

Growing School

We are pleased to present our financial analysis to the Growing School. Our report is designed to analyze each school's existing financial condition as compared against industry benchmarks, evaluate capacity for additional leverage, offer commentary on the overall financial structure, and finally to suggest changes or scenarios for improvement. This preliminary report will be refined as we meet with each school to confirm our assumptions.

Strengths and Weaknesses

- *Balance sheet:* Typical of a smaller school, Growing School has a nominal amount of cash, while the bulk of the assets are in real property. The balance sheet is fully leveraged. The expendable financial resources/debt ratio is .15%, as compared against the industry benchmark of 1.07%.
- *Cash-flow:* The school is also fully leveraged from a cash-flow basis. Operating margin is 2.27%, compared to the benchmark of 3.00%. Debt service coverage is 1.25%, almost the minimum coverage acceptable from any lending source. Debt service to operations is 6.20%, not inconsistent with the benchmark.
- *Revenue mix:* Tuition revenue, as a percentage of total revenue, falls within the benchmark, as does annual gifts. Investment income is negligible, which is expected given the lack of meaningful reserves.

Strategic Capital Allocation

- *Incremental debt capacity.* Growing School has almost no current capacity for debt. Once student enrollment and tuition levels reach a critical mass, perhaps a conventional mortgage is possible to replacement payments of leased facilities.
- *Annual gifts* must sustain the school; however, continued and exaggerated fundraising success will depend on an accurate assessment of local demand and funding support.

Our Thoughts

Several factors will determine the school's intermediate-term success:

- Price and terms of sale/leaseback of current school property.
- Ultimate cost of new facility.
- Extent of enrollment growth and tuition elasticity.
- Most importantly, local fundraising support.

Financing a \$6 million facility entirely with debt (assuming current interest rates) will require net operating revenue of about \$700,000. Financing 50% of the facility with debt will require about \$350,000 net operating revenue and a capital campaign to raise the remaining \$3 million in a timely fashion.

As such, Growing School must substantially increase enrollment and also devise and execute a sophisticated development effort to:

- Maintain existing annual gifts
- Capital campaign for new campus funding
- Eventual endowment fund portfolio to provide long-term financial viability.

Such development is not mutually exclusive, but specifically inter-related. Further discussion is best conducted at our meeting on Tuesday.