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Welcome to Volume 1 of *EdTec Connect*!

Packed with information and tools you can use, each edition of *EdTec Connect* will feature in-depth articles and metrics on key charter school operational and financial topics.

Written by EdTec staff, with contributions from school leaders, authorizers, and other charter community stakeholders, you will “connect” with experts on relevant and timely topics.

EdTec Connect will come directly to your inbox a couple times per year and is available for download on our website, www.edtec.com.



BY THE NUMBERS

ADA ↑ 1% =
\$15,370 Revenue ↑

Based on a high school with 250 students and 2010/11 P2 funding rates

6
5
%

...of CA charter schools that closed since 2004 reported positive trends in API growth and failed for reasons unrelated to academic performance

To plug a state revenue shortfall of **\$2 Billion** by December, every CA public school student would need to pitch in **\$322**

Big Dollars for the Small Shop: Fundraising for New, Small, and Freestanding Charter Schools

By Jill Wells, Director of Educational Support Services, EdTec Inc.

Charter management organizations (CMOs) have gained wide recognition and attention as drivers of education reform, and they have attracted some of the largest and most concentrated investments in public education. In fact, many of the notable philanthropic supporters of charter schools exclusively support CMOs. However, according to the California Charter School Association's recent report, *Portrait of the Movement*, **61.2%** of all California charter schools are “freestanding” and operate independently. While much of the philanthropic focus may be on CMOs, there is ample opportunity for small and start-up freestanding schools to attract fundraising dollars. Through effective grant-seeking tactics, local resources and campaigns, and strong community engagement, a start-up charter school can generate significant fundraising support for its programs.

Seeing Is Believing

North County Trade Tech	
113	students
717	2010 API
57%	free/reduced
Focus: college & construction career prep	
\$100,000	raised in private grants, annually

Doreen Quinn, Board President of North County Trade Tech High School in Vista, CA, has consistently raised over \$100,000 in private grants annually to support Trade Tech's growth and career prep programs since the school opened in 2008. She emphasizes partnership with potential funders as a key to the school's success in fundraising: “It's important to understand the funder's priorities, establish a relationship, and be authentic.” Before setting out to solicit contributions, it's crucial to understand the donor's inspiration and priorities – whether it's a corporate sponsor

or local foundation – and to assess your program's fit with the funder's motivations. Become a student of your funders and do your homework! Collect information on available grants, past grantee profiles, and current board members to determine your school's alignment with a donor's mission. Many foundations and corporations describe their mission and giving policies in detail online, but, as Quinn also noted, “Most things happen sitting one-to-one.” A site visit is perhaps the most important step in developing a relationship with a potential funder.

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Without the benefit of national recognition or a history of significant philanthropic investment that a CMO might have, funders need to get out to a freestanding school’s campus to see the students, meet the faculty, and witness the unique strengths of the school. A school day tour is the best showcase of your charter’s mission and values, and it provides an opportunity to present the reasons your school is a truly worthwhile investment. “Funders are interested in the vision and the potential difference this school can make in the community,” Quinn remarks; once your potential funder has the opportunity to witness your school in action, the buy-in will be there. This is where the authenticity of your program shows through; it’s not a sales job, it’s an opportunity to demonstrate how the school is fulfilling its mission and delivering on the promise of the charter.

Going Local

SOAR Charter Academy	
332	students
797	2010 API
72%	free/reduced
Focus: character & community development	
\$60,000 raised in online contests in last three years	

Even before SOAR Charter Academy in San Bernardino, CA opened its doors, Co-Founder and Teacher Tammi Fort began sending letters to introduce the school to local businesses, community associations, and families. This was the first step in what evolved into a community-focused fundraising platform that fits with the school’s mission and has helped SOAR develop a respected presence and strong connections in the community. After some initial research, Fort began to realize SOAR didn’t fit the requirements or priorities grantmakers in the area had established. “We found ourselves left out from these opportunities,” she noted, so she turned to pursuing in-kind donations from local business and online contests to restart her fundraising campaign. Through voting contests on Facebook, parents

and friends were also able to get involved. And, it works: SOAR has raised over \$60,000 through online contests in the last three years. Fort has kept up her online efforts, turning from her original letter-writing strategy and shifting to using SOAR’s Facebook page to canvass local groups such as the Firefighters’ Association, garnering even more support for the school. When a fire destroyed SOAR’s playground last year, the Firefighters’ Association representative saw the pictures on Facebook and was one of the first to come forward with a donation and a group of volunteers who helped rebuild the structure. When it comes to reaching out, Fort stresses, “No business is too small to ask,” and, more importantly, “So many people are willing and wanting to help.” Starting with the inner circle of the school’s parents and neighbors, SOAR has been able to cultivate a diverse assembly of supporters. Fort acknowledges SOAR parents as the biggest asset in building SOAR’s network and helping the school access resources in the community. She notes, “There is always someone who knows someone who knows someone that can help us with what we need.” One of the keys to SOAR’s fundraising success has been creating the opportunities for local stakeholders to get involved in the school in ways that are both natural for contributors and meaningful for the school.

The Power of One

In addition to connecting with grantmakers and businesses, charter schools must also dedicate time and resources to engaging with individual supporters. In the same way philanthropists seem to focus on large CMO networks as the key players in education reform, small nonprofits such as charter schools often make the mistake of directing fundraising efforts exclusively on foundations or corporations, instead of creating a more diversified, home-grown strategy. A long tradition of giving in the U.S., and the most recent summary from the Center on Philanthropy at Indiana University, reminds us that individual donors are the source of 81% of all contributions (including bequests). Foundations follow with 14% and corporations with 5%. Traditional fundraising “asks” involve a long courtship of high net worth individuals, a strategy that is best suited for organizations with a lengthy fundraising track record and a formal capital campaign. However, the opportunity for small organizations is still there; it just needs to be adapted to a format that works for a smaller entity. SOAR’s leaders have geared their individual giving campaign to fit in with everyday life. “The [fundraising activities] that are hands-on and offer parents things they’d do anyway are the most successful,” Fort explains, and adds, “catalogs don’t work.” Activities such as scrip sales and local restaurant nights (at which a percentage of the nightly sales go to the school) give parents a convenient way to get involved with helping the school. When parents and supporters aren’t able to make a financial contribution, they can participate by delivering donation letters and thank you notes in person to local businesses, friends, and neighbors. There’s a way for each stakeholder to play a part in fundraising and build the network of people who know about the school, and therefore draw in the individuals who may also become financial supporters.

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Don't Stop Believing

Looking back on their experiences in fundraising for their start-ups, both Quinn and Fort concluded the most important part of fundraising is to keep doing it. There will be disappointments and missteps, but as Quinn noted, “the number one thing about this business is the ability to persevere.” Fort echoes this sentiment: “Keep trying and keep asking and people will come back.”

In all of their efforts, the focus is the same: building and maintaining meaningful relationships with partners who share your vision. Small schools such as SOAR and Trade Tech have turned being small and new into an asset. Their ability to demonstrate the school's vision, closeness with community members, and innovative approaches has translated into fundraising success. 

Fundraising Tips	
<ul style="list-style-type: none">• Seeing is Believing!	Invite potential donors to visit your site to see the program in action.
<ul style="list-style-type: none">• Think Small!	No business is too small to ask! Small donations add up fast!
<ul style="list-style-type: none">• Get Your Name Out!	Use the power of social media to drive interest, and donations, in your school.
<ul style="list-style-type: none">• Don't Go It Alone!	Parents are a huge asset; give them opportunities to get involved in fundraising.
<ul style="list-style-type: none">• Bigger Isn't Always Better!	Fostering a close-knit school community makes people feel personally invested in the school's success.
<ul style="list-style-type: none">• Don't Wait!	Your school doesn't have to be open to begin fundraising; start efforts early and you'll be ahead of the game.

This article was written with additional staff contributions from Kelly Theofanis, EdTec Inc.

Bridging the Gap: Understanding Cash Flow Options in the Midst of Deferrals

By Bryce Fleming, Director of Client Management and School Finance, EdTec Inc.

As the California economy continues to suffer, the impact is felt by all, and charter schools are no exception. In addition to cutting funding rates, the state has increased the amount of revenue deferred to schools, with the current fiscal year experiencing the most severe deferrals that charters have seen yet. These deferrals affect all schools – small and large, new and old, urban and rural – and are truly debilitating to their cash flows. With state revenues delayed several months and into future fiscal years, charters must dip into any reserves to cover ongoing expenses. If there aren't sufficient cash reserves on hand, charters must take on the additional cost of borrowing to cover expenses while waiting on state payments.

“The deferrals implemented by the state may have made managing cash flow easier for [the state], but they have caused some very real financial stress and strain on my small charter school,” explained Karla Branch, Executive Director of

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R.A.A.M.P. Charter Academy, a 175-student K-7 school in Antioch, CA. Branch is one of hundreds of school leaders across the state who, in order to keep doors open, has had to quickly assess her school’s financial situation and make some very difficult decisions in the past several months.

For those looking at cash flow challenges this year, there are several financing options that may be a good fit for bridging your school’s cash flow shortages. The following tools and explanations can help to inform your research. Final decisions should be made in counsel with your board and financial advisors. With accurate and up-to-date cash flow projections, a clear understanding of the problem well before the need arises, and a sense of the available options, you will be best prepared to pursue the right solution for your school at the right time.

How did we get here?

California is in a state of fiscal emergency; unemployment is still lingering around 12%, causing income and sales tax revenues to decline. The state simply doesn’t have enough money on hand to pay its expenses and debt obligations on time. So, as part of the Budget Act, the Governor signed into law large deferrals of California’s payments due to schools.

Understanding the deferrals.

California cash deferrals began in 2003, but have increased in frequency and size over time, with 2011-12 being the biggest year for deferrals yet. The 2011-12 Budget Act calls for deferrals for all or part of eight different months of payments, with 61% of apportionments being deferred at some point this year and 38% being deferred into FY 2012-13. The chart below illustrates the monthly impact of deferrals this year.

2011-12 State Deferral Schedule																
2011-12													2012-13			
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	TOTAL	Jul	Aug	Sep
Standard Apportionment	5.00%	5.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	100.00%			
Deferrals	-5.00%	-5.00%		-9.00%				-8.41%	-3.53%	-1.76%	-3.36%	-9.00%				
Repayments			2.82%				2.18%			3.53%				8.41%	5.89%	
Actual Apportionment	0.00%	0.00%	11.82%	0.00%	9.00%	9.00%	25.18%	0.59%	0.00%	4.88%	1.43%	0.00%	61.90%	22.54%	15.56%	0.00%

	Deferral	% of Apprt. Deferred
July Apportionment Deferred Until September	2.82%	56%
July Apportionment Deferred Until January (New to 2011-12)	2.18%	44%
August Apportionment Deferred Until January (New to 2011-12)	5.00%	100%
October Apportionment Deferred Until January	9.00%	100%
February Apportionment Deferred Until July	8.41%	93%
March Apportionment Deferred Until April	3.53%	39%
March Apportionment Deferred Until August (New to 2011-12)	5.47%	61%
April Apportionment Deferred Until July	1.76%	20%
April Apportionment Deferred Until August	5.89%	65%
May Apportionment Deferred Until July	3.36%	37%
May Apportionment Deferred Until August	4.21%	47%
June Apportionment Deferred Until July	9.00%	100%

Total Deferrals	60.63%	60.63%
Total Inter Year Deferrals	38.10%	38.10%
Total Spring Deferrals	41.63%	92.51%
Total Spring Intra Year	3.53%	7.85%
Total Spring Inter Year	38.10%	84.66%

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There were no state apportionment payments in July, August or October! Because the state sends apportionments at the end of the month, and there is a lag time for counties to process and send out payments to charters (7-21 days), the apportionments listed in each month aren't typically received until the following month. Keep this in mind for large monthly expenses such as payroll and rent; monthly apportionments might not arrive on time to meet regular monthly obligations even when they aren't delayed. Only about 21% of total revenue will be received before December 2011.

From February through June, the majority (84%) of revenue will be deferred, which means almost no money will be coming from the state over that five-month period. Ultimately, 38% of the year's total apportionment will be deferred into the next fiscal year, making it very difficult for schools to meet current-year obligations. Although these projections are signed into law, they are subject to change. Keep tabs on the most current information released by the CDE.

Potential for midyear cuts.

Adding further uncertainty to school funding is an automatic "trigger" built into the budget plan that will cut K-12 funding if state revenues do not meet the optimistic revenue projections used to balance the budget. Because state revenue assumptions are aggressive, it is a good idea to plan conservatively for a \$250-300 per ADA funding rate cut in your forecast. If the budget cut happens, deferrals will stay in place. And, since the deferrals are based on a specific dollar amount, the percentage of funds deferred would *increase* if the trigger cut comes into play.

Now that we're here, what are the solutions?

CDE Charter School Revolving Loan Fund.

As one of the lowest-cost sources of capital anywhere, the CDE Revolving Loan Fund is the option charter schools should look to first, assuming they are eligible. Schools that are still in their first charter term can apply for up to \$250,000. The loan amount may be lower than \$250,000, but schools can apply multiple times if the full \$250,000 is not received the first time around.

Pros

- The current interest rate of around 1% is far superior to other forms of financing.
- Loan payments occur over multiple (up to five) years, so the loan will provide a longer-term cash cushion than other financing options.
- Repayments are taken directly from monthly apportionments, which reduce administrative hassle for the school.
- If state payments are delayed, loan repayments are also delayed.

Cons

- The program has been impaired by the state budget situation, making it a less reliable source of money now than it has been historically.
- Due to its revolving nature, the program relies on existing participants' payments, which are delayed by the deferrals, to fund schools newly approved for the loan. This has delayed the availability of funds for new participants.

Traditionally, the application is made available to schools by late summer/early fall, and once approved, schools receive their money a couple of months later. In this environment, the Request for Applications has not yet been released so schools are currently unable to apply. It has also become more difficult to qualify for the full \$250,000 in recent years. If approved, schools cannot always expect to get the full award and should plan conservatively. For updates and more information, check the CDE website: <http://www.cde.ca.gov/sp/cs/as/csrevloantoc.asp>.

Deferral Exemptions.

The state has offered exemptions from some of the deferrals. With a deferral exemption, schools are paid according to the normal legislative schedule, thus avoiding specified deferrals throughout the year. Exemptions can be requested from multiple deferrals or from just a single deferral. For 2011-12, charter schools were able to apply for exemptions from the intra-year deferrals (July/August/October 2011 and March 2012). Applications were due in the Spring of 2011. There will be another opportunity, in December, to apply for the March exemption and there will also be an opportunity to apply for an exemption from the June deferral that will be available in late February. For updates and more information, check the CDE website: <http://www.cde.ca.gov/fg/fi/ir/>.

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Pros

- Deferral exemptions can be completed quickly and can be used to avoid fees associated with other cash flow solutions.
- It is a relatively straightforward application that requires the submission of a cash flow statement identifying the school's cash need and a short narrative on why the school would be insolvent without the exemption.

Cons

- While obviously helpful from a cash flow standpoint, political implications must be considered. When submitting an application, the school must certify that without that exemption, it would be insolvent, and the authorizer must review and sign off on the exemption.
- A school might not want to pursue the exemption if, for example, it has a tenuous relationship with its authorizer, or if it's about to enter the charter renewal process.

Negotiate with Vendors.

Strong credit relationships are critical in times of slow cash flow. It is imperative to establish credit relationships immediately with major vendors. Seek out vendors who are willing to accept purchase orders and negotiate payment terms to coincide with cash flow. As much as is practical, limit vendor relationships to those that work extensively with public schools, or at least understand their unique financial needs. Engage in honest negotiations with your authorizer regarding payment delays for items such as encroachment or oversight fees. When making promises to pay, be realistic about the timing of funds. Once a promise to pay is made, work hard to meet that deadline.

Pros

- Negotiating with vendors is a relatively painless way to manage cash flow if you communicate openly, early, and regularly with your vendors and are realistic about when you can pay them.

Cons

- Times are tough for vendors as well so they may have constraints on their own cash flows that won't allow them to delay your payments.
- Because payroll is often a school's largest monthly expenditure, this strategy only gets you so far, as you can typically only negotiate on payments related to supplies and operational services.

This is a strategy that you should try in any case, as most vendors who are used to working with public schools are well aware of the state deferral situation. Your school is likely not the only one who is asking for extensions on payment dates.

Bank Loans and Lines of Credit.

Loans from your bank (or other banks) are worth exploring.

Pros

- Lines of credit, in particular, can provide a great source of capital because of the flexibility in withdrawals and repayments. Interest payments can be minimized by only using the line when needed.

Cons

- The difficulty with both loans and lines of credit is that the current market makes them tough to obtain.
- Lenders are not usually familiar with charter school finance and do not know how to underwrite the risk.
- Charter schools have few hard assets to collateralize debt.
- Many schools, especially new ones, do not have a sufficient operating history and track record to give lenders comfort.

If you can manage to get approved for a bank loan or line of credit with favorable terms, take it! This has become an increasingly rare opportunity for charter schools. It's advisable to plan ahead to figure out when to draw down the line and when to repay it. Make sure that you get help from someone who is familiar with lines of credit to help put together the loan package and present your case to the bank. Because lenders often don't have a great understanding of charter schools, it is important to start early as the process can be lengthy.

Private Party Loans.

Loans from a private party are not often readily available, but are worth exploring. A private party lender could come from a variety of sources: an authorizer, landlord, vendor or any other partner of the school.

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Pros

- These people or organizations might be open to providing a loan to the school because they understand the school better than a bank would.
- Terms can be negotiated so they are beneficial for both parties. For example, an 8% simple interest rate with no upfront fees would be a less expensive source of capital than most currently available loan programs and would still provide an acceptable return for many lenders.

Cons

- There can be some political risk with approaching certain parties, such as authorizers or vendors, about a loan.
- Complicated legal issues can exist, so you should consult your legal counsel before going down this path.

Several potential difficulties exist in setting up a private loan. Lenders are likely not financial institutions and probably don't have the ability to run the school through a complex underwriting process.

TRANS and RANs.

Tax and Revenue Anticipation Notes (TRANS) are short-term, interest-bearing notes that are issued by a district in anticipation of future taxes and other revenues to cover delays for general purpose and categorical funding. Revenue Anticipation Notes (RANs) are essentially TRANS for charter schools. With a RAN, a private investor has the authority to set the total amount of capital raised and the repayment terms.

Pros

- Annual interest rates tend to be low, currently within the 0.5% to 2% range.
- TRANS have the benefit of precedent; they have been available for over 20 years.
- Thanks to the presence of a state intercept mechanism, RANs have the ability to fund 85% of anticipated deferrals, so this solution can provide for a large need for schools that qualify.

Cons

- TRANS are currently available for big districts only.
- RANs are currently available for CMOs and large charter schools only.
- RANs are often challenging to deal with the expectations of a private investor, who can request additional security for the debt.
- Applying for a RAN can be a time-consuming process; the bond/note programs require several rounds of documentation and legal opinion. Despite the typically low interest cost, there are significant legal and investment banking fees at the outset, which can make it expensive for smaller deals.

These options are only available and make sense for a very limited number of charter schools. In general, TRANS are available for big districts and RANs are available for Charter Management Organizations or large charter schools. There are several groups working on making these options more widely available for charters. Efforts are underway to try to get districts to include charter borrowings in district TRANS. But for the time being, neither TRANS nor RANs are great options for the vast majority of charters.

Sale of Receivables.

Receivables sales can be a low-risk vehicle for funders to finance charter schools. These programs involve the purchase by an investor of a receivable payable to a school, at a discount to face value, in advance of the payment date. Pricing reflects time value of money, and credit/collection risk. In other words, the state owes money to a school when it has approved a certain funding source and amount, but due to state cash constraints, isn't able to pay it – the school then has a receivable that it is owed by the state. The school is then able to sell that receivable to an outside investor who has the capital to provide the needed cash to the school upfront. When the money from the state arrives, it gets rerouted to the funder that bought the receivable, at which point the funder collects any program and discount fees associated with purchasing that receivable. In most cases, schools are selling their state apportionment via their certified ADA reports (i.e., PENSEC, 20-day report, P-1, P-2), but in some cases, they are also selling other receivables such as PCSGP funds, since many other revenue streams are arriving on a delayed basis as well.

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Pros

- In an environment where it is difficult for charters to qualify for loans, receivables sales are a much more accessible solution than some of the other options mentioned above.
- Receivables sales have become a widely-used solution for schools of all ages and sizes mainly because the underwriting process is significantly faster and less stringent than that of a bank loan. From the time a school contacts a funder, a school can typically get its needed cash within 12 to 14 business days if its application is submitted quickly and passes the underwriting process.

Cons

- Cost of capital for funders of receivables purchasing programs remains high, so receivable sales can be relatively expensive, when looked at on an annualized interest rate equivalent basis.

If a school is going to do a sale, it's important to think strategically about which receivables to sell and to identify the amount truly needed and for how long. Program fees are typically collected up front based on the total committed amount. So while a lower percentage fee seems like a better deal, it is often not worth it to commit to sell more than a school needs just to secure a lower percentage on the program fee, since a lower percentage applied to a larger committed amount often results in paying more actual dollars for the program fee. For example, if you only need \$100,000, it's much better to pay a 5% program fee to get that specific amount (i.e., a \$5,000 program fee) than to secure a 2.5% program fee by committing to sell up to \$1,000,000 (i.e., a \$25,000 program fee). A school should remember that if it runs into a cash need in the future, it can simply do another sale later. Schools that commit more than they need up front, fail to adjust their budgets to reflect financing costs, or do not maintain expense discipline, are easily forced into a dangerous cycle of depending on the sales to keep afloat.

What's next?

Charter schools are facing the toughest time in their history, with funding rates at an all-time low and state deferrals more frequent and deeper than ever before. Though it may be daunting to follow the complexities of the deferral schedule, it is critical for school leaders to understand the timing and magnitude of any projected cash deficits and what can be done to proactively manage these shortfalls. Cash flow projections should cover a 12-month period and should be updated on a monthly basis. If a cash need is identified, start the process early for the financing options that have longer lead times, and remember that in any financing situation, the goal should ultimately be to meet cash flow needs while incurring the lowest cost on an absolute dollar basis. 🌱

Tips from the Trenches

By Karla Branch, Executive Director of R.A.A.M.P. Charter Academy

The state aid deferrals may have made managing cash flow easier for the state, but they have caused some very real financial stress and strain on my small charter school. Fortunately, I have found ways to manage cash in a pinch, and at times that pinch has been very tight! The following strategies have helped me to keep the lights on and the staff paid while I waited for my state receivables to arrive:

1. **Nothing is more valuable than good credit and a purchase order!** Having Net-30 or Net-45 day terms with vendors for vital, ongoing school needs such as books and classroom and office supplies is a must. If you are able to time your orders for these items so that the subsequent bill will not be due until your cash arrives, you too can be a savvy, P.O.-using administrator!
2. **Apply for the deferral exemptions.** On its face, the deferral exemption application makes it sound like you're captaining a sinking ship! It's not easy to face your authorizer and admit that without this exemption, your school will be insolvent. However, you may be pleasantly surprised to find that your authorizer is actually expecting you to ask for this. My school was granted the exemption and now cash is less of an issue, for the next several months anyway.

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3. **Find outside financing.** This can be difficult because many banks and commercial lenders do not understand public school finance. Furthermore, public schools may be seen as risky borrowers because these lenders know enough to understand that our money comes from a cash-strapped and volatile state. However, if you are able to secure a line of credit, it could be a valuable resource from which to draw when cash is low and slow.
4. **When all else fails, sell your receivables.** There are companies out there who make it their sole business to buy our apportionments. They fully understand the nature of school finance, and have programs set up to help schools when cash flow is tight. This is not always the most cost-effective option, but it is one that is sure to work when cash is months away but bills (and payroll) are due today! Just make sure you clearly understand what you really need to sell to get by – selling more than you need to can raise your financing costs unnecessarily, and may put you on a selling treadmill that is expensive to get off.

Charter Renewal Do's and Don'ts through an Authorizer's Lens

By Stephanie Cho, Development Manager, EdTec Inc.

Renewal can be a daunting process for even the most prepared and organized charter schools. The process is time-consuming and often produces anxiety within the community because of the uncertainty and politics that surround charter approvals and renewals. In an effort to shed some light on what authorizers look for from schools going through renewal, EdTec conducted interviews with authorizers from around the state, to get their take on how schools can equip themselves to emerge successful.



Keith Butler
Business Advisory Services Consultant
San Diego County Office of Education

Q: What have you seen schools do that make for a successful renewal petition?

A: Successful schools start early and carefully watch for deadlines. Schools that don't plan ahead and are still making significant corrections in March and April will face a challenging renewal process. It's important for schools to come to an agreement with their authorizers on oversight. Figure out what is expected ahead of time and address those expectations.

Q: What are some common issues you see schools fail to address in their petitions that hurt their renewal efforts?

A: Common pitfalls tend to happen in the budget assumptions. The numbers presented in the petition budget need to be based on reality. The school needs to be able to back up their enrollment numbers and provide evidence to support other specific assumptions, and other details such as what a school is paying for its space, liability insurance, etc. Schools can run into problems when the funding rates used are not from SSC (School Services of California) or another credible provider, the ADA isn't sufficiently backed up, or cash flow timing isn't accurate or consistent with state apportionment schedules. Expenses should tie to both the school's historical data and incorporate what's on the horizon. For example, healthcare costs year over year should be consistent with previous policies (e.g. a cap) and anticipate future needs/increases. Expenses should be clearly laid out and classified by category and object code. Overall, the financials should include actuals as well as a good list of assumptions for the projections.

Q: What would you like to see more of when you review renewal petitions?

A: More documentation and specification that backs up what's written. For example, the school's learning outcomes – what methods exactly is the school using to achieve those outcomes? We like to see *how* schools are meeting the various measurable pupil outcomes (MPOs). When shortcomings are identified, what system is in place that lays out exactly how to drive change and what are the results expected to come from the change system?

Q: Sometimes schools put in very aggressive goals in their original petitions, often at the request of the authorizer, and
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then fall short of meeting those goals. What can a charter do in that situation?

A: Revise your projections early, incorporating various scenarios that are reasonable. For example, show that you've thought through the different scenarios that could happen – projections based on current data, current projections plus a cost of living adjustment to your salaries, current projections plus cuts, etc. On the instructional side, the goal is to show that you know what you're doing and are able to offer realistic alternatives if the status quo isn't working.

Q: What is your main piece of advice to schools that are going through the renewal process this year?

A: Agree with your authorizer on expectations regarding oversight guidelines, and keep communication open.



José J. Cole-Gutiérrez
Director, Charter Schools
Innovation and Charter Schools Division
Los Angeles Unified School District

Q: What have you seen schools do that make for a successful renewal petition?

A: More effective schools are the ones planning well ahead the year *before* renewal. These schools have gone through each and every year, well aware of how they have done performance-wise, engaged their communities, engaged their boards, and have made the time for self-assessment. This positions them well to prepare for earning another five years. These schools can also address what they can improve in the next five years. Other steps that schools have taken include looking at the LAUSD oversight report on a yearly basis, taking corrective action when necessary, and communicating with their assigned renewal team well ahead of time. Schools that do well have addressed problems in advance, so that during the actual renewal process LAUSD doesn't have to go back to those issues. On the finance side, finances should be in good order and the cash flow and balance sheet need to look strong.

Q: What would you like to see more of when you review renewal petitions?

A: More of a demonstration of community and staff support. I'd also like to see school staff proactively addressing outstanding issues and boldly envisioning what they want to accomplish in the next five years. Ultimately, we want to see a strong performing school that meets the needs of all students.

Q: What is your main piece of advice to schools that are going through the renewal process this year?

A: Be very clear and proud of your accomplishments for students as candidly as possible. Celebrate! At the same time, let us know what challenges you face and how you plan to deal with them. Looking back, ask yourself how did we do based on empirical data? What did we do well and how can we do more of that? Looking forward, how will we change to meet the evolving needs of our community? Regarding financial challenges, how can we be more prudent?

Q: Do you have any other comments?

A: LAUSD has 30 schools up for renewal this year. In many cases, this is more than districts have in charters total. We want to make it an efficient process for community, staff, and the school, and we value a collaborative approach with schools. We believe in high performing schools and holding schools accountable. We are open to those conversations on how schools have done.



Staff Contributions
Office of Charter Schools
Oakland Unified School District

Q: What have you seen schools do that make for a successful renewal petition?

A: Our office publishes both a Petition Evaluation Instrument for all charter petitions and a Charter Renewal Handbook that includes guidance on the renewal process and on the charter renewal quality standards. Using these resources can

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help a school produce a more complete document that supports their case for renewal with specific evidence related to our standards. However, the specific content of the school's renewal petition is less important than the quality of its performance throughout the preceding charter term.

Q: *What are some common issues you see schools fail to address in their petitions that hurt their renewal efforts?*

A: Our quality standards cover four key questions: 1) Is the school academically sound?; 2) Is the school an effective and viable organization?; 3) Has the school been faithful to the terms of its charter?; and 4) Is the school's petition reasonably comprehensive? A school that has not implemented the program described in the charter and has not met or made substantial progress towards meeting the measurable pupil outcomes (MPOs) in its charter is unlikely to be renewed. Note that making a case for meeting or making substantial progress towards MPOs involves using data that the school has been collecting over the entire term of the charter, so strong data collection systems are critical. We respect the charter as an agreement between the district and the school, in which the school accepts strong accountability in exchange for increased autonomy. They are accountable for achieving the outcomes described in their charter, so schools that fail to address these, or fail to describe why they have taken a different approach, hurt their renewal efforts.

Q: *What would you like to see more of when you review renewal petitions?*

A: Charter renewal provides a chance for the school to reflect on the preceding years and engage in serious self-evaluation, involving all stakeholders. We believe a quality school should take this opportunity to revise its charter to include plans for continuous improvement in all aspects of the academic program, management, and governance.

Q: *Sometimes schools put in very aggressive goals in its original petition, often at the request of the authorizer, and then fall short of meeting those goals. What can a charter do in that situation?*

A: Our quality standards look for student outcomes that are aligned with the school's mission: clear, specific and measurable, and ambitious yet attainable. Because we review a school's performance with respect to its student outcomes every year, a school concerned about over-ambitious goals should be raising the issue with our office during the charter term. Then during charter renewal, the school can provide in its petition an explanation (based on reliable data) of why the outcomes were not met (or substantial progress was not made) and describe what they propose as ambitious and attainable goals for the next charter term.

Q: *When do you advise a school to submit their petition, and what specific information do you request, above and beyond the normal petition?*

A: We accept charter renewal petitions no earlier than October 1st of the charter's final year and recommend submission no later than the end of January. Schools that consider themselves at risk of denial may wish to submit earlier to allow time for appeals. In addition to the charter petition, we require a Performance Report that is to be prepared in draft prior to our site inspection and then finalized as part of the charter renewal submission.

Q: *Are there things prior to the one year renewal process that you would like to see charters do? What would you like to see three years ahead of renewal? Two years?*

A: From the first day of operation, schools should make sure that they are tracking the MPOs to which they have committed in their charters. Progress toward achievement of these outcomes should be checked regularly throughout the school year, with program adjustments made in response. As renewal approaches, but while there is still time for meaningful change, schools should review the renewal quality standards published by our office and honestly assess their own performance. Rather than viewing charter renewal as a periodic compliance task, the MPOs and charter renewal standards should be integrated into the school's continuous improvement process.



Dr. Lucretia D. Peebles
Director
Charter Schools Department
Santa Clara County Office of Education

Q: *What have you seen schools do that make for a successful renewal petition?*

A: Schools that approach the renewal process with a clear understanding of the legal requirements outlined in the
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California Education Code and the authorizer's expectations submit renewal petitions that are complete and inclusive of new legislation pertaining to renewals. Schools that submit successful renewal petitions also meet with the authorizer to review the renewal process and timeline at least a year in advance of submitting the petition. These schools review the guidelines and authorizer's expectations with their boards and work collaboratively to ensure that the renewal logistics are communicated to those who will be working on the renewal petition.

Q: *What would you like to see more of when you review renewal petitions?*

A: I would like to see more comprehensively described in the renewal petition, the education program and changes that have occurred during the implementation phase, including how students will experience the academic program, how learning will occur, and learning outcomes and assessments. Additionally, I would like to have petitioners include clear descriptions about governance, how board trustees will be recruited and elected, the length of the term a board member will serve, the desired board composition (racial/ethnic, geographical, expertise), the process the school will use to include in its decision-making, input from parents, teachers, and community members, whether the school will have an independent board, and details on how parents will be included in decision-making opportunities apart from the board. The financial plan and projected budget and assumptions for the five-year renewal plan require accurate information and descriptions.

Q: *Sometimes schools put in very aggressive goals in its original petition, often at the request of the authorizer, and then fall short of meeting those goals. What can a charter do in that situation?*

A: A charter should be transparent about the goals it selects and its anticipated challenges in achieving these goals. Charters often develop their goals with input from their teachers, staff, parents, and boards. The authorizer's recommendations for goals are based on an analysis of the charter petition and the desired goal of the authorizer to support high performing charter schools. To this end, charters can work in concert with the authorizer to ensure that the goals that are included in the renewal petition are attainable and can be implemented within the term of the charter. The charter can provide justification for the inclusion and deletion of specific goals. The charter might request a material revision if it feels it cannot meet certain goals. The authorizer can explain the material revision process and then suggest information that will assist the board in making a decision on the material revision.

Q: *When do you advise a school to submit their petition, and what specific information do you request, above and beyond the normal petition?*

A: Schools are advised to submit the petition in early fall for a charter expiring the following June. Charters are also asked to submit a completed charter petition review matrix, an analysis of student academic performance disaggregated by subgroups, and the results of satisfaction surveys administered to students, teachers, and parents.

Q: *What is your main piece of advice to schools that are going through the renewal process this year?*

A: Set up a meeting with the authorizer a year before the charter is to expire to discuss the renewal process. Become familiar with the renewal guidelines and work with your authorizer so that you understand how the process will be handled. Become knowledgeable about the renewal timeline, the roles and responsibilities of the charter and the authorizer, and expectations for the public hearing and decision meeting.

EdTec would like to thank the above authorizers for contributing their time and knowledge. All of the authorizers echoed throughout each interview that renewal should not be viewed as simply an obligatory assignment to be completed every five years, but rather, a continuous process to track progress and improve the school. All charters face renewal at some point, and no matter where your school might currently fall on that timeline, it's always a good time to:

- **Stay in the know on requirements and timelines.** Rules and laws related to the renewal process are continually changing and it's critical to stay on top of which ones apply to your school. Furthermore, your authorizer might have specific oversight guidelines and timelines they want you to follow. In general, it is recommended you start drafting your renewal petition 18 months to no less than a year in advance of the charter expiration date to give yourself adequate time for back and forth communications between you and your authorizer and an appeals process if necessary. Check with your authorizer regarding exact timelines for submitting the renewal petition.

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- **Maintain constant and open contact with your authorizer.** Communication is particularly important because you want to create context around both the successes and shortcomings of your school well before the renewal year. Authorizers appreciate transparency and want schools to be realistic about their plans. Come to an agreement on oversight ahead of time and know what their expectations are so you can tailor your petition to address any specific concerns.
- **Utilize data assessment and analysis.** While qualitative aspects such as positive testimonials are important, authorizers like to see hard facts and longitudinal assessment data to substantiate how you are meeting your goals and delivering results. Concrete, specific and measurable data is a convincing way to show your authorizer that you can both back up your claims on past performance and have a tool for formative assessments going forward. Use data analysis to showcase your successes. At the same time, the data can expose your weaknesses – so be honest about the areas you’re looking to improve, and how you plan to focus on those areas.
- **Get a strong handle on your finances.** The petition budget and cash flow are concrete areas that your authorizer will review closely, especially in this unforgiving economic environment. Make sure your assumptions make sense with the goals outlined in the rest of your petition. Be able to speak intelligently on the financial situation of your school. If you are working with any consultants or back-office providers in this area, leverage them to go through every assumption with you so that you have a thorough understanding of your finances.
- **Engage key stakeholders.** Don’t wait until you are walking into your renewal hearing to garner community support. Authorizers want to see an active, involved board that is well aware of the details of the renewal petition, along with parents, staff, and students who are genuinely excited and interested in the continued existence of their school.
- **Set aside time for regular self-evaluation.** Throughout each year, periodically reflect on how your school is meeting the MPOs pledged in its original charter and set up a process for developing program adjustments to address any deficiencies. Have a team devoted to self assessment and responsible for executing and holding the school accountable to a results-oriented action plan.
- **Budget time and resources for strategic planning.** In addition to regular check-ins on the progress of meeting the charter’s MPOs, plan time for key stakeholders to establish real, viable tactics for the long-term health and wellbeing of your school. Conduct a needs assessment and develop a clear strategic roadmap to establish and tackle long-term objectives for the sustainability of your school.

Though many aspects of the renewal process can be trying, you should remember that it is also a great opportunity to showcase your school’s strengths and accomplishments. Stay in control of the process by starting early and regularly communicating with your authorizer to give yourself the best chance possible at getting your charter renewed, and it doesn’t necessarily have to be a bumpy ride. 🌱

This article was written with additional EdTec Inc. staff contributions from Bryce Fleming, Peter Laub, Dorothy Lee, and Kelly Theofanis.

Finance & Operations: 6 Key Things Every School Leader Should Know

By Brandon Paige, Business Manager, EdTec Inc.

Here at EdTec, we have the fortune of working with many school leaders, both seasoned and new to the charter world, which allows us to see the most effective school leadership practices. Many new school leaders have brought successful strategies implemented in their classrooms to their new roles as executive directors. Inevitably, however, there are aspects of managing a school that fall outside their comfort zones, such as finance and operations. While most grow to develop skill sets in these areas, going into the job with the full knowledge base required to successfully run a charter is nearly impossible. This article highlights six questions that routinely come up from directors who have had to adapt to unfamiliar financial and operational demands of their new position, especially in this unpredictable economic climate.

1. Reading financials: What key indicators should I expect a business manager or back-office provider to explain?

The following indicators should be examined when building or revisiting your school's budget. You should understand these concepts to gain a sufficient understanding of your school's financial situation:

- **Fund Balance vs. Cash Balance:** The fund balance is the net worth or equity of the school. This is measured by its total assets (all that the school owns that has a monetary value and enhances its worth) minus its total liabilities (all that the school owes in debts and obligations). In other words, it is the net amount of money the school has accumulated over its lifetime. The fund balance is a good indication of the long-term financial health of a school. Similar sounding, but distinct is the cash balance: the amount of cash the school has in the bank at a given time. Keep in mind that your fund balance will likely not equal your cash balance, since: 1) much of the school's revenue may be deferred, and 2) your fund balance represents *all* of your assets, not just cash. (Assets include cash and encompass receivables or land or equipment that is being depreciated.) When examining a cash flow statement, the projected cash balances are key indicators of whether your school can meet its obligations on time. If that balance is positive, you will be able to pay your bills and employees on time; if it is negative, you will not, and will need to figure out a way to manage those shortfalls through negotiating with vendors or borrowing money.
- **Budget Year-to-Date (YTD) vs. Actuals YTD:** On a monthly basis, examine what your school's spending patterns are. Your expenses will not always be spent equally throughout the year, but a business manager should be able to indicate whether or not the school is on track to meet its budget. Actuals YTD will show you how you are spending in reality, while Budget YTD will indicate how you are supposed to be spending based on the budget most recently approved by your board. The variance between these two numbers will show you how far you are deviating from your planned budget. Your business manager should be able to explain why these variances exist, and whether or not they are a concern. Note that if your latest budget is out of date, these variances may not be meaningful and it is therefore more important to be looking at the variances between your actuals and your updated forecast.
- **Discretionary Funds vs. Fixed Costs:** When it comes to your budget, you need to have a sense of what is within and outside of your control. If an unexpected change happens and you must reallocate funds as a result, where do those funds come from in the budget? While you may have little flexibility in how much the school pays for fixed costs such as rent and district oversight fees, other items that are not set in stone by contract such as school supplies or professional development may provide some flexibility.
- **Accruals:** Accrued expenses are liabilities and are recognized on your books before they are paid for, while accrued revenues are assets and are recognized on your books before they are received (Remember, this a big reason for the difference between fund balance and cash balance). Depending on the accounting system your school uses, accruals can be booked differently. Despite the differences, however, it's essential to know that – come June 30th – there will be a significant percentage of 2011-12 funds that the school is still owed, but those funds won't actually be received until the following fiscal year. Accruals are those amounts that are still remaining past June 30th that count as 2011-12 revenue. The same applies for expenses that are incurred before June 30th, but paid out after June 30th. Ask your business manager to explain how this is recorded, and how it impacts the school's financial statements.

2. Managing expenses: What are the big-ticket items to keep in mind when starting to plan for next year?

While you might stress over whether you should budget \$5K or \$10K for professional development, an additional set of textbooks, or extra office supplies, it is important to remember that these are smaller-scale, discretionary expenses.

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Other more rigid, bigger-ticket items determine the amount left over for those discretionary items. Taking the time to address the big-ticket items that are within your control well before the start of a new school year will enable you to maximize the amount of funds that remain for day-to-day programmatic expenses, and any extras you can afford.

- **Special Education encroachment costs** typically fall somewhere in the wide range of \$300-\$1,000/ADA if the charter acts as a school of the district for Special Ed purposes. If you are unhappy with the services received for the associated costs, then don't view this as a set cost in the long term; evaluate how the district compares to becoming your own LEA and joining a charter SELPA.
- **Rent** costs can vary wildly depending on the terms of your school's lease. Evaluate whether the school's current space is serving its needs well. If it is, explore whether there might be room to negotiate lower rent for the coming year. If it isn't, explore what other options may be available within your area.
- **Custodial services** represent a significant decision point for schools: in-house personnel or outsourced provider? While hiring an in-house custodian is the option that likely affords you more flexibility, it also requires benefits and employer contributions, as well as the cost of custodial supplies. On the flip side, using a custodial service may simply be less of a headache, allowing the school to keep a smaller staff focused on the instructional program. If pursuing this option, make sure the vendor can provide service at the hours the school needs, and is offering competitive prices for the area.
- **Food service**, like custodial service, offers the potential to extend staffing into areas that are non-instructional. Outsourcing food service, which can be provided through the district or an independent provider, allows the school to streamline its personnel. But if you want to provide specific food offerings, and have the capacity to set up the necessary systems in-house that can properly track state and federal meal reimbursement, it can be a service the school may wish to provide.

These items may not be the glamorous side of running a school, but they do make up a greater percentage of expenses than you may realize. Evaluate options for these services in the long-term, so that greater revenue is left for the programmatic needs of your school.

3. Examining this year's budget: Is an operating loss acceptable? How much?

California's budget plan includes an automatic "trigger" that will cut K-12 funding if state revenues do not meet the optimistic revenue projections used to balance the budget. Because year-to-date state revenues are trending below projections, you should be planning for an approximate \$250-\$300 per ADA cut to the published General Block Grant rates. Forecasting this revenue loss will obviously have a negative impact on your operating income, making it critical for you to make the appropriate off-setting adjustments to the rest of your budget *now*. You should be making any necessary expense cuts in order to maintain a balanced budget and an operating income that will meet your authorizer's requirements for minimum reserves. Note that the longer in the year you wait to make cuts to ongoing expenses, the less effective they are in preserving your operating income. Because it is relatively early in the school year, making the hard decisions now will save you headaches later when it is too late to make any fiscally meaningful changes.

While projecting an operating loss should never be taken lightly, if you've already made all the cuts possible and cannot cut further without significantly jeopardizing your program, projecting a loss may be a last resort only if you have a healthy enough fund balance to sustain the loss. If you have a positive fund balance that is larger than your projected current year loss, your fund balance will at least remain positive at the end of the year, after taking this year's hit. If you find yourself in this position, it will be crucial to work with your board and financial advisors to examine two specific areas as you consider how much of a loss can be sustained:

- **Cash:** What are the cash projections throughout the coming year? If cash flow looks tight from month to month, spending decisions should be determined more by short-term obligations than annual budget considerations. If cash balances are healthy, however, assessing cash flow is not quite as imperative to your overall approach to budgeting.
- **Fund Balance:** Has the school accrued substantial reserves from prior years resulting in a positive, strong fund balance? If so, tolerating a loss in this year's budget will not jeopardize the school's long-term financial health, if there are essential elements to your program that cannot be sacrificed. However, your school will not be able to sustain this approach for long; there are no guarantees as to when funding rates will increase.

Although charter schools may be faced with a brutal funding decrease this year, you can stay informed and in control by budgeting conservatively and making the appropriate cuts early to balance your budget. Accepting an operating loss for
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the year should be an absolute last resort, and only if your school has the fund balance to sustain it.

4. Cash flow financing: How do I evaluate options if my school is in need of cash?

Given low funding rates and the extreme deferrals throughout 2011-12, you are responsible for evaluating whether borrowing is the right solution for your school. There are four crucial questions to ask:

- How much does the school need to borrow?
- How long will the school have to repay?
- What is the interest rate?
- What other fees (e.g. origination or management) are involved?

Managing limited funds can be one of your more stressful financial responsibilities as a school leader. Start with the basic questions above, reflecting on where your personal knowledge of the options lies. It is also important to consider these criteria:

- What is my total dollar expense for getting cash upfront including all fees (i.e. the cost of borrowing money)?
- What is the annualized percentage interest rate associated with the funding?
- Compare apples-to-apples; that is, if you are weighing multiple borrowing options, make sure to evaluate all options on an annualized percentage basis so that you are making an informed decision based on comparable measures.

Throughout this process, continue to ask the bigger picture questions that have implications for your school down the road:

- Why am I short on cash? Is it a temporary issue, or is it systemic within the school's financial planning?
- Does borrowing cash now put me in a position to need to borrow again in the near future?
- Where in the budget can I make cuts to balance the additional cost of borrowing money?
- What is my long-term plan to develop cash reserves to reach sustainability?

5. Getting your ducks in a row: What do auditors look for?

Contrary to common expectations, auditors do not focus on whether your school is doing a good job. Rather, auditors' main function is to evaluate whether your school is telling the truth about the job that it's doing. This means that they assess the accuracy and compliance of your school's attendance records, financial statements, and some procedural items such as resolutions passed by the board and the financial controls in place at the organization. In the end, auditors make a determination about whether your school is at risk of no longer being a "going concern" (meaning the school is able to continue operations in the foreseeable future), but the bulk of their work is to ensure that your school is fairly stating all financial information.

If you are a new school leader, you may be looking for the auditor to tell you that the school is doing a *great* job. More likely, if things are going well, they will inform you that the school is doing a *sufficient* job and is in compliance. For example, if things are not going well in the auditors' eyes, their reason will not be that attendance is too low; instead, their reason may be that attendance is *inaccurate* according to the reports submitted versus the daily records. The setup and organization of attendance files, documentation of invoices and payments, backup for any deposits made, contracts or MOUs signed for the year, and board agendas/minutes/resolutions are all items that require substantial record-keeping for auditing purposes. Make sure whoever oversees operations at your school is continuously evaluating the compliance of these auditable items throughout the year.

6. Juggling deadlines: What are the essential "to-do" items for charter school compliance?

New directors consistently ask EdTec about the numerous deadlines they need to meet to stay compliant. While we provide our schools with a compliance calendar, all schools can manage their operations by organizing their needs into the following buckets, and having one individual within the organization take responsibility for ensuring that the deadline is met:

- **General Requirements:** From applying for your CDS code and charter number to SARC Reports and Annual Information Surveys to charter renewals, charters are responsible for fulfilling a wide range of requirements.

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- **Attendance and Assessment Data:** Examples include CALPADS, CBEDS, PENSEC and 20-day reports (for new or growing schools), P-reports, and monthly attendance reports. Additionally, bell schedules and instructional minute calendars must be set on an annual basis.
- **Applications for Funding:** Not all schools will access all funding opportunities, but examples of sources that require an application include the LEA Plan, School Wide Plan and Consolidated Application for Title funding, PCSGP for start-up schools, CSR for K-3 schools operating prior to 2008-09, SB740 for facilities and ASES for after-school programs. Outside of applications strictly tied to specific funding sources, programs like Prop 39 (for facilities) and the Revolving Loan (for any school in its first term) require charters to follow a designated timeline.
- **Reporting Needs:** Most funding sources, such as those listed above, require the filing of a report. These are generally spelled out in the CDE’s request for applications (RFA) for the funding. Additionally, authorizers require the submission of annual budgets, interim reports, unaudited actuals, etc.
- **Board Governance:** Governance questions, while ideally fielded by your board chairman, often fall to you as the executive director. On an annual basis, a board should pass various resolutions (such as uniform complaint procedures and financial policies) and complete the Form 700 for conflict of interest issues.
- **Human Resources and Payroll:** TB tests, credentialing documentation, and employee contracts should be addressed annually.

Don’t be discouraged by the amount of information there is to digest! By asking the right questions of your board, business manager or back-office service provider, these tasks can be appropriately addressed and your processes streamlined so that you can focus on maintaining a great educational program! 🌱

Thanks to the new directors that we have worked with, for putting forward the questions that are necessary to ask in order to build a strong charter school.

Thank you for reading the inaugural edition of *EdTec Connect*!

We hope you found the content to be useful and informative. We encourage you to provide feedback and suggestions for ways we can improve upcoming volumes.

Sincerely,
The EdTec Team

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