Appendix B: Detailed Financial Performance Indicator Descriptions

The Financial Performance Framework is composed of both near term and sustainability indicators, each having four measures. It is important to note that the Framework is not designed to evaluate a school's spending decisions. It does not include indicators of strong financial management practices, which are laid out in the organizational performance framework. The Financial Performance Framework analyzes the financial *performance* of a charter school, not its processes for managing that performance.

Near Term
1.a. Current Ratio: **Current Assets divided by Current Liabilities**
Meets Standard: **☐ Current Ratio is greater than 1.1** **or** **☐ Current Ratio is between 1.0 and 1.1 *and* one-year trend is positive (current year ratio is higher than last year's)** **Note: For schools in their first or second year of operation, the current ratio must be greater than 1.1.**
Does Not Meet Standard: **☐ Current Ratio is between 0.9 and 1.1** **Or** **☐ Current Ratio is between 1.0 and 1.1 *and* one-year trend is negative**
Falls Far Below Standard: **☐ Current ratio is less than 0.9**

Indicator

Measure

Metric

Target

Near Term Measures

1) *The current ratio depicts the relationship between a school's current assets and current liabilities.*

Overview: The current ratio measures a school's ability to pay its obligations over the next twelve months. A current ratio of greater than 1.0 indicates that the school's current assets exceed its current liabilities, thus indicating ability to meet current obligations. A ratio of less than 1.0 indicates that the school does not have sufficient current assets to cover its current liabilities and is not in a satisfactory position to meet its financial obligations over the next 12 months.

Source of Data: Audited balance sheet.

Near Term
Current Assets divided by Current Liabilities
Meets Standard: ☐ Current Ratio is 1.1 or greater. or ☐ Current Ratio is between 1.0 and 1.1 *and* one-year trend is positive. **Note**: For schools in their first or second year of operation, the current ratio must be greater than 1.1.
Does Not Meet Standard: ☐ Current Ratio is between 0.9 and .99 Or ☐ Current Ratio is between 1.0 and 1.1 *and* one-year trend is negative.
Falls Far Below Standard: ☐ Current ratio is less than 0.9

2) ***The <u>unrestricted days cash on hand</u> ratio indicates how many days a school can pay its operating expenses without another inflow of cash.***

<u>Overview</u>: The unrestricted days cash ratio defines whether or not the school has sufficient cash to meet its day-to-day obligations.

<u>Source of Data</u>: Audited balance sheet and income statement.

Near Term
Unrestricted Cash divided by (Total Expenses/365)
Meets Standard: ☐ 60 Days Cash or more or ☐ Between 30 and 60 Days Cash *and* one-year trend is positive **Note**: For schools in their first or second year of operation, they must have a minimum of 30 Days Cash.
Does Not Meet Standard: ☐ Days Cash is between 15 and 29 days Or ☐ Days Cash is between 30 and 60 days *and* one-year trend is negative
Falls Far Below Standard: ☐ Less than 15 Days Cash

3) ***<u>Enrollment</u>* <u>forecast accuracy</u> *tells authorizers whether or not the school is meeting its enrollment projections, thereby generating sufficient revenue to fund ongoing operations.***

<u>Overview</u>: The enrollment forecast accuracy depicts actual versus projected enrollment. A school budgets based on projected enrollment but is funded based on actual enrollment; therefore, a school that fails to meet its enrollment targets may not be able to meet its budgeted expenses.

<u>Source of Data</u>:

- Projected enrollment – Charter school board-approved enrollment budget for the year in question.
- Actual enrollment.

Near Term
Actual Enrollment divided by Enrollment Projection in Board-Approved Budget
Meets Standard: ☐ Enrollment Forecast Accuracy equals or exceeds 95% in the most recent year *and* equals or exceeds 95% each of the last three years **Note**: For schools in their first or second year of operation, Enrollment Forecast Accuracy must be equal to or exceed 95% for each year of operation.
Does Not Meet Standard: ☐ Enrollment Forecast Accuracy is between 85% and 94% in the most recent year or ☐ Enrollment Forecast Accuracy is 95% or greater in the most recent year *but does not* equal or exceed 95% or greater each of the last three years
Falls Far Below Standard: ☐ Enrollment Forecast Accuracy is less than 85% in the most recent year

4) ***<u>Debt default</u> indicates if a school is not meeting debt obligations or covenants.***

<u>Overview</u>: This metric addresses whether or not a school is meeting its loan covenants and/or is delinquent with its debt service payments.

<u>Source of Data</u>: Notes to the audited financial statements.

Near Term
Meets Standard: ☐ School is not in default of loan covenant(s) and is not delinquent with debt service payments
Does Not Meet Standard: ☐ Not Applicable
Falls Far Below Standard: ☐ School is in default of loan covenant(s) or is delinquent with debt service payments

<u>Sustainability Measures</u>

1) ***<u>Total margin</u> measures the deficit or surplus a school yields out of its total revenues; in other words, whether or not the school is living within its available resources***

<u>Overview</u>: The total margin measures if a school operates at a surplus (more total revenues than expenses) or a deficit (more total expenses than revenues) in a given time period. The aggregated three-year total margin is helpful for measuring the long-term financial stability of the school by smoothing the impact of single-year fluctuations on the single year total margin indicator.

<u>Source of Data</u>: 3 years of audited income statements

Sustainability
Net Surplus divided by Total Revenue **Aggregated Total Margin:** **Total 3 Year Net Surplus divided by Total 3 Year Revenues**
Meets Standard: ☐ Aggregated Three-Year Total Margin is positive *and* the most recent year Total Margin is positive or ☐ Aggregated Three-Year Total Margin is greater than -1.5%, the trend is positive for the last two years, *and* the most recent year Total Margin is positive **Note**: For schools in their first or second year of operation, the aggregate Total Margin must be positive.
Does Not Meet Standard: ☐ Aggregated Three-Year Total Margin is greater than -1.5%, but the trend is negative.
Falls Far Below Standard: ☐ Aggregated Three-Year Total Margin is less than -1.5% or ☐ Current year Total Margin is less than -10%

2) ***The <u>debt to asset ratio</u> measures the amount of liabilities a school owes versus the assets they own; the extent to which the school relies on borrowed funds to finance its operations.***

<u>Overview</u>: The debt to asset ratio compares the school's liabilities to its assets. Simply put, the ratio demonstrates what a school owes against what it owns. A lower debt to asset ratio generally indicates stronger financial health.

<u>Source of Data</u>: Audited balance sheet

Sustainability
Total Liabilities divided by Total Assets
Meets Standard: ☐ Debt to Asset Ratio is less than 0.90
Does Not Meet Standard: ☐ Debt to Asset Ratio is between 0.90 and 1.0
Falls Far Below Standard: ☐ Debt to Asset Ratio is greater than 1.0

3) *The <u>cash flow</u> measure indicates a school's change in cash balance from one period to another.*

<u>Overview</u>: Cash flow indicates the trend in the school's cash balance over a period of time. This measure is similar to days cash on hand, but indicates long-term stability versus near-term. Since cash flow fluctuations from year-to-year can have a long-term impact on a school's financial health, this metric assesses both three year cumulative cash flow and annual cash flow.

<u>Source of Data</u>: 4 years of audited balance sheets

Sustainability
Three-Year Cash Flow = (Prior Year 3 Total Cash) – (Year 0 Total Cash) One-Year Cash Flow = (Prior Year 1 Total Cash) – (Year 0 Total Cash)
Meets Standard: ☐ Three-year cumulative cash flow is positive *and* cash flow is positive each year. or ☐ Three-year cumulative cash flow is positive, cash flow is positive in two of three years, *and* cash flow in the most recent year is positive. **Note**: For schools in their first or second year of operation, they must have positive cash flow.
Does Not Meet Standard: ☐ Three-year cumulative cash flow is positive, but the trend is negative.
Falls Far Below Standard: ☐ Three year cumulative cash flow is negative.

4) *The <u>debt service coverage ratio</u> indicates a school's ability to cover its current year debt obligations.*

<u>Overview</u>: This ratio measures whether or not a school can pay the principal and interest due on its debt based on the current year's net income. Depreciation expense is added back to the net income because it is a non-cash transaction and does not actually cost the school money. The interest expense is added back to the net income because it is one of the expenses an entity is trying to pay, which is why it is included in the denominator.

<u>Source of Data</u>:

- Net income: audited income statement
- Depreciation expense: audited cash flow statement
- Interest expense: audited cash flow statement
- Principal and interest obligations: provided from the school

Sustainability
(Net Income + Depreciation + Interest Expense)/(Principal and Interest Payments)
Meets Standard: ☐ Debt Service Coverage Ratio is equal to or exceeds 1.10
Does Not Meet Standard: ☐ Debt Service Coverage Ratio is less than 1.10
Falls Far Below Standard: ☐ Blank