

Finance Committee

Minutes

September 10, 2013

Present: Babak Taleghani, Jon Conklin, Wendy Randle, Maria Palmgren, Joop Nagtegaal, Russell Carey, Tim More, John Cariati, Dave Burnham, Dorothy Fields, Maria Monteiro, Derrick Ciesla

Absent: Richard Worrell, Kim Noble, Barrett Hazeltine

Babak Taleghani called the meeting to order at 12:15 pm.

The Committee reviewed the minutes of the July 18, 2013 meeting. Joop Nagtegaal moved that the minutes be approved. Dave Burnham seconded the motion, and the minutes were approved. Tim More mentioned that his question about interest rate swaps was twofold. He understands why there is no advantage in paying off the swap liability, but he also wanted to know about the term of the existing swap and the possibility of extending it given the current interest rate environment. Jon indicated the swap expires in February 2018. One issue was brought up by the School's new relationship manager at Citizens Bank. The current bank bond agreement has a mandatory put option in December 2015, and the relationship manager did not understand how the swap could have an expiration date later than the

put option. (Instruments are cross collateralized.) Jon said another issue is the pricing. The pricing reflects a yield curve used by the Bank, and Jon believes the rate for the time period beyond 2018 would be 3.0% to 3.5%. Jon will discuss the matter when he meets with the bankers later in September.

[Addendum: The rate quoted in June 2013 for a two year forward swap from 2018 to 2020 was 3.1%. The existing swap was executed in 2007 when the School had a letter of credit agreement with Citizens – before the bank owned bond arrangement.]

The Committee reviewed the Statement of Revenues and Expenditures through 6/30/2013 and the Balance Sheet as of 6/30/2013. Jon indicated that payroll accruals, depreciation, and other adjustments have been recorded, and that these balances have been submitted to the auditors for review. Joop and Babak noted that, after considering the playground project, debt principal, and depreciation, positive cash flow was approximately \$400,000. With respect to the Balance Sheet, Babak estimated that the School has approximately \$4,000,000 in cash and short term investments not needed to satisfy immediate obligations. This represents about three months of operating expenses.

Jon reviewed the covenant calculations, which are based on the June 30, 2013 balances. Both the Cash Flow and Unrestricted Liquidity covenants have been satisfied. When Jon meets with the bankers

later in September he will clarify the definition of “financed capital expenditures”. He has added back expenditures from capital reserves and expenditures funded by the EPA to the numerator of the Cash Flow covenant as per his understanding with the previous bank relationship manager. Without the add backs the covenant would still be satisfied for this period.

In addition to Citizens Bank and RIDE, the Office of the Auditor General and Department of Administration receive quarterly reports of financial results and projections for the School. Jon reviewed an example of the interim (first three fiscal quarters; AFS sent at year end) report sent to these entities. It is a cash flow report, based on government accounting standards rather than GAAP. Jon does not know of prescribed consequences of reporting a deficit cash flow, but such a result would likely trigger an inquiry from the Office of the Auditor General. (The OAG answers to the General Assembly.)

The Committee reviewed the Statement of Revenues and Expenditures through 8/31/2013 and the Balance Sheet as of 8/31/2013. Babak asked about charter school aid from Providence, and Jon said he sends the first quarter invoice as of September 15. Jon noted there have been two unexpected expenditures relating to facilities. The smell of oil was detected in the office at the upper school, and it turned out there was an underground tank containing 5,000 gallons of #6 heating oil (and a foot of sludge) next to the school building. DEM records indicated it had been drained 20 years

ago. The School has paid to drain the tank, and we are awaiting final word on whether it can be filled or must be removed. At the middle school, the annual clean out of the main sewer drain revealed a problem with the pipe. Roots had collapsed the pipe, and the School paid to excavate it and replace it from the building to the street. Both projects will be in the \$40,000 range.

Jon reviewed the Insurance Summary and explained the nature and costs of the School's insurance program. The School now has \$10 million in liability coverage (\$1M general plus \$9M umbrella), which the agent believes is adequate. Workers' compensation insurance increased because of the increase in staff and poor experience (experience modification factor greater than 1.0).

Russell Carey gave an overview of the strategic planning process that has been ongoing since last spring, and he described the role he hopes the Finance Committee will play with respect to the financial sustainability issue. The Committee is asked to develop several operating scenarios that result in surpluses that meet compliance requirements and maintain operations. Tim More noted that the basic variables – enrollment, staffing, fundraising – are relatively straightforward, but that occupancy is a significant unknown. As tenants we believe, but cannot be sure, the middle and high school situations are stable, and we know the facilities are only adequate. Members agreed we should start with the current situation and develop facility financing costs that can be overlaid on other models.

Several members also noted that scenarios would be developed without regard to impact on program; this analysis would be the responsibility of the administration. Members agreed the first task is to extend the “status quo” model several more years. As can be seen on the Budget Summary, 2015-16 salaries and benefits are in process.

Jon expressed some concern about the 2014-15 state revenue estimate. Opening enrollment this year was 762 students. It will be difficult to attain 774 Average Daily Membership as of March 2014, which is the measurement date for 2014-15 state aid.

The next Finance Committee is scheduled for November 12, 2013 at 4:00 pm.

Submitted by Jon Conklin