C. BUSINESS PLAN

C.5. THREE YEAR OPERATIONAL BUDGET

C.5.a. List of Expenditures

SENECA PREPARATORY ACADEMY FOUNDATION 3-Year Operational Expenses List									
VARIABLE EXPENDITURES: Instruction & Support	YEAR 1			YEAR 2			YEAR 3		
SALARIES & EMPLOYEE BENEFITS	# of Staff	@ Salary	Total*	# of Staff	@ Salary	Total*	# of Staff	@ Salary	Total*
Executive Director	0.33	$80,000	$28,380	0.33	$84,800	$30,083	0.33	$89,888	$31,888
Assistant Director	1	$56,000	$60,200	1	$58,240	$62,608	1	$60,570	$65,112
Teacher-Regular Education	9	$38,000	$367,650	11	$39,140	$462,831	12	$40,314	$520,053
Teacher-Special Education	1	$40,000	$43,000	1	$41,200	$44,290	1	$42,436	$45,619
Teacher-Lead/Specialist/Coordinator	--	--	--	1	$42,000	$45,150	2	$43,260	$93,009
Teacher- 50% FTE French/Spanish	1	$30,000	$32,250	1	$30,900	$33,218	1.5	$31,827	$51,321
Teacher- Physical Education	0.5	$30,000	$16,125	0.5	$30,900	$16,609	0.5	$31,827	$17,107
School Nurse	--	--	--	1	$48,000	$51,600	1	$49,440	$53,148
Instructional Assistants-Regular Ed	2	$18,720	$40,248	4	$19,282	$82,911	6	$19,860	$128,097
Clerical – Student Affairs	1	$18,720	$20,124	1	$19,282	$20,728	1	$19,860	$21,350
Employee Benefits	--	--	$98,973	--	--	$138,376	--	--	$167,138
INSTRUCTION SUPPORT VARIABLE EXPENDITURES			Total			Total			Total
Office Supplies (Paper, Postage, etc.)			$12,000			$15,212			$19,586
Instructional Consumables			$27,500			$34,862			$44,884
Membership Dues, Registrations, Travel			$3,000			$3,803			$4,896
Contracted Services (Special Education)			$53,767			$76,293			$104,063

Curriculum & Resource Materials			$65,000			$32,188			$38,458
Library Resources/Software			$5,000			$6,338			$8,161
SAIS Software			$5,000			$6,338			$8,161
Contracted Services (Instruction/Tech)			$37,750			$15,000			$7,500
Stipend for Year 1 Pre-Service Training			$12,747			--			--
Student Furniture & Other Equipment			$39,000			$19,313			$23,075
Student Technology Equipment			$50,200			$24,859			$29,701
Total Instruction & Support Variable Expenditures			***$1,017,914***			***$1,222,608***			***$1,482,327***
% Total Instructional & Support Expenditures over Total Revenues			***68.38%***			***65.90%***			***64.37%***
FIXED OVERHEAD EXPENDITURES: Administrative & Operations-Maintenance	**YEAR 1**			**YEAR 2**			**YEAR 3**		
ADMINISTRATIVE EXPENDITURES	**# of Staff**	**@ Salary**	**Total***	**# of Staff**	**@ Salary**	**Total***	**# of Staff**	**@ Salary**	**Total***
Executive Director Salary	0.67	$80,000	$57,620	0.67	$84,800	$61,077	0.67	$89,888	$64,742
Office Manager Salary	1	$24,960	$26,832	1	$25,709	$27,637	1	$26,480	$28,466
Clerical – Receptionist Salary	1	$18,720	$20,124	1	$19,282	$20,728	1	$19,860	$21,350
Employee Benefits			$17,024			$17,816			$18,649
Contracted Services (Acctg/Legal/Adm)			$24,000			$30,425			$39,172
Auditor Fees			--			$5,000			$6,438
TOTAL ADMINISTRATIVE EXPENDITURES			$145,600			$162,683			$178,816
% Total Administrative Expenditures over Total Revenues			***9.78%***			***8.77%***			***7.77%***
OPERATIONS & MAINTENANCE (O&M)			**Total**			**Total**			**Total**
Supplies			$10,000			$12,677			$16,322
Marketing/Advertising			$23,600			$29,918			$38,519
Contracted Services - O&M (Custodial)			$12,213			$15,483			$19,934
Building Rent/Lease/Loan			$179,014			$220,325			$275,406
Property/Casualty Insurance			$8,000			$10,142			$13,057
Liability Insurance			$4,000			$5,071			$6,529

Utilities (Electric, Gas, Water, Waste)			$25,444			$32,255			$41,529
Phone/Comm/Internet Connectivity			$6,107			$7,741			$9,967
Office Furniture & Other Equipment			$2,775			$1,374			$1,642
Office Technology Equipment			$11,670			$5,779			$6,905
Loan Repayment			--			$20,444			$10,222
Other: Security			$6,000			$7,606			$9,793
TOTAL OPERATIONS & MAINTENANCE EXPENDITURES			$288,823			$368,815			$449,825
Total Administrative and Operations & Maintenance Expenditures			***$434,423***			***$531,498***			***$628,641***
% Building Lease over Total Revenues			***12.02%***			***11.88%***			***11.96%***

SUMMARY OF DATA			
	YEAR 1	**YEAR 2**	**YEAR 3**
Total Expenditures	$1,452,337	$1,754,106	$2,110,968
Total Revenues (with previous year carry over)	$1,488,721	$1,855,116	$2,302,793
Budget Balance (Revenues - Expenditures)	$36,384	$101,010	$191,825
Maximum Student Enrollment (A)	260	320	400
Maximum Student Count for Budget Analyses (B). (B = A - 50% kinder student enrollmt)	250	310	380
Student Count for Budget Analyses (C) (C = about 94% Maximum Student Count for Budget)	235	291	357
Breakeven Student Enrollment	229	276	327

Table 1. Seneca Preparatory Academy 3-Year List of Operational Expenses.

Total* Salary = Salary + 7.5% allowance for payroll tax benefits.

C.5.b. State Equalization Revenue Worksheets Consistent with Target Population and Student Count by Grade Level

SUMMARY DATA OF REVENUE WORKSHEETS					
	Worksheet	Year-1	Year-2	Year-3	Remarks/Computations
Grades Available (A)		K-4	K-5	K-6	
Maximum Student Enrollment (B)		260	320	400	
Student Count Kinder (C)	A	20	20	40	One K-class with 20 sdts in Yr 1 and 2. A second will open in Yr 3.
Maximum Student Count (used for Revenues) **(D)**		250	310	380	D = Max Sdt Enrollment (B) - 50% Sdt Count Kinder (C)
K-6 Student Count (used for Revenues) **(E)**		235	291	357	E = 94% of Max Sdt Count used for Revenues (D)
Student Count Grade 1-12 (used for Revenues) **(F)**	A	225	281	337	F = K-6 Sdt Count used for Revenues (E) - 50% Sdt Count Kinder (C)
Maximum K-3 Student Count (used for Revenues) **(G)**		190	190	200	For Year 1 and 2, there are 1 kinder class with 20 sdts; and 6 grade 1-3 classes each with 30 sdts. In Year 3, there are 2 kinder classes each with 20 sdts and the same numbers of grade 1-3 sdts as in Year 1 and 2. However, for revenues, only 50% of the kinder counts are used.
Number of K-3 Students (used for Revenues) **(H)**	B	179	179	188	H = 94% of Max K-3 Sdt Count used for Revenues (G)
Maximum ELL Student Count (used for Revenues) **(I)**		83	102	125	I = 33% of Max Sdt Count used for Revenues (D). SPA ELL population = 33%.
ELL Student Count (used for Revenues) **(J)**	B	78	96	118	J = 94% of Max ELL Sdt Count used for Revenues
Maximum SPED Student Count (used for Revenues) **(K)**		35	43	53	K = 14% of Max Sdt Count used for Revenues (D). SPA SPED population = 14%.
Number of SPED Students (used for Revenues) **(L)**	B	33	41	50	L = 94% of Max SPED Sdt Count used for Revenues (K).
Equalization-Based Assistance	E	$1,488,721	$1,818,732	$2,201,783	

Table 2. Adjustments in Budget Worksheets

The information presented in Table 2 shows that state equalization revenues derived from Year 1, 2 and 3 revenue worksheets are consistent with Seneca Preparatory Academy student counts by grade level. Indeed as shown in Table 2 that summarizes the information on revenue worksheets, SPA uses the appropriate counts for kinder, K-3, grade 1-3, grade 1-12, ELL and special education students to estimate state equalization revenues. To be more specific, in Table 2 and in the three revenue worksheets, SPA uses kinder student counts of 20 in Year 1 and 2, and 40 in Year 3. The grade 1-12 student counts used for revenue computations are 225, 281 and 337 for Year 1, 2 and 3 respectively. To make conservative revenue estimations, SPA uses student counts equal to 94% of the maximum number of the student-generating revenues in each of the categories listed above.

In addition, the revenue computation worksheets show that state equalization revenues are consistent with SPA target population characteristics. Indeed, these computations assume that 14% of SPA student population will need special education services since the neighboring Sunnyside Unified School District (SUSD) has reported that 14% of its students qualify for these services (SUSD, 2012). Then, in Revenue Worksheet B, SPA enters the special education student count in the DD/ED/MIID/SLD/SLI/OHI category. A review of published budget reports from ADE's website for a target area elementary charter school shows that in this institution, 60% of students with learning disability have Specific Learning Disabilities (SLD); 36% have Speech/Language Impairment (SLI); 3% have Mild, Moderate or Severe Mental Retardation; and 1% have Other Health Impairment (OHI).

Finally, SPA makes the necessary adjustments in Revenue Worksheet B to account for its 33% ELL student population estimated from the information presented in section A.2 (Target Population) of this application. This percentage is corroborated by Sunnyside Unified School District that reports that one third of its student population is ELL (SUSD, 2012).

Detailed Explanations of the Computations of Student Counts in Revenue Worksheets

In the following discussion, Seneca Preparatory Academy (SPA) is providing some detailed information on the computations of student counts listed in Table 2 of the narrative.

<u>First, Determine and Enter "Student Count Kinder" in Revenue Worksheet A.</u>

For Year 1 and 2, Seneca Preparatory Academy (SPA) uses 20 kindergarteners; and 40 in Year 3.

	YEAR 1	YEAR 2	YEAR 3
Student Count Kinder *(used for revenues); 20 sdts/class*	***20***	***20***	***40***
First Grade Student Count (30 students/classroom)	60	60	60
Second Grade Student Count (30 students/classroom)	60	60	60
Third Grade Student Count (30 students/classroom)	60	60	60
Fourth Grade Student Count (30 students/classroom)	60	60	60
Fifth Grade Student Count (30 students/classroom)	--	60	60
Sixth Grade Student Count (30 students/classroom)	--	--	60
Maximum Student Enrollment	260	320	400
Maximum K-6 Student Count used for Revenues	250	310	380
Maximum Student Count K-3	200	200	220

Second, Determine and Enter the "Student Count Grade 1-12" in Revenue Worksheet A.

	YEAR 1	YEAR 2	YEAR 3
Maximum Student Enrollment	260	320	400
Student Count Kinder (used for revenues); 20 sdts/class	20	20	40
Maximum K-6 Student Count used for Revenues	250	310	380
K-6 Student Count used for Revenues	235	291	357
Student Count Grade 1-12 *(used for revenues).*	***225***	***281***	***337***

- Calculate the "Maximum K-6 Student Count used for Revenues" as following:

"Maximum Student Enrollment" - "50% Student Count Kinder".

For Year 1, 2 and 3 it is respectively: 250; 310 and 380.

- Calculate the "K-6 Student Count used for Revenues" as following:

"K-6 Student Count used for Revenues" = 94% "Max K-6 Student Count used for Revenues".

To make conservative revenue estimates, SPA uses only 94% of the "Maximum K-6 Student Count used for Revenues" to determine the "K-6 Student Count used for Revenues".

For Year 1, 2 and 3 it is respectively 235; 291 and 357.

- Calculate the "Student Count Grade 1-12" as following:

"K-6 Student Count used for Revenues" – 50% "Student Count Kinder".

For Year 1, 2 and 3 it is respectively 225; 281 and337. These values are logged in Revenue Worksheet A.

3rd Determine and Enter "Student Count K-3" in Worksheet B

	YEAR 1	**YEAR 2**	**YEAR 3**
Maximum Student Count K-3	200	200	220
Student Count K-3 *(used for revenues).*	***179***	***179***	***188***

- Determine the "Maximum Student Count K-3" by counting the total number of students from kindergarten to third grade.
- Determine the "Student Count K-3" used in Revenues as following:

This number corresponds to 94% of the "Maximum Student Count K-3". SPA is using 94% of the maximum number of K-3 students available to make conservative estimates of revenues. The numbers of "Student Count K-3" are respectively 179 for Year 1 and 2, and 188 for Year 3. These values are reported in Revenue Worksheet B, in B.2.

Fourth, Determine and Enter "Student Count ELL" in Revenue Worksheet B.

	YEAR 1	**YEAR 2**	**YEAR 3**
Maximum K-6 Student Count used for Revenues	250	310	380
Maximum Student Count ELL.	83	102	125
Student Count ELL *(used for revenues)*	***78***	***96***	***118***

- Calculate the "Maximum Student Count ELL" as following:

"Maximum Student Count ELL" = 33% Maximum K-6 Student Count used for Revenues.

In section A.2 Target Population, the demographic information collected by SPA shows that 33% of the school target population will be ELL.

- Calculate the "Student Count ELL" used for revenues as following:

"Student Count ELL" = 94% "Maximum Student Count ELL".

These values are respectively 78, 96 and 118 for Year 1, 2 and 3. They are reported to in Revenue Worksheet B, in B.3.

Fifth, Determine and Enter "Student Count Special Education" in Revenue Worksheet B.

	YEAR 1	**YEAR 2**	**YEAR 3**
Maximum K-6 Student Count used for Revenues	250	310	380
Maximum Student Count Special Education.	35	43	53
Student Count Special Education *(used for revenues)*	***33***	***41***	***50***

- Calculate the "Maximum Student Count Special Education" as following:

"Max Student Count Special Education" = 14% "Max. K-6 Student Count used for Revenues".

The neighboring Sunnyside Unified School District has reported that 14% of its students use special education services. Consequently, Seneca Preparatory Academy assumes that the same percentage of its student population will also require these services.

- Calculate the "Student Count Special Education" used for revenues" as following:

"Student Count Special Education" = 94% "Maximum Student Count Special Education".

These values are respectively 33, 41 and 50 for Year 1, 2 and 3. They are reported in Worksheet B, in B9 since a review of the budget data for a target area charter school available on ADE website shows that most of its students fall in category B9.

C.5.c. Assumptions demonstrate that Expenditures are Viable and Adequate

GENERAL INFORMATION

Seneca Preparatory Academy (SPA) has grouped its expenditures into two categories:

- Fixed Overhead Expenditures: Administrative and Operations & Maintenance expenses.
- Variable Expenditures: Instruction and Support expenses.

This grouping of expenses is a standard business practice that helps explain how SPA expenditures were calculated.

Administrative Expenditures and Operations & Maintenance Expenditures are overhead expenses, and together they constitute the "fixed expenses" that Seneca Preparatory Academy (SPA) will absorb to run the school operations (Table 1). In other words:

Fixed Expenses = Administrative Expenses + Operations & Maintenance Expenses.

These expenses are "fixed expenses" because traditionally "fixed expenses" are not affected by the output (or input) of business production; and in the situation of a school system, "fixed

expenses" are not substantially affected by increase (or decrease) in student enrollment. However, "fixed expenses" can be affected by factors (such as the size or square footage of a business facility) that affect the physical assets of a business. Consequently, for SPA, "fixed expenses" will change with changes in the school facility size from Year 1 to Year 3. Indeed, SPA will require three different school facility sizes from Year 1 to Year 3. In Year 1, SPA will need a 12,298 sf facility. In Year 2, it will need a 15,136 sf facility and 18,920 sf in Year 3. As a result, except for salaries, the computation of most Administrative and Operations & Maintenance Expenditures is based on a cost per square foot ($/sf).

Opposite to "fixed expenses" are "variable expenses" that increase (or decrease) with the unit output (or input) of business operations. In the case of a school, "variable expenses" are mainly Instructional Expenditures; and they increase (or decrease) with student enrollment. Consequently, Instructional Expenditures will be determined using a cost per student basis ($/student).

Determination of Costs of Goods

Seneca Preparatory Academy (SPA) used the following four methods to estimate the costs of goods that the School will use in Year 1, 2 and 3:

Method #1. Costs of Goods in Year 1

The information used to determine the costs of goods used in Year 1 was provided by vendors, the Arizona Charter Schools Association, and by two charter school operators in Tucson and Peoria, Arizona. Seneca Preparatory Academy (SPA) is grateful and infinitely indebted to Ms. Stephanie Musser, the Executive Director of Candeo Schools, for helping with this project in general and for providing SPA with cost information.

SPA also gathered cost information free of charge, from the publically available Budget Reports of Arizona charter schools posted on ADE website. In addition, the School used charter school-specialized publications such as data from the National Charter School Center to gather price information.

Once the cost of goods for Year 1 were determined, this information was then converted either in cost per square feet ($/sf) for most Administrative and Operations & Maintenance Expenditures; or in cost per student ($/student) for Instructional Expenditures. Subsequently, these two ratios were used to calculate the cost of goods in Year 2 and 3.

Method 2. Costs of Non-Reusable Goods in Year 2 and 3

Let us use an example to illustrate how SPA determined the costs of non-reusable goods in Year 2 and 3. Let us calculate the cost of utilities.

Seneca Preparatory Academy (SPA) received a $5,000/month estimate for utilities for a 29,000 sf charter school facility located in Arizona. This corresponds to a total cost of $60,000/year or $2.069/sf/year since utilities are part of the fixed costs of Operations & Maintenance.

Considering that the School will need a 12,298 sf facility in Year 1; 15,136 sf in Year 2; and 18,920 sf in Year. SPA then calculated the School expenditures for utilities as following:

- Year 1: ($2.069/sf/yr) x (12,298 sf) = $25,444.
- Year 2: ($25,444/12,298 sf) x (15,136 sf) x (1.03) = $32,255
- Year 3: ($32,255/15,136) x (18,920 sf) x (1.03) = $41,529

Factor 1.03 is used every year to account for the projected 3% price increase for inflation.

For Instructional Expenditures (variable costs), SPA uses the same process with a cost/student basis instead of the cost/sf used in the above example on utilities.

Method #3. Costs of Reusable Goods in Year 2 and 3.

In the case of reusable goods (ex. furniture, books, computer or office technology equipment, etc) SPA learned from vendors that 25% of reusable goods have to be replaced every year. As in the previous example, it is assumed that the cost of reusable goods will increase by 3% every year due to inflation.

In addition, the School will purchase brand new goods in Year 2 because enrollment will increase by 60 students with the opening of two fifth grade classes each with 30 students; the projected student enrollment will increase from 260 in Year 1 to 320 in Year 2. In addition, in Year 3, the School will buy 80 brand new goods because the enrollment will increase from 320 students in Year 2 to 400 students in Year 3.

As an example, let us determine the cost of Curriculum and Resources Materials. This is a student-based cost computation since it is a “variable expense” from the Instructional Expenditure category.

From the information received from vendors, SPA determined that Curriculum and Resources Material would cost $250/student. Enrollment: 260 students in Year 1; 320 students in Year 2; 400 students in Year 3.

- Year 1: ($250/student) x (260 students) = $65,000.
- Year 2: ($250) x (1.03)x (320-260) + (65,000) x (1.03) x (25%) = $32,188
- Year 3: ($250) x (1.03) x (1.03) x (400-320) + ($65,000) x (1.03) x (1.03) x (25%) = $38,458

Method #4. Used to Determine the Cost of all Remaining Goods in Year 1, 2 and 3.

Some items such as salaries, employee benefits, school lease expense, contracted special education services, loan payment and consultant fees did not fall in the cost determination

methods mentioned above. The cost computations of these items were determined individually and these various cost methods are grouped in the ubiquitous Method #4.

Conclusion

By using a scientific 4-method process based on Year-1 real cost data, Seneca Preparatory Academy (SPA) will ensure that the projected cost figures are accurate, viable and adequate.

VARIABLE EXPENDITURES

General Information

INSTRUCTIONAL EXPENSES				
	Cost Methods Used	**Year 1**	**Year 2**	**Year 3**
0.33 FTE Executive Director	Method #4	$24,750	$26,235	$27,809
1 Assistant Director	Method #4	$50,000	$52,000	$54,080
1 Teacher-Regular Education	Method #4	$38,000	$39,140	$40,314
1 Teacher-Special Education	Method #4	$40,000	$41,200	$42,436
1 Teacher- 50% FTE French/Spanish	Method #4	$15,000	$15,450	$15,914
1 Teacher- Lead /Specialist	Method #4		$42,000	$43,260
1 Instructional Assistants – Reg. Ed	Method #4	$18,720	$19,282	$19,860
Teacher- PE	Method #4	$15,000	$15,450	$15,914
School Nurse	Method #4		$48,000	$49,440
Clerical - Student Affairs	Method #4	$18,720	$19,282	$19,860
Employee Benefits	Method #4	$98,973	$138,376	$167,138
Student Furniture & Other Equip	Method # 1 and 3	$39,000	$19,313	$23,075
Student Technology Equipment	Method # 1 and 3	$50,200	$24,859	$29,701
Stipend, Yr 1Pre-Service Training	Method #4	$12,747		
Office Supplies (Paper, Postage)	Method #1 and 2	$12,000	$15,212	$19,586
Instructional Consumables	Method #1 and 2	$27,500	$34,862	$44,884
Membership Dues, Regist, & Travel	Method # 1 and 2	$3,000	$3,803	$4,821
Curriculum & Resource Materials	Method #1 and 3	$65,000	$32,188	$38,458
Purchased Services (Special Ed)	Method # 4	$53,767	$76,293	$104,063
Library Resources/Software	Method #1 and 2	$5,000	$6,338	$8,161
SAIS Software	Method #1 and 2	$5,000	$6,338	$8,161
Consultants: Education/Tech	Method #4	$37,750	$15,000	$7,500
TOTAL INSTRUCTION & SUPPORT		$1,017,914	$1,222,608	$1,482,327
% Inst. Expense vs. Revenues		***68.38%***	***65.90%***	***64.37%***
% Instructional Expenses over Total Revenues preferred by commercial lenders: at least 50 - 55%				

- Instructional and their support expenditures are variable expenses associated with student enrollment and designed to support instruction directly or indirectly.
- The percentage of Total Instructional Expenses over Total Revenues is a financial feasibility indicator used to assess how well school resources are used to support instruction. Ellis (2010) suggests that at least 55% of school revenue be allocated to instruction. Seneca Preparatory Academy (SPA) will meet and surpass this requirement because 68.38%, 65.90% and 64.37% of its revenues will support instruction in Year 1, 2 and 3 respectively**.**

Instructional Expenditures Analysis

Salaries and Employee Benefits

- Executive Director Salary

In Year 1, the Executive Director will receive a salary of $80,000 from which 33% will be derived from his activities as a French teacher and a RTI expert. His Total Annual Salary (TAS) for instructional activities will be --Year 1: $28,380; Year 2: $30,083; Year 3: $31,888. This compensation will be budgeted to increase by 6% per year and Method #4 cost estimation was used in the computation of all salaries.

The Total Annual Salaries (TAS) reported above includes a 7.5% allowance for payroll tax benefits. All employees will be eligible to receive these benefits.

- Assistant Director Salary

The Assistant Director, Curriculum & Instruction straight salary over three years will be --Year 1: $56,000; Year 2: $58,240; Year 3: $60,570. His/her salary will increase by 4% a year.

- Regular Education Teachers Salary

The straight salary for a regular education teacher will be - Year 1: $38,000; $39,140 in Year 2 and $40,314 in Year 3. Teacher salaries are budgeted to increase by 3% per year.

- Special Education Teacher Salary

The salary of the special education teacher will be Year 1: $40,000; Year 2: $41,200; Year 3: $42,436. His/her salary will increase by 3% a year.

- French & Spanish Teachers Salary

The salary of a 50% part-time French/Spanish teacher stands to be $15,000 in Year 1; $15,450 in Year 2; and $15,914 in Year 3. These salaries will increase by 3% per year.

- Lead/Specialist/Coordinator Teacher Salary

The straight salary of a lead/specialist/coordinator teacher will be $42,000 starting in Year 2, and $43,260 in Year 3. The increase in salary will be 3% per year.

- Regular Education Instructional Assistant Salary

The salary of a regular education instructional assistants will be $18,720 in Year 1and two will be hired that year. In Year 2, $19,282 and four will be hired. In Year 3, $19,860 and six will be hired.

- Regular Education PE Teacher Salary

The PE teacher salary will be: Year 1: $15,000 for a 50% FTE teacher; Year 2: $15,450; and Year 3: $15,914. This salary will increase by 3% per year.

- School Nurse Salary

SPA will hire a school nurse in Year 2; and his/her salary will increase by 3% from Year 2 to Year 3. Year 2: $48,000. Year 3: $49,440.

- Student Affairs Clerk Salary

A Student Affairs Clerk will be hired at a salary of $18,720 in Year 1; $19,282 in Year 2; and $19,860 in Year 3. These salaries will be budgeted to increase by 3% per year.

- Employee Benefits

The total instructional employee benefits that SPA will pay are listed as following - Year 1: $98,973; Year 2: $138,376; Year 3: $167,138. Seneca Preparatory Academy (SPA) will contribute funds equivalent to 17.5% of employees' salaries to the benefit accounts of full-time employees. Part-time employees will only receive the payroll tax benefits and no other employee benefits. Method #4 cost determination was used to estimate the employee benefits expenditures.

<u>Other Variable Expenditures</u>

- Student Furniture and Other Equipment

For Student Furniture and Other Equipment, SPA will allocate close to $150 per pupil for student furniture (desks, chairs and others). This expense amounts to $39,000; $19,313; and $23,075 in Year 1, 2 and 3 respectively. Method #1 and 3 cost estimates were used to calculate these expenditures.

- Student Technology Equipment

Seneca Preparatory Academy (SPA) will use technological innovations and tools to help students close the achievement gap so that they can be prepared for a life of success in the 21st century. Consequently, in Year 1 SPA has budgeted $50,200 for the acquisition of the 32 computers that will be used in the computer lab at a cost of $800 each; 12 smart boards at $1,200 each; and four bookcases/classroom for a total of $600; and two dry boards for $300 for each classroom. Year 2 and 3 expenses are estimated to be $24,859 and $29,701 respectively. Cost estimation Method # 1 and 3 were used to determine these costs.

- Stipend for Pre-Service Training

In Year 1, Seneca Preparatory Academy (SPA) will provide its employees a stipend corresponding to one-week pay with only employee tax benefit for attending pre-service training. Employees will not receive employee benefits before school open in August 5, 2012. This expenditure has been calculated using Method #4 cost estimation; and it will amount to $12,747.

- Purchased Services (Special Education)

SPA learned from the 2010 Charter Starter Program organized by the Arizona Charter Schools Association that the budget for special education services in Arizona charter schools varies from 4 to 8% of schools yearly revenues.

In early 2012, using publically available data from ADE website, SPA estimated the special education budget of a charter school located in the target area to be 6.5% of its annual revenues. Consequently, SPA yearly special education budget will amount to 6.5% of the school annual revenues. The special education budget is defined as following:

Spec. Ed. Budget = Spec. Ed. Teacher Total Salary + Purchased/Contracted Spec. Ed. Services.

As a result, the Purchased/Contracted Special Education budget is calculated as following:

Purchased/Contracted Spec. Ed. Services = Spec. Ed. Budget - Spec. Ed. Teacher Total Salary.

The following table summarizes the information on the School special education budget:

	Total Revenues (A) (includes previous year carryover)	**Special Ed Total Budget (B)** (6.5% Total Revenues)	**Special Ed Teacher Total Salary (C)**	**Special Ed Contracted Services (D)** (B – C)
Year 1	$1,488,721	$96,767	$43,000	$53,767
Year 2	$1,855,116	$120,583	$44,290	$76,293
Year 3	$2,302,793	$149,687	$45,619	$104,063

- Curriculum & Resource Materials

Using data from vendors, Seneca Preparatory Academy (SPA) has estimated the cost of Curriculum & Resource Materials to be $250/student in Year 1, or $65,000 for the 260 students expected to enroll in that year. Method #1 and 3 for the cost estimation of reusable goods were used to calculation these expenditures in Year 2 ($32,188) and Year 3 ($38,458).

- Consultants: Instruction/Technology

SPA will allocate $37,750 for staff training and professional development in Year 1. This investment in teachers' training is critical for the School to develop and successfully implement the RTI-Early Intervention Reading & Math Program within 24 months after school open. The

Ohio and Minnesota experiences have shown that it takes four to six years to launch a RTI program successfully in a traditional school building. However, SPA intents to do it in 18 to 24 months. Year 2 and 3 educational consultant expenses will decrease to $15,000 and $7,500 respectively as SPA in-house training team becomes more involved in providing professional development and training services to school staffs. These cost estimated were made using Method #4.

- Instructional Consumables

Using market research data, Seneca Preparatory Academy (SPA) has estimated the cost of these instructional supplies to be $27,500 ($105.77/student) in Year 1. With the increasing number of students in Year 2 and 3, these expenditures will also increase to $34,862 and $44,884 respectively. Method #1 and 2 for cost estimation has been used to determine these expenditures.

- Other Instructional Expenditures

Seneca Preparatory Academy (SPA) has used cost estimation Method #1 and 2 to determine the following expenditures:

  - Office Supplies (Paper, Postage) - Year 1: $12,000; Year 2: $15,212; Year 3: $19,586.
  - Library Resources/Software – Year 1: $5,000; Year 2: $6,338; Year 3: $8,161.
  - SAIS – Year 1: $5,000; Year 2: $6,338; Year 3: $8,161.
  - Membership Dues, Registrations and Travel – Year 1: $3,000; Year 2: $3,803; Year 3: $4,821. Cost Method # 1 and 2 were used for these estimations.

FIXED OVERHEAD EXPENDITURES

Administrative Expenditures

General Information

- Administrative costs are overhead fixed expenses mainly made of administrators' compensation packages and other administrative expenditures.
- As shown in Table 1, for SPA, the percent Total Administrative Expenditures over Total Revenues will be 9.78% in Year 1; 8.77% in Year 2; and 7.77% in Year 3. This percentage is a financial feasibility indicator designed to assess how well the organization revenues are used for administrators' compensation. SPA revenues earmarked for school administrators salaries and benefits will be adequate because they will fall below the 12% margin preferred by commercial lending institutions (Diamond, 2010; Charity Navigator, 2010; Ellis, 2010).
- To determine salary figures, Seneca Preparatory Academy (SPA) used data from the Bureau of Labor Statistics (2011) and from other publically available sources. Total salaries include

a 7.5% allowance for payroll tax benefits. All salaries and employees benefits are estimated using Method #4.

ADMINISTRATIVE EXPENSES				
	Cost Methods Used	**Year 1**	**Year 2**	**Year 3**
Administrators Salaries				
Executive Director Total Salary (with 7.5% PRTB)	Method #4	$57,620*	$61,077*	$64,742*
Office Manager/Adm Assistant	Method #4	$24,960	$25,709	$26,480
Clerical - Receptionist	Method # 4	$18,720	$19,282	$19,860
Employee Benefits	Method #4	$17,024	$17,816	$18,649
Contracted Services (Adm, Acctg, Legal)	Method # 1and 2	$24,000	$30,425	$39,172
Auditor Fees	Method # 1and 2	--	$5,000	$6,438
Total Administrative Expenditures*		***$145,600****	***$162,683****	***$178,816****
% Total Administrative Exp. over Total Revenues		**9.78%**	**8.77%**	**7.77%**
% Total Administrative Expenses over Total Revenues preferred by commercial lenders: 10-12%				

NOTE: * Asterisk means: Expenditure includes 7.5% Pay Roll Tax Benefits (PRTB)

Administrative Cost Analysis

- Executive Director Salary

In Year 1, the Executive Director will derive 67% of his $80,000 annual salary from his administrative duties. His salary will be budgeted to increase by 6% per year. Year 1 total annual salary (TAS): $57,620. Year 2 TAS: $61,077. Year 3 TAS: $64,742.

Total Annual Salary (TAS) includes a 7.5% allowance for payroll tax benefits.

- Office Manager Salary

The School will have an Office Manager who will also act as an administrative assistant at a salary of $24,960 in Year 1 with 3% increase every year. Year 2: $25,709. Year 3: $26,480.

- Clerical Receptionist Salary

Seneca Preparatory Academy (SPA) will have one receptionist who will be paid $18,720 in Year 1with a 3% annual salary increase. Year 2: $19,282. Year 3: $19,860.

- Employee Benefits

SPA will contribute funds equivalent to 17.50% of the salary of full-time employees to their benefit accounts. Part-time employees will not receive employee benefits; they will only receive the 7.5% payroll tax benefits imbedded in their salaries. The School will not be involved in the Arizona State Retirement System.

The total employee benefits for administrative staffs will be budgeted at $17,024 in Year 1; $17,816 in Year 2; and $18,649 in Year 3.

- Contracted Services: Administrative, Accounting, and Legal.

Purchased Services (administrative, accounting, legal): Year 1, $24,000. Year 2: $30,425. Year 3: $39,172. Seneca Preparatory Academy (SPA) will use these funds to hire a firm that will provide financial and accounting services such as payroll services, human resources and some school support administrative services. SPA will also use these funds to secure the services of a law firm that specializes in charter school and/or non-profit law. The costs of SPA Purchased Services were estimated with Method #1 and 2 specific for non-reusable goods.

- Auditor Fees

The Auditor Fees will amount to $5,000 payable starting after Year 1, in the beginning of Year 2. These services will cost $6,438 in Year 3. SPA intends to use these funds to hire a certified accounting firm that specializes in charter school financial auditing as required by ADE. Cost Method # 1 and 2 were used for these estimations.

Operations & Maintenance Expenditures

OPERATIONS & MAINTENANCE EXPENSES				
	Cost Methods Used	**Year 1**	**Year 2**	**Year 3**
Supplies	Method #1 and 2	$10,000	$12,677	$16,322
Marketing/Advertising	Method #1 and 2	$23,600	$29,918	$38,519
Purchased Services (Custodial)	Method #1 and 2	$12,213	$15,483	$19,934
School Facility Lease	Method #4	$179,014	$220,325	$275,406
Property/Casualty Insurance	Method #1 and 2	$8,000	$10,142	$13,057
Liability Insurance	Method #1 and 2	$4,000	$5,071	$6,529
Utilities (Electric, Gas, Water, Waste)	Method #1 and 2	$25,444	$32,255	$41,529
Phone/Com/Internet Connectivity	Method #1 and 2	$6,107	$7,741	$9,967
Office Furniture & Other Equipment	Method #1 and 3	$2,775	$1,374	$1,642
Office Technology Equipment	Method #1 and 3	$11,670	$5,779	$9,793
Loan Repayment	Method #4		$20,444	$10,222
Other: Security.	Method #1 and 2	$6,000	$7,606	$9,793
Total Operations & Maint. Expenditures		**$288,823**	**$368,815**	**$449,825**
% Sch. Facility Lease vs. Revenues		***12.02%***	***11.88%***	***11.96%***
% Facility Lease Rate over Total Revenues preferred by commercial lenders: less than 20%				

General Information

- Operations & Maintenance costs are the overhead fixed expenses necessary to keep and maintain the school facility running.

- The cost of leasing the school facility will represent the biggest operations and maintenance expenditure at SPA. As shown in Table 1 and in the imbedded one above, this expenditure will used 12.02% of total revenues in Year 1; 11.88% in Year 2; and 11.96% in Year 3.

The percentage of annual lease expense over total revenues is a financial feasibility indicator used by commercial lenders to assess the financial suitability of real estate-based projects. Traditionally, lenders prefer a percentage lease expense to total revenues lower than 20% (Diamond, 2010; Charity Navigator, 2010; Ellis, 2010). As shown above, SPA will meet this key financial requirement.

Operations and Maintenance Cost Analysis

- School Facility Lease Expense

The information related to the calculations of SPA annual lease payments summarized in the table underneath, shows that SPA annual lease payments will be $179,014 in Year 1; $220,325 in Year 2; and 275,406 in Year 3. In all three cases, these expenditures correspond to $14.56/sf lease rate.

FACILITY LEASE EXPENSE COMPUTATIONS							
Column A	**Column B**	**Column C**	**Column D**	**Column E**	**Column F**	**Column G**	**Column H**
Year	**School Facility Square Footage** (sf)	**Annual Base Lease Payment** ($9.69/sf)	**Total Tenant Improvement (TI) Cost** ($20/sf)	**Monthly TI Payment Cost** (8% Annual Int. Rate; 5yr)	**Annual TI Payment Cost**	**Total Annual Lease Payment** (An. Base Lease Rate + An. TI Cost)	**Total Annual Lease Payment per Square Feet** ($/sf)
1	12,298	$119,168	$245,960	$4,987	$59,846	$179,014	$14.56
2	15,136	$146,668	$302,720	$6,138	$73,657	$220,325	$14.56
3	18,920	$183,335	$378,400	$7,673	$92,071	$275,406	$14.56

- Column A. Year of school operations.
- Column B. Size of the school facility that SPA will require in Year 1, 2 and 3.
- Column C. Annual Base Lease Payment in Year 1, 2 and 3 is determined as following using Year 1 as an example:

  (12,298 sf) x (9.69/sf/yr) = $119,168/yr.

  The base lease rate per square foot of $9.69/sf was calculated from the information provided by Ike Isaacson, Vice-President of Brokerage Services at CBRE (see-enclosed letter):

  $9.69/yr = $6.69/sf/yr (average target area facility lease) + $3/sf/yr (operational expenses)
- Column D. The Total Tenant Improvement (TI) Cost is the average cost of renovating a facility to meet school codes in the target area. Mr. Ike Isaacson has suggested using $20 per

square foot for this expense (see his letter in the enclosure). The data shown in Column D was calculated as following, using Year 1 as an example:

(12,298 sf) x ($20/sf) = $245,960

- Column E. The Monthly Tenant Improvement (TI) Cost is determined by assuming that the Tenant Improvement (TI) Total Cost (column D) will be paid off over 5 years, at 8% annual interest as suggested by Ike Isaacson. SPA used an online amortization table to get the cost data listed in Column E.
- Column F. The Annual Tenant Improvement (TI) Cost is determined by multiplying the value in Column E by 12 as following using Year 1 as an example:

  ($4,987/month) x (12 month/yr) = $59,846/yr.
- Column G. The Total Annual Lease Payment is the total lease expenditure that SPA will incur in a year. This expense is calculated by adding the expense in Column F to that of Column C as shown with the following example of Year 1:

  ($119,168) + ($59,846) = $179,014.
- Column H. The Total Annual Lease Payment per Square Feet is calculated by dividing the data in column G by the corresponding facility size listed in Column B.

- Utilities (Electric, Gas, Water, Waste)

Using field market research data, Seneca Preparatory Academy (SPA) has estimated the cost of utilities to be $25,444 in Year 1; $32,255 and $41,529 for Year 2 and 3 respectively. The utilities expenditures were estimated using Method #1 and 2.

- Loan Payment

Mrs. Dyer-Abougou will provide Seneca Preparatory Academy (SPA) with a $24,000 start-up loan payable in Year 2 and 3, at 10% annual interest rate after the addition of 10% loan costs. The two annual payments of $20,444 (Year 2) and $10,222 (Year 3) were calculated from an online loan calculator. Method #4 was used to estimate these expenses.

- Marketing/Advertising

In Year 1, SPA will run it Phase-2 Post Opening Advertising and Promotion Program at a cost $23,600. Using Method # 1 and 2, Year 2 and 3 estimates will be $29,918 and $38,519 respectively.

- Other Operations & Maintenance Expenditures

Using Method #1 and 2 cost determination specific for non-reusable goods, SPA has estimated the following expenditures:

  - Supplies - Year 1: $10,000; Year 2: $12,677; Year 3: $16,322.

- Purchased Services (Custodial/Maintenance) - Year 1: $12,213; Year 2: $15,483; Year 3: $19,934.
- Property/Casualty Insurance – Year 1: $8,000; Year 2: $10,142; Year 3: $13,057.
- Liability Insurance – Year 1: $4,000; Year 2: $5,071; Year 3: $6,529.
- Phone/Internet/ Connectivity - Year 1: $6,107; Year 2: $7,741; Year 3: $9,967
- Office Furniture & Other Equipment – Year 1: $2,925; Year 2: $1,374; Year 3: $1,642.
- Office Technology Equipment – Year 1: $11,670; Year 2: $5,779; Year 3: $6,905.
- Security – Year 1: Year 1: $6,000; Year 2: $7,606; Year 3: $9,793.

FINANCIAL FEASIBILITY ANALYSIS DATA			
Revenue Data	**YEAR 1**	**YEAR 2**	**YEAR 3**
Total Students Count	260	320	400
Students Count used for Budget Estimation	235	291	357
% Student Count used for Budget over Total Student Count	90%	91%	89%
Total Revenues (with carryover from previous year)	$1,488,721	$1,855,116	$2,302,793
Expenditure Data			
Total School Facility Lease Rate	$179,014	$220,325	$275,406
Total Instructional & Support Expenditures	$1,017,914	$1,222,608	$1,482,327
Total Administrative Expenditures	$145,600	$162,683	$178,816
Total Operations & Maintenance Expenditures	$288,823	$368,815	$449,825
Total School Expenditures	$1,452,337	$1,754,106	$2,110,968
Revenues - Expenses			
BUDGET BALANCE (REVENUES-EXPENDITURES)	$36,384	$101,010	$191,825
Financial Feasibility Indicators			
% Total Administrative Expenditure / Total Revenues	9.78%	8.77%	7.77%
% School Facility Lease Rate / Total Revenues	12.02%	11. 88%	11.96%
% Instructional Expenditures / Total Revenues	68.38%	65.90%	64.37%
Breakeven Student Enrollment for all SPA Expenses	229	276	327

Table 3. Financial Feasibility Data of Seneca Preparatory Academy (SPA)

C.5.d. Seneca Preparatory Academy Revenues will cover all School Expenditures

School Revenues will Cover all Expenses

As shown in Table 3, Seneca Preparatory Academy (SPA) will have a positive income statement with revenues covering all expenditures and with leftover revenues of $36,384 in Year 1; $101,010 in Year 2; and $191,825 in Year #3.

Seneca Preparatory Academy (SPA) will be a Successful Financial Institution

The results of Seneca Preparatory Academy (SPA) financial feasibility analysis summarized in Table 3 suggest that SPA will be a successful financial project because:

- The Total Administrative Overhead expenses will be reasonable since they will consume only 9.78%, 8.77% and 7.77% of the school revenues in Year 1, 2 and 3 respectively. Commercial financial institutions recommend 10 to 12% (Diamond, 2010; Charity Navigator, 2010; Ellis, 2010).
- The Total Facility Lease Expense will amount to 12.02%, 11.88% and 11.96% of revenues in Year 1, 2 and 3 respectively; this is within the less than 20% range preferred by commercial lenders (Diamond, 2010; Charity Navigator, 2010; Ellis, 2010).
- Seneca Preparatory Academy (SPA) will use state equalization revenues adequately because as recommended by Ellis (2010) and Diamond (2010), at least 50-55% of revenues should be allocated to instructional expenditures. SPA will exceed these recommendations with instructional expenses over total revenue ratios of 68.38%, 65.90% and 64.37% in Year 1, 2 and 3 respectively.
- Enough students will enroll at SPA to generate the revenues required to cover all school expenses. Indeed, the breakeven student enrollment (that is, the student enrollment required to cover all school expenses) will be respectively 229 in Year 1; 276 in Year 2; and 327 in Year 3. These breakeven enrollment figures are lower than the student enrollments used to estimate state equalization revenues in Year 1 (235 students), Year 2 (291 students) and Year 3 (357 students). They are also much lower than the projected student enrollments of 260, 320 and 400 in Year 1, 2 and 3 respectively.

C.5.e. Three Year Operational Budget Information Consistent with all Sections of the Application Package

The 3-Year Operational Budget section is consistent with all other sections of the application.

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