

FINANCIAL PERFORMANCE FRAMEWORK & GUIDANCE

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INTRODUCTION

The Washington State Charter School Commission (Commission) has collaborated with the National Association of Charter School Authorizers (NACSA), in partnership with CliftonLarsonAllen (CLA), in the development of the Commission's *Financial Performance Framework (FPF) & Guidance*.

This document was developed from NACSA's Core Financial Performance Framework (Core FPF), which is based on national best practices in school finance.¹ In the development of this document, the Commission and NACSA have reviewed publicly available information related to the State of Washington's Charter Schools Act to determine if any of the measures in NACSA's Core FPF would need to be modified given the State of Washington's legislative, political, and financial charter public school environment.

Aspects of the Financial Performance Framework were updated in the summer of 2024 to align with NACSA's updated performance framework guidance released in the spring of 2023 (<https://qualitycharters.org/wp-content/uploads/2023/03/Guide-to-Performance-Frameworks.pdf>). The Financial Management and Oversight measures in this framework (measures 3.a through 3.c) were previously included in the Commission's Organizational Performance Framework instead. Updates also include the addition of a quality financial oversight measure to assess the extent to which the charter public school's board and leadership carry out their responsibilities to ensure appropriate and effective use of public funds, starting with developing, executing, and monitoring annual approved budgets.

Some of the information reviewed includes:

- Publicly available information from the Washington State Board of Education: www.sbe.wa.gov/charters.php
- Publicly available information from the Washington State Charter School Association: www.wacharters.org
- Publicly available information from the Washington State Charter School Commission: www.charterschool.wa.gov
- RCW 28A.710 (Charter School Act statute) and related updates in the law relating to charter public schools

¹ The State of Washington's Charter Schools Act states that authorizers must develop and follow chartering policies and practices that are consistent with the principles and standards for quality charter authorizing developed by NACSA (Chapter 28A.710.100(3) RCW).

WHY A FINANCIAL PERFORMANCE FRAMEWORK?

The FPF is a reporting tool that provides the Commission with the necessary data to assess the financial health and viability of charter public schools in its portfolio for the purposes of an annual review. The framework summarizes a charter public school's financial health and viability while considering the school's financial trends over a period of three years.

The FPF's measures are designed to be complementary. No single measure will give a full picture of the financial situation of a school. However, taken together, the measures provide a comprehensive assessment of the school's financial health and viability based on the school's historic trends, near-term financial situation, and future viability.

One of the Commission's core responsibilities is to protect the public interest by ensuring the highest standards of accountability and oversight for charter public schools in its portfolio. The FPF is the primary lever for carrying out this responsibility with respect to the allocation and use of public funds by charter public schools.

FINANCIAL PERFORMANCE FRAMEWORK STRUCTURE

The FPF includes five main levels of information:

- Indicators
- Measures
- Metrics
- Targets
- Ratings

Component	Definition	Example
<i>Indicators</i>	General categories of financial performance	Near Term
<i>Measures</i>	General means to evaluate an aspect of an indicator	Current Ratio
<i>Metrics</i>	Method of quantifying a measure	Current ratio is the school's current liabilities over current assets
<i>Targets</i>	Thresholds that signify success in meeting the standard for a specific measure	Current ratio greater than 1.1
<i>Ratings</i>	Assignment of charter public school performance into one of three categories, based on how the school performs against the framework targets	If school meets the target of 1.1 the rating category is "Meets Standard"

Indicators

The FPF includes three indicators, or general categories, used to evaluate schools' financial performance.

Near-Term

The portion of the FPF that tests a school's near-term financial health is designed to depict the school's financial position and viability in the upcoming year. Schools meeting the desired standards demonstrate a lower risk of financial distress in the coming year. Schools approaching the desired standards demonstrate a low to medium risk of financial distress in the coming year. Schools that fail to meet the standards may currently be experiencing financial difficulties and/or are at higher risk for financial hardship in the near-term. These schools may require additional review and immediate corrective action on the part of the Commission.

Sustainability

The FPF also includes longer-term financial sustainability measures and is designed to depict a school's financial position and viability over time. Schools that meet the desired standards demonstrate a lower risk of financial distress in the future. Schools that approach the standards demonstrate a low to medium risk of financial distress in the future. Schools that fail to meet the standards are at higher risk for financial hardship in the future.

Financial Management and Oversight

The measures in this area set expectations for the school's management and oversight of its finances and provide a more qualitative look at performance irrespective of the near-term and long-term calculations.

Measures

Measures are the means to evaluate an aspect of an indicator. Nine measures are used for evaluation in the FPF. One additional measure is used for informational purposes only.

The measures for the financial framework are as follows:

- **1.a** Current Ratio (Near-Term)
- **1.b** Unrestricted Days Cash (Near-Term)
- **1.c** Debt Default (Near-Term)
- **2.a** Total Margin (Sustainability)
- **2.b** Debt to Asset Ratio (Sustainability)
- **2.c** Cash Flow (Sustainability)
- **3.a Annual Financial Audit** (Financial Management and Oversight)
- **3.b Financial Reporting and Compliance** (Financial Management and Oversight)
- **3.c Financial Oversight (Quality Measure)**; (Financial Management and Oversight)
- Enrollment Variance (Informational)

Metrics

Metrics are the methods for calculating measures. An example of a metric is "Current Ratio equals Current Assets divided by Current Liabilities" ($Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$). Each metric is detailed in the "Measures in Detail" section of this guidance.

Targets

Targets are the thresholds that signify success for a specific measure. An example of a target is "Current Ratio is greater than 1.1." ($Current\ Ratio > 1.1$). For each of the measures, targets are based on authorizer best practices, industry standards, and ratios that reflect the financial health of the school. The Commission will use data from the year-end audited financial statements for each school along with current financial data gathered through

quarterly financial reports to calculate each measure. In order to depict the overall financial health of the school, these calculations are based on *all funds* of the school, not just the general fund.

The Commission believes that the life stage of a school should be taken into consideration when reviewing the financial viability of schools. Therefore, a number of the financial measures have two sets of targets. One set for schools in year 1 or 2 of operations, and one set for schools in year 3 or beyond.

Ratings

The FPF ratings are either *Meets Standard*, *Approaching Standard* or *Does Not Meet Standard* (WAC 108-30-030). The Commission will consider any relevant context for the school's financial position that informs the causes for any perceived financial shortcomings. Appropriate monitoring and/or intervention will be determined, in part, by how the rating on the measure in question fits within the school's overall financial performance based on *all* evidence examined.

Meets Standard

A *Meets* rating indicates sound financial viability based on the overall financial record.

Approaching Standard

An *Approaching* rating indicates the school may be close to meeting the absolute FPF standard based on the financials under review, or any concerns have been adequately addressed based on additional information such that the Commission concludes that performance indicates sound financial viability.

Does Not Meet Standard

A *Does Not Meet* rating means that even based on the most current financial information (recent audited financials and more current unaudited financials), the school is not currently meeting or approaching the standard, and/or concerns previously identified with the need of heightened monitoring and/or intervention have not been adequately corrected and/or, if not currently manifested, have been of a depth or duration that warrants continued attention. A *Does Not Meet* rating indicates that upon evidence from the FPF, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention is warranted. Appropriate monitoring and or interventions will be determined on a case by case basis, and, in part, by how the rating on the standard in question fits within the school's overall performance on the FPF.

The overall final rating of a school will document the Commission's assessment of the school's financial viability based on cumulative evidence from the quarterly reviews, State Auditor's Office and independent audits, annual budgets, cash on hand, the FPF, and/or more detailed examination of the school's financial position, as needed.

USE OF THE FINANCIAL PERFORMANCE FRAMEWORK

Collecting Evidence

The FPF is a monitoring tool that provides the Commission with key data to assess the financial health and viability of charter public schools in their portfolio and to determine whether deeper analysis or monitoring is required. The FPF summarizes the charter public school's current financial health while taking into account the school's financial trends over a period of three years. The measures are designed to be complementary, as no single measure gives a full picture of the financial situation of a school. Together they provide a comprehensive assessment of the school's financial health based on a school's historic trends, near-term financial situation, and future viability.

While the Commission provides oversight to charter public schools, many of the state and federal fiscal accountability and reporting requirements will be monitored and/or audited by the Office of the Superintendent of Public Instruction (OSPI) and State Auditor's Office (SAO) program staff. Charter public schools will be required to submit to the Commission, OSPI, SAO program review and audit reports, and independent audit reports, so that all agencies may work in collaboration regarding state and federal compliance.

There are a number of ways for that Commission may collect data to evaluate a charter public school's financial viability and to determine a school's rating on any given measure, as well as a rating for the FPF as a whole. Please review the following resources for assistance in meeting appropriate reporting and financial viability obligations.

- [Commission Annual Compliance Calendar](#)
- Epicenter Online Reporting System: my.epicenternow.org
- OSPI website: www.k12.wa.us
- [School District Accounting Manual](#)
- State Auditor's Office website: www.sao.wa.gov

Further Analysis for Determining Ratings

If a school does not initially meet the quantitative threshold for *Meets or Approaching Standard* on any measures, the Commission will conduct further analysis to determine the school's rating. A key first step is to request updated information, as the information in the audited financial statements is generally on a multi-month lag.

The Commission may request the following to monitor a school's financial position:

- Year-to-date unaudited financial statements
- Year-to-date budget variance reports
- Updated budget projections for the remainder of the fiscal year

This information will help the Commission to better understand the short- and long-term viability of the school and what the rating should be to adequately reflect the school's position. It is important to note that any interim financial

information will not be audited, and thus its accuracy is not guaranteed. The Commission may request cash-on-hand financials, if the school is able to provide them, as they will allow for a more consistent analysis than if the Commission reviews cash-basis financials on an interim basis and accrual basis financials at year-end.

If other information is needed regarding a school's financial health, it may be necessary to contact the school's auditor, who often has an ongoing relationship and/or dialogue regarding plans to address financial issues and general financial sustainability. Please note that although the auditor works closely with the school, auditors are independent and thus should be able to provide an unbiased evaluation of the school's finances.

Follow-Up/Additional Information that the Commission may Request

The following chart provides examples of additional information the Commission may request as part of the further analysis for schools that did not meet the standard on initial review. The chart includes additional information to request for the comprehensive review and what to look for in the additional data to identify signs of progress toward a more financially healthy school.

Measure	Additional Information to Request	Look For
1.a Current Ratio	Monthly financial statements	Monthly current ratio trending upwards
1.b Days Cash	Actual to-date cash flow and cash flow projections through the end of the fiscal year. Monthly financial statements	Increases in unrestricted cash and days cash on hand approaching the target <i>NOTE: It is important to review the cash flow monthly due to irregular funding streams</i>
1.c Debt Default	Copies of default-related documents the school received from the lender	Proof that the school is no longer in default, the lender has waived covenants, or the school has a plan to meet the covenants
2.a Total Margin	Revised budget Monthly (new) budget variance report	Budget demonstrates a net surplus and few variances, if any are present
2.b Debt to Asset Ratio	Action plan and updated budget to increase the school's Net Assets Monthly financial statements	Monthly debt to asset ratio trending upwards Alignment among the action plan, budget, and financial statements
2.c Cash Flow	Actual to-date cash flow and cash flow projections through the end of the fiscal year	Increases in cash balance over the course of the year
3.a-c	Supplementary information	Clarification of the annual independent audit, financial compliance submissions, and board meetings as needed

Enrollment Variance	Budget revised to reflect lower enrollment Monthly budget variance reports	Review that the school has adjusted staffing expenses to align with enrollment and/or increased enrollment efforts
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Steps the Commission may take as part of the further analysis include:

- Contacting the school's governing board, executive director, and finance director (or similar personnel) to discuss their school's financial status.
- Requesting up-to-date financial information from the school, as the FPF uses audited data which requires a time-lag.
- Running the up-to-date (interim) financial information through the framework. Up-to-date information may reveal steps the school has taken to mitigate any issues the FPF highlighted, but it is important to note that interim financials have not been audited and therefore do not have the same level of credibility²
- Inquiring about the measures of concern with the executive and finance directors and/or the school's governing board to identify any strategies employed to mitigate issues or strategic choices the school made with the understanding that their financial stability would be compromised for a period of time (e.g. – as part of an expansion, the school intentionally spent down its fund balance, but has a plan to bring the balance up to an acceptable level).
- Attendance at board meetings and/or review of board meeting minutes to seek evidence of engagement by the school's governing board to address areas needing improvement.
- Requesting that the school's governing board and/or leadership meet with the Commission's Finance Committee to discuss the school's plans regarding improving financial viability.

When a school does not meet or approaches the quantitative thresholds on initial review, it may be either in immediate distress, financially trending negatively, neither, or both; hence the necessity for further conversation between the Commission and school leadership and/or additional analysis. For example, the school may have made a strategic financial decision that caused results that necessitated additional review, but upon additional questioning has sufficient reasons for the financial results in the given year and is not in immediate distress or a negative financial trend. The Commission may be able to validate reasoning provided regarding large events (significant purchase, natural disaster, etc.) in the notes to the financial statements from the prior year, which indicate any significant items shortly after year end. This information will support the Commission in determining the ratings for each measure.

Evaluation

The Commission may use the FPF to both monitor charters in its portfolio on an ongoing annual basis and to inform high-stakes decisions such as renewal or revocation.

² Interim data may be reported on an accrual, modified accrual, or cash basis, while financial audit data is reported on a full accrual basis. Results of the analysis may be different based on the reporting method and not the school's financial performance. For more information on analyzing interim data, see "General Monitoring."

Interim review

In addition to annual monitoring, the FPF is designed to assist the Commission in monitoring the financial health of a school on an ongoing basis. The Commission may utilize those items contained in “Follow-Up/Additional Information that the Commission may Request” to guide what questions to ask or information to request for schools not meeting absolute quantitative standards on initial review.

The data used to generate the measures is most representative if reported on a full accrual basis. However, many schools maintain ongoing tracking and reporting on a cash or modified accrual basis, which may incorrectly reflect a school’s financial standing in the ratios. Financial information gathered and analyzed on an interim basis will not be audited as well, and therefore is less reliable than the year-end data used for the full analysis. However, the Commission may utilize interim monitoring, as it is a helpful practice to remain cognizant of potential financial challenges schools are facing and may allow the Commission to support the school in a more proactive way than the year-end full analysis.

Schools that may be in immediate financial distress

Schools that do not receive a *Meets Standard* or *Approaching Standard* rating on the near-term indicators may be at high risk for financial distress or closure. As such, they may require additional monitoring and/or corrective action. The Commission will determine the severity of the problem, assess changes in the school’s financial performance and health since the date of the audited financial statements, and may require that the school take actions to stabilize its financial position.

Schools experiencing negative financial trends

Schools that do not receive a *Meets Standard* or *Approaching Standard* rating on the sustainability indicators for multiple reasons may be trending toward financial distress. However, they may have a sound rationale for not meeting the standards in a given year. For example, a school that is otherwise financially sound could fail to meet the cash flow measure if it made a one-time large operating investment.

Schools with insufficient financial management and oversight

Schools that do not receive a *Meets Standard* or *Approaching Standard* rating on the Financial Management and Oversight indicators may require intervention in order to ensure that the school’s Board of Directors can effectively ensure the ongoing financial health and success of the school.

The Commission will determine if the school’s failure to meet or approach the standards was a result of a one-time event or represents an underlying structural problem with the school’s financial performance. To this end, the Commission may collect and analyze additional information from the school and perform more in-depth due diligence.

Intervention

The Commission may use the FPF to identify schools whose financial stability is in danger and intervene. This intervention could be in the form of communication of unsatisfactory performance, increased monitoring, mid-year financial check-ins, or requests for additional information as necessary.

For schools that are determined to be in financial distress following both phases of FPF review, the Commission may consider requiring ongoing reporting to monitor continuous financial performance. In a very serious situation, the Commission may consider terminating the contract, although this action is the most extreme form of intervention and generally will be employed only following other corrective actions or if the situation immediately warrants it.

Renewal

The FPF is designed to be of particular use to the Commission during the renewal period for a school. The results will assist the Commission in identifying a school's historical financial trends, current financial positions, and financial management and oversight; each of these is useful in gauging a school's future financial viability.

Revocation

In the most severe cases of financial instability, the FPF is designed to indicate schools that might be considered for revocation of their charter contract. The targets for each measure are set to indicate schools that are falling far below standards; if a school is falling far below many of the financial standards, they may be considered for revocation.

General Monitoring

The Commission will conduct general monitoring of schools' finances by requiring submission of reporting on an interim basis more frequently than the annual audit. Because there is a significant lag between the school's year-end and when the Commission has access to the information, the FPF assessment is indicative of performance from at least several months back.

The financial the Commission will review on a periodic (generally quarterly) basis are:

- Income statement and balance sheet showing year-to-date actual, year-to-date budget, variance, and year-end budget
- Year-to-date statement of cash flows and cash flow projection through year end

These Interim reviews are key to identifying new and unresolved problems, as well as items that, due to timing of the audit, may not have triggered a review in the initial framework review. Due to a number of the measures including balance sheet figures (a snapshot of a point in time), these measures can be manipulated, intentionally or unintentionally, due to timing. For example, a school's management may choose not to pay a large invoice before year end to inflate its cash balance, or cash payments from the state may come just before year end in one year and after in another. Interim reviews will assist the Commission in avoiding undue reliance on what might be skewed data.

Because of the potential for different bases of accounting, as well as the impact of timing on many of the measures, the measures may be used to identify major discrepancies from targets, but identifying large budget variances to discuss with management can also serve as a useful, and less time-intensive, general monitoring tool.

MEASURES IN DETAIL

NEAR TERM INDICATORS:

1. a. Current Ratio

Definition

The current ratio depicts the relationship between a school's current assets and current liabilities.

Overview

The current ratio measures a school's ability to pay its obligations over the next twelve months. A current ratio of greater than 1.0 indicates that the school's current assets exceed its current liabilities, thus indicating ability to meet current obligations. A current ratio of less than 1.0 indicates that the school does not have sufficient current assets to cover the current liabilities and is not in a satisfactory position to meet its financial obligations over the next 12 months.

Source of Data

Audited balance sheet

1.a. Current Ratio:		
$\left(\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \right)$		
Rating		
<p>Meets:</p> <ul style="list-style-type: none"> • Stage 1 (Years 1-2): Current Ratio is greater than or equal to 1.0 • Stage 2 (Year 3 and beyond): Current Ratio is greater than or equal to 1.1 <p>Or,</p> <ul style="list-style-type: none"> • Current Ratio is greater than 1.0 and less than 1.1 <u>and</u> the one-year trend is positive (current year ratio is higher than last year's) 	<p>Approaching Standard:</p> <ul style="list-style-type: none"> • Stage 1 (Years 1-2): Current Ratio is greater than or equal to 0.9 and less than 1.0 • Stage 2 (Year 3 and beyond): Current Ratio is greater than or equal to 1.0 <u>and</u> less than 1.1 <p>Or,</p> <ul style="list-style-type: none"> • Current Ratio is greater than or equal to 0.9 and less than 1.0 <u>and</u> the one-year trend is positive (current year ratio is higher than last year's) <p>Or,</p> <ul style="list-style-type: none"> • Stages 1 and 2: Any concerns have been adequately addressed based on additional information such that the Commission concludes that performance against the standard indicates sound financial viability. 	<p>Does Not Meet:</p> <ul style="list-style-type: none"> • Stages 1 and 2: Upon evidence from the performance framework, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention are warranted.

Guidelines for Target Level and Ratings

Best practices indicate that the current ratio should be a minimum of 1.0. Thus, the Stage 1 target is 1.0. An upward trend of a current ratio that is greater than 1.0 indicates greater financial health. As such, the Stage 2 target is that a school has a current ratio greater than or equal to 1.1 or a current ratio greater than 1.1 that is increasing. Based on common standards a current ratio less than 0.9 is a serious financial health risk.

Similar to any individual or organization, a school must have enough current assets (e.g., cash and accounts receivable) to pay off its debts that are coming due in the near term (e.g. accounts payable). In this manner, the school will not have to liquidate or otherwise use non-current assets to pay regular expenses. A current ratio of 1.0 indicates that the school has enough current assets to pay off their current liabilities. The Stage 2 target was set at 1.1 (or 1.0 and growing) to require a school to have a 10% cushion for unexpected changes in the school's financial situation. A current ratio of less than 1.0 or with a negative trend indicates a serious concern as the school is unable to pay off current liabilities with assets currently available.

Further Analysis Considerations

A school that does not meet the quantitative targets on initial review may be subject to further review by the Commission to identify if there are any unusual or planned circumstances that led to the current ratio rating, as well as what management has done to mitigate this situation.

One mitigating factor for consideration is if a school has a line of credit available that they could access to pay for current liabilities in the short-term. This would not be included as an asset, but would be identified in the notes to the financial statements.

1. b. Unrestricted Days Cash

Definition

The unrestricted days cash-on-hand ratio indicates how many days a school can pay its expenses without another inflow of cash.

Overview

The unrestricted days cash ratio indicates whether or not the school has sufficient cash to meet its cash obligations. Depreciation expense is removed from the total expenses denominator because it is not a cash expense.

Source of Data

Audited balance sheet and income statement. Note that if cash is restricted due to legislative requirements, donor restrictions, or others, the restriction should be listed in the audit.

1.b. Unrestricted Days Cash:		
$\left\{ \text{Unrestricted Days Cash} = \frac{\text{Unrestricted Cash}}{\left[\frac{(\text{Total Expenses} - \text{Depreciation})}{365} \right]} \right\}$		
Rating		
<p>Meets:</p> <ul style="list-style-type: none"> • Stage 1 (Years 1-2): 30 Days Cash or greater • Stage 2 (Year 3 and beyond): 60 Days Cash or greater 	<p>Approaching Standard:</p> <ul style="list-style-type: none"> • Stage 1 (Years 1-2): Greater than or equal to 21 Days Cash and less than 30 • Stage 2 (Year 3 and beyond): Greater than or equal to 30 and less than 60 Days Cash <p>Or,</p> <ul style="list-style-type: none"> • Stages 1 and 2: Any concerns have been adequately addressed based on additional information such that the Commission concludes that performance against the standard indicates sound financial viability. 	<p>Does Not Meet:</p> <ul style="list-style-type: none"> • Stages 1 and 2: Upon evidence from the performance framework, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention are warranted.

Guidelines for Target Level and Ratings

A standard minimum measure of financial health of any organization is at least one month's worth of operating expenses cash-on-hand is. As such, the Stage 1 threshold for this indicator is set at 30 days cash.

Due to the nature of charter public school cash flow and the sometimes irregular receipts of revenue, a 60-day threshold was set for Stage 2 schools to meet the standard.

If a school has less than 21 days of cash on hand, they will not be able to operate for more than a few weeks without another cash inflow, and are at high risk for immediate financial difficulties.

Further Analysis Considerations

Three primary considerations may be made when evaluating days cash in a further analysis:

1. Access to a line of credit
2. Highly liquid non-cash assets
3. The timing of the next large cash inflow (generally state payment).

Each of these items may mitigate a cash shortage, but the Commission may still discuss this concern with the school's management and/or board to ensure the school is aware of the cash situation and has intentional plans of how to mitigate it.

1. c. Debt Default

Definition

Debt default indicates if a school is not meeting debt obligations or covenants.

Overview

This metric addresses whether a school is meeting its loan covenants and/or is delinquent with its debt service payments. A school that cannot meet the terms of its loan may be in financial distress. Dependent on the debt environment, the Commission may consider a school in default only when it is not making payments on its debt, or when it is out of compliance with other requirements in its debt covenants.

Source of Data

Notes to the audited financial statements

1. c. Default		
Rating		
<p>Meets: Stages 1 and 2: School is not in default of loan covenant(s) and/or is not delinquent with debt service</p>	<p>Approaching Standard: Stages 1 and 2: Any concerns have been adequately addressed based on additional information such that the Commission concludes that performance against the standard indicates sound financial viability.</p>	<p>Does Not Meet: Stages 1 and 2: Upon evidence from the performance framework, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention are warranted.</p>

Guidelines for Target Level and Ratings

Schools that are not meeting financial obligations, either through missed payments or violations of debt covenants, are at risk of financial distress.

Further Analysis Considerations

The Commission may require schools to immediately notify them if they are in default, and the Commission may choose to establish communication with the lender to understand the impact of the default on the school's viability. If the lender waives the requirements causing default, the technical fact of default may not significantly impact a school's viability. On the other hand, if the lender chooses to call the loan over a default, the school's ability to continue operations could be at risk.

SUSTAINABILITY INDICATORS

2. a. Total Margin & Aggregated Three-year Total Margin

Definition

Total margin measures the deficit or surplus a school yields out of its total revenues; in other words, whether the school is living within its available resources.

Overview

The total margin measures if a school operates at a surplus (more total revenues than expenses) or a deficit (more total expenses than revenues) in a given time period. The total margin is important to track as schools cannot operate at deficits for a sustained period without risk of closure. Though the intent of a school is not to make money, it is important for schools to build, rather than deplete, a reserve to support growth or to sustain the school in an uncertain funding environment.

The aggregated three-year total margin is helpful for measuring the long-term financial stability of the school by smoothing the impact of single-year fluctuations on the single year total margin indicator. The performance of the school in the most recent year, however, is indicative of the sustainability of the school, thus the school must have a positive total margin in the most recent year to meet standard.

Source of Data

Three years of audited income statements

Sustainability		
<p>2.a. Total Margin:</p> $\left(Total\ Margin = \frac{Net\ Income}{Total\ Revenue} \right)$ <p>Aggregated Total Margin:</p> $\left(Total\ Aggregated\ Margin = \frac{Total\ 3\ Year\ Net\ Income}{Total\ 3\ Year\ Revenues} \right)$		
Rating		
<p style="text-align: center; color: green;">Meets:</p> <ul style="list-style-type: none"> • Stage 1 (Years 1-2): Total Margin must be positive in both years • Stage 2 (Year 3 and beyond): Aggregated Three-Year Total Margin is positive and the most recent year Total Margin is positive <p style="text-align: center;">Or,</p> <ul style="list-style-type: none"> • Aggregated Three-Year Total Margin is greater than -1.5%, the trend is positive for the last two years, and the most recent Total Margin is positive 	<p style="text-align: center; color: blue;">Approaching Standard:</p> <ul style="list-style-type: none"> • Stage 1 (Years 1-2): Total Margin must be positive in both years • Stage 2 (Year 3 and beyond): Aggregated Three-Year Total Margin is greater than -2.0%, the trend is positive for the last two years, and the most recent Total Margin is positive <p style="text-align: center;">Or,</p> <ul style="list-style-type: none"> • Stages 1 and 2: Any concerns have been adequately addressed based on additional information such that the Commission concludes that performance against the standard indicates sound financial viability. 	<p style="text-align: center; color: red;">Does Not Meet:</p> <p>Stages 1 and 2: Upon evidence from the performance framework, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention are warranted.</p>

Guidelines for Target Level and Ratings

General preference in any industry is that the total margin is positive. However, organizations may make strategic choices to operate at a deficit for a year for a large capital expenditure or other planned expense.

The targets set allow for flexibility over a three-year timeframe in the aggregate total margin but require a positive total margin for the current year to meet standard. For Stage 1 schools that do not have three years of data, having a positive margin in the first two years is important, as younger schools tend to have smaller reserves to cover negative margins. A margin in any year of less than -10 percent or an aggregate three-year total margin less than -1.5 percent is an indicator of financial risk.

Further Analysis Considerations

To conduct further analysis, the Commission may first review the school’s budget in the year(s) in which a negative total margin was realized to identify if any of the losses were planned. If a loss was planned, the Commission might discuss this with the school’s leadership to understand for what purpose it was planned and projections to operate at a sustainable level moving forward. Additionally, if a school had one significantly large net loss in a prior year which has pulled their aggregate net margin below -1.5%, the Commission should review the financial progress made since the year in consideration and discuss why the year had such a negative result and changes made to improve performance since that point with management.

2. b. Debt to Asset Ratio

Definition

The debt to asset ratio measures the amount of liabilities a school owes versus the assets they own; in other words, it measures the extent to which the school relies on borrowed funds to finance its operations.

Overview

The debt to asset ratio compares the school’s liabilities to its assets. Simply put, the ratio demonstrates what a school owes against what it owns. A lower debt to asset ratio generally indicates stronger financial health.

Source of Data

Audited balance sheet

2.b. Debt to Asset Ratio:		
$\left(\text{Debt to Asset Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}} \right)$		
Rating		
<p>Meets:</p> <ul style="list-style-type: none"> • Stages 1 and 2: Debt to Asset Ratio is less than 0.90 	<p>Approaching Standard:</p> <ul style="list-style-type: none"> • Stages 1 and 2: Debt to Asset Ratio is greater than 0.90 and less than or equal to 1.0 Or, • Stages 1 and 2: Any concerns have been adequately addressed based on additional information such that the Commission concludes that performance against the standard indicates sound financial viability. 	<p>Does Not Meet:</p> <ul style="list-style-type: none"> • Stages 1 and 2: Upon evidence from the performance framework, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention are warranted.

Guidelines for Target Level and Ratings

A debt to asset ratio greater than 1.0 is a generally accepted indicator of potential long-term financial issues, as the organization owes more than it owns, reflecting a risky financial position. A ratio less than 0.9 indicates a financially healthy balance sheet, both in the assets and liabilities, and the implied balance in the equity account.

Further Analysis Considerations

A debt to asset ratio greater than 0.9 in an environment like that of the State of Washington charter public schools can indicate potential long-term financial issues, as the organization may be over-leveraged based on the assets it has acquired. The Commission may review the breakdown of liabilities within the balance sheet of the audited financials to identify what comprises the total liabilities figure. Additional information about significant liabilities is generally included in the notes to the financial statements. Lastly, the Commission may discuss the levels of debt and assets with the school’s leadership to better understand why the school has taken on the debt it has and what the plans are to pay down the debt.

2. c. Cash Flow

Definition

The cash flow measure indicates a school’s change in cash balance from one period to another.

Overview

Cash flow indicates the trend in the school’s cash balance over a period of time. This measure is similar to days cash-on-hand but indicates long-term stability versus near-term. Since cash flow fluctuations from year-to-year can have a long-term impact on a school’s financial health, this metric assesses both three-year cumulative cash flow and annual cash flow. Like total margin, this measure is not intended to encourage amassing resources instead of deploying them to meet the mission of the organization, but rather to provide for stability in an uncertain funding environment.

Source of Data

Three years of audited balance sheets

2.c. Cash Flow Multi-Year Cash Flow: $(Multi\ Year\ Cash\ Flow = Year\ 3\ Total\ Cash - Year\ 1\ Total\ Cash)$ One Year Cash Flow: $(One\ Year\ Cash\ Flow = Year\ 2\ Total\ Cash - Year\ 1\ Total\ Cash)$		
Rating		
Meets: <ul style="list-style-type: none"> • Stage 1 (Year 1): N/A • Stage 1 (Year 2): Positive one-year Cash Flow • Stage 2 (Year 3 and beyond): Multi-Year Cumulative Cash Flow is positive and Cash Flow is positive each year 	Approaching Standard: <ul style="list-style-type: none"> • Stage 1 (Year 1): N/A • Stage 1 (Year 2): See below • Stage 2 (Year 3 and beyond): Multi-Year and most recent year Cash Flows are positive <p style="text-align: center;">Or</p> <ul style="list-style-type: none"> • Stages 1 and 2: Any concerns have been adequately addressed based on additional information such that the Commission concludes that performance against the standard indicates sound financial viability. 	Does Not Meet: <ul style="list-style-type: none"> • Stages 1 and 2: Upon evidence from the performance framework, quarterly reports, notice of concerns, and investigation and review, the Commission identifies significant financial risk such that heightened monitoring and/or intervention are warranted.

Guidelines for Target Level and Ratings

A positive cash flow over time generally indicates increasing financial health and sustainability of a charter public school.

Further Analysis Considerations

Similar to the days cash on hand, the amount of cash a school has as of the date of the audit may be influenced by

the timing of payments (made or received) and if any liquid investments were added to the school's balance sheet, which would have likely been in exchange for cash, thus lowering the school's cash balance, but likely not truly impacting the school's ability to make payments if the investments are highly liquid.

One additional consideration is how many dollars the cash declined by if it did decrease for either the one year or multi-year cash flow. If the decrease was by a nominal amount, the Commission may consider this point when assigning a rating for this measure.

FINANCIAL MANAGEMENT & OVERSIGHT INDICATORS

3. a. Annual Financial Audit

Overview

The Annual Financial Audit measure indicates whether the independent financial audit results demonstrate that the school is meeting basic financial management, controls, and oversight expectations including following Generally Accepted Accounting Principles (GAAP).

Source of Data

Annual, independently audited financial statements, audit reports and Notes, and accompanying Management Letters

3.a Annual Financial Audit		
Rating		
<p>Meets:</p> <p>The school materially complies with applicable state and federal laws, rules, regulations, and provisions of the charter contract relating to financial management, controls, and oversight as evidenced by an annual independent audit, including but not limited to:</p> <ul style="list-style-type: none"> • The audit report contains an unqualified/unmodified audit opinion • The audit report is devoid of significant findings and conditions, material weaknesses, or significant internal control weakness • The audit report (including separate or supplemental schedules) identifies no repeat findings of significance • The audit report does not include a “going concern disclosure” in the notes or an explanatory paragraph within the audit report 	<p>Approaching Standard:</p> <p>Not applicable</p>	<p>Does Not Meet:</p> <p>The school failed to implement the program in the manner described above; the failure(s) were material and significant to the viability of the school.</p>

3. b. Financial Reporting and Compliance

Overview

The financial reporting and compliance measure indicates whether the school is meeting financial reporting and compliance requirements.

Source of Data

- School submissions to the Commission in the manner and timeline outline by the Commission in its Annual Compliance Calendar
- Reports from relevant parties such as the State Auditor’s Office, Office of the Superintendent of Public Instruction, the Internal Revenue Service, etc.

3.b Financial Reporting and Compliance		
Rating		
<p>Meets:</p> <p>The school materially complies with applicable state and federal laws, rules, regulations, and provisions of the charter contract relating to financial reporting and compliance requirements including timely and complete submission of required documents, including but not limited to:</p> <ul style="list-style-type: none"> • Annual budget and revised budgets (if applicable) • Quarterly or other periodic financial reports as required by the Commission • Any reporting requirements if the board contracts with an Education Service Provider. • Appropriate financial controls (e.g., internal control procedures for cash receipts, cash disbursements, and purchases). • Financial Corrective Action Plans, if applicable • Annual independent financial audit • State Auditor's Office audit, if applicable. • All policies and requirements issued by the Office of Superintendent of Public Instruction concerning accounting for public school districts in the state of Washington including but not limited to: public-school budget and accounting requirements, the Accounting Manual for School Districts, and the Administrative Budgeting and Financial Reporting Handbook. 	<p>Approaching Standard:</p> <p>Not Applicable</p>	<p>Does Not Meet:</p> <p>The school’s independent financial audit does not meet one or more of the Meets the Standard indicators, and therefore the school is not meeting basic financial management, controls, or oversight expectations.</p>

3. c. Financial Oversight (Quality Measure)

Overview

The financial oversight measure indicates whether the school and its governing board effectively establish and approve annual budgets, monitor budget implementation on a regular basis, and ensure the ongoing financial health and success of the school.

Source of Data

- Board meeting minutes and packet information, including monthly or quarterly financial statements
- Board meeting observations
- Interviews or focus groups with board members, school leadership, business manager and/or financial service provider
- Annual budget forms submitted to both the Commission and the Office of the Superintendent of Public Instruction
- Monthly Apportionment submissions (P-223)

3.c Financial Oversight		
Rating		
<p>Meets:</p> <p>The school and its governing board establish, approve, and monitor annual budget execution and safeguard the financial health and activities of the school, with the following elements fully developed and functioning effectively:</p> <ul style="list-style-type: none"> • The Board reviews financial reports and statements including a balance sheet, a budget-to-actual income statement, a cash flow statement, and a financial dashboard monthly. • The Board approves annual budgets by self-prescribed, state required, and charter contract-imposed deadlines. • The Board adjusts annual budgets as necessary (for example, if enrollment targets are not hit, or when specific revenue or expenses are no longer realistic or achievable). • A school’s financial planning and management practices include a three-to-five-year projected income statement (pro forma) and a 12-month rolling projected cash flow, developed by school leadership and/or a contracted financial services provider, and periodically reviewed and updated by leadership and the governing board. • The Board reviews annual independently audited financial statements, reports and management letters, and evidence suggests that all findings, whether material, significant, or deficient, are being addressed at the school leadership and board levels in a timely manner. • The Board considers the school’s financial health in relation to student outcomes and progress towards meeting the school’s mission. (In other words, the Board’s focus is on great outcomes for all students and how or whether the financial health of the organization supports attainment of those outcomes.) • The school has appropriate in-house, employed financial expertise and/or contracts with a reputable, proven, financial services provider. 	<p>Approaching Standard:</p> <p>The school did not <i>materially</i> implement the program in the manner described above, but such failures were not significant to the viability of the school.</p>	<p>Does Not Meet:</p> <p>The school failed to implement the program in the manner described above; the failure(s) were material and significant to the viability of the school.</p>

Enrollment Variance

Definition

Enrollment variance indicates whether the school is meeting its enrollment projections. As enrollment is a key driver of revenue, variance is important to track the sufficiency of revenues generated to fund ongoing operations. Enrollment variance is reviewed and monitored as an important indicator in financial viability.

Overview

The enrollment variance depicts actual versus projected enrollment. A school budgets based on projected enrollment but is funded based on actual enrollment; therefore, a school that does not meet its enrollment targets may not be able to meet its budgeted expenses. In the State of Washington, charter public schools in their first year of operations receive funds based on their projected enrollment, meaning that schools that have not met enrollment targets may be able to operate smoothly through their first year without budget adjustments. However, schools must reconcile with OSPI and repay any overpayments from the school's first year of operation during its second year; thus, if a school misses enrollment targets in the first year, it is important that the school modify its budget appropriately in year 1 to avoid having a significant shortfall in year 2 or subsequent years. The consequences of missing enrollment targets and the associated impact on a school's budget are delayed for new schools, but budgetary adjustments should not be delayed.

Although enrollment is not the singular driver of revenues for a school, it is highly correlated at a minimum. As school budgets are generally designed to match expenses with projected revenues, a poor enrollment variance is a substantial indicator of potential financial issues.

Schools less than five years old may have greater fluctuations in their enrollment because they have not yet established themselves in the community. However, mature schools with large, unexplained fluctuations in enrollment may be in financial distress if they are not able to adjust accordingly. Often, financially stable schools will purposefully underestimate enrollment so that they may budget more conservatively.

Source of Data

- Projected enrollment – Charter public school board-approved budget for the year in question
- P223 submissions to the Office of the Superintendent of Public Instruction [OSPI]

Enrollment Variance:

$$\left(\text{Enrollment Variance} = \frac{\text{Actual Enrollment}}{\text{Projected Enrollment}} \right)$$

Calculation Details

Full time equivalent enrollment from each month's P223 submission to the Office of Superintendent of Public Instruction is averaged for the school year to produce the "Actual Enrollment" variable above.

Guidelines

Enrollment variance less than 85 percent indicates that a significant amount of funding on which a school set its expense budget is no longer available, and thus the school is at a significant financial risk. Conversely, Schools that achieve at least 95 percent of projected enrollment generally have the operating funds necessary to meet all expenses, and thus are not likely to be at a significant risk of financial distress. Schools with an enrollment variance of 85 percent or greater and less than 95 percent are likely to experience some level of financial risk.

Further Analysis Considerations

Enrollment variance of less than 95 percent indicates that a school had to make significant changes to planned expenses or had to utilize its fund balance to operate. A highly significant variance result – such as a percent of 85 or lower, indicates that a significant amount of funding on which a school set its expense budget is no longer available, and thus the school is at a significant financial risk. The Commission should request revised budgets and cash flow projections from schools to ensure that they are making adjustments necessary to operate high quality schools with less public revenue.

CONSIDERATIONS WHEN EVALUATING SCHOOLS AFFILIATED WITH NETWORKS OR EDUCATIONAL SERVICE PROVIDERS

The FPF focuses on the charter public school, the entity to which the Commission has a legal relationship through the charter contract. In some locales with one charter contract for multiple schools or independent campuses, the authorizer may hold each school or campus independently accountable. Each charter public school should have its own independent audit and financial statements that can be evaluated by the Commission, or, if an umbrella entity has a single consolidated audit for multiple schools or campuses, each school or campus's financials should be independently represented in the consolidated audit.

If a school contracts with an Education Service Provider (ESP), the FPF will still apply. The school should have an independent audit and separately report their financial data that shows the individual school's finances, with any fees to the ESP clearly delineated. The Commission will not permit schools to operate with what are commonly called "sweeps contracts," which require schools to transmit all of their revenues to an ESP without accounting for revenues and expenditures at the school level.

GLOSSARY A: TERMS USED IN THE FRAMEWORK

Assets: A probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events. These economic resources can be tangible or intangible.

Audit: A systematic collection of the sufficient, competent evidential matter needed to attest to the fairness of management's assertions in the financial statements or to evaluate whether management has efficiently and effectively carried out its responsibilities. The auditor obtains this evidential matter through inspection, observation, inquiries, and confirmations with third parties. Refer to Compliance Audit, Corrective Action Plan, Financial Audit, Performance Audit, and Single Audit.

Balance Sheet: A financial statement that discloses the assets, liabilities, and equities of an entity at a specified date in conformity with generally accepted accounting principles (GAAP). Also referred to as the Statement of Financial Position or Statement of Net Assets.

Basis of Accounting: This refers to the methodology and timing of when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Refer to Accrual Basis, Modified Accrual Basis, and Cash Basis.

Cash Basis: A basis for accounting whereby revenues are recorded only when received and expenses are recorded only when paid without regard to the period in which they were earned or incurred.

Consultant: An independent individual or entity contracting with an agency to perform a personal service or render an opinion or recommendation according to the consultant's methods and without being subject to the control of the agency except as to the result of the work. The agency monitors progress under the contract and authorizes payment.

Current Assets: Resources that are available, or can readily be made available, to meet the cost of operations or to pay current liabilities.

Current Liabilities: Those obligations that are payable within one year from current assets or current resources.

Current Ratio: A financial ratio that measures whether or not an organization has enough resources to pay its debts over the next 12 months. It compares a firm's current assets to its current liabilities and is expressed as follows:
$$\text{current ratio} = \text{current assets} \div \text{current liabilities}$$

Debt: An obligation resulting from the borrowing of money or from the purchase of goods and services. Debts of the state include bonds, accounts payable, and other liabilities. Refer to Bonds Payable, Accounts Payable, Liabilities, Long-Term Obligations, and General Long-Term Obligations.

Debt Service: The cash that is required for a particular time period to cover the repayment of interest and principal on a debt. Debt service is often calculated on a yearly basis.

Debt Service Default: Occurs when the borrower has not made a scheduled payment of interest or principal.

Debt Service Coverage Ratio: Also known as “debt coverage ratio,” is the ratio of cash available for debt servicing to interest, principal, and lease payments.

Debt to Asset Ratio: A financial ratio that measures the proportion of an organization’s assets that are financed through debt. It compares an organization’s total assets to its total liabilities and is measured by dividing the total liabilities by the total assets. If the ratio is less than one, most of the organization’s assets are financed through equity. If the ratio is greater than one, most of the organization’s assets are financed through debt.

Financial Audit: An audit made by an independent external auditor for the purpose of issuing an audit opinion on the fair presentation of the financial statements of the state in conformity with Generally Accepted Accounting Principles. Refer to Audit.

Fiscal Period: Any period at the end of which a governmental unit determines its financial position and the results of its operations. Refer to Accounting Period.

GAAP: Refer to Generally Accepted Accounting Principles.

General Fund: The general fund is used to account for the financial activities of the general government not required to be accounted for in another account.

Generally Accepted Accounting Principles (GAAP): These are the uniform minimum standards for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. The primary authoritative body on the application of Generally Accepted Accounting Principles (GAAP) to state and local governments is the Governmental Accounting Standards Board.

Governmental Accounting: The composite activity of analyzing, recording, summarizing, reporting, and interpreting the financial transactions of a governmental entity.

Income Statement: A financial statement that shows revenues and expenditures of an entity at a specified date in conformity with Generally Accepted Accounting Principles (GAAP). Also referred to as the Statement of Activities and Changes in Net Assets or the Statement of Activities.

Indicator: General categories of financial performance.

Interest Payable: A liability account reflecting the amount of interest owed by the state. In governmental funds, interest is to be recognized as an expenditure in the accounting period in which it becomes due and payable, and the liability is to be recorded as interest payable at that time. In proprietary and trust funds, interest payable is recorded as it accrues, regardless of when payment is actually due.

Interim Financial Statement: A financial statement prepared before the end of the current fiscal period and covering only financial transactions during the period to date.

Liabilities: Probable future sacrifices of economic benefits, arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. The term does not include encumbrances.

Margin: The difference between revenues and expenses. The margin can refer to the gross margin (operating revenues less operating expenses) or the total margin (see Total Margin).

Measure: General means to evaluate an aspect of an indicator.

Metric: Method of quantifying a measure.

Net Assets: The difference between assets and liabilities. Refer to Fund Equity.

Net Income: A term used in accounting for proprietary funds to designate the excess of total revenues and operating transfers in divided by total expenses and operating transfers out for an accounting period.

Principal: The amount of the loan excluding any interest.

Statement of Activities: A government-wide financial statement that reports the net (expense) revenue of its individual functions. An objective of using the net (expense) revenue format is to report the relative financial burden of each of the reporting government's functions on its taxpayers.

Statement of Cash Flows: A GAAP financial statement for proprietary funds that provides relevant information about the cash receipts and cash payments of a government during a period. It categorizes cash activity as resulting from operating, noncapital financing, capital financing, and investing activities.

Statement of Activities and Changes in Net Assets: The financial statement that is the GAAP operating statement for pension and investment trust funds. It presents additions and deductions in net assets held for pension benefits and investment pool participants. It reconciles net assets held at the beginning and end of the financial period, explaining the relationship between the operating statement and the balance sheet.

Statement of Net Assets: A government-wide financial statement that reports the difference between assets and liabilities as net assets, not fund balances or equity. Assets are reported in order of liquidity, or how readily they are expected to be converted to cash and whether restrictions limit the government's ability to use the resources.

Liabilities are reported based on their maturity, or when cash is expected to be used to liquidate them. Net assets are displayed in three components: invested in capital assets, net of related debt; restricted; and unrestricted.

Target: Threshold that signifies success for a specific measure.

Total Margin: Total revenues less total expenses.

GLOSSARY B: OTHER USEFUL ACCOUNTING TERMS

Accounting Period: Any period of time designated for which financial statements are prepared. Refer to Fiscal Period.

Cost Accounting: The method of accounting that provides for accumulating and recording of all the elements of cost incurred to accomplish a purpose, to carry on an activity or operation, or to complete a unit of work or a specific job.

Deficit: 1) The excess of the liabilities and reserves of a fund over its assets. 2) The excess of expenditures over revenues during an accounting period or, in the case of proprietary funds, the excess of expenses over revenues during an accounting period.

Fund Balance: In governmental funds, this is the difference between fund assets and fund liabilities. Governmental fund balances should be segregated into reserved and unreserved amounts. Refer to Reserved Fund Balance and Unreserved Fund Balance.

Long-Term Obligations: Those obligations expected to mature at some future date and therefore not expected to be liquidated with currently existing resources or current assets. The long-term liabilities of specific enterprise, internal service, and trust funds are to be accounted for through those funds. All other un-matured, general, long-term liabilities are to be accounted for in the General Long-Term Obligations Subsidiary Account.

Modified Accrual Basis: The basis of accounting under which expenditures, whether paid or unpaid, are formally recognized when incurred against the account, but revenues are recognized only when they become both measurable and available to finance expenditures of the current accounting period. All governmental funds use the modified accrual basis of accounting.

Operating Budget: A plan of current expenditures and the proposed means of financing them. The operating budget is the primary means to ensure that the financing, acquisition, spending, and service delivery activities of the state are controlled.

Operating Expenses: Proprietary fund expenses that are directly related to the fund's principal operations.

Operating Income: The excess of proprietary fund operating revenues over operating expenses.

Operating Revenue: Proprietary fund revenues that are directly related to the fund's principal operations. They consist primarily of user charges for goods and services.

Operating Statement: The financial statement disclosing the financial results of operations of a governmental unit during an accounting period in conformity with Generally Accepted Accounting Principles (GAAP).

Reserved Fund Balance: Those portions of fund balance that are not appropriated for expenditure or that are legally segregated for a specific future use. Refer to Fund Balance.

Restricted Assets: Assets whose use is subject to constraints that are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

Restricted Net Assets: One of the three components of net assets reported in government-wide and proprietary fund financial statements. Net assets should be restricted when constraints are placed on net asset use either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

Single Audit: A financial, internal control, and compliance audit of a nonfederal entity administering federal assistance awards including the financial statements of the entity.

Statement of Changes in Fiduciary Net Assets: The fund financial statement that presents information about the changes in net assets for each fiduciary fund.

Statement of Fiduciary Net Assets: The fund financial statement that presents information about the assets, liabilities, and net assets for each fiduciary fund type.

Statement of Revenues, Expenditures and Changes in Fund Balance: The financial statement that is the Generally Accepted Accounting Principles (GAAP) operating statement for governmental funds. It presents the inflows, outflows, and balances of current financial resources. It reconciles fund balance at the beginning and end of the financial period, explaining the relationship between the operating statement and the balance sheet.

Statement of Revenues, Expenses, and Changes in Fund Net Assets or Fund Equity: The financial statement that is the Generally Accepted Accounting Principles (GAAP) operating statement for proprietary funds. It distinguishes between operating and non-operating revenues and expenses, and separately presents revenues from capital contributions and additions to the principal of permanent and term endowments, special and extraordinary items, and transfers. It reconciles fund net assets or fund equity at the beginning and end of the financial period, explaining the relationship between the operating statement and the balance sheet/statement of net assets.

Unreserved Fund Balance: Unreserved fund balance is that portion of governmental fund equity that is neither legally segregated for a specific future use nor unavailable for appropriation. It may be either designated or undesignated. Designations may be established to indicate tentative plans for financial resource utilization in a future period. Unreserved, undesignated fund balance is available for appropriation. Refer to Fund Balance.

Unrestricted Net Assets: One of the three components of net assets reported in government-wide and proprietary fund financial statements. It represents that portion of net assets that is neither restricted nor invested in capital assets (net of related debt).