

## Poor School

We are pleased to present our financial analysis to Poor 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, Poor 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 (.35%) as compared against the industry benchmark of 1.07%.
- *Cash-flow:* The school is not fully leveraged from a cash-flow basis; however, our ratios are misleading, as the school has significant debt that is not fully amortized, and carries a balloon payment in eighteen months.
- *Revenue mix:* Tuition, gift, and endowment revenue, as a percentage of total revenue, is as expected for a smaller school, and is consistent with the provided explanations.

### Strategic Capital Allocation

- *Incremental debt capacity.* The school has no current capacity for additional debt, and has a significant challenge ahead to refinance the pending balloon payments. Student enrollment and tuition levels appear to be the primary constraint.

### Our Thoughts

Based on the provided materials, the school has profound obstacles:

- A limited market in which to attract enrollment, increase tuition, or fundraise extraordinary dollars.
- A balloon debt payment with no visible means of repayment.

As such, our recommendations are limited to two potentially unattractive options:

1. Consider conversion to a charter school. The additional tax dollars per student may be the school's only viable option.
2. Sale/leaseback of the XXX campus property. Such action will eliminate need to refinance balloon payment, and leasing space will allow school to accurately match leasing expense with student enrollment.