



# Financial Performance Framework

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## **“ON PROBATION” FINANCIAL INTERVENTION PROCESS GUIDE**

Developed based on framework approved on December 10, 2018,  
administrative rules approved on July 8, 2019, August 9, 2021,  
November 22, 2021 and October 17, 2022, and policy  
and procedures adopted October 16, 2023

**Arizona State Board for Charter Schools**

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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 October 2022, the Board adopted revisions to its financial framework administrative rules found in the Arizona Administrative Code (“A.A.C”).

Under the financial framework, a charter holder is assigned one of three summative financial performance ratings – “Good Standing,” “Adequate Standing,” or “Intervention.”<sup>1</sup> 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. A charter holder that receives a summative financial performance rating of “Good Standing” or “Adequate Standing” meets the Board’s minimum financial performance expectations.

Pursuant to A.A.C. R7-5-402(G), a charter holder that receives an “Intervention” rating for two or more consecutive years shall be placed On Probation and shall be determined to not meet the Board’s minimum financial performance expectations (“On Probation”). This guide specifies the Board’s financial intervention process for On Probation charter holders and is applicable beginning with charter holders identified as On Probation following the review of the fiscal year 2023 audits. The intervention guide for charter holders assigned an “Intervention” rating for the first time based on the most recent audit may be accessed through the [Board’s website](#).

A charter holder’s performance as evaluated using the financial framework is represented in a dashboard. The Board has provided online public access to each charter holder’s financial performance dashboard.<sup>2</sup> An On Probation charter holder’s submissions and the Board’s communications will be accessible from the charter holder’s financial dashboard.

## On Probation Determination Process

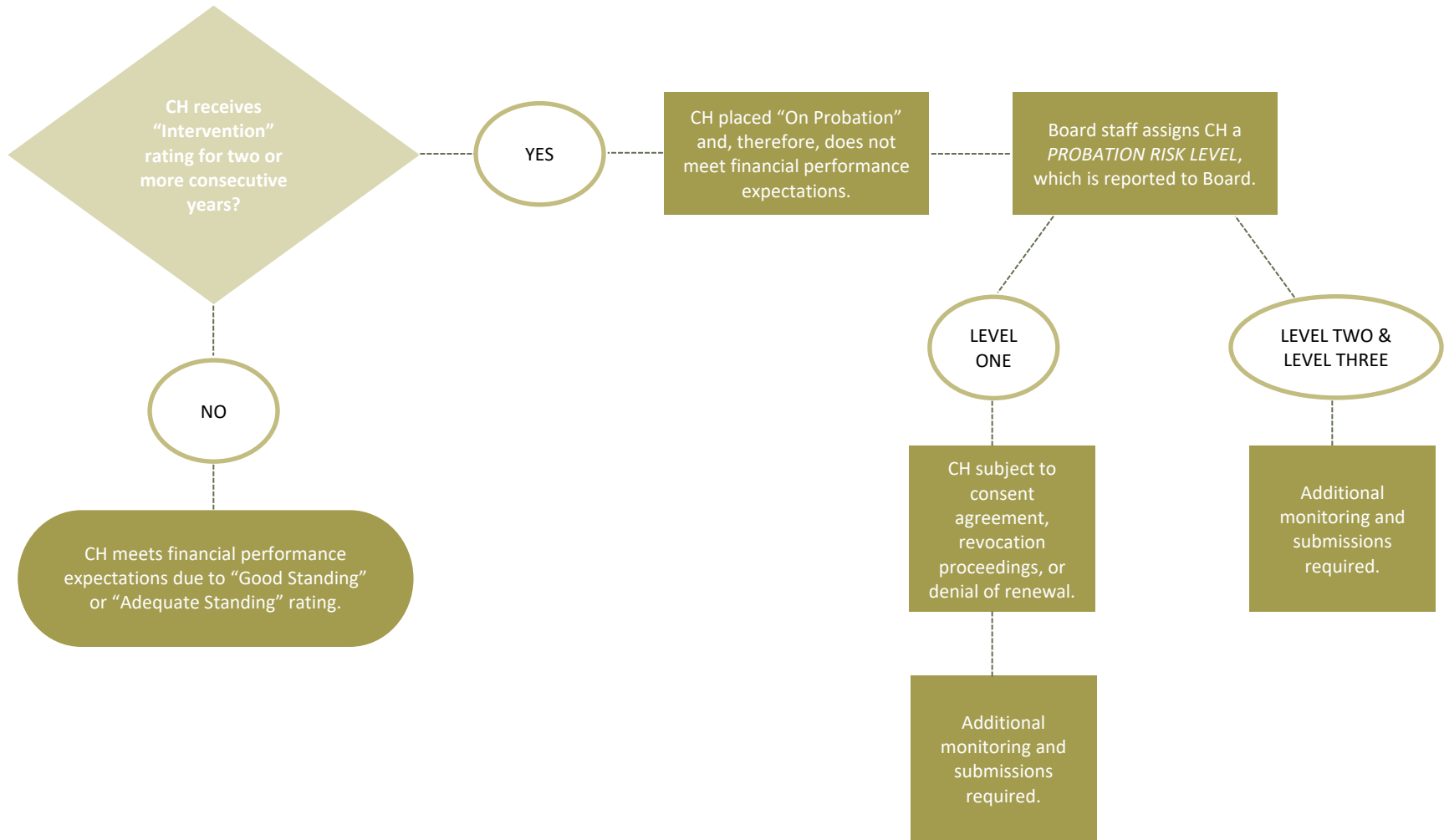
For each charter holder assigned an “Intervention” rating based on the prior fiscal year’s audit, Board staff will review the next fiscal year’s audit to determine whether the charter holder is On Probation. [Figure 1](#) on page 3 identifies key steps in the determination process, as well as summarizes the implications for an On Probation charter holder. In the figure, “CH” stands for charter holder. For the italicized term identified in all capital letters in Figure 1, this guide includes a subsection and an appendix that provides additional information.

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<sup>1</sup> For additional information regarding the financial framework’s summative financial performance ratings and measures, review the *Measures and Summative Performance Ratings Guide* available on the [Board’s website](#) in the “Financial Performance Framework” section.

<sup>2</sup> A charter holder’s financial dashboard may be viewed by accessing <https://asbcs.my.site.com/s/>.

Figure 1: "On Probation" Determination Flowchart



### Assigning Charter Holder’s Probation Risk Level

Pursuant to A.A.C. R7-5-402(H), for each On Probation charter holder, Board staff shall:

1. Determine the charter holder’s [ADM Category](#) using publicly available ADM calculations completed by the Arizona Department of Education (“Department”).
2. Determine the charter holder’s [Default Measure Category](#).
3. Assign the charter holder a Probation Risk Level using the charter holder’s results based on the two most recent audits and the criteria found in [Appendix A](#).

The Board has identified three Probation Risk Levels with level one representing the highest risk and level three representing the lowest risk. In accordance with A.A.C. R7-5-402(L), for each On Probation charter holder, Board staff will notify the charter holder in writing of:

1. The Probation Risk Level assigned to the charter holder;
2. The [student count visit](#) required under A.A.C. R7-5-402(N);
3. The submission requirements associated with the charter holder’s Probation Risk Level; and
4. The deadline or deadlines for submitting the information to the Board (collectively, the “Audit Letter”).

Table 2 below identifies the consequences and required submissions associated with each Probation Risk Level. Further, pursuant to A.A.C. R7-5-402(M), Board staff will report to the Board at a public meeting the Probation Risk Level for each On Probation charter holder.

**Table 2: Consequences and Submissions Associated with Probation Risk Levels**

LEVEL ONE (HIGHEST RISK)	LEVEL TWO (MODERATE RISK)	LEVEL THREE (LOWEST RISK)
<ol style="list-style-type: none"> <li>1. CONSENT AGREEMENT WITH BOARD OR CHARTER REVOCATION PROCEEDINGS OR DENIAL OF RENEWAL</li> <li>2. ATTESTATION COMPLETED USING THE FORM AVAILABLE ON THE <a href="#">BOARD’S WEBSITE</a></li> <li>3. QUARTERLY FINANCIAL REPORTS, INCLUDING THE JUNE 30 QUARTERLY FINANCIAL REPORT, REQUIRED UNDER A.A.C. R7-5-511(A) [A.A.C. R7-5-402(I)]</li> </ol>	<ol style="list-style-type: none"> <li>1. ATTESTATION COMPLETED USING THE FORM AVAILABLE ON THE <a href="#">BOARD’S WEBSITE</a></li> <li>2. QUARTERLY FINANCIAL REPORTS, INCLUDING THE JUNE 30 QUARTERLY FINANCIAL REPORT, REQUIRED UNDER A.A.C. R7-5-511(A) [A.A.C. R7-5-402(J)]</li> </ol>	<ol style="list-style-type: none"> <li>1. ATTESTATION COMPLETED USING THE FORM AVAILABLE ON THE <a href="#">BOARD’S WEBSITE</a></li> <li>2. QUARTERLY FINANCIAL REPORTS, INCLUDING THE JUNE 30 QUARTERLY FINANCIAL REPORT, REQUIRED UNDER A.A.C. R7-5-511(A) [A.A.C. R7-5-402(K)]</li> </ol>

[Figure 2](#) (page 5), [Figure 3](#) (page 6) and [Figure 4](#) (page 7) identify key steps for the **charter holder** and **Board staff** in the process for charter holders assigned to Probation Risk Level One, Probation Risk Level Two and Probation Risk Level Three, respectively. For italicized terms identified in all capital letters on these figures, this guide includes a section or subsection that provides additional information.

**Figure 2: Probation Risk Level One Process**

NOTE: During this process, the Board will meet and determine whether to approve a consent agreement with charter holder or to pursue revocation proceedings or denial of renewal.

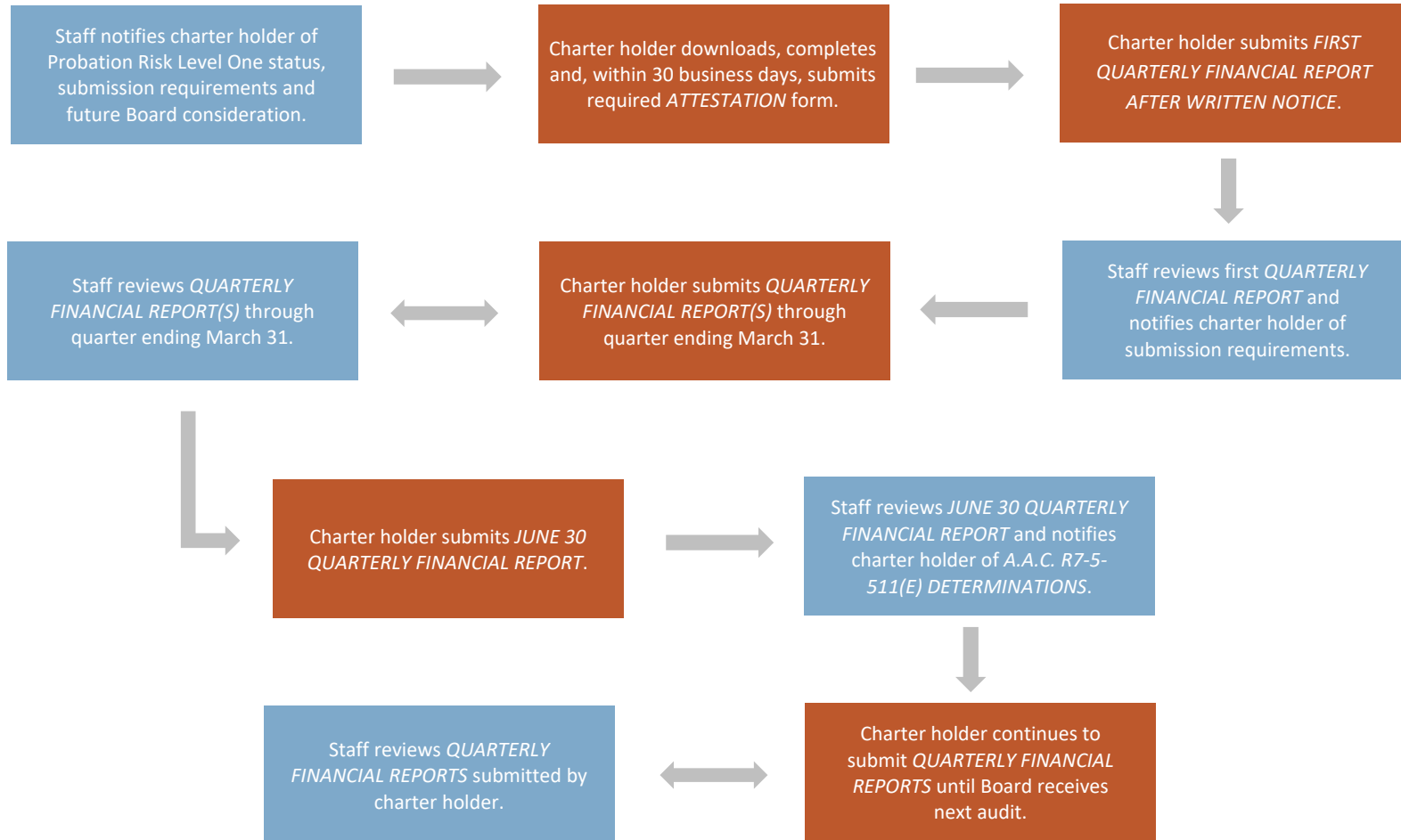


Figure 3: Probation Risk Level Two Process

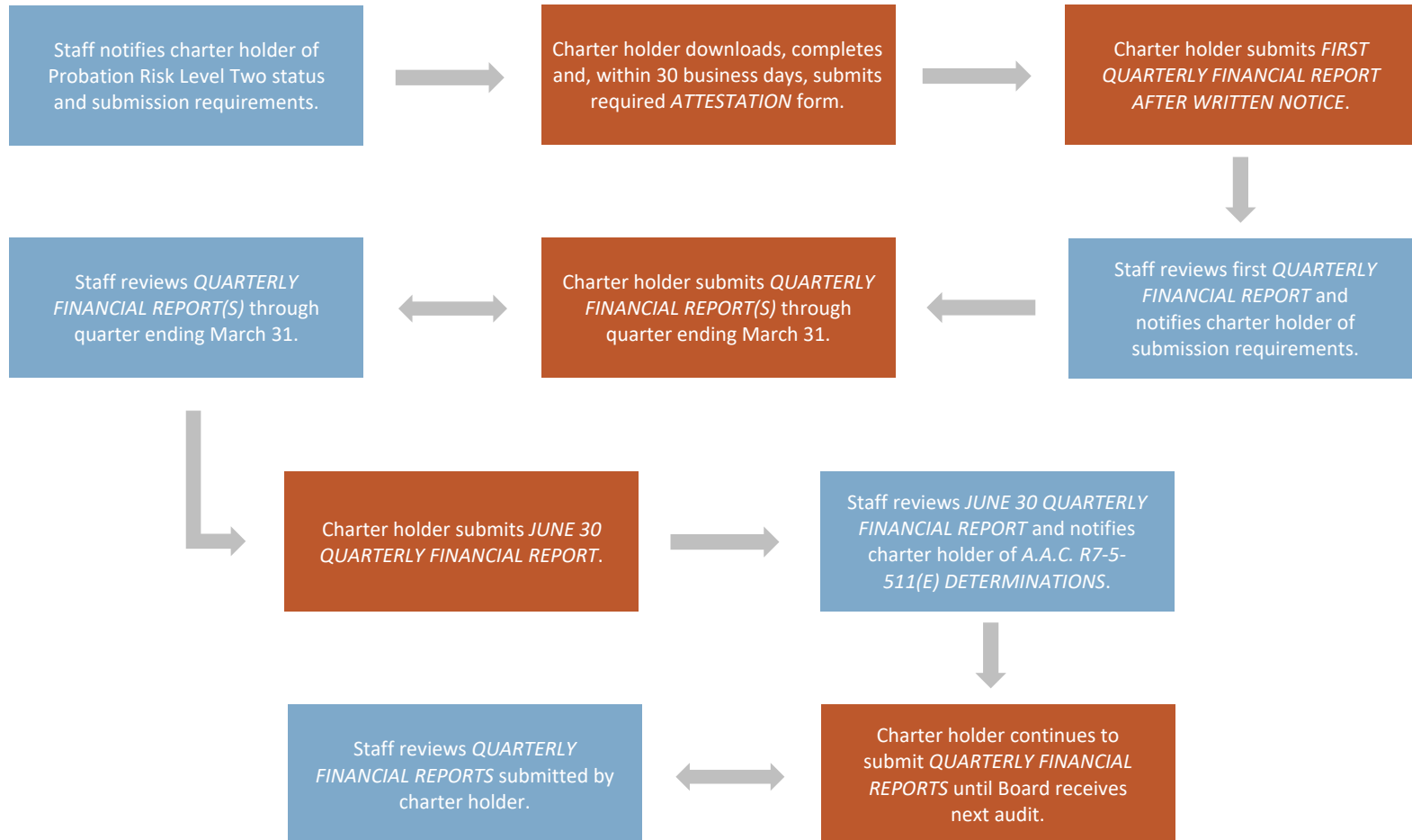
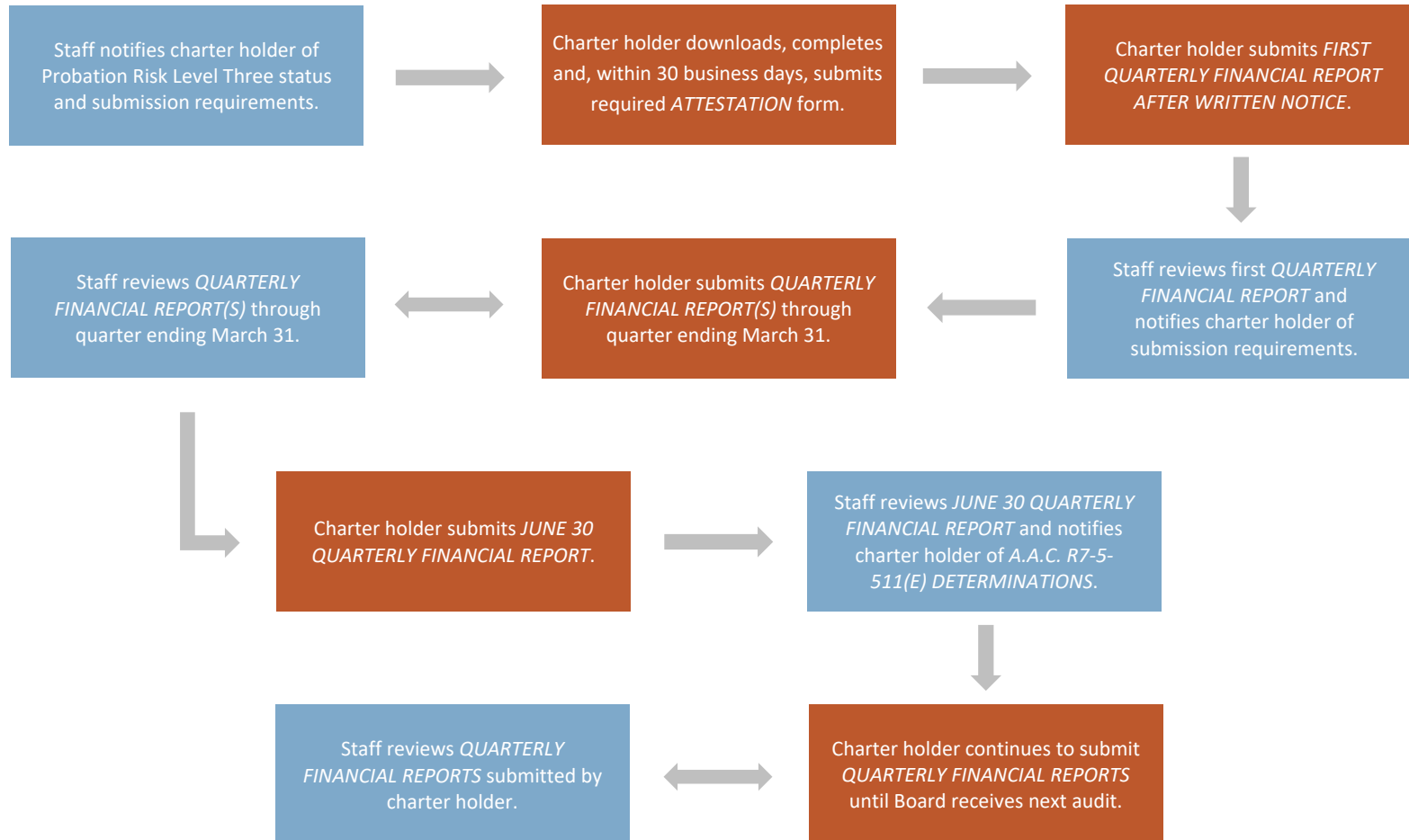


Figure 4: Probation Risk Level Three Process





### Probation Risk Level One – Board Consideration

A.R.S. § 15-183 allows the Board to consider if the charter holder has failed to “Meet the financial performance expectations set forth in the performance framework or any improvements plans” when the Board makes renewal and revocation decisions. For the purpose of A.R.S. § 15-183, “improvement plans” include:

1. The first four Quarterly Financial Reports, including the June 30 Quarterly Financial Report, and, if applicable, the attestation submitted to the Board by a charter holder assigned to Probation Risk Level One based on Scenario 1, Scenario 2, Scenario 3, Scenario 4 or Scenario 5 (see [Appendix A](#)).
2. The first eight Quarterly Financial Reports, including the June 30 Quarterly Financial Reports, and, if applicable, the attestations submitted to the Board by a charter holder assigned to Probation Risk Level One based on Scenario 6 (see [Appendix A](#)). [A.A.C. R7-5-402(O)]

Further, pursuant to A.A.C. R7-5-402(M), Board staff will report to the Board at a public meeting the detail underlying the Probation Risk Level determination for each On Probation charter holder assigned to Probation Risk Level One.

## “On Probation” Financial Intervention Submissions

Regardless of Probation Risk Level assigned, each On Probation charter holder must submit to the Board the applicable attestation, Quarterly Financial Reports and a June 30 Quarterly Financial Report. The charter holder will continue to submit Quarterly Financial Reports, including the June 30 Quarterly Financial Report, until the Board receives the charter holder’s next audit. On Probation submission checklists for Probation Risk Levels One, Two and Three are available on the [Board’s website](#). All submissions must be uploaded to ASBCS Online using the following steps:

- Log in to ASBCS Online (<https://asbcs.my.site.com>) with your charter representative credentials.
- Select the “Charter Holder Organization” option on the home dashboard.
- Click on the name of the “On Probation” charter holder.
- Under the “More” option (right side of screen), select the “Intervention” option.
- Click on the “Intervention Name” for the applicable fiscal year.
- Select the “Document Management” tab.
- Choose or drag files from your device to upload and then click on the “Upload” button.

### Attestation

The attestation the charter holder submits will depend on the Probation Risk Level assigned. The attestation will be completed using the applicable form available on the [Board’s website](#).

LEVEL ONE ATTESTATION	LEVEL TWO ATTESTATION	LEVEL THREE ATTESTATION
<p>1. THE CHARTER HOLDER’S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL’S GOVERNING BODY HAS CONSIDERED THE AUDIT LETTER SENT BY THE BOARD, ALONG WITH THE ASSOCIATED CONSEQUENCES.</p> <p>2. THE CHARTER HOLDER’S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL’S GOVERNING BODY AND MANAGEMENT</p>	<p>1. THE CHARTER HOLDER’S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL’S GOVERNING BODY HAS CONSIDERED THE AUDIT LETTER SENT BY THE BOARD, ALONG WITH THE ASSOCIATED CONSEQUENCES.</p> <p>2. THE CHARTER HOLDER’S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL’S GOVERNING BODY AND MANAGEMENT</p>	<p>1. THE CHARTER HOLDER’S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL’S GOVERNING BODY HAS CONSIDERED THE AUDIT LETTER SENT BY THE BOARD, ALONG WITH THE ASSOCIATED CONSEQUENCES.</p> <p>2. THE CHARTER HOLDER’S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL’S GOVERNING BODY AND MANAGEMENT</p>

<p>UNDERSTAND THAT DUE TO THE CHARTER HOLDER'S ASSIGNMENT TO PROBATION RISK LEVEL ONE, THE CHARTER HOLDER WILL BE PLACED ON A SUBSEQUENT AGENDA FOR THE BOARD TO MEET AND DETERMINE WHETHER TO APPROVE A CONSENT AGREEMENT WITH THE CHARTER HOLDER OR TO PURSUE REVOCATION PROCEEDINGS OR, IF APPLICABLE, DENIAL OF RENEWAL.</p> <p>3. MANAGEMENT HAS IDENTIFIED AND THE CHARTER HOLDER'S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL'S GOVERNING BODY HAS CONSIDERED THE FACTORS THAT CAUSED OR CONTRIBUTED TO THE CHARTER HOLDER'S FINANCIAL PERFORMANCE IN THE AUDITED FISCAL YEAR.</p> <p>4. MANAGEMENT AND THE CHARTER HOLDER'S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL'S GOVERNING BODY HAVE REVIEWED THE CHARTER HOLDER'S CURRENT FINANCIAL PLAN AND APPROVED ANY NECESSARY CHANGES.</p> <p>5. MANAGEMENT AND THE CHARTER HOLDER'S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL'S GOVERNING BODY SHALL AT LEAST QUARTERLY REVIEW THE CHARTER HOLDER'S CURRENT PERFORMANCE UNDER THE FINANCIAL FRAMEWORK.</p> <p>[A.A.C. R7-5-402(I)(2)]</p>	<p>UNDERSTAND THAT SHOULD THE CHARTER HOLDER BE PLACED ON PROBATION BASED ON THE NEXT AUDIT, THE CHARTER HOLDER SHALL BE SUBJECT TO CHARTER OVERSIGHT, WHICH MAY INCLUDE A CONSENT AGREEMENT, CHARTER REVOCATION PROCEEDINGS OR, IF APPLICABLE, DENIAL OF RENEWAL.</p> <p>3. MANAGEMENT HAS IDENTIFIED AND THE CHARTER HOLDER'S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL'S GOVERNING BODY HAS CONSIDERED THE FACTORS THAT CAUSED OR CONTRIBUTED TO THE CHARTER HOLDER'S FINANCIAL PERFORMANCE IN THE AUDITED FISCAL YEAR.</p> <p>4. MANAGEMENT AND THE CHARTER HOLDER'S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL'S GOVERNING BODY HAVE REVIEWED THE CHARTER HOLDER'S CURRENT FINANCIAL PLAN AND APPROVED ANY NECESSARY CHANGES.</p> <p>5. MANAGEMENT AND THE CHARTER HOLDER'S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL'S GOVERNING BODY SHALL AT LEAST QUARTERLY REVIEW THE CHARTER HOLDER'S CURRENT PERFORMANCE UNDER THE FINANCIAL FRAMEWORK.</p> <p>[A.A.C. R7-5-402(J)(1)]</p>	<p>UNDERSTAND THAT SHOULD THE CHARTER HOLDER BE PLACED ON PROBATION BASED ON THE NEXT AUDIT, THE CHARTER HOLDER SHALL BE SUBJECT TO CHARTER OVERSIGHT, WHICH MAY INCLUDE A CONSENT AGREEMENT, CHARTER REVOCATION PROCEEDINGS OR, IF APPLICABLE, DENIAL OF RENEWAL.</p> <p>3. MANAGEMENT HAS IDENTIFIED AND THE CHARTER HOLDER'S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL'S GOVERNING BODY HAS CONSIDERED THE FACTORS THAT CAUSED OR CONTRIBUTED TO THE CHARTER HOLDER'S FINANCIAL PERFORMANCE IN THE AUDITED FISCAL YEAR.</p> <p>4. MANAGEMENT AND THE CHARTER HOLDER'S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL'S GOVERNING BODY HAVE REVIEWED THE CHARTER HOLDER'S CURRENT FINANCIAL PLAN AND APPROVED ANY NECESSARY CHANGES.</p> <p>5. MANAGEMENT AND THE CHARTER HOLDER'S BOARD OR, IF APPLICABLE, THE CHARTER SCHOOL'S GOVERNING BODY SHALL AT LEAST QUARTERLY REVIEW THE CHARTER HOLDER'S CURRENT PERFORMANCE UNDER THE FINANCIAL FRAMEWORK.</p> <p>[A.A.C. R7-5-402(K)(1)]</p>
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The charter holder's deadline for submitting the attestation will be set 30 business days from the date of the Audit Letter. [A.A.C. R7-5-402(I)(2), (J)(1) and (K)(1)]

### First Quarterly Financial Report after Written Notice

The first Quarterly Financial Report submitted by the charter holder in response to the Audit Letter will be submitted by the applicable deadline identified below.

Quarter End Date	Quarterly Financial Report Deadline
September 30	October 30
December 31	January 30
March 31	April 30
June 30	August 15

The Board's administrative rules require charter holders in the financial intervention process to continue submitting Quarterly Financial Reports to the Board until the Board receives the charter holder's next audit. Therefore, the "first" Quarterly Financial Report submitted by most On Probation charter holders will be for the quarter ending December 31 as the report for the quarter ending September 30 will have been submitted as part of the previous intervention cycle.

If, during the previous intervention cycle, the charter holder was not required to submit any quarterly reports subsequent to the June 30 Quarterly Financial Report because the charter holder submitted its next audit, then the charter holder will be required to submit the Quarterly Financial Reports not previously provided within at least 10 business days after receiving the Audit Letter. The “current” Quarterly Financial Report will be due by the applicable deadline identified above.

**BOARD COMMUNICATIONS**

Within 30 calendar days after receiving the first Quarterly Financial Report submitted in response to the Audit Letter, Board staff will provide the charter holder with written notice that includes the following:

1. The submission deadline for the next Quarterly Financial Report; and
2. Any differences identified between the calculations included by the charter holder in its first Quarterly Financial Report and those completed by Board staff. [A.A.C. R7-5-511(C)]

**Quarterly Financial Reports (Except for June 30 Report)**

An On Probation charter holder must submit Quarterly Financial Reports for the quarters ending September 30, December 31 and March 31. Subsequent to the [June 30 Quarterly Financial Report](#), the charter holder will continue to submit Quarterly Financial Reports until the Board receives the charter holder’s next audit.

Pursuant to A.A.C. R7-5-101, in each Quarterly Financial Report, the charter holder must include:

1. An unaudited balance sheet (statement of financial position) that identifies the charter holder’s results at the quarter end date and the charter holder’s unrestricted and restricted cash balances. Minimally, the charter holder’s restricted cash balance must include the charter holder’s unspent Classroom Site Fund monies from the current fiscal year and, if applicable, prior fiscal years;
2. An unaudited income statement (statement of activities) that identifies the charter holder’s results year-to-date through the quarter end date;
3. The charter holder’s revenue and expense budget that compares year-to-date actual results through the quarter end date to the charter holder’s annual budget and, for each line item, identifies the percentage of the annual budget represented by the actual results; and
4. Using the Board’s [Measure Calculator](#), the charter holder’s calculation of its performance on the Default, Unrestricted Days Liquidity, Adjusted Net Income and Average Daily Membership measures, including all figures used in the mathematical calculations.

For each Quarterly Financial Report submitted to the Board, the charter holder may provide separate documents to address bullet 2 and bullet 3 above or the charter holder may provide one document that encompasses the information requested under both bullets.

**SUBMISSION DEADLINES**

The submission deadlines for Quarterly Financial Reports submitted subsequent to the written notice provided under A.A.C. R7-5-402(L) are as follows [A.A.C. R7-5-511(B)]:

Quarter End Date	Quarterly Financial Report Deadline
September 30	October 30
December 31	January 30
March 31	April 30
June 30	August 15

**BOARD COMMUNICATIONS**

For each Quarterly Financial Report submitted subsequent to the Quarterly Financial Report identified in the Audit Letter or submitted subsequent to the June 30 Quarterly Financial Report, Board staff will determine the charter holder's current performance and compare Board staff's results with the charter holder's calculation results.

Within 30 calendar days of each Quarterly Financial Report's receipt, Board staff will notify the charter holder in writing of:

1. The submission deadline for the next Quarterly Financial Report; and
2. Any differences identified between the calculations completed by the charter holder and those completed by Board staff. [A.A.C. R7-5-511(D)]

**June 30 Quarterly Financial Report**

An On Probation charter holder must also submit a June 30 Quarterly Financial Report for the quarter ending June 30. The deadline for submitting the June 30 Quarterly Financial Report is August 15 [A.A.C. R7-5-511(B)(4)].

Pursuant to A.A.C. R7-5-101, in the June 30 Quarterly Financial Report, the charter holder must include:

1. An unaudited balance sheet (statement of financial position) that identifies the charter holder's results at June 30 and the charter holder's unrestricted and restricted cash balances. Minimally, the charter holder's restricted cash balance must include the charter holder's unspent Classroom Site Fund monies from the current fiscal year and, if applicable, prior fiscal years;
2. An unaudited income statement (statement of activities) that identifies the charter holder's results for the year ended June 30;
3. The charter holder's revenue and expense budget that compares year-to-date actual results for the year ended June 30 to the charter holder's annual budget and, for each line item, identifies the percentage of the annual budget represented by the actual results;
4. Using the Board's [Measure Calculator](#), the charter holder's calculation of its performance on all six financial framework measures, including all figures used in the mathematical calculations;
5. If not specifically listed on the unaudited income statement (statement of activities), accounting system reports or lease and debt schedules identifying, as applicable, the facility lease expense and interest expense paid by the charter holder for the fiscal year and used in the charter holder's Lease Adjusted Debt Service Coverage Ratio calculation; and
6. Accounting system reports or debt schedules identifying, as applicable, the bond, loan and finance lease principal paid by the charter holder for the fiscal year and used in the charter holder's Lease Adjusted Debt Service Coverage Ratio calculation.

For the June 30 Quarterly Financial Report, the charter holder may provide separate documents to address bullet 2 and bullet 3 above or the charter holder may provide one document that encompasses the information requested under both bullets.

**BOARD COMMUNICATIONS**

Within 45 calendar days after receiving the June 30 Quarterly Financial Report, Board staff will notify the charter holder in writing of:

1. The determinations made by Board staff under [A.A.C. R7-5-511\(E\)](#);
2. The submission deadline for the next Quarterly Financial Report; and
3. Any differences identified between the calculations completed by the charter holder and those completed by Board staff. [A.A.C. R7-5-511(F)]

## Measure Calculator

To assist charter holders in completing the calculations required for each Quarterly Financial Report, including the June 30 Quarterly Financial Report, the Board has developed a Measure Calculator.

For the first Quarterly Financial Report submitted by the charter holder in response to the written notice provided under A.A.C. R7-5-402(L), the charter holder will likely add the quarter’s results to the Board-reviewed Measure Calculator attached to the written notice emailed to the charter representative. Additionally, this Measure Calculator will be available from the charter holder’s financial dashboard. This Measure Calculator will include the quarterly data submitted by the charter holder during the previous intervention cycle.<sup>3</sup>

For subsequent Quarterly Financial Report submissions, including the June 30 Quarterly Financial Report, the charter holder will add the next quarter’s data to the Measure Calculator updated, as necessary, by Board staff to address calculation issues. The Board-reviewed Measure Calculator will be emailed to the charter representative following Board staff’s review of each report and will also be available through the charter holder’s financial dashboard. Eventually, the Measure Calculator will reflect the charter holder’s financial performance for all quarters.

The Measure Calculator template includes instructions and additional information. The completed Measure Calculator must be submitted to the Board as an Excel document.

## Student Count Visit

Board staff will visit each school operated by an On Probation charter holder to conduct a physical count of students and compare the information observed and obtained onsite with the number of students reported to the Arizona Department of Education (“Department”). [A.A.C. R7-5-402(N)] Board staff will notify the Department of any material discrepancies identified. If a school was visited during the fiscal year through another process and a physical count was completed of all classrooms, a second visit will not be conducted.

## A.A.C. R7-5-511(E) Determinations

Using information from the June 30 Quarterly Financial Report and the Board’s audit and complaint processes, as well as any submissions required to be made by the charter holder pursuant to A.A.C. R7-5-501(C), Board staff will determine, for each charter holder that submitted a June 30 Quarterly Financial Report, whether:

1. The Going Concern measure received a “Below Standard” rating in the audited fiscal year.
2. The measure(s) rated “Below Standard” in the audited fiscal year will likely improve to at least an “Approaches Standard” or remain rated “Below Standard” when calculations are completed using the charter holder’s next audit.
3. One or more of the financial framework’s other measures will likely be rated “Below Standard” when calculations are completed using the charter holder’s next audit.

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<sup>3</sup> If, during the previous intervention cycle, the charter holder was not required to submit any quarterly reports subsequent to the June 30 Quarterly Financial Report because the charter holder submitted its next audit, then the charter holder will be required to enter its data in the applicable Measure Calculator template accessible on the [Board’s website](#).

4. The charter holder was required to submit a corrective action plan based on the most recent audit for failure to pay taxes or contributions due to the Internal Revenue Services ("IRS"), Arizona Department of Revenue ("ADOR"), Arizona Department of Economic Security ("ADES") or Arizona State Retirement System ("ASRS"), failure to have sufficient cash at June 30 to cover the charter holder's unspent Classroom Site Fund balance, or failure to maintain worker's compensation insurance or liability insurance.
5. In the audited fiscal year, subsequent fiscal year or both, the Board has substantiated any complaint involving late payroll checks to employees, health insurance or liability insurance cancellation due to nonpayment or failure to make required retirement plan contributions, or the Board has received notification from the ASRS of delinquent retirement contributions<sup>4</sup>.
6. In the audited fiscal year, subsequent fiscal year or both, the charter holder has been required to make at least one submission under A.A.C. R7-5-501(C).<sup>5</sup>
7. Within the most recent five-year period the charter holder has been assigned three summative financial performance ratings of "Intervention."

## On Probation Process and Operational Dashboard

If an On Probation charter holder fails to submit or fails to timely submit the attestation required by A.A.C. R7-5-402(I)(2), A.A.C. R7-5-402(J)(1) or A.A.C. R7-5-402(K)(1), the failure will be noted on the charter holder's operational performance dashboard following the steps identified in A.A.C. R7-5-402(Q). Board staff will record the failure under "Timely Submissions" in Measure 2e.

If an On Probation charter holder fails to submit or fails to timely submit a complete Quarterly Financial Report or June 30 Quarterly Financial Report required under A.A.C. R7-5-511(A), the failure will be noted on the charter holder's operational performance dashboard following the steps identified in A.A.C. R7-5-511(I). [A.A.C. R7-5-511(H)] Board staff will record the failure under "Timely Submissions" in Measure 2e.

## Next Audit Submission

If a charter holder identified as On Probation fails to timely submit its next audit, Board staff shall report the charter holder's intervention status to the Board when the Board considers action under R7-5-504(E). [A.A.C. R7-5-402(R)]

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<sup>4</sup> The ASRS notifies the Board of charter holders that are delinquent in remitting their retirement contributions. If, based on the ASRS delinquency reports provided to the Board, a charter holder is 10 or more days delinquent in remitting its contributions, then Board staff will mark the delinquency on the charter holder's operational performance dashboard.

<sup>5</sup> Under A.A.C. R7-5-501(C), which applies to all charter holders and not just those identified as "On Probation," a charter holder must report the following to the Board within 10 business days of receipt or occurrence: a) any notice from a lender or landlord regarding default; b) filing a petition for bankruptcy; c) any notice received from the IRS, ASRS, ADOR or ADES regarding a tax lien, levy or garnishment; d) correspondence from an insurance provider related to cancellation of health or liability insurance due to nonpayment; e) notice of termination of line of credit whether initiated by financial institution or charter holder when a replacement credit line is not in effect; or f) withdrawals from debt service reserve funds.

## Appendix A

### Probation Risk Levels

The criteria used in determining the charter holder’s Probation Risk Level are identified in the table below, which is pulled from the Board’s administrative rules. The ADM Category and Default Measure Category criteria are included on page 15.

LEVEL ONE (HIGHEST RISK)					
SCENARIO 1	SCENARIO 2	SCENARIO 3	SCENARIO 4	SCENARIO 5	SCENARIO 6
<ul style="list-style-type: none"> <li>▪ “BELOW” RATING ON THE GOING CONCERN MEASURE FOR TWO CONSECUTIVE FISCAL YEARS; AND</li> <li>▪ “HIGH RISK” ADM CATEGORY.</li> </ul>	<ul style="list-style-type: none"> <li>▪ “BELOW” RATING ON THE GOING CONCERN MEASURE FOR TWO CONSECUTIVE FISCAL YEARS; AND</li> <li>▪ NUMERIC PERFORMANCE POSITIVELY INCREASED ON LESS THAN THREE CALCULATED MEASURES<sup>1</sup>; AND</li> <li>▪ ANY RISK ADM CATEGORY.</li> </ul>	<ul style="list-style-type: none"> <li>▪ “BELOW” RATING ON THE GOING CONCERN MEASURE IN THE PRIOR AUDITED FISCAL YEAR; AND</li> <li>▪ NUMERIC PERFORMANCE POSITIVELY INCREASED ON ONE OR FEWER CALCULATED MEASURES<sup>1</sup>; AND</li> <li>▪ “HIGH RISK” ADM CATEGORY.</li> </ul>	<ul style="list-style-type: none"> <li>▪ FOR TWO CONSECUTIVE FISCAL YEARS, ALL THREE CALCULATED MEASURES<sup>1</sup> RECEIVED “BELOW” OR “APPROACHES” RATINGS (REGARDLESS OF IF NUMERIC PERFORMANCE POSITIVELY INCREASED FOR ONE OR MORE CALCULATED MEASURES).</li> </ul>	<ul style="list-style-type: none"> <li>▪ “HIGH RISK” DEFAULT MEASURE CATEGORY.</li> </ul>	<ul style="list-style-type: none"> <li>▪ TWO CONSECUTIVE PROBATION RISK LEVEL TWO DETERMINATIONS; OR</li> <li>▪ TWO CONSECUTIVE PROBATION RISK LEVEL THREE DETERMINATIONS; OR</li> <li>▪ ONE PROBATION RISK LEVEL TWO DETERMINATION AND ONE PROBATION RISK LEVEL THREE DETERMINATION IN TWO CONSECUTIVE CYCLES.</li> </ul>
LEVEL TWO (MODERATE RISK)					
SCENARIO 1	SCENARIO 2	SCENARIO 3	SCENARIO 4		
<ul style="list-style-type: none"> <li>▪ “BELOW” RATING ON THE GOING CONCERN MEASURE FOR TWO CONSECUTIVE FISCAL YEARS; AND</li> <li>▪ NUMERIC PERFORMANCE POSITIVELY INCREASED ON ALL THREE CALCULATED MEASURES<sup>1</sup>; AND</li> <li>▪ “LOW RISK” OR “MODERATE RISK” ADM CATEGORY.</li> </ul>	<ul style="list-style-type: none"> <li>▪ “BELOW” RATING ON THE GOING CONCERN MEASURE IN THE PRIOR AUDITED FISCAL YEAR; AND</li> <li>▪ NUMERIC PERFORMANCE POSITIVELY INCREASED ON TWO OR MORE CALCULATED MEASURES<sup>1</sup>; AND</li> <li>▪ ANY RISK ADM CATEGORY.</li> </ul>	<ul style="list-style-type: none"> <li>▪ “BELOW” RATING ON THE GOING CONCERN MEASURE IN THE MOST RECENT AUDITED FISCAL YEAR.</li> </ul>	<ul style="list-style-type: none"> <li>▪ “MEETS” RATING ON THE GOING CONCERN MEASURE FOR TWO CONSECUTIVE FISCAL YEARS; AND</li> <li>▪ NUMERIC PERFORMANCE POSITIVELY INCREASED ON ONE OR FEWER CALCULATED MEASURES<sup>1</sup>; AND</li> <li>▪ “HIGH RISK” ADM CATEGORY.</li> </ul>		
LEVEL THREE (LOWEST RISK)					
Scenario 1	Scenario 2	Scenario 3			
<ul style="list-style-type: none"> <li>▪ “MEETS” RATING ON THE GOING CONCERN MEASURE FOR TWO CONSECUTIVE FISCAL YEARS; AND</li> <li>▪ NUMERIC PERFORMANCE POSITIVELY INCREASED ON ONE OR FEWER CALCULATED MEASURES<sup>1</sup>; AND</li> <li>▪ “LOW RISK” OR “MODERATE RISK” ADM CATEGORY.</li> </ul>	<ul style="list-style-type: none"> <li>▪ “MEETS” RATING ON THE GOING CONCERN MEASURE FOR TWO CONSECUTIVE FISCAL YEARS; AND</li> <li>▪ NUMERIC PERFORMANCE POSITIVELY INCREASED ON TWO CALCULATED MEASURES<sup>1</sup>; AND</li> <li>▪ ANY RISK ADM CATEGORY.</li> </ul>	<ul style="list-style-type: none"> <li>▪ “MEETS” RATING ON THE GOING CONCERN MEASURE FOR TWO CONSECUTIVE FISCAL YEARS; AND</li> <li>▪ NUMERIC PERFORMANCE POSITIVELY INCREASED ON ALL THREE CALCULATED MEASURES<sup>1</sup>; AND</li> <li>▪ ANY RISK ADM CATEGORY.</li> </ul>			

<sup>1</sup> “Calculated measures” include the unrestricted days liquidity measure, adjusted net income measure and lease adjusted debt service coverage ratio measure. If a charter holder’s performance on a calculated measure has decreased year over year, but continues to be rated “meets standard,” this will not be considered declining performance. The charter holder’s numeric performance will be considered to have “positively increased.”

### ADM Category

The criteria used in determining the charter holder’s ADM Category are identified in the table below, which is pulled from the Board’s administrative rules.

SMALL AND MEDIUM CHARTER HOLDERS (LESS THAN 600 ADM)			
ADM CATEGORY	ESTIMATED ADM MEASURE PERFORMANCE <sup>1</sup>		PERCENT LOSS OF TOTAL ADM <sup>2</sup>
LOW RISK	GREATER THAN 0 TO NEGATIVE 4.99%	OR	0 TO 9.99% DECLINE
MODERATE RISK	NEGATIVE 5% TO NEGATIVE 14.99%	OR	10% TO 19.99% DECLINE
HIGH RISK	NEGATIVE 15% OR MORE	OR	20% OR MORE DECLINE
LARGE CHARTER HOLDERS (600 OR MORE ADM)			
ADM CATEGORY	ESTIMATED ADM MEASURE PERFORMANCE <sup>1</sup>		PERCENT LOSS OF TOTAL ADM <sup>2</sup>
LOW RISK	GREATER THAN 0 TO NEGATIVE 2.99%	OR	0 TO 7.99% DECLINE
MODERATE RISK	NEGATIVE 3% TO NEGATIVE 9.99%	OR	8% TO 14.99% DECLINE
HIGH RISK	NEGATIVE 10% OR MORE	OR	15% OR MORE DECLINE

<sup>1</sup> The "Estimated ADM Measure Performance" considers the charter holder’s estimated performance on the Average Daily Membership measure for the fiscal year that begins on the July 1 following the fiscal year end of the most recent audit.

<sup>2</sup> The "Percent Loss of Total ADM" considers the percent change in the charter holder’s ADM from the fiscal year prior to the most recent audit (year 3) to the fiscal year that begins on the July 1 following the fiscal year end of the most recent audit (year 1). For example, this means for a charter holder identified as On Probation following the review of the fiscal year 2021 audit year 3 would be fiscal year 2020 and year 1 would be fiscal year 2022.

### Default Measure Category

The criteria used in determining the charter holder’s Default Measure Category are identified below. [A.A.C. R7-5-402(H)(2)]

CATEGORY	CRITERIA
LOW RISK	"MEETS" RATING ON DEFAULT MEASURE FOR TWO CONSECUTIVE FISCAL YEARS.
MODERATE RISK	"BELOW" RATING ON DEFAULT MEASURE IN PRIOR AUDITED FISCAL YEAR.  <u>OR</u>  "BELOW" RATING ON DEFAULT MEASURE IN MOST RECENT AUDITED FISCAL YEAR DUE TO CHARTER HOLDER’S FAILURE TO COMPLY WITH NON-PAYMENT RELATED REQUIREMENTS.
HIGH RISK	"BELOW" RATING ON DEFAULT MEASURE IN MOST RECENT AUDITED FISCAL YEAR DUE TO CHARTER HOLDER’S FAILURE TO MAKE REQUIRED PAYMENTS.



## Appendix B

### 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 cycle<sup>6</sup>, 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

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<sup>6</sup> The 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.

below based on the review results.

- 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"](#).