

History of Grand Traverse Academy

In 1993 and 1994 Governor John Engler worked with a team from the public and private sectors to develop a structure to introduce entrepreneurship with its inherent concomitant innovation and efficiency to the field of education. The risk of startup and potential failure was designed to mimic private markets through lower funding levels. Even today charter schools receive approximately \$1.00 for every \$1.33 that traditional districts receive from governmental sources. This funding disparity requires private risk capital in starting and running a charter school. It is that very risk that drives innovation and customer service. One only need compare efficiency, productivity and customer service in private versus government sectors to get the point. In exchange for increased risk entrepreneurs were relieved of some existing constraints such as allowance of non-union environments and for-profit management company contractual arrangements. Private-public articulation was and remains the centerpiece of the charter school movement.

Smart Schools Management (SSM) began planning the start of Grand Traverse Academy (GTA) in the fall of 1996. After a year of planning, Dr. Steven Ingersoll initiated discussions with the Provost of Lake Superior State University (LSSU) about starting what was to become one of the first academies to be authorized by LSSU.

In 1998, Floyd Schecter, a Nashville, Tennessee developer was contracted by SSM to acquire land and build a \$3.6 million facility to be leased to the GTA. In May of 1999 with the facility partially completed Schecter's financing failed. Over the next two years SSM worked with the general contractor, Comstock Construction, to sort out the resultant legal and financial situation. During this time financing for the GTA's startup operations were limited. Dr. Steven Ingersoll and SSM supplied and co-signed all of the GTA's credit needs. Dr. Ingersoll personally provided approximately \$550,000 in startup funds and personally co-signed for all additional credit that GTA was able to secure.

The net result of the developer's financial collapse was that the facility costs were about \$2.0 million greater than anticipated. The resultant debt service strained GTA's operational budget each year thereafter.

In early 1999, SSM hired Kaye Mentley to implement the Smart Schools' educational model for the fledgling project. Kaye recommended that SSM hire Margo Abbott to help her begin student recruitment for a fall of 1999 school start. The Academy, under Kaye's skillful operational leadership and Margo's dedicated support opened in October 2000 in a building that can best be described as half-baked. While the facilities met all applicable code, the exterior featured Tyvex yellow-board with flapping plastic wrap and the interior was at best austere. With Kaye's guidance the GTA staff, many of whom remain as the bedrock of the school today, built a wonderfully successful culture that has blossomed into the finest charter school to be found anywhere.

Despite facility appearance, parents, students, staff and management recognized that the true value lay in what was happening inside the less than impressive building. A true culture of engagement emerged and the Academy grew in numbers, culture and performance.

In 2002 the U.S bankruptcy court finally awarded the property to Comstock Construction. Dr. Ingersoll pledged his personal assets as collateral to lease the facility from Comstock on behalf of the Academy until he was able to arrange finance for GTA to gain ownership.

Subsequently in November of 2002, Dr. Ingersoll arranged and GTA executed a tax exempt financing structure to purchase the facility. IRS rules governing the transaction required a change in method of determining management fee. Consequently, management contract fee determination was amended from 12% of revenue to no more than \$2.0 million annually. It was and has continuously been the mutual agreement between SSM and GTA to budget 12% of revenue as the management fee so long as 12% does not exceed \$2.0 million.

In 2007, after two years of work, Dr. Ingersoll arranged for an advanced refunding of the 2002 building finance agreement. This resulted in a vast improvement of the Academy's debt structure dropping interest rates from 9.5% to 4%. This allowed the high school, early childhood wing and second gymnasium to be built. The new bond structure required GTA to carry a minimum fund balance of approximately \$650,000. At the time the fund balance was \$184,000. SSM and Dr. Ingersoll deposited \$494,000 into GTA's account to bring the Academy's fund balance into bond covenant compliance. Approximately one year later, when State educational funding collapsed in response to the country's financial crisis, SSM deposited an additional \$474,000 into GTA's account. Dr. Ingersoll and SSM borrowed the funds to be used to meet the school's needs.

GTA's budget faced continuous strain due to high building debt service, fluctuating funding and rapid expansion. SSM and Dr. Ingersoll co-signed for equipment leases and acquisition of the land upon which the high school wing was built. SSM and Dr. Ingersoll remain the guarantors of GTA's land mortgage to this day. SSM and GTA agreed on the philosophy of small class sizes, continuous annual teacher salary increases, state of the art facilities and technology and maintenance of programmatic excellence. In 2008 and 2009, school funding was reduced. SSM provided financial support to GTA by four methodologies; direct donation, guarantee of debt, rebate of contractually authorized and budgeted earnings and an agreement to augment GTA's revenue by leasing some of GTA's facilities. The following table shows the amount of support rendered to GTA from SSM via the two largest of the methodologies (fee rebate and lease contribution) over the years 2005 through 2012.

Year	Earnings Rebate	Lease Contribution	Total SSM Support
2005	\$30,202	\$0	\$30,202
2006	\$39,300	\$352,050	\$391,300
2007	\$605,635	\$100,000	\$705,635
2008	\$1,093,896	\$200,000	\$1,293,896
2009	\$650,000	\$550,000	\$1,200,000
2010	\$225,346	\$460,000	\$685,346
2011	-\$443,747	\$800,000	\$356,253
2012	\$288,417	\$120,000	\$408,417
Total	\$2,488,999	\$2,582,050	\$5,071,049

Management fees were reduced and lease obligations were booked as receivables from SSM to GTA according to GTA's need at the last board meeting of each fiscal year. This accrued a reduction in SSM earnings and an accounts receivable on GTA's books. The GTA receivable was satisfied by SSM in the first 60 days of the subsequent fiscal year typically in part with earnings drawn against the prospective fiscal year's GTA budgeted funds. GTA funds budgeted to and drawn by SSM were allocated to an account in GTA's books called prepaid fees. The balance of the prepaid account thus arose from rebated earnings to GTA by SSM. These funds have been mischaracterized as an over draw by SSM when they actually represent SSM's willingness to support the Academy by rebating earnings. **The controversial \$1.6 million "prepaid" is in actuality the remainder of nearly \$5 million of earnings that SSM promised to pay to GTA according to its needs.**

Each and every fiscal year of the Academy's existence (FYE 2001 through FYE 2012) GTA's accounting practices and financial structure was reviewed in its annual audit. Annual audits were reviewed every year by Lake Superior State University, Traverse Bay Area intermediate school district, Michigan Department of Education, Michigan Department of Treasury and the Standard and Poors bond rating agency. The Academy's accounting practices and financial structures were never cited or questioned in any way as deficient by any regulatory entity, person or company at any time. As such, those responsible for the Academy's governance and management believe that the Academy's financial practices have always been and remain correct and proper. The history of SSM's contributions and financial support and the related party transactions between SSM and GTA were well known and frequently discussed with the GTA board, its auditors, Michigan Department of Education, and Standard and Poors among others.

Although the management contract language was modified as previously described, SSM and the GTA board have budgeted for a 12% management fee. It was upon the mutual understanding of GTA and SSM that GTA would one day be able to meet its past, present and future obligation and intent that SSM and Steve Ingersoll assumed risk.

But for the efforts and intellectual contributions of Dr. Steven Ingersoll and Kaye Mentley and Smart Schools' willingness to rebate its earnings and otherwise provide financial support, GTA would have struggled from the start.

Analysis of GTA's audited financial statements and board minutes from June, 2004 through March, 2014 shows that Smart Schools gave GTA funds from its budgeted and contractually authorized earnings. Additionally, Smart Schools planned to rebate another \$1.6 million from its future earnings which is classified on GTA's books as a non-spendable asset.

Smart Schools founded and funded GTA from its origin. GTA flourished in large part because Smart Schools was willing to rebate its contract and budget authorized earnings during GTA's lean years of infancy, expansion and State funding reductions.

With Smart Schools no longer associated with GTA the board considered and extensively studied the proper disposition of the \$1.6 million non-spendable asset on its books. Both parties have always and continue to hold the success of the Academy and its mission to provide educational excellence to the community as the highest priority. While GTA rightfully relied upon and expected SSM to deliver \$1.6 million from its future GTA earnings; recovery remains uncertain. The GTA board also is cognizant of SSM's claim for fees totaling approximately \$3 million.

Full service educational management contract with Full Spectrum Management, LLC

The contractual relationship between Grand Traverse Academy (GTA) and its management company is and has been from inception based on the uniqueness of the educational model upon which the school was founded. The unique and highly successful model is based on innovative ideas that originated largely from fields other than traditional education. Expertise in building a culture of engagement based on the work of Dr. William Glasser and visual learning based on Dr. Steven Ingersoll's work from the field of Optometry are critical to the success of GTA.

The Board of GTA has contracted FSM to carry out this full service mission for fees that range from \$650,000 to \$2,000,000 annually. The standard by which the budget will be built is 9% of total revenue. These parameters are well below market which range from 10 to 12% of revenues in Michigan for full service ESPs. Parameters of the GTA-FSM management contract have been agreed upon by the parties and subsequently reviewed by the Academy's authorizer.

The board has contracted FSM to supply the educational model as well as all other aspects of operations. Execution of the educational model is a unique capacity of FSM. There is no other ESP capable of delivering GTA's unique educational model.

GTA's Future

The Academy's financial, governance, operational, programmatic and cultural position is strong. GTA is one of the finest schools in Michigan. In fact, the late Dr. William Glasser, M.D. was fond of stating that

GTA was the finest school in the world. While that may sound overstated to some, the fact remains that GTA has been visited by teams of educators, psychologists and optometrist from Denmark, Japan, Colombia, New Zealand, Australia, France, Mexico and Canada. Their study of our model will continue.

GTA will continue its excellent program and continue improving the educational experience of each and every child it is designed to serve. Please feel free to contact members of the board or management for further discussion should you wish to explore the topics discussed in more detail.

Board of Directors,

Grand Traverse Academy