C.5 Three Year Operational Budget Assumptions

Operational Revenue

Arizona Language Preparatory budgets the following student counts and space requirements for year 1(2013-2014), year 2 (2014-2015), and year 3 (2015-2016):

Year 1 (2013-2014)	**Year 2 (2014-2015)**	**Year 3 (2015-2016)**
Kindergarten AM: 23 students	Kindergarten AM: 23 students	Kindergarten AM: 23 students
Kindergarten PM: 19 students	Kindergarten PM: 19 students	Kindergarten PM: 19 students
1st grade: 23 students	1st grade: 38 students	1st grade: 38 students
2nd grade: 4 students	2nd grade: 20 students	2nd grade: 35 students
3rd grade: 4 students	3rd grade: 4 students	3rd grade: 18 students
	4th grade: 3 students	4th grade: 4 students
		5th grade: 3 students
Total 73 students	Total 107 students	Total 140 students
3 classrooms + office	4 classrooms + office	5 classrooms + office

The targeted student recruiting count for year 1 is 77, year 2 is 119, and year 3 is 157 while the budgeted count for year 1 is 73, year 2 is 107 and year 3 is 140. The percentage of full enrollment budget for year 1 is approximately 95% and year 2 and 3 are approximately 90%. The state funding (equalization assistance) for year 1 is $337,894, year 2 is $561,528 and year 3 is $773,420. Please see C.5 revenue worksheets for year 1, 2, and 3 for details. Arizona Language Preparatory has secured a private loan from BeiBei Amigos Language Preschool in year 1 for $3,500. Please see attached Loan Agreement and Promissory Note for detail. The private loan will be repay after one year with the annual interest rate of 5% which amount to total $3,675 (Principal $3,500, Interest $175). Once received the charter status, ALP plans to launch a series of recruiting/marketing events to neighborhood community and interested parents/leads from existing multilingual preschool database to achieve the targeted students count.

The total three year operating revenue for year 1, 2 and 3 are $346,428, $561,906, and $782,066 accordingly.

Administration, Instruction, & Support (AIS) Expenditures

Upon receiving charter status, Arizona Language Preparatory plans to hire 6.5 FTEs for the first year, 10 FTEs for the second year, and 13 FTEs for the third year. The salary for the director, teachers, assistant teachers, business manager and curriculum planning staff are based on data searched for charter school directory in the Phoenix area (e.g. http://www.simplyhired.com) and average salary based on existing preschool staff for trilingual curriculum planning. Annual salary increase of approximately $3000 for the selected role (e.g. Director, Regular Teachers, Business Manager, etc.) is budgeted. See below table for the breakout of each role and budgeted initial salary and annual increased based on performance evaluation and feedback from community. ALP required a curriculum planning specialist to coordinate the trilingual education, in year 1, this role is shared with existing preschool and in year 2 and 3, this role becomes to full time support.

Administration, Instruction, & Support (AIS)	Year 1			Year 2			Year 3		
	# of Staff	@ Salary	Total	# of Staff	@ Salary	Total	# of Staff	@ Salary	Total
Salaries									
Director	1.0	$45,000	$45,000	1.0	$48,000	$48,000	1.0	$51,000	$51,000
Teacher (Regular)	3.0	$30,000	$90,000	5.0	$33,000	$165,000	7.0	$36,000	$252,000
Instructional Assistants (Regular)	1.5	$25,000	$37,500	2.5	$28,000	$70,000	3.5	$30,000	$105,000
Business Manager (Finance/Bookkeeping)	0.5	$40,000	$20,000	0.5	$43,000	$21,500	0.5	$46,000	$23,000
Curriculum Planning Specalist	0.5	$40,000	$20,000	1.0	$40,000	$40,000	1.0	$43,000	$43,000

The estimated employee benefits are approximately 22% of the total salary cost. This number reflects all state and federal mandates. Some of the employee related expenses includes all state and federal withholding taxes along with unemployment insurance and workers' compensation cost. ALP does not offer employee insurance for the first three years, the school administration along with the non-profit governing board will revisit this line item once school is established.

The estimated office supplies, including toners, paper, postage, etc. are budgeted at $1000 for year 1, $1,500 for year 2, and $2,000 for year 3 based on previous years of experiences accounted for projected student counts. The instructional consumables including but not limited to the AIMS web ($2/student for all grades) and Galileo ($6/student for 2nd grades and up) assessments and Singapore Math related training are estimated at $2000 for year 1, $3000 for year 2, and $4000 for year 3 based on previous years of experiences accounted for projected student counts. The cost for membership dues, registrations & travel for year 1 is included in the start-up cost (no fund is allocated for year 1), year 2 and 3are budgeted at $1000 annually. This cost is related to training and association membership.

Initial start-up legal services will be provided by parent volunteer who is licensed and practice laws in the State of Arizona; Mr. Michael Gerity, a parent volunteer for Arizona Language Preparatory, has been admitted to practice Law in Arizona State and Federal courts since graduating from the Arizona State University College of Law in 1994. Mr. Gerity clerked for the chief judge of the Arizona court of appeals, served as a deputy public defender, where he received extensive trial experience, and worked for several years at a large civil litigation law firm in Phoenix prior to form Israel & Gerity Limited Liability Company. Therefore, we have budgeted $5000 for year 1 for contracted services (accounting services ~$1000 estimated based on our past years accounting expenses data contracted with Schneider & Haney CPAs, legal services ~$3000 estimated for 12 hours @ $250/hour rate provided by attorney and IT services ~$1000 estimated for 13.33 hours @ $75/hour rate provided by Mr. Joe Kil who owns a IT Solutions Services business at the State of Arizona). In year 2 and 3, ALP budgeted $7000 and $9000 for the accounting, legal and IT services, an increase of $2000 annually to account for

increased student and staff counts.

ALP plans to contract with CBHSP Arizona ("Cenpatico") for all Special Ed. Services. Based on recommended 8-10% rate of student counts required special education (rate provided by Special Education specialist in the field which reflected in the quote we have received), ALP estimates $8,000 for year 1 (approximately 5-6 students required special education services), $10,000 for year 2 (8-9 students required special education services), $12,000 for year 3 (11-12 students required special education services). The quote for various special education services are averaged at around $80/hr.

ALP plans to leverage existing curriculum developed by staff for year 1 and will invest additional $500 in year 2 and $1000 in year 3 to improve existing curriculum and additional grade level. ALP plans to build a trilingual library on campus starting year 2 and 3, currently ALP has allocated $500 for year 2 and $1000 for year 3 to build the on campus trilingual library. SAIS software fee is estimated at $2,900 annually after purchasing the software which has budgeted as part of the start-up cost. The quote for SAIS support is provided by Powerschools from Pearson via email communication.

ALP allocates $2,500 for year 1, $5,000 for year 2, and $7,500 for year 3 for auditor fee. The quote was provided by current school CPA.

The total Administration, Instruction, & Support for three year operating cost is budgeted at $280,650 (year 1), $451,690 (year 2) and $618,680 (year 3).

Operations & Maintenance (O&M) Expenditures

ALP budgets $2,000 for year 1, $2,500 for year 2 and $3,000 for year 3 for school supplies for all the classrooms ALP occupied. The cost estimate based on the past year spending on toner, paper, crayons, tissues, laminates, school supplies, etc. ALP plans to commence $2,000 for year 1, $3,000 for year 2, and $5,000 for year 3 on marketing and branding to recruit and retain new and existing students. Our marketing and promotional plan is detailed out in C.2 Advertising and Promotion.

ALP plans to pay for the lease/rent cost and NNN based on the percentage of classroom allocated for ALP to overall school classroom space. Based on our targeted student counts for the first three years, year 1 is estimated at 40% of the total lease plus NNN cost, year 2 is estimated at 59% of the total lease plus NNN cost, year 3 is estimated at 73% of the total lease plus NNN cost which amounts to $48,000 for year 1, $76,000 for year 2, and $102,000 for year 3. ALP plans to spend $1,000 for year 1, $1,500 for year 2 and $2,000 for year 3 in building & improvements. The estimated cost are based on past school site improvement cost and projected improvement required adjusted with the budgeted student counts.

For fees/permits, ALP budgets $1,000 annually for fire alarm permit and fingerprint clearance card permit for ALP staff. For liability insurance, ALP allocated $3,000 for year 1, $3,500 for year 2, and $4,000 for year 3. The annual insurance costs are estimated based on current preschool liability insurance coverage rate provided by Hartford Insurance. The coverage for the

property/casualty insurance cost are included as part of the liability insurance quotes.

ALP budgets for utility expenses $4,200 for year 1, $6,195 for year 2, and $7,665 for year 3. The utility estimates are based on FY2011-FY2012 annual sum of the utility expenses to operate the school site, multiply by the percentages allocation for each year (40% for year 1, 59% for year 2, and 73% for year 3). Phones and communication/internet expenses are budgeted for $1,200 annually based on the current CenturyLink expenses. ALP does not plan to provide transportation or food services; therefore, no budget will be needed for the transportation and food services.

Student furniture is estimated at $1,000 annually to account for additional student headcounts and replacement furniture. Student technology equipment is budgeted at $1,000 for year 1, $2,000 for year 2, and $3,000 for year 3 to account for computer technology equipment purchase and upgrade for the classrooms and library. ALP has existing computer lab currently with computer equipments donated from parents, community and surrounding companies. ALP plans to continue maintaining good community relationship and submit grant and donation requests to surrounding corporations to offset the costs for technology equipment upgrade. Office technology equipment is budgeted at $500 annually for the staff and administration. Currently ALP has two dedicated computers for staff. There is no cost associated with the office furniture & other equipment line item as ALP will lease all office furniture & equipment (e.g. copiers, phones, furniture, cabinets, chairs, etc.) from existing preschool at $50/month rate for 10 months annually. The lease cost of $500 annually is captured under the other leases line item.

The total Operations & Maintenance for three year operating cost is budgeted at $65,400 (year 1), $102,570 (year 2) and $130,865 (year 3).

Budget Balance

Total year 1 revenue (carryover from start-up period plus state equalization funding for year 1 is estimated at $346,426) minus expenditures (Administration, Instruction, & Support $280,650 + Operations & Maintenance $65,400, total $346,050) is the budget balance of $378 which will be carry over to the second year budget.

Total year 2 revenue (carryover from year 1 plus state equalization funding for year 2 is estimated at $561,906) minus expenditures (Administration, Instruction, & Support $451,690 + Operations & Maintenance $102,570 which includes the full repayment of secured loan total $3,675 to BeiBei Amigos Language Preschool, is total $554,260) is the budget balance of $7,646 which will be carry over to the third year budget.

Total year 3 revenue (carryover from year 2 plus state equalization funding for year 3 is estimated at $781,066) minus expenditures (Administration, Instruction, & Support $618,680 + Operations & Maintenance $130,865, total $781,066) is the budget balance of $31,521 which will be carry over to the fourth year budget.

LOAN AGREEMENT AND PROMISSORY NOTE

THIS LOAN AGREEMENT AND PROMISSORY NOTE, is made this 12th day of December, 2012, by and among Arizona Language Preparatory, a non-profit Corporation organized under the laws of the State of Arizona (hereinafter known as "BORROWER") and BeiBei Amigos Language Preschool, a Limited Liability Company organized under the laws of the State of Arizona (hereinafter as "LENDER"). BORROWER and LENDER shall collectively be known herein as "the Parties". In determining the rights and duties of the Parties under this Loan Agreement, the entire document must be read as a whole.

PROMISSORY NOTE

FOR VALUE RECEIVED, BORROWER promised to pay to the order of LENDER, the sum of $3,500.00 dollars together with interest thereon at a rate of 5 percent per annum on the unpaid balance with interest to be compounded annually (hereinafter, "the Loan Balance"). The entire outstanding Loan Balance (including principal and any accrued interest) shall become fully due and payable by BORROWER within 15 days of written demand by BORROWER from LENDER or any subsequent assignee of this note. The method for making a proper "demand" upon BORROWER is set forth below. Should BORROWER fail to make payment in full to LENDER within 15 days of demand, BORROWER shall be in default of the terms of this loan agreement. This agreement is subject to additional terms found below.

ADDITIONAL LOAN TERMS

The BORROWER and LENDER, hereby further set forth their rights and obligations to one another under this Loan Agreement and Promissory Note and agree to be legal bound as follows:

A. **Loan Payment Terms.** BORROWER to pay $175 to LENDER annually for the life of the loan. The first payment shall be due Dec 1, 2013 and continue each year on the 1st of the December thereafter until the Loan Balance, including principal and accrued interest, is paid in full or demand for payment in full is made by LENDER.
B. **Demand by Lender.** This is a "demand" loan agreement and promissory note under which BORROWER is required to repay in full the entire outstanding Loan Balance. Delivery of written notice by LENDER to BORROWER via U.S. Postal Service Certified Mail shall continue prima facie evidence of delivery. For mailing of said notice, LENDER shall

use BORROWER'S address as stated below in the portion of this agreement pertaining to default.

C. **Method of Loan Payment.** The BORROWER shall make all payments called for under this loan agreement by sending check or other negotiated instrument made payment to the LENDER at the address indicated:

BeiBei Amigos Language Preschool

751 E. Union Hills Dr., Suite 19, Phoenix, AZ 85024

If LENDER gives written notice to BORROWER that a different address shall be used for making payments under this loan agreement, BORROWER shall use the new address so given by LENDER.

D. **Default.** The occurrence of any of the following events shall constitute a Default by the BORROWER of the terms of this loan agreement and promissory note:

1. BORROWER's failure to pay any amount due as principal or interest on the date required under this loan agreement
2. BORROWER seeks an order of relief under the Federal Bankruptcy laws
3. BORROWER becomes insolvent
4. A federal tax lien is filed against the assets of BORROWER

E. **Additional Provisions Regarding Default:**

F. **Parties that are <u>not</u> individuals.** If any Party to this agreement is other than an individual (i.e. a corporation, a Limited Liability Company, a Partnership, or a Trust), said Party, and the individual signing on behalf of said Party, hereby represents and warrants that all steps and actions have been taken under the entity's governing instruments to authorize the entry into this Loan Agreement. Breach of any representation contained in this paragraph is considered a material breach of the Loan Agreement.

G. **Integration.** This agreement sets forth the entire agreement between the Parties with regard to the subject matter hereof. All prior agreements, representations and warranties, express or implied, oral or written, with respect to the subject matter hereof, are hereby superseded by this agreement.

H. **Severability.**

IN WITNESS WHEREOF and acknowledging acceptance and agreement of the foregoing, BORROWER and LENDER affix their signatures hereto.

BORROWER(S)

By: Emily Sheen
Title: President of board
Dated: December 14, 2012

LENDER(S)

By: Emily Sheen
Title: Owner
Dated: December 14, 2012

BORROWER(S)

By: Sara Hecht
Title: VP of board
Dated: December 14, 2012

LENDER(S)

By: Sean M Diana
Title: Owner
Dated: December 14, 2012

BORROWER(S)

By: Leazeth Denisse Ramos
Title: Secretary of board
Dated: December 14, 2012