



# Initial Suggestions for Discussion: Measure-Specific

---

FINANCIAL FRAMEWORK SUBCOMMITTEE MEETING

SEPTEMBER 12, 2018

# Adjustment for Noncash Expenses

---

- GAAP Requires Certain Items Be Recorded As Expenses Even Though No Cash Used
  - Includes depreciation, amortization and other noncash expenses
- Revise Formulas For Certain Measures To Account For Noncash Expenses
  - Unrestricted Days Liquidity, Net Income, Fixed Charge Coverage Ratio
  - See next three slides for details



# Unrestricted Days Liquidity Calculation

---

## CURRENT CALCULATION

Unrestricted Cash\* +  
Other Sources of Liquidity

Divided by

(Total Expenses/365)

\* Classroom Site Fund cash carryover balance at June 30<sup>th</sup> is considered restricted and, therefore, is removed to arrive at charter's unrestricted cash

## PROPOSED CALCULATION

Unrestricted Cash\* +  
Other Sources of Liquidity

Divided by

(Total Expenses - Depreciation -  
Amortization - Other Noncash Expenses/365)

\* Classroom Site Fund cash carryover balance at June 30<sup>th</sup> is considered restricted and, therefore, is removed to arrive at charter's unrestricted cash



# Net Income Calculation

---

## CURRENT CALCULATION

Total Revenues

Minus

Total Expenses

## PROPOSED CALCULATION

Total Revenues

Minus

Total Expenses - Depreciation -  
Amortization -  
Other Noncash Expenses



# Fixed Charge Coverage Ratio Calculation

---

## CURRENT CALCULATION

Change in Net Assets +  
Depreciation + Amortization +  
Interest Expense + Lease Expense

Divided by

Current Portion of Long-Term Debt and  
Capital Leases + Interest + Lease Expense

## PROPOSED CALCULATION

Change in Net Assets +  
Depreciation + Amortization +  
Other Noncash Expenses +  
Interest Expense + Lease Expense\*

Divided by

Current Portion of Long-Term Debt and  
Capital Leases + Interest + Lease Expense

\* The numerator could also be stated as Adjusted Net Income  
(see previous slide) + Interest Expense + Lease Expense



# FCCR vs Debt Service Coverage Ratio

---

## FIXED CHARGE COVERAGE RATIO (FCCR)

- ❖ Looks at how easily certain bills can be paid as they become due, focusing on lease, loan and interest payment
- ❖ Calculation defined by Board
- ❖ Captures charters that lease their facilities and charters that purchase their facilities

## DEBT SERVICE COVERAGE RATIO (DSCR)

- ❖ Looks at charter's ability to generate enough revenue to cover cost of its facility principal and interest payment
- ❖ Calculation defined by charter's bond or loan document through covenant
- ❖ Captures charters that purchase their facilities



# Allow For Use Of DSCR In Place Of FCCR

---

- Applicable Only To Charters With DSCR Covenant
- Audit Must Disclose Covenant Requirement And Charter's Actual Performance For DSCR To Be Used
- Rating On Measure Would Be Tied To Whether Charter Met Covenant Requirement

# Eliminate Current Cash Flow Measure

---

- ❖ Cash fluctuates at year-end based on timing of revenue sources and expense outlays
- ❖ Measure penalizes those acting responsibly and may reward those who are struggling
  - Charter could have negative cash flow because it paid down debt or saved to make large capital purchases
  - Charter could have positive cash flow because it borrowed money to cover operating expenses
- ❖ Unrestricted days liquidity measure is better cash indicator since it is relative to charter's operations
- ❖ Would not preclude cash flow from being considered in conjunction with other measures, if warranted





# Consider Enrollment Trend

---

- Identify Whether Charter Is Growing, Shrinking Or Maintaining Its Student Body
- Specific Evaluation Components To Be Defined
- Charter's Performance Could Provide Additional Information Or Be Tied To Other Measures/Areas

