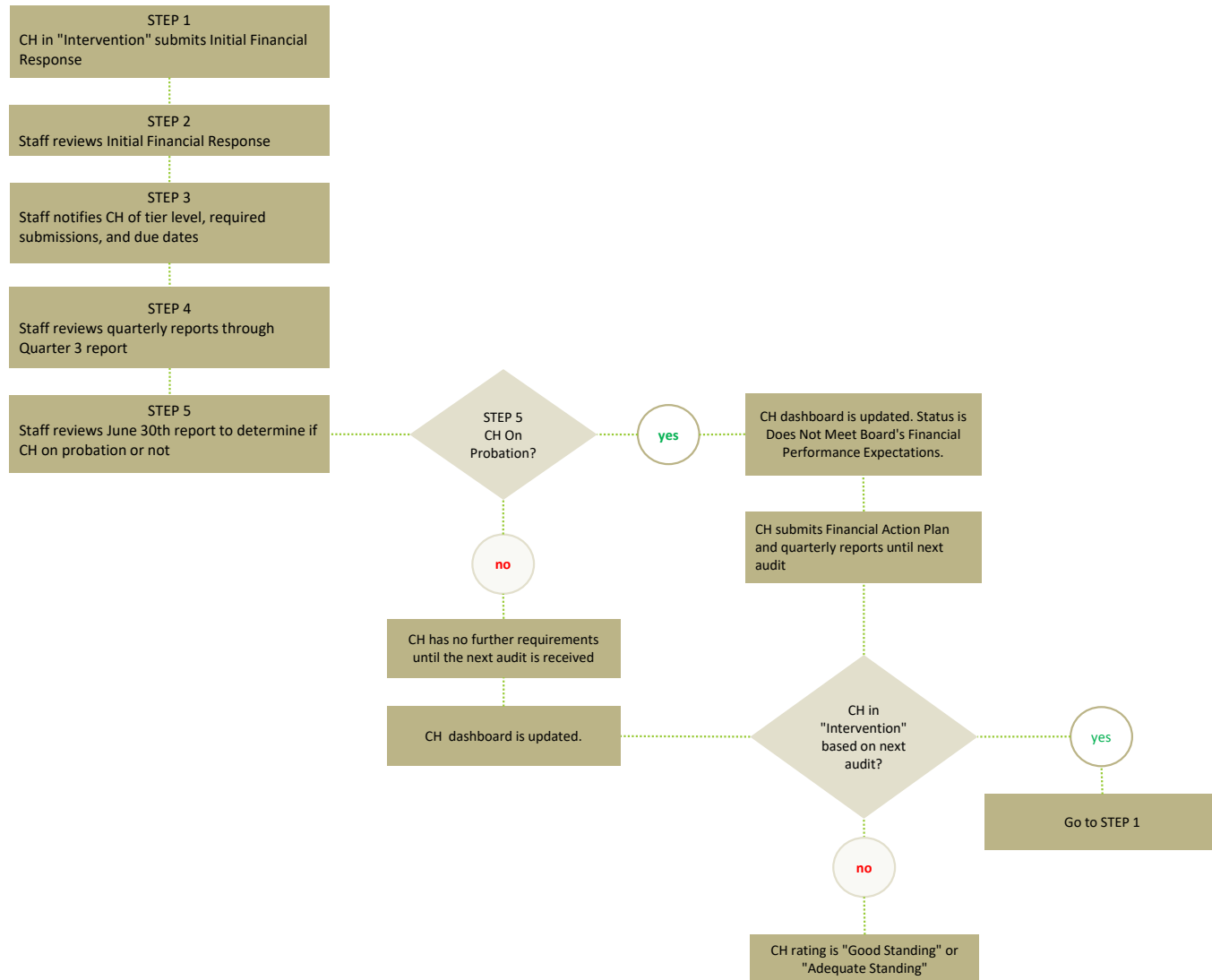


# Financial Intervention Process Flowchart



# Financial Intervention Process

For those charters whose financial performance receives an INTERVENTION RATING, this appendix specifies the Board's financial intervention process. Defined terms are identified in all capital letters. The definitions may be found in *Appendix A: Definition of Terms*.

## Step 1 – Charter Holder Submits INITIAL FINANCIAL RESPONSE

Based on the most recent audit, each charter holder that receives an INTERVENTION RATING will be required to submit an INITIAL FINANCIAL RESPONSE to the Board.<sup>1</sup> The charter holder will be notified of the INITIAL FINANCIAL RESPONSE requirement and the submission deadline through the letter sent after the audit has been reviewed. The submission deadline will be set 30 calendar days from the audit letter's date.<sup>2</sup>

The INITIAL FINANCIAL RESPONSE will be used to assess changes in the charter holder's financial performance and health since June 30<sup>th</sup> and to ascertain if the charter holder's failure to meet one or more measure targets was a result of a one-time event or indicates a possible underlying structural problem with the charter holder's financial performance.

A charter holder's failure to timely submit the INITIAL FINANCIAL RESPONSE or to timely submit a complete INITIAL FINANCIAL RESPONSE will be noted on the charter holder's operational performance dashboard.

Efforts will be made to have the INITIAL FINANCIAL RESPONSE accessible from the charter holder's financial performance dashboard.

## Step 2 – Board Staff Reviews INITIAL FINANCIAL RESPONSE

Using the QUARTERLY FINANCIAL REPORT(s) included with the INITIAL FINANCIAL RESPONSE, Board staff will determine the charter holder's current performance and compare Board staff's results to the charter holder's calculation results.<sup>3</sup>

Board staff will review the charter holder's INITIAL FINANCIAL RESPONSE, the charter holder's financial performance dashboard(s) and audits, the charter holder's average daily membership ("ADM") as reported to the Arizona Department of Education ("Department"), and, if applicable, submissions made under the MANDATORY REPORTING RULE. Based on that review, within 30 calendar days of the INITIAL FINANCIAL RESPONSE's receipt<sup>4</sup>, Board staff will prepare STAFF'S REPORT ON INITIAL FINANCIAL RESPONSE.

As applicable, STAFF'S REPORT ON INITIAL FINANCIAL RESPONSE will identify any calculation differences identified.

Prior to the implementation of the financial framework, Board staff will develop the rubric that will be used to review each INITIAL FINANCIAL RESPONSE and post the rubric on the Board's website.

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<sup>1</sup> After the charter holder's INITIAL FINANCIAL RESPONSE has been reviewed, the charter holder will be notified of subsequent submission requirements (see Step 3).

<sup>2</sup> If the 30<sup>th</sup> day falls on a Saturday, Sunday or holiday, the deadline date will be moved to the next business day.

<sup>3</sup> For the Default measure, in addition to reviewing information disclosed in the INITIAL FINANCIAL RESPONSE, Board staff will consider, if applicable, any submissions made by the charter holder under the MANDATORY REPORTING RULE.

<sup>4</sup> If the 30<sup>th</sup> day falls on a Saturday, Sunday or holiday, the date will be moved to the next business day.

Efforts will be made to have STAFF’S REPORT ON INITIAL FINANCIAL RESPONSE accessible from the charter holder’s financial performance dashboard.

**Step 3 – Charter Holder Placed in Intervention Tier, Notified of Quarterly Reporting Requirements**

Board staff will place the charter holder in the intervention tier that aligns with the criteria established by the Board (see below) and notify the charter holder in writing of: a) the charter holder’s intervention tier; b) the intervention tier’s QUARTERLY FINANCIAL REPORT requirements and QUARTERLY REPORTING DEADLINES<sup>5</sup>; and c) the availability of the STAFF’S REPORT ON INITIAL FINANCIAL RESPONSE.

A charter holder’s failure to timely submit the intervention tier’s subsequent QUARTERLY FINANCIAL REPORT(s) or to timely submit complete QUARTERLY FINANCIAL REPORT(s) will be noted on the charter holder’s operational performance dashboard.

Efforts will be made to have all QUARTERLY FINANCIAL REPORTS accessible from the charter holder’s financial performance dashboard.

Board staff will conduct a STUDENT COUNT VISIT of each school operated by a charter holder identified for Tier 1 intervention.

**Intervention Tiers**

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

	Description
<p><b>Intervention Tier 1</b></p>	<ul style="list-style-type: none"> <li>▪ 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</li> <li><u>OR</u></li> <li>▪ Two or more measures rated Below Standard <u>and</u> zero or more measures rated Approaches Standard in the audited fiscal year</li> </ul>
<p><b>Intervention Tier 2</b></p>	<ul style="list-style-type: none"> <li>▪ 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</li> </ul>

Board staff will also consider the following when identifying the charter holder’s intervention tier.

- INITIAL FINANCIAL RESPONSE – The following scenarios are based on STAFF’S REPORT ON INITIAL FINANCIAL RESPONSE.
  - If STAFF’S REPORT ON INITIAL FINANCIAL RESPONSE identifies a “No” as the 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

<sup>5</sup> The QUARTERLY REPORTING DEADLINES for the QUARTERLY FINANCIAL REPORTS are standardized for all charter holders regardless of intervention tier.

framework's measures and are they realistic to implement?", then at Step 3 the charter holder would automatically be placed in Tier 1 intervention.

- If the charter holder's INITIAL FINANCIAL RESPONSE supports that the charter holder has cured the default, then at Step 3 the charter holder would either be:
  - Removed from the intervention process if the Default measure was the only measure that the charter holder received a Below Standard on for the audit fiscal year; or
  - Placed in Tier 2 intervention instead of Tier 1 intervention if the charter holder had received a Below Standard on only one other measure for the audit fiscal year.
- Operational Performance Issues – If one of the scenarios identified below is applicable to a charter holder, then at Step 3 the charter holder would automatically be placed in Tier 1 intervention.
  - For the audit fiscal year, the charter holder was required to submit an audit corrective action plan for a) failure to pay taxes or contributions due to the Internal Revenue Service, Arizona Department of Revenue, Arizona Department of Economic Security or Arizona State Retirement System, b) failure to have sufficient cash at year-end to cover the charter holder's unspent Classroom Site Fund balance, or c) failure to maintain worker's compensation insurance or liability insurance.
  - For the audit fiscal year, the current fiscal year or both, the Board has substantiated a complaint involving late payroll checks to employees, failure to make 401K deposits, or health insurance or liability insurance cancelation due to nonpayment.
  - For the audit fiscal year, the current fiscal year or both, the charter holder has made submissions under the MANDATORY REPORTING RULE.
- "Intervention" to "Adequate Standing" to "Intervention" – A charter holder whose performance fluctuates from "Intervention" to "Adequate Standing" and then back to "Intervention" will automatically be placed in Tier 1 intervention each subsequent time the charter holder is identified for intervention.

#### **Step 4 – Board Staff Reviews Subsequent QUARTERLY FINANCIAL REPORT(s) Through QUARTER 3**

For each QUARTERLY FINANCIAL REPORT submitted subsequent to the INITIAL FINANCIAL RESPONSE and prior to the JUNE 30<sup>TH</sup> QUARTERLY FINANCIAL REPORT, Board staff will determine the charter holder's current performance and compare Board staff's results to the charter holder's calculation results.<sup>6</sup> Within 30 calendar days of the QUARTERLY FINANCIAL REPORT's receipt<sup>7</sup>, Board staff will notify the charter holder in writing of a) the next submission deadline and b) any calculation differences identified.

#### **Step 5 – Status Determination Made After JUNE 30<sup>TH</sup> QUARTERLY FINANCIAL REPORT Reviewed**

Board staff will review the JUNE 30<sup>TH</sup> QUARTERLY FINANCIAL REPORT in the same manner as the previously submitted QUARTERLY FINANCIAL REPORTS (see Step 4). After the JUNE 30<sup>TH</sup> QUARTERLY FINANCIAL REPORT has been reviewed, Board staff will determine whether the charter holder will be determined to be Not on Probation or On Probation using the table found on page 5.

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<sup>6</sup> For the Default measure, Board staff will consider, if applicable, any submissions made by the charter holder under the MANDATORY REPORTING RULE.

<sup>7</sup> If the 30<sup>th</sup> day falls on a Saturday, Sunday or holiday, the date will be moved to the next business day.

A charter holder determined to be On Probation will be required to submit the following to the Board:

- A FINANCIAL ACTION PLAN developed and approved by the charter holder’s governing board since the charter holder’s efforts in the current year were unsuccessful.<sup>8</sup>
- QUARTERLY FINANCIAL REPORTS until the current year’s audit is received.<sup>9</sup>

Within 45 calendar days of the JUNE 30<sup>TH</sup> QUARTERLY FINANCIAL REPORT’s receipt, Board staff will notify the charter holder in writing of the charter holder’s status and, for a charter holder determined to be On Probation, the submission requirements and submission deadlines.

For a charter holder determined to be On Probation, the charter holder’s failure to timely submit the FINANCIAL ACTION PLAN, QUARTERLY FINANCIAL REPORTS or both will be noted on the charter holder’s operational performance dashboard, as will the charter holder’s failure to timely submit complete QUARTERLY FINANCIAL REPORT(s).

Efforts will be made to have the notification sent to the charter holder identifying its probation status accessible from the charter holder’s financial performance dashboard, as well as submissions made by a charter holder determined to be On Probation.

**Table Summarizing Applicability of Intervention and Probation Requirements**

	<b>Requirement Applicability</b>
<b>INITIAL FINANCIAL RESPONSE</b>	Tier 1 and Tier 2
<b>QUARTERLY FINANCIAL REPORTS required through June 30<sup>th</sup></b>	Tier 1 and Tier 2
<b>STUDENT COUNT VISIT</b>	Tier 1
<b>Submission of FINANCIAL ACTION PLAN Developed and Approved by Governing Board</b>	On Probation
<b>QUARTERLY FINANCIAL REPORTS required until next year’s audit received</b>	On Probation

<sup>8</sup> Board staff will acknowledge receipt of the FINANCIAL ACTION PLAN, but will not evaluate it (see also “Defining Financial Performance Expectations” section).

<sup>9</sup> QUARTERLY FINANCIAL REPORTS will be reviewed using the process identified in Step 4.

	Not on Probation	On Probation
<b>Tier 1</b>	<p>Based on the JUNE 30<sup>th</sup> QUARTERLY FINANCIAL REPORT, the Board’s MANDATORY REPORTING RULE, and the Board’s complaint process <u>all the following are true</u>:</p> <ol style="list-style-type: none"> <li>1. The measure(s) rated “Below Standard” in the audit year will likely improve to at least an “Approaches Standard” when calculations are completed using the charter holder’s next audit.</li> <li>2. None of the financial framework’s other measures will likely receive a “Below Standard” when calculations are completed using the charter holder’s next audit.</li> <li>3. Since Board staff made the determination in Step 3, the Board has not substantiated any complaints involving late payroll checks to employees, failure to make 401K deposits, or health insurance or liability insurance cancelation due to nonpayment.</li> <li>4. Since Board staff made the determination in Step 3, the charter holder has not been required to make submissions under the MANDATORY REPORTING RULE.</li> </ol>	<p>Based on the JUNE 30<sup>th</sup> QUARTERLY FINANCIAL REPORT, the Board’s MANDATORY REPORTING RULE, and the Board’s complaint process <u>one or more of the following are true</u>:</p> <ol style="list-style-type: none"> <li>1. One or more of the measures rated “Below Standard” in the audit year will likely continue to be rated “Below Standard” when calculations are completed using the charter holder’s next audit.</li> <li>2. One or more of the financial framework’s other measures will likely receive a “Below Standard” when calculations are completed using the charter holder’s next audit.</li> <li>3. Since Board staff made the determination in Step 3, the Board has substantiated at least one complaint involving late payroll checks to employees, failure to make 401K deposits, or health insurance or liability insurance cancelation due to nonpayment.</li> <li>4. Since Board staff has made the determination in Step 3, the charter holder has been required to make submissions under the MANDATORY REPORTING RULE.</li> </ol>
<b>Tier 2</b>	<p>Based on the JUNE 30<sup>th</sup> QUARTERLY FINANCIAL REPORT, the Board’s MANDATORY REPORTING RULE, and the Board’s complaint process <u>all the following are true</u>:</p> <ol style="list-style-type: none"> <li>1. The measure rated “Below Standard” in the audit year will likely improve to at least an “Approaches Standard” when calculations are completed using the charter holder’s next audit.</li> <li>2. None of the financial framework’s other measures will likely receive a “Below Standard” when calculations are completed using the charter holder’s next audit.</li> <li>3. Since Board staff made the determination in Step 3, the Board has not substantiated any complaints involving late payroll checks to employees, failure to make 401K deposits, or health insurance or liability insurance cancelation due to nonpayment.</li> <li>4. Since Board staff made the determination in Step 3, the charter holder has not been required to make submissions under the MANDATORY REPORTING RULE.</li> </ol>	<p>Based on the JUNE 30<sup>th</sup> QUARTERLY FINANCIAL REPORT, the Board’s MANDATORY REPORTING RULE, and the Board’s complaint process <u>one or more of the following are true</u>:</p> <ol style="list-style-type: none"> <li>1. The measure rated “Below Standard” in the audit year will likely continue to be rated “Below Standard” when calculations are completed using the charter holder’s next audit.</li> <li>2. One or more of the financial framework’s other measures will likely receive a “Below Standard” when calculations are completed using the charter holder’s next audit.</li> <li>3. Since Board staff made the determination in Step 3, the Board has substantiated at least one complaint involving late payroll checks to employees, failure to make 401K deposits, or health insurance or liability insurance cancelation due to nonpayment.</li> <li>4. Since Board staff made the determination in Step 3, the charter holder has been required to make submissions under the MANDATORY REPORTING RULE.</li> </ol>
<b>Other</b>		<p>Charter holder that receives an INTERVENTION RATING for a) three consecutive fiscal years <u>or</u> b) three of the last five fiscal years with the other two fiscal years in “Adequate Standing”.</p>

## DEFINING FINANCIAL PERFORMANCE EXPECTATIONS

With the passage of Laws 2018, Ch. 285, A.R.S. § 15-183 now requires the Board’s performance framework include “the financial expectations of the charter school” and now 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 improvement plans” when the Board makes renewal and revocation decisions. Board staff has proposed the definitions below for Subcommittee consideration.

Statutory Term	Proposed Definition
Meets the Board’s Financial Performance Expectations	Charter holder Not on Probation
Does Not Meet the Board’s Financial Performance Expectations	Charter holder On Probation
Improvement Plans	Submissions made by a charter holder in Tier 1 or Tier 2 intervention

Under Step 5, Board staff will update the charter holder’s financial performance dashboard to reflect the charter holder’s probation status (see table below).

Intervention Status	Dashboard Displays:
Not on Probation	Intervention process completed: No further response required; pending review of next audit
On Probation	Intervention process completed: Does Not Meet Board’s Financial Performance Expectations

For a charter holder to move from Does Not Meet the Board’s Financial Performance Expectations to Meets the Board’s Financial Performance Expectations, an audit submitted by the charter holder must receive a “Good Standing” or “Adequate Standing” rating, which would remove the charter holder from intervention.

Once all determinations under Step 5 have been made, Board staff will report to the Board at a public meeting the audit year performance and JUNE 30<sup>TH</sup> QUARTERLY FINANCIAL REPORT performance by measure for each charter holder that Does Not Meet the Board’s Financial Performance Expectations.

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 Financial Performance Expectations, Board staff will provide to the Board a copy of the charter holder’s FINANCIAL ACTION PLAN and either a) the JUNE 30<sup>TH</sup> 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.



## APPENDIX A: DEFINITION OF TERMS

**FINANCIAL ACTION PLAN** – The plan, which must be developed and approved by the charter holder's governing board, 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<sup>st</sup> following the JUNE 30<sup>TH</sup> QUARTERLY FINANCIAL REPORT and identifies milestones that the charter holder will use throughout the fiscal year to benchmark its performance against. This requirement only applies to a charter holder identified as On Probation (see table on page 5).

**INITIAL FINANCIAL RESPONSE** – In its response a charter holder must: 1) provide the charter holder's annual budget for the current fiscal year and the charter holder's budget for each quarter in the current fiscal year (budget could be allocated based on expected revenue and expenditure flows rather than equally across the four quarters); 2) provide a QUARTERLY FINANCIAL REPORT for each of the QUARTERS COVERED BY INITIAL FINANCIAL RESPONSE; 2) provide a schedule of debt and lease obligations and the current outstanding balances for each; 3) summarize the factors that caused or contributed to the charter holder's financial performance in the audit fiscal year; and 4) summarize the specific actions taken or being taken to improve the charter holder's financial performance in the current fiscal year.

**INTERVENTION RATING** – Under the financial framework, a charter holder receives a summative performance rating of intervention if the charter holder's most recent audit identifies a) one or more measures rated Below Standard or b) three consecutive years of a summative performance rating of Adequate Standing.

**JUNE 30<sup>TH</sup> QUARTERLY FINANCIAL REPORT** – The report submitted for QUARTER 4 must include the following:

1. An unaudited balance sheet (statement of financial position) that identifies the charter holder's results at June 30<sup>th</sup> 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 for the year ended June 30<sup>th</sup>.
3. The charter holder's budget that includes actual results versus budgeted results for the quarter .
4. The charter holder's calculation of its performance on all six of the financial framework measures.

**MANDATORY REPORTING RULE** – In accordance with Board administrative rule<sup>1</sup>, a charter holder must report the following items to the Board within 10 business days of receipt or occurrence:

1. Any notice from a lender or landlord regarding default.
2. Notice of legal filings associated with bankruptcy or with unpaid vendor or service provider payables.
3. Correspondence from the Internal Revenue Service, Arizona State Retirement System, Arizona Department of Revenue, or Arizona Department of Economic Security related to nonpayment of payroll taxes or retirement contributions.
4. Correspondence from an insurance provider related to cancellation of health or liability insurance.
5. Notice of termination of line of credit.

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<sup>1</sup> Although this rule will be promulgated at the same time as the financial framework rules, the rule will apply to all charter holders and not just those identified under the financial framework for intervention.



- 6. Execution of any agreement that provides for advances on state aid payments.
- 7. Withdrawals from debt service reserve funds.

**QUARTER 1** – The period covering July 1<sup>st</sup> through September 30<sup>th</sup>.

**QUARTER 2** – The period covering October 1<sup>st</sup> through December 31<sup>st</sup>.

**QUARTER 3** – The period covering January 1<sup>st</sup> through March 31<sup>st</sup>.

**QUARTER 4** – The period covering April 1<sup>st</sup> through June 30<sup>th</sup>.

**QUARTERLY FINANCIAL REPORT** – Each report submitted for QUARTER 1, QUARTER 2, and QUARTER 3 must include the following:

- 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.
- 4. The charter holder’s calculation of its performance on the Default, Unrestricted Days Liquidity, Adjusted Net Income and Average Daily Membership measures.

**QUARTERLY REPORTING DEADLINES** – The submission deadlines for QUARTERLY FINANCIAL REPORTS submitted subsequent to the INITIAL FINANCIAL RESPONSE are standardized for all charter holders regardless of intervention tier and are as follows:

QUARTER 1	Due by October 30 <sup>th</sup>
QUARTER 2	Due by January 30 <sup>th</sup>
QUARTER 3	Due by April 30 <sup>th</sup>
QUARTER 4	Due by July 30 <sup>th</sup>

**QUARTERS COVERED BY INITIAL FINANCIAL RESPONSE** – The date of the audit letter will determine the quarters that must be addressed in the INITIAL FINANCIAL RESPONSE.

<u>Audit Letter Date</u>	<u>Quarters Covered</u>
Between October 1 <sup>st</sup> and December 30 <sup>th</sup>	QUARTER 1
Between December 31 <sup>st</sup> and March 30 <sup>th</sup>	QUARTER 1, QUARTER 2
Between March 31 <sup>st</sup> and June 29 <sup>th</sup>	QUARTER 1, QUARTER 2, QUARTER 3
After June 29 <sup>th</sup>	QUARTER 1, QUARTER 2, QUARTER 3, QUARTER 4

**STAFF'S REPORT ON INITIAL FINANCIAL RESPONSE** – The report prepared by Board staff after Board staff completes its review of the charter holder's INITIAL FINANCIAL RESPONSE. The report will answer each of the questions identified below and briefly explain the basis for each answer.

- Is there a sound explanation for why the charter holder underperformed on the financial framework's measures? *[Note: Answer to this question will be based on Board staff's review of the charter holder's summary of the factors that caused or contributed to the charter holder's financial performance in the audit fiscal year, the charter holder's audits and the charter holder's ADM reports.]*
- Did the charter holder perform at a level just below or well below the financial framework's measure(s) targets? *[Note: Answer to this question will be based on Board staff's review of the charter holder's audit year financial performance dashboard.]*
- In what direction is the charter holder's financial health heading? *[Note: Answer to this question will be based on Board staff's review of the charter holder's QUARTERLY FINANCIAL REPORT(s), the charter holder's last three dashboards (if applicable), the charter holder's audits and the charter holder's ADM reports.]*
- 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? *[Note: Answer to this question will be based on Board staff's review of the charter holder's INITIAL FINANCIAL RESPONSE, including the charter holder's summary of the specific actions taken or being taken to improve the charter holder's financial performance in the current year, the charter holder's audits and the charter holder's ADM reports.]*

**STUDENT COUNT VISIT** – For each charter holder identified for Tier 1 intervention, 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 (e.g., interval review), a second visit will not be conducted. Time permitting, Board staff could also visit schools operated by charter holders identified for Tier 2 interventions.