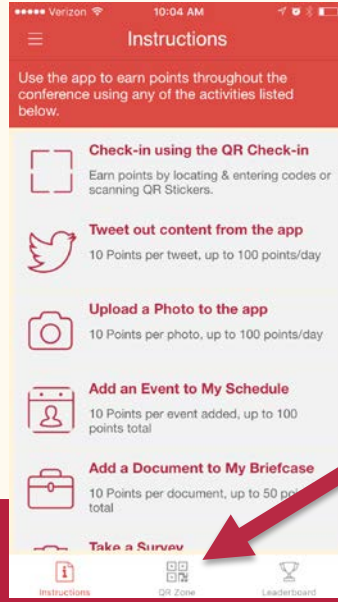
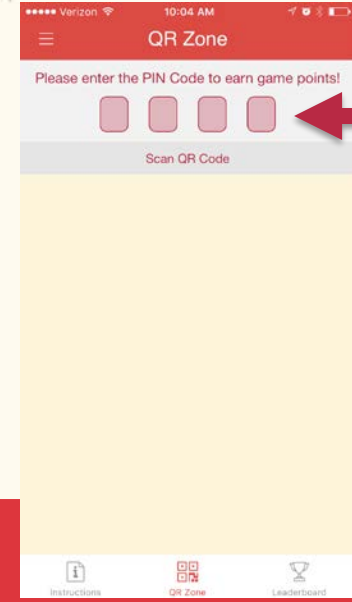


**GO TO THE
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**CLICK "QR
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**ENTER YOUR
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**SESSION NAME: Do Your Homework: Strategies for
Effective Due Diligence**

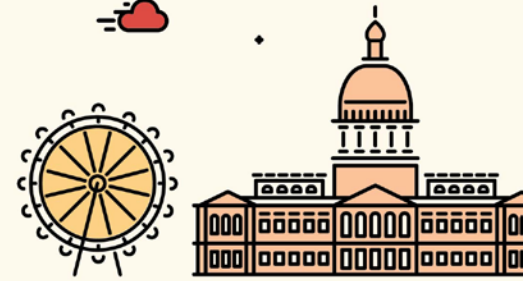
SESSION PIN

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**LET YOUR
PRESENTERS
KNOW YOU'RE
HERE, AND EARN
POINTS!**

DO YOUR HOMEWORK: STRATEGIES FOR EFFECTIVE DUE DILIGENCE



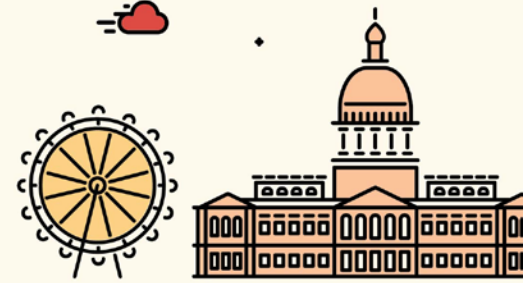
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DUE DILIGENCE

IT STARTS WITH THE
APPLICATION



DUE DILIGENCE - STARTING WITH THE APPLICATION

- Protect the needs of the students
- Mitigate risk of future struggle or closure
- Protect public interest

But to do effective due diligence, you need to ask the right questions in your application.



LET YOUR APPLICATION HELP YOU!

Proposal Summary – Required Elements

- Proposed Partnerships
- Replications – in Ohio and other States
- Operation of additional schools (new or transfers)
- Withdrawn, Rejected, and Concurrent Proposals with other authorizers
- Name, location, authorizer and status of existing schools



LET YOUR APPLICATION HELP YOU!

Evidence of Community Outreach and Input

- Community had meaningful opportunities for input
- Thoughtful process for considering community input

Community Need and Impact

- Located in a district where more than five percent of students enrolled in community schools

Partner Organizations

- Letter of intent of commitment
- Name of contact



MANAGEMENT COMPANIES – GET ALL THE DETAILS!

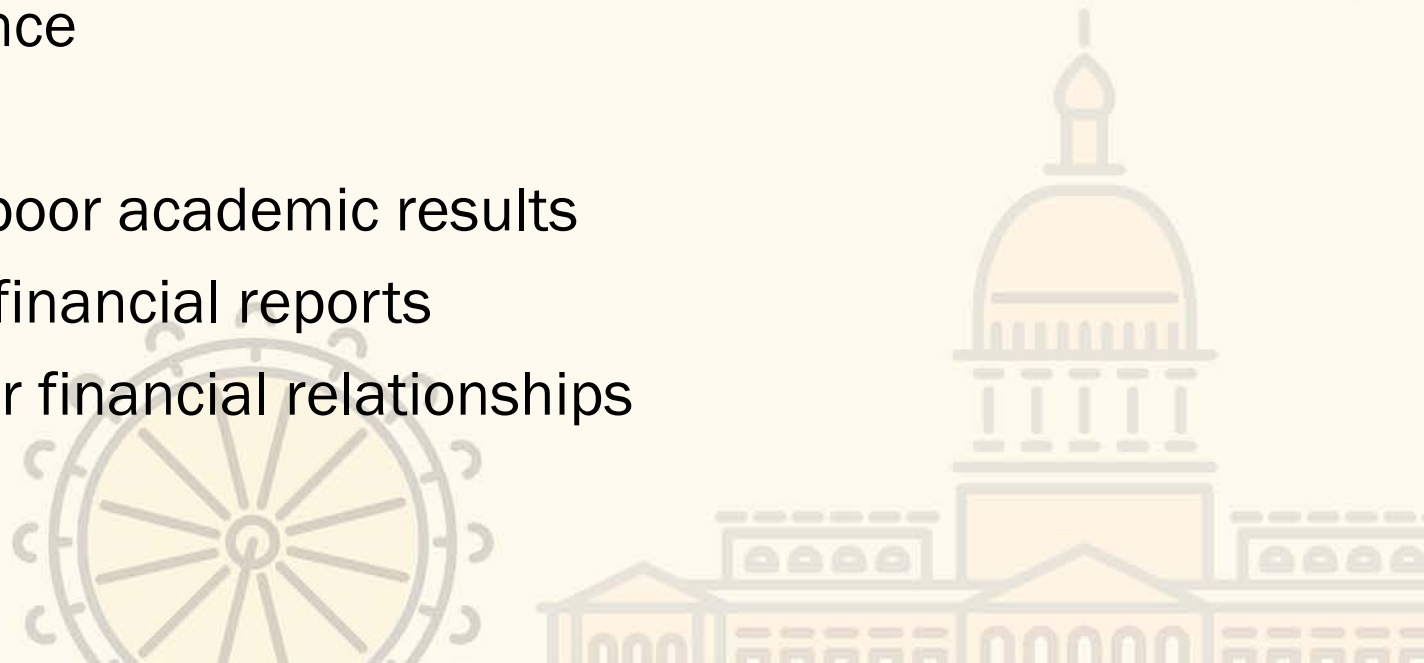
- Management Company: # of existing schools, location, and name of authorizer
- Governing Authority – bios, selection, position on board, board design, and roles
- Management structure and relationships – role of these relationships in the school
- Selection of management company
- Division of responsibilities and decision-making
- Draft management agreement
- Affiliated entities?



MANAGEMENT COMPANIES – GET ALL THE DETAILS!

Business Plan Requirements

- Board and key employees
- Client list for the preceding three years
- Annual Reports
- Primary competitors
- 5 Year expansion plan
- Analysis of academic performance
- Comparable state assessments
- Plan used to mitigate previous poor academic results
- 3 years of most recent audited financial reports
- Long-term debt and terms; other financial relationships



OTHER KEY ISSUES

School leader

- Process and criteria – provide resume

Facility

- Certification from architect that confirms facility will be able to meet educational environment needs for students

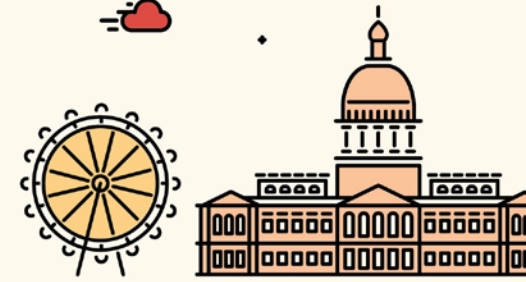
Fiscal Viability

- Pre-operational budget – letters of commitment for any funding sources from private contributions, grants, or money fronted from the operator with payback terms, if applicable.



INDEPENDENT DUE DILIGENCE

TIME TO START DIGGING



INDEPENDENT DUE DILIGENCE: WHAT'S EVEN THE POINT?

Think outside of the application!

Utilize a variety of sources to get a complete picture.

Look for academic, financial, and operational histories.

Identify trends and systematic issues that will enable you to proactively mitigate risk in your authorization process.

- Start searching with a focus – know what you're looking to get from each particular source.
- Understand how you'll use the information once you obtain it.
- Identify the limitations of what you obtain.
- Be persistent but also deliberative.
- Use the information you find to verify the application.

INDEPENDENT DUE DILIGENCE: START OFF SLOW

Start with a general Internet search

- Look for media reports, company history, other schools/partners
- Identify key Individuals and affiliated entities

Utilize other regulators

- Go to SEAs/school districts for performance data
- Identify possible non-educational regulators
- Talk to other authorizers

- Be sure to broaden your search to include preliminary findings.
- When reviewing existing school performance, do not stop at academic history – keep searching for financial reports, program compliance reports, and other monitoring reports.
- Secretary of State websites are often a good source of corporate data. State auditors may have additional financial reports.

INDEPENDENT DUE DILIGENCE: TAKE A DEEPER DIVE

Follow the money:

- Examine the 990s of CMOs and schools
- Look over SEC filings of publically traded companies
- Obtain school audits as well as Single Audits

Go public:

- Search court/bankruptcy records
- Examine property records of identified facilities

- 990s are available through online vendors.
- Single Audits summaries are in a clearinghouse: <https://harvester.census.gov/facweb/>
- Search federal and state courts

This was an actual “facility” a petitioner intended to utilize:



INDEPENDENT DUE DILIGENCE: BRING IT HOME

Review NACSA's Operator Tracker

Consider Commercial Services

Compare your findings to the application

Use your findings in your capacity interview and pre-opening preparation

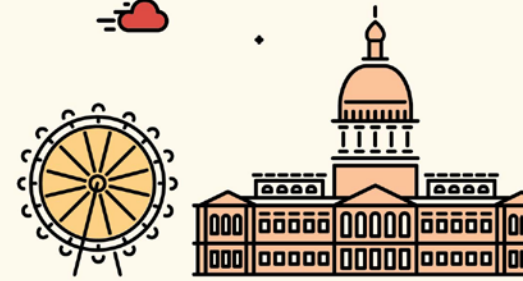
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General Tips:

- Don't get personal. While you should research key individuals, always assess the impact with regard to the company/school.
- Provide an opportunity to get the other side of the story.
- If your research indicates the school/company has been issued municipal bonds, search for the bond documents.
- Refrain from obtaining or using personal credit reports.

DUE DILIGENCE & THE CAPACITY INTERVIEW

BRINGING IT ALL TOGETHER



CAPACITY INTERVIEW LOGISTICS

Attendees

- Required attendees
- Max number
- CMO/EMO representative(s)

Structuring Time

- Total time
- Breakdown of time
 - All present entire time
 - Time without CMO/EMO representative(s)

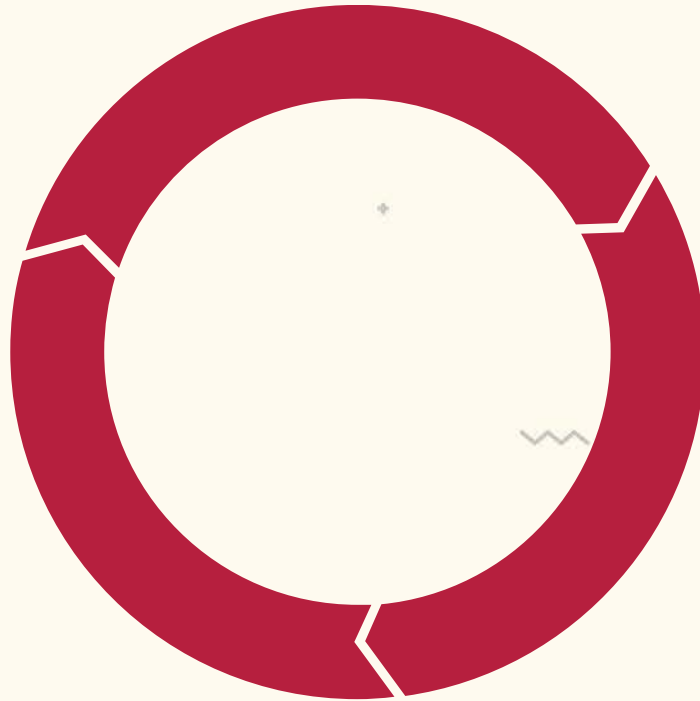


BRINGING IT ALL TOGETHER

APPLICATION
INFORMATION

DUE DILIGENCE
INFORMATION

CAPACITY
INTERVIEW
QUESTIONS



BOARD FOCUS

Selection of company

Knowledge of company/school model

Understanding of the relationship

- Division of responsibilities
- Decision-making
- Evaluation of company
- Fee Structure/start-up costs
- Termination rights/impact of termination

Potential conflicts of interest

Facility (if applicable)

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When both board and company representatives are together – observe their interactions.

- Who's in charge in the room?
- One person that answers most questions?
- Does board defer to company representatives?

COMPANY FOCUS

Performance of existing schools

- How address struggling schools?
- How do they define academic success?

Capacity of company to deliver

Decision-making

Internal governance

- Potential conflicts of interest; affiliated entities

Current and planned growth

Fee Structure

Termination rights/impact of termination

Facility (if applicable)

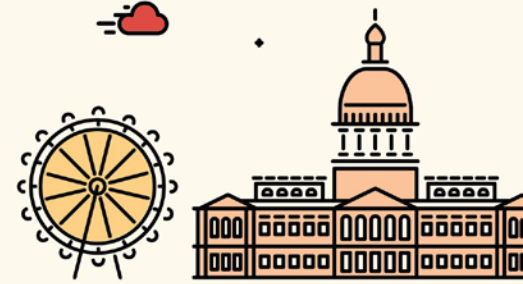
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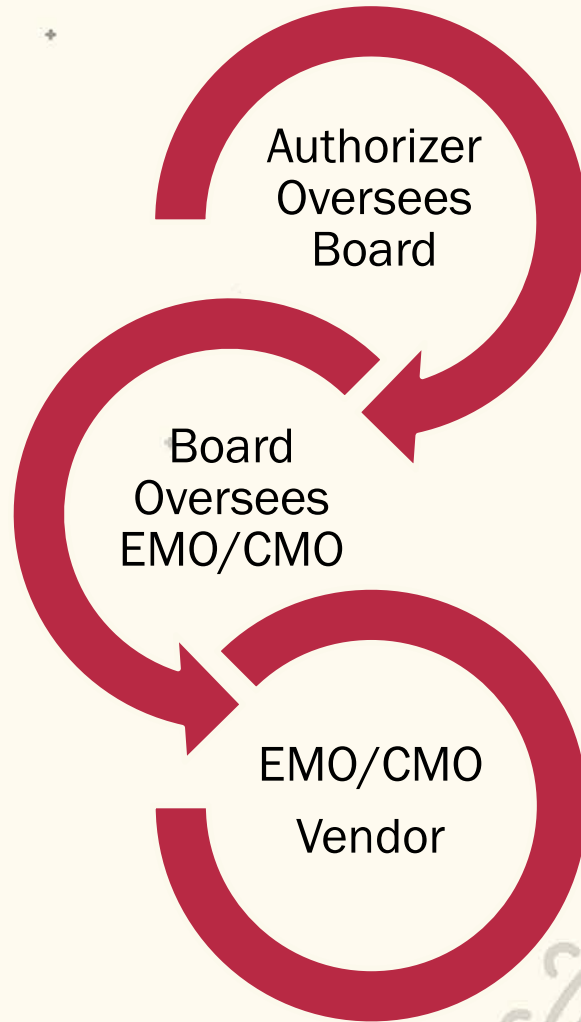
Capacity interviews also present a good opportunity to explore alignment issues .

- Does the narrative match what's in the management agreement?
- Does the budget align with the narrative?
- Does the budget align with the numbers presented in the management agreement?
- Do answers align with what's in the application?

APPROVED – NOW WHAT?

**AUTHORIZER-CHARTER
CONTRACT**





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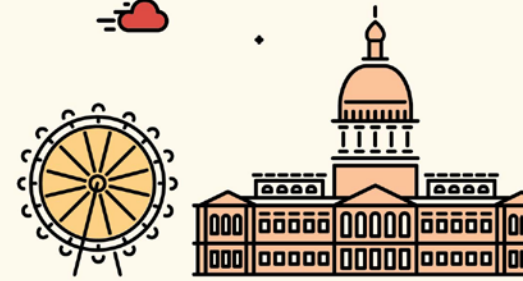
Define Required EMO/CMO Contract Terms (examples)

- Primacy of the Authorizer Contract
- EMO/CMO Prohibited from Selecting, Compensating, Serving on Charter Board
- School Attorney, Accountant, and Audit Firm Hired by Charter Board
- Funds be Deposited to Account Controlled by Charter Board
- Instructional Materials, Furnishings, Equipment Purchased with Public Funds are School Property
- Authorizer Review and Comment of all Material Amendments to EMO/CMO Contract Before Board Approval



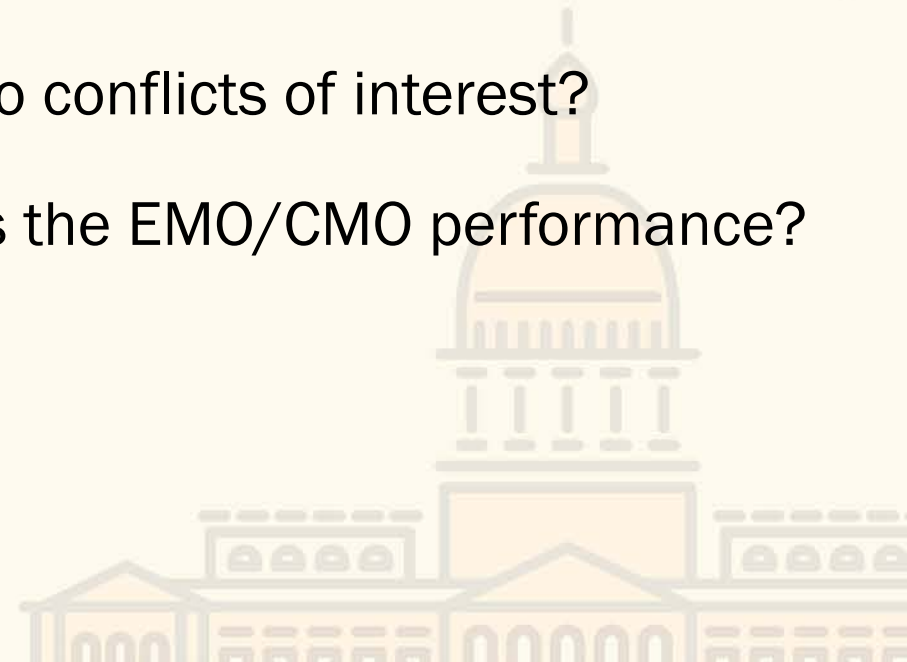
APPROVED – NOW WHAT?

MANAGEMENT AGREEMENTS



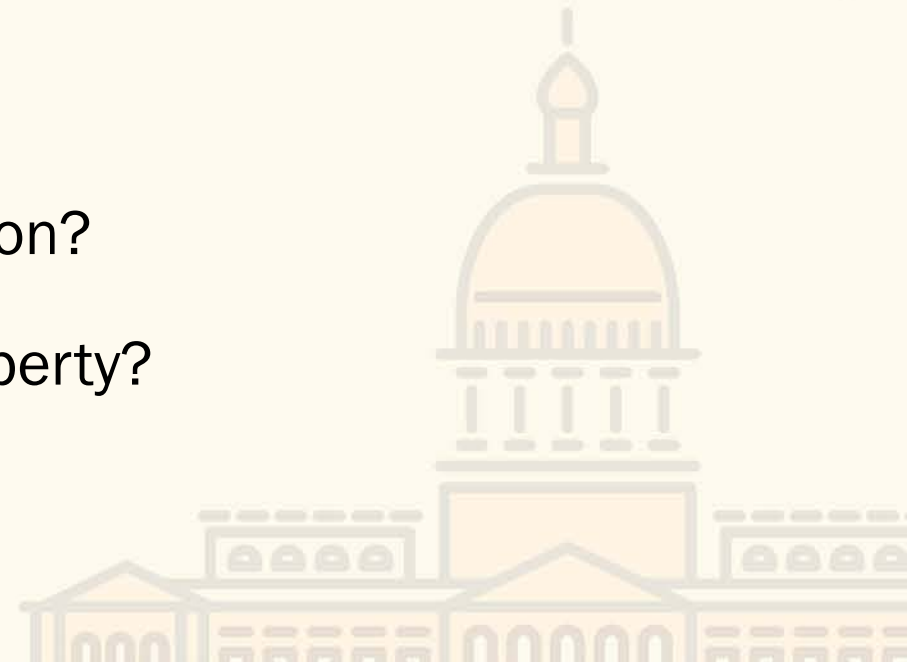
Review and Comment/Ask Questions- Who and How

- selects board members?
- hires and evaluates the school leader?
- replaces the leader if necessary?
- develops the annual budget?
- prepares the financials for the board?
- has primary access to secure systems?
- negotiates facility lease terms?
- develops policies?
- oversees compliance with the contract?
- selects instructional materials?
- administers background checks?
- verifies no conflicts of interest?
- evaluates the EMO/CMO performance?

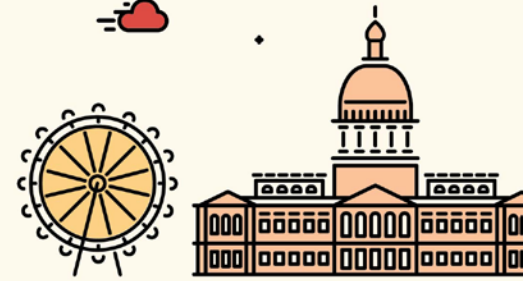


Review and Comment/Ask Questions- What?

- anticipated revenue to EMO/CMO?
- incurred and anticipated expenses?
- itemized accounting of all amounts paid?
- contract and lease payments?
- management, administrative, licensing fees?
- management agreement duration, renewal, termination?
- ownership of instructional materials and physical property?
- loan repayments and terms?
- investments by EMO/CMO?
- audit requirements?
- internal controls?



DO YOUR HOMEWORK: STRATEGIES FOR EFFECTIVE DUE DILIGENCE



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