

# Draft Discussion Financial Framework

## PROPOSED MEASURES AND MEASURE TARGETS<sup>1</sup>

### 1. Going Concern

<u>Calculation</u>	Performance rating based on absence or presence of certain disclosure in audit
<b>Measure Ratings</b>	<b>Meets Standard:</b> The most recent audit reporting package does not include explanatory paragraph in Independent Auditor's Report or disclosure in the notes to the financial statements  <b>Below Standard (in one of two ways):</b> 1. Disclosure in Independent Auditor's Report and financial statement notes <i>(Substantial doubt about charter's ability to continue is raised and is not alleviated by management's plans)</i>  <b>OR</b>  2. Disclosure in financial statement notes only <i>(Substantial doubt about charter's ability to continue is raised but is alleviated by management's plans)</i>
<b>Rating Adjustments</b>	None
<b>Definitions</b>	None
<b>Calculation Considerations</b>	None

### 2. Default

<u>Calculation</u>	Performance rating based on absence or presence of certain disclosure in audit
<b>Measure Ratings</b>	<b>Meets Standard:</b> Charter holder is not in default on material loans or facility agreements or both  <b>Below Standard:</b> Charter holder is in default on material loans or facility agreements or both
<b>Rating Adjustments</b>	None
<b>Definitions</b>	None
<b>Calculation Considerations</b>	None

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<sup>1</sup> Defined terms are identified in all capital letters.

### 3. Unrestricted Days Liquidity

Calculation (Unrestricted Cash + OTHER SOURCES OF LIQUIDITY) divided by [(Total Expenses – NONCASH EXPENSES)/365]

**Measure Ratings**

**Meets Standard:**  
30 or more days liquidity

**Approaches Standard:**  
At least 15 days liquidity but fewer than 30 days liquidity

**Below Standard:**  
Fewer than 15 days liquidity

**Rating Adjustments** None

**Definitions**

OTHER SOURCES OF LIQUIDITY = Available balances from any sources of liquidity other than cash that are disclosed in the annual audit reporting package and may include, but not be limited to, lines of credit.

NONCASH EXPENSES = May include depreciation, amortization and write-offs of loan issuance costs and prepayment penalties.

**Calculation Considerations** The unspent Classroom Site Fund balance at June 30<sup>th</sup> is considered restricted, and, therefore, is removed to arrive at the charter holder’s Unrestricted Cash.

### 4. Adjusted Net Income

Calculation Total Revenues minus (Total Expenses – NONCASH EXPENSES)

**Measure Ratings**

**Meets Standard:**  
Adjusted net income is greater than or equal to \$1

**Approaches Standard:**  
Adjusted net income is zero or negative and adjusted net income divided by total revenue is between 0 and negative 4.99 percent

**Below Standard:**  
Adjusted net income is negative and adjusted net income divided by total revenue is less than or equal to negative 5 percent

**Rating Adjustments** None

**Definitions**

NONCASH EXPENSES = May include depreciation, amortization and write-offs of loan issuance costs and prepayment penalties.

**Calculation Considerations** None

## 5. Lease Adjusted Debt Service Coverage Ratio

**Calculation** (ADJUSTED NET INCOME + Interest Expense + Facility Lease Expense) divided by (DEBT PRINCIPAL + Interest + Facility Lease Expense)

**Measure Ratings** **Meets Standard:**  
Lease adjusted debt service coverage ratio exceeds 1.10

**Approaches Standard:**  
Lease adjusted debt service coverage ratio is between 1.0 and 1.10

**Below Standard:**  
Lease adjusted debt service coverage ratio is less than 1.0

**Rating Adjustments** None

**Definitions** ADJUSTED NET INCOME = See measure 4 on page 2

DEBT PRINCIPAL = Includes principal payments associated with bonds or loans for a charter that purchases its facilities, as well as other long-term loans obtained by a charter holder, and capital leases.

**Calculation Considerations** None

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## 6. Average Daily Membership (“ADM”)

### Calculation

Averages annual percent change in 100<sup>th</sup> day ADM for the three most recent completed fiscal years

### Measure Ratings

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

1. Charter holder has increase

#### OR

2. Charter holder has decrease of:

- SMALL: 4.99% or less
- MEDIUM: 4.99% or less
- LARGE: 2.99% or less

#### Approaches Standard:

Charter holder has decrease of:

- SMALL: 5% to 14.99%
- MEDIUM: 5% to 14.99%
- LARGE: 3% to 9.99%

#### Below Standard:

Charter holder has decrease of:

- SMALL: 15% or more
- MEDIUM: 15% or more
- LARGE: 10% or more

### Rating Adjustments

- A charter holder’s “Approaches Standard” or “Below Standard” rating on the ADM measure will be increased by one rating category if the charter holder received no “Below Standard” ratings and no more than one “Approaches Standard” rating on the financial framework’s other five measures. Under this scenario, an initial “Approaches Standard” on the ADM measure would become a “Meets Standard” and an initial “Below Standard” would become an “Approaches Standard”.
- A charter holder’s “Approaches Standard” or “Below Standard” rating on the ADM measure will be unchanged if the charter holder received one or more “Below Standard” ratings, two or more “Approaches Standard” ratings or both on the financial framework’s other five measures.

### Definitions

SMALL = Charter holder with fewer than 200 ADM

MEDIUM = Charter holder with 200 to 599 ADM

LARGE = Charter holder with 600 or more ADM

### Calculation

#### Considerations

- *ADM Adjustments* – Board staff will adjust the annual ADM for the fiscal years used in the calculation when a) a school transfers from a multi-school charter contract to its own contract, b) a school operating under a multi-school charter contract closes, or c) the charter holder reduces the grade levels served under the charter contract.
- *Second/Third Year Charters* – The targets identified in the “Measure Ratings” section will be applied to charter holders with only two years of ADM available (year 1 to year 2) or charter holders with three years of ADM available (two-year average).

## First-Year and Second-Year Financial Site Visits

### FIRST YEAR

Since only one year of ADM data would be available, the ADM measure will not be applicable for first-year charter contracts. Board staff will visit all new schools approved through the new application, replication application or amendment processes in the fall of their first year of operation. Prior to that visit, Board staff would compare enrollment projects identified in the application or amendment request to the school’s

estimated count or, if available, actual ADM. During the visit, Board staff would meet with school officials and review documentation to ascertain the school's current financial situation and, if applicable, discuss adjustments made or planned due to lower than projected enrollment.

**SECOND YEAR**

Schools will be selected for second-year financial visits based on the results of the first-year visit and first-year audit, as well as the school's second-year estimated count or, if available, actual ADM. Any second-year visits would likely occur in the winter of the school's second year after the prior year's audit has been received and reviewed.

## SUMMATIVE PERFORMANCE LEVELS

<b>Summative Rating</b>	<b>Description</b>
<b>Good Standing</b>	No measure rated Below Standard and no more than one measure rated Approaches Standard
<b>Adequate Standing</b>	No measure rated Below Standard and two or more measures rated Approaches Standard
<b>Intervention</b>	One or more measures rated Below Standard <u>OR</u> Three consecutive years in Adequate Standing