



# Discussion Questions

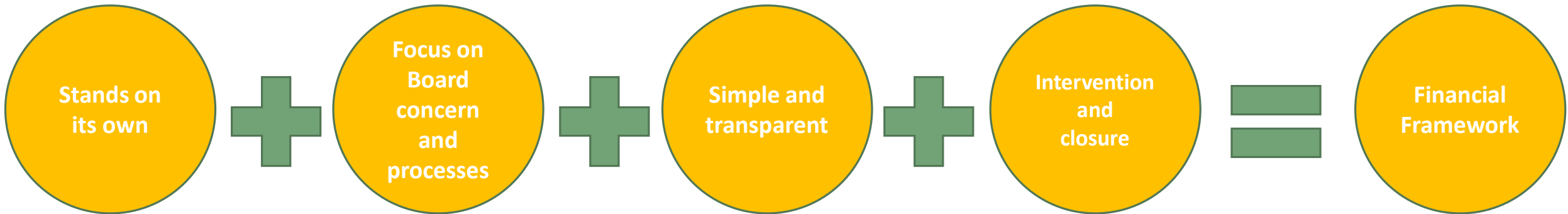
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FINANCIAL FRAMEWORK SUBCOMMITTEE MEETING

SEPTEMBER 27, 2018

# Begin with the end in mind

## Financial Framework Equation



To assist the Subcommittee in its discussion and determination.



# Proposed Framework Measures

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- Do you think the proposed measures are sufficient to evaluate a charter financially?
- Are there other areas that you think the framework should evaluate?
- Are there proposed measures that you would modify or remove?



# Summative Performance Levels

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## EXISTING LEVELS VS REASON PROPOSAL

- ❖ Board's framework currently includes two summative performance levels
  - ❖ Meets Financial Performance Standard
  - ❖ Does Not Meet Financial Performance Standard
- ❖ Reason Foundation has proposed more nuanced roll-up mechanism
  - ❖ Imminent Risk = 1 or more Falls Far Below (FFB)
  - ❖ High Risk = No FFB; 3 or 4 Does Not Meet (DNM)
  - ❖ Moderate Risk = No FFB; 1 or 2 DNM
  - ❖ Low Risk = No FFB; No DNM

## DISCUSSION QUESTIONS

- ❖ For the next meeting, would you like staff to proceed based on the Reason approach?
- ❖ Are there other factors you want considered in the roll-up mechanism used for summative performance levels?



# Proposed Measure Targets

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- Based on summative performance levels discussion, would you like “Falls Far Below” (FFB) targets to be established for other measures?
  - FFB targets currently exist for Going Concern, Unrestricted Days Liquidity and Default
- Would you like to modify any of the proposed “Meets”, “Does Not Meet”, or FFB targets?
- Would you like to set targets based on characteristics of charter (e.g., years in operation, growth mode)?



# Other Matters for Discussion

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- What components would like to see in the framework's intervention section?
- Are there other items you want considered in the proposal staff brings to the next meeting?



## Appendix A

# Financial Performance Framework

**Board Strategic Plan Objective:** All charter holders in the portfolio are viable organizations with strong fiscal management practices.

## 1. NEAR-TERM INDICATORS

### 1a. Going Concern

**Meets Standard:**

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

**Does Not Meet Standard:**

No "Does Not Meet Standard" target established for this measure

**Falls Far Below Standard (in one of two ways):**

Independent Auditor's Report for the most recent audit reporting package includes an explanatory paragraph and disclosure is included in notes to the financial statements

or

Disclosure included in notes to the financial statements for the most recent audit reporting package, but no modification to Independent Auditor's Report

### 1b. Unrestricted Days Liquidity: $(\text{Unrestricted Cash} + \text{Other Sources of Liquidity}^*) \text{ divided by } (\text{Total Expenses}/365)$

\* "Other Sources of Liquidity" is defined as 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.

[Note: The Classroom Site Fund cash carryover balance at June 30<sup>th</sup> would be considered restricted cash and, therefore, would be removed as part of identifying a charter holder's unrestricted cash as of June 30<sup>th</sup>.]

**Meets Standard:**

30 or more days liquidity

**Does Not Meet Standard:**

At least 15 days liquidity but fewer than 30 days liquidity

**Falls Far Below Standard:**

Fewer than 15 days liquidity

### 1c. Default: Defined as in True Default on Obligations

**Meets Standard:**

Charter holder is not in default on material loans

**Does Not Meet Standard:**

No "Does Not Meet Standard" target established for this measure

**Falls Far Below Standard:**

Charter holder is in default on material loans

## 2. SUSTAINABILITY INDICATORS

### 2a. Net Income: Total Revenues less Total Expenses

**Meets Standard:**

Net income is greater than or equal to \$1

**Does Not Meet Standard:**

Net income is zero or negative

**Falls Far Below Standard:**

No "Falls Far Below Standard" target established for this measure

### 2b. Cash Flow: One-Year Cash Flow = Current Year Total Cash less Prior Year Total Cash

**Meets Standard:**

Three-year cumulative cash flow is positive

**Does Not Meet Standard:**

Three-year cumulative cash flow is negative

**Falls Far Below Standard:**

No "Falls Far Below Standard" target established for this measure

### 2c. Fixed Charge Coverage Ratio: $(\text{Change in Net Assets}^* + \text{Depreciation} + \text{Amortization} + \text{Interest Expense} + \text{Lease Expense}) / (\text{Current Portion of Long-Term Debt and Capital Leases} + \text{Interest} + \text{Lease Expense})$

\* Net Income After Tax would be used when calculating the ratio for for-profit charter holders.

**Meets Standard:**

Fixed Charge Coverage Ratio is equal to or exceeds 1.10

**Does Not Meet Standard:**

Fixed Charge Coverage Ratio is less than 1.10

**Falls Far Below Standard:**

No "Falls Far Below Standard" target established for this measure