



STIFEL

CRAFTING A \$TRATEGY

WITH YOUR (XTERNAL) FINANCE TEAM



LEARN TODAY!
LEARN TOMORROW
November 7-8

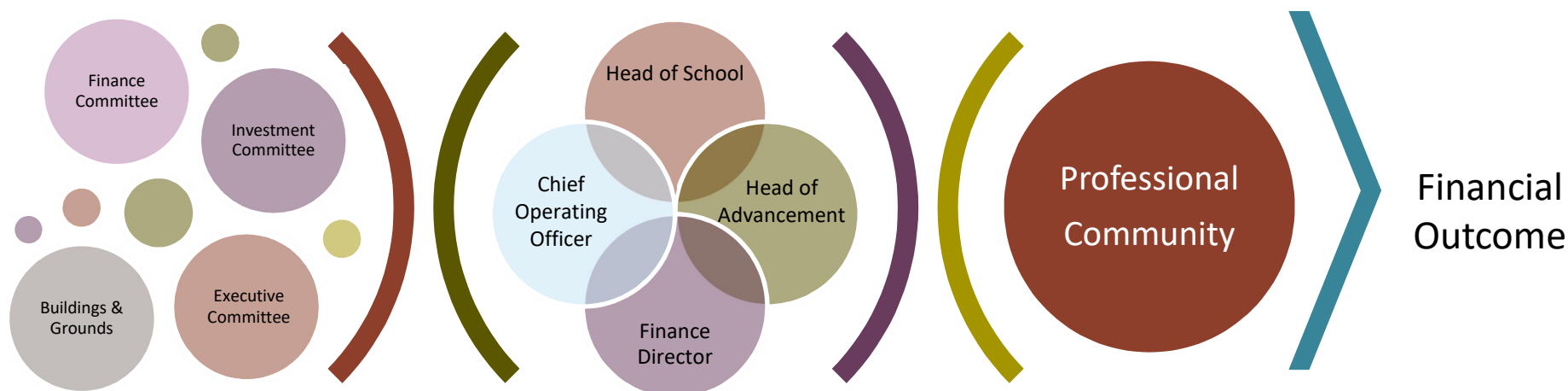
Presentation Objectives

page 2

- ✓ Who... is on the Team
- ✓ When.... do You Engage the Team?
- ✓ What... is Your Strategic Financial Plan?
- ✓ Where... are You Going?
- ✓ Why... are we here?

Who is on Your Team

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Board of Trustees

Establishes, defines and upholds mission and vision of the School

- Executive Committee
- Finance Committee
- Advancement Committee
- Buildings & Grounds

School Staff

Determines scope and creates operational direction to execute on mission and vision

- Head of School
- Chief Financial Officer
- Head of Development
- Chief Operating Officer

External Support

Provides context as well as specialized products and services to enable the board and staff to deliver on mission and vision

- Feasibility Consultant
- Financial Institution
- Investment Banker/Advisor
- Investment Manager
- Accountant
- Architect / Engineer
- Contractor
- Owner's Representative
- Legal Counsel

Benefits to Early Engagement

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- Define the Goals & Objectives – Internal
 - Align Goal with Mission
 - Institutional Capacity
 - Resource Allocation

- Define the Goals & Objectives II – External
 - Industry Context
 - Professional Insights
 - Valid Alternatives

- Scenario Testing Alternatives
 - Eliminate Missteps
 - Converge on a Narrative
 - Save Time & Money

- Create Buy-In
 - Donors
 - Lenders / Investors
 - Constituents

Pulling the finance team together / Mapping out a Strategy

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	Bridge Revolver	Land Locked Revolver	Working Capital Revolver	Tax Exempt Term Loan	Taxable Term Loan	Public Bond Issuance	New Markets Tax Credit
Closing Costs: <ul style="list-style-type: none"> • Bank Counsel Fees • Borrower Counsel Fees • Rating Fee • Authority Counsel Fees • Authority Approval Fee • Bond Counsel Fees • NMTC Consultant Fee • Underwriter Fee • Financial Advisor Fee 	Minimal <ul style="list-style-type: none"> • ✓ • ✓ • ✗ • ✗ • ✗ • ✗ • ✗ • ✗ • ✗ • Optional 	Minimal <ul style="list-style-type: none"> • ✓ • ✓ • ✗ • ✗ • ✗ • ✗ • ✗ • ✗ • ✗ • Optional 	Minimal <ul style="list-style-type: none"> • ✓ • ✓ • ✗ • ✗ • ✗ • ✗ • ✗ • ✗ • ✗ • Optional 	<ul style="list-style-type: none"> • ✓ • ✓ • ✗ • ✓ • ✓ • ✓ • ✗ • ✗ • Yes 	Minimal <ul style="list-style-type: none"> • ✓ • ✓ • ✗ • ✗ • ✗ • ✗ • ✗ • ✗ • ✗ • Yes 	<ul style="list-style-type: none"> • ✓ • ✓ • ✓ • ✓ • ✓ • ✓ • ✗ • ✓ • Yes 	<ul style="list-style-type: none"> • ✓ • ✓ • ✗ • ✗ • ✗ • ✗ • ✓ • ✗ • Yes
Involved Parties: <ul style="list-style-type: none"> • Financial Advisors • Bank Attorneys • Bond Attorneys • Borrower Attorneys • Rating Agency • NMTC Consultant • Underwriter 	<ul style="list-style-type: none"> • Optional • ✓ • ✗ • ✓ • ✗ • ✗ • ✗ • ✗ 	<ul style="list-style-type: none"> • Optional • ✓ • ✗ • ✓ • ✗ • ✗ • ✗ • ✗ 	<ul style="list-style-type: none"> • Optional • ✓ • ✗ • ✓ • ✗ • ✗ • ✗ • ✗ 	<ul style="list-style-type: none"> • Yes • ✓ • ✓ • ✓ • ✗ • ✗ • ✗ • ✗ 	<ul style="list-style-type: none"> • Yes • ✓ • ✗ • ✓ • ✗ • ✗ • ✗ • ✗ 	<ul style="list-style-type: none"> • Yes • ✓ • ✓ • ✓ • ✓ • ✗ • ✓ • Yes 	<ul style="list-style-type: none"> • Yes • ✓ • ✗ • ✓ • ✗ • ✗ • Optional • ✗

Becoming Your 'Best Credit Self'

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Market Position (35%)

- Operating Revenues
- Primary Selectivity
- Primary Matriculation
- Net Tuition per Student
- Average Gift per Student

Operating Performance (20%)

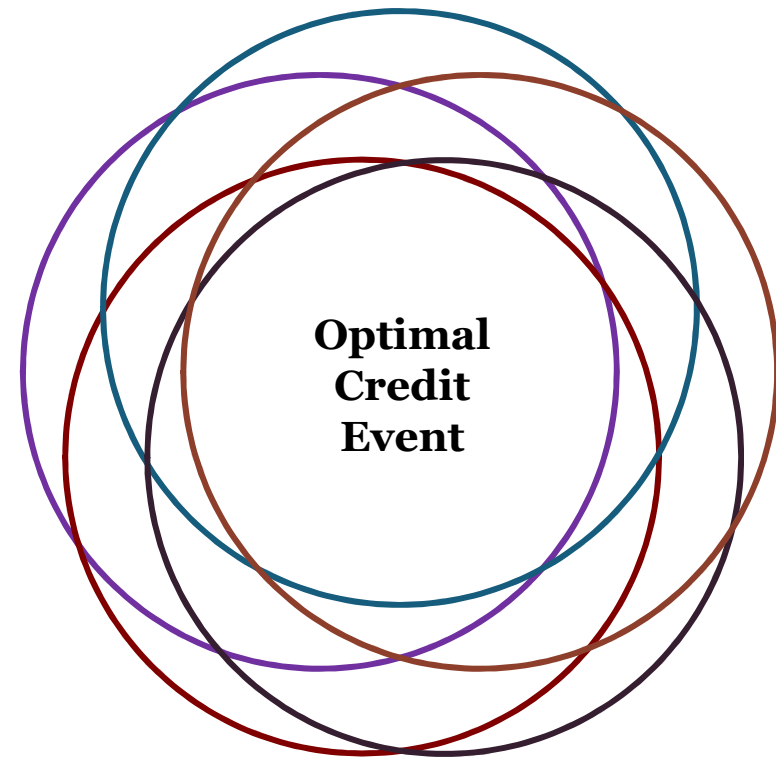
- Operating Cashflow Margin
- Average Debt Service Coverage
- Revenue Diversity (single max contribution)

Balance Sheet & Capital Investment (45%)

- Total Cash & Investments
- Expendable Financial Resources to Direct Debt
- Expendable Financial Resources to Operations
- Debt to Operating Revenues (Debt Burden)
- Monthly Days Cash on Hand
- Monthly Liquidity to Demand Debt

Governance & Management

Legal Security and Debt Structure



The External View

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Rating agencies (lending institutions, investors) focus in on certain credit metrics to determine financial viability. The primary areas of measurement fall into the primary categories that appear on the Moody's Scorecard:

US Independent School Scorecard

US Independent School Scorecard, 2013

US Independent School Scorecard Rating Category: Metric Ranges Legend

Factor 1: Market Position (35%)

Scorecard Results -

	Sub-Factor Weights	Value	Score	Implied Rating
Factor 1: Market Position: (35%)				
Operating Revenue (\$000)	10%			
Primary Selectivity (%)	10%			
Primary Matriculation (%)	5%			
Net Tuition per Student (\$)	5%			
Average Gifts per Student (\$)	5%			

Aaa	Aa	A	Baa	SG
≥ 69,000	< 69,000 ≥ 37,000	< 37,000 ≥ 18,000	< 18,000 ≥ 12,000	< 12,000
≥ 16	> 16 ≤ 24	> 24 ≤ 64	> 64 ≤ 81	> 81
≥ 87	< 87 ≥ 70	< 70 ≥ 50	< 50 ≥ 41	< 41
> 33,000	< 33,000 ≥ 31,000	< 31,000 ≥ 16,000	< 16,000 ≥ 10,000	< 10,000
≥ 28,000	< 28,000 ≥ 13,000	< 13,000 ≥ 3,000	< 3,000 ≥ 1,000	< 1,000

Factor 2: Operating Performance (20%)

Scorecard Results -

	Sub-Factor Weights	Value	Score	Implied Rating
Factor 2: Operating Performance: (20%)				
Operating Cash Flow Margin (%)				
Average Debt Service Coverage (x)				
Revenue Diversity (Max Single Contribution) (%)				

Aaa	Aa	A	Baa	SG
≥ 390,000	< 390,000 ≥ 142,000	< 142,000 ≥ 36,000	< 36,000 ≥ 16,000	< 16,000
≥ 6.3	< 6.3 ≥ 3.6	< 3.6 ≥ 1.4	< 1.4 ≥ 1.1	< 1.1
≥ 7.5	< 7.5 ≥ 2.7	< 2.7 ≥ 1.0	< 1.0 ≥ 0.4	< 0.4
≤ 0.30	> 0.30 ≤ 0.70	> 0.70 ≤ 1.30	> 1.30 ≤ 1.80	> 1.80
≥ 1,100	< 1,100 ≥ 770	< 770 ≥ 270	< 270 ≥ 140	< 140
No Variable Rate Debt or ≥ 380	< 380 ≥ 290	< 290 ≥ 180	< 180 ≥ 130	< 130

Factor 3: Balance Sheet and Capital Investment (45%)

Scorecard Results -

	Sub-Factor Weights	Value	Score	Implied Rating
Factor 3: Balance Sheet and Capital Investment: (45%)				
Total Cash and Investments (\$000)	10%			
Expendable Financial Resources to Direct Debt (x)	10%			
Expendable Financial Resources to Operations (x)	10%			
Debt to Operating Revenues (x)	5%			
Monthly Days Cash on Hand (x)	5%			
Monthly Liquidity to Demand Debt (%)	5%			
(if no VRDO exposure, please indicate in value field, "No VRDOs")				

Aaa	Aa	A	Baa	SG
≥ 390,000	< 390,000 ≥ 142,000	< 142,000 ≥ 36,000	< 36,000 ≥ 16,000	< 16,000
≥ 6.3	< 6.3 ≥ 3.6	< 3.6 ≥ 1.4	< 1.4 ≥ 1.1	< 1.1
≥ 7.5	< 7.5 ≥ 2.7	< 2.7 ≥ 1.0	< 1.0 ≥ 0.4	< 0.4
≤ 0.30	> 0.30 ≤ 0.70	> 0.70 ≤ 1.30	> 1.30 ≤ 1.80	> 1.80
≥ 1,100	< 1,100 ≥ 770	< 770 ≥ 270	< 270 ≥ 140	< 140
No Variable Rate Debt or ≥ 380	< 380 ≥ 290	< 290 ≥ 180	< 180 ≥ 130	< 130

Factors 4 & 5: Governance and Management, Legal Security and Debt Structure, and Other Credit Specific Considerations

Scorecard Results -

	Sub-Factor Weights	Value	Score	Implied Rating
Factors 4 & 5: Governance and Management, Legal Security and Debt Structure, and Other Credit Specific Considerations				
4) Governance and Management				
a. Board and Senior Management Composition (e.g.: director expertise and tenure)	Neutral			
b. Oversight, Disclosure Practices and Risk Management (e.g.: conflict of interest policies, risk management practices)	Neutral			
c. Short and Long-Range Planning (e.g.: multi-year financial plans, budgets and scenarios, investment management)	Neutral			
d. Self-Assessment and Benchmarking (e.g.: key performance indicators)	Neutral			
e. Government and Stakeholder Relations (e.g.: local community relationship, donor support)	Neutral			
5) Legal Security and Debt Structure				
a. Bondholder Security Provisions (e.g.: legal pledge, debt service reserve fund, restrictive covenants)	Neutral			
b. External Financing Terms and Conditions (e.g.: amortization structure, counterparty risk, covenant headroom)	Neutral			
Other Credit Specific Considerations				
a. Multi-Year Trends (e.g.: enrollment or operating performance trends)	Neutral			
b. Marketable Real Estate (e.g.: unused land)	Neutral			
c. Event Risk (e.g.: natural disasters, legal judgments, security incidents)	Neutral			
d. Other Factors (e.g.: future debt plans, expected capital campaign, program changes)	Neutral			
Net Notching			0.0	

Weighted Score Legend:

Aaa	≤ 1.5	Ba2	> 11.5, ≤ 12.5
Aa1	> 1.5, ≤ 2.5	Ba3	> 12.5, ≤ 13.5
Aa2	> 2.5, ≤ 3.5	B1	> 13.5, ≤ 14.5
Aa3	> 3.5, ≤ 4.5	B2	> 14.5, ≤ 15.5
A1	> 4.5, ≤ 5.5	B3	> 15.5, ≤ 16.5
A2	> 5.5, ≤ 6.5	Caa1	> 16.5, ≤ 17.5
A3	> 6.5, ≤ 7.5	Caa2	> 17.5, ≤ 18.5
Baa1	> 7.5, ≤ 8.5	Caa3	> 18.5, ≤ 19.5
Baa2	> 8.5, ≤ 9.5	Ca	> 19.5, ≤ 20.5
Baa3	> 9.5, ≤ 10.5	C	≥ 21.5
Ba1	> 10.5, ≤ 11.5		

Reverse Engineering Credit Criteria

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An institution's Debt Burden reflects how much of the of annual Adjusted Operating Expenditures is committed to repaying annual debt service, and therefore is unavailable to fund other expenses that could further the mission of the institution.

$$\text{Debt Burden} = \frac{\text{Average Annual Debt Service}}{\text{Operating Expenditures}}$$

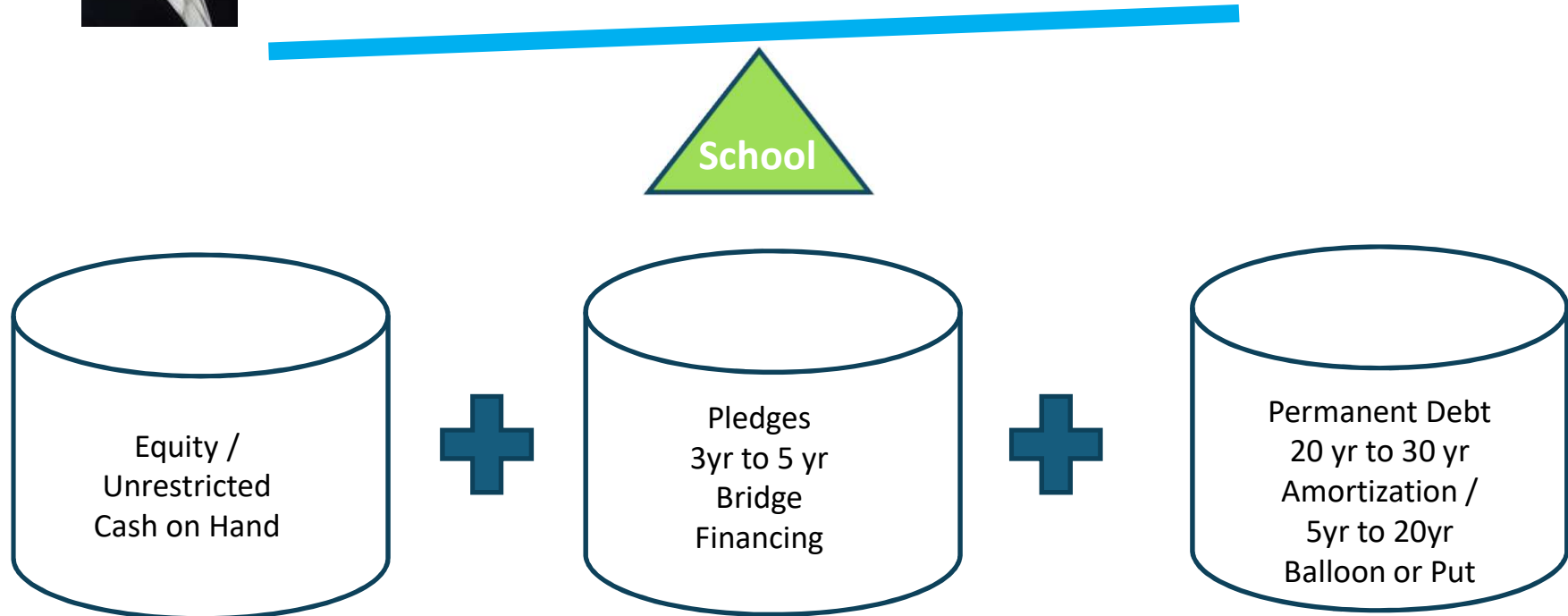
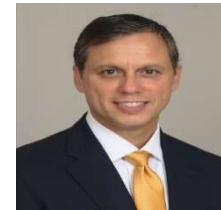
Potentially Indicates:

- Overreliance on debt
- High level of debt, in general
- Improperly structured debt
- Expense base (operations) too narrow for capital investment

Components of the Financing

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What is the most efficient way to finance your project? ***The Balancing Act!!***



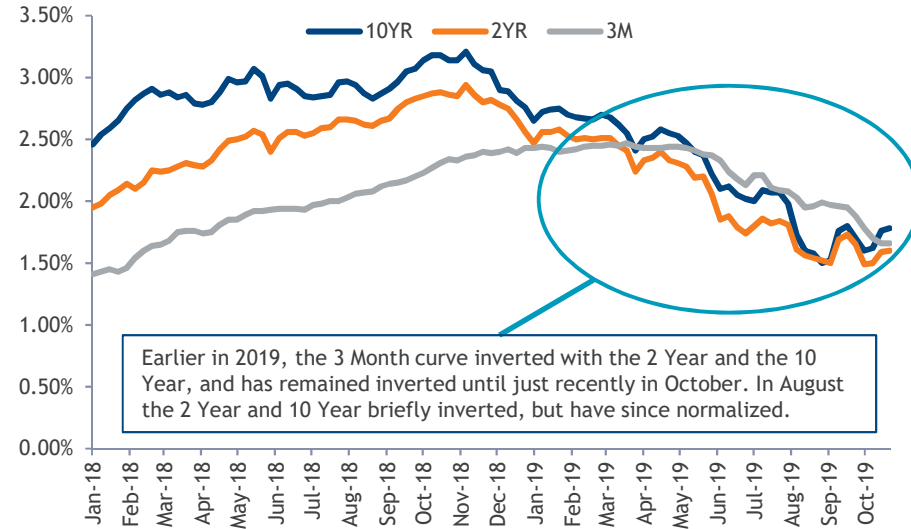
Looking Forward, Seeing Around Corners – Asking the Right Questions

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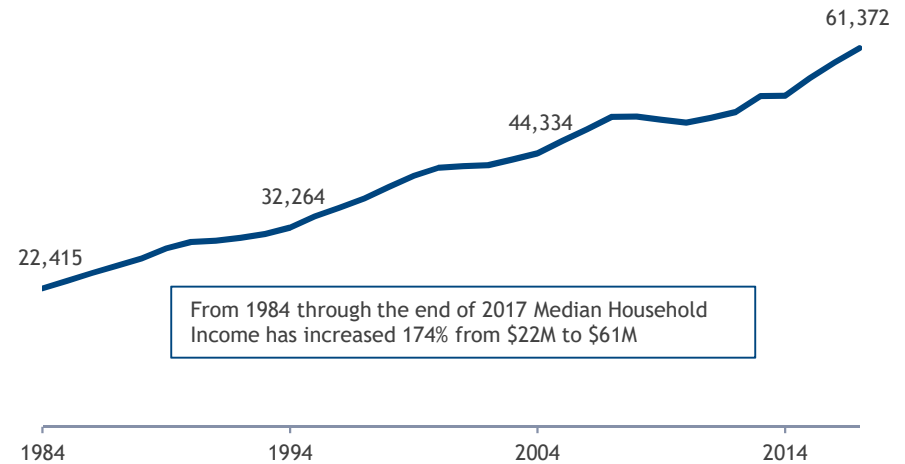
1. Getting on the same page with the chair of the finance committee
 - a) Pull your Finance Chair into meetings with your Advisors in the early planning phase
 - b) Having a plan of finance / strategy to take back to the full finance committee and ultimately the full board
2. Don't underestimate the importance of Unrestricted Liquidity on the Balance Sheet
3. How to avoid deal Fatigue
 - a) Spend time on the front end fielding your external finance team
 - b) Trust your team
 - c) Never shy away from asking "Why" throughout the process, negotiation and ultimate funding of your project
4. If Everything is Important, Nothing is Important!

How to Look Forward and See Around Corners: Key Factors Impacting Sector page 11

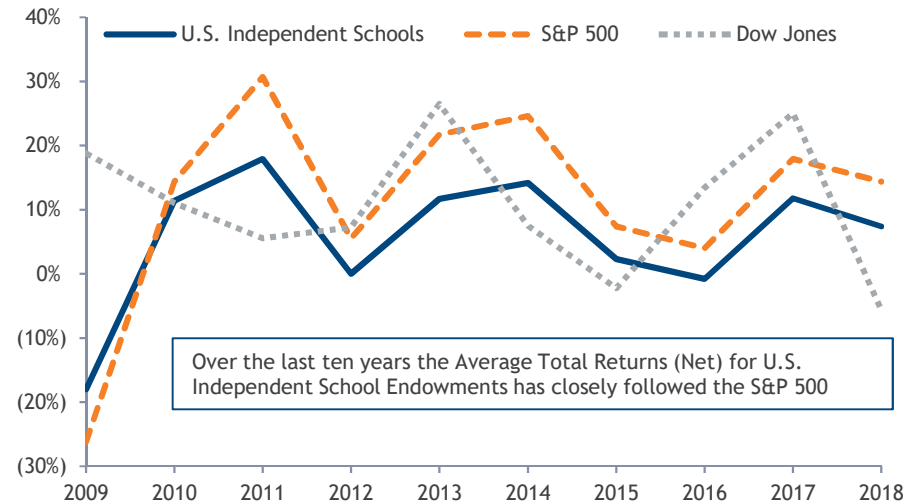
Treasury Yields



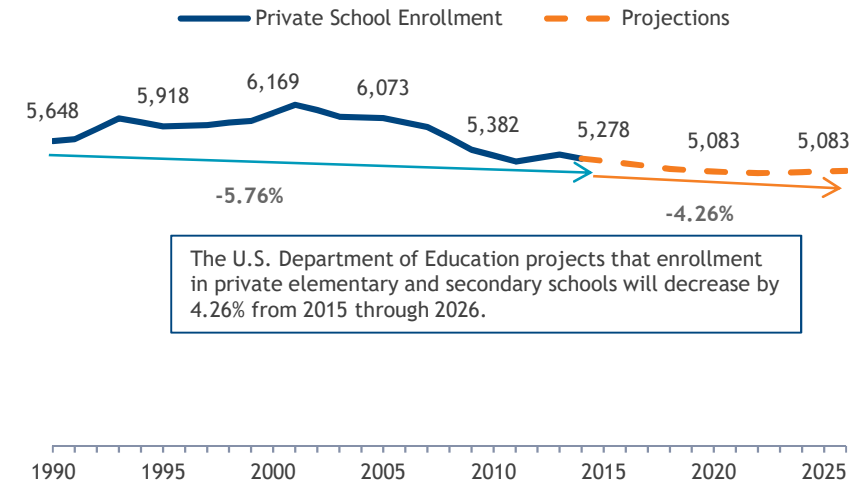
Median Household Income in Current Dollars



Average Total Returns (Net) for U.S. Ind. School Endowments



U.S. K-12 Private School Enrollment Projections (In 000s)





“Ok, I think I got it. But just in case... tell me the whole thing again, I wasn’t listening.”

~ Emmet Brickowski

Thank You!

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QUESTIONS?



COMMENTS?

THANK YOU!

Appendix

Presenters' Resumes



David Adams
Director
Independent School Finance

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adamsdav@stifel.com

DAVID ADAMS is a Director with Stifel, Nicklaus & Company in its Independent School Finance Practice. Mr. Adams joined the Firm's predecessor firm, George K. Baum & Company in October 2012 to expand a Southeastern practice. Mr. Adams has worked in the not-for-profit and governmental finance industry for 24 years, having served as an investment banker for 19. He has administered financings in every state in the Southeast, having structured some of the more complex multi-jurisdictional, public-private and higher education transactions in the region.

Focused on education finance, the independent schools for which he has provided service include: Charlotte Latin School, The Fletcher School, St. David's School, Providence Day School, Asheville School, Charlotte Country Day School, Ashley Hall (SC), Cannon School, Shorecrest Preparatory School (FL) and Porter Gaud School (SC). Mr. Adams also helped finance seven of the first twelve independent school transactions in the State of Florida on a tax-exempt basis, which included: Gulliver Schools, Palmer Trinity School, St. Andrews School, The Community School of Naples, Miami Country Day School and The Westminster School.

Prior to joining George K. Baum & Company, he most recently served as Managing Director at BB&T Capital Markets, where he managed the Southeastern region and was responsible for the firm's Education Finance initiative. His experience also includes serving, for five years, as the Chief Financial and Operations Officer of a not-for-profit, cultural institution located in Charlotte. Mr. Adams is a member of the Board of Trustees at the Charlotte YMCA (Johnson Memorial Branch) and a member of the Finance Committee of Myers Park Presbyterian Church.

Mr. Adams received his Bachelor of Sciences in Business Administration from the University of North Carolina at Chapel Hill and a Masters of Business Administration from the Babcock School at Wake Forest University.

John D. Lynch
Education Industry Vertical Manager



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Introduction

John brings over 24 years of banking experience to his role as head of SunTrust Bank's Education Industry Specialty practice. John partners with teammates to provide tailored solutions to organizations operating in this critical and dynamic industry. John's efforts focus on delivering commercial and capital markets banking solutions to the public and private higher education sector and the K-12 independent school sector across the SunTrust Bank coverage markets.

Prior to joining SunTrust's Industry Specialty Team, John held a variety of positions with increasing responsibility and leadership including roles in Equipment Finance, Specialized Industries and Business Banking. Within these roles, John focused on pricing & structuring, debt originations, debt syndications, equipment finance, and relationship management; he also led a team of credit officers in three states within the commercial bank. Prior to his banking career, John spent 6 years in Public Accounting primarily with KPMG.

John is a member of the WakeMed Hospital Foundation finance committee. John is a past board member for Junior Achievement and the United Arts Foundation in Raleigh, NC.

Background & Experience

- Banking Solutions and Debt Capital Markets (taxable and tax exempt) for the Higher Education and K-12 Independent School sector
- Capital Markets, Risk Management, Treasury, Card Payment Solutions and Foundations & Endowments

Education & Certifications

- Bachelor of Arts Accounting and International Business from Lenoir-Rhyne University
- CPA License in the state of North Carolina (currently inactive)
- Has held Series 7 and Series 63 licenses

Disclosures

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