



Financial Performance Framework

MEASURES AND SUMMATIVE PERFORMANCE RATINGS GUIDE

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Introduction

Arizona Revised Statutes (“A.R.S.”) requires the Arizona State Board for Charter Schools (“Board”), as a sponsoring entity of a charter school, to ground its actions in evidence of the charter holder’s performance in accordance with the Board’s performance framework and requires the Board’s performance framework to include the financial expectations of the charter school. In December 2018, the Board approved its Financial Performance Framework (“financial framework”) and adopted the administrative rules to implement the financial framework on July 8, 2019. On February 12, 2024, the Board adopted revisions to the financial framework’s measures. **Except as otherwise noted, this guide is applicable beginning with charter holders’ fiscal year 2024 audits.**

The financial framework communicates the Board’s expectations for ensuring that all charter holders in its portfolio are viable organizations with strong fiscal management practices. The term “charter holder” refers to the entity that has entered into a charter contract with the Board to operate one or more charter schools. It is important to note that the financial framework analyzes the financial performance of the charter holder, not the charter holder’s process for managing that performance.

Measures

General Overview

This section describes each of the financial framework’s six measures and identifies the applicable calculations, measure ratings and data sources. Defined terms are italicized and identified in all capital letters. Each measure’s subsection includes the definitions applicable to that measure.

The annual statutorily required audits conducted by independent certified public accountants and the average daily membership (“ADM”) calculations completed by the Arizona Department of Education (“Department”) using student attendance data submitted to the Department by the charter holder provide the information necessary to determine a charter holder’s performance under the financial framework.

A charter holder’s performance as evaluated using the financial framework is represented in a dashboard. Through ASBCS Online, the Board has provided online public access to each charter holder’s financial dashboard and the audits of Board-sponsored charter holders. Information about how to access a charter holder’s financial dashboard and annual audits through ASBCS Online is available on the [Board’s website](#).

Going Concern

Description	Accounting principles require charter holder management to evaluate their entity’s ability to continue operating. Under auditing standards, the charter holder’s independent CPA then audits the conclusion reached by management.
Dashboard Displays	Going Concern
Data Source	<ul style="list-style-type: none"> ▪ Independent Auditor’s Report on the financial statements ▪ Notes to the audited financial statements
Definitions	None
Calculation	Considers absence or presence of certain disclosure in the audit
Measure Ratings	<p>Meets Standard: The most recent audit does not include explanatory paragraph in Independent Auditor’s Report or disclosure in the notes to the financial statements <i>(No substantial doubt about the charter holder’s ability to continue operating is raised in the audit)</i></p> <p>Below Standard: Disclosure in Independent Auditor’s Report and financial statement notes <i>(Substantial doubt about the charter holder’s ability to continue operating is raised in the audit and is not alleviated by management’s plans)</i></p> <p><u>OR</u> Disclosure in financial statement notes only <i>(Substantial doubt about the charter holder’s ability to continue operating is raised in the audit, but is alleviated by management’s plans)</i></p>
Calculation Considerations	None
Rating Considerations	None

Default

Description	Failure to make timely payments or comply with other requirements may result in a lender or landlord issuing a notice of default.
Dashboard Displays	Default
Data Source	<ul style="list-style-type: none"> ▪ Notes to the audited financial statements
Definitions	None
Calculation	Considers absence or presence of certain disclosure in the audit

Measure Ratings	<p>Meets Standard: Charter holder is not in default on material loans or facility agreements or both.</p> <p>Approaches Standard: For a material loan agreement, facility agreement or both, the lender or landlord has allowed the charter holder to pause or reduce payments for a period of time under a forbearance or similar agreement.</p> <p>Below Standard: Charter holder is in default on material loans or facility agreements or both.</p>
Calculation Considerations	<p>Any time a lender or landlord issues a formal notice of default or enters into a forbearance or similar agreement, the loan or facility agreement is considered material.</p> <p>The “Approaches Standard” option is not applicable to a charter holder that proactively and voluntarily works with its lender or landlord to renegotiate loan or lease terms.</p>
Rating Considerations	<p>None</p>

Unrestricted Days Liquidity

Description	<p>Identifies how many days’ expenses can be paid by the charter holder without another influx of cash.</p>
Dashboard Displays	<p>Available Reserve</p>
Data Source	<ul style="list-style-type: none"> ▪ Audited statement of financial position (balance sheet) ▪ Audited statement of activities (income statement) ▪ Audited statement of cash flows (cash flow statement) ▪ Notes to the audited financial statements ▪ Compliance questionnaire
Definitions – Calculation	<p>FACTORING: Factoring involves a charter holder obtaining advances on its state equalization payments from an outside party.</p> <p>NONCASH EXPENSES: Noncash expenses are noncash expenses as outlined on the audited statement of cash flows or identified in the notes to the audited financial statements.</p> <p>UNRESTRICTED CASH: The calculation considers cash amounts identified as current assets on the charter holder’s audited statement of financial position. Typically, restricted amounts removed to arrive at unrestricted cash include the charter holder’s year-end Classroom Site Fund (“CSF”) cash carryover balance and any restricted cash identified as a current asset on the face of the audited statement of financial position.</p> <p>UNRESTRICTED INVESTMENTS: Unrestricted investments are any investments identified on the audited statement of financial position as assets – whether current or not – that are not restricted for a specific purpose. Restrictions will be identified using the audited statement of financial position and notes to the audited financial statements.</p>
Calculation	<p>Calculation 1: Standard Calculation $\frac{(UNRESTRICTED\ CASH + \text{Government Funding Receivables} + UNRESTRICTED\ INVESTMENTS)}{[(Total\ Expenses - NONCASH\ EXPENSES)/365]}$</p>

[Note: This is the primary calculation and will apply to all charter holders.]

Calculation 2: Calculation to Determine Effect of Factoring
 (UNRESTRICTED CASH + Government Funding Receivables + UNRESTRICTED INVESTMENTS – FACTORING) divided by [(Total Expenses – NONCASH EXPENSES)/365]

[Note: For a charter holder that used factoring during the audit fiscal year, the results of this calculation and the standard calculation (Calculation 1) will both be considered to determine the charter holder’s performance on this measure.]

Definitions – Rating For “an INCREASE in days” to exist, the charter holder’s performance must improve by at least 1 full day from the prior fiscal year. If the charter holder’s performance does not improve by at least 1 full day, then “NO CHANGE in days” will exist.

Measure Ratings	Effective:	FY24 Audits	FY25 Audits	FY26 Audits	FY27 & Following Audits
	Meets Standard:	30 or more days	35 or more days liquidity OR At least 30 days but fewer than 35 days with an INCREASE in days in most recent fiscal year	40 or more days liquidity OR At least 30 days but fewer than 40 days with an INCREASE in days in most recent fiscal year	45 or more days liquidity OR At least 30 days but fewer than 45 days with an INCREASE in days in most recent fiscal year
	Approaches Standard:	At least 15 days but fewer than 30 days	At least 30 days but fewer than 35 days with either a DECREASE in days in most recent fiscal year or NO CHANGE in days in most recent fiscal year OR At least 23 days but fewer than 30 days	At least 30 days but fewer than 40 days with either a DECREASE in days in most recent fiscal year or NO CHANGE in days in most recent fiscal year	At least 30 days but fewer than 45 days with either a DECREASE in days in most recent fiscal year or NO CHANGE in days in most recent fiscal year
	Below Standard:	Fewer than 15 days	Fewer than 23 days	Fewer than 30 days	Fewer than 30 days

Calculation Considerations

- For a charter holder’s first audit, the financial framework will assume zero days for the prior year, resulting in “an increase in days” (as applicable).
- For factoring, the amount used in the calculation will be the liability as of June 30 and will be pulled from the audited statement of financial position or, as applicable, the notes to the audited financial statements.

Rating Considerations

- For a charter holder that did not use factoring in the audit fiscal year, the measure rating will be based on the results calculated using the standard calculation (Calculation 1).
- For a charter holder that used factoring in the audit fiscal year, Staff will calculate the charter holder’s performance under the standard calculation (Calculation 1) and under Calculation 2.

- If the number of days liquidity determined under Calculation 2 falls within the “Meets Standard” threshold or “Approaches Standard” threshold, then the measure rating will be based on the results calculated using the standard calculation (Calculation 1). This means the funds from factoring will be included.
- If the number of days liquidity determined under Calculation 2 falls within the “Below Standard” threshold, then the measure rating will be based on the results calculated using Calculation 2. This means the funds from factoring will be removed.

Adjusted Net Income

Description	Considers whether a charter holder is operating within its available resources.
Dashboard Displays	Revenues Exceed Expenses
Data Source	<ul style="list-style-type: none"> ▪ Audited statement of activities (income statement) ▪ Audited statement of cash flows (cash flow statement) ▪ Notes to the audited financial statements
Definitions	<p>NONCASH EXPENSES: Noncash expenses are noncash expenses as outlined on the audited statement of cash flows or identified in the notes to the audited financial statements.</p> <p>NONCASH REVENUES: Noncash revenues are noncash revenues as outlined on the audited statement of cash flows or identified in the notes to the audited financial statements.</p>
Calculation	<ol style="list-style-type: none"> 1. Calculate Audit Year Adjusted Net Income (Total Revenues – <i>NONCASH REVENUES</i>) [“Adjusted Total Revenues”] minus (Total Expenses – <i>NONCASH EXPENSES</i>) 2. Calculate Audit Year Adjusted Total Margin Adjusted Net Income (“ANI”) divided by Adjusted Total Revenues (“ATR”) 3. Calculate Aggregated Adjusted Total Margin [<i>NOTE: Year 1 would be the audit year.</i>] <u>Aggregated 3-Year</u> = (Year 1 ANI + Year 2 ANI + Year 3 ANI) divided by (Year 1 ATR + Year 2 ATR + Year 3 ATR) <u>Aggregated 2-Year</u> = (Year 1 ANI + Year 2 ANI) divided by (Year 1 ATR + Year 2 ATR)
Measure Ratings	<p>Meets Standard Adjusted net income is greater than or equal to \$1</p> <p>OR Audit Year Adjusted Total Margin is between 0 and negative 2.5% <u>and</u> Aggregated 3-Year Adjusted Total Margin is positive</p> <p>Approaches Standard Audit Year Adjusted Total Margin is between 0 and negative 2.5% <u>and</u> Aggregated 3-Year Adjusted Total Margin is between 0 and negative 4.99%</p> <p>OR Audit Year Adjusted Total Margin is between negative 2.5% and negative 9.99% <u>and</u> Aggregated 3-Year Adjusted Total Margin is greater than negative 4.99%</p> <p>Below Standard Audit Year Adjusted Total Margin is less than negative 10% <u>and</u> Aggregated 3-Year Adjusted Total Margin is any value</p>

OR

Audit Year Adjusted Total Margin is negative and Aggregated 3-Year Adjusted Total Margin is less than or equal to negative 5%

Calculation Considerations

- Beginning with the fiscal year 2023 audits, the framework will consider charter holders’ change in net assets without donor restrictions instead of using the total change in net assets for those charter holders that would be positively affected. Beginning with the fiscal year 2023 audits, the total change in net assets will continue to be used for those charter holders that would be negatively affected.
- For a charter holder with only one audit, the Audit Year Adjusted Total Margin will be used to determine the measure rating.
- For a charter holder with only two audits, the Aggregated 2-Year Adjusted Total Margin and the Audit Year Adjusted Total Margin will be used to determine the measure rating.

Rating Considerations

Instead of the calculated “Below Standard” rating on the Adjusted Net Income measure, the charter holder will receive an “Approaches Standard” rating if all the following are true:

1. The charter holder has at least 90 days liquidity as determined under the financial framework’s Unrestricted Days Liquidity measure; and
2. The charter holder received a “Meets Standard” rating on the financial framework’s Going Concern measure; and
3. The charter holder received a “Meets Standard” rating on the financial framework’s Default measure.

Instead of the calculated “Approaches Standard” rating on the Adjusted Net Income measure, the charter holder will receive a “Meets Standard” rating if all the following are true:

1. The charter holder has at least 90 days liquidity as determined under the financial framework’s Unrestricted Days Liquidity measure; and
2. The charter holder received a “Meets Standard” rating on the financial framework’s Going Concern measure; and
3. The charter holder received a “Meets Standard” rating on the financial framework’s Default measure.

Lease Adjusted Debt Service Coverage Ratio

Description

Considers the charter holder’s ability to cover its facility and debt costs. [Note: A ratio of less than 1.0 means the charter holder is unable to cover its facility and debt costs for the year without dipping into savings or borrowing additional funds.]

Dashboard Displays

Facility & Debt Costs Covered

Data Source

- Audited statement of activities (income statement)
- Audited statement of cash flows (cash flow statement)
- Notes to the audited financial statements

Definitions

DEBT PRINCIPAL: Includes principal payments associated with bonds, loans or finance leases for a charter holder that purchases its facilities, as well as other long-term loans obtained by a charter holder.

Calculation (Adjusted Net Income + Interest Expense + Facility Lease Expense) divided by (DEBT PRINCIPAL + Interest + Facility Lease Expense)

Measure Ratings **Meets Standard:**
Lease adjusted debt service coverage ratio exceeds 1.10

Approaches Standard:
Lease adjusted debt service coverage ratio is between 1.0 and 1.10

Below Standard:
Lease adjusted debt service coverage ratio is less than 1.0

Not Applicable:
Charter holder does not have outstanding debt or any identified facility lease expense

Calculation Considerations Debt principal does not include principal payments associated with equipment or vehicle finance leases. If the charter holder’s audit does not include sufficient detail to separate principal payments for equipment and vehicle finance leases from other principal payments made, then the charter holder’s total principal payments will be used when determining the charter holder’s performance.

Rating Considerations – Specific Debt Situations *[Note: Use of these rating considerations to determine a charter holder’s audit fiscal year performance is contingent upon there being sufficient disclosure in the charter holder’s audit.]*

For a charter holder that pays debt off early (either in full or in part) in the audit fiscal year,

- The measure will be rated “Meets Standard” if the only items applicable to the ratio calculation are the debt principal and interest expense associated with the retired debt; or
- If the charter holder has other applicable debt, facility lease expense or both, the debt principal and interest expense associated with the retired debt will be excluded from the ratio calculation and the measure rating will be determined based on the ratio calculated using, as applicable, the charter holder’s other debt principal, interest expense and facility lease expense.

For a charter holder with a scheduled balloon payment in the audit fiscal year that does not fully retire the debt,

- The debt principal associated with the balloon payment will be excluded from the ratio calculation and the measure rating will be determined based on the ratio calculated using the interest expense associated with the debt subject to the balloon payment and, as applicable, the charter holder’s other debt principal, interest expense and facility lease expense.
- If the only applicable item for the ratio calculation is the balloon payment itself, then the measure will be rated “Meets Standard.”

For a charter holder that refinances all or some of its debt in the audit fiscal year,

- The measure rating will be determined based on the ratio calculated using the net principal payments, the interest expense associated with the refinanced debt and, as applicable, the charter holder’s other debt principal, interest expense and facility lease expense. “Net principal payments” represent the difference between the principal payments made during the audit fiscal year on the debt being refinanced

and the proceeds from the issuance of the new debt received during the audit fiscal year.¹

- If no amount is identified for the ratio calculation, then the measure will be rated “Meets Standard.”

Rating Considerations – Days Liquidity

Instead of the calculated “Below Standard” rating on the Lease Adjusted Debt Service Coverage Ratio measure, the charter holder will receive an “Approaches Standard” rating if all the following are true:

1. The charter holder has at least 90 days liquidity as determined under the financial framework’s Unrestricted Days Liquidity measure; and
2. The charter holder received a “Meets Standard” rating on the financial framework’s Going Concern measure; and
3. The charter holder received a “Meets Standard” rating on the financial framework’s Default measure.

Instead of the calculated “Approaches Standard” rating on the Lease Adjusted Debt Service Coverage Ratio measure, the charter holder will receive a “Meets Standard” rating if all the following are true:

1. The charter holder has at least 90 days liquidity as determined under the financial framework’s Unrestricted Days Liquidity measure; and
2. The charter holder received a “Meets Standard” rating on the financial framework’s Going Concern measure; and
3. The charter holder received a “Meets Standard” rating on the financial framework’s Default measure.

Average Daily Membership

Description	Consider the charter holder’s student count or average daily membership (“ADM”) over time.
Dashboard Displays	Stable or Increasing # of Students
Data Source	<ul style="list-style-type: none"> ▪ ADM calculations completed by the Department using student attendance data submitted to the Department by the charter holder
Definitions	None
Calculation	<p><i>[NOTE: Year 1 would be the most recent year and Year 4 would be the “oldest” year.]</i></p> <ol style="list-style-type: none"> 1. Calculate the annual growth rates <ul style="list-style-type: none"> Year 1 Growth Rate = (Year 1 ADM – Year 2 ADM)/Year 2 ADM Year 2 Growth Rate = (Year 2 ADM – Year 3 ADM)/Year 3 ADM Year 3 Growth Rate = (Year 3 ADM – Year 4 ADM)/Year 4 ADM 2. Calculate average <ul style="list-style-type: none"> <u>3-Year Average</u> = (Year 1 Growth Rate + Year 2 Growth Rate + Year 3 Growth Rate)/3 <u>2-Year Average</u> = (Year 1 Growth Rate + Year 2 Growth Rate)/2

¹ For example, if the charter holder’s existing debt is \$1 million and, through refinancing, \$900,000 in new debt is issued, then \$100,000 of debt principal will be used in the calculation as there was a net decrease in debt of \$100,000 during the audit fiscal year. If the charter holder’s existing debt is \$1 million dollars and, through refinancing, \$1.2 million in new debt is issued, then no debt principal would be included in the calculation as no net principal was paid during the audit fiscal year; during the audit fiscal year, there was a net increase in the charter holder’s debt of \$200,000.

3. Calculate change in ADM
 $(\text{Year 1 ADM} - \text{Year 3 ADM}) / \text{Year 3 ADM}$

Measure Ratings

Meets Standard:

Average calculation shows an increase and change in ADM is positive or is between 0 and negative 24.99%

OR

Average calculation shows a decrease of 4.99% or less and change in ADM is positive or is between 0 and negative 24.99%

Approaches Standard:

Average calculation shows a decrease of 5% to 14.99% and change in ADM is positive or is between 0 and negative 49.99%

OR

Change in ADM is between negative 25% and negative 49.99% and average calculation shows an increase or a decrease of 14.99% or less

Below Standard:

Average calculation shows a decrease of 15% or more and change in ADM is any value

OR

Change in ADM is negative 50% or more and average calculation is any value

Rating Adjustments

- A charter holder’s “Approaches Standard” or “Below Standard” rating on the Average Daily Membership measure will be increased to a “Meets Standard” rating if the charter holder received no “Below Standard” ratings and no more than one “Approaches Standard” rating on the financial framework’s other five measures.
- A charter holder’s “Approaches Standard” or “Below Standard” on the Average Daily Membership measure will be unchanged if the charter holder received one or more “Below Standard” ratings, two or more “Approaches Standard” ratings or both on the financial framework’s other five measures.

Calculation Considerations

- Board staff will adjust the annual ADM for the fiscal years used in the calculation when a) the charter holder reduces the grade levels served at its charter school, b) a school transfers from a multi-school charter contract to its own charter contract, or c) a school operating under a multi-school charter contract closes.
- For a charter holder with only one year of ADM available, the measure will be rated “Not Applicable.”
- For a charter holder with only two years of ADM available, the Year 1 Growth Rate will be used to determine the measure rating.
- For a charter holder with only three years of ADM available, the average of the Year 1 Growth Rate and Year 2 Growth Rate will be used to determine the measure rating.

“Network” Considerations

In instances where a charter holder entity has multiple charter contracts with the Board and the Board receives audited financial statements that aggregate the financial activities of all the charter contracts, Board staff will note on each charter contract’s financial performance dashboard the overall ADM performance of the charter holder entity using the ratings described below. The charter holder entity’s performance will not affect the individual charter contract’s performance on the Average Daily Membership measure.

- **Meets Standard:** At least two-thirds of the charter contracts individually received a “Meets Standard.”
- **Approaches Standard:** More than one-third of charter contracts individually received an “Approaches Standard,” less than one-third of charter contracts individually received a “Below Standard,” or both.
- **Below Standard:** More than one-third of charter contracts individually received a “Below Standard.”

FIRST-YEAR FINANCIAL REVIEWS

Since only one year of ADM data would be available, the ADM measure will not be applicable for first-year charter contracts. Board staff will conduct a desk review of all new schools approved through the new application, replication application or amendment processes in the fall of their first year of operation. The desk review will include Board staff reviewing information submitted by the charter holder regarding its operations, financial situation, payroll processes and board financial responsibilities, as well as contract information on file with the Board and ADM, payment and budget information available through the Arizona Department of Education’s website. For each new brick-and-mortar school, Board staff will conduct a visit to count students.

Summative Financial Performance Ratings

Good Standing

A charter holder receives a summative financial performance rating of “Good Standing” if the charter holder has no measures rated “Below Standard” and no more than one measure rated “Approaches Standard.” A charter holder with a rating of “Good Standing” meets the Board’s financial performance expectations.

Adequate Standing

A charter holder receives a summative financial performance rating of “Adequate Standing” if the charter holder has no measures rated “Below Standard” and two or more measures rated “Approaches Standard.” A charter holder with a rating of “Adequate Standing” meets the Board’s financial performance expectations.

Intervention

A charter holder receives a summative financial performance rating of “Intervention” if the charter holder either has a) one or more measures rated “Below Standard” or b) three consecutive years in “Adequate Standing.” A charter holder assigned an “Intervention” rating for the first time must submit information to the Board regarding the charter holder’s financial performance. A charter holder that receives an “Intervention” rating for two or more consecutive years shall be placed “On Probation,” shall be determined to not meet the Board’s financial performance expectations, and must submit information to the Board.

For additional information regarding the financial intervention process, review the “*First-Time*” *Financial Intervention Process Guide* and “*On Probation*” *Financial Intervention Process Guide* available on the [Board’s website](#) in the “Financial Performance Framework” section.

Appendices

A. Description, Calculation and Data Source for Six Framework Measures

	Going Concern	Default	Unrestricted Days Liquidity	Adjusted Net Income	Lease Adjusted Debt Service Coverage Ratio	Average Daily Membership
Dashboard Displays	Going Concern	Default	Available Reserve	Revenues Exceed Expenses	Facility & Debt Costs Covered	Stable or Increasing # of Students
Description	Accounting principles require charter holder management to evaluate their entity’s ability to continue operating. Under auditing standards, the charter holder’s independent CPA then audits the conclusion reached by management.	Failure to make timely payments or comply with other requirements may result in a lender or landlord issuing a notice of default.	Identifies how many days’ expenses can be paid by the charter holder without another influx of cash.	Considers whether a charter holder is operating within its available resources.	Considers the charter holder’s ability to cover its facility and debt costs. [Note: A ratio of less than 1.0 means the charter holder is unable to cover its facility and debt costs for the year without dipping into savings or borrowing additional funds.]	Consider the charter holder’s student count or average daily membership (“ADM”) over time. ¹
Calculation	Considers absence or presence of certain disclosure in the audit	Considers absence or presence of certain disclosure in the audit	<p><u>Calculation 1:</u> Standard Calculation (Unrestricted Cash + Government Funding Receivables + Unrestricted Investments) divided by [(Total Expenses – Noncash Expenses)/365] [Note: This is the primary calculation and will apply to all charter holders.]</p> <p><u>Calculation 2:</u> Calculation to Determine Effect of Factoring (Unrestricted Cash + Government Funding Receivables + Unrestricted Investments – Factoring) divided by [(Total Expenses – Noncash Expenses)/365]</p>	<p>1. Calculate Audit Year Adjusted Net Income (Total Revenues – Noncash Revenues) [“Adjusted Total Revenues”] minus (Total Expenses – Noncash Expenses)</p> <p>2. Calculate Audit Year Adjusted Total Margin Adjusted Net Income (“ANI”) divided by Adjusted Total Revenues (“ATR”)</p> <p>3. Calculate Aggregated Adjusted Total Margin [NOTE: Year 1 would be the audit year.] <u>Aggregated 3-Year</u> = (Year 1 ANI + Year 2 ANI + Year 3 ANI) divided by (Year 1 ATR + Year 2 ATR + Year 3 ATR) <u>Aggregated 2-Year</u> = (Year 1 ANI + Year 2 ANI) divided by (Year 1 ATR + Year 2 ATR)</p>	(Adjusted Net Income + Interest Expense + Facility Lease Expense) divided by (Debt Principal + Interest + Facility Lease Expense)	<p>1. Calculate Annual Growth Rates (“GR”) [NOTE: Year 1 would be the most recent year and Year 4 would be the “oldest” year.] Year 1 GR = (Year 1 – Year 2)/Year 2 Year 2 GR = (Year 2 – Year 3)/Year 3 Year 3 GR = (Year 3 – Year 4)/Year 4</p> <p>2. Calculate Average <u>3-Year Average</u> = (Year 1 GR + Year 2 GR + Year 3 GR)/3 <u>2-Year Average</u> = (Year 1 GR + Year 2 GR)/2</p> <p>3. Calculate change in ADM (Year 1 ADM – Year 3 ADM)/Year 3 ADM</p>

Financial Framework: Measures & Summative Performance Ratings

	Going Concern	Default	Unrestricted Days Liquidity	Adjusted Net Income	Lease Adjusted Debt Service Coverage Ratio	Average Daily Membership
Data Source	<ul style="list-style-type: none"> Independent Auditor’s Report on the financial statements Notes to the audited financial statements 	<ul style="list-style-type: none"> Notes to the audited financial statements 	<ul style="list-style-type: none"> Audited statement of financial position, audited statement of activities <u>and</u> audited statement of cash flows Notes to the audited financial statements Compliance questionnaire 	<ul style="list-style-type: none"> Audited statement of activities <u>and</u> audited statement of cash flows Notes to the audited financial statements 	<ul style="list-style-type: none"> Audited statement of activities <u>and</u> audited statement of cash flows Notes to the audited financial statements 	<ul style="list-style-type: none"> ADM calculations completed by the Department using student attendance data submitted to the Department by the charter holder

¹ Board staff will adjust the annual ADM for the fiscal years used in the calculation when a) the charter holder reduces the grade levels served at its charter school, b) a school transfers from a multi-school charter contract to its own contract, or c) a school operating under a multi-school charter contract closes.

B. “Meets,” “Approaches,” and “Below” Standard Ratings for Six Framework Measures

	Going Concern	Default	Unrestricted Days Liquidity	Adjusted Net Income	Lease Adjusted Debt Service Coverage Ratio ³	Average Daily Membership ⁴
Meets Standard	No substantial doubt about the charter holder’s ability to continue operating is raised in the Independent Auditor’s Report or the notes to the audited financial statements	Charter holder is not in default on material loans or facility agreements or both	Target will increase from 30 days to 45 days over multiple audit cycles (see page 5)	Adjusted net income is greater than or equal to \$1 OR Audit Year Adjusted Total Margin is between 0 and negative 2.5% <u>and</u> Aggregated 3-Year Adjusted Total Margin is positive	Lease adjusted debt service coverage ratio exceeds 1.10	Average calculation shows an increase <u>and</u> change in ADM is positive or is between 0 and negative 24.99% OR Average calculation shows a decrease of 4.99% or less and change in ADM is positive or is between 0 and negative 24.99%
Approaches Standard	<i>No “Approaches Standard” criteria established for this measure</i>	For a material loan agreement, facility agreement or both, the lender or landlord has allowed the charter holder to pause or reduce payments for a period of time under a forbearance or similar agreement.	Target will increase over multiple audit cycles (see page 5)	Audit Year Adjusted Total Margin is between 0 and negative 2.5% <u>and</u> Aggregated 3-Year Adjusted Total Margin is between 0 and negative 4.99% OR Audit Year Adjusted Total Margin is between negative 2.5% and negative 9.99% <u>and</u> Aggregated 3-Year Adjusted Total Margin is greater than negative 4.99%	Lease adjusted debt service coverage ratio is between 1.0 and 1.10	Average calculation shows a decrease of 5% to 14.99% <u>and</u> change in ADM is positive or is between 0 and negative 49.99% OR Change in ADM is between negative 25% and negative 49.99% <u>and</u> average calculation shows an increase or a decrease of 14.99% or less
Below Standard	Substantial doubt about the charter holder’s ability to continue operating is raised in the Independent Auditor’s Report and notes to the audited financial statements and is not alleviated by management’s plans OR Substantial doubt about the charter holder’s ability to continue operating is raised in the notes to the audited financial statements, but is alleviated by management’s plans	Charter holder is in default on material loans or facility agreements or both	Target will increase from 15 days to 30 days over multiple audit cycles (see page 5)	Audit Year Adjusted Total Margin is less than negative 10% <u>and</u> Aggregated 3-Year Adjusted Total Margin is any value OR Audit Year Adjusted Total Margin is negative <u>and</u> Aggregated 3-Year Adjusted Total Margin is less than or equal to negative 5%	Lease adjusted debt service coverage ratio is less than 1.0	Average calculation shows a decrease of 15% or more <u>and</u> change in ADM is any value OR Change in ADM is negative 50% or more <u>and</u> average calculation is any value

³ A charter holder will receive a “Not Applicable” rating if the charter holder does not have outstanding debt or any identified facility lease expense.

⁴ A charter holder’s “Approaches Standard” or “Below Standard” rating on the Average Daily Membership measure will be increased to a “Meets Standard” if the charter holder received no “Below Standard” and no more than one “Approaches Standard” rating on the financial framework’s other five measures.

C. Policy and Procedures for Revising the Board's Performance Frameworks

In October 2023, the Board established the following policy and procedures for revising its Academic Performance Framework, Financial Performance Framework and Operational Performance Framework (collectively referred to as "Performance Frameworks" or individually as the "Academic Framework," "Financial Framework" and "Operational Framework").

1. Beginning with the conclusion of the fiscal year 2024 cycle², Board staff shall at least annually review the Performance Frameworks. The annual review shall include the analysis identified in Step 1a and will consider, as applicable, the data and information identified in Steps 1b through 1l.
 - a. The portfolio's overall performance under the Performance Frameworks, to include overall performance by measure and trends. A review of trends will include, but not be limited to considering the most recent and two prior years, reviewing to determine percentages of charters that met and did not meet the Board's standards and expectations.
 - b. Issues or items identified through the analysis completed under Step 1a of the Performance Frameworks' data, including any risks or pressure points.
 - c. Lessons learned by Board staff during the most recent year implementing the Performance Frameworks.
 - d. Performance of schools that closed during the fiscal year under review to identify any possible issues or risks with the current Performance Frameworks.
 - e. Board member feedback received on the Performance Frameworks.
 - f. Stakeholder feedback received on the Performance Frameworks.
 - g. Actions taken by other agencies (e.g., Arizona Department of Education, State Board of Education) that may affect the Performance Frameworks.
 - h. Statutory or regulatory changes that may affect the Performance Frameworks.
 - i. Data maintained by other agencies (e.g., academic performance data, average daily membership).
 - j. Results of reviews or audits of the Board conducted by outside organizations, including national, state or local entities.
 - k. Best practices for charter school authorizing.
 - l. Any other relevant information.
2. The review under Step 1 will take place for each individual framework no more than six months after the charter holder/school performance dashboards are finalized for a given fiscal year under a framework.
3. Upon completing the review required under Step 1, Board staff will select the applicable option below based on the review results.

²The fiscal year 2024 cycle would include charter holders' fiscal year 2024 performance results under the Academic Framework and Operational Framework and charter holders' fiscal year 2023 performance results under the Financial Framework determined using the audits and average daily membership received by the Board in fiscal year 2024.

- a. Recommend to the Board that no changes be made to the Performance Frameworks.
 - b. Recommend to the Board that no changes be made to the Performance Frameworks at this time, but that additional data be collected.
 - c. Release for public comment proposed changes to the Performance Frameworks. Public comment opportunities and Board consideration will occur in accordance with the Board's "[Procedures for Rule and Policy Adoption](#)".
 - d. Request the Board establish a subcommittee to consider whether changes should be made to the Performance Frameworks and to make a recommendation to the full Board. Generally, the subcommittee option would apply when at least one of the following is true:
 - i. Board staff proposes significantly changing the Performance Frameworks' measures or overall ratings in a way that is not generally accepted as an improvement/positive change by stakeholders.
 - ii. Board staff proposes adding new or significantly changing existing processes under the Performance Frameworks in a way that is not generally accepted as an improvement/positive change by stakeholders.
 - iii. Board staff proposes adding new or significantly changing existing processes such that a final decision on how to proceed would benefit from stakeholder discussions when a clear path for addressing a concern is not evident or when multiple valid options exist.
4. The annual review of the Academic Framework, Financial Framework and Operational Framework required under Step 1 may occur separately or simultaneously.
5. Board staff shall annually report the review results and next steps for the Academic Framework, Financial Framework and Operational Framework at a regularly scheduled public Board meeting as described below.
- a. Board staff may choose to report out all three frameworks' results at the same Board meeting or report out individual framework's results at separate Board meetings, so long as all three reports occur within the timeframes and under the conditions identified in Step 5b through Step 5d.
 - b. If Board staff's review results in proposed changes under Step 3c, then Board staff shall provide the report to the Board prior to releasing the proposed changes for public comment.
 - c. If Board staff's review results in a subcommittee being requested under Step 3d, then Board staff shall provide the report to the Board at the same meeting at which the Board considers Board staff's request to establish a subcommittee.
 - d. The review results for the Academic Framework, Financial Framework and Operational Framework must be reported to the Board no later than the November Board meeting unless circumstances outside of Board staff's control make that not possible (e.g., release of letter grades delayed, federal government extends deadline for submitting single audits). In situations where circumstances outside of Board staff's control occur, then the report to the Board must occur no later than 2 months after the situation is resolved (e.g., letter grades are released, deadline extension passes) or the next regularly scheduled Board

meeting after that date.

6. Board members or, if applicable, subcommittee members may direct Board staff on additional data and information that should be collected and analyzed.
7. Documentation demonstrating compliance with the policy and procedures, such as presentations given at or materials prepared for Board meetings, shall be maintained by Board staff.
8. The policy and procedures do not prevent the Board from responding quickly to address concerns with its Performance Frameworks as they are raised or making changes to its Performance Framework at other times, provided that the review required under Step 1 occurs annually within the timeframes specified in Step 5 and the actions taken outside of the annual review adhere to the Board's "[Procedures for Rule and Policy Adoption](#)".