RENEWAL DETAILED BUSINESS PLAN - EduPreneurship Inc.

II. SUSTAINABILITY - Fiscal Viability

Background

For the past 15 years, EduPreneurship (ESC), has been operating very small schools designed to serve grades K-8 in multi-age, non-graded classrooms. The special focus of the charter can be found in its name. Economics, entrepreneurism, and other business concepts are an integral part of the character of the school.

The business model evolved into a fiscally efficient operation based on a small school population - under 100 students; a small staff - five teachers with minimal support staff; and a small, low-cost facility with space for five classrooms, library, computer lab, storage, a large group meeting area with kitchen, and several offices.

During these past 15 years, this model has worked well. There has never been a concern about the charter meeting its fiscal responsibilities and there have always been significant fund balances at the end of each fiscal year.

The charter has used the same basic accounting procedures, including contracting with the same accountant, for the last 15 years. It is in compliance with GAAP. Day to day fiscal decision-making is left to the Head of School, who reports to the Board on a regular basis. Deposits are double-counted by staff, bank statements are reconciled by the contracted accountant or designated staff, and vendors are paid using a purchase order system. The board reviews monthly financials at each meeting and reviews/approves budgets and audits annually. The charter is part of a very low socio-economic community where fundraising and philanthropic support are at a minimum. Tax Credit donations are under $1,000.

FY2007 - FY2010 TRANSITIONS

From 2007 to present, the charter has undergone a transition of leadership, location, and student demographic. The ESC Corporate/Governing board was alert to the problems that these actions could cause and took these proactive measures to mitigate the effect:

- closed the original Scottsdale school due to changing student demographic and declining enrollment in the immediate area - before negative fiscal consequences,
- moved the Phoenix school to a nearby location with a better, more secure, and more cost effective facility,
- softened the effect of retirement of the two original charter founders by retaining one founder on the board for leadership continuity and contracting with the other founder for school compliance and grant assistance.

Review of the FY2009 financials revealed no surprises. The board expected a significant reduction in revenues due to reduced FY2009 enrollment and it also expected a increase in expenses due to planned purchases to enrich an academic program that suffered during the transition. Since the business had cash assets well above the negative cash flow for FY2009, there was a conscious decision to weather the financial consequences instead of disrupting the program and school climate by laying off staff.

MAJOR CONCERN FOR THE FUTURE

Increasing enrollment is a major concern for fiscal viability. To address this concern, focused analysis and action by the ESC Corporate/Governing Board, Head of School and original founders began in the summer of 2009 and will continue until desired enrollment target is met. ESC continues to attract a high interest in the school however we haven't yet turned that interest into increased enrollment.

FY 2009 - 2010 ANALYSIS

As stabilizing and increasing enrollment has been identified as a major concern for fiscal viability, an analysis of the problem has been ongoing. The Board believes that part of the decline was due to the move to a new location. Although very close to the old school, the move caused a shift in student demographic from middle income to a lower social-economic population. We underestimated the services that this population would be seeking from the school by failing to fully consider the effect of the present economic downturn on the neighborhood. The most often cited reason for leaving the school, other than moving out of the area, is a desperate need for the National School Lunch Program and for an after-school program. This has put the school at a disadvantage when competing against other district schools in the area.

ACTION to INCREASE ENROLLMENT

Adding the National School Lunch (NSLP) and Breakfast program next year is imperative. This year, over 90% of our students would quality for NSLP if it was offered. The need for food assistance is cited as the number one barrier to enrolling or remaining at the school. This spring, one staff member attended the required 3 day NSLP training and the school is currently searching for a caterer to provide meals for FY2011. A nearby charter of similar size and demographics is assisting the Office Manager in setting up required procedures. May Marketing materials will announce the addition of NSLP. We expect the program to be fully implemented by August 2010. We will also offer a breakfast program and an after school program by August 2010.

Marketing efforts will be intensified in the month of May by holding a 15 year celebration, Community Outreach Fair, in mid-May, where students will demonstrate their "Mini-Mall" entrepreneurial skills. Signage and information will be distributed through a neighborhood mailing announcing the new services available; school lunch and breakfast program and after school program.

The Head of School, with input from staff, parents, and students, has developed an organized targeted enrollment membership drive. The membership drive is a multi-level commitment from the governing board, staff, families and students to put personal time and effort into walking the neighborhood and sharing the school's programs including the new NSLP and after school services.

Due to the increased efforts, we project an estimated student count of 85 by June 15, 90 by July 15, and 95 by August 15. Historically 10% of the estimated count is a no show on the first day of school so an estimated count of 95 should yield a head count of about 86 students. From this we can make a very conservative projection of a 100 day ADM count of 82 (see FY2011 budget revenue projection).

FY 2008 -2009 AUDIT FINDINGS

Audit Finding #1 - Composition of the corporate board was cited as a material weakness because there are no financial experts on the board. The board is sensitive to this finding but has decided to accept the associated risks. There is **no corrective action planned** for these reasons:

- A founding board member has been reviewing the charter financials for the past 15 years with good success. New board members will be trained to understand and review the monthly reports presented to them.
- The accountant that assists and advises with preparation of the budget and prepares monthly financials for the board has worked with this charter for the last 15 years.
- The board recognizes the advantage of having a financial expert on the board and will consider this when adding board members in the future.

Audit Finding #2 - Management should be actively involved and have significant influence over the financial statements and reports. Variances from budget and bank reconciliations should be reviewed regularly and there should be adequate segregation among employees with regard to payroll preparation, authorization and distribution.

The corrective action plan was completed in July 2009. Financial information including budget variances and bank reconciliations are now reviewed monthly by Head of School and acceptance initialed by a board member. All payroll actions are reviewed at each board meeting and signed by one or more board members noting review and approval.

SUMMARY

Audit concerns have been responsibly addressed.

We believe that Actions to Increase Enrollment discussed above will move enrollment upward to a number that will fiscally support the school.

As shown on the submitted budget, we anticipate ADM to remain level at 70-71 students in FY2010, to increase to 82 the next year and to 90 in FY2012. This will fit with our small school model and allow a fund balance to be carried over each year after reaching target in FY2012.