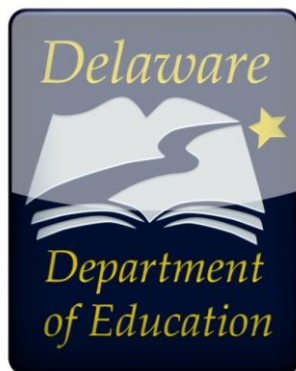


# **Delaware Charter School Financial Performance Framework**



***October 13, 2016***

# Financial Performance Framework

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## Section II: Financial Performance

The purpose of the Financial Performance Framework is to provide key data to assess the financial health and viability of charter schools and to determine whether deeper analysis or monitoring is required. Through a set of eight interconnected metrics, the Financial Framework analyzes the current state of charter schools while taking into account the school's financial trends over the period of three years. The measures are designed to be complementary and together, they provide a lens into a school's near-term financial situation, historic trends, and future viability.

For each measure, a school will receive one of the ratings described below:

Rating	Description
Meets Standard	The school generally meets the stated expectations and/or minor concern(s) are noted.
Approaching Standard	The school meets some of the stated expectations but not others and/or moderate concern(s) are noted.
Far Below Standard	The school falls below the stated expectations and/or major concern(s) are noted. The failures are material and significant to the viability to the school.

“Material” and “significant” mean that the authorizer deems the matter relevant to:

- The authorizer's accountability decisions including but not limited to decisions about whether to renew, not renew, or revoke a charter; or
- Information that a family would consider relevant to make a decision to attend the school.

For any measure where a school is rated **APPROACHING STANDARD** or **FAR BELOW STANDARD**, the authorizer will provide an explanation of the rating. If a school receives two or more ratings of **APPROACHING STANDARD** or one or more ratings of **FAR BELOW STANDARD**, the authorizer will conduct a comprehensive analysis of the identified areas. The results of the measures in the framework and additional analysis will be used to determine an overall rating for Financial Performance.

For the purpose of clarity and alignment across the academic and organizational performance frameworks, “Does Not Meet Standard” was changed to “Far Below Standard” in 2016. These terms will be used synonymously for the purpose of annual reporting.

## **Indicators and Measures:**

### **1. Near-Term Indicators**

- a. Current Ratio
- b. Unrestricted Days Cash
- c. Enrollment Variance
- d. Default

### **2. Sustainability Indicators**

- a. Total Margin
- b. Debt to Asset Ratio
- c. Cash Flow
- d. Debt Service Coverage Ratio

### **3. Financial Management and Oversight**

- a. Financial Reporting and Compliance Requirements

## 1. Near-Term Indicators

### 1a. Current Ratio (Working Capital Ratio): Current Assets divided by Current Liabilities

#### **MEETS STANDARD** (in one of two ways):

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 year of operations, the current ratio must be greater than 1.1*

#### **APPROACHING STANDARD:**

Does not meet passing options

#### **FAR BELOW STANDARD:**

Current ratio is less than 0.9

### 1b. Unrestricted Days Cash: Unrestricted Cash divided by (Total Expenses/365)

#### **MEETS STANDARD:**

60 days' cash

or

Between 30 and 60 days' cash and one-year trend is positive

*Note: For schools open less than three years, they must have a minimum of 30 days cash.*

#### **APPROACHING STANDARD:**

Days cash and trend do not match passing options above

#### **FAR BELOW STANDARD:**

Less than 10 days' cash

**1c. Enrollment Variance: Actual Enrollment as of September 30 divided by Enrollment Projection in Board-Approved Budget as of the previous July 1**

**MEETS STANDARD** (in one of two ways):

Meets or exceeds planned enrollment in most recent year

or

Actual enrollment equals or exceeds 95% of planned enrollment in most recent year and equals or exceeds 95% over each of the last three years

*Note: For schools open less than three years, actual enrollment must equal or exceed 95% of planned enrollment for each year of operation.*

**APPROACHING STANDARD:**

Does not meet passing options above

**FAR BELOW STANDARD:**

Actual enrollment was less than 80% of planned enrollment in recent year

**1d. Default**

**MEETS STANDARD:**

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

**APPROACHING STANDARD:**

Not applicable

**FAR BELOW STANDARD:**

School is in default of loan covenant(s) and/or is delinquent with debt service payments

## 2. Sustainability Indicators

### 2a. Total Margin: Net Income divided by Total Revenue

**MEETS STANDARD** (in one of two ways):

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% and the trend is positive for the last two years and the most recent year total margin is positive.

*Note: For schools open less than three years, the annual total margin must be positive.*

**APPROACHING STANDARD:**

Total margin and trend do not meet passing options.

**FAR BELOW STANDARD:**

Aggregated three-year total margin (Total 3 year net income)/(Total 3 year revenues) is less than -1.5%.

or

Current year total margin is less than -10%

### 2b. Debt to Asset Ratio: Total Liabilities divided by Total Assets

**MEETS STANDARD:**

Debt to Asset Ratio is less than 0.90

**APPROACHING STANDARD:**

Debt to Asset Ratio is greater than 0.90

**FAR BELOW STANDARD:**

Debt to Asset Ratio is greater than 1.0

### 2c. Cash Flow

**MEETS STANDARD** (in one of two ways):

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: Schools open for fewer than three years must have positive cash flow.*

**APPROACHING STANDARD:**

Three-year cumulative cash flow is positive, but **APPROACHING STANDARD**

**FAR BELOW STANDARD:**

Three-year cumulative cash flow is negative

**2d. Debt Service Coverage Ratio: (Net Income + Depreciation + Interest Expense)/(Principal and Interest Payments)**

**MEETS STANDARD:**

Debt Service Coverage Ratio is equal to or exceeds 1.1

**APPROACHING STANDARD:**

Debt Service Coverage Ratio is less than 1.1

**FAR BELOW STANDARD:**

Not applicable



### 3. Financial Management and Oversight Indicators

#### 3a. The school meeting financial reporting and compliance requirements?

##### **MEETS STANDARD:**

The school materially complies with applicable laws, rules, regulations and provisions of the charter relating to financial reporting requirements, including but not limited to:

- Complete and on-time submission of financial reports, including annual budget, revised budgets (if applicable), periodic financial reports as required by the authorizer, and any reporting requirements if the board contracts with an education service provider, pursuant to Del. C., Title 14, Ch. 5, §512 (14)
- On-time submission and completion of the annual independent audit and corrective action plans, if applicable
- If applicable, Memorandum of Understanding to operate outside the State's pension and/or benefits systems, pursuant to Del. C., Title 14, Ch. 5, §512 (9)
- All reporting requirements related to the use of public funds
- Adherence to the policies and procedures of the First State Financial Management System, pursuant to Del. C., Title 14, Ch. 5, §512 (9)
- A Citizen Budget Oversight Committee, pursuant to (14 Del. C. §1508 and 14 DE Admin. Code 736)
- A clean audit opinion without material exceptions
- An audit that does not include an on-going concern disclosure in the notes or an explanatory paragraph related thereto within the audit report

##### **APPROACHING STANDARD**

*A school would need to meet two of the three criteria below in order to obtain this rating.*

- The school partially complies with all aspects of the PCard program and has received two or more compliance infractions per quarter during the prior fiscal year
- On more than one occasion during the prior fiscal year, the school completed and submitted the monthly reconciliation and certification to the Division of Accounting after the deadline
- The school completed and submitted the payroll internal controls plan after the deadline, or the Division of Accounting's review of the plan resulted in a rating of "Lacking" or "Weak"

##### **FAR BELOW STANDARD**

- The school does not comply with the requirements of the PCard program and one or more employees have had their PCard privileges suspended or terminated
- On one or more occasion during the prior fiscal year, the school failed to complete and submit the monthly reconciliation and certification to the Division of Accounting
- The school failed to complete and submit the payroll internal controls plan