues			$2,076,124			$1,438,820		$1,533,220	
Budget Balance (Revenues-Expenditures)			-$38,276			$19,489		$128,964	

Charter School Name:_____OMEGA SCHOOLS_____

	sy 2014/15			sy2015/16			assumptions
Number of Students (ADM):			**proposed**			**proposed**	
			300			**350**	market plan increase
Revenue			**Total**			**Total**	
State Funding (Equalization Assistance) /wksht12/reflects cut			$ 1,923,000.00			$ 2,240,000.00	
Title Funds (include in budget *)			$ 150,000.00			$ 175,000.00	
Classroom Site Funds (40% incl.in budget**)20% salaries							unknown
School Lunch reimbursement							continue with sponsored program
Additional grants…(IDEA)			$ 55,000.00			$ 60,000.00	anticipated increase
Total Revenue			$2,128,000			$2,475,000	
Expenses	**# of Staff**	**@ Salary**	**Total**	**# of Staf**	**@ Salary**	**Total**	**f Staff**
Salaries			$			$	
Director/Principal	1.00	$ 60,000.00	$60,000	1.00	$ 60,000.00	$60,000	
Teacher-Regular Education*	12.00	$ 35,000.00	$420,000	14.00	$ 37,500.00	$525,000	
Teacher-Special Education^	1.00	$ 40,000.00	$40,000			$40,000	
Instructional Assistants/title funds*			$18,000			$18,000	
Office Manager	1.00	$ 30,000.00	$30,000			$30,000	
Receptionist/attendance/transcripts			$				
Asst. Principal							
Business Manager			$25,000			$25,000	parttime
Parttime hours*			$100,000			$120,000	includes RTI math and reading
Employee Benefits 18%			$105,750			119700	
Travel							
Purchase Services (consultants/district office)*			$ 70,000.00			70000	
Purchase Services-Special Education^			$ 15,000.00			20000	
SAIS Software			$ 5,000.00			2000	change student data system
Instructional Aids/Books/Library/Software*			$ 50,000.00			50000	
Textbooks/general supplies			$ 30,000.00			32000	
Legal							
Auditor							
Marketing			$ 15,000.00				summer of 2014 only

Other (printing; postage)/audit			$ 16,000.00			16000		
Total Instruction, Administration & Support			$999,750			$1,127,700		
Operations & Maintenance			**Total**			**Total**		
Supplies…class and office			30000			32000		
Phone/Communications (Qwest)/e-rate…			0			0		erate
Custodial Services/includes supplies			30000			30000		
sports/activities (student support 2100)								
Property/Casualty Insurance			15000			15000		
Utilities…electric,water, waste			56000			56000		
Rent…bond repayment			384000			384000		after lease back
Fees/Permits & dues			1000			1000		
Transportation/bus cards			90000			105000		
Food Service			0			0		
Accounting Services			15000			15000		
Land & Improvements			12000			12000		
Building Improvements			10000			15000		
computers								
Furniture & Other Equipment								
Upgrades (Connectivity)								
Leases			9600			9600		
Miscellaneous/ debt reduction / SIG/DES			140000			48000		negotiated pay back, excess funds will pay off
Total Operations & Maintenance			$792,600			$722,600		
Total Expenditures			$1,792,350			$1,850,300		
Total Revenues			$2,128,000			$2,475,000		
Budget Balance (Revenues-Expenditures)			$335,650			$624,700		additional funds will pay off all debt