

Welcome to the Webinar!

Performance Management: Analyzing and Monitoring Charter School Finance

We will be starting soon.



Performance Management: Analyzing and Monitoring Charter School Finance

April 16, 2013



About the Resource Center

The **U.S. Department of Education** is committed to promoting effective practices, providing technical assistance, and disseminating the resources critical to ensuring the success of charter schools across the country. To that end, the Education Department, under a contract with American Institutes for Research, has developed the **National Charter School Resource Center**.

Presenter

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Performance Management: Analyzing and Monitoring Charter School Finance

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Webinar Agenda

- Core Financial Performance Framework Overview
- Case Study
- Implementation
 - Follow-up
 - Monitoring
 - Decision Making



Core Performance Framework and Guidance



Academic, Financial, and Organizational
Frameworks for Charter School Accountability
March 2013

Core Performance Framework Components

Academic

Is the academic program a success?

Financial

Is the school financially viable?

Organizational

Is the organization effective and well run?

Financial Performance Framework

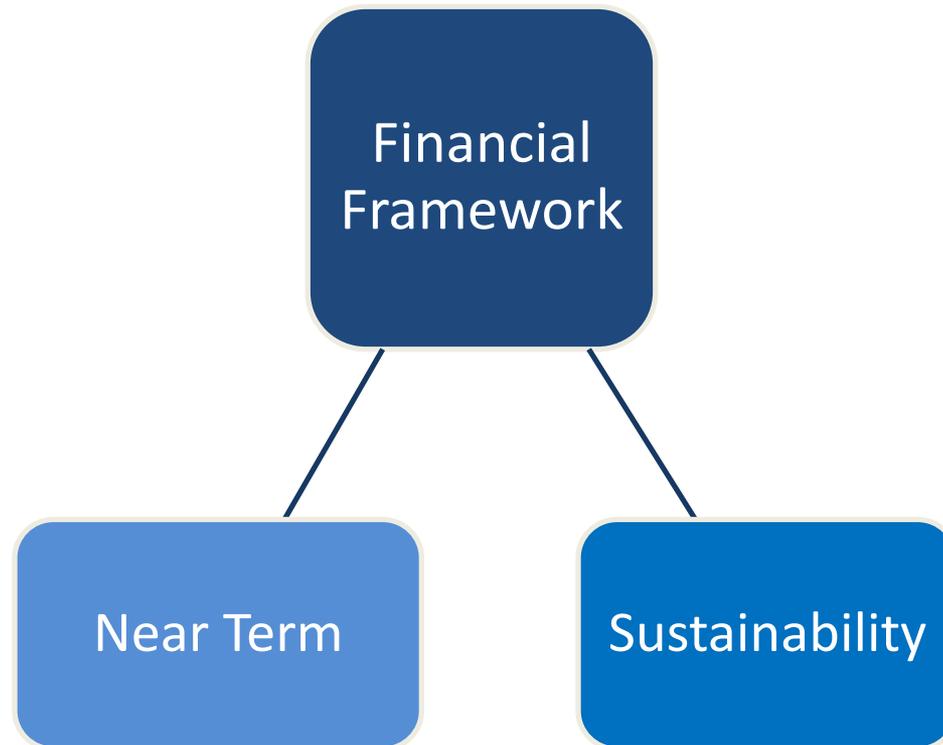
FAQs

- Who should use the Financial Performance Framework?
 - Charter School Authorizers
 - Charter School Boards
 - Charter School Leaders
 - State Education Agencies
- Where do you get the information?
 - Audit
 - School's board-approved budget
- The school's audit has outdated information. Why would it be your primary source of information?
 - The audit is...well...audited.
 - Follow-up analysis is critical to get up-to-date information and to determine if a school truly is at risk financially.

Near Term	Indicator
1.a. Current Ratio: Current Assets divided by Current Liabilities	Measure
Meets Standard: <input type="checkbox"/> Current Ratio is greater than 1.1 or <input type="checkbox"/> Current Ratio is between 1.0 and 1.1 and one-year trend is positive (current year's ratio is higher than last year's)	Metric
Note: For schools in their first or second year of operation, the current ratio must be greater than 1.1.	Rating
Does Not Meet Standard: <input type="checkbox"/> Current Ratio is between 0.9 and 1.1 Or <input type="checkbox"/> Current Ratio is between 1.0 and 1.1 and one-year trend is negative	Target
Falls Far Below Standard: <input type="checkbox"/> Current ratio is less than 0.9	



Indicators



NEAR TERM MEASURES

Current Ratio

Measure 1a

Current Ratio: Current Assets divided by Current Liabilities

Meets Standard:

Current Ratio is greater than or equal to 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 or equal to 1.1.

Does Not Meet Standard:

Current Ratio is between 0.9 and 1.0 or equals 1.0

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 or equal to 0.9



Unrestricted Days Cash

Measure 1b

Unrestricted Days Cash: Unrestricted Cash divided by ([Total Expenses minus Depreciation Expense] / 365)

Meets Standard:

- 60 Days Cash
- or
- Between 30 and 60 Days Cash and one-year trend is positive

Note: Schools in their first or second year of operation must have a minimum of 30 Days Cash.

Does Not Meet Standard:

- Days Cash is between 15–30 days
- or
- Days Cash is between 30–60 days and one-year trend is negative

Falls Far Below Standard:

- Fewer than 15 Days Cash

Enrollment Variance

Measure 1c

Enrollment Variance: Actual Enrollment divided by Enrollment Projection In Charter School Board-Approved Budget

Meets Standard:

Enrollment Variance equals or exceeds 95 percent in the most recent year

Does Not Meet Standard:

Enrollment Variance is between 85–95 percent in the most recent year

Falls Far Below Standard:

Enrollment Variance is less than 85 percent in the most recent year

Default

Measure 1d

Default

Meets Standard:

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

SUSTAINABILITY MEASURES

Total Margin

Measure 2a

Total Margin: Net Income divided by Total Revenue

Aggregated Total Margin: Total Three-Year Net Income divided by Total Three-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 percent, 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 cumulative Total Margin must be positive.

Does Not Meet Standard:

- Aggregated Three-Year Total Margin is greater than -1.5 percent, but trend does not “Meet Standard”

Falls Far Below Standard:

- Aggregated Three-Year Total Margin is less than or equal to -1.5 percent
or
- The most recent year Total Margin is less than -10 percent

Debt to Asset Ratio

Measure 2b

Debt to Asset Ratio: Total Liabilities divided by Total Assets

Meets Standard:

Debt to Asset Ratio is less than 0.9

Does Not Meet Standard:

Debt to Asset Ratio is between 0.9 and 1.0

Falls Far Below Standard:

Debt to Asset Ratio is greater than 1.0

Cash Flow

Measure 2c

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 Cash Flow is positive each year
or
- Multi-Year Cumulative Cash Flow is positive, Cash Flow is positive in one of two years, and Cash Flow in the most recent year is positive

Note: Schools in their first or second year of operation must have positive Cash Flow.

Does Not Meet Standard:

- Multi-Year Cumulative Cash Flow is positive, but trend does not “Meet Standard”

Falls Far Below Standard:

- Multi-Year Cumulative Cash Flow is negative

Debt Service Coverage Ratio

Measure 2d

Debt Service Coverage Ratio: $(\text{Net Income} + \text{Depreciation} + \text{Interest Expense}) / (\text{Annual Principal, Interest, and Lease Payments})$

Meets Standard:

Debt Service Coverage Ratio is equal to or exceeds 1.1

Does Not Meet Standard:

Debt Service Coverage Ratio is less than 1.1

Falls Far Below Standard:

Not Applicable

Targets

- Set based on model authorizer practices, charter school finance expertise, and industry standards
- May be shifted in a particular state to accommodate for unique situations

Case Study

- Does the school meet the standards?
- What does the school's ratings indicate?
- Given the ratings, what actions should the authorizer take?

If a school gets a yellow or red, is it in trouble?

- Failure to meet the standards *MAY* indicate that a school:
 - Is in immediate financial distress
 - Is financially trending negatively
 - Both
 - Neither: In some cases, the school may have red or yellow flags due to a strategic financial decision.

Action Steps

1. Collect current information:
 - Updated financial statements
 - Budget variance reports
 - Updated budget projections
2. Request specific reports related to the school's area(s) of weakness
3. Request explanations for the area(s) of weakness and strategies used to ensure financial stability
4. Analyze monitoring data to determine need for ongoing monitoring

Should I be looking at anything other than the audit during the year?

- Quarterly reports, including:
 - Income statement and balance sheet showing year-to-date actual, year-to-date budget, variance, and year-end budget
 - Year-to-date statement of cash flows and cash flow projection through year end
- More frequent and/or targeted reports for schools with financial issues

Note that unaudited data is generally done on a cash or modified accrual basis.

How does financial performance impact high-stakes decision making?

- Academic performance is the primary driver
- Schools without money close themselves
- Authorizers should be on their toes
- Death by a thousand cuts

Discussion

www.qualitycharters.org

Questions?



Raise your hand or enter your question in the chat box
on the left side of your screen.

Thank you for participating.

- Learn more about future webinars in the ELL series hosted by the National Charter School Resource Center:
<http://registration.airprojects.org/NCSRCELL/register.aspx>
- This webinar will be archived at the following website:
<http://www.charterschoolcenter.org/webinars/>
- Please share your feedback with us through the evaluation.

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The National Charter School Resource Center is funded by the U.S. Department of Education's Office of Innovation and Improvement and administered by American Institutes for Research, under contract number ED-04-CO-0109/0004.