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**Crossroads Incorporated: a 21st Century Private School Solution**

The purpose of this business plan is to inform potential investors, advisors, and managers about Crossroads, a revolutionary private school that will provide New York City families with quality, affordable private education and help their children become bilingual leaders of the future. By offering an affordably priced Mandarin-English dual-immersion program based around an International Baccalaureate curriculum, Crossroads will fill an underserved market and challenge the existing hierarchy of private schools in New York City.

In many respects, this school will operate as other private schools in New York City do. It will offer a premium educational experience, small class sizes, opportunities in and out of the classroom, and a safe space for learning and development. But unlike its competitors, Crossroads will produce students who are bilingual in English and Mandarin Chinese, all at a relatively low price. Parents will choose Crossroads because it offers their children a comparable, less costly experience to other private schools while simultaneously teaching them fluent Mandarin.

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## **Executive Summary**

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The purpose of this business plan is to inform potential investors, advisors, and managers about Crossroads, a revolutionary private school that will provide New York City families with quality, affordable private education and help their children become bilingual leaders of the future. By offering an affordably priced Mandarin English dual-immersion program based around an International Baccalaureate curriculum, Crossroads will fill an underserved market and challenge the existing hierarchy of private schools in New York City and the around the world.

The New York City private school market is currently underserved. Though there are 112 private schools in the area, the number of available spaces is limited and many families that would like to join the private school system cannot. Moreover, there are no private schools that currently cater to demand for English Mandarin dual-immersion programs. While dual immersion programs exist for Spanish and French, there are no offerings for Mandarin. Demand exists for such an offering. Mandarin is a language of the future and many American parents would like their children to know it. And there are more than 660,000 overseas Chinese living the New York City that would respond positively to this type of dual-language offering.

Crossroads will operate as an independent charter school in New York City. It will open with a kindergarten and first grade class and add a grade year each year after as the first class of students age until it reaches its full size as a k-8 school. The core curriculum will be based around the International Baccalaureate Primary Years Program, an award-winning curriculum that challenges students and creates globally-minded problem solvers. The dual immersion program will operate on top of this curriculum through a 75:25 model whereby students spend 75 percent of their day learning in the target language (Mandarin) and 25 percent of it learning in the native language.

In many respects, this school will operate as other private schools in New York City do. It will offer a premium educational experience, small class sizes, opportunities in and out of the classroom, and a safe space for learning and development. But unlike its competitors, Crossroads will produce students who are bilingual in English and Mandarin Chinese, all at a relatively low price. Parents will choose Crossroads because it offers their children a comparable, less costly experience to other private schools while simultaneously teaching them fluent Mandarin.

Crossroads is a scalable operation. Once the model can be successfully implemented in New York City, it can be reproduced around the country and the world. And the model is not dependent on Mandarin. As other schools have shown, dual language programs for Spanish and French have been highly successful and sought after, and in the future Crossroads will seek to promote this multilingualism by offering any language tracks that are in demand, be they Spanish and French, or the less commonly studied language of tomorrow such as Russian, Arabic, and Portuguese.

While Crossroads exists only as a single school today, in the future it will be a global network of schools, with each individual school representing a single campus of a larger global institution. Using the International Baccalaureate framework, curriculum will be harmonized across borders so that Crossroads second graders in New York City are studying the same core material as Crossroads second graders in Hong Kong and Dubai. This shared experience will ensure that students graduating from Crossroads will join an alumni group that is drawn not only from their school, but from dozens of Crossroads schools around the world.

Though Crossroads will operate as a for-profit entity, profits at the expense of students will not be sought. Investors can expect a 10 percent return on investment, but excessive profits beyond this level will be returned to students in the form of scholarships and grants. Giving back to the community is a central goal of the school, and these scholarships will go to assist student who would otherwise not be able to attend the school.

The company requires an initial investment of \$1.8 million to cover the large, one-time fixed costs that go into opening a school. The school is projected to become profitable in its second year and will earn enough in profits

to fully repay the investors' initial investment by year three. Investors can begin to earn their 10 percent return on investment in year two.

## **The Business**

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### **Overview**

Crossroads is a quality private school that instructs students in Mandarin and offers parents an affordable alternative to existing New York City private schools. By offering English Mandarin dual-immersion it attracts families that might otherwise not be interested in private education as well as families that use private education but recognize the value-add of a Mandarin immersion program. At \$20,000 tuition per year, it also attracts families that would like to enroll their students in private school but cannot afford the existing options. The school will offer a full-day k-8 experience and will use the International Baccalaureate Primary Years Program as its core curriculum.

Crossroads' competitive advantages are its low tuition rates and its English Mandarin dual-immersion program. It will maintain sustainable competitive advantages by continuing to lower tuition rates when possible, continuing to offer new language programs as demanded, and continuing to expand globally to reach new markets and serve new communities.

Going forward, the business needs an initial location to open in , \$1.8 million in funding to cover start-up costs, a team of eight educators to teach the kindergarten and first grade students who will enroll during the first year, a board of advisors to guide the company and aid management in decision making, and a management team to oversee the establishment and day to day operations of the company.

### **Mission, Objective, and Background**

At Crossroads, our mission is to cultivate globally-minded problem solvers who are ready to thrive in the 21st century and are armed with the skills to do so. By supplying our students with an IB-based curriculum and helping them to achieve fluency in Mandarin, we prepare them to succeed after their years at Crossroads. We do all this at an affordable rate which allows us to serve a larger network of families than are currently being served by the private school industry.

Crossroads was founded in April 2013 by Eric McCabe, a graduate of American University specializing in finance and Chinese. The school is the embodiment of his vision to spread affordable, dual-language private education to families around the world. Though still in its infancy, Crossroads will one day have a campus in every major international city in the world, and Crossroads graduates will form a body of alumni that spans the earth.

### **Initial Location**

Crossroads will move into a temporary location for its first three years (2013-2016). Ideally the building will be located in central or lower Manhattan as this is where much of the target demographic lives and works. This location will be within three miles of the final location and will be sized to accommodate up to 300 students. It will ideally never house more than 240 students as the move to the final building should be made before the 2015-2016 school year when the total school population reaches 300 students. This location will provide 20 classrooms (necessary to house 20 classes of 15 students each), a music room, an art room, a lunch room that doubles as a gymnasium, a kitchen, a computer room, a main office, and five administrative offices. In total the building will encompass roughly 23,150 square feet. The building will be leased rather than owned. Leasing will make the transition into the final location easier because it will eliminate the need to sell the building.

After three years, the lease will be terminated and the school will switch to its final location. This location will house 36 classrooms, two art rooms, three music rooms, two computer rooms, two gyms, a kitchen, a lunchroom, two libraries, 14 bathrooms, a rooftop open space, a primary school office, a middle school office, and 15 additional administrative offices. It will be able to accommodate 540 students and occupy roughly 48,000 square

feet. If it proves difficult to secure a location with these qualifications, we may search instead for two separate buildings, one for the primary school and one for the middle school. We may also look into construction options if the expense can be justified.

### **Alternative option**

If leasing a building for three years and then moving to a final location proves impractical, the school may choose to move directly into its final location and rent out the excess space to other tenants until the school body grows to fill the space.

### **Why New York City**

New York City was selected as the first city to receive a campus for several reasons. In terms of demographics, it has one of the highest concentrations of wealthy families in the country. It also has the largest population of Asian-Americans in the country with more Asian-Americans than Los Angeles and San Francisco combined. These two factors make the city prime target market. Additionally, the New York City market is underserved, with demand for more than 15,000 seats but only 11,000 seats available. Lastly, New York City is an international city and fits with Crossroads' goal of becoming a global operation. Simply put, it is more impressive to say "we opened our first branch in New York City," than it is to say "we opened our first branch in Minneapolis." New York City serves as an excellent spring board for Crossroads and is an ideal location for our first campus.

### **Future Cities**

Once Crossroads is on the path to success in New York City (likely by year four or five), the company will begin to search for a location to open our second school. This location will likely be in the United States. Viable targets include Boston, Washington, D.C., Chicago, Atlanta, Miami, Houston, Denver, Los Angeles, San Francisco, and Seattle. All of these cities are large enough and wealthy enough to easily support an additional independent private school and all have enough of an international focus/Asian-American population to ensure that there will be an audience that is appreciative of the value that Crossroads brings. At this preliminary stage, management cannot say with confidence how the order of expansion will proceed. This order depends on the experience we have in New York, the partnerships we develop and the lessons we learn. All of these factors will influence our pick for the second campus location.

While domestic expansion is the priority, international expansion will soon follow. As Mandarin is the language of focus at the school, expansion into China is a logical choice. Potential cities include Beijing, Hong Kong, and Shanghai. All of these cities have large expatriate populations that enroll their children almost exclusively in private schools. These private schools are often even more expensive than top-tier private schools in New York, so Crossroad's cost effectiveness would again be an advantage and would make the school very popular with expats being forced to choose between local Chinese public schools and private schools with annual tuition of \$40,000.

As in the U.S., the model would be based on Mandarin English dual language immersion, though with many foreign families in China only staying for two or three years (and not likely having kindergarten aged children), the school would also offer an alternative track for students that enter the school in later grades and do not have enough time to become fluent in Mandarin. For these students, Crossroads would simply serve as a less expensive alternative to the other private schools in town.

### **Advantages of Dual-Language Immersion**

Research has consistently demonstrated that students in dual-language immersion programs progress more quickly in their native language than their monolingual peers and at comparable rates in the target language to native speakers of that language. Bilingualism has been shown to improve cognitive functioning, enhance lifestyles, and lead to improved career opportunities. Bilingualism is rapidly achieved by small children and can be obtained with no downside risk.

Crossroads will implement a 75:25 model whereby students spend 75 percent of their day working in the target language and 25 percent in their native language. This proportion will be switched to 50:50 in the student's fifth year. This is because by this point the students will have learned enough of the target language to communicate with ease and will need more focus on their native language in order to continue making progress in their language arts development.

Starting in 6th grade, students will be encouraged to formally study a third language. Languages to be offered are not yet determined, but likely options include Spanish, French, Russian, Arabic, and Hindi. Students will then continue studying the third language through 8th grade.

### **Modular Curriculum**

While Crossroads will initially make use of an IB-based curriculum, an alternative curriculum is also under consideration. This type of curriculum, called a modular curriculum, takes a different approach to learning. Instead of organizing subjects into year-long segments of material, modular curriculum takes all the concepts and subjects that you want a student to learn between K-8 and organizes them into four to six week blocks.

To use math as an example, if there are a certain number of concepts that you want a student to master before they graduate, such as fractions, percents, long-division, factoring, basic algebra, etc, you take each of these concepts and make them their own six week class. In this class, the only topic covered is the one that the student is working on, say fractions. All students in the class are working on fractions. At the end of the six weeks, a test for comprehension will be given. If passed, the student will be allowed to advance to the next topic in math. If failed, the student will repeat the topic. This method ensures that students do not advance to higher topics until they can demonstrate true understanding of the foundation topics, and because the class only lasts four to six weeks, the penalty for failure is light as the student does not have to repeat the entire year. In fact, failure can be built in to the system and students will be able to fail two or three subjects and still graduate on time and on pace with their peers in other schools.

With this system, you will have students of different ages, at different levels for different curriculum. A student may be a level "6" in math, a "5" in social studies, a "8" in language arts and a "9" in science. As a result, in each class this student attends, he will be studying material with the exact same level of understanding as his peers, even if they differ in age. A seven year old may be in a math module with mostly eight and nine year olds but in a social studies module with mostly six year olds. The stigma that comes with failing a grade would be erased because failure would be common, expected, and accepted.

Because teachers would teach the same specific topic repeatedly, they would become expert at teaching it, far more expert than most teachers ever become. For example, a math teacher might be assigned to teach a module on fractions, multiplication, and factoring. This teacher would become extremely adept at conveying these topics to her students because that is the only thing she would focus on.

A similar version of this idea is already in use in some school districts in rural Alaska. These districts have so few students spread over so large an area that they cannot hold class for each grade level on each subject. Instead they give each student a book when they enter kindergarten that contains all the topics that they want the student to learn in every subject by the time they graduate. They then let the student go and study at their own rate, aided by a teacher when necessary. This system has been highly successful and the districts that use it often graduate their students two or three years early. These students then have the opportunity to go straight to college or enter vocational schools.

### **Confucius Classroom**

The Chinese government has partnered with a limited number of American schools to fund "Confucius Classrooms," programs that are aimed at promoting Chinese language and culture around the world. If selected as a partner, schools receive \$100,000 in funding from the Chinese Ministry of Education each year to supplement

their programming. Crossroads would be a strong candidate for this funding and we will apply for it once the school is established.

## **Management Team**

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Crossroads needs four key players in management to get started. These include a Director of School, a Director of Admissions and Financial Aid, a Director of Teachers, and a Director of Recruiting. These four positions comprise the initial management team. In later years, additional positions will be added. These positions include Chief Executive Officer, Chief Financial Officer, Director of Middle School, Director of Primary School, Director of Aftercare, Director of Expansion, Director of Security and Transportation, Director of Athletics, and a Middle School Counselor. A description of these roles is detailed below.

### **Initial Team**

#### Director of School

- Responsible for leading the management team at individual Crossroads schools
- Responsible for overseeing day to day operations at the school
- Responsible for coordinating activities with outside groups
- Responsible for approving curriculum changes
- Responsible for final decisions on all hiring and firing
- Responsible for evaluating current teachers

#### Director of Admissions and Financial Aid

- Responsible for screening student applicants
- Responsible for administering application exams and interpreting results
- Responsible for giving tours/organizing information sessions for prospective families
- Responsible for identifying families in need
- Responsible for allocating scholarship money to families in need

#### Director of Teachers

- Responsible for implementing curriculum changes and educating faculty on said changes
- Responsible for training teachers in IB curriculum and enforcing the 75:25 Mandarin English system
- Responsible for mediating conflicts between teachers and parents
- Responsible for facilitating daily meetings for Chinese and English speaking to teachers to ensure that all teachers are aware of what the students have learned
- Responsible for mediating student conflicts

#### Director of Recruiting and Advertising

- Responsible for locating, interviewing, hiring, and training qualified teachers, administrators, managers, and staff
- Responsible for promoting the school and heading up marketing efforts

### **Future Members**

#### Chief Executive Officer

- Responsible for overseeing operations at all Crossroads schools
- Responsible for harmonization of global curriculum and coordination of inter-school activities
- Responsible for scouting new locations and securing property for new schools
- Responsible for implementation of global Crossroads strategy
- Responsible for representing the company to the board and assisting in the selection of new board members
- Responsible for management team

#### Chief Financial Officer

- Responsible for securing financing for new projects
- Responsible for management of current financing
- Responsible for returning retained equity to shareholders
- Responsible for investing excess profits beyond 10 percent into a scholarship fund for use by students
- Responsible for assessing financial payoff of new school proposals
- Responsible for preparing financial statements
- Responsible for working with local realtors to secure properties at best value

#### Director of Primary School

- Responsible for overseeing all programming at primary school level
- Responsible for hiring/firing primary school teachers
- Responsible for working with Director of Teachers to implement curriculum
- Responsible for working with Director of Teachers to educate and train faculty on new material
- Responsible for overseeing management team at the primary school level

#### Director of Middle School

- Responsible for overseeing all programming at middle school level
- Responsible for hiring/firing middle school teachers
- Responsible for working with Director of Teachers to implement curriculum
- Responsible for working with Director of Teachers to educate and train faculty on new material
- Responsible for overseeing management team at the middle school level

#### Director of Aftercare

- Responsible for ensuring that children are collected by their parents/guardians at the end of the aftercare
- Responsible for creating aftercare programming that enhancing learning and supplements what the children do in school
- Responsible for working with children k-8

#### Director of Expansion

- Responsible for identifying future locations for expansion
- Responsible for surveying local real estate markets to identify potential buildings
- Responsible for promotions in new cities
- Responsible for building local partnerships with relevant institutions

#### Director of Security and Transportation

- Responsible for organizing security on school premise
- Responsible for coordinating security at off-campus events
- Responsible for arranging transportation to off-campus events
- Responsible for arranging transportation to and from for students at those schools that supply it

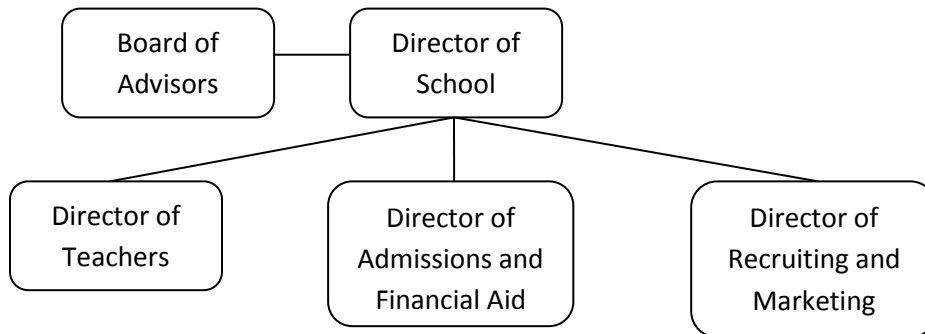
#### Director of Athletics

- Responsible for organizing sporting events
- Responsible for managing schools' relations with relevant sports leagues
- Responsible for selecting and ordering sports equipment

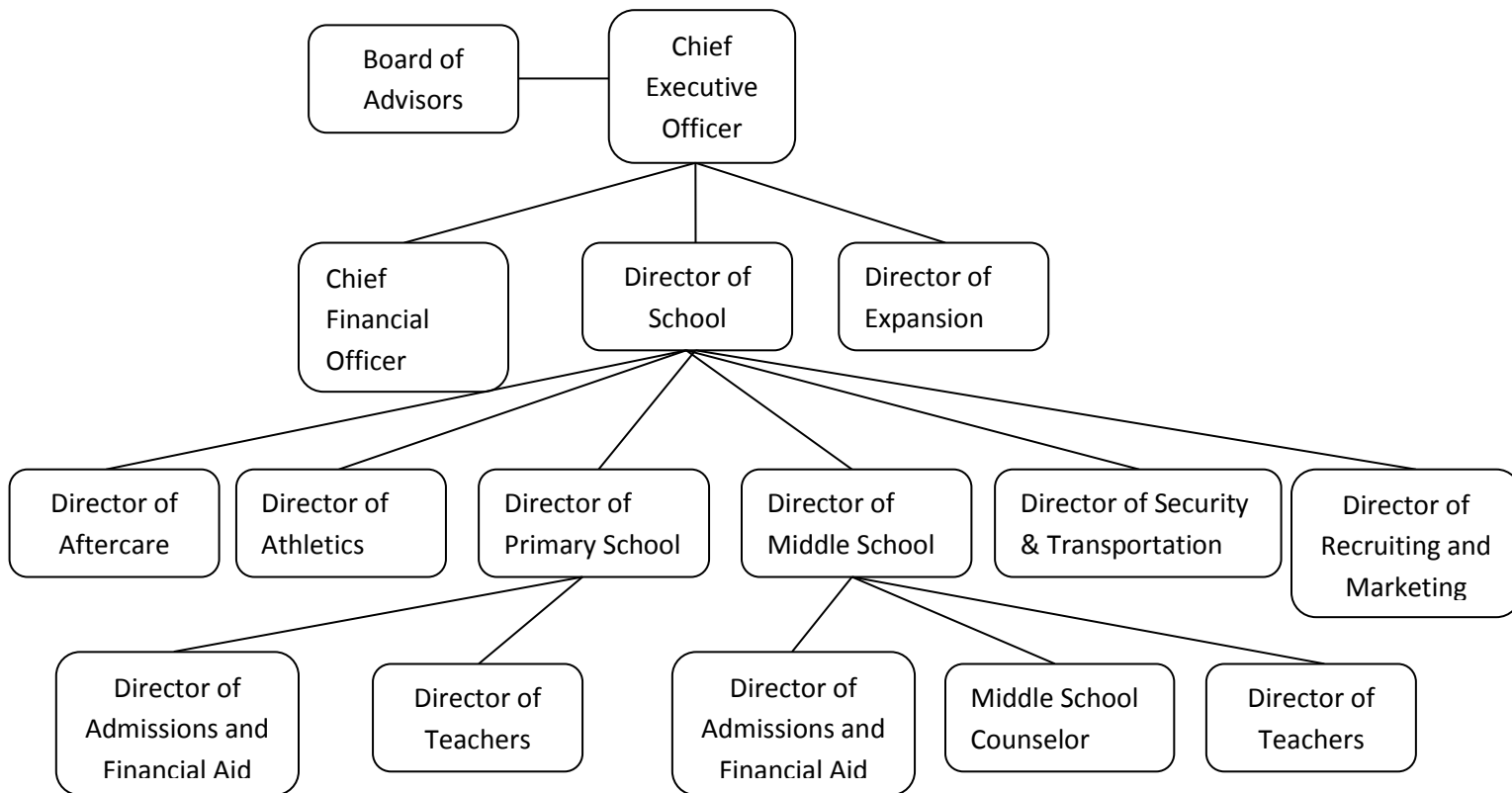
#### Middle School Counselor

- Responsible for providing counseling to middle school students and parents on options for high school

### Initial Organizational Chart



### Final Organizational Chart



As can be seen in the organizational charts above, Crossroads has an initial structure that will be sufficient for its New York City campus and a final structure that represents how management will look in years to come.

### Board of Advisors

Crossroads is looking to attract advisors who bring knowledge and guide Crossroads' development. Board members can bring experience and knowledge that the management team lacks. While the management team is confident in their knowledge of all areas, they can always benefit from further expertise. Crossroads wants to

create a board of advisors as opposed to a board of directors for several reasons. The first is that boards of advisors are much less expensive. The second is that boards of advisors have the interests of management and the company at heart and will give advice that benefits the company, not just the shareholders. The third is that a board of advisors is easier to create and expand than a board of directors. The final reason is the boards of advisors have no legal responsibilities and obligations and are not at risk of being held liable should the company falter.

A board of 4-5 members is ideal. Anything larger than this is unnecessary (at least initially) for an organization the size of Crossroads. Specific areas that the company needs more knowledge in are detailed below.

#### New York City Expert

- A board member who is a long time resident of New York City and understands the demographics, the people, and the different neighborhoods

#### Real Estate Expert

- A board member who has experience with New York's real estate market and can help Crossroads find a suitable property at a reasonable price. This expertise will be especially essential before the first year when Crossroads needs to secure its first properties

#### Upper-Class Expert

- A board member who socializes regularly among New York's upper-class, can vouch for the school and pitch it to his or her peers, and understands what this demographic looks for when it comes to educating children

#### Private School Expert

- A board member who is familiar with the existing offering of private schools, understands what parents look for in a school, understands why some schools fail and others succeed, understands how to increase Crossroads' chances of succeeding, and understands how to market the school to the target audience

#### Dual-Language Immersion Expert

- A board member who has experience with dual-language immersion programs and can advise Crossroads on best practice for implementation

#### Expansion Expert

- A board member who has experience with scalable operations and can guide Crossroads as it expands beyond New York City. Someone who understands the efficiencies that can be gained from economies of scale and knows how to best leverage a global platform

#### Regulation/legal Expert

- A board member who understands the legal and regulatory hurdles that must be crossed to establish a new school, understands the appropriate associations that a private school should join, and understands the permits that have to be acquired to modify a building

### **Industry Analysis and Marketing Plan**

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The private school industry is a \$60.8 billion dollar industry forecasted to grow at an annual rate of 1.3 percent through 2018. Of this, independent private schools have revenues of \$24.93 billion. In total there are 33,400 schools educating over five million children. Concentration in the industry is low and no competitor controls more than 1 percent of the total market. Private schools have low revenue volatility, medium capital needs, and heavy regulation. The industry is mature and 72.4 percent of private schools students are in the k-8 age range.

Successful companies in this industry have the ability to attract patronage, ability to take advantage of government subsidies and grants, access to financial resources, a good reputation, and the ability to hire and retain effective teachers. Regulation varies on a state by state level but requirements are generally less stringent than they are for public schools. Private teachers do not need the same requirements to teach as public teachers do and private schools do not need to administer the same state and national tests as public schools.

In New York City, the market for private school enrollment is robust. the number of school-age children in households between Battery Park City and 72nd Street with annual incomes above \$500,000 soared to 15,700 in 2010, from 4,300 a decade before. The top dozen schools in the city offer only 11,000 seats.

### **Target Market**

Crossroads will attract three types of customers. The first type is cost conscious families. With an annual tuition of \$20,000, Crossroads is an affordable alternative to most of the premier private schools in New York City. A survey of 39 independent private schools in New York City found that average annual tuition K-5 is \$34,875, far above the rate that Crossroads will charge. Entering the market at this price point will allow Crossroads to attract New Yorkers who would like to enroll their students in private schools but cannot afford the current offerings.

The second is Asian-American families who may want to enroll their children as heritage speakers. At one of the public schools in the city, the community decided to institute a English Mandarin dual-immersion program that parents to apply to enter their students in. Today Asian-American students make up more than 76 percent of the total enrolled. Clearly, Asian-American parents were excited enough about the prospect of a Mandarin-English program that they were willing to enroll their children in it. Adding this program to a private school will attract Asian-American parents who otherwise would not consider private schooling for their child.

Lastly, Mandarin-English dual immersion will also serve to attract parents who are either currently enrolling their students in public schools (because there is nothing in the traditional private school model that justifies the cost to them) or parents who already enroll their children in a private school but want to switch to a school that offers the Mandarin option.

### **Competitive position within target market**

Currently the only private school in New York City to offer Mandarin English dual-language immersions is a \$40,000 per year start-up called Avenues. Its immersion program is estimated to enroll fewer than 100 students. There are three public schools that have dual language programs, but these programs are small and only serve the local neighborhood. PS-163, for example, currently has less than 50 students. While these competitors are serious, neither of them can compete on the same wave length as Crossroads. Crossroads offers a comparable experience to Avenues at exactly half the price.

### **Competitor analysis**

Crossroads' competitors fall into two main groups, private schools and public schools. There are 112 private school competitors within 10 miles of Manhattan. These competitors cover a range of age groups but most are either K-12 or K-8. Average tuition at these schools is \$34,000 a year. New York City public schools vary in quality, size, and programming. There are three public schools that offer English Mandarin dual-immersion at the elementary school level. Two of these are in Queens and one is in Brooklyn.

### **Marketing Plan**

Crossroads targets three main demographic groups: families that would like to enroll their children in private school but cannot afford \$34,000 tuition, families that enroll their children in private school but are drawn by the dual-language immersion and want to switch, and families that would not normally consider private school but are interested in Crossroads for the dual-language immersion. Unique marketing efforts will be targeted at each of these three groups.

For the first group, Crossroads' affordable cost is the main draw. With most private schools charging upwards of \$30,000 per year, these families have been forced to find public alternatives. At \$20,000 per year, Crossroads is a viable alternative for many of these families. Marketing to them will require direct marketing efforts through traditional media sources. Crossroads will take out advertising in the Wall Street Journal and New York Times to reach this segment of our target market.

For the second and third groups, the dual-language immersion program is the main attraction. For these groups, emphasizing that their children will become fluent in Mandarin is key. Crossroads will prepare marketing materials that highlight the effectiveness of dual-language immersion and the research behind it. Crossroads will join relevant private school associations to ensure that our message is disseminated to interested parents looking for a private school.

Additionally, the company will create a social media platform that conveys our message and informs our audience. The school will have an official facebook page where prospective parents can post questions, a youtube channel with videos of interviews with staff and teachers, and a twitter handle for posts about events happening around school.

## **Operations**

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### **Company Structure and Ownership**

Crossroads is organized as an S-corporation. This allows it to avoid double-taxation and pass on more earnings to investors. While Crossroads is currently owned 100 percent by its founder Eric McCabe, Eric is prepared to sell 15 percent of the company to investors for the \$1.8 million that the company will need to raise. This values the company as a \$12 million dollar company. Given that financial analysis shows the company to be worth at least \$19,685,000 based solely on future cash flows from the New York City location, this is a competitive offer to investors. After the first year of profitability, management is happy to buy out those investors who wish to liquidate their ownership.

### **Method of Service Delivery**

Crossroads will initially offer four classes per grade level. Teachers will be generalists that educate the students in all of the core curriculum areas. Students will spend 75 percent of their day with a Chinese-speaking teacher and 25 percent with an English speaking teacher. By fifth grade students will spend 50 percent of their time listening to Chinese and 50 percent to English. As many of the students will already know English as their native language, it is important to emphasize Chinese in the early years. Teachers will coordinate their lessons to ensure that students are not being double-taught the same material or missing any instruction.

The school year will begin the day after Labor Day and last until the third week in June and the school day will last from 8:00am to 2:30pm. Aftercare will run from 2:30pm to 5:30pm. Transportation will not be provided at the New York City campus but may be used at future sites.

### **Availability of Qualified Labor Pool**

With recent layoffs in many school districts around the country, there is a surplus of primary and middle school teachers that is expected to persist for years. Hiring talented staff is a top priority and should be made easier by the large number of young, qualified teachers currently looking for employment. But because 75 percent of our primary teachers will be Mandarin speakers, we may need to look beyond our shores to find qualified candidates. China's teachers colleges train hundreds of thousands of teachers every year, and by offering these teachers a path to U.S. citizenship through work in the United States, we can recruit the best among them. This strategy has already been successfully implemented by Mandarin English dual-language immersion programs in Utah.

### **Accounting firm**

Crossroads will work with the a local bookkeeper for all of our accounts receivable, accounts payable, payroll, and general journal entry bookkeeping needs. Horowitz & Ullmann, P.C. has been identified as a reliable local accounting agency that can handle our bookkeeping and prepare audited financial statements for investors and regulators as needed. Horowitz &Ullmann, P.C. has experience working with for-profit and non-profit private schools in the New York area and is used by many lower-budget organizations because of their affordable fees. With other major expenses to worry about in the first year, this type of agency is ideal for Crossroads. While the decision may be reevaluated in future years, this company is a good partner for Crossroads in year one.

## Financials

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Outside investment is needed to cover the startup costs for Crossroads. The total costs for year 1 are \$3,340,880 and while tuition revenue will cover most of these costs by year end, there are upfront costs that occur before any revenue is generated and will require outside funds. These costs include classroom and office supplies (\$400,000), renovations (\$400,000), the first three months of lease payments (\$225,720), recruiting costs (\$200,000), a third of salary costs (\$402,667), computers (\$60,000), marketing (\$50,000), and legal/regulatory fees (\$80,000) for a total cost of \$1,798,387. Though revenue will already be flowing in by time many of these costs are incurred, this amount should still be raised to safely ensure that the business can cover its costs for the first three months.

| Start up costs in Year 0 |           |
|--------------------------|-----------|
| Renovation               | 400000    |
| 1/3 salary costs         | 402666.7  |
| Computers                | 60000     |
| Legal/regulatory         | 60000     |
| 3 month lease payments   | 225720    |
| Materials                | 400000    |
| Recruiting               | 200000    |
| Marketing                | 50000     |
| Total                    | \$1798387 |

This initial investment, which for simplicity will be rounded up to \$1.8 million, represents the investors' ownership stake in the firm. Ideally the firm will be funded entirely through retained earnings and owner's equity with no need to go into the debt markets to raise capital. As Crossroads is a private company, there will be no public offering of shares. Crossroads is estimated to lose \$611,000 in its first year, but become profitable in its second year with earnings of \$578,000 and earnings of \$1,047,000 in its third year. Earnings are expected to increase year over year after that point. The first year is unprofitable because of large, onetime fixed costs that are incurred due to the purchase of classroom and office supplies and building renovations.

With a cost of equity of 10 percent, the school has a present value of cash flows worth \$19,685,000 today. As the school makes \$578,000 in its second year, investors can expect to earn their 10 percent/year starting in year two. Beginning in the second year, Crossroads will use retained earnings to buy out any investors that wish to sell their stakes in the company. That said, investors are encouraged to stay with Crossroads for as long as they please, and we hope that many of our investors will also serve on our board of advisors.

| <b>Income Statement</b>       |                         |                |                  |                |                  |                  |                  |                  |
|-------------------------------|-------------------------|----------------|------------------|----------------|------------------|------------------|------------------|------------------|
|                               | 2013-2014               | 2014-2015      | 2015-2016        | 2015-2016      | 2016-2017        | 2017-2018        | 2018-2019        | 2019-2020        |
|                               | Year 1                  | Year 2         | Year 3           | Year 4         | Year 5           | Year 6           | Year 7           | Year 8           |
| Revenue                       | 2400000                 | 3600000        | 4800000          | 6000000        | 7200000          | 8400000          | 9600000          | 10800000         |
| <b>Operating Expenses</b>     |                         |                |                  |                |                  |                  |                  |                  |
| Personnel Expenses            |                         |                |                  |                |                  |                  |                  |                  |
| Teachers                      | 560000                  | 840000         | 1120000          | 1400000        | 1680000          | 1960000          | 2240000          | 2520000          |
| Administrator                 | 100,000                 | 100,000        | 100,000          | 100,000        | 100,000          | 200,000          | 200,000          | 200,000          |
| Art Teacher                   | 70,000                  | 70,000         | 70,000           | 70,000         | 70,000           | 140,000          | 140,000          | 140,000          |
| Music Teacher                 | 70,000                  | 70,000         | 70,000           | 70,000         | 70,000           | 140,000          | 140,000          | 140,000          |
| Gym Teacher                   | 70,000                  | 70,000         | 70,000           | 70,000         | 70,000           | 140,000          | 140,000          | 140,000          |
| Technology Teacher            | 70,000                  | 70,000         | 70,000           | 70,000         | 70,000           | 140,000          | 140,000          | 140,000          |
| Nurse/Psychologist            | 70,000                  | 70,000         | 70,000           | 70,000         | 70,000           | 140,000          | 140,000          | 140,000          |
| Building Expenses             |                         |                |                  |                |                  |                  |                  |                  |
| Computers                     | 60,000                  | 10,000         | 10,000           | 70,000         | 70,000           | 20,000           | 20,000           | 70,000           |
| Supplies                      | 400000                  | 40000          | 40000            | 40000          | 40000            | 40000            | 40000            | 40000            |
| Maintenance                   | 198,000                 | 198,000        | 396,000          | 300,000        | 300,000          | 600,000          | 600,000          | 600,000          |
| Renovations/<br>Miscellaneous | 400,000                 | 0              | 0                | 600,000        | 0                | 0                | 0                | 0                |
| Other Operating Expenses      |                         |                |                  |                |                  |                  |                  |                  |
| Marketing                     | 50,000                  | 20,000         | 20,000           | 20,000         | 20,000           | 20,000           | 20,000           | 20,000           |
| Recruiting                    | 200,000                 | 200,000        | 200,000          | 200,000        | 200,000          | 400,000          | 400,000          | 400,000          |
| Legal/regulatory fees         | 80,000                  | 20,000         | 20,000           | 20,000         | 20,000           | 20,000           | 20,000           | 20,000           |
| Accounting fees               | 40,000                  | 30,000         | 30,000           | 30,000         | 30,000           | 30,000           | 30,000           | 30,000           |
| Operating Income              | -38000                  | 1792000        | 2514000          | 2870000        | 4390000          | 4410000          | 5330000          | 6200000          |
| Non-Operating Expense         |                         |                |                  |                |                  |                  |                  |                  |
| Mortgage/lease                | 902,880                 | 902,880        | 902,880          | 1,368,000      | 1,368,000        | 1,368,000        | 1,368,000        | 1,368,000        |
| Income Before Taxes           | -940,880                | 889,120        | 1,611,120        | 1,502,000      | 3,022,000        | 3,042,000        | 3,962,000        | 4,832,000        |
| Taxes                         | -329308                 | 311192         | 563892           | 525700         | 1057700          | 1064700          | 1386700          | 1691200          |
| <b>Net Income</b>             | <b>-611,572</b>         | <b>577,928</b> | <b>1,047,228</b> | <b>976,300</b> | <b>1,964,300</b> | <b>1,977,300</b> | <b>2,575,300</b> | <b>3,140,800</b> |
| PV Net Income                 | -555974.545             | 477626.45      | 786797.896       | 666826.036     | 1219675.75       | 1116134.302      | 1321536.102      | 14652063.8       |
| Sum PV Net Income             | <b>\$ 19,684,685.79</b> |                |                  |                |                  |                  |                  |                  |
| Cost of Capital               | 10%                     |                |                  |                |                  |                  |                  |                  |

### Income Statement Assumptions

Supplies Cost: \$10,000 per classroom, \$40,000 for office supplies, \$280,000 other

Computers: New/replacement purchases - \$2,000 x 30 computers = \$60,000. New/replacement purchases made in years 1, 4, 5, and 8. \$10,000 annual maintenance fee per 30 computers.

Taxes: 35 percent for all years

Mortgage/Lease Expense: Based on \$114,000 monthly cost to lease 48,000 square feet, reduced by 2/3 for the initial building which only has 23,150 square feet

Teacher Salary: \$70,000 per teacher, benefits built in to salary cost

Management Team is paid out of Net Income

In year 5, Crossroads will open its second school. This is not reflected on this Income Statement as the financing will be entirely unique for the second school and unrelated to the NYC campus

No depreciation expense because the building is being leased  
Miscellaneous fund incorporated into renovation fund

## **Risk Factors**

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### **Management Risks**

There is a risk that Crossroads will be unable to hire qualified management. This problem will severely impair the company's ability to succeed as all management positions are essential. There is also a risk that the company will be unable to find knowledgeable advisors to serve on the company's board of advisors. This will make it more difficult to make intelligent decisions about the business.

### **Marketing Risks**

There is a risk that Crossroads' marketing will be ineffective and the school will be unable to attract enough students to make the company profitable. This is serious concern which is why the Director of Recruiting and Marketing is such an essential management role. There is also a risk that management has failed to understand its target market and that its message will not resonate with families.

### **Operating Risks**

There is a risk that Crossroads will hire unqualified staff that will misrepresent the school, behave inappropriately, or fail to educate students at a quality parents demand. There is also a risk that the Chinese-speaking and English-speaking teachers will have trouble coordinating their lessons. This could lead to students being taught the same material in two languages (not necessary a bad thing, but not necessary) or material being unintentionally skipped.

There is an additional risk that Crossroads will be unable to find a suitable location in which to open. This would lead to delays and possibly higher costs. It will also affect the reputation of the school among interested parents.

### **Financial Risks**

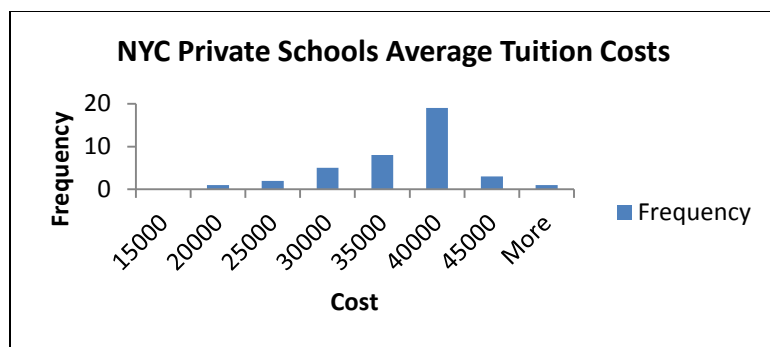
There are several financial risks. The first is that Crossroads will be unable to secure funding from investors for its initial start-up costs. If unable to secure funding, Crossroads will either have to approach a bank for funds (though the chances of successfully securing a loan are doubtful) or postpone opening until investors can be found.

There is also a risk that the pro forma income statement understates costs and overstates revenues. While management tried to be conservative when creating the statement, an understatement of costs could severely impact the profitability of the project. The most likely costs of be understated are the lease expense and the renovation expense. The renovation expense is an estimated number and the lease expense is calculated from lease rates on commercial real estate properties in Manhattan. It too is an estimate that could lead to overstated earnings.

## Appendix

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| Initial Building Square Foot Requirements |        |           |            |
|---|--------|-----------|------------|
| Room Type                                 | Number | sqft/room | total sqft |
| classrooms                                | 20     | 400       | 8000       |
| art room                                  | 1      | 400       | 400        |
| music room                                | 1      | 400       | 400        |
| main office                               | 1      | 400       | 400        |
| computer room                             | 1      | 600       | 600        |
| gym/lunch                                 | 1      | 1500      | 1500       |
| kitchen                                   | 1      | 500       | 500        |
| additional offices                        | 5      | 150       | 750        |
| bathrooms                                 | 8      | 200       | 1600       |
| hallways                                  | 1      | 3000      | 3000       |
| rooftop outdoors                          | 1      | 5000      | 5000       |
| library                                   | 1      | 1000      | 1000       |
| Total                                     |        |           | 23150      |
|   |        |           |            |
| Final Building Square Foot Requirements   |        |           |            |
| Room Type                                 | Number | sqft/room | total sqft |
| classrooms                                | 36     | 400       | 14400      |
| art room                                  | 2      | 400       | 800        |
| music room                                | 3      | 400       | 1200       |
| primary school office                     | 1      | 500       | 500        |
| computer room                             | 2      | 600       | 1200       |
| gymnasium                                 | 2      | 3000      | 6000       |
| kitchen                                   | 1      | 700       | 700        |
| additional offices                        | 15     | 150       | 2250       |
| bathrooms                                 | 14     | 200       | 2800       |
| hallways                                  | 1      | 6000      | 6000       |
| rooftop outdoors                          | 1      | 6000      | 6000       |
| lunchroom                                 | 1      | 3600      | 3600       |
| middle school office                      | 1      | 500       | 500        |
| library                                   | 2      | 1000      | 2000       |
| Total                                     |        |           | 47950      |



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