

Osprey Wilds Environmental Learning Center

Financial Performance Evaluation

Overview

The Financial Performance Evaluation is conducted to determine whether the school is compliant with legal requirements, the charter contract, and generally accepted principles of financial oversight and management, as well as to assess the financial health and viability of the school. This framework was derived through a review of model authorizer practices, charter school lender guidance, and expertise in the field. In completing the evaluation, Osprey Wilds has reviewed the school's financial audit, board meeting minutes, monthly financials, school policies, state reports, and other relevant documents. In addition, the evaluation may incorporate information learned through site visits, attendance at board meetings, and interviews or discussions with key individuals at the school including the director, board chair, treasurer, and financial service provider. No one measure identifies the full picture of a school's financial situation. The measures are to be used together to indicate the total financial picture of the school.

Financial Performance Indicators

The Financial Performance Framework includes three indicators, or general categories, used to evaluate a school's financial performance.

1. Financial Management

This portion of the evaluation focuses on the school's performance relative to required financial management. Quality management and oversight of financials is a critical indicator of financial health. Schools that fail to meet the standards are not implementing best practices or those required by law or the charter contract and may be at greater risk for financial challenges in the present or future. This indicator includes the following measures: **Budgeting, Financial Policies and Practices, Financial Reporting, and Financial Audit.**

2. Near-Term Financial Health

This portion of the evaluation tests a school's near term financial health and is designed to depict the school's financial position and viability in the coming year. Schools that fail to meet the standards may currently be experiencing financial difficulties and/or have a higher likelihood for financial hardship. These schools may require additional review and/or corrective action by Osprey Wilds. This indicator includes the following measures: **Current Ratio, Days Cash on Hand, and Enrollment Variance.**

3. Financial Sustainability

This portion of the evaluation includes longer-term financial sustainability measures and is designed to depict the school's financial position and viability over time. Schools that fail to meet the standards are more likely to face financial hardship in the future. This indicator includes the following measures: **Fund Balance Percentage, Total Margin and Aggregated Three-Year Total Margin, and Debt to Asset Ratio.**

Summary of Financial Performance

Financial Statements - Three-year Summary			
	20XX	20XX	20XX
Balance Sheet			
Cash			
Current Assets			
Non-Current Assets			
Total Assets			
Current Liabilities			
Non-Current Liabilities			
Total Liabilities			
Net Assets			
Income Statement (All Funds)			
Total Revenue			
Total Expenditures			
Surplus (Deficit)			
Total Fund Balance			
Enrollment Information - Pupil Units (P.U.)			
Budgeted Enrollment			
Actual Enrollment			

Financial Performance Evaluation - Summary			
Management Indicators	20XX	20XX	20XX
Budgeting			
Financial Policies and Practices			
Financial Reporting			
Financial Audit			
Near-Term Indicators			
Current Ratio			
Days Cash on Hand			
Enrollment Variance			
Sustainability Indicators			
Fund Balance Percentage			
Total Margin/Aggregated Three-Year Total Margin			
Debt to Asset Ratio			

Financial Performance Indicator 1: Financial Management

1.1 Budgeting: *Does the school effectively establish and monitor budgets?*

The school failed to implement the program in the manner described above; the failure(s) were material and significant to the viability of the school.

Meets Standard

The school materially complies with applicable laws, rules, regulations and provisions of the charter contract relating to budgets.

- Board meeting minutes and/or audit notes document approval of fiscal year budget on or prior to the June 30 statutory deadline.
 - The board appropriately monitors the budget, which may include:
 - Monthly review of budget to actuals;
 - Mid-year budget updates approved by the board as appropriate;
- The board reviews and approves quality monthly financial statements which include recommended reports: balance sheet, income/expense statement, cash flow statement (at least quarterly), budget vs. actual report, enrollment report, disbursements.
- Budget variances are reasonable. The variance compares actuals to projected revenues and expenditures based on the school's approved budget as of December 1* for all fund areas.
 - Revenue variance: Does the school meet or exceed overall revenue projections?
 - Expenditure variance: Does the school stay within or below expenditure projections?

*Our intention is to compare year-end actuals to the December 1 approved budget. In lieu of that we will compare to the revised budget that we have available to us. Please ensure Osprey Wilds has your approved budget as of December 1 of each fiscal year.

Does Not Meet Standard

The school failed to implement the program in the manner described above; the failure(s) were material and significant to the viability of the school.

Calculation

$$\text{Revenue Variance} = (\text{Actual Revenue} - \text{Projected Revenue}) \div \text{Projected Revenue}$$
$$= (\$ \quad - \$ \quad) \div \$$$

$$\text{Expenditure Variance} = (\text{Actual Expenditures} - \text{Projected Expenditures}) \div \text{Projected Expenditures}$$
$$= (\$ \quad - \$ \quad) \div \$$$

Analysis

1.2 Financial Policies and Practices: *Does the school implement appropriate financial policies and practices?*

Meets Standard

The school materially complies with applicable laws, rules, regulations and provisions of the charter contract relating to financial policies and practices, including but not limited to:

- Contracting/Purchasing Policy
- Fund Balance Policy
- Credit Card Policy
- Use of Public Funds
- Assessing Student Fees
- Internal Controls

Does Not Meet Standard

The school failed to implement the program in the manner described above; the failure(s) were material and significant to the viability of the school.

Analysis

1.3 Financial Reporting: *Did the school complete timely and accurate financial reporting?*

Meets Standard

The school materially complies with applicable laws, rules, regulations and provisions of the charter contract relating to financial reporting.

- Financial audit, including required supplemental information, is submitted to Osprey Wilds and MDE no later than December 31.
- Preliminary and final UFARS data are appropriately submitted (September 15 and November 30 respectively.)
- MDE School Finance Award
- CSP grant reports, SOD plans and reports and/or other required financial reports are submitted in a timely and accurate fashion.
- Financial reporting to Osprey Wilds is timely and accurate.

Does Not Meet Standard

The school failed to implement the program in the manner described above; the failure(s) were material and significant to the viability of the school.

Analysis

1.4 Financial Audit: *Did the school receive an unqualified/unmodified audit opinion absent any significant deficiencies or material weaknesses?*

Meets Standard

The school materially complies with applicable laws, rules, regulations and provisions of the charter contract relating to the annual financial audit.

- The most recent financial audit includes no significant deficiencies or material weaknesses.
- The most recent financial audit included an unqualified/unmodified opinion.
- Any previous year audit findings have not been repeated in most recent audit
- Appropriate corrective action plan is in place to ensure any finding is not repeated in the next fiscal year.

Does Not Meet Standard

The school failed to implement the program in the manner described above; the failure(s) were material and significant to the viability of the school.

Analysis

Financial Performance Indicator 2: Near-Term Financial Health

2.1 Current Ratio: *Does the school have enough current assets to pay off its current liabilities?*

The current ratio measures a school's 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.

Calculation

Current Ratio = Current Assets divided by Current Liabilities

$$= \$ \quad \div \quad \$$$

Meets Standard

Current Ratio is greater than or equal to 1.1, or Current Ratio is between 1.0 and 1.1 and one-year trend is positive (current year ratio is higher than last year's).

Does Not Meet Standard

Current Ratio is between 0.9 and 1.0 or equals 1.0, or Current Ratio is between 1.0 and 1.1 and one-year trend is negative.

Does Not Meet Standard

Current Ratio is less than or equal to 0.9.

Analysis

2.2 Days Cash on Hand: *Does the school have sufficient cash on hand to fund operations?*

The days cash measure calculates the extent to which a school has sufficient cash to meet its cash obligations. Depreciation expense is removed from the total expenses because it is not a cash expense. This critical measure takes on additional importance given the timing of school payments in Minnesota. For this measure, target levels may be adjusted based on the holdback percentage to ensure reasonable expectations, while still evaluating a school for cash levels necessary for financial health. Measures below are based on the holdback rate of 10%.

December 31 data is also included to provide a fuller picture of the school's cash position throughout the year and is averaged with June 30. In addition, any short-term borrowing done by

the school to manage cash flow will be documented here, though it will not figure into calculations. Short-term borrowing will also be evident in the Current Ratio.

Calculation

Days Cash = Cash divided by [(Total Expenses – Depreciation Expense)/365]

Previous fiscal year end (June 30):

$$\text{days} = \$ \quad \div [(\$ \quad - \$ \quad) \div 365]$$

December 31 of current fiscal year:

$$\text{days} = \$ \quad \div [(\$ \quad - \$ \quad) \div 365]$$

$$\text{days} = \text{Average days cash}$$

Meets Standard:

- Average days cash is 60 or higher; or
- Average days cash is between 30 and 60 days and one-year trend is positive.

Does Not Meet Standard:

- Average days cash is between 15 and 30 days; or
- Average days cash is between 30 and 60 days and one-year trend is negative.

Falls Far Below Standard:

- Average days cash is less than 15 days cash.

Analysis

2.3 Enrollment Variance: *Does the school meet enrollment projections?*

The enrollment variance analysis will indicate whether the school is on target with enrollment targets from approved budgets and compares actuals to projected enrollment based on the school's originally approved budget. A school that fails to meet its enrollment targets may not be able to meet its budgeted expenses, and a poor enrollment variance is an important indicator of potential financial issues. Enrollment variance is used to evaluate a charter school's financial health as well as board and management capacity to forecast. Thus, while enrollment variance is a primary measure of financial health, it can also be seen as a secondary measure for organizational aptitude. Enrollment Variance is based on Per Pupil Units (PP) as this is the primary driver of funding.

Calculation

Enrollment Variance = Actual Enrollment divided by Projected Enrollment
= ÷

Meets Standard:

Enrollment Variance exceeds 95%.

Does Not Meet Standard:

Enrollment Variance is between 85% and 95%.

Falls Far Below Standard:

Enrollment Variance is less than 85%.

Analysis

Financial Performance Indicator 3: Financial Sustainability

3.1 Fund Balance Percentage: *Does the school have sufficient reserves on hand to serve as a cushion for unexpected situations or to help fuel growth or investment in new programs?*

The fund balance percentage measures the equity a school has built up in its general fund. Using the Fund Balance in the General Fund, this calculation indicates the percentage of available funds that the school has in reserve in relation to its Total General Fund Annual Expenditures.

Calculation

Fund Balance Percentage = General Fund Balance divided by Total General Fund Annual Expenditure

$$\% = \$ \quad \div \quad \$$$

Meets Standard:

Fund Balance Percentage is greater than or equal to 20.0%.

Does Not Meet Standard:

Fund Balance Percentage is between 10.0-19.9%.

Falls Far Below Standard:

Fund Balance Percentage is less than 9.9%.

Analysis

3.2 Total Margin and Aggregated Three-Year Total Margin: *Does the school operate with an annual surplus or has the school needed to deplete its fund balance to operate?*

The total margin measures whether a school added to its fund balance in a current year (positive total margin) or if the school depleted the fund balance in the current year (negative total margin).

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. It is expected that the school has a positive total margin in the most recent year, however in some instances, a school with a larger fund balance may have a planned spend down as part of a strategy to invest in some aspect of its program. Such instances will be noted in the analysis.

Calculation

Total Margin = Most recent year Surplus (or Deficit) divided by Total Revenue
= \$ ÷ \$

Aggregated Three-Year Total Margin = Total Three-Year Surplus (or Deficit) divided by Total Three-Year Revenue
= \$ ÷ \$

Meets Standard:

- Aggregated Three-Year Total Margin is positive and the most recent year Total Margin is positive; or
- Aggregated Three-Year Total Margin is greater than -1.5%, the trend is positive for the last two years, and the most recent year Total Margin is positive; or
- Aggregated Three-Year Total Margin is greater than -1.5%, the fund balance Meets Standard, and the school has executed a planned spending of its fund balance to invest in program needs.

Does Not Meet Standard:

- Aggregated Three-Year Total Margin is greater than -1.5%, but trend does not Meet Standard.

Falls Far Below Standard:

- Aggregated Three-Year Total Margin is less than or equal to -1.5%; or
- The most recent year Total Margin is less than -10.0%.

Analysis

3.3 Debt to Asset Ratio: *Does the school have sufficient resources to manage its debt?*

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. Charter schools in Minnesota generally do not own buildings; therefore the assets are not recorded in the books of the school. The target levels are therefore set to reflect organizations which do not own their own facilities or land. In cases where a school has an affiliated building company, this measure does not take into account the building company's assets or liabilities. Additionally, this measure does not include any long-term liabilities related to TRA and PERA.

Calculation

Debt to Asset Ratio = Total Liabilities divided by Total Assets

= \$ ÷ \$

Meets Standard:

- Debt to Asset Ratio is less than 0.5.

Does Not Meet Standard:

- Debt to Asset Ratio is between 0.5 and 1.0.

Falls Far Below Standard:

- Debt to Asset Ratio is greater than 1.0.

Analysis