# PACE PREPARATORY ACADEMY
# CTDS: 13-87-58-000
# FINANCIAL PERFORMANCE FRAMEWORK RESPONSE
# MARCH 29, 2014

PACE Preparatory Academy has made tremendous improvements over the last several years to be in compliance and become more fiscally sound. With the changing of charter holders in 2011, the school has taken a huge leap in the right direction.

## Net Income

In March of 2011, the school completed its final step in terminating its relationship with the previous management by obtaining legal counsel and severing all ties. At this point, a determination was made by current management to create a Governing Board that maintained independence, to increase academic performance and become fiscally responsible. In FY2011, the school completed the year with a loss of $6,383 (which included depreciation of $24,429 as seen in the table below).

In FY2012, the school implemented ideas to better its academic performance, however these decisions had a financial impact on the school:

- The school wanted to increase enrollment in FY2012 thereby increasing advertising costs by $2,292 advertising in local papers for students.
- The school made a decision to begin the process to become NCA accredited and increased instructional salaries by $51,955. Tutors and additional teachers were added to give students an opportunity to have more one on one time with an instructional leader.
- In May 2012, the school entered into an agreement with Backbone Communications to redesign the computer curriculum in order to increase academic achievement. The cost for this software totaled $88,928. The school entered into a capital lease for this software and hardware having to pay a deposit in the amount of $4,097 and then $2,049 for the following 48 months.
- Legal expenses also increased $6,522 from prior year due to an ongoing lawsuit regarding a loan from the original charter holder.

In FY2013, the school continued its path to pursue academic excellence and increased instruction $5,932 from the prior year. With legal costs also increasing $11,633 from the prior year, the school made a drastic change to

its business office and negotiated with vendors to reduce the cost of business services resulting in a savings of $21,542 for the year. The school would have had a $93,949 net profit in FY2013 due to all of the cost saving measures that were instituted during FY2013, however, an unexpected turn in the lawsuit arose, resulting in a settlement agreement costing the school $200,000.

Originally, the school's charter was held by Ms. Holly Stiles who sold a building that was secured by a Chase Bank loan. During the sale, Yavapai Title Agency paid the sale proceeds to Ms. Stiles and did not pay the loan to Chase Bank. In 2009, the school was made aware of this situation and defended their position that the school was no longer related to Ms. Stiles in any way. A lawsuit was filed against the school to pay, as Ms. Stiles had filed for Chapter 7 bankruptcy. The school filed an appeal in August 2012 and on August 13, 2013; the Court of Appeals awarded Yavapai Title the cost of attorney's fees and costs totaling $200,000. The school entered into a settlement agreement on September 27, 2013 obligating them to pay $30,000 on October 5, 2013 and $1,750 payments per month at 5% interest until paid in full.

Below is a table breaking out the net income/loss per year subtracting depreciation expense to demonstrate the school was trying to be conservative with its spending practices in FY2011 and FY2013.

**NET INCOME(LOSS) PER YEAR ANALYSIS**

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| TOTAL REVENUE | 886,941 | 795,780 | 955,233 |
| TOTAL EXPENSES | (893,324) | (885,145) | (1,061,284) |
| NET INCOME/LOSS | (6,383) | (89,365) | (106,051) |
| LESS DEPRECIATION | 24,429 | 28,640 | 40,210 |
| LESS ONE TIME EXPENSES | 0 | 0 | 200,000 |
| TOTAL NET INCOME/LOSS | 18,046 | (60,725) | 134,159 |

In FY2014, PACE Academy has experienced some challenges with enrollment losing approximately 14 ADM from prior year. However, the belief is the attrition is due to a stronger academic push on students and items beyond the school's control. The school has also made the decision to turn over instructional staff as the results of the FY2013 data were not what was expected. Management has since hired instructional staff members that are highly qualified and more accommodating to help our student demographic make academic gains. The school has also added two more instructional positions. The hope is that the FY2014 test scores will improve with all the financial sacrifices that were made. Currently the school has 120 students enrolled. With the increased support academically, new curriculum software,

the NCA accreditation affiliation, and new elective programs such as art education, the school is hoping to retain current students and recruit new students for FY2015.

For FY2015, the school is considering leasing a new building which will reduce the cost of rent by $1,000 per month, saving $12,000 annually and engaging in a program using the interactive TV software offering students a more robust curriculum which will reduce salary costs for the future. The school is also analyzing vendor contracts to reduce or eliminate services for the school year.

The table below gives an analysis of the school's average daily membership at the 100th day.

| AVERAGE DAILY MEMBERSHIP PER YEAR AT 100TH DAY | |
|---|---|
| **2010** | 107.735 |
| **2011** | 108.305 |
| **2012** | 106.374 |
| **2013** | 124.970 |
| **2014** | 110.903 |
| **2015** | 120.000 (estimate) |

Fixed Charge Coverage Ratio

PACE Preparatory Academy's Fixed Charge Coverage Ratio was .37 for FY2013. The school is working towards building a cash reserve for unexpected costs. It would be the hope of the Governing Board to set aside at least 5% of revenue per year beginning in year 2015. As explained above, the school will reduce its rent expense for its Prescott Valley campus by $12,000 annually in FY2015 by leasing a new building that will be double the size of the facility it currently rents. Financial services will also be dramatically reduced totaling $36,000 annually, saving the school $54,000 on financial services for the year. Management is currently looking at other services that the school can renegotiate terms or eliminate all together. The management team will re-evaluate the staffing model in order to reduce expenses to see if the current model is producing the results that it expects and will make decisions based on the test scores delivered from the AIMS scores for FY2014.
As explained above, the enrollment numbers are looking healthy for FY2015 and management is anticipating a higher enrollment due to the location change with the new building and new curriculum to retain current students and recruit new students to attend.

The school also has access to a donor who has lent the school cash when the school is in an unfavorable cash position. The donor lends the school cash at a zero percent interest rate and the school makes its best effort to pay this donor back in a timely fashion. The donor is an advocate of the school and wants the school to succeed so he is willing to help when needed.

Below is the estimated fixed charge coverage ratio for FY2014 and FY2015 based on current projections. These figures incorporate the current depreciation with newly acquired assets, as well as the interest expense on the Yavapai Title Settlement and current capital and operating leases.

| Anticipated FY13-14 Fixed Charge Coverage Ratio | |
|---|---|
| Change in Net Assets | $ (32,529) |
| Depreciation | 43,133 |
| Interest Expense | 11,388 |
| Lease Expense | 109,532 |
| Total Numerator | 131,524 |
| | |
| CPLTDCL | 34,947 |
| Interest Expense | 11,388 |
| Lease Expense | 109,532 |
| Total Denominator | 155,867 |
| | |
| Fixed Charge Coverage Ratio | 0.84 |

| Anticipated FY14-15 Fixed Charge Coverage Ratio | |
|---|---|
| Change in Net Assets | $ 5,104 |
| Depreciation | 41,731 |
| Interest Expense | 15,379 |
| Lease Expense | 40,536 |
| Total Numerator | 102,750 |
| | |
| CPLTDCL | 34,465 |
| Interest Expense | 15,379 |
| Lease Expense | 40,536 |
| Total Denominator | 90,380 |
| | |
| Fixed Charge Coverage Ratio | 1.14 |

Cashflow

PACE Preparatory Academy received a "does not meet" for cashflow because FY2011 and FY2012 are negative. However, in FY2013 the cashflow is reported to be favorable at $96,146 leaving the cumulative total favorable at $37,520.

Cashflow for FY2014, is projected to be $23,260. Although considerably less than FY2013, the school has made changes in staffing to increase academic performance and realized that in order to increase performance, an investment in the quality of teachers and curriculum would need to be made. In an effort to increase the cashflow for future periods, the school has already implementing cost saving measures as mentioned previously and is working towards saving 5% of its revenue budget to build a cash reserve for its future. The school has developed the budgeting practice of developing a budget based on less ADM then projected in order to begin building the cash reserve and securing financial stability for its future.