Charter School Financial Performance Framework and Guidance

North Carolina Department of Public Instruction
Division of School Business

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Financial Performance Framework Guidance

Charter schools have the autonomy to manage their finances consistent with state and federal law; however, the North Carolina State Board of Education (SBE) and the North Carolina Department of Public Instruction (DPI) must protect taxpayer dollars by ensuring that the schools are financially stable. SBE and DPI, by renewing or not renewing a charter school, determine whether charter schools are not only academically and organizationally sound, but also financially viable.

The Financial Performance Framework gauges both near-term financial health, longer term financial sustainability and administration's ability to adequately manage finances for each school. Annual utilization and reporting of the financial framework provides tools to recognize schools currently in or trending towards financial difficulty and to more proactively evaluate or address the problem. The framework aligns with NACSA's Principles & Standards for Quality Charter School Authorizing (2012), which states that authorizers should, through a performance framework, set clear expectations for "financial performance and sustainability."

The Financial Performance Framework provides a picture of a school's past financial performance, current financial health, and potential financial trajectory. This framework will enable the SBE and DPI to more effectively evaluate a charter school's financial performance as part of ongoing monitoring and renewal decision making.

Framework Structure

The framework includes five main levels of information: Indicators, Measures, Metrics, Targets, and Ratings. In addition to the information found below, the financial framework's measures, metrics, targets, and ratings are further described in the "Measures in Detail" section of this guidance.

Component	Definition	Example
Indicators	General categories of financial performance	Near Term
Measures	General means to evaluate an aspect of an indicator	Current Ratio
Metrics	Method of quantifying a measure	Current ratio is the school's current liabilities over current assets
Targets	Thresholds that signify success in meeting the standard for a specific measure	Current ratio greater than 1.1
Ratings	Assignment of charter school performance into one of two rating 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 Financial Performance Framework includes three indicators, or general categories, used to evaluate schools' financial performance.

- **Near-Term**
  The portion of the framework 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 low 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 high risk for financial hardship in the near term.

- **Sustainability**
  The framework also includes longer-term financial sustainability measures designed to depict 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 are at high risk for financial hardship in the future.

- **Financial Management**
  The third portion of the Financial Framework measures a school's ability to manage its finances appropriately, regardless of viability. Schools meeting the desired standards demonstrate compliance with laws and regulations and help ensure the accuracy and reliability of the measures in indicator 1 and 2.

Measures

Measures are the means to evaluate an aspect of an indicator. The following nine measures are used in the framework: **Current Ratio, Unrestricted Days Cash, Average Daily Membership (ADM) Variance, Debt Default, Revenues over Expenditures, Total Margin, Debt to Asset Ratio, Debt Service Coverage Ratio, and Unassigned Governmental Fund Balance Ratio.**

Metrics

Metrics are the methods for calculating measures. An example of a metric is Current Ratio Equals Current Assets divided by Current Liabilities. Each metric is detailed in the "Measures in Detail" section of this document.

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." Each target and formula is detailed in the Financial Performance Framework. The basis for forming many of the targets was on industry standard, which is the commonly accepted target level for the ratio in financial analysis.

Ratings

For each measure a charter school receives one of the following two ratings based on whether the school met the target:

Meets Standard:

The charter school's performance on this component does not signal a financial risk to the school and meets the standard. Meeting the standard requires no follow up action by the authorizer.

Does Not Meet Standard:

The charter school's performance on this component signals a financial risk to the school and does not meet expectation. This rating may require follow up such as the school's provision of additionally requested documents or corrective action plan. Schools receiving this rating may be eligible for notice of financial disciplinary noncompliance status or other forms of intervention. Schools that do not meet the standard across more than one area may be considered for non-renewal.

The school's performance on this component may signal a significant financial risk to the school and with follow up necessary to determine intervention, financial disciplinary noncompliance status, non-renewal, or revocation.

The Financial Performance Framework is designed to be a stand-alone document that clearly identifies each school's financial standing in the context of the nine measures. The section that follows provides guidance on each measure and provides its meaning and the basis for its inclusion. Financial performance must be regularly analyzed due to its effect on the charter school's overall quality. Financial difficulties are often manifested in the overall academic performance of the school. Whenever fiscal issues arise, cuts are made to balance the budget; and more often than not, those cuts are to personnel or programs which hampers the school's efforts to fulfill the mission in the application.

Use of the Framework

Collecting Evidence

The Financial Performance Framework is a monitoring tool that provides key data to assess the financial health and viability of charter schools and to determine whether deeper analysis or monitoring is required. The framework summarizes the charter school's current financial health while taking into account the school's financial trends. 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.

Sources

Statutorily required annual audits conducted by independent certified public accountants provide the majority of the information necessary to determine a charter school's financial performance. From the annual audit reporting the following will be used:

- Independent Auditor's Report on the financial statements
- Audited statement of financial position
- Audited statement of activities and changes in net assets
- Audited statement of cash flows
- Audited balance sheet for governmental funds
- Notes to the audited financial statements

Additional required information submitted by the school such as Average Daily Membership and annual debt information indicating the total principal and interest paid will also provide metrics for near-term and sustainability measures.

Throughout this document financial statements will be referred to in the common, for-profit nomenclature. Statements reported in nonprofit or governmental audits use the following corresponding names:

Generic (For Profit)	Nonprofit	Governmental
Balance Sheet	Statement of Financial Position	Statement of Net Assets
Income Statement	Statement of Activities and Changes in Net Assets	Statement of Activities

Evaluation

The Financial Performance Framework provides information that can be used both to monitor charter schools in an ongoing annual basis and to inform high-stakes decisions such as renewal or revocation.

Interim review

In regards to annual monitoring, the framework is designed to assist in monitoring the financial health of a school on an ongoing basis. Following the issuance of an annual audit, calculations can be made on a charter school’s standing on each measure to gain concise yet comprehensive insights to the school’s financial standing.

Schools that may be in immediate financial distress

Schools that fail the near-term indicators are likely to be at high risk for financial distress or closure. As such, they may require additional monitoring and/or corrective action. Determination of the severity of the problem, assessment of changes in the school’s financial performance and health since the date of the audited financial statements, and requirements that the school take actions to stabilize its financial position will be factored into the decision making process.

Schools experiencing negative financial trends

Schools may be failing the sustainability indicators for multiple reasons. They may be trending toward financial distress, or they could have a sound rationale for failing to meet the standards in a given year. Determinations must be made if the school’s failure to meet 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, additional information from the school may be collected and analyzed and to determine if performance of more in-depth due diligence is necessary.

Additional Follow Up

If a school has a rating of “Does Not Meet Standard”, a more comprehensive review of the school’s finances may be conducted before making high-stakes decisions, as information used to develop initial findings may be dated, given the lag in audited financial data.

Information requested may include, but not limited to, the following documentation for follow-up analysis:

- Year-to-date and monthly expenditures
- Year-to-date budget variance reports
- Updated budget projections for the remainder of the fiscal year

The information referenced above may help to better understand the short- and long-term viability of the school. Additional information specific to the standard that the school failed to meet may be requested for review and analysis. It is important to note that any interim financial information will not be audited, and thus its accuracy is not guaranteed.

If additional 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 independentand thus able to provide an unbiased evaluation of the school's finances.

The following chart provides examples of additional information that could be requested as part of a comprehensive review for schools that fall below the standard. 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 morefinancially healthy school.

Measure	Additional Information to Request	Look For
1a Current Ratio	Monthly financial statements	Monthly current ratio trending upwards
1b Unrestricted 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. *Note: It is important to review the cash flow monthly due to irregular funding streams*
1c ADM Variance	Budget revised to reflect lower enrollment. Monthly (new) budget variance reports	Budget demonstrates a net surplus and few, if any, variances are present. *Note: Review that the school has adjusted staffing expenses to align with enrollment*
1d 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
1e Revenue Over Expenditures	Explanation in a narrative format and actual to-date revenues and expenditures	Proof that the school is not in a persistent negative trend and that either expenditures have been adequately reduced to match revenues or revenues have increased to cover expenditures
2a Total Margin	Revised budget Monthly (new) budget variance report	Budget demonstrates a net surplus and few, if any, variances are present
2b Debt to Asset Ratio	Action plan and updated budget to increase the school's Net Assets,	Monthly Debt to Asset Ratio trending upward. Alignment between the action plan, budget, and financial statements
2c Debt Service Coverage Ratio	Revised budget; Monthly (new) budget variance report	Budget demonstrates a net surplus such that the debt service coverage ratio is greater than 1.1
2d Unassigned Governmental Fund Balance Ratio	Details on how the negative fund balance will be eliminated in the next fiscal year and revised budget	Current budget demonstrates a net surplus and few, if any, variances are present

If additional information is required for further analysis, DPI will:

1. Contact the school's governing board, executive director and finance director (or similar personnel) to inform them of their school's status,

2. Request up-to-date financial information from the school as the framework uses audited information, which requires a minimum lag time of six months for the audit to be finalized, and

3. Run the up-to-date (interim) financial information through the framework; current information may reveal steps the school has taken to mitigate any issues the framework highlighted, but it is important to note that this information has not been audited.

4. Inquire about the measures of concern with the executive and finance directors 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., invested in a new building through heavy debt financing in the year of concern, thus severely impacting ratings on any balance sheet measures).

It should be noted that when a school qualifies for an additional review it may be either in immediate distress, financially trending negatively, or both. The school also could have made a strategic financial decision that resulted in ratings that qualified it for additional review, but upon additional questioning has sufficient reasons for the financial results in the given year and is not in immediate distress or negative financial trending. DPI maybe 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.

Intervention

DPI will use the framework to identify schools whose financial stability is in danger and for intervention purposes. This intervention could be in the form of communication of unsatisfactory performance, increased monitoring, mid-year financial check-ins, or requests for additional testing.

For schools determined to be in financial distress following the comprehensive review described above, DPI will consider requiring ongoing reporting to monitor continuous financial performance and may elevate intervention strategies up to withholding funds or revocation.

Renewal

Framework results will be utilized during the renewal period for a school by identify schools' historical financial trends and current financial positions, both of which are useful in gauging schools' future financial viability.

Revocation

In the most severe cases of financial instability, the framework will indicate schools that should be considered for revocation of their charters. The targets for each measure are set to indicate schools that are falling far below standards. Schools that receive multiple measures at this level will be considered for charter revocation.

General Monitoring

DPI may decide to conduct general monitoring of a charter 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 DPI's receipt of their audit, financial performance framework can allow for ongoing monitoring to identifying pressing financial concerns.

Measures in Detail

Each of the measures included in the financial framework are described in the following pages.

Indicator 1: Near-Term Measures

1a. Current Ratio–Near-Term Indicator

Definition: The current ratio depicts the relationship between a school's current assets and current liabilities. The current ratio measures a school's ability to pay its obligations over the next 12 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 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.

Measure 1a **Current Ratio: Current Assets divided by Current Liabilities**
Meets Standard: ☐ Current Ratio is greater than 1.0
Does Not Meet Standard: ☐ Current ratio is less than 1.0

Basis for target level: A current ratio of greater than 1.0 indicates that the school's current assets exceed its current liabilities, indicating ability to meet current obligations. A current ratio that is less than 1.0 is a serious financial health risk, based on common standards.

1b. Unrestricted Days Cash – Near-Term Indicator

Definition: The unrestricted days' cash on hand ratio indicates how many days a school can pay its expenses without another inflow of cash. Unexpected costs arise when operating a charter school and circumstances outside of the school's control may impact the amount and timing of funding received from the State and other sources. Therefore, maintaining a cash reserve is a common best practice and is necessary for financial sustainability.

Source of Data: Audited balance sheet and income statement.

Measure 1b **Unrestricted Days Cash: Cash divided by ([Total Expenses minus Depreciation Expense] / 365)**
Meets Standard: ☐ ☐ 30 days' cash
Does Not Meet Standard: ☐ Fewer than 30 days' cash

Basis for Target Level: At least one month of operating expenses cash on hand is a standard minimum measure of financial health of any organization. If a charter school has fewer than 30 days of cash on hand, it may not be able to operate for more than a few weeks without another cash inflow and is at risk for immediate financial difficulties.

1c. Average Daily Membership Variance – Near-Term Indicator

Definition: Average Daily Membership (ADM) variance indicates whether or not the school is meeting its prior year average daily membership numbers. As actual funded average daily membership is a key driver of revenues, variance is important to track the sufficiency of revenues generated to fund ongoing operations.

The average daily membership variance depicts first month average daily membership of the current year against the first month average daily membership of the prior year. A school budgets and is funded based on actual funded average daily membership; therefore, a school that fails to meet its average daily membership variance target may not be able to meet its budgeted expenses. A declining average daily membership may be a substantial indicator of potential financial issues.

Source of Data: First month average daily membership for current year and first month average daily membership for the prior year can be found in the Charter School Average Daily Membership (CSADM) application.

Measure 1c Average Daily Membership Variance: Current Year First Month ADM divided by First Month ADM for prior year
Meets Standard (in one of two ways): ☐ Average Daily Membership Variance equals or exceeds 1.0
Does Not Meet Standard: ☐ Average Daily Membership Variance was less than 1.0.

Basis for Target Level: Average daily membership variance of less than 1.0 indicates that the funding will be decreased, and if the school does not adjust the expenditures accordingly, the school is at a significant financial risk. A school may be at risk of not being able to cover the fixed costs of the school. Declining ADM can indicate issues in the school pertaining to governance and academics. Schools that achieve at least 1.0 average daily membership variance of the prior fiscal year should have the operating funds necessary to meet all expenses of the prior year.

1d. Debt Default – Near-Term Indicator

Definition: Default indicates that a lender has issued a formal notice of loan default to the charter school. This metric addresses whether or not 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.

Source of Data: Notes to the audited financial statements.

Measure 1d Default
Meets Standard: ☐ School is <u>not</u> in default of loan covenant(s) and/or is not delinquent with debt service payments
Does Not Meet Standard: ☐ School is in default of loan covenant(s) and/or is delinquent with debt service payments

Basis for Target Level: Schools that are not meeting financial obligations, either through missed payments or violations of debt covenants, are at risk of financial distress. A school that has received formal notice of default from a lender may be at higher risk of financial distress and may have difficulty meeting its operational and academic obligations required under law and the charter contract.

1e. Revenue over Expenditure – Near-Term Indicator

Definition: Deficit spending occurs when the charter school's expenditures exceed its revenues. A school's operational unrestricted budgets should be balanced and ideally provide for growth in fund balance and reserves. Deficit spending depletes fund balances and reserves and as such, must be addressed or it will lead to an insolvent financial position.

Source of Data: Notes to the audited financial statements.

Measure 1e Revenue over Expenditure Variance: Current Year Revenue Exceeds Current Year Expenditures
Meets Standard: ☐ School in not in spending deficit and current year revenues exceed current year expenditures
Does Not Meet Standard: ☐ School is in spending deficit and current year expenditures exceed current year revenues

Basis for Target Level: Schools that may be at risk of financial insolvency consistently expend more than revenues.

Indicator 2: Sustainability Measures

2a. Total Margin– Sustainability Indicator

Definition: Total margin measures the deficit or surplus a school yields out of its total revenues; in other words, it measures whether or not the school is living within its available resources.

The total margin measures whether 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 of time without risk of closure.

Source of Data: Audited Income Statements.

Measure 2a Total Margin: Net Income divided by Total Revenue
Meets Standard: ☐ Total Margin is greater than -10 percent.
Does Not Meet Standard: ☐ The Total Margin is less than -10 percent

Basis for Target Level: General preference in any industry is that total margin is positive, but organizations canmake strategic choices to operate at a deficit for a year for a large operating expenditure or other planned expense. A margin of less than -10 percent is an indicator of financial risk.

2b. Debt to Asset Ratio – Sustainability Indicator

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.

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

Source of Data: Audited balance sheets.

Measure 2b **Debt to Asset Ratio: Total Liabilities divided by Total Assets**
Meets Standard: ☐ Debt to Asset Ratio is less than 1.0
Does Not Meet Standard: ☐ Debt to Asset Ratio is greater than 1.0

Basis for Target Level: If the debt to asset ratio is greater than one, most of the charter school's assets are financed through debt. High ratios are said to be "highly leveraged" and could be in danger if creditors demand repayment of debt. A ratio less than 1.0 indicates a financially healthy balance sheet, both in the assets and liabilities.

2c. Debt Service Coverage Ratio – Sustainability Indicator

Definition: The debt service coverage ratio indicates a school's ability to cover its debt obligations in the current year. This ratio measures whether or not a school can pay the principal and interest due on its debt based onthe current year's net income.

Source of Data:

- Net income: audited income statement
- Depreciation expense: audited cash flow statement
- Interest Expense: audited cash flow statement and/or income statement
- Annual principal and interest obligations: provided by the school

Measure 2c **Debt Service Coverage Ratio (Net Income + Depreciation + Interest Expense) / (Annual Principal and Interest Payments)**
Meets Standard: ☐ Debt Service Coverage Ratio is equal to or exceeds 1.1.
Does Not Meet Standard: ☐ Debt Service Coverage Ratio is less than 1.1.

Basis for Target Level: A Debt Service Coverage Ratio of 1.1 is a standard for organizations healthy enough to meet obligations and generate a surplus.

2d. Unassigned Governmental Fund Balance Ratio – Sustainability Indicator

Definition: With a few exceptions the governmental funds balance sheet reports cash and other financial resources (such as receivables) as assets and amounts owed that are expected to be paid off within a short period of time as liabilities. Fund balance is required to be reported in two components—reserved/assigned and unreserved/unassigned. When fund balance is *reserved/assigned,* it either means that the resources are in a form that cannot be appropriated and spent (such as inventory) or that the resources are legally limited to being used for a particular purpose. For instance, grant monies from the federal government that may be used only for building schools would be reported as reserved fund balance in the general fund or a broad capital projects fund.

Governments also tend to report the nonexpendable portion of their permanent funds, the resources that can be invested but not spent, as reserved fund balance. The portion of fund balance that is not reserved is fittingly called *unreserved/unassigned* fund balance. It represents resources that can be used for any purpose of the fund they are reported in. Unreserved fund balance in a debt service fund can be used to repay any outstanding debt. Unreserved fund balance in the general fund can be used for any purpose at all.

The North Carolina Local Government Commission policy requires that, on June 30, local government units maintain a minimum balance of 8 percent of the prior year's expenditures, or approximately one month of expenditures.

The unrestricted governmental fund balance of a charter school should be positive. If the cause of the negative fund balance is not addressed in a timely and appropriate manner, the school could be in jeopardy of financial insolvency that increases the likelihood of revocation. A negative unassigned governmental fund balance is indicative of a poor financial condition.

Source of Data: Audited income statement.

Measure 2e Fund Balance Ratio (Ending Fund Balance divided by Total Expenditures)
Meets Standard: ☐ Unassigned Governmental Fund balance ratio meets or exceeds 8%
Does Not Meet Standard: ☐ Unassigned Governmental Fund balance ratio is less than 8%

Basis for Target Level: The Local Government Commission considers a fund balance of 8% of expenditures an adequate fund balance.

Indicator 3: Financial Management and Oversight

3a. Financial Reporting and Compliance

Source of Data: Assurance of compliance by the board and periodic verification of compliance, during site visits and reporting to the authorizer.

Measure 3a Financial Reporting Compliance
Meets Standard: ☐ The school materially complies with applicable laws, rules, regulations and provisions of the charter agreement relating to financial reporting requirements, including but not limited to: • Complete and on-time submission of Uniform Education Reporting System (UERS) financial reports, revised budgets (if applicable), and any reporting requirements if the board contracts with a management company • On-time submission and completion of the annual independent audit, including Corrective Action Plan, if applicable, and all other reporting requirements related to the use of public funds.
Does Not Meet Standard: ☐ The school does not meet financial reporting and compliance requirements.

Basis for Target Level: Adherence with all financial reporting and compliance requirements.

3b. Generally Accepted Accounting Principles

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.

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.

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.

Source of Data: Annual financial audit.

Measure 3b Generally Accepted Accounting Principles
Meets Standard: ☐ The school materially complies with applicable laws, rules, regulations and provisions of the charter agreement relating to financial management and oversight expectations as evidenced by an annual independent audit, including but not limited to: • An unqualified audit opinion and/or • An audit devoid of significant findings and conditions or material weaknesses
Does Not Meet Standard: ☐ The school does not comply with applicable laws, rules, regulations and provisions of the charter agreement relating to financial compliance and management expectations as evidenced by an annual independent audit including, but not limited to: • A qualified audit opinion and/or • Significant findings and conditions or material weaknesses.

Basis for Target Level: A school with an unqualified audit opinion and an audit devoid of significant findings and conditions, material weaknesses, or significant internal control weaknesses generally demonstrates adherence to Generally Accepted Accounting Principles (GAAP).

Glossary

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.

Average Daily Membership: The total number of school days within a given term - usually a school month or school year - that a student's name is on the current roll of a class, regardless of his/her being present or absent, is the "number of days in membership" for that student. Average Daily Membership (ADM) for each school month is based on the sum of the number of days in membership for all non-violating (NVIO) students in individual LEAs/Charters, divided by the number of days in the school month (ADM = Member Days (NVIO) / # of days in the school month rounded to nearest whole number). The final Average Daily Membership is the total days in membership (NVIO) for all students over the school year divided by the number of days' school was in session. Average Daily Membership is a more accurate count of the number of students in school than enrollment. For more information on Average Daily Membership, please refer to the School Attendance and Student Accounting manual.

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: 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 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.

Glossary (continued)

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.

Governmental Fund Balance:

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 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.

Glossary (concluded)

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.