State Public Charter School Authority Charter School Financial Performance Framework Technical Guide

Acknowledgment

The initial version of this workbook was developed in consortium by the Clark County School District Office of Charter Schools and the State Public Charter School Authority

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Introduction: Core Financial Performance Framework Guidance

The Financial Performance Framework is intended as a starting point for charter school sponsors to adopt and to evaluate a charter schools' financial well-being, health and performance as part of ongoing monitoring and the renewal decision making process. Charter schools have the autonomy to manage their finances consistent with state and federal law; however, sponsors must ensure that the schools they sponsor are financially stable. In the process of renewing or not renewing a charter school, sponsors must determine whether the school is not only academically and organizationally sound, but also financially viable.

The Financial Performance Framework provides sponsors a tool to identify schools currently in, or trending towards, financial difficulty and to proactively evaluate and address the problem. The guidance aligns with NACSA's Principles & Standards for Quality Charter School Authorizing (2012), which states that sponsors should, through a Performance Framework, set clear expectations for "financial performance and sustainability." The Financial Performance Framework was created after a review of model sponsor practices, charter school lender guidance, and expertise in the field. While the framework does not specifically mirror any single source, it was created to provide a clear picture of a school's past financial performance, current financial health, and potential financial trajectory.

Framework Structure

The Financial Performance Framework gauges both near-term financial health and longer-term financial sustainability. The framework includes indicators, measures and metrics. Targets and ratings are established by the individual sponsors.

It is designed to work with accrual-based information. Using modified accrual-based information should be avoided and may result in errant ratings. The Government-Wide or School-Wide Financial Statements are accrual based and consist of the Statement of Net Position and the Statement of Activities. The modified accrual statements include the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances. These latter two statements may include the words Government Funds in their titles.

The Authority may still need to work with a school in the financial area, where law or regulations require, even if the school achieves Meets Standards ratings in this framework.

Ratings and their Significance

The Financial Performance Framework facilitates rating a school's financial health by measuring the eight generally accepted areas of measurement of the financial health of a school as described in this technical guide. The eight measures gauge both near-term financial health and longer-term financial sustainability.

If the results of all eight measures meet standards then the school would receive a Meets Standards rating regarding its Financial Performance and health. If a school does not achieve a Meets Standards rating for all eight measures, it may be subject to further review by the charter school authority, a request for a plan of remediation or other action.

Poor financial performance measure ratings may trigger a Notice of Concern or a Notice of Breach. A Notice of Concern is sent to all charter schools whose financial framework profile results in at least one indicator scoring at "Falls Far Below Standard" or at least three indicators at "Does Not Meet Standard." Depending on the severity of the poor financial performance, a charter school may be directed to develop a Financial Improvement Plan when a Notice is issued by the Authority. Additionally, the school may be subject to additional, heightened oversight.

Continued or significant evidence of materially weak financial performance observed through ongoing oversight, and/or failure to make substantial progress towards remedying previously-identified concerns may result in further escalation within the intervention ladder, including a Notice of Breach or a Notice of Intent to Terminate.

Indicators

The Financial Performance Framework includes two indicators, or general categories, used to evaluate a schools' financial performance.

1. Near-Term

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

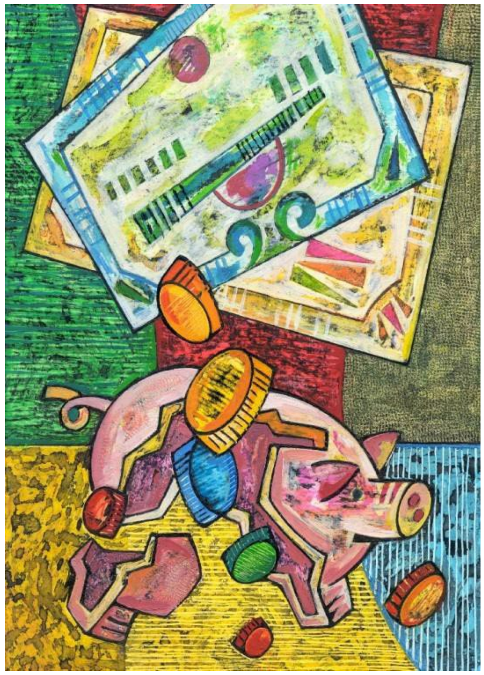
2. Sustainability

The framework also includes longer-term financial sustainability measures and is designed to predict a school's financial position and viability over time. Schools that meet the desired standards demonstrate a low risk of financial distress in the future. Schools that fail to meet the standards may be at risk for financial hardship in the future.

The Authority also requires schools to submit quarterly financial statements and other financial and enrollment related information so the Authority and the state can monitor the financial health and well-being of its charter schools.

SECTION 1

NEAR TERM MEASURES



Near Term Measure 1 - Current Ratio

Purpose - The current ratio depicts the relationship between a school's Current Assets and Current Liabilities. In addition, the Current Ratio is a financial ratio that measures the extent to which a school has enough resources to pay its debts over the coming 12 months. It compares a school's Current Assets to its Current Liabilities.

What is the formula?

$$\frac{\boldsymbol{Total\ Current\ Assets}}{\boldsymbol{Total\ Current\ Liabilities}} = \boldsymbol{Current\ Ratio}$$

Data source(s):

- Statement of Net Position

ABC Academy Example

$$\frac{Total\ Current\ Assets}{Total\ Current\ Liabilities} = \frac{\$197{,}115}{\$95{,}382} = \boldsymbol{2.07\ Current\ Ratio}$$

Current Ratio is greater than or equal to (>=) 1.1

☐ Meets Standard

What is the metric used to determine school status?

Near Term Measure - Current Ratio
Current Assets / Current Liabilities
Meets Standard: ☐ Current Ratio is greater than or equal to (>=) 1.1. Or ☐ Current Ratio is greater than or equal to (>=) 1.0 and less than (<) 1.1 and one-year trend is positive. **Note**: For schools in their first or second year of operation, the Current Ratio must be greater than or equal to (>=) 1.1. **Does Not Meet Standard**: ☐ Current Ratio is greater than or equal to (>=) 0.9 and less than (<) 1.0. Or ☐ Current Ratio is greater than or equal to (>=) 1.0 and less than (<) 1.1 *and* one-year trend is negative. **Falls Far Below Standard**: ☐ Current Ratio is less than (<) 0.9.

Near Term Measure 2 - Unrestricted Days Cash-On-Hand Ratio

Purpose - The Unrestricted Days Cash-On-Hand (UDCOH) ratio indicates how many days a school can pay its operating expenses without an inflow of cash. National standards state 60-120 days of cash-on-hand is considered a model practice.

What is the formula?

$$\frac{\boldsymbol{Annual\ Expense - All\ Noncash\ Expenses}}{\boldsymbol{365\ Days}} = \boldsymbol{Average\ Daily\ Expense}$$

$$\frac{\boldsymbol{Unrestricted\ Cash\ and\ Equivalents}}{\boldsymbol{Average\ Daily\ Expense}} = \boldsymbol{Unrestricted\ Days\ Cash\ On\ Hand}$$

Data source(s):

- Statement of Net Position
- Statement of Activities
- Notes to the audited financial statements or supplementary information

ABC Academy Example

Formula used to determine the Average Daily Expense

$$\$1{,}173{,}620 - \$10{,}000 = \frac{\$1{,}163{,}620}{365\ Days} = \$\mathbf{3{,}188}\ \boldsymbol{Average\ Daily\ Expense}$$

Formula used to determine Unrestricted Days of Cash-On-Hand Ratio

$$\frac{\$245{,}528}{\$3{,}188} = \boldsymbol{77\ Days}$$

60 or more days of cash
☒ Meets Standard

What is the metric used to determine school UDCOH status?

Near Term Measure - Unrestricted Days Cash-On-Hand Ratio
Average Daily Expenses: (Total Annual Expenses – Annual Depreciation - Amortization) /365
Unrestricted Days Cash-On-Hand: Unrestricted Cash and Equivalents / Average Daily Expense
Meets Standard: ☐ Unrestricted Days of Cash On Hand (UDCOH) 60 days or more. ☐ Exceptions for schools in year one or two of their original contract term:
○ Original Contract, Year 1 schools: 15 days or more ○ Original Contract, Year 2 schools: 30 days or more ○ Original Contract, Year 3 + schools: 60 days or more ○ All schools—including schools in their original contract term—showing operating deficits will be held to the normal 60-day standard.
Or ☐ Greater than or equal to (>=) 30 and less than (<) 60 UDCOH *and* one-year trend is positive. A negative trend may still support a Meets Standard rating with adequate supporting documentation[1] from the school of a school board planned and approved cash reduction. **Does Not Meet Standard**: ☐ Days of cash is greater than or equal to (>=) 15 and less than (<) 30 days, except for original contract term first or second year schools. Or ☐ Days of cash is greater than or equal to (>=) 30 and less than (<) 60 UDCOH, *and* one-year trend is negative. A negative trend may still support a Meets Standard rating with adequate supporting documentation from the school of a school board planned and approved cash reduction. **Falls Far Below Standard:** ☐ Less than (<) 15 days cash, regardless whether school is in its original contract term.

Near Term Measure 3 - Enrollment Variance

Purpose - Enrollment variance tells sponsors whether or not the school is meeting its enrollment projections, thereby generating sufficient revenue to fund ongoing operations.

[1] An example of adequate documentation could be copies of the school's governing board Minutes from a year or two earlier approving a plan and decision to accumulate cash in order to deploy it in the acquisition of a campus and it being reasonably apparent that the cause of the negative trend was the approved, planned use of the cash.

For schools with more than one campus, the enrollment variance measure is calculated using the actual enrollment of the network compared with the budgeted enrollment of the network.

What is the formula?

$$\frac{\boldsymbol{Actual\ Enrollment}}{\boldsymbol{Projected\ Enrollment}} = \boldsymbol{Percent\ Enrollment\ Variance}$$ [2]

Data source(s):

- School enrollment reports submitted upon SPCSA/NDE request
- Actual Enrollment = Certified Count Day (Annually, October 1) enrollment
- Projected Enrollment = Charter school board-approved budgeted enrollment (Final or Amended Budget approved by school board and submitted to NDE and SPCSA for June 8 deadline)

ABC Academy Example

$$\frac{Actual\ Enrollment}{Projected\ Enrollment} = \frac{225}{210} = \mathbf{107\%}\ \boldsymbol{Enrollment\ Variance}$$

Enrollment variance equals or exceeds 95% in the most recent year. Charter schools with enrollment Variance less than 95% or greater than or equal to 110% of Projected Enrollment must check with the authority as they may be required to submit a Request For Amendment of their Charter Contract for changes of this magnitude.

☒ Meets Standard

What is the metric used to determine school status?

Near Term Measure - Enrollment Variance
Actual Enrollment / Projected Enrollment
Meets Standard: ☐ Enrollment variance is greater than or equal to (>=) 95% in the most recent completed year. ☐ For schools in their *original* contract term, not operating with a deficit, variance equals or exceeds: ☐ o Year 1: 90.0%; ☐ o Year 2: 92.5%; ☐ o Year 3+: 95%. ☐ For schools operating at a deficit, enrollment variance equals or exceeds: ☐ o 95% accuracy in the most recent year

[2] In traditional finance, variance is calculated as the difference between actual and budgeted results and the amount of this difference is divided by the budgeted amount. Nevertheless, the above approach is used in the Education sector. Actual results divided by Projected results achieve the purpose of this variance measure.

Does Not Meet Standard:
☐ Enrollment variance is greater than or equal to (>=) 85% but less than (<) 95% in the most recent year.
Falls Far Below Standard:
☐ Enrollment variance is less than 85% in the most recent year.

Near Term Measure 4 – Debt (or lease) Default

Purpose - The debt (or lease) default indicator addresses whether or not a school is meeting its loan or lease obligations or is delinquent with its debt service payments. Notes from the audited financial statements or other verified information are used as the source of data.

Staff will review defaults occurring during the school year, even if they have been cured prior to the end of the school year.

In most cases this will not be applicable for charter schools that do not have an outstanding loan.

What is the indicator?

Sponsors may consider a school in default only when the charter school is not making payments on its debt, or when it is out of compliance with other requirements in its debt covenants.

Data source(s):

- Statement of Net Position
- Notes to the audited financial statements.

ABC Academy Example

ABC Academy's notes to the audited financial statements indicate that the school is not making payments on its debt, or it is out of compliance with other requirements in its debt covenants.
☒ Falls Far Below Standard

What is the metric used to determine school status?

Near Term Measure - Debt Default
Notes to the audited financial statements.
Meets Standard: ☐ School is not in default of loan covenant(s) and is not delinquent with debt service payments. Or ☐ School does not have an outstanding loan. **Does Not Meet Standard**:

☐ Not Applicable.

Falls Far Below Standard:

☐ School is in default of loan covenant(s) or is delinquent with debt service payments.

SECTION 2

SUSTAINABILITY MEASURES

Sustainability Measure 1 – Total Margin and Aggregated Three-Year Total Margin[3]

Total Margin measures the surplus or deficit a school generates from its total revenues less its expenses. It indicates whether the school is operating within its available resources. The measurement looks at each year—as well as—, where calculable, the school's aggregated three-year margin performance.

Nevada law and regulation prohibit deficit spending. A negative margin may mean a school is out of compliance with Nevada law, the Financial Performance Framework and the Organizational Performance Framework.

What is the formula?

Total Three-Year Revenue - Total Three-Year Expenditures = ***Three Year Net Surplus/Deficit***

$$\frac{\boldsymbol{Total\ Three\ Year\ Net\ Surplus}}{\boldsymbol{Total\ Three\ Year\ Revenues}} = \boldsymbol{Aggregated\ Three\ Year\ Total\ Margin}$$

Current Year Total Margin

$$\frac{\boldsymbol{Current\ Year\ Net\ Surplus}}{\boldsymbol{Current\ Year\ Total\ Revenue}} = \boldsymbol{Current\ Year\ Total\ Margin}$$

Data source(s):

- Three years of Statements of Activities with the most recent year counting as year 3 and the earliest (and oldest) of the three years counting as year 1.

ABC Academy Example

Revenue Year One = $700,000, Year Two = $750,000, Year Three = $775,000
Expenditures Year One = $704,000, Year Two = $746,000, Year Three = $770,000

Formula used to determine the total Three-Year Net Surplus (Deficit)

Year 1: $700,000 - $704,000 = -4,000 (-.57%)
Year 2: $750,000 - $746,000 = 4,000 (.53%)
Year 3: $775,000 - $770,000 = 5,000 (.65%)
-$4,000 + $4,000 + $5,000 = **$5,000 Aggregated Three-Year Net Surplus**

[3] For purposes of this rating, adjusting net surplus for expenses related to an increase in Net Pension Liability is appropriate.

Formula used to determine the total Three-Year Revenue

$700,000 + $750,000 + $775,000 **= $2,225,000 Three Year Revenue**

Formula used to determine the Aggregated Total Margin

$$\frac{\$5{,}000}{\$2{,}225{,}000} = .\mathbf{225\%\ Aggregated\ Three\ Year\ Total\ Margin}$$

Most recent Total Margin is positive and, where calculable, the aggregated three-year Total Margin is positive.

☒ Meets Standard

What is the metric used to determine school status?

Sustainability Measure - Total Margin
Current Year Total Margin: Current Year Net Surplus / Current Year Total Revenue
Aggregated Total Margin: Total Three-Year Net Surplus / Total Three-Year Revenues
Meets Standard: ☐ The most recent year Total Margin is positive. The Aggregated Three-Year Total Margin, when calculable, is also positive. **Does Not Meet Standard**: ☐ Aggregated Three-Year Total Margin, when calculable, is negative ***or*** the most recent year Total Margin is negative. **Falls Far Below Standard**: ☐ Aggregated Three-Year Total Margin is negative *and* most recent year Total Margin is negative. **Note**: 1. For schools in their first or second year of operation, substitute the "Aggregated Three-year Total Margin" with the "Total Margin." 2. An adjusted Total Margin is also provided by staff to allow additional analysis. It factors in adjustments to the school's Total Margin based on year over year changes to three items, including year over year changes to the following balances: (1) net pension liability, (2) Deferred Inflows of Resources and (3) Deferred Outflows of resources. Some school-specific context may warrant an adjustment to the Total Margin rating and/or additional considerations to the Total Margin in unique circumstances.

Sustainability Measure 2 - Debt to Asset Ratio

Purpose - The Debt to Asset Ratio measures the amount of debt a school owes compared to the assets they own; it measures the extent to which the school relies on borrowed funds to finance operations. A Debt to Asset Ratio greater than 1.0 indicates a school has more debt than it has assets to pay off said debt. It 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 with the balance in the Net Position, or equity, account. The impact of GASB 87 requires schools to show the present value of their expected future lease payments as both an asset and as a debt.

What is the formula?

$$\frac{(\boldsymbol{Total\ Liabilities - Net\ Pension\ Liabilities})}{\boldsymbol{Total\ Assets}} = \boldsymbol{Debt\ to\ Asset\ Ratio}$$

Data source(s):

- Statement of Net Position
- Net Pension Liability balance information
- Confirmation that employer contribution expenses are not backed out from Statement of Activities

ABC Academy Example

$$\frac{\text{Total Liabilites}}{\text{Total Assets}} = \frac{\$12{,}000}{\$20{,}000} = \mathbf{0.60\ Debt\ to\ Asset\ Ratio}$$

Debt to Asset Ratio is less than (<) 0.90
☒ Meets Standard

What is the metric used to determine school status?

Sustainability Measure - Debt to Asset Ratio
Total Liabilities / Total Assets
Meets Standard: ☐ Debt to Asset Ratio is less than (<) 0.90. **Does Not Meet Standard**: ☐ Debt to Asset Ratio is greater than or equal to (>=) 0.90 and less than or equal to (<=) 1.0. **Falls Far Below Standard**: ☐ Debt to Asset Ratio is greater than (>) 1.0.

Sustainability Measure 3 – Cash Flow

Purpose - The Cash Flow measure compares changes in a school's end of year cash balances for cash balance growth as a sign of a school's financial health and well-being.

The "Total Cash" balances include the unrestricted and the restricted cash balances. The measurement reviews most recent year and, where applicable, prior year cash balances.

What is the formula?

For all most recent years where the information is calculable:

Year 3 Total Cash **-** *Year 1 Total Cash =* ***Multi-Year Cash Flow***

Year 2 Total Cash **-** *Year 1 Total Cash =* ***One Year Cash Flow***

Data sources:

- Three most recent years of Statement of Net Position (Assets: cash)--with year 3 being the most recent year and year 1 being the earliest or oldest year for which the annual financial report has been presented.

ABC Academy Example

Year 1 (Y1) = \$38,000, Y2 = \$40,000, Y3 = \$42,000 in cash balances. (Y3-Y1) \$42,000 - \$38,000 = **\$4,000 Cash Flow increase** (Y3-Y2) \$42,000 - \$40,000 = **\$2,000 Cash Flow increase** Cash Balances grew every year for the most recent years measurable. ☒ Meets Standard

Sustainability Measure - Cash Flow
Multi-Year Cash Flow = Year 3 (most recent year) Total Cash - Year 1 Total Cash
One Year Cash Flow = Year 3 Total Cash -Year 2 (prior year) Total Cash
Meets Standard: Y3-Y1 Cash Flow and cash balances (multi-year cash flow), where calculable, are positive. The most recent year Cash Flow is positive. Or, ☐ For schools in their original contract term, year 1 and year 2 schools, all years have a positive cash flow. In year 1, for a school in its original term, the year 0 balance is assumed to be zero. ☐ **Does Not Meet Standard**: ☐ Multi-year cash flow, where calculable, is negative *or* the most recent year cash flow is negative. **Falls Far Below Standard**:

☐ Multi-year cash flow, where calculable, is negative *and* the most recent year cash flow is negative.

Notes:

1. A rating within this section may be adjusted for large capital investments resulting in cash balance declines-- only for schools not showing an operating deficit.
2. A school may Meet Standards even with a cash balance decline based upon the supporting documentation provided by the school, such as copies of school board approved minutes evidencing a facility acquisition plan which would draw down cash balances and the cash balance decline was a result of the approved spending plan.

Sustainability Measure 4 – Debt or Lease Service Coverage Ratio[4]

Purpose - The Debt or Lease Service Coverage Ratio indicates a school's ability to cover its debt or, with GASB 87, its long-term lease obligations. This ratio measures the degree to which a school can pay facility principal and interest due or lease payments based on the current year's net income and available cash. Depreciation expense and Amortization are added back to the net income because they are non-cash transactions. This means they are accounting transactions where no cash leaves the organization for that account name. They do not affect a school's ability to service its debt. The interest expense is added back to the net income to show the before-interest-expense available balance. It is also added to the denominator.

What is the formula?

$$\frac{\textbf{\textit{Net Income + Depreciation + Interest Expense}}}{\textbf{\textit{Annual Principal + Interest Payments}}} = \textbf{\textit{Debt Service Coverage Ratio}}$$

Data source(s):

- Statement of Net Position
- Statement of Activities
- Notes to the audited financial statements or supplementary information

ABC Academy Example

School obtains two year loan of $175,000 for facility renovations ($85,753 per year).
Formula used to determine the ratio indicating if the school can afford the loan.

[4] For purposes of this rating, adjusting net surplus for expenses related to an increase in Net Pension Liability is appropriate.

$$\frac{\$100{,}000 + \$2{,}000 + \$5{,}439}{\$85{,}753 + \$5{,}439} = \frac{\$107{,}439}{\$91{,}192} = \mathbf{1.18\ Debt\ Service\ Coverage\ Ratio}$$

Debt (or long-term Lease) Service Coverage Ratio is equal to or exceeds 1.10.
☒ Meets Standard

What metric is used to determine the school's DSCR or LSCR level and rating?

Sustainability Measure - Debt (and/or medium/long-term Lease) Service Coverage Ratio
See formula above
Meets Standard: ☐ Debt or long-term Lease Service Coverage Ratio (DSCR or LSCR) is greater than or equal (>=) 1.10. Or ☐ School does not have an outstanding loan or long-term lease. **Does Not Meet Standard**: ☐ Debt or long-term Lease Service Coverage Ratio is less than (<) 1.10. **Falls Far Below Standard**: ☐ Not Applicable Notes: 1. The net pension liability is incorporated into an adjusted DSCR calculation. Some school-specific context may warrant adjustments and/or additional considerations to this calculation in unique circumstances.

Glossary: Terms Used in the Financial Performance Framework

Accrual (or Full Accrual) Accounting: Method of accounting that records revenues and expenses when they are incurred, regardless of when cash is exchanged. A school acquiring a facility may show their annual "mortgage" payments under this approach but not the full cost of the facility as an expenditure on a financial statement in one of their annual reports. School-wide, classified as accrual, financial statements include: Statement of Net Position, Statement of Activities. *See also Modified Accrual.*

Annual Expenses: The yearly total of payments of cash or incurrence of a liability for the purpose of acquiring assets, or services or settling losses.

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. Assets might be financial in nature (like cash and accounts receivable) or nonfinancial (like buildings and equipment).

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 (not to be confused with Statement of Net Position, see below).

Basis of Accounting: 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.

Cash Flow: Cash receipts minus cash disbursements from a given operation or fund for a given time period.

Changes in Net Position: The difference between the net balance from one accounting period to the next.

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: 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: current ratio = current assets divided by current liabilities.

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

Debt Default: See primary definition language above in the main part of the Technical Guide. Note: Schools which are not acquiring their facilities have typically had facility lease if not other costs. Before GASB 87 they would typically have low Debt Service Coverage Ratios. However, to try and get a better understanding of how they would perform if their lease payments were treated similar to mortgage style payments, the SPCSA called for lease payments to be viewed similar to mortgage payments. This was accomplished by requiring schools to show a lease service coverage ratio. GASB 87 is now in effect which treats lease payments similar to mortgage payments by showing the present value sum of contractually expected lease payments to be shown on the books of the school as assets and as liabilities. The SPCSA will continue to call for and rate schools on their Debt Service Coverage Ratio or on their Lease Service Coverage Ratio information.

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

Debt Service Default: Occurs when the borrower has not made a scheduled payment of interest or principal. This may be on an over 90 days default of secured or unsecured debt. A default occurs when a borrower stops making the required payments on a debt. Defaults can occur on secured debt, such as a mortgage loan secured by a house, or unsecured debt, such as credit cards or a student loan. Defaults expose borrowers to legal claims and may limit their future access to credit.

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.

Note that schools often lease if they do not have the fiscal resources to acquire a facility. This means their balance sheet may not be as strong as a school acquiring their facility. GASB 87 can have and has had a significant impact on a Statement of Net Position (similar to a Balance Sheet) for schools which are leasing. The impact can be to push schools into a Does Not Meet Standard rating, or worse, in this measure. GASB 87 impacts were first shown with the Fiscal Year Ending 2022 figures. Staff are monitoring the impacts of GASB 87 on schools and may adjust recommendations depending on these impacts.

Deferred Inflows of Resources: An acquisition of net assets by the school that is applicable to a future reporting period.

Deferred Outflows of Resources: A consumption of net assets by the school that is applicable to a future reporting period.

Deficit: Schools are not authorized to have expenses more than appropriations and should budget accordingly to always operate with a surplus of revenue over expenses.

Depreciation: The systematic and rational allocation of the cost of an asset over its useful life.

Enrollment Variance: The SPCSA keeps a focus on enrollment levels as enrollment levels are typically considered a significant if not the best indicator of a school's current projected potential well-being, assuming the schools are maintaining their expenses according to their enrollment and revenue levels. If a school's actual enrollment falls far below their budgeted enrollment it is important that the school manages its expenses with additional caution. Schools may have, for example, contracted for enough teachers to teach to the budget level of students for the coming school year. If the actual enrollment ends up being substantially less than the budgeted enrollment, the school's actual revenue will fall significantly. Without reserve or other funds, such an enrollment decline could make it difficult for the school to meet payroll obligations for their contracted faculty as well as for other personnel costs. This can result in the schools approaching or operating at a deficit, which may trigger SPCSA interventions.

Financial Accounting Standards Board (FASB): FASB is the independent, private-sector, not-for-profit organization that establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow Generally Accepted Accounting Principles (GAAP).

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 school in conformity with Generally Accepted Accounting Principles. Refer to Audit.

Financial Statements: Written records that convey the business activities, financial performance and financial well-being of a charter school. SPCSA financial statements include: School-wide statements: Statement of Net Position, Statement of Activities; Fund statements: Balance sheet, Statement of Revenues, Expenditures and Changes in Net Assets; Other: Reconciliations and Budget to Actual; and Cash flow statement. See "Accrual Accounting" and "Modified Accrual Accounting" for other required statements.

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

GAAP: Refer to Generally Accepted Accounting Principles.

GASB Statement No. 34: Basic Financial Statements for State and Local Governments. This GASB Statement establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities. It establishes that the basic financial statements and required supplementary information (RSI). This includes two general statement categories and includes the following statements:

I. Government-Wide Financial Statements
Statement of Net Assets
Statement of Activities.
These are prepared using "the economic resources measurement focus and the accrual basis of accounting."

II. Fund Financial Statements
Balance Sheet
Statement of Revenues, Expenditures and Changes in Fund Balance
The fund financial statements (including financial data for the general fund and special revenue, capital projects, debt service, and permanent funds) should be prepared using: the current financial resources measurement focus and the modified accrual basis of accounting.

Fund financial statements also should report information about a government's fiduciary funds and component units that are fiduciary in nature.

GASB Statement No. 63:Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

GASB Statement No. 68: Pension Accounting Rules requires governments providing defined benefit pensions to recognize their actual or imputed long-term obligation share for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits.

GASB Statement No. 87 Lease Accounting Rules: Under Statement 87, a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources.

GASB Statement No. 96 Subscription-Based Information Technology Arrangements. Similar to GASB 87 this Statement describes required accounting reporting treatment of a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

General Fund: The general fund is used to account for the financial activities of the charter schools 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.

Governmental Accounting Standards Board: The Governmental Accounting Standards Board is the source of generally accepted accounting principles (GAAP) used by state and local governments and other public entities in the United States, including charter schools in Nevada. GASB establishes accounting and financial reporting standards for U.S. state and local governments that follow GAAP.

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). The full accrual statements are usually referred to as the (Government Wide) Statement of Activities. The modified accrual statements are usually referred to as the (Government Funds) Statement of Revenues, Expenditures, and Changes in Fund Balances.

Indicator: General categories of financial performance.

Interest Expense: The money the school pays out in interest on loans.

Interest Payable: A liability account reflecting the amount of interest owed by the school. 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.

Interest Payment: The amount of interest that a school pays to a lender on a loan each month.

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.

Long-term Lease Service Coverage Ratio (LSCR): The ratio of cash available for long-term Lease servicing to meet lease payments. See also the "Debt Service Coverage Ratio (DSCR)."

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. These are economic obligations. The term does not include encumbrances.

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

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

Metric: Method of quantifying a measure.

Modified Accrual Accounting: Method of accounting which "combines accrual basis accounting with cash basis accounting. It recognizes revenues when they become available and measurable and, with a few exceptions, records expenditures when liabilities are incurred." A charter school acquiring a campus would likely show the total lump sum cost of the school in their annual report for the year the campus was acquired, instead of showing an annual mortgage payment and depreciation, under this reporting method. Modified Accrual Accounting financial statements are typically shown as “Governmental Fund Statements.” They may include the following: “Balance sheet”; “Statement of Revenues, Expenditures and Changes in Fund Balances”; “Reconciliation of Fund Balance of Governmental Funds to Net Position of Governmental Activities on the Statement of Net Position” and “Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities.”

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.

Net Pension Liability: The difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside to pay current employees, retirees, and beneficiaries.

The Government Accounting Standards Board (GASB) Statement No. 68: requires the reporting of Net Pension Liabilities of all entities participating in the Public Employees’ Retirement System of Nevada (PERS).

Net Surplus: The amount of revenue recognized after certain operating expenses have been deducted. For the purposes of calculating Sustainability Measure #1 Total Margin and Sustainability Measure #4 Debt or Lease Service Coverage Ratio, Change in Net Position from the Statement of Activities will be used as the Net Surplus.

Principal: The amount of the loan excluding any interest.

Statement of Activities: A GASB GAAP Government-Wide full accrual financial statement that reports the net revenue of its individual functions, pursuant to GASB 34. An objective of using the net revenue format is to report the relative financial burden of each of the reporting government’s functions on its taxpayers. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Statement of Cash Flows: A GASB 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 Net Position: A GASB GAAP Government-Wide full accrual financial statement, pursuant to GASB 34, 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.

Statement of Revenues, Expenditures and Changes in Fund Balances: A GASB GAAP Government Fund (modified accrual) financial statement. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to the net pension liability are only recorded when due.

Target: Threshold that signifies success for a specific measure.

Total Assets: The sum of all cash, investments, furniture, fixtures, equipment, receivables, intangibles, and any other items of value owned by a school.

Total Expenditure: The total costs of doing business; that is, the costs that must be incurred in order for a school to generate revenue or provide services.

Total Liabilities: The aggregate of all debts a school is responsible for.

Total Margin: Total revenues less total expenses.

Total Revenue: The total amount of a schools' sources of income (gross receipts and receivables).

Unrestricted Cash: Monetary reserves that are not restricted for a particular use; General funds are considered unrestricted cash, subject to legal restrictions for a public educational entity.

Unrestricted Days Cash-on-Hand: (See definition in the respective section of the Technical Guide above.) Note: The SPCSA provides an additional information measure in this area. It is the same measure except that it includes the Accounts Receivable balance with the Unrestricted Cash and Equivalents balance. The reason the SPCSA staff shows this information item is to consider that the schools are paid the day after the month for which they provide educational services, rather than at the start of the month or during the month. The financial audits call for the cash balance on the last day of the month which would typically be lowest cash balance point for the schools. By having this additional information item, the board and staff can have more context into the financial well-being of the schools with regard to cash balance related measures.