

State Public Charter School Authority Charter School Financial Performance Framework Workbook



Acknowledgment

This workbook was developed in consortium by the Clark County School District Office of Charter Schools and the State Public Charter School Authority

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Core Financial Performance Framework Guidance

The Financial Performance Framework is intended as a starting point for charter school sponsors to adopt and to evaluate a charter schools' financial performance as part of ongoing monitoring and the renewal decision making process. Charter schools have the autonomy to manage their finances consistent with state and federal law; however, sponsors must ensure that the schools they sponsor are financially stable. In the process of renewing or not renewing a charter school, sponsors must determine whether the school is not only academically and organizationally sound, but also financially viable.

The Financial Performance Framework provides sponsors a tool to identify schools currently in, or trending towards, financial difficulty and to proactively evaluate and address the problem. The guidance aligns with NACSA's Principles & Standards for Quality Charter School Authorizing (2012), which states that sponsors should, through a Performance Framework, set clear expectations for "financial performance and sustainability." The Financial Performance Framework was created after a review of model sponsor practices, charter school lender guidance, and expertise in the field. While the framework does not specifically mirror any single source, it was created to provide a clear picture of a school's past financial performance, current financial health, and potential financial trajectory.

Framework Structure

The Financial Performance Framework gauges both near-term financial health and longer-term financial sustainability. The framework includes indicators, measures and metrics. Targets and ratings are established by the individual sponsors.

Indicators

The Financial Performance Framework includes two indicators, or general categories, used to evaluate a schools' financial performance.

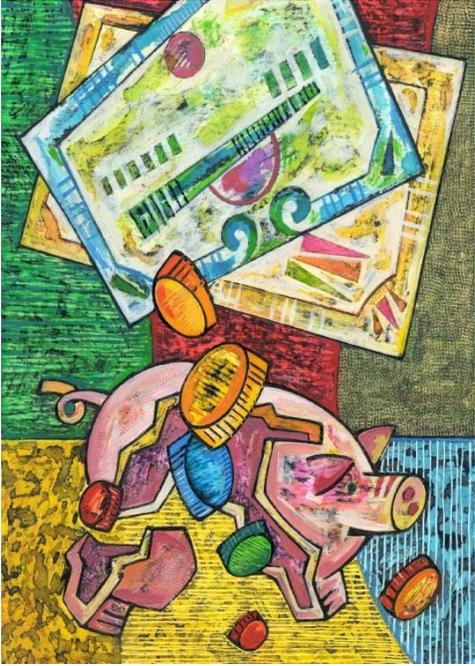
1. Near-Term

The portion of the framework that tests a school's near-term financial health is designed to predict the school's financial position and viability in the upcoming year. Schools meeting the desired standards demonstrate a low risk of financial distress for the coming year. Schools that fail to meet the standards may currently be experiencing financial difficulties and/or are at risk for financial hardship in the near term. These schools may require additional review and immediate corrective action on the part of the sponsor.

2. Sustainability

The framework also includes longer-term financial sustainability measures and is designed to predict a school's financial position and viability over time. Schools that meet the desired standards demonstrate a low risk of financial distress in the future. Schools that fail to meet the standards may be at risk for financial hardship in the future.

SECTION 1
NEAR TERM MEASURES



Near Term Measure 1 - Current Ratio

Purpose - The current ratio depicts the relationship between a school's current assets and current liabilities. In addition, the current ratio is a financial ratio that measures whether or not a school has enough resources to pay its debts over the next 12 months. It compares a school's current assets to its current liabilities.

What is the formula?

$$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}} = \text{Current Ratio}$$

What is the data source for the formula?

Audited Balance Sheet

ABC Academy Example

$$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}} = \frac{\$197,115}{\$95,382} = 2.07 \text{ Current Ratio}$$

Current ratio is 1.1 or greater

Meets Standard

What is the metric used to determine school status?

Near Term Measure - Current Ratio

Current Assets / 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.

Near Term Measure 2 - Unrestricted Days Cash-On-Hand Ratio

Purpose - The unrestricted days cash-on-hand indicates how many days a school can pay its operating expenses without an inflow of cash. National standards state 60-120 cash-on-hand is considered a model practice.

What is the formula?

$$\frac{\text{Annual Expense} - \text{Annual Depreciation}}{365 \text{ Days}} = \text{Average Daily Expense}$$

$$\frac{\text{Unrestricted Cash and Equivalents}}{\text{Average Daily Expense}} = \text{Unrestricted Days Cash - On - Hand}$$

What is the data source for the formula?

Audited Balance Sheet

Income Statement and Changes in Net Position

ABC Academy Example

Formula used to determine daily expense

$$\$1,173,620 - \$10,000 = \frac{\$1,163,620}{365 \text{ Days}} = \$3,188 \text{ Average Daily Expense}$$

Formula used to determine unrestricted days of cash-on-hand

$$\frac{\$245,528}{\$3,188} = 77 \text{ Days}$$

60 days of cash or more

Meets Standard

What is the metric used to determine school status?

Near Term Measure - Unrestricted Days Cash-On-Hand Ratio
Average Daily Expenses : (Total Annual Expenses - Annual Deprecation) /365
Unrestricted Days Cash-On-Hand: Unrestricted Cash and Equivalents / Average Daily Expense
Meets Standard: <input type="checkbox"/> 60 days of cash or more. Or <input type="checkbox"/> Between 30 and 60 days of cash <i>and</i> 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. 60 days cash to 120 days cash (recommended maximum). Does Not Meet Standard: <input type="checkbox"/> Days of cash is between 15 and 29 days. Or <input type="checkbox"/> Days of cash is between 30 and 60 days <i>and</i> one-year trend is negative. Falls Far Below Standard: <input type="checkbox"/> Less than 15 days cash.

Near Term Measure 3 - Enrollment Forecast Accuracy

Purpose - Enrollment forecast accuracy tells sponsors whether or not the school is meeting its enrollment projections, thereby generating sufficient revenue to fund ongoing operations.

What is the formula?

$$\frac{\text{Actual Enrollment}}{\text{Projected Enrollment}} = \text{Percent of Forecast Accuracy}$$

What is the data source for the formula?

Actual Enrollment = certified count day numbers

Projected Enrollment = charter school board-approved budgeted enrollment

ABC Academy Example

$$\frac{\text{Actual Enrollment}}{\text{Projected Enrollment}} = \frac{225}{210} = 107\% \text{ Forecast Accuracy}$$

Enrollment forecast accuracy equals or exceeds 95% in the most recent year and equals or exceeds 95% each of the last three years

Meets Standard

What is the metric used to determine school status?

Near Term Measure - Enrollment Forecast Accuracy

Actual Enrollment / Projected Enrollment

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.

Near Term Measure 4 - Debt Default

Purpose - The debt default indicator addresses whether or not a school is meeting its loan obligations and/or is delinquent with its debt service payments. Notes from the audited financial statements are used as the source of data. *In most cases this will not be applicable for charter schools that do not have outstanding loan.*

What is the indicator?

Sponsors may consider a school in default only when the charter school is not making payments on its debt, or when it is out of compliance with other requirements in its debt covenants.

What is the data source for the indicator?

Notes to the audited financial statements.

ABC Academy Example

ABC Academy's notes to the audited financial statements indicate that the school is not making payments on its debt, or it is out of compliance with other requirements in its debt covenants.

Falls Far Below Standard

What is the metric used to determine school status?

Near Term Measure - Debt Default

Notes to the audited financial statements.

Meets Standard:

School is not in default of loan covenant(s) and is not delinquent with debt service payments.

Or

School does not have an outstanding loan.

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.

SECTION 2

SUSTAINABILITY MEASURES



Sustainability Measure 1 – Total Margin

Purpose - Total margin measures the deficit or surplus a school yields out of its total revenues, which indicates whether or not the school is operating within its available resources. The measurement looks at the most recent 3 years.

What is the formula?

Total Three Year Revenue - Total Three Year Expenditures = Total Three Year Net Surplus

$$\frac{\text{Total Three Year Net Surplus}}{\text{Total Three Year Revenues}} = \text{Aggregated Three Year Total Margin}$$

$$\frac{\text{Current Year Net Surplus}}{\text{Current Year Total Revenue}} = \text{Current Year Total Margin}$$

What is the data source for the formula?

Three years of audited income statements

ABC Academy Example

Revenue Year One = \$700,000, Year Two = \$750,000, Year Three = \$775,000 Expenditures Year One = \$704,000, Year Two = \$746,000, Year Three = \$770,000

Formula used to determine the total three year net surplus

$\$700,000 - \$704,000 = -4,000 (-.57\%)$

$\$750,000 - \$746,000 = 4,000 (.53\%)$

$\$775,000 - \$770,000 = 5,000 (.65\%)$

$-\$4,000 + \$4,000 + \$5,000 = \mathbf{\$5,000 \text{ Three Year Net Surplus}}$

Formula used to determine the total three year revenue

$\$700,000 + \$750,000 + \$775,000 = \mathbf{2,225,000 \text{ Three Year Revenue}}$

Formula used to determine the aggregated total margin

$$\frac{\$5,000}{\$2,225,000} = .225\% \mathbf{\text{Aggregated Three Year Total Margin}}$$

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.

Meets Standard

What is the metric used to determine school status?

Sustainability Measure - Total Margin
Current Year Total Margin: Current Year Net Surplus / Current Year Total Revenue
Aggregated Total Margin: Total Three-Year Net Surplus / Total Three-Year Revenues
Meets Standard: <input type="checkbox"/> Aggregated three-year total margin is positive <i>and</i> the most recent year total margin is positive.
Does Not Meet Standard: <input type="checkbox"/> Aggregated three-year total margin is negative <i>or</i> the most recent year total margin is negative.
Falls Far Below Standard: <input type="checkbox"/> Aggregated three-year total margin is negative <i>and</i> the most recent year total margin is negative.
Note: For schools in their first or second year of operation, substitute the “aggregated three-year total margin” with the “aggregate total margin.”

Sustainability Measure 2 - Debt to Asset Ratio

Purpose - The debt to asset ratio measures the amount of debt a school owes versus the assets they own; in other words, it measures the extent to which the school relies on borrowed funds to finance its operations. A debt to asset ratio greater than 1.0 is a generally accepted indicator of potential long-term financial issues, as the organization owes more than it owns, reflecting a risky financial position. A ratio less than 0.9 indicates a financially healthy balance sheet, both in the assets and liabilities, and the implied balance in the equity account.

What is the formula?

$$\frac{\text{Total Liabilities}}{\text{Total Assets}} = \text{Debt to Asset Ratio}$$

What is the data source for the formula?

Audited Balance Sheet

ABC Academy Example

$$\frac{\text{Total Liabilities}}{\text{Total Assets}} = \frac{\$12,000}{\$20,000} = \mathbf{0.60 \text{ Asset Ratio}}$$

Current ratio is 1.1 or greater

Meets Standard

What is the metric used to determine school status?

Sustainability Measure - Debt to Asset Ratio

Total Liabilities / Total Assets

Meets Standard:

Debt to asset ratio is less than 0.90.

Does Not Meet Standard:

Debt to asset ratio is greater than or equal to 0.90 and less than or equal to 1.0.

Falls Far Below Standard:

Debt to asset ratio is greater than 1.0.

Sustainability Measure 3 – Cash Flow

Purpose - The cash flow measure indicates a school’s change in cash balance from one period to another. This measure includes restricted and unrestricted funds. The measurement looks at the most recent 3 years.

What is the formula?

*Year 3 Total Cash - Year 1 Total Cash = **Multi-Year Cash Flow***

*Year 2 Total Cash - Year 1 Total Cash = **One Year Cash Flow***

What is the data source for the formula?

Three most current years of audited balance sheets (Assets: cash)

ABC Academy Example

Year One = \$40,000, Year Two = \$38,000, Year Three = \$42,000

$\$42,000 - \$40,000 = \mathbf{\$2,000 \text{ Multi-Year Cash Flow}}$

$\$38,000 - \$40,000 = \mathbf{\$-2,000 \text{ One Year Cash Flow}}$

Multi-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

Meets Standard

What is the metric used to determine school status?

Sustainability Measure - Cash Flow

Multi-Year Cash Flow = Year 3 Total Cash - Year 1 Total Cash

One Year Cash Flow = Year 2 Total Cash - Year 1 Total Cash

Meets Standard:

Multi-year cumulative cash flow is positive *and* the most recent year cash flow is positive.

Does Not Meet Standard:

Multi-year cumulative cash flow is negative *or* the most recent year cash flow is negative.

Falls Far Below Standard:

Multi-year cumulative cash flow is negative *and* the most recent year cash flow is negative.

Note: For schools in their first or second year of operation, substitute “multi-year cumulative cash flow” with the “cumulative cash flow.”

Sustainability Measure 4 - Debt Service Coverage Ratio

Purpose - The debt service coverage ratio indicates a school's ability to cover its debt obligations in the current year. *In most cases this will not be applicable for charter schools that do not have an outstanding loan.* 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.

What is the formula?

$$\frac{\text{Net Income} + \text{Depreciation} + \text{Interest Expense}}{\text{Annual Principal} + \text{Interest Payments}} = \text{Debt Service Coverage Ratio}$$

What is the data source for the formula?

Audited income statement

Audited cash flow statement

Audited cash flow statement and/or income statement

Annual principal and interest obligations provided from the school

ABC Academy Example

The school obtains a two year loan of \$175,000 for facility renovations.

Formula used to determine the ratio indicating if the school can afford the loan.

$$\frac{\$100,000 + \$2,000 + \$5,439}{\$85,753 + \$5,439} = \frac{\$107,439}{\$91,192} = \mathbf{1.18 \text{ Current Ratio}}$$

Debt service coverage ratio is equal to or exceeds 1.10.

Meets Standard

What is the metric used to determine school status?

Sustainability Measure - Debt Service Coverage Ratio
Total Liabilities / Total Assets
Meets Standard: <input type="checkbox"/> Debt service coverage ratio is equal to or exceeds 1.10. Or <input type="checkbox"/> School does not have an outstanding loan. Does Not Meet Standard: <input type="checkbox"/> Debt service coverage ratio is less than 1.10. Falls Far Below Standard: <input type="checkbox"/> Not Applicable

Glossary: Terms Used in the Financial Performance Framework

Annual Expenses: The yearly total of payments of cash or incurrence of a liability for the purpose of acquiring assets, or services or settling losses.

Assets: A probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events. These economic resources can be tangible or intangible. Assets might be financial in nature (like cash and accounts receivable) or nonfinancial (like buildings and equipment).

Audit: A systematic collection of the sufficient, competent evidential matter needed to attest to the fairness of management's assertions in the financial statements or to evaluate whether management has efficiently and effectively carried out its responsibilities. The auditor obtains this evidential matter through inspection, observation, inquiries, and confirmations with third parties. Refer to Compliance Audit, Corrective Action Plan, Financial Audit, Performance Audit, and Single Audit.

Balance Sheet: A financial statement that discloses the assets, liabilities, and equities of an entity at a specified date in conformity with generally accepted accounting principles (GAAP). Also, referred to as the Statement of Financial Position or Statement of Net Assets.

Basis of Accounting: The methodology and timing of when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Refer to Accrual Basis, Modified Accrual Basis, and Cash Basis.

Cash Basis: A basis for accounting whereby revenues are recorded only when received and expenses are recorded only when paid, without regard to the period in which they were earned or incurred.

Cash Flow: Cash receipts minus cash disbursements from a given operation or fund for a given period of time.

Changes in Net Position: The difference between the net balance from one accounting period to the next.

Consultant: An independent individual or entity contracting with an agency to perform a personal service or render an opinion or recommendation according to the consultant's

methods and without being subject to the control of the agency except as to the result of the work. The agency monitors progress under the contract and authorizes payment.

Current Assets: Resources that are available, or can readily be made available, to meet the cost of operations or to pay current liabilities.

Current Liabilities: Obligations that are payable within one year from current assets or current resources.

Current Ratio: A financial ratio that measures whether or not an organization has enough resources to pay its debts over the next 12 months. It compares a firm's current assets to its current liabilities and is expressed as follows: $\text{current ratio} = \text{current assets} \div \text{current liabilities}$.

Debt: An obligation resulting from the borrowing of money or from the purchase of goods and services. Debts include bonds, accounts payable, and other liabilities. Refer to Bonds Payable, Accounts Payable, Liabilities, Long-Term Obligations, and General Long-Term Obligations.

Debt Service: The cash that is required for a particular time period to cover the repayment of interest and principal on a debt. Debt service is often calculated on a yearly basis.

Debt Service Coverage Ratio: Also known as "debt coverage ratio," is the ratio of cash available for debt servicing to interest, principal, and lease payments.

Debt Service Default: Occurs when the borrower has not made a scheduled payment of interest or principal.

Debt to Asset Ratio: A financial ratio that measures the proportion of an organization's assets that are financed through debt. It compares an organization's total assets to its total liabilities and is measured by dividing the total liabilities by the total assets. If the ratio is less than one, most of the organization's assets are financed through equity. If the ratio is greater than one, most of the organization's assets are financed through debt.

Depreciation: The systematic and rational allocation of the cost of an asset over its useful life.

Financial Audit: An audit made by an independent external auditor for the purpose of issuing an audit opinion on the fair presentation of the financial statements of the school in conformity with Generally Accepted Accounting Principles. Refer to Audit.

Fiscal Period: Any period at the end of which a charter school determines its financial position and the results of its operations. Refer to Accounting Period.

GAAP: Refer to Generally Accepted Accounting Principles.

General Fund: The general fund is used to account for the financial activities of the charter schools not required to be accounted for in another account.

Generally Accepted Accounting Principles (GAAP): These are the uniform minimum standards for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. The primary authoritative body on the application of Generally Accepted Accounting Principles (GAAP) to state and local governments is the Governmental Accounting Standards Board.

Governmental Accounting: The composite activity of analyzing, recording, summarizing, reporting, and interpreting the financial transactions of a governmental entity.

Income Statement: A financial statement that shows revenues and expenditures of an entity at a specified date in conformity with Generally Accepted Accounting Principles (GAAP). Also referred to as the Statement of Activities and Changes in Net Assets or the Statement of Activities.

Indicator: General categories of financial performance.

Interest Expense: The money the school pays out in interest on loans.

Interest Payable: A liability account reflecting the amount of interest owed by the school. In governmental funds, interest is to be recognized as an expenditure in the accounting period in which it becomes due and payable, and the liability is to be recorded as interest payable at that time. In proprietary and trust funds, interest payable is recorded as it accrues, regardless of when payment is actually due.

Interest Payment: The amount of interest that a school pays to a lender on a loan each month.

Interim Financial Statement: A financial statement prepared before the end of the current fiscal period and covering only financial transactions during the period to date.

Liabilities: Probable future sacrifices of economic benefits, arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. These are economic obligations. The term does not include encumbrances.

Margin: The difference between revenues and expenses. The margin can refer to the gross margin (operating revenues less operating expenses) or the total margin (see Total Margin).

Measure: General means to evaluate an aspect of an indicator.

Metric: Method of quantifying a measure.

Net Assets: The difference between assets and liabilities. Refer to Fund Equity.

Net Income: A term used in accounting for proprietary funds to designate the excess of total revenues and operating transfers in divided by total expenses and operating transfers out for an accounting period.

Net Surplus: The amount of revenue recognized after certain operating expenses have been deducted.

Principal: The amount of the loan excluding any interest.

Statement of Activities: A government-wide financial statement that reports the net (expense) revenue of its individual functions. An objective of using the net (expense) revenue format is to report the relative financial burden of each of the reporting government's functions on its taxpayers.

Statement of Cash Flows: A GAAP financial statement for proprietary funds that provides relevant information about the cash receipts and cash payments of a government during a period. It categorizes cash activity as resulting from operating, noncapital financing, capital financing, and investing activities.

Statement of Activities and Changes in Net Assets: The financial statement that is the GAAP operating statement for pension and investment trust funds. It presents additions and deductions in net assets held for pension benefits and investment pool participants. It reconciles net assets held at the beginning and end of the financial period, explaining the relationship between the operating statement and the balance sheet.

Statement of Net Assets: A government-wide financial statement that reports the difference between assets and liabilities as net assets, not fund balances or equity. Assets are reported in order of liquidity, or how readily they are expected to be converted to cash and whether restrictions limit the government's ability to use the resources. Liabilities are reported based on their maturity, or when cash is expected to be used to liquidate them. Net assets are displayed in three components: invested in capital assets, net of related debt; restricted; and unrestricted.

Target: Threshold that signifies success for a specific measure.

Total Assets: The sum of all cash, investments, furniture, fixtures, equipment, receivables, intangibles, and any other items of value owned by a school.

Total Expenditure: The total costs of doing business; that is, the costs that must be incurred in order for a school to generate revenue or provide services.

Total Liability: The aggregate of all debts a school is responsible for.

Total Margin: Total revenues less total expenses.

Total Revenue: The total amount of a schools' sources of income (gross receipts and receivables).

Unrestricted Cash: Monetary reserves that are not tied to a particular use; General funds are considered unrestricted cash, subject to legal restrictions for a public educational entity.