

February 25, 2018

Dear Mr. Honegger and Academy Trustees,

On behalf of our parent group, I would like to thank you for taking the time on Tuesday to meet with Academy employees at the Little Theater. Several of our group attended, and they felt that the meeting was a valuable opportunity to get to know you.

We want to note, however, a striking gap in perception of how the meeting went. In your email of this past Thursday, you wrote, "...we had a productive, open conversation about a range of issues—from the endowment, to compensation, to our collective path forward."

In contrast, at the end of the meeting a respected former administrator summarized his thoughts by saying, "Leadership has a lot to do with credibility. The fiasco with the endowment since 2008 implies a lack of credibility, and Andy's credibility is not terribly high right now."

Though the meeting was conducted with good will and a high level of engagement from both the trustees and employees, ultimately no concrete actions were offered in either the meeting or in Mr. Honegger's follow-up email to address this "credibility gap"; the "collective path forward" he cited remains unmapped.

The credibility gap poses a serious problem, and we cannot see a way forward for the Academy until it is addressed. To that end, we want to point out several important omissions and misrepresentations in both Tuesday's meeting and Thursday's email.

1. The Academy's endowment management. In Thursday's email you wrote, "We've come a long way since the financial crisis hit us around a decade ago..." After reading two worrisome reports from respected outside agencies, we cannot share your optimism.

The [first report](#) appears in the July 26, 2017 issue of *The Chronicle of Philanthropy*. The *Chronicle* studied the endowment performance of 1,600 non-profit organizations and concluded, "**At the bottom (of the 1,600 non-profits studied), Albuquerque Academy was among the handful of shrinking endowments; it spent \$1 for every 30 cents coming in.**" *Can you see how this report calls into question your assurances that the Academy's finances are sound?*

The [second report](#), published August 10, 2017, explains Fitch Ratings' downgrade of the Academy's debt rating from A+ to A- and its changed outlook for the Academy's \$34 million bond issue from **Stable** to **Negative**. The Fitch Ratings summary concludes, "The downgrade of Albuquerque Academy (the academy)'s rating reflects Fitch's view that above-budgeted endowment draws for operations are likely to continue, despite management's stated intent to reverse recent trends<sup>1</sup>." *When the board was notified of the change in bond rating, what steps were taken to address this two-level decline?*

You, the Academy's trustees, are respected professionals in our community. We understand that you are not experts in finance, and that you depend on the Academy's treasurer and outside advisors to guide your decisions. But we worry that you have not been given good advice.

These two reports give an alarming assessment of the Academy's financial performance. And they directly contradict your statements that the Academy's finances are in good health. We therefore ask that you hire an impartial outside firm to assess the Academy's endowment management and make recommendations for improvements before June 1 this year. We believe that [PwC](#) or [KPMG](#) might be good choices. We also ask that you share the results of the assessment with the Academy community when it is completed.

2. The Academy's endowment composition. At Tuesday's meeting, Mr. Smidt stated that the current difficulty the school faces is not asset performance, but rather, the school's endowment spend rate, currently at 6.2% and with a target spend rate of 5%.

But we are concerned about the composition of the Academy's endowment and its ability to sustain even a reduced spend rate of 5%. The [2017 NACUBO-Commonfund Study of Endowments](#) notes that sustainable endowment spend rates for educational institutions are now well under 5%, for even the nation's biggest endowments. We therefore worry that even with a reduced spend rate of 5%, the Academy's endowment will continue to shrink, reducing financial aid and exposing our bond rating to further downgrades.

We therefore ask that you describe the current composition of the endowment, its performance over the past 1, 3, 5, and 10 years, its performance benchmarks, its expenses, and what future rates of return may be expected in both favorable and unfavorable market conditions.

3. The Academy's budget. You have made multiple references to a five-year budget plan that will bring the budget into balance with a sustainable spend rate on the endowment. But we have never seen a simple, clear explanation of that plan, with a timeline, dollar amounts, and the assumptions on which the plan is based. We therefore ask that you provide a written explanation of the plan at the town hall meeting, and allow ample time for questions.
4. The Academy's leadership. In Thursday's email, you regrettably omitted any mention of serious problems with the Academy's leadership, which Mr. Smidt and Mr. Honegger both acknowledged at Tuesday's meeting. You emphasized the value of our meeting in preparing for the selection of the Academy's next head of school, and we agree.

But as a senior administrator noted, "What do we need *today*, to get through this year, to get through next year? We need to be thinking about what happens tomorrow."

Three years (the number mentioned at the meeting as Andy's remaining tenure until retirement) is a long time. And we do not believe that the Academy can afford to

wait that long for the next head's arrival. We therefore request that you develop a plan to address the Academy's leadership problems and share it at the town hall meeting.

5. Mr. Watson's salary during the salary freeze. We appreciate your explanation at Tuesday's meeting that Mr. Watson's apparent raises during his two-year salary freeze were due to "keying errors, a change in IRS forms, and a change from a fiscal year to a calendar year." As Mr. Smidt said during Tuesday's meeting, "Figuring out the details of where the numbers went and how they were done, I think, was very complicated."

We find it astonishing, however, that the Academy's auditors did not identify these errors which continued for multiple years, and we request that you consider hiring another firm. In addition, since the Form 990s of record are incorrect, they put the Academy at risk with the IRS. We therefore request that you inform the community when the Form 990s will be amended, and then make them available to the community for examination.

6. The Academy's governance. We are disappointed that nowhere in your communications of January 31, February 11, February 22, or in Tuesday's meeting, have you, our trustees, accepted responsibility for the financial and leadership problems facing the Academy today.

Moreover, in our letter of January 30, we requested that you consider a number of NAIS "[Principles of Best Practice](#)" for trustees that we believe are a good foundation for effective governance, but we have heard no response from you. We therefore repeat our request that you consider the following:

- a. Conduct periodic strategic planning with community participation.
- b. Conduct regular board self-assessments.
- c. Share minutes of board meetings with the Academy community.
- d. Open board meetings to the Academy community.
- e. Make the board's bylaws available to the community.

Mr. Honegger and members of the Board, we want to assure you that we greatly appreciate the steps you took toward repairing trust and credibility during Tuesday's meeting, and we look forward to further clarification at the town-hall meeting.

We would like to request, however, that you schedule the meeting sometime before March 22, the start of spring break. We believe that the problems we face need attention now, and that holding the event sooner rather than later will do much to reassure the Academy community that the trustees share our sense of urgency.

In closing, we want to say again that we remain committed to working with you to restore the promise of the Academy's mission, and to ensure that the Academy remains a vibrant institution in service to the Albuquerque community for many years to come.

Sincerely,

Peter Hibbett, on behalf of a concerned group of Academy parents

1. For an explanation of bond ratings, their meaning, and why this change is significant, see [this article](#) from Kiplinger.com.