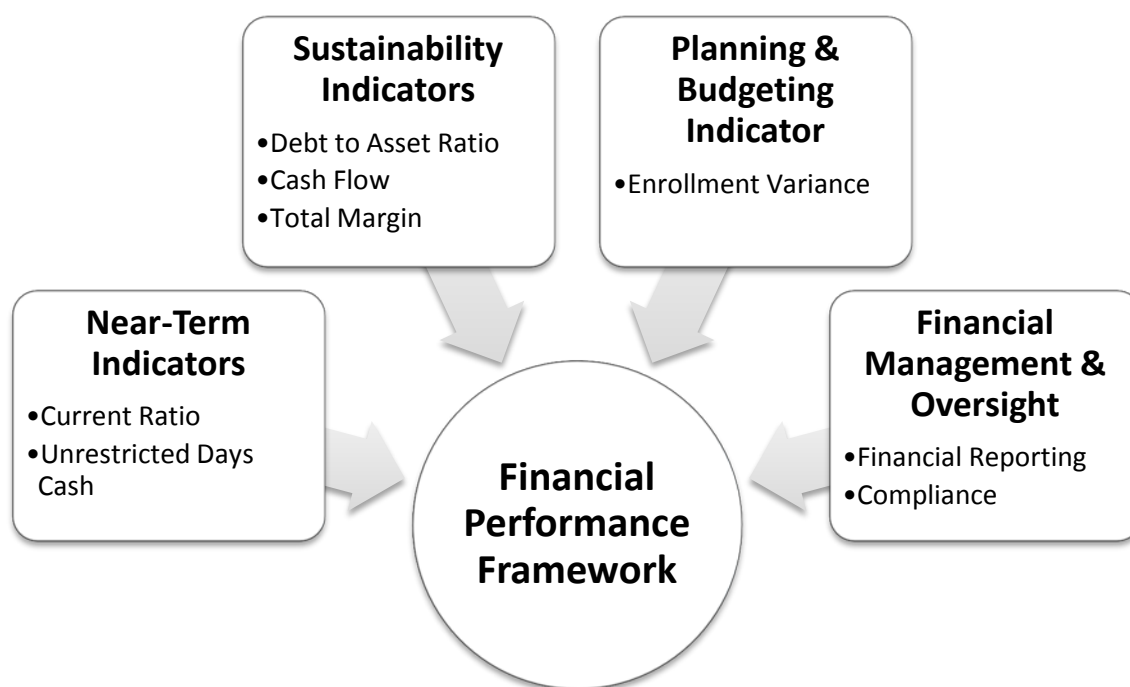


## EXHIBIT B.1. FINANCIAL PERFORMANCE FRAMEWORK

The Financial Performance Framework (“Framework”) serves as a tool for the Commission to assess the financial health and viability of charter schools in its portfolio. The framework presents a clear current and past financial performance of charter schools. The indicators used in the framework are based on industry standard measure of financial ratios and are designed to be complementary. No single indicator gives a full picture of the financial situation of a school. Taken together, however, the indicators provide a qualitative assessment of the school’s near-term financial health and long-term financial sustainability.



### Risk Assessment

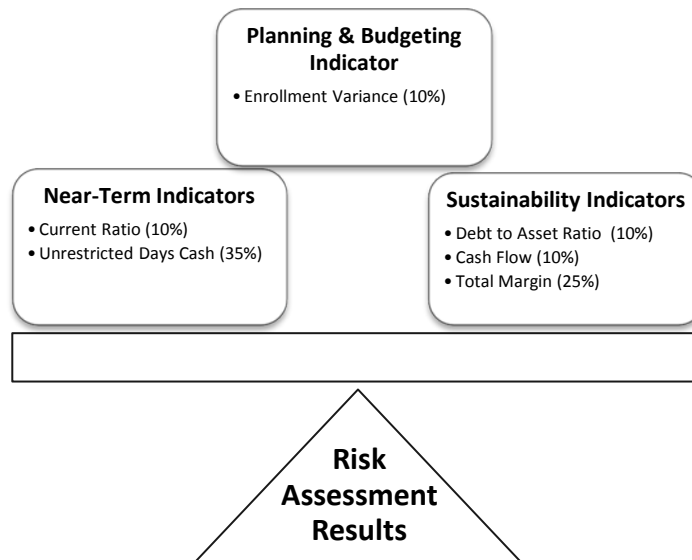
The framework adopts a risk assessment model as part of ongoing oversight and monitoring of charter school’s fiscal activities, and renewal decision-making while taking in consideration the unique funding environment for charter schools in the State of Hawai‘i. This risk-based approach will help identify weakness areas and promote controls that will mitigate risks to acceptable levels. School(s) will be closely monitored if there is heightened risk of financial problems. This could include request for reports or other documentation, make inquires through written or telephone communications, desk audits, or on-site visits, announced or otherwise. Moreover, a school will be requested to develop an appropriate corrective action plan (**Exhibit D**) to address any monitoring issues identified during the risk assessment.

## Annual Risk Assessment Results

The annual risk assessment evaluates whether the financial viability of a school is at-risk based on the Commission's review of financial information, which, for an annual review, will be drawn from the school's audited financial statements. The Commission's assessment may also include other financial information and/or a more detailed examination of the school's financial position, as needed. The Commission may also consider the more current and more detailed information to determine whether the risk assessment result is still applicable throughout the assessment period and the degree to which it is, in fact, an indication of financial risk or distress.

The risk assessment will focus on six indicators, or measures based on the National Association of Charter School Authorizers (NACSA) standards. Each indicator will be assessed on a scale from 1 to 5, with 1 being the lowest risk and 5 the highest risk. All six indicators will collectively make up a school's overall risk level. The annual risk assessment result for a school will be determined using a balanced weighted formula utilizing the individual scores calculated for each indicator as follows:

$$(Current\ Ratio * 0.10) + (Unrestricted\ Days\ Cash * 0.35) + (Debt\ to\ Asset\ Ratio * 0.10) + (Cash\ Flow * 0.10) + (Total\ Margin * 0.25) + (Enrollment\ Variance * 0.10)$$



The individual and final risk assessment results will be represented as one of a possible five categories based on the school's risk assessment calculations as color-coded below.

Low	Acceptable	Moderate	High	Significant
1	2	3	4	5

\*Subject to the review of the Attorney General

## Near Term Indicators

### Current Ratio

$$\text{Current Ratio} = \text{Current Assets} \div \text{Current Liabilities}$$

The current ratio shows the relationship between a school's current assets and current liabilities. It gives an indication of a school's ability to pay its obligations over the next twelve months. A school may be at-risk if it is unable to meet its current obligations.

This indicator accounts for **10 percent** of a school's aggregate final risk assessment.

Low	Acceptable	Moderate	High	Significant
Ratio is greater than (>) 1.5	Ratio is between 1.35 – 1.5	Ratio is between 1.2 – 1.35	Ratio is between 1.0 – 1.2	Ratio is less than (<) 1.0

### Unrestricted Days of Cash on Hand

$$\text{Unrestricted Days Cash} = (\text{Total Expenses} - \text{Depreciation Expense}) \div 365$$

The unrestricted days of cash on hand provides the number of days a school can pay its expenses without another inflow of cash. It indicates whether a school maintains a sufficient cash balance to meet its cash obligations. A school may be at-risk if there is insufficient cash to meet its cash obligations.

The indicator looks at a fixed point in time (the time the financial statement is prepared), but cash balances fluctuate since schools can expend and receive money on an almost daily basis. Although this indicator is at a fixed point in time, it does indicate whether a school may have challenges in meeting its cash obligations. Note that this indicator looks at unrestricted cash, not cash that already has been earmarked for a specific purpose, such as renovations or facilities.

This indicator accounts for **35 percent** of a school's aggregate final risk assessment.

Low	Acceptable	Moderate	High	Significant
Days Cash is more than 60 days with an upward trend over three years or more	Days Cash is between 45 – 60 days with an up/down trend over three years or more	Days Cash is between 30 – 45 days with up/down trend over three years or more	Days Cash is between 15 – 30 days with up/down trend over three years or more	Days Cash is less than 15 days with downward trend over three years or more

## Sustainability Indicators

### Debt to Asset Ratio

$$\text{Debt to Asset Ratio} = \text{Total Liabilities} \div \text{Total Assets}$$

The Debt to Asset Ratio compares a school's financial liabilities against the assets it owns. A lower ratio generally indicates stronger financial health. A higher ratio indicates that the school may be at-risk of not being able to pay back its debts. It is generally accepted indicator of potential long-term financial issues.

This indicator accounts for **10 percent** of a school's aggregate final risk assessment.

Low	Acceptable	Moderate	High	Significant
Ratio is less than (<) 0.2	Ratio is between 0.2 – 0.4	Ratio is between 0.4 – 0.5	Ratio is between 0.5 – 0.75	Ratio is greater than (>) 0.75

### Cash Flow

$$\text{Cash Flow} = \text{Year-end Cash Balance} - \text{Beginning Year Cash Balance}$$

Cash Flow measures a school's change in cash balance from one period to another. This indicator is similar to days' cash on hand, but it provides insight into a school's long-term stability, as it helps to assess a school's sustainability over a period of time in an uncertain funding environment. A positive cash flow over time generally indicates increasing financial health and sustainability.

This indicator and accounts for **10 percent** of a school's aggregate final risk assessment.

Low	Acceptable	Moderate	High	Significant
Current Year Cash Flow is positive (+) with an upward trend over three years or more	Current Year Cash Flow is positive (+) with an up/down trend over three years or more	Current Year Cash Flow is either positive or negative (+/-) with an up/down trend over three years or more	Current Year Cash Flow is negative (-) with an up/down trend over three years or more	Current Year Cash Flow is negative (-) with a downward trend over three years or more

## Total Margin

$$\text{Total Margin} = \text{Net Income} \div \text{Total Revenue}$$

Total Margin measures the surplus or deficit a school yields out of its total revenues. This indicator is important because a school cannot operate at a deficit for a sustained period of time without the risk of closure. The intent of this indicator is not for the schools to be profitable, but is important for charter schools to operate within its available resources in a particular year and to build a reserve to support growth and sustainability.

This indicator is calculated by dividing net income by total revenue and accounts for **25 percent** of a school's aggregate final risk assessment.

Low	Acceptable	Moderate	High	Significant
Current Year Margin is positive (+) with an upward trend over three years or more	Current Year Margin is positive (+) with an up/down trend over three years or more	Current Year Margin is either positive or negative (+/-) with an up/down trend over three years or more	Current Year Margin is negative (-) with up/down trend over three years or more	Current Year Margin is negative (-) with a downward trend over three years more

## Planning & Budgeting

### Enrollment Variance

$$\text{Enrollment Variance} = \text{Actual Enrollment} \div \text{Projected Enrollment in Charter School Board-Approved Budget}$$

The enrollment variance depicts actual versus projected enrollment counts. This indicator is important because it drives the development of a school's budget. Per-pupil funding is the primary source of revenue for charter schools, so student enrollment is a key driver of the school's revenue. Per-pupil counts also determine a school's expenses because they provide the basis for determining costs such as staffing and supplies. A school that budgets based on projected enrollment that is significantly more than its actual enrollment may be at-risk of not meeting all of its budgeted expenses.

This indicator accounts for **10 percent** of a school's aggregate final risk assessment.

Low	Acceptable	Moderate	High	Significant
Variance is greater than (>) 99%	Variance is between 96% – 98%	Variance is between 94% – 95%	Variance is between 91% – 93%	Variance is less than (<) 90%

## **Financial Management and Oversight**

### **Compliance**

The Commission ensures that the school materially complies with applicable laws, rules, regulations and provisions of the charter contract relating to financial reporting requirements, and to financial management and oversight expectations as evidenced by an annual independent audit, including but not limited to:

- Complete and on-time submission of financial reports, including annual budget, revised budgets (if applicable), periodic financial reports as required by the authorizer and any reporting requirements if the board contracts with an Education Service Provider (ESP)
- On-time submission and completion of the annual independent audit and corrective action plans, if applicable
- No charging of tuition
- Adequate management and financial controls
- All reporting requirements related to the use of public funds
- An unqualified audit opinion
- An audit devoid of significant findings and conditions, material weaknesses or significant internal control weaknesses
- An audit that does not include a going concern disclosure in the notes or an explanatory paragraph within the audit report

The Commission may require a school to develop an appropriate corrective action plan (**Exhibit D**) to address any compliance issues identified through continuous monitoring in accordance with **§302D-17 Ongoing oversight and corrective actions**;

(a) An authorizer shall continually monitor the performance and legal compliance of the public charter schools it oversees, including collecting and analyzing data to support ongoing evaluation according to the charter contract.

As provided in the Charter Contract:

12.1 Monitoring. The Commission shall continually monitor the performance and legal compliance of the School. The Commission shall have the authority to conduct or require oversight activities that enable the Commission to fulfill its responsibilities, so long as those responsibilities are consistent with the intent of Ch. 302D, HRS, and adhere to the terms of this Contract.

\*Subject to the review of the Attorney General

