

*Prairie Crossing Charter School
Board of Directors'
Finance Sub-Committee Meeting
Thursday 12 July 2007*

*Minutes
(Approved 16 August 2007)*

The minutes of a meeting of the Finance Sub-Committee held Thursday 12 July 2007 at 7:00 p.m. in the Kennicott Building of the Prairie Crossing Charter School campus in Grayslake, Illinois.

Present:

*Bob Bentz, Sub-Committee Member Bob Helle, Sub-Committee Member
Marcelo Chiodi, Sub-Committee Member Laura Elizabeth Fay, Sub-Committee Chair
Linda Wiens, Board President*

Opening of meeting

Laura Fay called the meeting to order at 7:10 p.m.

Public Comment

None

Discussion Agenda:

1. Composition of Finance Subcommittee:

Mrs. Fay introduced Marcelo Chiodi as the new and sixth member of the Subcommittee. Mr. Chiodi has over 20 years of corporate and field HR experience and has been with Kraft Foods for approximately 14 years. He is presently part of a project team that is helping to implement a new payroll system in 65 plants across the country. He has assisted in organizing the first annual St. Vincent DePaul 5k at Independence Grove involving 500 participants and generating over \$10,000. Mr. Chiodi is interested in leveraging his business and personal experience to help our school and community.

2. Enrollment report:

Mrs. Fay distributed an enrollment report reflecting:

<i>Grade</i>	<i>Projected enrollment</i>	<i>Registered at 10 July</i>	<i>Wait list at 10 July per website</i>
<i>Kdg</i>	<i>44</i>	<i>37</i>	<i>37</i>
<i>1</i>	<i>44</i>	<i>27</i>	<i>38</i>
<i>2</i>	<i>44</i>	<i>27</i>	<i>21</i>
<i>3</i>	<i>44</i>	<i>31</i>	<i>16</i>
<i>4</i>	<i>44</i>	<i>28</i>	<i>8</i>
<i>5</i>	<i>44</i>	<i>32</i>	<i>7</i>
<i>6</i>	<i>38</i>	<i>22</i>	<i>1</i>
<i>7</i>	<i>35</i>	<i>23</i>	<i>0</i>
<i>8</i>	<i>33</i>	<i>17</i>	<i>0</i>
<i>Total</i>	<i>370</i>	<i>243</i>	

The Administration had advised Mrs. Fay of possible additional enrollment losses as follows:

6th grade: 5 7th grade: 2 8th grade: 1

Mrs. Fay noted that enrollment revenues are our primary revenue source and it is critical to carefully monitor enrollment trends. She expressed concern over enrollment levels in the upper grade bands, as we have already

saturated lower grade bands to a temporary 22-per class maximum and indicated that it will be important in the coming months to evaluate the cause of upper grade band attrition. Mrs. Wiens agreed, adding that it is a good opportunity as our Charter comes up for renewal to determine if it is appropriate to eliminate the upper grades from our program and increase lower grades accordingly.

Mrs. Fay expressed her concern that we might enter the beginning of the school year with our first ISBE reporting at over 360 students, as ISBE has made it clear that enrollment over 360 and up to 432 students will require financial review and renegotiation of our per capita tuition rates. She noted that the result could be that we educate more students at a greater cost but receive less total revenue. Mr. Bentz noted the possibility that we may lose students over the summer months so that we're not exceeding the 360 maximum when the first IBSE enrollment report is due in August.

3. Report from Business Manager

Mrs. Fay advised that she had requested preliminary FYE financial statements to be provided to the Subcommittee in advance of the meeting electronically to allow adequate time for these lengthy documents to be reviewed and discussed thoughtfully and was discouraged that this had not been done. (Mrs. Wiens had produced a preliminary FYE income statement for 30 June 2007, a balance sheet and a report from the Director of Development and Community Relations for Mrs. Fay to copy and distribute to Subcommittee members at the beginning of the evening's meeting) Mr. Bentz asked if anyone knew why there was no Administrative staff present. Mrs. Fay advised that she was aware that Myron Dagley was on holiday but had expected the Business Manager and the Director of Development and Community Relations to attend to present and discuss their reports.

The cash flow forecast was discussed in detail. Mrs. Fay advised that she had requested that the cash flow forecast be extended to the fiscal year end pursuant to terms of our Charter Renewal Agreement with ISBE, which requires this report no later than the 1st of July. The forecast provided terminates at the end of August 2007 and showed a cash deficit of \$49,463 as of the 17th of August, with a notation that the \$65k mortgage payment could be held. The forecast seemed to assume full utilization of the \$250k working capital line of credit in July but this was uncertain..

There was discussion about the past few cash flow forecasts and it was noted that they showed some volatility and / or inconsistency. Mrs. Fay produced forecasts from the June Finance & Fund-raising meeting and from the June Board meeting held on the 10th of July and some major differences, including debt service levels, were identified. Mr. Helle noted that it didn't appear that ISBE revenues had been adjusted downward following receipt of final PCT rates. Mrs. Fay added her concern that it appears that we will be in a crisis if our ISBE check is delayed and not received until after the default date on our mortgage loan (payment is due on the 16th and late after the 26th), or more critically after the 31 August payroll is due. Mr. Bentz indicated that he had heard that the State may be delayed in approving their annual budget and that this could adversely impact receipt of our first PCTR funding. Mrs. Fay indicated that she would follow up with ISBE on this to see if they have a contingency plan for schools.

Mrs. Fay indicated her concern that we are operating a \$4 million budget consisting primarily of public tax dollars and nearly \$12 million in facilities without an annual cash flow forecast. She advised that she was concerned about the Administration's recent decision to repaint the interior of the Anna B Comstock building after two years of use without having available the management tools necessary to assure that we will be able to make payroll over winter break. She indicated that in the prior year, she had designed and maintained a rolling 12-month cash flow forecast including best / worst / most likely case scenarios that was reviewed and updated this document with Dr. Brazdil on a regular basis. This template was provided to the Business Manager when she joined the staff, and while Mrs. Fay indicated that she is willing to accept any format, absence of this fundamental information is a key concern, particularly as it is required by ISBE. She noted that a cash flow

forecast is an essential management tool as well as a means of effective fiscal oversight. Mr. Chiodi agreed that an annual cash flow statement is essential and asked if anyone knew why the Administration had not provided this information, if it was the result of lack of staff or inaccurately perceived priorities. He suggested that given the years that PCCS has been operating, we should have adequate information to be able to produce trending reports Mrs. Fay advised that she did not know why the annual cash flow forecast has not been prepared and does not know when the Administration will have this available, but assured the Subcommittee that she would urge the Administration to address this.

Mrs. Wiens asked where in the list of Administrative priorities preparation of an annual cash flow forecast should fall, and Mr. Bentz responded that it is impossible for the Board to exercise responsible financial oversight without this information. Mrs. Wiens countered that we may be imposing unreasonable expectations on our Administrative staff, as they do not have time to do all of the things that we want. Mrs. Fay reminded her that this information was available last year when our Administrative staff was considerably smaller and that if our expanded staff is unable to produce basic financial reporting as required by our Charter Agreement on a timely basis, Mr. Dagley is responsible to resolve this

4. Line of Credit Status:

Based upon information provided, it appeared that \$70k was drawn as of 30 June (per the balance sheet), and another \$80k was to be drawn in the second half of July. It was unclear why the cash flow forecast reflected repayment of \$200k (v. \$250k) in the second half of August after an indication that we would likely hold our mortgage payment past the due date.

Supporting documentation as required by Board resolution passed 20 March 2007 was not available. (documentation as to the specific purpose for the request as well as a defined repayment plan). Mr. Helle noted his opinion that this information is impossible to provide, since the need for the line is actually a result of shortfalls in the previous two years. He believes this requirement sets up the Administration to fail.

5. Preliminary year-end financial statements for 30 June 2007 (actual v. budget):

This item was tabled due to the absence of Administrative staff to respond to inquiries and due also to a lack of time and opportunity for Subcommittee members to review information distributed at the beginning of the meeting. Mrs. Fay advised that in future months, if statements are not provided in advance of the meetings or if the Administration is not present at the Finance meetings, she would not ask the Subcommittee to approve preliminary financial statements to be presented to the Board, as she does not feel that we can exercise appropriate due diligence without time to review statements or have any questions or concerns adequately addressed by the Administration..

6. Preparation for fiscal 2006 07 audit:

Mrs. Fay indicated that a meeting was pending with the auditors to review the PBC (items to be Prepared By Client) list and to overlay a timetable on these items. Mrs. Wiens asked who would be managing the audit process. Mrs. Fay advised that the Administration would work with auditors to provide items on the PBC list and to answer any questions and facilitate the process, and that the Finance Subcommittee would oversee the process, with update reports to be provided by the auditors on a regular basis (likely weekly but to be established during the initial meeting with the auditors).

Mrs. Wiens expressed concern that the Subcommittee is overstepping into management responsibilities and asked Mr. Chiodi for his professional opinion. Mr. Chiodi advised that his experience was that staff gave the auditors any information that they requested but did nothing else and did not have an ongoing relationship with the auditors - this was reserved for an oversight committee. He suggested that common sense would dictate that an independent group should manage and oversee the audit process to avoid any potential conflict of interest, since a key component is to evaluate management's internal controls and processes. Mr. Chiodi added

that it is a good idea to have periodic meetings with the auditors to assure that the process is proceeding as anticipated and to be aware of potential concerns on a timely basis so that they can be adequately addressed..

In response to Mr. Chiodi's question regarding why the Administration would object to a member of the Subcommittee being involved in the audit, Mr. Helle suggested that he believed the Administration was more concerned about the likely person from the Subcommittee than the concept of a member being involved.

Mr. Bentz advised that he had recently reviewed information regarding the Sarbanes-Oxley Act and it was his opinion that the Finance Subcommittee, serving in the capacity of an Audit Committee, should provide oversight during the audit process and should monitor progress periodically. He agreed that the Administration's role is to provide any documents requested by the auditors and to respond to any questions, and that the selection of auditing firms, the scope of the audit, monitoring progress and being presented with audit results prior to issuance of the final report are responsibilities of the Finance Subcommittee.

Mrs. Fay referred to our Bylaws that charge us with assisting the Corporation in the interviewing and selecting of accounting professionals to conduct the annual audit and reviewing any recommendations.

7. Program to market multi-purpose gymnasium and other facilities to generate rental revenues:

This item was tabled due to absence of staff and absence of report. Mrs. Wiens asked for it to be noted in the minutes that Mrs. Fay has inaccurately described her offer to assist Mrs. Burks in marketing the facilities for rental. Rather, Mrs. Wiens has expertise in understanding the cost to use facilities compared to what you will have to charge in order to generate a profit. Mrs. Fay advised that it would be noted that Mrs. Wiens' expertise is in marginal cost analysis rather than in marketing and apologized for the inaccuracy.

8. Report from Long-Term Facilities Maintenance Task Force (an Administrative Task Force):

Mr. Helle indicated that while he serves as a member, he is not involved enough to present a report on behalf of the Task Force. He indicated his desire that the discretionary painting of the Anna B Comstock building be held until the Administration has more information regarding fund-raising revenues to be received over the summer months, stressing that he was trying to be careful not to speak for the Task Force. There has been progress made on the HVAC (heating, ventilation and air conditioning) side of the PM (preventive maintenance) program and Mary Burks is attempting to address the program systematically by discipline.

Mrs. Fay indicated that Mr. Dagley had advised at the most recent Board meeting that he did not intend to have a comprehensive facilities budget available in the near term as Mrs. Burks has more pressing priorities to address.

9. Report from Director of Development & Community Relations:

Mrs. Wiens indicated that it is her intent to ask Mrs. Athreya to add a totals line and to reflect those that are 75% or more certain of approval and funding on her pipeline report. Mr. Helle indicated that it would be helpful to have a column with dollars, one with probability of success and a result column with \$ times %. He added that risk and uncertainty is in assigning probability to each item and suggested that it would be helpful for cash flow forecasting for the report to be segregated by fiscal year in which funds are expected to be received.

Mrs. Fay advised that she understands that Mr. Dagley feels that they are still on track to bring the long-term fundraising & development plan to the August Finance meeting.

10. Annual review of insurance coverage and companies:

This item was tabled due to an absence of information. Ms. Wiens asked why this agenda item was part of the Finance Subcommittee's scope and Mrs. Fay indicated that our Bylaws charge us with reviewing insurance coverage and insurance companies for the Corporation. She further advised that in past years, Dr. Brazdil had included a representative of the Subcommittee in meetings with our insurance broker to bring in additional

expertise. This is a significant expense, represents a term of our Charter Agreement and is a key component of overall risk management.

11. IFF bond financing application status:

Mrs. Fay advised that she remains in communication with Jill Levine of the IFF and will forward preliminary June financial statements after they have been approved and presented to the Board.

12. Report from the PSO:

Mrs. Fay advised that PSO President Michelle Helle indicated that the new PSO officers met with the outgoing P SO officers on the 11th of July to exchange information and discuss procedures. In the next few weeks the new officers will meet and begin planning for the new year. Mrs. Helle had advised that more information would be available at the next scheduled quarterly meeting of the Finance and Fund-raising in September.

13. Report from Prairie Holdings, LLC:

This agenda item was tabled due to absence of information.

14. Construction project status:

Mr. Helle advised that approximately \$24.5k is available in the "escrow" (PCCS Holdings LLC demand deposit) account and this should cover the final seeding with a cushion remaining. Mrs. Fay asked if all costs that were anticipated to be paid from the final construction funds are now satisfied. Mr. Helle responded that Phase I LEED approval has been covered, Phase II LEED certification remains on hold and all items detailed in the February report to the Board have been paid from construction funds.

Public Comment

None

Action Items

Due to the delay in receiving statements and the absence of staff to respond to inquiries, preliminary financial reports for FYE 30 June 2007 were not approved.

New & Other Business

Mr. Bentz asked if anyone had information relating to the Administration's proposal to use the YWCA as an after-school care service provider. He asked if the figure on the 2007 08 budget was intended to be a net to the school number and if using an outside service provider would have an impact on the budget or if it was designed to be a pass-through. There was no response to his inquiry and he advised that he would follow up with the Administration and ask that they provide clarification at the next Finance meeting. He indicated also that he had not heard any progress on the Administration's investigation into whether PCCS employees are required to be included in the Illinois Municipal Retirement System, a request made at the June Finance & Fund-raising Committee meeting, or why PCCS is apparently paying non-TRS teachers both the cash equivalent of the TRS paid to certified teaching staff PLUS the employer contribution to Social Security, representing a compensation inequity.

Public Comment

None

Adjournment

Bob Bentz made a motion seconded by Bob Helle to adjourn at 8:10. The motion carried.

Respectfully submitted

Laura Elizabeth Fay

Finance Sub-Committee Chair