FINANCIAL FRAMEWORKS FOR $100, ALEX

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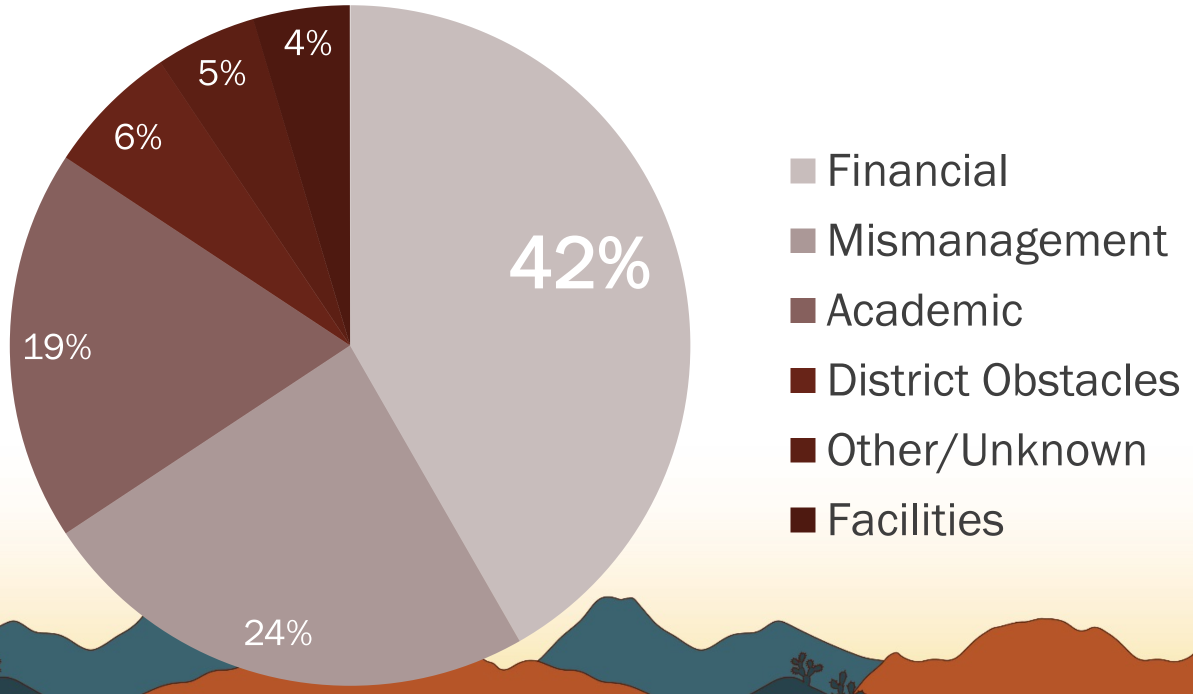
GOALS

At the end of this session, you will be able to:

- Understand how charter school financial viability is defined
- Become familiar with tools and resources for analyzing schools' financial viability
- Develop a comfort level with reviewing school finances, even if it's not your primary role
- Remember what fun you had playing finance jeopardy

WHY DO I NEED TO UNDERSTAND FINANCE?

- *According to the Center for Education Reform, **42%** of charter school closures can be attributed to **financial deficiencies**.*



Source: Center for Education Reform, 2011

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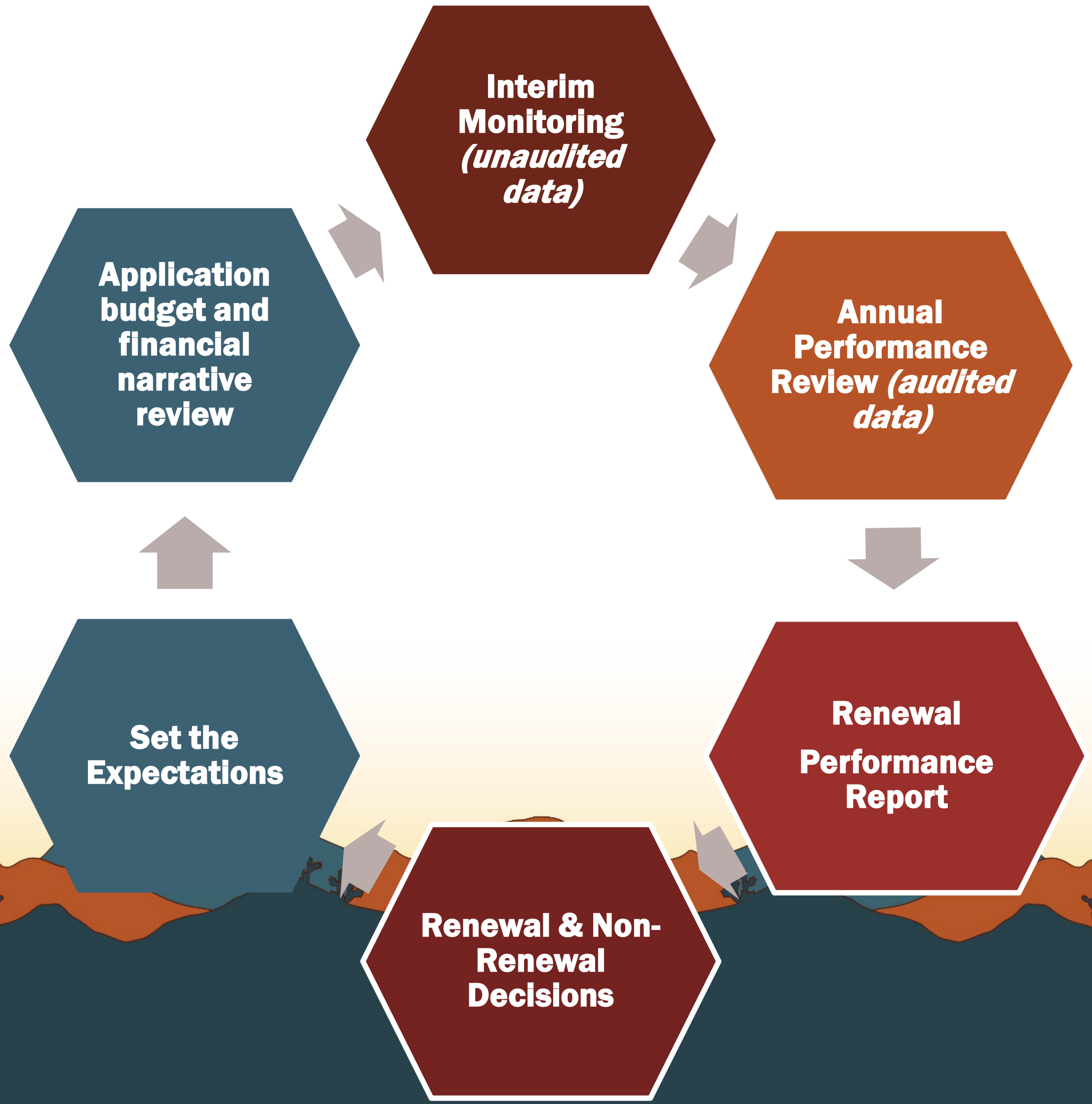

MEASURES FOR UNDERSTANDING FINANCIAL HEALTH

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PERFORMANCE FRAMEWORK COMPONENTS

Academic	Financial	Organizational
Is the academic program a success?	Is the school financially viable?	Is the organization effective and well-run?

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FINANCIAL PERFORMANCE FRAMEWORK HIGHLIGHTS

- Targets based on best practices in non-profit finance
- Focused on dollars and cents; not process. The organizational framework looks at financial management and GAAP.
- A school that does not meet the target on a measure may or may not be at risk of financial failure; authorizers MUST do follow-up investigation
- Primarily used once a year with audited financial information
- <u>Must</u> be used in conjunction with organizational performance framework and ongoing financial monitoring

CORE FINANCIAL FRAMEWORK MEASURES

Measure	Metric
Near Term Measures	
1.a	Current ratio
1.b	Unrestricted days cash on hand
1.c	Enrollment variance
1.d	Default
Sustainability Measures	
2.a	Total margin
2.b	Debt to asset ratio
2.c	Cash flow
2.d	Debt service coverage ratio

NEAR-TERM MEASURES

- **Current Ratio = Current Assets/Current Liabilities**
  - Measures the school's ability to pay its obligations over the next 12 months
  - Target: Ratio of 1.1 OR ratio between 1.0 and 1.1 and one-year trend is positive
- **Unrestricted Days Cash = Unrestricted Cash/((Total Expenses – Deprecation Expense)/365)**
  - How many days a school can pay its expenses without another inflow of cash.
  - Target: 60 days or 30-60 days and the one-year trend is positive
- **Enrollment Variance = Actual Enrollment/Budgeted Enrollment**
  - How accurately (or conservatively) does a school project its enrollment/how close is the school's revenue going to be to budgeted projections
  - Target: Enrollment equals or exceeds 95% of budget
- **Debt Default**
  - If a school is current on debt obligations
  - Target: School is not in default and is not delinquent on any debt service payments.

SUSTAINABILITY MEASURES

- Total Margin = Net Income/Total Revenue
- Aggregated Total Margin = Total 3 Year Net Income/Total 3 Year Revenues
  - Whether a school operates with a surplus or deficit during a given time period
  - Target: Aggregated three-year margin is positive OR aggregated three-year margin is better than -1.5 and the two year trend is positive.
- Debt to Asset Ratio = Total Liabilities/Total Assets
  - The extent to which the school is leveraged (i.e. relies on borrowed funds to finance operations).
  - Target: Debt to asset ratio of less than 0.90
- Cash Flow = Prior year cash – current year cash
  - The trend of a school's cash balance over time
  - Target: Multi-year cash flow is positive and cash flow in most recent year is positive
- Debt Service Coverage Ratio = Net Income + Depreciation + Interest Expense)/(Annual Principal, Interest, and Lease Payments)
  - Whether a school can produce enough cash to cover its debt, including lease payments, in a given year
  - Target: Debt to asset ratio equal to or greater than 1.1

CONTACT US!

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