FINANCIAL COVENANTS

Financial Covenants & Key Ratios Quick Reference

HIGHMARK
SCHOOL DEVELOPMENT

Debt Service Coverage Ratio (DSCR): In simple terms, this is the cash available to pay the facility debt (or lease) after *all other* operating expenses are accounted for. This available cash is called Net Operating Income. To emphasis this point: Net Operating Income *does not include* your facility payment. Formally, it is calculated as:

$$\frac{\text{Net Operating Income}}{\text{Debt Payment}}$$

Investors, lenders, and lessors typically require a 1.2 or higher DSCR. This means the school can cover the amount of the loan, PLUS have an additional 20% or more available as cash. DSCR can be measured annually or semi-annually, depending on the terms of the loan or lease.

Days Cash on Hand: The number of days of operating expenses the school could pay with its current cash available. Formally, it is calculated as:

$$\frac{\text{Cash Available}}{\text{Annual Operating Expenses}} \quad \text{X 365 days}$$

Unlike Net Operating Income, Annual Operating Expenses *does include* your facility payment and all other expenses. Investors, lenders, and lessors typically start with a 30-day, cash-on-hand requirement, increasing to 45 or 60 days after the first couple of years. Days Cash on Hand is typically measured annually, on the last day of the fiscal year (usually June 30).

Total Margin Ratio: Investors, lenders, and lessors calculate a Total Margin Ratio to measure the profitability of a school. (In case you're wondering, even as a non-profit operator, your profitability can be calculated). To determine Total Margin Ratio, we first calculate *total* revenue for a given period (e.g., the school year) minus *total* expenses (for the same period): this gives us Net Income. With Net Income identified, we calculate total Margin Ratio as follows:

$$\frac{\text{Net Income}}{\text{Total Revenue}} \quad \text{X 100}$$

This formula produces a percentage that can be used to compare your school to other schools the investor, lender, and lessor has worked with or is considering working with. This ratio is usually reported annually.

Debt-to-Asset Ratio: This ratio looks at the total amount of debt of the school as compared to the value of assets (land, real estate, equipment) owned. Using the balance sheet for total amounts, the ratio is calculated as:

$$\frac{\text{(Short-Term Debt – Long-Term Debt)}}{\text{Total Assets}}$$

To meet an investor's, lender's, or lessor's ratio requirement, the school should be at .90 or below for the debt-to-asset ratio. This ratio is usually calculated annually at fiscal year-end.

Enrollment Projections: This metric is subject to the lender's discretion. Often, a lender will require 85-95% of projected enrollment be met for the fiscal year. Reporting is evidenced by the enrollment number provided to the state school funding authority on its specified count day. Reporting may be annual or semi-annual, depending on the lender and enrollment reporting requirements of the State.

Interested in more information? Contact us!

info@highmarkschools.com
www.highmarkschools.com
(801) 256-9550