C.5 Three Year Operational Budget Assumptions

The Leman Academy of Excellence provides the assumptions below in support of the three-year operational budget.

Explanation of Revenue

The Leman Academy of Excellence enrollment goals for years one, two and three are 415, 593 and 775 respectively. The breakdown by grade of these goals is provided below:

Leman Academy of Excellence Enrollment Goals by Grade									
	K	**1st**	**2nd**	**3rd**	**4th**	**5th**	**6th**	**7th**	**8th**
Year 1	100	78	78	52	52	26	26		
Year 2	125	130	78	78	52	52	52	26	
Year 3	125	130	130	104	78	52	78	52	26

As demonstrated in the projected revenue calculator, conservative enrollment estimates have been used in the operational budget revenue assumptions. Conservative enrollment totals for years one, two and three are 368, 533 and 704 respectively and accounts for LAE meeting between 89% and 90% of enrollment goals. The chart below details the reduced enrollment by grade:

Leman Academy of Excellence Conservative Enrollment Projections by Grade									
	K	**1st**	**2nd**	**3rd**	**4th**	**5th**	**6th**	**7th**	**8th**
Year 1	90	70	70	47	47	22	22		
Year 2	112	117	70	70	47	47	48	22	
Year 3	112	117	117	100	70	47	71	48	22

Projected state equalization funding for LAE's three-year operational budget does not assume student count add-ons. Additionally, the budget does not assume revenue from grant money, though LAE plans to pursue a variety of grants and other fundraising efforts.

Explanation of Expenses

ADMINISTRATION, INSTRUCTION & SUPPORT (AIS) EXPENDITURES

Salaries – across all positions, 13.5% of the budgeted salary is assumed for required employer contributions based on advice received from prospective service provider, Focus HR. Additionally, salaries are

increased an average of 5% in years two and three, but will not continue at that rate of increase in future years.

LAE Staff will begin employment on July 30, 2015 – three business days in advance of the first day of school, August 4, 2014.

- **Principal – 1 FTE for each year of the budget**
    - One full time employee with a salary range of $65,000 - $73,000 across the three years of the operating budget.
- **Teachers – 19 FTEs in year one, 28.5 FTEs in year two, 36.5 FTEs in year three**
    - Kindergarten is a half-day program; only two teachers are required to manage four classes. In year two and three, 2.5 Kindergarten teachers required for five classrooms.
    - Classroom teachers (1st-6th) in year one equals 12 teachers, 18 in year two, and 25 in year three.
    - Specials teachers include art teacher(s), music teacher (s), physical education teacher(s) and Latin teachers (5 total in year one) (7.5 total in year two) (10 total in year three).
    - Teacher salaries range from $38,000 - $43,500 across the three years of the operating budget.
- **Director of Instruction – 1 FTE for each year of the budget**
    - Salary range is $45,000 - $50,000 across the three years of the operating budget.
- **Instructional Assistants – 5 in year one, 8.5 in year two, 12 in year three**
    - Five Instructional Assistants will be hired for thirty hours per week. These employees are not included in the expenses associated with employee benefits.
    - Salary range is between $20,000 – $22,500 across the three years of the operating budget.
- **Reception / Clerical – 1 FTE in years one and two, 2 FTEs in year three.**
    - Salary range is between $30,000 - $33,000 across the three years of the operating budget.
- **Registrar – Part time position in year one; begins full time in year two and beyond.**
    - Salary range is between $28,000 - $30,000 across year two and three of the operating budget.
- **Business Manager – 1 FTE for each year of the budget**
    - Salary range is between $50,000 - $55,000 across the three years of the operating budget.
- **Other - Health Services Coordinator – 1 FTE for each year of the budget**
    - Salary range is between $30,000 - $33,000 across the three years of the operating budget.

- **Other - Assistant Principal – 1 FTE for each year of the budget**
  - Salary range is between $46,500 - $52,000 across the three years of the operating budget.

Employee Benefits – This line on the budget is left blank because the cost was bundled into the 13.5% required employee benefits. The 13.5% breaks out into the following contributions (calculating at the 4% rate for 401K):

7.5%	FICA (Social Security & Medicare Tax)
2% - 4%	401K
2%	Workmen's Compensation
13.5%	Employee Benefits

Employee Insurance – for each year of the three-year operation budget, it is assumed that two-thirds of eligible employees will elect LAE's health insurance plan. It is estimated that one third of employees will not elect this benefit due to existing plans through a spouse. This assumption is based on the experience of LAE principals who have administered schools in the past. Additionally, assumptions were made regarding how many employees would elect coverage for a spouse and/or dependents.

Crest Insurance, Southern Arizona's largest independent insurance brokerage company, provided LAE with a quote for healthcare and dental insurance plans. The figures provided by Crest Insurance are referenced in the explanations below. LAE Board Chair, Joe Higgins, received these figures from Crest Insurance via email on May 10, 2014. Crest Insurance has other charter schools in its portfolio of clients, which provides confidence in these budgeted amounts.

Monthly premiums are $350 for the employee, $700 for employee and spouse, $600 for employee and child, $1200 for employee family. LAE will cover 75% of the employees' monthly premium and 50% of dependents. For dental insurance, LAE was quoted $28 monthly premium for the employee, $50 for employee and spouse, $55 for employee/child and $90 for full family coverage. LAE will cover 50% of dental premiums.

In addition to assuming that one third of employees will opt out of this coverage, the expenses referenced in the three year operating budget also assume a mix of coverage type from employee only, employee/spouse, employee/child and full family. The chart below organizes these assumptions and provides the total amount quoted by Crest Insurance.

Year	Total Employees	Eligible Employees	Employees Electing Coverage	Dental Insurance	Healthcare Insurance	**TOTAL**
One	31	25	17	$22,110	$105,420	**$127,530**
Two	44	35	23	$23,010	$171,924	**$194,934**
Three	56.5	43	28	$39,840	$204,360	**$244,200**

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Office Supplies – Leman Academy of Excellence is working with Lawson Financial Group. In researching the expenses associated with running a charter school, LAE had access to a number of operating budgets from existing charter schools of similar size to LAE. In reviewing actual expenses of existing schools, LAE has estimated this expense at $5,500 in year one with $500 annual increases.

Instructional Consumables - $250 has been allocated per classroom. In year one, 16 classrooms result in a $4,000 expense; year two includes 23 classrooms and a $5,750 expense; year three provides for a $7,500 expense to support 30 classrooms.

Membership Dues, Registrations & Travel
Membership in the Arizona Charter School Association is $3.25 per student. Assume an annual increase of .25 per student.

Registration & Travel has been budgeted respectively at $2,700, $3,000 and $3,500 for years one, two and three. These fees include participation in programs and associations that specifically cater to Classical Education Schools.

Leman Academy of Excellence Breakdown of Membership Dues Expenses For ACSA, Registration & Travel					
Year	**Number of Students**	**Cost per Student**	**Total Membership fee for ACSA**	**Registration & Travel**	**TOTAL**
One	415	$3.25	$1,339	$2,700	$4,039
Two	593	$3.50	$2,076	$3,000	$5,076
Three	775	$3.75	$2,906	$3,500	$6,406

Contracted Services (AIS)

The chart below reflects the amounts described in section B.3.2 Contracted Services, which support AIS expenditures.

Contracted Services for Leman Academy of Excellence Summary of AIS Expenses			
Service	**Year One**	**Year Two**	**Year Three**
Accounting	$2,500	$2,626	$2,750
Information Technology	$3,600	$3,600	$3,600
Payroll & HR	$9,600	$13,800	$17,700
Legal Services	$2,500	$1,750	$1,250
TOTALS	**$18,200**	**$21,776**	**$25,300**

Accounting - LAE has been in touch with Steve Comella, CPA regarding auditing services. Mr. Comella is a seasoned professional with an independent practice in Tucson, AZ. Mr. Comella will be responsible for conducting an annual audit as well as IRS filings required. Mr. Comella has provided non-profit pricing for LAE; he is a business associate of LAE Board Chair, Joe Higgins and shares in the vision LAE has for improving education in Tucson, AZ.

Year one: $7,000. Year two: $7,125. Year three: $7,250.

Information Technology - LAE has been in touch with Jeff Coleman from Resource Strategy, Inc (RSI). RSI delivers and integrates products for local area network (LAN) and global wide area network (WAN) circuits, managed firewall services, managed network services and Internet access and hosting. A budget of $300 per month has been allocated for each year of operation.

Payroll & Human Resources - LAE has been in touch with Focus HR, an award-winning Tucson, AZ business that has been supporting companies with human resource administration, risk management, workers compensation, benefits and benefits administration since 2000. This company quoted LAE $25 per employee per month. Mr. Higgens, LAE Board Chair, received this quote via email from Katie Grogan with Focus HR on May 5, 2014.

Legal Services - In year one of the operational budget, ten hours of legal support has been accounted for, as it is believed that this year holds the potential to bring issues to light that may not have previously been encountered. In year two, the number of hours decreases to seven and in year three and beyond it is believed that only five hours of legal support will be required. LAE is currently using the services of Thompson Krone, P.L.C. Thompson Krone's non-profit rate is $250 per hour.

Contracted Services (Special Education)
In the first three years of operation, all special education services will be outsourced. In year four, the projected expense for contracted special education services is greater than hiring a staff member dedicated to providing special education services at LAE.

In an effort to be well prepared for the variety of special education needs that LAE may encounter, $600 per student has been budgeted for 12.5% of the student population. The 12.5% is calculated from our targeted goal enrollment, not the lower conservative enrollment projections. The chart on the following page presents the calculations for special education services in years 1-4. In year three, the costs are approaching the expenses associated with hiring a full time, dedicated staff member to manage special education in house. The chart provides the projected expense of special education contracted services in year four to demonstrate that hiring a Special Education staff member (with benefits) is fiscally conservative.

Leman Academy of Excellence Projected Special Education Needs				
Year	**Enrollment Goal**	**Special Needs Population (12.5%)**	**Cost Per Student**	**Total Needed for Special Education Contracted Services**
One	415	52	$600	$31,200
Two	593	74	$600	$44,400
Three	775	97	$600	$58,200
Four	1009	125	$600	$75,000

A full breakdown of how special education dollars will be allocated in provided in section B.2.3, Contracted Services.

Curriculum & Resource Materials:
Shurley English – The price quoted to LAE was $345 per Kindergarten Class. In upper grades, the textbook fees for this instructional resource amount to $40-$45 per book, per student. This cost will be incorporated into the school fees paid by parents. By year two, the five kits required for Kindergarten will be purchased.

Sitton Spelling Practice – Teacher source books average $150. Student practice books average about $8.00. The three-year operational budget assumes that parents will purchase student practice books. In year one LAE will purchase 16 teacher source books ($2,400), year two requires 23 teacher source books, or an additional seven source books ($1,050); in year three, the addition of 7 more classrooms requires seven source books for a total of 30 source books purchased across three years.

Informational Text – supports ELA. Rough estimate for this is $10,000. Every class needs an allotment of informational text, and this amount of 10k allows for each teacher to have $625 per class to spend on this. Year 1: 10,000; year 2: $4,375, Year 3: $43,75

Journey's
Kindergarten: Complete Kindergarten Kit is $2,560.65 and we are purchasing 5 for a total of $12,803.25. All teacher resources are included with this purchase (value is close to $1,800).

1st Grade: Journeys Premium Common Core Student Package for Grade 1 is a total of $12,604.80. That's calculated at $161.60 x 78 = $12,604.80. Teacher resource materials are included with purchase.

Total cost: $27,000 with shipping and handling

Saxon Math - LAE was quoted a price of $25,000 to implement the program and supply manipulative. The cost related to Saxon Math relates to kits for grades K-2, which will only need to be refilled in future years; this translates to lower costs for K-2 in future years. The manipulative that come with the purchase of the K-2 kits will not be recurring costs. LAE will incur some cost with increased enrollment, especially in grades 1 & 2. Saxon Math costs appear again in year two and three at a lower rate to reflect the portion of the $25,000 that are one time costs.

The breakdown for the $25,000 in year one is:

- Kindergarten Student Kit (Saxon Math 1) cost $884.55 per kit x 4 = $3,538.20
- 1st grade Student Kit (Saxon Math 2) cost $884.55 per kit x 4 = $3,538.20
- 2nd grade Student Kit (Saxon Math 3) cost $783.75 per kit x 4 = $3,135.00
- 3rd grade (Saxon Math 4) is $71.40 per textbook x 52 = $3,712.80
- 4th grade (Saxon Math 5) is same as 3rd grade = $3,712.80
- 5th grade (Saxon Math Course 1 student edition) is $73.00 per textbook x 26 = $1,898.00
- 6th grade (Saxon Math Course 2 student edition) is $73.00 per textbook x 26 = $1,898.00
- Teacher resources = $3,567

DIBELS Next (Dynamic Indicators of Basic Early Literacy Skills) – is included in the operation budget for grades K-6. In year one, the K-6 community is 412 students; in year two, the K-6 community is 567 students; and in year three the K-6 community is 697 students. The cost increases proportionally each year in tandem with the increase of students.

DIBELS Next Online Scoring - $1.95 per student

Year 1: $803; Year two: $1,105; Year 3: $1,360

In addition to the per student cost, there is a fee per class. The breakdown is provided below.

Vport K $39.95 per class = $159.80
Vport 1 $54.95 per class = $164.85
Vport 2 $54.95 per class = $164.85
Vport 3 $58.95 per class = $117.90
Vport 4 $58.95 per class = $117.90
Vport 5 $58.95 per class = $58.95
Vport 6 $58.95 per class = $58.95
TOTAL: $843.20

Training for DIBELS in included in the cost for year one. The two-day training for LAE educators will cost $5,000.

The chart below consolidates all the Curriculum & Resource Materials expenses outlined on the previous pages.

Leman Academy of Excellence Consolidated Expenses & Product Sources for Curriculum & Resource Materials Expenses: Year 1-3			
Product	**Year One**	**Year Two**	**Year Three**
Shurley English	$21,380	$345	
Sitton Spelling	$2,400	$1,050	$1,050
Informational Text (ELA Program)	$10,000	$4375	$4375
Journeys	$27,000		
Saxon Math	$25,000	$10,000	$8,000
DIBELS	$6,646	$1,948	$2,203
TOTALS	**$92,426***	**$17,718**	**$15,628**
*** $13,000 of this expense will be spent in the start-up year and is reflected in the start-up budget. Thus, the expenditure that is shown in year one of the three-year operating budget is $79,426.**			

Library Resources/Software – LAE is still in the process of identifying a library vendor. Based on general research for library resources/software, a budget of $8,000 in year one and $4,000 in both years two and three is allocated.

SAIS Software – LAE is still in the process of identifying a vendor for SAIS software. In part, this delay is based on the understating that the incoming business manager will have experience with these products and the process of selecting a vendor will be more effective with the business manager's input. Based on general research for SAIS products, a budget of $5,000 is allocated for this software.

Auditor Fees – LAE has been in touch with Ludwig Klewer & CO, PLLC regarding audit services and IRS preparations / filings. Ludwig Klewer & CO is a locally owned, full-service accounting firm and is a member of the Private Companies Practice Section of the American Institute of Certified Public Accountants, which requires participation in its peer review program. As a result, Ludwig Klewer is regularly reviewed to ensure quality control systems are in place over their accounting and auditing practices.

LAE will conduct its first audit in year two – once the first fiscal year has closed and is ready for review. The amounts budgeted are:

Year Two - $10,000 Year Three - $12,000.

The Quality Schools Program & Galileo K-12 System – This is a three-year series of job-embedded professional development and intensive on-site coaching for teachers and school leaders looking to improve student achievement. Through data-driven instruction and Professional Learning Communities, schools will create, implement, and sustain a systematic approach to Curriculum, Instruction, Assessment, and Professional Development. The Quality Schools Program has an exclusive partnership with ATI/Galileo as a testing product. Participation in the program requires that LAE purchase ATI/Galileo's assessment product.

Because Quality School Program is intertwined with the Galileo product, the expenses for both are broken down in the chart below and combined on a single line in the three-year operating budget.

Quality School Program & Corresponding Galileo K-12 System Assessment Product Costs			
	Year One 412 Students	Year Two 593 Students	Year Three 775 Students
Quality Schools Program	$17,000	$16,000	$15,500
Galileo K-12: $8 Per Pupil Fee	$3,296	$4,744	$6,200
Totals	**$20,296**	**$20,744**	**$21,700**

OPERATIONS & MAINTENANCE EXPENDITURES

Supplies – In year one $6,000 is allocated for supplies – from janitorial supplies and light bulbs to landscape and playground mulch. The budget increases by $500 per year to keep pace with the student and faculty growth.

Marketing & Advertising – the start-up budget includes $20,000 for marketing and promoting LAE. Enrollment goals for years two and three are extremely important to meet, thus the marketing cannot be significantly reduced until LAE is well established in the market. Year one maintains the marketing budget at $20,000 and in years two and three it declines to $15,000.

LAE will work with Tagline Media Group of Tucson to place all their media. Tagline works exclusively with local businesses and has extensive experience in buying advertising and targeting marketing programs using the latest market research and first hand experience in the Southern Arizona market. Tagline builds their fees into the marketing plan; thus in year one $20,000 is allocated for Marketing & Advertising and the fee to Tagline (10%) is built into that amount. Tagline Media Group was included in section B.2.3, Contracted Services, to show that LAE recognizes them as a service provider, however no fees associated with Tagline are included in the Contracted Services line item for the budget.

Contracted Services (OM)

Contracted Services for Operations & Maintenance Summary of Expenses for LAE			
Service	**Year One**	**Year Two**	**Year Three**
Janitorial Services	$12,000	$13,500	$14,500
Landscaping Services	$6,000	$6,000	$6,000
TOTALS	**$18,000**	**$19,500**	**$20,500**

Building Rent / Lease / Loan in year one, this cost assumes 15% of revenue ($307,694). In year two, the percentage increases to 17% ($500,899) and in year three the percentage reaches and remains at 20% ($736,411). Payment will be made to Lawson Financial Group.

Building & Improvements Land & Improvements –
LAE is working with Lawson Financial Group to secure a turnkey facility. The land and complete build out – including fixtures, furnishings, and equipment (FF&E) – is included in the lease.

Fees /Permits – Lawson Financial Group will assume the costs for all fees and permits associated with purchasing the land and building the facility.

Property / Casualty Insurance – LAE received a quote from Tucson, AZ based Crest Insurance Group, LLC. The LAE contact at Crest Insurance Group, Joe Hickle, has approximately six other charter school's in his client portfolio. The parameters we provided to obtain the quote for year one were: 1) approximately 400 scholars, 2) 35 staff members, and 3) $400,000 in business personal property to insure. Mr. Hickle provided the following estimate via email to LAE Board Chair Joe Higgins on May 19, 2014:

General Liability: $5,000
Property Estimate: $1,000 annually

For year two and three, the estimate was extrapolated base on the increase of students, staff and business property to reach the following estimates:

Year one: $6,000 Year Two: $8,000 Year three: $10,000

Liability Insurance – LAE received a quote from Tucson, AZ based Crest Insurance Group, LLC. based on a Governing Board of five members. Mr. Hickle provided the following estimate as part of a May 19, 2014 email to Mr. Higgins, LAE Board Chair:

D&O with Employment Practices Liability: $2,500 - $3,500 annually

The Leman Academy of Excellence, Inc. Governing Board is currently four members. Growth of the board is yet to be determined, but for conservative estimates, the three-year operating budget increases by $500 each year:

Year One: $2,500 Year Two: $3,000 Year Three: $3,500

Utilities
In researching the expenses associated with running a charter school, LAE has reviewed a number of operating budgets from charter schools of similar size to LAE. Based on the square foot projections outlined in the architectural renderings attached as part of C.1, the Leman Academy of Excellence will be:

Year One: 31,889 sq. feet / 412 students
Year Two: 38,953 sq. feet / 593 students
Year Three: 46,017 sq. feet / 775 students

The comparative budgets that LAE reviewed were from schools that had a similar growth plan as LAE – starting between 400 and 500 scholars and growing to approximately 1,200. The costs identified were:

Gas & Electric: $16,616 (500 students) - $29,513 (900 students)
Water & Sewage: $10,838 (500 Students) - $19,247 (900 students)

Based on LAE's annual increases in both square footage and students, the utilities expense for the three-year operating budget has been calculated at:

Year One: $27,000 Year Two:$35,000 Year Three: $45,000

Additionally, LAE Board Chairman, Joe Higgins, serves on the board of Salpointe Catholic High School in Tucson, AZ. His knowledge of school budgets and expenses specific to Tucson, AZ, indicate that these figures are in line with his own experience with school utility expenses.

Phone/Communications/Internet Connectivity
In researching the expenses associated with running a charter school, LAE has reviewed a number of operating budgets from charter schools of similar size to LAE. Based on the square foot projections outlined in the architectural renderings attached as part of C.1, the Leman Academy of Excellence will be:

Year One: 31,889 sq. feet / 412 students
Year Two: 38,953 sq. feet / 593 students
Year Three: 46,017 sq. feet / 775 students

The comparative budgets that LAE reviewed were from schools that had a similar growth plan as LAE – starting between 400 and 500 scholars and growing to

approximately 1,200. The costs identified were flat across time – approximately $18,000 from year to year.

Based on LAE's annual increases in both classroom numbers and students, the internet/phone/communications expense for the three-year operating budget has been calculated at:

Year One: $17,000 Year Two:$18,500 Year Three: $20,000

The majority of the school will be built and wired in year one, but each subsequent year of the three-year budget assumes an additional seven classes as well as additional specials teachers. Approximately $200 per additional class added in year two and three creates an increase in the budget of $1,500.

Transportation & Food Services – LAE will not be providing students with these services.

Student & Office Furniture – these items will be incorporated into the developer's building costs and bundled with the build out of the facility, which results in no budget allocation in year one. The developer, Lawson Financial Group, has defined fixtures, furniture and equipment (FF&E) as "mounted or moveable items like lockers, playground equipment, bleachers, mounted projectors and smart board, tables, desks, and/or chairs."

Student & Office Technology – As with Student & Office Furniture, these costs will be incorporated into Lawson's building costs and bundled with the build out of the facility, which results in no budget allocation in year one.

Recognizing that technology changes at a very rapid pace and that furniture and equipment may get damaged or broken, these two line items in the budget have been allocated with $3,000 in year two and $5,000 in year three to ensure that LAE has the resources to replace furniture, computers, or other technological needs as they arise.

Other Leases (security, copiers, etc…) – A vendor for security systems and copiers have not been identified. Based on research and comparing operating budgets of charter schools of similar size, $7,000 has been allocated in year one and this line item increases by $500 per year to keep pace with student and faculty growth.

Loan Repayment – LAE has a $155,000 start-up loan to repay, however the terms of that loan sets a repayment scheduled beginning in year four of the school's operating budget. Those payments are not reflected in this three-year budget.