



**BOARD OF DIRECTORS**

**Special Call Meeting**

**Minutes**

**Saturday, June 26, 2010, 1:00-3:00**

**Call to Order**

Board meeting called to order at 1:05pm by Board President Rudy Martin. Members present are Rudy Martin, Mary McCann, Earl Fredrick, Justin Solomon, and Kevin Bargon. Also present are Farland Jenkins and Alissa Solomon. Darren Reed from K12 is on the conference line.

**Board Business**

**Approve 2010-2011 Board Meeting Calendar (Action)**

Mary motioned to approve the Board meeting calendar. Kevin Seconded. Unanimous Aye.

**Approve Service Agreement with K12, Inc. (Action)**

The Board needs to negotiate a 3rd party meeting because they do not want to build their negotiation points when K12 staff is present. Mr. Jenkins will submit the budget to CPS on July 1<sup>st</sup> with the assumption that a service agreement with K12 will cover the deficit. The budget submitted will show a true deficit because the Board has not yet signed the agreement. CVCS has a current service agreement with K12 and has no binding obligation to sign a new agreement now but Mr. Bargon thinks that the Board can possibly have a contract signed by July 31st.

Mr. Bargon said that CVCS has a budget document from K12 stating that they are going to have a \$70,000 credit. He asked if federal dollars that are spent are reimbursable. Mr. Jenkins explained that this issue does not affect whether or not we have a loss. Mr. Jenkins is rewriting the program narrative. One of the things that he did is put all of the reimbursable dollars in a balance sheet fund.

Ms. McCann would like to have specifically designated funds within the budget so that we can begin to see where the revenue strings are. She does not understand why there was previously a \$900,000 deficit and it is now \$330,000. Mr. Jenkins explained that the variance is primarily due to the CPS funding reduction.

Bargon created a spreadsheet for the Board to use when deciding their negotiation points on the K12 service agreement. Ms. McCann and Mr. Fredrick like this approach and think it is a helpful way to find out what the top priorities of the Board are. The Board will create a list of items that are high priority and will then vote on each item. Each Board member gets fifteen votes and whichever items have the most votes will become the negotiation points. Ms. McCann suggested that the items be separated by finance, administration, responsibility, and performance. There are some items that are non-negotiable, and the Board wants to make sure that they are in the summary of interests.

**Approve FY11 Budget (Action)**

Mr. Jenkins has provided the Board with two budget scenarios. One includes adjustments if the K12 service agreement is approved and the other shows the budget scenario without the adjustments. With the service agreement, K12 will reduce their fees to reach a balanced budget. Without the service agreement the K12 educational fees are \$662,000 and the technology fees are \$309,000. With the

agreement the expenses are reduced to \$149,000 and \$70,000. The fees will be decreased from 22% to about 4 or 5 %.

This year the deficit is much more substantial due to CPS cutting funds. If we approve the budget, K12 has to reduce the fees from \$750,000. The attorney suggested that the Board approve the budget with the deficit and come to a new service agreement afterwards. Mr. Bargon does not want to approve a budget that is not balanced. Legally, the Board can approve an unbalanced budget, and might still be able to get a charter renewal because of CVCS achievements in the past. He would be shocked if CVCS did not get its charter renewed, but submitting an unbalanced budget to CPS is a risk.

The Board must renew service with K12 for them to give CVCS the service credits. If a non-balanced budget with a \$750,000 deficit is submitted we would have to state how K12 is going to fill the gap. We can say that we are negotiating the budget and are going to get deficit credits from K12. Mr. Martin wondered what the downside would be if the Board approved the service agreement with amendments today. Mr. Solomon and Ms. McCann are concerned that the Board might lose leverage in the negotiation process by approving the agreement today. Mr. Jenkins will send a budget with a set of assumptions (K12 service agreement) to CPS. The budget is submitted on July 1<sup>st</sup> and is finalized on October 1<sup>st</sup>.

An audit is due on November 1<sup>st</sup> and in the absence of a service agreement by the end of June there will be a \$330,000 deficit projected. Last year's budget included a \$70,000 operating deficit. In the \$330,000, there is \$230,000 that is covered by existing funding sources. We have \$175,000 plus the additional money that was spent from the Walton grant. Mr. Bargon thinks that we could recognize the deficit credit and K12 would recognize that. Mr. Reed is going to follow up with Chip and John at K12 in regards to this question. Mr. Bargon thinks that the budget and the service agreement do go hand in hand. We have been operating under the assumptions that there would be deficit credits.

Mr. Fredrick thinks that in the future the budget process should entail a 6 month window to incorporate strategic planning. Even though the budget spreadsheet with adjustments in K12 fees is attractive, more time is required to make a decision. We have lost about 149 students through fiscal year 2010 which results in CVCS losing money. The loss comes out to be about \$150,000-\$300,000 depending on grade level. Turnover rates need to decrease and improvements in curriculum, efficiency and SPED services are important. High school and SPED are very costly and the stipend from CPS is not sufficient. The Board needs to budget for data driven decision making so that they can look at academic standings, observe student progress and institute testing to make sure they are placed in the correct level.

K12 made it clear that they intend to pursue a new facility. Mr. Fredrick thinks that CVCS should budget for a new facility. There should be a fund that would capitalize to about \$250,000 after three years of saving. Mr. Bargon thinks that the Board needs to collect their interests and prioritize what they want and clarify with K12. He does not think that it is necessary to put money towards a new facility. He assumes that K12 would pay for the new facility. Even though a new facility would be nice, it is secondary to the academic needs of the students. The Board can tell K12 that CVCS does not want to take on a financial burden if there is a new facility. Our priorities are making sure that teachers, students, and staff are happy. Ms. McCann thinks that the rent will be higher in a new facility because K12 wants to expand the size of the school.

There is nothing in the service agreement that states that we have to have a new facility.

Mr. Fredrick has been working on a budget that allows a capital fund. Being fiscally responsible and having a balanced budget will create an improved perspective. If we plan to spend, we should plan to budget. Mr. Martin does not think that CVCS can get our own facility without K12. Our mission is not to have a reservoir of cash. It is to provide a good school to the kids. Eight teachers will have to be cut this year if we do not sign the service agreement. CVCS is not in the position to be saving money this year. If the Board waits to sign the service agreement, not only does K12 know that we are dependent on them but we will also have CPS asking what is going wrong with CVCS. We need to agree on what we are going to do so that Mr. Jenkins knows what budget to submit to CPS on July 1st. Mr. Martin wants to approve the budget with "option one" from the service agreement. He does not think that CVCS's position in the negotiation process will be any worse by doing so. There is a 76% reduction in the K12 M/T fees. There is nothing materially different in this budget report compared to the one we received two weeks ago. Mr. Bargon estimated that K12 is close to losing money on CVCS. His primary interest is being able to maintain a balanced budget. K12 created the budget and they will make sure that CVCS operates within it. Mr. Reed explained that this conversation is very common among their schools. K12 works very closely with these schools and does what they can to try to avoid a deficit. Ms. McCann is concerned about K12's financial guarantee because if the service agreement is not constructed properly, we risk losing the 501(c)3. She thinks that the Board should be able to look at a thirty page budget scenario to be able to determine where our losses are. The CVCS Board does have the responsibility of overseeing the budget. If there are going to be large expenses over \$5000 then the Board should be approving the expenses. Any expenditure should be transparent. The Board has the right to see a more in depth budget but Bargon does not think that it is necessary.

Mr. Reed said the budget is driven by what the mission of the school is and how they want to achieve the mission. Over the past 3 months, he has gone through several budget presentations and the Board meetings have had nothing to do with budgets. He has talked with many schools about their direction and where resources were needed. CVCS has had more immediate needs so they were not able to go through this process. CVCS has a lot more power that they think in the negotiations with K12. The leverage should lie within the service agreement. K12 wants to work with CVCS for a long time and will be nothing but positive and sensitive when moving forward with the service agreement. This is the same for all of their schools.

Mr. Martin motioned to approve the budget (option one with modifications). Mr. Solomon seconded. Mr. Martin, Aye. Ms. McCann, Aye. Mr. Fredrick, Aye. Mr. Solomon, Aye. Mr. Bargon, Aye.

#### **Approve lease with Merit School of Music (Action)**

Mr. Wahl informed the Board that they can approve the lease. The price has increased by three percent this year. Ms. McCann motioned to approve the lease. Mr. Solomon seconded. Mr. Martin, Aye. Ms. McCann, Aye. Mr. Fredrick, Aye. Mr. Solomon, Aye. Mr. Bargon Aye.

#### **Approve audit firm for FY10 Audit (Action)**

Auditing firm Ostrow Reisin Berk & Abrams, Ltd. has proposed to provide auditing services to CVCS for \$17,000. Last year the fee was \$14,850. Mr. Bargon said that the firm should provide more value to CVCS with a 14% increase in the fees. The probability that CVCS will use another auditing firm is unlikely but the Board would like to see another proposal before approving Ostrow Reisin Berk & Abrams.

Follow Up: Mr. Jenkins will reach out to other auditing firms for a proposal.

#### **Adjourn**

Mary motioned to adjourn the meeting at 3:03pm. Kevin seconded. Unanimous aye.

Respectfully submitted by Dr. Earl Fredrick  
Board Secretary

Date

CVCS Board Meeting  
June 26<sup>th</sup> 1-3pm  
Sign-in Sheet

Kim Solomon  
Pam Taber  
Gayle Perabeau