



# Financial Framework: Overview and Trends

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FINANCIAL FRAMEWORK SUBCOMMITTEE MEETING

AUGUST 21, 2018

# Financial vs. Operational Framework

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## FINANCIAL FRAMEWORK

- ❖ Gauges charter holders' near-term financial health and longer term financial sustainability
- ❖ Focuses on charters' financial viability
  - ❖ Uses certain dollar amounts and informational disclosures from audit

## OPERATIONAL FRAMEWORK

- ❖ Identifies charter holders' compliance with state and federal law, charter contract, and administrative rule
- ❖ Focuses on charters' compliance
  - ❖ Uses information collected through various sources (e.g., audits, site visits, complaints)
  - ❖ Includes, for example, failure to pay taxes or health premiums, poor internal controls, egregious mismanagement of finances, fraud



# BOARD'S AUDIT PROCESS OVERVIEW

|                                     | Description  | Timing  | Additional Information  |
|-------------------------------------|--|---|---|
| <b>Engagement Letter</b>            | Session law requires the Board to approve the audit contract. The Board uses the engagement letter to meet this requirement. Generally, the engagement letter describes the audit firm's and charter holder's audit-related responsibilities.  | Between January (fiscal year to be audited) and November. Most are received between May and July, or around the time the Board releases the audit guidelines/documents.   | A.A.C. R7-5-504(B)<br>Board's <a href="#">audit guidelines</a>  |
| <b>Completeness Determination</b>   | Through this process, Board staff ensures each audit reporting package ("audit") includes all of the required components. Charter holders that submit incomplete audits may be placed on a Board agenda for possible disciplinary action.  | Between August and March for timely submitted audits. Most are received between the last week of October and the November 15 <sup>th</sup> deadline.  | A.A.C. R7-5-504(C)-(E)<br>Board's <a href="#">audit guidelines</a>  |
| <b>Review of Complete Audit</b>     | For each audit, Board staff determines the charter holder's financial performance, reviews and enters any issues identified in the audit, and sends a letter to the charter representative(s) with the review results. It is at this time that the charter holder's financial dashboard is made available to the charter representative and the public and the operational dashboard is updated. | Between late September and April for timely submitted audits. Most are reviewed between November and February.<br><br>Generally, audits are reviewed in the order of date received. Since financial and compliance information from the audits is considered in various Board processes (e.g., renewal, interval reviews, amendments), the audits for charter holders in one of these processes are reviewed first regardless of date received. | A.A.C. R7-5-504(F)-(I)<br><a href="#">Financial framework</a><br><br>Audit & Compliance Questionnaire Follow-up <a href="#">Matrix</a><br><br><a href="#">Operational framework</a><br>Board's <a href="#">audit guidelines</a> |
| <b>Corrective Action Plan (CAP)</b> | Appendix B of the operational framework identifies the issues that require a charter holder to submit an audit CAP. Generally, charter holders are given 30 calendar days to submit the initial CAP, except for fingerprinting issues where 10 business days are given. Most CAPs are completed after the initial submission, or, at most, one subsequent submission.                            | Between November and September/October. Certain CAPs (e.g., those involving payroll taxes) are not completed until after the end of the current fiscal year. September/October usually only comes into play with charter holders that have repeat CAP issues or that submit late audits.  | A.A.C. R7-5-504(G)<br>A.A.C. R7-5-510<br><br><a href="#">Operational framework</a>  |



# Generally Accepted Accounting Principles

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- Adherence to GAAP Required by Charter Contract
- What Is GAAP?
  - Uniform minimum standards for financial accounting and reporting that govern the form and content of an entity's financial statements
  - Principles encompass conventions, rules and procedures necessary to define accepted accounting practices at a particular time
  - Primary authoritative body on GAAP's application for most charter holders is the Financial Accounting Standards Board (FASB)



# Auditing Standards

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## GENERALLY ACCEPTED AUDITING STANDARDS

- ❖ Guidelines for how financial audits are to be conducted
- ❖ Audit conducted under GAAS includes auditor's opinion on whether entity's financial statements are presented in accordance with GAAP
- ❖ American Institute of Certified Public Accountants' Auditing Standards Board is primary authoritative body on GAAS

## GOVERNMENT AUDITING STANDARDS

- ❖ A.R.S. §15-914 requires charter audits be conducted under GAS
- ❖ GAS adds additional considerations to GAAS
- ❖ Standards pertain to auditors' professional qualifications, quality of audit effort, and reporting requirements, including compliance with certain provisions of laws, regulations, contracts and grant agreements
- ❖ GAS issued by the Comptroller General of the United States



# Audit Reporting Package

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## FINANCIAL STATEMENT AUDIT

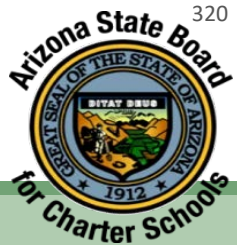
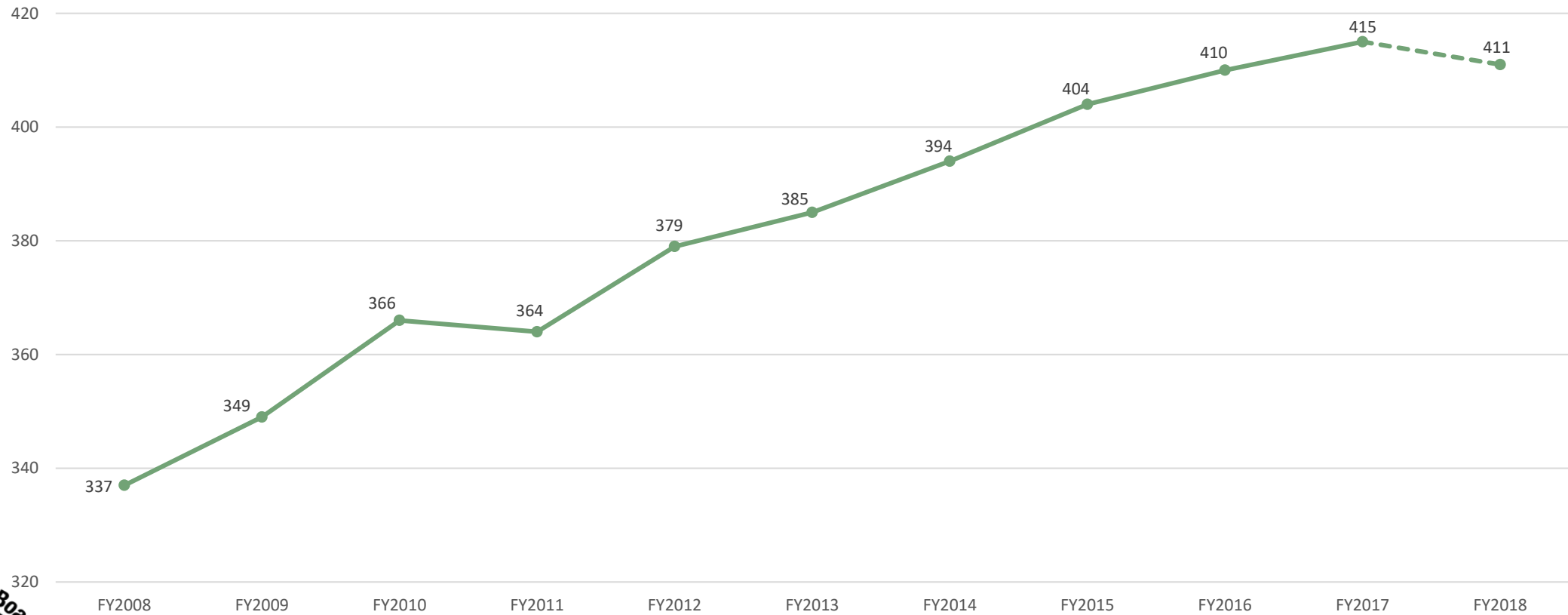
- ❖ Financial statements, including the auditor's opinion and notes
- ❖ Government Auditing Standards report on internal control and compliance
- ❖ Applicable compliance questionnaire
- ❖ Management letter, if applicable
- ❖ Submission deadline is November 15
- ❖ Approximately 80% of audits received

## SINGLE AUDIT

- ❖ Items included in financial statement audit reporting package (see information to left)
- ❖ Schedule of Expenditures of Federal Awards
- ❖ Schedule of findings and questioned costs
- ❖ Submission deadline is March 31
- ❖ Approximately 20% of audits received



# Audit Numbers: Actuals & FY18 Projection



# Framework Overview

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# Financial Framework History

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August  
2012

- Board adopts *Financial Performance Framework and Guidance*.

September/  
October  
2013

- Based on first year of implementation and charter input, Board approves changes, including eliminating one measure and modifying another.

October  
2014

- Board redefines “expectations” to look at two years of financial performance instead of one to focus Board’s efforts on those charters that may currently be experiencing financial difficulties or that may be at a higher risk for financial hardship in the future.



# Financial Framework History (Continued)

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June  
2016

- Board modifies one measure and clarifies requirements for those charter holders required to submit additional information.

October  
2017

- Board adds eligibility criteria for expansion requests and expands the number of amendment requests where financial performance is reviewed.



# Near-Term vs. Sustainability

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## NEAR-TERM FINANCIAL HEALTH

- ❖ Designed to depict a charter holder's financial position and viability for the upcoming fiscal year
- ❖ Specific measures
  - ❖ Going Concern
  - ❖ Default
  - ❖ Unrestricted Days Liquidity
- ❖ "Falls Far Below" rating possible

## LONGER TERM FINANCIAL SUSTAINABILITY

- ❖ Designed to depict a charter holder's financial position and viability over time
- ❖ Specific measures
  - ❖ Cash Flow
  - ❖ Net Income
  - ❖ Fixed Charge Coverage Ratio
- ❖ "Falls Far Below" rating not possible



# Financial “Standard” vs. “Expectations”

## ❖ Financial Performance Standard

- ❖ Reflects annual performance
- ❖ To meet the financial performance standard, no measures may be rated “Falls Far Below” and no more than one measure may be rated “Does Not Meet”
- ❖ If one or more measures are rated “Falls Far Below”, at least two measures are rated “Does Not Meet” or both, then charter holder does not meet the financial performance standard

## ❖ Financial Performance Expectations

- ❖ Considers two years performance
- ❖ See table at right

| Previous Audit                                      | Most Recent Audit  | Meets Board’s Expectations? |
|---|--|-----------------------------|
| <b>MEETS</b> financial performance standard         | <b>MEETS</b> financial performance standard  | <b>Yes</b>                  |
| <b>DOES NOT MEET</b> financial performance standard | <b>MEETS</b> financial performance standard  | <b>Yes</b>                  |
| <b>MEETS</b> financial performance standard         | <b>DOES NOT MEET</b> financial performance standard; <b>no measure receives “Falls Far Below”</b>        | <b>Yes</b>                  |
| <b>MEETS</b> financial performance standard         | <b>DOES NOT MEET</b> financial performance standard; <b>1 or more measures receive “Falls Far Below”</b> | <b>No</b>                   |
| <b>DOES NOT MEET</b> financial performance standard | <b>DOES NOT MEET</b> financial performance standard  | <b>No</b>                   |

# Financial Performance Dashboard

- ❖ Summarizes performance on each measure
- ❖ Reflects performance for 2 most recent audited years (except initial dashboard which only includes 1 year)
- ❖ Identifies whether performance meets Board's financial expectations
- ❖ Becomes publicly available through ASBCS Online after audit reviewed by staff

| Financial Performance  |                          |           |           |                  |            |           |
|--|--------------------------|-----------|-----------|------------------|------------|-----------|
| Interpreting the Financial Performance Dashboard                                   |                          |           |           |                  |            |           |
|  | Fiscal Year 2016         |           |           | Fiscal Year 2017 |            |           |
|  | Near-Term Measures       |           |           |                  |            |           |
| Going Concern  | No                       | Meets     |           | No               | Meets      |           |
| Unrestricted Days Liquidity<br><30, but ≥15: Does Not Meet<br><15: Falls Far Below | 76.93                    | Meets     |           | 75.28            | Meets      |           |
| Default  | No                       | Meets     |           | No               | Meets      |           |
|  | Sustainability Measures* |           |           |                  |            |           |
| Net Income<br>≤0: Does Not Meet  | \$75,888                 | Meets     |           | \$68,358         | Meets      |           |
| Fixed Charge Coverage Ratio<br><1.10: Does Not Meet                                | 1.35                     | Meets     |           | 1.26             | Meets      |           |
| Cash Flow (3-Year Cumulative)<br>Negative: Does Not Meet**                         | \$548,466                | Meets     |           | \$284,361        | Meets      |           |
| Cash Flow Detail by FY   | FY 2016                  | FY 2015   | FY 2014   | FY 2017          | FY 2016    | FY 2015   |
|  | (\$86,635)               | \$318,074 | \$317,027 | \$52,922         | (\$86,635) | \$318,074 |

Meets Board's Financial Performance Expectations

\* Negative numbers indicated by parentheses.  
\*\* Target effective beginning with FY16 audits.



# When Is Performance Reviewed?

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## FINANCIAL PERFORMANCE CONSIDERATION

- ❖ Five-year interval reviews
- ❖ Renewal
- ❖ Expansion requests (as defined in framework)
- ❖ If a school operated by charter holder has failed to meet academic performance standard for 3 consecutive years
- ❖ When Board makes decisions related to academic performance and/or compliance with charter and state and federal law

## FINANCIAL PERFORMANCE RESPONSE

- ❖ Required if charter holder does not meet financial performance expectations at certain times (See left and financial framework)
- ❖ Must address measures rated “Does Not Meet” or “Falls Far Below” in most recent audited year presented on dashboard
- ❖ Evaluated by Board staff in accordance with financial framework’s Appendix C



# Financial Performance Review by Process

|                      | FY 2014             |                     | FY 2015                |                       | FY 2016                |                       | FY 2017               |                       | FY 2018               |                       |
|----------------------|---------------------|---------------------|------------------------|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                      | Met                 | DNM                 | Met                    | DNM                   | Met                    | DNM                   | Met                   | DNM                   | Met                   | DNM                   |
| Renewal              | 16<br>(43.2%)       | 21<br>(56.8%)       | 21<br>(61.8%)          | 13<br>(38.2%)         | 40<br>(78.4%)          | 11<br>(21.6%)         | 10<br>(62.5%)         | 6<br>(37.5%)          | 5<br>(100%)           | 0<br>(0%)             |
| Interval Review      | 9<br>(37.5%)        | 15<br>(62.5%)       | 10<br>(71.4%)          | 4<br>(28.6%)          | 53<br>(65.4%)          | 28<br>(34.6%)         | 45<br>(70.3%)         | 19<br>(29.7%)         | 42<br>(70%)           | 18<br>(30%)           |
| Academic Monitoring* | 11<br>(26.2%)       | 31<br>(73.8%)       | 65<br>(59.6%)          | 44<br>(40.4%)         | 44<br>(58.7%)          | 31<br>(41.3%)         | —                     | —                     | —                     | —                     |
| Other**              | 0<br>(0%)           | 3<br>(100%)         | 6<br>(50%)             | 6<br>(50%)            | 2<br>(66.7%)           | 1<br>(33.3%)          | 3<br>(37.5%)          | 5<br>(62.5%)          | 41<br>(80.4%)         | 10<br>(19.6%)         |
| <b>Overall</b>       | <b>36<br/>(34%)</b> | <b>70<br/>(66%)</b> | <b>102<br/>(60.4%)</b> | <b>67<br/>(39.6%)</b> | <b>139<br/>(66.2%)</b> | <b>71<br/>(33.8%)</b> | <b>58<br/>(65.9%)</b> | <b>30<br/>(34.1%)</b> | <b>88<br/>(75.9%)</b> | <b>28<br/>(24.1%)</b> |



\* Under the prior academic framework, charter holders operating schools that did not meet academically were required to submit academic information that was reviewed by staff. Since it was possible for a charter holder to be brought before the Board for consideration during these annual reviews, financial performance was also reviewed.

\*\* Includes charters that operated "F" schools, replication application packages, and expansion amendments. Until FY18, financial performance was only considered for new school and AOI amendments; beginning in FY18 it was expanded to include more requests, such as increasing enrollment cap or the grades served by the charter holder.

# How Is Performance Used?

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## CHARTER MEETS EXPECTATIONS

- ❖ Waived from submitting financial performance response
- ❖ Eligible for streamlined renewal, expansion, certain requests being considered on consent agenda (if no issues in other areas)

## CHARTER DOES NOT MEET EXPECTATIONS

- ❖ Ineligible to submit certain requests
- ❖ Required to submit financial response
- ❖ If item placed on agenda, Board will receive:
  - Charter holder's financial response
  - Staff's evaluation of financial response
  - Table showing charter holder's financial data and financial performance for last 3 audited fiscal years
  - Staff's analysis of charter holder's financial performance based on financial response and related documents





# Current Measures

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# Going Concern

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## ❖ What Is It? (Auditor Responsibilities)

- Auditing standards require CPA to evaluate ability to continue operating for next year
  - Assumption is charter intends and is able to continue to engage in its activities
  - If doubt exists, then disclosed in audit
- Disclosure options
  - No doubt raised (no disclosure required)
  - Substantial doubt raised, but alleviated by management's plans (disclosure in financial statement notes only)
  - Substantial doubt raised that is not alleviated by management's plans (disclosure in Independent Auditor's Report and financial statement notes)

## ❖ What Is It? (Charter Responsibilities)

- GAAP requires management to evaluate their entity's ability to continue operating
  - Requirement effective with FY17 audits
- Disclosure options
  - No conditions/events that raise substantial doubt (no disclosure by management required)
  - Conditions/events exist that raise substantial doubt (disclosure by management required in financial statement notes)
    - See next slide



# Evaluation of Management's Plans

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## SUBSTANTIAL DOUBT ALLEVIATED

- ❖ Management Must Disclose the Following:
  - Principal conditions or events that raise substantial doubt about entity's ability to continue as a going concern (before consideration of management's plans)
  - Management's evaluation of the significance of those conditions or events in relation to entity's ability to meet its obligations
  - Management's plans that alleviated substantial doubt about entity's ability to continue as a going concern

## SUBSTANTIAL DOUBT NOT ALLEVIATED

- ❖ Management Must Disclose the Following:
  - Principal conditions or events that raise substantial doubt about entity's ability to continue as a going concern
  - Management's evaluation of the significance of those conditions or events in relation to entity's ability to meet its obligations
  - Management's plans that are intended to mitigate the conditions or events that raise substantial doubt about entity's ability to continue as a going concern



# Going Concern (Continued)

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## ❖ Why Was It Included?

- Provides independent assessment
- Identifies charters that may be unable to meet academic/operational obligations or that may be at higher risk for abrupt school closures

## ❖ Measure History

- No changes since framework adopted in 2012

## ❖ Current Calculation

### “Falls Far Below Standard”

#### 1. Disclosure in Independent Auditor’s Report and financial statement notes

*(Substantial doubt about charter’s ability to continue is raised and is not alleviated by management’s plans)*

#### 2. Disclosure in financial statement notes only

*(Substantial doubt about charter’s ability to continue is raised but is alleviated by management’s plans)*

## ❖ Calculation Considerations

- None



# Default

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## ❖ What Is It?

- Financial institution or individual lender issue notice of loan default

## ❖ Why Was It Included?

- Once default notice issued, lender may:
  - Require outstanding loan amount be paid immediately
  - Proceed with foreclosure (for facility loans)
- Ability to continue operating in jeopardy

## ❖ Measure History

- No changes since framework adopted in 2012

## ❖ Current Calculation

**Based on disclosure in annual audit**

## ❖ Calculation Considerations

- None



# Unrestricted Days Liquidity (UDL)

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## ❖ What Is It?

- Number of days expenses could be paid without an influx of cash

## ❖ Why Was It Included?

- Identifies charter holder's available reserve
- A reserve provides flexibility for the charter holder to address needs as they arise and to respond to unexpected events

## ❖ Measure History

- In October 2013, modified measure to include other sources of liquidity; initially measure only considered cash in the calculation

## ❖ Current Calculation

**Unrestricted Cash + Other Sources of Liquidity**  
**(Total Expenses/365)**

## ❖ Calculation Considerations

- See next slide



# UDL – Calculation Considerations

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- ❖ Unrestricted Cash/Other Sources of Liquidity
  - Unrestricted cash and cash equivalents
  - Balance of June 30<sup>th</sup> equalization payment received from bond trustee after year-end
  - Available balances on lines of credit
  - Unrestricted “current” investments
  - Bond reserve funds available to charter for general operational purposes/expenses
- ❖ To Be Considered in Calculation Information Above Must Be Clearly Disclosed in Audit
- ❖ Classroom Site Fund (CSF)
  - Unspent CSF monies at June 30<sup>th</sup> considered restricted cash; cash reduced by this amount
    - Exception: If the financial statements disclose that a portion of the unspent CSF at June 30<sup>th</sup> has been accrued as a liability and is included as an expense, then that portion is not considered restricted
- ❖ Total Expenses
  - Current calculation does not remove audited year depreciation and amortization (noncash expenses required to be reported by GAAP)



# Cash Flow

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## ❖ What Is It?

- Change in total cash balance from one fiscal year to another fiscal year
- Three-year cumulative cash flow

## ❖ Why Was It Included?

- Positive cash flow over time generally indicates increasing financial health and sustainability
- Charter holder's reserve affected by cash flow

## ❖ Measure History

- In October 2016, simplified measure to focus on three-year cumulative cash flow; annual cash flow no longer considered in rating

## ❖ Current Calculation

*1. Determine annual cash flow*

**Current Year Total Cash less  
Prior Year Total Cash**

*2. Add 3 most recent annual cash flows together*

## ❖ Calculation Considerations

- Current calculation uses total cash and not just cash and cash equivalents; total cash may include cash held in bond reserves





# Net Income

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## ❖ What Is It?

- Difference between total revenues and total expenses

## ❖ Why Was It Included?

- Indicates whether or not a charter holder is operating within its available resources
- Charter holder may make strategic choice to operate at a loss for a year
- Continued losses for sustained periods of time could adversely affect charter holder's ability to meet its obligations

## ❖ Measure History

- No changes since framework adopted in 2012

## ❖ Current Calculation/Formula

**Total Revenues less Total Expenses**

## ❖ Calculation Considerations

- Current calculation does not remove noncash items required to be reported by GAAP, such as depreciation, amortization and losses on advanced refunding of a bond



# Fixed Charge Coverage Ratio (FCCR)

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## ❖ What Is It?

- Looks at how easily certain bills can be paid as they become due, focusing on lease, loan and interest payments
- Fixed charges occur regardless of changes in revenue or other circumstances that may affect financial situation
- Captures charters that lease their facilities and charters that purchase their facilities

## ❖ Why Was It Included?

- Untimely payments may disrupt students' education and place school operations at risk (e.g., locked out of school facilities, no buses to transport students, notice of default issued)

## ❖ Measure History

- No changes since framework adopted in 2012

## ❖ Current Calculation/Formula

**(Change in Net Assets + Depreciation + Amortization + Interest Expense + Lease Expense)**

*(aka resources available to cover charter's fixed costs)*

***DIVIDED BY***

**(Current Portion of Long-Term Debt and Capital Leases + Interest + Lease Expense)**

*(aka charter's fixed costs)*

## ❖ Calculation Considerations

- See next slide



# FCCR – Calculation Considerations

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## ❖ Noncash Expenses

- Current calculation only includes audited year depreciation and amortization in numerator; does not include other noncash items that may be disclosed in audit

## ❖ Interest and Lease Expense

- Included in both numerator and denominator
  - Charter's interest and lease expense have already been deducted to arrive at change in net assets
  - Therefore, both are added back in numerator so as not to skew the charter's performance

## ❖ Amounts Reflective of Audited Fiscal Year

- Change in net assets (currently same as net income)
- Depreciation and amortization
- Interest/Interest expense
- Lease expense

## ❖ Amounts Reflective of Next Fiscal Year

- Current portion of long-term debt and capital leases (CPLTDCL)



# Audit Information Used for Dashboard

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## ❖ Audited Statement of Financial Position

- Also referred to as the balance sheet
- Shows charter's assets and liabilities

## ❖ Audited Statement of Activities

- Also referred to as the income statement
- Shows charter's revenues and expenses and whether charter operated at a surplus or a loss

## ❖ Audited Statement of Cash Flows

- Shows charter's sources and uses of cash
- Identifies cash flows from operating activities, investing activities and financing activities

## ❖ Notes to the Audited Financial Statements

- Also referred to as disclosure notes
- May include information about leases, loans, compliance with loan terms, cash restrictions

## ❖ Independent Auditor's Report

- States the auditor's opinion on the financial statements and may include other disclosures

## ❖ Applicable Compliance Questionnaire

- Used to help determine restricted cash



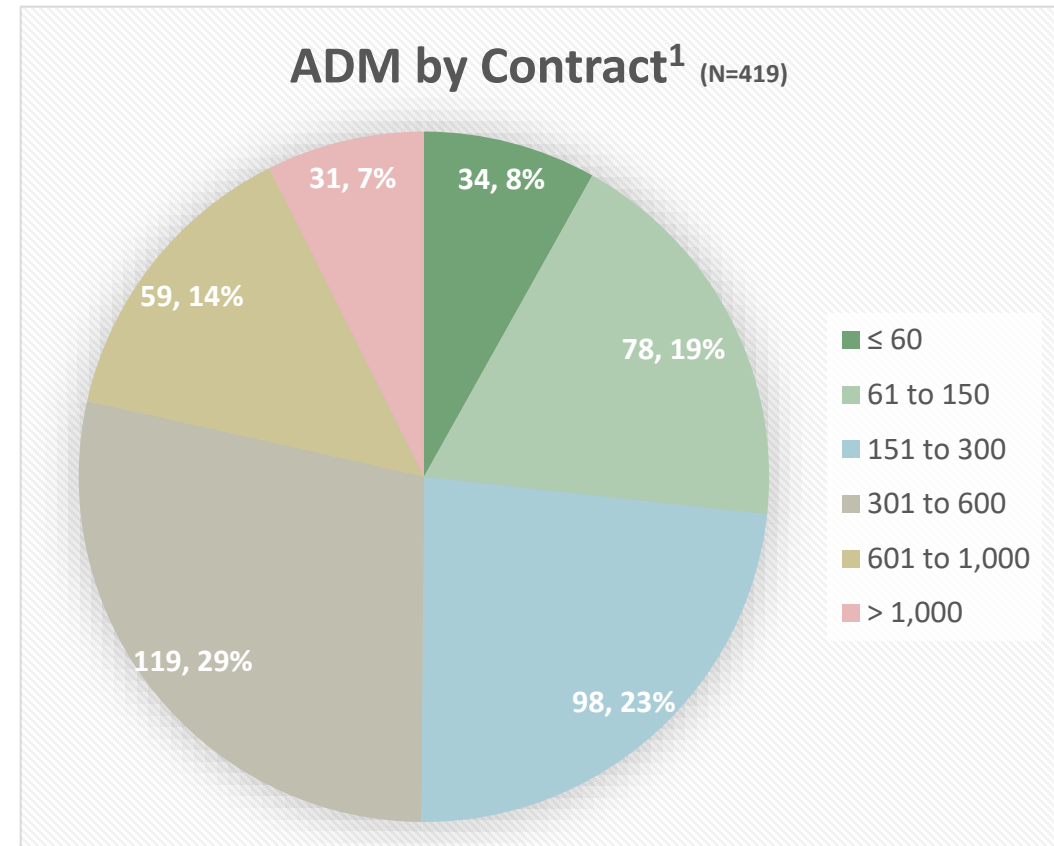
# Portfolio: Characteristics & Trends

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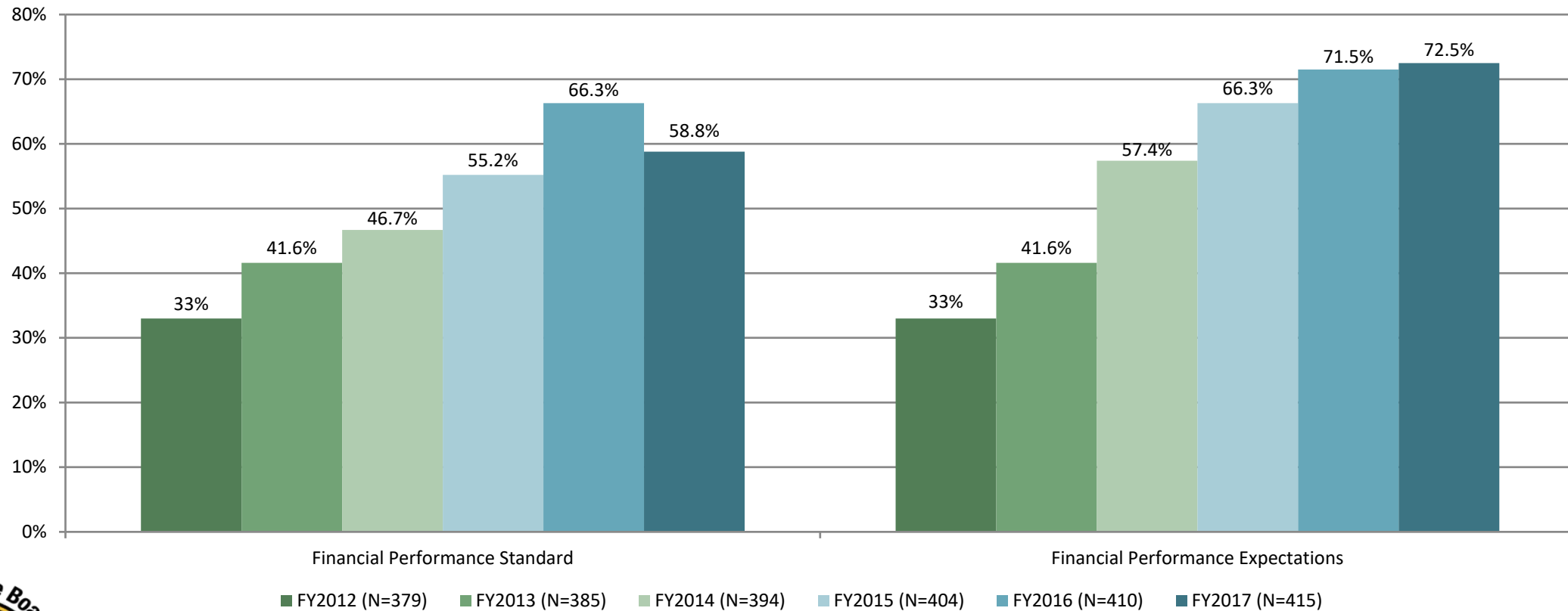
# FY19 Portfolio Characteristics

- ❖ Current Board Charter Contracts (N=419)
  - Non-Profit Entities = 387 (92%)
  - For-Profit Entities = 28 (7%)
  - Government Entities = 4 (1%)
- ❖ # of Schools Operating Under Contract
  - Single-School Contracts = 352 (84%)
  - Multi-School Contracts = 67 (16%)
- ❖ “Associated” vs. Non-Associated Contracts
  - “Associated” Contracts = 212 (51%)
  - Non-Associated Contracts = 207 (49%)



<sup>1</sup> Chart reflects FY18 ADM (411 contracts) and FY19 estimated count (8 first-year contracts).

# Percentage of Board's Portfolio Meeting "Standard" & "Expectations" (FY12-FY17)



NOTE: For fiscal years 2012 and 2013, identical percentages are used for financial performance standard and financial performance expectations because in those years whether a charter holder met the expectations was based on one year of financial information instead of the current two.



# FY17 “Standard” Performance Decline

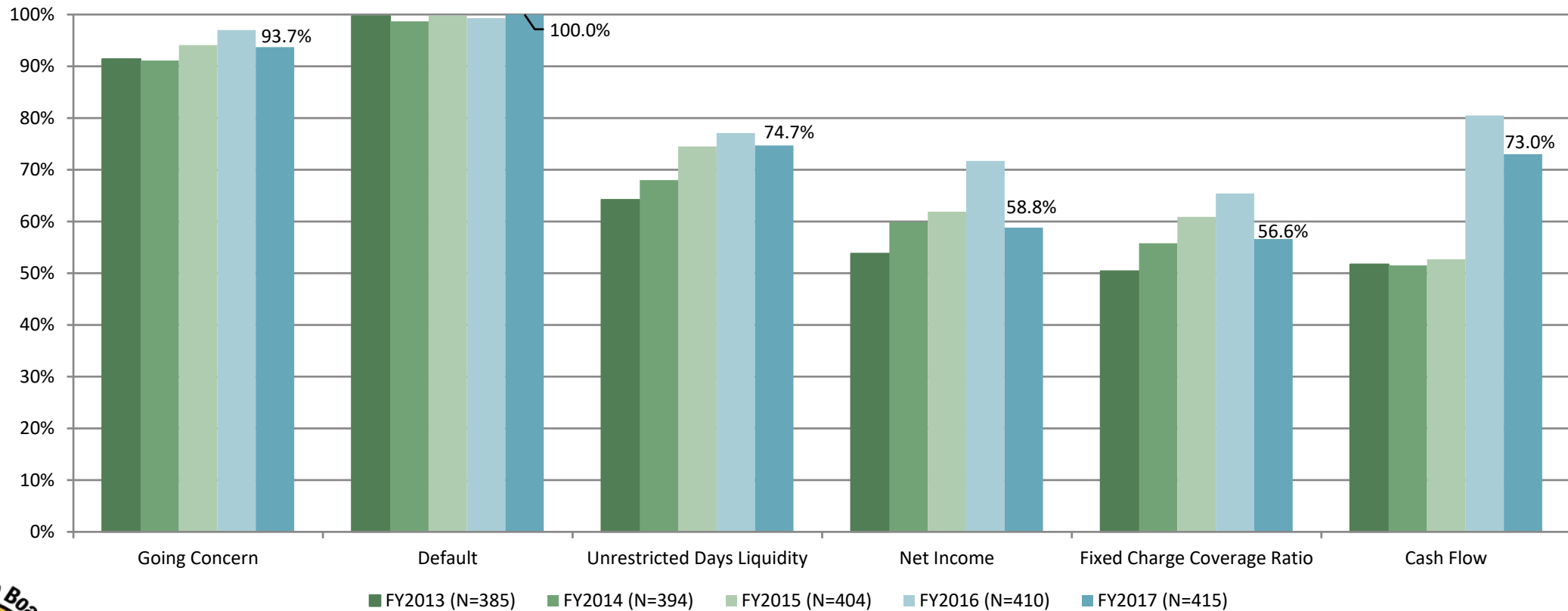
|  | FY 2017<br>% (#) | FY2016<br>% (#) | FY13-FY17 Average<br>% Only |
|--|------------------|-----------------|-----------------------------|
| Met All Applicable Measures            | 39.8% (165)      | 50.7% (208)     | 35.6%                       |
| Did Not Meet 5 or 6 Measures*          | 4.3% (18)        | 0.5% (2)        | 2.7%                        |
| Did Not Meet 2 Calculated Measures     | 17.8% (74)       | 14.9% (61)      | 18.4%                       |
| Did Not Meet 3 Calculated Measures     | 12.5% (52)       | 13.4% (55)      | 18.0%                       |
| Did Not Meet All 4 Calculated Measures | 10.4% (43)       | 3.9% (16)       | 8.6%                        |

\* For fiscal year 2017, all charters met the default measure. The 18 charters identified in the table above for fiscal year 2017 did not meet the framework’s remaining 5 measures. For fiscal year 2016, 1 charter did not meet all 6 measures and 1 charter met the default measure, but did not meet the remaining 5 measures.





# Percentage of Board's Portfolio Meeting Financial Targets by Measure (FY13-FY17)



NOTE: For fiscal year 2016, the Board redefined the Cash Flow measure's target to focus solely on whether the three-year cumulative cash flow was positive or negative.



# FY17 Financial Performance by ADM

|                         | Contracts  | Meets "Standard" |              | Meets "Expectations" |              |
|-------------------------|------------|------------------|--------------|----------------------|--------------|
|                         |            | Number           | Percentage   | Number               | Percentage   |
| ≤ 60 ADM                | <b>31</b>  | 15               | 48.4%        | 21                   | 67.7%        |
| 61 to 150 ADM           | <b>63</b>  | 33               | 52.4%        | 44                   | 69.8%        |
| 151 to 300 ADM          | <b>76</b>  | 45               | 59.2%        | 51                   | 67.1%        |
| 301 to 600 ADM          | <b>88</b>  | 63               | 71.6%        | 76                   | 86.4%        |
| 601 to 1,000 ADM        | <b>37</b>  | 28               | 75.7%        | 32                   | 86.5%        |
| > 1,000 ADM             | <b>23</b>  | 18               | 78.2%        | 20                   | 87%          |
| <b>Overall</b>          | <b>318</b> | <b>202</b>       | <b>63.5%</b> | <b>244</b>           | <b>76.7%</b> |
| <i>Entire Portfolio</i> | 415        | 244              | 58.8%        | 301                  | 72.5%        |

NOTE: This table includes the financial performance for those contracts where the fiscal year 2017 audit submitted to the Board was contract specific. Therefore, the table does not include the financial performance of entities with multiple contracts with the Board (83). Further, the table does not include entities that engage in other services beyond operating a charter school (14).



# FY17 Performance by Years in Operation

|                         | Contracts  | Meets "Standard" |              | Meets "Expectations" |              |
|-------------------------|------------|------------------|--------------|----------------------|--------------|
|                         |            | Number           | Percentage   | Number               | Percentage   |
| 1 Year                  | <b>10</b>  | 3                | 30%          | 3                    | 30%          |
| 2 to 3 Years            | <b>27</b>  | 22               | 81.5%        | 24                   | 88.9%        |
| 4 to 5 Years            | <b>27</b>  | 21               | 77.8%        | 23                   | 85.2%        |
| 6 to 10 Years           | <b>57</b>  | 40               | 70.2%        | 46                   | 80.7%        |
| 11 to 15 Years          | <b>30</b>  | 16               | 53.3%        | 21                   | 70%          |
| 16 or More Years        | <b>167</b> | 100              | 59.9%        | 127                  | 76%          |
| <b>Overall</b>          | <b>318</b> | <b>202</b>       | <b>63.5%</b> | <b>244</b>           | <b>76.7%</b> |
| <i>Entire Portfolio</i> | <i>415</i> | <i>244</i>       | <i>58.8%</i> | <i>301</i>           | <i>72.5%</i> |

NOTE: This table includes the financial performance for those contracts where the fiscal year 2017 audit submitted to the Board was contract specific. Therefore, the table does not include the financial performance of entities with multiple contracts with the Board (83). Further, the table does not include entities that engage in other services beyond operating a charter school (14).



# Bonds

- ❖ Based on FY17 Audits, 39.5% of (or 164) Contracts Have Received Bond Proceeds
- ❖ Rated vs. Non-Rated Bonds
  - 63% (103) of bond issues have been rated
  - 37% (61) of bond issues have not been rated
- ❖ Bond Ratings for Rated Bonds
  - 43% (44) received “investment grade” rating
    - State’s credit enhancement program benefited 26 of 44
  - 57% (59) received “speculative grade” rating

| RATING DESCRIPTION         | FITCH | MOODY'S | STANDARD & POOR'S |
|----------------------------|-------|---------|-------------------|
| <b>INVESTMENT GRADE</b>    |       |         |                   |
| Highest Quality            | AAA   | Aaa     | AAA               |
| Very High Quality          | AA+   | Aa1     | AA+               |
|                            | AA    | Aa2     | AA                |
|                            | AA-   | Aa3     | AA-               |
| Upper Medium Grade Quality | A+    | A1      | A+                |
|                            | A     | A2      | A                 |
|                            | A-    | A3      | A-                |
| Medium Grade Quality       | BBB+  | Baa1    | BBB+              |
|                            | BBB   | Baa2    | BBB               |
|                            | BBB-  | Baa3    | BBB-              |
| <b>SPECULATIVE GRADE</b>   |       |         |                   |
| Substantial Credit Risk    | BB+   | Ba1     | BB+               |
|                            | BB    | Ba2     | BB                |
|                            | BB-   | Ba3     | BB-               |
| High Credit Risk           | B1    | B1      | B1                |
|                            | B2    | B2      | B2                |
|                            | B3    | B3      | B3                |
| Poor Standing              | -     | Caa1    | CCC+              |
|                            | CCC   | Caa2    | CCC               |
|                            | -     | Caa3    | CCC-              |
| Near Default               | CC    | Ca      | CC                |
| In Bankruptcy or Default   | C     | C       | C                 |
| In Default                 | D     | -       | D                 |



# Closed Charters (FY14 to FY18)

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## ALL CLOSURES

- ❖ 52 Charter Contracts
  - ❖ Voluntarily Surrendered (31)
  - ❖ Revoked (8)
  - ❖ Not Renewed (5)
  - ❖ Expired (5)
  - ❖ Surrendered Under Duress (3)
- ❖ Closure Reasons Varied from Management Retiring to the Charter Failing to Provide Educational Services

## FINANCIAL PERFORMANCE CLOSURES

- ❖ 17 Charter Contracts
  - ❖ Voluntarily Surrendered (15)
  - ❖ Revoked (1)
  - ❖ Not Renewed (1)
- ❖ Closure Reasons Include Low Enrollment or Failure to Meet the Board's Financial Performance Expectations
- ❖ 2 of 17 Contracts Were Surrendered Prior to Opening Due to Low Enrollment



# In Depth: Financial Performance Closures

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## ❖ Financial “Standard” and “Expectations” (N=15)

- 14 of 15 did not meet the Board’s financial performance standard or expectations based on last audit submitted

## ❖ Years in Operation at Time of Closure (N=15)

- 2 to 3 Years = 2
- 4 to 5 Years = 1
- 6 to 10 Years = 1
- 11 to 15 Years = 8
- 16 or More Years = 3

## ❖ ADM for Final Year of Operation (N=15)

- $\leq 60 = 10$
- 61 to 150 = 3
- 151 to 300 = 2

## ❖ ADM Trend Prior to Closure (N=15)

- Decreasing = 6
- Mixed (Ended Decreasing) = 4
- Mixed (Ended Steady) = 1
- Mixed (Ended Increasing) = 3
- Increasing = 1

