

Career Academy of South Bend, Inc.
Minutes of Meeting of Board of Directors
April 27, 2012

Directors Present: Larry Garatoni, Tracy Graham, Steve Hartz, Vivian Sallie, Rob Staley, James Summers, Suzanne Wiwi
Absent: None
Also attending: Yolanda Turner-Smith, Charles Loeser, Bill Martindale, Kelly Nichols

A meeting of the Board of Directors of Career Academy of South Bend was held at the school, 3801 Crescent Circle, South Bend, Indiana, at 7:10 am on April 27, 2012, pursuant to notice posted at the entrance to the building.

A. Call To Order: Larry Garatoni presided and called the meeting to order.

B. Minutes & Discussion of Prior Meeting: Larry asked for approval of the minutes and the memorandum of the prior (March 23) meeting. Upon motion made and seconded, the minutes and memorandum were approved.

C. New Business:

1. Use of TIF Funds. Larry reported that the school has received the first payment from the City of South Bend under the Tax Incremental Financing transaction. Bill said the amount was \$130,000, including \$125,000 principal and \$5,000 interest; there will be additional principal payments of \$125,000 every three months, plus declining interest payments as the principal balance reduces. Charles said that while it had been understood that since the TIF funding was approved for capital costs rather than operating costs, these funds would be applied towards reduction of the school's loan from the Garatoni Family Foundation, but that this should be voted on by the board and should be a matter of public record. Charles noted that the proposed 2012-2013 budget anticipates the school will need more funding from Larry for operational expenses next year than the anticipated TIF funding, but that the expected increase in student enrollment in the following year should allow the school to cover operational expenses from its tuition revenue & then begin paying down its combined debts. Tracy asked if the TIF funding is a loan or a grant. Larry said in essence it's a grant: the legal documents are complex and refer to a loan, but what this really amounts to is a grant from the City of 1.5 million over three years; the school will not need to pay this back. Steve moved that the TIF funds (the first installment and later installments) be used to reduce the balance owed to the Garatoni Family Foundation. Tracy seconded the motion. The motion was unanimously approved (Larry not voting).

2. Rental Agreement With ABC. Yolanda explained that the Indiana Associated Building Contractors (ABC) has proposed using an SBCA classroom for a

course to be offered this summer. This is a step in building the relationship between SBCA and the ABC that both parties are interested in, which will ultimately involve ABC-sponsored building trades courses at SBCA and possibly a long-term lease of space from SBCA for an ABC branch. This agreement is very simple: \$200/night for use of a classroom for six evenings (starting 5pm) in June-July (\$1,200 total). This will be for up to 15 students (adults). Upon motion made, seconded, and unanimously approved, Yolanda was authorized to sign the agreement.

3. Agreement with American Red Cross. Yolanda explained that SBCA, like other schools, is required to have its employees certified as trained in CPR and blood-borne pathogens. So instead of paying \$50 per person to purchase that training, it was decided that SBCA's nurse could do it (she had previously been certified as an instructor so the certification was renewed). The proposed "Authorized Provider Agreement" with the American Red Cross is necessary for her to be authorized to teach SBCA personnel, and also means that she can teach others, so there is a potential for some incidental income: the Red Cross will list SBCA as a source for training, so other companies may contact us to have their employees trained. The agreement also provides for the purchase of supplies from the Red Cross. Upon motion duly made and seconded, the agreement was approved.

4. Administrative Changes To Bylaws. Charles explained there needs to be a provision in the bylaws for how the board is to replace itself. Under the current bylaws, based on a model received from GEO, the term of all board members expires simultaneously. The proposed amendment to the bylaws provides for each director to serve a term of roughly three years, but with terms expiring one at a time, in alphabetical order, at the end of the first seven months of 2014, i.e., Larry's term will expire on January 31, Tracy's term will expire on February 28, etc. As each director's term is about to expire, the other board members may re-elect the director for another three-year term, or elect a replacement director. The proposed revision to the bylaws also includes changes to follow up the board's decisions at prior meetings:

- a. In Section 9 of Article II, changing the language about board members being removed for missing meetings, and adding the statement that all new directors will be provided with a copy of the charter application and will confirm, before participating in any voting, that he or she has read and agrees with the school's goals and mission as described in the charter.
- b. In Section 5 of Article III, changing the description of the Treasurer's duties to clarify that the Treasurer is to supervise the School's Business Manager rather than personally perform accounting duties.

Rob asked if the bylaws provide for any limitation on the number of terms a director can serve. Charles said there's no such provision. Larry suggested that the question of limitation in the number of terms should be considered at a future meeting. Vivian

suggested that would be an appropriate topic for the Governance Committee to consider & provide a recommendation. Tracy moved that the proposed bylaws be adopted. The motion was seconded and unanimously approved.

D. Budget And Financial Statements

1. 2012-2013 Budget. Bill explained the draft budget (page 2 of the handout) follows the same format as the version presented last month, i.e., includes projections for the expected number of students for the next school year (300), using the current tuition rate (\$6,173 per student per year), with additional projections for higher student counts (400, 450, 600 and 700) students. The Common School Loan is shown as a loan rather than revenue. Larry said that's valid at this point, although many people involved in school finance expect the roughly 60M in charter school CSL debt to be paid by the state at some point.

a. Bill said the projected 2012-2013 school year revenue of roughly 1.975M is mostly state tuition, there's no budgeted amount for donations. Under Indiana's system, tuition revenue for the first half of the year (July-December) will be based on our current enrollment (as of the ADM Count Day in September 2011); for the additional students, the first semester payment will be by an addition Common School Loan. Tuition for the rest of the school year (January-June of 2013) will be based on next year's enrollment. So with enrollment projected at 300, the projected tuition revenue is \$75,000/month for July-December and \$154,000/month for January-June. There are some additional projected revenues expected for Special Education, Title I funding, and rental income.

b. With projected operating expense of roughly 2.985M, the projected net earnings before depreciation and amortization is a significant loss - slightly over one million. That the school should be operating at a significant loss is understandable at this point for two reasons: (1) it is in a fill-up mode, so under Indiana's system, it will not receive tuition for all its enrollment until enrollment has stabilized between two years; (2) the school was designed for a capacity of 600 to 750 students.

c. From a cash flow standpoint, with the anticipated receipt of roughly \$475,000 in additional Common School Loan funds, the cash shortfall is projected to be slightly over \$500,000. That is roughly the same as the anticipated \$500,000 in principal payments (plus interest) from TIF funding, so from a cash flow standpoint, with the TIF funds to be used to pay down the Garatoni Family Foundation debt, the upshot is that the school will pay a little more than \$500,000 against the foundation debt, but will need to borrow slightly more than that (from the foundation or from Larry) to meet its expenses. This doesn't take into account non-cash expense (depreciation and amortization), projected at roughly \$467,000.

d. For assessing the school's long term prospects, Bill said, he charted on page 3 the effect would be of a stabilized enrollment at counts of 300, 400, 450 or 500. Stabilized enrollment (the same from one year to the next) would mean that tuition would be paid for the entire enrollment with no Common School Loan for the first semester. What this shows is that somewhere between 400 and 450 students (specifically, at 426), the school will be able to pay, from tuition revenue, its operating expenses plus the principal and interest on the mortgage held by the seller of the building, plus the 3% fee to Ball State, plus the interest owed on the debt to Larry and the foundation. In other words, at enrollment above 426, the school will have sufficient cash flow to be able to begin paying down principal on the debt to Larry and the foundation. Larry commented the figure to look at, on page 3, is Net Earnings Before Depreciation and Amortization: at 400 students, it's negative \$90,525; but going up two lines from that, it's shown that this includes paying interest of \$161,719. At 450 students, the Net Earnings Before Depreciation and Amortization is positive \$151,174, even after paying that amount in interest.

e. Tracy asked why the projected textbook cost is so low, and increases so little for higher student counts: the projected textbook cost at 300 students is \$60,650, which goes up only \$6,000 for 400 students and another \$3,000 for 450 students. Yolanda said that's because the school buys textbooks as classroom resources but not for every student to take home: with project based learning, student work doesn't center on textbooks. Most of what's shown in textbook cost, in fact, is for novels and other reading materials rather than textbooks. Steve asked isn't there a separate reimbursement for textbooks, is that taken into account. Bill said yes, there's anticipated revenue for textbook reimbursement, but what's shown as expense is the full expense, not an excess of expense over revenue. Suzanne said textbooks typically last about six years, and in general, textbooks are far less important than they were in the past.

f. Tracy asked how important is it to fund depreciation? It's good to know that with roughly 426 students, the school would be able to meet its cash expenses and start paying down debt, but that's without funding depreciation. Larry said that's a good point, which needs consideration, but to some degree, it's taken into account in these projections since the anticipated maintenance costs are based on there being no deferred maintenance. Bill said the cost of a full-time maintenance man is included in the projections. Also, Bill said, the budget anticipates a certain amount of ongoing maintenance costs. Tracy said it's not as important with a new building, but as a building gets older, some degree of funding of depreciation is important. Charles said that's likely to come up if there's a bank loan, since a lender may require a replacement reserve. Tracy said that's been his experience, i.e., banks expect that a portion of depreciation expense should be funded. Aside from that, Tracy said, the board should decide as a matter of policy what its budgeting practice will be. Bill said while that's valid, it's not a priority with a new building, it will be more important in future years. Larry said one of the matters on the action plan for the management group is to come up with a capital

expenditure budget. Tracy said he didn't see any capital expenditures in the budget. Bill said the projections anticipate \$20,000 in capital expenditures for the 2012-2013 fiscal year, that's shown on page 7, "Net Cash Used In Investing Activities": \$5,000 for furniture, \$3,000 for equipment, and \$12,000 for computers. These aren't operating expenses for purposes of the income statement, but they're taken into account in the projected cash flow.

g. Rob asked if the projections are based on reaching the desired student-teacher ratio. Larry said that the ratios on which these projections are based (as shown on page 3, the student-teacher ratio is 15.0 at 300 students, 18.2 at 400 students, and 19.6 at 450 students) are below the 25:1 target discussed at the last meeting, but there are reasons for that, he asked Yolanda to explain. Yolanda said the long-term planning for the school has been based on the premise that the seventh and eighth grades would provide the remedial help that's necessary, so ninth graders and above would be true ninth graders, etc., but in this first year and for the next year at least, that's not going to be the case: SBCA's students in ninth grade and higher have required and will continue to require significant remedial help, which requires a lower student-teacher ratio. There are measures that can help, such as Title I assistance and the APEX program, but to some degree, there's no avoiding a lower student-teacher ratio for the school to be academically successful, at least for now.

h. Tracy asked why the budget shows an increase in salaries between 2011-2012 and 2012-2013 of \$450,000 (\$1,120,149 to \$1,569,817) when the total staff is going up by only five (33 to 38). Bill said that's largely a matter of timing, since the staff number shown for 2011-2012 is projected (the actual current staff count is less than 33), not a consistent year-long number. For example, the Title I instructors weren't there until late in the year; the increase from this year to next year would be considerably less if the figure for this year were at the annual level of the current staffing. The current payroll rate is about \$100,000/month, which would be a little less than \$400,000 below than the projection for next year, but that doesn't include bonuses or summer school; the difference is adding bonuses plus summer school plus new employees plus a general 2.5% increase for existing employees. Tracy said he didn't see how the numbers add up. Bill said he would send out a follow-up message with further details.

i. Larry said Bill's done a great job making the school's financial picture clearer and showing what needs to be done for the school to get to a positive cash flow. With the understanding that the budget will probably need to be adjusted next fall when we see how many students enroll, Larry suggested that the proposed budget be approved. Tracy asked if \$20,000 for capital expenditures is sufficient. Larry said yes, for the time being, but the capital expenditure budget is still being worked on, if it comes to more than \$20,000, it will be brought to the board for review. Tracy moved that the budget be approved. The motion was seconded and approved unanimously. Steve suggested we plan to review this again in August.

2. Claims Approval. Bill presented the list of expenses paid (Claims Approval) since the last board meeting: \$221,954.16 in operational expenses and \$868,924.12 in building & equipment expenditures in the period March 19 through April 20, 2012. The report also shows the daily bank balance, including the March 23 receipt of \$300,435 from the state for the charter school start-up grant, and the daily bank balance ending with \$248,787.12 as of April 20. On motion made and seconded, the report was approved.

3. March Financial Statement. Bill presented the March income statement, including year-to-date expenditures and variance from the approved budget. The cash flow projection (page 7) includes an estimate of \$275,000 as the remaining building & equipment cost. Since the \$300,435 grant was not included in the projections, the actual vs. budget comparison showed a substantial positive variance, and for the month, there were earnings of over \$264,000 (if the \$300,435 is treated as March income). The BSU 3% fee (roughly \$6,800) came as a surprise, Bill hadn't known about that until receiving the invoice for January-March (there were no invoices for the first semester, since tuition revenue started only in January). Supplies & materials costs exceeded the forecast by about \$11,800, but most of that was for computer tablets for the Title I program, which Title I will reimburse. The advertising expense exceeded the forecast by about \$8,000, which was a conscious decision of management, marketing is a priority.

Larry said there's a major variance from the 2011-2012 budget shown in this statement since we received the property tax bill of roughly \$155,000 for 2011 taxes. Bill explained this is reflected in the cash flow forecast (page 7), showing the May installment (\$77,569) as an expense for the 2011-2012 school year. Larry explained SBCA's tax-exempt status didn't prevent the property from being taxable for 2011, since the tax status is determined as of each March 1 based on the primary use over the past 12 months; we didn't know this in the summer of 2011 when we created the 2011-2012 budget, but there was no way to avoid property tax since it wasn't purchased from a charitable organization (as Bill noted, we received a \$47,322 credit against the purchase price for the accrued taxes, so in effect the taxes are costing SBCA about \$108,000). There will be another installment due in November, which should be the last property tax SBCA needs to pay. Tracy asked if we can't appeal the amount of the tax, as \$155,000 seems like a lot. Bill noted that the assessed value was less than the actual purchase price. That being the case, Charles said, there's no reason to appeal.

On motion made and seconded, the March financial statement/forecast was approved.

E. School Leader Report

Yolanda reported that the school's April 15 open house had a good turn-out, resulting in 4 immediate enrollments and 3 applications for next fall. Current sign-ups for next fall, in addition to existing students, as shown at p. 3 of Yolanda's written

report: for seventh grade, 31; for eighth grade, 12; for ninth grade, 11; for tenth grade, 8; for eleventh grade, 2 (total 64). Larry asked if we know how many current students will be returning. Yolanda said most will return but not all, for example, some will qualify for vouchers and plan to go to St. Joe or Marian; on the other hand, some who have left will be returning, so the voucher program will not have a significant impact.

Larry asked if parents are, by and large, happy with the school. Yolanda said for the most part, yes, although some have complained about the long school day and the uniform policy. There is no problem with how parents feel about the education SBCA is providing, and the responsiveness of teachers and the staff.

Charles asked if it would be easier to build enrollment if not for the long school day. Yolanda said she does not think so. Many charter schools have done well with long school days, it's new to this community, but it's a model that works. Tracy said he believes most parents like the idea of students being engaged in the late afternoon; with typical schools, the time between when kids get out of school at about 3pm and when their parents get off work at 5 is the time that kids are most at risk. Charles said a quick look on the Internet shows that nationwide, the conflict about the longer school day is usually between parents liking it and teachers disliking it. James asked how local businesses feel about it. Steve said he's talked about this with many local business owners, they all like it a lot, it's preparation for the real world, teaching a work ethic, which is the most important thing to learn. James said that's what he thought, so we should make use of that in marketing the school, perhaps have business leaders talk about this in ads. It was agreed this is an idea to follow up.

Yolanda said a marketing video has been completed, she'll send it to the board. Larry said there will be a marketing plan presented at a future meeting.

As requested at the last meeting, Yolanda said, she's prepared charts showing the comparison of fall and winter NWEA testing school-wide and for each grade (pages 6-12 of her report). In general, there was progress, other than for Science Concepts and Processes. She believes the gains stem largely from the effect of project-based learning, improved classroom management and instruction, increased use of differentiated instruction and the homework room, and individualized remediation. Students participating in sports programs are required to turn in to the coaches a weekly report of their results in each subject. The 6+1 writing program is also helping (Yolanda thanked Suzanne for advice on using that program).

The seventh grade scores show improvement, especially in math and language usage, but scores are well below Indiana norms (in fact, SBCA ninth grade scores are below Indiana seventh grade norms). Math scores improved fairly well (3.7 RIT points) despite having three different teachers. Reading and language usage results are disproportionate: language usage scores improved at a more than normal rate (6 RIT points), but reading scores improved very little (0.6 RIT points). The team leader has had

considerable success attaching learning to projects and other subjects, but there has not been as much emphasis on reading as there should have been. A greater focus on reading, and use of the Accelerated Reader program, should produce better results in the Spring. In the Accelerated Reader program, kids earn points for reading extra books beyond what's assigned, which gives them a chance to win gift cards. That's been a good motivator, it's also being used in other grades. For science, there are two tests, one for general science, another for "concepts and processes"; average seventh scores were lower in the winter than in the fall, which is puzzling. Looking at individual scores, of the 34 students tested, 32% had significant gains (5 RIT points or more), 29% showed significant loss (5 RIT points or more), with five declining by over 10 points. Since "faking high" is impossible, the spring declines appear to be anomalies, quite likely involving low test motivation. That would be understandable since this group was taking the Acuity tests at the same time, so there was probably some test fatigue. There were also some problems with classroom management for the seventh grade science teacher; there's been substantial follow-up mentoring with that teacher is expected to help.

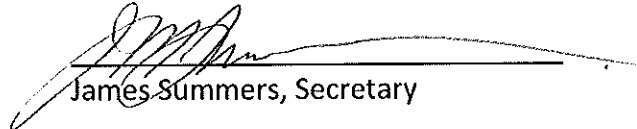
Eighth grade scores, which were well below state norms, generally showed small improvement, with a decline in science and a significant (4.3 points) improvement in math. The math teacher, who left shortly after the end of the first semester, had a "drill and kill" approach, i.e., repetition of basic concepts and skills; the test results showed gains there but not in higher level skills. The school made a concerted effort to motivate the eighth graders about the math test, since it was anticipated that the math teacher's departure might have a negative effect; that the eighth graders made more progress in math than other subjects may be due to better test motivation (the reverse side of the test fatigue problem). In reading and language usage, there was good use of projects as the basis for learning, and the average scores showed a slight increase; however, that is somewhat misleading, as there was more disparity between individuals for these scores than any other group, with substantial gains being made by many of the students who had showed the lowest scores in the fall, whereas others showed losses or no gains. It appears from these results that while it's important to continue the success in bringing the lower achievers up, there needs to be more focus on pushing middle and high achieving students higher; the projects will be reorganized with that in mind. In science, the eighth graders did well on the material they'd studied during the semester, but very poorly on material that they should have known and retained from prior years. So the goal now will be to restructure projects to re-introduce material that should have been covered earlier but apparently was not covered well enough.

Ninth grade scores showed improvement in all subjects tested, and although scores were well below state norms, the growth from fall to winter was greater than the norm increases. The smallest average increase (0.8 points) was in math, which is a suspect score, since roughly 1/3 of the students had high gains, 1/3 showed average growth, and 1/3 showed large losses (5 RIT points). Part of that, the school believes, is because ninth graders didn't take the NWEA test seriously, since what matters for them to graduate are the ECA tests. The school is working with them to make the point that

the NWEA assessments are needed for us to be able to help them learn effectively. The ninth graders also complained about taking the Acuity tests, which, together with NWEA, are important not only for measuring results but identifying what needs to be taught. The ninth grade math team leader, Mrs. Swoape, commented that not only did the substantial losses suggest low test motivation, but the high gainers were the students who actively participated in small group sessions and attended the homework and tutoring sessions. Motivation is key! In reading and language usage, gains were good (2.3 and 4.8 points); although still below norms, the team leader has established a culture that works: relevance, relationships, rigor and high expectations. It helped to use cross curricular projects involving "The Hunger Games," which captured interest for multiple subjects. That also resulted in improvements in writing; it's an example of the importance of finding subjects that the students find interesting. In science, the average ninth grader score, unlike for seventh and eighth grade, showed good progress; the ninth grade science teacher, Mr. Terry, has done well in engaging his students using a variety of material and methods, exactly the type of innovative approach SBCA wants (among other things, he's done video of his presentations so that students who missed or did not understand a presentation can re-view). He's also done well in integrating teamwork and the Internet.

Charles asked if there's a system for team leaders to share with each other what's working well. Yolanda said yes, in the last professional development session (on April 20), there were presentations by Mr. Terry and others about methods that have worked well. Tracy said the use of "The Hunger Games" and engaging the students' interest so effectively is great work.

At this point [8:46], having finished the presentation, Yolanda explained she needed to leave for an appointment. The meeting was then adjourned.


James Summers, Secretary

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