



## Case Study: Great Hearts Arizona

The sustainable practices of a large charter school company led by a charter management organization.



GRAND CANYON  
INSTITUTE

*Funding for this project was provided by the  
Arizona Community Foundation.*



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## ACRONYMS & ABBREVIATIONS

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

## OVERVIEW

Great Hearts America is a network of 29 charter schools (known collectively as “Great Hearts”), that provides K-12 education in Arizona and Texas. The network offers a classical liberal arts education in a rigorous academic environment.

The network operates 21 charter schools serving 14,000 students in metropolitan Phoenix under the direction of the charter management organization (CMO) Great Hearts Arizona. Each charter school is organized as a nonprofit subsidiary of the CMO and holds its own charter with the Arizona State Board for Charter Schools (ASBCS). The Great Hearts Foundation, established in 2017, is an additional source of philanthropic giving that supports the CMO and charter schools. Overall, the charter school network’s structure and commitment to transparency has ensured that there was sufficient publicly available financial data to develop this case study.

### 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 large charter school organization that uses a CMO. Grand Canyon Institute’s (GCI) research on charter school finances cites this organization as an exemplary large charter school serving an urban population. Great Hearts Arizona was selected due to its academic and financial performance according to ASBCS’ standards as well as the transparency with which it operates its CMO and charter schools. 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 the practices utilized by Great Hearts Arizona as it has managed and expanded its network of charter schools in the state. GCI met with Great Hearts senior leadership and analyzed its financial, property, and asset management. The delivery of Great Hearts’ academic program is also discussed as its delivery has important resource implications such as aides in elementary classrooms, limited class loads for high school teachers, and its investment in organizational development.

## 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.

In preparing this case study, GCI reviewed the past five years of academic and financial data from Great Hearts' 16 years of operations. This data analysis included reviewing publicly available records of Great Hearts charter schools in Arizona and the nonprofit, related-party CMO that manages the strategic direction of those schools including management services, employee leasing, real estate holdings and some fundraising.

## **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 charter school companies, particularly larger organizations with a CMO, in that they provide a framework for delivery of a quality education while ensuring financial transparency and accountability.

Best practices highlighted in this case study include:

- **Transparency & Accountability**
  - Organizational structure provides transparency in financial reporting across its schools
  - Annual detailed IRS Form 990 filings for Great Hearts' nonprofit CMO provide financial transparency and accountability
  - Annual detailed audits and AFRs for each charter school provide transparency and accountability
  - Online financial, academic, and compensation data sets high standard for transparency
  - Property and assets are owned by the nonprofit CMO or one of its schools, ensuring their purpose for a charitable cause in perpetuity
- **Financial Management**
  - Management and lease fees charged by the CMO are adjusted based on enrollment
  - Great Hearts' CMO bore the financial burden of expansion, shielding its schools from the impact of this strain on the organization.
- **Managing Growth**
  - Great Hearts management of debt following rapid expansion protected net assets
  - Senior leadership established an intentional approach to organizational development to manage the challenges that came with growth
- **Responding to the Needs of Title I Populations**
- **Local Fundraising is an Important Source of Revenue**

## 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)<sup>1</sup>.

GCI appreciates the cooperation and availability of Great Hearts' 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.

## INTRODUCTION

Founded in 2003, Great Hearts America is a network of charter schools that provides a classical liberal arts K-12 education in Arizona and Texas. Great Hearts Arizona serves as the charter management organization (CMO) that oversees the network's 21 charter schools in Arizona, each organized as a separate nonprofit organization with its own charter authorized by the Arizona State Board for Charter Schools (ASBCS). In addition, the Great Hearts Foundation provides private philanthropic resources to support the CMO and charter schools. Established in 2017, the foundation is not included in this case study as it had not provided Great Hearts Arizona with resources that are reflected in the financial reports reviewed for this analysis.

"Great Hearts was formed as an Arizona nonprofit organization by parents, teachers, and community leaders who wanted better schools, particularly classical, liberal arts schools for all kids," said Mr. Twist. "Every school that Great Hearts has started has been initiated by parental demand in a local community. We typically start a school by creating parent interest lists and holding open houses to share our program and assess if a school fits identified local needs. We also analyze our waitlists to see where families live who want our program and then begin to network with other families from that community."

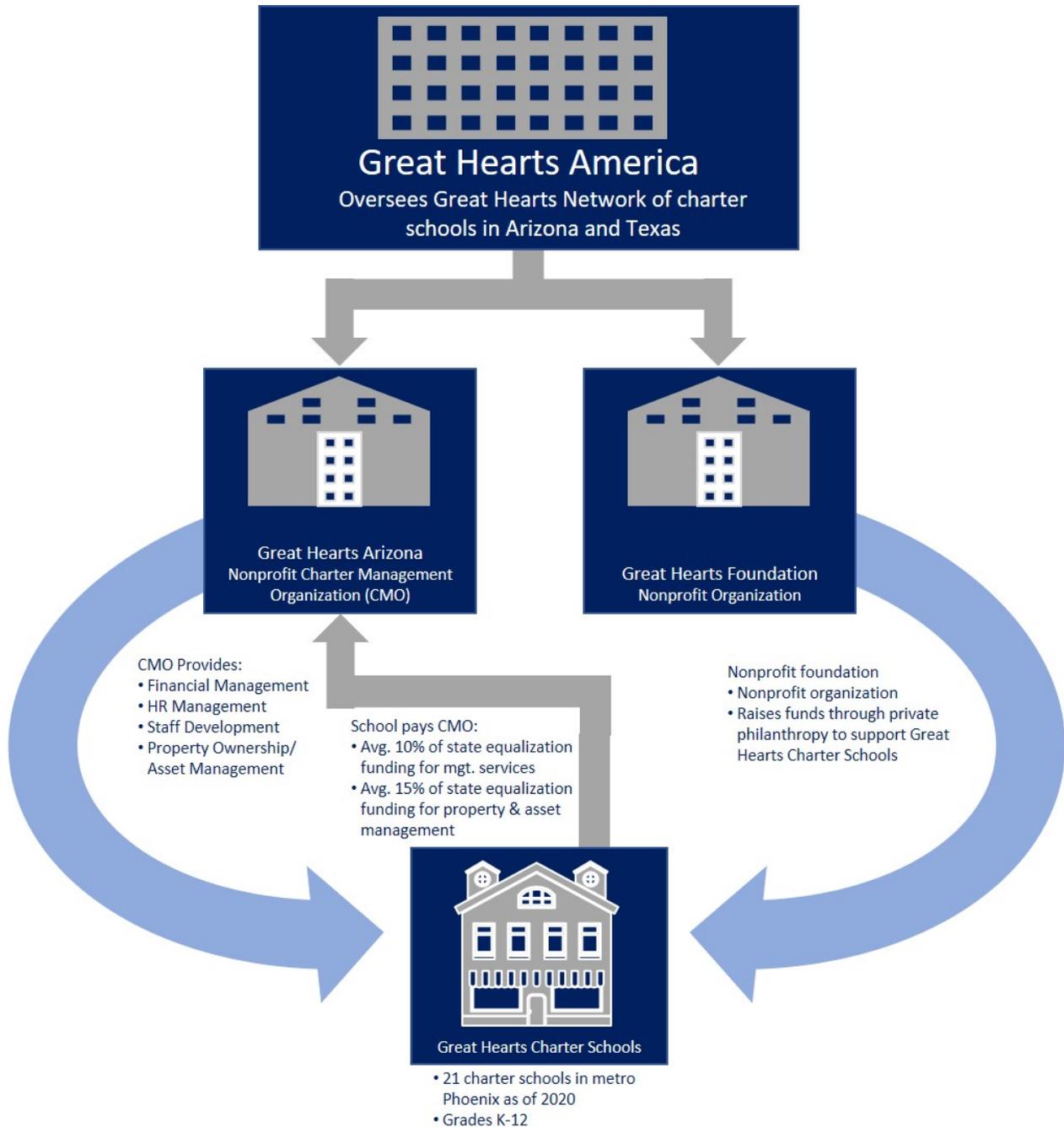
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<sup>1</sup> The Grand Canyon Institute's policy papers on charter financial practices can be found at <https://grandcanyoninstitute.org/category/research/charter-schools/>.

## ORGANIZATIONAL OVERVIEW

Throughout this case study, there are times when it is important to distinguish between the CMO and charter schools. “Great Hearts” is used to reference the affiliated network in Arizona.

Figure 1: Great Hearts Organizational Structure



## Academic Performance

Great Hearts provides a classical, liberal arts, college preparatory education. Schools operate under the banner of *Archway Classical Academies* (typically K-5) and *Preparatory Academies* (typically 6-12). Great Hearts leads off their curriculum webpage<sup>2</sup> with what the organization identifies as the pillars of a Great Hearts Academy: to cultivate the hearts and minds of students through the pursuit of Truth, Goodness, and Beauty.

The Great Hearts model has classrooms for grades K-5 with a teacher and a classroom assistant instructing 30 students. Classrooms for grades 6-12 have a student-teacher ratio of up to 24-to-1, with teachers assigned a maximum of four class periods. These ratios are expensive from a staffing perspective and require significant fundraising by the organization in excess of funds received from the State of Arizona and federal government in order to be sustained. The organization has worked to embed elements of Dr. Ted Sizer's work with the Coalition of Essential Schools, as it works to equip its students with the intellectual, emotional and social habits and skills to become informed citizens.

Mr. Twist emphasized that every decision made by the organization is guided by what will best serve teachers to teach their students. He stated that if a decision can be made at the local level then that is where it is made. Great Hearts' decision-making is guided by three non-negotiables as described by Mr. Twist: "Great teaching, liberal arts and being local in many places."

The curriculum used by Great Hearts schools was reviewed and compared to curriculum elements of private schools with the same philosophical approach. The reading lists and curriculum expectations were highly correlated to classical liberal arts education at high performing public schools and private academies such as Phillips Exeter in New Hampshire and Arizona's Brophy College Preparatory. In addition, new classics have been added to the reading lists to provide diversity. The Great Hearts curriculum is provided in the context of thinkers/authors, including Michael Polanyi and Alasdair MacIntyre, where anthropology is the most important subject. Great Hearts instructors also use the Socratic Method, which involves debate among students including asking and answering questions which stimulate critical thinking.

Great Hearts offers programs that complement those found in many districts that define their specialty schools as classical academies. Great Hearts has one curriculum for all students<sup>3</sup> — students are not tracked based on their academic performance. The elements and goals of the classical curriculum are met by continuously differentiating instruction and holding the adults in the classroom and administrators responsible for each child's performance on the curriculum's goals and objectives.

Table 10 in Appendix A shows the dates each school was opened and the current academic grades for each site. In FY2018, Great Hearts schools reported almost all As on the ASBCS' Academic Dashboard. From FY2012-2014, Great Hearts' performance on Arizona's academic

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<sup>2</sup> Greats Hearts of America. (2019). *Pillars of a Great Hearts Academy*. <https://www.greatheartamerica.org/great-hearts-life/great-hearts-curriculum/pillars/>

<sup>3</sup> Greats Hearts of America. (2019). *Great Hearts Curriculum*. <https://www.greatheartamerica.org/great-hearts-life/great-hearts-curriculum/curriculum-overview/>

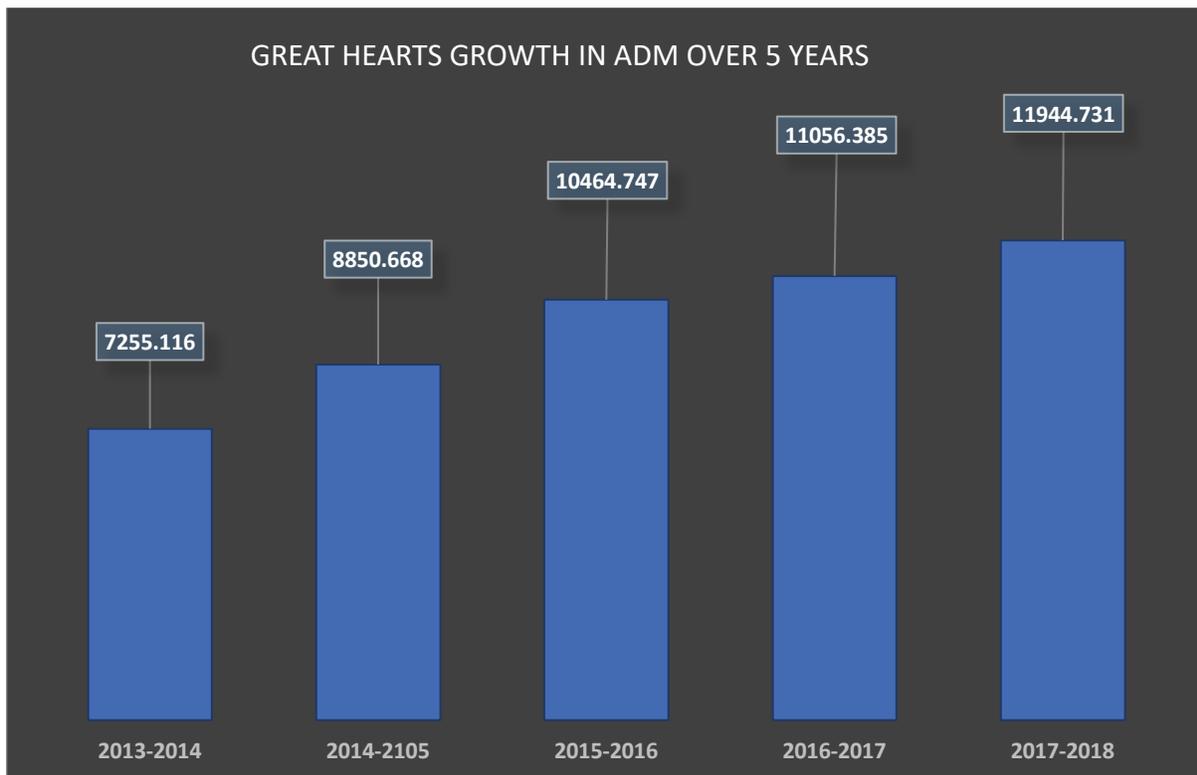
measurements were spotty in several areas at multiple sites where student performance did not meet state academic standards as defined by the ASBCS. In response, the organization sought to intentionally improve academic outcomes for its students. Plans for improving academic performance at sites with a C grade or a “Does Not Meet” rating from the ASBCS were put in place and monitored by upper management.

## Enrollment Growth

Great Hearts’ student enrollment has continued to climb each year reaching 11,944.731 ADM in FY2018. This growth is the product of opening new schools and scaling up existing schools as new grades are added over several years. Enrollment growth underpins the bulk of the organization’s increased revenue and is a sign of the success of Great Hearts’ academic program. Decisions to establish new schools are based on demand by families and a market analysis which considers the concentration of K-12 students in a radius from the projected school location to ensure that that debt incurred can be paid off based on projected demand.

In the five-year period from FY2014-FY2018, Great Hearts opened 10 new schools and ADM grew by 4,689.615.

*Figure 2: Great Hearts ADM, FY2014-FY2018*

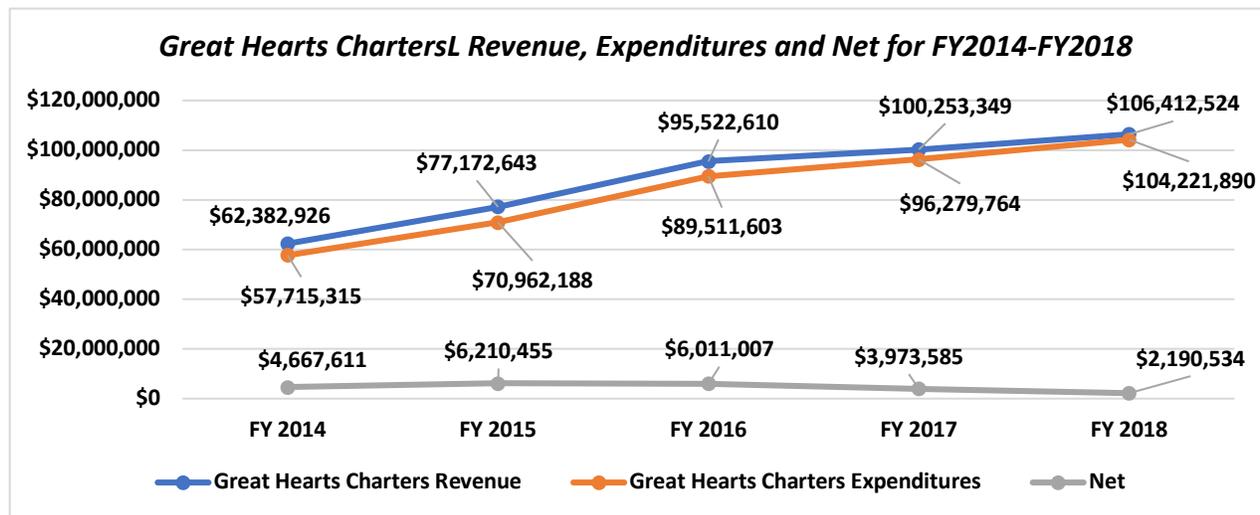


Source: Consolidated ADM figures from Superintendent’s Annual Reports, FY2014 - FY2018.

## Financial Performance

From FY2014-FY2018, consolidated charter school revenues grew from \$62,382,926 to \$106,412,524 a 70% rate of growth. FY2018 audited consolidated charter school expenditures were reported at \$104,221,890 with net income of \$2,190,534.

*Figure 3: Great Hearts Charter Schools — Revenue, Expenditures and Net Income*



Source: Audits, FY2014 – FY2018. Collated by Grand Canyon Institute.

According to the FY2018 ADE Superintendent’s Annual Report, Great Hearts charter schools consolidated revenue was \$9,088 per ADM compared to an average of revenue of \$8,767 in the charter sector and \$9,859 among school districts. Great Hearts’ higher than average charter revenue per ADM is a reflection of local revenue sources that brought in \$20 million or 18.2% of total revenue as reported on AFRs. Local revenue sources include extracurricular fees, investment interest, tax credit donations and charitable contributions. Fundraising, as a component of local revenues, is addressed later in this case study.

Consolidated expenditures among Great Hearts charter schools were \$104,221,890, which is equivalent to \$8,725.34 per ADM. Arizona charter schools averaged expenditures of \$8,404 per ADM and Arizona district schools averaged \$9,759 per ADM.

Table 1 provides a comparison of Great Hearts’ consolidated expenditures in the summary categories provided in the Superintendent’s Annual Report relative to the charter sector and school districts in FY2018. Revised expenditure data provided by Great Hearts has been used after an adjustment was made to correctly allocate operational expenses that were previously coded to Administration on its AFR.

*Table 1: Per ADM Comparison of Expenditures, FY2018*

	<b>Classroom Instruction</b>	<b>Classroom Supplies</b>	<b>Administration</b>	<b>Student Support</b>	<b>All Other Support Services &amp; Operations</b>	<b>Total Expenditures*</b>
Great Hearts	\$4,612.21	\$405.49	\$1,963.95	\$307.58	\$1,527.13	\$8,816
	<b>52.3%</b>	<b>4.6%</b>	<b>22.3%</b>	<b>3.5%</b>	<b>17.3%</b>	
Charter Sector	\$3,802	\$230	\$1,677	\$416	\$1,852	\$7,977
	<b>47.7%</b>	<b>2.9%</b>	<b>21.0%</b>	<b>5.2%</b>	<b>23.2%</b>	
School Districts	\$4,279.63	\$164.05	\$868.84	\$674.70	\$2,094.11	\$8,081
	<b>53.0%</b>	<b>2.0%</b>	<b>10.8%</b>	<b>8.3%</b>	<b>25.9%</b>	

Source: Great Hearts Arizona Finance Department, Dec. 2019. District and charter sector data sourced from Superintendent's Annual Report, FY2018.

\*These amounts are reported according to how they appear in Volume 1 of the Superintendent's Annual Report. They do not include a charter school or district's expenditures for land and land improvements, buildings and building improvements, furniture, equipment, and vehicles. Also excluded are Internal Service Fund operations, Community School Fund operations, debt retirement, student activities, and nonpublic school programs.

## **BEST PRACTICES IN CHARTER SCHOOL MANAGEMENT**

Great Hearts Arizona utilizes a range of practices that have implications for the organization's long-term sustainability. These range from financial and asset management, to guiding organizational growth, to working to meet the needs of students from high-poverty backgrounds. The practices shared here are intended for consideration by other charter school companies and policymakers.

### **Transparency & Accountability**

Calls have persisted for greater transparency and accountability by Arizona's publicly-funded charter sector which received \$1.7 billion in state, federal, and local funds in FY2018. GCI's research has identified issues with current oversight of charter schools, and it has put forward specific recommendations for how transparency and accountability could be improved. Great Hearts stands out for the decisions it has made in how it has structured its charter school network and the measures it has taken of its own accord that provide access to its financial information.

#### *Organizational structure provides transparency in financial reporting across its schools*

Each Great Hearts school is a separate, nonprofit legal entity with its own charter. Each files its own detailed audit and AFR, allowing for transparency and fiscal monitoring at the school level.

Like other charter school companies, Great Hearts uses a CMO to provide management, real estate, and educational services to its network of schools. The CMO for its schools in Arizona,

Great Hearts Arizona, is registered as a 501(c)(3) nonprofit corporation which is required to file detailed, publicly-available IRS Form 990 reports.

The level of transparency provided in Great Hearts financial reporting has made it possible to prepare this case study. This structure has cost implications for financial reporting given the time and effort required to prepare audits, AFRs and IRS Form 990s for each school. The benefit is the transparency and accountability regarding how the organization uses the public funds it receives.

The board of directors for the CMO is responsible for decisions related to intellectual property, strategic growth, and real estate. The organization has set high standards for ensuring that board members are not put into a position where they could benefit from the day-to-day operations at any of Great Hearts' schools as stated in the organization's Conflict of Interest Policy.

Each charter school has its own governing board with former employees as well as family members. School governing boards are responsible for decisions related to day-to-day operations, budgets, policies and procedures, and discipline. Each school has a Headmaster's Advisory Council and an Academy Advisory Council to provide school-based oversight and input.

### *Annual detailed IRS Form 990 filings for Great Hearts' nonprofit CMO provide financial transparency and accountability*

Great Hearts Arizona, the CMO that manages the network's charter schools in Arizona, is organized as a 501(c)(3) organization. According to IRS guidelines, *'the organization must not be organized or operated for the benefit of private interests, and no part of a section 501(c)(3) organization's net earnings may inure to the benefit of any private shareholder or individual.'* Great Hearts Arizona's nonprofit status sets it apart from other large CMOs in the state, allowing for greater transparency with regard to how it uses the state and federal funds it receives via its charter schools. The CMO's detailed IRS Form 990s provide additional transparency in the reporting of senior leadership salaries and benefits, interest payments on debt, as well as other expenditures. Its approach indicates that deriving profit from the provision of public education is not a factor for the organization's leadership.

### *Annual detailed audits and AFRs for each charter school provide transparency and accountability*

Great Hearts submits detailed, independent audits to the ASBCS and AFRs to ADE for each of its charter schools. In contrast, other charter school companies with multiple schools, file single consolidated audits and AFRs for all of their schools making it difficult to discern how an individual school is performing and managing its resources.

The audits submitted by Great Hearts Arizona for each of its schools use the most comprehensive and open type of audit reporting. The audits provided the basis for ASBCS financial oversight of a majority of Arizona's charter schools. Appendix A includes a complete listing of audit links and documents referenced.

Audit information from a single Great Hearts school and another large charter corporation is provided below to demonstrate the difference in the level of transparency in the detail provided. The figures are from actual audits provided to the ASBCS.

Table 2: Example - Detailed Audit from one of Great Hearts 21 schools

Revenue	Unrestricted	Restricted	Total
State Equalization	\$5,169,706		\$ 5,169,706
Classroom Site Funds	\$355,084		\$355,084
Grants	\$79,324		\$79,324
Contributions	\$497,249		\$497,249
Tax Credit Contributions		\$132,764	
Co-Curricular Activities	\$260,706		\$260,706
Investment Income	\$25,227		\$25,227
Other	\$172,901		\$172,901
Net Assets Released from Restrictions			
Satisfaction of Donor Requirements	\$132,764	(\$132,764)	0
<b>Total revenue, support and gains</b>	<b>\$6,692,961</b>		<b>\$6,692,961</b>

Expenditures	Amount
Salaries	\$2,499,010
Payroll taxes and benefits	\$751,344
School site lease	\$481,342
Professional services	\$125,191
Supplies and instructional aids	\$242,654
Repairs and maintenance	\$52,556
Postage and printing	\$14,319
Co-curricular activities	\$121,701
Depreciation	\$104,967
Other	\$186,172
Total program expenses	\$4,579,256
Management and general	\$1,872,952
Fundraising	\$4,490
<b>Total expenses</b>	<b>\$6,456,698</b>

Source: Great Hearts Anthem Preparatory Academy audit. [https://online.asbcs.az.gov/dms/view\\_file/543/26757](https://online.asbcs.az.gov/dms/view_file/543/26757)

Notable aspects of the above audit include:

- Revenues are delineated and provisions for showing funds as unrestricted or restricted are provided.
- The prior year's data is provided for a year-to-year comparison.
- Even greater detail can be found by viewing the audit online.<sup>4</sup>
- Restricted and unrestricted revenues are identified as well as tax credit contributions.
- Classroom site funds are separated from the state equalization payment.
- This example is one of 21 sites.
- Auditing by site increases accountability and transparency. It also provides valuable data to the ASBCS and Great Hearts' financial management team.

The level of detail provided by Great Hearts' individual audits per charter school can be contrasted with the single consolidated audit provided below by another charter company in Arizona with 11 schools. Note the level of revenues and expenditures are significant with minimal detail provided.

*Table 3: Example - Consolidated, Generalized Audit for Charter Company with 11 Schools*

<b>REVENUES</b>			
<b>Revenue Category</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
Equalization and Governmental Revenues	\$54,612,619		\$54,612,619
Grants and Contributions	\$2,288,587		\$2,288,587
Other	\$4,274,573		\$4,274,573
<b>Total Revenue, support and Gains</b>	<b>\$61,175,779</b>		<b>\$61,175,779</b>
<b>EXPENDITURES</b>			
<b>Program Services</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
Instruction and Operation	\$38,269,537		\$38,269,537
Interest Expense	\$7,360,041		\$7,360,041
<b>Supporting Services: General and Administrative</b>			
Facilities	\$12,208,295		\$12,208,295
Office Supplies and Other Expenses	\$2,834,951		\$2,834,951
<b>Total Expenses</b>	<b>\$60,672,824</b>		<b>\$60,672,824</b>

Source: American Leadership Academy, consolidated audit, FY2018.

<sup>4</sup>[https://online.asbcs.az.gov/dms/view\\_file/543/26757](https://online.asbcs.az.gov/dms/view_file/543/26757).

In contrast to Great Hearts' reporting of revenues on its FY2018 audit, the same revenue information provided by the other large charter school company above demonstrates the level of detail a charter corporation can choose not include in its audit. The difference in transparency is seen in revenue sources that are generalized and the category of "other" is allowed to stand at \$4,274,573. This type of consolidated<sup>5</sup> and generalized single audit reporting for multiple schools' obscures financial data.

By providing one audit and one AFR with consolidated information for all its school sites this charter organization limits the amount of detail that may be seen regarding how revenue comes into the organization's charter schools and how it is spent. The ASBCS' current audit requirements allow this type of generalized, broadly-defined consolidated audit.

### *Online financial, academic, and compensation data sets high standard for transparency*

Great Hearts of America's website has dedicated space to [Great Hearts Arizona Transparency](#), which includes financial and academic data, teacher and executive compensation, and policies and procedures. The information provided is extensive and goes well beyond what is mandated. This information serves as a tool in a school choice market for parents considering school options for their children and for those that donate to the organization.

*Figure 4: Great Hearts Arizona Transparency Online Resource*



Source: <https://transparency.greatheartsamerica.org/>

### *Property and assets are owned by the nonprofit CMO ensuring their purpose for a charitable cause in perpetuity*

Ownership of all Great Hearts Arizona properties remains primarily with either the nonprofit CMO. Should the CMO or any of its schools sell an asset, the profits from the sale will remain in the

<sup>5</sup> Consolidated audits are used for either all or a group of charters held by the same charter holder. Firms may or may not use consolidated AFR reporting to the state.

nonprofit corporation or must be committed to a charitable purpose based on the rules of Internal Revenue Code 501(c)(3).

Ownership and financing of real estate in the charter sector is the responsibility of charter school companies in the absence of being able to ask local voters to approve bonds paid for by property taxes. Whether and how charter school companies purchase real estate varies including ownership by the charter school, the CMO, a related-party individual or a related-party company, or an unrelated third party.

In any scenario where ownership of property and assets rests with an entity other than the charter school or a related-party nonprofit organization such as Great Hearts Arizona, equity gains that result from the real estate will not necessarily benefit the school, regardless of the fact that loan or lease payments were made with public funds received by the school. An argument in favor of the status quo is that it provides a return for the risk that is taken when an individual or company purchases real estate for the charter school. The opposing argument is that the equity that accrues from taxpayer funds invested in real estate should remain in the service of providing education.

The purpose of this case study is not to argue in favor of one approach or the other. This context is provided highlight that equity that accrues from Great Hearts' real estate investments will be legally bound to the benefit of the organization or some other charitable cause.

This preservation of equity within Arizona's public school system underpins the importance of nonprofit corporate ownership of charter school assets. Based on GCI's analysis of charter failures in Arizona, nonprofit corporate ownership of property is an important factor in a charter school's long-term sustainability.

## **Financial Management**

As with any charter CMO, the funding for Great Hearts Arizona comes from payments for services from its charter schools. The revenue at Great Hearts' CMO more than doubled from FY2014 to FY2018, from \$12,458,835 to \$28,538,688 reflecting the growth of the charter school network. Income is derived primarily from management fees, and property leases paid by Great Hearts charter schools.

### *Management and lease fees charged by the CMO are adjusted based on enrollment*

Fees paid by Great Hearts charter schools to the CMO are based on a percent of state revenues. This allows for adjustments in payments based on fluctuating state revenues determined by enrollment.

### **Management fees**

In FY 2018, Great Hearts charter schools paid the CMO a total of \$8.4 million in management fees. As stated in Great Hearts charter school audits, the management fee charged by the CMO is calculated at 10% of each charter school's revenues from the state of Arizona. This averaged out to 7.9% of Great Hearts total consolidated charter school revenues, including income from the federal government and local sources. GCI's research has found that the average expenditure on CMO management fees in Arizona's charter sector is 12% or less than total expenditures, while significant outliers exist among some charter organizations.

## GROWING PAINS

From FY2014 to FY2018, during Great Hearts' expansion and the associated financial stress that resulted, consolidated Classroom Instruction expenditures ranged between 51.5% and 52.4% of total expenditures according to Great Hearts charter school AFRs as evidence of the organization's commitment to insulating its classrooms from the immediate financial impact of growth.

As detailed in Great Hearts charter school audits, the management fee covers the following services: best practices and governance oversight, curriculum development, special education expertise, business strategy, fundraising and marketing support, facility development, information technology, and various other administrative services.

### Property leases

In FY2018, Great Hearts' CMO received \$12.5 million in lease income from its charter schools to service its debt and maintain facilities. The CMO owns the majority of the properties and assets and leases them to its charter schools. As noted on the CMO's IRS Form 990, the income from the lease payments is recorded as rental income and facilities support payments. The total revenue for these two items at the CMO was \$11,977,740. The \$503,908 difference between reported leases payments and rental and facilities support income represents a 4% spread, which is low in the business world where 9% is the norm.

Great Hearts targets its annual lease payments at 15% of state equalization funding received by schools at the end of the prior school year.<sup>6</sup> Lease payments above that amount corresponded to higher debt service, typically when a new school was not yet operating at capacity, or if a school had moved from a leased space to a purchased facility but the original lease had not yet expired. In cases where the lease amount is lower, it was typically

because the school was leasing a facility with less amenities from a third party.

Lease payments set at a percent of state revenues supports the sustainability of the charter schools into the future by building the CMO's net assets. Real estate and assets are treated as a trust within the Great Hearts organization. It also ensures that new schools have sufficient ramp-up time to meet their projected ADM goals while the CMO helps cover property costs until a school has sufficient revenue from enrollment.

More broadly in the charter market, lease payments often have a significant impact on a school's financial position. In some instances, charter school audits record lease agreements with third parties that include annual increase of 5% which can become unsustainable overtime if revenues do not increase in tandem.

Great Hearts' approach has built up the net asset values of its schools at a time when the main organization's net asset value fell. The result is a balanced system of related-party transactions that benefit the organization as a provider of education services rather than an investor in real estate.

<sup>6</sup> Maryvale Preparatory Academy is an exception to this rule. Its lease payment is calculated at 1.79% of state equalization funding because the property is owned by the school rather than the CMO.

**Table 4: One-Year Lease Payments Relative to Revenue**

<b>Great Hearts charter schools: One-year lease payments as a percent of revenue, FY2018</b>	
Total Great Hearts Charter Schools One-Year Lease Payments	\$12,481,648
Total Great Hearts' Equalization Funding Revenue	\$76,801,239
Average one-year lease payments as a percent of Equalization Funding (Does not include Classroom Site funding of \$9.1 million from state of Arizona)	14.9%
Total Great Hearts charter schools' revenues from all sources	\$108,158,869
One-year leases as a percent of total GH revenues	11.5%

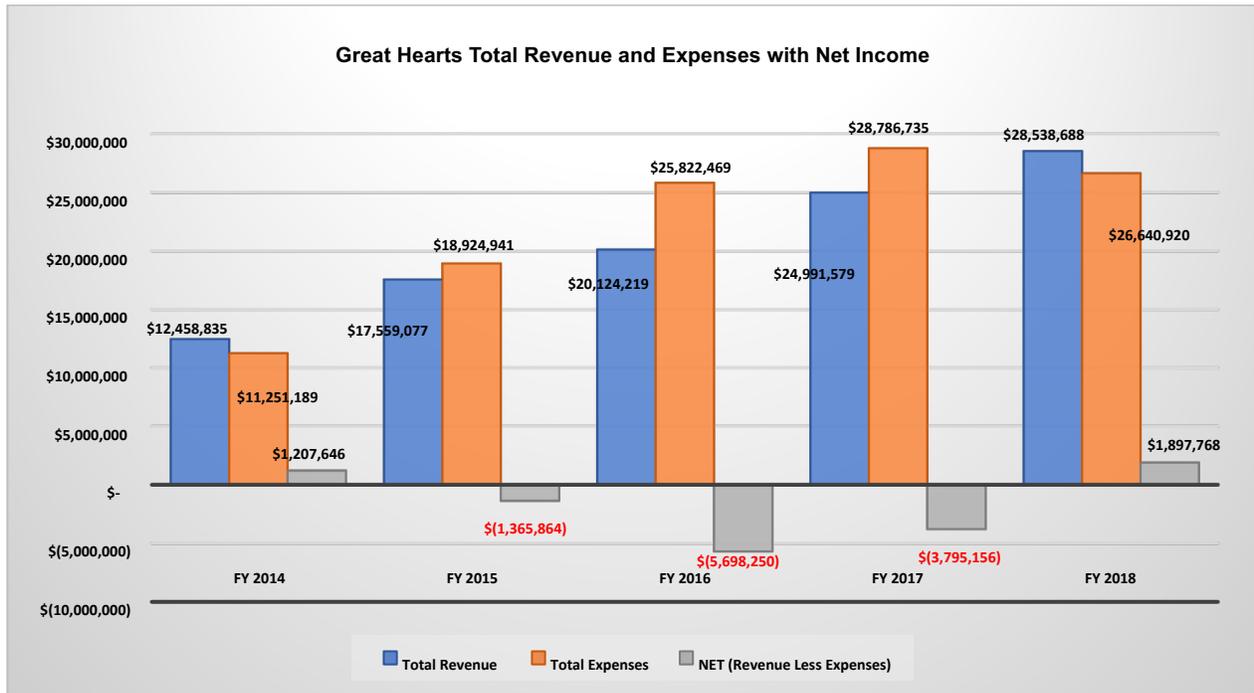
Source: Collated audit data from Great Hearts charter schools (revenues and 1-year lease data), AFR reporting on AZ equalized funding was then divided by the total of all reported Great Hearts' leases for one year (14.9%). GCI then calculated the percentage (11.5%) using total revenue from ADE.

***Great Hearts' CMO bore the financial burden of expansion, shielding its schools from the impact of this strain on the organization***

Great Hearts Arizona owns the majority of the network's school properties and holds the corresponding debt. Significant expansion of the network in FY2014-FY2015 had a noticeable impact on the CMO's finances resulting in net losses in FY2015-FY2017. From FY2014-FY2018, during Great Hearts expansion and the associated financial stress that resulted, consolidated Classroom Instruction expenditures ranged between 51.5% and 52.4% of total expenditures according to Great Hearts charter school AFRs as evidence of the organization's commitment to insulating its classrooms from the immediate financial impact of growth.

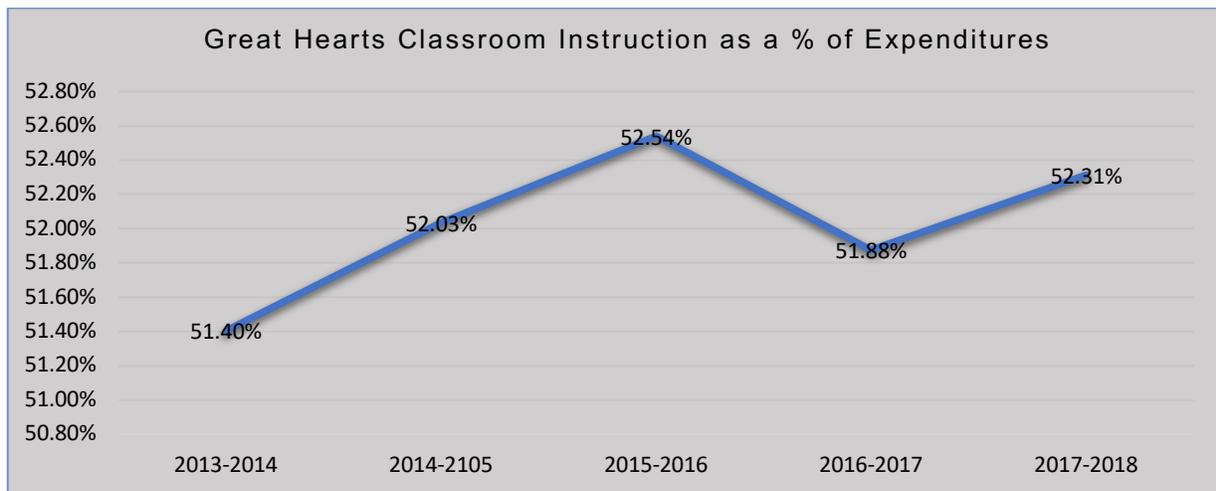
Figures 5 & 6 below contrast the CMO's financial position with the charter schools' expenditures on Classroom Instruction from FY2014-FY2018.

Figure 5: Great Hearts CMO — Revenue, Expenditures and Net Income



Source: Revenues, expenditures and net income at the CMO as reported on IRS Form 990s, FY2014 - FY2018.

Figure 6: Consolidated Great Hearts Classroom Instruction as % of Expenditures



Source: Consolidated AFRs, FY2014-FY2018

### Managing Growth

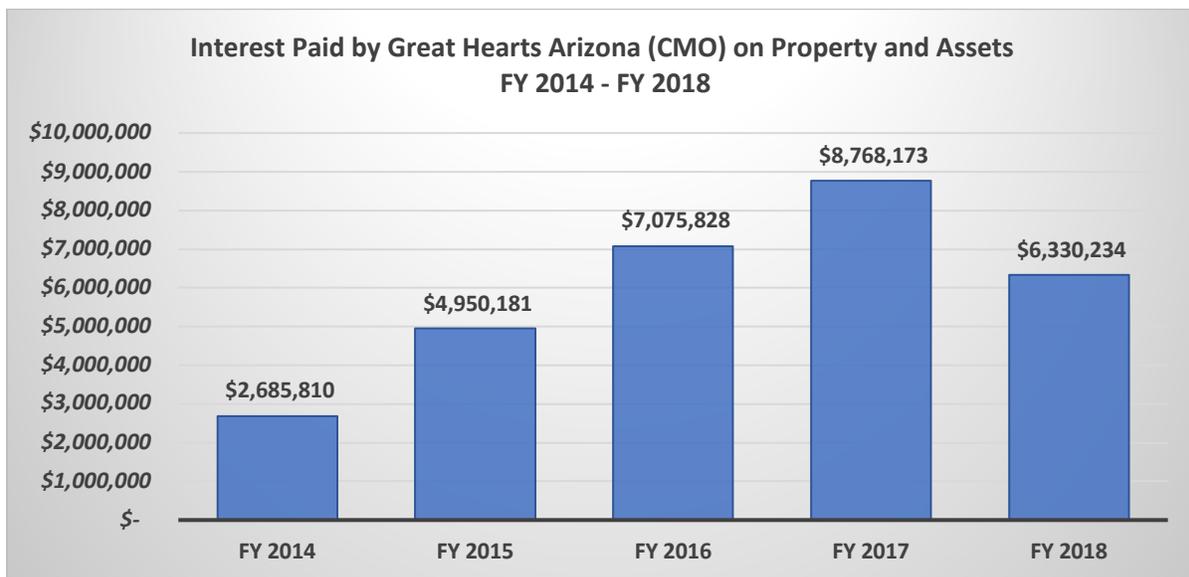
As discussed, Great Hearts has grown substantially over the past several years with implications for the financial, human resource, and organizational management of the charter school network. According to Mr. Twist, Great Hearts’ leadership worked to respond to challenges presented by rapid growth to ensure the sustainability of the organization.

### *Great Hearts management of debt following rapid expansion protected net assets*

In 2017, Great Hearts Arizona received two loan guarantees from the state of Arizona's Credit Enhancement Program for A+ districts, for a total of \$53,740,000 for acquisition, renovation, and expansion of new facilities in Scottsdale and Maryvale. In addition to lowering Great Hearts' borrowing costs, it also resulted in an improvement in the organization's credit rating from Baa3 to Aaa.

Subsequently, Great Hearts Arizona refinanced its debt resulting in a substantial savings on its interest payments. This was at least in part due to its improved credit rating following a loan guarantee received from the state government's Credit Enhancement Program. The refinancing was done without incurring a pre-payment penalty cost, representing further cost savings. The drop in its FY2018 interest payment is a noticeable savings as seen in the graph below and a net surplus for the year of \$1,897,768.

*Figure 7: Interest Paid on Property and Assets*



Source: Collated declarations of interest payments from IRS Form 990s, FY2014-FY2018.

As discussed earlier, charter school companies are responsible for leasing or purchasing their own properties. Ninety-three percent of debt valued at \$1.5 billion is held by Arizona's charter market in the form of Industrial Development Authority bonds. GCI's research has found that bond agreements often include several years of interest-only payments and that pre-payment penalties are common for companies with lower credit ratings. These loan terms will ultimately impact a school's overall expenditures given fixed debt repayment requirements. Great Hearts' refinancing of its debt had a noticeable impact on its net revenues due to the decrease in interest. Organizations that do not have Great Hearts financial standing and academic performance will struggle to qualify for similar borrowing terms, again with an impact on the school's overall expenditures.

The following table provides comparative information regarding Great Hearts long-term debt relative to enrollment. The greatest growth in Arizona's charter school sector has been in its largest

charter school companies so the state's other two largest charter school companies are included. While Great Hearts' debt per ADM is significantly higher than the market average, it is lower than its two main competitors. Great Hearts decision to focus on consolidating its operations rather than continuing its earlier rate of growth has kept its per ADM debt relatively low.

*Table 5: Average Long-Term Debt per ADM Comparisons\**

	2014	2015	2016	2017	2018
Great Hearts*	\$9,871	\$14,055	\$14,528	\$13,333	\$15,421
Legacy	\$16,239	\$16,240	\$16,630	\$19,298	\$17,328
BASIS	\$23,050	\$21,328	\$22,468	\$22,462	\$27,312
Total — Arizona charter corporations**	\$8,906	\$8,924	\$9,620	\$10,551	\$11,144
Total — Arizona school districts	\$4,737	\$4,825	\$5,092	\$5,521	\$5,341

Source: Collated audit data and Superintendent's Annual Report, FY2014-FY2018. Calculations performed by Grand Canyon Institute.

\*Maryvale Prep holds \$2.6 million in long-term bond debt on its own property and pays the CMO an annual reduced-lease rate of 1.8% of state revenues per year to cover facilities costs. Both amounts at Maryvale Prep are included as debt for the purposes of this analysis.

\*\*These figures include data from charter schools that own as well as lease their facilities.

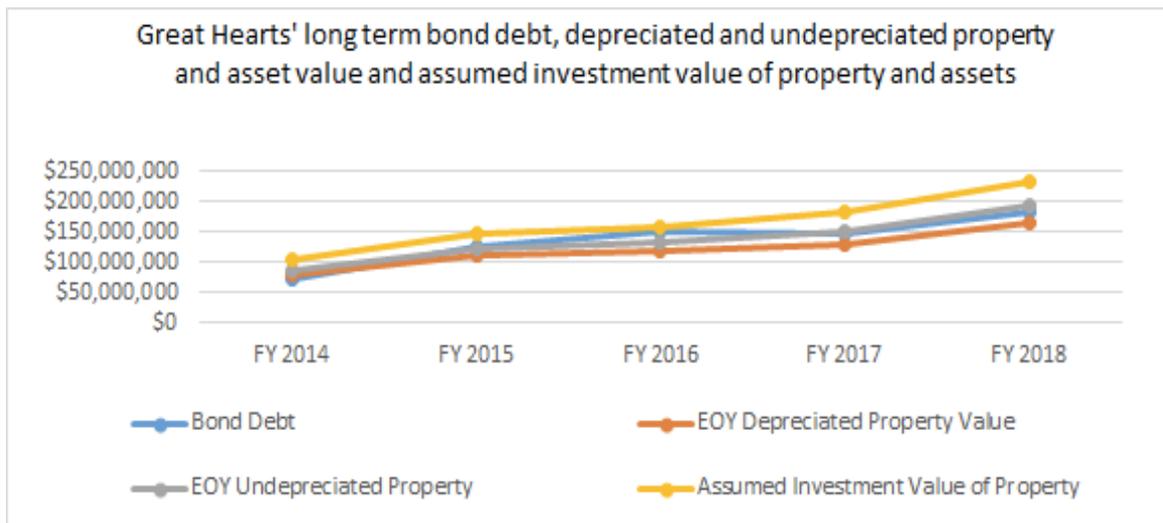
The level of debt in Arizona's charter sector remains concerning given the potential for insolvency for some schools and the possible impact on classroom spending as schools determine how to allocate their resources on an annual basis. GCI provides debt per ADM figures to allow for comparisons among schools as well as between the charter sector and school districts. A few things should be kept in mind when comparing the above figures. By state law, district schools are limited in the bond debt they can assume based on the taxable property in their district. In addition, there are factors that contribute to higher debt per ADM in the charter sector. As private businesses, they are not regulated by the government with regard to the amount of debt they can assume, and the charter sector is growing faster than districts therefore the need for greater debt to fund more capacity. Importantly, the debt per ADM figure for the overall charter sector includes charter schools that have long-term lease commitments rather than debt which likely results in an even lower debt per ADM figure relative to Arizona's three large charter organizations.

The graph that follows shows the different property and asset values used when Great Hearts refinanced or financed debt, which represents a fiscally-sound method for obtaining bonds. GCI assumed an investment value of 20% over the undepreciated value of Great Hearts' properties.

The company is neither overleveraged nor property poor. Those facts are reflected in Great Hearts' charter school audits and on the IRS Form 990 report for its CMO. The level of bond debt on all three financing benchmarks is conservative: depreciated, undepreciated (market value), and investment value. A table is provided to highlight the different amounts at each level of analysis.

As of the end of FY2018, total undepreciated property and assets for the CMO and charter schools were a fiscally healthy \$193,827,624. This reflects \$176,648,078 of undepreciated property and assets at the CMO.<sup>7</sup> According to the CMO's FY2018 IRS Form 990, its total liabilities equaled \$192,414,101.

*Figure 8: Great Hearts Long-Term Debt to Property and Asset Values*



Source: Collated data from Great Hearts charter school audits, FY2014-FY 2018. Assumed investment value was determined by adding 20% to the undepreciated property value on the IRS Form 990.

<sup>7</sup> <https://www.greatheartsamerica.org/wp-content/uploads/2019/05/GREATHEARTS-ARIZONA-CIt.pdf>

**Table 6: Debt Service and Property Value, Charter Schools and CMO**

	FY2014	FY2015	FY2016	FY2017	FY2018
Bond Debt	\$71,611,640	\$124,392,912	\$152,029,060	\$147,411,385	\$184,194,696
Depreciated Property and Asset Value at EOY	\$80,451,335	\$112,256,904	\$117,728,001	\$129,819,081	\$166,709,332
Undepreciated Property and Asset Value at EOY	\$86,283,629	\$121,227,366	\$131,976,262	\$150,966,614	\$193,827,624
Assumed Investment Value of Property and Assets at EOY*	\$103,540,355	\$145,472,839	\$158,371,514	\$181,159,937	\$232,593,149

Source: Data on interest, long-term debt, depreciated and undepreciated values derived from FY2014-FY2018 audits.

\*Assumed investment value derived by GCI by calculating 120% of the undepreciated value of those properties.

Great Hearts data show that the company is not underwater on its properties and has bonded those properties at a much lower value than they could have using the investment value of their property. Note: GCI's assumed investment value is lower than Great Hearts' ADM count would have allowed for and is a low-ball calculation of Investment Value. GCI's market analysis indicates that a Market Value of \$25 million generates an Investment Value of \$40 million in the IDA Marketplace.

Based on the figures below, Great Hearts' CMO can easily support its debt load based on its approach to financing and acquisition of property.

The value of that property and equipment assets is listed at:

**Table 7: Great Hearts CMO Property and Equipment Values**

<b>Undepreciated Property and Equipment FY2018</b>
<b>\$176,648,078</b>
<b>Depreciation, FY2018</b>
<b>\$(18,835,286)</b>
<b>Depreciated Property and Equipment FY2018</b>
<b>\$157,812,792</b>

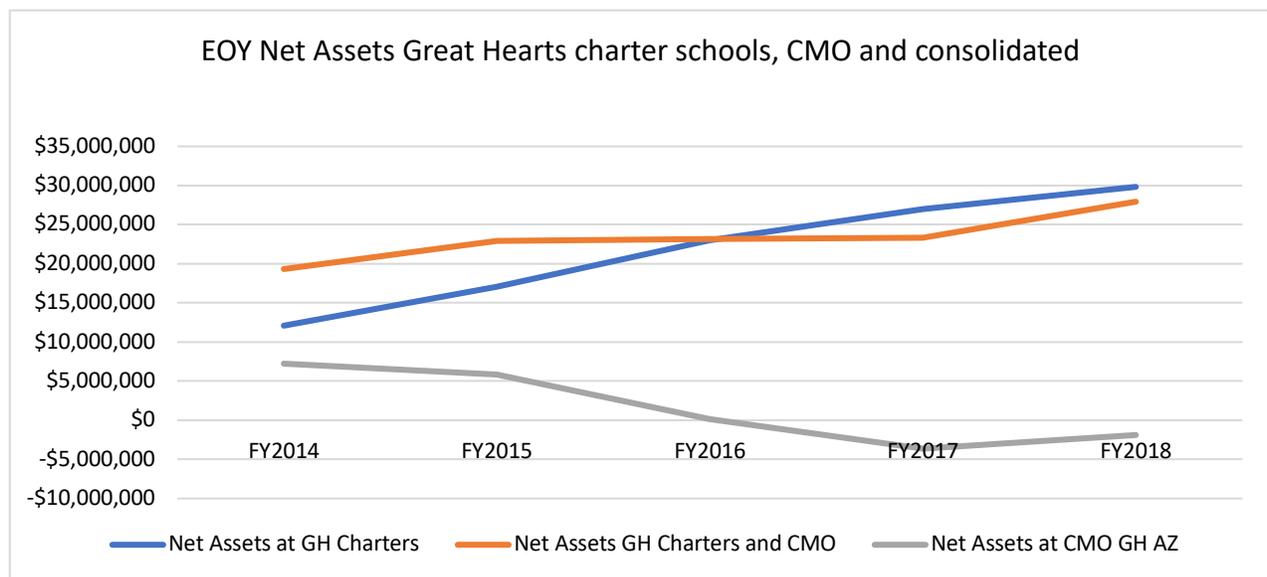
Source: Audits, FY2018.

End-of-year (EOY) net assets are a yearly reflection of an organization’s total assets and liabilities. FY2018 EOY annual net assets at the CMO were -\$1,728,717 according to its IRS Form 990, a marked improvement from the prior year, which came in at -\$3,626,485. In contrast, EOY net assets for Great Hearts charter schools were \$29,824,948 based on FY2018 audits. Despite the net deficits reported by the CMO, the company’s overall position on EOY net assets grew during this time period with consolidated net assets across Great Hearts Arizona and its charter schools at \$27,929,818.

The difference in EOY net assets at the CMO and charter schools reflect the CMO’s practice of charging the charter schools a sustainable property lease amount. Great Hearts leadership confirmed that it made an intentional choice to absorb the losses due to its expansion at the CMO rather than cutting back on its academic programs or raising its lease charges.

Figure 9 shows the EOY net assets for the organization, including consolidated charter schools, the CMO, and the entire organization. This figure illustrates how the CMO absorbed the hit on net assets and how the combined net asset count is increasing at a stable pace. Note that in FY2018 the CMO’s net assets are rebounding.

Figure 9: EOY Net Asset Growth



Source: Audits, FY2014 – FY2018.

Cash balances for all Great Hearts schools totaled \$14,444,121 at the close of FY2018. The company has a positive cash flow.

Each charter school’s results on net income and net assets are reported in Appendix A. The averages for net income and net assets at the end of the fiscal year for Great Hearts sites are provided below.

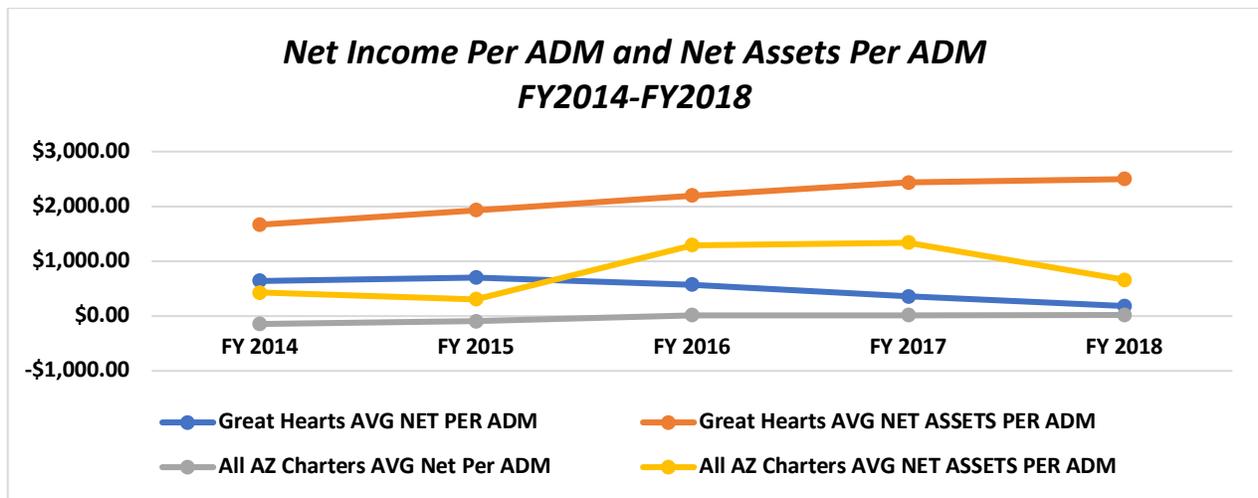
Table 8: Average Audited Financial Results, FY2018

Average Net Income	Average Net Assets - End of Year	Average Cash on Hand – End of Year
\$104,316	\$1,420,236	\$687,816

Source: Collated Great Hearts charter schools audit data, FY2018.

Net income and net assets per ADM provide a sense of how charter schools are performing relative to their enrollment. Great Hearts data indicates that the network’s net assets continue to grow while schools are operating with a net surplus.

Figure 10: Net Income and Net Assets per ADM



Source: Collated net asset data from Great Hearts charter school audits and collated AZ charter audit data divided by ADM counts from Superintendent’s Annual Reports, FY2014-FY2018.

The use of a nonprofit status for the CMO means that this data can be viewed by the public, providing a level of transparency not available with for-profit CMOs that do not disclose how they use the public funds received via the nonprofit charter organization. GCI presents three graphs showing the consolidated charter school EOY net assets followed by the EOY net assets at the CMO, and finally a graph showing the positive position of the CMO and its schools.

*Senior leadership established an intentional approach to organizational development to manage the challenges that came with growth*

Course corrections and a mindset that includes paying attention to relevant financial performance are manifest in Great Hearts’ financial data and were verbalized by management during interviews with the educational and financial leadership of the organization (Dweck 2008).

Mr. Twist was straightforward and open regarding the challenges that have accompanied growing from a “scrappy startup” to a mature organization with processes that provide clarity for people and a disciplined approach to business practices from purchasing paper to entire new systems. “We used to get things done by bumping into each other in the hallways. We got to a point about three years ago where things boiled over.”

Making the leap to a sustainable organization required learning to say no at times, documenting job descriptions and systems, and becoming intentional in the development of new leaders to serve the expanding organization, according to Mr. Twist. It was the staff’s belief in Great Hearts’ mission and their energy that allowed them to push through the problems, he added. The approach of the organization was to “not rethink what is excellence in pedagogy” but to identify and put in place organizational systems that protect the classroom space. “We’re here to support teachers so that they can be successful. When systems breakdown it impacts the classroom,” according to Mr. Twist.

Great Hearts engaged James Felton of the Table Group as an external consultant to help the organization to navigate the challenges faced by the organization. According to Erik Twist:

We have worked with James Felton of the Table Group. We first began working with him at the academy level back in 2013 and then with the home office leadership in 2016. We used their services consistently for the past four years. I have continued to meet with James one-on-one about three times a year, and he has come to our senior team quarterly off-sites a few times in the past year.

Outcomes of this work are now embedded in Great Hearts’ operations and its policies and procedures documents. Systems are being built at the senior office and headmaster levels to create efficiencies to help teachers focus on teaching. At the school level, it was determined that two hours of every day should be “sacrosanct” for each school headmaster — one hour is to be spent visiting and observing classrooms and another hour is to be spent cultivating relationships with parents. Staff development is enshrined through the teacher and headmaster pipelines including the creation of an internal Headmaster College. A system for holding senior leadership accountable was introduced and uses a digital platform to track goals, action items, and outcomes.

Oversight provided by Great Hearts’ central office is intended to allow headmasters to focus on day-to-day supervision of schools<sup>8</sup>, according to Mr. Twist. Great Hearts’ CMO provides school-level leadership with a tool for supervising and evaluating each staff member’s adherence to target outcomes. Those outcomes are verbalized on the supervision and evaluation model and compel the supervisor to confirm that he or she is seeing the behaviors described in the rubrics. This supervision and evaluation tool is a hybrid developed by Great Hearts based on elements of generally accepted exemplars in the educational field developed by Charlotte Danielson, Madeline Hunter, and Bob Marzano. (Hunter and Russell 1995, Johns 2000, Marzano, 2005) These models emphasize an evaluation process based on objective evidence rather than subjective opinion. They provide for a thorough review of a teacher’s instructional skills, identifying strengths and the

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<sup>8</sup> The use of the word “headmaster” is a purposeful reference to the title used at private academies for the educational leader on site. This is another example of intentionality in the Great Hearts program and management.

presence of evidence-based practices, as well as areas for further development. Emphasis is also placed on the professional growth of master teachers.

Great Hearts' commitment to their supervision and evaluation model was notable during interviews with upper management. Data from supervision and evaluation reports filed by the headmasters is used to inform decision making regarding improving their educational programs. Great Hearts' organizational development program is led by Helen Hayes, a respected leader in educational management. Leadership training is provided for staff at all levels of the organization and is done by working with and developing classroom aides with an eye towards those practitioners becoming teachers. Great Hearts, which hires mostly non-certified teachers, encourages higher education and works with local public universities and private colleges to develop teachers that are well schooled in a liberal arts education. Great Hearts' Headmaster College trains teachers identified within the organization for development into leadership roles. The organization will be undertaking an effort to document career pathways in 2020.

### **Responding to the Needs of Title I Populations**

Great Hearts has opened two schools that serve significant Title I populations. In 2009, Great Hearts opened Teleos Preparatory Academy in the Downtown Phoenix area. The school closed in 2018 due to issues with its leased facility. In 2012, Great Hearts opened Archway Classical Academy Maryvale (now known as Maryvale Preparatory Academy) as its second school that would serve a large Title I population. Mr. Twist indicated that working with larger Title I populations has presented challenges to the Great Hearts team. He said that the organization has allocated additional administrative resources to analyze data in order to understand the needs of the student population and respond accordingly to "get it right."

Maryvale Preparatory Academy offers the same rigorous curriculum as all other Great Hearts schools while serving disadvantaged students that present with academic skill gaps not found on its other campuses. The school began with 140 students in grades K-3 and grew by one grade level each year reaching a K-7 enrollment of 450 students by the year 2016. Originally operating out of a leased space, Great Hearts built a new school that opened in August 2018 and now serves 725 students in grades K-10. It will expand through 12<sup>th</sup> grade in the next two years. This intentional expansion of Maryvale Preparatory Academy has been different than most of Great Hearts other schools in an effort to start small with younger grades while providing a more intensive focus on the academic needs of students.

## SERVING TITLE I STUDENTS

Maryvale Preparatory Academy offers the same rigorous curriculum as all other Great Hearts schools while serving disadvantaged students that present with academic skill gaps not found on other Great Hearts campuses.

Mr. Twist said that the organization has allocated additional administrative resources to analyze data in order to understand the needs of the student population and respond accordingly to "get it right."

Efforts to close achievement gaps have involved leveraging resources provided by Great Hearts Arizona, outside grants, and Title I funding. Great Hearts Arizona provided the following information with regard to efforts undertaken by Maryvale Preparatory Academy and the CMO's leadership teams to support academic improvements at the school:

- Leveraged relationships with Teach for America (TFA) to provide teachers to teach in low-income schools like Maryvale Prep for two years.
- Participated in the Great Hearts Apprentice Teacher Program which offers a full-time, paid apprenticeship for new teachers. Each participant in an individualized course of study and mentorship with a Master Teacher, as he/she learns the craft of teaching in a classical, liberal arts primary-school environment. This program successfully lowers the teacher to student ratio and the apprentice receives valuable teaching experience. Upon completion of the program, apprentices are evaluated and recommended for teaching positions in lower, middle, or upper schools within Great Hearts. Maryvale Prep has hired 12 teachers from this program.
- Established partnership with Arizona State University (ASU) that provides grant funds and support for the following:
  - Funding for 1 FTE college counselor in the first year and the Maryvale Prep budget will sustain in subsequent years. The college counselor will advise students on academics, graduation requirements, timelines and deadlines for college applications, finding the right school and fit, college essays, and financial aid.
  - Leveraging parental involvement by empowering parents to create transformative change with ASU's American Dream Academy (ADA). Maryvale Preparatory parents of 7-10 grade students will be able to participate in this 8-10 week program and ADA's core curriculum, Realizing the American Dream, gives parents the tools, knowledge and confidence they need to help their children achieve academic success.
  - Supporting academically-talented and motivated students entering the 8th, 9th, and 10th grade to apply for the Barrett's Summer Scholar Program (<https://eoss.asu.edu/bss>). This affords students the opportunity to experience college firsthand and prepare for enrollment and success at Arizona State University and Barrett, the Honors College. Thirty three percent (33%) of 7th -9th graders successfully completed the application process on March 4, 2019. Four students from Maryvale Preparatory Academy will receive guaranteed scholarships
- Demonstrated strong parent commitment and partnership with 100% parent attendance at Parent-Teacher Conferences since inception.
- Redirected local resources to purchase text aligned to student's Lexile levels and to create Literature Circle materials to support below-grade level students in grades K-6 in building the comprehension skills, perseverance, and stamina needed for on-grade level text reading-- the classics—the bedrock of the Great Hearts reading curriculum.
- Utilized ATI-Galileo testing and data to create growth plans focused on improving student achievement in the areas of English language arts and mathematics specifically addressing targeted skills and standards and implemented an intervention program using 95 Percent Group intervention (approved by Arizona Department of Education).

- Implemented before- and after-school English language arts and mathematics assistance provided by classroom and apprentice teachers receiving stipends through local resources to enhance the academic achievement of students.
- Provided stipends funded by the CMO to incentivize teachers for choosing to dedicate their work in a high needs school and bolster teacher retention efforts: \$2K, \$3K, and \$4K respectively for a bachelor's, master's degree, or doctorate.
- Added a full-time Dean of Students to the K-6 staff who will work directly with the Headmaster in carrying out the school's behavior programs and engage all stakeholders in the delivery of services and programs to promote the students' moral, personal and social development. Great Hearts CMO has committed the funds to support this position.
- Added a Math and a Reading Interventionist to provide additional and targeted coaching and support to teachers and students.

Great Hearts illustrates a rigorous curriculum that works very well when students come from more affluent areas but has run into achievement limits when working with an academically less-prepared, high-poverty school population. The level of effort being invested by Great Hearts is notable and instructive of the need for additional resources for high-poverty schools. It also lends itself to the assertion that Arizona schools that serve disadvantaged students would benefit from an opportunity weight, which research shows can close the high school graduation rate gap by one third or more, as well as increasing wages and reducing adult criminality. (Jackson, C. K., Johnson, Rucker C., Persico, C.)

### **Local Fundraising is an Important Source of Revenue**

In FY2018, Great Hearts CMO and charter schools collectively spent \$260,140 on fundraising and raised a total of \$14,592,037. Fundraising generates an important source of revenue for Great Hearts, to fund its resource-intensive classroom staffing approach, and to support property and asset costs. Its success in this area most likely benefits from the effort the organization invests into ensuring community support for its schools before opening new ones.

In FY2018, the CMO spent \$141,027 on fundraising expenses and raised \$4,990,493 from contributions, a gala event and grants according to its IRS Form 990. That same year, Great Hearts charter schools reported consolidated fundraising expenses of \$119,113 on their audits. Charter schools collected \$9,979,276 from tax credit donations and contributions as reported on their audits, representing 9.4% of their consolidated total revenue. GCI is able to provide this detailed breakdown of Great Hearts' fundraising revenue due to the level of detail provided in its school audits and the CMO's IRS Form 990.

Table 9: Fundraising Revenue, FY2018

<b>Great Hearts Charter Schools</b>		
Total — tax credits and donations		\$9,979,276
As a part of school revenues		9.4%
Average per ADM		\$798
Mean per ADM		\$822
Highest per ADM		\$1,933
Lowest per ADM		\$201

Archway Scottsdale  
Maryvale Prep

<b>Great Hearts Arizona</b>		
Fundraising — Gala event		\$377,732
Contributions, grants and other giving		\$4,612,761
Fundraising and Contributions Total		\$4,990,493
As a % revenue		17.5%

**Total — Fundraising Great Hearts Arizona & Charter Schools**

**\$14,969,769**

**As a percent of all revenues, Great Hearts Arizona and Charter Schools**

**11.1%**

Source: Collated audit and IRS 990 data, FY2018.

Maryvale Preparatory Academy is an exception among Great Hearts charter schools in terms of the amount of money raised by the school community. While tax credit donations and contributions average \$798 per ADM across Great Hearts charter schools, that amount drops to \$201 per ADM at Maryvale Preparatory Academy. This corresponds with the greater degree of socio-economic disadvantage in the school's surrounding community. Federal government Title I funds received by Maryvale Preparatory Academy help cover the fundraising gap, providing the school with total annual revenue on par with other Great Hearts charter schools. In addition, the school receives additional financial support from the CMO. Table 19 in Appendix A includes data on Great Hearts' sources of funding.

For the most part, funds raised at a school remain in that community to support educational programs and teacher compensation. At times, financially struggling schools are helped by having their lease payment to the CMO reduced while a school with a net surplus is charged more for its lease. Like any large business, a financially thriving site may contribute to a financially under-performing site. This is one of the advantages of a CMO. These transactions are reported on Great Hearts' audits and IRS Form 990s.

GCI has also noted transactions where funds have been granted to schools from Great Hearts' CMO or board members. This corporate gifting is noted in audits and is not listed as a liability to the receiving school, in other words, it is recorded as a gift. In FY2018, Great Hearts CMO gifted \$1.1 million to nine of its schools and one school returned funds to the management group. Great Hearts CMO is the only such organization where this type of gifting is noted. The transactions are listed as donations from the CMO on the audits.

## LESSONS LEARNED

The best practices highlighted in this case study warrant individual attention and impact each other and the outcomes for the organization. As one of Arizona's most prominent charter school organizations, Great Hearts' experience provides many lessons learned through its years of organizational growth and change.

- **Organizational structure provides transparency in financial reporting and a commitment to the public:** Each Great Hearts school is a separate, non-profit legal entity, with its own charter and files its own detailed audit and Annual Financial Report (AFR), allowing for transparency and fiscal monitoring at the school level. Great Hearts Arizona, the charter management organization, is registered as a 501(c)(3) nonprofit corporation that files detailed, publicly-available IRS Form 990 reports. This structure allows for greater scrutiny of how the CMO and each school operates financially as a publicly-funded organization.
- **CMO—charter school relationship protects the financial sustainability of schools while building a trust fund through equity for future investments.** Management and property lease fees paid by Great Hearts charter schools to the CMO are determined based on a percent of state revenues. This approach protects the schools from fluctuating enrollment. It also protected the schools from the financial strain of a significant expansion in FY2014-FY2015 that led to increased debt costs; losses related to these debt commitments were shown at the CMO rather than being passed on to the network's schools, ensuring that classroom spending was not compromised.
- **Non-profit corporate ownership of property and assets protects the organization's long-term equity and the organization's sustainability:** Great Hearts Arizona's property is owned by the non-profit entity rather than a third party so that if sold the proceeds will remain with the charter school organization. As a result, all gains (or losses) on real or other property inure to the benefit of the non-profit rather than being paid as a capital gain/loss to an individual or to a third party.
- **Managing related-party relationships:** Great Hearts has taken steps to eliminate related-party transactions other than with the CMO and to ensure that related-party real estate leases are managed with transparency at market rates. Related-party transactions and the exemption most charter schools have from competitive procurement processes represent a significant concern regarding the efficient use of funds in the charter sector; Great Hearts Arizona's conflict of interest policy eliminates this concern with respect to the organization.
- **Financial practices support educational excellence:** Senior leadership at Great Hearts Arizona shows a commitment to managing the organization's growth to ensure its sustainability and the academic quality of its educational services. School-level decision-making is a priority with support provided to headmasters through the network's shared services including the organizational development program led by Helen Hayes, a

respected educational leader. This allows headmasters to focus on their schools' academic programs. Great Hearts has created a professional development pipeline within the organization to ensure that it has qualified staff who understand and share the organization's values.

- **Closing achievement gaps in disadvantaged communities is challenging.** In 2009, Great Hearts started working with larger Title I populations. It has been dedicating additional resources from Great Hearts' CMO to complement its curriculum to overcome the achievement gaps experienced by this student population. Importantly, in spite of Great Hearts significant efforts, the achievement gap persists at Maryvale Prep, its school with the largest Title I population.

While Maryvale Prep receives a significant amount of support in federal Title I funding, its total revenues lag behind other Great Hearts schools in more affluent areas of Phoenix where local revenues are far greater. To some degree, this resource gap has been compensated for by investments made by the CMO in its efforts to work with Maryvale Prep staff to meet the needs of their students that won't necessarily show up on a financial report. Importantly, the local resource and achievement gaps at Maryvale Prep highlight the need for serious consideration at the state government level for permanent additional funds to be allocated to high-poverty schools as research shows that such investments can reduce the high school graduation rate gap, increase wages, and reduce the annual incidence of adult poverty and criminality. (Jackson, C.K., Johnson, Rucker C., Persico, C.).

## CONCLUSION

As one of Arizona's largest charter school companies serving 14,000 students Great Hearts has adopted a range of practices that have enhanced its financial sustainability. GCI was able to produce this case study because of the organization's extensive efforts to provide transparency and accountability in the reporting of its financial data. Charter schools in Arizona educate 17% of public school students and that number continues to grow annually. Importantly, enrollment in the charter school sector is consolidating among the larger providers, with the top 10 largest charter organizations capturing 74.8% of enrollment growth over the past six years.

Great Hearts, as a large charter organization with a nonprofit CMO, demonstrates a range of practices that lend themselves toward sustainability while providing transparency and accountability for the public funds it receives to operate its schools.

## APPENDIX A: SCHOOL-LEVEL DATA

Table 10: Academic Performance by Charter School

Established	Great Hearts Charter Schools	Academic Grade 2017	Academic Grade 2018
2003	Great Hearts Veritas Prep	A Exceeds	A Exceeds
2003	Great Hearts Veritas Prep (MC)	In Above	In Above
2006	Great Hearts Chandler Prep	A Exceeds	A Exceeds
2007	Great Hearts Archway Arete	B Above	A Exceeds
2008	Great Hearts Glendale Prep	A Exceeds	A Exceeds
2008	Great Hearts Scottsdale Prep	A Exceeds	A Exceeds
2009	Great Hearts Teleos Prep	C Meets	C Meets
2010	Great Hearts Anthem Prep	B Above	A Exceeds
2011	Great Hearts Archway Trivium West	B Above	A Exceeds
2011	Great Hearts Archway Chandler	A Exceeds	A Exceeds
2011	Great Hearts Archway Scottsdale	A Exceeds	A Exceeds
2011	Great Hearts Archway Veritas	B Above	A Exceeds
2011	Great Hearts Trivium Prep	B Above	A Exceeds
2012	Great Hearts North Phoenix Prep	A Exceeds	A Exceeds
2012	Great Hearts Archway North Phoenix	B Above	B Above
2012	Great Hearts Maryvale Prep	B Above	A TARGETED Does Not Meet
2013	Great Hearts Archway Glendale	C Meets	A Exceeds
2014	Great Hearts Arete Prep	A Exceeds	B Above
2014	Great Hearts Archway Cicero	A Exceeds	A Exceeds
2014	Great Hearts Cicero Prep	B Above	A Exceeds
2015	Great Hearts Archway Lincoln	B Above	A Exceeds
2015	Great Hearts Archway Trivium East	B Above	A Exceeds
2015	Great Hearts Lincoln Prep	B Above	A TARGETED Does Not Meet

Source: Charter Board Academic Ratings as posted by charter site verified by ADE data on the same information. Color-coding matches that used by the Charter Board on its Academic Performance pages.

Table 11: Salaries and Benefits for Great Hearts Employees from AFRs

	<b>ALL Salaries</b>	<b>ALL Benefits</b>	<b>Benefits</b>
Great Hearts Anthem Prep	\$3,221,524	\$921,868	28.62%
Great Hearts Arete Prep	\$2,402,770	\$655,739	27.29%
Great Hearts Archway Arete	\$2,018,823	\$635,486	31.48%
Great Hearts Archway Cicero	\$1,805,446	\$570,846	31.62%
Great Hearts Archway Lincoln	\$2,671,196	\$829,237	31.04%
Great Hearts Archway Trivium East	\$1,706,743	\$541,491	31.73%
Great Hearts Archway Trivium West	\$1,935,067	\$616,978	31.88%
Great Hearts Chandler Prep	\$3,059,182	\$829,432	27.11%
Great Hearts Cicero Prep	\$1,757,443	\$467,677	26.61%
Great Hearts Glendale Prep	\$2,277,083	\$571,451	25.10%
Great Hearts Lincoln Prep	\$1,477,767	\$395,026	26.73%
Great Hearts North Phoenix Prep	\$1,740,059	\$456,019	26.21%
Great Hearts Scottsdale Prep	\$3,637,322	\$958,611	26.35%
Great Hearts Teleos Prep	\$1,264,091	\$356,199	28.18%
Great Hearts Veritas Prep	\$3,265,277	\$844,137	25.85%
Great Hearts Veritas Prep (MC)	In Above	In Above	In Above
Great Hearts Archway Chandler	\$3,059,182	\$829,432	27.11%
Great Hearts Archway North Phoenix	\$2,913,093	\$936,086	32.13%
Great Hearts Archway Scottsdale	\$1,673,001	\$516,666	30.88%
Great Hearts Archway Veritas	\$3,265,277	\$844,137	25.85%
Great Hearts Maryvale Prep	\$2,082,810	\$616,586	29.60%
Great Hearts Trivium Prep	\$3,003,391	\$848,292	28.24%
Great Hearts Archway Glendale	\$2,155,900	\$647,973	30.06%
<b>Total</b>	<b>\$52,392,447</b>	<b>\$14,889,369</b>	
<b>Average all Great Hearts Sites</b>	<b>\$2,381,475</b>	<b>\$676,790</b>	<b>28.62%</b>

Source: AFRs from ADE website. The same figures were obtained using audit data provided by Great Hearts in its Comprehensive Expenditure Statements. This is included as a separate table on the next page.

Table 12: Salary and Benefits Information from Audits

<b>AUDIT ACCOUNTING</b>	<b>Salaries</b>	<b>Benefits</b>	<b>%</b>
Great Hearts Anthem Prep	\$2,499,010.00	\$751,344.00	30.07%
Great Hearts Arete Prep	\$1,893,248.00	\$537,942.00	28.41%
Great Hearts Archway Arete	\$1,647,990.00	\$543,950.00	33.01%
Great Hearts Archway Cicero	\$1,494,606.00	\$493,879.00	33.04%
Great Hearts Archway Lincoln	\$2,277,611.00	\$732,600.00	32.17%
Great Hearts Archway Trivium East	\$1,366,205.00	\$454,568.00	33.27%
Great Hearts Archway Trivium West	\$1,571,103.00	\$523,817.00	33.34%
Great Hearts Chandler Prep	\$2,519,507.00	\$697,928.00	27.70%
Great Hearts Cicero Prep	\$1,423,204.00	\$389,823.00	27.39%
Great Hearts Glendale Prep	\$1,819,465.00	\$470,598.00	25.86%
Great Hearts Lincoln Prep	\$1,178,242.00	\$326,491.00	27.71%
Great Hearts North Phoenix Prep	\$1,403,716.00	\$376,727.00	26.84%
Great Hearts Scottsdale Prep	\$3,076,608.00	\$824,977.00	26.81%
Great Hearts Teleos Prep (Closed EOY FY2018)	Closed in FY2018 No Audit at Charter Board	Closed in FY2018 No Audit at Charter Board	Closed in FY2018 No Audit at Charter Board
Great Hearts Veritas Prep	\$2,642,112.00	\$695,536.00	26.33%
Great Hearts Veritas Prep (MC)	In Above	In Above	In Above
Great Hearts Archway Chandler	\$1,589,486.00	\$525,097.00	33.04%
Great Hearts Archway North Phoenix	\$2,359,134.00	\$799,219.00	33.88%
Great Hearts Archway Scottsdale	\$1,336,512.00	\$433,628.00	32.44%
Great Hearts Archway Veritas	\$1,725,069.00	\$516,338.00	29.93%
Great Hearts Maryvale Prep	\$1,624,781.00	\$506,370.00	31.17%
Great Hearts Trivium Prep	\$2,440,663.00	\$669,781.00	27.44%
Great Hearts Archway Glendale	\$1,783,132.00	\$565,358.00	31.71%
	\$39,671,404.00	\$11,835,971.00	31.37%

Source: Audits, FY2018.

Table 13: Revenue Sources for Great Hearts Charter Schools

	<b>Revenue from Local ALL</b>	<b>Revenue per ADM Local</b>	<b>% of all Revenue Local</b>
Great Hearts Anthem Prep	\$1,088,848	\$1,421.77	16.27%
Great Hearts Arete Prep	\$1,014,260	\$1,826.89	19.78%
Great Hearts Archway Arete	\$653,585	\$1,340.70	15.34%
Great Hearts Archway Cicero	\$942,149	\$1,939.44	21.40%
Great Hearts Archway Lincoln	\$1,023,014	\$1,620.83	18.04%
Great Hearts Archway Trivium East	\$464,968	\$1,021.45	11.96%
Great Hearts Archway Trivium West	\$559,996	\$1,136.70	13.53%
Great Hearts Chandler Prep	\$1,293,096	\$1,777.87	19.29%
Great Hearts Cicero Prep	\$853,263	\$1,913.39	20.95%
Great Hearts Glendale Prep	\$934,061	\$1,699.79	18.69%
Great Hearts Lincoln Prep	\$708,132	\$1,904.18	20.86%
Great Hearts North Phoenix Prep	\$729,041	\$1,857.20	20.14%
Great Hearts Scottsdale Prep	\$1,835,856	\$2,136.73	22.96%
Great Hearts Teleos Prep	\$149,676	\$748.11	8.07%
Great Hearts Veritas Prep	\$1,515,833	\$2,101.48	21.95%
Great Hearts Veritas Prep (MC)	SEE ABOVE	SEE ABOVE	SEE ABOVE
Great Hearts Archway Chandler	\$852,508	\$1,739.31	19.57%
Great Hearts Archway North Phoenix	\$1,020,231	\$1,341.19	15.76%
Great Hearts Archway Scottsdale	\$1,158,391	\$3,192.98	30.42%
Great Hearts Archway Veritas	\$1,331,727	\$2,696.16	26.98%

Great Hearts Maryvale Prep	\$191,764	\$416.99	4.77%
Great Hearts Trivium Prep	\$849,924	\$1,149.26	13.50%
Great Hearts Archway Glendale	\$883,694	\$1,779.41	19.49%
<b>Total Raised Locally All Sites</b>	\$20,054,017		
<b>Averages</b>	<b>Average Revenue from Local ALL</b>	<b>Average REVENUE PER ADM LOCAL</b>	<b>Average % of ALL REVENUE LOCAL</b>
	\$911,546.23	\$1,670.99	18.17%

Source: FY2018 AFRs. See Revenue Statements on Page 2.

**Table 14: Net Income, Net Assets and End-of-Year Cash by Charter School**

	<b>Net FY2018</b>	<b>Net Assets (Deficit) EOY</b>	<b>Cash EOY</b>
Great Hearts Anthem Prep	\$236,263	\$2,252,755	\$792,389
Great Hearts Arete Prep	\$16,024	\$1,199,853	\$660,986
Great Hearts Archway Arete	\$105,576	\$ 890,805	\$603,122
Great Hearts Archway Cicero	\$124,204	\$1,325,828	\$541,684
Great Hearts Archway Lincoln	\$160,979	\$374,816	\$674,643
Great Hearts Archway Trivium East	\$(69,999)	\$148,701	\$229,532
Great Hearts Archway Trivium West	\$24,177	\$1,746,339	\$585,704
Great Hearts Chandler Prep	\$129,591	\$2,778,607	\$918,486
Great Hearts Cicero Prep	\$91,290	\$419,506	\$500,122
Great Hearts Glendale Prep	\$120,541	\$2,048,563	\$578,488
Great Hearts Lincoln Prep	\$359,463	\$151,522	\$558,170
Great Hearts North Phoenix Prep	\$(2,280)	\$767,364	\$663,042
Great Hearts Scottsdale Prep	\$ 76,464	\$3,031,099	\$846,193

Great Hearts Teleos Prep	Closed EOY	Closed EOY	Closed EOY
Great Hearts Veritas Prep	\$(12,496)	\$1,369,024	\$1,021,542
Great Hearts Veritas Prep (MC)	In Above	In Above	In Above
Great Hearts Archway Chandler	\$249,150	\$2,853,543	\$462,665
Great Hearts Archway North Phoenix	\$43,557	\$1,104,873	\$696,188
Great Hearts Archway Scottsdale	\$176,837	\$2,464,891	\$1,035,694
Great Hearts Archway Veritas	\$467,717	\$2,366,466	\$939,897
Great Hearts Maryvale Prep	\$(214,354)	\$ (86,403)	\$578,880
Great Hearts Trivium Prep	\$90,151	\$1,433,785	\$876,669
Great Hearts Archway Glendale	\$17,779	\$1,183,011	\$680,035
	<b>Net FY2018</b>	<b>Net Assets (Deficit) EOY</b>	<b>Cash EOY</b>
<b>Averages All Great Hearts Sites</b>	\$104,316	\$1,420,236	\$ 687,816

Source: Collated FY2018 audit data.

**Table 15: Long-Term Lease Relative to ADE Payments**

	<b>Percentage Claimed</b>
Great Hearts Anthem Prep	10.89%
Great Hearts Arete Prep	14.99%
Great Hearts Archway Arete	15.00%
Great Hearts Archway Cicero	23.50%
Great Hearts Archway Lincoln	18.74%
Great Hearts Archway Trivium East	15.45%
Great Hearts Archway Trivium West	16.09%
Great Hearts Chandler Prep	15.00%
Great Hearts Cicero Prep	21.41%

Great Hearts Glendale Prep	15.00%
Great Hearts Lincoln Prep	17.45%
Great Hearts North Phoenix Prep	15.15%
Great Hearts Scottsdale Prep	16.85%
Great Hearts Teleos Prep	Closed in FY2018 No Audit at Charter Board website
Great Hearts Veritas Prep	14.94%
Great Hearts Veritas Prep (MC)	In Above
Great Hearts Archway Chandler	15.00%
Great Hearts Archway North Phoenix	9.81%
Great Hearts Archway Scottsdale	14.32%
Great Hearts Archway Veritas	12.22%
Great Hearts Maryvale Prep	1.79%
Great Hearts Trivium Prep	15.06%
Great Hearts Archway Glendale	15.00%
	14.94%
Average Great Hearts charter schools	Percent of AZ revenues paid as long-term leases

Source: Collated FY2018 audit data from Great Hearts charter schools.

Table 16: Special Education Expenditures Relative to Total Expenditures

	<i>AFR Actual Budget P2</i>	<i>SPED Actuals FROM AFR</i>	<i>SPED As a % of Actual Budget AFR</i>
Great Hearts Anthem Prep	\$6,325,486	\$339,907	<b>5.37%</b>
Great Hearts Arete Prep	\$5,065,148	\$160,398	<b>3.17%</b>
Great Hearts Archway Arete	\$4,107,002	\$286,251	<b>6.97%</b>
Great Hearts Archway Cicero	\$4,198,012	\$120,352	<b>2.87%</b>
Great Hearts Archway Lincoln	\$5,585,765	\$491,665	<b>8.80%</b>
Great Hearts Archway Trivium East	\$3,868,994	\$156,861	<b>4.05%</b>
Great Hearts Archway Trivium West	\$4,080,990	\$223,364	<b>5.47%</b>
Great Hearts Chandler Prep	\$6,434,606	\$128,909	<b>2.00%</b>
Great Hearts Cicero Prep	\$3,925,950	\$171,147	<b>4.36%</b>
Great Hearts Glendale Prep	\$4,809,942	\$65,431	<b>1.36%</b>
Great Hearts Lincoln Prep	\$3,014,084	\$122,003	<b>4.05%</b>
Great Hearts North Phoenix Prep	\$3,576,725	\$120,640	<b>3.37%</b>
Great Hearts Scottsdale Prep	\$7,801,788	\$58,737	<b>0.75%</b>
Great Hearts Teleos Prep	\$2,709,670	\$383,806	<b>14.16%</b>
Great Hearts Veritas Prep	\$6,825,985	\$268,457	<b>3.93%</b>
Great Hearts Veritas Prep (MC)	See Above	In Above	<b>In Above</b>
Great Hearts Archway Chandler	\$4,043,790	\$131,039	<b>3.24%</b>
Great Hearts Archway North Phoenix	\$6,380,344	\$250,877	<b>3.93%</b>
Great Hearts Archway Scottsdale	\$3,533,979	\$188,868	<b>5.34%</b>
Great Hearts Archway Veritas	\$4,378,519	\$267,100	<b>6.10%</b>
Great Hearts Maryvale Prep	\$4,046,932	\$350,464	<b>8.66%</b>

Great Hearts Trivium Prep	\$6,115,233	\$134,065	<b>2.19%</b>
Great Hearts Archway Glendale	\$4,480,124	\$301,005	<b>6.72%</b>
		Average for Organization	<b>4.86%</b>
		Average for Charters ALL	<b>5.02%</b>

Source: AFRs, FY2018

Source for Average for Charters Superintendent's Annual Report.

Table 17: ADM Growth at Great Hearts Charter Schools

	FY2014	FY2015	FY2016	FY2017	FY2018
Great Hearts Anthem Preparatory Academy	676.404	695.046	737.312	757.823	765.840
Great Hearts Mesa Preparatory Academy, Inc. NOW ARETE	410.133	474.444	480.115	482.827	487.496
Great Hearts Arete Preparatory Academy	New in FY2015	492.905	522.751	526.920	555.183
Great Hearts Archway Classical Academy Chandler	469.171	470.817	476.368	485.387	490.142
Great Hearts Chandler Preparatory Academy	674.371	693.168	708.461	716.831	727.330
Great Hearts Cicero Preparatory Academy	New in FY2015	132.432	303.002	421.272	445.943
Great Hearts Archway Classical Academy Cicero	New in FY2015	473.402	474.337	470.603	485.784
Great Hearts Archway Classical Academy Glendale	489.224	490.894	490.554	495.125	496.623
Great Hearts Glendale Preparatory Academy	396.084	458.786	504.279	541.466	549.516
Great Hearts Archway Classical Academy Lincoln	New in FY2016	New in FY20146	463.127	470.870	631.168
Great Hearts Lincoln Preparatory Academy	New in FY2016	New in FY20146	165.015	282.527	371.883
Great Hearts Maryvale Preparatory Academy	187.622	316.106	364.227	422.111	459.879
Great Hearts Archway Classical Academy North Phoenix	435.363	446.480	446.925	456.747	760.690

Great Hearts North Phoenix Preparatory Academy	196.891	266.445	350.950	408.141	392.548
Great Hearts Archway Classical Academy Scottsdale	379.721	360.619	361.553	360.879	362.793
Great Hearts Scottsdale Preparatory Academy	850.304	890.129	880.405	854.557	859.191
Great Hearts Teleos Preparatory Academy	200.548	206.811	198.947	190.473	200.071
Great Hearts Archway Classical Academy Trivium East	New in FY20146	New in FY20146	379.687	421.473	455.205
Great Hearts Archway Classical Academy Trivium	495.998	496.587	501.286	498.036	492.651
Great Hearts Trivium Preparatory Academy	242.489	330.495	455.225	602.906	739.543
Great Hearts Archway Classical Academy Veritas	484.317	473.409	493.962	491.883	493.935
Great Hearts Veritas Preparatory Academy	666.476	681.693	706.259	697.528	721.317
	7,255.116	8,850.668	10,464.747	11,056.385	11,944.731

<i>Change Year to Year</i>	1,595.552	1,614.079	591.638	888.346
<i>Two Year ADM Growth</i>			Two Year ADM	1,479.984
<i>Five Year ADM Growth</i>			Five Year ADM	4,689.615

Source: Superintendent’s Annual Reports, FY2014-FY2018.

Table 18: Management Fees Relative to State Revenues, FY2018

	<b>Related-Party Transactions Management</b>	<b>At 10% of STATE Revenue</b>
Great Hearts Anthem Prep	\$552,673.00	10.00%
Great Hearts Arete Prep	\$405,711.00	10.00%
Great Hearts Archway Arete	\$355,048.00	10.00%
Great Hearts Archway Cicero	\$335,180.00	10.00%
Great Hearts Archway Lincoln	\$454,128.00	10.00%
Great Hearts Archway Trivium East	\$315,392.00	10.05%
Great Hearts Archway Trivium West	\$352,572.00	10.00%
Great Hearts Chandler Prep	\$533,912.00	10.00%
Great Hearts Cicero Prep	\$313,707.00	10.00%
Great Hearts Glendale Prep	\$401,040.00	10.00%
Great Hearts Lincoln Prep	\$264,386.00	10.00%
Great Hearts North Phoenix Prep	\$284,890.00	9.99%
Great Hearts Scottsdale Prep	\$607,276.00	10.00%

	Closed in FY2018 No Audit at Charter Board	Closed in FY2018 No Audit at Charter Board
Great Hearts Teleos Prep		
Great Hearts Veritas Prep	\$530,188.00	9.96%
Great Hearts Veritas Prep (MC)	In Above	In Above
Great Hearts Archway Chandler	\$344,689.00	10.00%
Great Hearts Archway North Phoenix	\$541,058.00	10.02%
Great Hearts Archway Scottsdale	\$260,288.00	10.00%
Great Hearts Archway Veritas	\$354,516.00	10.00%
Great Hearts Maryvale Prep	\$337,769.00	9.99%
Great Hearts Trivium Prep	\$539,058.00	10.04%
Great Hearts Archway Glendale	\$359,127.00	10.00%
	Average GH Charters	10.01%
	All Great Hearts Charters	<b>10.01%</b>

Source: Audits, FY2018. Calculations performed by GCI.

Table 19: FY2018 Revenue by Source as a Percentage of Total

	Entity Number	ALL SOURCES OF REVENUE PER ADM	% of ALL REVENUE STATE OF AZ	% of Revenue from Federal	% of ALL REVENUE LOCAL
<b>Great Hearts Anthem Prep</b>	90635	\$8,739.37	82.55%	1.19%	16.27%
<b>Great Hearts Arete Prep</b>	89497	\$9,234.18	79.17%	1.04%	19.78%
<b>Great Hearts Archway Arete</b>	92313	\$8,739.84	83.34%	1.32%	15.34%
<b>Great Hearts Archway Cicero</b>	92315	\$9,064.54	76.14%	2.46%	21.40%
<b>Great Hearts Archway Lincoln</b>	82708	\$8,986.19	80.08%	1.89%	18.04%
<b>Great Hearts Archway Trivium East</b>	92707	\$8,540.12	80.71%	7.33%	11.96%
<b>Great Hearts Archway Trivium West</b>	91001	\$8,403.98	85.16%	1.31%	13.53%
<b>Great Hearts Chandler Prep</b>	88300	\$9,218.37	79.66%	1.06%	19.29%
<b>Great Hearts Cicero Prep</b>	92317	\$9,133.42	77.05%	2.00%	20.95%
<b>Great Hearts Glendale Prep</b>	89830	\$9,094.74	80.24%	1.07%	18.69%
<b>Great Hearts Lincoln Prep</b>	92732	\$9,128.85	77.88%	1.26%	20.86%
<b>Great Hearts North Phoenix Prep</b>	91422	\$9,223.41	78.73%	1.13%	20.14%
<b>Great Hearts Scottsdale Prep</b>	89757	\$9,305.84	75.98%	1.06%	22.96%
<b>Great Hearts Teleos Prep Closed EOY FY 2018</b>	90143	\$9,274.82	78.56%	13.38%	8.07%
<b>Great Hearts Veritas Prep</b>	80994	\$9,574.48	77.06%	0.99%	21.95%

<b>Great Hearts Veritas Prep (MC)</b>	90994	SEE ABOVE	SEE ABOVE	SEE ABOVE	SEE ABOVE
<b>Great Hearts Archway Chandler</b>	90999	\$8,887.64	79.14%	1.29%	19.57%
<b>Great Hearts Archway North Phoenix</b>	91785	\$8,510.74	83.41%	0.84%	15.76%
<b>Great Hearts Archway Scottsdale</b>	90994	\$10,496.85	68.36%	1.22%	30.42%
<b>Great Hearts Archway Veritas</b>	91000	\$9,992.70	71.82%	1.19%	26.98%
<b>Great Hearts Maryvale Prep</b>	91781	\$8,744.33	84.08%	11.15%	4.77%
<b>Great Hearts Trivium Prep</b>	91156	\$8,515.72	85.27%	1.23%	13.50%
<b>Great Hearts Archway Glendale</b>	91879	\$9,129.85	79.21%	1.30%	19.49%

Source: AFRs, FY2018.

## APPENDIX B: LINKS TO SOURCES USED FOR THIS CASE STUDY

Table 20: Links to Charter Board Data by Charter School

<b>Locator Links to Main Storage of Charter Board Data</b>
Charter Board Data on Charter Locations
***Item one is a link to the IRS Form 990 for Great Hearts Academy
<a href="http://transparency.greatheartsacademies.org/wp-content/uploads/sites/38/2018/10/GH-Arizona-16-17-990.pdf">http://transparency.greatheartsacademies.org/wp-content/uploads/sites/38/2018/10/GH-Arizona-16-17-990.pdf</a>
<a href="#">Great Hearts Academies - Anthem Prep CTDS: 07-85-25-001   Entity ID: 90635</a>
<a href="#">Great Hearts Academies - Arete Prep CTDS: 07-85-27-001   Entity ID: 89487</a>
<a href="#">Great Hearts Academies - Archway Arete CTDS: 07-82-47-001   Entity ID: 92313</a>
<a href="#">Great Hearts Academies - Archway Cicero CTDS: 07-82-48-001   Entity ID: 92315</a>
<a href="#">Great Hearts Academies - Archway Lincoln CTDS: 07-82-34-001   Entity ID: 92708</a>
<a href="#">Great Hearts Academies - Archway Trivium East CTDS: 07-82-66-001   Entity ID: 92707</a>
<a href="#">Great Hearts Academies - Archway Trivium West CTDS: 07-85-95-301   Entity ID: 91001</a>
<a href="#">Great Hearts Academies - Chandler Prep CTDS: 07-85-15-001   Entity ID: 88300</a>
<a href="#">Great Hearts Academies - Cicero Prep CTDS: 07-82-49-001   Entity ID: 92317</a>
<a href="#">Great Hearts Academies - Glendale Prep CTDS: 07-85-40-101   Entity ID: 89830</a>
<a href="#">Great Hearts Academies - Lincoln Prep CTDS 07-82-35-001 Entity ID: 92732</a>
<a href="#">Great Hearts Academies - North Phoenix Prep CTDS: 07-85-84-001   Entity ID: 91422</a>
<a href="#">Great Hearts Academies - Scottsdale Prep CTDS: 07-85-33-001   Entity ID: 89757</a>
<a href="#">Great Hearts Academies - Teleos Prep CTDS: 07-85-51-001   Entity ID: 90143</a>

<a href="#">Great Hearts Academies - Veritas Prep CTDS: 07-89-84-001   Entity ID: 80994</a>
<a href="#">Great Hearts Academies - Veritas Prep (MC)CTDS: 07-89-84-001   Entity ID: 80994</a>
<a href="#">Great Hearts Academies- Archway Chandler CTDS: 07-85-97-301   Entity ID: 90999</a>
<a href="#">Great Hearts Academies- Archway North Phoenix CTDS: 07-82-14-002   Entity ID: 91785</a>
<a href="#">Great Hearts Academies- Archway Scottsdale CTDS: 07-85-90-301   Entity ID: 90994</a>
<a href="#">Great Hearts Academies- Archway Veritas CTDS: 07-85-96-301   Entity ID: 91000</a>
<a href="#">Great Hearts Academies- Maryvale Prep CTDS: 07-85-92-001   Entity ID: 91781</a>
<a href="#">Great Hearts Academies- Trivium Prep CTDS: 07-85-91-301   Entity ID: 91156</a>
<a href="#">Great Hearts Academies– Archway Glendale CTDS: 07-84-06-001   Entity ID: 91879</a>

Source: Arizona State Board for Charter Schools website.

*Table 21: Links to FY2018 Audits for Great Hearts Charter Schools*

	Exact Audit Locator FY2018
<b>Great Hearts Anthem Prep</b>	<a href="https://online.asbcs.az.gov/dms/view_file/543/26757">https://online.asbcs.az.gov/dms/view_file/543/26757</a>
<b>Great Hearts Arete Prep</b>	<a href="https://online.asbcs.az.gov/dms/view_file/468/26758">https://online.asbcs.az.gov/dms/view_file/468/26758</a>
<b>Great Hearts Archway Arete</b>	<a href="https://online.asbcs.az.gov/dms/view_file/750/26747">https://online.asbcs.az.gov/dms/view_file/750/26747</a>
<b>Great Hearts Archway Cicero</b>	<a href="https://online.asbcs.az.gov/dms/view_file/742/26749">https://online.asbcs.az.gov/dms/view_file/742/26749</a>
<b>Great Hearts Archway Lincoln</b>	<a href="https://online.asbcs.az.gov/dms/view_file/937/26751">https://online.asbcs.az.gov/dms/view_file/937/26751</a>
<b>Great Hearts Archway Trivium East</b>	<a href="https://online.asbcs.az.gov/dms/view_file/925/26754">https://online.asbcs.az.gov/dms/view_file/925/26754</a>
<b>Great Hearts Archway Trivium West</b>	<a href="https://online.asbcs.az.gov/dms/view_file/573/26755">https://online.asbcs.az.gov/dms/view_file/573/26755</a>
<b>Great Hearts Chandler Prep</b>	<a href="https://online.asbcs.az.gov/dms/view_file/443/26759">https://online.asbcs.az.gov/dms/view_file/443/26759</a>
<b>Great Hearts Cicero Prep</b>	<a href="https://online.asbcs.az.gov/dms/view_file/746/26760">https://online.asbcs.az.gov/dms/view_file/746/26760</a>
<b>Great Hearts Glendale Prep</b>	<a href="https://online.asbcs.az.gov/dms/view_file/488/26761">https://online.asbcs.az.gov/dms/view_file/488/26761</a>

<b>Great Hearts Lincoln Prep</b>	<a href="https://online.asbcs.az.gov/dms/view_file/917/26762">https://online.asbcs.az.gov/dms/view_file/917/26762</a>
<b>Great Hearts North Phoenix Prep</b>	<a href="https://online.asbcs.az.gov/dms/view_file/600/26764">https://online.asbcs.az.gov/dms/view_file/600/26764</a>
<b>Great Hearts Scottsdale Prep</b>	<a href="https://online.asbcs.az.gov/dms/view_file/484/26765">https://online.asbcs.az.gov/dms/view_file/484/26765</a>
<b>Great Hearts Teleos Prep Closed EOY FY2018</b>	<a href="https://online.asbcs.az.gov/dms/browse/515">https://online.asbcs.az.gov/dms/browse/515</a>
<b>Great Hearts Veritas Prep</b>	<a href="https://online.asbcs.az.gov/dms/view_file/228/26767">https://online.asbcs.az.gov/dms/view_file/228/26767</a>
<b>Great Hearts Veritas Prep (MC)</b>	<a href="https://online.asbcs.az.gov/dms/view_file/228/26767">https://online.asbcs.az.gov/dms/view_file/228/26767</a>
<b>Great Hearts Archway Chandler</b>	<a href="https://online.asbcs.az.gov/dms/view_file/574/26748">https://online.asbcs.az.gov/dms/view_file/574/26748</a>
<b>Great Hearts Archway North Phoenix</b>	<a href="https://online.asbcs.az.gov/dms/view_file/601/26752">https://online.asbcs.az.gov/dms/view_file/601/26752</a>
<b>Great Hearts Archway Scottsdale</b>	<a href="https://online.asbcs.az.gov/dms/view_file/570/26753">https://online.asbcs.az.gov/dms/view_file/570/26753</a>
<b>Great Hearts Archway Veritas</b>	<a href="https://online.asbcs.az.gov/dms/view_file/572/26756">https://online.asbcs.az.gov/dms/view_file/572/26756</a>
<b>Great Hearts Maryvale Prep</b>	<a href="https://online.asbcs.az.gov/dms/view_file/599/26763">https://online.asbcs.az.gov/dms/view_file/599/26763</a>
<b>Great Hearts Trivium Prep</b>	<a href="https://online.asbcs.az.gov/dms/view_file/571/26766">https://online.asbcs.az.gov/dms/view_file/571/26766</a>
<b>Great Hearts Archway Glendale</b>	<a href="https://online.asbcs.az.gov/dms/view_file/621/26750">https://online.asbcs.az.gov/dms/view_file/621/26750</a>

Source: Audits located on Arizona State Board for Charter Schools website, FY2018.

*Table 22: Links to Great Hearts Charter Schools AFRs, FY2018*

	<b>Locator for FY2018 AFR</b>
<i>Great Hearts Anthem Prep</i>	<a href="#">afr18.xls</a>
<i>Great Hearts Arete Prep</i>	<a href="#">afr18.xls</a>
<i>Great Hearts Archway Arete</i>	<a href="#">afr18.xls</a>
<i>Great Hearts Archway Cicero</i>	<a href="#">afr18.xls</a>
<i>Great Hearts Archway Lincoln</i>	<a href="#">afr18.xls</a>
<i>Great Hearts Archway Trivium East</i>	<a href="#">afr18.xls</a>

<i>Great Hearts Archway Trivium West</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Chandler Prep</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Cicero Prep</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Glendale Prep</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Lincoln Prep</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts North Phoenix Prep</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Scottsdale Prep</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Teleos Prep Closed EOY FY2018</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Veritas Prep</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Veritas Prep (MC)</i>	See Above
<i>Great Hearts Archway Chandler</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Archway North Phoenix</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Archway Scottsdale</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Archway Veritas</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Maryvale Prep</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Trivium Prep</i>	<a href="#"><i>afr18.xls</i></a>
<i>Great Hearts Archway Glendale</i>	<a href="#"><i>afr18.xls</i></a>

Source: AFRs located on ADE website. FY2018.

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