Assessing Your Fiscal Health

These indicators are provided as a starting point for the school board to evaluate the school's financial performance as part of ongoing monitoring. These indicators gauge both the near-term financial health and the longer-term financial sustainability. The indicators are meant to flag potential problem areas for further investigation.

Near-Term

The near-term indicators are designed to depict the school's financial position and viability in the upcoming year. Schools that fail the near-term indicators are at higher risk for financial distress or closure.

Current Ratio measures a schools ability to pay its obligations over the next 12 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.

- Basis for target level - 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. A current ratio that is less than or equal to .9 is a serious financial health risk.

Unrestricted Days Cash (Cash on Hand) tells whether or not the school has sufficient cash to meet its cash obligations. This critical measure takes on additional importance where the timing of school payments is irregular and/or can be delayed.

- Basis for target level - At least one month of operating expenses cash on hand is a standard minimum measure of financial health of any organization. Trending of positive cash growth over time is a sign of financial health.

Enrollment Variance tells whether or not the school is meeting its enrollment projections. A school's budget is based on projected enrollment but is funded based on actual enrollment; therefore, a school that fails to meet its enrollment targets may not be able to meet its budgeted expenses. As school budgets are generally designed to match expenses with projected revenues, a poor enrollment variance is a substantial indicator of potential financial issues.

- Basis for target level - Enrollment variances of less than 85 percent indicates that a significant amount of funding on which a school sets 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.

Debt Default or Forgiveness tells if a school is making payments on debt or major agreements.

- Basis for target level - Schools not meeting financial obligations, either through missed payments or violations of debt covenants are at risk of financial distress.

Sustainability Measures

The sustainability indicators are designed to depict a school's financial position and viability over time. Schools may fail the sustainability indicators for multiple reasons. They may be trending toward financial distress or they could have a sound rationale for not meeting the indicator in a given year. For example, a one-time large capital investment could cause a school to not meet the sustainability measures.

Total Margin and Aggregated Three-Year Margin measures whether a school operates at a surplus or a deficit in a given time period. It is important to track as a school 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 uncertain environments.

- Basis for target level - Normally the total margin is positive, but schools can make strategic choices to operate at a deficit for a year for a large operating expenditure or other planned expense if the school had a fund balance from previous years that covers the current year deficit. A margin in any year of less than -10 percent or an aggregate three-year total margin less than or equal to -1.5 percent is an indicator of financial risk.

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 can have a long-term impact on a school's financial health, this metric assesses both multi-year cumulative cash flow and annual cash flow. The preferred result is greater than zero. This measure is not intended to encourage amassing resources instead of deploying them to meet the mission of the organization, but rather to provide for stability in an uncertain funding environment.

- Basis for target level - A positive cash flow over time generally indicates increasing financial health and sustainability of a school.

Debt Service Coverage Ratio measures whether a school can pay the principal and interest due on its debt based on the current year's net income (change in fund balance).

- Basis for target level - Commonly used as a debt covenant measure across industries. A ratio of 1.1 or greater is industry standard for identifying organizations healthy enough to meet obligations and generate a surplus.

Other Financial Information

The board may look at other financial indicators to assess the school's financial health.

Budget vs. Actual - Is the school staying within the budget amounts?

Annual Borrowing Amounts – What is the school's borrowing history? Is the school borrowing more often than in the past? Is the amount borrowed increasing or decreasing?

Financial Barriers – Has the board planned for unexpected changes in revenue or unexpected expenses?

Environment

The board should consider how environmental factors will impact the school's financial health.

Census Data – What is the census data showing about birth rates and school aged children?

Leadership Change – What would happen to your school if there was a change in leadership?

Media Reports – How does media reporting impact your school?

Competition – What is your competition doing? Are they adding new facilities or programs that might entice your students to leave your school?

Low Academic Performance – Is the school providing the quality school they promised the students?

Political/Legislative – What is happening in the political arena that might impact schools?

The Center has created a financial status tracking spreadsheet that includes an overview of each of these financial indicators as well as a way to track the indicators over time. The spreadsheet can be found on the Center's website at www.TheCenterForCharters.org/Fiscal.

Near-Term and Sustainability Measures Source: National Association of Charter School Authorizers