



# Financial Performance Framework - Updates

Charter School Business Managers Meeting  
April 21, 2021



# Background

In August 2019, a committee was formed to review the current Financial Performance Framework, identify areas of strength and weaknesses, and recommend changes.

The committee members included:

- Chuck Longfellow, DDOE
- Leroy Travers, DDOE
- Brook Hughes, DDOE
- John Carwell, DDOE
- Whitney Sweeney, State Board of Education
- Kendall Massett, DCSN
- Ted Molin, Wilmington Trust
- Michelle Hastie, Positive Outcomes Charter School
- Meryl Hewett, MOT Charter School
- Joanne Schlosberg, Newark Charter School



# Timeline

- August 2019 – Committee is developed and conducts the first meeting
- September 2019 through December 2019 – Committee meets to discuss potential changes
- January 2020 – First draft developed
- February 2020 – Draft distributed to Charter Business Managers for feedback. A meeting is conducted with Business Managers
- March 2020 – Committee reconvenes to discuss Business Manager Feedback
- May 2020 – Committee meets to agree on final changes
- May 2020 – SBE First Reading of Financial Framework
- June 2020 – SBE vote on Financial Frameworks; approved by SBE on 6/18/2020



# Timing

- New Financial Performance Framework is effective beginning July 1, 2021.
- Reports for FY21 (SY2020-21) will be based on existing Financial Performance Framework.
- The first reports based on the new Framework will be published in Fall 2022 for FY22 (SY2021-22) activity.



# Key Changes

- Location and formatting of the “Summary and Overall Rating” table
  - The individual measures will no longer have a color assigned; the only rating that will have a color is the Overall Rating (last column)
  - The table will be located on the first page of the annual Financial Performance Framework Report
  - Example:

ABC Charter School

| Year      | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. | 9. | OVERALL RATING       |
|-----------|----|----|----|----|----|----|----|----|----|----------------------|
| 2015-2016 | M  | M  | A  | M  | M  | M  | A  | M  | M  | Meets Standard       |
| 2016-2017 | M  | M  | A  | M  | M  | M  | A  | M  | M  | Meets Standard       |
| 2017-2018 | M  | M  | M  | M  | M  | M  | M  | M  | M  | Meets Standard       |
| 2018-2019 | A  | M  | M  | M  | F  | M  | F  | A  | M  | Approaching Standard |
| 2019-2020 | M  | M  | M  | M  | M  | M  | F  | M  | M  | Meets Standard       |



# Key Changes

- Use of Red, Yellow, Green to indicate ratings
  - A color will still be assigned to the overall rating; however, colors will not be used anywhere else in the document.
- Use of “Student Retention” data
  - Five-year trend data will be included in the annual Financial Performance Framework Reports with the “Enrollment Variance” measure.
  - There is no rating assigned to this data point; it is included for informational purposes only.



# Key Changes

- Removal of Near-term and Sustainability distinction.
  - The individual measures have been reordered and are no longer categorized as “Near-term” or “Sustainability” indicators.
- Individual measures have been renumbered/reordered.
  - Current version: 1a.-1d., 2a.-2d., 3.
  - New version: 1. – 9.



# Revised Measures

## Current Framework

- 1a. Current Ratio
- 1b. Days Cash
- 1c. Enrollment Variance
- 1d. Default
- 2a. Total Margin
- 2b. Debt to Asset Ratio
- 2c. Cash Flow
- 2d. Debt Service Coverage Ratio
- 3. Financial Management & Oversight

## New Framework

- 1. Current Ratio
- 2. Debt to Asset Ratio
- 3. Days Cash
- 4. Debt Service Payments/Loan Covenants
- 5. Aggregated Three-Year Total Margin
- 6. Cash Flow
- 7. Debt Service Coverage Ratio
- 8. Enrollment Variance
- 9. Financial Management & Oversight





# Revised Measures

## Current Ratio

### Current Framework

#### 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.

### New Framework

#### 1. Current 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 greater than or equal to 1.0 but less than 1.1 and one-year trend is positive (current year ratio is higher than last year's)

##### ❖ Approaching Standard

- Current ratio is greater than or equal to 0.9 but less than 1.0
- Current ratio is greater than or equal to 1.0 but less than 1.1 and one-year trend is negative

##### ❖ Far Below Standard

- Current ratio is less than 0.9



# Revised Measures

## Days Cash

### Current Framework

#### 1b. Days Cash:

*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.

### New Framework

#### 3. Days Cash

*Cash divided by (total Expenses / 365)*

##### ❖ Meets Standard

- At least 75 days cash or;
- Between 45 and 75 days cash and one-year trend is positive

*\*For schools in years 1-3, the days cash should be at least 30 days and the one-year trend is positive.*

##### ❖ Approaching Standard

- Days cash is greater than 30 days but less than or equal to 45 days or;
- Days cash is between 45 and 75 days and one-year trend is negative

##### ❖ Far Below Standard

- Less than or equal to 30 days cash



# Revised Measures

## Enrollment Variance

### Current Framework

#### 1c. Enrollment Variance:

*Actual Enrollment as of September 30 divided by Authorized Enrollment*

##### ❖ Meets Standard (in one of two ways)

- Meets or exceeds authorized enrollment in most recent year, OR
- Actual enrollment equals or exceeds 95 percent of authorized enrollment in most recent year and equals or exceeds 95 percent over each of the last three years.

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

##### ❖ Approaching Standard

Does not meet passing options.

##### ❖ Far Below Standard

Actual enrollment was less than 80 percent of authorized enrollment in recent year.

### New Framework

#### 8. Enrollment Variance

*Actual Enrollment divided by authorized enrollment*

##### ❖ Meets Standard (in one of two ways)

- Enrollment variance equals or exceeds 95% in the most recent year

##### ❖ Approaching Standard

- Enrollment variance is greater than 80% but less than 95% in the most recent year

##### ❖ Far Below Standard

- Enrollment variance is less than or equal to 80% of authorized enrollment in the most recent year

*\*Note: Student Retention data will be included in the annual Financial Performance Framework report; however, no rating will be assigned to this metric. Student retention data will cover a five-year period.*



# Revised Measures

## Default

### Current Framework

#### 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.

### New Framework

#### 4. Debt Service Payments / Loan Covenants

- ❖ **Meets Standard**
  - School is not delinquent with debt service payments and complies with all loan covenants.
- ❖ **Approaching Standard**
  - School is not delinquent with debt service payments, but is out of compliance with loan covenants.
- ❖ **Far Below Standard**
  - School is delinquent with debt service payments.



# Revised Measures

## Total Margin

### Current Framework

#### 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 percent 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 is less than -1.5 percent. Note, this calculation is: (Total 3 year net income) / (Total 3 year revenues), OR
- Current year total margin is less than -10 percent.

### New Framework

#### 5. Aggregated Three-Year Total Margin

*Total three-year net income divided by total three-year revenues*

#### ❖ Meets Standard

- Aggregated three-year total margin is positive

#### ❖ Approaching Standard

- Aggregated three-year total margin is greater than or equal to -1.5% but not positive

#### ❖ Far Below Standard

- Aggregated three-year total margin is less than -1.5%



# Revised Measures

## Debt to Asset Ratio

### Current Framework

#### 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.

### New Framework

#### 2. Debt to Asset Ratio:

*Total Liabilities divided by Total Assets*

- ❖ **Meets Standard**  
Debt to asset ratio is less than or equal to 0.90
- ❖ **Approaching Standard**  
Debt to asset ratio is greater than 0.90 but less than 1.0
- ❖ **Far Below Standard**  
Debt to asset ratio is greater than or equal to 1.0



# Revised Measures

## Cash Flow

### Current Framework

#### 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: For schools open less than three years, they 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.

### New Framework

#### 6. Cash Flow

##### ❖ **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

*\*Schools in their first or second year of operation must have positive cash flow*

##### ❖ **Approaching Standard**

- Three-year cumulative cash flow is positive and;
- Cash flow is negative in the current year or;
- Three-year cumulative cash flow is negative

##### ❖ **Far Below Standard**

- Cash flow is negative in the past two years



# Revised Measures

## Debt Service Coverage Ratio

### Current Framework

#### 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 1.10.

❖ **Approaching Standard**

Debt Service Coverage Ratio is less than 1.10.

❖ **Far Below Standard**

Not applicable

### New Framework

#### 7. Debt Service Coverage Ratio

*(Net income + Depreciation + Interest Expense) /  
(Principal and Interest Payments)*

❖ **Meets Standard**

- Debt service coverage ratio is equal to or exceeds 1.10.

❖ **Approaching Standard**

- Debt service coverage ratio is greater than .90 but less than 1.10

❖ **Far Below Standard**

- Debt service coverage ratio is less than or equal to .90.





# Revised Measures

## Financial Management & Oversight

### Current Framework

#### 3. Financial Management and Oversight

### New Framework

#### 9. Financial Management and Oversight

No changes to how this measure is rated. Typically, audit findings will affect this measure. A material weakness or modified/qualified audit opinion will result in an Approaching Standard rating. The identification of a “Going Concern” in the notes to the financial statements will result in a Far Below Standard rating. In addition, schools that are not following the CBOC requirements will be rated Approaching Standard. Related Party Transactions are noted in the comments for this measure, though they do not affect the rating.



# Questions

**Questions??**

