



Minutes

Board of Directors Finance Committee Meeting
Thursday, August 28, 2014, 7:30-8:30AM
7808 Cherry Creek S. Dr. 3-300 Denver, CO 80231

Committee Members present:

Pat Donovan (by phone)
Rich Billings (by phone)

Committee Members absent:

Nick Waugh

Others present:

James Cryan
Amy Zhu
Mike Turner
Rebecca Kisner

Proceedings:

Meeting called to order at 7:35am.

Report by Amy Zhu, Manager of Finance:

Amy reviewed the agenda for the finance committee and provided an executive summary.

Amy briefly reviewed the FY14 financials, which closed within 4% of budgeted expenses, resulting in \$283k surplus, although missed the bottom line by 80k.

Amy briefly reviewed the FY15 budget, which includes the need to raise \$1.4m to meet needs across schools and foundations. The RMP central office is projecting an 8% management fee for schools.

Rich asked how the management fee relates to STRIVE and DSST. Amy felt it was slightly higher but not out of line. Pat asked if the management fee will diminish over time with economy of scale. James responded that with a higher management fee, the central office has a lower philanthropic need but the school takes longer to get to sustainability, and it's good to think about in terms of expenses per student.

Rich asked how well the budget compares to our strategic plan. James said it was slightly off but the plan will be revised and brought to the board for approval. Amy offered to do some comparisons and look at the split of expenses across several categories.

Amy reviewed the finance priorities for FY15, which include meeting compliance reporting, strengthening strategic projections for growth, and establishing tighter financial processes and control.

Based on the CSSI visit last spring and the board retreat this summer, Amy is working on a draft of policies around financial spending to bring to the finance committee for approval.

Amy introduced the RMP Foundation and our current thinking on governance and structure.

Amy reviewed the FY14 budget in more detail, including the missed surplus target by 22% due to heavier spending. Next steps are a focus on updating financial model for sustainability analysis, a focus on larger grants for revenue, and a focus on establishing clarity on budget ownership and clear tracking.

Amy reviewed the FY14 monthly cash balance by month. Rich suggested projecting the timeline of philanthropy for FY15, as well as the timing of the output of facilities capital for the second school.

Amy reviewed the breakdown of financials between three different business units; RMP1, RMP2 and the RMP Foundation. Highlights include RMP1 projecting to break even, which is based on a \$765k operating need. She is



assuming half a million in capital needs. The current deficit is 22% of public revenues.

Rich asked to see the ongoing fundraising targets as a part of the finance committee presentations. Mike Turner, Director of Strategy and Operations, is bringing the strategic plan for development to the September board meeting.

Amy reviewed the draft of the RMP Finance scorecard, which includes targets for cash flow, enrollment, budget, net assets and annual fundraising.

Pat and Rich felt that 5% over the board approved budget seems high to be considered "green." Pat recommended 1-2%, Rich recommended 0%. They recommended the same shift for the net assets target.

Amy supplied more detail on the FY15 finance priorities, including the need to hire a staff accountant in the near to immediate future.

James provided an overview of the RMP Foundation: RMP and the current board will remain the primary organization who will hire the CEO and hold the school charters. The foundation will have a distinct board from RMP and will be a service corporation to RMP.

The RMP Foundation services will include the teaching fellows program and support services such as advertising and marketing, community engagement, finance, fundraising, hiring and talent, and operations.

The rationale to explore the Foundation is that one of our biggest expense risks is human capital costs and the dramatically rising cost of health and required pension benefits. Moving our human capital line item to a foundation allows us to mitigate that risk and provide a richer benefit for a similar contribution.

Pat asked if it's possible to put current board members on the foundation board. Mike answered that there are two seats on the foundation board for current RMP board members. Rich said at Rocketship, the "master" board has the ability to appoint board members of the Foundation.

Benefits from the Foundation structure could include:

1. Cost savings on PERA/PCOPS for fellows
2. Richer benefits, i.e. 403(b) matches - 5%, we will propose 4 or 5% match

Rich suggests considering the ERISA vs. non-ERISA considerations for 403b plans. Specifically consider matching younger employee interests - can be creative.

Next steps on foundation set-up include:

- a) Establish decision rights for various levels of the entity (i.e. explore RMP Board being sole member of the new Foundation Board?)
- b) Establish a management contract between RMP / Foundation / School

Pat suggests creating an education piece for the Board on the Foundation legal set-up. The topic could be discussed in early October.