



Financial Performance Framework

FINANCIAL INTERVENTION PROCESS GUIDE

Developed based on framework approved on December 10, 2018 and
administrative rules approved on July 8, 2019

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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.

Under the financial framework, a charter holder is assigned one of three summative financial performance ratings – “Good Standing,” “Adequate Standing,” or “Intervention.”¹ 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.

For those charter holders that receive an “Intervention” summative financial performance rating (“Intervention Rating”), this guide specifies the Board’s financial intervention process.

An Overview of the Intervention Process

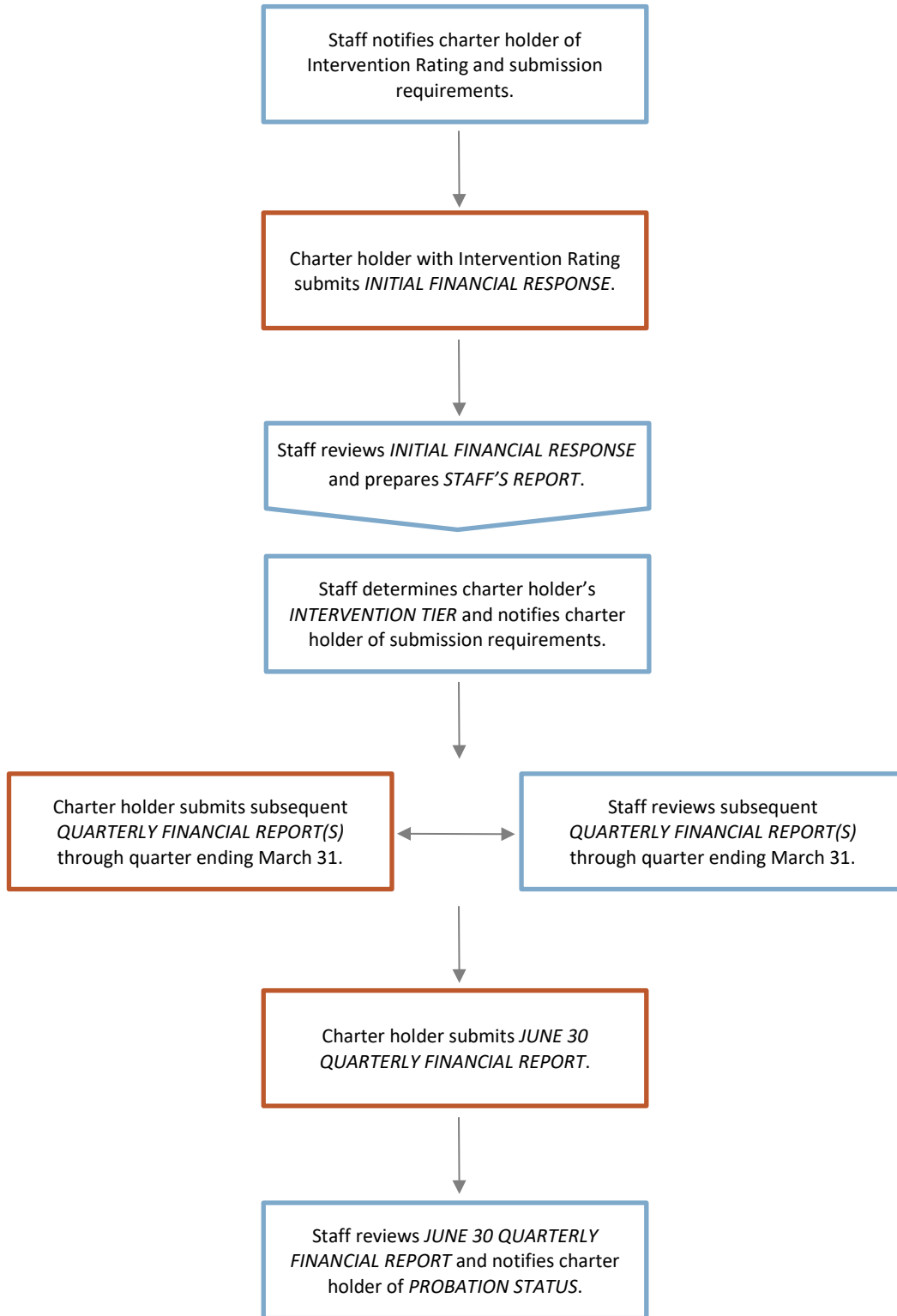
The financial intervention process provides an opportunity for charter holders that receive an Intervention Rating to demonstrate improved financial performance and allows the Board to act if these charter holders do not demonstrate improved performance. Figure 1 on page 3 identifies key steps for the **charter holder** and **Board staff** in the intervention process. For italicized terms identified in all capital letters on Figure 1, this guide includes a section or subsection that provides additional information.

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 performance dashboard.² For a charter holder that receives an Intervention Rating, the charter holder’s intervention process submissions, as well as Board communications and the report prepared by Board staff, will be accessible from the charter holder’s financial dashboard.

¹ 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.

² A charter holder’s financial dashboard may be viewed by accessing <https://online.asbcs.az.gov/schools/performance>.

Figure 1: Intervention Process Overview



Financial Intervention Submissions

Each charter holder that receives an Intervention Rating must submit to the Board an Initial Financial Response, Quarterly Financial Reports and a June 30 Quarterly Financial Report (collectively “improvement plans”).

Initial Financial Response

As the name implies, the Initial Financial Response is the first submission made to the Board after the charter holder is notified of the Intervention Rating. Pursuant to A.A.C. R7-5-101, in the Initial Financial Response, the charter holder must:

1. Provide the charter holder’s annual budget for the fiscal year that begins on the July 1 following the audited fiscal year end and the charter holder’s budget for each quarter in the fiscal year;
2. Provide a [Quarterly Financial Report](#) for each applicable quarter;
3. Provide a schedule of debt and lease obligations and the current outstanding balances for each;
4. Summarize the factors that caused or contributed to the charter holder’s financial performance in the audited fiscal year; and
5. Summarize the specific actions taken or being taken to improve the charter holder’s financial performance in the fiscal year that begins on the July 1 following the audited fiscal year end.

The charter holder’s deadline for submitting the Initial Financial Response will be set 30 calendar days from the date of the written notice sent by the Board to the charter representative indicating the audit has been reviewed and the charter holder has received an Intervention Rating for the audited fiscal year [A.A.C. R7-5-509(B)(2)]. The Quarterly Financial Report(s) must be submitted separately from the other components of the Initial Financial Response. Further, each quarter’s Quarterly Financial Report must be submitted separately to the Board.

QUARTERS ADDRESSED IN INITIAL FINANCIAL RESPONSE

The quarters that must be addressed in the charter holder’s Initial Financial Response will be determined based on the date of the written notice.

Written Notice Date	Applicable Quarter(s)
Between October 1 and December 31	❖ Quarter ending September 30
Between January 1 and March 31	❖ Quarter ending September 30 ❖ Quarter ending December 31
Between April 1 and June 30	❖ Quarter ending September 30 ❖ Quarter ending December 31 ❖ Quarter ending March 31
After June 30	❖ Quarter ending September 30 ❖ Quarter ending December 31 ❖ Quarter ending March 31 ❖ Quarter ending June 30

BOARD COMMUNICATIONS

Within 30 calendar days after receiving an Initial Financial Response, Board staff will provide the charter holder with written notice that includes the following:

1. The charter holder’s [Intervention Tier](#);
2. The Quarterly Financial Report requirements and submission deadlines;

3. The availability of [Staff’s Report on Initial Financial Response](#); and
4. Any differences identified between the calculations included by the charter holder in its Initial Financial Response and those completed by Board staff. [A.A.C. R7-5-509(E)]

Quarterly Financial Reports through March 31

A charter holder that receives an Intervention Rating must also submit separate Quarterly Financial Reports for the quarters ending September 30, December 31 and March 31. One or more of the Quarterly Financial Reports may be submitted with the Initial Financial Response or may be submitted separately. If required as part of the Initial Financial Response, each quarter’s Quarterly Financial Report must be submitted separately to the Board.

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;
2. An unaudited income statement (statement of activities) that identifies the charter holder’s results year-to-date for the quarter end date;
3. The charter holder’s budget for the applicable quarter that includes actual results versus budgeted results; and
4. The charter holder’s calculation of its performance on the Default, Unrestricted Days Liquidity, Adjusted Net Income and Average Daily Membership measures.

SUBMISSION DEADLINES

The submission deadlines for Quarterly Financial Reports submitted subsequent to the Initial Financial Response are as follows [A.A.C. R7-5-509(F)]:

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

BOARD COMMUNICATIONS

For each Quarterly Financial Report submitted subsequent to the Initial Financial Response and prior 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. R7-5-509(G)]

June 30 Quarterly Financial Report

A charter holder that receives an Intervention Rating 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 July 30 [A.A.C. R7-5-509(F)(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;
2. An unaudited income statement (statement of activities) that identifies the charter holder's results year ended June 30;
3. The charter holder's budget that includes actual results versus budgeted results for the quarter ending June 30; and
4. The charter holder's calculation of its performance on all six of the financial framework's measures.

BOARD COMMUNICATIONS

Within 45 calendar days after receiving the June 30 Quarterly Financial Report, Board staff will:

1. Determine the charter holder's [Probation Status](#);
2. Update the charter holder's financial performance dashboard to reflect the charter holder's Probation Status; and
3. Notify the charter holder of its Probation Status and, if applicable, the deadline for submitting the [Financial Action Plan](#) and subsequent Quarterly Financial Report(s). [A.A.C. R7-5-509(H)]

Staff's Report on Initial Financial Response ("Staff's Report")

Pursuant to A.A.C. R7-5-509(C), Board staff will review the charter holder's Initial Financial Response and prepare a report. Board staff's report will answer each of the following questions and briefly explain the basis for each answer:

1. Is there a sound explanation for why the charter holder underperformed on the financial framework's measures?
2. Did the charter holder perform at a level just below or well below the financial framework's measure(s) targets?
3. In what direction is the charter holder's financial health heading?
4. Do the charter holder's proposed or implemented actions address the problems that contributed to or caused the charter holder's underperformance on the financial framework's measures and are they realistic to implement?

The rubric Board staff will use to review each Initial Financial Response has been included in [Appendix A](#).

Charter Holder’s Placement in Intervention Tier

Board staff places the charter holder in the intervention tier that aligns with the criteria established by the Board in A.A.C. R7-5-509(D).

Intervention Tiers Defined

The Board has defined two intervention tiers, which are described in the table below.

	Description
Intervention Tier 1	<ul style="list-style-type: none"> ▪ Going Concern measure <u>or</u> Default measure rated “Below Standard” <u>and</u> zero or more measures rated “Approaches Standard” in the audited fiscal year. <p style="text-align: center;"><u>OR</u></p> <ul style="list-style-type: none"> ▪ Two or more measures rated “Below Standard” <u>and</u> zero or more measures rated “Approaches Standard” in the audited fiscal year.
Intervention Tier 2	<ul style="list-style-type: none"> ▪ One measure other than the Going Concern measure or Default measure rated “Below Standard” <u>and</u> zero or more measures rated “Approaches Standard in the audited fiscal year.

Other Considerations When Determining Charter Holder’s Intervention Tier

After placing the charter holder in the intervention tier based on which and how many measures received “Below Standard” ratings, Board staff will determine whether an adjustment to the intervention tier is required based on the criteria identified in A.A.C. R7-5-509(D)(4)-(9).

INITIAL FINANCIAL RESPONSE – IMPROVEMENT ACTIONS

As part of the Initial Financial Response, the charter holder must summarize the specific actions taken or being taken to improve the charter holder’s financial performance in the current fiscal year. A.A.C. R7-5-509(C) requires Board staff to review the Initial Financial Response and to prepare a [report](#).

Intervention Tier Implications

Board staff must place the charter holder in Intervention Tier 1 if Staff’s Report on Initial Financial Response identifies a “No” answer to the question that asks, “Do the charter holder’s proposed or implemented actions address the problems that contributed to or caused the charter holder’s underperformance on the Financial Performance Framework’s measures and are they realistic to implement?” [A.A.C. R7-5-509(D)(4)]

INITIAL FINANCIAL RESPONSE – DEFAULT MEASURE

A charter holder’s failure to make timely payments or comply with other requirements may result in a lender or landlord issuing a notice of default. When a default notice is disclosed in the audited fiscal year, the charter holder receives a “Below Standard” rating on the financial framework’s Default measure and must address the default in the Initial Financial Response submitted by the charter holder.

Intervention Tier Implications

If the charter holder’s Initial Financial Response supports that the charter holder has cured the default identified in the audited fiscal year, then:

- A. Board staff must remove the charter holder from the intervention process if the Default measure was the only measure for which the charter holder received a “Below Standard” rating. [A.A.C. R7-5-509(D)(5)(a)]

- B. Board staff must place the charter holder in Intervention Tier 2 instead of Intervention Tier 1 if the charter holder had received a “Below Standard” rating on only one other measure. [A.A.C. R7-5-509(D)(5)(b)]

AUDIT CORRECTIVE ACTION PLAN (“CAP”)

Through its *Audit & Compliance Questionnaire Follow-up Matrix* and Operational Performance Framework, the Board has identified the audit issues that require the charter holder to submit a CAP pursuant to A.A.C. R7-5-504(H)(1). Certain audit CAP issues have potential financial performance considerations in addition to their operational performance considerations.

Intervention Tier Implications

Board staff must place the charter holder in Intervention Tier 1 if, based on the most recent audit, the charter holder was required to submit a CAP for:

- Failure to pay taxes or contributions due to the Internal Revenue Service (“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. [A.A.C. R7-5-509(D)(6)]

SUBSTANTIATED COMPLAINTS

The Board’s *Procedures for Reviewing Complaints* and A.A.C. R7-5-507 identify the Board’s process for handling complaints involving charter schools sponsored by the Board. Certain complaint issues have potential financial performance considerations in addition to their operational performance considerations.

Intervention Tier Implications

Board staff must place the charter holder in Intervention Tier 1 if the Board has substantiated in the audited fiscal year, subsequent fiscal year or both at least one complaint involving:

- Late payroll checks to employees;
- Health insurance or liability insurance cancellation due to nonpayment; or
- Failure to make required retirement plan contributions. [A.A.C. R7-5-509(D)(7)]

ASRS NOTIFICATIONS

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.

Intervention Tier Implications

Board staff must place the charter holder in Intervention Tier 1 if the Board has received notification from ASRS of delinquent retirement contributions in the audited fiscal year, subsequent fiscal year or both. [A.A.C. R7-5-509(D)(7)]

MANDATORY REPORTING REQUIRED BY A.A.C. R7-5-501(C)

Under A.A.C. R7-5-501(C)³, a charter holder must report the following to the Board within 10 business days of receipt or occurrence:

1. Any notice from a lender or landlord regarding default;

³ A.A.C. R7-5-501(C)’s requirements apply to all charter holders and not just those that receive an Intervention Rating.

2. Filing a petition for bankruptcy;
3. Any notice received from the IRS, ASRS, ADOR, or ADES regarding a tax lien, levy or garnishment.
4. Correspondence from an insurance provider related to cancellation of health or liability insurance due to nonpayment;
5. Notice of termination of line of credit whether initiated by financial institution or charter holder when replacement credit line is not in effect; or
6. Withdrawals from debt service reserve funds.

Intervention Tier Implications

Board staff must place the charter holder in Intervention Tier 1 if the charter holder has been required to make at least one submission under A.A.C. R7-5-501(C) in the audited fiscal year, subsequent fiscal year or both. [A.A.C. R7-5-509(D)(8)]

SUMMATIVE FINANCIAL PERFORMANCE RATING OVER TIME

Under the Board’s financial framework, a charter holder is assigned one of three summative financial performance ratings – “Good Standing,” “Adequate Standing,” or “Intervention.” 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.”

Intervention Tier Implications

Board staff must place the charter holder in Intervention Tier 1 if the charter holder’s performance fluctuates from an Intervention Rating to a summative financial performance rating of “Adequate Standing” and then back to an Intervention Rating within the most recent three-year period. [A.A.C. R7-5-509(D)(9)]

Student Count Visit

For each charter holder identified for Intervention Tier 1, Board staff will visit each school operated by the 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”). 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.

Time permitting, Board staff may also visit schools operated by charter holders identified for Intervention Tier 2.

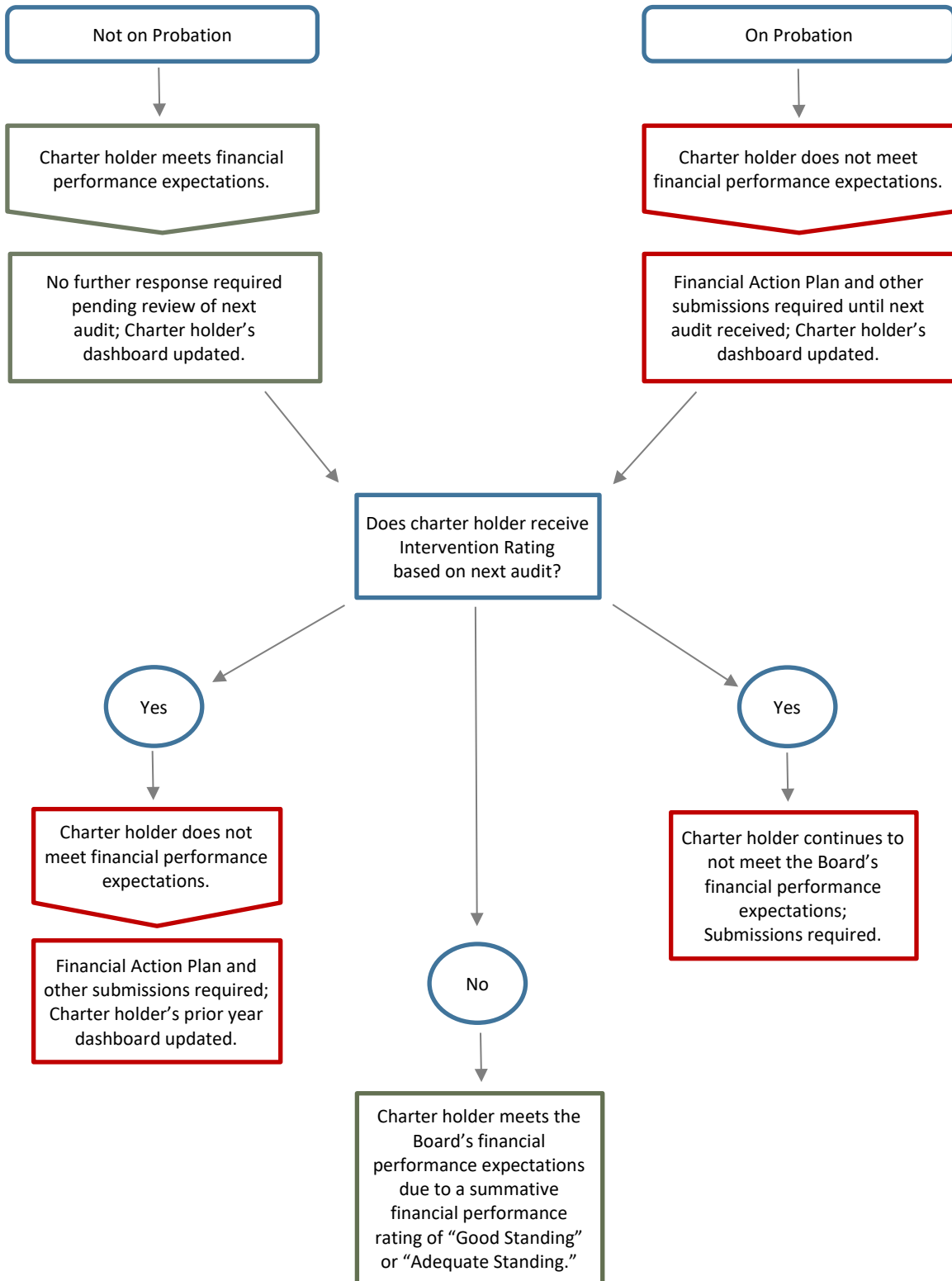
Probation Status Determinations

Using information from the June 30 Quarterly Financial Report and the Board’s complaint process, 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 the charter holder’s Probation Status. Each charter holder that receives an Intervention Rating will be assigned a Probation Status of either “Not on Probation” or “On Probation.” Table 1: Criteria Considered When Determining Charter Holder’s Probation Status (see next page) summarizes the criteria developed by the Board for determining a charter holder’s Probation Status. [A.A.C. R7-5-402(F), A.A.C. R7-5-402(G) and A.A.C. R7-5-402(H)] If, based on the next audit, a charter holder identified as “Not on Probation” is assigned an Intervention Rating, then the Board staff will determine that the charter holder is “On Probation.” [A.A.C. R7-5-402(I)]

Table 1: Criteria Considered When Determining Charter Holder’s Probation Status

	Not on Probation	On Probation
Tier 1	<p>Based on the June 30 Quarterly Financial Report, A.A.C. R7-5-501(C), and the Board’s complaint process <u>all the following are true:</u></p> <ol style="list-style-type: none"> 1. The measure(s) rated “Below Standard” in the audited year will likely improve to at least an “Approaches Standard” when calculations are completed using the charter holder’s next audit. 2. None of the financial framework’s other measures will likely be rated “Below Standard” when calculations are completed using the charter holder’s next audit. 3. Since Board staff made the determination under A.A.C. R7-5-509(D), the Board has not substantiated any complaints involving late payroll checks to employees, or health insurance or liability insurance cancellation due to nonpayment and has not substantiated any complaints involving failure to make required retirement plan contributions or received notification from the ASRS of delinquent retirement contributions. 4. Since Board staff made the determination under A.A.C. R7-5-509(D), the charter holder has not been required to make submissions under A.A.C. R7-5-501(C). 	<p>Based on the June 30 Quarterly Financial Report, A.A.C. R7-5-501(C), and the Board’s complaint process <u>one or more of the following are true:</u></p> <ol style="list-style-type: none"> 1. One or more of the measures rated “Below Standard” in the audited year will likely continue to be rated “Below Standard” when calculations are completed using the charter holder’s next audit. 2. 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. 3. Since Board staff made the determination under A.A.C. R7-5-509(D), the Board has substantiated at least one complaint involving late payroll checks to employees, or health insurance or liability insurance cancellation due to nonpayment or has substantiated at least one complaint involving failure to make required retirement plan contributions or received notification from the ASRS of delinquent retirement contributions. 4. Since Board staff has made the determination under A.A.C. R7-5-509(D), the charter holder has been required to make submissions under A.A.C. R7-5-501(C).
Tier 2	<p>Based on the June 30 Quarterly Financial Report, A.A.C. R7-5-501(C), and the Board’s complaint process <u>all the following are true:</u></p> <ol style="list-style-type: none"> 1. The measure rated “Below Standard” in the audited year will likely improve to at least an “Approaches Standard” when calculations are completed using the charter holder’s next audit. 2. None of the financial framework’s other measures will likely be rated “Below Standard” when calculations are completed using the charter holder’s next audit. 3. Since Board staff made the determination under A.A.C. R7-5-509(D), the Board has not substantiated any complaints involving late payroll checks to employees, or health insurance or liability insurance cancellation due to nonpayment and has not substantiated any complaints involving failure to make required retirement plan contributions or received notification from the ASRS of delinquent retirement contributions. 4. Since Board staff made the determination under A.A.C. R7-5-509(D), the charter holder has not been required to make submissions under A.A.C. R7-5-501(C). 	<p>Based on the June 30 Quarterly Financial Report, A.A.C. R7-5-501(C), and the Board’s complaint process <u>one or more of the following are true:</u></p> <ol style="list-style-type: none"> 1. The measure rated “Below Standard” in the audited year will likely continue to be rated “Below Standard” when calculations are completed using the charter holder’s next audit. 2. 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. 3. Since Board staff made the determination under A.A.C. R7-5-509(D), the Board has substantiated at least one complaint involving late payroll checks to employees, or health insurance or liability insurance cancellation due to nonpayment or has substantiated at least one complaint involving failure to make required retirement plan contributions or received notification from the ASRS of delinquent retirement contributions. 4. Since Board staff made the determination under A.A.C. R7-5-509(D), the charter holder has been required to make submissions under A.A.C. R7-5-501(C).
Other		<p>In within the most recent five-year period, the charter holder has received three Intervention Ratings and two summative financial performance ratings of “Adequate Standing.”</p>

Figure 2: Probation Status Determination Implications



Defining Financial Performance Expectations

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.

	Definitions
Meets the Board’s Minimum Financial Performance Expectations	Charter holder that receives a summative financial performance rating of “Good Standing” or “Adequate Standing”. [A.A.C. R7-5-402(J)(1)]
	Charter holder that receives a determination of “Not on Probation”. [A.A.C. R7-5-402(J)(2)]
Does Not Meet the Board’s Minimum Financial Performance Expectations	A charter holder that receives an “On Probation” determination pursuant to A.A.C. R7-5-402(G). [A.A.C. R7-5-402(K)]
	A charter holder that receives an “On Probation” determination pursuant to A.A.C. R7-5-402(H). [A.A.C. R7-5-402(K)]
	A charter holder that receives an “On Probation” determination pursuant to A.A.C. R7-5-402(I). [A.A.C. R7-5-402(L)]

Financial Performance Expectations Not Met

A charter holder that does not meet the Board’s minimum financial performance expectations may be subject to charter oversight unless and until the charter holder achieves the minimum financial performance expectations. [A.A.C. R7-5-402(K)(1) and A.A.C. R7-5-402(L)(1)]

REPORT TO BOARD AT PUBLIC MEETING

Pursuant to A.A.C. R7-5-402(M), Board staff will report to the Board at a public meeting the audited fiscal year performance and June 30 Quarterly Financial Report performance by measure for each charter holder that does not meet the Board’s minimum financial performance expectations.

SUBMISSION REQUIREMENTS

A charter holder that does not meet the Board’s minimum financial performance expectations must submit the following to the Board.

1. A Financial Action Plan that:
 - a. Details the specific steps being taken by the charter holder to improve its financial performance in the fiscal year that begins on the July 1 following the June 30 Quarterly Financial Report;
 - b. Identifies the milestones the charter holder will use throughout the fiscal year to benchmark its performance against; and
 - c. Has been developed and approved by the charter holder’s governing board.
2. Quarterly Financial Reports until the Board receives the charter holder’s next audit.⁴ The deadlines for submitting these reports may be found on page 5.

OTHER CONSIDERATIONS

When the Board considers the renewal application package for or considers other action related to a charter holder that does not meet the Board’s minimum financial performance expectations, Board staff

⁴ This step applies to charter holders that do not meet the minimum financial performance expectations based on A.A.C. R7-5-402(K).

will provide to the Board a copy of the charter holder’s Financial Action Plan and either a) the June 30 Quarterly Financial Report (if the next audit has not been received) and, if applicable, any subsequent Quarterly Financial Report(s) submitted to the Board by the charter holder or b) if the next audit has been received, any subsequent Quarterly Financial Report(s) submitted to the Board by the charter holder, if applicable.

Intervention and Operational Performance Dashboard

In accordance with A.A.C. R7-5-509(K), if a charter holder fails to submit or fails to submit timely a required Initial Financial Response, required Quarterly Financial Report or June 30 Quarterly Financial Report, the failure will be noted in the charter holder’s operational performance dashboard posted on ASBCS Online. Board staff will record the failure under “Timely Submissions” in Measure 2e.

In accordance with A.A.C. R7-5-402(N), if a charter holder fails to submit or fails to submit timely the Financial Action Plan or subsequent Quarterly Financial Reports, the failure will be noted in the charter holder’s operational performance dashboard on ASBCS Online. Board staff will record the failure under “Timely Submissions” in Measure 2e.

Appendix

A. Rubric for Reviewing the Initial Financial Response

A: Rubric for Reviewing the Initial Financial Response

The following information and criteria will be used by Board staff to evaluate the Initial Financial Response submitted by a charter holder that receives an Intervention Rating. A.A.C. R7-5-509(C) specifies the questions included below that Board staff must answer in Staff’s Report.

IS THERE A SOUND EXPLANATION FOR WHY THE CHARTER HOLDER UNDERPERFORMED ON THE FINANCIAL PERFORMANCE FRAMEWORK’S MEASURES?			
DOCUMENTATION REVIEWED	FACTORS CONSIDERED BY BOARD STAFF	QUESTION ANSWERED “Yes”	QUESTION ANSWERED “No”
<ul style="list-style-type: none"> ▪ INITIAL FINANCIAL RESPONSE, INCLUDING SUMMARY OF FACTORS THAT CAUSED OR CONTRIBUTED TO THE CHARTER HOLDER’S FINANCIAL PERFORMANCE IN THE MOST RECENT AUDITED FISCAL YEAR ▪ AUDITS SUBMITTED TO THE BOARD ▪ ADMS46-1 REPORTS AVAILABLE THROUGH DEPARTMENT’S WEBSITE 	<ul style="list-style-type: none"> ▪ DOES THE INITIAL FINANCIAL RESPONSE INCLUDE AN EXPLANATION FOR WHY THE CHARTER HOLDER UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR? ▪ COULD THE CAUSE OR CONTRIBUTING FACTORS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE HAVE AFFECTED THE CHARTER HOLDER’S PERFORMANCE ON THE MEASURE(S) RATED “BELOW STANDARD?” ▪ AS APPLICABLE, DOES INFORMATION INCLUDED IN THE CHARTER HOLDER’S AUDITS OR ADMS46-1 REPORTS CONTRADICT THE CAUSE’S OR CONTRIBUTING FACTOR’S EFFECT ON THE MEASURE(S) RATED “BELOW STANDARD?” 	<p>ALL THE FOLLOWING ARE TRUE:</p> <ul style="list-style-type: none"> ○ THE CHARTER HOLDER PROVIDES AN EXPLANATION FOR WHY IT UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE FACTORS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE ARE RELEVANT TO THE MEASURES ON WHICH THE CHARTER HOLDER UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE FACTORS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE DO NOT CONTRADICT INFORMATION IN THE CHARTER HOLDER’S AUDITS OR ADMS46-1 REPORTS. 	<p>ONE OR MORE OF THE FOLLOWING ARE TRUE:</p> <ul style="list-style-type: none"> ○ THE CHARTER HOLDER DOES NOT PROVIDE AN EXPLANATION FOR WHY IT UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE FACTORS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE ARE NOT RELEVANT, IN WHOLE OR IN PART, TO THE MEASURES ON WHICH THE CHARTER HOLDER UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ ONE OR MORE FACTORS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE CONTRADICT INFORMATION IN THE CHARTER HOLDER’S AUDITS OR ADMS46-1 REPORTS.
DID THE CHARTER HOLDER PERFORM AT A LEVEL JUST BELOW OR WELL BELOW THE FINANCIAL PERFORMANCE FRAMEWORK’S MEASURE(S) TARGETS?			
DOCUMENTATION REVIEWED	FACTORS CONSIDERED BY BOARD STAFF	QUESTION ANSWERED “JUST BELOW”	QUESTION ANSWERED “WELL BELOW”
<ul style="list-style-type: none"> ▪ MOST RECENT AUDITED FISCAL YEAR FINANCIAL DASHBOARD ▪ Measures and Summative Performance Ratings Guide 	<ul style="list-style-type: none"> ▪ SINCE PERFORMANCE ON THE FINANCIAL FRAMEWORK’S GOING CONCERN AND DEFAULT MEASURES IS BASED ON THE PRESENCE (“BELOW STANDARD”) OR ABSENCE (“MEETS STANDARD”) OF CERTAIN DISCLOSURE IN THE AUDIT, “JUST BELOW” OR “WELL BELOW” ARE NOT APPLICABLE. ▪ IF THE CHARTER HOLDER RECEIVED “BELOW STANDARD” RATINGS ON ONLY THE GOING CONCERN MEASURE, DEFAULT MEASURE OR BOTH, THEN THIS QUESTION WILL BE ANSWERED “NOT APPLICABLE.” 	<p>FOR THE FINANCIAL FRAMEWORK’S FOUR CALCULATED MEASURES, ALL THE FOLLOWING, AS APPLICABLE, ARE TRUE FOR THE MEASURE(S) RATED “BELOW STANDARD:”</p> <ul style="list-style-type: none"> ○ UNRESTRICTED DAYS LIQUIDITY IS AT LEAST 10 DAYS BUT FEWER THAN 15 DAYS. ○ ADJUSTED NET INCOME DIVIDED BY TOTAL REVENUES IS BETWEEN NEGATIVE 5% AND NEGATIVE 9.99%. ○ THE LEASE ADJUSTED DEBT SERVICE COVERAGE RATIO IS AT LEAST 0.9 BUT LESS THAN 1.0. ○ THE CHARTER HOLDER’S PERFORMANCE ON THE AVERAGE DAILY MEMBERSHIP MEASURE SHOWS A DECREASE OF A) 15% TO 19.99% FOR A SMALL OR MEDIUM CHARTER HOLDER OR B) 10% TO 14.99% FOR A LARGE CHARTER HOLDER. 	<p>FOR THE FINANCIAL FRAMEWORK’S FOUR CALCULATED MEASURES, ONE OR MORE OF THE FOLLOWING, AS APPLICABLE, ARE TRUE FOR THE MEASURE(S) RATED “BELOW STANDARD:”</p> <ul style="list-style-type: none"> ○ UNRESTRICTED DAYS LIQUIDITY IS FEWER THAN 10 DAYS. ○ ADJUSTED NET INCOME DIVIDED BY TOTAL REVENUES IS LESS THAN OR EQUAL TO NEGATIVE 10%. ○ THE LEASE ADJUSTED DEBT SERVICE COVERAGE RATIO IS LESS THAN 0.9. ○ THE CHARTER HOLDER’S PERFORMANCE ON THE AVERAGE DAILY MEMBERSHIP MEASURE SHOWS A DECREASE OF A) 20% OR MORE FOR A SMALL OR MEDIUM CHARTER HOLDER OR B) 15% OR MORE FOR A LARGE CHARTER HOLDER.

IN WHAT DIRECTION IS THE CHARTER HOLDER’S FINANCIAL HEALTH HEADING?			
DOCUMENTATION REVIEWED	FACTORS CONSIDERED BY BOARD STAFF	QUESTION ANSWERED “IMPROVING”	QUESTION ANSWERED “STABLE OR WORSENING”
<ul style="list-style-type: none"> ▪ QUARTERLY FINANCIAL REPORTS THROUGH AT LEAST THE QUARTER ENDING DECEMBER 31⁵ AND BUDGETS SUBMITTED WITH THE INITIAL FINANCIAL RESPONSE AND QUARTERLY FINANCIAL REPORTS ▪ INITIAL FINANCIAL RESPONSE’S SCHEDULE OF DEBT AND LEASE OBLIGATIONS AND THE CURRENT OUTSTANDING BALANCES FOR EACH ▪ MOST RECENT AUDITED FISCAL YEAR FINANCIAL DASHBOARD ▪ AUDITS SUBMITTED TO THE BOARD ▪ ADMS46-1 REPORTS AVAILABLE THROUGH DEPARTMENT’S WEBSITE 	<ul style="list-style-type: none"> ▪ FOR THE DEFAULT, UNRESTRICTED DAYS LIQUIDITY AND ADJUSTED NET INCOME MEASURES, THE CHARTER HOLDER’S CURRENT PERFORMANCE BASED ON THE QUARTERLY FINANCIAL REPORTS THROUGH AT LEAST THE QUARTER ENDING DECEMBER 31⁵ AND BUDGETS. ▪ INFORMATION DISCLOSED IN THE INITIAL FINANCIAL RESPONSE AND THE AUDITS REGARDING THE CHARTER HOLDER’S DEBT AND LEASE OBLIGATIONS. ▪ AS APPLICABLE, INFORMATION DISCLOSED IN THE AUDITS REGARDING THE CHARTER HOLDER’S PERFORMANCE ON THE DEFAULT AND GOING CONCERN MEASURES. ▪ THE CHARTER HOLDER’S CURRENT PERFORMANCE ON THE AVERAGE DAILY MEMBERSHIP MEASURE. IF THE CURRENT FISCAL YEAR’S ADMS46-1 REPORT IS NOT AVAILABLE ON THE DEPARTMENT’S WEBSITE, BOARD STAFF WILL USE THE CHARTER HOLDER’S ESTIMATED COUNT IN THE CALCULATION. 	<p>ALL THE FOLLOWING ARE TRUE:</p> <ul style="list-style-type: none"> ○ THE GOING CONCERN MEASURE WAS NOT RATED “BELOW STANDARD” IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE DEFAULT MEASURE WAS NOT RATED “BELOW STANDARD” IN THE MOST RECENT AUDITED FISCAL YEAR <u>OR</u> THE INITIAL FINANCIAL RESPONSE SUPPORTS THE CHARTER HOLDER HAS CURED THE DEFAULT(S) IDENTIFIED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ IF APPLICABLE, THE UNRESTRICTED DAYS LIQUIDITY MEASURE WAS RATED “BELOW STANDARD” IN THE MOST RECENT AUDITED FISCAL YEAR, <u>AND</u> BASED ON THE QUARTERLY FINANCIAL REPORTS THROUGH AT LEAST THE QUARTER ENDING DECEMBER 31⁵, THE CHARTER HOLDER’S CURRENT PERFORMANCE AS OF THE QUARTER END DATE HAS IMPROVED TO A “MEETS STANDARD” OR “APPROACHES STANDARD.” ○ IF APPLICABLE, THE ADJUSTED NET INCOME MEASURE WAS RATED “BELOW STANDARD” IN THE MOST RECENT AUDITED FISCAL YEAR, <u>AND</u> BASED ON THE INITIAL FINANCIAL RESPONSE’S BUDGETS AND THE QUARTERLY FINANCIAL REPORTS THROUGH AT LEAST THE QUARTER ENDING DECEMBER 31⁵, THE CHARTER HOLDER’S CURRENT FISCAL YEAR PERFORMANCE IS PROJECTED TO IMPROVE TO A “MEETS STANDARD” OR “APPROACHES STANDARD.” ○ THE NUMBER OF MEASURES PROJECTED TO BE RATED “BELOW STANDARD” BASED ON CURRENT PERFORMANCE IS LESS THAN THE NUMBER OF MEASURES RATED “BELOW STANDARD” IN THE MOST RECENT AUDITED FISCAL YEAR.⁶ ○ BASED ON THE INITIAL FINANCIAL RESPONSE, THE CHARTER HOLDER’S NON-FACILITY DEBT HAS REMAINED THE SAME OR DECREASED IN THE CURRENT FISCAL YEAR. ○ FOR THE CURRENT FISCAL YEAR, THE CHARTER HOLDER’S PERFORMANCE ON THE AVERAGE DAILY MEMBERSHIP MEASURE SHOWS EITHER: A) AN INCREASE, B) A DECREASE OF LESS THAN 15% FOR A SMALL OR MEDIUM CHARTER HOLDER, OR C) A DECREASE OF LESS THAN 10% FOR A LARGE CHARTER HOLDER. 	<p>ONE OR MORE OF THE FOLLOWING ARE TRUE:</p> <ul style="list-style-type: none"> ○ THE GOING CONCERN MEASURE WAS RATED “BELOW STANDARD” IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE DEFAULT MEASURE WAS RATED “BELOW STANDARD” IN THE MOST RECENT AUDITED FISCAL YEAR <u>AND</u> THE INITIAL FINANCIAL RESPONSE DOES NOT SUPPORT THAT THE CHARTER HOLDER HAS CURED THE DEFAULT(S) IDENTIFIED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ IF APPLICABLE, THE UNRESTRICTED DAYS LIQUIDITY MEASURE WAS RATED “BELOW STANDARD” IN THE MOST RECENT AUDITED FISCAL YEAR, <u>AND</u> BASED ON THE QUARTERLY FINANCIAL REPORTS THROUGH AT LEAST THE QUARTER ENDING DECEMBER 31⁵, THE CHARTER HOLDER’S CURRENT PERFORMANCE AS OF THE QUARTER END DATE REMAINS RATED “BELOW STANDARD.” ○ IF APPLICABLE, THE ADJUSTED NET INCOME MEASURE WAS RATED “BELOW STANDARD” IN THE MOST RECENT AUDITED FISCAL YEAR, <u>AND</u> BASED ON THE INITIAL FINANCIAL RESPONSE’S BUDGETS AND THE QUARTERLY FINANCIAL REPORTS THROUGH AT LEAST THE QUARTER ENDING DECEMBER 31⁵, THE CHARTER HOLDER’S CURRENT FISCAL YEAR PERFORMANCE IS PROJECTED TO REMAIN RATED “BELOW STANDARD.” ○ THE NUMBER OF MEASURES PROJECTED TO BE RATED “BELOW STANDARD” BASED ON CURRENT PERFORMANCE IS EQUAL TO OR MORE THAN THE NUMBER OF MEASURES RATED “BELOW STANDARD” IN THE MOST RECENT AUDITED FISCAL YEAR.⁶ ○ BASED ON THE INITIAL FINANCIAL RESPONSE, THE CHARTER HOLDER’S NON-FACILITY DEBT HAS INCREASED IN THE CURRENT FISCAL YEAR. ○ FOR THE CURRENT FISCAL YEAR, THE CHARTER HOLDER’S PERFORMANCE ON THE AVERAGE DAILY MEMBERSHIP MEASURE SHOWS A DECREASE OF A) 15% OR MORE FOR A SMALL OR MEDIUM CHARTER HOLDER OR B) 10% OR MORE FOR A LARGE CHARTER HOLDER.

⁵ If based on A.A.C. R7-5-509(B), the charter holder’s Initial Financial Response must include a quarter ending subsequent to December 31, then the latest quarter end date will be used by Board staff to determine the answer to the question that asks, “In what direction is the charter holder’s financial health heading?”

⁶ For this criterion, the measures considered are Default, Unrestricted Days Liquidity and Adjusted Net Income.

DO THE CHARTER HOLDER’S PROPOSED OR IMPLEMENTED ACTIONS ADDRESS THE PROBLEMS THAT CONTRIBUTED TO OR CAUSED THE CHARTER HOLDER’S UNDERPERFORMANCE ON THE FINANCIAL PERFORMANCE FRAMEWORK’S MEASURES AND ARE THEY REALISTIC TO IMPLEMENT?			
DOCUMENTATION REVIEWED	FACTORS CONSIDERED BY BOARD STAFF	QUESTION ANSWERED “Yes”	QUESTION ANSWERED “No”
<ul style="list-style-type: none"> ▪ INITIAL FINANCIAL RESPONSE, INCLUDING SUMMARY OF ACTIONS TAKEN OR BEING TAKEN TO IMPROVE THE CHARTER HOLDER’S FINANCIAL PERFORMANCE IN THE CURRENT FISCAL YEAR ▪ AUDITS SUBMITTED TO THE BOARD ▪ ADMS46-1 REPORTS AVAILABLE THROUGH DEPARTMENT’S WEBSITE 	<ul style="list-style-type: none"> ▪ DOES THE INITIAL FINANCIAL RESPONSE INCLUDE PROPOSED OR IMPLEMENTED ACTIONS TO ADDRESS THE PROBLEMS THAT CONTRIBUTED TO THE CHARTER HOLDER’S UNDERPERFORMANCE IN THE MOST RECENT AUDITED FISCAL YEAR? ▪ COULD THE PROPOSED OR IMPLEMENTED ACTIONS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE IMPROVE THE CHARTER HOLDER’S PERFORMANCE IN THE CURRENT YEAR ON THE MEASURE(S) RATED “BELOW STANDARD” IN THE MOST RECENT AUDITED FISCAL YEAR? ▪ DOES INFORMATION INCLUDED IN THE CHARTER HOLDER’S AUDITS, ADMS46-1 REPORTS OR INITIAL FINANCIAL RESPONSE INDICATE THAT THE ACTIONS ARE UNREALISTIC FOR THE CHARTER HOLDER TO IMPLEMENT? 	<p>ALL THE FOLLOWING ARE TRUE:</p> <ul style="list-style-type: none"> ○ THE CHARTER HOLDER PROVIDES ACTIONS TO ADDRESS THE PROBLEMS THAT CONTRIBUTED TO ITS UNDERPERFORMANCE IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE ACTIONS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE ARE RELEVANT TO THE MEASURES ON WHICH THE CHARTER HOLDER UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE ACTIONS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE ARE REALISTIC FOR THE CHARTER HOLDER TO IMPLEMENT. 	<p>ONE OR MORE OF THE FOLLOWING ARE TRUE:</p> <ul style="list-style-type: none"> ○ THE CHARTER HOLDER DOES NOT PROVIDE ACTIONS TO ADDRESS THE PROBLEMS THAT CONTRIBUTED TO ITS UNDERPERFORMANCE IN THE AUDITED FISCAL YEAR. ○ THE ACTIONS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE ARE NOT RELEVANT, IN WHOLE OR IN PART, TO THE MEASURES ON WHICH THE CHARTER HOLDER UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ ONE OR MORE ACTIONS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE ARE NOT REALISTIC FOR THE CHARTER HOLDER TO IMPLEMENT.

Historical Note:

Effective: October 15, 2019

Board Approval Date: October 15, 2019