

Introduction

Regarding the operation of Humes Middle in 2017-2018, Frayser Community Schools, a CMO, has created a multi-year budget scenario including the planning year of 2016-2017 through Year 10 of operation (2026-27 School Year) for the Humes campus it intends to operate, the existing MLK Prep campus which it already operates, and the Frayser Community Schools CMO to exhibit long term financial sustainability of the organization.

Sections have been organized around the various enrollment and student population assumptions, a summary of revenue and expense assumptions, a discussion of sustainability, cash flow, and finally, contingency plans.

Enrollment and ADM Assumptions

Humes Middle has assumed the following student enrollment plan.

Grade Level	Year 1	Year 2	Year 3	Year 4	Year 5
6th	100	100	100	100	100
7th	85	90	95	100	100
8th	80	85	90	95	100
Total	265	275	285	295	300

Humes Middle currently has enrollment of approximately 310 students for the fiscal year 2016-2017 under the operation of Gestalt. It is the understanding of the Frayser Community Schools Leadership Team that not all of the students currently enrolled are zoned for the Humes campus. It is the intention of Frayser Community Schools to operate the Humes campus as a neighborhood school and operate the campus with zoned students only. This is the reason for the reduction in enrollment compared to Gestalt's current projections of over 310 students. Each year, Humes Middle will backfill throughout the year to consistently maintain maximum student enrollment per grade. They will also backfill based on attrition in between school years to ensure that each existing grade level continues to maintain minimum enrollment of 100 students in each grade upon maturity of the middle school. Maturity is expected to be reached in year five of operation with a minimum of 300 students spread evenly across the middle school grades.

For Basic Education Program (BEP) projection purposes, Humes Middle has taken a conservative approach by hedging its enrollment assumptions and estimating average daily membership (ADM) of 96% in all years to remain conservative. The anticipated demand for the school is expected to far exceed the number of seats which Humes Middle can supply given its location. This gives the school some safety with respect to revenue expectations as we are not projecting revenues at 100% ADM. This ADM percentage is consistent to the actual percentages reported by similar Memphis charter schools.

	Year 1	Year 2	Year 3	Year 4	Year 5
ADM	254	264	274	283	288

To remain conservative with expense projections, Humes Middle has leveraged the enrollment, not ADM, as the driver for expenses. By differentiating these two drivers for BEP and student-driven spending, the school is conservatively estimating revenue while allowing for more variance for expenses.

Other Demographic Factors

The school anticipates the demographics of Humes Middle to be consistent with neighboring Shelby County schools. The school has assumed the following:

- 100% of students will qualify for free or reduced lunch
- 2% of the students will be considered English Language Learners
- 20% of the student population will have an active IEP

These demographic factors have both revenue and expense implications, described in greater detail in their respective sections.

Revenue Assumptions

The source of startup year funding is currently expected to come from MLK Prep’s existing fund balance. At the time of submission Frayser Community Schools is in talks with several local funding sources but at this time no firm commitments have been granted regarding the coverage of costs for the acquisition of Humes. Most of the expense results from time that MLK Prep employees would need to dedicate to the Humes transition. The salaries and benefits for these employees were already accounted for in the MLK Prep budget for the year so the only additional costs to the CMO for the actual acquisition of Humes would be \$9,000.

During the first operational year (2017-18), Humes Middle anticipates the following sources of public funding:

Revenue	Rate	Driver	Source of Rate Assumption
BEP	\$8,515	ADM	TN DOE
Title I	\$410	# of FRL Students	TN DOE
IDEA	\$200	ADM with 20% SPED	TN DOE

Rates have been set according to historical operating information from MLK Prep. The BEP rate is inclusive of transportation as Humes Middle intends to provide busing for its students. In Years 2 through 5, the school has assumed a conservative half of 1% year over year increase of these funding rates. The conservative half of 1% increase to the BEP per pupil rate is extremely conservative based upon the most recent historical trends in the rate (just last year the ASD increase was 4.6%). There is no assumption of any School Nutrition Program (SNP) reimbursements because the school will pursue contracted meals and meal claim services with SCS. Under this scenario, the district offers food services to schools at \$0 cost, and SCS claims reimbursements on the school’s behalf to provide a more scaled solution.

During the first operational year (2017-18), Humes Middle anticipates the following sources of private funding:

In Year 1, Frayser Community Schools expects to receive \$100K in foundational support through local philanthropy. Local foundations like Pyramid Peak, Hyde, and the Poplar foundations have supported Frayser Community Schools in the past with contributions toward the MLK Prep campus. We expect similar support for the opening of the Humes campus. As the Humes campus matures philanthropy diminishes to \$50K per year as the school begins to generate its own internal fundraising.

Expense Assumptions

Start-up expenses mainly consist of compensation for the Executive Director and Development Coordinator who will be spending time planning and recruiting both students and employees for Humes Middle. Salaries and benefits are based on annual numbers but modified based upon the % of time they are dedicating towards the Humes opening. Additional start-up year expenses are recruiting expenses, marketing, charter application, recruiting, and professional development.

Altogether Humes Middle plans to spend \$67,560 in its start-up year. Most this money is dedicated to the personnel expenses.

Frayser Community Schools is currently in talks with local foundations to help fund some of the transition costs for Humes but has not accounted for the revenues to remain conservative. The expenses can and will be absorbed by Frayser Community Schools current fund balance.

Staffing

The school’s staffing structure outlined in the table below includes administrative positions along with the teaching positions scaling with the size of the student body. Year 1 is staffed to accommodate up to 300 students. Humes Middle will operate with 6th, 7th, and 8th grade staff. All existing Humes staff will be interviewed to determine staffing needs. All staff, with the exception of the instructional coach, will be hired in Year 1 at the Humes campus. The dedicated Humes instructional coach will be hired in Year 5 once the school reaches its anticipated maturity at 300 students.

	Year 1	Year 2	Year 3	Year 4	Year 5
Principal	1	1	1	1	1
Assistant Principal	1	1	1	1	1
Office Secretary	1	1	1	1	1
Office Manager	1	1	1	1	1
Guidance Counselor	1	1	1	1	1
SPED Teacher	3	3	3	3	3
SPED Assistant	2	2	2	2	2
Enrichment	2	2	2	2	2
Instructional Coach	0	0	0	0	1
Grade 6 Lead Teacher	1	1	1	1	1
Grade 6 Teacher	3	3	3	3	3
Grade 7 Lead Teacher	1	1	1	1	1
Grade 7 Teacher	3	3	3	3	3
Grade 8 Lead Teacher	1	1	1	1	1
Grade 8 Teacher	3	3	3	3	3

Building Engineer	1	1	1	1	1
	25	25	25	25	26

Lead teachers will be more experienced and will be expected to take on additional responsibilities compared with the other teachers hired. Non-lead teachers will be less experienced and may even come from alternative certification programs like Teach for America or the Memphis Teacher Residency. The maximum number of new Teach For America recruits per year will 2 so no more than 4 TFA teachers will be on the Humes staff in any given year.

With the addition of the Humes campus, Frayser Community Schools will operate its CMO with 5 fully staffed positions. The positions are as follows: Executive Director, Director of Operations, Chief Academic Officer, SPED Coordinator, and Teacher Development Coordinator. The salaries and benefits for these 5 positions total \$620,800 for the year and is split evenly between each campus. The CMO fee is expensed in contracted services in each individual campus budget. These are the only costs for the CMO and it operates on a net neutral basis. All other expenses reside in the individual campus budgets. Out of the 5 CMO positions 3 are existing positions at MLK prep and will not be backfilled. Instead the cost of these positions will be spread across 2 campuses. Some positions received pay increases because of the added work load and responsibility, however, the leveraging of these positions across multiple campuses outweighs the cumulative salary increases producing a net benefit to Frayser Community Schools of approximately \$117K. See attached Excel spreadsheet for CMO budget including staffing positions and salaries.

Several critical areas of operation that would otherwise have a school staffing requirement have been built into the budget under the assumption that the school will be outsourcing these services from established local vendors and contractors. These areas include financial services, custodial and maintenance work , legal counsel, and IT support. Humes Middle is currently engaged in talks with numerous vendors and gathering multiple bids to ensure the best agreement is reached for the school in relation to the services they need to acquire. Humes Middle is currently working with EdTec, a well-recognized and respected provider of financial services for charter schools across the country, to aid in their budget development. As mentioned, SCS will be their meal provider. As for the remaining contracted services, they have been bid out to receive accurate cost information, but currently not decided upon.

Compensation

Salaries for both certificated and support staff members are set to remain competitive with other Memphis charter schools and to compensate teachers based on their previous experience. We have budgeted for the recruitment of the following tiers of general education teachers:

Experience	Budgeted Starting Salary
1-3 years of experience	\$42,000
4+ years of experience (Lead Teacher)	\$55,000

Salaries are meant to be competitive in order to attract the talent necessary to provide students with a high quality education. Salaries have been compared with other schools in the district, both charter and traditional, and are competitive, which should allow Humes Middle to meet its staff recruiting goals. Salaries in the chart above are

meant to represent average salary figures as actual pay will fluctuate based upon experience and organizational responsibilities.

A 1.5% increase has been applied to all future year salaries as a cost of living adjustment. This increase is not a guaranteed compensation increase, but rather a hedge against rising costs and inflation in the industry. In addition to planning conservatively, Humes Middle wants to ensure that the school has adequately planned for possible increases in general.

Humes Middle knows the importance of retaining great teachers and the financial hardships that come with having to replace teachers. For this reason, the school is committed to teacher development and has budgeted for competitive salaries.

Employer Benefits and Liabilities

The school has assumed the standard 6.2% and 1.45% on all wages each year for Social Security and Medicare employer contributions, respectively. Per SCS, we have received advice that the State unemployment should be budgeted at \$400 per full-time equivalent (FTE). Similarly, workers compensation insurance, which is usually purchased in conjunction with general liability and D&O insurance, has been estimated at 1.8% of total compensation. At the end of each fiscal year, this rate will be adjusted based on actual earnings and claims reported.

For the purposes of estimating employer contributions to the Tennessee Consolidated Retirement System (TCRS) for certificated and classified staff, the school has assumed starting rates of 9%. Humes Middle anticipates participating in the TCRS defined benefit plans but understands that it can utilize other retirement options should they find more suitable cost effective replacements.

Health, dental, vision, and life insurance employer contributions have been approximated at \$5,367 per full time equivalent (FTE) based upon 66% of the current total single payer plan cost through the SCS benefits program. Similarly to retirement benefits, Humes Middle anticipates participating in the SCS health care benefits program, however, understands that it can utilize other health insurance options should they find more suitable cost effective replacements. There may be different costs associated for certificated and classified insurance programs, and there may be different costs depending on the type of plan participation (single, single+1, and family). The \$5,367 per FTE represents the proposed financial capacity of the school to contribute 66% towards insurance costs. Since individual employee elections are currently unknown, Humes Middle has conservatively prepared to incur costs for all FTEs as single enrollees. Each subsequent year, a 5% year-over-year increase has been assumed to reflect potential health insurance cost increases that may be realized in future years.

Contracted Services

By and large, contracted services will scale with the overall size of the school, starting at approximately \$618,810 in Year 1 and growing to around \$679,944 when the school reaches scale in 2023/2024. Prices reflect actual bids by service providers when given or historical numbers from other operating charter schools so that the costs reflected are as accurate as possible.

The major expenses that will be covered in this category in the Year 1 are:

- \$13,000 – assumes \$500 per full-time employee estimate for 3 weeks of summer training, materials, books, related to professional development that will be held on site at the school
- \$12,000 – assumes an estimate for 2 Teach For America recruited teachers and other general recruiting fees for job placements and travel
- \$2,000 – assumes an estimated rate for enrollment fairs, recruitment materials, and events
- \$5,000 – assumes a flat estimate for the school's portion of the audit in conjunction with the audit of the CMO's consolidated financials

- \$2,000 – assumes a flat estimate for legal fees that aren't anticipated, but to be used as needed
- \$33,125 – assumes \$125 per student enrolled for educational software such as PowerSchool, Mastery Connect, Compass Learning, and Schoolology
- \$6,000 – assumes \$500 per month for basic internet, phone and all-call services
- \$45,000 – assumes a flat estimate for financial services to be provided by a back-office provider in lieu of hiring a CFO, payroll specialist, accountant, or bookkeeper
- \$180,000 – assumes 4 buses utilized on an hourly basis. Students transported to and from safe pick up locations along route but not home delivery
- \$3,975 – assumes a \$15 per student fee for health services from Well Child for periodic hearing and vision testing
- \$310,400- assumes proportionate share of CMO services utilized by the Humes campus. CMO services are restricted only to the salaries and benefits of key personnel mentioned in the staffing section previously.

In addition, the school plans on incurring additional expenses that, while minimal in their materiality to the budget, remain critical to the successful operation of the school. These contracted expenses include but are not limited to bank charges, postal charges, and payroll fees.

Supplies & Materials

Year 1 has \$72,570 budgeted for Supplies & Materials and will scale with the overall size of the school and are subject to a modest inflation factor of 1.5% on specific line items. Prices reflect actual bids by service providers when given or historical numbers from other operating charter schools so that the costs reflected are as accurate as possible.

Year 1 expenses that lead growth in the expense category over the remaining years are as follows:

- \$13,250 – assumes \$50/student for textbooks to be purchased in line with the school's curriculum plans. Since most curriculum will be supplied online through technology the textbooks will be mostly supplemental workbooks and therefore will require replacement year after year
- \$3,975 – assumes \$15/student will be spent on printing paper as most work will be done and submitted in workbooks or online
- \$11,130 – assumes the purchase of an Achieve 3000 license for each student at a cost of \$42/per student
- \$5,300 – assumes \$20/student for basic supplies to be used directly by the students in the classroom
- \$9,000 – assumes \$750/month for office supplies
- \$2,000 – assumes a flat estimate for building decorum which consists of corkboards and minor decorations
- \$2,650 – assumes \$10/student for attendance and academic incentives
- \$3,975 – assumes \$15/student for field trips that are local only
- \$7,200 – assumes \$600/month for 1 black and white copier and one color
- \$2,650 – assumes \$10/student for copier usage fees
- \$6,625 – assumes \$25/student for basic all-purpose sports equipment

Other Expenses

Humes Middle has budgeted \$18,550 in Year 1 for general liability insurance at the rate of \$70 per student enrolled. The cost for this insurance will increase commensurate to school growth. The school has also budgeted \$1,250, or \$50 per FTE, for background checks for all staff members per LEA requirements.

Facilities

Humes Middle has budgeted \$170,100 for all facility related expenses in Year 1. Utility costs match rates experienced by Gestalt who are currently operating in the same building. Maintenance costs are also held close to the current 3-year average that Gestalt disclosed in its financial reports.

Technology, Equipment & Furniture

Humes Middle will spend approximately \$20,988 in the first year of operation, on fixed assets, with student and staff laptops, internet equipment, projectors, document cameras, and smart boards composing the bulk of the expenses. All furniture and equipment will be purchased with a minimum 3 bid process. Computer equipment will be purchased given the price restrictions but also with the expectation that it will be replaced after 4 years of use. The purchases are for replacement only as the expectation is that Gestalt will pass on its equipment in good working condition to Frayser Community Schools. The leadership team has done a walkthrough of the building and had a chance to inspect the equipment and believes that no additional furniture or technology equipment are necessary for purchase outside of a few replacement items.

Building & Site Improvements

Humes Middle does not anticipate needing building improvements based upon the walkthrough of the building. The leadership specifically reviewed the deferred maintenance items in the written Humes report and believes that they can be repaired based upon the SCS general maintenance schedule.

While our current assessment of the building doesn't lead us to believe that major capital improvements are necessary, Frayser Community Schools does understand that it is an area of financial risk if emergency replacement of major facility items were needed. By building the budget conservatively, for both the Humes and MLK campuses, the potential to absorb unforeseen capital projects is reasonable. Frayser Community Schools would also be in a good position to ask for capital contributions from local foundations since the current philanthropy projections for general operating costs are so minimal.

Depreciation

Given the size of the expenses within *technology, equipment, & furniture*, there will be depreciation expense. While these expenses will be paid in full in their respective years, Humes Middle has also included a calculated depreciation expense, operating income including depreciation, and the impact on fund balance. Depreciation treatment also allows for a more expansive treatment of expenses that may otherwise have utility over multiple years. For simplicity purposes, *technology, equipment, & furniture* expenses have been depreciated each year over five years and *building & site improvements* over 10 years, notwithstanding the expenses meet the adopted depreciation threshold.

Financials Sustainability

Humes Middle's budget projects a positive operating income over the first five years and remains positive through Year 10. In years 1 through 5, the school posts operating incomes excluding depreciation of \$77,726, \$124,210, \$174,553, \$227,683, and \$161,277 respectively. Overall, the school forecasts to have good fundamental financials year over year which includes a positive operating income for each year, adequate cash to meet operational needs, and a growing fund balance year over year. Its forecasted ending fund balance (excluding depreciation) in year 5 is \$697,888 and increases year over year reaching \$1,066,844 in Year 10.

An individual budget for the MLK Prep campus is also provided. The current year budget was assumed for this fiscal year with a half of one percent inflator on revenues and a 1.5% inflator added to the expenses. These adjustments are very conservative given that the MLK Prep campus has grown in enrollment by at least 7% every year since Frayser Community Schools took over the campus. The MLK budget also assumes the removal of the CMO positions from the MLK payroll and the addition of the resulting CMO fee in the contracted services. The 2 positions that are backfilled at the MLK campus are also added to the staffing model for the school. Under these

strict assumptions the MLK campus operates at a loss in the future due to the disparity in the extremely conservative revenues projections and the aggressive expense calculations.

However, when looking at the consolidated view of Frayser Community Schools financials the entire organization is expected to have over a million dollar fund balance by the end of the 10th year of operation of the Humes campus.

Please see the last tab in the Excel Spreadsheet provided. Humes budget is in green, MLK's budget is in purple and the consolidated budget is in orange.

Despite not being supplied in the budget calculations the cash flow of Humes will need to be monitored closely throughout its operations. The BEP schedule as previously outlined creates cash flow issue for all operating charter schools that can be elevated by the following actions on the part of the school:

- Establish a line of credit with a financial institution. Similar schools have been able to secure lines of credit more than \$150,000 before entering their first year of operation especially given the successful operating track record of the MLK campus.
- Negotiate more extensive terms with vendors. For example, there are considerable sums in Technology, Equipment, and Furniture line item. It is estimated that over 80% of that purchase would require delivery in July. As part of the negotiations for these substantial purchases, the school could require that the vendors grant Net 60 terms.
- Secure short-term private loans from philanthropic individuals.
- Negotiate a delayed or deferred payment structure into the lease during the summer months.

The school's cash shortfall would be manageable based upon the above techniques. These techniques have been utilized at other charter schools with great outcomes.

Contingency Planning

While creating a budget, there must be an evaluation of hypothetical, yet realistic situations regarding what the school would do should certain revenues not materialize, expenses run higher than the current budget projections, or the cash flow runs into issues. From a planning perspective, wherever possible, the school has tried to take the approach of under-estimating revenue and over-estimating expenses. This hedge already built into the current budget outlook is the first line of defense should additional developments take place that worsen the financial picture. No additional fundraising or donations were added to the budget despite the high likelihood that these funds would be a part of the Humes revenue mix. The omission of these funds was intentional to demonstrate that the educational model can operate sustainably on minimal fundraising and primarily on state and federal funds.

The Frayser Community Schools Leadership Team spent an extensive amount of time analyzing enrollment. We recognized the downward trend of annual enrollment that Gestalt provided. Our previous experience doing turnaround work leads us to believe that we will be able to reverse the trend of neighborhood enrollment similar to what we did at the MLK campus when we took over operating Frayser High School. However, in order to be prepared for worst case scenarios, our team ran enrollment analysis on enrollment levels from 210 students all the way to 360 utilizing various staffing models and transportation plans. Frayser Community Schools is able to operate the school at all levels of enrollment within this range. Clearly operation at the low enrollment level yields less operating margin than those at the higher end of enrollment but none the less it is still possible to operate the school. Below 210 students it is not feasible under our analysis to operate the Humes campus. A comparison document of the minimum most likely enrollment scenarios has been provided for your review.

The budget developed is a feasibility analysis based on the program and school design being proposed, but not necessarily the final operating budget; the budget will continue to undergo forecast revisions in the next year. If

there were a material revision on the revenue or expense side, the budget would have to be reevaluated, redeveloped, and reapproved by the Board of Directors. Given its share of the budget, the staffing plan would likely need to be reevaluated. Positions might have to be reduced to part-time or delayed to a later start date, or even delayed to the following school year. Certain equipment and furniture purchases might have to be delayed. Service contracts might have to be renegotiated for a reduced scope. The current experience learned from the successful operation of the MLK campus by Frayser Community Schools will be applied to the operation of the Humes campus. We are confident given all of our analysis that the Humes campus will be a financial feasible campus to operate under the Frayser Community Schools model.