



Case Study: Masada Charter School

The Sustainable Practices of a Small Charter School Serving a Rural Arizona Community.



Prepared by the Grand Canyon Institute with a grant from the Arizona Community Foundation

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ACRONYMS & ABBREVIATIONS

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

OVERVIEW

Masada Charter School is located west of Pipe Springs National Monument, in northern Arizona, just south of the border with Utah. It serves 478 students¹ in grades Kindergarten through 9th, within the geographical areas of Centennial Park, Colorado City, and Cane Beds. Masada's stated mission is "to provide the opportunity for its students to develop their learning skills and be motivated to use them continually in their lives through the close involvement of parents and the use of the most current learning technology. These means will lead to comprehensively literate self-fulfilled individuals who will benefit the community."

Masada applied for its charter in FY2001 and opened grades K through 6 in September of 2001. In FY2003, the school added a junior high component. It is organized as a non-profit corporation that was established with community input and led by a board of directors with local representation. All staff work directly for the charter school except for accounting services, which are outsourced to an independent firm.

Grand Canyon Institute's (GCI) research on charter school finances cites this organization as an exemplary small charter school located in a rural area based on the findings shared in this case study. The academic and financial performance of Masada Charter School is consistent with the stated goal of charter schools, that is, to provide a quality school choice option for all students and parents.

The Purpose of this Case Study

The purpose of this case study is to document and share the financial management practices of an exemplary small charter school organization serving a rural community for consideration and replication by others. Masada was selected because it stood out as a small charter school serving a rural, geographically-isolated community that demonstrated academic excellence and fiscal integrity. In preparing this case study, GCI reviewed the past five years of academic and publicly-available financial data from Masada's 16-plus years of

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.

¹ Source: Annual Superintendent's Report FY2018-FY2019.

operations. In several cases, FY2019 data has been included to provide six years of data for review.

In its research of charter school financial practices in Arizona, the Grand Canyon Institute has identified several exemplary organizations that operate sustainably and with respect for the public funds entrusted to them. GCI has developed a series of case studies featuring these charter corporations to document and share their approaches to charter school financial management in Arizona.

Best Practices in Charter School Management

A wide range of practices are identified in this case study that contribute to Masada's excellent academic and financial performance. Some practices are included here that are not specifically financial, but they have had a direct financial impact.

Key financial practices findings documented in this case study include:

Community Engagement

- Charter school established through a community-informed process
- Community contributions reduced the cost of building facilities

Academic Program

- Shared decision making among the school's leadership team
- Teaching staff is empowered to lead
- Professional development provided onsite through an external consulting firm
- Commitment to serving students with disabilities
- Class sizes are small to maximize the learning environment
- Classroom instruction spending is prioritized

Financial Management

- Leased space before purchasing and building its own facilities
- Detailed financial reports provide transparency
- Charter operates with a surplus on an annual basis
- Debt managed so that net assets remain positive
- Financing with USDA bonds provides more conservative terms for borrowing
- Use of outsourced accounting services allows school staff to focus on education
- Related-party relationships are declared and at reasonable rates

Commitment to employees

- Nonprofit charter company owns property and assets
- Salaries and benefits are generous when balanced with class sizes

Future sustainability

- Nonprofit charter company owns property and assets
- Structuring charter school in preparation for leadership change

The Grand Canyon Institute

The Grand Canyon Institute is a think tank that provides analyses 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)².

The Grand Canyon Institute appreciates the cooperation and availability of Masada's senior leadership team 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

Masada's liberal arts education is listed as a "traditional K-9" program with the ASBCS. There is a clear dress code that includes a school uniform, school songs, and common assemblies to foster a sense of community and responsibility among students. Masada's mission is:

To provide the opportunity for its students to develop their learning skills and be motivated to use them continually in their lives through the close involvement of parents and the use of the most current learning technology. These means will lead to comprehensively literate self-fulfilled individuals who will benefit the community.

Authorized by the Arizona State Board for Charter Schools (ASBCS), Masada Charter School began serving students in 2001 with a technology-enhanced liberal arts education. The community effort that led to the school's establishment is apparent in its self-published "We are Masada" book, on its website,³ and in its policy and procedure documents.

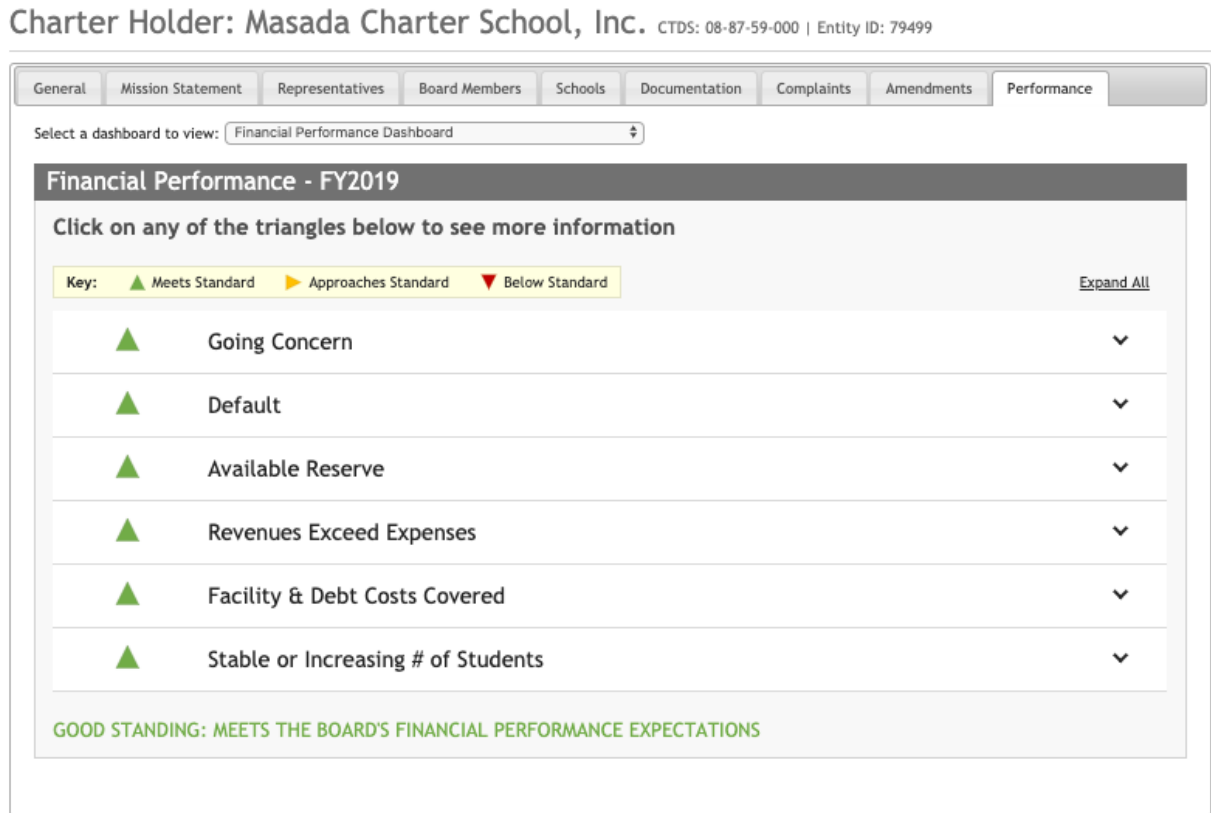
The school's leadership team includes LeAnne Timpson (administrator), Mary Timpson (administrator of curriculum and instruction), Jessikah Timpson (administrator for special education) and Polly Dockstader (junior high principal). All have been with the charter school since its inception and most worked for little-to-no pay when the school first began operations.

Masada Charter School met every aspect of the ASBCS' financial performance measures up to FY2019. It continued this trend by meeting all of the revised financial performance standards introduced in FY2019.

² The Grand Canyon Institute's policy papers on charter financial practices can be found at <https://grandcanyoninstitute.org/category/research/charter-schools/>.

³ See <https://www.masadaschool.org/>.

Figure 1: Masada Charter School ASBCS Financial Performance Measures⁴



Masada's academic performance exceeds standards according to the ASBCS academic performance dashboard.

⁴ For a comprehensive guide to these standards please see <https://asbcs.az.gov/blog-terms/description>. The revised guidelines introduced on October 15, 2018 can be found at: https://asbcs.az.gov/sites/default/files/documents/files/Operational%20Guidance%20Document%20Revised%2010.15.18_FINAL.pdf

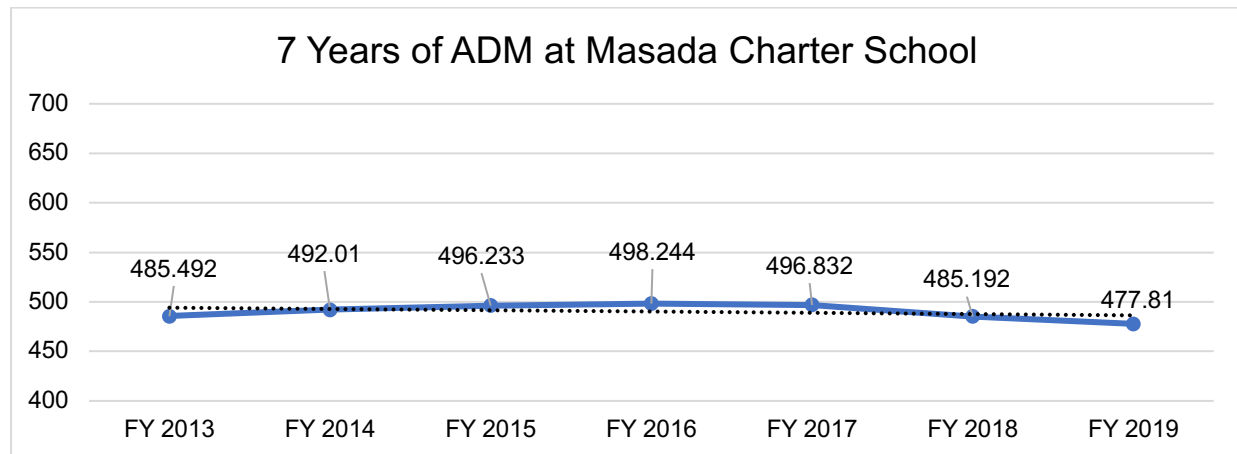
Figure 2: Academic Performance

Charter School: Masada Charter School CTDS: 08-87-59-101 | Entity ID: 79511

General	Site Contact	Governing Body	Grades	Member Campuses	Charter Holder	Amendments	Academic Performance	File Complaint
Academic Performance								
Please see the charter holder's detailed information page to view the charter holder's financial and operational performance.								
Masada Charter School								
	FY 2017		FY 2018		FY 2019			
	Traditional		Traditional		Traditional			
	Elementary K-9		Elementary K-9		K12 K-9			
	Measure	Rating	Measure	Rating	Measure	Rating		
1a. A-F Letter Grade	A	Exceeds	A	Exceeds	A	Exceeds		
1b. School Improvement	No	Meets	No	Meets	No	Meets		
OVERALL RATING	Exceeds Standard		Exceeds Standard		Exceeds Standard			

In FY2019, the school had an average daily membership (ADM) of 477.81. Enrollment peaked at 498.244 ADM in FY2016 and has seen a slight decline since. The school's management tracks student departures to understand underlying causes. Some of the shift of students out of the school in FY2018 and FY2019 is related to the desire of older children to participate in organized sports at the junior high and high school level. Masada's leadership is considering the construction of a gymnasium in order to supplement their existing programs. Masada's ADM is dependent on a small geographical area and fluctuations in the age groups entering any school in the area can vary greatly from year to year as seen in the school's current large kindergarten and first-grade population.

Figure 3: ADM at Masada Charter School, FY2013-FY2019



Note: A trend line is provided showing the "moving average" Source: GCI consolidated ADM figures from Superintendent's Annual Reports FY2013-FY2020. Most recent years FY2019 and FY2020 derived from September 2019 actuals for these two years from ADE.

BEST PRACTICES IN CHARTER SCHOOL MANAGEMENT

Masada Charter School's leadership and the community have worked collaboratively from the initial planning to establish the school through to the present. Together, they have drafted the school's charter application, designed and built its facilities, and made decisions about significant changes to the school over the years. The site is meticulously planned and many of its buildings' amenities were donated by the community and local businesses.

The leadership's work with staff to embed professional development into how the school operates directly benefits students' academic performance while reducing staff turnover. Several of the school's most important practices are not directly financial in nature but do impact the quality of education provided which has ensured sustained enrollment at the school since it first started serving children in 2001. In addition, the school's commitment to its staff is evident in generous benefits including participation in the Arizona State Retirement System and onsite babysitting, in response to staff need.

Community Engagement

The community of Centennial Park near the Arizona-Utah border was a fundamental part of Masada's founding and continues to play an important role in the school's management and planning. While community engagement does not necessarily reflect a financial practice, the effort invested in these relationships have had a direct impact on the school's financial outcomes and ensure that families have a connection and commitment to the school that sustains enrollment.

Charter school established through a community-informed process

Masada Charter School was established as the result of a community-centered effort to empower two local educators—LeAnne Timpson and Mary Timpson—as they developed a community-based charter school in a small rural community. Masada has been a joint effort of the community and the charter organization's founding members since discussions to establish the school first began in 2001. Community engagement ensured that the school's academic program would attract enough families once the school opened.

Today, Masada's corporate and governing boards include parents, representatives of the business community, and educational experts. The corporate board includes John Timpson, a local businessman, Clayne Wayman, Claude Cawley, and LeAnne Timpson (secretary ex officio). The corporate board appoints the school's administrator, currently LeAnne Timpson. This means this position acts as an agent of the board. The corporate board's job is to help with facility acquisition and to ensure the implementation of programs. The corporate board appoints the governing board. This group provides operational oversight of the school, including budgeting, managing debt, and assists with building projects; community relationships; and programming. LeAnne Timpson is the school's charter representative.

The company's management team stated that it has stayed focused on remaining authentically aligned to the school's vision: "to unleash the learning power of students." This focus on core learning is complemented by incorporating all aspects of the arts and physical activity. Currently, the school is exploring the feasibility of creating a gymnasium space on campus to further meet

this commitment. The loss of older students to a nearby district has been linked to the availability of extra-curricular sports at those schools. These considerations regarding adding a gymnasium by upper management are consistent with Masada's focus on providing an education to the whole child.

Community contributions reduced the cost of building facilities

Masada received significant support from the local community when its facilities were designed and built. Its first building was built with materials donated from a local company and with the help of community volunteers. The same company donated materials for the second building. Utilizing donations and volunteer labor significantly reduced the financial burden of building facilities. The community participated in designing the school gardens, library, common areas, classrooms, and restrooms. Leanne Timpson selected and approved all of the gardens surrounding the school and inside of the building. Statuary of children at play and living gardens in the learning areas ensconce the visitor and child to a place that is truly a child's garden. This facility and its upkeep would not be available without the community's active involvement and participation.

Academic Program

According to Masada's leadership, the school utilizes what it calls a "living curriculum" that has the flexibility to allow teachers to bring their particular skills and passions to their lessons via a close connection between the school's stated vision, consultations with the organization's learning consultants, and a vigorous and continuously developed professional supervision model. The professional development model places responsibility on the teacher with support and a commitment to the reflective practitioner model from the administrative team. Mary Timpson oversees curriculum implementation at Masada. The following are key attributes of Masada's academic program.

Shared decision making among the school's leadership team

Decision-making at the school is guided by the administrative team which consists of a superintendent, who also functions as the elementary-level principal, an administrator of curriculum and instruction, an administrator of special education (SPED) services, and a junior high principal. The current leadership team has been involved in the school since its founding; all participated in writing the school's charter in the early 2000s.

Elements of educational visionary and reformer Dr. Ted Sizer's work on what constitutes an essential school are evident in Masada's concise "guiding principles" which were developed with all staff and were updated once the school surpassed 50 employees. These include:

COMMUNITY COLLABORATION

Masada Charter School has been a joint effort by the community and its founding members from the beginning—its first building was constructed by community volunteers with materials donated by a local company.

The board includes parents and local business representatives. Community engagement ensures that the school's academic program attracts enough students to remain viable.

1. Every student can learn, and it is our responsibility to facilitate a process that identifies his/her individual learning style and creates the intrinsic motivation needed to empower the student to strive to do his/her personal best.
2. Learning best takes place in a "small school" environment where educators, students, and parents share a common set of values and beliefs that provide a consistent focus.
3. Academic excellence and personal growth can best be achieved through the combined efforts and direct involvement of students, educators, parents, and the community in the learning process.
4. Best practices for delivering instruction are constantly evolving. The staff at Masada Charter School is committed to modeling lifelong learning by actively pursuing and implementing more effective means of instruction as those means are identified and proven valid.
5. The quest for academic excellence fosters a lifestyle where students develop the inner resources and individual responsibility needed to live purposeful lives, meet the challenges of today and tomorrow, and contribute positively to family, work, and society.

The school's guiding principles, having been developed and agreed upon by all staff, set the tone for how the staff work with students, their families and the community.

Professional development model empowers teachers to lead

The organizational structure, corporate culture, and leadership model at Masada are designed to give the school's leaders and the teaching staff the freedom and leeway to lead. This intentional organizational structure is grounded in the way the organization came into existence in rural Arizona. Management uses outside facilitators to ensure that they keep their learning community on course while most of the professional development is part of a reflective process with the teacher at the center of deciding where they need to focus their efforts.

Due to Masada's location in far northern Arizona, it was decided early on by the school's leadership that it would be more cost-effective to provide professional development through external consultants that would travel to the school to work with staff. This represents a financial commitment by the organization to invest in the ongoing development of its staff. It ensures that all staff have the opportunity to continue growing professionally while overcoming the challenges that exist in accessing such a service given their location in a remote rural location.

Lifelong Learning, an external consulting organization, travels to Colorado City monthly to work with Masada's staff onsite to provide professional development. The consultants facilitate on-the-job learning that 'engages teachers and ignites them,' according to Mrs. Timpson.

Teachers spend one day before each new school year starts looking at data to focus on meeting the needs of their students. They commit to an "action learning project" annually. Teachers select an area that they want to grow in and use data to drive their project. Their efforts culminate with presentations to their colleagues to share their learning across the staff. The focus of action learning projects has varied year to year. When Masada adopted Pearson's math curriculum out of concern for its students AZMerit test scores, teachers focused their action learning projects on math. Writing has been the focus in other years. Some years teachers pick their own focus area; examples include metacognition, recreation, character building, and critical thinking. Teachers

have a high degree of responsibility for identifying and developing their own action learning projects. This model contributes to the low turnover at the school.

Commitment to serving students with disabilities

In preparing herself for the challenges of running a charter school, LeAnne Timpson trained and became certified in special education. The school has a special education director and works with the local school district as it identifies potential special education needs during Child Find surveys of the community. Mrs. Timpson uses her knowledge in special education to ensure that students with disabilities are integrated within their classrooms and served there.

In FY2018, Masada spent 6.2% (\$257,858) of its expenditures on special education services, compared to an average of 5.2% for Arizona's charter sector as a whole as recorded on AFRs. Districts, on average, spent 12.2% of their expenditures on special needs students. Preliminary figures for FY2019 show Masada's special education spending now accounts for 7.1% of its total expenditures. The local district spent 9.4% on special education in FY2019 according to ADE's Superintendent's Annual Report.

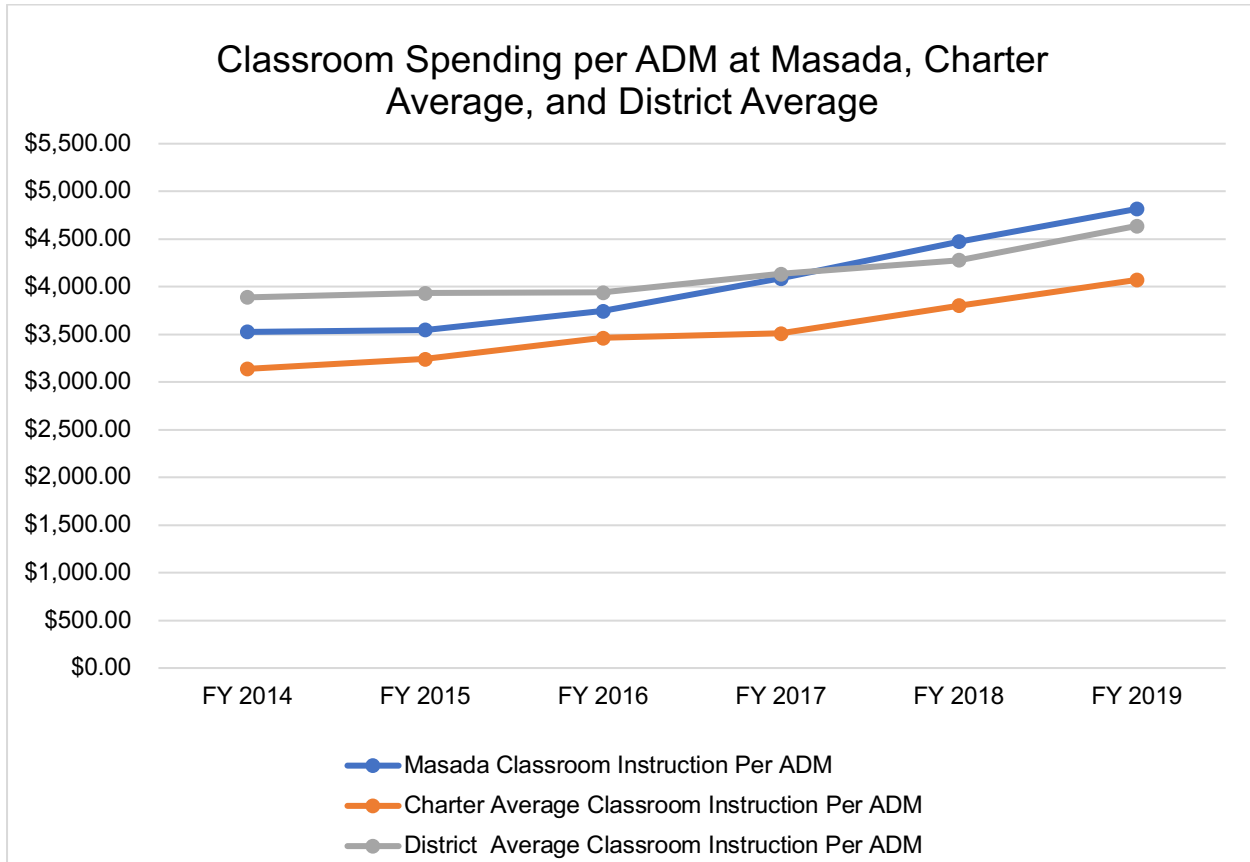
Smaller class sizes are expensive but benefit the students

Masada's class sizes are smaller than average which has a direct impact on net income and teacher salaries. Kindergarten through 2nd-grade classes average 16 to 17 students. Third-through 9th-grade classes average 25 students, with 30 being the most. The decision to cap class sizes, especially the lower grades, at smaller numbers is driven by what leadership deems is in the best interests of the school's students.

Classroom Instruction spending is prioritized

Expenditures on classroom instruction published in ADE's Superintendent's Annual Report are a closely watched figure. This information is found in district and charter AFRs annually submitted to ADE. Figure 4 displays Masada's expenditures on classroom instruction in comparison to the charter sector and district school averages.

Figure 4: Per ADM spending on Classroom Instruction FY2014-FY2019



Source: Superintendent's Annual Report, FY2014 – FY2019.

In FY2018, the Arizona Department of Education's Superintendent's Annual Report listed the average expenditure on classroom instruction among charters to be 47.7% and 52.7% for districts. Masada consistently exceeds both charter and districts with classroom instruction expenditures of 53.7% in FY2018.

Financial Management

Masada's leadership has taken a relatively conservative approach to managing the school's finances. As a result, the school has been able to weather any fluctuations to its enrollment without over-taxing its financials.

Based on interviews with Masada's leadership and reviews of financial data, the organization's financial decision-making is guided by its educational priorities. The results in both areas—academic and financial performance—are proof that this focus works in the charter sector. The organization has also worked diligently to control for any practices that might be interpreted as “conflicts of interest.”

Leased space before purchasing and building its own facilities

Masada entered the charter market cautiously by leasing space from a nearby private school in its first year of operation to gauge community interest and enrollment numbers. This gave the school the opportunity to save money to put toward purchasing land and constructing its own facilities once it had a sense of what its enrollment would be. Starting in a leased facility before assuming debt can be one of the most important financial decisions made by a charter company by allowing time to save money and to get a sense of anticipated enrollment. Today, its campus has three buildings with a gymnasium under consideration.

Detailed financial reports provide transparency

Masada provides extensive transparency for its annual reporting to the ASBCS, IRS, and ADE. Masada submits a detailed audit⁵ to the ASBCS allowing for transparency and fiscal monitoring. Its AFR submitted to the ADE agreed with reporting on the school's audit, as required. Masada's IRS Form 990, the corporate federal tax form filed by nonprofit organizations, provides detailed accounting for its expenditures and salaries for its corporate officers. Masada also provided a detailed accounting for related-party staff members it employs (more information follows).

Masada's most recent audit provided by John C. Todd II PC provides a detail page on revenues and expenditures. Charter schools are allowed to use several accepted formats for presenting their audit data. Masada uses the most comprehensive and open type of audit reporting as of FY2019. GCI notes that their AFR reports submitted to the ADE and IRS Form 990s also provide extensive transparency.

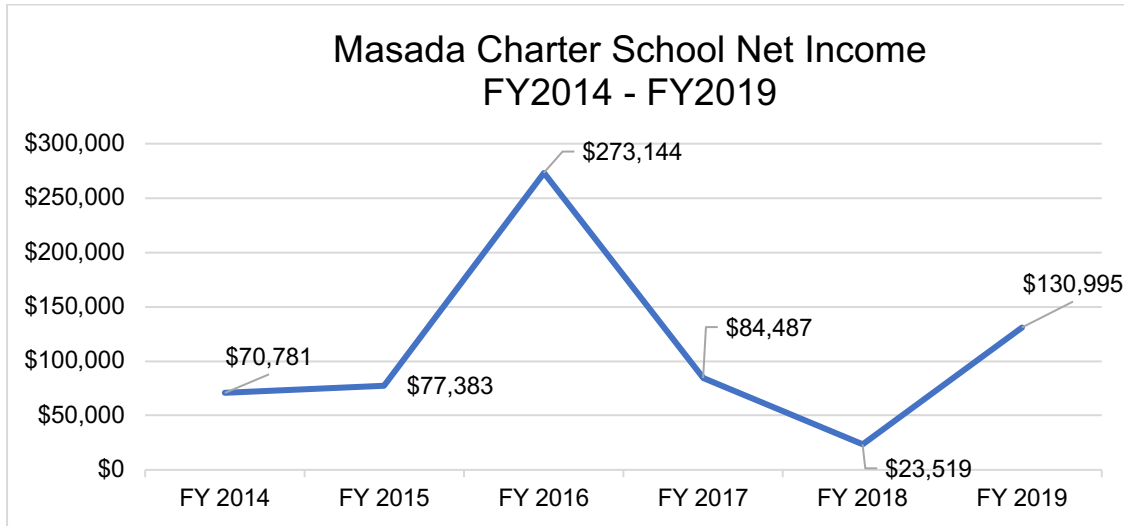
Charter operates with a surplus on an annual basis

Masada's annual budgets are balanced and the school operates with a surplus. The following revenue and expenditure figures were derived from Masada's audits and AFRs. The school's finances are such that the organization can experience fluctuations in its ADM without significantly jeopardizing its financial position. While the school seeks parental and community donations it does not need to rely on these funds as they make up only 2.5% of Masada's revenue stream. This compares to the average local revenue across Arizona's charter sector of 8%.⁶

⁵ GCI delineates between detailed and basic audits based on the reporting levels on the audits.

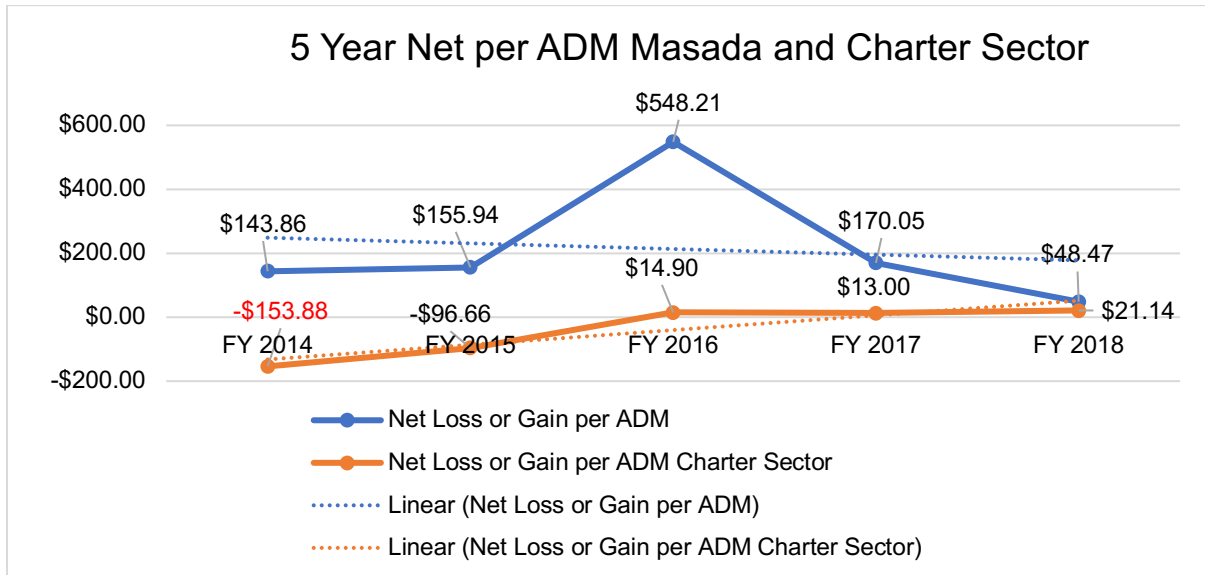
⁶ Source: Comprehensive analysis of AFR revenue reporting for all AZ charter schools in FY2018. Local is identified as the total of locally funded revenues and interest on investments and may include local tuitions at a pre-school on site, fundraising activities, tax credit donations, dues and fees, etc.

Figure 5: Masada Net Income, FY2014-FY2019



Source: Audits, FY2014-FY2019. Collated by GCI.

Figure 6: Net Income per ADM with Moving Average Trend Line



Note: Dotted trend line shows the moving average of Net Income per ADM. Source: Masada Charter School and collated charter sector audits, FY2014-2018; AFRs, FY2014-2018; and IRS 990 data, FY2014-2018.

Despite Masada's 1.6% decline in enrollment since FY2013, Masada's financial situation remains sustainable given its financial position as discussed later in this case study. The six-year median net income per ADM is equal to \$163. Masada consistently ends the year with a net gain and adjusts spending and its use of debt in a manner that ensures long-term financial viability for the charter school. This result is consistent with a charter school that has not over-extended its debt.

In FY2019 Masada realized a gain of \$11,031 on conservative investments resulting from past net gains. The organization also had a positive cash flow as noted on the ASBCS' performance dashboard and had cash reserves at the end of FY2018 of \$1 million. Six-year averages for cash

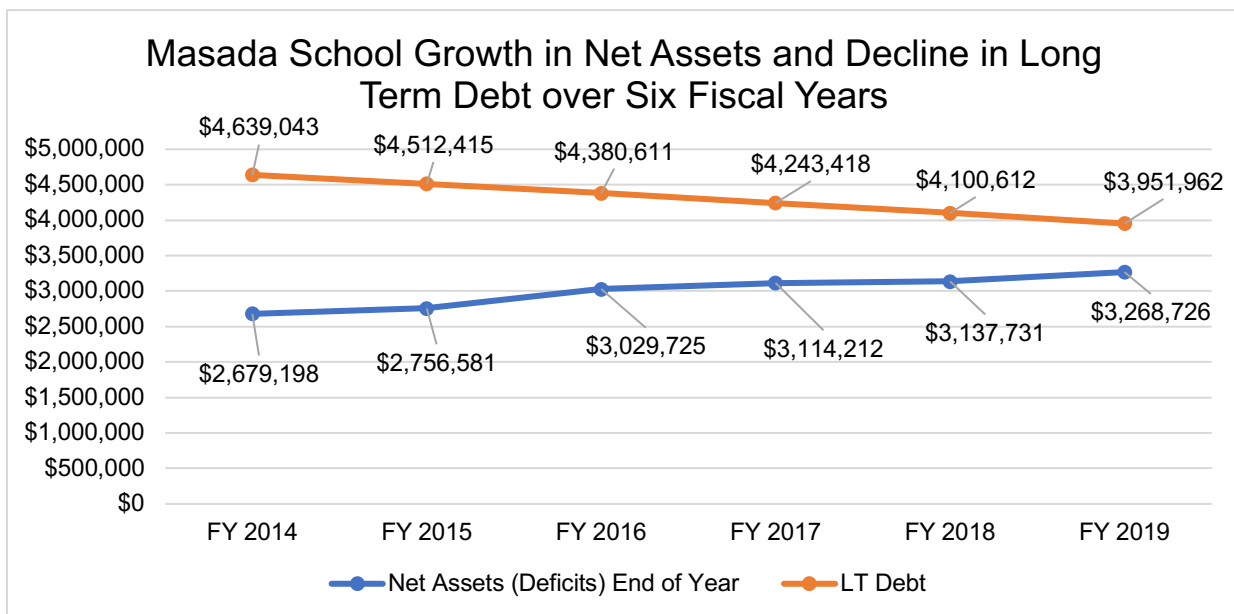
at the end of the year were \$1.6 million. These results are indicative of a company that works to ensure cash reserves which are maintained in investments. New money from the state goes to classroom instruction as reflected in the school's AFR.

Masada has managed its debt so that net assets remain positive

Net assets can act as a measure of a company's management of its property and assets over the long term. The school's leadership team, including the corporate board, manages real estate for the organization. The positive trend seen in Masada's net assets stands out in a charter market where overall net assets are in decline rather than ascending.

According to Masada's FY2018 audit, its net assets equaled \$3,137,731, up from \$2,679,198 in FY2014. GCI compares this to the average for net assets in the charter school market which averaged \$141,473 in FY2018⁷, down from an average of \$357,854 in FY2014. The total net assets for FY2018 for Arizona's charter sector were \$132.2 million. In that fiscal year, 56 charter corporations out of 240 (23.3% of the market) had net deficits. This finding is based on an analysis of FY2014-FY2018 audits.

Figure 7: Masada Charter School's gain in net assets and decline in debt over six fiscal years

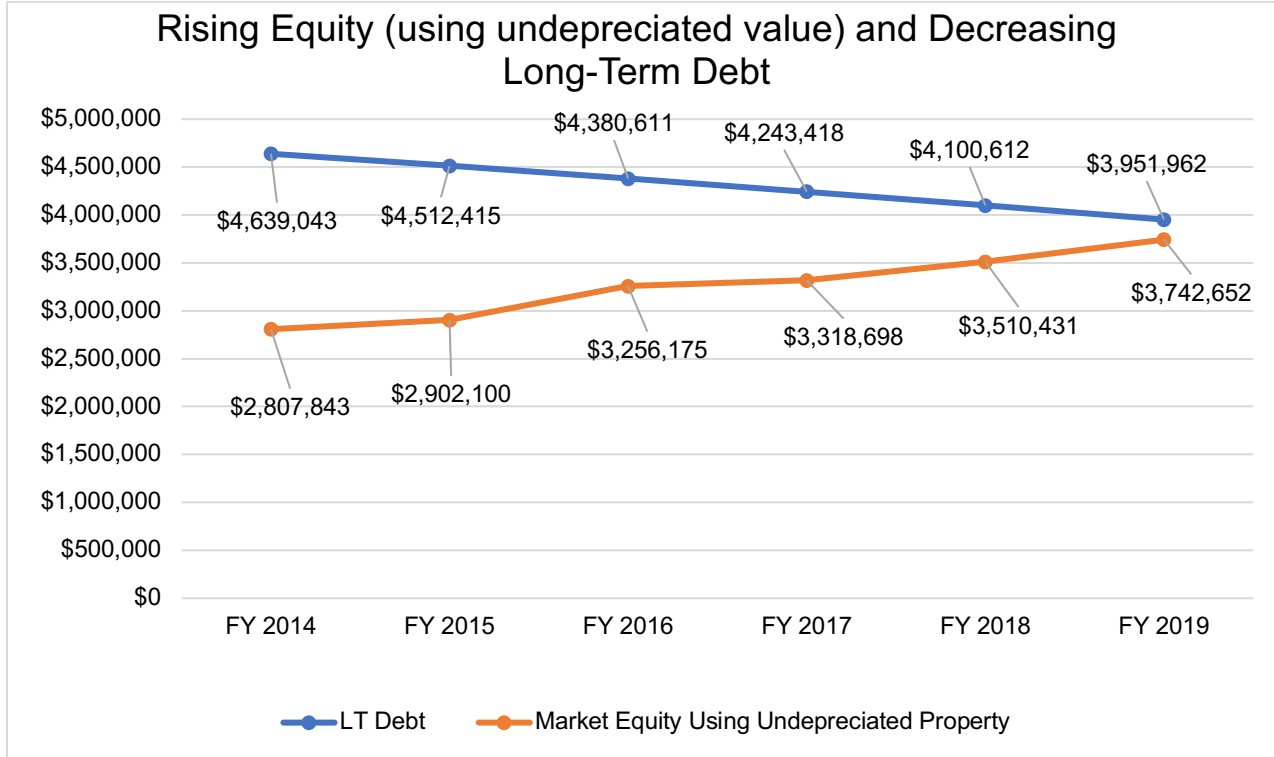


Source: Audit data from ASBCS website collated and analyzed by Grand Canyon Institute FY2014-FY2019.

⁷ GCI uses FY2019 in the Masada data as the corporation posted its audits for that year early. The summations regarding the total charter market currently only extend to FY2018 as some audits have yet to be filed for FY2019.

This is an equity positive position (see Figure 8) with debt loads that can easily allow the company to weather variances in ADM into the near- and long-range future. Masada's revenues and balanced expenditures can easily support its commitment to pay off its debt.

Figure 8: Rising equity and decreasing long-term debt at Masada Charter School



Source: Audits, FY2014 – FY2019. Equity calculated by subtracting long-term debt from the declared un-depreciated property values on the audits.

Among charter schools with enrollment between 300 and 599 students, those with long-term debt average loans of \$4 million. Masada, as noted, has long-term debt of \$4.1 million. There are 35 charters with debt that range from \$3,200 to \$14.4 million. Among this group, 11 have negative net assets. Masada, as noted earlier, had net assets of \$3.1 million in FY2018. The average net assets in this group was \$1.2 million.

Audits list a charter corporation's property and equipment in two ways: depreciated and un-depreciated value. Federal IRS rules, since 1999, call for depreciation to be taken in a systematic way year to year. Additional property was accumulated in FY2015 and that fact shows up in the changes in both of these measurements. GCI used un-depreciated value for equity in the figure above as that price is closest to what the market would estimate as the current value.

Table 1: Undepreciated and depreciated values at Masada, FY2014 – FY2019

	Undepreciated Property and Equipment	Depreciated Property and Equipment
FY2014	\$7,446,886	\$5,760,624
FY2015	\$7,414,515	\$5,470,874
FY2016	\$7,636,786	\$5,412,592
FY2017	\$7,562,116	\$5,208,212
FY2018	\$7,611,043	\$4,981,989
FY2019	\$7,694,614	\$4,789,137

Source: Audits, FY2014 - FY2018

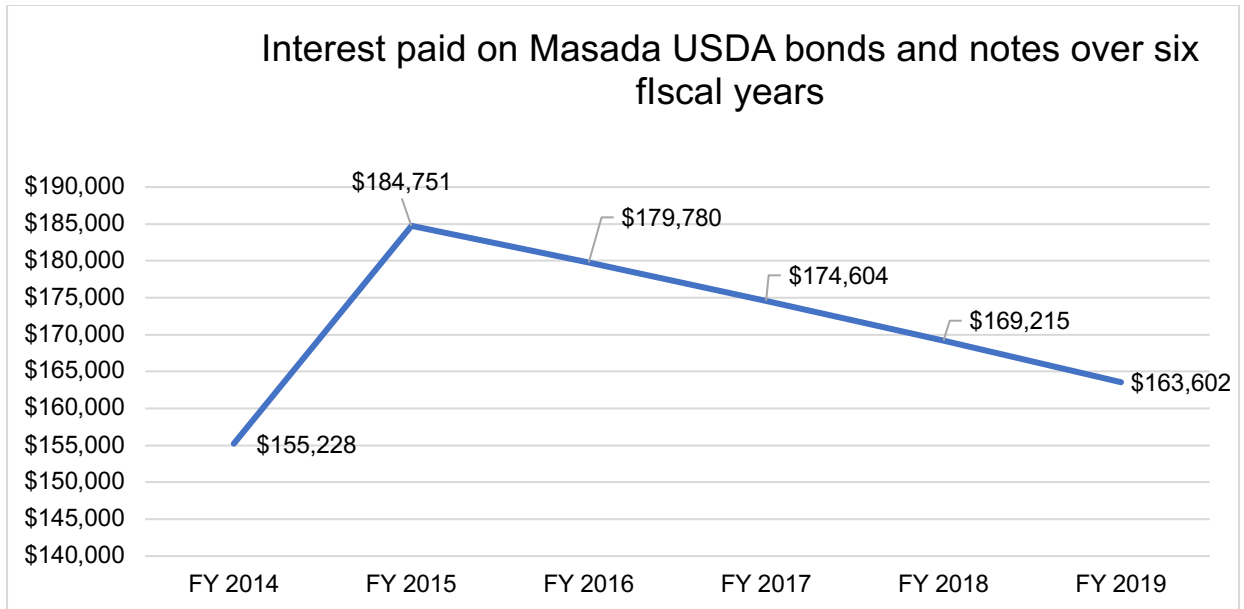
Masada has used USDA bonds with more conservative terms for its borrowing

Masada's leadership and the community did a thorough review of all types of funding mechanisms to ensure they could build their school in this rural community. Masada has had three USDA bonds since 2003. With each subsequent bond, the interest rate has dropped from 4.375% to 3.518%. USDA debt at the end of FY2013 was \$2,530,269. In FY2015, Masada financed a third building increasing its total debt to \$4,760,899. The current note (Masada's third USDA loan) is at 3.518%. Former notes were at 4.25% (second note) and 4.375% (first note). As of end-of-year FY2019, Masada's remaining USDA debt was \$3.95 million.

Table 2: Masada's long-term debt as of FY2019

4.25% note payable to USDA	\$1,016,570
4.375% note payable to USDA	\$1,024,949
3.518% note payable to USDA	\$2,059,093
Total USDA bond debt	\$4,100,612
Total interest paid in FY2019	\$163,602

Figure 9: Interest paid on Masada's USDA bonds and notes, FY2014-FY2019



Source: Audits, FY2014-FY2019.

Masada avoided the pitfalls of using investment values⁸ to secure its properties by cautiously accumulating property. These decisions were made with the advice of its business manager and the consent of its board. The school's leadership team manages real estate for the organization. There is no indication in the data that the properties or the debt on those properties are over-leveraged and sufficient evidence that the organization has built up equity in its properties. The addition to their property in FY2014 did not overload the company with debt. The property's undepreciated value is \$7.7 million, with a depreciated value of \$4.8 million. Masada reports at least \$900,000 in equity based on depreciated value.

Of the 146 charter corporations that have long-term debt, Masada is only one of three that use USDA funding. The two main sources of long-term debt for charter corporations are Industrial Development Authority (IDA) Educational Revenue Bonds and private lenders. Of the \$2.1 billion

⁸ "Investment value" is the highest level of leveraged borrowing on a charter school's property and expected annual revenues from ADE on ADM. "Market value" is the actual value of the property and assets and is augmented during bonding by claiming anticipated revenues. "Depreciated value" represents what the property may be worth during a bankruptcy or foreclosure sale. This type of borrowing is common when the bonds are purchased through the IDA. Reporting of undepreciated and depreciated values are a part of the annual audits and required by federal laws regarding depreciation (1999 IRS reporting rules).

of debt held by charter school companies in Arizona, \$1.95 billion is held in IDA bonds. These tend to be higher interest bonds that can be borrowed based on projected ADM with minimal equity.

Use of outsourced accounting services allows school staff to focus on education

Masada's leadership decided to outsource its financial and accounting work so that it could focus on the delivery of its academic program. The school uses the company Numbers Etc. and Etc., a full-service tax and accounting firm serving small- and medium-sized businesses and nonprofits, that serves as a de facto finance "department." The school's leadership determined this approach was cost-efficient and ensured that finances are managed professionally. An administrative assistant that works at the school serves as a point person for collecting and sharing data with the financial services firm. Masada's leadership and the firm work together to discuss changes in ADM and their impact on the school's finances.

Related-party relationships are declared

Currently, the only related-party relationships are with individuals employed by the school. Fifteen staff members and their salaries are declared on Masada's IRS Form 990 under "business transactions with interested persons". In all cases but one, the staff members are children or grandchildren of board members. The current salaries declared on the IRS Form 990 for FY2018 are in keeping with similar positions in other charters and school districts. Masada took the extra step of declaring salaries under the IRS' threshold of \$100,000 per year. In a small town, related-party employees are harder to avoid. Importantly, the school has declared relevant information regarding related party transactions in the past with the IRS.

The employment of related parties by charter school companies has raised questions due to inflated salaries and questionable roles. Several of the key staff, including the Timpson family members, worked pro bono during the early years of the school's development. Charter schools, which operate as privately-run businesses, often operate as family enterprises. In Masada's case, it is clear in the company's financial reports that related-parties are working at fair-market rates.

Commitment to employees

Masada works to develop its employees as teachers and by encouraging paraprofessionals who wish to pursue a degree in education. While the school's salaries are slightly lower than average, its classroom sizes are relatively smaller and its benefits package is generous.

RELATIVELY
SPEAKING

While the employment of related parties by some charter school companies has raised questions due to inflated salaries and questionable roles several of the key staff—including the members of the founder's family—worked pro bono during the early years of the school's development. In addition, all family related-party relationships and salaries are declared with the IRS.

Staff development pipeline minimizes turnover

Mrs. Timpson stated that the school is dedicated to growing their own teachers by hiring paraprofessionals to help in classrooms then working to develop those that want to pursue a degree in education. Paraprofessionals are able to get an associate's degree through Mohave Community College then take online classes for a degree in teaching. Once paraprofessionals graduate with their teaching degrees they can be hired into the classroom. This opportunity for professional progression has resulted in minimal turnover.

Salaries and benefits are generous when balanced with class sizes

In an industry that on average provides 22.2% in benefits and payroll taxes as measured on AFRs benefits paid by Masada averaged 32.5% from FY2014-FY2019. Masada Charter School stands out as an employer that seeks to compensate its teachers at as close to a fair market rate as their budgets allow and rewards teacher performance with raises.

The average budgeted salary for FY2018 was \$38,377 and for FY2019 was listed at \$41,064 on the Arizona Teacher Salary Variance dataset from the ADE. This represents a 7% raise for existing staff each year. The average teacher salary at Colorado City Unified School District according to the same source was \$43,608 in FY2018 and \$46,305 in FY2019. Raises for the managerial staff grew by 6% over the same three years.

Masada participates in the ASRS, as provided for in Arizona's charter school law, which provides a match for retirement savings. The match amount set by ASRS has been increasing and is currently at 11.2%. GCI has found that only 42% of Arizona charter schools participate in ASRS, while all district schools in Arizona are required to participate. While all charter schools receive the same equalization funding and additional funding provided by the state, participation in the ASRS requires that more of that funding be allocated to employees' retirement accounts.

Table 3: Salaries, Benefits and Contributions to Arizona State Retirement System

	ALL salaries from AFR	ALL benefits from AFR	Totals from AFR	Benefits as a %	ASRS from Audit
FY2014	\$1,869,591	\$592,078	\$2,461,669	31.7%	\$182,993
FY2015	\$2,048,053	\$671,028	\$2,719,081	32.8%	\$208,384
FY2016	\$2,087,134	\$663,699	\$2,750,833	31.8%	\$239,603
FY2017	\$2,177,911	\$705,598	\$2,883,509	32.4%	\$250,024
FY2018	\$2,299,555	\$792,766	\$3,092,321	34.5%	\$264,449
FY2019	\$2,449,845	\$779,637	\$3,229,482	31.8%	\$289,082
Six-year average				32.5%	

Source: Masada AFRs, FY2014-FY2019.

In GCI's policy paper, *Following the Money*⁹, it was noted that on average Arizona charter sector salaries and benefits for upper management were noticeably higher than districts of a similar size (i.e. similar ADM count). GCI's analysis found that Masada Charter School did not follow this trend. Its upper management compensation packages are consistent or less than similarly-sized school districts—in this case with a student population of between 300 and 600 students in Arizona. LeAnne Timpson received total compensation of \$97,208 in FY2018. Her total compensation has only grown by 6% since FY2016.

Future sustainability

The decisions made by Masada's leadership have underpinned the organization's sustainability to date and have important implications for the future.

Nonprofit charter company owns property and assets.

Masada's property and assets are owned directly by the nonprofit organization, rather than being owned by a related-party to the school or leased from a third party. If the property or school are sold, the net gain (or loss) on the sale will remain with the organization as an asset rather than being paid as a profit on real estate to an individual charter holder or third party. If the school were to be sold, the gains from the sale would be required to be donated to a charitable cause, which would be fitting given the community's involvement over the life of the organization.

Structuring charter school in preparation for leadership change

The charter holders are clear about their determination for Masada School to go on when the current leadership retires. GCI broached the issue of long-term sustainability when the founder and key leadership people leave or retire. This is a topic that is under consideration by the school's leadership without a definitive plan at this time.

LESSONS LEARNED

Masada's path to becoming an academically and financially exemplary Arizona charter school originated with Leanne Timpson's passionate desire to create a school that was truly a community choice within a rural Arizona small town. Masada invested time in engaging the community in developing a vision for the school while preparing its application to become a charter. GCI believes that this involvement with the community and the support that evolved around an educator's vision a vital component in the long-term viability of a new charter school. Masada has stood the test of time.

The lessons learned from Masada's experience include:

- **Educational excellence is a priority.** Leadership at Masada has invested in staff development training and professional learning communities. This effort is reflected in the academic performances at this charter school and the commitment of its staff.
- **Community engagement is an essential part of how Masada operates.** Masada was founded based on a vision that evolved out of a community engagement process. Since then, the school has developed on-going relationships with a local private school and the district, and is governed by community-based boards. Through these relationships, Masada remains responsive to its communities' needs and sustains ongoing interest in the school.
- **The loans that Masada has taken have allowed it to thrive while it builds equity.** An atypical type of financing was chosen by Masada's board and leadership. Masada is one of three Arizona charters to obtain USDA funding for its buildings and equipment. Commercial and low interest USDA loans provide viable alternatives to IDA financing of charter debt if the charter can prove that they can meet the standards for these competitive rates. The school has never over-leveraged its properties.
- **Staff compensation and professional development are important for retention.** Masada provides its staff with competitive wages, generous health benefits, and a commitment to participation in the Arizona State Retirement System. Management is committed to its staff's professional growth and encourages development of all staff, including its instructional assistants.
- **Cash reserves are fundamental.** A charter school must have sufficient cash reserves to meet its financial obligations and to sustain any fluctuations in revenue due to changing enrollment. The ASBCS performance standard for cash liquidity is 30 days. A charter holder must be prepared to manage financial resources with this benchmark in mind. Masada had a 204.4 day available reserve in FY2019.
- **Strong governance provides steady leadership.** Masada's governance has played an important role in maintaining the vision of the school and guiding it through change over the years. This ensures that decisions made by the school will be supported by the community.

Masada Charter School is an exemplar of starting slow and acquiring facilities and increasing enrollment in a fiscally sustainable manner while consistently building an "A Exceeds" program. This small school does this while accepting all students from the community in an inviting and supportive manner. This case study provides a framework for others to follow this successful model.

CONCLUSION

Masada Charter School's academic and financial performance reflects its leadership's commitment to providing a quality education while working within the organization's financial means. An engaged community willing to provide in-kind donations was significant in the school's early days, allowing it to build its own facility at a greatly reduced cost. Annual expenditures resulting in modest surpluses have ensured that the school has had cash reserves and a growing investment portfolio for future needs. Most importantly, the school's ownership of its facilities greatly enhances its prospects for future sustainability.

APPENDIX A: ACADEMIC AND FINANCIAL DETAILS

Table 4: Academic performance for FY2017 and FY2018 at Masada Charter Schools

School Type Declared	Academic Grade 2018
Traditional Elementary K – 9	A Exceeds
School Type Declared	Academic Grade 2017
Traditional Elementary K – 9	A Exceeds
School Type Declared	Academic Grade 2016
Traditional Elementary K – 9	None Reported this Year
School Type Declared	Academic Grade 2015
Traditional Elementary K – 9	None Reported this Year
School Type Declared	Academic Grade 2014
Traditional Elementary K – 9	A on Accountability
School Type Declared	Academic Grade 2013
Traditional Elementary K – 9	A on Accountability
School Type Declared	Academic Grade 2012
Traditional Elementary K – 9	A on Accountability

Source: Arizona State Board for Charter Schools Academic Ratings as Posted by Charter Site verified by ADE data on the same information. Color-coding matches that used by the Arizona State Board for Charter Schools on its Academic Performance pages.

Table 5: Salaries and benefits for Masada teachers

	ALL Salaries from AFR	ALL Benefits From AFR	Totals from AFR	Benefits as a %
FY2014	\$1,869,591	\$592,078	\$2,461,669	31.67%
FY2015	\$2,048,053	\$671,028	\$2,719,081	32.76%
FY2016	\$2,087,134	\$663,699	\$2,750,833	31.80%
FY2017	\$2,177,911	\$705,598	\$2,883,509	32.40%
FY2018	\$2,299,555	\$792,766	\$3,092,321	34.47%
FY2019	\$2,449,845	\$779,637	\$3,229,482	31.82%
			<i>Six-year average</i>	32.49%

Source: AFRs, FY2014-FY2019. Collated and Analyzed by Grand Canyon Institute as part of its meta-data on Arizona Charter Schools.

Table 6: Allocations to ASRS

ASRS from Audit	As a Part of Payroll Salaries
\$182,993	9.79%
\$208,384	10.17%
\$239,603	11.48%
\$250,024	11.48%
\$264,449	11.50%
\$289,082	11.80%
<i>Six-year average</i>	11.04%

Source: Audits, FY2014- FY2019.

Table 7: Revenue sources

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

Source: AFRs, FY2014 – FY2019. Revenue Statements on Page 2 of the AFRs.

Table 8: Net income, net assets and cash at end of year

	Total Net Assets and Net Liabilities All	Total Net Assets (Deficit) year	Cash EOY
FY2014	\$7,638,102	\$2,679,198	\$1,395,353
FY2015	\$7,678,944	\$2,756,581	\$1,784,792
FY2016	\$7,796,409	\$3,029,725	\$1,984,368
FY2017	\$7,727,982	\$3,114,212	\$2,126,458
FY2018	\$7,646,327	\$3,137,731	\$2,206,069
FY2019	\$7,644,593	\$3,268,726	\$1,062,304
		Average	\$1,759,891

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

Table 9: Special education as a percentage of AFR listed expenditures

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

Source: AFR, FY2014 –FY2018. Expenditure and Special Education Statements on Page 2 of the AFRs.

APPENDIX B: LINKS TO SOURCES USED FOR CASE STUDY

Main source data links for Masada Charter Schools

Locator Links to Main Storage of Charter Board Data
Charter Board, IRS 990 and ADOE Data on Charter Locations
IRS Form 990, FY2015 – FY2017
https://pdf.guidestar.org/PDF/Images/2016/861/018/2016-861018685-0dfaa83c-9.pdf
https://pdf.guidestar.org/PDF/Images/2017/861/018/2017-861018685-0ee00540-9.pdf
https://pdf.guidestar.org/PDF/Images/2018/861/018/2018-861018685-10710f60-9.pdf
Audit Locators by Fiscal Year for Masada Charter Schools
2014 https://online.asbcs.az.gov/dms/view_file/154/18579
2015 https://online.asbcs.az.gov/dms/view_file/154/20753
2016 https://online.asbcs.az.gov/dms/view_file/154/23049
2017 https://online.asbcs.az.gov/dms/view_file/154/24813
2018 https://online.asbcs.az.gov/dms/view_file/154/26661
2019 https://online.asbcs.az.gov/dms/view_file/154/28219
ADE AFR Locators by Fiscal Year for Masada Charter Schools
MCSafr14.xls
afr15.xls
MCS FY16 afr.xls
MCS-FY17 AFR.xls
MCS - FY18 AFR.xls
MCS - FY219 AFR.xls

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