



# Arizona State Board for Charter Schools

## Financial Performance Framework: Frequently Asked Questions

State law 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.

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### *What is the financial framework?*

The financial framework communicates the Board’s expectations for ensuring that all charter holders in its portfolio are viable organizations with strong fiscal management practices. The term “charter holder” refers to the entity that has entered into a charter contract with the Board to operate one or more charter schools.

### *How does the Board’s new financial framework differ from the previous one?*

Generally, under the new financial framework:

- The areas reviewed (known as “measures”) more closely align with what a bank or other financial institution would look at when deciding whether to loan a charter holder money, as do the performance levels set.
- Certain measure formulas have been adjusted to better capture charter holders’ true economic performance.
- The measure rating and overall performance categories have been modified to better describe the level of performance reflected and identify charter holders that warrant the Board’s attention.
- A financial intervention process has been developed for those charter holders whose performance falls into the bottom overall performance category.

### *What information does the Board use to determine a charter holder’s financial performance?*

The Board uses two key sources of information to determine a charter holder’s performance under the financial framework:

- 1) The annual statutorily required audits of each charter holder, which are conducted by independent certified public accountants; and
- 2) Average daily membership (“ADM”) calculations (i.e., the average number of students served by a charter holder) completed by the Arizona Department of Education (“Department”) using student attendance data submitted to the Department by the charter holder.

A charter holder's performance is determined annually using information from the most recent audit submitted to the Board and ADM information provided to the Board by the Department.

*When will the charter holder's performance under the financial framework be publicly available?*

In July 2019, the Board voted to implement the financial framework beginning with the fiscal year 2019 audits, which will be received by the Board in fiscal year 2020, and to approve the [transition plan](#). Charter holders must submit their fiscal year 2019 audits by either November 15, 2019 or March 31, 2020, with most due by the November deadline. A charter holder's financial performance is represented in a dashboard, which becomes publicly available through ASBCS Online after the audit is reviewed and the data are entered by Board staff. For most charter holders, the fiscal year 2019 audit financial performance dashboard will be made available between November 2019 and February 2020.

*What financial areas does the Board look at when determining a charter holder's performance?*

The financial framework includes six measures that consider:

1. Whether the audit discloses doubt about the charter holder's ability to continue operating;
2. Whether the charter holder has received a notice of default from a lender or landlord;
3. How much the charter holder has set aside for a reserve;
4. Whether the charter holder's revenues exceed its expenses;
5. Whether the charter holder can cover its facility and debt costs; and
6. The charter holder's student count over time since the student count drives the State funding the school receives.

For additional information regarding the financial framework's measures, see the *Measures and Summative Performance Ratings Guide* available on the [Board's website](#) in the "Financial Performance Framework" section.

*What categories does the financial framework use to rate a charter holder's performance?*

The financial framework includes measure ratings and overall performance ratings. The possible measure ratings are "Meets Standard," "Approaches Standard," and "Below Standard." All six measures include "Meets Standard" and "Below Standard" options; four of the measures also include an "Approaches Standard" option.

The individual measure ratings then roll up to an overall performance rating (known as a "summative financial performance rating"). The three summative financial performance ratings are "Good Standing," "Adequate Standing," and "Intervention." A charter holder is placed in "Intervention" if the charter holder has one or more measures rated "Below Standard."

For additional information regarding the ratings used by the financial framework, see the *Measures and Summative Performance Ratings Guide* available on the [Board's website](#) in the "Financial Performance Framework" section.

*When would a charter holder be subject to the financial intervention process?*

A charter holder that falls into the bottom overall performance category (known as “Intervention”) is subject to the financial intervention process. This process provides the charter holder an opportunity to demonstrate improved financial performance and allows the Board to act if the charter holder does not demonstrate improved performance. For additional information regarding the financial intervention process, see the *Financial Intervention Process Guide* available on the [Board’s website](#) in the “Financial Performance Framework” section.