

EXCEL PUBLIC CHARTER SCHOOL

2016/2017 Annual Financial Performance Framework

Washington State Charter School Commission



WASHINGTON STATE
Charter School Commission
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WHY A FINANCIAL FRAMEWORK?

The Financial Performance Framework is a reporting tool designed to assess the financial health and viability of a charter schools for the purposes of an annual review.

The framework summarizes a charter school's financial health while taking into account the school's financial trends over a period of three years. The measures are designed to be complementary. No single measure gives a full picture of the financial situation of a school. Taken together, however, the measures provide a comprehensive assessment of the school's financial health and viability based on a school's historic trends, near-term financial situation, and future viability.

For each of the measures, targets are based on authorizer best practices, industry standards, and ratios that reflect the financial health of the school. The Commission will use data from the year-end audited financial statements for each school along with current financial data gathered through quarterly financial reports to calculate each measure. In order to depict the overall financial health of the school, these calculations are based on *all funds* of the school (not just the general fund).

The Commission believes that the life stage of a school should be taken into considerations when reviewing the financial viability of schools. Therefore, a number of the financial measures have two sets of targets. One set for schools in year 1 or 2 of operation and one set for schools in year 3 or beyond.

INDICATORS
1.a Current Ratio (Near-Term)
1.b Unrestricted Days Cash (Near-Term)
1.c Debt Default (Near-Term)
2.a Total Margin (Sustainability)
2.b Debt to Asset Ratio (Sustainability)
2.c Cash Flow (Sustainability)
Enrollment Variance (Informational)

RATINGS

The Financial Framework ratings are either **Meets Standard**, or **Does Not Meet Standard**

MEETS STANDARD	DOES NOT MEET STANDARD
A Meets Standard rating indicates sound financial viability based on the overall financial record. The school may have already met the absolute Financial Performance Framework standard based on the financials under review, or, any concerns have been adequately addressed based on additional information such that the WSCSC concludes that performance indicates sound financial viability.	A Does Not Meet Standard rating means that even based on the most current financial information (recent audited financials and more current unaudited financials), the school is not currently meeting the standard, and/or concerns previously identified and of heightened monitoring and/or intervention have not been adequately corrected and/or, if not currently manifested, have been of a depth or duration that warrants continued attention.

The overall final rating of a school will document the Commission's assessment of the school's financial viability based on cumulative evidence from the quarterly reviews, State Auditor and independent audits, annual budgets, cash on hand, the performance framework, and/or more detailed examination of the school's financial position, as needed.

Additionally, while the Commission provides oversight to charter schools, many of the state and federal fiscal accountability and reporting requirements will be monitored and/or audited by the Office of the Superintendent of Public Instruction (OSPI) and State Auditor's Office (SAO) program staff.

SUMMARY

INDICATOR	MEASURE	CHARTER SCHOOL RATING
1. Near-Term	1.a. Current Ratio	Meets Standard
	1.b. Unrestricted Days Cash	Does Not Meet Standard
	1.c Debt Default	Meets Standard
2. Sustainability	2.a. Total Margin	Does Not Meet Standard
	2.b. Debt to Asset Ratio	Does Not Meet Standard
	2.c Cash Flow	Not Applicable
3. Informational Only	Enrollment Variance	Does Not Meet Standard

MEASURES

NEAR TERM INDICATORS

1.A CURRENT RATIO

DEFINITION: The current ratio depicts the relationship between a school’s current assets and current liabilities.

OVERVIEW: The current ratio measures a school’s ability to pay its obligations over the next twelve months. A current ratio of greater than 1.0 indicates that the school’s current assets exceed its current liabilities, thus indicating ability to meet current obligations. A ratio of less than 1.0 indicates that the school does not have sufficient current assets to cover the current liabilities and is not in a satisfactory position to meet its financial obligations over the next 12 months.

SOURCE OF DATA: Audited balance sheet

5 YEAR CHARTER TERM	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
	2016-17	2017-18	2018-19	2019-20	2020-21
	11.2				

CURRENT YEAR TARGETS	MEETS STANDARD	<p>STAGE 1 (YEARS 1-2): Current Ratio is greater than or equal to 1.0</p> <p>STAGE 2 (YEARS 3 AND BEYOND): Current Ratio is greater than or equal to 1.1.</p> <p>OR</p> <p>CURRENT RATIO IS BETWEEN 1.0 AND 1.1 AND ONE-YEAR TREND IS POSITIVE (current year ratio is higher than last year’s)</p> <p>OR</p> <p>STAGES 1 AND 2: Any concerns have been adequately addressed based on additional information such that the WSCSC concludes that performance against the standard indicates sound financial viability.</p>
	DOES NOT MEET STANDARD	<p>STAGES 1 AND 2: Upon evidence from the performance framework, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention are warranted.</p>

GUIDELINES FOR TARGET LEVEL AND RATINGS: The general rule of thumb for a current ratio is that it should be a minimum of 1.0. An upward trend of a current ratio that is greater than 1.0 indicates greater financial health, hence the greater than or equal to 1.1 to meet standard. A current ratio less than 0.9 is a serious financial health risk, based on common standards.

SCHOOL-SPECIFIC NARRATIVE: Excel Public Charter School met standard meaning that it had current assets (cash or other assets that can be accessed in the next 12 months) that exceeded its current liabilities (debt obligations due in the next 12 months).

1.B UNRESTRICTED DAYS CASH

DEFINITION: The unrestricted days cash on hand ratio indicates how many days a school can pay its expenses without another inflow of cash.

OVERVIEW: The unrestricted days cash ratio indicates whether or not the school has sufficient cash to meet its cash obligations. Depreciation expense is removed from the total expenses denominator because it is not a cash expense.

SOURCE OF DATA: Audited balance sheet and income statement. Note that if cash is restricted due to legislative requirements, donor restrictions, or others, the restriction should be listed in the audit.

5 YEAR CHARTER TERM	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
	2016-17	2017-18	2018-19	2019-20	2020-21
	24				

CURRENT YEAR TARGETS	MEETS STANDARD	<p>STAGE 1 (YEARS 1-2): 30 Days Cash</p> <p>STAGE 2 (YEARS 3 AND BEYOND): 60 Days Cash</p> <p>OR</p> <p>Between 30 and 60 Days Cash and One-Year Trend is positive</p> <p>OR</p> <p>STAGES 1 AND 2: Any concerns have been adequately addressed based on additional information such that the WSCSC concludes that performance against the standard indicates sound financial viability.</p>
	DOES NOT MEET STANDARD	<p>STAGES 1 AND 2: Upon evidence from the performance framework, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention are warranted.</p>

GUIDELINES FOR TARGET LEVEL AND RATINGS: At least one month’s of operating expenses cash on hand is a standard minimum measure of financial health of any organization. Due to the nature of charter school cash flow and the sometimes irregular receipts of revenue, a 60 day threshold was set for stage-two schools to meet the standard, though schools showing a growing cash balance from prior years and who have enough cash to pay at least one month’s expenses are also financially stable enough and show positive trending, therefore meeting standard. If a school has less than 15 days of cash on hand, they will not be able to operate for more than a few weeks without another cash inflow, and are at high risk for immediate financial difficulties.

SCHOOL-SPECIFIC NARRATIVE: Excel Public Charter School ended the year with 24 days cash on hand. This means that, if payments to the school had stopped or been delayed past the end of the year, the school would have been able to operate for 24 more days at the current spending levels. It is important to consider Excel’s unique structure as described in detail in [Note 12-Closeout Procedures](#) of its financial audit: “On June 23, 2017, and June 27, 2017, the Governing Board entered into a Charter Contract Transfer Agreement and a Public Asset Transfer Agreement (respectively) with Green Dot Public Schools Washington (a nonprofit organization) as part of closing Excel Public Charter School, effective August 31, 2017, and merging the school into Green Dot Public Schools Washington. The process of the final financial closure is subsequent to August 31, 2017.”

1.C DEBT DEFAULT

DEFINITION: Debt default indicates if a school is not meeting debt obligations or covenants.

OVERVIEW: This metric addresses whether or not a school is meeting its loan covenants and/or is delinquent with its debt service payments. Additionally, a school that is holding employee 403b contributions to aid cash flow could be considered in default. A school that cannot meet the terms of its loan may be in financial distress. Dependent on the debt environment, the Commission may consider a school in default only when it is not making payments on its debt, or when it is out of compliance with other requirements in its debt covenants. The Commission will have to monitor the debt environment to determine if violations of debt covenants should be considered qualifications for falling below or far below standards.

SOURCE OF DATA: Notes to the audited financial statements

5 YEAR CHARTER TERM	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
	2016-17	2017-18	2018-19	2019-20	2020-21
	Meets				

CURRENT YEAR TARGETS	MEETS STANDARD	<p>STAGE 1 (YEARS 1-2): School is not in default of loan covenant(s) and/or is not delinquent with debt service</p> <p>STAGES 1 AND 2: Any concerns have been adequately addressed based on additional information such that the WSCSC concludes that performance against the standard indicates sound financial viability.</p>
	DOES NOT MEET STANDARD	<p>STAGES 1 AND 2: Upon evidence from the performance framework, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention are warranted.</p>

GUIDELINES FOR TARGET LEVEL AND RATINGS: Schools that are not meeting financial obligations, either through missed payments or violations of debt covenants, are at risk of financial distress.

SCHOOL-SPECIFIC NARRATIVE: The Notes to Financial Statements section of [Excel's 2016-17 audit report](#) states: "Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Charter or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Charter first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The Charter had no restricted balance at August 31, 2017."

2.A. TOTAL MARGIN AND AGGREGATED THREE-YEAR TOTAL MARGIN

DEFINITION: Total margin measures the deficit or surplus a school yields out of its total revenues; in other words, whether or not the school is living within its available resources.

OVERVIEW: The total margin measures if a school operates at a surplus (more total revenues than expenses) or a deficit (more total expenses than revenues) in a given time period. The total margin is important to track as schools cannot operate at deficits for a sustained period of time without risk of closure. Though the intent of a school is not to make money, it is important for charters to build, rather than deplete, a reserve to support growth or sustain the school in an uncertain funding environment. The aggregated three-year total margin is helpful for measuring the long-term financial stability of the school by smoothing the impact of single-year fluctuations on the single year total margin indicator. The performance of the school in the most recent year, however, is indicative of the sustainability of the school, thus the school must have a positive total margin in the most recent year to meet standard.

SOURCE OF DATA: Three years of audited income statements

5 YEAR CHARTER TERM	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
	2016-17	2017-18	2018-19	2019-20	2020-21
	-0.07				

CURRENT YEAR TARGETS	MEETS STANDARD	<p>STAGE 1 (YEARS 1-2): Total Margin must be positive in both years</p> <p>STAGE 2 (YEAR 3 AND BEYOND): Aggregated Three-Year Total Margin is positive and the most recent year Total Margin is positive</p> <p>OR,</p> <p>AGGREGATED THREE-YEAR TOTAL MARGIN IS GREATER THAN -1.5%, the trend is positive for the last two years, and the most recent Total Margin is positive</p> <p>OR,</p> <p>STAGES 1 AND 2: Any concerns have been adequately addressed based on additional information such that the WSCSC concludes that performance against the standard indicates sound financial viability.</p>
	DOES NOT MEET STANDARD	<p>STAGES 1 AND 2: Upon evidence from the performance framework, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention are warranted.</p>

GUIDELINES FOR TARGET LEVEL AND RATINGS: General preference in any industry is that total margin is positive, but organizations can make strategic choices to operate at a deficit for a year for a large capital expenditure or other planned expense. The targets set allow for flexibility over a three-year timeframe in the aggregate total margin, but require a positive total margin for the current year to meet standard. A margin in any year of less than -10 percent or an aggregate three-year total margin less than -1.5 percent is an indicator of financial risk.

SCHOOL-SPECIFIC NARRATIVE: Excel Public Charter School did not meet standard for this indicator meaning that its current year total margin ratio was less than 0 (-0.70) and the school operated at a deficit.

2.B. DEBT TO ASSET RATIO

DEFINITION: The debt to asset ratio measures the amount of liabilities a school owes versus the assets they own; in other words, it measures the extent to which the school relies on borrowed funds to finance its operations.

OVERVIEW: The debt to asset ratio compares the school’s liabilities to its assets. Simply put, the ratio demonstrates what a school owes against what it owns. A lower debt to asset ratio generally indicates stronger financial health.

SOURCE OF DATA: Audited balance sheet

5 YEAR CHARTER TERM	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
	2016-17	2017-18	2018-19	2019-20	2020-21
	1.0				

CURRENT YEAR TARGETS	MEETS STANDARD	<p>STAGES 1 AND 2: Debt to Asset Ratio is less than 0.90</p> <p>OR,</p> <p>STAGES 1 AND 2: Any concerns have been adequately addressed based on additional information such that the WSCSC concludes that performance against the standard indicates sound financial viability.</p>
	DOES NOT MEET STANDARD	<p>STAGES 1 AND 2: Upon evidence from the performance framework, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention are warranted.</p>

GUIDELINES FOR TARGET LEVEL AND RATINGS: A debt to asset ratio greater than 1.0 is a generally accepted indicator of potential long-term financial issues, as the organization owes more than it owns, reflecting a risky financial position. A ratio less than 0.9 indicate a financially healthy balance sheet, both in the assets and liabilities, and the implied balance in the equity account.

SCHOOL-SPECIFIC NARRATIVE: Excel Public Charter School did not standard meaning that its total liabilities exceeded its total assets.

It is important to consider Excel’s unique structure as described in detail in [Note 12-Closeout Procedures](#) of its financial audit: “On June 23, 2017, and June 27, 2017, the Governing Board entered into a Charter Contract Transfer Agreement and a Public Asset Transfer Agreement (respectively) with Green Dot Public Schools Washington (a nonprofit organization) as part of closing Excel Public Charter School, effective August 31, 2017, and merging the student into Green Dot Public Schools Washington. The process of the final financial closure is subsequent to August 31, 2017.”

2.C. CASH FLOW

DEFINITION: The cash flow measure indicates a school’s change in cash balance from one period to another.

OVERVIEW: Cash flow indicates the trend in the school’s cash balance over a period of time. This measure is similar to days cash on hand, but indicates long-term stability versus near-term. Since cash flow fluctuations from year to year it can have a long-term impact on a school’s financial health, this metric assesses both three-year cumulative cash flow and annual cash flow. Similar to total margin, this measure is not intended to encourage amassing resources instead of deploying them to meet the mission of the organizations, but rather to provide for stability in an uncertain funding environment.

SOURCE OF DATA: Three years of audited balance sheets

5 YEAR CHARTER TERM	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
	2016-17	2017-18	2018-19	2019-20	2020-21
	N/A				

CURRENT YEAR TARGETS	MEETS STANDARD	<p>STAGE 1 (YEAR 1): N/A</p> <p>STAGE 1 (YEAR 2): Positive on-year cash flow</p> <p>STAGE 2 (Year 3 and Beyond): Multi-Year Cumulative Cash Flow is positive and Cash Flow is positive for each year</p> <p>OR,</p> <p>MULTI-YEAR AND MOST RECENT YEAR CASH FLOWS ARE POSITIVE</p> <p>OR,</p> <p>STAGES 1 AND 2: Any concerns have been adequately addressed based on additional information such that the WSCSC concludes that performance against the standard indicates sound financial viability.</p>
	DOES NOT MEET STANDARD	<p>STAGES 1 AND 2: Upon evidence from the performance framework, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention are warranted.</p>
	NOT APPLICABLE	<p>The Cash Flow indicator requires two years of audited data to measure and is therefore “not applicable” following Year 1 (2016-17).</p>

GUIDELINES FOR TARGET LEVEL AND RATINGS: A positive cash flow over time generally indicates increasing financial health and sustainability of a charter school.

SCHOOL-SPECIFIC NARRATIVE: The Cash Flow indicator requires two years of audited data to measure and is therefore “not applicable” following Year 1 (2016-17).

ENROLLMENT VARIANCE (Near Term Indicator)

DEFINITION: Enrollment variance indicates whether or not the school is meeting its enrollment projections. As enrollment is a key (often the key) driver of revenue, variance is important to track the sufficiency of revenues generated to fund ongoing operations.

OVERVIEW: Enrollment variance indicates whether or not the school is meeting its enrollment projections. As enrollment is a key (often the key) driver of revenue, variance is important to track the sufficiency of revenues generated to fund ongoing operations.

SOURCE OF DATA:

- Projected enrollment – F203 budget document submitted to the Office of the Superintendent of Public Instruction by July 10th of each year
- Actual enrollment – Report 1251 summary of Full-Time Equivalent Enrollment as reported on Form P223 at the end of each school year

5 YEAR CHARTER TERM	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
	2016-17	2017-18	2018-19	2019-20	2020-21
	72%				

CURRENT YEAR TARGETS	MEETS STANDARD	<p>STAGES 1 AND 2: Enrollment Variance equals or exceeds 95%</p> <p>STAGES 1 AND 2: Any concerns have been adequately addressed based on additional information such that the WSCSC concludes that performance against the standard indicates sound financial viability.</p>
	DOES NOT MEET STANDARD	<p>STAGES 1 AND 2: Upon evidence from the performance framework, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention are warranted.</p>

GUIDELINES FOR TARGET LEVEL AND RATINGS: Enrollment variance less than 85 percent indicates that a significant amount of funding on which a school set its expense budget is no longer available, and thus the school is at a significant financial risk. Schools that achieve at least 95 percent of projected enrollment generally have the operating funds necessary to meet all expenses, and thus are not at a significant risk of financial distress

SCHOOL-SPECIFIC NARRATIVE: Excel Public Charter School did not meet standard for the Enrollment Variance indicator. Its end-of-year average enrollment of 169 students was less than its budgeted enrollment submitted in July, 2016 of 235.