



Financial Framework: Overview, Trends & Next Steps

ASBCS BOARD MEETING

JUNE 13, 2016

Why A Financial Framework?

- Taxpayer Investment in Charter Schools
- Protect the Public's Interest
 - Stewardship of public funds
 - Limited disruption to students' education
- Connection Exists Between Financial Health and Ability to Provide a Quality Academic Program and to Operate in a Sound Manner



Financial Framework History

August
2012

- Board adopts framework following two public subcommittee meetings. Prior to subcommittee meetings, work group met twice with staff.

September/
October
2013

- Based on first year of implementation and charter input, Board approves changes, including eliminating one measure and modifying another.

October
2014

- Board redefines “expectations” to look at two years of financial performance instead of one to focus Board’s efforts on those charters that may currently be experiencing financial difficulties or that may be at a higher risk for financial hardship in the future.



Near-Term vs. Sustainability

NEAR-TERM FINANCIAL HEALTH

- ❖ Designed to depict a charter holder's financial position and viability for the upcoming fiscal year
- ❖ Specific measures
 - ❖ Going Concern
 - ❖ Default
 - ❖ Unrestricted Days Liquidity
- ❖ "Falls Far Below" rating possible

LONGER TERM FINANCIAL SUSTAINABILITY

- ❖ Designed to depict a charter holder's financial position and viability over time
- ❖ Specific measures
 - ❖ Cash Flow
 - ❖ Net Income
 - ❖ Fixed Charge Coverage Ratio
- ❖ "Falls Far Below" rating not possible



Financial “Standard” vs. “Expectations”

❖ Financial Performance Standard

- ❖ Reflects annual performance
- ❖ To meet the financial performance standard, no measures may be rated “Falls Far Below” and no more than one measure may be rated “Does Not Meet”
- ❖ If one or more measures are rated “Falls Far Below”, at least two measures are rated “Does Not Meet” or both, then charter holder does not meet the financial performance standard

❖ Financial Performance Expectations

- ❖ Considers two years performance
- ❖ See table at right

Previous Audit	Most Recent Audit	Meets Board’s Expectations?
MEETS financial performance standard	MEETS financial performance standard	Yes
DOES NOT MEET financial performance standard	MEETS financial performance standard	Yes
MEETS financial performance standard	DOES NOT MEET financial performance standard; no measure receives “Falls Far Below”	Yes
MEETS financial performance standard	DOES NOT MEET financial performance standard; 1 or more measures receive “Falls Far Below”	No
DOES NOT MEET financial performance standard	DOES NOT MEET financial performance standard	No

Measure Descriptions

GOING CONCERN

- ❖ What is it?
 - Auditing standards require CPA to evaluate ability to continue operating for next year
 - Assumption is charter intends and is able to continue to engage in its activities
 - If doubt exists, then disclosed in audit
- ❖ Why is it important?
 - Provides independent assessment
 - Identifies charters that may be unable to meet academic/operational obligations or that may be at higher risk for abrupt school closures

DEFAULT

- ❖ What is it?
 - Financial institution or individual lender issue notice of loan default
- ❖ Why is it important?
 - Once default notice issued, lender may:
 - Require outstanding loan amount be paid immediately
 - Proceed with foreclosure (for facility loans)
 - Ability to continue operating in jeopardy



Measure Descriptions

UNRESTRICTED DAYS LIQUIDITY

- ❖ What is it?
 - Number of days expenses could be paid without an influx of cash
- ❖ Why is it important?
 - Identifies charter holder's available reserve
 - A reserve provides flexibility for the charter holder to address needs as they arise and to respond to unexpected events

CASH FLOW

- ❖ What is it?
 - Change in total cash balance from one fiscal year to another fiscal year
 - Annual and three-year cumulative cash flow
- ❖ Why is it important?
 - Positive cash flow over time generally indicates increasing financial health and sustainability
 - Charter holder's reserve affected by cash flow



Measure Descriptions

NET INCOME

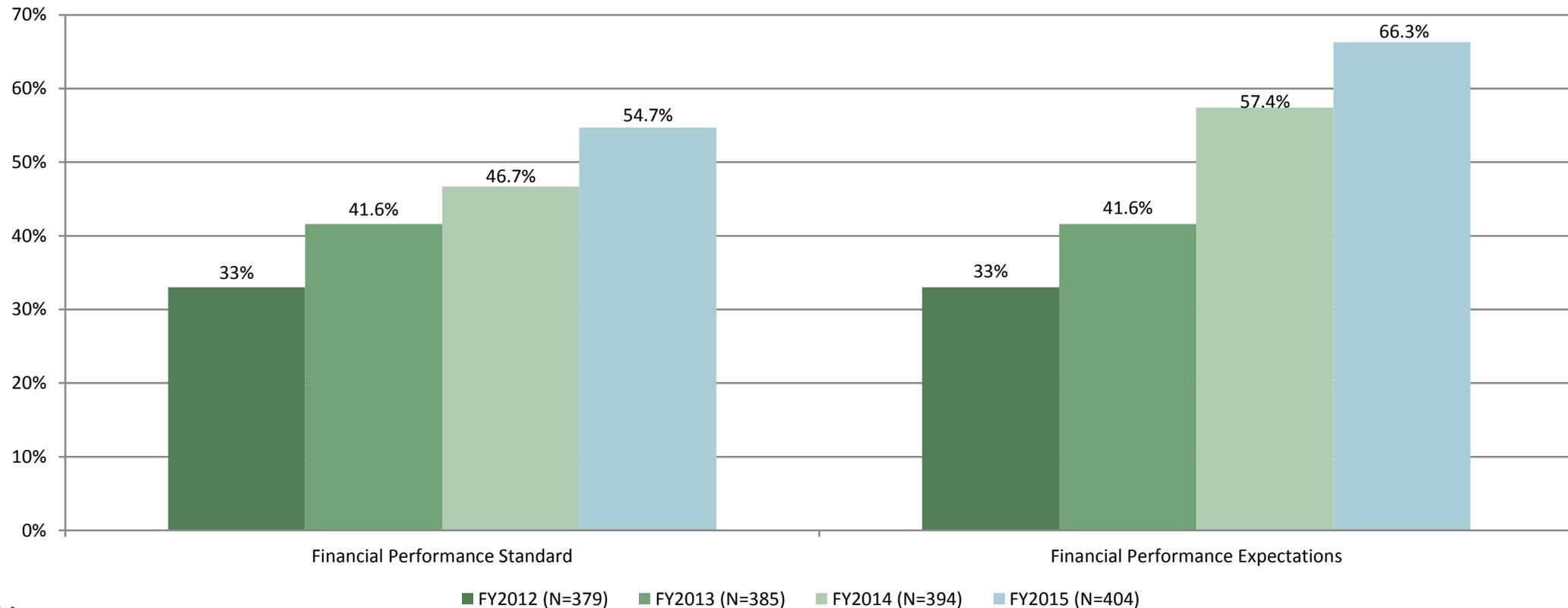
- ❖ What is it?
 - Difference between total revenues and total expenses
- ❖ Why is it important?
 - Indicates whether or not a charter holder is operating within its available resources
 - Positive net income helps charter holder build reserve

FIXED CHARGE COVERAGE RATIO

- ❖ What is it?
 - Looks at how easily certain bills can be paid as they become due
 - Fixed charges occur regardless of changes in revenue or other circumstances that may affect financial situation
- ❖ Why is it important?
 - Untimely payments may disrupt students' education and place school operations at risk (e.g., locked out of school facilities, no buses to transport students, notice of default issued)



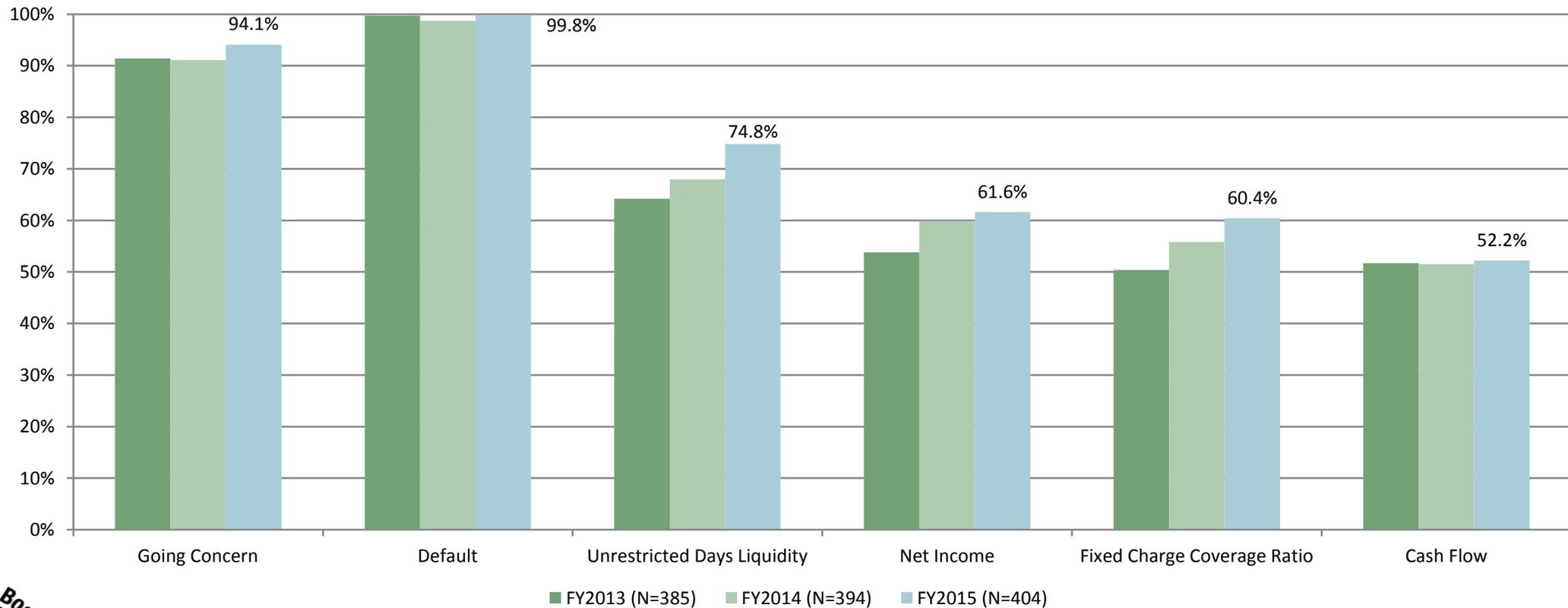
Percentage of Board's Portfolio Meeting "Standard" & "Expectations" (FY12-FY15)



NOTE: For fiscal years 2012 and 2013, identical percentages are used for financial performance standard and financial performance expectations because in those years whether a charter holder met the expectations was based on one year of financial information instead of the current two.



Percentage of Board's Portfolio Meeting Financial Targets by Measure (FY13-FY15)



Financial Performance Response

- Required at Certain Times If Expectations Not Met
 - Addresses measures rated “Does Not Meet” or “Falls Far Below”
 - Evaluated by staff in accordance with framework (“Appendix C”)
- Board’s Consideration Includes:
 - Charter holder’s financial performance response
 - Staff’s evaluation of financial performance response
 - Table with financial data/performance for last 3 audited years
 - Analysis of charter’s financial performance prepared by staff



Financial Performance Review by Process

	Fiscal Year 2014		Fiscal Year 2015		Fiscal Year 2016	
	Met	Did Not Meet	Met	Did Not Meet	Met	Did Not Meet
Renewal	16 (43.2%)	21 (56.8%)	21 (61.8%)	13 (38.2%)	40 (78.4%)	11 (21.6%)
Interval Reviews	9 (37.5%)	15 (62.5%)	10 (71.4%)	4 (28.6%)	53 (65.4%)	28 (34.6%)
Academic Monitoring	11 (26.2%)	31 (73.8%)	65 (59.6%)	44 (40.4%)	44 (58.7%)	31 (41.3%)
Other	0 (0%)	3 (100%)	6 (50%)	6 (50%)	2 (66.7%)	1 (33.3%)
Overall	36 (34%)	70 (66%)	102 (60.4%)	67 (39.6%)	139 (66.2%)	71 (33.8%)



Recommendation: Cash Flow Measure

CURRENT CASH FLOW MEASURE

- ❖ “Meets Standard” (in one of two ways)
 - ❖ Three-year cumulative cash flow is positive and cash flow is positive each year
 - ❖ Three-year cumulative cash flow is positive, cash flow is positive in two of three years, and cash flow in most recent year is positive
- ❖ “Does Not Meet Standard” (in one of two ways)
 - ❖ Three-year cumulative cash flow is negative
 - ❖ Three-year cumulative cash flow is positive, but does not meet “Meets Standard”

PROPOSED CASH FLOW MEASURE

- ❖ “Meets” Standard
 - ❖ Three-year cumulative cash flow is positive
- ❖ “Does Not Meet” Standard”
 - ❖ Three-year cumulative cash flow is negative



Recommendation: “Appendix C”

- Appendix C Sets Out Expectations for and Method of Evaluating a Financial Performance Response
- “Preparing a Financial Performance Response” [hyperlink]
 - Technical assistance document created by staff
 - Staff proposes replacing framework’s current Appendix C with a modified version of this document

