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PRIVATE SCHOOL PRACTICE GROUP WINTER 2014

A Message from the Private School Practice Group

See Your School's Financial Statements Through the Eyes of Your Banker

Remember the good old days when you simply mailed a copy of your year-end financials to your banker and that was it? Now, with reduced enrollment resulting in bottom line losses and deterioration in the School's statement of financial position, banks are more concerned.

So what does this new attitude from banks mean for your School? If you are a financially healthy School, perhaps not much. But, if your financial results are marginal, worse than previous years or not meeting budget, be prepared to have some difficult conversations with your banker. We are strong proponents of communicating with your banker, and doing it long before the problem arises. It could be that your banker is in a position to provide advice, additional funds or perhaps a restructure of your debt to help ease cash flow requirements. Perhaps not, but if you don't ask, you'll never know. If you try to hide bad news, it's only a matter of time before the bank finds out anyway.

Please contact us if you have any specific questions about our experience dealing with bankers when obtaining, refinancing and restructuring debt.

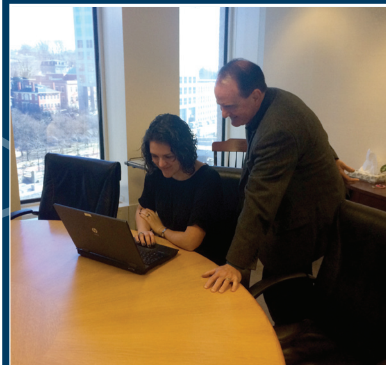
Brooke

Ned McCrory and Brooke Rossi
Private School Practice Group
Batchelor, Frechette, McCrory, Michael & Co.

BANK RELATIONSHIP TIPS

- Read your loan documents and determine what covenants your bank and the School agreed to.
- Analyze your loan covenants and assess if your School will meet the various covenants.
- If you project you might, or based on actual results, have loan covenant violations immediately involve your Treasurer, Board and Finance Committee and communicate with your banker.

Make sure to visit the redesigned, reimagined and revamped BFMM website today, at bfmmcpa.com



Ned McCrory and Brooke Rossi of the Private School Practice Group.

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Return Service Requested

A Closer Look at Loan Covenants.

- **As you review your loan covenants through the banker's lens, it's important to know which ones they often focus on:**

  » **Debt Service Coverage** - This is the most critical. Usually this covenant says that the cash flow of the School must be 1.15 or 1.5 times the debt service coverage. This ratio is usually defined as the increase or decrease in unrestricted net assets before interest expense, depreciation/amortization, LESS any unfunded capital purchases all divided by the total scheduled principal payments on long-term debt and interest expense.

  » **Audit Requirement** - If it is required, make sure to have year-end statements audited and delivered on time. Sounds simple, but the Board may want to drop down to a review to save money, but the audit requirement is a big deal to the Bank.

  » **Leverage Ratio, also called Debt to Equity** - This figure is calculated by dividing total debt by the net assets on the statement of financial position. The lower the number, the better. This ratio can increase significantly when operating losses combine with additional debt. This is concerning to the Bank because it indicates more financial resources are needed for debt service, leaving less for student services.