Business Plan – Sustainability:

Provide information related to the organization's fiscal viability. In providing information related to the organization's fiscal viability, the charter holder may reference information from the charter holder's previous annual audits.

After fourteen years in operation, one would expect that an organization like TPA would view itself as fiscally-sustainable. Yet, notwithstanding its longevity, the Board of Directors and current administration act with continued fiscal prudence, diligence and vigilance. The Board and administration recognize at all times that money is fungible, but it is not unlimited.

Accordingly, although TPA's history demonstrates that it always successfully has been managed with a demonstrated fiscal prudence, its Directors and administrators continue to seek ways in which to improve academic results while doing so in the most cost-effective way. This attitude has been particularly valuable as TPA, like every other public school, has been faced in the most recent years with significant reductions in public funding and private contribution capacity.

TPA generally has been operated to maintain positive cash-flow, fully cover each year's operating expenses and, where possible, develop reserves for financially challenging times. Generally, this is demonstrated in each of TPA's annual financial reports. However, beyond merely managing annually to balance expenditures against revenues, several specific efforts are described here to provide the State Board for Charter Schools with the insight to understand how TPA is continuing to perfect a model for an academically-successful *and* fiscally-sustainable model for charter schools.

1. **Philosophical Constraints Underlying Fiscal Model**. It is often too clear that the number of students per classroom—student-teacher ratio—dictates the major portion of a school's revenue model, and the number of classes taught by each teacher—teacher work load—dictates the major portion of a school's direct labor expense model. Accordingly, these two features of a school's fiscal model often are increased to provide the most direct, obvious and, often, easiest solutions to a school's budget challenges.

However, TPA's academic model for success is based on philosophical principles that are at direct odds with the typical means to achieve fiscal sustainability. TPA's academic model upholds the highest academic standards for its students using the most rigorous curriculum found in schools anywhere in the nation. Within, and to execute on, those philosophical parameters, teachers provide rigorous lessons that often require students to complete significant homework each night (with a "goal" homework load for each student of approximately twenty to thirty minutes per night per class). Homework assignments require teachers to commit themselves to grading and reviewing the assignments with students to assess progress and areas requiring improvement, and to provide students and parents with continuous feedback regarding student progress. Further, teachers are to assist TPA's students in developing their writing skills. Accordingly, writing assignments comprise significant portions of students' homework efforts and typically consist of comprehensive essays. This is true not only in courses that traditionally incorporate essay writing, such as English and Literature, but in courses on American History, Government, Economics, Drama, Art and Music, to name a few. Finally, teachers provide

tutoring on campus for students before and after school hours as a regular part of their teaching duties at TPA. Accordingly, the teacher work-load for each course and each student is considered to be significantly higher than that in traditional public schools.

The academic standards and curricular rigor demand that students receive very close attention from teachers as students pursue their education. To achieve student success within the philosophical parameters, the number of students in each class and the number of courses a teacher is to teach for a "full load" have been carefully established and maintained. The commitment to the philosophical principles has established at TPA a maximum of twenty-two students in any class and a "full-time" course load for teachers at four classes per day. Because of the "cap" on the number of students per class and the "cap" on the number of courses a teacher is to teach, one easily can understand that TPA's academic model imposes on the fiscal model a constant vigilance toward effective use of financial resources. The academic model requires careful fiscal planning and execution of each year's budget and expenditures. Fortunately, the fiscal discipline that is required given the academic philosophy actually likely has allowed, as will be more fully explained below, TPA to establish a record and path to continue fiscal sustainability. The following provides the main components of TPA's fiscal sustainability.

2. **IDA Bond Financing of Main Campus**. Like most charter schools, especially early in the life of the charter school program in Arizona, TPA first sought to and did lease space for its initial school years. The flexibility of the leasing opportunity provided TPA with the ability to maintain a small student body and faculty while the curriculum and teaching approach were initially implemented and refined. By leasing space in a facility that otherwise was used on weekends and evenings as a church facility, the operations of the school's facilities could be maintained at a relatively low cost. Primary, major capital maintenance of the facilities fell to the landlord, and TPA could focus its attention on its academic program. TPA's Board and administration were able to demonstrate from that experience that spectacular academic results can be achieved in even very modest facilities.

As TPA demonstrated its fiscal stability and stellar academic performance, the Board and administration then turned their attention to the possibility of securing a permanent campus site. Ownership of the campus was identified as providing a permanent, secure location, as well as opportunity, over time, to develop an asset base that could sustain the school in more difficult times (by providing security to short-term lenders in the event short-term cash flow ever were of concern). A permanent location coupled with an appropriately fixed, long-term financial obligation amortized over a sufficient time-horizon also could establish a fixed, annually anticipated expense stream that could provide further fiscal planning certainty. Understood as a counterbalance to the decision to "own" rather than "lease," was that ownership imposes the obligation, fiscal and as a matter of deployment of personnel, for likely increased capital costs and operational maintenance of facilities. However, the more direct responsibility also provides flexibility to revise the physical plant to meet operational changes, and to schedule, with limited exception, the costs of the physical plant and its maintenance over a very long time horizon.

Based on these principles, TPA sought and took the lead on creating a financing tool that could allow TPA to purchase modest, but sufficient, facilities. The necessary fiscal plan and financing means were the first of its kind used for charter schools in Arizona. Ultimately, with six other schools, TPA entered an arrangement with the Maricopa County Industrial Development Authority to sell bonds and raise capital to allow TPA and the other schools to acquire their own facilities. TPA considered the fiscal constraints imposed by its academic model (limited class size and teacher work load) and concluded that it would become subject to a maximum of $2.2 million in debt with a debt service obligation that was commensurate with its projected student count.

The bond offering was successfully completed in 2000, allowing TPA, to purchase, rehabilitate and furnish its current campus. The bond obligations are for thirty years, providing a fixed, very stable, long term amortization schedule for each of the bond obligors, including TPA. However, in the ten years since the initial offering, one can now see with the benefit of hindsight, the additional constraints the bond offering and associated instruments have imposed on TPA. Those constraints are described briefly here because they are important to understand in connection with TPA's ongoing financial planning to maintain fiscal sustainability. However, these constraints merely act as burdens of which TPA remains observant and watchful rather than as debilitating challenges that prevent academic or fiscal success.

First, the bonds carry with them a significant pre-payment penalty (a refunding premium) that generally makes pre-paying the bonds financially expensive. This penalty certainly was rational given the otherwise complete lack of financing for charter schools in the market at the time and the relatively high-cost of creating from whole-cloth the financing structure not previously used in Arizona to finance charter-school facilities. However, as the market has presented financially attractive opportunities for TPA to acquire improved facilities or access capital at rates that have been significantly less expensive than the current debt service obligations under the bonds, TPA has not been able to take advantage of such opportunities given the legal and financial constraints on refinancing imposed by the terms of the bond documents.

Second, the bonds used to acquire TPA's permanent facilities are secured by a "lockbox" agreement requiring that all payments made by the State of Arizona to TPA first be deposited into an account held by the trustee for the bond holders. The trustee then makes TPA's monthly payment required toward the principal and interest on the bonds and releases the balance of the funds to TPA's own account. TPA's performance of the payment of the bonds' principal and interest further are secured by a Deed of Trust and a Security Agreement that places the bonds in "first position" with a lien on all of TPA's physical assets. These security arrangements require TPA to be able to manage all of its fiscal responsibilities to all stakeholders (other than the bond holders) from the balance of the State of Arizona payments and other sources available after the full monthly obligations to the bonds has been satisfied. This arrangement imposes significant, but useful, fiscal constraints that requires careful attention to cash management on a monthly basis. On the other hand, the relatively modest amount of the total debt to TPA's annual operations budget provides sufficient flexibility to meet, as will be described more fully, even the most difficult fiscal challenges the State and its public schools have faced in decades.

Third, the security arrangements also practically preclude TPA from borrowing significant additional resources; the "first position" status of the bond security documents reduces the likelihood that any lender will provide significant additional resources when TPA only can offer a "subordinated" or "second position" lien to secure the repayment of any such resources.

Fourth, and a greater source of some emotional stress, albeit a limited fiscal constraint, are the financial risks imposed by the "common" obligations imposed on the schools that participated in the bond offering. This risk has been revealed clearly by the financial nonperformance of two of the schools that are within the original bond offering.

At the time the bond mechanism was designed for the schools involved, to reduce the fiscal risk of the bonds, rather than offer bonds that made reference to a single school and its assets, the bonds for the seven schools were "pooled," creating a combined bond offering of almost $30 million. Further to reduce the financial risk of the bonds, several additional sources of security were implemented. There are three "pools" of liquid security resources that are available to the bond trustee to satisfy the bond obligations in the event a school does not make its monthly bond payments. These resources are invested in very short-term, highly stable securities. Of the three pools, one is "shared" among the bond debtors such that, if an individual school ceases to perform its obligations under the bond, the "shared" pool of resources can be used by the bond trustee to make the defaulting bond obligor's payments under the bonds. All of the schools have deposited funds into the common pool pro rata to the schools' relative amount of initial bond obligations. Once used by the trustee to satisfy any school's failure to perform, all the schools must make deposits to this "common" fund pro-rata to the schools' bond obligations. During the life of the bonds, two schools have defaulted on their payments toward the bonds. In one instance, the trustee foreclosed on the defaulting obligor's physical assets, sold those assets, and when the proceeds from the sale were insufficient to satisfy the obligor's pro-rata bond obligations, the trustee used the proceeds from the common fund to do so. Accordingly, TPA and the other remaining bond obligors were required to "refill" this common pool securing the bonds.

A fifth financial constraint arises from the other two required pools of liquid resources. Although these reserves are specific to each school and provide pre-payment of bonds, the amount of funds required to be held in these "pools" of liquid security are significant. They also are unavailable for use by the schools in the bond pool, including for use in any effort to pre-pay the bond obligations in the event a school sought to refinance the bonds.

Each of these financial constraints reduce the degrees of freedom with which TPA might otherwise arrange its financial course to maintain fiscal sustainability. On the other hand, these constraints have imposed the need to maintain close watch on all other resources and, thereby have assisted in growing and maintaining TPA's current asset base and establishing a legacy of financial discipline.

3. **Robust Extracurricular Programming**. In addition to TPA's high-standards academic program, TPA established and continues to maintain robust and competitive extracurricular programs in athletics, fine arts and intellectual pursuits. We encourage parents to work closely

with TPA's teachers and administration in supporting superb extracurricular offerings for our students.

TPA believes that students are happier and more successful if they are involved in one or more of our extra-curricular activities. The creative and/or physical outlet provided by such participation promotes a well-balanced life. Extracurricular participation also builds teamwork and school spirit among the community of learners. We recognize that students must show a special commitment, especially for athletics, in attending events, practices and competitions while completing their obligations to their academic studies. Nonetheless, some of TPA's most accomplished students have professed that the discipline gathered from participation (in terms of time management and personal habits) has greatly helped their academic growth.

Eligibility Requirements. To be eligible for TPA extracurricular activities, a student must maintain passing grades in all subjects and must have displayed good behavior. If a student receives a D, D- or F in any course in any quarter, the student will be suspended from all TPA extracurricular activities in the following quarter until the student demonstrates improved academic performance. As early as the end of the second week of the new quarter, a student suspended from extracurricular activities may ask a teacher of a class in which the student's grade was deficient to review the student's performance, and to report to the director of the activity if student's performance has returned to a level sufficient to allow participation in extracurricular activities. If so, the student may rejoin the activity but must maintain a passing grade.

Fees. Most extracurricular activities require a fee for supplies, rented venues, and equipment and, for some time-intensive activities, to pay coaches and directors, all of whom are placed under contract for services with TPA. All extracurricular programs at TPA are required to be self-supporting through income from fees, gate receipts and fundraising. The fee for an extracurricular activity must be paid prior to the student joining the team or activity, even for practice. The fees for TPA's extracurricular programs are maintained at a very modest rate, none exceeding $240 (and most significantly less) for even the most expensive activity (a full eleven "man" football team that, in the most recent year had 45 athletes participate). However, because TPA does not wish to deny any student the opportunity to participate in its extracurricular offerings, TPA's extracurricular budget includes funding for students of modest means, determined using a third-party organization that reviews family financial capacity in a completely confidential process.

Athletics. TPA continues to provide an extracurricular athletic program that is AIA sanctioned, quite an accomplishment for a school typically with fewer than 240 high school students. More surprising, because TPA's sports programs have been so consistently competitive throughout its history, just this year, TPA was moved from its ranking as a 1A school to 2A by the AIA, making TPA by far the smallest 2A school (by student population). Despite what TPA's Board, administrators, faculty, staff, students and families assumed would be a very difficult year for all of TPA's athletic teams, most of those teams fared quite well, with levels of success that allowed our community of learners to conclude that, generally, TPA's students are "up to the challenge" posed by the reassignment to 2A.

Fine Arts. There are a wide range of fine arts extracurricular activities that supply opportunities for students to perform. Cantamus is TPA's award winning choir. TPA provides musical training and performance opportunities for those who play stringed instruments, who then regularly offer recitals and performances by the full, albeit small, strings orchestra, and many string quartets and other combinations of performers. Typically at least annually, TPA mounts a theatrical production, in this academic year hosting the extracurricular performance of The Fantasticks, including musical accompaniment.

Intellectual Pursuits. TPA's extracurricular program offers Odyssey of the Mind, Junior Classical League, Speech & Debate, Yearbook and a host of smaller clubs. Each of these programs offers significant intellectual challenge to TPA students, and typically rewards TPA students with significant success for their investment. TPA's Odyssey of the Mind teams frequently place 1st or 2nd in the state competition and annually, TPA teams qualify for the World Competition. The participants in the Junior Classical League compete in language and performance conferences and often succeed at the highest level. In this most recent year, a TPA student was elected Secretary of the national JCL. TPA's Speech & Debate team typically competes not only against teams in its own 2A division, but then competes against the teams from the largest schools in the State of Arizona, frequently besting those teams to capture 1st place in the state-level competition. Despite its size, the Yearbook "staff" of students writes, edits, undertakes significant photographic efforts and then publishes a complete annual of "life" at TPA.

Fundraising for Extracurricular Programs. To meet its target that all of the extracurricular programs are self-supporting, and at the same time to meet its goal that the student fee component of the programs can be held to a modest level and that no student is ever denied the opportunity to participate in extracurricular programs due to inability to pay, TPA undertakes aggressive fundraising efforts in which students, parents and other members of TPA's community of learners participate.

The primary source of funding for these extracurricular programs is the fundraising that targets donations under the Arizona Extracurricular Tax Credit Program. By coordinating the efforts of the Parent Organization, the broader TPA community and by reaching out to others in the region who are interested in supporting public schools' extracurricular programming, TPA provides significant education to the greater community about the availability and use of the Extracurricular Tax Credit. TPA's effort, while focused on support for TPA's programs, does not limit its effort and impact. As is often explained, if a potential donor is not interested in supporting TPA's extracurricular programs, such donors are asked to support another public school's extracurricular programs.

The success TPA has had in attracting donations under this program demonstrates the value and broad support that TPA's extracurricular programs have within the TPA and broader community. This 2009-2010 year's donations under the Tax Credit Program exceed $125,000. Given the refinements that have been instituted in the program, TPA reasonably can expect that the program will continue to supply at least that much financial support for the TPA's extracurricular programs.

Further, the success of TPA's extracurricular programs also serves as the basis on which many donors decide to provide TPA and the Foundation with additional non-tax credit support. Those extra dollars raised then are used, within the parameters of state law, to support TPA's other programs. In this 2009-2010 fiscal year, TPA received, to date, an additional $105,766 in non-tax credit donations and the Foundation reports that it has received $34,000 in non-tax credit donations for use to support TPA's programs. All of these sources of support, as reasonably anticipated on a conservative basis in TPA's financial planning, enhance TPA's fiscal sustainability.

4. **Addressing Capital Improvements**. Like all charter schools, TPA must address its entire operation and maintenance from the various sources of state funds (currently supplemented in the 2009-2010 fiscal year by federal ARRA funding) and other funds it may legally access, such as the bond funds that were used to acquire TPA's main campus. Because of the constraints described in subsection 2, above, imposed by TPA's bond funding, TPA's community sought to provide a source of funding for capital improvements that could assist TPA in its mission. The Tempe Preparatory Academy Foundation is described in the Section describing the Organizational Chart. This Foundation works to raise capital funds that are spent by the Foundation to assist in maintaining TPA's facilities and providing amenities that otherwise might not be available to TPA.

So, for example, the Foundation acquired a property adjacent to TPA's main campus. The property originally was a residence, but through the Foundation's efforts, was converted to offices for use by the Faculty. This "Faculty House" provides each member of the Faculty with very modest desk-space, access to telephones and computers, a "break area" and restrooms. The Faculty House is used by Faculty members to prepare for classes, conduct research, grade assignments, essays and tests, and otherwise have a place in which to conduct all of the many activities that are required of TPA Faculty members.

TPA, then, leases the property from the Foundation at a competitive rate on an annual basis. This arrangement has allowed TPA to accommodate the needs of its Faculty for office space and equipment and do so through a financial arrangement that allows TPA to avoid the significant and immediate capital outlay that such a facility would pose.

The Foundation also provides the resources to allow TPA to "smooth out" the often unexpected and volatile expenses for maintenance of large capital items. Accordingly, the Foundation lends TPA funding to pay the cost of HVAC unit replacements (which often impose an unexpected capital cost of tens of thousands of dollars), allowing TPA to repay the obligation over a time-horizon that matches the likely useful life of such equipment.

The Tempe Preparatory Academies Parent Organization also assists in raising funds that occasionally are used to pay for capital improvements. For example, in recent years the Parent Organization and the Foundation worked together to raise funds to improve TPA's physics and chemistry labs. The projects were undertaken to honor a TPA student, Andy Hedges, who was tragically killed in an accident during Spring break. The PO also frequently works with the graduating senior class each year to select a small capital improvement project that will honor that graduating class and TPA. This year's senior class and the PO currently are working to

undertake planting ten mature trees (and install the irrigation system to support them), as well as the construction of a large seating area. Because Andy Hedges would have been graduating with the Class of 2010, these projects likely will be dedicated to him as well. As noted above, all of these sources of support, as reasonably anticipated on a conservative basis in TPA's financial planning, enhance TPA's fiscal sustainability.

5. **Access to "Emergency" Resources**. Notwithstanding the limitations imposed by TPA's bonds and the related security instruments, prudent, sustainable financial planning requires that TPA have at least some access to financial resources in the event of emergencies that may befall TPA specifically, or those that may confront all public schools or public charter schools. One such "emergency" presented itself when, on September 11, 2009, the Arizona Department of Education notified all public schools late that day that it would not be making its September payment on September 15th, but rather, would require all schools to apply for a grant under the ARRA funding received by the state. The notice that evening indicated that applications would be due within the week, but funding would not be provided until October 1st. With salary and other payment obligations to be made from the September 15th payment, without advance financial planning, TPA could have faced significant financial hardship. (Traditional public schools have access to capital that is not available to charter schools, and so the hardship that was threatened uniquely fell on charter schools.)

Fortunately, the Foundation has conserved resources in sufficient amounts to provide TPA with a source of emergency funding. Moreover, due to its demonstrated fiscal prudence over a long time horizon, TPA also has been able to negotiate and hold in reserve a line of credit of $100,000. Although the ADE later reversed its course and made the September 15th payment (and thereafter arranged for public schools to apply for ARRA grant funding that was thereafter timely made available in October, 2009), TPA's planning allowed the TPA Board, administration, Faculty members and staff to rest assured that the school's operations would continue without a "hitch" even when facing the loss (even if temporary) of a month's funding. This planning strongly demonstrates TPA's fiscal sustainability.

6. **Commitment of Community of Learners to Mission**. As described above, TPA's philosophical parameters impact TPA's fiscal model and, arguably, its fiscal sustainability. Like most public schools, in the most recent fiscal year, 2009-2010, perhaps the most challenging in the State of Arizona's modern history, TPA faced the need to impose strict fiscal constraints on the year's budget.

Several months before the 2009-2010 school year began, TPA, like all public schools, was facing the prospect of significant budget cuts anticipated from the Legislature's efforts to balance the 2009-2010 State budget. Although the Legislature did not impose such cuts by the start of the fiscal year, to a person, the administrators, Faculty members and staff all agreed that they would reduce salaries (as well as take other measures to reduce TPA's expenses) rather than increase the number of students in a classroom or increase the number of courses teachers would teach as a "full" load. While the Legislature's initial budget did not require such drastic measures, as the fiscal year continued, it became clear that the Legislature would likely be forced to impose some cuts to schools' funding. Accordingly, to anticipate and plan for such cuts, the Faculty members and staff determined to "self-impose" a five percent (5%) cut in salaries, with the Headmaster

taking a ten percent (10%) cut in salary. This action became effective on November 1st, with TPA instituting a "reserve" of these funds against the loss of state funding likely to occur within the fiscal year. (The Board, administration, Faculty members and staff all sought to impose an "annualized" reduction as early as possible in the fiscal year so that, if and when the Legislature finally took action to reduce state funding to schools, TPA would not be forced to take Draconian measures to balance its budget.)

The programs and measures put in place provide the philosophical basis and financial discipline that has allowed TPA to demonstrate its fiscal sustainability. Even in the current challenging times, TPA's projected three-year budget demonstrates the continuation of that fiscal sustainability. Because the projected three-year budget has been prepared and submitted before the outcome of the state's sales tax referendum and final budget determinations for the fiscal 2009-2010 or the 2010-2011 years can be known, the projected three-year budget has been prepared based on continuing the financially constrained approach followed for the current fiscal year. The TPA Board, however, already has clearly committed that, if and to the extent greater resources are provided through state funding, those resources would be invested in teacher training, salary enhancements for faculty and staff that demonstrate improvement in performance, programs that support classroom teaching, and rebuilding modest reserves for any future economic downturn.