C.5 Three Year Operational Budget Assumptions

All assumptions are conservatively based on acquired quotes and estimates from current School Directors and Business Operations Managers of start-up charter schools in the Phoenix area. All expenses are calculated assuming only secured funds are available (AZ CSP grant, awarded February 2013, in addition to state equalization payments), although the co-founders and Governing Board members will actively pursue additional grant applications and donations prior to authorization and after notification of approved 501(c)3 status.

SySTEM Phoenix's budget is conservatively based on 90% of full enrollment and accounts for attrition each year. SySTEM Phoenix will actively recruit students in 6th grade in Y1, 6th and 7th grade in Y2, and 6th, 7th, and 8th grade in Y3, ensuring at least 100 students are enrolled in each grade each year.

Explanation of Revenue

SySTEM Phoenix was awarded an AZCSP start-up grant in February 2013 for $690,000 to be used in a 3-year period. The first $230,000 will be expended between February 2013 and January 2014 in a planning year. SySTEM Phoenix will have access to an additional $230,000 from February 2014-January 2015 (to be used in startup and Y1 of operation), and the final $230,000 from February 2015-January 2016 (to be used in Y1 and possibly in Y2). In the Start-up year, $118,192.87 of the grant will be expended prior to August 1, 2014, leaving $111,807.33 to be used in Y1 revenue. SySTEM Phoenix anticipates an additional $565,299 in state equalization funds in Y1, $1,116,270 in Y2, and $1,650,395 in Y3, as calculated on the attached ADE Revenue Worksheets, based on 90% full capacity (90 ADM), a 9% Special Education population and a 15% ELL population. We assume 90 ADM each year based on the understanding that approximately 10% of students will leave the school throughout the school year due to the transient population within our target area. Students will be recruited if necessary throughout the year to ensure 90 ADM is maintained. The Special Education and ELL population assumptions are based on the average of similar schools serving our target population, noted in section A.2 Target Population. While this is currently the only secured revenue available, the co-founders and Governing Board members plan to actively pursue additional grant applications and donations prior to authorization.

Explanation of Expenses

Administration, Instruction & Support (AIS) Expenditures

Salaries

Chief Operations Officer

- Assumes the Chief Operations Officer for SySTEM Phoenix will begin paid service using Y1 funds on August 1, 2014 and will be paid at $5,000 per month, based on a $60,000 annual salary. Increases for cost of living will be $1,000 in Y2, and an additional $1,000 in Y3. Total cost, including 10% of required employer contributions at $6,000 per year, will be $66,000 in Y1, $67,100 in Y2, and $68,200 in Y3.

Chief Academic Officer

- Assumes the Chief Academic Officer for SySTEM Phoenix will begin paid service using Y1 funds on August 1, 2014 and will be paid at $5,000 per month, based on a $60,000 annual salary. Increases for cost of living will be $1,000 in Y2, and an additional $1,000 in Y3. Total cost, including 10% of required employer contributions at $6,000 per year, will be $66,000 in Y1, $67,100 in Y2, and $68,200 in Y3.

Teacher – Regular Education

- Assumes 4 teachers in Y1, based on $35,000 average annual salary. With 10% of required employer contributions per FTE, total annual expenditure for four teachers is $154,000.
- Assumes 8 teachers in Y2. With 10% of required employer contributions per FTE, total annual expenditure for eight teachers is $316,800.
- Assumes 12 teachers in Y3. With 10% of required employer contributions per FTE, total annual expenditure for twelve teachers is $488,400.

Teacher – Special Education

- Assumes 1 Special Education teacher in Y1-Y3, based on $35,000 average annual salary. With 10% of required employer contributions per FTE, total annual expenditure for one Special Education teacher is $38,500 in Y1, $39,600 in Y2, and $40,700 in Y3.

Clerical

- Assumes 1 Office Manager in Y1-3. With 10% of required employer contributions per FTE, total annual expenditure for one Office Manager is $33,000 in Y1, $34,100 in Y2, and $35,200 in Y3.

Employee Benefits

Assumes a total cost of $9,750 in Y1, $14,310 in Y2, and $19,110 in Y3 for retirement contributions, based on contributing to a SIMPLE IRA at 3% salary match, assuming all employees contribute at 3% of their salary at minimum.

Employee Insurance

Assumes a total cost of $33,600 in Y1, $50,400 in Y2, and $67,200 in Y3, based on a quote from Holmes Murphy for Blue Cross Blue Shield of AZ in which SySTEM Phoenix would contribute a defined contribution of $350 per employee per month for medical insurance. Assumes optional Dental, Vision, and life insurance coverage will be offered through the school at the employee's personal expense.

Office Supplies

Assumes a total cost of $2,000 for office supplies and printing paper in Y1 ($50 per month in printing paper x 11 months = $550; and an additional $1,450 in postage and other miscellaneous office supplies- i.e. file folders, tape, paper clips, pens, markers, post-its, postage, filing folders, binders, etc.). Assumes

total cost of $4,000 in Y2 and an additional $4,000 in Y3 for paper and miscellaneous office supplies described above. The majority of office supplies will be purchased in bulk at the beginning of each school year to take advantage of back-to-school sales. Supplies will be inventoried each month to prepare for the following school year. Donated supplies will also be sought out through organizations such as Treasures for Teachers.

Instructional Consumables

Assumes all instructional consumables for Y1 will have been purchased using start-up funds in June 2014. Assumes materials for Y2 will be purchased at the end of Y1, and materials for Y3 will be purchased at the end of Y2 to ensure all materials are inventoried and available for student use prior to the first day of school each year. Assumes total cost of $2,000 in Y1, $6,000 in Y2, and $6,000 in Y3 to provide Science experiment materials, student presentation materials (poster board, etc.), and specific consumables for STEM in Action and Service Learning courses.

Membership Dues, Registrations, & Travel

Assumes total cost of $885 in Y1 (for membership to ASCD), $5,000 in Y2 for memberships and travel expenses to visit high performing STEM schools across the country, and $5,000 in Y3 for additional travel, as well as memberships for teachers to National Science Teachers Association, National Council of Teachers of Mathematics, and registration fees for Problem-Based Learning and STEM conferences in Y2 and Y3.

Contracted Services: AIS

Assumes SySTEM Phoenix will not have AIS contracted services.

Contracted Services: Special Education

Assumes a total cost of $10,500 in Y1, $19,500 in Y2, and $28,500 in Y3. Assumes the majority of Special Education services will be provided by a Highly Qualified, state certified Special Education teacher on staff. We anticipate needing contracted services for Special Education services that are outside the scope of work of the Special Education teacher on staff, including Speech/Language Pathology, Psychological evaluations, and Occupational Therapy. Assumes 11% Special Education population each year, which would likely include up to 5 Psychological evaluations each year at $300 per evaluation, based on a quote from Dandrine Strachan, certified independent child Psychologist. Assumes an estimate of 150 hours of Speech/Language and/or Occupational Therapy in Y1, 300 hours in Y2, and 450 hours in Y3, at a rate of $60 per hour, based on a quote from Speech & More, Inc. Given that the student population begins in 6th grade, it is estimated that most students will enter the school having already been identified as needing Special Education Services, and the majority of expenses will be used to maintain services rather than identify new students. The total estimated cost is conservative in that it provides for excess funds in case of a significantly high Special Education population.

Curriculum & Resource Materials

Assumes some curriculum and resource materials for Y1 will have been purchased using start-up funds in June 2014 (approximately $1,000). Assumes materials for Y2 will be purchased at the end of Y1, and

materials for Y3 will be purchased at the end of Y2 to ensure all materials are inventoried and available for student use prior to the first day of school each year. Assumes total cost of $12,000 in Y1, $3,000 in Y2, and $3,000 in Y3 to provide teachers will curriculum resources for Science/Math courses and English Language Arts/Social Studies courses. Includes $1700 for 400 square feet of IdeaPaint to create classroom wall-length whiteboards, 4 FOSS kits x $1300 per kit = $5200, and an additional $3,100 for other materials, including additional materials to support Math/Science and Language Arts/Social Studies curriculum units (i.e. subscription to Galileo for test item bank).

Library Resources/Software

Assumes a total cost of $3,000 in Y1, $4,000 in Y2, and $5,000 in Y3. These funds will provide for renewal of the annual school subscription to Accelerated Reader (subscription for 100 students is $2287.63, increases on a per student basis) and an additional $700 each year for purchasing a supply of used literary texts for students to read high interest literature at the appropriate reading level.

SAIS Software

Assumes a total cost of $2,495 yearly fee in Y1 to purchase SchoolDex through Hane Solutions, based on a quote received from the company. Includes all hosting and training fees. Assumes a total cost of $4,990 in Y2 and $7,485 in Y3 to renew subscription to SchoolDex (based on cost of $24.95 per student).

Auditor Fees

Assumes audit fees of $7,500 in Y1, based on a quote from Brett Backlund, CPA. Assumes audit fees will increase with enrollment to $8,500 in Y2 and $9,500 in Y3.

Operations & Maintenance (O&M)

Supplies

Assumes $1,000 in Y1, $1,500 in Y2, and $2,000 in Y3 for miscellaneous supplies for classroom and office use, $125 per staff member per year.

Marketing/Advertising

Assumes $6,512 total cost each year, Y1-Y3, including:

- $3,000 for flyers to be distributed (three distributions: February, April, May x $1,000 per distribution for 10,000 flyers)
- $1000 for apartment complex outreach
- $700 for grocery store marketing tables
- $12 for domain name registration (website development donated)
- $1800 for marketing video creation each year

We anticipate being able to rely heavily on parent volunteers in the second, third, and fourth operating year to assist in recruitment efforts in their neighborhoods and communities, yet have reserved the funds detailed above to launch an aggressive marketing campaign if necessary to ensure enrollment targets are

met. All marketing materials will be written in English and Spanish, (both Chief Officers are bilingual and translation services will be included within their scope of duties).

Contracted Service: O&M

Assumes SySTEM School will contract for legal, financial, facility maintenance, and technology support.

Year 1: Assumes total cost to be $18,173.95.

- Legal: Assumes most legal services will be provided pro-bono from Governing Board members with legal expertise and appropriate licensure. While we do not anticipate needing outside legal representation, assumes $4,000 will be available for any extenuating circumstances that require legal counsel.
- Financial: Assumes $5,500 total cost for basic accounting functions at $500 per month for 11 months (month 1 was accounted for in start-up budget funds). Assumes Chief Operations Officer will perform most accounting functions as she has significant experience in back office management as the current Business Operations Manager at Empower College Prep. ASPIRE Financial Services will provide monthly bank account reconciliation, review of budgets and annual financial reports, and financial advice regarding accounting processes and procedures. Assumes $403.95 for payroll expenses based on quote from QTS, Inc.
- Facility Maintenance: Assumes $7,270 total cost for janitorial services based on quote from Prestige Janitorial Services, Inc.
- Technology Support: Assumes $1,000 for tech support through David Dillman, independent software engineer at a discounted rate of $50 per hour x 20 hours to install network hardware, software, secure all technology, and provide troubleshooting support as needed.

Year 2: Assumes total cost to be $24,473.

- Legal: Assumes most legal services will be provided pro-bono from Governing Board members with legal expertise and appropriate licensure. While we do not anticipate needing outside legal representation, assumes $6,000 will be available for any extenuating circumstances that require legal counsel.
- Financial: Assumes $7,200 total cost for basic accounting functions at $600 per month for 12 months. Assumes Chief Operations Officer will perform most accounting functions as she has significant experience in back office management as the current Business Operations Manager at Empower College Prep. ASPIRE Financial Services will provide monthly bank account reconciliation, review of budgets and annual financial reports, and financial advice regarding accounting processes and procedures. Assumes $576 for payroll expenses based on quote from QTS, Inc.
- Facility Maintenance: Assumes $9,697 total cost for janitorial services based on quote from Prestige Janitorial Services, Inc.

- Technology Support: Assumes $1,000 for tech support through David Dillman, independent software engineer at a discounted rate of $50 per hour x 20 hours to install additional network hardware, software, secure all technology, and provide troubleshooting support as needed.

Year 3: Assumes total cost to be $29,289.

- Legal: Assumes most legal services will be provided pro-bono from Governing Board members with legal expertise and appropriate licensure. While we do not anticipate needing outside legal representation, assumes $7,000 will be available for any extenuating circumstances that require legal counsel.
- Financial: Assumes $8,400 total cost for basic accounting functions at $700 per month for 12 months. Assumes Chief Operations Officer will perform most accounting functions as she has significant experience in back office management as the current Business Operations Manager at Empower College Prep. ASPIRE Financial Services will provide monthly bank account reconciliation, review of budgets and annual financial reports, and financial advice regarding accounting processes and procedures. Assumes $768 for payroll expenses based on quote from QTS, Inc.
- Facility Maintenance: Assumes $12,121 total cost for janitorial services based on quote from Prestige Janitorial Services, Inc.
- Technology Support: Assumes $1,000 for tech support through David Dillman, independent software engineer at a discounted rate of $50 per hour x 20 hours to install additional network hardware, software, secure all technology, and provide troubleshooting support as needed.

Building Rent/Lease/Own

Assumes all pricing from Option #1. Estimated 5,000 square feet of interior space in Y1, 8,801 square feet in Y2, and 12,701 square feet in Y3, no field, $11 NNN / square foot in Y1, with $.50 annual increases. Assumes total lease cost of $55,000 in Y1, $101,212 in Y2, and $152,412 in Y3 for building rent. Costs for utilities and janitorial service are included below.

Building & Improvements

Assumes total cost of $50,000 in tenant improvements in Y1, $20,000 in Y2, and $20,000 in Y3. Amount budgeted is precautionary, as landlords of all prospective properties have assured that tenant improvement allowances (quotes of $5.00-$10.00 per square foot rented each year) will cover most, if not all, necessary tenant improvement costs. SySTEM Phoenix plans to occupy a building for at least three years, and any additional improvements during that time will most likely be minor or paid out throughout the terms of the lease.

Land & Improvements

Assumes that SySTEM Phoenix will be located within a facility that is currently suitable for school operations, including all applicable fire code safety, and will not require any significant improvements outside of those included in the lease.

Fees/Permits

Assumes $1,000 for fees and permits for Y1, $1,000 in Y2, and $1,000 in Y3, based on similar charter school start-up estimates in order to prepare and maintain a building for school occupancy (i.e. Certificate of Occupancy, Fire Marshall inspection, etc.).

Property/Casualty/Liability Insurance

Assumes total cost of $11,000 in Y1 for property and casualty insurance, based on estimates from similar sized charter schools in Central Phoenix. Assumes marginal increases each year: $13,000 in Y2 and $14,000 in Y3.

Utilities (Electric, Gas, Water, Waste)

Assumes a total cost of $6,875 for Y1 based on $1.50 per square foot for utilities costs, based on broker's estimation of utilities costs in ***Option #1: 5060 N. 19th Avenue.*** Assumes first month's payment will occur in July 2014 and be included in start-up funds. Assumes total cost of $13,202 in Y2 and $19,052 in Y3 for all utilities based on increase of square footage space in lease.

Phone/Communications/Internet Connectivity

Assumes total cost of $6,094 in Y1 based on quote from Cox Internet for wireless service for 100 mpbs x 80 mbps Internet and a fax and phone line. Assumes all staff members will use their personal cell phones for communicating and only one main school phone line will be necessary. Assumes total cost of $10,800 in Y2 and $13,200 in Y3 for expanded Internet service.

Student Furniture & Equipment

Assumes total cost of $4,760 for remaining student furniture in Y1, as well as $2,720 for all student furniture for use in Y2, $2,720 in Y2 for use in Y3, and $2,720 in Y3 for use in Y4. Assumes all student furniture for Y1 will be purchased in July 2014 (but paid for in August 2014) to ensure school is prepared for the first day of school with all necessary equipment. All furniture will be donated or purchased from Costco if donations are not available.

Yearly Furniture requirements:

- 20 round tables at $1,120 ($56 per table from Costco)
- 100 student chairs ($16 per chair from Costco)

Office Furniture & Equipment

Assumes $680 for all office furniture and equipment in Y1 for use in Y2, $680 in Y2 for use in Y3, and $680 in Y3 for use in Y4. Assumes all office furniture and equipment for Y1 will be purchased in July 2014 with start-up funds to ensure school is prepared for the first day of school with all necessary

equipment. All furniture will be donated or purchased at a deep discount from ASU Surplus Furniture if donations are not available.

- 4 teacher/staff chairs at $80 ($20 per chair from ASU Surplus Furniture)
- 4 staff work desks at $400 ($100 per desk from ASU Surplus Furniture)
- 4 vertical file cabinets for storage at $200 ($50 per cabinet from ASU Surplus Furniture)

Student Technology Equipment

Assumes total cost of $33,000 in Y1, including the cost of all student technology equipment for Y1 use ($18,000) and an additional $15,000 for use in Y2. In Y1 50 student computers will be purchased for use in Y1 $15,000 ($300 per computer), allowing for 2 students per 1 computer to work in collaborative groups within the classroom. While we have budgeted to purchase computers, the co-founders and board members will also actively pursue technology donations and we anticipate being able to secure donated laptops for students. The remaining $15,000 will be used to purchase 50 computers for use in Y2. An additional $3,000 is budgeted in Y1 for the required CIPA filter, router, and wireless network to provide students with access to the Internet. In Y2 $15,000 is allocated to purchase technology for use in Y3, and $15,000 in Y3 for use in Y4. An additional $1,000 is budgeted in Y2 and again in Y3 for additional routers and expanded wireless network to provide access to the Internet for additional students each year.

Office Technology Equipment

Assumes total cost of $1,800 in Y1 for office technology to be used in Y2, $1,400 in Y2 for use in Y3, and $1,400 in Y3 for use in Y4. This includes 4 additional staff computers each year ($400 per computer x 4 new staff). Also assumes purchase of 12 landline phones in Y1 for use in Y2 at $50 per phone and 4 additional phones each year thereafter. While we have budgeted to purchase computers, the co-founders and board members will actively pursue technology donations and we anticipate being able to secure donated laptops for staff.

Other Leases (Security, Copiers, etc.)

Assumes total cost of $3,850 in Y1, $5,400 in Y2, and $6,600 in Y3 for copier lease, based on a quote from Fourtech and Fitex, Inc., which includes two large black and white copiers, with faxing and scanning capabilities Assumes $350 for 30,000 copies per month in Y1, 40,000 copies per month in Y2 and 50,000 copies per month in Y3.

Loan Repayment

Assumes no loan repayment based on our ability to pay all lease costs.

Other

Assumes no other costs.