ATLANTA
2016 NACSA LEADERSHIP CONFERENCE
OCTOBER 24–27, 2016, ATLANTA, GEORGIA

Financial Oversight of Management Organizations

Session Description

Authorizers in many areas are trying to attract or encourage growth and replication of schools operated by proven, high-performing school management organizations (MOs, often referred to as CMOs and EMOs). Assessing the financial viability of these MOs—especially those that are aggressively growing and operating in conjunction with related, affiliated, or subsidiary entities—is a major challenge for authorizers with limited financial resources and time. In this session, you'll work collaboratively with other attendees as you dive into a case study and (A) explore the importance of doing "front end" and ongoing financial viability and transparence diligence; (B) gain valuable suggestions for financial compliance and disclosure requirements; (C) learn strategies for responding to operators that resist those requirements; and (D) leave with ways to provide sustained, effective, MO financial oversight.

Agenda

Content	**Objective**
The principles of MO financial oversight 1. Not enriching people 2. Our tax dollars for our students 3. Local board power and capacity to oversee the MO's work 4. Transparency 5. Financial health of school and MO	(A) The importance of doing "front end" and ongoing financial viability and transparence diligence
Case study ● How do you know when there's a problem? ● What do you do when there's a problem? ● Setting specific expectations for MO financial oversight	(B) Gain valuable suggestions for financial compliance and disclosure requirements (C) Learn strategies for responding to operators that resist those requirements
Whole group report out: sharing strategies, best practices, and lessons learned, with input from panel	(D) Leave with ways to provide sustained, effective, MO financial oversight

Case Study

- Home-grown CMO with a charismatic founder and CEO who is very well connected politically and is strongly supported by local philanthropy.
- Four school K-8 network of 1,450 students growing to 2,000 students serving an educationally disadvantaged student population. The operator has submitted a charter application to open a fifth school (a replication) in fall 2017 and has plans to expand into a new state, beginning in fall 2018, by creating an affiliated regional CMO apparatus. The initial capacity building and operations of the regional CMO will be supported by philanthropy and funds upstreamed from existing schools.
- <u>Governance:</u> The charters (10 year terms) for the schools are held by a separate non-profit entity (the charter holder) governed by a single Board. The CMO is a separate non-profit entity governed by a corporate Board with an affiliated for-profit LLC (a facilities holding company). The governing boards for both entities have had little turnover and remain, in essence, founding boards.
- <u>Academics:</u> Upon early strong academic performance, the network was encouraged to grow aggressively by its board and authorizer, and by local and national philanthropists. The flagship school, which opened in 2009, continues to be the strongest performing school in the network; however, performance at all schools in the network has declined in the last two years. In addition, three of the four current schools are under-enrolled; student and teacher retention rates have dropped in each of the last three years.
- <u>Finances:</u> The schools' finances are trending negative, meeting fewer financial performance standards each year. The schools avoid deficits with private fundraising by the CMO. Though annual budgets are board-approved, the quarterly financial reports provided to the schools' board are summary in nature and not aligned to approved budgets.
- Financial Transactions:
    - CMO: The schools pay a 15% management fee to the CMO for academic support, back-office operations, and development. The CMO also makes certain annual disbursements on behalf of the schools, such as copier leases and various licenses, the costs of which are passed through to the schools.
    - LLC: The CMO's founder and CEO also founded a separate for-profit company that owns the facilities in which the four schools are operating and paying fair market lease rates.
- Six months ago, the authorizer met with the leadership of the charter holding entity's board about declining academic and financial performance. At this meeting, corrective actions and written status updates were agreed to but have not yet materialized.

Given these conditions, how would you recommend the charter authorizer respond? Consider what meetings/discussions, corrective actions, document requests, or other procedures the authorizer should employ.