San Tan Montessori School, Inc.

Financial Plan

and

Financial Performance Framework Response

Fiscal Year 2020-2021

July 2020 through June 2021

Financial Plan for Fiscal Year 2021

Overview

San Tan Montessori School Inc.'s Financial Plan for FY 2021 includes seven key components designed to help ensure improved management of resources, net income and overall financial performance in the 2021 fiscal year, while laying a solid foundation for continued improvement in subsequent fiscal years.

Planning - Improved Budget Modeling

Revenues

The School's annual operating budget will account for all expected revenues for the fiscal year based on the preceding fiscal year's funding formula or actual per pupil revenue production (as in the case of locally derived revenues). The first version of the annual operating budget was created in late April of 2020. Due to the potentially significant impact of the covid-19 many key components of the School's revenue model for fiscal year 2021 were not entirely known at that time. As such the revenues included in the annual operating budget will be updated at least monthly throughout the year as more accurate information becomes available. Using this approach ensures that management will be informed of the most likely revenues to be received in the fiscal year, given the best information available at any given time. New funding for the fiscal year will be added to the annual operating budget as it is received (via funding determination letter, allocation award, or pledge certification).

The School's annual revenue shortfall (as it relates to budgeted expenses and a minimum fixed cost coverage of 1.10x actual lease adjusted fixed costs) will be calculated and adjusted in real time as more accurate information becomes available. Using this approach, at any given time management will be informed of the revenue delta between currently projected performance and the minimum goal of 1.10x.

The School received a Paycheck Protection Program loan through the Small Business Administration in April of 2020. The total loan amount was $813,500. The School used these funds to maintain its employment base, particularly those positions that would have otherwise been furloughed or laid off as a result of the covid-19 school closures beginning in March of 2020, particularly school activity program employees. As the funds were expended in accordance with the guidelines set forth by the Small Business Administration, the School anticipates 100% forgiveness of the loan value. Guidance on how this loan and its subsequent forgiveness is to be treated from an accounting perspective is forthcoming. To date the School has excluded any potential revenues derived from the forgiveness of this indebtedness from its fiscal year 2020 unaudited performance. As the expenditure of certain of these funds occurred in the 2021 fiscal year, the School has also excluded any potential revenues derived from the forgiveness of this indebtedness from its operating budget for fiscal year 2021. Expenditures from PPP funds in fiscal year 2021 may be approximately $335,000, potentially equating to $335,000 in unbudgeted revenues. Additionally, the possible impact of loan forgiveness is excluded from the annual operating budget as potential revenues derived from this source are one-time occurrences and would not otherwise be operating revenue in fiscal year 2021. As such the School elects to exclude these revenues from its internal financial planning model so as not to skew internal operating parameters in fiscal year 2021. As such, the School will consider potential revenues derived from PPP loan forgiveness as additional unbudgeted revenue enhancements in fiscal year 2021, and NOT rely on them to ensure coverage requirements are satisfied.

Expenses

The School's annual operating budget accounts for all expected expenses for the fiscal year based on the preceding fiscal year's performance on a line by line basis for all expenditure lines. Using a worst-case scenario methodology, additional adjustments were made to the expense budget based on potentially new conditions facing the school in the fiscal year and their projected impact on expenditures. As mentioned above, the first version of the annual operating budget was created in April of 2020. Due to the potentially significant impact of the covid-19 crisis on many school's statewide, some components of the School's expense model for fiscal year 2021 were not entirely known at that time. As such the expense capacity included in the annual operating budget will be updated at least monthly throughout the fiscal year as more accurate information becomes available. The expense allocation in the annual operating budget includes sufficient capacity to account for all planned expenditures and includes additional capacity to account for unforeseen circumstances that may arise over the course of the fiscal year. Due to the increased uncertainty related to operating conditions as a direct result of the covid-19 crisis, contingency capacity contained in the annual operating budget was increased 50% over normative levels. Using this approach, the School ensures that management will be informed of the most likely worst-case scenario expenses to be incurred in the fiscal year given the best information available at any given time.

As described above, the School's annual revenue shortfall (as it relates to budget expenses and a minimum fixed cost coverage of 1.10x actual lease adjusted fixed costs) will be calculated and adjusted in real time as more accurate information becomes available. Using this approach, at any given time management will be informed of the revenue delta between currently projected performance and the minimum goal of 1.10x.

Real Time Budget Management and Decision Making

Within the School's accounting system, the annual operating budget described above will be broken down into monthly revenues and expenditures based on the most likely scenario for receipt and incurrence. This will allow the data to inform management decisions in real time, as at any given time throughout the year revenues and expenses can be compared to the annual budget on a cumulative basis. Using this approach management will be better informed as to opportunities and threats to overall budget performance. Management will meet with the school's financial services provider no less than monthly throughout the year to review budgeted performance on a line by line basis and make budget adjustments as necessary to ensure that forecasted performance remains achievable. If applicable, revenues included in the annual operating budget will be increased or decreased as a result of the information collectively verified at the monthly budget meetings. Operating expenses included in the budget will NOT be adjusted (up or down) on the aggregate at any point during the fiscal year. Unspent expense allocation will remain in the annual operating budget as contingency in future months allowing management to better discern the likelihood of outperforming the budget as the fiscal year progresses. Should the need for additional budgeted expense capacity arise within a given expense line, it will be paid for with offsetting reductions of contingency capacity elsewhere in the budget on a dollar for dollar basis. Using this approach, the School will establish maximum aggregate spending thresholds it will maintain for the fiscal year. Additionally, monthly financial reports detailing the School's performance in relation to its financial plan will be provided to the School's governing board on a monthly basis for review and possible action.

Increased Revenues (Above budgeted expectation)

Management will work throughout the year to enhance forecasted/budgeted revenues by seeking new sources of funding. New funding for the fiscal year will be added to the annual operating budget as it is received (via funding determination letter, allocation award, or pledge certification). The desired outcome is to enhance revenues sufficient to ensure a minimum fixed cost coverage of 1.10x actual lease adjusted fixed costs. The school will be able to objectively determine progress in its efforts based on a review its revised operating budget vs. actual reporting and its internal projected financial outcomes, each of which are reviewed by management and governance on a no less than monthly basis.

It is the School's intention that any increases in revenues beyond initial budget projections will not require additional incurrence of expense. To the extent this remains the case, excess revenues will remain unspent, further improving the School's cash position.

Reduced Expenses (Below budgeted expectations)

Management will work throughout the year to reduce expenses to the fullest extent possible. This will include the reduction of FTE staff positions in response to decreases in student enrollment should they occur, elimination of ALL unnecessary or discretionary expenditures, and review of current vendor contracts to ensure alignment of services provided with desired outcomes in an effort to incrementally decrease expenditures wherever possible. The desired outcome is to reduce expenditures sufficient to ensure a minimum fixed cost coverage of 1.10x actual lease adjusted fixed costs. The school will be able to objectively determine progress in its efforts based on a review of its revised operating budget vs. actual reporting and its internal projected financial outcomes for the fiscal year, each of which are updated and reviewed by management and governance on a no less than monthly basis.

Maintain Investment in Academic Programs and Outcomes

The School will ensure that it maintains its investment in the fidelity of its academic program by ensuring sufficient budget capacity is allocated to cover all planned expenditures. No expense reductions (to date) have been made to the academic program that were not tied directly to changes in student enrollment. The school will be able to objectively determine progress in its efforts based on its comparative data to the preceding fiscal year's benchmark academic data throughout the fiscal year.

Increased Investment in Marketing and Community Engagement

The School will invest additional resources in its marketing and community engagement efforts by ensuring significantly increased budget capacity is allocated to cover all planned marketing and community engagement expenditures, many of which are new programs introduced in the current fiscal year. The desired outcome is to increase parent communication/involvement, community engagement, and as a result student enrollment for the 2021-2022 fiscal year. The school will be able to objectively determine progress in its efforts based on its comparative data to the current fiscal year's returning and pre-enrollment data beginning in January 2021. Additionally, internal efforts will increase focus on student enrollment retention, particularly in the transitions from one grade to another in grades KG to 6^{th} grade where data indicates opportunities for improvement exist.

Increased Enrollment in FY 2022

In order to lay the foundation for continued improvement in the School's financial performance in subsequent fiscal years. The desired outcome is to increase fiscal year 2022 student enrollment by at least 80 students on the aggregate in grades KG-12. The school will be able to objectively determine progress in its efforts based on its comparative data to the current fiscal year's returning and pre-enrollment data beginning in January 2021.

Projected Outcomes – As of 9/30/2020

See included fiscal year 2021 annual operating budget comparison and resulting measures.

San Tan Montessori School, Inc.
Statement of Activities Budget Projection
FY 2021 vs. FY 2020

	2020	2021	Difference	% of Rev
Total State Enrollment	952	842	-110	
Average Daily Membership	903.0	812.0	-91.0	
Ordinary Income/Expense				
Income				
Total Revenue From Local Sources	664,395	563,550	-100,845	6.7068%
Total Revenue From State Sources	7,714,114	7,197,000	-517,114	85.6516%
Total Revenue From Federal Sources	310,337	642,098	331,761	7.6416%
Total Income	8,688,847	8,402,648	-286,199	100.0000%
Total Debt Service	2,607,187	2,587,613	-19,574	30.7952%
Expense				
Total Personal Services	4,150,299	3,461,474	-688,825	41.1950%
Total Personal Services-Benefits	643,903	604,571	-39,332	7.1950%
Total Purch Professional & Tech Svcs	301,121	229,700	-71,421	2.7337%
Total Purchased Property Services	233,846	287,300	53,454	3.4192%
Total Other Purchased Services	264,732	215,000	-49,732	2.5587%
Total Supplies	426,105	491,100	64,995	5.8446%
Total Furniture & Equipment	14,647	72,600	57,953	0.8640%
Total Other Expenses	209,378	145,600	-63,778	1.7328%
Total Expense	8,851,217	8,094,958	-756,259	96.3382%
Net Ordinary Income	-162,370	307,689	470,059	3.6618%
Other Expenses				
Depreciation & Amortization	416,828	417,250	422	0
Total Other Expenses	-416,828	-417,250	-422	0
Net Income	-579,198	-109,561	469,638	206,671

Coverage Ratios - 2014, 2016 & 2017 Bonds

Fiscal Year ending June 30	2020	2021	Difference
Historic/Projected Net Income	-$579,198	-$109,561	$469,638
Add Back Annual Bond Payments (Interest)	$2,607,187	$2,587,613	-$19,574
Add Back Annual D&A	$416,828	$417,250	$422
Net Income Available for Bond Payments	$2,444,817	$2,895,303	$450,485
Total Bond Payments	$2,895,520	$2,898,030	$2,509
Debt Service Coverage Ratio Bonds	0.84	1.00	0.15
NIADS Delta to 1.10x	-$740,255	-$292,530	447,725.14

Days Cash on Hand

Fiscal Year ending June 30	2020	2021	Difference
Opening Cash Balance	$1,156,365	$1,593,687	$437,322
Historic/Projected Net Income	-$579,198	-$109,561	$469,638
Add Back Annual D&A	$416,828	$417,250	$422
Subtract Bond Principal	-$288,333	-$310,417	-$22,083
Subtract Other Net Balance Sheet Activity	$888,025	$0	-$888,025
Cash on Hand (All)	$1,593,687	$1,590,960	-$2,727
Subtract Restricted Cash	-$247,756	-$247,756	$0
Cash on Hand	$1,345,931	$1,343,203	-$2,727
Annual Operating Expenses (All)	$8,851,217	$8,094,958	-$756,259
Subtract Expense from Non Pledged Revenu	-$898,999	-$1,149,298	-$250,298
Annual Operating Expenses	$7,952,218	$6,945,661	-$1,006,557
Daily Operating Expenses	$21,786.90	$19,029.21	-$2,757.69
Days Cash on Hand	61.78	70.59	8.81
DCOH Delta to 75	-$288,087	-$83,987	204,099.62