

11/16/06

With regard to the administrative report to the board:

Revenue and expenditure projections are based on information drawn from a wide variety of sources, including specific federal, state, and district funding sources. The Marble Charter School is similar in size to the projected enrollment of the Louden Mullin Charter School during its first year and is in the RE1J district. Their budget was available for the purpose of projection. The Sage Mountain School also allowed us to use their actual 2005-2006 budget as well as 2006-2007 projected budget to determine appropriate expectations for revenues and expenses in this region.

The revenue calculations conservatively assume 95% of the Gunnison Watershed RE1J School District Per Pupil Revenue (PPR); \$6100. Also included are conservative estimates for fundraising events, major private contributors, start up funds for charter schools, and grants.

A private Pre-K will be run along with the Charter School. Tuition will be charged for Pre-K and full day Kindergarten in alignment with what is currently charged by the district. This is reflected in the budget.

As with any budget, the Louden Mullin Charter School proposed budget is an estimate. Budgets are fluid and those familiar with proposed budgets understand they are very dynamic. We have based our proposed budget on the most current, reliable, and similar budgets available.

Budgetary question number 1:

Louden Mullin Charter School (LMCS) plans to manage its own finances. According to Jason Guerrero of G&G Consulting Group, known for their expertise in financial oversight of charter schools in Colorado, it is a common practice for charter schools to manage their own finances using accounting software such as Quickbooks or comparable software.

Contact information:

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Budgetary question number 2:

The Louden Mullin Charter School (LMCS) proposed budget for years one through three are extremely conservative with respect to revenue and as liberal as possible with respect to expenses. Should revenues exceed those projected in the tentative budget, such as through start up money and grants, those funds would first be allocated to Expeditionary Learning Schools (ELS), contract fees which specifically include intensive professional development. In the event that LMCS is not able to contract with ELS, a portion of start up monies would be allocated to providing staff with ELS sponsored professional development opportunities among others. It should also be noted that LMCS subscribes to creating and fostering leadership from within the school and intends to utilize skills, training, talent, and experience from its staff to foster in-school professional development.

Budgetary question number 3:

Many individuals involved with LMCS have been very successfully involved with fundraising efforts, many of them education related. The fundraising amounts reflected in the proposed budget are extremely conservative. Fees for activities and trips were not included in the budget. We anticipate adding this as a line item in our budget, not unlike the district charges. No children shall be excluded from activities if unable to pay. If the amount was \$200 per student, this would account for \$7200 in the first year. If we eliminated the \$15,000 major contribution line, we would still have a \$2488 reserve after year one. In addition, there is a wealth of potential grant sources for charter schools in Colorado, several specifically for start up charter schools.

Budgetary question number 4:

A common use of Amendment 23 funds is salary increases for teachers. LMCS intends to explore options that other schools examine in response to the expiration of Amendment 23 and resolve the issue as appropriate. In addition, a benefit of „at-will%” employment versus unionized or tenured staff allows LMCS to determine salary increases based on exceptional performance.

Budgetary question number 5:

Employee salary figures include the following:

Annual salary plus:

- .124 times the employee’s salary for the employer’s portion of social security
- .029 times the employee’s salary for the employer’s portion of Medicare

In short, the salary figures contained within the proposed budget already contain the employer’s portion of social security and Medicare as required by law. Social security and Medicare total .153 times gross wages, which are shared by the employer and the employee (7.65% each). This is called FICA. It is required by Federal law.

However, it is our understanding that the FICA requirements may be different for teachers who receive PERA, particularly social security. Because we are still researching PERA and other payroll issues for teachers in a charter school, we went ahead and included both PERA and all portions of FICA in our budget, again being liberal with our expenses. Therefore, it is likely the actual payroll portion of our budget will be less than what is reflected currently.

Questions from Richard Karas:

- 1.) Again, revenues in the proposed LMCS budget are extremely conservative. It is very likely that with start up monies and grants, as outlined earlier, revenues will exceed salary expense. Historically, charter school directors are charged with wearing many hats, particularly in the first three years. Fundraising is certainly a significant duty in addition to leadership and operational oversight. This will be made clear to director candidates prior to employment. Fortunately, applicants for positions within new charter schools are often committed to education reform and are eager to do whatever it takes to ensure the success of school choice.
- 2.) See answer to question #1 above and response to question #3 from administrative report.
- 3.) See number 2 above and response to question #3 from administrative report.

4.) We have adjusted the budget to reflect an increase in Pre-K tuition in years 2 and 3 and for full day Kindergarten, as well as a decrease in PPR for Kindergarten. We have also eliminated the private donation line item, although we do anticipate receiving significant private support. The pre-K program is combined with the Kindergarten program, and all operating costs are included in the budget.

5.) The basis for estimated operating expense line items is based on a wide variety of sources, including the Marble Charter School's most recent actual budget, Sage Mountain School's most recent actual budget, local economic information from specific real estate professionals, etc. As with any proposed budget, we expect it to change. However, we have been very conservative with respect to revenue and as liberal as possible with expenses.

6.) Louden Mullin Charter School will follow general accounting principles and all relevant federal, state, and local laws for proper accounting and reporting. Specifically:

- Louden Mullin Charter School will balance its budget in each fiscal year of operation
- Louden Mullin Charter School will produce monthly statements of revenue and expenditures, including comparisons to approved annual budgets. The Director, the board, and the Finance Committee will review these statements monthly.
- Louden Mullin Charter School will hire a qualified firm to do a comprehensive, independent audit of the financial practices of the school as required by the annual external audit requirement. We plan to explore contracting these services independently as well as through the district. Should Louden Mullin Charter School participate in the district budget audit, we are aware of our obligation to pay our proportionate share based on enrollment.
- Loudin Mullen Charter School will meet all Gunnison Watershed RE1J requirements for the reporting of financial information.

Our understanding is that financial audits for a school our size would be approximately \$2500 to \$5000. However, we have not included this line item in the budget because it is also our understanding that this may be a cost that could be shared with the district based on our proportionate share of enrollment.

7.) Most first year charter schools have minimal reserves, even through the first few years. This is typical of any start up organization. Reserves come with experience and success. The contingency plan was developed based on other approved and proven charter school applications and with the guidance of the Colorado League of Charter Schools.

DAAC Questions:

Question #4: The main lesson that was learned was that any budget, no matter how well researched, will change and is fluid. There is always a way to make it work.

Question #6: The budget for LMCS was created by an experienced accountant who has experience with small business, small school, and non-profit accounting. Her expertise has been utilized to its fullest extent.

Question #7: Although LMCS has not contacted the Daniels Fund Foundation, once approved, LMCS intends to contact the Daniels Fund Foundation as advised by Colorado League of Charter Schools President and attorney, Jim Griffin, due to their historical commitment to supporting charter schools in Colorado.

Question #8: See question #7 in response to Richard Karas.

Question #8a: See question #3 in response to administrative report.

Question #8b: See question #3 in response to administrative report.

Question #8c: We are researching the answer to this question and will provide the answer as soon as possible.

Question #10: See question #3 in response to administrative report.

Question #14, 15, 16: See question #3 in response to administrative report.

Question #17: We are aware of the TABOR requirement and are seeking answers from the League of Charter Schools regarding this issue. Again, the revenue side of the budget is extremely conservative and we could easily make up for this requirement. The other components of this question were answered in question number 2 in response to the administrative report.

We are exploring the three typical funding models that have been utilized in Colorado Charter Schools for funding Special Services. Our budget will be amended when these arrangements have been negotiated with the school district as required.