

Board of Directors

Steven H. Abbey
David A. Abel
Catherine M. Adduci
A.G. Anglum*
Adrienne Archia*
Murray E. Ascher*
Karen Atwood
Alicia Berg
Brian A. Bernardon
Jeffrey Bethke
Roger H. Bickel
Scott A. Bremer
Whitney Carlisle
Victor Chang
Timothy L. Christen
Robert J. Christie
Richard A. Ciccarone*
Jerry Cizek III*
Nancy J. Clawson
Peter E. Coburn
LeW Collens
Steven Collens
Elizabeth G. Coolidge*
Ronald S. Cope
David P. Crosson
Omar Daghestani
Nancy DeMaso
Kevoork M. Derderian *
Julian D'Esposito
Jon B. DeVries
Charles R. Droegge
Michelle Dukler
Martin L. Eisenberg
Jeff Emme
Brian D. Fabes
Stephen B. Friedman
Charles R. Gardner*
Carol Garnant *
John P. Garvey
Anthony G. Gedeller
Ronald J. Gidwitz
Peter G. Glick
Judith A. Gold*
Andrew F. Gottschalk*
Paul D. Green
Patrick J. Hagan*
Philip Hale
M. Hill Hammock
Albert C. Hanna
David Hickerson
Patricia M. Holden
Gregory C. Hosbein
Margaret Houlihan Smith
Lori H. Iglesias
Bennett J. Johnson III
Blake R. Johnson
James H. Kane
Karen Kane
William Ketchum
Jim Kranjc*
Stephen Legatzke
Kandace C. Lenti
Thomas E. Livingston*
William D. Mack*
Christine Maki
Glenn Mazade
Thomas J. McNulty*
Stanley Meadows
Bradley Mincke
Timothy E. Moran
Monica M. Mueller
Michael E. Murphy *
Bert Nuehring*
Michael F. O'Brien
Denise M. Obrochta
Holly O'Connor
Gregory O'Leary
Sarah Pang
Robert Pasin
Donovan W. Pepper
Moiria K. Pollard
Tony Reinhart
Aaron Rudberg
Scott Saef *
Kevin Scanlan
Harry J. Seigle
Patrick Sheahan
Stratford Shields
Stephen R. Smith
James E. Spiotto*
Keith Staats
Barbara L. Stewart *
Eugene S. Sunshine
Kent A. Swanson*
Courtney A. Thompson*
Jack Tierney
Christopher Tobin
Allen Truesdell
Thomas C. Vanden Berk
Robert S. Vihon*
Daniel Wagner
Sue E. Wallace*
John F. Ward, Jr *
John L. Ward
Jeffrey D. Warner
Andrew L. Weil
Paul Wierbicki
Jerold Wolf
Corinne Wood

The Civic Federation

177 North State Street, Suite 400, Chicago, IL 60601 • 312.201.9066 fax 312.201.9041 • civicfed.org

FOR IMMEDIATE RELEASE, MONDAY, OCTOBER 6

For additional information, contact Laurence Msall at (312) 201-9044

CIVIC FEDERATION RELEASES QUANTITATIVE ANALYSIS OF SELECTED CHICAGO CHARTER SCHOOL FINANCES

*Analysis was intended as part of broader study that will not be completed due to lack
of cooperation from charter schools.*

(CHICAGO) The Civic Federation has released a quantitative analysis of the finances of four Chicago charter schools. The report uses 13 indicators of financial condition to provide a snapshot of fiscal health for the five-year period between fiscal years 2007 and 2011. The analysis indicated good fiscal health for the Lawndale Regional and Educational Network (LEARN) and Namaste Charter School. Results for the North Lawndale and UNO charter schools were mixed, with several negative trends that could impair long-term fiscal viability. The full 95-page report was funded by the Searle Funds at the Chicago Community Trust and is available at www.civicfed.org.

The analysis was planned as the first in a two-part study on the factors needed to ensure the long-term financial viability of Chicago charter schools. The second portion of the study was to have been a qualitative analysis including a review of key plans for board development, strategic plans, fundraising plans, capital improvement plans and long-term plans, as well as recommendations for improvement. A lack of cooperation from the charter schools made it impossible to complete the second portion of the study.

“This analysis provides valuable information on fiscal trends in Chicago’s charter schools, but we were disappointed that a lack of cooperation from the charter schools prevented us from completing the report,” said Laurence Msall, president of the Civic Federation. “The Civic Federation continues to urge the Illinois General Assembly to require greater financial accountability from both public and charter schools.”

The Civic Federation was able to complete a quantitative analysis using financial information from individual charter school websites and audited financial reports for fiscal years 2007-2011. The 13 indicators in this report include the following: a **fiscal trend analysis** examining the percentage of each charter school’s resources spent on instruction-related expenses versus administrative expenses, a **financial condition analysis** evaluating available resources and liquidity and a **financial performance analysis** measuring the level of total resources consumed by occupancy and instruction costs, as well as the organization’s overall ability to meet financial obligations.

Each section of the quantitative analysis is intended as a stand-alone report on the fiscal health of the selected Chicago charter school or network between FY2007 and FY2011. The LEARN charter school was in good fiscal health during the five-year period, with 12 positive indicators and one adequate indicator. The fiscal health of Namaste charter school was mostly positive with eight positive indicators, four mixed indicators and one negative indicator. The trend analysis for North Lawndale charter school showed mixed results with six positive indicators and seven negative indicators. UNO charter school also experienced mixed fiscal health during the period, with seven positive indicators and six negative indicators.

--More--



Officers

Mark R. Davis
Chairman
Allan Ambrose
Vice Chairman
Susan L. McKeever
Vice Chairman
Eileen Mitchell
Vice Chairman
Joseph B. Starshak
Treasurer
Laurence J. Msall
President
Sarah J. Wetmore
Vice President

*Executive Committee
* Past Chairmen’s Council

While the report provides general insights into the charter schools' financial situation, it is important to note that these trends are often driven by extenuating circumstances. A full evaluation of these circumstances was intended for the second part of this study and is beyond the scope of this analysis. There were also significant data limitations in preparing this report because charter schools are not required to report revenue or expense information in a consistent manner.

###

The Civic Federation is an independent, non-partisan government research organization that promotes efficient delivery of public services and sustainable tax policies in the Chicago region and the State of Illinois. For more information, please visit the Federation's website at www.civiced.org.



The Civic Federation

Research * Information * Action * Est. 1894

THE FINANCIAL VIABILITY OF CHICAGO CHARTER SCHOOLS:

Financial Analysis of Selected Chicago Charter Schools

October 6, 2014

The Civic Federation • 177 N. State Street • Chicago, IL 60601 • civicfed.org

The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

*The Civic Federation
would like to express its gratitude
to the Searle Funds at the Chicago Community Trust,
whose generous grant to fund this project
made the research and writing of this report possible.*

Table of Contents

EXECUTIVE SUMMARY	4
METHODOLOGY FOR QUANTITATIVE ANALYSIS	4
<i>Expense Analysis</i>	5
<i>Financial Condition Analysis</i>	5
<i>Financial Performance Analysis</i>	6
<i>Report Caveats</i>	7
SUMMARY OF FINDINGS	8
<i>LEARN Charter School</i>	8
<i>Namaste Charter School</i>	9
<i>North Lawndale Charter School</i>	10
<i>UNO Charter School</i>	11
LEARN CHARTER SCHOOL	14
LEARN CHARTER NETWORK TRENDS	15
LEARN CHARTER SCHOOL FINANCIAL ANALYSIS	15
<i>Revenue Analysis</i>	15
<i>Expense Analysis</i>	18
<i>Financial Indicator Analysis</i>	23
FINDINGS OF FISCAL ANALYSIS	31
NAMASTE CHARTER SCHOOL	33
NAMASTE CHARTER SCHOOL TRENDS.....	33
NAMASTE CHARTER SCHOOL FINANCIAL ANALYSIS	34
<i>Revenue Analysis</i>	34
<i>Expense Analysis</i>	38
<i>Financial Indicator Analysis</i>	43
FINDINGS OF FISCAL ANALYSIS	52
NORTH LAWDALE CHARTER SCHOOL	55
NORTH LAWDALE CHARTER SCHOOL TRENDS.....	55
NORTH LAWDALE CHARTER SCHOOL FINANCIAL ANALYSIS	56
<i>Revenue Analysis</i>	56
<i>Expense Analysis</i>	59
<i>Financial Indicator Analysis</i>	64
FINDINGS OF FISCAL ANALYSIS	72
UNO CHARTER SCHOOL NETWORK	75
UNO CHARTER SCHOOL NETWORK, INC. TRENDS	75
UNO CHARTER SCHOOL NETWORK, INC. FINANCIAL ANALYSIS	76
<i>Revenue Analysis</i>	76
<i>Expense Analysis</i>	80
<i>Financial Indicator Analysis</i>	84
FINDINGS OF FISCAL ANALYSIS	93

EXECUTIVE SUMMARY

This study was intended to evaluate and discuss the factors needed to ensure the long-term financial viability of Chicago charter schools. The project sought to evaluate the financial viability and planning preparedness of several Chicago charter schools representing different models of charter organization and one school that has failed or ceased to operate. Charter schools that develop and implement reasonable financial plans and strategies for operational and capital sustainability are more likely to succeed than those that do not. Developing and implementing a capital plan that identifies and prioritizes needs and includes an attainable funding strategy is a critical component of success.

The first part of the evaluation was a quantitative evaluation of the fiscal performance and viability of the four proposed charter schools representing different models of charter organization.

1. Lawndale Regional and Educational Network (LEARN): a multi-campus school offering K-8 grade classes.
2. Namaste: a single campus offering elementary school classes.
3. North Lawndale: a single campus offering high school classes.
4. UNO Schools: a multi-campus school offering K-12 classes.

This part of the proposed study has been completed and is presented in this report.

The second portion of the study was to conduct a qualitative analysis that would include a review of key plans such as plans for board development, strategic plans, fundraising plans, capital improvement plans and long-term financial plans. Conducting the analysis required obtaining copies of key charter school plans and interviewing budget and fiscal officers. However, a lack of cooperation from the charter schools made it impossible to complete this portion of the study.

Methodology for Quantitative Analysis

The quantitative analysis evaluated financial information from individual charter school websites and audited financial reports for fiscal years 2007-2011. The analysis included:

- **Fiscal Trend Analysis** that reviewed five years of revenue, expenses and net assets data including:
 - **Revenue Analysis:** a description of funding sources, an evaluation of revenues by source and a discussion of school-based revenues; and
 - **Expense Analysis:** an evaluation of program expense ratio, instructional expense analysis and spending on instruction and pupil support services.
- Two different types of **Financial Indicator Analysis** to provide a comprehensive picture of the financial position of the charter schools:
 - A **Financial Condition Analysis** examined the overall fiscal health and liquidity of the charter schools. The measures used included year-end balance, fund balance ratio and the current ratio; and
 - A **Financial Performance Analysis** employed a variety of financial indicators commonly used in the private, public and nonprofit sectors.

Overall, the study used 13 specific financial indicators to provide a snapshot of the fiscal health of the four selected charter schools. They are described below.

Expense Analysis

The expense analysis examines how much of each charter school's resources were spent on instruction-related expenses versus administrative expenses.

- ***Program Expense Ratio:*** The program ratio measures the relationship between program expenses and the organization's total expenses. The calculation for the program service ratio is program service expenses/total expenses. The Better Business Bureau Wise Giving Alliance has developed standards for charity accountability. The Alliance recommends that non-profits spend at least 65% of expenses on program services.¹ There is a caveat in interpreting program ratios. In general, a higher program ratio is preferable. However, there may be good reasons for a lower ratio. Newer organizations, such as the charter schools in this study, may have a lower program ratio than older organizations because a greater amount of resources may be used for various startup costs in initial years. These costs include expenses for facilities and infrastructure. In addition, certain services may require a greater amount of administrative support than others. But, over time, the amount of funds used for program services should increase.²
- ***Instructional Expense Analysis:*** This analysis compared charter school expenses in five categories: Instruction, Pupil Support Services, Administrative Support Services, Facilities and Other. The primary purpose was to determine how much of a charter school's expenses were spent in the classroom on instruction-related expenses versus other expenses.
- ***Spending on Instruction and Pupil Support Services:*** For this metric, the two categories are combined to provide an overview of total classroom-related or education-related expenses.

Financial Condition Analysis

Three measures were used to evaluate the financial condition or health of the charter schools: year-end balance, fund balance ratio and current ratio.

- ***Year-End Balance:*** This indicator reported whether or not each school had a deficit or a surplus in a given year.
- ***Fund Balance Ratio:*** This is a measure of resources available to use for emergencies or contingencies. The fund balance ratio is produced by calculating charter school

¹ Better Business Bureau, *Standards for Charity Accountability*, www.bbb.org/us/standards-for-charity-accountability (last visited October 3, 2014).

² Guidestar, "Why Ratios Aren't the Last Word," June 2004, <http://www2.guidestar.org/rxa/news/articles/2004/why-ratios-arent-the-last-word.aspx> (last visited October 3, 2014).

unrestricted net assets as a percentage of expenses. The Illinois State Board of Education requires that school districts maintain a fund balance ratio of 10% or more to receive a “financial recognition” rating and thus avoid being placed on a financial watchlist.³

- **Current Ratio:** The current ratio is a measure of liquidity. It assesses the ability of a school to meet its current obligations as they come due by indicating whether the organization has enough cash and other liquid resources to meet its obligations in the near term. A ratio of 1.0 means that current assets are sufficient to cover current liabilities.

Financial Performance Analysis

A financial performance analysis employs a variety of financial indicators commonly used in the private, public and nonprofit sectors. The indicators used are listed below:

- **Fixed Assets Ratio:** The fixed assets ratio measures how much of an organization’s total assets are fixed assets. Fixed assets are illiquid and cannot readily be converted to cash. The greater the percentage of total assets in fixed assets, the less flexibility the organization has to convert assets to cash to fund service demands.
- **Capitalization Ratio:** The capitalization ratio is a measure of an organization’s ability to meet its financial obligations. It indicates the relative proportion of capital or net assets that can be used to finance new assets. The higher the ratio, the more net assets are available to meet those obligations. A ratio of 0.31 or higher is optimal. Conversely, the lower the ratio, the less flexibility the organization has to meet its financial obligations.
- **Debt-to-Worth Ratio:** The debt-to-worth ratio is a measure of financial leverage. Also called a debt-to-equity ratio, it evaluates the degree to which an organization can use debt to finance asset acquisition.⁴ Lower debt-to-worth ratios are better as it indicates there are sufficient net assets available to fund liabilities if needed and there is minimal risk of financial difficulties occurring. For schools, which are necessarily capital intensive organizations, a ratio of up to 1.99 (or net assets equaling about 50% of liabilities) is acceptable.
- **Occupancy Ratio:** The occupancy ratio is a measure of how much of total revenues are consumed by the costs of occupying and maintaining school facilities. Lower occupancy ratios are better as fewer resources are being used to pay for occupancy expenses. An occupancy ratio of 0.1 to 0.15 is preferable.
- **Instruction Ratio:** The instruction ratio measures how much of a school’s gross revenues are used to pay for personnel related costs. Lower payroll and instruction ratios are better,

³ Illinois State Board of Education, “Financial Assurance and Accountability System,” <http://www.isbe.net/board/meetings/2000-2002/march01meeting/3%2701FAASQA.pdf> (last visited October 3, 2014).

⁴ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 531.

as personnel costs - the single largest expense in a school - are being kept under control. A payroll and instruction ratio of less than 0.55 is desirable.

- ***Profit Margin Ratio:*** Charter schools are nonprofit organizations and therefore not focused on amassing “profits.” However, their long term fiscal viability depends on maintaining reasonable reserves or a “profit margin” that can be used to generate earnings to expand their capital base.⁵ A high profit margin is preferred because it indicates the school operates at a “profit” and has sufficient reserves. A low profit margin can indicate financial difficulty.
- ***Days of Cash on Hand:*** This measure compares cash and marketable securities with daily operating expenses. The purpose is to evaluate how long the organization can meet daily expenses using cash and liquid assets that can readily be converted to cash.⁶

Report Caveats

This report provides a snapshot of financial performance at a point in time, in this case over a five year period. It is an overview of the relative financial performance and condition of the selected Chicago charter schools. As such, the report provides general insights into their financial situation. However, it is important to note that there are often extenuating circumstances regarding the situation of individual organizations.

Differentials in expenses among charter schools can be due to a number of factors. For example, it is much more expensive to educate high school students than those in grades K-8. There may be cost differentials among different charter schools for facilities and/or food service. Human capital costs vary widely depending on what type of educational service is being provided; students enrolled in special education programs require a specialized workforce that can be costly. Costs, particularly those for personnel, can increase due to expansion of grade levels over time. These types of factors can explain some of the differences among schools and between charter school expenses versus expenses for the entire Chicago Public Schools (CPS) district. As a high level financial overview, this report cannot and does not disaggregate these significant cost differentials. Identifying and evaluating the reasons for these individual circumstances is beyond the scope of this analysis.

There were many significant data limitations in preparing this report. Currently, the charter schools are not required to report revenue or expense information in their audited financial reports in a consistent manner. Different schools use different categories for revenues and expenses. Because of the lack of standardization in financial reporting, revenue and expense categories for comparison were based on assumptions about the appropriate categorical designation. The expenses were organized into categories roughly corresponding to the CPS categories found in the District’s Statement of Activities in its audited financial report. Revenues were organized according to federal, state, local and school-based categories. Analyses could

⁵ Thomas Nida and Bridget C. Bradley, “Assessing the Performance of Charter Schools,” *RMA Journal*, December 2002, p. 2.

⁶ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 531.

only be provided for those charter schools reporting consistent data over time. This explains why there are differing numbers of charter schools analyzed for different indicators.

Summary of Findings

The table on page 13 summarizes the findings of this report's quantitative analysis. It shows that the LEARN and Namaste charter schools were in good fiscal health during the five-year period reviewed. The North Lawndale and UNO charter school results were mixed, with several negative trends that could impact their long-term fiscal viability if trends continued. For North Lawndale charter school, seven of the 13 indicators showed negative directions. The UNO charter school network was in slightly better condition, with six of the 13 indicators showing negative directions.

LEARN Charter School

Overall, the LEARN charter school was in **good fiscal health** between FY2007 and FY2011. Twelve of the indicators were positive, while one was adequate.

Here are the results of the twelve positive indicators:

- The LEARN charter school consistently spent more than 65% of all expenditures on programming versus administration.
- The average spending on instruction between FY2007 and FY2011 was 68.4%, well over the 50% threshold standard.
- LEARN spent 76.0% on instruction plus pupil support services in the five-year period reviewed, much higher than the 50% threshold standard.
- The LEARN charter school reported a surplus in each of the five years reviewed.
- The fund balance ratio was far above 10% from FY2007 to FY2011.
- The current ratio was well in excess of 2.0, averaging 16.7 over the five-year period analyzed.
- The fixed assets ratio dropped from 0.81 in FY2007 to 0.47 in FY2011, a positive trend. By FY2010 there were no potential issues with too much of the organization's total assets being tied up in fixed assets.
- The capitalization ratio averaged 0.62, which is greater than the threshold standard of 0.31. It indicates the school has had the flexibility to meet its financial obligations.
- The debt-to-worth ratio was well below 1.99 for each reviewed. Therefore, the school has sufficient net assets available to fund liabilities if needed and there is minimal risk of financial difficulties occurring.

- The occupancy ratio averaged 0.10 between FY2007 to FY2011, below the maximum standard of 0.15, indicating that the school was not using too many resources to pay for occupancy expenses.
- The school reported a five-year average of 182 days of cash on hand. This is more than six months of cash on hand and it was more than adequate to fund contingencies and deal with cash flow issues.
- The profit margin was positive in each year examined, indicating that the school possessed reserves and thus operated at a “profit.” This is a positive indicator.

One indicator was adequate:

- The instruction ratio for the LEARN charter school averaged 0.64, higher than the preferred ratio of 0.55. The ratio is slightly high, but not to a degree that would be a concern.

Namaste Charter School

Between FY2007 and FY2011 the fiscal health of Namaste Charter School, Inc. was **mostly positive**. Eight of the thirteen indicators reported positive trends. However, there were four mixed trends and one negative trend.

Eight of the indicators reported positive results:

- All three expense indicators were positive. Namaste spent more than 65% of all expenditures on programming and more than 50% on instruction alone as well as on instruction plus pupil support services.
- Two of the three financial condition analyses were positive: year-end balance and fund balance ratio. For each of the five years reviewed, Namaste reported a surplus and its fund balance ratio was far above 10%, averaging 85.8% over the five years.
- The capitalization ratio dropped below the 0.31 threshold in FY2009; however, it increased in the following two years. The ratio averaged 0.58 across the five-year period, indicating that the school has had the flexibility to meet its financial obligations.
- The debt-to-worth ratio was higher than the maximum standard of 1.99 only in FY2009. For four of the five years examined, the school had sufficient net assets available to fund liabilities if needed and there was minimal risk of financial difficulties.
- The school reported a five-year average of 223 days of cash on hand. This is more than seven months’ worth of cash on hand and is more than adequate to fund contingencies and deal with cash flow issues.

Four of the indicators showed mixed results. In this case, the mixed results can be characterized as being positive, but just slightly.

- The current ratio exhibited a mixed trend, fluctuating significantly. It was in excess of 2.0 in FY2007 and FY2008 and at 0.9 and below in FY2009-FY2011.
- The occupancy ratio averaged 0.12 between FY2007 and FY2011, below the maximum standard of 0.15, indicating that the school was not using too many resources to pay for occupancy expenses.
- The instruction ratio for Namaste averaged 0.53, slightly lower than the preferred ratio of 0.55. Individual ratios in FY2009 and FY2011 grew to 0.59, but remained within acceptable levels.
- The profit margin was positive in each year examined, indicating that the school possessed reserves and thus operated at a “profit.” This is a positive indicator; however, the profit margin levels were low and averaged 0.16 over the five years.

One of the indicators showed negative results:

- The fixed assets ratio increased from year to year, indicating a negative trend. The ratio exceeded the standard level of 0.5 in FY2010 and FY2011 when it increased to the high levels of 0.76 and 0.77, respectively.

North Lawndale Charter School

The financial indicator analysis of trends from FY2007 to FY2011 showed **mixed results** for the North Lawndale charter school.

Six of the thirteen indicators reported positive trends. The school spent a large majority of resources on direct service programming and instructional-related expenses as opposed to administration. The school had sufficient net assets available to be able to finance new assets and to fund liabilities if needed. In addition, it was not using too many resources to pay for occupancy expenses.

However, *seven of the thirteen indicators showed negative directions.* These could be warning signs of future financial difficulties if trends continue.

- While the five-year average year-end balance for the North Lawndale charter school was only 0.4%, it declined over the period from 4.0% to -2.8% or a deficit. This is a negative trend and could be a cause for concern if it continues.
- The fund balance ratio declined from 18.7% in FY2007 to 9.1% in FY2011, under the preferred ratio of 10.0%. A continued erosion of the fund balance ratio in future years would indicate a loss of financial flexibility as reserves shrink.
- The current ratio fell from 4.4 in FY2007 to 1.7 in FY2011. It did increase to 4.3 in FY2010 as the amount of current liabilities fell dramatically. However, the ratio dropped again in

FY2011. In FY2011 the ratio fell below 2.0 to 1.7, indicating a decline in liquidity. A 1.7 ratio means that the school still has sufficient assets to cover liabilities. However, the five-year downward trend is a cause for concern.

- The fixed assets ratio averaged 0.76 between FY2007 and FY2011 and was above 0.5 in each of those years, indicating that the North Lawndale charter school may have too great an amount of total assets in fixed assets.
- The instruction ratio rose from 0.63 in FY2007 to 0.76 in FY2011, well above the preferred maximum ratio of 0.55. Continued steady increases in instructional costs in future years could prove problematic if the trend continues.
- The North Lawndale charter school's profit margin declined from 0.04 in FY2007 to -0.03 five years later. It averaged 0.0 over the five year period. This is an indicator that the school may be experiencing some financial difficulties.
- The amount of days of cash on hand fell from 41 days in FY2007 to just 9.7 days in FY2011. The trend is negative, indicating decreasing liquidity and flexibility to meet contingencies.

UNO Charter School

In the five-year period between FY2007 and FY2011, UNO Charter School Network, Inc. (UNO) experienced a **mixed record of fiscal health**, as measured by the 13 individual financial indicators used in this study. Seven of the indicators had positive results while six of the indicators showed negative results. These could be warning signs of future financial difficulties if those trends continue.

The seven positive indicators showed the following:

- UNO charter schools consistently spent more than 78% of all expenditures on programming;
- UNO allocated an average of 51.8% of spending on instruction and pupil support services. The standard minimum percentage is 50%. However, it should be noted that the percentage of spending devoted to instruction and pupil support services fluctuated from year to year; in FY2008 and FY2011 it was less than the 50% threshold standard.
- The current ratio exhibited a positive ratio trend above 2.0 in each of the five years analyzed, reaching an extremely high ratio of 23.2 in FY2008.
- The fixed assets ratio remained below the standard level of 0.5 in each of the five years examined, averaging 0.17 between FY2007 and FY2011.
- The debt-to-worth ratio was higher than the maximum standard of 1.99 only in FY2008. Therefore, for four of the five years examined, the school had sufficient net assets available to fund liabilities if needed and there was minimal risk of financial difficulties occurring. The five-year average ratio was -19.09.

- The instruction ratio averaged 0.52, slightly lower than the preferred ratio of 0.55. This is a positive indicator.
- The school reported a five-year average of 506 days of cash on hand. This is more than 16 months' worth of cash and is more than adequate to fund contingencies and deal with cash flow issues.

However, six of the indicators reviewed had negative results:

- Less than 50% of UNO's expenses went toward instruction, averaging 45.6% over the five-year period.
- In three of the five years reviewed, UNO reported a negative year-end balance (deficit), including a year-end balance of -20.1% in FY2008.
- In each of the five years except FY2007, the fund balance ratio for UNO was below 0.0%, reaching a significantly low level in FY2011 of -88.2%.
- The capitalization ratio remained below the 0.31 threshold in all five years analyzed. The ratio averaged -0.01, which is significantly less than the standard and indicates the school has not had the flexibility to meet its financial obligations.
- The occupancy ratio averaged 0.21 between FY2007 to FY2011, higher than the maximum standard of 0.15, indicating that the school was using too many resources to pay for occupancy expenses.
- The profit margin was positive in only two of the five years analyzed, FY2008 and FY2011, and had a five-year average of -0.04. This indicates that school did not consistently possess reserves and thus did not operate at a "profit."

Financial Indicator Analysis of Chicago Charter Schools: FY2007-FY2011									
Indicator	Standard	LEARN		Namaste		North Lawndale		UNO	
		5-Year Average	Trend	5-Year Average	Trend	5-Year Average	Trend	5-Year Average	Trend
Expense Analysis									
Program Expense Analysis	> 65%	94.2%	Positive	84.7%	Positive	90.0%	Positive	82.3%	Positive
Spending on Instruction	> 50%	68.4%	Positive	52.0%	Positive	70.0%	Positive	45.6%	Negative
Spending on Instruction + Pupil Support Services	> 50%	76.0%	Positive	62.2%	Positive	78.6%	Positive	51.8%	Positive
Financial Condition Analysis									
Year-End Balance (Surplus or Deficit)	Positive	10.5%	Positive	16.2%	Positive	0.4%	Negative	-3.6%	Negative
Fund Balance Ratio	> 10%	92.4%	Positive	85.8%	Positive	14.8%	Negative	-25.6%	Negative
Current Ratio	> 2.0	16.7	Positive	5.88	Mixed	3.24	Negative	9.56	Positive
Financial Performance Analysis									
Fixed Assets Ratio	< 0.5	0.608	Positive	0.42	Negative	0.762	Negative	0.17	Positive
Capitalization Ratio	> 0.31	0.616	Positive	0.58	Positive	0.498	Positive	-0.01	Negative
Debt-to-Worth Ratio	< 1.99	0.628	Positive	1.14	Positive	1.024	Positive	-19.09	Positive
Occupancy Ratio	< 0.15	0.104	Positive	0.12	Adequate**	0.138	Positive	0.21	Negative
Instruction Ratio	< 0.55	0.644	Adequate*	0.53	Adequate**	0.674	Negative	0.52	Positive
Profit Margin Ratio	Positive	0.106	Low	0.16	Low	0.004	Negative	-0.04	Negative
Days of Cash on Hand	Higher the Better	182.0	High	223.4	High	26.66	Negative	506.0	High

* The ratio is slightly high, but not to a degree that would be a concern.

** Some ratios are slightly low, but within an acceptable range of the standard levels.

Sources: Charter School audited financial statements, FY2007-FY2011.

LEARN CHARTER SCHOOL

The Lawndale Regional and Educational Network or L.E.A.R.N.⁷ charter school network is a network of public, college preparatory elementary schools in the Chicagoland region. The network was established in 2001 with one school and now includes a network of seven campuses – six are located in the City of Chicago and one is in North Chicago. This report focuses only on the Chicago campuses.

Each LEARN network campus provides an extended day of 7.5 hours (from 8:30 a.m. to 4:00 p.m.) and an extended school year of 200 attendance days.⁸ The mission of the LEARN charter schools is to provide children with the academic foundation and ambition to earn a college degree. The network’s educational philosophy is described on its website as being:

“...centered on the belief that all children can learn, especially when provided with guidance at their level. Our preferred method of teaching is through differentiated instruction in small groups, typically in a workshop model. We also strongly believe that inquiry-based, project-based instruction is highly differentiated. Ultimately, we believe our approach results in life-long learners who can succeed in any area of their choosing.”⁹

In the 2011-2012 school year LEARN charter schools enrolled 2,535 students on six Chicago campuses. As the exhibit shows, different campuses have varying grades, ranging from pre-kindergarten to eighth grade. Approximately 92.0% of LEARN students were African-American, 8.2% were special education students and 0.4% were limited English learners.

LEARN Charter School Network Information 2011-2012							
Campus	Address	Grades	Enrollment	% African American Enrollment	% Low Income	% Limited English Proficiency	% Special Education
Excel	2401 W. Congress Pkwy	PreK-4	342	96.2%	94.4%	0.3%	9.4%
Romano Butler	1132 S. Homan Ave	PreK-8	624	95.7%	90.5%	0.0%	5.9%
South Chicago	8914 South Buffalo Ave	K-3	344	82.3%	93.9%	2.3%	9.0%
Campbell	212 S. Francisco Ave	K-4	440	97.7%	96.8%	0.0%	8.4%
Hunter Perkins	1700 West 83 rd St	K-8	315	73.0%	90.5%	0.0%	6.3%
Lawndale Academy	3500 West Douglas Blvd	K-8	470	98.7%	N/A	0.0%	10.9%
Total			2535	92.0%	---	0.4%	8.2%

N/A: No Information provided.

Note: Only schools located in the City of Chicago are included.

Source: Chicago Public Schools website.

⁷ The L.E.A.R.N. network is often referred to as the LEARN network (e.g., the Chicago Public Schools website). It is referred to as such in this report.

⁸ Learn Charter School Network, <http://www.learncharter.org/> (last visited October 3, 2014).

⁹ Learn Charter School Network, *Our Approach*, <http://www.learncharter.org/our-approach/our-approach> (last visited October 3, 2014).

LEARN Charter Network Trends

The next exhibit shows LEARN charter network enrollment trends and statistics between the 2006-2007 and 2009-2010 school years. Complete data were not available for the 2010-2011 school year. In these years, the number of campuses grew from one to three and enrollment rose by 173.4% or from 350 to 957 students. The vast majority of students (over 98.0%) were African American in all four years. The percentage of low income students was always greater than 92.0%, while the percentage of special education students fluctuated from a low of 1.6% to a high of 4.8%. The student/teacher ratio dropped from 18.7/1 to 11/1 between the 2006-2007 and 2008-2009 school years.

LEARN Charter School Network Information				
	2006-2007	2007-2008	2008-2009	2009-2010
Grades	PreK-8	PreK-8	PreK-8	PreK-8
Total Enrollment	350	431	588	957
Student Ethnicity				
African American	98.3%	98.0%	99.0%	98.7%
Hispanic	1.4%	2.0%	1.0%	0.8%
White	0.0%	0.0%	0.0%	0.3%
Asian/Pacific Islander	0.0%	0.0%	0.0%	0.1%
Other	0.3%	0.0%	0.0%	0.0%
% Low Income	92.3%	95.0%	95.0%	92.5%
% Limited English Proficiency	0.0%	0.0%	0.5%	0.1%
% Special Education	3.3%	4.8%	1.6%	4.8%
Student/Teacher Ratio	18.7/1	22/1	11/1	N/A
% of Students from Neighborhood	35.1%	81.1%	67.6%	59.5%
# of Campuses	1	1	2	3

Complete information not available for 2010-2011 school year. In that year, there were 1,361 students enrolled. Only schools located in Chicago are included.

Sources: Chicago Public Schools. Charter and Contract Schools Performance Reports.

LEARN Charter School Financial Analysis

This section presents an analysis of the operating finances of the LEARN charter school for the five-year period between FY2007 and FY2011. It includes a fiscal trend analysis of revenues and expenses as well as a financial indicator analysis designed to measure the fiscal condition or health of the school.

The data for these analyses were derived from the Statements of Functional Expenses in LEARN charter school audited financial reports for FY2007 through FY2011. The financial reports were prepared on an accrual basis.

Revenue Analysis

The revenue analysis examines LEARN charter school revenues by source and evaluates trends for the school-based revenues controlled by the charter school.

School Revenues by Source

Chicago charter schools receive funding from a variety of federal, state and local sources, as well as school-based funds they generate from their own fundraising efforts. The many disparate revenue items listed in charter school audited financial statements have been grouped into five categories for purposes of analysis: federal, state, local, school-based funding and “other.” Local funding was provided by or through CPS. School based funding includes grants, donations, contributions and the proceeds of various fundraising efforts. “Other” includes miscellaneous income and forgiveness of debt.

There are several caveats regarding the presentation of revenue data that follows. As the revenue items are not uniform across individual school financial statements, the groupings are approximate, based on the best available information. The following exhibits presents the categories of charter school revenues, gains and other supports developed for this analysis.

From FY2007 to FY2011, LEARN charter school revenues increased from a total of \$3.3 million to roughly \$14.9 million. The large increase is due in large part to the LEARN networks steady expansion, which included an increase from one campus in FY2007¹⁰ to four campuses in FY2011. The network plans to add an additional nine campuses over the next decade.¹¹

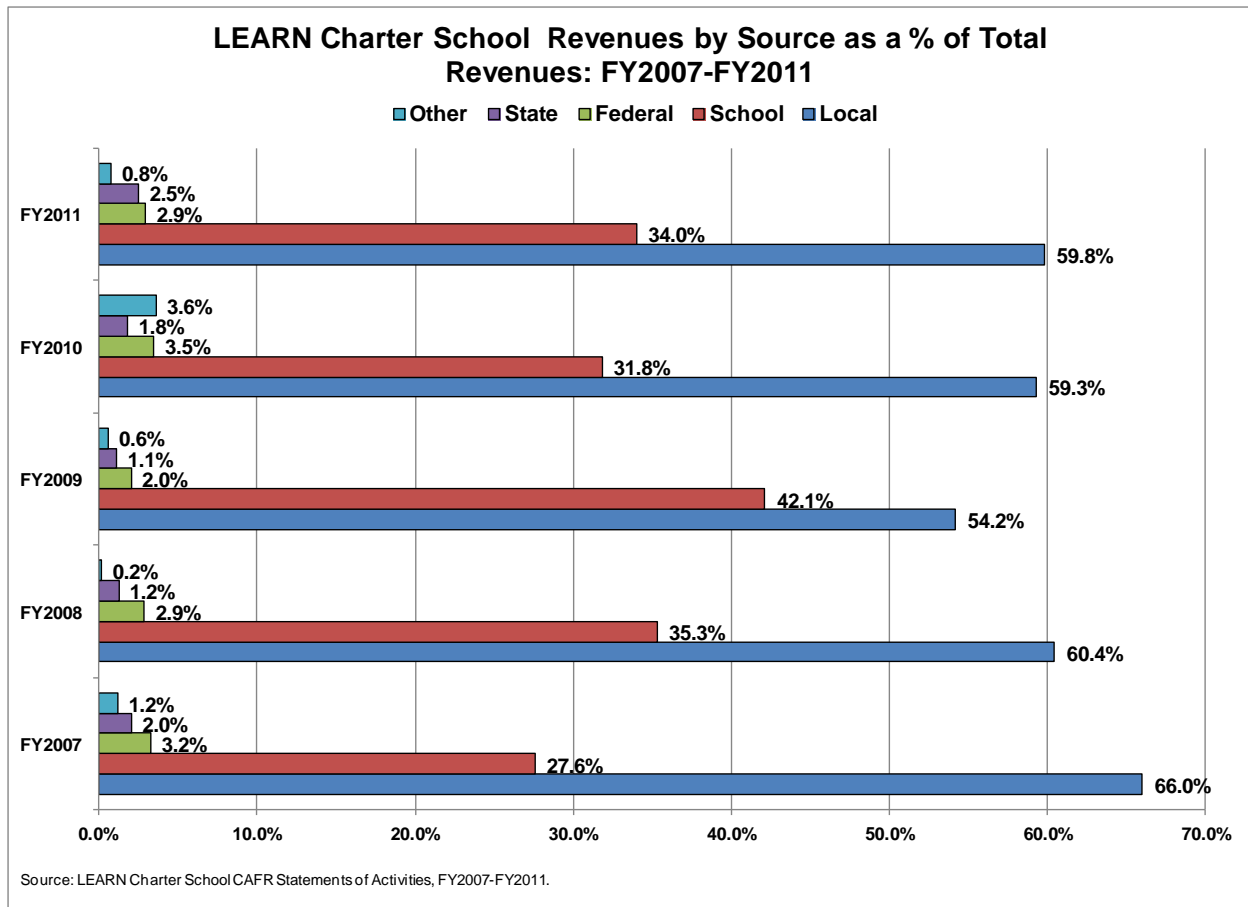
LEARN Charter School Revenues by Source: FY2007-FY2011									
Source	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Federal	\$ 108,500	\$ 116,529	\$ 151,611	\$ 401,062	\$ 437,645	\$ 36,583	9.1%	\$ 329,145	303.4%
State	\$ 67,618	\$ 50,062	\$ 82,955	\$ 209,307	\$ 371,215	\$ 161,908	77.4%	\$ 303,597	449.0%
Local	\$ 2,205,429	\$ 2,457,688	\$ 4,063,663	\$ 6,853,644	\$ 8,908,721	\$ 2,055,077	30.0%	\$ 6,703,292	303.9%
School	\$ 921,303	\$ 1,435,356	\$ 3,160,095	\$ 3,677,513	\$ 5,062,837	\$ 1,385,324	37.7%	\$ 4,141,534	449.5%
Other	\$ 38,769	\$ 6,115	\$ 41,745	\$ 415,057	\$ 112,902	\$ (302,155)	-72.8%	\$ 74,133	191.2%
Total	\$ 3,341,619	\$ 4,065,750	\$ 7,500,069	\$ 11,556,583	\$ 14,893,320	\$ 3,336,737	28.9%	\$ 11,551,701	345.7%

Source: LEARN Charter school CAFRs, Statement of Activities, FY2007-FY2011.

The next exhibit presents each of the revenues as a percentage of total revenues. The largest portion of charter school funding in each of the five years evaluated was from local sources, provided by or through CPS. It decreased from 66.0% of all revenues in FY2007 to 59.8% five years later; overall local funding averaged 60.0% of all revenues in that period. The second largest source of revenue was school-based, that is grants, donations, contributions and the proceeds of various fundraising efforts. These revenues increased from 27.6% of all revenues in FY2007 to 34.0% five years later. State and federal source revenues provided to LEARN charter schools have been relatively small.

¹⁰ Chicago Public Schools Office of New Schools, *Charter Schools Performance Report 2007-2008*, pp. 66-67.

¹¹ Lawndale Educational and Regional Network Charter School, *Financial Statements for the Year Ended June 30, 2011*, p. 7.



School Based Revenues

There are a variety of ways charter schools generate income that they control. They include:

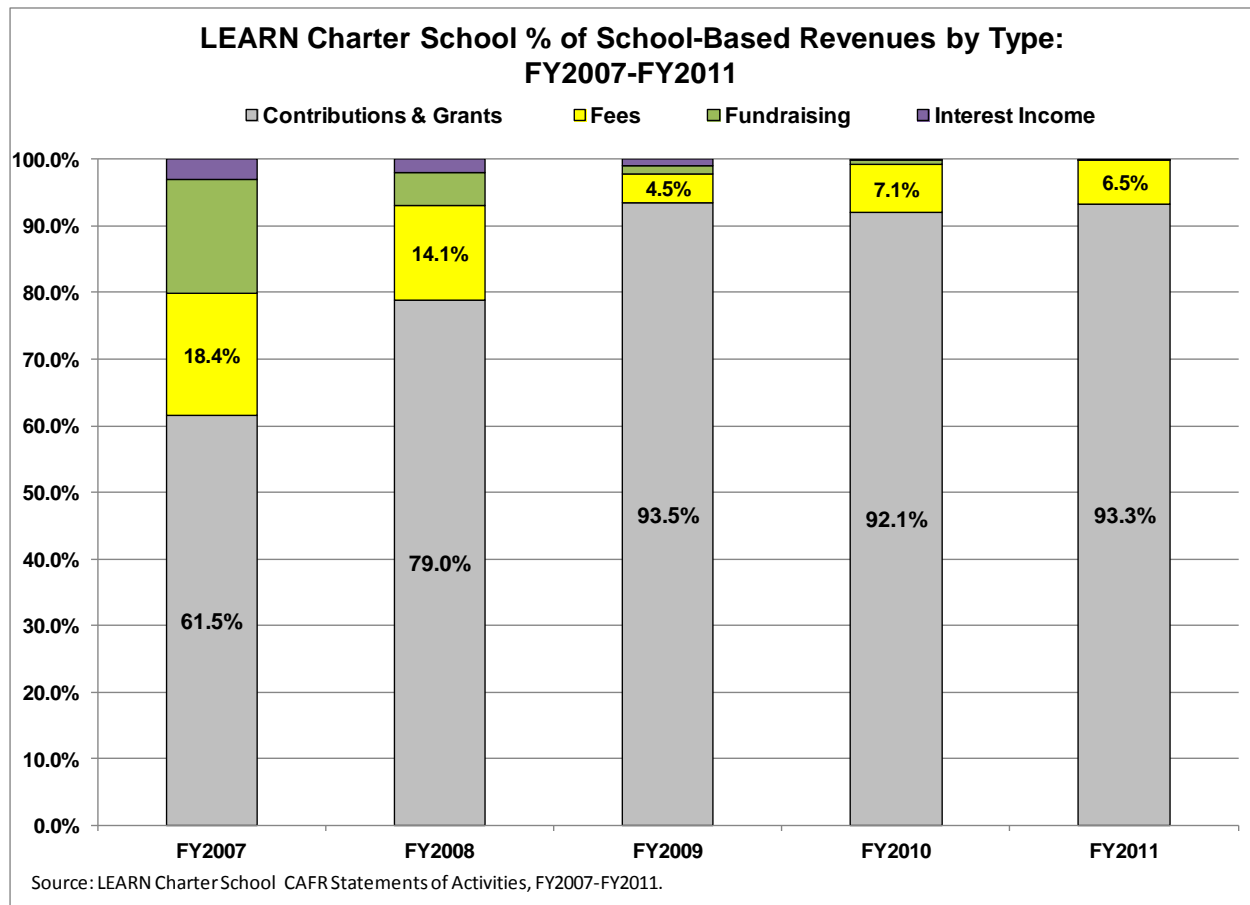
- Applying for and receiving corporate, foundation and individual grants, donations and contributions;
- Hosting fundraising events, including student fundraisers;
- Charging program and student fees;
- Generating interest income; and
- Receiving management service fees.

Overall, LEARN charter school school-based revenues increased from \$0.9 million in FY2007 to nearly \$5.1 million in FY2011, a 449.5% increase. The largest increase came from contributions and grants which rose from \$0.6 million to \$4.7 million. Interest income and fundraising revenues both fell during this period.

LEARN Charter School School-Based Revenues by Type FY2007-FY2011									
Revenue	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Contributions & Grants	\$566,317	\$1,133,248	\$2,953,234	\$3,385,306	\$4,723,064	\$1,337,758	39.5%	\$4,156,747	734.0%
Interest Income	\$ 27,841	\$ 28,638	\$ 27,892	\$ 6,437	\$ 7,814	\$ 1,377	21.4%	\$ (20,027)	-71.9%
Fees	\$169,345	\$ 202,033	\$ 140,823	\$ 262,593	\$ 328,611	\$ 66,018	25.1%	\$ 159,266	94.0%
Fundraising	\$157,800	\$ 71,437	\$ 38,146	\$ 23,177	\$ 3,348	\$ (19,829)	-85.6%	\$ (154,452)	-97.9%
Total	\$921,303	\$1,435,356	\$3,160,095	\$3,677,513	\$5,062,837	\$1,385,324	37.7%	\$4,141,534	449.5%

Source: LEARN Charter School CAFR Statements of Activities, FY2007-FY2011.

Contributions and grants were the largest type of school-based revenue from FY2007 to FY2011, averaging 83.8%. These revenues increased from 61.5% of all school-based revenues in FY2007 to 93.3% five years later.



Expense Analysis

The expense analysis examines how much of the LEARN charter school's resources were spent on instruction-related expenses versus administrative expenses.

Program Expense Analysis

Nonprofit organizational audited financial reports include a detailed Statement of Functional Expenses that summarizes all expenses into three broad categories: 1) Program Services, 2)

Supporting Services: Management and 3) Supporting Services: Fundraising. Program services expenses are the funds a nonprofit devotes to its direct mission-related work or direct service expenses. The two types of supporting service expenses (management and fundraising) can be considered administrative expenses. These categories are calculated differently from the categories in the next section, which is focused on instructional or classroom-based expenses.

One of the most common metrics used to evaluate how much of a nonprofit organization's expenses are mission related is the program ratio, which measures the relationship between program expenses and the organization's total expenses. The calculation for the program ratio is program service expenses/total expenses. The Better Business Bureau's Giving Alliance Standards for Charity Accountability recommend that nonprofit organizations spend at least 65% of total expenses on program activities.¹²

There is a caveat in interpreting program expense ratios. In general, a higher program ratio is preferable. However, there may be good reasons for a lower ratio. Newer organizations, such as the charter schools in this study, may have a lower program ratio than older organizations because a greater amount of resources may be used for various startup costs in initial years. These costs include expenses for facilities and infrastructure. In addition, certain services may require a greater amount of administrative support than others. But, over time, the amount of funds used for program services should increase.¹³

The first exhibit shows how much the LEARN charter school network spent on program services, management supporting services and fundraising supporting services. Over the five-year period of analysis, program services spending rose from \$3.0 million to \$13.2 million as the LEARN charter network expanded; between 2007 and 2010 alone, enrollment rose from 350 to 957 students.¹⁴ Similarly, there were triple digit increases in expenses for management and fundraising supporting services. Between FY2010 and FY2011, fundraising expenses declined by 26.6%, falling from \$458,646 to \$336,704.

LEARN Charter School Expenses by Category: FY2007-FY2011									
Expense	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Program Services	\$ 2,989,678	\$ 3,501,760	\$ 5,628,808	\$ 9,555,819	\$ 13,181,358	\$ 3,625,539	37.9%	\$ 10,191,680	340.9%
Management Supporting Services	\$ 41,579	\$ 33,894	\$ 248,836	\$ 301,891	\$ 400,159	\$ 98,268	32.6%	\$ 358,580	862.4%
Fundraising Supporting Services	\$ 71,307	\$ 90,537	\$ 330,468	\$ 458,646	\$ 336,704	\$ (121,942)	-26.6%	\$ 265,397	372.2%
Total	\$ 3,102,564	\$ 3,626,191	\$ 6,208,112	\$ 10,316,356	\$ 13,918,221	\$ 3,601,865	34.9%	\$ 10,815,657	348.6%

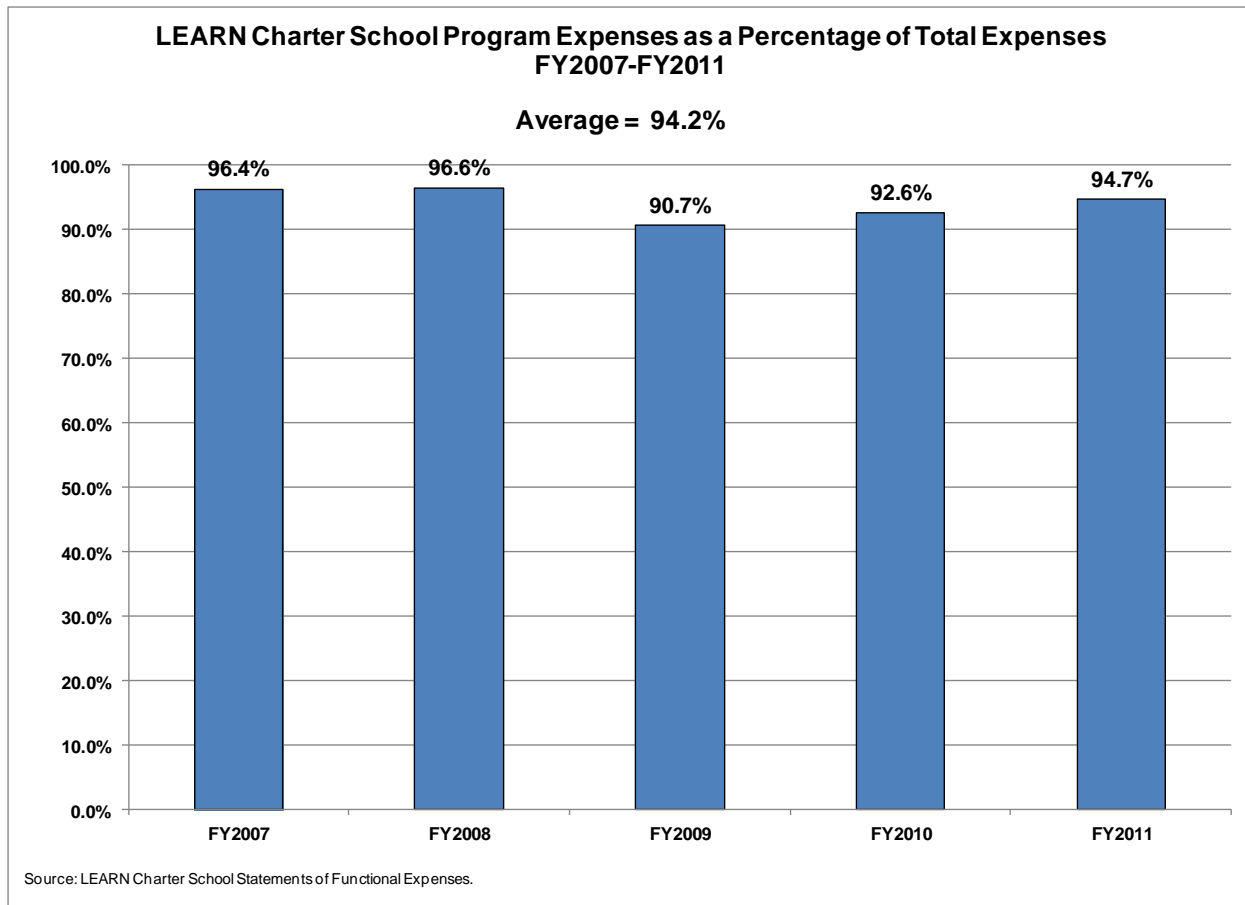
Source: Statements of Functional Expenses.

Between FY2007 and FY2011, program service expenses averaged 94.2%. This is a very high percentage and indicates funds were overwhelmingly spent on direct service versus administrative and other activities.

¹² Better Business Bureau, *Standards for Charity Accountability*, www.bbb.org/us/standards-for-charity-accountability/ (last visited October 3, 2014).

¹³ Guidestar, "Why Ratios Aren't the Last Word," June 2004, <http://www2.guidestar.org/rxa/news/articles/2004/why-ratios-arent-the-last-word.aspx> (last visited October 3, 2014).

¹⁴ Chicago Public Schools, *Charter and Contract schools Performance Reports*, various years.



Instructional Expense Analysis

This analysis compared charter school expenses in five categories: Instruction, Pupil Support Services, Administrative Support Services, Facilities and Other. The primary purpose was to determine how much of a charter school's expenses were spent in the classroom on instruction-related expenses versus other expenses. It is much more detailed than the program expense analysis and permits a general comparison with CPS categories because the charter schools and CPS both present this information in their audited financial statements.

For this analysis, expenses are divided into five broad categories based on the categories in the Chicago Public Schools Statement of Activities:¹⁵

1. **Instruction:** Expenses related to instruction, including teacher salaries and benefits, substitute teachers, field study and summer programs.

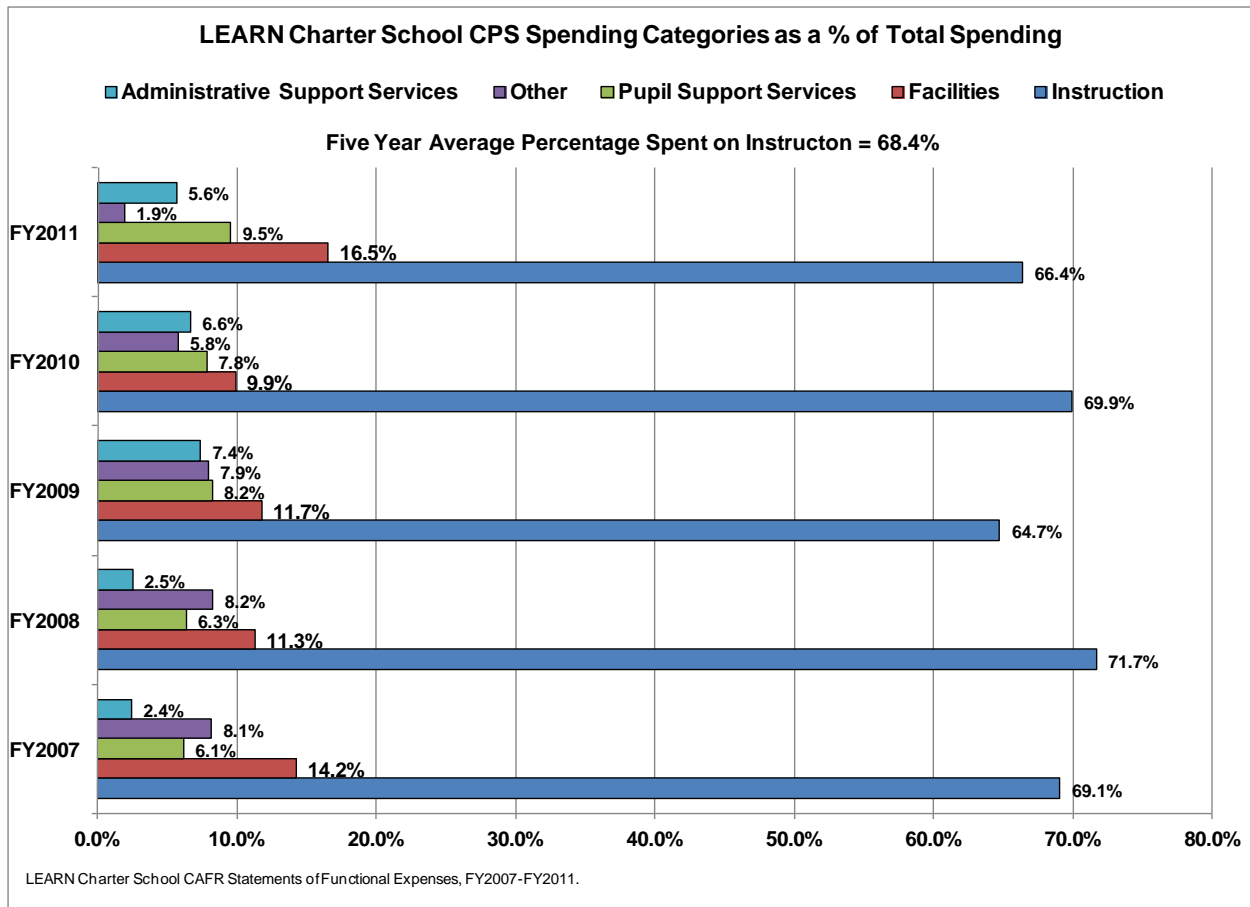
¹⁵ Chicago Public Schools *FY2007 Comprehensive Annual Financial Report*, Statement of Activities, p. 35. There is a sixth category of "Debt Service" in the CPS Statement of Activities which includes principal and interest expenses. However, the individual charter school Statements of Functional Expenses and Statements of Activities only report interest, so the category is not included in this analysis as it is not comparable.

2. **Pupil Support Services:** Expenses for pupil and instructional support, including curriculum development, classroom supplies, contributed goods and services, extracurricular activities, library books and supplies, special or student activities, textbooks, testing and teacher training.
3. **Administrative Support Services:** Expenses for administrative support services. These included employee salaries and benefits related to administrative functions, administration, commodities, contributed goods and services for computers or food service, development, food costs, management fees, marketing, office supplies, postage and printing, security and travel.
4. **Facilities:** Expenses related to maintenance of school buildings and infrastructure. This includes expenses for building trades, janitorial, rent, facility maintenance, repairs, technology and communications and depreciation and amortization.
5. **Other:** These expenses include those that do not fit into the other categories such as bad debts, community schools, interest expense, licensing, miscellaneous and other.

The next two exhibits show the actual amounts and percentage of total expenses devoted to each of the five spending categories. Over the five-year period reviewed, expenses for instruction rose from \$2.1 million to \$9.2 million. The average percentage of expenses spent on instruction between FY2007 and FY2011 was 68.4%.

LEARN Charter School CPS Spending Categories FY2007-FY2011									
Spending Category	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Instruction	\$ 2,142,335	\$2,598,776	\$4,019,681	\$ 7,213,047	\$ 9,237,851	\$2,024,804	28.1%	\$ 7,095,516	331.2%
Pupil Support Services	\$ 190,802	\$ 229,427	\$ 508,427	\$ 805,852	\$ 1,326,494	\$ 520,642	64.6%	\$ 1,135,692	595.2%
Administrative Support Services	\$ 74,722	\$ 90,186	\$ 458,004	\$ 685,960	\$ 786,043	\$ 100,083	14.6%	\$ 711,321	952.0%
Facilities	\$ 442,093	\$ 408,718	\$ 729,274	\$ 1,017,541	\$ 2,302,704	\$1,285,163	126.3%	\$ 1,860,611	420.9%
Other	\$ 252,612	\$ 299,084	\$ 492,726	\$ 593,956	\$ 265,129	\$ (328,827)	-55.4%	\$ 12,517	5.0%
Total	\$ 3,102,564	\$3,626,191	\$6,208,112	\$ 10,316,356	\$13,918,221	\$ 3,601,865	34.9%	\$10,815,657	348.6%

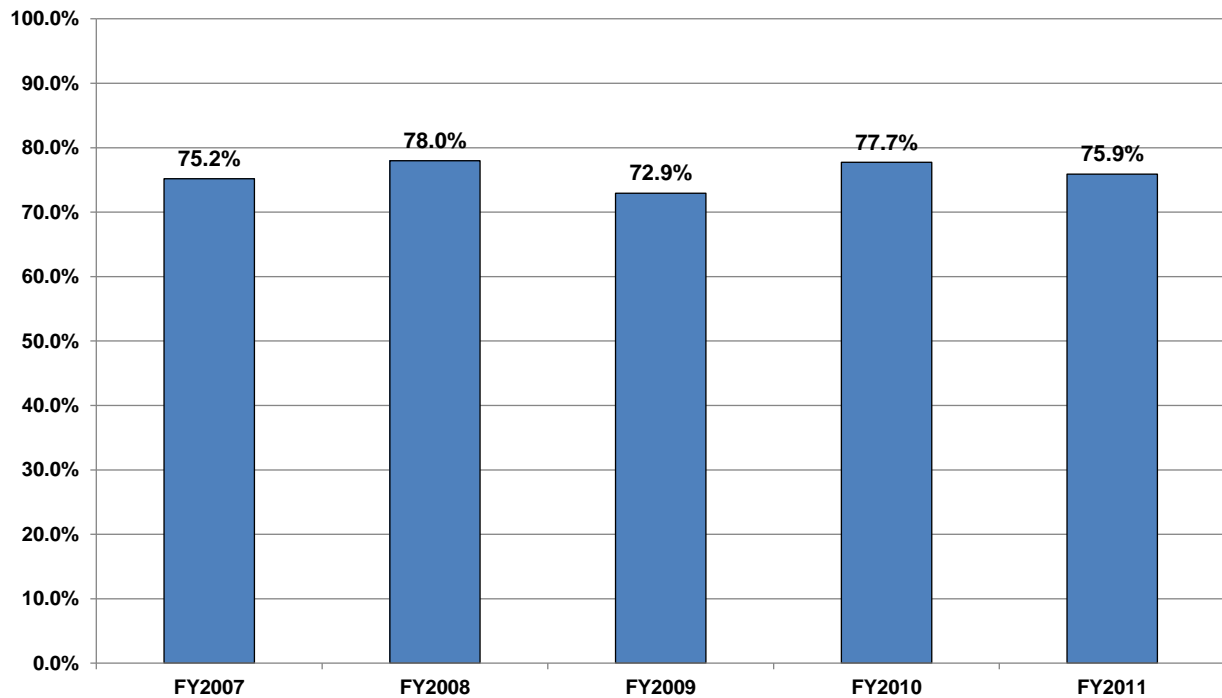
Source: LEARN Charter School CAFR Statement of Functional Expenses, FY2007-FY2011.



The next exhibit shows combined expenses for LEARN charter school instruction and pupil support services as a percentage of total expenses for FY2007 through FY2011. The two categories are combined here to provide an overview of total classroom-related or education-related expenses. In the five-year period reviewed, the combined average for instruction and pupil support services expenses was 76.0% of all expenses.

LEARN Charter School Instruction & Pupil Support Services Expenses as a % of Total Expenses

Five Year Average = 76.0%



Source: LEARN Charter School CAFR Statements of Functional Expenses, FY2007-FY2011.

Financial Indicator Analysis

The primary purpose of a financial indicator analysis is to measure the fiscal condition or health of an organization using a number of conventional yard sticks, or financial indicators. It is important to note that certain financial operations analytical measures used, such as the measures of financial practices, compliance and audit opinions also provide evaluations of accountability. They measure whether the charter schools met important standards of fiscal accountability as established by CPS or best practices.

Two different types of financial indicator analysis were employed in this chapter to provide a comprehensive picture of the financial position of the charter schools.

1. **Fiscal Condition Analysis:** These analyses examined the overall fiscal health and liquidity of the charter schools. The measures used included year-end balance, fund balance ratio and current ratio.
2. **Financial Performance Analysis:** A financial performance analysis employs a variety of financial indicators commonly used in the private, public and nonprofit sectors. The indicators used in this analysis include the fixed assets ratio, the capitalization ratio, the debt-to-worth ratio, the occupancy ratio, the instruction ratio and the profit margin ratio. An additional review comparing three indicators to benchmarked standards – payroll

ratio, occupancy ratio and payroll + occupancy ratio – also was conducted. This type of analysis is an adaptation of the fiscal analysis conducted annually by the District of Columbia Charter School Board.

The information used in the various analyses was derived from the budgets and audited financial statements of the LEARN charter school as well as financial reports published by the Chicago Public Schools. The methodology used to conduct the different types of analysis was adapted from those used in several key sources: Chicago Public Schools annual evaluation of its charter schools' performance,¹⁶ Miron and Nelson's study of the finances of Pennsylvania charter schools,¹⁷ the District of Columbia Public Charter School Board's General Performance Assessment (GPA) analysis¹⁸ and standard financial statement ratio analyses commonly used in the public and nonprofit sectors.¹⁹

It is important to note that the following assessments represent a snapshot of financial performance at a point in time, in this case over a five-year period. They provide important general insights into the financial condition of the organization or a group of organizations. However, there are often extenuating circumstances regarding the particular situation of individual organizations. Identifying and evaluating the reasons for these individual circumstances is beyond the scope of the summary financial analysis.

Financial Condition Analysis

These analyses examined the overall fiscal health and liquidity of the charter schools. The measures used included year-end balance, fund balance ratio and the current ratio.

Year-End Balance (Change in Net Assets)

Charter schools must be fiscally viable if they are to succeed in the long term. One commonly used indicator used to assess fiscal viability was year-end balances, also known as change in net assets.

The year-end fund balance is the amount of money reported when actual expenses are subtracted from revenues. It is reported as the "change in net assets" in charter school audited statements of activities. If it is negative, the school has a deficit for that fiscal year. A positive year-end balance indicates a surplus. These year-end fund balances were reported on an accrual basis. Between FY2007 and FY2011, the LEARN charter school year-end balances were positive, indicating a surplus. They ranged from a low of 6.5% of revenues in FY2011 to a high of 17.2% in FY2009.

¹⁶ Chicago Public Schools Office of New Schools, *Charter Schools Performance Report 2007-08*.

¹⁷ Gary Miron and Christopher Nelson, *Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools*, The Evaluation Center, Western Michigan State University, October 2000.

¹⁸ District of Columbia Public Charter School Board, *District of Columbia Fiscal Policy Handbook*, 3rd edition, July 2008. See also Thomas Nida and Bridget C. Bradley, "Assessing the Performance of Charter Schools," *RMA Journal*, December 2002.

¹⁹ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005).

LEARN Charter School Year End Balance: FY2007-FY2011							
	FY2007	FY2008	FY2009	FY2010	FY2011	5-Year \$ Change	5-Year % Change
Total Revenue	\$3,341,619	\$4,065,750	\$7,500,069	\$11,556,583	\$14,893,320	\$11,551,701	345.7%
Total Expenses	\$3,102,564	\$3,626,191	\$6,208,112	\$10,316,356	\$13,918,221	\$10,815,657	348.6%
Year End Balance (YEB)	\$ 239,055	\$ 439,559	\$1,291,957	\$ 1,240,227	\$ 975,099	\$ 736,044	307.9%
YEB as % of Revenues	7.2%	10.8%	17.2%	10.7%	6.5%		

Source: LEARN Charter School CAFR Statements of Activities, FY2007-FY2011.

Unrestricted Nets Assets as a % of Expenses (Fund Balance Ratio)

The fund balance ratio is a measure of resources available to use for emergencies or contingencies. It is prudent for all organizations to set aside some amount of reserves to be used for these purposes. Failure to establish reserves means that the organization may be forced to reduce spending on core programs or borrow funds to meet obligations if there is an unforeseen financial problem. If higher ratios are reported, then financial risk is reduced as the organization can draw on reserve funds to meet contingencies. If lower ratios are reported, the organization faces greater risk in meeting contingent expenses.

The fund balance ratio is produced by calculating charter school unrestricted net assets as a percentage of expenses. Unrestricted net assets can be used for any purpose by an organization. The data are drawn from the charter school audited financial statements.

What is an appropriate fund balance ratio? When calculating each school district's financial profile, the Illinois State Board of Education requires that school districts maintain a fund balance ratio of 10% or more to receive a "financial recognition" rating and thus avoid being placed on a financial watchlist.²⁰ If the ratio is greater than 10%, the district receives progressively better ratings.²¹ As it is important for school districts to maintain adequate reserves to prepare for contingencies, it is also important for charter schools to do the same. This is particularly true in the early years after formation as startup costs can be high. In addition, the schools may need to reserve funds for future planned expansions or capital campaigns. Thus, the Civic Federation considers a charter school fund balance ratio of 10% or more "positive" while a fund balance of less than 10% would be considered "negative."

The fund balance ratio declined steadily from 133.9% in FY2007 to 58.0% five years later. However, for each of the five years reviewed, the LEARN charter school had a fund balance ratio far above 10%, indicating more than adequate reserves.

Unrestricted Net Assets as a Percentage of Total Expenses					
	FY2007	FY2008	FY2009	FY2010	FY2011
Unrestricted Net Assets	\$ 4,155,316	\$4,196,341	\$5,409,221	\$ 6,922,289	\$ 8,072,205
Total Expenses	\$ 3,102,564	\$3,626,191	\$6,208,112	\$10,316,356	\$ 13,918,221
Unrestricted Net Assets Ratio	133.9%	115.7%	87.1%	67.1%	58.0%

Source: LEARN Charter School CAFR Statements of Financial Position, FY2007-FY2011.

²⁰ Illinois State Board of Education, "Financial Assurance and Accountability System," <http://www.isbe.net/board/meetings/2000-2002/march01meeting/3%2701FAASQA.pdf> (last visited October 3, 2014).

²¹ Illinois State Board of Education, *The School District Financial Profile*, March 2003.

Current Ratio

The current ratio is a measure of liquidity. It assesses the ability of a school to meet its current obligations as they come due by indicating whether the organization has enough cash and other liquid resources to meet its obligations in the near term. A ratio of 1.0 means that current assets are sufficient to cover current liabilities. The formula for calculating the current ratio is Current Assets/Current Liabilities. Although the needs of organizations can and do vary, it is commonly accepted that the current ratio should be close to 2.0 or higher.²² Information for calculating the current ratio is found in the Balance Sheet of a school's audited financial statements.

The current ratio fell from 27.8 in FY2007 to 8.2 in FY2011, averaging 16.7 for those five years. It has been well above the 2.0 threshold deemed healthy.

LEARN Charter School Current Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Current Assets					
Cash and Cash Equivalents	\$ 1,098,469	\$ 1,844,663	\$ 4,082,816	\$ 5,268,619	\$ 5,118,560
Investments	\$ 4,964	\$ -	\$ -	\$ -	\$ -
Debt Service Reserve	\$ 38,798	\$ 53,530	\$ 60,055	\$ 35,151	\$ 9,619
Grant Receivable	\$ -	\$ -	\$ -	\$ -	\$ 82,500
Security Deposit	\$ -	\$ -	\$ -	\$ 44,188	\$ 44,188
Accounts Receivable	\$ 9,830	\$ 14,943	\$ 8,143	\$ -	\$ -
Prepaid Expenses	\$ 11,268	\$ 18,994	\$ 20,447	\$ 125,087	\$ 287,800
Subtotal Current Assets	\$ 1,163,329	\$ 1,932,130	\$ 4,171,461	\$ 5,473,045	\$ 5,542,667
Current Liabilities					
Accounts payable	\$ 27,717	\$ 93,257	\$ 70,922	\$ 133,467	\$ 62,892
Accrued expenses	\$ 14,147	\$ -	\$ 168,677	\$ 449,983	\$ 615,972
Subtotal Current Liabilities	\$ 41,864	\$ 93,257	\$ 239,599	\$ 583,450	\$ 678,864
Current Ratio	27.8	20.7	17.4	9.4	8.2

Source: LEARN Charter School CAFR Statements of Financial Position, FY2007-FY2011.

Financial Performance Analysis

A financial performance analysis evaluates an organization's overall financial health, profitability and viability over a given period of time. It can be used to compare similar organizations in the private, public or nonprofit sectors. An assessment can be made about the financial status of an organization by reviewing information from the organization's audited financial statements, performing ratio analysis with that data and, if possible, also using comparative data.²³

Fixed Assets Ratio

The fixed assets ratio measures how much of an organization's total assets are fixed assets. Fixed assets are illiquid and cannot readily be converted to cash. The greater the percentage of total assets that are in fixed assets, the less flexibility the organization has to convert assets to cash to

²² Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 476.

²³ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 498.

fund service demands. Fixed assets are long-term assets that will not be used or converted to cash within a one-year period.²⁴ They include real estate, leasehold improvements and furniture, fixtures and equipment (FFE). Total assets are the monetary value of anything the organization owns. The formula for calculating the fixed asset ratio is Fixed Assets/Total Assets.²⁵ A ratio of 0.5 or higher may indicate that too much of the organization’s capital is in fixed assets. As a result, the organization may have insufficient access to capital and likely maintains low cash reserves. This can inhibit the organization's ability to meet increased service demands.²⁶ Information for calculating the fixed assets ratio is found in the Balance Sheet of a school’s audited financial statements.

The LEARN charter school fixed assets ratio dropped from 0.81 in FY2007 to 0.47 five years later. This decline is desirable, indicating that by FY2010 there were no potential issues with too much of the organization’s total assets being tied up in fixed assets.

LEARN Charter School Fixed Assets Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Fixed Assets	\$ 5,726,037	\$ 5,530,983	\$ 5,395,757	\$ 5,391,472	\$ 5,924,633
Total Assets	\$ 7,098,861	\$ 7,664,602	\$ 9,760,700	\$ 11,090,862	\$ 12,503,789
Fixed Assets Ratio	0.81	0.72	0.55	0.49	0.47

Source: LEARN Charter School CAFR Statements of Financial Position, FY2007-FY2011.

Capitalization Ratio

The capitalization ratio is a measure of an organization’s ability to meet its financial obligations. It indicates the relative proportion of capital or net assets that can be used to finance new assets. The formula for calculating the capitalization ratio is Capital/Total Assets. Capital in this case refers to total net assets or the residual value after liabilities have been subtracted from the assets of an organization. It includes both restricted and unrestricted net assets. Total assets are the monetary value of anything the organization owns. The higher the ratio, the more net assets are available to meet those obligations. A ratio of 0.31 or higher is optimal. Conversely, the lower the ratio, the less flexibility the organization has to meet its financial obligations. Information for calculating the capitalization ratio is found in the Balance Sheet of a school’s audited financial statements.

The LEARN charter school capitalization ratio averaged 0.62 in the five years reviewed. It declined from a high of 0.71 in FY2007 to a low of 0.54 in FY2011. As the ratio has always been higher than 0.31, LEARN charter school has had flexibility to meet its financial obligations.

²⁴ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 556.

²⁵ Fixed assets are reported in the Balance Sheets net of depreciation.

²⁶ Center for Business Planning, “Financial Ratios,” <http://www.businessplans.org/ratios.html> (last visited October 3, 2014).

LEARN Charter School Debt to Worth Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Total Liabilities	\$2,943,545	\$3,069,727	\$3,873,868	\$ 3,963,803	\$ 4,401,632
Total Net Assets	\$4,155,316	\$4,594,875	\$5,886,832	\$ 7,127,059	\$ 8,102,157
Capitalization Ratio	0.71	0.67	0.66	0.56	0.54

Source: LEARN Charter School CAFR Statements of Financial Position, FY2007-FY2011.

Debt-to-Worth Ratio

The debt-to-worth ratio is a measure of financial leverage. Also called a debt-to-equity ratio, it evaluates the degree to which an organization can use debt to finance asset acquisition.²⁷ The formula for calculating the debt-to-worth ratio is total liabilities/capital. Liabilities are the financial obligations an organization owes while “worth” or capital is net assets. A lower debt-to-worth ratio is better as it indicates there are sufficient net assets available to fund liabilities if needed and there is minimal risk of financial difficulties occurring. In Finkler’s book on financial management, he notes that the debt-to-worth ratio should not exceed 1.0, which means that net assets equal liabilities. However, the appropriate level varies from organization to organization.²⁸ For schools, which are necessarily capital intensive organizations, a ratio of up to 1.99 (or net assets equaling about 50% of liabilities) is acceptable. Information for calculating the debt-to-worth ratio is found in the Balance Sheet of a school’s audited financial statements.

The debt to worth ratio for the LEARN charter school has been well below 1.0 for each year examined. Therefore, the school has sufficient net assets available to fund liabilities if needed and there is minimal risk of financial difficulties.

LEARN Charter School Debt to Worth Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Total Liabilities	\$2,943,545	\$3,069,727	\$3,873,868	\$ 3,963,803	\$ 4,401,632
Total Net Assets	\$4,155,316	\$4,594,875	\$5,886,832	\$ 7,127,059	\$ 8,102,157
Capitalization Ratio	0.71	0.67	0.66	0.56	0.54

Source: LEARN Charter School CAFR Statements of Financial Position, FY2007-FY2011.

Occupancy Ratio

The occupancy ratio is a measure of how much of total revenues are consumed by the costs of occupying and maintaining school facilities. The formula for calculating the occupancy ratio is Occupancy Cost/Gross Revenue. Occupancy costs include rent, lease or mortgage payments; utilities, maintenance costs, real estate taxes, insurance related to building, uncapitalized repairs, gym rental and telephone/internet expenses. It does not include custodial or equipment lease expenses. Gross revenue is total revenue. A lower occupancy ratio is better as fewer resources are being used to pay for occupancy expenses. An occupancy ratio of no more than 0.15 is preferred. Information for calculating the occupancy ratio is found in the Statement of Activities or Statement of Functional Expenses of a school’s audited financial statements.

²⁷ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 531.

²⁸ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 531.

The LEARN charter school’s occupancy ratio averaged 0.10 between FY2007 to FY2011, indicating that the school was not using too many resources to pay for occupancy expenses. The large increase in occupancy expenses between FY2007 to FY2011, from \$103,545 to \$1,565,001, can be attributed in large part to increases in enrollment.²⁹

LEARN Charter School Occupancy Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Occupancy	\$ 103,545	\$ 151,664	\$ 438,631	\$ 706,767	\$ 1,565,001
Insurance	\$ 40,372	\$ 32,658	\$ 34,892	\$ 54,382	\$ 90,353
Real Estate Taxes	\$ 9,141	\$ -	\$ -	\$ -	
Office Expense	\$ -	\$ -	\$ -	\$ -	\$ 326,225
Depreciation	\$ 207,813	195054	\$ 187,792	\$ 206,468	\$ 262,035
Subtotal	\$ 360,871	\$ 379,376	\$ 661,315	\$ 967,617	\$ 2,243,614
Total Revenue	\$ 3,341,619	\$ 4,065,750	\$ 7,500,069	\$ 11,556,583	\$ 14,893,320
Occupancy Ratio	0.11	0.09	0.09	0.08	0.15

Source: LEARN Charter School CAFR Statements of Activities and Functional Expenses, FY2007-FY2011.

Instruction Ratio

The instruction ratio measures how much of a school’s gross revenues are used to pay for personnel related costs. The formula for calculating the instruction ratio is Payroll and Instruction Costs/Gross Revenue. Payroll costs include salaries, payroll tax and benefits, consultants, administrative and professional services and pension expenses. They do not include staff development costs, accounting and legal service expenses and management fees. Instruction costs include textbooks, classroom and recreation supplies. Gross revenue is total revenue. A lower instruction ratio is better, as it would indicate that personnel costs – the single largest expense in a school – are being kept under control. An instruction ratio of less than 0.55 is desirable. However, it is important to note that a ratio slightly above 0.55 is not necessarily a cause for concern. Instruction costs may well increase in schools as teachers receive longevity raises or more experienced teachers are hired over time. This is not necessarily a negative factor as teaching is the core function of an educational institution and it is the single largest item of expenditure. The key issue here is recognition that increased personnel costs do place a fiscal strain on school budgets that must be planned for and met, either through increases in revenues or reductions in other areas of expenditure. Information for calculating the instruction ratio is found in the Statement of Activities or Statement of Functional Expenses of a school’s audited financial statements.

From FY2007 to FY2011, the instruction ratio for the LEARN charter school fluctuated slightly between 0.59 (FY2009) to 0.67 (FY2010). Overall, it averaged 0.64, only slightly higher than the preferred ratio of 0.55. The ratios earned by the school indicate it did not utilize an excessive amount of resources for instructional costs.

²⁹ As noted previously, between 2007 and 2010 alone enrollment rose from 350 to 957 students. Chicago Public Schools, *Charter and Contract Schools Performance Reports*, various years.

LEARN Charter School Instruction Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Salaries and wages	\$ 1,721,093	\$2,030,319	\$3,403,637	\$ 6,291,061	\$ 7,995,141
Payroll taxes	\$ 122,384	\$ 129,933	\$ 243,436	\$ 467,564	\$ 565,018
Employee Benefits	\$ 215,601	\$ 216,105	\$ 379,005	\$ 706,105	\$ 946,592
Professional Services	\$ 116,747	\$ 271,075	\$ 411,342	\$ 251,637	\$ 296,351
Subtotal	\$2,175,825	\$2,647,432	\$4,437,420	\$ 7,716,367	\$ 9,803,102
Revenues	\$3,341,005	\$4,065,750	\$7,500,069	\$11,556,583	\$14,893,320
Instruction Ratio	0.65	0.65	0.59	0.67	0.66

Source: LEARN Charter School CAFR Statements of Activities and Functional Expenses, FY2007-FY2011.

Profit Margin Ratio

Charter schools are nonprofit organizations and therefore not focused on amassing “profits.” However, their long term fiscal viability depends on maintaining reasonable reserves or a “profit margin” that can be used to generate earnings to expand their capital base.³⁰ The formula for calculating the profit margin ratio is Net Income/Gross Revenue. Net Income is net operating income before depreciation, amortization and interest expenses. A positive profit margin is preferred as it indicates the school operates at a “profit” and has some reserves. The higher the profit margin, the better as a larger reserve affords greater long-term financial flexibility. Conversely, a low profit margin can indicate financial difficulty. Information for calculating the profit margin ratio is found in the Statement of Activities or Statement of Functional Expenses of a school’s audited financial statements.

The LEARN charter school’s profit margin declined from 0.17 in FY2009 to 0.07 in FY2011, back where it was in FY2007. However, it was positive in each year examined, indicating that the school possessed reserves and thus operated at a “profit.” This is a positive indicator.

LEARN Charter School Profit Margin Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Total Revenue	\$3,341,619	\$4,065,750	\$7,500,069	\$11,556,583	\$14,893,320
Total Expenses	\$3,102,564	\$3,626,191	\$6,208,112	\$10,316,356	\$13,918,221
Subtotal Net Income	\$ 239,055	\$ 439,559	\$1,291,957	\$ 1,240,227	\$ 975,099
Total Revenue	\$3,341,619	\$4,065,750	\$7,500,069	\$11,556,583	\$14,893,320
Profit Margin Ratio	0.07	0.11	0.17	0.11	0.07

Source: LEARN Charter School CAFR Statements of Activities and Functional Expenses, FY2007-FY2011.

Days of Cash on Hand

This measure compares cash and marketable securities with daily operating expenses. The purpose is to evaluate how long the organization can meet daily expenses using cash and liquid assets that can readily be converted to cash.³¹ The Statement of Financial Position is the source of cash and marketable securities information while the Statement of Functional Expenses contains relevant expense and depreciation data.

³⁰ Thomas Nida and Bridget C. Bradley, “Assessing the Performance of Charter Schools,” *RMA Journal*, December 2002, p. 2.

³¹ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 527.

The LEARN charter school averaged 182 days of cash on hand (roughly six months reserves) between FY2007 and FY2011. The ratio rose from 139 days in FY2007 to a high of 248 days in FY2009 (over 8 months) before falling back to 137 days (4 months of reserves) in FY2011. Throughout the period of this review, the school has had adequate cash reserves.

LEARN Charter School Days of Cash on Hand: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Cash	\$ 1,098,469	\$ 1,844,663	\$ 4,082,816	\$ 5,268,619	\$ 5,118,560
Marketable Investments	\$ 4,964	\$ -	\$ -	\$ -	\$ -
Subtotal	\$ 1,103,433	\$ 1,844,663	\$ 4,082,816	\$ 5,268,619	\$ 5,118,560
Expenses	\$ 3,102,564	\$ 3,626,191	\$ 6,208,112	\$ 10,316,356	\$ 13,918,221
Depreciation	\$ 207,813	\$ 195,054	\$ 187,792	\$ 206,468	\$ 262,035
Net Expenses	\$ 2,894,751	\$ 3,431,137	\$ 6,020,320	\$ 10,109,888	\$ 13,656,186
Daily Operating Expenses	\$ 7,931	\$ 9,400	\$ 16,494	\$ 27,698	\$ 37,414
Days of Cash on Hand Ratio	139	196	248	190	137

Source: LEARN Charter School CAFR Statements of Financial Position and Functional Expenses, FY2007-FY2011.

Findings of Fiscal Analysis

Overall, the LEARN charter school was in good fiscal health between FY2007 and FY2011, as measured by the thirteen individual financial indicators used in this study. Three of these indicators pertained to how the charter schools spent their money and the remaining nine focused on the financial viability and performance of the schools.

Expense Analyses: All three expense indicators were positive.

- The LEARN charter school spent over 65% of all expenditures on programming and well over 50% on instruction as well as instruction plus pupil support services.

Financial Condition Analyses: All three financial condition analyses were positive. For each of the five years reviewed:

- The LEARN charter school reported a surplus;
- The fund balance ratio was far above 10%; and
- The current ratio was well in excess of 2.0, averaging 16.7.

Financial Performance Analyses: Six of the seven financial indicators were positive: The fixed assets ratio dropped from 0.81 in FY2007 to 0.47 in FY2011, a positive trend. By FY2010 there were no potential issues with too much of the organization's total assets being tied up in fixed assets.

The capitalization ratio averaged 0.62, which is greater than the threshold standard of 0.31. It indicates the school has had the flexibility to meet its financial obligations.

- The debt to worth ratio was well below 1.99 for each reviewed. Therefore, the school has sufficient net assets available to fund liabilities if needed and there is minimal risk of financial difficulties occurring

- The occupancy ratio averaged 0.10 between FY2007 to FY2011, below the maximum standard of 0.15, indicating that the school was not using too many resources to pay for occupancy expenses.
- The school reported a five-year average of 182 days of cash on hand. This is over 6 months of cash on hand and it was more than adequate to fund contingencies and deal with cash flow issues.
- The profit margin was positive in each year examined, indicating that school possessed reserves and thus operated at a “profit.” This is a positive indicator.

One indicator was adequate:

- The instruction ratio for the LEARN charter school averaged 0.64, slightly higher than the preferred ratio of 0.55. The ratio is slightly high, but not to a degree that would be a concern.

LEARN Charter School Financial Indicator Analysis: FY2007-FY2011								
Indicator	FY2007	FY2008	FY2009	FY2010	FY2011	Standard	5-Year Average	Trend
Expense Analysis								
Program Expense Analysis	96.4%	96.6%	90.7%	92.6%	94.7%	> 65%	94.2%	Positive
Spending on Instruction	69.1%	71.1%	64.7%	69.9%	66.4%	> 50%	68.4%	Positive
Spending on Instruction + Pupil Support Services	75.2%	78.0%	72.9%	77.7%	75.9%	> 50%	76.0%	Positive
Financial Condition Analysis								
Year-End Balance (Surplus or Deficit)	7.2%	10.8%	17.2%	10.7%	6.5%	Positive	10.5%	Positive
Fund Balance Ratio	133.9%	115.7%	87.1%	67.1%	58.0%	> 10%	92.4%	Positive
Current Ratio	27.8	20.7	17.4	9.4	8.2	> 2.0	16.70	Positive
Financial Performance Analysis								
Fixed Assets Ratio	0.81	0.72	0.55	0.49	0.47	< 0.5	0.61	Positive Trend
Capitalization Ratio	0.59	0.60	0.60	0.64	0.65	> 0.31	0.62	Positive
Debt-to-Worth Ratio	0.71	0.67	0.66	0.56	0.54	< 1.99	0.63	Positive
Occupancy Ratio	0.11	0.09	0.09	0.08	0.15	< 0.15	0.10	Positive
Instruction Ratio	0.65	0.65	0.59	0.67	0.66	< 0.55	0.64	Adequate*
Profit Margin Ratio	0.07	0.11	0.17	0.11	0.07	Positive	0.11	Low
Days of Cash on Hand	139	196	248	190	137	Higher the Better	182	High

* The ratio is slightly high, but not to a degree that would be a concern.

Sources: LEARN Charter School audited financial statements, FY2007-FY2011.

NAMASTE CHARTER SCHOOL

Namaste Charter School opened in the fall of 2004 in the McKinley Park neighborhood of Chicago. The mission of Namaste Charter School is to promote “lifelong student success and a love of learning by implementing and sharing a groundbreaking educational model that combines health and wellness with academic rigor in a peaceful environment.” The charter school is also guided by six principles, or pillars: peaceful school culture; movement; collaborative practice; balanced learning; language and culture; and nutrition, health and wellness.³²

In the 2011-2012 school year, Namaste enrolled 466 students across kindergarten and eighth grade classrooms. Of the Namaste student population, 82.2% were low income, 30.7% were limited English learners, and 17.6% were special education students.

Namaste Charter School Information: 2011-2012						
Campus	Address	Grades	Enrollment	% Low Income	% Limited English Proficiency	% Special Education
McKinley Park	3737 S. Paulina St.	K-8	466	82.2%	30.7%	17.6%

Source: Chicago Public Schools website.

Namaste Charter School Trends

The next exhibit shows Namaste enrollment trends and statistics between the 2006-2007 and 2009-2010 school years. Data were not available for the 2010-2011 school year. In these years, the number of grades offered increased by one grade each school year. The vast majority of students (over 73.0%) were Hispanic, beginning in the 2007-2008 school year. The percentage of low income students was always greater than 84.0%, while the percentage of special education students fluctuated from a low of 8.9% in the 2006-2007 school year to a high of 19.2% in the 2009-2010 school year. The student/teacher ratio averaged 14.2/1 between the 2006-2007 and 2009-2010 school years.

³² Namaste Charter School, Inc., *Our Pillars*, <http://www.namastecharterschool.org/the-namaste-way/our-pillars/> (last visited October 3, 2014).

Namaste Charter School Information: School Years 2006-2010				
	2006-2007	2007-2008	2008-2009	2009-2010
Grades	K-3	K-4	K-5	K-6
Total Enrollment	194	250	313	370
Student Ethnicity				
African American	9.3%	11.2%	9.6%	7.8%
Hispanic	59.8%	73.6%	77.3%	78.4%
White	7.7%	9.6%	9.9%	10.0%
Asian/Pacific Islander	2.1%	1.6%	1.6%	2.7%
Other	21.2%	4.0%	0.0%	1.1%
% Low Income	86.1%	84.4%	87.8%	86.7%
% Limited English Proficiency	28.9%	33.8%	39.6%	27.9%
% Special Education	8.9%	17.1%	11.2%	19.2%
Student/Teacher Ratio	13.9/1	15.6/1	13.0/1	N/A
% of Students from Neighborhood	47.4%	81.1%	79.6%	62.7%
# of Campuses	1	1	1	1

Information not available for 2010-2011 school year.

Source: Chicago Public Schools. Charter and Contract Schools Performance Reports.

Namaste Charter School Financial Analysis

This chapter presents an analysis of the operating finances of the Namaste Charter School, Inc. for the five-year period between FY2007 and FY2011. It includes a fiscal trend analysis of revenues and expenses as well as a financial indicator analysis designed to measure the fiscal condition or health of the school.

Namaste Charter School, Inc. prepares its Comprehensive Annual Financial Reports on an accrual basis of accounting in accordance with generally accepted accounting principles.³³

Revenue Analysis

The revenue analysis examines Namaste revenues by source and evaluates trends for the school-based revenues controlled by the charter school.

School Revenues by Source

Chicago charter schools receive funding from a variety of federal, state and local sources, as well as school-based funds they generate from their own fundraising efforts. The many disparate revenue items listed in charter school audited financial statements have been grouped into five categories for purposes of analysis: federal, state, local, school-based and other funding. Local funding was provided by or through CPS. School-based funding includes grants, donations, contributions and the proceeds of various fundraising efforts. "Other" funding is all other funding and is not specified as to source.

³³ Namaste Charter School, Inc., Audited Financial Statements, Notes to Financial Statements, Notes 2, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

There are several caveats regarding the presentation of revenue data that follows. As the revenue items are not uniform across individual school financial statements, the groupings are approximate, based on the best available information. For example, in Namaste's financial statements, per capita tuition, Title I federal funds and Supplemental General State Aid (SGSA) funds are lumped together even though they derive from different sources of funding.³⁴ The following exhibit presents the categories of charter school revenues, gains and other supports developed for this analysis.

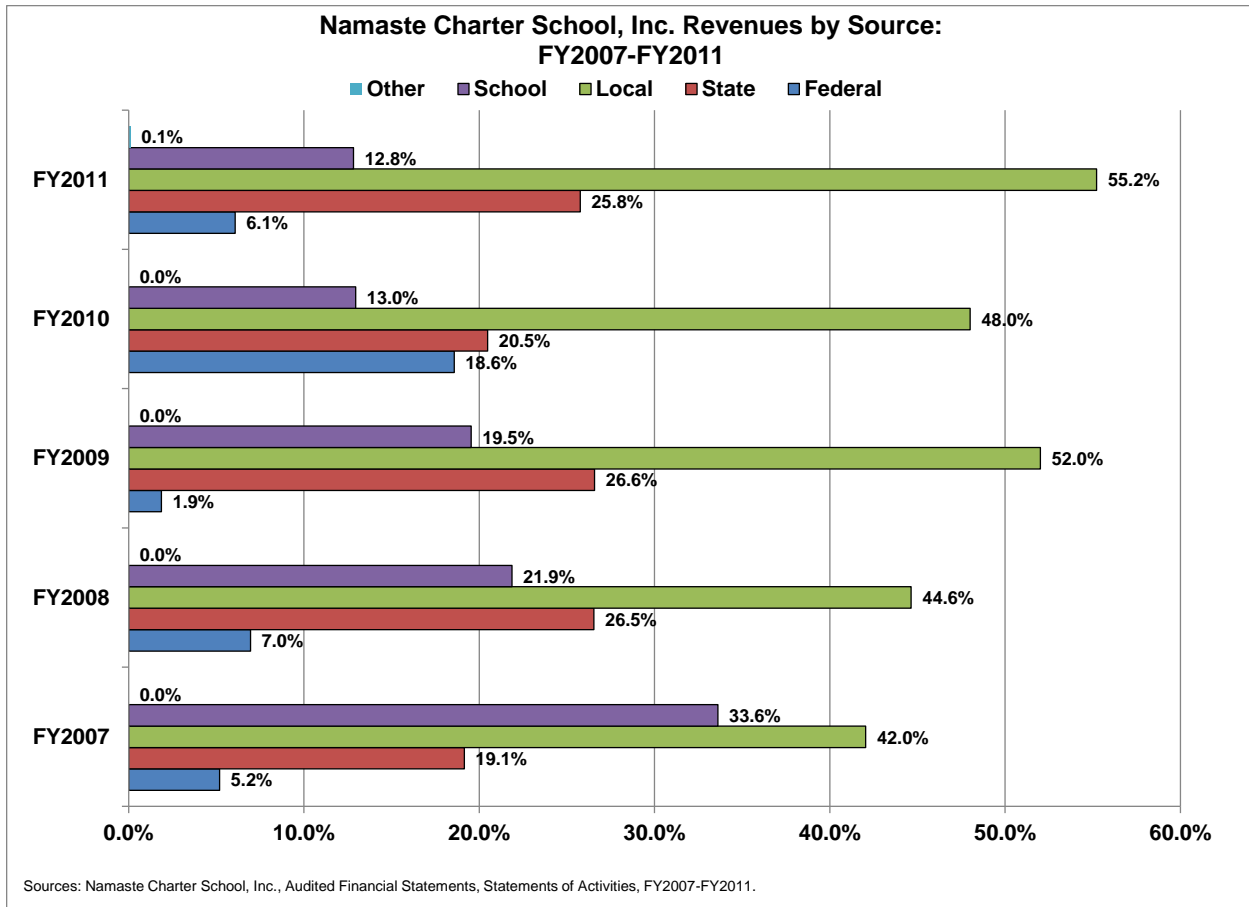
Between FY2007 and FY2011, Namaste revenues increased from a total of \$2.8 million to \$5.0 million. This is an increase of 81.8%, or \$2.3 million, over the five-year period. The large increase is primarily attributable to the \$1.6 million increase in local revenue over the same period. In a two-year comparison, FY2011 revenues declined by 6.8% from FY2010 revenue levels.

Namaste Charter School, Inc. Revenues by Source: FY2007-FY2011									
Source	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Federal	\$ 142,995	\$ 226,837	\$ 73,360	\$ 998,058	\$ 304,610	\$(693,448)	-69.5%	\$ 161,615	113.0%
State	\$ 527,365	\$ 865,605	\$ 1,039,435	\$ 1,100,669	\$ 1,289,765	\$ 189,096	17.2%	\$ 762,400	144.6%
Local	\$ 1,157,965	\$ 1,455,903	\$ 2,033,492	\$ 2,579,852	\$ 2,764,746	\$ 184,894	7.2%	\$1,606,781	138.8%
School	\$ 925,659	\$ 713,041	\$ 763,858	\$ 696,027	\$ 642,404	\$ (53,623)	-7.7%	\$ (283,255)	-30.6%
Other	\$ -	\$ -	\$ -	\$ -	\$ 5,178	\$ 5,178	-	\$ 5,178	-
Total	\$ 2,753,984	\$ 3,261,386	\$ 3,910,145	\$ 5,374,606	\$ 5,006,703	\$(367,903)	-6.8%	\$2,252,719	81.8%

Sources: Namaste Charter School, Inc., Audited Financial Statements, Statements of Activities, FY2007-FY2011.

The next exhibit presents each of the revenue sources as a percentage of total revenues. The largest portion of charter school funding in each of the five years evaluated was from local sources, provided by or through CPS. Locally sourced revenue increased from 42.0% of all revenues in FY2007 to 55.2% in FY2011. Overall, local funding averaged 48.4% of all revenues during that period. The second largest source of revenue was the State of Illinois, which includes funding for special education and limited english proficiency, supplemental funding for small schools and facilities, Chapter 1 funds and funding from the Illinois Department of Commerce and Economic Opportunity. These revenues rose from 19.1% of all revenues in FY2007 to 25.8% in FY2011. School-based revenues declined from 33.6% in FY2007 to 12.8% in FY2011. Federal source revenues provided to Namaste remained relatively small throughout the five-year period.

³⁴ These were classified as local source revenues.



School-Based Revenues

There are a variety of ways charter schools generate income that they control. They include:

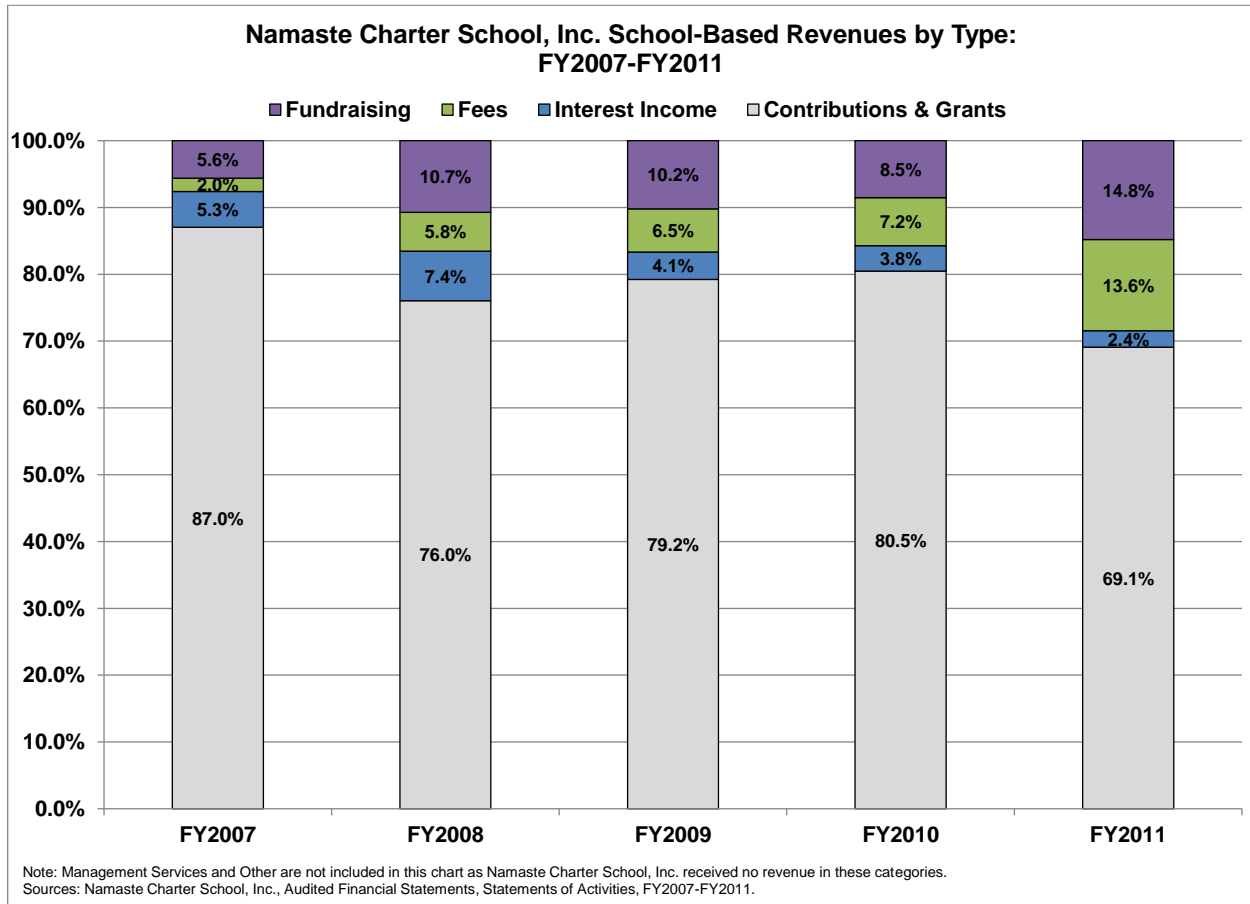
- Applying for and receiving corporate, foundation and individual grants, donations and contributions;
- Hosting fundraising events, including student fundraisers;
- Charging program and student fees;
- Generating interest income; and
- Receiving management service fees.

Overall, Namaste school-based revenues decreased from \$925,659 million in FY2007 to \$642,404 in FY2011. This is a decrease of 30.6%, or \$283,255. The largest decrease in school-based revenues occurred in contributions and grants where revenues fell by 44.9%, or \$361,796, from \$805,739 in FY2007 to \$443,943 in FY2011. The largest increase came from fees, which rose by 367.8% from \$18,718 in FY2007 to \$87,566 in FY2011.

Namaste Charter School, Inc. School-Based Revenues by Type FY2007-FY2011									
Revenue	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Contributions & Grants	\$ 805,739	\$ 542,204	\$ 605,165	\$ 560,185	\$ 443,943	\$ (116,242)	-20.8%	\$ (361,796)	-44.9%
Interest Income	\$ 49,382	\$ 52,891	\$ 31,334	\$ 26,386	\$ 15,735	\$ (10,651)	-40.4%	\$ (33,647)	-68.1%
Fees	\$ 18,718	\$ 41,373	\$ 49,506	\$ 50,070	\$ 87,566	\$ 37,496	74.9%	\$ 68,848	367.8%
Fundraising	\$ 51,820	\$ 76,573	\$ 77,853	\$ 59,386	\$ 95,160	\$ 35,774	60.2%	\$ 43,340	83.6%
Management Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -	-
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -	-
Total	\$ 925,659	\$ 713,041	\$ 763,858	\$ 696,027	\$ 642,404	\$ (53,623)	-7.7%	\$ (283,255)	-30.6%

Sources: Namaste Charter School, Inc., Audited Financial Statements, Statements of Activities, FY2007-FY2011.

Contributions and grants were the largest type of school-based revenue from FY2007 to FY2011, averaging 78.4% across the five-year period. However, revenues from contributions and grants have decreased by 17.9 percentage points between FY2007 and FY2011. The percentage of revenue from fees has grown from 2.0% to 13.6% over the five-year period. Similarly, the percentage of revenue from fundraising has also more than doubled between FY2007 and FY2011, growing from 5.6% to 14.8%.



Expense Analysis

The expense analysis examines how much of the Namaste’s resources were spent on instruction-related expenses versus administrative expenses.

Program Expense Analysis

Nonprofit organizational audited financial reports include a detailed Statement of Functional Expenses that summarizes all expenses into three broad categories: 1) Program Services, 2) Management Supporting Services and 3) Fundraising Supporting Services. Program services expenses are the funds a nonprofit devotes to its direct mission-related work or direct service expenses. The two types of supporting service expenses (management and fundraising) can be

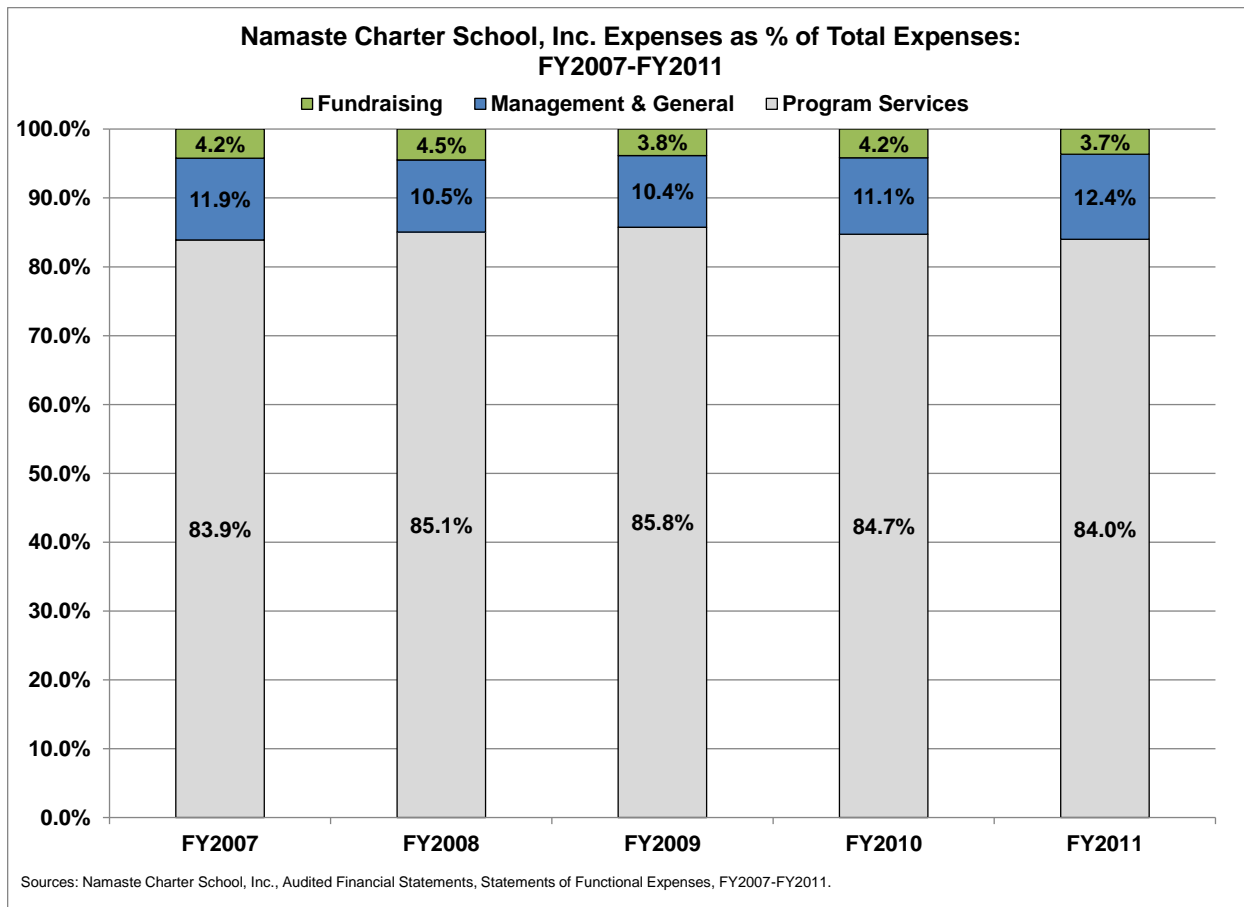
considered administrative expenses. These categories are calculated differently from the categories in the next section, which is focused on instructional or classroom-based expenses.

One of the most common metrics used to evaluate how much of a nonprofit organization's expenses are mission related is the program ratio, which measures the relationship between program expenses and the organization's total expenses. The calculation for the program service ratio is program service expenses / total expenses. The Better Business Bureau Wise Giving Alliance has developed standards for charity accountability. The Alliance recommends that nonprofits spend at least 65% of expenses on program services.³⁵ There is a caveat in interpreting program ratios. In general, a higher program ratio is preferable. However, there may be good reasons for a lower ratio. Newer organizations, such as the charter schools in this study, may have a lower program ratio than older organizations because a greater amount of resources may be used for various startup costs in initial years. These costs include expenses for facilities and infrastructure. In addition, certain services may require a greater amount of administrative support than others. But, over time, the amount of funds used for program services should increase.³⁶

The first exhibit shows how much Namaste spent on program services, management and general expenses and fundraising. Over the five-year period of analysis, program services spending rose from \$1.8 million to nearly \$4.1 million. This is an increase of 127.1%, or approximately \$2.3 million. There were also double- and triple-digit increases in management and general expenses and fundraising expenses of 136.2% and 95.9%, respectively. In both two-year and five-year comparisons, all three categories of expenses have grown. Between FY2007 and FY2011, program service expenses averaged 84.7%. This is a very high percentage and indicates funds were overwhelmingly spent on direct service versus administrative and other activities.

³⁵ Better Business Bureau, *Standards for Charity Accountability*, www.bbb.org/us/standards-for-charity-accountability (last visited October 3, 2014).

³⁶ Guidestar, "Why Ratios Aren't the Last Word," June 2004, <http://www2.guidestar.org/rxa/news/articles/2004/why-ratios-arent-the-last-word.aspx> (last visited October 3, 2014).



Instructional Expense Analysis

This analysis compared charter school expenses in five categories: Instruction, Pupil Support Services, Administrative Support Services, Facilities and Other. The primary purpose was to determine how much of a charter school's expenses were spent in the classroom on instruction-related expenses versus other expenses. It is much more detailed than the program expense analysis and permits a general comparison with CPS categories because the charter schools and CPS both present this information in their audited financial statements.

For this analysis, expenses are divided into five broad categories based on the categories in the Chicago Public Schools Statement of Activities.³⁷

1. **Instruction:** Expenses related to instruction, including teacher salaries and benefits, substitute teachers, field study and summer programs.

³⁷ Chicago Public Schools *FY2007 Comprehensive Annual Financial Report*, Statement of Activities, p. 35. There is a sixth category of "Debt Service" in the CPS Statement of Activities which includes principal and interest expenses. However, the individual charter school Statements of Functional Expenses and Statements of Activities only report interest, so the category is not included in this analysis as it is not comparable.

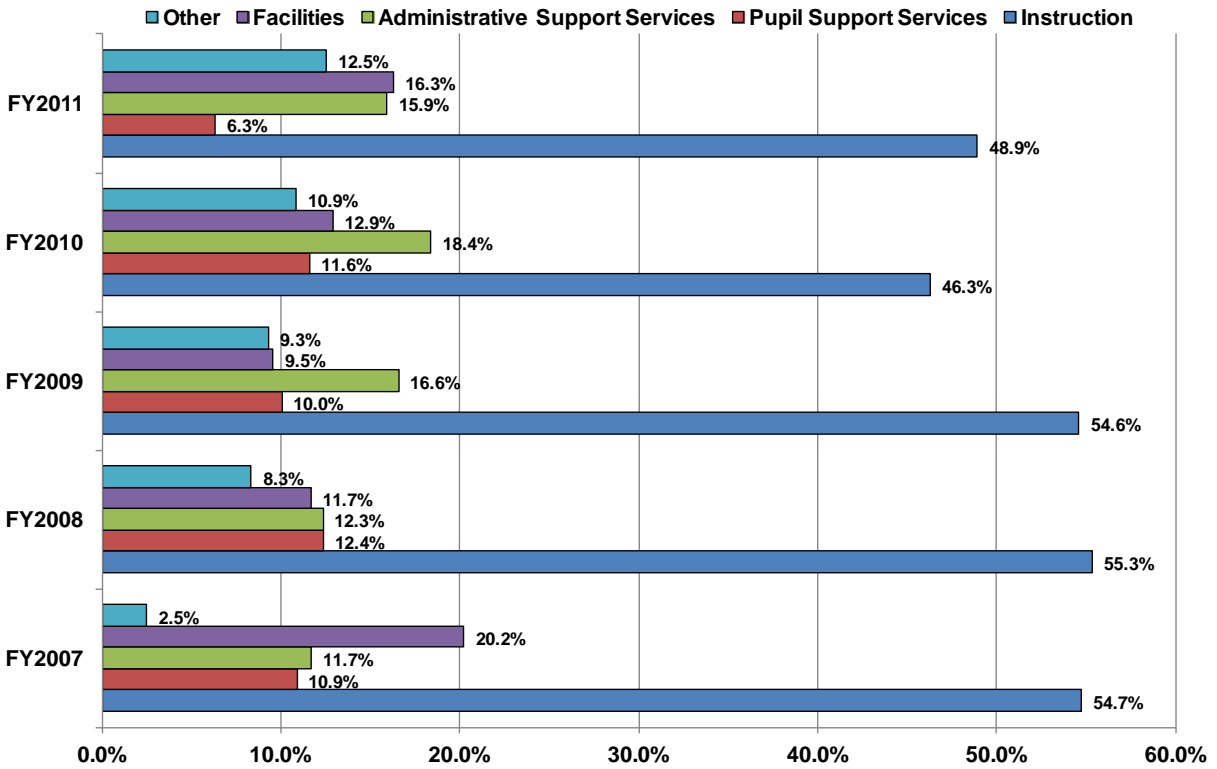
2. **Pupil Support Services:** Expenses for pupil and instructional support, including curriculum development, classroom supplies, contributed goods and services, extracurricular activities, library books and supplies, special or student activities, textbooks, testing and teacher training.
3. **Administrative Support Services:** Expenses for administrative support services. These included employee salaries and benefits related to administrative functions, administration, commodities, contributed goods and services for computers or food service, development, food costs, management fees, marketing, office supplies, postage and printing, security and travel.
4. **Facilities:** Expenses related to maintenance of school buildings and infrastructure. This includes expenses for building trades, janitorial, rent, facility maintenance, repairs, technology and communications.
5. **Other:** These expenses include those that do not fit into the other categories such as bad debts, community schools, interest expense, licensing, miscellaneous and other.

The next two exhibits show the actual amounts and percentage of total expenses devoted to each of the five spending categories. Over the five-year period reviewed, expenses for instruction rose from approximately \$1.2 million to nearly \$2.4 million. The average percentage of expenses spent on instruction between FY2007 and FY2011 was 52.0%.

Namaste Charter School, Inc. CPS Spending Categories FY2007-FY2011									
Spending Category	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Instruction	\$ 1,175,260	\$ 1,462,664	\$ 1,898,206	\$ 1,836,546	\$ 2,383,193	\$ 546,647	29.8%	\$1,207,933	102.8%
Pupil Support Services	\$ 233,564	\$ 326,665	\$ 349,107	\$ 460,806	\$ 307,418	\$ (153,388)	-33.3%	\$ 73,854	31.6%
Administrative Support Services	\$ 251,269	\$ 325,994	\$ 575,803	\$ 729,545	\$ 776,495	\$ 46,950	6.4%	\$ 525,226	209.0%
Facilities	\$ 434,540	\$ 308,608	\$ 332,117	\$ 512,289	\$ 794,248	\$ 281,959	55.0%	\$ 359,708	82.8%
Other	\$ 53,352	\$ 220,284	\$ 322,618	\$ 431,087	\$ 611,407	\$ 180,320	41.8%	\$ 126,968	238.0%
Subtotal	\$ 2,147,985	\$ 2,644,215	\$ 3,477,851	\$ 3,970,273	\$ 4,872,761	\$ 902,488	22.7%	\$2,724,776	126.9%
Total	\$ 2,147,985	\$ 2,644,215	\$ 3,477,851	\$ 3,970,273	\$ 4,872,761	\$ 902,488	22.7%	\$2,724,776	126.9%

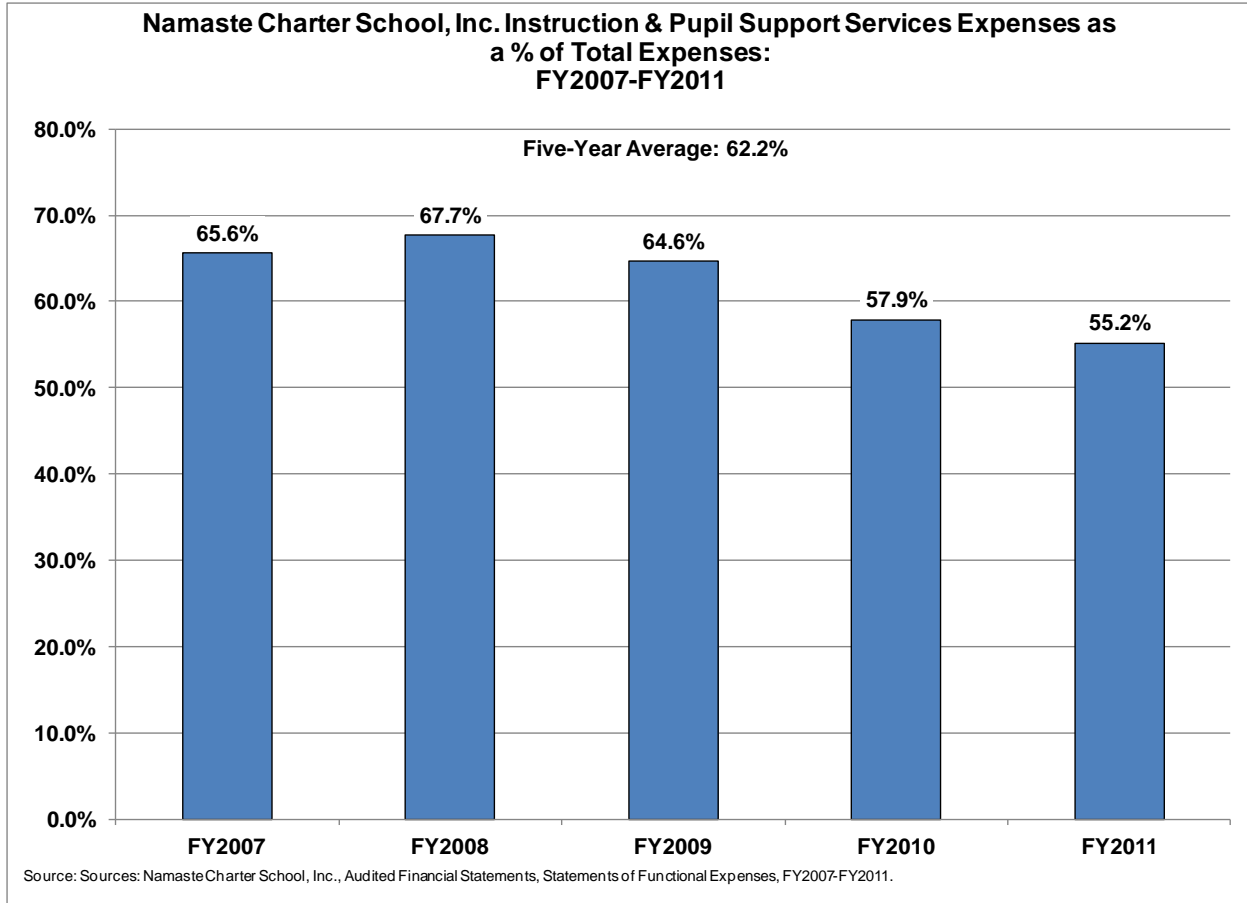
Sources: Namaste Charter School, Inc., Audited Financial Statements, Statements of Functional Expenses, FY2007-FY2011.

**Namaste Charter School, Inc. CPS Spending Categories
as a % of Total Expenses: FY2007-FY2011**



Sources: Namaste Charter School, Inc., Audited Financial Statements, Statements of Functional Expenses, FY2007-FY2011.

The next exhibit shows combined expenses for Namaste instruction and pupil support services. The two categories are combined here to provide an overview of total classroom-related or education-related expenses. In the five-year period reviewed, the combined average for instruction and pupil support services expenses was 62.2% of all expenses.



Financial Indicator Analysis

The primary purpose of a financial indicator analysis is to measure the fiscal condition or health of an organization using a number of conventional yard sticks, or financial indicators. It is important to note that certain financial operations analytical measures used, such as the measures of financial practices, compliance and audit opinions also provide evaluations of accountability. They measure whether the charter schools met important standards of fiscal accountability as established by CPS or best practices.

Two different types of financial indicator analysis were employed in this chapter to provide a comprehensive picture of the financial position of the charter schools.

- **Fiscal Condition Analysis:** These analyses examined the overall fiscal health and liquidity of the charter schools. The measures used included year-end balance, fund balance ratio and the current ratio.

- **Financial Performance Analysis:** A financial performance analysis employs a variety of financial indicators commonly used in the private, public and nonprofit sectors. The indicators used in this analysis include the fixed assets ratio, the capitalization ratio, the debt-to-worth ratio, the occupancy ratio, the instruction ratio and the profit margin ratio. An additional review comparing three indicators to benchmarked standards – payroll ratio, occupancy ratio and payroll + occupancy ratio – also was conducted. This type of analysis is an adaptation of the fiscal analysis conducted annually by the District of Columbia Charter School Board.

The information used in the various analyses was derived from the budgets and audited financial statements of the Namaste charter school as well as financial reports published by the Chicago Public Schools. The methodology used to conduct the different types of analysis was adapted from those used in several key sources: Chicago Public Schools annual evaluation of its charter schools' performance,³⁸ Miron and Nelson's study of the finances of Pennsylvania charter schools,³⁹ the District of Columbia Public Charter School Board's General Performance Assessment (GPA) analysis⁴⁰ and standard financial statement ratio analyses commonly used in the public and nonprofit sectors.⁴¹

It is important to note that the assessments that follow represent a snapshot of financial performance at a point in time, in this case over a five-year period. They provide important general insights into the financial condition of the organization or a group of organizations. However, there are often extenuating circumstances regarding the particular situation of individual organizations. Identifying and evaluating the reasons for these individual circumstances is beyond the scope of the summary financial analysis, but will be explored in more depth in the interviews with Namaste charter school administrators.

Financial Condition Analysis

These analyses examined the overall fiscal health and liquidity of the charter schools. The measures used included year-end balance, fund balance ratio and the current ratio.

Year-End Balance (Change in Net Assets)

Charter schools must be fiscally viable if they are to succeed in the long term. One common indicator used to assess fiscal viability is *year-end balances*, also known as change in net assets.

The year-end fund balance is the amount of money reported when actual expenses are subtracted from revenues. It is reported as the "change in net assets" in charter school audited statements of activities. If it is negative, the school has a deficit for that fiscal year. A positive year-end

³⁸ Chicago Public Schools Office of New Schools, *Charter Schools Performance Report 2007-08*.

³⁹ Gary Miron and Christopher Nelson, *Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools*, The Evaluation Center, Western Michigan State University, October 2000.

⁴⁰ District of Columbia Public Charter School Board, *District of Columbia Fiscal Policy Handbook*, 3rd edition, July 2008. See also Thomas Nida and Bridget C. Bradley, "Assessing the Performance of Charter Schools," *RMA Journal*, December 2002, p. 2.

⁴¹ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005).

balance indicates a surplus. These year-end fund balances were reported on an accrual basis. Each year-end balance in the five-year analysis has been positive, indicating a surplus. They ranged from a low of 2.7% of revenues in FY2011 to a high of 22.0% in FY2007. However, in a five-year trend analysis, Namaste’s year-end balances have decreased by 77.9%. If this declining trend continues, it may indicate financial trouble for Namaste.

Namaste Charter School, Inc. Year-End Balance: FY2007-FY2011							
	FY2007	FY2008	FY2009	FY2010	FY2011	Five-Year \$ Change	Five-Year % Change
Total Revenue	\$ 2,753,984	\$ 3,261,386	\$ 3,895,744	\$ 5,374,606	\$ 5,006,703	\$ 2,252,719	81.8%
Total Expenses	\$ 2,147,985	\$ 2,644,215	\$ 3,463,450	\$ 3,970,273	\$ 4,872,761	\$ 2,724,776	126.9%
Year-End Balance (YEB)	\$ 605,999	\$ 617,171	\$ 432,294	\$ 1,404,333	\$ 133,942	\$ (472,057)	-77.9%
YEB as % of Revenues	22.0%	18.9%	11.1%	26.1%	2.7%		

Sources: Namaste Charter School, Inc., Audited Financial Statements, Statements of Activities, FY2007-FY2011.

Unrestricted Net Assets as a % of Expenses (Fund Balance Ratio)

The fund balance ratio is a measure of resources available to use for emergencies or contingencies. It is prudent for all organizations to set aside some amount of reserves to be used for these purposes. Failure to establish reserves means that the organization may be forced to reduce spending on core programs or borrow funds to meet obligations if there is an unforeseen financial problem. If higher ratios are reported, then financial risk is reduced as the organization can draw on reserve funds to meet contingencies. If lower ratios are reported, the organization faces greater risk in meeting contingent expenses.

The fund balance ratio is produced by calculating charter school unrestricted net assets as a percentage of expenses. Unrestricted net assets can be used for any purpose by an organization. The data are drawn from the charter school audited financial statements.

What is an appropriate fund balance ratio? When calculating each school district’s financial profile, the Illinois State Board of Education requires that school districts maintain a fund balance ratio of 10% or more to receive a “financial recognition” rating and thus avoid being placed on a financial watchlist.⁴² If the ratio is greater than 10%, the district receives progressively better ratings.⁴³ As it is important for school districts to maintain adequate reserves to prepare for contingencies, it is also important for charter schools to do the same. This is particularly true in the early years after formation as startup costs can be high. In addition, the schools may need to reserve funds for future planned expansions or capital campaigns. Thus, the Civic Federation considers a charter school fund balance ratio of 10% or more “positive” while a fund balance of less than 10% would be considered “negative.”

The fund balance ratio for Namaste greatly exceeded 10%, indicating more than adequate reserves. The fund balance ratio averaged 85.8% for the five-year period.

⁴² Illinois State Board of Education, “Financial Assurance and Accountability System,” <http://www.isbe.net/board/meetings/2000-2002/march01meeting/3%2701FAASQA.pdf> (last visited October 3, 2014).

⁴³ Illinois State Board of Education, *The School District Financial Profile*, March 2003.

Namaste Charter School, Inc.					
Unrestricted Net Assets as a Percentage of Total Expenses:					
FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Unrestricted Net Assets	\$ 1,633,163	\$ 2,263,188	\$ 2,707,208	\$ 4,136,672	\$ 4,163,269
Total Expenses	\$ 2,147,985	\$ 2,644,215	\$ 3,477,851	\$ 3,970,273	\$ 4,872,761
Unrestricted Net Assets Ratio	76.0%	85.6%	77.8%	104.2%	85.4%

Sources: Namaste Charter School, Inc., Audited Financial Statements, Statements of Activities and of Financial Position, FY2007-FY2011.

Current Ratio

The current ratio is a measure of liquidity. It assesses the ability of a school to meet its current obligations as they come due by indicating whether the organization has enough cash and other liquid resources to meet its obligations in the near term. A ratio of 1.0 means that current assets are sufficient to cover current liabilities. The formula for calculating the current ratio is Current Assets/Current Liabilities. Although the needs of organizations can and do vary, it is commonly accepted that the current ratio should be close to 2.0 or higher.⁴⁴ Information for calculating the current ratio is found in the Balance Sheet of a school's audited financial statements.

The current ratio fell from 14.8 in FY2007 to 0.4 in FY2010, before rising to 4.5 in FY2011. The current ratio averaged 5.9 over the five-year period. The ratio fell below the 1.0 threshold for two consecutive years in FY2009 and FY2010, meaning that Namaste's current assets were not sufficient enough to cover its current liabilities in those years. The low ratios of 0.9 in FY2009 was likely the result of especially high costs in accounts payable and accrued expenses (\$2.5 million) and bonds payable (\$4.0 million). High costs in bonds payable (\$4.0 million) and loans payable (\$2.4 million) in FY2010 contributed to the low ratio of 0.4 in that year.

⁴⁴ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 476.

Namaste Charter School, Inc. Current Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Current Assets					
Cash	\$ 1,617,083	\$ 1,821,722	\$ 1,584,915	\$ 2,209,292	\$ 2,171,865
Grants and pledges receivable	\$ 108,848	\$ 264,348	\$ 284,337	\$ 205,644	\$ 254,066
Interest receivable	\$ 2,663	\$ 128	\$ -	\$ -	\$ -
Other receivable	\$ -	\$ -	\$ 90,674	\$ 60,295	\$ 43,957
Prepaid expenses	\$ 86,674	\$ 8,997	\$ 3,421	\$ 19,197	\$ 1,711
Restricted certificate of deposit	\$ -	\$ 130,671	\$ -	\$ -	\$ -
Cash - restricted by bond indenture	\$ -	\$ -	\$ 3,931,653	\$ 86,418	\$ -
Subtotal Current Assets	\$ 1,815,268	\$ 2,225,866	\$ 5,895,000	\$ 2,580,846	\$ 2,471,599
Current Liabilities					
Accounts payable and accrued expenses	\$ 47,008	\$ 22,610	\$ 2,453,182	\$ 172,814	\$ 211,639
Capital lease payable	\$ 5,766	\$ 3,182	\$ 694	\$ 9,795	\$ 3,884
Bond payable	\$ -	\$ -	\$ 4,000,000	\$ 3,970,171	\$ 202,409
Loans payable	\$ 69,881	\$ 225,763	\$ 167,082	\$ 2,411,222	\$ 105,055
Deferred revenue	\$ -	\$ -	\$ -	\$ 40,790	\$ 28,700
Deferred rent and lease incentive	\$ -	\$ -	\$ 134,090	\$ 206,403	\$ -
Subtotal Current Liabilities	\$ 122,655	\$ 251,555	\$ 6,755,048	\$ 6,811,195	\$ 551,687
Current Ratio	14.8	8.8	0.9	0.4	4.5

Sources: Namaste Charter School, Inc., Audited Financial Statements, Statements of Financial Position, FY2007-FY2011.

Financial Performance Analysis

A financial performance analysis evaluates an organization's overall financial health, profitability and viability over a given period of time. It can be used to compare similar organizations in the private, public or nonprofit sectors. An assessment can be made about the financial status of an organization by reviewing information from the organization's audited financial statements, performing ratio analysis with that data and, if possible, also using comparative data.⁴⁵

Fixed Assets Ratio

The fixed assets ratio measures how much of an organization's total assets are fixed assets. Fixed assets are illiquid and cannot readily be converted to cash. The greater the percentage of total assets that are in fixed assets, the less flexibility the organization has to convert assets to cash to fund service demands. Fixed assets are long-term assets that will not be used or converted to cash within a one-year period.⁴⁶ They include real estate, leasehold improvements and furniture, fixtures and equipment (FFE). Total assets are the monetary value of anything the organization owns. The formula for calculating the fixed asset ratio is Fixed Assets/Total Assets.⁴⁷ A ratio of 0.5 or higher may indicate that too much of the organization's capital is in fixed assets. As a result, the organization may have insufficient access to capital and likely maintains low cash reserves. This can inhibit the organization's ability to meet increased service demands.

⁴⁵ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 498.

⁴⁶ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 556.

⁴⁷ Fixed assets are reported in the Balance Sheets net of depreciation.

Information for calculating the fixed assets ratio is found in the Balance Sheet of a school's audited financial statements.

Namaste's fixed assets ratio grew from 0.04 in FY2007 to 0.77 five years later. The increasing fixed assets ratio indicates that Namaste may be accumulating too much of its capital in fixed assets over time.

Namaste Charter School, Inc. Fixed Assets Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Fixed Assets	\$ 71,287	\$ 403,472	\$ 3,660,857	\$ 8,436,221	\$ 8,278,964
Total Assets	\$ 1,886,555	\$ 2,632,626	\$ 9,568,413	\$ 11,028,893	\$ 10,811,659
Fixed Assets Ratio	0.04	0.15	0.38	0.76	0.77

Sources: Namaste Charter School, Inc., Audited Financial Statements, FY2007-FY2011.

Capitalization Ratio

The capitalization ratio is a measure of an organization's ability to meet its financial obligations. It indicates the relative proportion of capital or net assets that can be used to finance new assets. The formula for calculating the capitalization ratio is Capital/Total Assets. Capital in this case refers to total net assets or the residual value after liabilities have been subtracted from the assets of an organization. It includes both restricted and unrestricted net assets. Total assets are the monetary value of anything the organization owns. The higher the ratio, the more net assets are available to meet those obligations. A ratio of 0.31 or higher is optimal. Conversely, the lower the ratio, the less flexibility the organization has to meet its financial obligations. Information for calculating the capitalization ratio is found in the Balance Sheet of a school's audited financial statements.

Namaste's capitalization ratio fluctuated dramatically between FY2007 and FY2011, starting with a high ratio of 0.93 and ending with a ratio of 0.40. It reached a low of 0.29 in FY2009 before increasing to 0.38 the following year. With the exception of FY2009, the ratio has always been higher than 0.31, meaning Namaste has had flexibility to meet its financial obligations.

Namaste Charter School, Inc. Capitalization Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Total Net Assets	\$ 1,763,900	\$ 2,381,071	\$ 2,813,365	\$ 4,217,698	\$ 4,351,640
Total Assets	\$ 1,886,555	\$ 2,632,626	\$ 9,568,413	\$ 11,028,893	\$ 10,811,659
Capitalization Ratio	0.93	0.90	0.29	0.38	0.40

Sources: Namaste Charter School, Inc., Audited Financial Statements, Statements of Financial Position, FY2007-FY2011.

Debt-to-Worth Ratio

The debt-to-worth ratio is a measure of financial leverage. Also called a debt-to-equity ratio, it evaluates the degree to which an organization can use debt to finance asset acquisition.⁴⁸ The formula for calculating the debt-to-worth ratio is total liabilities/capital. Liabilities are the

⁴⁸ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 531.

financial obligations an organization owes while “worth” or capital is net assets. A lower debt-to-worth ratio is better as it indicates that there are sufficient net assets available to fund liabilities if needed and there is minimal risk of financial difficulties occurring. In Finkler’s book on financial management, he notes that the debt-to-worth ratio should not exceed 1.0, which means that net assets equal liabilities. However, the appropriate level varies from organization to organization.⁴⁹ For schools, which are necessarily capital intensive organizations, a ratio of up to 1.99 (or net assets equaling about 50% of liabilities) is acceptable. Information for calculating the debt-to-worth ratio is found in the Balance Sheet of a school’s audited financial statements.

The debt-to-worth ratio for the Namaste has fluctuated significantly between FY2007 and FY2011. In FY2007, the ratio was at its lowest level of the five years examined, 0.07 and grew to 2.40 in FY2009 due to a large amount of debt issuance in that year. It has since declined to 1.61 in FY2010 and to 1.48 in FY2011. Since FY2009, the debt-to-worth ratio indicates that Namaste has not been at risk for financial difficulties.

Namaste Charter School, Inc. Debt-to-Worth Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Total Liabilities	\$ 122,655	\$ 251,555	\$ 6,755,048	\$ 6,811,195	\$ 6,460,019
Total Net Assets	\$ 1,763,900	\$ 2,381,071	\$ 2,813,365	\$ 4,217,698	\$ 4,351,640
Debt-to-Worth Ratio	0.07	0.11	2.40	1.61	1.48

Sources: Namaste Charter School, Inc., Audited Financial Statements, Statements of Financial Position, FY2007-FY2011.

Occupancy Ratio

The occupancy ratio is a measure of how much of total revenues are consumed by the costs of occupying and maintaining school facilities. The formula for calculating the occupancy ratio is Occupancy Cost/Gross Revenue. Occupancy costs include rent, lease or mortgage payment; utilities, maintenance costs, real estate taxes, insurance related to building, uncapitalized repairs, gym rental and telephone/internet expenses. It does not include custodial or equipment lease expenses. Gross revenue is total revenue. A lower occupancy ratio is better as fewer resources are being used to pay for occupancy expenses. An occupancy ratio of no more than 0.15 is preferred. Information for calculating the occupancy ratio is found in the Statement of Activities or Statement of Functional Expenses of a school’s audited financial statements.

Namaste’s occupancy ratio averaged 0.12 between FY2007 to FY2011, indicating that the school was not using too many resources to pay for occupancy expenses.

⁴⁹ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 531.

Namaste Charter School, Inc. Occupancy Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Occupancy	\$ 169,246	\$ 202,716	\$ 209,388	\$ 277,189	\$ 322,169
Insurance	\$ 20,104	\$ 25,774	\$ 36,802	\$ 38,858	\$ 35,294
Real Estate Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Office Expense	\$ 27,399	\$ 27,655.00	\$ 40,799.00	\$ 29,269.00	\$ 56,487
Depreciation	\$ 211,044	\$ 46,169	\$ 39,994	\$ 163,071	\$ 375,743
Subtotal	\$ 427,793	\$ 302,314	\$ 326,983	\$ 508,387	\$ 789,693
Total Revenue	\$ 2,753,984	\$ 3,261,386	\$ 3,895,744	\$ 5,374,606	\$ 5,006,703
Occupancy Ratio	0.16	0.09	0.08	0.09	0.16

Sources: Namaste Charter School, Inc., Audited Financial Statements, Statements of Activities and of Functional Expenses, FY2007-FY2011.

Instruction Ratio

The instruction ratio measures how much of a school's gross revenues are used to pay for personnel related costs. The formula for calculating the instruction ratio is Payroll and Instruction Costs/Gross Revenue. Payroll costs include salaries, payroll tax and benefits, consultants, administrative and professional services and pension expenses. They do not include staff development costs, accounting and legal service expenses and management fees. Instruction costs include textbooks, classroom and recreation supplies. Gross revenue is total revenue. A lower instruction ratio is better, as it would indicate that personnel costs – the single largest expense in a school – are being kept under control. An instruction ratio of less than 0.55 is desirable. However, it is important to note that a ratio slightly above 0.55 is not necessarily a cause for concern. Instruction costs may increase in schools as teachers receive longevity raises or more experienced teachers are hired over time. This is not necessarily a negative factor as teaching is the core function of an educational institution and it is the single largest item of expenditure. The key issue here is recognition that increased personnel costs do place a fiscal strain on school budgets that must be planned for and met, either through increases in revenues or reductions other areas of expenditure. Information for calculating the instruction ratio is found in the Statement of Activities or Statement of Functional Expenses of a school's audited financial statements.

From FY2007 to FY2011, the instruction ratio for the Namaste fluctuated minimally between 0.43 (FY2010) and 0.59 (FY2008 and FY2011). Overall, it averaged 0.53, which is within range of the preferred ratio of 0.55 or less. The ratios earned by the school indicate that Namaste spent an appropriate amount of resources on instruction expenses.

Namaste Charter School, Inc. Instruction Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Salaries and wages	\$ 1,144,768	\$ 1,481,766	\$ 1,957,469	\$ 1,920,896	\$ 2,541,041
Employee Benefits & Payroll Taxes	\$ 270,902	\$ 281,773	\$ 316,316	\$ 350,141	\$ 383,741
Professional Services	\$ 9,750	\$ 9,480	\$ 17,484	\$ 17,813	\$ 33,949
Subtotal	\$ 1,425,420	\$ 1,773,019	\$ 2,291,269	\$ 2,288,850	\$ 2,958,731
Revenues	\$ 2,753,984	\$ 3,261,386	\$ 3,895,744	\$ 5,374,606	\$ 5,006,703
Instruction Ratio	0.52	0.54	0.59	0.43	0.59

Sources: Namaste Charter School, Inc., Audited Financial Statements, Statements of Activities and Functional Expenses, FY2007-FY2011.

Profit Margin Ratio

Charter schools are nonprofit organizations, and therefore not focused on amassing “profits.” However, their long term fiscal viability depends on maintaining reasonable reserves or a “profit margin” that can be used to generate earnings to expand their capital base.⁵⁰ The formula for calculating the profit margin ratio is Net Income/Gross Revenue. Net Income is net operating income before depreciation, amortization and interest expenses. A positive profit margin is preferred as it indicates the school operates at a “profit” and has some reserves. The higher the profit margin the better as a larger reserve affords greater long-term financial flexibility. Conversely, a low profit margin can indicate financial difficulty. Information for calculating the profit margin ratio is found in the Statement of Activities or Statement of Functional Expenses of a school’s audited financial statements.

Namaste’s profit margin was positive in each year examined between FY2007 and FY2011. However, it did decline from 0.22 in FY2007 to 0.11 in FY2009 and again in FY2011 to its lowest ratio in the five-year period of 0.03. This is a very low ratio, and therefore, future trends bear watching.

Namaste Charter School, Inc. Profit Margin Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Total Revenue	\$ 2,753,984	\$ 3,261,386	\$ 3,895,744	\$ 5,374,606	\$ 5,006,703
Total Expenses	\$ 2,147,985	\$ 2,644,215	\$ 3,463,450	\$ 3,970,273	\$ 4,872,761
Subtotal Net Income	\$ 605,999	\$ 617,171	\$ 432,294	\$ 1,404,333	\$ 133,942
Total Revenue	\$ 2,753,984	\$ 3,261,386	\$ 3,895,744	\$ 5,374,606	\$ 5,006,703
Profit Margin Ratio	0.22	0.19	0.11	0.26	0.03

Sources: Namaste Charter School, Inc., Audited Financial Statements, Statements of Activities, FY2007-FY2011.

Days of Cash on Hand

This measure compares cash and marketable securities with daily operating expenses. The purpose is to evaluate how long the organization can meet daily expenses using cash and liquid assets that can readily be converted to cash.⁵¹ The Statement of Financial Position is the source of cash and marketable securities information, while the Statement of Functional Expenses contains relevant expense and depreciation data.

Between FY2007 and FY2011, Namaste averaged 223 days of cash on hand (over seven months of reserves). The ratio fell from a high of 305 days (roughly ten months of reserves) in FY2007 to a low of 168 days (approximately five months of reserves) in FY2009. The ratio increased to 212 days (seven months of reserves) in FY2010 before falling to 176 days (nearly six months of reserves) in FY2011. Throughout the five-year period of this review, the school has had adequate cash reserves.

⁵⁰ Thomas Nida and Bridget C. Bradley, “Assessing the Performance of Charter Schools,” *RMA Journal*, December 2002, p. 2.

⁵¹ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 527.

Namaste Charter School, Inc. Days of Cash on Hand: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Cash	\$ 1,617,083	\$ 1,821,722	\$ 1,584,915	\$ 2,209,292	\$ 2,171,865
Marketable Investments	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal	\$ 1,617,083	\$ 1,821,722	\$ 1,584,915	\$ 2,209,292	\$ 2,171,865
Expenses	\$ 2,147,985	\$ 2,644,215	\$ 3,477,851	\$ 3,970,273	\$ 4,872,761
Depreciation	\$ 211,044	\$ 46,169	\$ 39,994	\$ 163,071	\$ 375,743
Net Expenses	\$ 1,936,941	\$ 2,598,046	\$ 3,437,857	\$ 3,807,202	\$ 4,497,018
Daily Operating Expenses	\$ 5,307	\$ 7,118	\$ 9,419	\$ 10,431	\$ 12,321
Days of Cash on Hand Ratio	305	256	168	212	176

Sources: Namaste Charter School, Inc., Audited Financial Statements, Statements of Financial Position and of Functional Expenses, FY2007-FY2011.

Findings of Fiscal Analysis

Between FY2007 and FY2011, the fiscal health of Namaste Charter School, Inc. was mostly positive, as measured by the thirteen individual financial indicators used in this study. Three of these indicators pertained to how the charter schools spent their money and the remaining nine focused on the financial viability and performance of the schools. Eight of the thirteen indicators reported positive trends.

Positive Indicator Trends

Expense Analyses: All three expense indicators were positive. Namaste Charter School, Inc. (Namaste) spent over 65% of all expenditures on programming and over 50% on instruction and instruction-plus-pupil support services.

Financial Condition Analyses: Two of the three financial condition analyses were positive, year-end balance and fund balance ratio. For each of the five years reviewed, Namaste reported a surplus and its fund balance ratio was far above 10%, averaging 85.8% over the five years.

Financial Performance Analyses: Financial performance analyses trends were varied for Namaste with three positive indicators.

- The capitalization ratio dropped below the 0.31 threshold in FY2009; however, it increased in the following two years. The ratio averaged 0.58 across the five-year period, indicating that the school has had the flexibility to meet its financial obligations.
- The debt-to-worth ratio was higher than the maximum standard of 1.99 only in FY2009. For four of the five years examined, the school had sufficient net assets available to fund liabilities if needed and there was minimal risk of financial difficulties.
- The school reported a five-year average of 223 days of cash on hand. This is over seven months' worth of cash on hand and more than adequate to fund contingencies and deal with cash flow issues.

Adequate and Mixed Indicator Trends

Financial Condition Analyses: Two of the three financial condition analyses were positive; however, the current ratio exhibited a mixed ratio trend. The current ratio fluctuated significantly and was in excess of 2.0 in only FY2007, FY2008 and FY2011 and at 0.9 and below in FY2009-FY2010.

Financial Performance Analyses:

- The occupancy ratio was “adequate,” averaging 0.12 between FY2007 to FY2011. This was below the maximum standard of 0.15, but within an acceptable range of standard levels. In sum, the school was not using too many resources to pay for occupancy expenses.
- The instruction ratio for Namaste averaged 0.53, slightly lower than the preferred ratio of 0.55. Individual ratios in FY2009 and FY2011 grew to 0.59, but remained within acceptable levels.
- The profit margin was positive in each year examined, indicating that school possessed reserves and thus operated at a “profit.” This is a positive indicator; however, the profit margin levels were low and averaged 0.16 over the five years.

Negative Indicator Trends

Financial Performance Analyses: Financial performance analyses trends were varied for Namaste with one negative indicator.

- While the fixed assets ratio remained below the standard level of 0.5 between FY2007 and FY2009, it increased from year to year, indicating a negative trend. The ratio exceeded the standard level in FY2010 and FY2011 when it increased to the high levels of 0.76 and 0.77, respectively.

**Namaste Charter School, Inc. Financial Indicator Analysis:
FY2007-FY2011**

Indicator	FY2007	FY2008	FY2009	FY2010	FY2011	Standard	Five-Year Average	Trend
Expense Analysis								
Program Expense Analysis	83.9%	85.1%	85.8%	84.7%	84.0%	> 65%	84.7%	Positive
Spending on Instruction	54.7%	55.3%	54.6%	46.3%	48.9%	> 50%	52.0%	Positive
Spending on Instruction + Pupil Support Services	65.6%	67.7%	64.6%	57.9%	55.2%	> 50%	62.2%	Positive
Financial Condition Analysis								
Year-End Balance (Surplus or Deficit)	22.0%	18.9%	11.1%	26.1%	2.7%	Positive	16.2%	Positive
Fund Balance Ratio	76.0%	85.6%	77.8%	104.2%	85.4%	> 10%	85.8%	Positive
Current Ratio	14.8	8.8	0.9	0.4	4.5	> 2.0	5.88	Mixed
Financial Performance Analysis								
Fixed Assets Ratio	0.04	0.15	0.38	0.76	0.77	< 0.5	0.42	Negative
Capitalization Ratio	0.93	0.90	0.29	0.38	0.40	> 0.31	0.58	Positive
Debt-to-Worth Ratio	0.07	0.11	2.40	1.61	1.48	< 1.99	1.14	Positive
Occupancy Ratio	0.16	0.09	0.08	0.09	0.16	< 0.15	0.12	Adequate*
Instruction Ratio	0.52	0.54	0.59	0.43	0.59	< 0.55	0.53	Adequate*
Profit Margin Ratio	0.22	0.19	0.11	0.26	0.03	Positive	0.16	Low
Days of Cash on Hand	305	256	168	212	176	Higher the Better	223.4	High

* Some ratios are slightly low, but within an acceptable range of the standard levels.

Sources: Namaste Charter School, Inc. audited financial statements, FY2007-FY2011.

NORTH LAWNDALE CHARTER SCHOOL

The North Lawndale College Preparatory Charter High School was established in the fall of 1998. Its mission is to:

“...prepare young people from under-resourced communities for graduation from high school with the academic skills and personal resilience necessary for successful completion of college.”⁵²

In the 2011-2012 school year, the school operated two high school campuses in Chicago with a total enrollment of 871 students. Approximately 97.9% of all students were African American, 93.1% were from low income families and 10.7% were special education students. No students were reported with limited English proficiency.

North Lawndale Charter School Network Information 2011-2012							
Campus	Address	Grades	Enrollment	% African American Enrollment	% Low Income	% Limited English Proficiency	% Special Education
Christiana	1616 S. Spaulding Ave	9-12	452	97.6%	92.0%	0.0%	11.3%
Colins	1313 S. Sacramento Dr	9-12	419	98.3%	94.3%	0.0%	10.0%
Total			871	97.9%	93.1%	0.0%	10.7%

Source: Chicago Public Schools website.

North Lawndale Charter School Trends

The next exhibit shows North Lawndale charter school enrollment trends and statistics between the 2006-2007 and 2009-2010 school years. Complete data were not available for the 2010-2011 school year. During this period, the number of campuses increased from one to two and the total number of students rose by 84.8% or from 401 to 741. The student population averaged 97.1% African American, 94.1% low income and 62.3% from the neighborhood over the four school years reviewed. The student/teacher ratio rose from 15.0/1 to 19.5/1 between 2007 and 2009.

⁵² North Lawndale College Prep, *About Us*, http://www.nlcphs.org/index.php?option=com_content&view=category&layout=blog&id=73&Itemid=100 (last visited October 3, 2014).

North Lawndale Charter School Network Information				
	2006-2007	2007-2008	2008-2009	2009-2010
Grades	9-12	9-12	9-12	9-12
Total Enrollment	401	507	653	741
Student Ethnicity				
African American	94.5%	97.3%	98.3%	98.2%
Hispanic	5.5%	2.7%	1.7%	1.6%
White	0.0%	0.0%	0.0%	0.1%
Asian/Pacific Islander	0.0%	0.0%	0.0%	0.0%
Other	0.0%	0.0%	0.0%	0.0%
% Low Income	89.8%	96.9%	94.2%	95.4%
% Limited English Proficiency	0.0%	0.0%	0.0%	0.0%
% Special Education	8.1%	9.1%	10.3%	9.9%
Student/Teacher Ratio	15.0/1	15/1	19.5/1	N/A
% of Students from Neighborhood	43.9%	88.1%	61.2%	56.0%
# of Campuses	1	2	2	2

Complete Information not available for 2010-2011 school year. In that year there were 881 students.

Sources: Chicago Public Schools. Charter and Contract Schools Performance Reports.

North Lawndale Charter School Financial Analysis

This section presents an analysis of the operating finances of the North Lawndale charter school for the five year period between FY2007 and FY2011. It includes a fiscal trend analysis of revenues and expenses as well as a financial indicator analysis designed to measure the fiscal condition or health of the school.

The data for these analyses were derived from the Statements of Functional Expenses in North Lawndale charter school audited financial reports for FY2007 through FY2011.

Revenue Analysis

The revenue analysis examines North Lawndale charter school revenues by source and evaluates trends for the school-base revenues controlled by the charter school. The financial reports were prepared on an accrual basis.

School Revenues by Source

Chicago charter schools receive funding from a variety of federal, state and local sources, as well as school-based funds they generate from their own fundraising efforts. The many disparate revenue items listed in charter school audited financial statements have been grouped into five categories for purposes of analysis: federal, state, local, school-based and other funding. Local funding was provided by or through CPS. School-based funding includes grants, donations, contributions and the proceeds of various fundraising efforts. "Other" funding is all other funding and is not specified as to source.

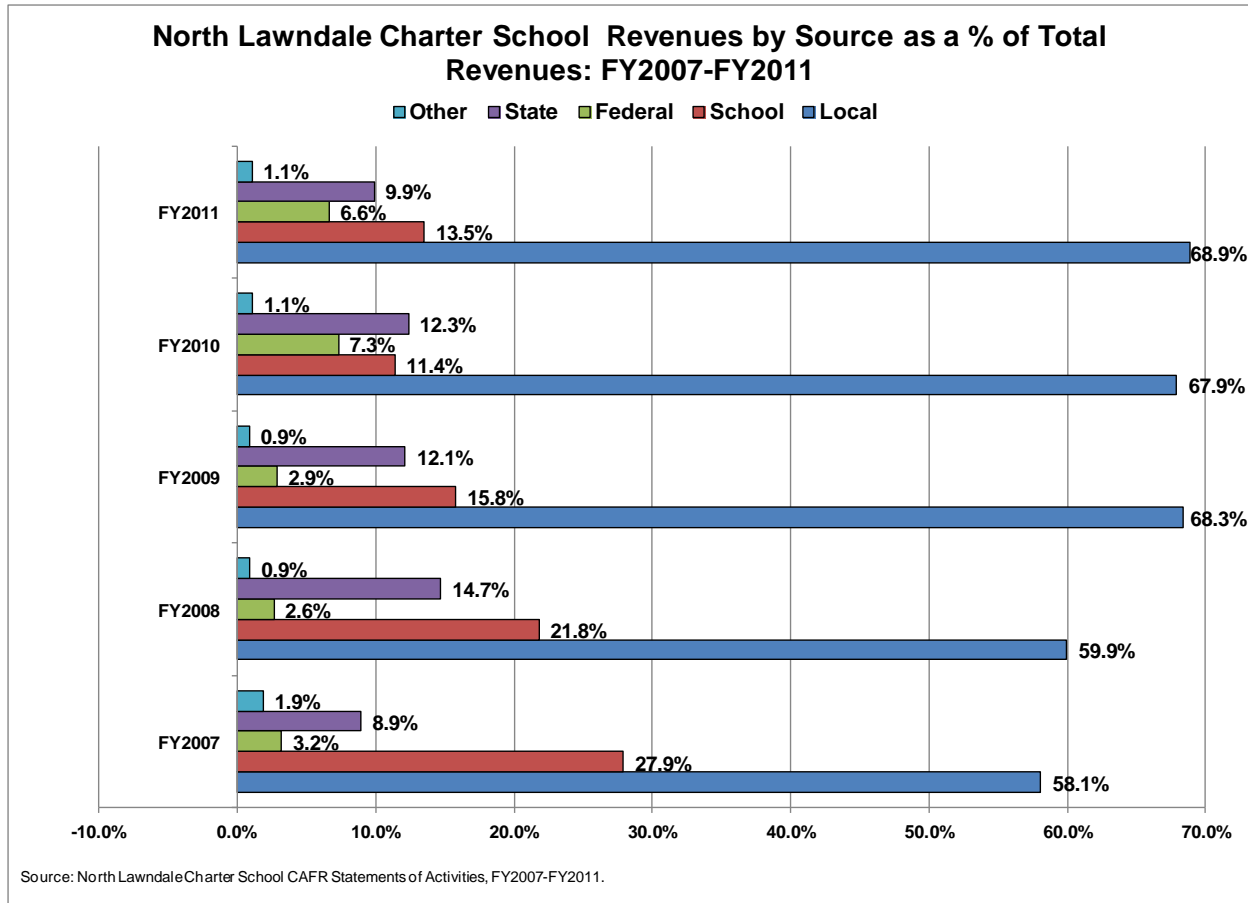
There are several caveats regarding the presentation of revenue data that follows. As the revenue items are not uniform across individual school financial statements, the groupings are approximate, based on the best available information. The following exhibits present the categories of charter school revenues, gains and other supports developed for this analysis.

From FY2007 to FY2011, North Lawndale charter school revenues increased from a total of \$5.0 million to roughly \$9.7 million. This represents a 91.6% increase of approximately \$4.6 million. Most of the increase was from increased local source funding from CPS, which rose by \$3.7 million or 127.4% in the time period reviewed.

North Lawndale Charter School Revenues by Source: FY2007-FY2011									
Source	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Federal	\$ 162,053	\$ 175,038	\$ 227,562	\$ 676,471	\$ 640,060	\$ (36,411)	-5.4%	\$ 478,007	295.0%
State	\$ 449,840	\$ 977,780	\$ 965,600	\$ 1,144,789	\$ 954,054	\$ (190,735)	-16.7%	\$ 504,214	112.1%
Local	\$ 2,925,863	\$ 3,983,319	\$ 5,433,974	\$ 6,292,014	\$ 6,653,811	\$ 361,797	5.8%	\$ 3,727,948	127.4%
School	\$ 1,406,088	\$ 1,447,363	\$ 1,254,715	\$ 1,054,372	\$ 1,305,001	\$ 250,629	23.8%	\$ (101,087)	-7.2%
Other	\$ 95,042	\$ 61,392	\$ 68,770	\$ 101,917	\$ 102,076	\$ 159	0.2%	\$ 7,034	7.4%
Total	\$ 5,038,886	\$ 6,644,892	\$ 7,950,621	\$ 9,269,563	\$ 9,655,002	\$ 385,439	4.2%	\$ 4,616,116	91.6%

Source: North Lawndale Charter School CAFRs, Statement of Activities, FY2007-FY2011.

The next exhibit presents each of the revenues as a percentage of total revenues. The largest portion of charter school funding in each of the five years evaluated was from local sources provided by or through CPS. It increased from 58.1% of all revenues in FY2007 to 68.9% five years later. Overall, local funding averaged 64.6% of all revenues in that period. The second largest source of revenue was school-based, that is grants, donations, contributions and the proceeds of various fundraising efforts. These revenues fell from 27.9% of all revenues in FY2007 to 13.5% five years later. The combined average of state and federal source revenues was 16.1% over the five-year period. Other income averaged only 1.2% of all revenue between FY2007 and FY2011.



School Based Revenues

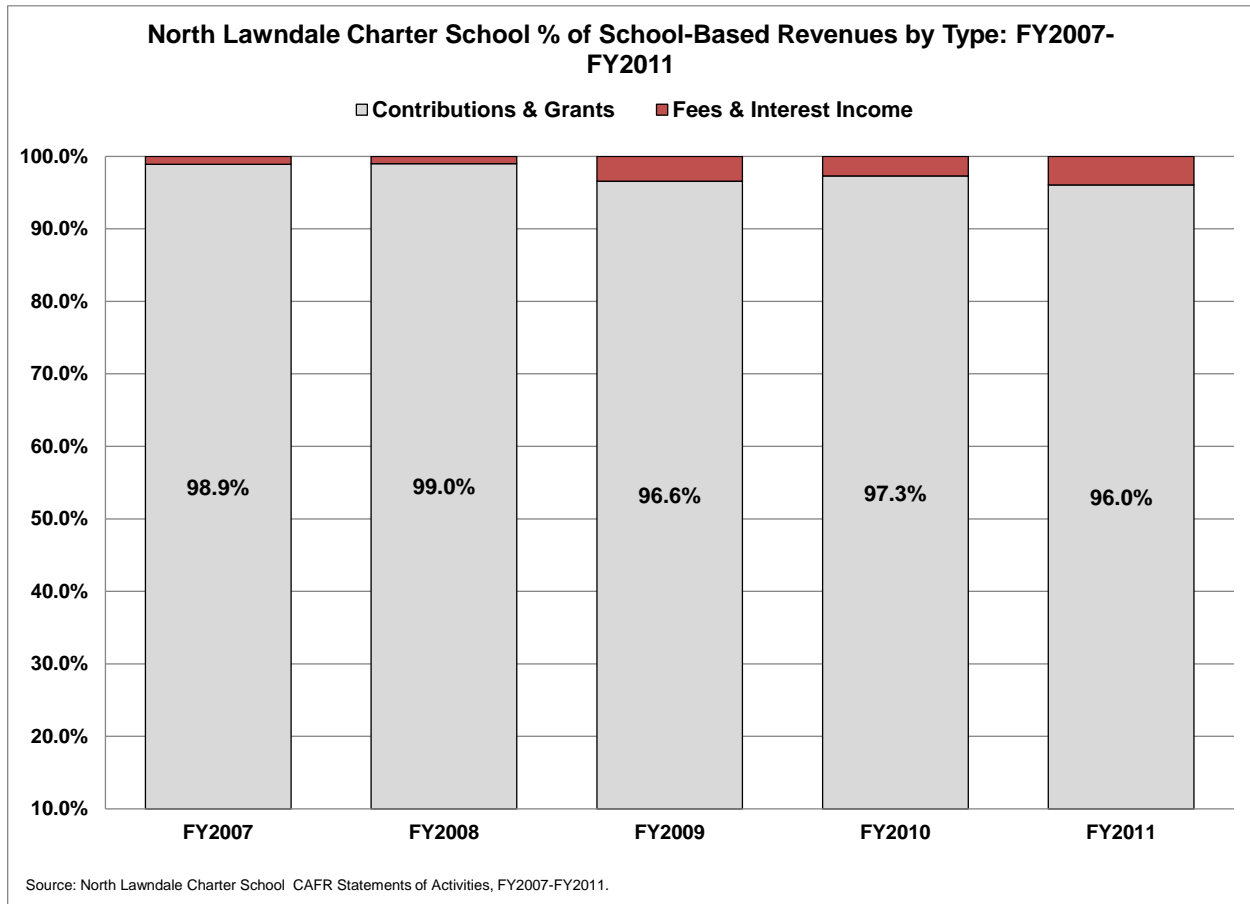
There are a variety of ways charter schools generate income that they control. They include:

- Applying for and receiving corporate, foundation and individual grants, donations and contributions;
- Hosting fundraising events, including student fundraisers;
- Charging program and student fees;
- Generating interest income; and
- Receiving management service fees.

Total North Lawndale charter school school-based revenues fell from \$1.4 million in FY2007 to \$1.3 million in FY2011, a 7.2% decrease. The largest dollar decrease came from contributions and grants which fell from nearly \$1.4 million to \$1.3 million. These types of revenues averaged 97.6% of all school-based revenues during the period reviewed.

North Lawndale Charter School School-Based Revenues by Type FY2007-FY2011									
Revenue	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Grants and Contributions	\$ 1,390,831	\$ 1,432,937	\$ 1,211,647	\$ 1,025,914	\$ 1,253,425	\$ 227,511	22.2%	\$ (137,406)	-9.9%
Student Fees and Activities	\$ 12,715	\$ 11,011	\$ 39,351	\$ 26,818	\$ 49,209	\$ 22,391	83.5%	\$ 36,494	287.0%
Interest Income	\$ 2,542	\$ 3,415	\$ 3,717	\$ 1,640	\$ 2,367	\$ 727	44.3%	\$ (175)	-6.9%
Total	\$ 1,406,088	\$ 1,447,363	\$ 1,254,715	\$ 1,054,372	\$ 1,305,001	\$ 250,629	23.8%	\$ (101,087)	-7.2%

Source: North Lawndale Charter School CAFR Statements of Activities, FY2007-FY2011.



Expense Analysis

The expense analysis examines how much of the North Lawndale charter school's resources were spent on instruction-related expenses versus administrative expenses.

Program Expense Analysis

Nonprofit organizational audited financial reports include a detailed Statement of Functional Expenses that summarizes all expenses into three broad categories: 1) Program Services, 2)

Supporting Services: Management and 3) Supporting Services: Fundraising. Program services expenses are the funds a nonprofit devotes to its direct mission-related work or direct service expenses. The two types of supporting service expenses (management and fundraising) can be considered administrative expenses. These categories are calculated differently from the categories in the next section, which is focused on instructional or classroom-based expenses.

One of the most common metrics used to evaluate how much of a nonprofit organization's expenses are mission related is the program ratio, which measures the relationship between program expenses and the organization's total expenses. The calculation for the program ratio is program service expenses/total expenses. The Better Business Bureau's Giving Alliance Standards for Charity Accountability recommend that nonprofit organizations spend at least 65% of total expenses on program activities.⁵³

There is a caveat in interpreting program ratios. In general, a higher program ratio is preferable. However, there may be good reasons for a lower ratio. Newer organizations, such as the charter schools in this study, may have a lower program ratio than older organizations because a greater amount of resources may be used for various startup costs in initial years. These costs include expenses for facilities and infrastructure. In addition, certain services may require a greater amount of administrative support than others. But, over time, the amount of funds used for program services should increase.⁵⁴

The first exhibit shows how much the North Lawndale charter school network spent on program services, management supporting services and fundraising supporting services. Over the five-year period of analysis, program services spending rose from nearly \$4.4 million to \$8.9 million. This was a \$4.5 million or 101.4% increase. Similarly there were large increases in expenses for management and fundraising supporting services.

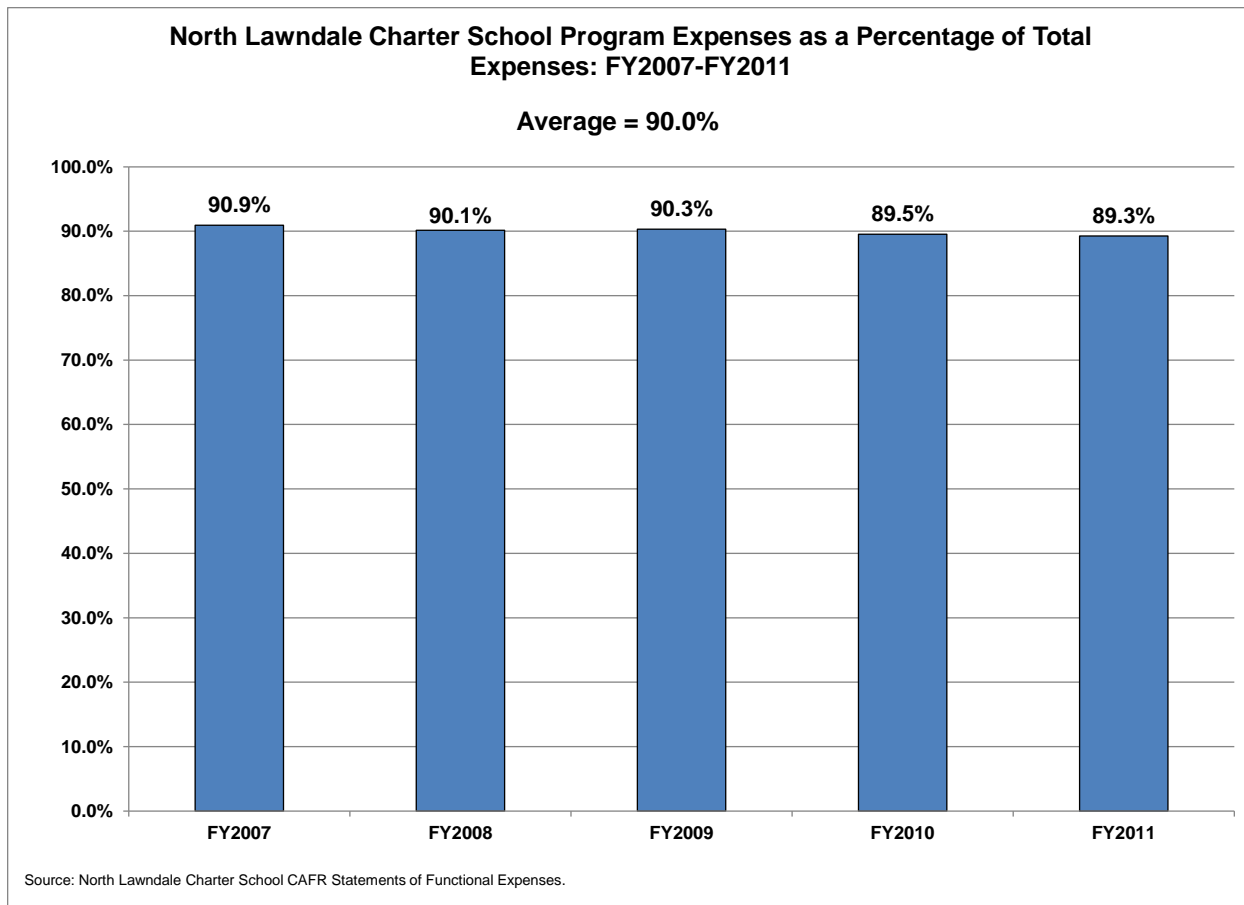
North Lawndale Charter School Expenses by Category: FY2007-FY2011									
Expense	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Program Services	\$4,398,964	\$5,833,772	\$7,399,627	\$8,207,785	\$8,857,316	\$ 649,531	7.9%	\$ 4,458,352	101.4%
Management Supporting Services	\$ 329,130	\$ 447,487	\$ 562,704	\$ 683,731	\$ 812,240	\$ 128,509	18.8%	\$ 483,110	146.8%
Fundraising Supporting Services	\$ 109,711	\$ 191,365	\$ 230,422	\$ 274,133	\$ 254,258	\$ (19,875)	-7.3%	\$ 144,547	131.8%
Total	\$4,837,805	\$6,472,624	\$8,192,753	\$9,165,649	\$9,923,814	\$ 758,165	8.3%	\$ 5,086,009	105.1%

Source: North Lawndale Charter School CAFR Statements of Functional Expenses.

Between FY2007 and FY2011, program service expenses averaged 90.0%. This is a very high percentage and indicates funds were overwhelmingly spent on direct service versus administrative and other activities.

⁵³ Better Business Bureau, *Standards for Charity Accountability*, www.bbb.org/us/standards-for-charity-accountability/ (last visited October 3, 2014).

⁵⁴ Guidestar, "Why Ratios Aren't the Last Word," June 2004, <http://www2.guidestar.org/rxa/news/articles/2004/why-ratios-arent-the-last-word.aspx> (last visited October 3, 2014).



Instructional Expense Analysis

This analysis compared charter school expenses in five categories: Instruction, Pupil Support Services, Administrative Support Services, Facilities and Other. The primary purpose was to determine how much of a charter school's expenses were spent in the classroom on instruction-related expenses versus other expenses. It is much more detailed than the program expense analysis and permits a general comparison with CPS categories because the charter schools and CPS both present this information in their audited financial statements.

For this analysis, expenses are divided into five broad categories based on the categories in the Chicago Public Schools Statement of Activities.⁵⁵

1. **Instruction:** Expenses related to instruction, including teacher salaries and benefits, substitute teachers, field study and summer programs.

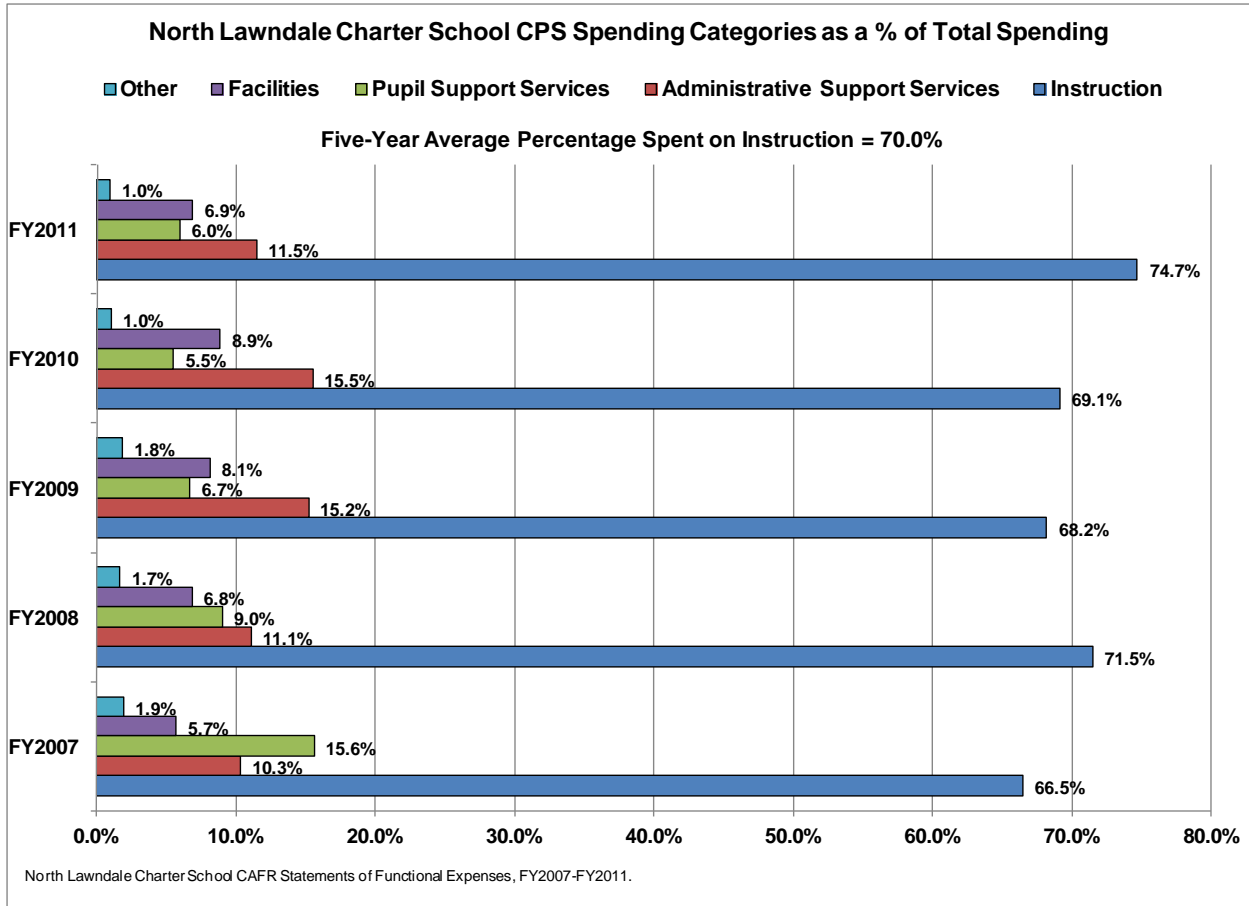
⁵⁵ Chicago Public Schools, *FY2007 Comprehensive Annual Financial Report*, Statement of Activities, p. 35. There is a sixth category of "Debt Service" in the CPS Statement of Activities that includes principal and interest expenses. However, the individual charter school Statements of Functional Expenses and Statements of Activities only report interest, so the category is not included in this analysis as it is not comparable.

2. **Pupil Support Services:** Expenses for pupil and instructional support, including curriculum development, classroom supplies, contributed goods and services, extracurricular activities, library books and supplies, special or student activities, textbooks, testing and teacher training.
3. **Administrative Support Services:** Expenses for administrative support services. These included employee salaries and benefits related to administrative functions, administration, commodities, contributed goods and services for computers or food service, development, food costs, management fees, marketing, office supplies, postage and printing, security and travel.
4. **Facilities:** Expenses related to maintenance of school buildings and infrastructure. This includes expenses for building trades, janitorial, rent, facility maintenance, repairs, technology and communications and depreciation and amortization.
5. **Other:** These expenses include those that do not fit into the other categories such as bad debts, community schools, interest expense, licensing, miscellaneous and other.

The next two exhibits show the actual amounts and percentage of total expenses devoted to each of the five spending categories. Over the five year period reviewed, expenses for instruction rose from approximately \$3.1 million to nearly \$7.2 million. The average percentage of expenses spent on instruction between FY2007 and FY2011 was 70.0%.

North Lawndale Charter School CPS Spending Categories FY2007-FY2011									
Spending Category	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Instruction	\$3,083,124	\$4,472,067	\$5,416,531	\$6,127,853	\$7,170,180	\$1,042,327	17.0%	\$4,087,056	132.6%
Pupil Support Services	\$ 723,854	\$ 562,230	\$ 530,608	\$ 489,175	\$ 571,401	\$ 82,226	16.8%	\$ (152,453)	-21.1%
Administrative Support Services	\$ 479,090	\$ 692,439	\$1,206,813	\$1,374,377	\$1,102,261	\$ (272,116)	-19.8%	\$ 623,171	130.1%
Facilities	\$ 264,501	\$ 426,304	\$ 643,581	\$ 784,905	\$ 661,430	\$ (123,475)	-15.7%	\$ 396,929	150.1%
Other	\$ 88,833	\$ 104,557	\$ 145,725	\$ 91,860	\$ 91,430	\$ (430)	-0.5%	\$ 2,597	2.9%
Total	\$4,639,402	\$6,257,597	\$7,943,258	\$8,868,170	\$9,596,702	\$ 728,532	8.2%	\$4,957,300	106.9%

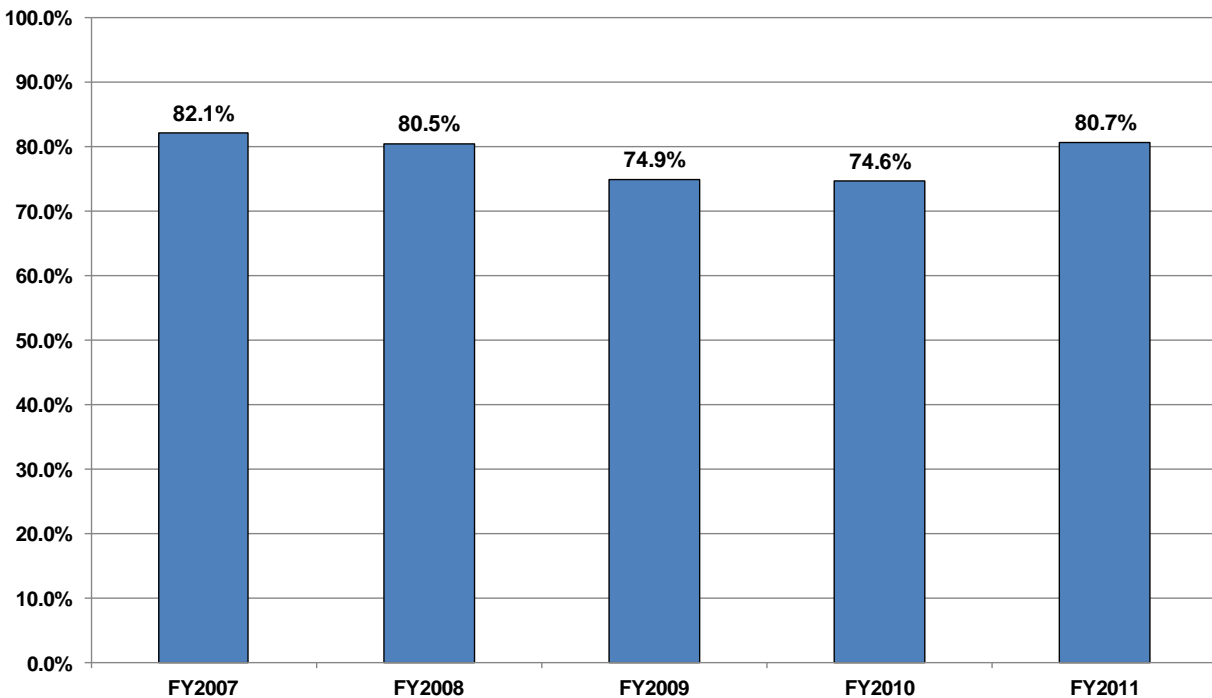
Source: North Lawndale Charter School CAFR Statement of Functional Expenses, FY2007-FY2011.



The next exhibit shows combined expenses for North Lawndale charter school instruction and pupil support services as a percentage of total expenses for FY2007 through FY2011. The two categories are combined here to provide an overview of total classroom-related or education-related expenses. In the five-year period reviewed, the combined average of instruction and pupil support services expenses was 78.5% of all expenses.

North Lawndale Charter School Instruction & Pupil Support Services Expenses as a % of Total Expenses

Five-Year Average = 78.5%



Source: North Lawndale Charter School CAFR Statements of Functional Expenses, FY2007-FY2011.

Financial Indicator Analysis

The primary purpose of a financial indicator analysis is to measure the fiscal condition or health of an organization using a number of conventional yard sticks, or financial indicators. It is important to note that certain financial operations analytical measures used, such as the measures of financial practices, compliance and audit opinions also provide evaluations of accountability. They measure whether the charter schools met important standards of fiscal accountability as established by CPS or best practices.

Two different types of financial indicator analysis were employed in this chapter to provide a comprehensive picture of the financial position of the charter schools.

1. **Fiscal Condition Analysis:** These analyses examined the overall fiscal health and liquidity of the charter schools. The measures used included year-end balance, fund balance ratio and the current ratio.
2. **Financial Performance Analysis:** A financial performance analysis employs a variety of financial indicators commonly used in the private, public and nonprofit sectors. The indicators used in this analysis include the fixed assets ratio, the capitalization ratio, the debt-to-worth ratio, the occupancy ratio, the instruction ratio and the profit margin ratio. An additional review comparing three indicators to benchmarked standards – payroll

ratio, occupancy ratio and payroll + occupancy ratio – also was conducted. This type of analysis is an adaptation of the fiscal analysis conducted annually by the District of Columbia Charter School Board.

The information used in the various analyses was derived from the budgets and audited financial statements of the North Lawndale charter school as well as financial reports published by the Chicago Public Schools. The methodology used to conduct the different types of analysis was adapted from those used in several key sources: Chicago Public Schools annual evaluation of its charter schools' performance,⁵⁶ Miron and Nelson's study of the finances of Pennsylvania charter schools,⁵⁷ the District of Columbia Public Charter School Board's General Performance Assessment (GPA) analysis⁵⁸ and standard financial statement ratio analyses commonly used in the public and nonprofit sectors.⁵⁹

It is important to note that the assessments that follow represent a snapshot of financial performance at a point in time, in this case over a five-year period. They provide important general insights into the financial condition of the organization or a group of organizations. However, there are often extenuating circumstances regarding the particular situation of individual organizations. Identifying and evaluating the reasons for these individual circumstances is beyond the scope of the summary financial analysis, but will be explored in more depth in the interviews with North Lawndale charter school administrators.

Financial Condition Analysis

These analyses examined the overall fiscal health and liquidity of the charter schools. The measures used included year-end balance, fund balance ratio and the current ratio.

Year-End Balance (Change in Net Assets)

Charter schools must be fiscally viable if they are to succeed in the long term. One commonly used indicator used to assess fiscal viability was year-end balances, also known as change in net assets.

The year-end fund balance ratio is the amount of money reported when actual expenses are subtracted from revenues. It is reported as the "change in net assets" in charter school audited statements of activities. If it is negative, the school has a deficit for that fiscal year. A positive year-end balance indicates a surplus. These year-end fund balances were reported on an accrual basis. Between FY2007 and FY2010, the North Lawndale charter school year-end balances fluctuated, reporting surpluses in FY2007, FY2008 and FY2010 and deficits in FY2009 and FY2011. In FY2011 the year-end fund balance ratio was -2.8%, indicating a deficit. The five-

⁵⁶ Chicago Public Schools Office of New Schools, *Charter Schools Performance Report 2007-08*.

⁵⁷ Gary Miron and Christopher Nelson, *Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools*, The Evaluation Center, Western Michigan State University, October 2000.

⁵⁸ District of Columbia Public Charter School Board, *District of Columbia Fiscal Policy Handbook*, 3rd edition, July 2008. See also Thomas Nida and Bridget C. Bradley, "Assessing the Performance of Charter Schools," *RMA Journal*, December 2002.

⁵⁹ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005).

year average year-end balance was only 0.4%. Overall, from FY2007 to FY2011 the year-end fund balance declined from 4.0% to -2.8%. The trend is a negative one.

North Lawndale Charter School Year-End Balance: FY2007-FY2011							
	FY2007	FY2008	FY2009	FY2010	FY2011	5-Year \$ Change	5-Year % Change
Total Revenue	\$ 5,038,886	\$ 6,644,892	\$ 7,950,621	\$ 9,269,563	\$ 9,655,002	\$ 4,616,116	91.6%
Total Expenses	\$ 4,837,805	\$ 6,472,624	\$ 8,192,753	\$ 9,165,649	\$ 9,923,814	\$ 5,086,009	105.1%
Year-End Balance (YEB)	\$ 201,081	\$ 172,268	\$ (242,132)	\$ 103,914	\$ (268,812)	\$ (469,893)	-233.7%
YEB as % of Revenues	4.0%	2.6%	-3.0%	1.1%	-2.8%		

Source: North Lawndale Charter School, CAFR, Statements of Activities, FY2007-FY2011.

Unrestricted Net Assets as a % of Expenses (Fund Balance Ratio)

The fund balance ratio is a measure of resources available to use for emergencies or contingencies. It is prudent for all organizations to set aside some amount of reserves to be used for these purposes. Failure to establish reserves means that the organization may be forced to reduce spending on core programs or borrow funds to meet obligations if there is an unforeseen financial problem. If higher ratios are reported, then financial risk is reduced as the organization can draw on reserve funds to meet contingencies. If lower ratios are reported, the organization faces greater risk in meeting contingent expenses.

The fund balance ratio is produced by calculating charter school unrestricted net assets as a percentage of expenses. Unrestricted net assets can be used for any purpose by an organization. The data are drawn from the charter school audited financial statements.

What is an appropriate fund balance ratio? When calculating each school district's financial profile, the Illinois State Board of Education requires that school districts maintain a fund balance ratio of 10% or more to receive a financial recognition rating and thus avoid being placed on a financial watchlist.⁶⁰ If the ratio is greater than 10%, the district receives progressively better ratings.⁶¹ As it is important for school districts to maintain adequate reserves to prepare for contingencies, it is also important for charter schools to do the same. This is particularly true in the early years after formation as startup costs can be high. In addition, the schools may need to reserve funds for future planned expansions or capital campaigns. Thus, the Civic Federation considers a charter school fund balance ratio of 10% or more "positive" while a fund balance of less than 10% would be considered "negative."

The North Lawndale charter school fund balance ratio fell from 18.9% in FY2007 to 9.1% five years later. It fell steadily between FY2008 and FY2011. In the latter year the fund balance ratio fell below 10% for the first time. A continued erosion of the fund balance ratio in future years would indicate a loss of financial flexibility as reserves shrink. Thus, future trends bear watching.

⁶⁰ Illinois State Board of Education, "Financial Assurance and Accountability System," <http://www.isbe.net/board/meetings/2000-2002/march01meeting/3%2701FAASQA.pdf> (last visited October 3, 2014).

⁶¹ Illinois State Board of Education, *The School District Financial Profile*, March 2003.

North Lawndale Charter School Unrestricted Net Assets as a Percentage of Total Expenses FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Unrestricted Net Assets	\$ 913,089	\$ 1,307,303	\$ 1,065,171	\$ 1,169,085	\$ 900,273
Total Expenses	\$ 4,837,805	\$ 6,472,624	\$ 8,192,753	\$ 9,165,649	\$ 9,923,814
Unrestricted Net Assets Ratio	18.9%	20.2%	13.0%	12.8%	9.1%

Source: North Lawndale Charter School, CAFR, Statements of Financial Position and of Activities, FY2007-FY2011.

Current Ratio

The current ratio is a measure of liquidity. It assesses the ability of a school to meet its current obligations as they come due by indicating whether the organization has enough cash and other liquid resources to meet its obligations in the near term. A ratio of 1.0 means that current assets are sufficient to cover current liabilities. The formula for calculating the current ratio is Current Assets/Current Liabilities. Although the needs of organizations can and do vary, it is commonly accepted that the current ratio should be close to 2.0 or higher.⁶² Information for calculating the current ratio is found in the Statements of Financial Position in a school's audited financial statements.

The current ratio fell from 4.4 in FY2007 to 1.7 in FY2011. Over the five-year period, it averaged 3.2, a healthy ratio. However, in FY2011 the ratio fell below 2.0, a decrease from 4.4 in FY2007. The ratio did increase to 4.3 in FY2010 as the amount of current liabilities fell dramatically. However, the ratio dropped again in FY2011. If the downward trend continues in future years, it could be a cause for concern.

North Lawndale Charter School Current Ratio FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Current Assets					
Cash and Cash Equivalents	\$ 514,616	\$ 715,205	\$ 675,250	\$ 200,105	\$ 247,812
Receivables, net	\$ -	\$ -	\$ -	\$ -	\$ 53,611
Investments	\$ 7,032	\$ 16,540	\$ 9,733	\$ 5,037	\$ 6,284
Prepaid Expenses	\$ 9,468	\$ -	\$ 1,440	\$ 151,200	\$ 100,299
Subtotal Current Assets	\$ 531,116	\$ 731,745	\$ 686,423	\$ 356,342	\$ 408,006
Current Liabilities					
Accounts payable	\$ 37,371	\$ 110,756	\$ 96,120	\$ 38,209	\$ 6,226
Accrued expenses	\$ 57,564	\$ 112,895	\$ 177,210	\$ 45,534	\$ 138,830
Line of credit	\$ 25,000	\$ -	\$ -	\$ -	\$ 100,000
Subtotal Current Liabilities	\$ 119,935	\$ 223,651	\$ 273,330	\$ 83,743	\$ 245,056
Current Ratio	4.4	3.3	2.5	4.3	1.7

Source: North Lawndale Charter School, CAFR, Statements of Financial Position, FY2007-FY2011.

Financial Performance Analysis

A financial performance analysis evaluates an organization's overall financial health, profitability and viability over a given period of time. It can be used to compare similar

⁶² Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 476.

organizations in the private, public or nonprofit sectors. An assessment can be made about the financial status of an organization by reviewing information from the organization’s audited financial statements, performing ratio analysis with that data and, if possible, also using comparative data.⁶³

Fixed Assets Ratio

The fixed assets ratio measures how much of an organization’s total assets are fixed assets. Fixed assets are illiquid and cannot readily be converted to cash. The greater the percentage of total assets that are in fixed assets, the less flexibility the organization has to convert assets to cash to fund service demands. Fixed assets are long-term assets that will not be used or converted to cash within a one-year period.⁶⁴ They include real estate, leasehold improvements and furniture, fixtures and equipment (FFE). Total assets are the monetary value of anything the organization owns. The formula for calculating the fixed asset ratio is Fixed Assets/Total Assets.⁶⁵ A ratio of 0.5 or higher may indicate that too much of the organization’s capital is in fixed assets. As a result, such an organization may have insufficient access to capital and likely maintains low cash reserves. This can inhibit the organization's ability to meet increased service demands. Information for calculating the fixed assets ratio is found in the Balance Sheet of a school’s audited financial statements.

The North Lawndale charter school fixed assets ratio increased from 0.76 in FY2007 to 0.80 five years later. The ratio was above 0.5 in each year reviewed, indicating that the school may have too great an amount of total assets in fixed assets.

North Lawndale Charter School Fixed Assets Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Fixed Assets	\$ 1,668,174	\$ 1,727,917	\$ 1,733,093	\$ 1,770,617	\$ 1,584,133
Total Assets	\$ 2,199,290	\$ 2,459,662	\$ 2,419,516	\$ 2,126,959	\$ 1,992,139
Fixed Assets Ratio	0.76	0.70	0.72	0.83	0.80

Source: North Law ndale Charter School CAFR Statements of Financial Position, FY2007-FY2011.

Capitalization Ratio

The capitalization ratio is a measure of an organization’s ability to meet its financial obligations. It indicates the relative proportion of capital or net assets that can be used to finance new assets. The formula for calculating the capitalization ratio is Capital/Total Assets. Capital in this case refers to total net assets or the residual value after liabilities have been subtracted from the assets of an organization. It includes both restricted and unrestricted net assets. Total assets are the monetary value of anything the organization owns. The higher the ratio, the more net assets are available to meet those obligations. A ratio of 0.31 or higher is optimal. Conversely, the lower the ratio, the less flexibility the organization has to meet its financial obligations. Information for

⁶³ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 498.

⁶⁴ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 556.

⁶⁵ Fixed assets are reported in the Balance Sheets net of depreciation.

calculating the capitalization ratio is found in the Balance Sheet of a school’s audited financial statements.

The North Lawndale charter school capitalization ratio averaged 0.50 in the five years reviewed. As the ratio has always been higher than 0.31, North Lawndale charter school has had flexibility to meet its financial obligations. However, it is worth noting the dollar value of net assets and total assets declined by 20.7% and 9.4% respectively, both negative trends.

North Lawndale Charter School Capitalization Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Total Net Assets	\$ 1,135,035	\$ 1,307,303	\$ 1,065,171	\$ 1,169,085	\$ 900,273
Total Assets	\$ 2,199,290	\$ 2,459,662	\$ 2,419,516	\$ 2,126,959	\$ 1,992,139
Capitalization Ratio	0.52	0.53	0.44	0.55	0.45

Source: North Lawndale Charter School CAFR Statements of Financial Position, FY2007-FY2011.

Debt-to-Worth Ratio

The debt-to-worth ratio is a measure of financial leverage. Also called a debt-to-equity ratio, it evaluates the degree to which an organization can use debt to finance asset acquisition.⁶⁶ The formula for calculating the debt-to-worth ratio is total liabilities/capital. Liabilities are the financial obligations an organization owes while “worth” or capital is net assets. A lower debt-to-worth ratio is better as it indicates that there are sufficient net assets available to fund liabilities if needed and there is minimal risk of financial difficulties occurring. In Finkler’s book on financial management, he notes that the debt-to-worth ratio should not exceed 1.0, which means that net assets equal liabilities. However, the appropriate level varies from organization to organization.⁶⁷ For schools, which are necessarily capital intensive organizations, a ratio of up to 1.99 (or net assets equaling about 50% of liabilities) is acceptable. Information for calculating the debt-to-worth ratio is found in the Balance Sheet of a school’s audited financial statements.

The debt-to-worth ratio for the North Lawndale charter school has fluctuated over time. In three of the five years reviewed (FY2007, FY2008 and FY2010) it has been below 1.0. However, in FY2009 and FY2011 it was 1.27 and 1.21 respectively. The average debt-to-worth ratio was 1.02 for the five-year period. As the ratio is below 1.99, the school has sufficient net assets available to fund liabilities if needed and the risk of financial difficulties occurring is low.

North Lawndale Charter School Debt to Worth Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Total Liabilities	\$ 1,064,255	\$ 1,152,359	\$ 1,354,345	\$ 957,874	\$ 1,091,866
Total Net Assets	\$ 1,135,035	\$ 1,307,303	\$ 1,065,171	\$ 1,169,085	\$ 900,273
Capitalization Ratio	0.94	0.88	1.27	0.82	1.21

Source: North Lawndale Charter School CAFR Statements of Financial Position, FY2007-FY2011.

⁶⁶ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 531.

⁶⁷ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 531.

Occupancy Ratio

The occupancy ratio is a measure of how much of total revenues are consumed by the costs of occupying and maintaining school facilities. The formula for calculating the occupancy ratio is Occupancy Cost/Gross Revenue. Occupancy costs include rent, lease or mortgage payment; utilities, maintenance costs, real estate taxes, insurance related to building, uncapitalized repairs, gym rental and telephone/internet expenses. It does not include custodial or equipment lease expenses. Gross revenue is total revenue. A lower occupancy ratio is better as fewer resources are being used to pay for occupancy expenses. An occupancy ratio of no more than 0.15 is preferred. Information for calculating the occupancy ratio is found in the Statement of Activities or Statement of Functional Expenses of a school's audited financial statements.

The North Lawndale charter school's occupancy ratio averaged 0.14 between FY2007 to FY2011, indicating that the school was not using too many resources to pay for occupancy expenses.

North Lawndale Charter School Occupancy Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Computer technology consulting & supplies	\$ 163,291	\$ 295,905	\$ 193,412	\$ 185,759	\$ 160,358
Facility charge	\$ -	\$ 129,863	\$ 339,320	\$ 635,472	\$ 529,887
Facility repairs	\$ -	\$ 27,445	\$ 24,485	\$ 24,272	\$ 16,088
Insurance	\$ 53,275	\$ 54,379	\$ 44,743	\$ 52,317	\$ 53,202
Janitorial	\$ 161,810	\$ 164,541	\$ 186,275	\$ 20,690	\$ 16,368
Office supplies	\$ -	\$ 29,646	\$ 44,772	\$ 46,231	\$ 11,512
Office expense	\$ 27,729	\$ 19,437	\$ 31,165	\$ 27,966	\$ 40,904
Phone	\$ 35,470	\$ 50,076	\$ 48,758	\$ 52,154	\$ 45,885
Depreciation	\$ 198,403	\$ 215,027	\$ 249,495	\$ 297,479	\$ 327,112
Subtotal	\$ 639,978	\$ 986,319	\$ 1,162,425	\$ 1,342,340	\$ 1,201,316
Total Revenue	\$ 5,038,886	\$ 6,644,892	\$ 7,950,621	\$ 9,269,563	\$ 9,655,002
Occupancy Ratio	0.13	0.15	0.15	0.14	0.12

Source: North Lawndale Charter School CAFR Statements of Activities and Functional Expenses, FY2007-FY2011.

Instruction Ratio

The instruction ratio measures how much of a school's gross revenues are used to pay for personnel related costs. The formula for calculating the instruction ratio is Payroll and Instruction Costs/Gross Revenue. Payroll costs include: salaries, payroll tax and benefits, consultants, administrative and professional services and pension expenses. They do not include staff development costs, accounting and legal service expenses and management fees. Instruction costs include textbooks, classroom and recreation supplies. Gross revenue is total revenue. A lower the instruction ratio is better, as it indicates that personnel costs – the single largest expense in a school – are being kept under control. An instruction ratio of less than 0.55 is desirable. However, it is important to note that a ratio slightly above 0.55 is not necessarily a cause for concern. Instruction costs may increase in schools as teachers receive longevity raises or more experienced teachers are hired over time. This is not necessarily a negative factor as teaching is the core function of an educational institution and it is the single largest item of expenditure. The key issue here is recognition that increased personnel costs do place a fiscal strain on school budgets that must be planned for and met, either through increases in revenues

or reductions in other areas of expenditure. Information for calculating the instruction ratio is found in the Statement of Activities or Statement of Functional Expenses of a school’s audited financial statements.

The instruction ratio for the North Lawndale charter school rose from 0.63 in FY2007 to 0.76 in FY2011, well above the preferred maximum ratio of 0.55. The average ratio for all five years was 0.67. Continued steady increases in instructional costs in future years could prove problematic in future years if the trend continues.

North Lawndale Charter School Instruction Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Wages	\$ 2,557,865	\$3,381,230	\$4,286,182	\$ 5,159,822	\$ 6,021,391
Contributed services	\$ 193,150	\$ 264,088	\$ 315,853	\$ 243,493	\$ 204,426
Payroll taxes & Benefits	\$ 446,072	\$ 514,447	\$ 688,523	\$ 894,102	\$ 1,089,215
Subtotal	\$ 3,197,087	\$ 4,159,765	\$ 5,290,558	\$ 6,297,417	\$ 7,315,032
Revenues	\$ 5,038,886	\$ 6,644,892	\$ 7,950,621	\$ 9,269,563	\$ 9,655,002
Instruction Ratio	0.63	0.63	0.67	0.68	0.76

Source: North Lawndale Charter School CAFR Statements of Activities and Functional Expenses, FY2007-FY2011.

Profit Margin Ratio

Charter schools are nonprofit organizations and therefore not focused on amassing “profits.” However, their long-term fiscal viability depends on maintaining reasonable reserves or a “profit margin” that can be used to generate earnings to expand their capital base.⁶⁸ The formula for calculating the profit margin ratio is Net Income/Gross Revenue. Net Income is net operating income before depreciation, amortization and interest expenses. A positive profit margin is preferred as it indicates the school operates at a “profit” and has some reserves. The higher the profit margin the better, as a larger reserve affords greater long-term financial flexibility. Conversely, a low profit margin can indicate financial difficulty. Information for calculating the profit margin ratio is found in the Statement of Activities or Statement of Functional Expenses of a school’s audited financial statements.

The North Lawndale charter school’s profit margin declined from 0.04 in FY2007 to -0.03 five years later. It averaged 0.0 over the five-year period. This is an indicator that the school may be experiencing some financial difficulties.

North Lawndale Charter School Profit Margin Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Total Revenue	\$5,038,886	\$6,644,892	\$7,950,621	\$ 9,269,563	\$ 9,655,002
Total Expenses	\$4,837,805	\$6,472,624	\$8,192,753	\$ 9,165,649	\$ 9,923,814
Subtotal Net Income	\$ 201,081	\$ 172,268	\$ (242,132)	\$ 103,914	\$ (268,812)
Total Revenue	\$5,038,886	\$6,644,892	\$7,950,621	\$ 9,269,563	\$ 9,655,002
Profit Margin Ratio	0.04	0.03	-0.03	0.01	-0.03

Source: North Lawndale Charter School CAFR Statements of Activities and Functional Expenses, FY2007-FY2011.

⁶⁸ Thomas Nida and Bridget C. Bradley, “Assessing the Performance of Charter Schools,” *RMA Journal*, December 2002, p. 2.

Days of Cash on Hand

This measure compares cash and marketable securities with daily operating expenses. The purpose is to evaluate how long the organization can meet daily expenses using cash and liquid assets that can readily be converted to cash.⁶⁹ The Statement of Financial Position is the source of cash and marketable securities information while the Statement of Functional Expenses contains relevant expense and depreciation data.

The North Lawndale charter school averaged 27 days of cash on hand (less than one month of reserves) between FY2007 and FY2011. The ratio fell from 41 days in FY2007 to just 9.7 days in FY2011. The number of days of cash on hand did increase slightly in FY2011. However, the overall steep decline is a negative indicator and could indicate financial difficulty.

North Lawndale Charter School Days of Cash on Hand: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Cash	\$ 514,616	\$ 715,205	\$ 675,250	\$ 200,105	\$ 247,812
Marketable Investments	\$ 7,032	\$ 16,540	\$ 9,733	\$ 5,037	\$ 6,284
Subtotal	\$ 521,648	\$ 731,745	\$ 684,983	\$ 205,142	\$ 254,096
Expenses	\$4,837,805	\$6,472,624	\$8,192,753	\$ 9,165,649	\$ 9,923,814
Depreciation	\$ 198,403	\$ 215,027	\$ 249,495	\$ 297,479	\$ 327,112
Net Expenses	\$4,639,402	\$6,257,597	\$7,943,258	\$ 8,868,170	\$ 9,596,702
Daily Operating Expenses	\$ 12,711	\$ 17,144	\$ 21,762	\$ 24,296	\$ 26,292
Days of Cash on Hand Ratio	41.0	42.7	31.5	8.4	9.7

Source: North Lawndale Charter School CAFR Statements of Financial Position and Functional Expenses, FY2007-FY2011

Findings of Fiscal Analysis

The financial indicator analysis of trends from FY2007 to FY2011 showed mixed results for the North Lawndale charter school. Three of these indicators pertained to how the charter schools spent their money and the remaining nine focused on the financial viability and performance of the schools.

Six of the 13 indicators reported positive trends. The school spent a large majority of resources on direct service programming and instructional-related expenses as opposed to administration. The school had sufficient net assets available to be able to finance new assets and to fund liabilities if needed. In addition, it was not using too many resources to pay for occupancy expenses.

However, seven of the 13 indicators showed negative directions. These could be warning signs of future financial difficulties if those trends continue.

The school may have too great an amount of total assets in fixed assets and its instructional costs are far above the preferred maximum ratio of 0.55. Most significantly, by FY2011 all of the indicators related to cash solvency and liquidity showed negative trends. The three financial condition indicators showed a decline in reserves and liquidity as the school reported a year-end

⁶⁹ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 527.

negative balance or deficit, a decline in the fund balance ratio to less than 10% and a current ratio that fell below the preferred 2.0 standard. A similar trend emerged regarding the number of days of cash of hand, which fell to just 9.7 days in FY2011. Finally, the school's profit margin, another measure of financial flexibility, fell into negative territory in FY2011. All of these indicators indicate a declining ability to deal with the pressures of increasing expenses as well as contingencies.

Positive Indicator Trends

Expense Analyses: All three expense indicators were positive. For each year reviewed, the North Lawndale charter school spent over 65% of all expenditures on programming and well over 50% on instruction as well as instruction plus pupil support services.

Financial Performance Analyses: Three of the seven financial performance analyses were positive.

- The North Lawndale charter school capitalization ratio averaged 0.50 in the five years reviewed. As the ratio has always been higher than 0.31, North Lawndale charter school has had flexibility to meet its financial obligations.
- The debt-to-worth ratio was well below 1.99 for each reviewed, averaging 1.02 for the five year period reviewed. Therefore, the school has sufficient net assets available to fund liabilities if needed.
- The North Lawndale charter school's occupancy ratio averaged 0.14 between FY2007 and FY2011, indicating that the school was not using too many resources to pay for occupancy expenses.

Negative Indicator Trends

Financial Condition Analyses: The trends for the three financial condition analyses were negative.

- While the five-year average year-end balance for the North Lawndale charter school was only 0.4%, it declined from 4.0% to -2.8% or a deficit. This is a negative trend and could be a cause for concern if it continues.
- The fund balance ratio declined from 18.99% in FY2007 to 9.1% in FY2011, under the preferred ratio of 10.0%. A continued erosion of the fund balance ratio in future years would indicate a loss of financial flexibility as reserves shrink.
- The current ratio fell from 4.4 in FY2007 to 1.7 in FY2011. It did increase to 4.3 in FY2010 as the amount of current liabilities fell dramatically. However, the ratio dropped again in FY2011. In FY2011 the ratio fell below 2.0 to 1.7, indicating a decline in liquidity. A 1.7 ratio means that the school still has sufficient assets to cover liabilities. However, the five-year downward trend is a cause for concern.

Financial Performance Analyses: Four of the seven financial performance analyses were negative.

- The fixed assets ratio averaged 0.76 between FY2007 and FY2011 and was above 0.5 in each of those years, indicating that the North Lawndale charter school may have too great an amount of total assets in fixed assets.
- The instruction ratio rose from 0.63 in FY2007 to 0.76 in FY2011, well above the preferred maximum ratio of 0.55. Continued steady increases in instructional costs in future years could prove problematic if the trend continues.
- The North Lawndale charter school's profit margin declined from 0.04 in FY2007 to -0.03 five years later. It averaged 0.0 over the five-year period. This is an indicator that the school may be experiencing some financial difficulties.
- The number of days of cash on hand fell from 41 days in FY2007 to just 9.7 days in FY2011. The trend is negative, indicating decreasing liquidity and flexibility to meet contingencies.

North Lawndale Charter School Financial Indicator Analysis: FY2007-FY2011								
Indicator	FY2007	FY2008	FY2009	FY2010	FY2011	Standard	5-Year Average	Trend
Expense Analysis								
Program Expense Analysis	90.9%	90.1%	90.3%	89.5%	89.3%	> 65%	90.0%	Positive
Spending on Instruction	66.5%	71.5%	68.2%	69.1%	74.7%	> 50%	70.0%	Positive
Spending on Instruction + Pupil Support Services	82.1%	80.5%	74.9%	74.6%	80.7%	> 50%	78.6%	Positive
Financial Condition Analysis								
Year-End Balance (Surplus or Deficit)	4.0%	2.6%	-3.0%	1.1%	-2.8%	Positive	0.4%	Negative
Fund Balance Ratio	18.9%	20.2%	13.0%	12.8%	9.1%	> 10%	14.8%	Negative
Current Ratio	4.4	3.3	2.5	4.3	1.7	> 2.0	3.2	Negative
Financial Performance Analysis								
Fixed Assets Ratio	0.76	0.70	0.72	0.83	0.80	< 0.5	0.76	Negative
Capitalization Ratio	0.52	0.53	0.44	0.55	0.45	> 0.31	0.50	Positive
Debt-to-Worth Ratio	0.94	0.88	1.27	0.82	1.21	< 1.99	1.02	Positive
Occupancy Ratio	0.13	0.15	0.15	0.14	0.12	< 0.15	0.14	Positive
Instruction Ratio	0.63	0.63	0.67	0.68	0.76	< 0.55	0.67	Negative
Profit Margin Ratio	0.04	0.03	(0.03)	0.01	(0.03)	Positive	0.00	Negative
Days of Cash on Hand	41.0	42.7	31.5	8.4	9.7	Higher the Better	26.7	Negative

Sources: North Lawndale Charter School audited financial statements, FY2007-FY2011.

UNO CHARTER SCHOOL NETWORK

The United Neighborhood Organization, or UNO, Charter School Network, Inc. began as a community organization in 1984 with the goal to empower the Hispanic population of Chicago. It opened its first charter school, Octavio Paz, in 1998 and the UNO network has since added twelve campuses. The mission of the UNO charter school network is to:

“...challenge Hispanics to define and attain standards of excellence for themselves towards an overall enfranchisement of this community, both in a broad sense of American social growth and at the local level in terms of stable neighborhoods and healthy families.”⁷⁰

In the 2011-2012 school year, UNO charter schools enrolled 6,520 students on thirteen Chicago campuses. As the exhibit shows, different campuses have varying grades, ranging from pre-kindergarten to 12th grade. Approximately 95.8% of UNO students were low income, 35.4% were limited English learners and 8.2% were special education students.

UNO Charter School Network, Inc. Information: 2011-2012						
Campus	Address	Grades	Enrollment	% Low Income	% Limited English Proficiency	% Special Education
51st and Homan	5050 S. Homan Ave.	Pre-K-8	574	97.4%	34.1%	6.3%
Bartolome de Las Casas	1641 W. 16th St.	K-8	288	97.9%	43.1%	10.4%
Carlos Fuentes	2845 W. Barry Ave.	K-8	567	91.2%	34.9%	6.3%
Officer Donald J. Marquez	2916 W. 47th St.	K-8	575	98.1%	43.3%	5.6%
Northside Elementary	7416 N. Ridge Blvd.	K-8	484	96.5%	36.6%	7.9%
Northside (Galewood)	2050 N. Natchez Ave.	K-8	554	96.0%	27.4%	6.5%
Octavio Paz	2651 W. 23rd St.	K-8	440	97.0%	40.0%	9.3%
St. Marks	2510 W. Cortez St.	Pre-K-8	270	95.6%	32.2%	10.4%
Rufino Tamayo	5135 S. California Ave.	K-8	288	97.2%	43.8%	10.1%
PFC Omar E. Torres	4248 W. 47th St.	K-8	635	93.7%	36.2%	8.0%
SPC Daniel Zizumbo	4248 W. 47th St.	K-8	636	93.9%	34.0%	6.1%
Sandra Cisneros	2744 W. Pershing Rd.	K-8	573	97.7%	40.1%	7.0%
Major Hector P. Garcia MD	4248 W. 47th St.	9-12	636	93.7%	14.6%	12.7%
Total/Average			6,520	95.8%	35.4%	8.2%

Source: Chicago Public Schools website.

UNO Charter School Network, Inc. Trends

The next exhibit shows UNO Charter School Network, Inc. enrollment trends and statistics between the 2006-2007 and 2009-2010 school years. Data were not available for the 2010-2011 school year. In these years, the number of campuses grew from five to nine and enrollment rose by 92.7%, or from 1,779 to 3,428 students. In all four school years, the vast majority of students (over 77.0%) were Hispanic. The percentage of low income students was always greater than 94.0%, while the percentage of special education students grew from 4.6% in the 2006-2007 school year to 7.0% in the 2009-2010 school year. The percentage of English language learners averaged 33.1% over the four school years.

⁷⁰ UNO Charter School Network, Inc., *Mission, History & Vision*, http://www.unocharterschools.org/mission_history_vision (last visited October 3, 2014).

UNO Charter School Network, Inc. Information: School Years 2006-2010				
	2006-2007	2007-2008	2008-2009	2009-2010
Grades	K-8	K-8	K-9	K-10
Total Enrollment	1,779	2,332	3,400	3,428
Student Ethnicity				
African American	20.0%	15.0%	7.4%	4.8%
Hispanic	77.9%	83.1%	90.9%	93.5%
White	1.1%	1.5%	0.6%	1.2%
Asian/Pacific Islander	0.1%	0.3%	0.2%	0.4%
Other	1.0%	0.0%	0.9%	0.0%
% Low Income	94.3%	95.1%	95.2%	95.3%
% Limited English Proficiency	24.3%	29.8%	36.6%	41.5%
% Special Education	4.6%	5.8%	5.1%	7.0%
Student/Teacher Ratio	21.6:1	17:1	Elementary: 23.6:1; High School: 20.7:1	N/A
% of Students from Neighborhood	46.6%	68.9%	80.1%	61.8%
# of Campuses	5	6	9	9

Information not available for 2010-2011 school year.

Sources: Chicago Public Schools. Charter and Contract Schools Performance Reports.

UNO Charter School Network, Inc. Financial Analysis

This section presents an analysis of the operating finances of the UNO Charter School Network, Inc. for the five-year period between FY2007 and FY2011. It includes a fiscal trend analysis of revenues and expenses as well as a financial indicator analysis designed to measure the fiscal condition or health of the school.

The data for these analyses were derived from the Statements of Functional Expenses in UNO audited financial reports for FY2007 through FY2011.

Revenue Analysis

The revenue analysis examines UNO revenues by source and evaluates trends for the school-based revenues controlled by the charter school.

School Revenues by Source

Chicago charter schools receive funding from a variety of federal, state and local sources, as well as school-based funds they generate from their own fundraising efforts. The many disparate revenue items listed in charter school audited financial statements have been grouped into four categories for purposes of analysis: federal, state, local and school-based and other funding. Local funding was provided by or through CPS. School-based funding includes grants, donations, contributions and the proceeds of various fundraising efforts. "Other" funding is all other funding and is not specified as to source.

There are several caveats regarding the presentation of revenue data that follows. As the revenue items are not uniform across individual school financial statements, the groupings are approximate, based on the best available information. For example, in UNO's audited financial statements, per capita tuition, Title I federal funds and Supplemental General State Aid (SGSA)

funds are lumped together even though they derive from different sources of funding.⁷¹ The following exhibits presents the categories of charter school revenues, gains and other supports developed for this analysis.

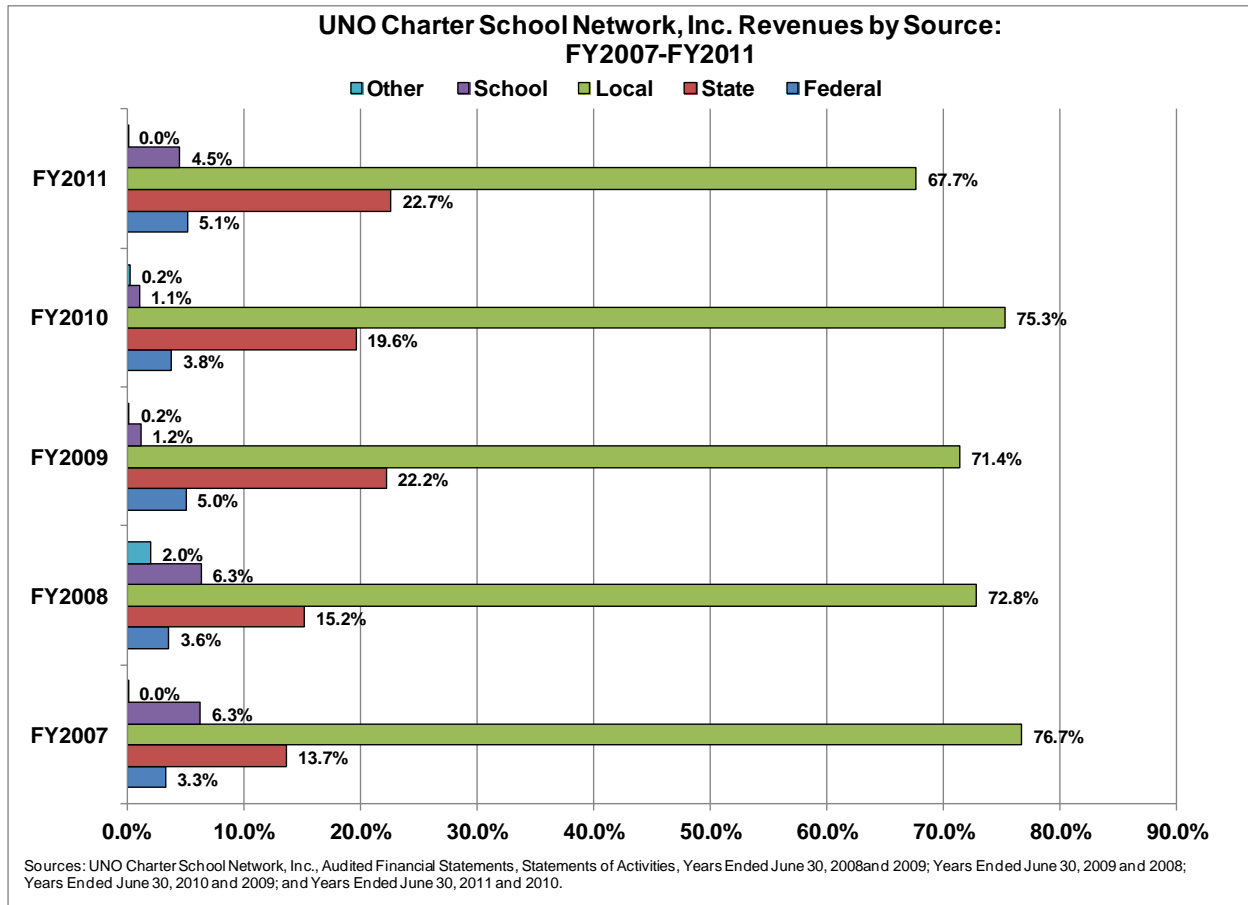
Between FY2007 and FY2011, UNO revenues increased from a total of nearly \$15.1 million to approximately \$44.9 million. This is an increase of 197.5%, or roughly \$29.8 million, over the five-year period. The large increase is primarily due an \$18.8 million rise in local revenue over the same time period. Revenues consistently increased between FY2007 and FY2011 at an average year-to-year rate of 32.9%.

UNO Charter School Network, Inc.									
Revenues by Source:									
FY2007-FY2011									
	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Federal	\$ 496,050	\$ 788,123	\$ 1,698,647	\$ 1,308,737	\$ 2,310,228	\$ 1,001,491	76.5%	\$ 1,814,178	365.7%
State	\$ 2,061,437	\$ 3,350,417	\$ 7,514,590	\$ 6,754,617	\$ 10,165,235	\$ 3,410,618	50.5%	\$ 8,103,798	393.1%
Local	\$ 11,571,300	\$ 16,030,096	\$ 24,147,664	\$ 25,909,817	\$ 30,364,881	\$ 4,455,064	17.2%	\$ 18,793,581	162.4%
School	\$ 947,466	\$ 1,392,168	\$ 389,360	\$ 362,784	\$ 2,030,553	\$ 1,667,769	459.7%	\$ 1,083,087	114.3%
Other	\$ 7,096	\$ 446,002	\$ 64,686	\$ 82,704	\$ 8,528	\$ (74,176)	-	\$ 1,432	-
Total	\$ 15,083,349	\$ 22,006,806	\$ 33,814,947	\$ 34,418,659	\$ 44,879,425	\$ 10,460,766	30.4%	\$ 29,796,076	197.5%

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Activities, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

⁷¹ These were classified as local source revenues.

The next exhibit presents each of the revenue sources as a percentage of total revenues. The largest portion of charter school funding in each of the five years evaluated was from local sources, provided by or through CPS. Overall, local funding averaged 72.8% of all revenues between FY2007 and FY2011. The second largest source of revenue was the State of Illinois, which includes funding for special education and Limited English proficiency, supplemental funding for small schools and facilities, Chapter 1 funds, food programs and funding from the Illinois Department of Commerce and Economic Opportunity. These revenues increased from 13.7% of all revenues in FY2007 to 22.7% in FY2011. School-based revenues averaged 3.9% of all revenues in the five-year period while federally sourced revenues averaged 4.2%.



School-Based Revenues

There are a variety of ways charter schools generate income that they control. They include:

- Applying for and receiving corporate, foundation and individual grants, donations and contributions;
- Hosting fundraising events, including student fundraisers;
- Charging program and student fees;
- Generating interest income; and
- Receiving management service fees.

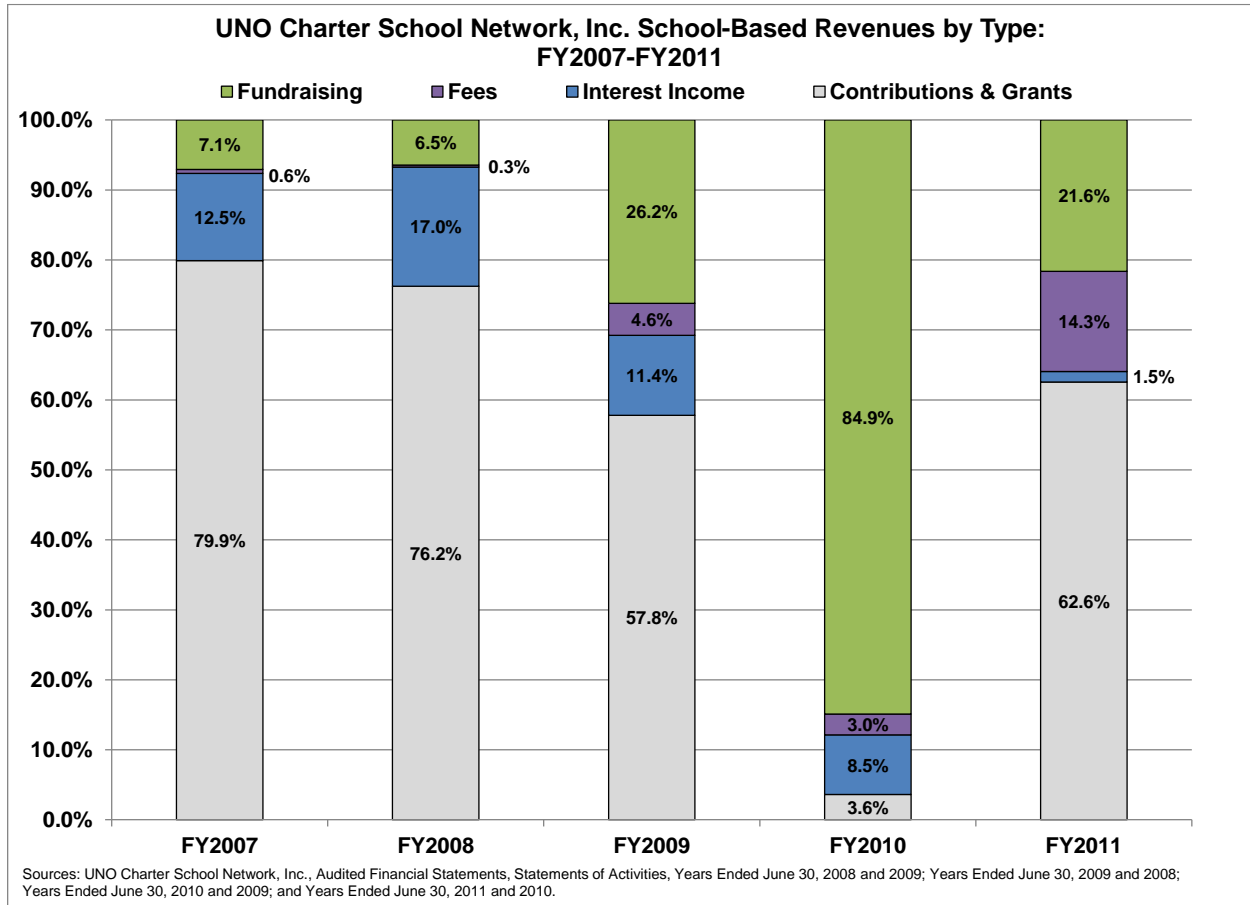
Over the five-year period, school-based revenue fell from approximately \$1.4 million in FY2008 to less than \$400,000 in FY2009 and FY2010 before rising to \$2.0 million in FY2011. This is primarily due to significant decreases in revenue from contributions and grants during FY2009 and FY2010. Interest income also impacted overall revenue as it decreased by 74.1%, or \$87,470, in the five-year period.

Over the five-year period, UNO school-based revenues increased by 114.3%, or \$1.1 million, from \$947,466 in FY2007 to \$2.0 million in FY2011. The largest percentage increase in school-based revenues came from fees, which rose by 5,210.8%, or \$285,241, between FY2007 and FY2011. The largest dollar increase occurred in contributions and grants as revenue grew by \$513,383, or 67.8% over the five-year period.

UNO Charter School Network, Inc. School-Based Revenues by Type FY2007-FY2011									
Revenue	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Contributions & Grants	\$ 757,037	\$ 1,061,400	\$ 225,000	\$ 13,066	\$ 1,270,420	\$ 1,257,354	9623.1%	\$ 513,383	67.8%
Interest Income	\$ 118,001	\$ 236,999	\$ 44,558	\$ 30,911	\$ 30,531	\$ (380)	-1.2%	\$ (87,470)	-74.1%
Fees	\$ 5,474	\$ 3,956	\$ 17,758	\$ 10,786	\$ 290,715	\$ 279,929	2595.3%	\$ 285,241	5210.8%
Fundraising	\$ 66,954	\$ 89,813	\$ 102,044	\$ 308,021	\$ 438,887	\$ 130,866	42.5%	\$ 371,933	555.5%
Management Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -	-
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -	-
Total	\$ 947,466	\$ 1,392,168	\$ 389,360	\$ 362,784	\$ 2,030,553	\$ 1,667,769	459.7%	\$ 1,083,087	114.3%

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Activities, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

With the exception of FY2010, contributions and grants provided the greatest amount of school-based revenue, averaging 56.0% of total school-based revenues across the five-year period. The percentage of revenue from fees has grown from 0.6% to 14.3% over the five-year period while the percentage of revenue from interest income has declined from 12.5% in FY2007 to 1.5% in FY2011.



Expense Analysis

The expense analysis examines how much of the UNO’s resources were spent on instruction-related expenses versus administrative expenses.

Program Expense Analysis

Nonprofit organizational audited financial reports include a detailed Statement of Functional Expenses that summarizes all expenses into three broad categories: 1) Program Services, 2) Management Supporting Services; and 3) Fundraising Supporting Services. Program services expenses are the funds a nonprofit devotes to its direct mission-related work or direct service expenses. The two types of supporting service expenses (management and fundraising) can be considered administrative expenses. These categories are calculated differently than the categories in the next section, which is focused on instructional or classroom-based expenses.

One of the most common metrics used to evaluate how much of a nonprofit organization's expenses are mission related is the program ratio, which measures the relationship between program expenses and the organization's total expenses. The calculation for the program ratio is program service expenses/total expenses. The Better Business Bureau Wise Giving Alliance has developed standards for charity accountability. The Alliance recommends that non-profits spend at least 65% of expenses on program services.⁷² There is a caution in interpreting program ratios. In general, a higher program ratio is preferable. However, there may be good reasons for a lower ratio. Newer organizations, such as the charter schools in this study, may have a lower program ratio than older organizations because a greater amount of resources may be used for various startup costs in initial years. These costs include expenses for facilities and infrastructure. In addition, certain services may require a greater amount of administrative support than others. But, over time, the amount of funds used for program services should increase.⁷³

The first exhibit shows how much UNO spent on program services, management and general expenses and fundraising. Over the five-year period, program services spending rose from \$12.3 million to approximately \$32.4 million. This is an increase of 163.3%, or \$20.1 million. Between FY2007 and FY2011, there were also triple-digit increases in management and general expenses and fundraising expenses of 177.6% and 426.4%, respectively. All categories of expenses have increased in both two-year and five-year comparisons, with the exception of fundraising expenses which fell by 16.6% between FY2010 and FY2011.

UNO Charter School Network, Inc. Expenses by Category: FY2007-FY2011									
Expense	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Program Services	\$ 12,320,904	\$ 20,286,758	\$ 28,543,114	\$ 31,052,330	\$ 32,446,038	\$ 1,393,708	4.5%	\$20,125,134	163.3%
Management Supporting Services	\$ 3,044,374	\$ 3,352,804	\$ 5,298,932	\$ 6,161,066	\$ 8,450,813	\$ 2,289,747	37.2%	\$ 5,406,439	177.6%
Fundraising Supporting Services	\$ 43,197	\$ 51,731	\$ 71,487	\$ 272,682	\$ 227,397	\$ (45,285)	-16.6%	\$ 184,200	426.4%
Total	\$ 15,408,475	\$ 23,691,293	\$ 33,913,533	\$ 37,486,078	\$ 41,124,248	\$ 3,638,170	9.7%	\$25,715,773	166.9%

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Functional Expenses, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

Between FY2007 and FY2011, program service expenses averaged 82.3%. This is a very high percentage and indicates funds were overwhelmingly spent on direct service versus administrative and other activities. Management and general expenses averaged 17.3% over the five-year period.

Instructional Expense Analysis

This analysis compared charter school expenses in five categories: Instruction, Pupil Support Services, Administrative Support Services, Facilities and Other. The primary purpose was to determine how much of a charter school's expenses were spent in the classroom on instruction-related expenses versus other expenses. It is much more detailed than the program expense analysis and permits a general comparison with CPS categories because the charter schools and CPS both present this information in their audited financial statements.

⁷² Better Business Bureau, *Standards for Charity Accountability*, www.bbb.org/us/standards-for-charity-accountability/ (last visited on October 3, 2014).

⁷³ Guidestar, "Why Ratios Aren't the Last Word," June 2004, <http://www2.guidestar.org/rxa/news/articles/2004/why-ratios-arent-the-last-word.aspx> (last visited on October 3, 2014).

For this analysis, expenses are divided into five broad categories based on the categories in the Chicago Public Schools Statement of Activities:⁷⁴

1. **Instruction:** Expenses related to instruction, including teacher salaries and benefits, substitute teachers, field study and summer programs.
2. **Pupil Support Services:** Expenses for pupil and instructional support, including curriculum development, classroom supplies, contributed goods and services, extracurricular activities, library books and supplies, special or student activities, textbooks, testing and teacher training.
3. **Administrative Support Services:** Expenses for administrative support services. These included employee salaries and benefits related to administrative functions, administration, commodities, contributed goods and services for computers or food service, development, food costs, management fees, marketing, office supplies, postage and printing, security and travel.
4. **Facilities:** Expenses related to maintenance of school buildings and infrastructure. This includes expenses for building trades, janitorial, rent, facility maintenance, repairs, technology and communications.
5. **Other:** These expenses include those that do not fit into the other categories such as bad debts, community schools, interest expense, licensing, miscellaneous and other.

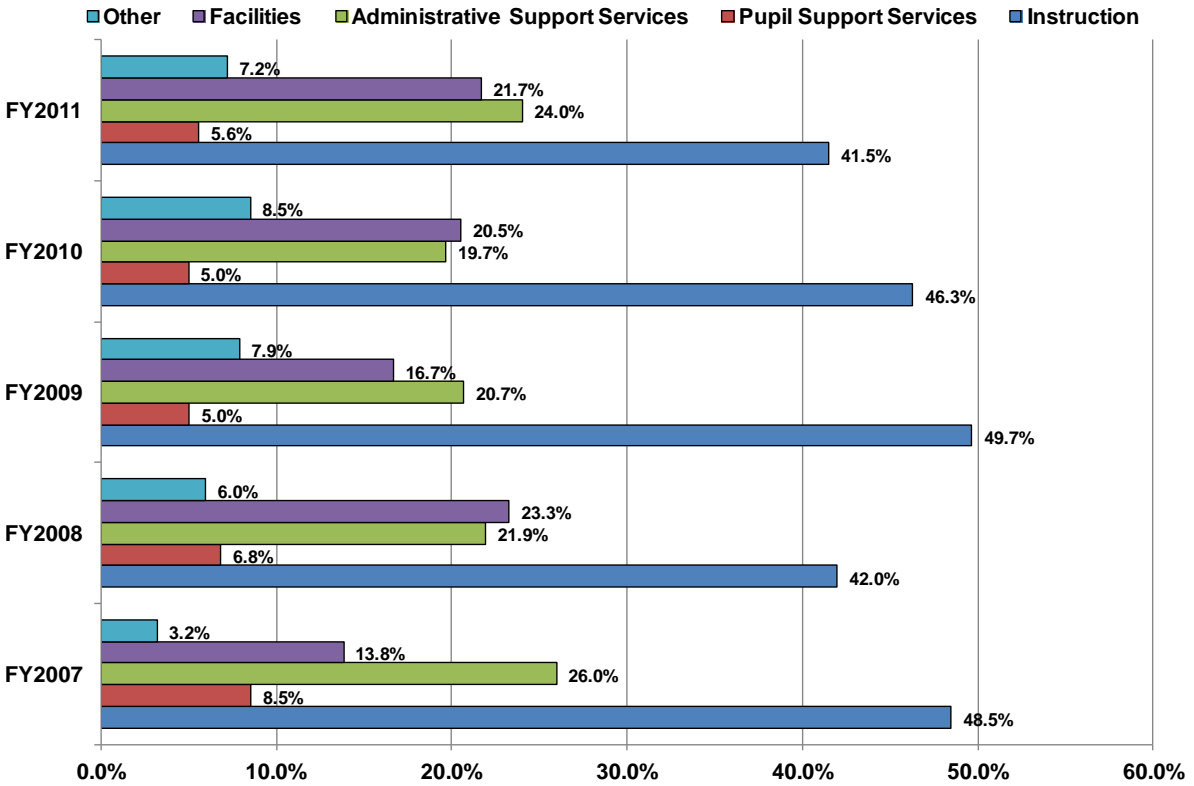
The next two exhibits show the actual amounts and percentage of total expenses devoted to each of the five spending categories. Over the five-year period, expenses for instruction rose from approximately \$7.1 million to nearly \$17.1 million. This is an increase of almost \$10.0 million, or 140.9%. The average percentage of expenses spent on instruction between FY2007 and FY2011 was 45.6%.

UNO Charter School Network, Inc. CPS Spending Categories FY2007-FY2011									
Spending Category	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Instruction	\$ 7,083,581	\$ 10,275,563	\$ 16,842,623	\$ 17,355,167	\$ 17,067,076	\$ (288,091)	-1.7%	\$ 9,983,495	140.9%
Pupil Support Services	\$ 1,248,945	\$ 1,675,145	\$ 1,712,286	\$ 1,873,873	\$ 2,297,694	\$ 423,821	22.6%	\$ 1,048,749	84.0%
Administrative Support Services	\$ 3,794,221	\$ 5,373,885	\$ 7,020,122	\$ 7,378,353	\$ 9,877,052	\$ 2,498,699	33.9%	\$ 6,082,831	160.3%
Facilities	\$ 2,020,078	\$ 5,701,175	\$ 5,659,638	\$ 7,692,777	\$ 8,918,089	\$ 1,225,312	15.9%	\$ 6,898,011	341.5%
Other	\$ 467,618	\$ 1,459,557	\$ 2,678,864	\$ 3,185,908	\$ 2,964,337	\$ (221,571)	-7.0%	\$ 2,496,719	533.9%
Total	\$ 14,614,443	\$ 24,485,325	\$ 33,913,533	\$ 37,486,078	\$ 41,124,248	\$ 3,638,170	9.7%	\$ 26,509,805	181.4%

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Functional Expenses, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

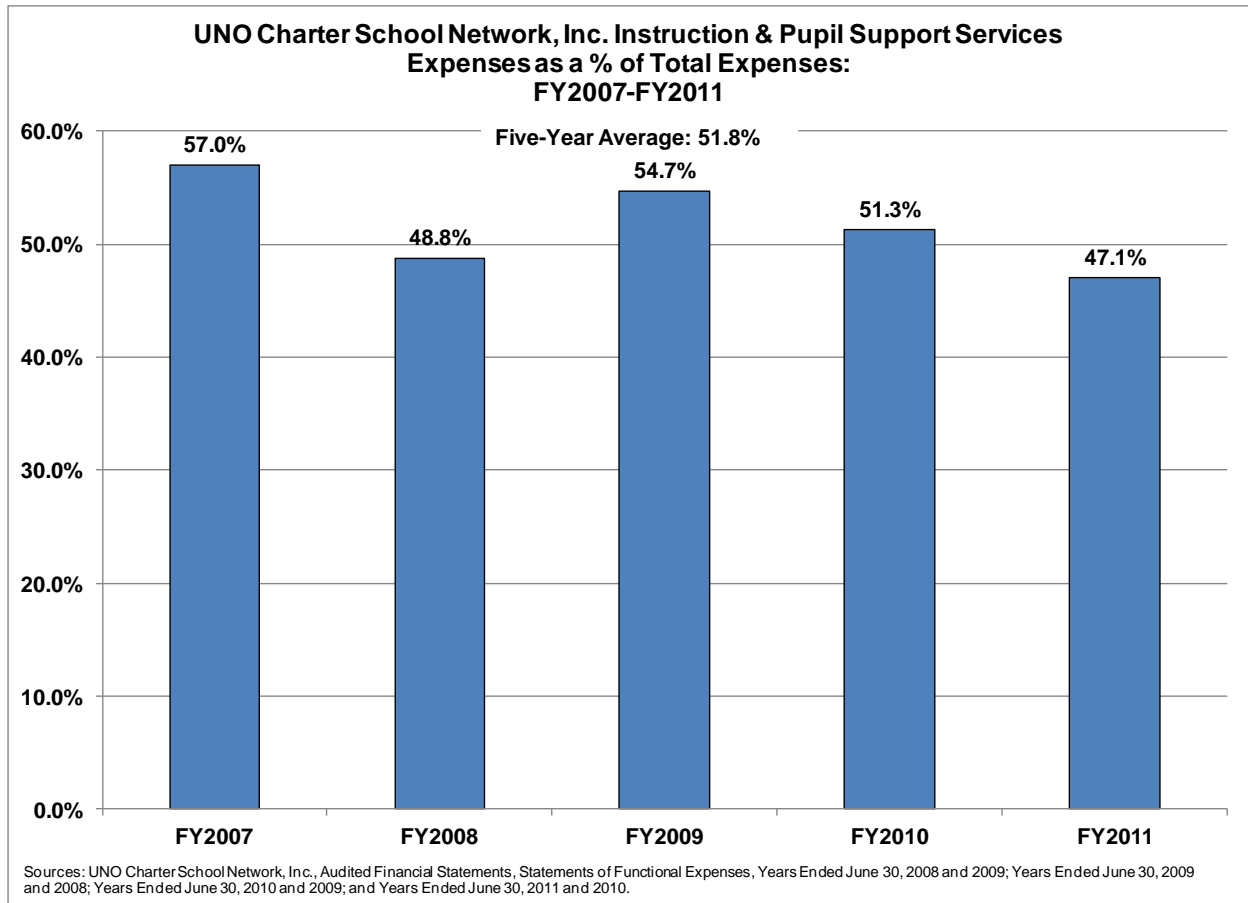
⁷⁴ Chicago Public Schools, *FY2007 Comprehensive Annual Financial Report*, Statement of Activities, p. 35. There is a sixth category of “Debt Service” in the CPS Statement of Activities which includes principal and interest expenses. However, the individual charter school Statements of Functional Expenses and Statements of Activities only report interest, so the category is not included in this analysis as it is not comparable.

**UNO Charter School Network, Inc. CPS Spending Categories
as a % of Total Expenses: FY2007-FY2011**



Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Functional Expenses, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

The next exhibit shows combined expenses for UNO instruction and pupil support services as a percentage of total expenses for FY2007 through FY2011. The two categories are combined here to provide an overview of total classroom-related or education-related expenses. In the five year period, the combined average of instruction and pupil support services expenses was 51.8% of all expenses.



Financial Indicator Analysis

The primary purpose of a financial indicator analysis is to measure the fiscal condition or health of an organization using a number of conventional yard sticks, or financial indicators. It is important to note that certain specific financial operations analytical measures used, such as the measures of financial practices, compliance and audit opinions also provide evaluations of accountability. They measure whether the charter schools met important standards of fiscal accountability as established by CPS or best practices.

Two different types of financial indicator analysis were employed in this chapter to provide a comprehensive picture of the financial position of the charter schools.

1. **Fiscal Condition Analysis:** These analyses examined the overall fiscal health and liquidity of the charter schools. The measures used included year-end balance, fund balance ratio and the current ratio.

2. **Financial Performance Analysis:** A financial performance analysis employs a variety of financial indicators commonly used in the private, public and nonprofit sectors. The indicators used in this analysis include the fixed assets ratio, the capitalization ratio, the debt-to-worth ratio, the occupancy ratio, the instruction ratio and the profit margin ratio. An additional review comparing three indicators to benchmarked standards – payroll ratio, occupancy ratio and payroll + occupancy ratio – also was conducted. This type of analysis is an adaptation of the fiscal analysis conducted annually by the District of Columbia Charter School Board.

The information used in the various analyses was derived from the budgets and audited financial statements of the UNO charter school as well as financial reports published by the Chicago Public Schools. The methodology used to conduct the different types of analysis was adapted from those used in several key sources: Chicago Public Schools’ annual evaluation of its charter schools’ performance,⁷⁵ Miron and Nelson’s study of the finances of Pennsylvania charter schools,⁷⁶ the District of Columbia Public Charter School Board’s General Performance Assessment (GPA) analysis⁷⁷ and standard financial statement ratio analyses commonly used in the public and nonprofit sectors.⁷⁸

It is important to note that the assessments that follow represent a snapshot of financial performance at a point in time, in this case over a five-year period. They provide important general insights into the financial condition of the organization or a group of organizations. However, there are often extenuating circumstances regarding the particular situation of individual organizations. Identifying and evaluating the reasons for these individual circumstances is beyond the scope of the summary financial analysis.

Financial Condition Analysis

These analyses examined the overall fiscal health and liquidity of the charter schools. The measures used included year-end balance, fund balance ratio and the current ratio.

Year-End Balance (Change in Net Assets)

Charter schools must be fiscally viable if they are to succeed in the long-term. One common indicator used to assess fiscal viability is *year-end balances*, also known as change in net assets.

The year-end fund balance is the amount of money reported when actual expenses are subtracted from revenues. It is reported as the “change in net assets” in charter school audited statements of activities. If it is negative, the school has a deficit for that fiscal year. A positive year-end

⁷⁵ Chicago Public Schools Office of New Schools, *Charter Schools Performance Report 2007-08*.

⁷⁶ Gary Miron and Christopher Nelson, *Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools*, The Evaluation Center, Western Michigan State University, October 2000.

⁷⁷ District of Columbia Public Charter School Board, *District of Columbia Fiscal Policy Handbook*, 3rd edition, July 2008. See also Thomas Nida and Bridget C. Bradley, “Assessing the Performance of Charter Schools,” *RMA Journal*, December 2002.

⁷⁸ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005).

balance indicates a surplus. These year-end fund balances were reported on an accrual basis. Between FY2007 and FY2011, UNO's year-end balances have increased significantly by 700.8%. However, year-end balances fell to negative amounts in FY2008, FY2009 and FY2010, indicating a deficit for three consecutive years. Year-end balances over the five-year period ranged from a low of -20.1% of revenues in FY2008 to a high of 8.4% in FY2011.

UNO Charter School Network, Inc. Year-End Balance: FY2007-FY2011							
	FY2007	FY2008	FY2009	FY2010	FY2011	Five-Year \$ Change	Five-Year % Change
Total Revenue	\$ 15,083,349	\$ 22,006,806	\$ 33,814,947	\$ 34,418,659	\$ 44,879,425	\$29,796,076	197.5%
Total Expenses	\$ 14,614,443	\$ 26,423,172	\$ 33,913,533	\$ 37,486,078	\$ 41,124,248	\$26,509,805	181.4%
Year-End Balance (YEB)	\$ 468,906	\$ (4,416,366)	\$ (98,586)	\$ (3,067,419)	\$ 3,755,177	\$ 3,286,271	700.8%
YEB as % of Revenues	3.1%	-20.1%	-0.3%	-8.9%	8.4%		

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Activities, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

Unrestricted Net Assets as a % of Expenses (Fund Balance Ratio)

The fund balance ratio is a measure of resources available to use for emergencies or contingencies. It is prudent for all organizations to set aside some amount of reserves to be used for these purposes. Failure to establish reserves means that the organization may be forced to reduce spending on core programs or borrow funds to meet obligations if there is an unforeseen financial problem. If higher ratios are reported, then financial risk is reduced as the organization can draw on reserve funds to meet contingencies. If lower ratios are reported, the organization faces greater contingency risk.

The fund balance ratio is produced by calculating charter school unrestricted net assets as a percentage of expenses. Unrestricted net assets can be used for any purpose by an organization. The data are drawn from the charter school audited financial statements.

What is an appropriate fund balance ratio? When calculating each school district's financial profile, the Illinois State Board of Education requires that school districts maintain a fund balance ratio of 10% or more to receive a "financial recognition" rating and thus avoid being placed on a financial watchlist.⁷⁹ If the ratio is greater than 10%, the district receives progressively better ratings.⁸⁰ As it is important for school districts to maintain adequate reserves for contingencies, it is also important for charter schools to do the same. This is particularly true in the early years after formation as startup costs can be high. In addition, the schools may need to reserve funds for future planned expansions or capital campaigns. Thus, the Civic Federation considers a charter school fund balance ratio of 10% or more "positive" while a fund balance of less than 10% would be considered "negative."

The fund balance ratio for UNO did not exceed 5% over the five-year period examined. The fund balance ratio maintained negative values for four consecutive years between FY2008 and

⁷⁹ Illinois State Board of Education, "Financial Assurance and Accountability System," <http://www.isbe.net/board/meetings/2000-2002/march01meeting/3%2701FAASQA.pdf> (last visited October 3, 2014).

⁸⁰ Illinois State Board of Education, *The School District Financial Profile*, March 2003.

FY2011. The fund balance ratio averaged -25.6% for the five-year period, indicating a loss of financial flexibility as reserves continue to shrink.

UNO Charter School Network, Inc.					
Unrestricted Net Assets as a Percentage of Total Expenses:					
FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Unrestricted Net Assets	\$ 611,443	\$ (4,368,620)	\$ (3,465,361)	\$ (6,463,767)	\$ (4,299,712)
Total Expenses	\$ 14,614,443	\$ 26,423,172	\$ 33,913,533	\$ 37,486,078	\$ 4,872,761
Unrestricted Net Assets Ratio	4.2%	-16.5%	-10.2%	-17.2%	-88.2%

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Activities and Financial Position, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

Current Ratio

The current ratio is a measure of liquidity. It assesses the ability of a school to meet its current obligations as they come due by indicating whether the organization has enough cash and other liquid resources to meet its obligations in the near term. A ratio of 1.0 means that current assets are sufficient to cover current liabilities. The formula for calculating the current ratio is Current Assets/Current Liabilities. Although the needs of organizations can and do vary, it is commonly accepted that the current ratio should be close to 2.0 or higher.⁸¹ Information for calculating the current ratio is found in the Balance Sheet of a school's audited financial statements.

The current ratio rose dramatically from 2.3 in FY2007 to 23.2 in FY2008. The ratio then fell to 8.9 in FY2009. Thereafter, the current ratio declined to 6.3 in FY2010 before rising to 7.1 in FY2011. The current ratio averaged 9.6 over the five-year period and remained above the 2.0 threshold each year between FY2007 and FY2011.

UNO Charter School Network, Inc. Current Ratio:					
FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Current Assets					
Cash	\$ 2,923,606	\$ 4,298,028	\$ 7,957,744	\$ 10,942,585	\$ 11,744,808
Other receivables	\$ 2,335	\$ 113,698.00	\$ 907,685	\$ 916,226	\$ 1,372,919
Due from affiliate	\$ 1,098,336	\$ 26,638,751	\$ 53,508,638	\$ 50,642,432	\$ 49,542,033
Prepaid expenses	\$ 33,084	\$ 81,533	\$ 85,121	\$ 361,136	\$ 114,912
Subtotal Current Assets	\$ 4,057,361	\$ 31,132,010	\$ 62,459,188	\$ 62,862,379	\$ 62,774,672
Current Liabilities					
Accounts payable	\$ 441,745	\$ 216,435	\$ 3,399,767	\$ 5,279,985	\$ 2,374,263
Accrued expenses	\$ 1,314,195	\$ 1,126,178	\$ 1,908,086	\$ 1,905,879	\$ 2,676,497
Accrued rent payable	\$ -	\$ -	\$ 1,741,761	\$ 2,743,961	\$ 3,746,162
Subtotal Current Liabilities	\$ 1,755,940	\$ 1,342,613	\$ 7,049,614	\$ 9,929,825	\$ 8,796,922
Current Ratio	2.3	23.2	8.9	6.3	7.1

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Financial Position, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

⁸¹ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 476.

Financial Performance Analysis

A financial performance analysis evaluates an organization's overall financial health, profitability and viability over a given period of time. It can be used to compare similar organizations in the private, public or nonprofit sectors. An assessment can be made about the financial status of an organization by reviewing information from the organization's audited financial statements, performing ratio analysis with that data and, if possible, also using comparative data.⁸²

Fixed Assets Ratio

The fixed assets ratio measures how much of an organization's total assets are fixed assets. Fixed assets are illiquid and cannot readily be converted to cash. The greater the percentage of total assets in fixed assets, the less flexibility the organization has to convert assets to cash to fund service demands. Fixed assets are long-term assets that will not be used or converted to cash within a one-year period.⁸³ They include real estate, leasehold improvements and furniture, fixtures and equipment (FFE). Total assets are the monetary value of anything the organization owns. The formula for calculating the fixed asset ratio is Fixed Assets/Total Assets.⁸⁴ A ratio of 0.5 or higher may indicate that too much of the organization's capital is in fixed assets. As a result, the organization may have insufficient access to capital and likely maintains low cash reserves. This can inhibit the organization's ability to meet increased service demands.⁸⁵ Information for calculating the fixed assets ratio is found in the Balance Sheet of a school's audited financial statements.

UNO's fixed assets ratio fell from 0.48 in FY2007 to 0.10 in FY2011. The ratio averaged 0.17 over the five-year period, indicating that UNO does not have too much of its capital in fixed assets.

UNO Charter School Network, Inc. Fixed Assets Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Fixed Assets	\$ 5,141,517	\$ 5,015,932	\$ 4,737,060	\$ 4,543,706	\$ 6,654,238
Total Assets	\$ 10,798,818	\$ 37,216,874	\$ 67,850,940	\$ 68,043,738	\$ 69,577,279
Fixed Assets Ratio	0.48	0.13	0.07	0.07	0.10

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Financial Position, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

⁸² Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 498.

⁸³ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 556.

⁸⁴ Fixed assets are reported in the Balance Sheets net of depreciation.

⁸⁵ Center for Business Planning, "Financial Ratios," <http://www.businessplans.org/ratios.html> (last visited October 3, 2014).

Capitalization Ratio

The capitalization ratio is a measure of an organization's ability to meet its financial obligations. It indicates the relative proportion of capital or net assets that can be used to finance new assets. The formula for calculating the capitalization ratio is Capital/Total Assets. Capital in this case refers to total net assets or the residual value after liabilities have been subtracted from the assets of an organization. It includes both restricted and unrestricted net assets. Total assets are the monetary value of anything the organization owns. The higher the ratio, the more net assets are available to meet those obligations. A ratio of 0.31 or higher is optimal. Conversely, the lower the ratio, the less flexibility the organization has to meet its financial obligations. Information for calculating the capitalization ratio is found in the Balance Sheet of a school's audited financial statements.

UNO's ratio fluctuated slightly between FY2007 and FY2011, starting with a high ratio of 0.15, falling to a low of -0.08 in FY2010 before ending with a ratio of -0.02 in FY2011. The ratio averaged 0.01 over the five-year period. The ratio has never reached 0.31, indicating that UNO does not have sufficient financial flexibility to meet its financial obligations.

UNO Charter School Network, Inc. Capitalization Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Total Net Assets	\$ 1,657,555	\$ (2,758,811)	\$ (2,345,961)	\$ (5,413,380)	\$ (1,658,203)
Total Assets	\$ 10,798,818	\$ 37,216,874	\$ 67,850,940	\$ 68,043,738	\$ 69,577,279
Capitalization Ratio	0.15	(0.07)	(0.03)	(0.08)	(0.02)

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Financial Position, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

Debt-to-Worth Ratio

The debt-to-worth ratio is a measure of financial leverage. Also called a debt-to-equity ratio, it evaluates the degree to which an organization can use debt to finance asset acquisition. The formula for calculating the debt-to-worth ratio is total liabilities/capital. Liabilities are the financial obligations an organization owes while "worth" or capital is net assets. A lower debt-to-worth ratio is better as it indicates that there are sufficient net assets available to fund liabilities if needed and there is minimal risk of financial difficulties occurring. In Finkler's book on financial management, he notes that the debt-to-worth ratio should not exceed 1.0, which means that net assets equal liabilities. However, the appropriate level varies from organization to organization.⁸⁶ For schools, which are necessarily capital intensive organizations, a ratio of up to 1.99 (or net assets equaling about 50% of liabilities) is acceptable. Information for calculating the debt-to-worth ratio is found in the Balance Sheet of a school's audited financial statements.

The debt-to-worth ratio for UNO has fluctuated significantly between FY2007 and FY2011. In FY2007, the ratio was 5.51, the highest level of the five years examined and fell to its lowest

⁸⁶ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 531.

level of -42.96 in FY2011. The average debt to worth ratio was -19.09 for the five-year period. As the ratio is far below 1.99, the school has sufficient net assets available to fund liabilities if needed and the risk of financial difficulties occurring is low.

UNO Charter School Network, Inc. Debt to Worth Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Total Liabilities	\$ 9,141,263	\$ 39,975,685	\$ 70,196,901	\$ 73,457,118	\$ 71,235,482
Total Net Assets	\$ 1,657,555	\$ (2,758,811)	\$ (2,345,961)	\$ (5,413,380)	\$ (1,658,203)
Capitalization Ratio	5.51	(14.49)	(29.92)	(13.57)	(42.96)

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Financial Position, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

Occupancy Ratio

The occupancy ratio is a measure of how much of total revenues are consumed by the costs of occupying and maintaining school facilities. The formula for calculating the occupancy ratio is Occupancy Cost/Gross Revenue. Occupancy costs include rent, lease or mortgage payment; utilities, maintenance costs, real estate taxes, insurance related to building, uncapped repairs, gym rental and telephone/internet expenses. It does not include custodial or equipment lease expenses. Gross revenue is total revenue. A lower occupancy ratio is better as fewer resources are being used to pay for occupancy expenses. An occupancy ratio of no more than 0.15 is preferred. Information for calculating the occupancy ratio is found in the Statement of Activities or Statement of Functional Expenses of a school's audited financial statements.

UNO's occupancy ratio averaged 0.21 between FY2007 and FY2011, indicating that the school may be using too many resources to pay for occupancy expenses. At least six of the leases for UNO's school buildings experience 3% annual increases, which may be a factor attributing to the network's increasing occupancy costs.⁸⁷

UNO Charter School Network, Inc. Occupancy Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Occupancy	\$ 1,428,342	\$ 2,225,599	\$ 4,346,219	\$ 4,738,172	\$ 5,048,915
Insurance	\$ 42,781	\$ 49,880	\$ 52,938	\$ 120,917	\$ 144,854
Real Estate Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Office Expense	\$ 648,309	\$ 1,002,235	\$ 1,144,849	\$ 1,253,777	\$ 1,204,764
Depreciation	\$ 459,106	\$ 3,264,196	\$ 827,472	\$ 940,518	\$ 1,000,655
Subtotal	\$ 2,578,538	\$ 6,541,910	\$ 6,371,478	\$ 7,053,384	\$ 7,399,188
Total Revenue	\$ 15,083,349	\$ 22,006,806	\$ 33,814,947	\$ 34,418,659	\$ 44,879,425
Occupancy Ratio	0.17	0.30	0.19	0.20	0.16

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Activities and Functional Expenses, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

⁸⁷ UNO Charter School Network, Inc., Audited Financial Statement, Years Ended June 30, 2011 and 2010, pp. 18-19.

Instruction Ratio

The instruction ratio measures how much of a school’s gross revenues are used to pay for personnel related costs. The formula for calculating the instruction ratio is Payroll and Instruction Costs/Gross Revenue. Payroll costs include salaries, payroll tax and benefits, consultants, administrative and professional services and pension expenses. They do not include staff development costs, accounting and legal service expenses and management fees. Instruction costs include textbooks, classroom and recreation supplies. Gross revenue is total revenue. A lower instruction ratio is better, as it indicates that personnel costs – the single largest expense in a school – are being kept under control. An instruction ratio of less than 0.55 is desirable. However, it is important to note that a ratio slightly above 0.55 is not necessarily a cause for concern. Instruction costs may well increase in schools as teachers receive longevity raises or more experienced teachers are hired over time. This is not necessarily a negative factor as teaching is the core function of an educational institution and it is the single largest item of expenditure. The key issue here is recognition that increased personnel costs do place a fiscal strain on school budgets that must be planned for and met, either through increases in revenues or reductions in other areas of expenditure. Information for calculating the instruction ratio is found in the Statement of Activities or Statement of Functional Expenses of a school’s audited financial statements.

From FY2007 to FY2011, the instruction ratio for UNO fluctuated slightly between 0.44 (FY2011) and 0.56 (FY2010). Overall, it averaged 0.52, which is within the range of the preferred ratio of 0.55 or less. The ratios earned by the school indicate that UNO spent an appropriate amount of resources on instructional expenses.

UNO Charter School Network, Inc. Instruction Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Salaries and wages	\$ 5,969,120	\$ 8,822,366	\$14,141,658	\$14,622,055	\$15,528,907
Employee Benefits & Payroll Taxes	\$ 1,456,593	\$ 1,882,502	\$ 3,292,956	\$ 3,814,556	\$ 3,521,739
Professional Fees	\$ 479,867	\$ 852,331	\$ 770,248	\$ 1,006,058	\$ 874,986
Subtotal	\$ 7,905,580	\$ 11,557,199	\$ 18,204,862	\$ 19,442,669	\$ 19,925,632
Revenues	\$ 15,083,349	\$ 22,006,806	\$ 33,814,947	\$ 34,418,659	\$ 44,879,425
Instruction Ratio	0.52	0.53	0.54	0.56	0.44

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Activities and Functional Expenses, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

Profit Margin Ratio

Charter schools are nonprofit organizations, and therefore not focused on amassing “profits.” However, their long-term fiscal viability depends on maintaining reasonable reserves or a “profit margin” that can be used to generate earnings to expand their capital base.⁸⁸ The formula for calculating the profit margin ratio is Net Income/Gross Revenue. Net Income is net operating income before depreciation, amortization and interest expenses. A positive profit margin is preferred as it indicates the school operates at a “profit” and has some reserves. The higher the profit margin the better as a larger reserve affords greater long-term financial flexibility. Conversely, a low profit margin can indicate financial difficulty. Information for calculating the profit margin ratio is found in the Statement of Activities or Statement of Functional Expenses of a school’s audited financial statements.

UNO’s profit margin remained close to zero each year between FY2007 and FY2011. It reached its lowest level of -0.20 in FY2008 and its highest level of 0.08 in FY2011. Given the very low profit margins for this five-year period, future trends bear watching.

UNO Charter School Network, Inc. Profit Margin Ratio: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Total Revenue	\$ 15,083,349	\$ 22,006,806	\$ 33,814,947	\$ 34,418,659	\$ 44,879,425
Total Expenses	\$ 14,614,443	\$ 26,423,172	\$ 33,913,533	\$ 37,486,078	\$ 41,124,248
Subtotal Net Income	\$ 468,906	\$ (4,416,366)	\$ (98,586)	\$ (3,067,419)	\$ 3,755,177
Total Revenue	\$ 15,083,349	\$ 22,006,806	\$ 33,814,947	\$ 34,418,659	\$ 44,879,425
Profit Margin Ratio	0.03	-0.20	0.00	-0.09	0.08

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Activities, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

Days of Cash on Hand

This measure compares cash and marketable securities with daily operating expenses. The purpose is to evaluate how long the organization can meet daily expenses using cash and liquid assets that can readily be converted to cash.⁸⁹ The Statement of Financial Position is the source of cash and marketable securities information, while the Statement of Functional Expenses contains relevant expense and depreciation data.

Between FY2007 and FY2011, UNO averaged 506 days of cash on hand (nearly 17 months of reserves). The ratio rose from a low of 105 days (three months of reserves) in FY2007 to a high of 689 days (23 months of reserves) in FY2009. The ratio has since decreased to 629 days (21 months of reserves) in FY2010 and to 572 days (19 months in reserves) in FY2011. Throughout the five-year period of this review, the school has had more than adequate amounts of cash reserves.

⁸⁸ Thomas Nida and Bridget C. Bradley, “Assessing the Performance of Charter Schools,” *RMA Journal*, December 2002, p. 2.

⁸⁹ Steven A. Finkler, *Financial Management for Public, Health and Not-for-Profit Organizations*, (Upper Saddle River, NJ, 2005), p. 527.

UNO Charter School Network, Inc. Days of Cash on Hand: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Cash	\$ 2,923,606	\$ 4,298,028	\$ 7,957,744	\$ 10,942,585	\$ 11,744,808
Other Receivables	\$ 2,335	\$ 113,698	\$ 907,685	\$ 916,226	\$ 1,372,919
Due from Affiliate	\$ 1,098,336	\$ 26,638,751	\$ 53,508,638	\$ 50,642,432	\$ 49,542,033
Deferred Rent	\$ -	\$ -	\$ -	\$ 93,333	\$ 87,830
Prepaid Expenses	\$ 33,084	\$ 81,533	\$ 85,121	\$ 361,136	\$ 114,912
Subtotal	\$ 4,057,361	\$ 31,132,010	\$ 62,459,188	\$ 62,955,712	\$ 62,862,502
Expenses	\$ 14,614,443	\$ 24,485,325	\$ 33,913,533	\$ 37,486,078	\$ 41,124,248
Depreciation	\$ 459,106	\$ 3,264,196	\$ 827,472	\$ 940,518	\$ 1,000,655
Net Expenses	\$ 14,155,337	\$ 21,221,129	\$ 33,086,061	\$ 36,545,560	\$ 40,123,593
Daily Operating Expenses	\$ 38,782	\$ 58,140	\$ 90,647	\$ 100,125	\$ 109,928
Days of Cash on Hand Ratio	105	535	689	629	572

Sources: UNO Charter School Network, Inc., Audited Financial Statements, Statements of Financial Position and Functional Expenses, Years Ended June 30, 2008 and 2009; Years Ended June 30, 2009 and 2008; Years Ended June 30, 2010 and 2009; and Years Ended June 30, 2011 and 2010.

Findings of Fiscal Analysis

In the five-year period between FY2007 and FY2011, UNO Charter School Network, Inc. (UNO) experienced mixed fiscal health, as measured by the thirteen individual financial indicators used in this study. Three of these indicators pertained to how the charter schools spent their money and the remaining nine focused on the financial viability and performance of the schools. The analyses resulted in a variation of positive, mixed and negative indicators.

Positive Indicator Trends

Expense Analyses: Two of the three expense analyses trends produced a positive result. In each year over the trend period, UNO consistently spent over 78% of all expenditures on programming, a positive indicator. In a five-year average, UNO allocated 51.8% of spending on instruction and pupil support services. The standard minimum percentage is 50%, which UNO met in three of the five years reviewed. However, it should be noted that the percentage of spending devoted to instruction and pupil support services fluctuated from year to year; in FY2008 and FY2011 it was less than the 50% threshold standard.

Financial Condition Analyses: The current ratio exhibited a positive ratio trend above 2.0 in each of the five years analyzed, reaching an extremely high ratio of 23.2 in FY2008.

Financial Performance Analyses: Financial performance analyses resulted in mostly positive trends for UNO.

- The fixed assets ratio remained below the maximum standard level of 0.5 in each of the five years examined, averaging 0.17 between FY2007 and FY2011.
- The debt-to-worth ratio was higher than the maximum standard of 1.99 only in FY2008. Therefore, for four of the five years examined, the school had sufficient net assets available

to fund liabilities if needed and there was minimal risk of financial difficulties occurring. The five-year average was -19.09.

- The instruction ratio for UNO averaged 0.52, slightly lower than the preferred ratio of 0.55. This is a positive indicator.
- The school reported a five-year average of 506 days of cash on hand. This is over 16 months' worth of cash and more than adequate to fund contingencies and deal with cash flow issues.

Negative Indicator Trends

Expense Analyses: Less than 50% of UNO's expenses went toward instruction, averaging 45.6% over the five-year period.

Financial Condition Analyses: Two of the three financial condition analyses were negative: year-end balance and fund balance ratio. In three of the five years reviewed, UNO reported a negative year-end balance, including a year-end balance of -20.1% in FY2008. Except for in FY2007, the fund balance for UNO remained below 0.0%, reaching a significantly low level in FY2011 of -88.2%.

Financial Performance Analyses: Financial performance analyses resulted in mostly positive trends for UNO, with the exception of the following three indicators:

- The capitalization ratio remained below the 0.31 threshold in all five years analyzed. The ratio averaged -0.01, which is significantly less than the standard and indicates the school has not had the flexibility to meet its financial obligations.
- The occupancy ratio averaged 0.21 between FY2007 to FY2011, higher than the maximum standard of 0.15, indicating that the school was using too many resources to pay for occupancy expenses.
- The profit margin was positive in two of the five years analyzed, FY2007 and FY2011, and had a five-year average of -0.04. This indicates that school did not consistently possess reserves and thus did not operate at a "profit."

**UNO Charter School Network, Inc. Financial Indicator Analysis:
FY2007-FY2011**

Indicator	FY2007	FY2008	FY2009	FY2010	FY2011	Standard	Five-Year Average	Trend
Expense Analysis								
Program Expense Analysis	80.0%	85.6%	84.2%	82.8%	78.9%	> 65%	82.3%	Positive
Spending on Instruction	48.5%	42.0%	49.7%	46.3%	41.5%	> 50%	45.6%	Negative
Spending on Instruction + Pupil Support Services	57.0%	48.8%	54.7%	51.3%	47.1%	> 50%	51.8%	Positive
Financial Condition Analysis								
Year-End Balance (Surplus or Deficit)	3.1%	-20.1%	-0.3%	-8.9%	8.4%	Positive	-3.6%	Negative
Fund Balance Ratio	4.2%	-16.5%	-10.2%	-17.2%	-88.2%	> 10%	-25.6%	Negative
Current Ratio	2.3	23.2	8.9	6.3	7.1	> 2.0	9.56	Positive
Financial Performance Analysis								
Fixed Assets Ratio	0.48	0.13	0.07	0.07	0.10	< 0.5	0.17	Positive
Capitalization Ratio	0.15	(0.07)	(0.03)	(0.08)	(0.02)	> 0.31	-0.01	Negative
Debt-to-Worth Ratio	5.51	(14.49)	(29.92)	(13.57)	(42.96)	< 1.99	-19.09	Positive
Occupancy Ratio	0.17	0.30	0.19	0.20	0.16	< 0.15	0.21	Negative
Instruction Ratio	0.52	0.53	0.54	0.56	0.44	< 0.55	0.52	Positive
Profit Margin Ratio	0.03	(0.20)	(0.00)	(0.09)	0.08	Positive	-0.04	Negative
Days of Cash on Hand	105	535	689	629	572	Higher the Better	506.0	High

* Some ratios are slightly high, but within an acceptable range of the standard levels.

Sources: UNO Charter Schools audited financial statements, FY2007-FY2011.