Financial Performance Framework

1. Near-Term Measures

Measure 1a **Current Ratio: Current Assets divided by Current Liabilities**
Meets Standard: ☐ Current Ratio is greater than or equal to 1.1 or ☐ Current Ratio is between 1.0 and 1.1 and one-year trend is positive (current year ratio is higher than last year's) *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 between 0.9 and 1.0 or equals 1.0 or ☐ Current Ratio is between 1.0 and 1.1 and one-year trend is negative
Falls Far Below Standard: ☐ Current ratio is less than or equal to 0.9
Measure 1b **Unrestricted Days Cash: Unrestricted Cash divided by ([Total Expenses minus Depreciation Expense] / 365)**
Meets Standard: ☐ 60 Days Cash or ☐ Between 30 and 60 Days Cash and one-year trend is positive *Note: Schools in their first or second year of operation must have a minimum of 30 Days Cash.*
Does Not Meet Standard: ☐ Days Cash is between 15–30 days or ☐ Days Cash is between 30–60 days and one-year trend is negative
Falls Far Below Standard: ☐ Fewer than 15 Days Cash
Measure 1c **Enrollment Variance: Actual Enrollment divided by Enrollment Projection in Charter School Board-Approved Budget**
Meets Standard: ☐ Enrollment Variance equals or exceeds 95 percent in the most recent year
Does Not Meet Standard: ☐ Enrollment Variance is between 85–95 percent in the most recent year
Falls Far Below Standard: ☐ Enrollment Variance is less than 85 percent in the most recent year

Measure 1d **Default**
Meets Standard: ☐ School is not in default of loan covenant(s) and/or is not delinquent with debt service payments
Does Not Meet Standard: ☐ Not applicable
Falls Far Below Standard: ☐ School is in default of loan covenant(s) and/or is delinquent with debt service payments

2. Sustainability Measures

Measure 2a **Total Margin: Net Income divided by Total Revenue** **Aggregated Total Margin: Total Three-Year Net Income divided by Total Three-Year Revenues**
Meets Standard: ☐ Aggregated Three-Year Total Margin is positive and the most recent year Total Margin is positive or ☐ Aggregated Three-Year Total Margin is greater than -1.5 percent, the trend is positive for the last two years, and the most recent year Total Margin is positive *Note: For schools in their first or second year of operation, the cumulative Total Margin must be positive.*
Does Not Meet Standard: ☐ Aggregated Three-Year Total Margin is greater than -1.5 percent, but trend does not "Meet Standard"
Falls Far Below Standard: ☐ Aggregated Three-Year Total Margin is less than or equal to -1.5 percent or ☐ The most recent year Total Margin is less than -10 percent
Measure 2b **Debt to Asset Ratio: Total Liabilities divided by Total Assets**
Meets Standard: ☐ Debt to Asset Ratio is less than 0.9
Does Not Meet Standard: ☐ Debt to Asset Ratio is between 0.9 and 1.0
Falls Far Below Standard: ☐ Debt to Asset Ratio is greater than 1.0

Measure 2c **Cash Flow:** **Multi-Year Cash Flow = Year 3 Total Cash – Year 1 Total Cash** **One-Year Cash Flow = Year 2 Total Cash – Year 1 Total Cash**
Meets Standard: ☐ Multi-Year Cumulative Cash Flow is positive and Cash Flow is positive each year or ☐ Multi-Year Cumulative Cash Flow is positive, Cash Flow is positive in one of two years, and Cash Flow in the most recent year is positive *Note: Schools in their first or second year of operation must have positive Cash Flow.*
Does Not Meet Standard: ☐ Multi-Year Cumulative Cash Flow is positive, but trend does not "Meet Standard"
Falls Far Below Standard: ☐ Multi-Year Cumulative Cash Flow is negative
Measure 2d **Debt Service Coverage Ratio: (Net Income + Depreciation + Interest Expense + Lease Payments) / (Annual Principal, Interest, and Lease 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
Falls Far Below Standard: ☐ Not Applicable

Indicator 1: Near-Term Measures

Current Ratio

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.

Data source

Audited balance sheet

Measure 1a **Current Ratio: Current Assets divided by Current Liabilities**
Meets Standard: ☐ Current Ratio is greater than or equal to 1.1 or ☐ Current Ratio is between 1.0 and 1.1 and one-year trend is positive (current year ratio is higher than last year's) *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 between 0.9 and 1.0 or equals 1.0 or ☐ Current Ratio is between 1.0 and 1.1 and one-year trend is negative
Falls Far Below Standard: ☐ Current ratio is less than or equal to 0.9

Basis for target level

The general rule of thumb for a current ratio is that it should be a minimum of 1.0. An upward trend of a current ratio that is greater than 1.0 indicates greater financial health, hence the greater than or equal to 1.1 target to meet standard. A current ratio that is less than or equal to 0.9 is a serious financial health risk, based on common standards.

Unrestricted Days Cash

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

The unrestricted days cash ratio tells authorizers whether or not the school has sufficient cash to meet its cash obligations. Depreciation expense is removed from the total expenses denominator because it is not a cash expense. This critical measure takes on additional importance in states and localities where the timing of school payments is irregular and/or can be delayed.

Data source

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

Measure 1b **Unrestricted Days Cash: Unrestricted Cash divided by ([Total Expenses minus Depreciation Expense] / 365)**
Meets Standard: ☐ 60 Days Cash or ☐ Between 30 and 60 Days Cash and one-year trend is positive *Note: Schools in their first or second year of operation must have a minimum of 30 Days Cash.*
Does Not Meet Standard: ☐ Days Cash is between 15–30 days or ☐ Days Cash is between 30–60 days and one-year trend is negative
Falls Far Below Standard: ☐ Fewer than 15 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. Due to the nature of charter school cash flow and the sometimes-irregular receipts of revenue, a 60-day threshold was set for schools to meet the standard. Still, schools showing a growing cash balance from prior years and who have enough cash to pay at least one month's expenses are also financially stable enough and show positive trending, therefore meeting the standard. If a school has fewer than 15 days of cash on hand, it will not be able to operate for more than a few weeks without another cash inflow and is at high risk for immediate financial difficulties.

Enrollment Variance

Definition: Enrollment variance tells authorizers whether or not the school is meeting its enrollment projections. As enrollment is a key (often *the* key) driver of revenues, variance is important to track the sufficiency of revenues generated to fund ongoing operations.

The enrollment variance depicts actual versus projected enrollment. A school budgets based on projected enrollment but is funded based on actual enrollment; therefore, a school that fails to meet its enrollment targets may not be able to meet its budgeted expenses. Although enrollment is not the singular driver of revenues for a school, it is highly correlated at a minimum. As school budgets are generally designed to match expenses with projected revenues, a poor enrollment variance is a substantial indicator of potential financial issues. It is critical to capture this information as early in the school year as possible to determine whether an authorizer may need to take action or intervene in some way.

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

Many authorizers use enrollment variance as a way not only to evaluate a charter school's financial health, but also to monitor how savvy the school's board and management are at forecasting. Thus, while enrollment variance is a primary measure of financial health, it can also be seen as a secondary measure for organizational aptitude.

Data source

- Projected enrollment—Charter school board-approved enrollment budget for the year in question
- Actual enrollment

Measure 1c Enrollment Variance: Actual Enrollment divided by Enrollment Projection in Charter School Board-Approved Budget
Meets Standard: ☐ Enrollment Variance equals or exceeds 95 percent in the most recent year
Does Not Meet Standard: ☐ Enrollment Variance is between 85–95 percent in the most recent year
Falls Far Below Standard: ☐ Enrollment Variance is less than 85 percent in the most recent year

Basis for target level

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

Debt Default

Definition: Debt default indicates whether or not a school is meeting debt obligations or covenants.

Each authorizer can determine the exact application of this definition. Authorizers may consider a school in default only when it is not making payments on its debt, or when it is out of compliance with other requirements in its debt covenants. Additionally, a school that has exceeded the state maximum debt limit, if the limit exists, or a school that is holding employee 403b contributions to aid cash flow could be considered in default. 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.

Data source

Notes to the audited financial statements

Measure 1d Default
Meets Standard: ☐ School is not in default of loan covenant(s) and/or is not delinquent with debt service payments
Does Not Meet Standard: ☐ Not applicable
Falls Far Below 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. Debt environments do vary from state to state, so authorizers should individually determine if violations of debt covenants should be considered a qualification for falling below or far below standards.

Indicator 2: Sustainability Measures

Total Margin and Aggregated Three-Year Total Margin

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. Though the intent of a school is not to make money, it is important for charters to build, rather than deplete, a reserve to support growth or sustain the school in an uncertain funding environment.

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

Data source

Three years of audited income statements

Measure 2a **Total Margin: Net Income divided by Total Revenue** **Aggregated Total Margin: Total Three-Year Net Income divided by Total Three-Year Revenues**
Meets Standard: ☐ Aggregated Three-Year Total Margin is positive and the most recent year Total Margin is positive or ☐ Aggregated Three-Year Total Margin is greater than -1.5 percent, the trend is positive for the last two years, and the most recent year Total Margin is positive *Note: For schools in their first or second year of operation, the cumulative Total Margin must be positive.*
Does Not Meet Standard: ☐ Aggregated Three-Year Total Margin is greater than -1.5 percent, but trend does not "Meet Standard"
Falls Far Below Standard: ☐ Aggregated Three-Year Total Margin is less than or equal to -1.5 percent or ☐ The most recent year Total Margin is less than -10 percent

Basis for target level

General preference in any industry is that total margin is positive, but organizations can make strategic choices to operate at a deficit for a year for a large operating expenditure or other planned expense. The targets set allow for flexibility over a three-year timeframe in the aggregate total margin but require a positive total margin for the most recent year to meet standard. A margin in any year of less than -10 percent or an aggregate three-year total margin less than or equal to -1.5 percent is an indicator of financial risk.

Debt to Asset Ratio

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

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

Data source

Audited balance sheet

Measure 2b **Debt to Asset Ratio: Total Liabilities divided by Total Assets**
Meets Standard: ☐ Debt to Asset Ratio is less than 0.9
Does Not Meet Standard: ☐ Debt to Asset Ratio is between 0.9 and 1.0
Falls Far Below Standard: ☐ Debt to Asset Ratio is greater than 1.0

Basis for target level

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

Cash Flow

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

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

Data source

Three years of audited balance sheets

Measure 2c Cash Flow: Multi-Year Cash Flow = Year 3 Total Cash – Year 1 Total Cash One-Year Cash Flow = Year 2 Total Cash – Year 1 Total Cash
Meets Standard (in one of two ways): ☐ Multi-Year Cumulative Cash Flow is positive and Cash Flow is positive each year or ☐ Multi-Year Cumulative Cash Flow is positive, Cash Flow is positive in one of two years, and Cash Flow in the most recent year is positive *Note: Schools in their first or second year of operation must have positive cash flow.*
Does Not Meet Standard: ☐ Multi-Year Cumulative Cash Flow is positive, but trend does not "Meet Standard"
Falls Far Below Standard: ☐ Multi-Year Cumulative Cash Flow is negative

Basis for target level

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

Debt Service Coverage Ratio

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 on the current year's net income. Depreciation expense is added back to the net income because it is a non-cash transaction and does not actually cost the school money. The interest expense is added back to the net income because it is one of the expenses an entity is trying to pay, which is why it is included in the denominator.

Data source

- 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 from the school

Measure 2d Debt Service Coverage Ratio: (Net Income + Depreciation + Interest Expense + Lease Payments)/(Annual Principal, Interest, and Lease 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
Falls Far Below Standard: ☐ Not Applicable

Basis for target level

Debt Service Coverage Ratio is commonly used as a debt covenant measure across industries. A ratio of 1.1 or greater is industry standard for identifying organizations healthy enough to meet obligations and generate a surplus.

Glossary A: Terms Used in the Financial Performance Framework

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

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

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.

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 entity has enough resources to pay its debts over the next 12 months. It compares an entity'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 entity include bonds, accounts payable, and other liabilities.

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 entity's assets that are financed through debt. It compares an entity'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 entity's assets are financed through equity. If the ratio is greater than one, most of the entity'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 entity in conformity with Generally Accepted Accounting Principles.

Fiscal Period: Any period at the end of which an entity determines its financial position and the results of its operations.

GAAP: Refer to Generally Accepted Accounting Principles.

General Fund: The general fund is used to account for the general financial activities of the entity when reporting under governmental accounting. The general fund is used for funds not required to be accounted for in another account.

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

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

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

Indicator: General category of financial performance.

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

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

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

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

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

Metric: Method of quantifying a measure.

Net Assets: The difference between assets and liabilities.

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

Principal: The amount of the loan excluding any interest.

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

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

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

Statement of Net Assets: A government-wide financial statement that reports the difference between assets and liabilities as net assets, not fund balances or equity. Assets are reported in order of liquidity, or how readily they are expected to be converted to cash and whether restrictions limit the government's ability to use the resources. Liabilities are reported based on their maturity, or when cash is expected to be used to liquidate them. Net assets are displayed in three components: invested in capital assets, net of related debt; restricted; and unrestricted.

Target: Threshold that signifies success for a specific measure.

Total Margin: Total revenues less total expenses.

Glossary B: Other Useful Accounting Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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