



Case Study:

Northland Preparatory Academy

A community-led, college preparatory academy in
Flagstaff, Arizona



*Funding for this project was provided by the
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ACRONYMS & ABBREVIATIONS

ADE	Arizona Department of Education
ADM	Average Daily Membership
AFR	Annual Financial Report
ASBCS	Arizona State Board for Charter Schools
CMO	Charter Management Organization
EOY	End of Year
GCI	Grand Canyon Institute
OAG	Office of Accountability and Government
SPED	Special Education

OVERVIEW

Northland Preparatory Academy (NPA) is an Arizona public charter school located in Flagstaff, Arizona. The school has one campus that serves 640 students in grades 6-12.

The school was founded in 1996 by a group of parents who were not satisfied with the local school district, and were interested in a school that would provide a focus on academics and arts. After Arizona’s charter law passed in 1994, a parent ran an ad in the local newspaper calling for other interested parents. Initially, parents agreed on establishing an International Baccalaureate program, but the school’s application was declined twice due to the school’s smaller size and lack of facilities. At that point, NPA opted to include Advanced Placement classes as part of its curriculum and has gradually grown its arts and athletics programs over the years.

The school is located east of downtown Flagstaff, Arizona in a middle class neighborhood in Flagstaff. NPA has received state academic grades of “A Exceeds” from FY2017 through FY2019. Its academic program is fully accredited by the North Central Association of AdvancEd.

The Purpose of this Case Study

The purpose of this case study is to document and share best practices in charter school management of an exemplary small-to medium-sized charter school organization. Grand Canyon Institute’s (GCI) research on charter school finances cites this organization as an exemplary large charter school serving an urban population. NPA was selected due to its academic and financial performance according to ASBCS’ standards as well as the transparency with which it operates its charter school. With generous support from the Arizona Community Foundation, the Grand Canyon Institute is developing a series of similar case studies to feature exemplary charter organizations that operate their schools in a financially sustainable manner that respects the public funds entrusted to them.

This case study provides insight into how NPA has maintained its good financial position while operating in close proximity to a district school and with another academically-performing charter school opening a campus nearby. GCI met with NPA’s school superintendent, business manager, and certified public accountant to discuss this case study, as well as analyzing the school’s financial, property, and assets management.



GRAND CANYON INSTITUTE



Grand Canyon Institute is developing a series of similar case studies to feature exemplary charter organizations that operate their schools in a financially sustainable manner that respects the public funds entrusted to them.

Best Practices in Charter School Management

The following practices and findings have been highlighted throughout this case study. GCI recommends that the practices be considered for replication by other small-to-medium-sized charter school companies in that they provide a framework for establishing equity from which to grow an organization.

Best practices highlighted in this case study include:

- **Community engagement**
 - Parents as partners
 - Staying connected with alumni
 - Community integration with a range of organizations
- **Driven by competition**
 - Academic program is designed to meet individual needs
 - Leadership is responsive to external factors when planning growth
- **Human Resource Management**
 - Professional development engages and supports teachers
 - Teachers receive a competitive compensation package
- **Financial Management**
 - NPA uses a competitive bidding process when selecting an auditor
 - Surpluses are carefully managed, and invested when possible
 - Nonprofit status + conservative borrowing + ownership of real estate and facilities = Key ingredients to financial sustainability

The Grand Canyon Institute

GCI is a think tank that provides analysis of the economic, budgetary and fiscal impact of public policy in Arizona. It has published a series of policy papers on the financial practices of Arizona's charter schools and provided recommendations for improving regulatory oversight including [Following the Money](#) (2017), [Red Flags: Net Losses](#) (2018) and [Red Flags: Overleveraged Debt](#) (2019).¹

GCI appreciates the cooperation and availability of NPA's management when conducting its research for this case study. The Grand Canyon Institute gratefully acknowledges support from the Arizona Community Foundation to prepare this case study.

¹ The Grand Canyon Institute's policy papers on charter financial practices can be found at <https://grandcanyoninstitute.org/category/research/charter-schools/>.

INTRODUCTION

Northland Preparatory Academy (NPA) is a college preparatory school, that its staff and leadership call it, “Prep with Purpose,” “Northland Preparatory gets students ready for college and helps them grow into responsible citizens and leaders.” The school offers Grades 6-12 with student enrollment of 650 in FY2020, averaging about 100 students per grade with average class ratios of 20 students per teacher. The school has one campus located in Flagstaff.

NPA was one of the first charter schools in Arizona, authorized by the Maine School District two years after Arizona’s charter law was passed in 1994. In, 1997, it switched its authorizing agency and is now one of 593 charter schools regulated by the Arizona State Board for Charter Schools (ASBCS). NPA has one charter for its entire school.

The school makes this promise to their students and parents:

“When students enroll at NPA, they become part of our Spartan family², and we support ALL of them through the ups and downs of middle and high school. We promise to stretch students to meet their highest potential, *but we also promise not to impose unattainable expectations, give up on students, or “weed them out” if they have learning difficulties.*”

“Northland Preparatory Academy provides a coordinated, individualized program of study that promotes academic excellence and provides educational opportunities for serious middle and high school students, regardless of gender, ethnic origin, economic or academic ability”.

NPA is the product of a community-centered effort to create a college preparatory school in Flagstaff, Arizona. The corporate board, composed of the governing board’s officers, retains oversight of the academy’s physical assets and educational program. The arrangement is similar to that of a district school board with the superintendent acting as an agent of the board.

NPA was established and is managed in a manner consistent with what Dr. Ray Budde, the originator of the term “Charter School” and its most noted advocate, envisioned. It was driven by interested parents and guided by educational professionals (Budde, 1988). NPA meets the stated claim by charter advocacy groups that community demand, academic performance and financial performance can be highly-related elements of a successful charter school.

Its focus on core learning and academic purpose is complemented by the importance NPA places on all aspects of the arts and athletics. NPA cites its three pillars as academics, arts, and athletics. Its arts and athletics programs grew out of the interest of its students. Initially the school had two teams – cross country and mock trial. It now has 20 teams registered with the Arizona Interscholastic Association for high school athletics and activities. Of NPA’s student body, 84.6% participates in a year-long arts program and 41.6% participated in the Fall sports program. The school has specialty spaces for musical instruments, dance classes and a multi-use gym area.

² NPA’s moniker ‘Spartans’ was selected by the school in 1997 because NPA was a bare-bones and no-frills organization. This gives a much different perspective than the historical meaning of the word which suggests that “weeding out” of the weak is tolerated. GCI did not see that this type of process was present at the school. There are clear expectations and roadmaps posted online that clearly spell out academic timetables and expectations. Northland Preparatory Academy: Academics Guidance Zone: <http://northlandprep.org/academics/guidance-zone/grade-level-roadmaps/>

Provides another adult role model for students in addition to parents and teachers (1/3 of coaches on staff, rest from community) use participation fees and tax credits to pay stipends

NPA is equipped with specialized areas for band, music, dance and other sports with gymnasium space provided for athletic activities. The school leases field spaces from the local district and Northern Arizona University (NAU). There are a wide range of clubs that engage students in a variety of extracurricular activities and civic engagement projects. See: <https://northlandprep.org/athletics/clubsandactivities/>. These choices, by upper management are consistent with NPA’s focus on providing an education to the whole child.

Academic Performance

‘Our teachers aren’t here just to teach, they’re here to ensure that our students learn,’ according to NPA’s principal, Toni Keberlein. The school consistently performs at the “A” level on Arizona Statewide testing initiatives and exceeds the ADE’s academic performance standards as reported on the ASBCS’ website. See below for its FY2017-FY2019 academic grades. For a complete listing of current grades please see [Appendix A](#).

Figure 1: NPA's Academic Performance Rating

Charter School: Northland Preparatory Academy						
CTDS: 03-87-01-001 Entity ID: 4845						
Academic Performance						
Please see the charter holder's detailed information page to view the charter holder's financial and operational performance.						
Northland Preparatory Academy						
	FY 2017		FY 2018		FY 2019	
	Traditional		Traditional		Traditional	
	K12 6-12		K12 6-12		K12 6-12	
	Measure	Rating	Measure	Rating	Measure	Rating
1a. A-F Letter Grade	A	Exceeds	A	Exceeds	A	Exceeds
1b. School Improvement	No	Meets	No	Meets	No	Meets
OVERALL RATING	Exceeds Standard		Exceeds Standard		Exceeds Standard	

Since it was founded in 1996, NPA has had a 99.8% cumulative graduation rate and over 95% of its graduates go on to college, according to the school’s leadership. The 80 students from the Class of 2018 were offered a combined \$5.1 million in college scholarships.

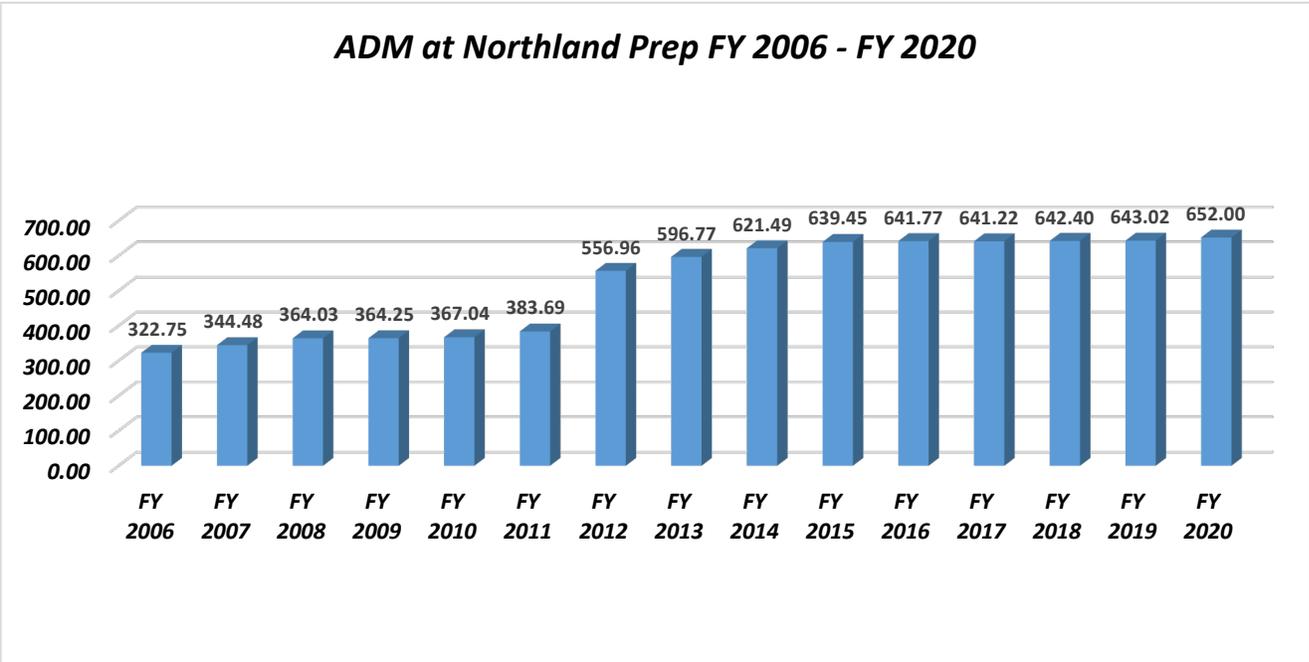
Enrollment

NPA has worked to ensure demand for the school’s product through close engagement with families and by investing in buildings to grow its schools at a moderate pace.

GCI evaluated a long period of student ADM (FY2006 through recently reported 2020 data³). Significant growth was noted and coincided with grade level additions (sixth) and site building growth. The possibility of adding lower grades to the program is under some consideration based on interest expressed by parents.

NPA’s enrollment has remained steady based on its capacity. Enrollment grew in FY2012 after a new building was constructed to add 6th grade and expand its 7th-12th enrollment. ADM has remained about 639 since FY2015, with FY 2020 enrollment at 652.00 the highest in the school’s history. The most recent enrollment data is from the ADE in September 2019.

Figure 2: ADM at Northland Preparatory Academy



Source: Annual Superintendent’s Reports FY20006 to FY2019 and Current ADM data from September FY2020 Payment ADM Analysis by ADE data for 2020 is finalized in FY2021 this number represents the current payment schedule basis.

The ADM graph shows an increase in ADM from the addition of 6th grade and additional space for grades 7-12 in the Fall 2011. NPA’s enrollment has fluctuated annually in the range of 639.5 to 648 since FY2015. [Appendix A: ADM at Northland Preparatory Academy Charter Schools for Eight Years](#) presents more detail regarding ADM.

Financial Performance

NPA has grown gradually over the years and built up equity prior to each new phase requiring financing. It has avoided the pitfalls of overextending the school’s financial resources and its property and assets by borrowing based on conservative growth numbers. It meets all of the

³ Data from 2020 is from the September ADE reporting of ADM which was available in October of 2019 and includes FY2020.

financial performance standards established by the ASBCS. The following is its performance rating for FY2019 as posted on the ASBCS website.

Figure 3: NPA's Financial Performance Rating by ASBCS

Charter Holder: Northland Preparatory Academy CTDS: 03-87-01-000 | Entity ID: 4204

General | Mission Statement | Representatives | Board Members | Schools | Documentation | Complaints | Amendments | Performance

Select a dashboard to view: Financial Performance Dashboard

Financial Performance - FY2019

Click on any of the triangles below to see more information

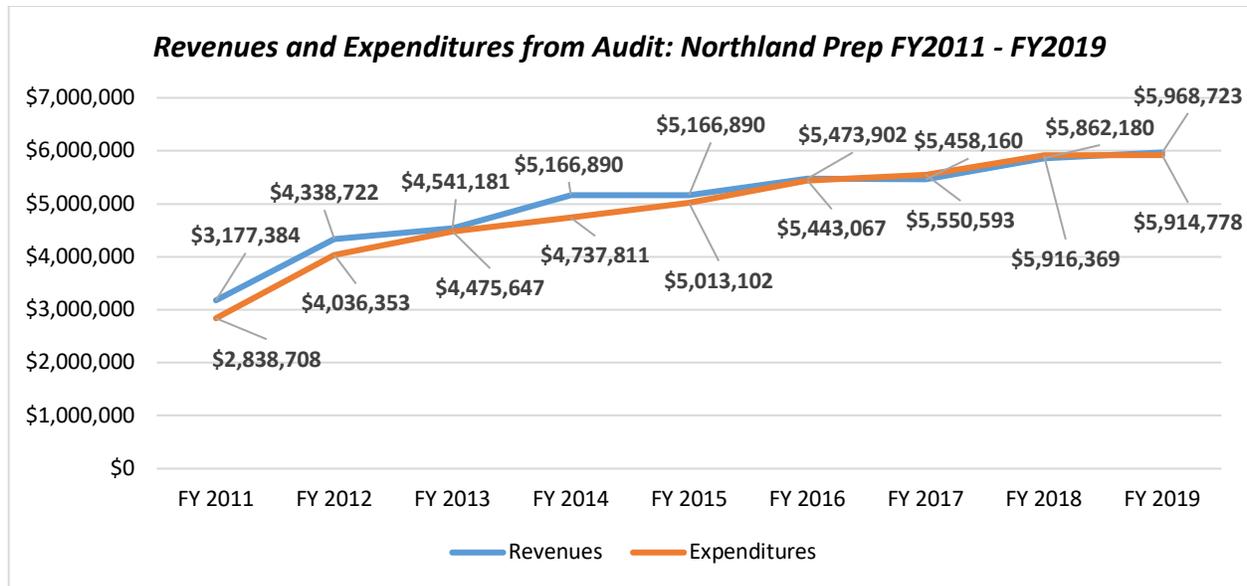
Key: ▲ Meets Standard ► Approaches Standard ▼ Below Standard [Expand All](#)

▲	Going Concern	▼
▲	Default	▼
▲	Available Reserve	▼
▲	Revenues Exceed Expenses	▼
▲	Facility & Debt Costs Covered	▼
▲	Stable or Increasing # of Students	▼

GOOD STANDING: MEETS THE BOARD'S FINANCIAL PERFORMANCE EXPECTATIONS

Revenue and Expenditures

NPA consistently ends each financial year with positive net income with budgets adjusted when necessary based on fluctuations in ADM.



Audit data on revenues and expenditures FY2011 – FY2019 from annual audits of Northland Preparatory Academy

In preparing this Case Study, the Grand Canyon Institute has reviewed publicly available academic and financial data from Northland Preparatory Academy's twenty-two plus years of operations. GCI's analysis includes reviewing audits, annual financial reports and IRS 990s. GCI was also provided with FY2003 financials provided by Northland Preparatory.

Timeframes used for data: AFRs and data in the Superintendent's Annual Reports go back to FY2006. Data in Audits are available back to FY2011. IRS 990 reporting only goes back four years and does not include FY2019 as of the publication of this paper.

BEST PRACTICES IN CHARTER SCHOOL MANAGEMENT

Community Engagement

Parents as partners

NPA started with a motivated group of parents who wanted to see a charter school established based on their shared interest in a rigorous academic curriculum. Since then, parental interest has guided and sustained the school. School leadership cited the school's early days when the bills would be discussed and parents would pitch in to cover expenses. Families would come to help clean the facilities on the weekend.

Members of NPA's governing board are all parents with varying backgrounds including one banker at all times (when one banker leaves the board another joins whenever possible). The governing board's committees are designed to support key components of school. This helps to ensure that parents are key stakeholders and have a major role in the policies, direction, and progress of the school.

The governing board directors are then appointed as corporate board directors that oversee the management of the nonprofit corporation.

Parent volunteers support many aspects of the school's activities:

- driving students to athletic events and music performances,

- coaching duties for several teams,
- sharing their expertise in classrooms as guest speakers,
- hosting an annual Career Day to help students think about their futures,
- serving on NPA's parent organization, called the Community Enrichment Committee, which supports student needs, organizes parent volunteers for functions, and keeps the community informed through a monthly newsletter.

Staying connected with alumni

The school keeps in contact with its graduates and augments those contacts with an impressive centrally located public display showing the schools that graduates are attending. An annual event at NPA is the return of alumni in January. This follow up with graduates ensures that the school is tracking the success of its graduates into what is the normally the highest dropout rate statistically, *the first year of college*. Graduates are often asked to come back and speak with NPA students. This is an ongoing part of the guidance program.

Community integration with a range of organizations

NPA has many partnerships in Flagstaff that benefit its students and ensure that it is visible in the community. These include:

- Sports medicine training program with a local orthopedic surgeon involving Northern Arizona Health (regional hospital, medical facilities). Master's degree students will be at NPA training students.
- Community college dual enrollment classes.
- Vocational classes with Joint Technical Education District (JTED).
- Informal connections with NAU through parents.
- Fledgling internship program developed by NPA staff that complements the school's desire to provide an education that has assessments built into its programs.
- Strong working relationship with Flagstaff Unified School District that includes lease agreements that allow NPA to use parking lots, fields and vacant facilities.

Driven by Competition

"We're fully aware that we live in the land of choice. I think it's the competition that drives a lot that is good about charters," stated Steve Danner, NPA's business manager who previously worked as a history teacher at the school.

Academic program designed to meet individual needs

NPA leadership cited three aspects to the school's academic program that have ensured that it has remained competitive. The school:

- Teaches to standards and subjects, not tests
- Uses authentic assessments - Summative and formative
- Offers small class sizes (20:1)

Sixth grade students are insulated on campus and take a common study skills period. Teachers have a common prep period to plan for intensive support as students start at NPA to identify where kids are at. All students take an Integrated Learning Strategies (ILS) class that provides

oversight of a student's progress and any required interventions. ILS classes are designed for 6th-11th grade students that are taking rigorous workload, to provide them with the opportunity to work with their teacher to get additional layer of support. The student's ILS teacher has access to the student's data to be able to most effectively help them.

Leadership is responsive to external factors when planning growth

In 2010 and 2011, Flagstaff Unified School District closed 4 schools and converted one high school into a middle school. NPA held its share of enrollment through that time period. In FY2012, NPA constructed a new building to add a 6th grade and expand its other grades. At the same time, BASIS was opening a new school and Flagstaff High added an Advanced Placement program to its offerings. In spite of the increased competition, NPA maintained enrollment. The greatest impact was shorter waiting lists.

NPA leadership said that the school added some more advertising and expanded extra-curricular and sporting programs based on student and parent demand. Showcases were added to provide new families that opportunity to get to know the school.

Human Resource Management

NPA has adopted several practices that make it an attractive place to work for teachers to work. NPA is well connected to its community, and it is committed to its role as an education provider. Only one teacher has ever left to go to another school. Teacher attrition is due to either retirement, relocation or a teacher looking for a new career.

Professional development engages and supports teachers

NPA hires a mix of certified and non-certified teachers. The latter are typically content specialists with a bachelor's degree. Professional development is provided on early release days once every week to cover topics related to departments, grade level, schoolwide, and certain students (504, IEP, struggling students). AP teachers receive training through a train-the-trainer model and attendance at AP workshops and conferences.

Management uses outside facilitators and NAU to ensure that they keep their learning community on course however most of the professional development is a part of a reflective process with the teacher at the center of deciding where they need to focus their efforts. Professional development is done in a "horizontal" and "vertical" manner. Horizontal professional development is within the grade level while vertical is by department. The building principal's personal motto, "Teachers aren't here to teach, they're here to ensure our students learn" is supported by low class loads and substantive student support services.

NPA started a teacher induction program this year pairing new teachers with longer-term teachers to provide mentoring. Highly effective organizations and teachers are intentional in their practice. Practitioners trained and coached in an intentionally designed model become increasingly

ATTRACTIVE TO TEACHERS

Northland Prep's approach to development and retention is popular amongst its teachers. Turnover is low with only one teacher leaving to go to another school in Flagstaff. If teachers do leave, it is because of spouse/partner relocation or to start a career in another field.

effective by ensuring their espoused theory of action matches their practice. This commitment to making sure that the school’s primary mission, educating students connects the desired academic performances to the financial performances. Financial decision making is oriented toward the primary goal, educating student.

Teachers receive a competitive compensation package

NPA’s FY2019 average teacher salary was \$46,803 compared to the Flagstaff area charter school average of \$42,697 and Flagstaff Unified School District’s average of \$49,393. NPA is one of the 42% of charter schools in Arizona that participates in the Arizona State Retirement System (ASRS). Five of the other nine charter schools in Flagstaff participate in the state’s retirement system which is optional to them (it is mandatory for district schools) and requires an annual contribution of 11.2%. In FY2019, NPA paid 31.7% in benefits including health care for its employees compared the Flagstaff area charter average of 21.7%.

Table 1: Salaries and Benefits at Flagstaff-area publicly-funded schools

Flagstaff-area publicly-funded schools	Participates in ASRS	Average Benefits Package	FY 2019
Northland Preparatory Academy	YES	31.65%	\$46,803
<i>BASIS Flagstaff</i>	NO	21.34%	\$43,622
<i>Flagstaff Arts and Leadership</i>	YES	25.97%	\$47,005
<i>Flagstaff Junior Academy</i>	YES	26.14%	\$42,290
<i>Haven Montessori</i>	NO	5.88%	\$51,942
<i>Flagstaff Montessori</i>	NO	11.73%	\$35,052
<i>Mountain School</i>	YES	24.17%	\$39,176
<i>Pine Forest Schools</i>	YES	27.33%	\$43,296
<i>Star Charter School</i>	No retirement plan	19.68%	\$39,796
<i>The PEAK School</i>	YES	23.49%	\$37,990
<i>Flagstaff-area charter school averages</i>	6 - Yes / 4 - No	21.74%	\$42,697
<i>Flagstaff Unified School District</i>	Yes	*	\$49,393

* This information is not publicly available however all school districts are required to participate in the ASRS which would indicate that it is on par with Northland Preparatory Academy.

Source: AFRs, FY2019

Financial Management

According to NPA’s superintendent, David Lykins, NPA is run like a business but decisions are focused on students and driven by their interests. Over the years, NPA and its finance committee have looked at enrollment patterns and projections, past reserves, and other decisions to make decisions. Financial management has been based on strong financial modelling, growth and stability.

NPA uses a competitive bidding process when selecting an auditor

Based on recommended best practice by the Arizona School Board’s Association, NPA’s leadership decided to issue a request for proposals for new auditors every few years. The effort was worthwhile in that the school felt there was value in having a ‘fresh set of eyes’ audit its

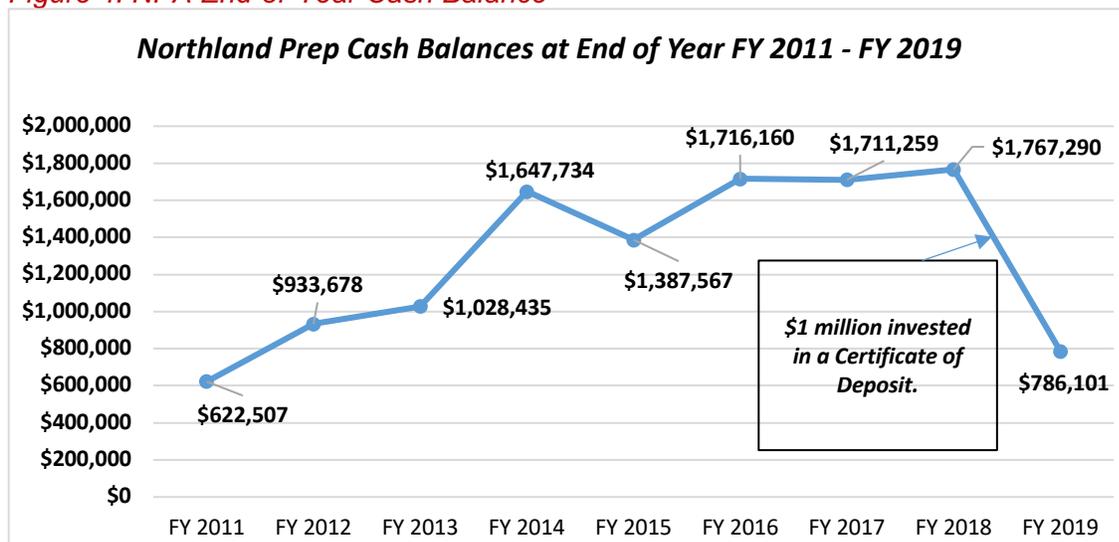
financial statements. It learned some new things that it hadn't been previously aware of. 'If there's a blind spot then it doesn't go forever,' stated the school's superintendent.

Charter schools are required to submit annual independent audits to the ASBCS. Each charter school's audit must be conducted by a certified public accountant in accordance with Government Accounting Standards. Charter schools are required to use generally accepted accounting principles as established by the Financial Accounting Standards Board (FASB). There are 33 different auditors who have performed audits for charter schools in Arizona. Audits provide the basis for the ASBCS' financial oversight of Arizona's charter schools that operate as private businesses. Each charter school company can select its own auditor and decide to some degree the level of detail provided in its audit as there is no prescriptive audit format required. As a result, GCI has found in its research that audits vary widely in the level of detail they provide regarding charter school financial activity.

Surpluses are carefully managed, and invested when possible

In FY2018, NPA reported a cash balance of \$1,767,290. In FY 2019, NPA put \$1,011,220 into a Certificate of Deposit and paid \$51,968 in cash for furniture and equipment. NPA ended the year with a cash balance of \$786,101. These transactions, which are reported in the school's FY2019 audit, ensure that NPA's cash situation is viable while providing a return on the cash reserve and acquiring new property with an outright purchase. See Figure 4 dip in Cash Balances FY2019.

Figure 4: NPA End-of-Year Cash Balance



Source: Audits, FY2011-FY2019.

Nonprofit status + conservative borrowing + ownership of real estate and facilities = Key ingredients to financial sustainability

The organization's structure as a nonprofit corporation has important implications for the rationale underpinning financial decisions — in a nonprofit organization that owns its own real estate and assets, those decisions are less likely to be influenced by the profit associated with real estate and asset transactions. In addition, NPA's nonprofit status prevents it from paying out distributions to "shareholders", a practice seen in Arizona's for-profit charter schools. Fundraising efforts allowed NPA to save money as a down payment on its first property purchase, significantly

impacting the terms of its loan. These factors combined have positioned NPA to build up equity as the schools has grown over the years.

Nonprofit status. NPA is registered as a nonprofit organization with a corporate board that is responsible for decisions related to intellectual property, strategic growth and real estate acquisition. In practice, this means the superintendent, who is also the charter representative, is acting as an agent of the board. This parallels the superintendent/board relationship in school districts. NPA's governing board is responsible for decisions related to day-to-day operations, budgets, policies and procedures, and discipline. NPA's website provides links to all of the publicly required minutes, postings, and information on becoming a board member.

Even as a nonprofit, NPA could have distributed annual surpluses to senior leadership as bonuses, a legal method available to nonprofit organizations to distribute cash surpluses. This would have a short-term benefit to the recipients while leaving the corporation with less money in its investment portfolio. Instead, as cited earlier, NPA invested cash in a certificate of deposit to save money and generate a small amount of investment income.

In addition, while the school has changed leadership several times it has never been sold. Rather, leadership changed on the corporate and governing boards, and as different people filled the superintendent's role. This means that the school has continued to build up equity as it has invested in property and assets over the years.

Ownership of real estate and facilities. After leasing for seven years, NPA purchased its first building. This move toward owning rather than leasing from a third party means that NPA is not subject to increasing rent charged by a landlord due to increasing property values. NPA's community, board and administration followed a real estate acquisition process that is common to successful charters. In addition, it means that the organization has been able to develop and leverage equity over the years. Leasing in a school's initial years allows it to save cash toward a down payment. Long-term leases often come with annual lease increases that outpace growth in revenues. NPA is an example of a school that used a leasing as an opportunity to save and fundraise in preparation for purchase real estate.

Conservative borrowing combined with gradual growth. "Our North Star needs to be quality and not growth just for the sake of growth," commented Steve Danner, NPA's business manager who previously worked as a teacher at the school. When NPA opened in 1996 it operated out of space rented in a former nightclub for seven years before it made its first property purchase. Its acquisition of real estate and construction of buildings over the years has allowed the organization to manage its debt in a manner that didn't jeopardize the organization's overall finances.

NPA has made four real estate purchases during its history using commercial lending while leveraging strong balance sheets, cash as down payments and equity built up in its properties.

In FY2003, NPA purchased its first building with additional land for future growth. Because of its financial position, it was able to put a bid to commercial lenders and secured a loan at a prime interest rate.

In FY2005, NPA paid \$75,000 cash for a residential lot adjoining its property and later built a gym and fine arts facility. The school was able to put forward a 20% down payment of \$600,000 for the \$3 million cost of project's construction.

In FY2011, the school took out a second commercial loan, purchased additional property and constructed a new building to accommodate its expansion to include 6th grade and increased its

high school capacity. This coincided with the closing of four schools in the local district and the move of 6th grade to middle school. Under the circumstances, NPA saw the opportunity to expand to 6th grade as well as add to its high school program given enrollment interest. Prior to this, the school had a waiting list and was having to turn students away. These factors lined up to allow NPA to show banks what the school's anticipated growth would be, resulting in more favorable loan terms.

In FY2015 refinanced its loan to borrow additional funds to build six additional classrooms, a dance studio and storage facilities. Because of its strong financial position, NPA has been able to garner low-interest mortgages (currently 1.63% above the Treasury rate with an Arizona credit union).

NPA spends 8% to 9% of state revenue on servicing its debt. This does not include maintenance and capital maintenance. It has been with the advice of a banker on the school's governing board that NPA has been successful at securing commercial loans and interest rates that are low for the charter sector. NPA attributes this to relationship banking, strong balance sheets, and going out to bid for its commercial loans. In addition, NPA has avoided the pitfalls of using *investment values*⁴ to secure its properties by cautiously accumulating property and building equity.

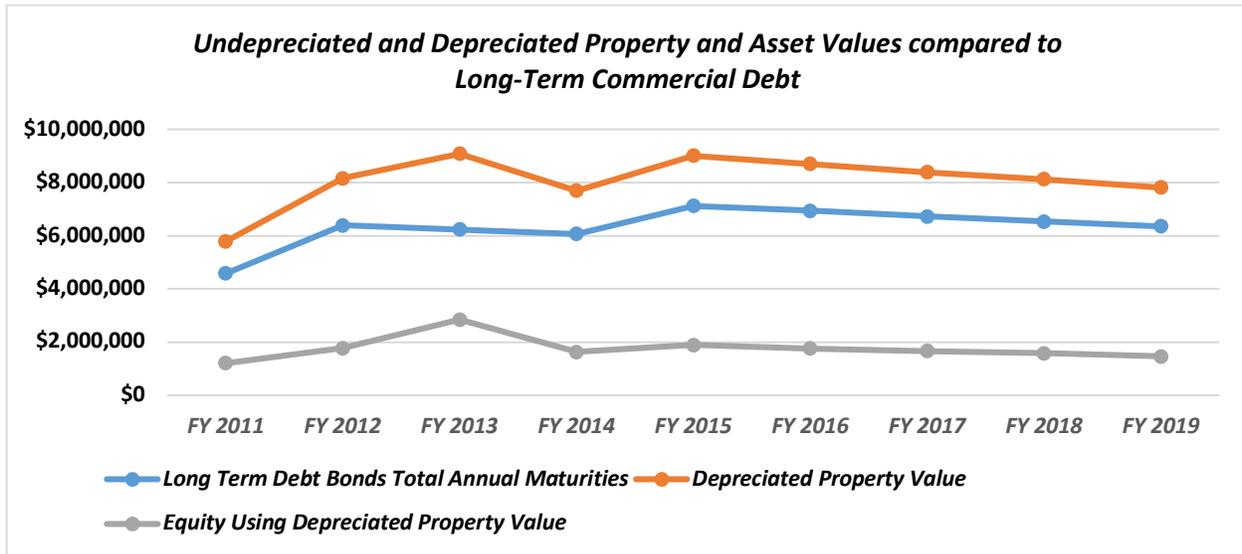
In FY2019, NPA had a mortgage of \$6.4 million and a depreciated property value of \$7.8 million which provides a conservative comparison of debt to debt. The graph below demonstrates that NPA is in an equity positive position with debt loads that can easily allow the company to weather variances in ADM into the near and long-range future.

In contrast to NPA's experience, GCI has found in its research two scenarios where charter schools become overleveraged and their financial sustainability is undermined. First, when loans are premised based on property *investment values*, the highest level of leveraged borrowing on a charter's property, *and projected annual revenues* from student enrollment. Second, when Industrial Development Authority (IDA) bonds are secured, which typically have higher interest rates and include significant upfront loan origination and attorney fees. In one case, a charter school is 10 years into an IDA bond and still does not have enough equity to refinance for better terms. In either scenario, if enrollment projections aren't met the school will struggle to meet its debt service obligations while maintaining investments in classroom and student support spending.

The following graph depicts NPA's equity relative to undepreciated and depreciated property value.

⁴ 'Investment value' is the highest level of leveraged borrowing on a charter's property *and expected annual revenues* from ADE on ADM. 'Market value' is the actual value of the property and assets and is augmented during bonding by claiming anticipated revenues. 'Depreciated value' represents what the property may be worth during a bankruptcy or foreclosure sale. This type of borrowing is common when the bonds are purchased through the IDA. Reporting of undepreciated and depreciated values are a part of the annual audits and required by federal laws regarding depreciation (1999 IRS reporting rules).

Figure 5: Equity Position of Northland Preparatory Academy



Source: Audits, FY2011-FY2019.

LESSONS LEARNED

NPA's path to becoming an academically and financially exemplary Arizona charter school originated with educational professionals working with their local community to establish a college-preparatory charter school in Flagstaff. This element — community involvement and support that coalesce around an educational vision — is vital in the long-term viability of a new charter school. The original proponent of charter schools, Dr. Ed Budd proposed this type of educator-led choice model in his original papers regarding district-based charter schools (Budde, 1988).

The lessons learned from NPA's experience include:

- **Educational excellence is a priority.** NPA maintains its focus on preparing its students for college. This effort is reflected in the "A exceeds" academic performance rating this charter receives annually. This rating is done in an inclusive program that does not "test out" students.
- **Community engagement is an essential part of how NPA operates.** Community engagement is fundamental to how NPA operates dating back to the first advertisement seeking parents interested in coming together to establish a charter school, working relationships with the local school district and other stakeholders, and a community-based governing board. This engagement ensures that NPA is responsive to its community's needs and sustains ongoing interest (and enrollment) in the school.
- **NPA's solid financial position is the hallmark of successful academics, sustained enrollment and cautious debt management.** NPA's academic success and sustained enrollment NPA achieved during its first seven years while leasing a property provided the assurance that it could maintain a mortgage. NPA exemplified a cautious approach to assuming debt.

- **Commercial loans rather than expensive, leveraged IDA bonds lower borrowing costs and increase equity.** Commercial, low-interest loans provide viable alternatives to IDA financing of charter school debt if certain standards can be met. NPA's property is not over-leveraged. The charter school was able to provide a significant down payment on one of its purchases. Its lower borrowing costs result in additional revenues for operations and savings for future strategic expenses.
- **Cash excesses are managed with long-term planning in mind.** NPA's leadership manages cash excesses strategically, balancing current needs with long-term planning. NPA had a 117.92-day cash reserve available in FY2019. NPA placed \$1.1 million of its reserve into liquid investment tools.
- **Conservative financial management allows NPA to offer a competitive salary and benefits package.** Staff recruitment and retention is a priority at NPA as reflected in locally competitive wages, generous health benefits, and a commitment to participation in the Arizona State Retirement System. Class loads are kept lower than typical junior high and high school levels in Arizona.
- **Community-led governance benefits the entire organization.** NPA's active and independent governing board plays an important role in maintaining the vision of the school. The engagement of NPA's families to serve on the school boards ensures that there is close communication and a strong relationship between the school's administration and its students and families.

NPA is an exemplar of starting slow while acquiring facilities and increasing enrollment in a fiscally-sustainable manner. It has built its highly successful academic program over time. This mid-sized school does this while accepting all students from the community in an inviting and supportive manner with high standards for all. This case study provides a framework for others to follow this successful model.

CONCLUSION

NPA provides a classic example of what was envisioned for charter schools in Arizona when they were first established. A group of parents with a certain vision for the education they wanted for their children worked together to establish a school. That element of parent engagement was critical in supporting the school during its earlier years and has continued through parent engagement at the board level and in daily activities. It also creates a feedback loop that ensures that the school continues to respond to the interests of students and their parents.

The school's gradual acquisition of real estate and construction of additional facilities has allowed it to save down payments and develop equity, resulting in competitive borrowing costs. The organization's status as a nonprofit organization ensures that the value of the school and its assets will be entrusted to its students in perpetuity.

APPENDIX

Table 2: Academic Performance for Northland Preparatory Academy

School Type Declared	Academic Grade 2019
Traditional 6 – 12 Th	A Exceeds Standard
School Type Declared	Academic Grade 2018
Traditional 6 – 12 Th	A Exceeds Standard
School Type Declared	Academic Grade 2017
Traditional 6 – 12 Th	A Exceeds Standard
School Type Declared	Academic Grade 2016
Traditional 6 – 12 Th	None Reported this Year
School Type Declared	Academic Grade 2015
Traditional 6 – 12 Th	None Reported this Year
School Type Declared	Academic Grade 2014
Traditional 6 – 12 Th	A on Accountability
School Type Declared	Academic Grade 2013
Traditional 6 – 12 Th	A on Accountability
School Type Declared	Academic Grade 2012
Traditional 6 – 12 Th	A on Accountability

Source: ASBCS Academic Performance Measures verified by ADE data on the same information. Color coding matches that used by the ASBCS on its Academic Performance pages.

Table 3: Salaries and Benefits for Northland Preparatory Academy

	ALL Salaries from AFR	ALL Benefits From AFR	Totals from AFR	Benefits as a %
FY2014	\$1,869,591	\$592,078	\$2,461,669	31.7%
FY2015	\$2,048,053	\$671,028	\$2,719,081	32.8%
FY2016	\$2,087,134	\$663,699	\$2,750,833	31.8%
FY2017	\$2,177,911	\$705,598	\$2,883,509	32.4%
FY2018	\$2,299,555	\$792,766	\$3,092,321	34.5%
FY2019	\$2,449,845	\$779,637	\$3,229,482	31.8%
				32.5%

Above is six year Average

Source: Annual Financial Reports from ADE website. Collated and analyzed by Grand Canyon Institute as part of its meta-data on Arizona charter schools.

Table 4: Contributions to ASRS by Northland Preparatory Academy

Year	ASRS from Audit	As a Part of Payroll Salaries
FY2014	\$182,993	9.8%
FY2015	\$208,384	10.2%
FY2016	\$239,603	11.5%
FY2017	\$250,024	11.5%
FY2018	\$264,449	11.5%
FY2019	\$289,082	11.8%
Six-Year Average		11.0%

Source: Audit, data from Arizona Charter Schools Board Audit Payments FY2014- FY2019.

Table 5: AFR Revenue Sources for Northland Preparatory Academy

	From AFR Data on Revenue	From AFR Data on Revenue	From AFR Data on Revenue	From AFR Data on Revenue
	State Equalization	Classroom Site Funds and Inst Imp	Revenues From Federal Govt	Local Revenues and Contributions
FY2014	\$3,175,053	\$220,509	\$355,721	\$66,108
FY2015	\$3,251,984	\$223,137	\$425,419	\$85,426
FY2016	\$3,440,593	\$238,979	\$360,229	\$84,790
FY2017	\$3,506,866	\$243,074	\$341,632	\$93,071
FY2018	\$3,450,649	\$303,333	\$362,083	\$92,034
FY2019	\$3,637,057	\$417,561	\$320,480	\$102,621

Source: AFR Reports, FY2014 – FY2019.

Table 6: Annual Financial Position for Northland Preparatory Academy

	Total Net Assets and Net Liabilities All	Total Net Assets (Deficit) year	Cash EOY
FY2014	\$7,638,102	\$2,679,198	\$1,395,353
FY2015	\$7,678,944	\$2,756,581	\$1,784,792
FY2016	\$7,796,409	\$3,029,725	\$1,984,368
FY2017	\$7,727,982	\$3,114,212	\$2,126,458
FY2018	\$7,646,327	\$3,137,731	\$2,206,069
FY2019	\$7,644,593	\$3,268,726	\$1,062,304

\$1,759,891 Average

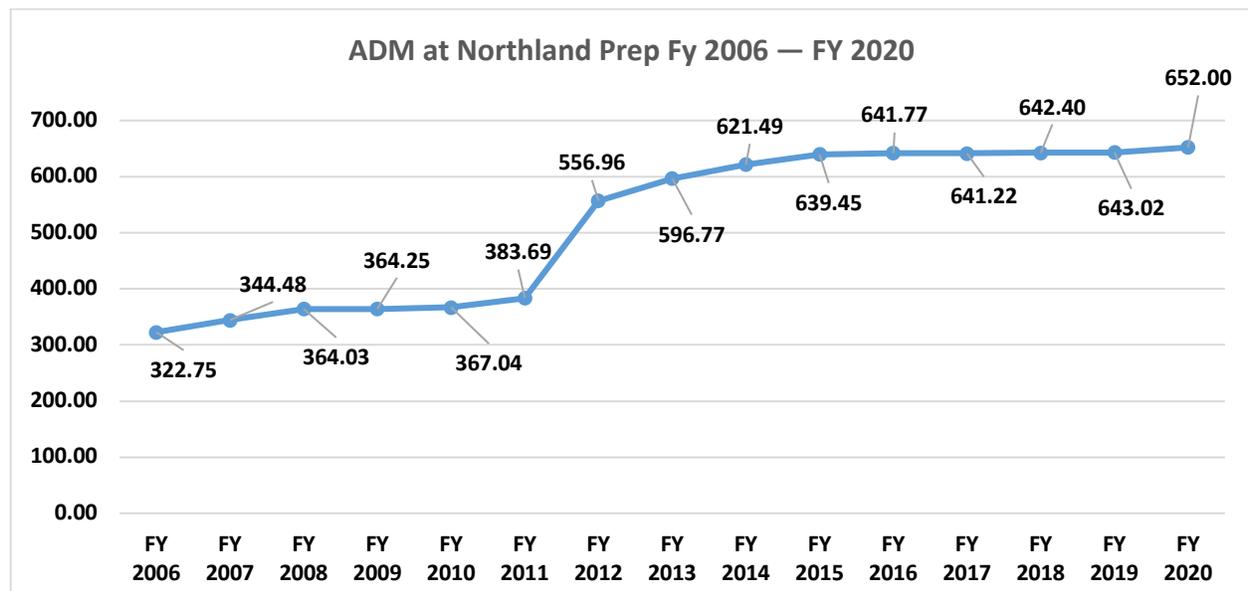
Source: Collated Audit Data from FY2014 – FY2019 from Arizona State Board for Charter Schools' website. Collated data is in Grand Canyon Institute's Metadata Set from FY2014 through FY2019.

Table 7: Special Education Expenditures as a Percent of AFR Expenditures

	SPED Actuals FROM AFR	SPED PRIOR YR ACTUAL 17	SPED As a % of Actual Budget AFR
FY2014	\$206,225	\$158,223	5.85%
FY2015	\$163,910	\$206,225	4.51%
FY2016	\$177,417	\$163,910	4.97%
FY2017	\$231,714	\$177,417	6.08%
FY2018	\$257,858	\$231,714	6.62%
FY2019	\$289,913	\$257,858	7.10%

Source: AFRs, FY2014 –FY2019.

Figure 6: ADM Growth at Northland Preparatory Academy



Source GCI Collated ADM Data from Annual AFRs FY2013 through FY2020 derived from September 2 2019 ADE Reporting

Table 8: Links to Sources Used for this Case Study

Locator Links to Main Storage of Charter Board Data
Charter Board, IRS 990 and ADOE Data on Charter Locations
***Items one through three are links to the IRS Form 990 for Northland Preparatory Academy Charter School
2015 https://pdf.guidestar.org/PDF_Images/2015/860/831/2015-860831749-0c5087d2-9.pdf
2016 https://pdf.guidestar.org/PDF_Images/2016/860/831/2016-860831749-0d9b6626-9.pdf
2017 https://pdf.guidestar.org/PDF_Images/2017/860/831/2017-860831749-0ea71bfd-9.pdf
Audit Locators by Fiscal Year for Northland Preparatory Academy Charter Schools
https://online.asbcs.az.gov/dms/view_file/13/18544
https://online.asbcs.az.gov/dms/view_file/13/20693
https://online.asbcs.az.gov/dms/view_file/13/23212
https://online.asbcs.az.gov/dms/view_file/13/24909
https://online.asbcs.az.gov/dms/view_file/13/26559
https://online.asbcs.az.gov/dms/view_file/13/28323
ADOE AFR Locators by Fiscal Year for Northland Preparatory Academy Charter Schools
afr15.xls
afr16.xls
NPA-afr17.xls
afr18 Final NPA JF 20181011.xls
afr19 20190923 NPA Submitted.xls

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