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Fiscal year 2020 On Probation Response – Financial Action Plan Summary of Conditions and Response

A summary of the factors that caused or contributed to the charter holder's financial performance in fiscal year 2020

During the fiscal year 2019-20 The Edge School, Inc. Lease Adjusted Debt Service Coverage Ratio did not meet standards. The calculated ratio was below 1.0, the Approaches Standard threshold is equal to or exceeds 1.0. There are two key parameters that impact the school's ability to meet this measure 1) the School has a bond for which annual principal payments increase each year, thereby increasing the denominator of this calculation, and 2) the adjusted net income necessary to meet a ratio of 1.1 is prohibitive to budgeting based on necessary school expenses.

The school's fiscal year 2020 budget included additional cash not accruable as revenues (deferred revenues). The school received \$39,833 in revenues of which only \$8,280 are recognized during the current year and the remainder are reported as deferred and recognized over the term of an easement lease for which the school is the lessor. These cash positive factors were taken into account when budgeting for fiscal year 2020.

Based on a hypothetical break even calculation of adjusted net income of \$0 the school would need to budget for an additional surplus of \$100,000 to Approach Standard and \$160,000 to Meet Standard, these roughly equate to 12 ADM and 20 ADM, respectively. This has been beyond what is capable for the school to budget as excess based on available revenues, expenses and meeting the high needs of an alternative high school population with high mobility.

A summary of the specific actions taken or being taken to improve the charter holder's financial performance in fiscal year 2021

For fiscal year 2021 the school entered the year for a planned increase in ADM based on a strategic plan to improve enrollment at the Himmel Park campus and with the support of an enrollment marketing program through Charter School Capital; the budgeted ADM was 215.

During the spring of 2020 the school closure for coronavirus resulted in a decrease in student participation in an online learning environment to end fiscal year 2020. The significant risk of decreasing enrollment and the then uncertainty in school year 2021 enrollment and funding resulted in the governing board choosing to apply for a Payroll Protection Program Loan in the amount of \$200,000. The Governing Board intends to apply for full forgiveness when the application is made available through the school's banking institution.

The Edge School governing board voted to remain in distance learning during the first quarter of 2021 to emphasize the extreme emphasis on the health and wellness of all Edge students and staff. The result of remaining in distance learning is that many of the students who were not engaged in the 4th quarter of school year 2020 either did not start at the beginning of the school year 2021 or began the year and did not engage in their school work and withdrew shortly thereafter.

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Success for every student, every day!

Greg Hart, Executive Director
Rob Pecharich, Principal
Dave Thatcher, Assistant Principal

As a result, the school has experienced a significant decrease in enrollment at the Himmel Park campus. The planned ADM for this campus was 145, and the actual ADM is projected at 98. The overall impact across the District is a deficit of 47 ADM under the adopted budget.

The School is continuing work on an enrollment and marketing campaign to be supported by Charter School Capital. The governing board and administration are continuing to review budget expenses to reduce costs to meet operational capacity and better meet financial framework performance measures in the fiscal year 2021 budget. The overall metric to be used to determine the schools success towards achieving these goals is enrollment and ADM. Both measures are reviewed with site principals daily, administration weekly and with the governing board monthly. Budget shortfalls based on ADM are reviewed with the governing board monthly for discussion and possible action of revision to balance expenses and income to a favorable outcome for fiscal year 2021.

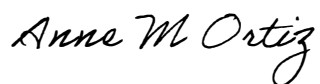
In September 2020 the governing board approved to proceed with a transaction with the bond holder representative firm for a purchase in lieu of redemption of \$195,000 of Edge's outstanding bonds and a restructured 1% decrease in the outstanding bonds interest rate. This transaction will save the school approximately \$10,000 in fiscal year 2021 and additional incremental savings over the remaining years of the bonds as a result of the decreased interest. These actions were part of the governing board's strategic plan to improve the school's financial stability.

The school anticipates receiving Enrollment Stability Grant funding to balance overall funding at the equivalent of 183.729 ADM, based on the difference of actual ADM to 98% FY2019-20 ADM. The remaining ADM deficit of 32 ADM is anticipated to be covered by the forgiveness of the Payroll Protection Program Loan which would result in recognition of \$200,000 in revenue.

The school is anticipating a net income of \$27,000 and Adjusted Net Income of \$140,000, which would result in an Approaches Standard rating of 1.05 on the Lease Adjusted Debt Coverage Ratio.

Leadership believes that these improvements will continue to work toward stabilizing enrollment and the financial performance of the School.

Sincerely,

A handwritten signature in black ink that reads "Anne M. Ortiz". The signature is written in a cursive style with a large, stylized initial 'A'.

Anne M. Ortiz

Edge High School

Finance and Resource Director