Notes on Financial Performance Frameworks

I. Crosswalk with NACSA Best Practices

	NACSA Best Practice	Nevada FPF	Status
Near Term	Current ratio	Near term 1 - Current ratio	Meets best practice
	Unrestricted Days Cash	Near term 2 - Unrestricted days cash on hand ratio	Review for potential changes related to thresholds for newer schools
	Debt Default	Near term 4 - Debt or lease default	Meets best practice
Sustainability / Long Term Financial Stability	Total Margin and Aggregated Three Year Total Margin Ratio	Sustainability 1 - Total margin and aggregated three-year total margin	Meets best practice Consider adding some nuance to metrics
	Debt to asset ratio	Sustainability 2 - Debt to Asset ratio	Meets best practice
	Debt service coverage ratio	Sustainability 4 - Debt or lease service coverage ratio	Meets best practice
	Unrestricted fund balance	Not currently in frameworks	See suggestions; discuss as a team. This is a NACSA best practice, but Nevada context matters as well.
		Sustainability 3 - Cash Flow	Not in NACSA best practices; recommend keeping
Financial Management and Oversight	Annual Finance Audit	Move from Organizational Framework - Indicator 2 – Financial Management and Oversight Measure 2b	See suggested edits

	Financial Reporting and Compliance	Move from Organizational Framework - Indicator 2 – Financial Management and Oversight Measure 2a	Meets best practice; consider moving into financial framework from organizational
	Enrollment Variance	Near term 3 - Enrollment variance	Review for potential changes
	Financial Oversight	Move from Organizational Framework - Indicator 2 – Financial Management and Oversight Measure 2c Measure 2d	Consider moving Organizational Frameworks 2c and 2d to Financial Framework. Need to add a framework aligned with best practices for Financial Oversight (See language from NACSA)

II. Notes on Changes to Financial Performance Framework

Unrestricted Fund Balance:

What does statute say about required fund balance in Nevada?
NRS 354.6241:
For a school district, for the purposes of chapter 288 of NRS:
(a) A budgeted ending fund balance of not more than 12 percent of the total budgeted expenditures for a county school district fund:

Suggested language:

Purpose: Maintaining an unrestricted fund balance buffers a charter school from potential unforeseen circumstances and fluctuations in revenue. Maintaining a minimum fund balance allows the school to cover unexpected costs or shortfalls in funding without having to make immediate cuts or disrupting core operations. Fund balance is different from Unrestricted Days Cash on Hand, which measures how many days a school can cover its operating expenses with the cash it has on hand at the moment and is a short-term measure of financial health. Fund Balance represents the net assets of an organization, specifically unrestricted funds that ca be used for various purposes. It considers not just cash but also other easily convertible assets like marketable securities. Fund balance provides a broader picture of an organization's financial health and ability to meet its obligations.

It is understood that schools in their first years of operation are still in the process of building up a functional fund balance. Therefore, this standard makes accommodations for schools based on total years of operation with the ultimate goal of maintaining at least a 5 percent minimum fund balance in subsequent years.

Meets standard:
Unrestricted fund balance is greater than or equal to X%
Exceptions for schools in years one, two, or three of their original contract term.

- Original Contract, Year 1 schools: exempt from this standard
- Original Contract, Year 2 schools:
- Original Contract, Year 3 schools
- Original Contract, Years 4+ schools

Does not meet standard
Unrestricted fund balance is greater than 0.0% but less than 5%

Falls far below standard:
Unrestricted fund balance is negative.

Fund Balance vs. Days Cash on Hand:

NACSA recommends a minimum fund balance of 16.16.67% of total annual operating expense (appx two months).

Any lower could put the Commission in a precarious position of recommending a balance that is too low to protect against financial ruin if they run into cash flow/enrollment issues.

This rate, however, could make school leaders argue that 1) the amount is unrealistic and 2) holding back that much of their funding limits their ability to spend on necessary instruction or facilities costs.

As a general foundation, the 16.67% (60/365) that NACSA recommends is based on the general concept of maintaining 60 days of operational funds. While this is accepted by many authorizers, this same general methodology is also already used in Measure 1b of NACSA's framework. Fund balance and DCOH are different, however, and serve two distinct purposes. DCOH is a short-term measure of a school's finances – can they make payroll? – while fund balance measures the long-term financial health – can they afford their debt payments three years from now?

A school could have a very healthy cash balance far exceeding 60 days, while not having a 16%+ fund balance simply due to, for example, having a liability because of a facility purchase. If a school's fund balance is below the 16%, the authorizer may be perfectly comfortable with this because, in the same example for a facility, a school recently took a bond out to cover a facility purchase and/or renovation. Though they have a lower fund balance as a result of the liability, the next question an authorizer may ask is whether they can afford the payments long term. This is where the other metrics such as debt to asset ratio and debt service coverage ratio step in to tell us the full picture. A school could have a lower than 16% fund balance, hold millions of dollars in liabilities, yet, with sound financial management, have the necessary cash flow to cover debt payments and be in a very strong financial position.

NACSA Guidance on Fund Balance

Meets Standard
Unrestricted Fund Balance is greater than or equal to 16.67% of total annual operating expenses.
Does Not Meet Standard
Unrestricted Fund Balance is greater than 8.33% and less than 16.67% of total annual operating expenses.
Falls Far Below Standard
Unrestricted Fund Balance is less than 8.33% of total annual operating expenses.
Formula: Unrestricted Fund Balance percentage = Unrestricted Fund Balance ÷ Total Operating Expenditures
Data sources:
-Unrestricted Fund Balance: audited balance sheet
-Annual expenditures: audited income statement

Annual Financial Audit

SPCSA Organizational Performance Framework – Organizational Standard 2b

Do independent financial audit results demonstrate that a school is meeting basic financial management, controls, and oversight expectations, including adherence to Generally Accepted Accounting Principles (GAAP)? An unqualified opinion is a "clean bill of health" for a financially healthy and viable school. This means the auditor found no significant problems and, to their knowledge, the school's financial statements are accurate and reliable. A qualified opinion issued by an independent auditor indicates a warning signal about the school's reliability of its financial statements or a school's ongoing viability. The auditor explains these concerns in detail in the Audit Notes and in a separate management letter directed for review by the school's governing board.

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

- An unqualified audit opinion

- An audit devoid of significant findings and conditions, material weaknesses, or significant internal control weaknesses
- An audit that does not include a going concern disclosure in the notes or an explanatory paragraph within the audit report.
- The audit report (including separate or supplemental schedules) identified no repeat findings of significance.

Does Not Meet Standard
The school has failed to materially comply in the manner described above.

Suggested language for inclusion:

Charter school financial audits should be conducted annually by independent auditors to evaluate a charter school's financial statements and financial policies and practices. Auditors base their findings against Generally Accepted Accounting Principles (GAAP) and internal control guidelines. Auditors issue certified annual financial statement and render an opinion.

Unqualified opinions mean that the school's financial are accurate and complete, indicating strong financial management by the school.

A qualified opinion, by contrast, raises concerns and may signal potential financial weakness. The reasons for a qualified auditor's opinion are typically included in Audit Notes and in a separate management letter directed to the attention of the school's governing board.

Financial Reporting and Compliance

SPCSA Financial Performance Framework

2a. Financial Reporting and Compliance
The financial reports included in this measure are used as a basis for the analysis of a school's financial viability (i.e., Financial Performance Framework) and financial management (see Measure 2b below). The purpose of this measure is to determine whether the school is submitting accurate and timely information to the SPCSA.

Reporting requirements such as financial audits and budget reports are often required by state law. Charter schools are public schools that use public funds. The SPCSA is charged with ensuring that schools are responsible stewards of those funds. The SPCSA requires charter schools to report on their financial positions through annual budgets, periodic (e.g., quarterly) financial reports, financial audits, etc. (Footnote: Additionally, if the school contracts with a Charter Management Organization (CMO) or Education Management Organization (EMO), the SPCSA may include additional contractual provisions in the charter contract that "ensure…the school's financial independence from the external provider. Principles & Standards for Quality Charter School Authorizing. National Association of Charter School Authorizers, (2012). The SPCSA considers this a best practice.)

Meets Standard:
The school materially complies with applicable laws, rules, regulations, and provisions of the charter contract relating to financial reporting requirements, including but not limited to:

- Complete and on-time submission of financial reports, including annual budget, revised budgets (if applicable),
- Quarterly financial reports as required by the authorizer.
- On time completion, approval during a public meeting, and submission of the annual independent audit, and corrective action plans, if applicable,
- If a school fails to submit its board approved final audit to the SPCSA by December 1, SPCSA staff will require that the school submit a signed copy of its audit engagement letter no later than August 1 for the upcoming fiscal year end to better understand how the school is working to avoid such a problem in subsequent years.
- All reporting requirements related to the use of public funds.

Does Not Meet Standard
The school has failed to materially comply in the manner described above.

Description

1. The charter school complied with generally accepted standards of fiscal management (NRS 388A.330)
    a. Date sources: Budget, quarterly and annual financial statements
2. The governing body received the final version of the prior year audit not less than four months of the close of the fiscal year (NAC 387.775) and submitted the final version of the prior year audit no later than December 1 (NAC387.775).

Data source: Annual Independent Audit

NACSA Guidance on Financial Reporting and Compliance

Has the school met financial reporting and compliance requirements?

Basis for Standard: This measure determines whether a school is doing accurate, complete, and timely financial reporting to external entities, making all payroll and employee benefits payments on time and in full, and complying with other actions required by an authorizer, the state, and other external or stakeholder entities.

Meets Standard
The school materially complies with applicable laws, rules, regulations, and provisions of the charter contract relating to financial reporting requirements including timely and complete submission of required documents, such as:

- Reporting to the state;
- Reporting to the authorizer;
- Making payroll and related IRS submissions and payments on time, to include timely filing of IRS Form 990s; and
- Making full and timely teacher and other retirement fund payments.

Does Not Meet Standard
The school does not materially comply with applicable laws, rules, regulations, and provisions of the charter contract relating to financial reporting requirements due to failure to make timely and complete submission of required documents, including failure or unwillingness to provide additional information requested by the authorizer.

Financial Oversight

SPCSA Organizational Performance Framework

Measure 2c: Chart of Accounts
Financial oversight encompasses an array of responsibilities that must be carried out by a school's board and leadership to ensure public funds are being used appropriately and effectively. At a baseline, schools should be developing their financial reports, budgets, monitoring, and oversight practices in line with the chart of accounts prescribed by the Nevada Department of Education.

Meets standard:
The school materially complies with applicable laws, rules, regulations, and provisions of the charter contract relating to the use of the Chart of Accounts prescribed by the Nevada Department of Education.

Does Not Meet Standard:
The school has failed to materially comply in the manner described above.

Measure 2d: Grant Subrecipient Compliance
The purpose of this measure is to determine whether the school is complying with applicable requirements for receiving grant funds as a part of its overall operations. Compliance is determined by timeliness of grant-related document submissions, use of funds for allowable purposes, grant applications that meet published requirements, commitment to subrecipient monitoring activities, and established internal controls for the use of grant funds.

Charter schools are public schools that use public funds, including state and federal grant funds. The SPCSA as the Local Education Agency (LEA) and pass-through entity is responsible for monitoring the activities of the school (subrecipient) as necessary to ensure that the grant funds are used for authorized purposes; in compliance with applicable statutes, regulations, and terms and conditions of the subaward; and that subaward performance goals are achieved.

Is the school meeting grant subrecipient compliance requirements?

Meets Standard:
The school materially complies with applicable laws, rules, regulations, and terms and conditions of all applicable subaward agreements; submits timely applications, reimbursement

requests, and required reports; ensures completion of an annual single audit if required; and complies with the risk assessment and subrecipient monitoring process.

Does Not Meet Standard:
The school has failed to materially comply in the manner described above.

Description:
1. The charter school complied with SPCSA published deadlines and requirements, applicable laws, regulations and subaward terms and conditions.
2. The charter school complied with SPCSA Risk-Based Subrecipient Monitoring requirements

NACSA Guidance on Financial Oversight

Does the school and its governing board effectively establish and approve annual budgets, monitor budget implementation, and ensure the ongoing financial health and success of the school?

Basis: Financial Oversight includes an array of responsibilities that need to be carried out by a school's board and leadership to ensure appropriate and effective use of public funds, starting with developing, executing, and monitoring annual approved budgets. A school that lacks effective financial budgeting, monitoring, and oversight practices on the part of leadership and/or the governing board is likely to be or become financially at risk.

Meets Standard
The school and its governing board establish, approve, and monitor annual budget execution and safeguard the financial health and activities of a school by consistently demonstrating some or all of the following:
- The Board has adopted and maintains financial-related basis of accounting, segregation of duties, physical security of assets, budget policies for the school's development and approval process, preparation and review of internal financial reports, purchasing and procurement processes, conflicts of interest disclosure, and to ensure compliance with any and all reporting requirements.
- The Board consistently reviews financial reports and statements including a balance sheet, a budget-to-actual income statement, a cash flow statement, and a financial dashboard.
- The Board approves annual budgets by self-prescribed or charter contract- imposed deadlines and 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. (This standard is particularly applicable to growing, expanding, or replicating schools.)

- 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.
- 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 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.

Does Not Meet Standard
Authorizer review and available evidence suggests or confirms that the school (its leadership and/or governing board) has not put into place, is not putting in place or institutionalizing, or does not have the capacity to engage in adequate, responsible fiscal oversight as outlined above.