



# Financial Performance Framework

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

Developed based on framework approved on December 10, 2018 and  
administrative rules approved on July 8, 2019 and August 9, 2021

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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 August 9, 2021, 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 based on the fiscal years 2020 and 2021 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.

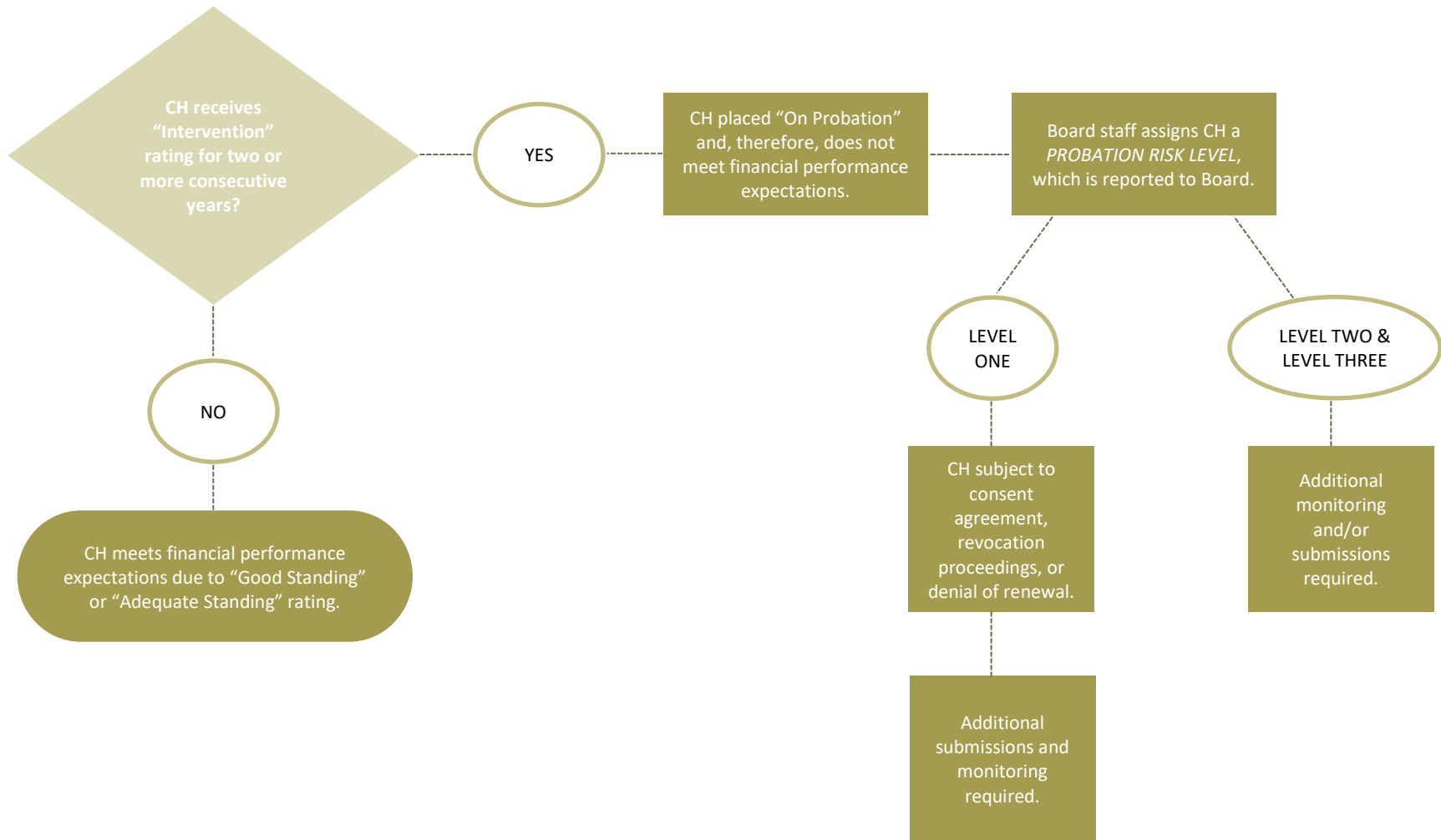
## On Probation Determination Process

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.

<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://online.asbcs.az.gov/schools/performance>.

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. 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 submission requirements associated with the charter holder's Probation Risk Level; and
3. The deadline or deadlines for submitting the information to the Board. [A.A.C. R7-5-402(L)]

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. AGENDA AND MINUTES FROM MEETING WHERE CHARTER HOLDER BOARD OR, IF APPLICABLE, CHARTER SCHOOL GOVERNING BODY REVIEWED ITS CURRENT FINANCIAL PLAN AND APPROVED ANY NECESSARY CHANGES<sup>1</sup></li> <li>3. COPY OF CHARTER HOLDER'S FINANCIAL PLAN<sup>2</sup></li> <li>4. BY THE DEADLINES IDENTIFIED IN A.A.C. R7-5-511(B), A NARRATIVE DESCRIBING ANY DEVIATIONS THAT HAVE OCCURRED FROM THE FINANCIAL PLAN PROVIDED UNDER "2."</li> <li>5. 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. AGENDA AND MINUTES FROM MEETING WHERE CHARTER HOLDER BOARD OR, IF APPLICABLE, CHARTER SCHOOL GOVERNING BODY REVIEWED ITS CURRENT FINANCIAL PLAN AND APPROVED ANY NECESSARY CHANGES<sup>1</sup></li> <li>2. COPY OF CHARTER HOLDER'S FINANCIAL PLAN<sup>2</sup></li> <li>3. BY THE DEADLINES IDENTIFIED IN A.A.C. R7-5-511(B), A NARRATIVE DESCRIBING ANY DEVIATIONS THAT HAVE OCCURRED FROM THE FINANCIAL PLAN PROVIDED UNDER "2."</li> <li>4. 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. 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>

<sup>1</sup> Agenda and draft minutes must be submitted to the Board within 30 business days of the date of the written notice provided under A.A.C. R7-5-402(L) identifying, among other information, the charter holder's Probation Risk Level. Draft minutes will be accepted.

<sup>2</sup> The financial plan must be submitted to the Board within 30 business days of the date of the written notice provided under A.A.C. R7-5-402(L) identifying, among other information, the charter holder's Probation Risk Level.

[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

**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.

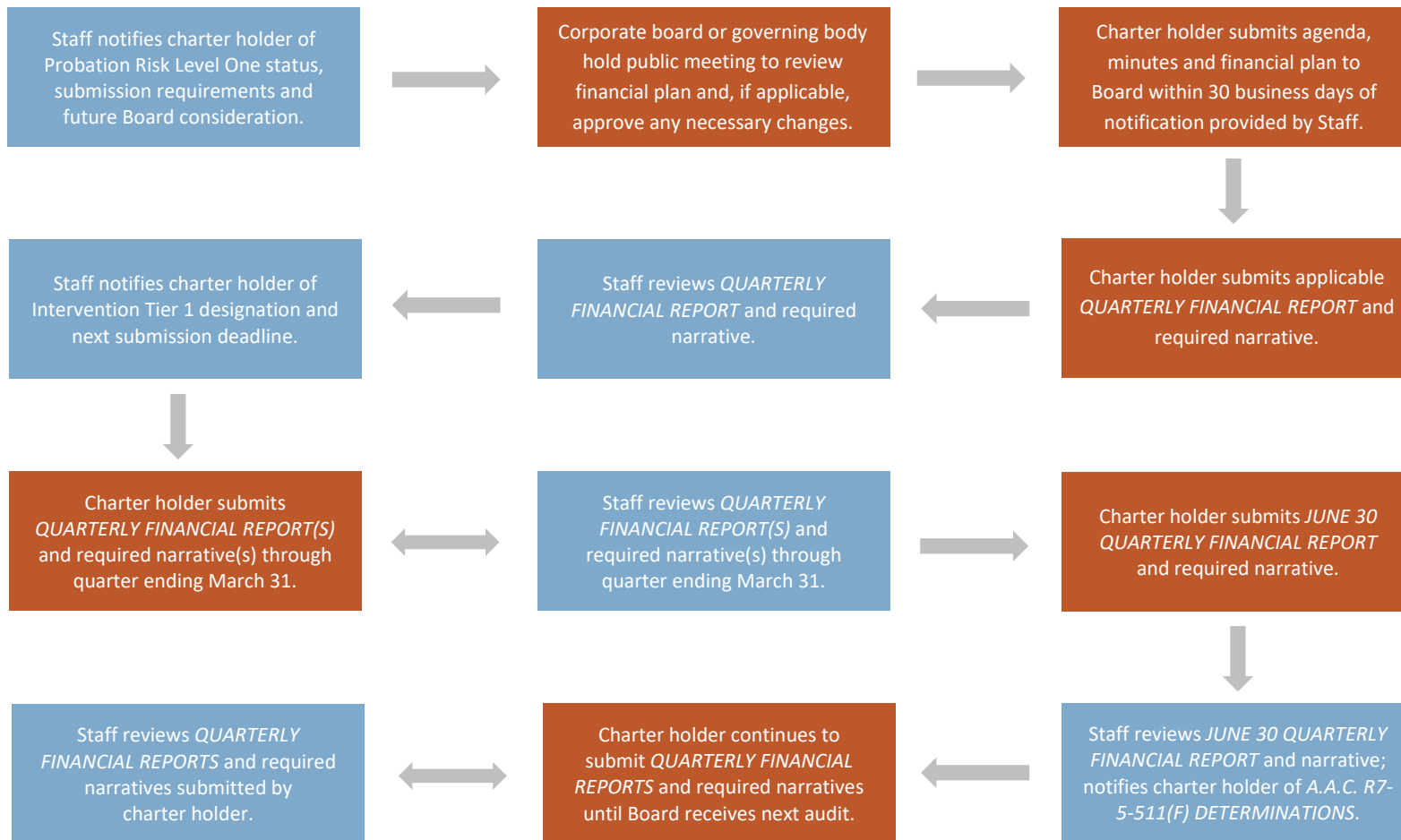


Figure 3: Probation Risk Level Two Process

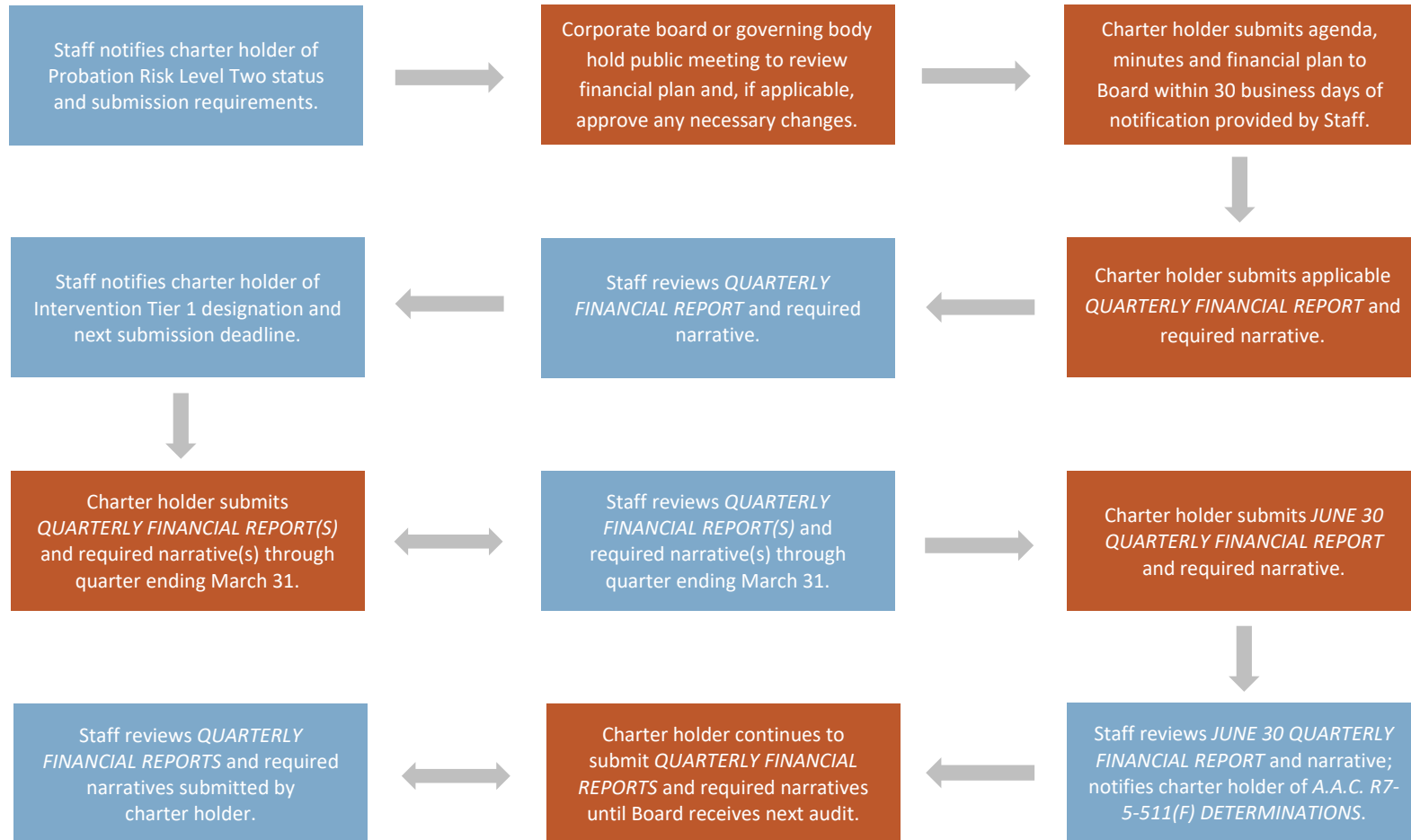
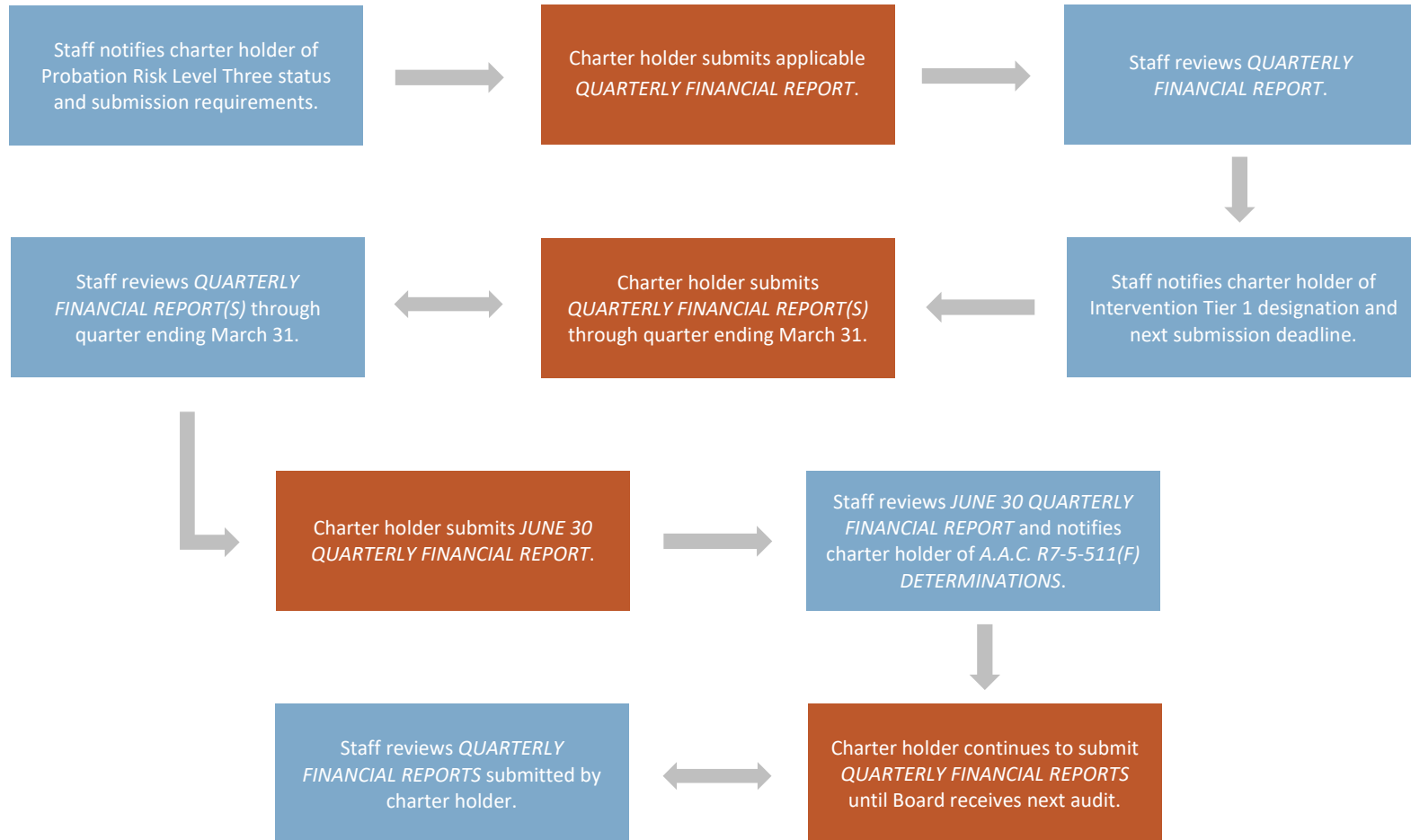


Figure 4: Probation Risk Level Three Process





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.

**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 Initial Financial Response and first four Quarterly Financial Reports, including the June 30 Quarterly Financial Report, submitted to the Board by a charter holder assigned to Probation Risk Level One based on Scenario 1 through Scenario 5 set forth in [Appendix A](#).
2. The Initial Financial Response and first eight Quarterly Financial Reports, including the June 30 Quarterly Financial Reports, and, if applicable, financial plan and first four narratives submitted to the Board by a charter holder assigned to Probation Risk Level One based on Scenario 6 set forth in [Appendix A](#).

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.

**Ongoing Financial Intervention Submissions**

Regardless of Probation Risk Level assigned, each On Probation charter holder must submit Quarterly Financial Reports and a June 30 Quarterly Financial Report to the Board. 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. All submissions must be emailed to [audits@asbcs.az.gov](mailto:audits@asbcs.az.gov). On Probation submission checklists for Probation Risk Levels One, Two and Three are available on the [Board’s website](#).

**First Quarterly Financial Report After Written Notice**

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) 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 to continue submitting Quarterly Financial Reports to the Board until the Board receives the charter holder’s next audit. Therefore, the “first”

report submitted by most 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.<sup>3</sup>

### **BOARD COMMUNICATIONS**

Within 30 calendar days after receiving the first Quarterly Financial Report submitted in response to the written notice provided under A.A.C. R7-5-402(L), Board staff will provide the charter holder with written notice that includes the following:

1. The charter holder's [Intervention Tier](#);
2. The submission deadline for the next Quarterly Financial Report; and
3. 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. R7-5-511(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.

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<sup>3</sup> Pursuant to A.A.C. R7-5-511(B), to ensure the Board receives all quarterly reports and narratives required under A.A.C. R7-5-511(A), the charter holder shall submit by the deadline associated with the most recent quarterly report, any required quarterly reports and narratives not previously provided to the Board, as applicable. Therefore, it is possible that the "first" quarterly report may include more than one quarterly report.

**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 first Quarterly Financial Report identified in the subsection on page 8 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(E)]

**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)].

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

- Accounting system reports or debt schedules identifying, as applicable, the bond, loan and capital 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:

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

**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 add the quarter's results to the "Measure Calculator-Board Reviewed" available for download 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. 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. Prior to each subsequent quarterly report submission, the charter holder must download and save the "Measure Calculator-Board Reviewed" available through the charter holder's financial performance dashboard (see next page) and then add the next quarter's information. Eventually, the Measure Calculator will reflect the charter holder's financial performance for all quarters.

The screenshot shows a dashboard with a top navigation bar containing links for Login/Register, Search, Help, Contact Us, File Complaint, Go to ADE Website, and Go to ASBCS Website. Below the navigation bar are three main sections:

- Intervention:** A section with a dark header and a light background containing the text: "The charter holder has one or more measures rated 'Below Standard' and is required to submit information to the Board regarding its financial performance. For additional information, refer to the Financial Performance Framework."
- Next Submission Due:** A section with a dark header and a light background containing the date "04/30/2021".
- Charter Holder Financial Intervention Submissions:** A section with a dark header and a light background containing a list of five items, each with a download icon:
  - Initial Financial Response (Download)
  - Measure Calculator-Charter Holder (Download)
  - Quarterly Report - September 30 (Download)
  - Quarterly Report - December 31 (Download)
  - Measure Calculator-Board Reviewed (Download) ← An orange arrow points to this item.

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

## Charter Holder Placed in Intervention Tier 1

Pursuant to A.A.C. R7-5-511(D), Board staff will place each On Probation charter holder in Intervention Tier 1 and determine the applicability of the four items identified below.

### Other Items Considered

#### *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.

Board staff will determine 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. R7-5-511(D)(2)]

#### *SUBSTANTIATED COMPLAINTS*

A.A.C. R7-5-507 identifies 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.

Board staff will determine 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. R7-5-511(D)(3)]

#### *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.

Board staff will determine 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. R7-5-511(D)(3)]

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

Under A.A.C. R7-5-501(C)<sup>4</sup>, 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;
2. Filing a petition for bankruptcy;

<sup>4</sup> A.A.C. R7-5-501(C)'s requirements apply to all charter holders and not just those identified as On Probation.

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.

Board staff will determine 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. R7-5-511(D)(4)]

## 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. R7-5-511(H)] 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(F) 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, 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.
4. Since Board staff made the determination in A.A.C. R7-5-511(D), 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.
5. Since Board staff made the determination in A.A.C. R7-5-511(D), the charter holder has been required to make at least one submission under A.A.C. R7-5-501(C).
6. Within the most recent five-year period the charter holder has been assigned three summative financial performance ratings of "Intervention" and two summative financial performance ratings of "Adequate Standing." [A.A.C. R7-5-511(F)]

## On Probation Process and Operational Dashboard

If an On Probation charter holder fails to submit or fails to timely submit the agenda and minutes required by A.A.C. R7-5-402(I)(2) or A.A.C. R7-5-402(J)(1) or the financial plan required by A.A.C. R7-5-402(I)(3) or A.A.C. R7-5-402(J)(2), 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) or, if applicable, the narratives required under A.A.C. R7-5-402(I)(4) or A.A.C. R7-5-402(J)(3), the failure will be noted on the charter holder's operational performance dashboard following the steps identified in A.A.C. R7-5-511(K). [A.A.C. R7-5-511(J)] 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)]

## Appendix

### A. Probation Risk Levels

### A: Probation Risk Levels

The criteria used in determining the charter holder’s Probation Risk Level are identified below. The ADM Category and Default Measure Category criteria are included on page 16.

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>

PROBATION RISK LEVEL THREE	
Scenario 1	Scenario 2
<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 MORE 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 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 below.

<b>SMALL AND MEDIUM CHARTER HOLDERS (LESS THAN 600 ADM)</b>			
<b>ADM CATEGORY</b>	<b>ESTIMATED ADM MEASURE PERFORMANCE<sup>1</sup></b>		<b>PERCENT LOSS OF TOTAL ADM<sup>2</sup></b>
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
<b>LARGE CHARTER HOLDERS (600 OR MORE ADM)</b>			
<b>ADM CATEGORY</b>	<b>ESTIMATED ADM MEASURE PERFORMANCE<sup>1</sup></b>		<b>PERCENT LOSS OF TOTAL ADM<sup>2</sup></b>
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 oldest year (year 3) to the most recent year (year 1) in a three-year period. To align with the year references used in the average daily membership calculation, the "oldest year" or year 3 is considered the fiscal year of the prior most recent audit and the "most recent year" or year 1 is the most recently completed fiscal year.

**DEFAULT MEASURE CATEGORY**

The criteria used in determining the charter holder’s Default Measure Category are identified below.

<b>CATEGORY</b>	<b>CRITERIA</b>
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.