Finance Committee

Minutes

November 12, 2013

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

Absent: Richard Worrell, Kim Noble, Tim More

Guests: Harriet Hemphill and Richard Streitfeld from Aaronson Lavoie Streitfeld Diaz & Co.

Babak Taleghani called the meeting to order at 4:07 pm.

Richard Streitfeld and Harriet Hemphill from Aaronson Lavoie Streitfeld Diaz & Company attended the meeting to present the draft of the June 30, 2013 Audited Consolidating Financial Statements. Richard noted that the Independent Auditor's Report includes an unqualified opinion on the financial statements. He highlighted certain items in the Statement of Financial Position (balance sheet), the Statement of Activities (revenues, expenses, net assets), and the Statement of Functional Expenses. There were comments about the

increase in net assets (operating surplus), and Jon pointed out that $585,000 of costs relating to the playground/parking lot were pulled out of expenditures and capitalized on the balance sheet (Construction in progress at June 30, 2013). Richard briefly reviewed the Notes to the financial statements, indicating that there are no new disclosures and that certain notes, such as Commitments and Contingencies, Risks and Uncertainties, and Related Parties, are required. Richard said no formal Management Letter would be issued. Babak asked about the Supplementary Information section of the report, and Richard explained that this includes information and auditor reports relating to federal grant awards. Joop Nagtegaal moved that the Audited Consolidating Financial Statements be accepted. The motion was seconded by John Cariati and approved by the Committee.

Jon Conklin, Wendy Randle, Maria Monteiro, and Maria Palmgren left the room so the Finance Committee could exercise its responsibility as the Audit Committee and talk privately with the auditors. Jon, Wendy, Maria, and Maria then returned. The Committee thanked the auditors for their presentation, and Richard and Harriet left the meeting.

The Committee reviewed the minutes of the September 10, 2013 meeting. John Cariati moved that the minutes be approved. Dave Burnham seconded the motion, and the minutes were approved.

The Committee reviewed the Statement of Revenues and Expenditures through 9/30/2013 and the Balance Sheet as of 9/30/2013. Babak noted that two charter school aid payments had been received from the state, and he asked about Providence. Jon said the first quarter payment was received in October and the second quarter was billed late in October. Jon also noted that the balance of restricted grants/federal reflects set aside journal entries provided by RIDE. No funds were received or expended; these are book entry only, and offsetting expenses are recorded in various categories (mentoring, professional educational services, et al). Reimbursements for Title and 21st Century funds were received in October. Russell asked if there have been any surprises or unexpected variances in any expense categories. Jon said the sewer repair at the middle school and oil tank issue at the high school are the surprises to date. The oil tank has been drained, but DEM has not decided whether it can be filled or must be removed. Jon noted there have been several changes in personnel and duties since the start of the year, and he has not yet forecast the impact of these changes.

There was discussion about potential building maintenance costs. Jon reported on the recent Property Committee meeting, where members agreed we should be looking at a planning horizon in the five year range. This puts the lower school roof and boilers into consideration. There are also concerns about the middle and high school facilities, where the School is essentially responsible for all maintenance by explicit lease terms or by default (MS). Quotes have

been received in the past, and it appears the replacement reserve provides an adequate backstop for these items.

On the balance sheet, Jon noted that the playground/parking lot is now recorded in Property & Equipment. He also indicated that the balance of Accrued Expenses represents the estimate for the year for transportation to and from school.

Jon reported that the first semi-annual housing aid payments were received, $53,740 relating to facilities acquisition (bond principal and interest) and $11,752 relating to asset protection (masonry west wall, windows west wall, roof repair, foundation repair, locksets), and he proposed transferring the amounts to the capital replacement reserve. Russell Carey made a motion to recommend to the Board of Trustees that $53,740 plus $11,752 be transferred from operating funds to Board Designated Reserve – Capital Replacement. Dave Burnham seconded the motion, and it was approved.

Jon reviewed the Budget Summary, which is complete through the 2015-16 fiscal year. (2016-17 is in process.) Jon contacted the person at RIDE who calculates state charter school aid, and she suggested using flat funding for 2014-15. Otherwise, Jon used increases of 1-3% in revenue estimates.

For wages, Jon used the current step scale with no adjustments and 2-3% increases for wages not covered by the scale. For LS and MS

teachers, composite increases in the next two years are expected to be approximately 4% and 5%, respectively. For the HS, the increases are expected to be about 9% and 6% in the next two years. No turnover is assumed, which is probably not realistic, but there is no way to estimate the impact.

A percentage factor is used to estimate health care costs, and this is a significant unknown. The School has been fortunate with regards to rate increases (5.4% and 4.9% increases in last two years), but the impact of federal health regulations is not known. For other expense categories Jon used increases
of 1-3%. Facilities are assumed to be status quo. Babak pointed out that 2015-16 is the final year of the 10 year private placement note.

Russell noted there is a structural issue which needs to be assessed, but it will be necessary to estimate potential deficits in order to develop a comprehensive action plan. Measures can still be taken in the short and intermediate terms. Jon will extrapolate major revenue and expense categories in the Budget Summary based on trends noted above. There was discussion about changes in the variables which have the most significant impact on results of operations, namely enrollment and staffing. There was also discussion about fundraising. Russell explained that the discussion would inform the work of the Strategic Planning Committee. He, Babak, and Jon would provide the appropriate inputs to that process.

The next Finance Committee is scheduled for January 13, 2013 at 4:00 pm.

Submitted by Jon Conklin