

8 Budget and Finance

Two Rivers Community School, TRCS, recognizes the importance of proper financial management and holds strong fiscal responsibility as a requirement for the school. TRCS also recognizes that charter school financing is challenging and is among the leading causes of charter school failure. Thus, the proposed budget follows a strategy of projecting revenues conservatively, minimizing costs wherever possible, and maintaining contingency funds within the budget to manage unanticipated expenses.

The six-year budget included in this application includes a start-up year (Year 0) and the first five years of operation of the school (Years 1–5). TRCS has researched numerous operating budgets from successful charter schools, and its financial projections draw on the experience of these schools. Revenues are benchmarked to other local schools and expenses are based on data gathered from other charter schools with a priority on schools nearby to factor in the cost of living, public schools, the Colorado Department of Education, and other pertinent sources. The attached budgets are projected budgets that will be adjusted as necessary as new information arises.

The budget detail is included in Appendix O and the key budget assumptions and a financial analysis are included here with additional assumptions included in the Appendix.

8.1 Key budget assumptions

8.1.1 Revenue

TRCS has assumed revenue that it can reasonably expect to receive each year.

In Year 0, prior to receiving PPR funding, the CDE Start-up Grant is assumed to fund the bulk of the start-up costs. In addition to this funding, TRCS will seek funding from local and state foundations, such as the Aspen Community Foundation, Manaus Foundation, Colorado Legacy Foundation, local businesses, and private donors. TRCS will also accept donations via its website and hold a fund-raising event in January 2014 to raise funds for the school and to advertise the start of the school enrollment application period. The additional fundraising will pay for necessary expenses that are not allowable uses of proceeds with the CDE start-up grant. Also, since the CDE start-up grant is a competitive process, the additional fundraising plans are being put in place in the unlikely event that TRCS is not awarded the start-up grant.

In Years 1–5, the primary revenue source in the budget is the Colorado Department of Education PPR funding. The PPR amount projected for TRCS is comparable to that the Ross Montessori School, RMS PPR. RMS is a local K-8 CSI charter school that is located in the town adjacent to where TRCS will be located. The Roaring Fork School District RE1 PPR amount, within whose boundaries TRCS will be located, was 3% higher than the PPR for RMS, but to be conservative, TRCS has built the revenue model from the lower PPR comparable at RMS.

Other revenue sources in the plan include Title I funding; ELPA funding; IDEA and ECEA funding; kindergarten full-day tuition, which may be replaced with kindergarten students receiving full-

day funding through the State; student activity fees; and a small amount of private contributions from fundraising.

Revenue projections are based on the following additional assumptions:

- The budget includes a projected enrollment of 151 students in Year 1 growing to 225 students by year 5. TRCS already has received strong community interest in the school, as evidenced by its receipt of intent to enroll forms for 134 total students (110 K–6 students for Year 1). Applying for approval in the spring review cycle provides additional time to market the school and have a strong enrollment that meets this plan. While TRCS is confident of its enrollment projections, how the school will manage its finances if enrollment does not meet projections is discussed in the contingency section, below.
- By Year 3, the portion of the student body qualifying for Free and Reduced Lunch, FRL, is comparable to the Glenwood Springs public schools.
- The tuition fee for full-time kindergarten is \$310/month, with students qualifying for reduced tuition contributing half this amount. Also, 30% of the kindergarten students are assumed either to qualify for fully waived kindergarten tuition or to not attend full-time. Since the State is considering providing full PPR funding to kindergarten students, this fee was chosen to be revenue neutral should this occur. It is also in the range that other area schools charge for full-time kindergarten: the RFSD RE-1 charges 13% more and Ross Montessori charges 20% less for full-time kindergarten. If the State begins paying for full-time kindergarten, the school would receive additional funds from the PPR for the 30% of students assumed not to participate in full-time kindergarten.
- TRCS will request that all students pay a \$300 materials and activity fee to help cover the costs of special activities, field trips, and classroom materials. The amount is the same as is charged by Ross Montessori and the Carbondale Community School. A more detailed breakdown of how the fees will be spent is available in Appendix O. This fee will be requested, but not required. Thus, only 70% of the students are assumed to pay the fee within the budget projections.
- The budget forecasts the PPR to increase by 1% per year. Since the PPR is calculated to be 1% higher than the rate of inflation, this is a safe assumption.
- All numbers in the budget are in 2013 dollars without factoring in inflation. Since PPR is the primary school funding source and it is calculated annually to factor in inflation, any impact of inflation on the expenses presented in the budget should be obviated by the annual PPR adjustment. Thus, all expense growth in any budget category is estimated as growth above inflation.
- Beyond the CDE startup and implementation grants, grants from local foundations to support the school startup, and federal and state grants for Special Education funding, this budget does not include any additional grant revenue. TRCS considers this to be a very conservative approach to revenue projection, as the school's fundraising committee will actively apply for local, state, and federal grant funding to augment its activities in ways that support the school's mission and vision. Where applicable, TRCS

will work with the authorizer to assist with the grant application process. The Title I funds listed below appear to be most pertinent to TRCS and are the grants that TRCS plans to explore in greater detail, with its authorizer or independently, after charter approval.

Relevant Federal grants include:

- 21st Century Community Learning Centers
- Improving Teacher Quality State Grants
- School Improvement Grants
- Teacher Incentive Fund
- Math and Science Partnerships

In addition, TRCS expects to receive federal funds from its authorizer for students on IEPs.

- Revenue from contributions and donations from Years 1–5 is assumed to be \$15,000 per year. While his revenue is not secured, we believe it to be a conservative assumption since Ross Montessori and the Carbondale Community School budget \$70,000 and \$75,000 annual revenue, respectively, from contributions and donations.
- TRCS will apply for Colorado Department of Education start-up and implementation grant funds to be applied during the first three years after charter approval. There is a strong likelihood that these Colorado Department of Education grants will be available. TRCS will diligently comply with all requirements to receive these funds. A TRCS Leadership team member attended the CDE workshop on August 26, 2011 and will re-attend the CDE Start-Up Grant Writer’s Boot for Tier I Start-up applicants in order to prepare the application for submission for the October 2013 submission deadline. Start-up and implementation grant revenue in Years 0 through 2 is estimated based on past experience of other charter schools. In addition, TRCS has a fundraising committee to generate additional revenues.

8.1.2 Expense

The TRCS budget includes detailed and conservative expense estimates that are supported by detailed expense breakdowns, local benchmarking, and the assumption that the services required beyond the start-up year will be paid for rather than received with discounts or as in-kind contributions. The TRCS Leadership team also understands fully that finding creative ways to save costs is paramount, especially with its small school size that will not be conducive to achieving economies of scale. However, a key part of its mission is to build strong relationships between the school and parents and the local community. Part of this will involve an expectation of parent involvement in supporting the school’s operations, whether through volunteering in the classroom, helping with administrative activities, participating in school improvement projects, or supporting the school through in-kind contribution of specialized services.

The TRCS budget is based on the following key expense assumptions:

- The school will open with a Head of School, one Business Manager, seven classroom teachers, a full-time Sped teacher, a half-time Academic Coach, a half-time administrative assistant, a half-time ELL teacher, and two half-time specials teachers, Spanish language and Movement. Staff will expand each year to accommodate the projected enrollment growth. The following table details out the projected staffing for each year:

Table 8-1: Staffing Plan

	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TEACHING STAFF	N/A	151	174	197	216	225
Classroom Teachers		7	8	9	10	10
SpEd Teachers		1	1	1	1	1
ELL Teachers		0.5	0.5	0.5	0.5	0.5
Specials teacher — Spanish		0.5	1	1	1	1
Specials teacher — Movement		0.5	1	1	1	1
Paraprofessionals		0	0	0	0.5	0.5
Total Teaching Staff	0	9.5	11.5	12.5	14.0	14.0
ADMIN & SUPPORT	N/A	151	174	197	216	225
Head of School	0.25	1	1	1	1	1
Business Manager	0.25	1	1	1	1	1
Academic Coach		0.5	1	1	1	1
Counselor						
Curriculum Coordinators						
Office Admin		0.5	1	1	1	1
Nurse						
Janitor						
STIPENDS/ADDITIONAL PAY						
Total Admin & Support	0.50	3	4	4	4	4

- TRCS strives to pay salaries competitive with local averages and has set the average full-time teacher salary in this budget to \$37,256, which is equivalent to the Garfield RE-2 School District Teacher Salary Schedule BA Step 4. While this rate is 20% less than the average teacher salary in the RFSD RE-1 school district and 10–14% less than neighboring charter schools (Carbondale Community School and Ross Montessori School), TRCS believes this to be a reasonable salary projection for the start-up years for the three reasons. First, TRCS has a compelling vision and mission and will be investing heavily in teacher professional development and creating a classroom environment that values and empowers teachers. Numerous studies show that such factors are as important as salaries for teacher recruitment and retention. Second, Glenwood Springs is located on the northern edge of the RFSD RE-1 school district in an area with a highly variable cost of living and the cost of living increases significantly to the south of the City due to its proximity to Aspen. To the west of Glenwood Springs in the Garfield RE-2 school district, the cost of living decreases steadily. Thus, by offering salaries comparable to the neighboring Garfield RE-2 school district, the TRCS Leadership team is confident that it can attract high-quality teachers to the school. It will also be a school

priority to increase teacher salaries as the start-up costs related to building a TABOR reserve, building a contingency fund reserve, facilities, and completing professional development start-up training and consulting (which cost an average \$38,000 per year in Years 1–5) have been completed and the student population increases sufficiently to support increased pay. To reflect this priority, salaries are budgeted to increase with the PPR increase of 1%/year for Years 1–3 and then increase by 3% in Year 4 and 5% in Year 5.

- In accordance with the law, 3% of all eligible annual revenues will be designated for the TABOR reserve fund and will be set aside.
- Facilities cost assumptions are presented in the facilities section and include reasonable factors in both space per student, market rates for cost per square foot in Glenwood Springs, and utilities and maintenance costs. A key assumption is that limited renovation will be required to set up the space for the school. Most of the facilities being considered fit this criterion. Some of the properties being considered have higher listing rates than what is included in the budget. However, these facilities are still included as examples in the application because the budgeted price is a reasonable market rate for Glenwood Springs, the listed rates are close to the budgeted price, and firm pricing negotiations on any single property have not yet begun.
- Further assumptions are explained in the “Assumption” column of the projected budgets.
- Special Education funding is assumed to be largely covered by IDEA and ECEA grants administered through CSI. However, the total cost of SpEd activities is assumed to exceed the grant funding by \$500 per SpEd-eligible student, which gets paid from the general operating budget. Also, the full-time SpEd teacher is accounted for in the general operating budget, not through the restricted IDEA and ECEA grant funds.
- Professional development is a significant expense at TRCS. This is in large part due to the cost of adopting the project-based learning approach. TRCS has worked with James Lewinsky to define the professional development plan that is included in this budget. The costs are detailed in Appendix O and summarized in the yearly budgets in two budget categories: 0320 Professional-education services and 0580 · Travel, registration, entrance (Professional Development).
- Additional professional development is budgeted for Board training and administrator training and teacher training in specific curricula. In Year 2, the CDE Start-up Grant CSSI visit is also included as a professional development budget line item.
- Employee health and dental insurance growth is capped at 2% per year above inflation. Any increase in health and dental insurance will be managed by increasing the employee contribution and/or adjusting benefits offered.
- The budget includes \$100/student for field trips. While the project based curriculum involves activities outside of the classroom, the Leadership team considers this to be sufficient budget for field trips, as many of the out-of-classroom activities will be local

within Glenwood Springs and not require significant out-of-pocket expense. Many of the potential locations of the school are close to downtown, nature trails, public transit, and other natural learning environments such as the Colorado and Roaring Fork rivers. These create diverse and easily accessible settings for expeditions.

- The cost of furniture, fixtures, and equipment (FFE) are estimated in detail for each classroom, meeting room, office, and outdoor space. While the Leadership Team will seek opportunities to save money by finding adequate used FFE, the budget assumes that new FFE is purchased. Where possible, the cost of each piece of FFE is estimated based on the estimating guidelines published in “A Cost Estimation Tool for Charter Schools” published by the National Resource Center on Charter School Finance & Governance.
- The main subcontracted services in the budget are:
 - Accounting support and audit: Due to the importance of ensuring proper financial management, the budget includes funding for accounting review and consulting in addition to the audit. This is intended to ensure that we have the accounts set up properly and efficiently and that we have proper accounting procedures in place. Also, the planned administrative staff is not large and this budget is in place to ensure that the Business Manager has accounting support, if necessary.
 - IT services: The IT strategy of the school will be to use cloud services (such as Google Apps for Education) to the extent possible and keep the IT support costs low. However, it will still be necessary and budget is allocated for this activity.
 - Custodial services: Custodial services is included in the budget.
 - Maintenance: Subcontracted facilities maintenance is budgeted.
 - Food service: Compliant food service for school meals has been included.
 - Payroll services: Payroll services are included in the budget
 - Legal services: A small budget is included for subcontracted legal services.
 - SpEd services: As discussed elsewhere, special education needs beyond what can be provided by the SpEd teacher will be contracted to service providers such as Mountain BOCES.

8.2 Year-One Cash Flow

Careful cash flow management in the start-up year is critical to ensuring that all commitments can be met and the organization does not overextend itself. Thus, TRCS has forecast the budget for the first year on a monthly basis. As shown in the Figure below, the Year 0 strategy is to start fund raising early in advance of expenses and also to defer as many financial commitments as possible until late in the 2013–2014 fiscal year so that the CDE grant approval can be confirmed, enrollment will be known, and we will ensure that the organization operates in a cash-flow positive manner from the outset.

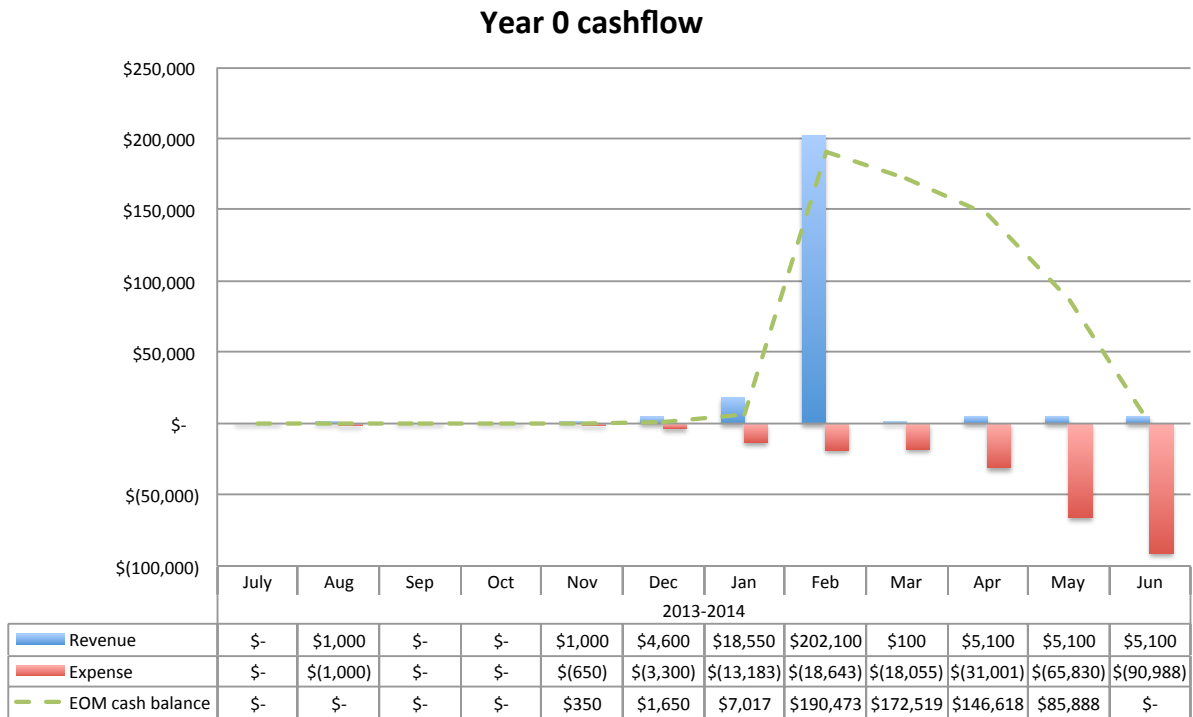


Figure 8-1: Monthly cash flow analysis for Year 0, the start-up year.

8.3 Balanced Budget

TRCS acknowledges that it must have a balanced budget. It is the intent of the School to create a contingency reserve to cover unexpected financial events. Contingency is included in the budget in three ways. The first is that contingency expense is added to each year’s operating expense projection to cover unanticipated increases in costs. The second is a budget in Years 1 and 2 for miscellaneous expenses for unforeseen needs. The third is a contingency reserve accrued through yearly budget surpluses, which by the end of year five is projected to total 5% of the school’s annual operating budget in Year 5.

8.4 Anticipated Funding Sources

TRCS will require funding sources other than the per pupil revenue during the first three years of the startup.

To date, TRCS has established relationships with local entities to initiate its fundraising efforts. TRCS has identified several promising sources of additional funds. Some of these include:

- Century Link
- Apple Computer
- The Glenwood Masonic Lodge

8.5 Contingency Plan

The Board fully expects to raise the amount required to balance the proposed budget during the startup phase. TRCS will diligently pursue external funding opportunities from sources including governmental startup grants, foundation grants, individual contributions, and business partnerships.

However, in the interest of planning for all possible circumstances, this application also includes a proposed contingency plan to document how the school will continue to operate if the fundraising goals are not met. The contingency plan assumes that no private fundraising is accomplished or CDE grants awarded, both of which are highly unlikely.

8.5.1 Minimum enrollment

TRCS has created a minimum first-year enrollment scenario that the school could sustain and still balance the budget. With an enrollment as low as 120 students, TRCS could still balance the budget by making the following adjustments:

- Reduce the number of classrooms from seven to six: Since the classes are planned to be multi-age, multiple grade levels will be taught in a single classroom. If enrollment is below thirty for any grade pairing, the school will operate with a single classroom for that grade pairing.
- Reduce staffing
 - Hire six teachers instead of seven due to one less classroom
 - Change the SpEd teacher position from full-time to 4/5ths time
 - Not hire the half-time movement specials teacher and seek parent volunteers to lead physical education, sports, and movement activities
 - Not hire the half-time admin
- Reduce salary offered to teachers by 2%
- Reduce outside consulting services
 - Limit outside accounting services to the annual audit
 - Reduce IT contract services and convene a parent volunteer IT committee to backfill contract IT services.
- Remove budgeted contingency fund

While this scenario is not a preferred first-year outcome, it would allow the school to operate without sacrificing core mission-related activities. It is important to note that only the Head-of-School and Business Manager will have been hired prior to finalizing first-year enrollment. This will allow the school to adjust its hiring to meet enrollment rather than having to reduce staff that would have already been hired. Additionally, the facilities lease is scheduled to start after enrollment is finalized. This, too, will allow enrollment to inform facilities choice to the extent possible.

8.6 Budget alignment with TRCS mission and vision

The proposed budget supports the TRCS mission and the model in several ways:

- Teacher quality is an important factor in the model. Thus, significant resources are allocated to professional development within the project-based learning model: nearly \$190,000 investment in project-based learning training, consulting, and professional development is included in the budget.
- TRCS also aspires to pay locally competitive salaries for its employees and will move toward competitive rates as it grows.
- TRCS is committed to a small school size, with anticipated enrollment of 225. Therefore, the budget is limited by enrollment numbers accordingly.
- The school has a flat staffing structure in order to ensure that all levels of the organization are actively engaged in creating a rigorous learning environment for the students.
- TRCS is committed to employing the best practices in school management and has allocated resources to Board and administration professional development.
- TRCS is focusing its hiring on language learning both for ELL and Spanish language teaching.

TRCS commits to an annual internal evaluation process to determine the extent to which financial resources were utilized effectively and appropriately to meet school-wide goals. The Board finance committee will lead this process. This evaluation process will ensure that the budget is supporting the mission and the long- and short-term goals of the school. The school leadership and Board of Directors will oversee responsible resource planning.

8.7 Financial Management

In alignment with standard financial management best practices, accounting policies and procedures will be put in place to establish controls over how transactions are processed. These controls include proper authorization, proper documentation, proper physical controls, and segregation of duties. No financial transactions will be carried out from beginning to end (approval to reconciliation) by one person. The office admin will record all incoming checks/money and the business manager will be responsible for making deposits. We will also implement policies of requiring two signatures on all expenses greater than \$50 and all purchase orders. Additionally, all payments will include supporting documentation justifying the expense.

Proper financial management will be achieved through the following policies:

8.7.1 Two Rivers Community School Financial Management Policy

- TRCS will maintain its accounting records using modified accrual basis of recording revenue and expenditures.

- The Board will commission an annual independent financial audit of the school's records.
- One and five-year budgets will be created, maintained, and authorized by the Board. These budgets will support the school's mission and stated goals. To that end these budgets shall:
 - Contain enough detail to enable reasonably accurate projections of revenues and expenses.
 - Balance – Expenditures must be planned in a way so that they equal or are less than anticipated revenues.
- Be in line with board-stated priorities.
- The Board will review the budget monthly, perform a variance analysis, manage exceptions, and seek root causes for positive and negative variances.
- The school administration will operate within these budgets and any expenditure in excess of the budgeted amount for any category will require Board authorization prior to the expense being committed to.
- Fixed assets will be acquired and disposed of only upon proper authorization, and will be adequately safeguarded and insured. Assets worth more than \$5,000 will be properly recorded as well as computers, computer peripherals, and tablet PCs.
- The school will establish and adhere to a set of effective internal accounting controls, which require good accounting practices.
- The school will operate in a manner that insures its long-term financial strength.
 - Cash will be managed in a way that ensures liquidity and safety.
 - Restricted contributions will be used only for the reason the donations were given.
 - Restricted funds will be used only for designated purposes.
 - Payroll and other debt obligations will be paid in a timely manner.
- The school will report its information in GASB 34 format at the end of the fiscal year.

TRCS will hire a Business Manager and will manage its own finances. The budget also includes resources for hiring outside accounting consultants to ensure that proper accounting practices are being followed. As part of its annual budgeting process, TRCS will evaluate the services available for purchase from the authorizer and other providers, weigh the cost of purchasing the services, and make a decision about the services to be purchased for that year.

8.8 Audits

TRCS shall maintain appropriate financial records in accordance with generally accepted accounting standards and practices. The school will abide by all Federal, State and local record keeping and financial disclosure laws. In addition, the Board of Directors will select and hire a

qualified firm or certified public accountant to conduct an independent financial audit at the end of or shortly after the conclusion of each fiscal year. The results of the audit shall be provided to TRCS's authorizer in written form and shall be made available to the public via the TRCS website, as required by law.

8.9 Financial Transparency Act

The Public School Financial Transparency Act (HB 10-1036) was signed by Governor Bill Ritter on April 12, 2010. It directs public schools, including all individual charter schools, to post financial information on-line, in a downloadable format, for free public access. TRCS will comply with this legislation by creating a link on its homepage to the following financial information:

- Audit reports and audited financials for the prior five years
- Current year's approved budget
- Following year's proposed budget and approved budget
- Quarterly financial reports
- Check register noting all outflows of money in the organization, updated quarterly
- Any additional information required by the law.

The Business Manager will be responsible for keeping the financials on the website current.